RM Academy

VOLUME - I

CA FINAL

FINANCIAL REPORTING

COMPILER 4.0

PYP | RTP | MTP

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INTRODUCTION TO ACCOUNTING STANDARDS (AS) & INDIAN ACCOUNTING STANDARD (IND AS)

CHAPTER - 1

Question 1 : May 2022 – RTP

Fresh Vegetables Limited (FVL) was incorporated on 2nd April, 20X1 under the provisions of the Companies Act, 2013 to carry on the wholesale trading business in vegetables. As per the audited accounts of the financial year ended 31st March, 20X7 approved in its annual general meeting held on 31st August, 20X7 its net worth, for the first time since incorporation, exceeded Rs. 250 crore. The financial statements since inception till financial year ended 31st March, 20X6 were prepared in accordance with the Companies (Accounting Standards) Rules 2006. It has been advised that henceforth it should prepare its financial statements in accordance with the Companies (Indian Accounting Standards) Rules, 2015.

The following additional information is provided by the Company:

- FVL has in the financial year 20X2-20X3 entered into a 60:40 partnership with Logistics Limited and incorporated a partnership firm 'Vegetable Logistics Associates' (VLA) to carry on the logistics business of vegetables from farm to market.
- FVL also has an associate company Social Welfare Limited (SWL) that was incorporated in July, 20X5 as a charitable organization and registered under section 8 of the Companies Act, 2013. Social Welfare Limited has been the associate company of FVL since its incorporation.

Examine the applicability of Ind AS on VLA & SWL.

Solution :

Applicability of Ind AS in general:

- Currently Ind AS is applicable to the following companies except for companies other than banks and Insurance Companies, on mandatory basis:
  - (a) All companies which are listed or in process of listing in or outside India on Stock Exchanges.
  - (b) Unlisted companies having net worth of Rs. 250 crore or more but less than Rs. 500 crore.
  - (c) Holding, Subsidiary, Associate and Joint venture of above.
- Companies listed on SME exchange are not required to apply Ind AS on mandatory basis.
- Once a company starts following Ind AS either voluntarily or mandatorily on the basis of criteria specified, it shall be required to follow Ind AS for all the subsequent financial statements even if any of the criteria specified does not subsequently apply to it.

- Application of Ind AS is for both standalone as well as consolidated financial statements if threshold criteria met or adopted voluntarily.
- Companies meeting the thresholds for the first time at the end of an accounting year shall apply Ind AS from the immediate next accounting year with comparatives.
- Companies not covered by the above roadmap shall continue to apply existing Accounting Standards notified in the Companies (Accounting Standards) Rules, 2006.

Since the net worth of FVL in immediately preceding year exceeded Rs. 250 crore, Ind AS is applicable to it. The entity VLA and SWL have to be examined as they may fall in criteria (c) above.

Applicability of Ind AS on VLA

Joint arrangement can be either joint operation or joint venture. However, for the purpose of identifying the applicability of Ind AS, the Act defines Joint venture (as an explanation to section 2(6) of the Companies Act, 2013), as follows:

"The expression "joint venture" means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement".

Accordingly, if an entity is classified as joint operation and not joint venture, then Ind AS would not be applicable to such entity.

In the case of VLA, if partners conclude that they have rights in the assets and obligations for the liabilities relating to the partnership firm then this would be a joint operation. However, Ind AS would not be applicable on VLA in such a case since it is the case of joint operation (and not a joint venture).

Alternatively, if partners conclude that they have joint control of the arrangement and have rights to the net assets of the arrangement relating to the partnership firm, then this would be a joint venture. In such a case, Ind AS would be applicable to them.

Applicability of Ind AS on SWL

Social Welfare Limited (SWL) is the associate company of FVL. Accordingly, Ind AS would be applicable on SWL too irrespective of the fact that SWL has been incorporated as a charitable organisation.

Thanks ....

IND AS – 1 PRESENTATION OF FINACIAL STATEMENTS

CHAPTER - 2

Question 1 : May 2018 – RTP

Company A has taken a long term loan arrangement from Company B. In the month of December 20X1, there has been a breach of material provision of the arrangement. As a consequence of which the loan becomes payable on demand on March 31, 20X2. In the month of May 20X2, the Company started negotiation with the Company B for not to demand payment as a consequence of the breach. The financial statements were approved for the issue in the month of June 20X2. In the month of July 20X2, both company agreed that the payment will not be demanded immediately as a consequence of breach of material provision.

Advise on the classification of the liability as current / non –current.

Solution :

As per para AS 1 "Presentation of Financial Statements" where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

In the given case, Company B (the lender) agreed for not to demand payment but only after the financial statements were approved for issuance. The financial statements were approved for issuance in the month of June 20X2 and both companies agreed for not to demand payment in the month of July 20X2 although negotiation started in the month of May 20x2 but could not agree before June 20X2 when financial statements were approved for issuance.

Hence, the liability should be classified as current in the financial statement for the year ended March 31, 20X2.

Question 2 : May 2018 – RTP

A Ltd. is an entity who prepares its financial statements based on Accounting Standards.

Following is the draft financial statement for the year ended on 31st March, 20X1:

(Note all figures are Rs.in million)

Balance Sheet

Particulars	Note	As at March 31, 20X1
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital (shares of Rs.10 each)		2,000

Reserves and surplus	1	4,000
Non-current liabilities		
Long-term borrowings	2	11,110
Deferred tax liabilities	3	400
Current liabilities		
Trade payables		600
Short-term provisions		500
Other current liabilities	4	300
TOTAL		**18,910**
ASSETS		
Non - Current assets		
Fixed Assets		11,310
Deferred Tax Assets	3	1,000
Current assets		
Inventories		2,000
Trade receivables	5	2,200
Cash and bank balances		2,400
TOTAL		**18,910**

Note 1: The Company has achieved a major breakthrough in its consultancy services in South Asia following which it has entered into a contract of rendering services with Floral Inc. for Rs.12 Billion during the year. The termination clause of the contract is equivalent to Rs.14 Million and is payable in case transition time schedule is missed from 15th December 20X5. The management however is of the view that the liability cannot be treated as onerous.

Note 2 : The Company is not able to assess the final liability for a particular tax assessment pertaining to the assessment year 20X1-20X2 wherein it has received a demand notice of Rs.12 Million. However, the company is contesting the same with CIT (Appeals) as on the reporting date.

Statement of Profit & Loss

Particulars	**Note**	**Year ended March 31, 20X1**
Revenue from operations		11,000
Expenses		
Employee Benefit Expense		2,400
Operating Costs		4,400
Depreciation		1,998
Total Expenses		8,798
Profit before tax		2,202
Tax Expense		(300)
Profit after tax		1,902

Notes to Accounts:

Note 1 : Reserves and Surplus (INR in millions)

Capital Reserve		1,000
Surplus from P & L		
Opening Balance	98	
Additions	1,902	2,000
Reserve for foreseeable loss		1,000
Total		**4,000**

Note 2 : Long Term Borrowings

Term Loan from Bank	11,110
Total	11,110

Note 3 : Deferred Tax

Deferred Tax Asset	1,000
Deferred Tax Liability	(400)
Total	600

Note 4 : Other Current Liabilities

Unclaimed dividends	6
Billing in Advance	294
Total	300

Note 5 : Trade Receivables

Considered good (outstanding within 6 months)	2,130
Considered doubtful (due from past 1 year)	80
Provision for doubtful debts	(10)
Total	2,200

Additional Information:

(a) Share capital comprises of 200 million shares of Rs.10 each

(b) Term Loan from bank for Rs.11,110 million also includes interest accrued and due of Rs.1,110 million as on the reporting date.

(c) Reserve for foreseeable loss is created against a service contract due within 6 months.

Required :

(i) Evaluate and report the errors and misstatements in the above extracts; and,

(ii) Prepare the corrected Balance Sheet & Statement of Profit and Loss.

Solution :

(a) On evaluation of the financial statements, following was observed:

1. For foreseeable loss provision is made and not reserves. Hence, reserve for foreseeable loss for INR 1000 million, (due within 6 months), should be a part of

provision. Therefore, it needs to be regrouped. If it was also a part of previous year's comparatives, then a note should be added in the notes to account for regrouping done this year.

2. Interest accrued and due of INR 1,110 million on term loan will be a part of current liabilities since it is supposed to be paid within 12 months from the reporting date. Hence, it should be shown under the heading "Other Current Liabilities".
3. It can be inferred from Note 3, that the deferred tax liabilities and deferred tax assets relate to taxes on income levied by the same governing taxation laws. Hence, these shall be set off, in accordance with AS 22. The net DTA of INR 600 million shall be shown in the balance sheet.
4. The note to trade receivables was incorrectly presented. The rectified note would be as follows:

Trade receivables (Unsecured)			**INR in million**
(a)	Over six months from the date they were due for payment		
	i.	Considered good	0
	ii.	Considered doubtful	80
		Less: Provision for doubtful debts	(10)
		(A)	70
(b)	Others		
	i.	Considered good	2,130
	ii.	Considered doubtful	0
		Less: Provision for doubtful debts	0
		(B)	2,130
Total (A + B)			2,200

5. It is common to have a termination clause in service contracts. Just by having a termination clause, a company cannot create a liability. Para 14 of AS 29 inter alia states that a provision will be recognized when an enterprise has a present obligation as a result of a past event.
   Since there is nothing to show that there is a present obligation, no provision will be made.
   As per para 27 of AS 29, a contingent liability is recognized only where the possibility of an outflow of resources embodying economic benefits is not remote. Since there is no onerous liability as on the reporting date, the possibility of an outflow becomes remote. Therefore, no contingent liability will arise. In fact, the management has wrongly worded it as 'onerous liability' in its notes to accounts. Onerous liability arises only when the unavoidable costs of meeting the obligation under the contract exceeds the economic benefits expected to be received from it. This note should be eliminated.
6. The demand notice from the tax department (that is under litigation) is a clear instance of a 'contingent liability'. Accordingly, the note should be revised as –
   'Contingent Liability:

There is a demand notice INR 12 Million, which is under CIT (Appeals) as on the reporting date.

7. The Statement to Profit and Loss needs to represent earnings per share, as per AS 20.

(b) Revised extracts of the financial statements

Balance Sheet **(INR in Million)**

	Note No.	As at March 31, 20X1
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital		2,000
Reserves and surplus	1	3,000
Non-current liabilities		
Long-term borrowings	2	10,000
Current liabilities		
Trade payables		600
Short-term provisions		1,500
Other current liabilities	4	1,410
TOTAL		**18,510**
ASSETS		
Non - current assets		
Fixed Assets		11,310
Deferred Tax Assets	3	600
Current assets		
Inventories		2,000
Trade receivables	5	2,200
Cash and Cash Equivalents		2,400
TOTAL		**18,510**

Statement of Profit and Loss
(INR in Million)

	Note No.	Year ended March 31, 20X1
Revenue from operations		11,000
Expenses		
Operating Costs		4,400
Employee Benefit Expense		2,400
Depreciation		1,998
Total Expenses		8,798
Profit Before Tax		2,202
Tax Expense		300
Profit for the period		1,902

Earnings Per Equity Share		
Basic		9.51
Diluted		9.51
Number of equity shares (face value of Rs.10 each)		200 million

Revised Notes (wherever applicable):

Note on Reserves and Surplus **(INR in Million)**

Capital Reserve		1,000
Surplus from P & L		
Opening Balance	98	
Additions	1,902	2,000
Total		**3,000**

Note on Long Term Borrowings

Term Loan from Bank	10,000
Total	10,000

Note on Other Current Liabilities

Unclaimed dividends	6
Interest on Term Loan	1,110
Billing in Advance	294
Total	1,410

Question 3 : Nov 2018 – RTP

Mr. X, is the financial controller of ABC Ltd., a listed entity which prepares consolidated financial statements in accordance with Ind AS. Mr. X has recently produced the final draft of the financial statements of ABC Ltd. for the year ended 31st March, 2018 to the managing director for approval. Mr. Y, who is not an accountant, had raised following queries from Mr. X after going through the draft financial statements:

(a) One of the notes to the financial statements gives details of purchases made by ABC Ltd. from PQR Ltd. during the period. Mr. Y own 100% of the shares in PQR Ltd.. However, he feels that there is no requirement for any disclosure to be made in ABC Ltd.'s financial statements since the transaction is carried out on normal commercial terms and is totally insignificant to ABC Ltd., as it represents less than 1% of ABC Ltd.'s purchases.

(b) The notes to the financial statements say that plant and equipment is held under the 'cost model'. However, property which is owner occupied is revalued annually to fair value. Changes in fair value are sometimes reported in profit or loss but usually in 'other comprehensive income'. Also, the amount of depreciation charged on plant and equipment as a percentage of its carrying amount is much higher than for owner occupied property. Another note states that property owned by ABC Ltd. but rent out to others is depreciated annually and not fair valued. Mr. Y is of the opinion that there is no consistent

treatment of PPE items in the accounts. Elucidate how all these treatments comply with the relevant Ind AS.

(c) In the year to March, 2018, ABC Ltd. spent considerable amount on designing a new product. ABC Ltd. spent the six months from April, 2017 to September, 2017 researching into the feasibility of the product. Mr. X charged these research costs to profit or loss. From October, 2017, A Ltd. was confident that the product would be commercially successful and A Ltd. is fully committed to finance its future development. A Ltd. spent remaining part of the year in developing the product, which is expected to start from selling in the next few months. These development costs have been recognised as intangible assets in the Balance Sheet. State whether the treatment done by Mr. X is correct when all these research and development costs are design costs. Justify your answer with reference to relevant Ind AS.

Provide answers to the queries raised by the managing director Mr. Y as per Ind AS.

Solution :

Ongoing through the queries raised by the Managing Director Mr. Y, the financial controller Mr. X explained the notes and reasons for their disclosures as follows:

(a) Related parties are generally characterised by the presence of control or influence between the two parties.

Ind AS 24 'Related Party Disclosures' identifies related parties as, inter alia, key management personnel and companies controlled by key management personnel. On this basis, PQR Ltd. is a related party of ABC Ltd.

The transaction is required to be disclosed in the financial statements of ABC Ltd. since Mr. Y is Key Management personnel of ABC Ltd. Also at the same time, it owns 100% shares of PQR Ltd. ie. he controls PQR Ltd. This implies that PQR Ltd. is a related party of ABC Ltd.

Where transactions occur with related parties, Ind AS 24 requires that details of the transactions are disclosed in a note to the financial statements. This is required even if the transactions are carried out on an arm's length basis.

Transactions with related parties are material by their nature, so the fact that the transaction may be numerically insignificant to ABC Ltd. does not affect the need for disclosure.

(b) The accounting treatment of the majority of tangible non-current assets is governed by Ind AS 16 'Property, Plant and Equipment'. Ind AS 16 states that the accounting treatment of PPE is determined on a class by class basis. For this purpose, property and plant would be regarded as separate classes. Ind AS 16 requires that PPE is measured using either the cost model or the revaluation model. This model is applied on a class by class basis and must be applied consistently within a class. Ind AS 16 states that when the revaluation model applies, surpluses are recorded in other comprehensive income, unless they are cancelling out a deficit which has previously been reported in profit or loss, in which case it is reported in profit or loss. Where the revaluation results in a deficit, then such deficits are reported in profit or loss, unless they are cancelling out a surplus which has previously been reported in other comprehensive income, in which case they are reported in other comprehensive income.

According to Ind AS 16, all assets having a finite useful life should be depreciated over that life. Where property is concerned, the only depreciable element of the property is the buildings element, since land normally has an indefinite life. The estimated useful life of a building tends to be much longer than for plant. These two reasons together explain why the depreciation charge of a property as a percentage of its carrying amount tends to be much lower than for plant.

Properties which are held for investment purposes are not accounted for under Ind AS 16, but under Ind AS 40 'Investment Property'. As per Ind AS 40, investment properties should be accounted for under a cost model. ABC Ltd. had applied the cost model and thus our investment properties are treated differently from the owner occupied property which is annually to fair value.

(c) As per Ind AS 38 'Intangible Assets', the treatment of expenditure on intangible items depends on how it arose. Internal expenditure on intangible items incurred during research phase cannot be recognised as an asset. Once it can be demonstrated that a development project is likely to be technically feasible, commercially viable, overall profitable and can be adequately resourced, then future expenditure on the project can be recognised as an intangible asset. The difference in the treatment of expenditure upto 30th September, 2017 and expenditure after that date is due to the recognition phase i.e. research or development phase.

Question 4 : Nov 2019 – RTP

An entity has taken a loan facility from a bank that is to be repaid within a period of 9 months from the end of the reporting period. Prior to the end of the reporting period, the entity and the bank enter into an arrangement, whereby the existing outstanding loan will, unconditionally, roll into the new facility which expires after a period of 5 years.

(a) Should the loan be classified as current or non-current in the balance sheet of the entity?

(b) Will the answer be different if the new facility is agreed upon after the end of the reporting period?

(c) Will the answer to (a) be different if the existing facility is from one bank and the new facility is from another bank?

(d) Will the answer to (a) be different if the new facility is not yet tied up with the existing bank, but the entity has the potential to refinance the obligation?

Solution :

Ind AS 1 defines current liabilities as follows:

An entity shall classify a liability as current when:

(i) it expects to settle the liability in its normal operating cycle;

(ii) it holds the liability primarily for the purpose of trading;

(iii) the liability is due to be settled within twelve months after the reporting period; or

(iv) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An entity shall classify all other liabilities as non-current.

Accordingly, following will be the classification of loan in the given scenarios:

(a) The loan is not due for payment at the end of the reporting period. The entity and the bank have agreed for the said roll over prior to the end of the reporting period for a period of 5 years. Since the entity has an unconditional right to defer the settlement of the liability for at least twelve months after the reporting period, the loan should be classified as non-current.

(b) Yes, the answer will be different if the arrangement for roll over is agreed upon after the end of the reporting period because as per Ind AS 1, "an entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period.

(c) Yes, loan facility arranged with new bank cannot be treated as refinancing, as the loan with the earlier bank would have to be settled which may coincide with loan facility arranged with a new bank. In this case, loan has to be repaid within a period of 9 months from the end of the reporting period, therefore, it will be classified as current liability.

(d) Yes, the answer will be different and the loan should be classified as current. This is because, as per Ind AS 1, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

Question 5 : Nov 2019 – PAPER

Following are the Financial statements of Abraham Ltd. :

Balance Sheet

Particulars	**Note**	**As at March 31, 2019 (Rs. in lakhs)**
Equity and Liabilities		
Shareholder's funds		
Share capital (Shares of Rs.10 each)	1	1,000
Reserves and surplus		2,400
Non-current liabilities		
Long-term borrowings	2	5,700
Deferred tax liabilities	3	400
Current liabilities		
Trade payables		300
Short-term provisions		300
Other current liabilities	4	200
Total		10,300
Assets		
Non-current assets		
Fixed Assets		5,000
Deferred Tax Assets	3	700

Current assets		
Inventories		1,500
Trade receivables	5	1,100
Cash and bank balances		2,000
Total		**10,300**

Statement of Profit & Loss :

Particulars	**Note**	**As at March 31, 2019 (Rs. in lakhs)**
Revenue from operations		**6,000**
Expenses :		
Employees Benefit Expense		1,200
Operating Costs		3,199
Depreciation		450
Total Expenses		**4,849**
Profit before tax		1,151
Tax Expense		201
Profit after tax		**950**

Notes to Account :

Note 1 : Reserve and surplus

(Rs. in lakhs)

Capital Reserve		500
Surplus from P & L		
Opening Balance	550	
Additions	950	
Reserves for foreseeable loss		400
Total		**2,400**

Note 2 : Long Term Borrowings

Term Loan from Bank	5,700
Total	**5,700**

Note 3 : Deferred Tax

Deferred Tax Asset	700
Deferred Tax Liability	400
Total	**300**

Note 4 : Other Current Liabilities

Unclaimed dividends	10

Billing in Advance	150
Other Current Liabilities	40
Total	**200**

Note 5 : Trade Receivables

Considered good (outstanding within 6 months)	1,065
Considered doubtful (due from part 1 year)	40
Provision for doubtful debts	(5)
Total	**1,100**

Additional Information :

(i) Share capital comprises of 100 Lakh shares of Rs.10 each.

(ii) Term Loan from bank for Rs.5,700 lakhs also includes interest accrued and due of Rs.700 Lakhs as on the reporting date.

(iii) Reserve for foreseeable loss is created against a service contract due within 6 months.

(iv) Inventory should be valued at cost Rs.1,500 Lakhs, NRV as on date is Rs.1,200 Lakhs.

(v) A dividend of 10% was declared by the Board of directors of the company.

(vi) Accrued Interest income of Rs.300 Lakhs in not booked in the books of the company.

(vii) Deferred taxes related to taxes on income levied by the same governing tax laws.

Identify and report the errors and misstatements in the above extracts and prepare corrected Balance Sheet and Statement of Profit and Loss and where required the relevant notes to the accounts with explanations thereof.

Solution :

A) Following adjustments / rectification should be done

1) Interest accrued and due of Rs.700 on term loan should be disclosed as current liability.
2) Reserve for foreseeable loss should be provision and not reserve.
3) As per AS 2 inventory should be reported at lower of cost or NRV. Since NRV is lower the reported value should be decreased by Rs.300 lakh (1500 – 1200) and the same should be added to cost of operation.
4) Assuming that dividend is declared. After balance sheet date no adjustment is to done.
5) Accrued interest not recorded should be recorded. It should be shown under the head “Other Income” and “Other Current Assets”.
6) Since deferred tax is related to same govt. As per IND AS 12 it should be set of. The Net DTA of 300 lakh should be reported in Balance Sheet.
7) The presentation of the Notes to “Trade Receivable” will be modified as per requirements of Division II of she schedule III.
8) As per IND AS 33 EPS should be reported at end of profit and loss a/c.

B) **Balance Sheet of Arbraham Ltd.**
as on 31/3/2019

		Rs.
	Assets	
1)	Non Current Assets	
	Property, Plant & Equipment	5,000
	Deferred Tax Asset	300
2)	Current Assets	
	Inventory	1,200
	Financial Assets	
	Trade Receivable	1,100
	Cash & Cash Equivalent	2,000
	Other Financial Assets (Accrued Int.)	300
	Total	9,900
	Equity & Liability	
1)	Equity	
	Equity Share Capital	1,000
	Other Equity	2,000
2)	Non Current Liability	
	Financial Liability	
	Buy term Borrowing	5,000
3)	Current Liability	
	Financial Liability	
	Trade payable	300
	Others	710
	Short term provision	700
	Other Current Liability	190
	Total	9,900

C) **Statement of Profit and Loss A/c.**
for the year ended 31/3/2019

Particular	**Note No.**	**Amount. (Rs. in lakh)**
Revenue from operations		6,000
Other Income (Interest Accrued)		300
Total Income		6,300
Expenses		
Operating Cost		3,199
Changes in Inventory		300

Employee benefit		1,200
Depreciation		450
Total Expenses		5,149
Profit Before Tax		1,151
Tax Expenses		201
Profit After Tax		950
Basis EPS (950)/100		9.5
No. of Shares of Rs.10 each		100

D) Statement for changes in equity

1) Equity capital

	OP.	Changes	Closing
Sh. of 10 each	1,000	-	1,000

2) Reserve

	(Rs. in lakh)
Capital Reserve	500
P & L A/c (5500 + 950)	1,500
	2,000

E) Deferred Tax Asset

	(Rs. in lakh)
DTA	700
– DTL	400
	300

F) Trade Receivable

		(Rs. in lakh)
Considered good		1,065
With Significant Risk	40	
Less : Provision	(5)	35
		1,100

G)

	(Rs. in lakh)
Long Term Borrowing (5,700 – 700)	5,000

H) Other Financial Liability

	(Rs. in lakh)
Unclaimed dividend	10
Interest on term loan	700
	710

I) Short Term Provision

	(Rs. in lakh)
Provisions	300
Foreseeable Loss	400
	700

J) Other Current Liabilities

	(Rs. in lakh)
Billing in Advance	150
Other	40
	190

Question 6 : Nov 2020 – RTP

Deepak started a new company Softbharti Pvt. Ltd. with Iktara Ltd. wherein investment of 55% is done by Iktara Ltd. and rest by Deepak. Voting powers are to be given as per the proportionate share of capital contribution. The new company formed was the subsidiary of Iktara Ltd. with two directors, and Deepak eventually becomes one of the directors of company. A consultant was hired and he charged Rs.30,000 for the incorporation of company and to do other necessary statuary registrations. Rs.30,000 is to be charged as an expense in the books after incorporation of company. The company, Softbharti Pvt. Ltd. was incorporated on 1st April 2019.

The financials of Iktara Ltd. are prepared as per Ind AS.

An accountant who was hired at the time of company's incorporation, has prepared the draft financials of Softbharti Pvt. Ltd. for the year ending 31st March, 2020 as follows:

Statement of Profit and Loss

Particulars	**Amount (Rs.)**
Revenue from operations	10,00,000
Other Income	1,00,000
Total Revenue (a)	**11,00,000**
Expenses:	
Purchase of stock in trade	5,00,000
(Increase)/Decrease in stock in trade	(50,000)
Employee benefits expense	1,75,000
Depreciation	30,000
Other expenses	90,000
Total Expenses (b)	**7,45,000**

Profit before tax (c) = (a)-(b)	**3,55,000**
Current tax	1,06,500
Deferred tax	6,000
Total tax expense (d)	**1,12,500**
Profit for the year (e) = (c) – (d)	**2,42,500**

Balance Sheet

Particulars	**Amount (Rs.)**
EQUITY AND LIABILITIES	
(1) Shareholders' Funds	
(a) Share Capital	1,00,000
(b) Reserves & Surplus	2,27,500
(2) Non-Current Liabilities	
(a) Long Term Provisions	25,000
(b) Deferred tax liabilities	6,000
(3) Current Liabilities	
(a) Trade Payables	11,000
(b) Other Current Liabilities	45,000
(c) Short Term Provisions	1,06,500
TOTAL	**5,21,000**
ASSETS	
(1) Non Current Assets	
(a) Property, plant and equipment (net)	1,00,000
(b) Long-term Loans and Advances	40,000
(c) Other Non Current Assets	50,000
(2) Current Assets	
(a) Current Investment	30,000
(b) Inventories	80,000
(c) Trade Receivables	55,000
(d) Cash and Bank Balances	1,15,000
(e) Other Current Assets	51,000
TOTAL	**5,21,000**

Additional information of Softbharti Pvt Ltd.:

i. Deferred tax liability of Rs.6,000 is created due to following temporary difference:
Difference in depreciation amount as per Income tax and Accounting profit

ii. There is only one property, plant and equipment in the company, whose closing balance as at 31st March, 2020 is as follows:

iii. Pre incorporation expenses are deductible on straight line basis over the period of five years as per Income tax. However, the same are immediately expensed off in the books.

iv. Current tax is calculated at 30% on PBT - Rs.3,55,000 without doing any adjustments related to Income tax. The correct current tax after doing necessary adjustments of allowances / disallowances related to Income tax comes to Rs.1,25,700.

v. After the reporting period, the directors have recommended dividend of Rs.15,000 for the year ending 31st March, 2020 which has been deducted from reserves and surplus. Dividend payable of Rs.15,000 has been grouped under 'other current liabilities' alongwith other financial liabilities.

vi. There are 'Government statuary dues' amounting to Rs.15,000 which are grouped under 'other current liabilities'.

vii. The capital advances amounting to Rs.50,000 are grouped under 'Other non-current assets'.

viii. Other current assets of Rs.51,000 comprise Interest receivable from trade receivables.

ix. Current investment of Rs.30,000 is in shares of a company which was done with the purpose of trading; current investment has been carried at cost in the financial statements. The fair value of current investment in this case is Rs.50,000 as at 31st March, 2020.

x. Actuarial gain on employee benefit measurements of Rs.1,000 has been omitted in the financials of Softbharti private limited for the year ending 31st March, 2020.

The financial statements for financial year 2019-2020 have not been yet approved.

You are required to ascertain that whether the financial statements of Softbharti Pvt. Ltd. are correctly presented as per the applicable financial reporting framework. If not, prepare the revised financial statements of Softbharti Pvt. Ltd. after the careful analysis of mentioned facts and information.

Solution :

If Ind AS is applicable to any company, then Ind AS shall automatically be made applicable to all the subsidiaries, holding companies, associated companies, and joint ventures of that company, irrespective of individual qualification of set of standards on such companies.

In the given case it has been mentioned that the financials of Iktara Ltd. are prepared as per Ind AS. Accordingly, the results of its subsidiary Softbharti Pvt. Ltd. should also have been prepared as per Ind AS. However, the financials of Softbharti Pvt. Ltd. have been presented as per accounting standards (AS).

Hence, it is necessary to revise the financial statements of Softbharti Pvt. Ltd. as per Ind AS after the incorporation of necessary adjustments mentioned in the question.

The revised financial statements of Softbharti Pvt. Ltd. as per Ind AS and Division II to Schedule III of the Companies Act, 2013 are as follows:

STATEMENT OF PROFIT AND LOSS
for the year ended 31st March, 2020

Particulars	**Amount (Rs.)**
Revenue from operations	10,00,000
Other Income (1,00,000 + 20,000) (refer note -1)	1,20,000
Total Revenue	**11,20,000**

Expenses:	
Purchase of stock in trade	5,00,000
Increase) / Decrease in stock in trade	(50,000)
Employee benefits expense	1,75,000
Depreciation	30,000
Other expenses	90,000
Total Expenses	**7,45,000**
Profit before tax	**3,75,000**
Current tax	1,25,700
Deferred tax (W.N.1)	4,800
Total tax expense	**1,30,500**
Profit for the year (A)	**2,44,500**
OTHER COMPREHENSIVE INCOME	
Items that will not be reclassified to Profit or Loss:	
Remeasurements of net defined benefit plans	**1,000**
Tax liabilities relating to items that will not be reclassified to Profit or Loss	
Remeasurements of net defined benefit plans (tax) [1000 x 30%]	(300)
Other Comprehensive Income for the period (B)	**700**
Total Comprehensive Income for the period (A+B)	**2,45,200**

BALANCE SHEET
as at 31st March, 2020

Particulars	**Amount (Rs.)**
ASSETS	
Non-current assets	
Property, plant and equipment	1,00,000
Financial assets	
Other financial assets (Long-term loans and advances)	40,000
Other non-current assets (capital advances) (refer note-2)	50,000
Current assets	
Inventories	80,000
Financial assets	
Investments (30,000 + 20,000) (refer note -1)	50,000
Trade receivables	55,000
Cash and cash equivalents/Bank	1,15,000
Other financial assets (Interest receivable from trade receivables)	51,000
TOTAL ASSETS	**5,41,000**
EQUITY AND LIABILITIES	
Equity	

Equity share capital	1,00,000
Other equity	2,45,200
Non-current liabilities	
Provision (25,000 – 1,000)	24,000
Deferred tax liabilities (4800 + 300)	5,100
Current liabilities	
Financial liabilities	
Trade payables	11,000
Other financial liabilities (Refer note 5)	15,000
Other current liabilities (Govt. statuary dues) (Refer note 3)	15,000
Current tax liabilities	1,25,700
TOTAL EQUITY AND LIABILITIES	**5,41,000**

STATEMENT OF CHANGES IN EQUITY
For the year ended 31st March, 2020

A. EQUITY SHARE CAPITAL

	Balance (Rs.)
As at 31st March, 2019	-
Changes in equity share capital during the year	1,00,000
As at 31st March, 2020	1,00,000

B. OTHER EQUITY

	Reserves & Surplus Retained Earnings (Rs.)
As at 31st March, 2019	-
Profit for the year	2,44,500
Other comprehensive income for the year	700
Total comprehensive income for the year	2,45,200
Less: Dividend on equity shares (refer note – 4)	-
As at 31st March, 2020	2,45,200

DISCLOSURE FORMING PART OF FINANCIAL STATEMENTS:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and not recognized as liability as at the Balance Sheet date. (refer note-4)

Notes:

1. Current investment are held for the purpose of trading. Hence, it is a financial asset classified as FVTPL. Any gain in its fair value will be recognised through profit or loss. Hence, Rs.20,000 (50,000 – 30,000) increase in fair value of financial asset will be recognised in profit and loss. However, it will attract deferred tax liability on increased value (Refer W.N).

2. Assets for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets.
3. Liabilities for which there is no contractual obligation to deliver cash or other financial asset to another entity, are not financial liabilities.
4. As per Ind AS 10, 'Events after the Reporting Period', If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognized as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1, Presentation of Financial Statements.
5. Other current financial liabilities:

	(Rs.)
Balance of other current liabilities as per financial statements	45,000
Less: Dividend declared for FY 2019 - 2020 (Note – 4)	(15,000)
Reclassification of government statuary dues payable to 'other current liabilities'	(15,000)
Closing balance	15,000

Working Note:

Calculation of deferred tax on temporary differences as per Ind AS 12 for financial year 2019 – 2020

Item	**Carrying amount (Rs.)**	**Tax base (Rs.)**	**Difference (Rs.)**	**DTA / DTL @ 30% (Rs.)**
Property, Plant and Equipment	1,00,000	80,000	20,000	6,000-DTL
Pre-incorporation expenses	Nil	24,000	24,000	7,200-DTA
Current Investment	50,000	30,000	20,000	6,000-DTL
			Net DTL	4,800-DTL

Question 7 : Jan 2021 – Paper

Entity A had obtained a long-term bank loan during January 2019, which is subject to certain financial covenants. One of such covenants states that during the tenure of the loan, debt equity ratio of 65:35 is to be maintained at all time. In case of breach of this covenant, the loan will be repayable immediately. The loan agreement also states that these covenants will be assessed at the end of each quarter and reported to the bank within a month from the end of each quarter. If the covenants are breached at this time, the loan will be repayable immediately. The entity closes its annual accounts as on 31st March every year.

You are required to show how the loan will be classified as on 31st March 2020, if:

(i) At the financial year end, Entity A determines that it is not in breach of any of the covenants;

(ii) At the quarter ending 31st December 2019, Entity A's debt equity ratio became 75:25 and thus breaches the covenant, however it obtains a waiver from the bank. The terms of the waiver specify that if Entity A rectifies the breach within a period of 12 months from the

reporting date then the bank cannot demand repayment immediately on account of the breach during this period. Entity A expects to rectify the breach by raising additional equity capital by means of a rights issue to the existing shareholders and expects that the issue will be fully subscribed;

(iii) Considering the same facts as in (ii) above, except obtaining the waiver clause, what would be your answer?

Solution :

Para 74 of Ind AS 1 'Presentation of Financial Statements', states that where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

However, an entity classifies the liability as non-current, if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

(i) The entity has obtained a long-term loan during January, 2019. Since repayment period of the loan is not mentioned in the question, it is assumed that on 31st March 2020, the repayment period of the loan is more than 12 months. Further, the entity has not breached the covenants specified in the loan; therefore, as at 31st March, 2020, the loan will be classified as 'non-current liability.

(ii) In the second case, though there is a breach of covenant on 31st December, 2019 i.e. before reporting date of 31st March, 2020, yet the bank had agreed to provide a period of grace for twelve months from the reporting period, within which the entity A can rectify the breach and during this period bank cannot demand immediate repayment. Also, entity A has intention to rectify the breach. Thus, entity A will classify the liability of bank loan as non-current liability in its books as at 31st March, 2020.

(iii) Since the covenant for the bank loan has been breached during the quarter ended 31st December, 2019 and reported to the bank within one month from the end of the quarter i.e. by 31st January, 2020, the bank loan becomes repayable immediately. Therefore, it will be presented as current liability in the books of entity A as on 31st March, 2020.

Question 8 : May 2021 – RTP

An entity has the following trial balance line items. How should these items be classified, i.e., current or non-current as per Ind AS 1?

(a) Receivables (viz., receivable under a contract of sale of goods in which an entity deals)

(b) Advance to suppliers

(c) Income tax receivables [other than deferred tax]

(d) Insurance spares

Solution :

(a) As per Ind AS 1, an entity shall classify an asset as current when it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle.
Paragraph 68 provides the guidance that current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period.
In accordance with above, the receivables that are considered a part of the normal operating cycle will be classified as current asset.
If the operating cycle exceeds twelve months, then additional disclosure as required by Ind AS 1 is required to be given in the notes.

(b) As discussed in point (a) above, advances to suppliers for goods and services would be classified in accordance with normal operating cycle if it is given in relation to the goods or services in which the entity normally deals. If the advances are considered a part the normal operating cycle, it would be classified as a current asset. If the operating cycle exceeds twelve months, then additional disclosure as required by paragraph 61 of Ind AS 1 is required to be given in the notes.

(c) Classification of income tax receivables [other than deferred tax] will be driven by Ind AS 1, i.e., based on the expectation of the entity to realise the asset. If the receivable is expected to be realised within twelve months after the reporting period, then it will be classified as current asset else non-current asset.

(d) Ind AS 16 states that items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Ind AS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.
Accordingly, the insurance spares that are treated as an item of property, plant and equipment would normally be classified as non-current asset whereas insurance spares that are treated as inventory will be classified as current asset if the entity expects to consume it in its normal operating cycle.

Question 9 : July 2021 – Paper

Charm Limited (the 'Company') is a manufacturing company, which is into manufacturing of wires and cables and has assessed its operating cycle to be 15 months. The Company has some trade receivables which are receivable within a period of 12 months from the reporting date i.e. 31st March, 2021.

With respect of the following transactions, which took place during the financial year 2021-21, give your opinion based on relevant Ind AS :

- The Company has received a contract of Rs.10 crores on 31st March 2021. The terms of the contract value with the customer. The Company made a security deposit of Rs.2 crores on 31st March 2021. This contract will be completed in about 14 months 70% of the deposit will be refunded immediately and the balance 30% of the deposit will be refunded after 3 months from the completion of the contract. The company wants to present the security deposit of Rs.2 crores as non-current. Is the management's decision correct?
- The Company has some trade receivables that are due after 14 months from the date of the balance sheet; the management of the Company expects to receive the amount within

the period of the operating cycle. Despite the fact that these are receivables in 14 months, the management would like to present these as current. Is the management's decision correct?

- In the normal course of business, the Company has given 2 contracts and received a total security deposit of Rs.4 crores. Rs.3 crores in received from X Limited and Rs.1 crore received from Y Limited on 31st March 2021. These ar repayable on completion of the contract. However, of the contract is cancelled within the contract term of 18 months, then the deposit becomes payable immediately. The Company is positive about the contract with X Limited but is in doubt about the contract received from Y Limited. The Company wants to present the amount of Rs.3 crores as non-current and Rs.1 crore as current in the balance sheet. Is the management's decision correct?
- The Company is planning to replace a machinery. It has given an advance of Rs.1 crores for purchase of new machinery which will be delivered in 6 months from the date of the balance sheet. It has sold the old machinery for Rs.0.5 crores, the payment of which is due in 10 months from the date of the balance sheet. The Company wants to present both these amounts as current since they will be settled within twelve months from the end of the reporting period. Is the management's decision correct?

Solution :

Operating cycle of Charm Limited = 15 months

(i) The security deposit made by the Company with the customers be classified as current assets to the extent of 70% (Rs. 2 crore x 70% = Rs. 1.40 crore) as it will be refunded immediately on completion of 14 months of contract i.e. within the operating cycle of 15 months.

However, 30% of the security deposit will be refunded after 3 months of completion of the contract (14+3 = 17 months) i.e. after 2 months of operating cycle (Operating cycle of the Company is 15 months). Hence, it will be classified as non-current. Therefore, management's decision is not correct. (Refer Para 66 of Ind AS 1)

(ii) Yes, the Company's decision of presenting the trade receivables as Current Assets is correct despite the fact that these are receivables in 14 months' time since the operating cycle of the company is 15 months and any event arising due to trade will be considered as current if its settlement is within the tenure of operating cycle. Additionally, the Company also need to disclose amounts that are receivable within a period of 12 months and after 12 months from the reporting date. (Refer Para 60 and 61 of Ind AS 1)

(iii) Paragraph 69(d) of Ind AS 1 states that an entity shall classify a liability as current when it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

Although it is expected that X Limited will fulfil the contract and the deposit will not be refunded, but in case of cancellation within the contract term, refund of security deposit is a condition that is not within the control of the entity. Hence, Charm Limited does not have an unconditional right to defer settlement of the liability for at least twelve months

after the reporting period. Accordingly, the deposit will have to be classified as current liability in case of both X and Y Limited.

(iv) Yes, the management decision to classify the payment of Rs. 0.5 crore as a current asset is correct since the payment will be realised in less than twelve months from the end of the reporting period.

Capital advances are advances given for procurement of Property, Plant and Equipment etc. Typically, companies do not expect to realize them in cash. Rather, over the period, these get converted into non-current assets. Hence, capital advances should be treated as other non-current assets irrespective of when the Property, Plant and Equipment is expected to be received.

Under Ind AS Schedule III, Capital Advances are not to be classified under Capital Work in Progress since they are specifically to be disclosed under other non-current assets.

Accordingly, advance of Rs. 1 crore given for purchase of machinery is 'Capital advance' which will be classified as non-current as it relates to acquisition of non-current item i.e., machinery. Hence, management decision to classify it as current is incorrect.

Question 10 : Nov 2021 – RTP

Is offsetting permitted under the following circumstances?

(a) Expenses incurred by a holding company on behalf of subsidiary, which is reimbursed by the subsidiary - whether in the separate books of the holding company, the expenditure and related reimbursement of expenses can be offset?

(b) Whether profit on sale of an asset against loss on sale of another asset can be offset?

(c) When services are rendered in a transaction with an entity and services are received from the same entity in two different arrangements, can the receivable and payable be offset?

Solution :

(a) As per paragraph 33 of Ind AS 1, offsetting is permitted only when the offsetting reflects the substance of the transaction.

In this case, the agreement/arrangement, if any, between the holding and subsidiary company needs to be considered. If the arrangement is to reimburse the cost incurred by the holding company on behalf of the subsidiary company, the same may be presented net. It should be ensured that the substance of the arrangement is that the payments are actually in the nature of reimbursement.

(b) Paragraph 35 of Ind AS 1 requires an entity to present on a net basis gains and losses arising from a group of similar transactions. Accordingly, gains or losses arising on disposal of various items of property, plant and equipment shall be presented on net basis. However, gains or losses should be presented separately if they are material.

(c) Ind AS 1 prescribes that assets and liabilities, and income and expenses should be reported separately, unless offsetting reflects the substance of the transaction. In addition to this, as per paragraph 42 of Ind AS 32, a financial asset and a financial liability should be offset if the entity has legally enforceable right to set off and the entity intends either to settle on net basis or to realise the asset and settle the liability simultaneously.

In accordance with the above, the receivable and payable should be offset against each other and net amount is presented in the balance sheet if the entity has a legal right to set off and the entity intends to do so. Otherwise, the receivable and payable should be reported separately.

Question 11 : May 2022 – RTP

An entity manufactures passenger vehicles. The time between purchasing of underlying raw materials to manufacture the passenger vehicles and the date the entity completes the production and delivers to its customers is 11 months. Customers settle the dues after a period of 8 months from the date of sale.

(a) Will the inventory and the trade receivables be current in nature?

(b) Assuming that the production time was say 15 months and the time lag between the date of sale and collection from customers is 13 months, will the answer be different?

Solution :

Inventory and debtors need to be classified in accordance with the requirement of paragraph 66(a) of Ind AS 1, which provides that an asset shall be classified as current if an entity expects to realise the same or intends to sell or consume it in its normal operating cycle.

(a) In this case, time lag between the purchase of inventory and its realisation into cash is 19 months [11 months + 8 months]. Both inventory and the debtors would be classified as current if the entity expects to realise these assets in its normal operating cycle.

(b) No, the answer will be the same as the classification of debtors and inventory depends on the expectation of the entity to realise the same in the normal operating cycle. In this case, time lag between the purchase of inventory and its realisation into cash is 28 months [15 months + 13 months]. Both inventory and debtors would be classified as current if the entity expects to realise these assets in the normal operating cycle.

Additional information as required by paragraph 61 of Ind AS 1 will be required to be made by the entity, which provides "Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

(a) No more than twelve months after the reporting period, and

(b) More than twelve months after the reporting period."

Question 12 : May 2022 – Paper

In November 2021, and Ind AS complaint Company entered into a loan agreement with a bank. The loan is repayable in 6 equal annual installments starting from November 2026. One of the loan covenants is that an amount equivalent to the loan amount should be contributed by the promoters of the Company by 4th March, 2022, failing which the loan becomes payable on demand.

As on 4th March, 2022, the Company has not been able to get the promoter's contribution. On 5th march, 2022 the Company approached the Bank and immediately obtained a grace period up to 30th June, 2022 to get the promoter's contribution.

The bank cannot demand immediate repayment during the grace period.
The annual reporting period of the Company ends on 31st March, 2022.
You are required to respond to the following :

(i) As at 31st March, 2022, how should the Company classify the loan?

(ii) Assume that it may not be able to get the promoter's contribution by the due date, the Company approached the Bank in January 2022 and got the compliance date extended up to 30th June, 2022 for getting promoter's contribution. Will the loan classification as at 31st March, 2022 be different from (i) above?

Solution :

(i) Paragraph 75 of Ind AS 1, inter alia, provides that an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.
In the present case, following the default, grace period within which an entity can rectify the breach is less than twelve months after the reporting period. Hence as on 31st March, 2022, the loan will be classified as current.

(ii) Ind AS 1 deals with classification of liability as current or non-current in case of breach of a loan covenant and does not deal with the classification in case of expectation of breach. In this case, whether actual breach has taken place or not is to be assessed on 30th June, 2022, i.e., after the reporting date. Consequently, in the absence of actual breach of the loan covenant as on 31st March, 2022, the loan will retain its classification as non-current.

Question 13 : Nov 2022 – RTP

As per the statutory requirements, exceptional items are required to be disclosed whereas Ind AS 1 requires separate disclosures of material items and how these are to be presented in the financial statements. Does that imply that 'exceptional' means 'material'? Give examples. How should these be presented in the financial statements?

Solution :

Exceptional items have not been defined in Indian Accounting Standards (Ind AS). However, paragraph 97 of Ind AS 1 requires that when items of income or expense are material, an entity shall disclose their nature and amount separately.
As per Ind AS 1, 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 and it could be the determining factor.
When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.
Generally, items of income or expense fulfilling the abovementioned criteria are classified as exceptional items and are disclosed separately.

From the above, it appears that all material items are not exceptional items. In other words, exceptional items are those items which meet the test of 'materiality' (size and nature) and the test of 'incidence'.

Following are some examples which may give rise to a separate disclosure of items as an 'exceptional item' in financial statements if they meet the test of 'materiality' and 'incidence':

(a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
(b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
(c) disposals of items of property, plant and equipment;
(d) disposals of investments;
(e) discontinued operations;
(f) litigation settlements; and
(g) other reversals of provisions.

Question 14 : May 2023 – Paper

X Limited has a loan facility from a bank which is to be repaid within a period of six months from the end of the reporting period. Before the end of the reporting period, X Limited and the bank enters into an arrangement as per which the existing outstanding loan will unconditionally, roll into the new facility which will expire after a period of 3 years.

i. How should the loan be classified in the balance sheet of X Limited as at the reporting date ? Give reasons.
ii. Will the answer be different if the new facility is agreed upon after the end of the reporting period ? Why ? What will be t e answer ?
iii. Will the answer to (i) be different if the new facility is not yet tied up with the existing bank, but X Limited has the potential to refinance the obligation. Give reasons.

Solution :

(i) The loan is not due for payment at the end of the reporting period. The entity and the bank have agreed for the said roll over before the end of the reporting period for a period of 3 years. Since the entity has an unconditional right to defer the settlement of the liability for at least twelve months after the reporting period, the loan should be classified as non-current.

(ii) Yes, the answer will be different if the arrangement for roll over is agreed upon after the end of the reporting period, since assessment is required to be made based on terms of the existing loan facility. As at the end of the reporting period, the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period, the loan is to be classified as current.

(iii) Yes, the answer will be different, and the loan should be classified as current. This is because, as per paragraph 73 of Ind AS 1, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

Question 15 : May 2024 – Paper

In December, 2022, X Limited entered into a loan agreement with a Bank. The loan is repayable in five annual instalments commencing from 1st October, 2024. One of the material provisions of the loan agreement is that X limited should create an equitable mortgage on its assets in favour of the Bank by 31st March, 2023 failing which the loan would become payable on demand. X Limited is not able to create the equitable mortgage by 31st March, 2023. In April, 2023, X Limited started negotiation with the Bank and requested it not to demand payment due to non-creation of the equitable mortgage.

Meanwhile the financial statements of X Limited for the year ended 31st March, 2023 were approved for issue on 30th May, 2023. In the month of June, 2023, the Bank agreed that the payment would not be demanded immediately as a consequence of breach of the material provision. How would the loan liability be classified by X Limited as at 31st March, 2023?

Solution :

As per Ind AS 1 "Presentation of Financial Statements", where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

An entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

In the given case, bank (the lender) agreed for not to demand payment but only after the reporting date and the financial statements were approved for issuance. The financial statements were approved for issuance on 30th May 2023 and the Bank agreed for not to demand payment in the month of June 2023 although negotiation started in the month of April 2023 but could not agree before May 2023 when financial statements were approved for issuance.

Hence, the liability should be classified as current in the financial statement as at 31st March, 2023.

Question 16 : Nov 2024 – Paper

Define the concept of 'Offsetting'. Is offsetting permitted under the following circumstances?

(a) Whether profit on sale of an asset against loss on sale of another asset can be offset?

(b) Expenses incurred by a holding company on behalf of subsidiary, which is reimbursed by the subsidiary - whether in the separate books of the holding company, the expenditure and related reimbursement of expenses can be offset?

(c) When services are rendered in a transaction with an entity and services are received from the same entity in two different arrangements, can the receivable and payable be offset?

Solution :

Concept of Offsetting: Offsetting refers to presenting an asset and a liability net or income and expenses net as a single amount, in the financial statements. As per Ind AS, an entity is required to report separately both assets and liabilities, and income and expenses. Offsetting in the statement of profit and loss or balance sheet is not permitted unless when offsetting reflects the substance of the transaction or other event.

Scenarios for determining applicability of the concept of offsetting:

(a) Paragraph 35 of Ind AS 1 requires an entity to present on a net basis gains and losses arising from a group of similar transactions. Accordingly, gains or losses arising from disposal of various items of property, plant and equipment shall be presented on a net basis. However, gains or losses should be presented separately if they are material.

(b) As per paragraph 33 of Ind AS 1, offsetting is permitted only when offsetting reflects the substance of the transaction. In this case, the agreement/arrangement, if any, between the holding and subsidiary company needs to be considered. If the arrangement is to reimburse the cost incurred by the holding company on behalf of the subsidiary company, the same may be presented net. It should be ensured that the substance of the arrangement is that the payments are actually in the nature of reimbursement.

(c) Ind AS 1 prescribes that assets and liabilities, and income and expenses should be reported separately, unless offsetting reflects the substance of the transaction. In addition to this, as per paragraph 42 of Ind AS 32, a financial asset and a financial liability should be offset if the entity has legally enforceable right to set off and the entity intends either to settle on net basis or to realise the asset and settle the liability simultaneously. Accordingly, the receivable and payable should be offset against each other and net amount is presented in the balance sheet if the entity has a legal right to set off and the entity intends to do so. Otherwise, the receivable and payable should be reported separately.

Question 17 : Nov 2024 – Paper

Explain how enhancing qualitative characteristics can improve the usefulness of the financial information.

Solution :

The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

1. **Comparability:** Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date. Comparability refers to the use of the same methods for the same items, and uniformity implies that like things must look alike and different things must look different.
2. **Verifiability:** Verifiability means that different knowledgeable and independent observers could reach a consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.
3. **Timeliness:** Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less

useful it is. However, some information may continue to be timely long after the end of a reporting period because some users may need to identify and assess trends.

4. **Understandability:** Classifying, characterising and presenting information clearly and concisely makes it understandable.

Enhancing qualitative characteristics should be maximised to the extent possible. However, the enhancing qualitative characteristics, either individually or as a group, cannot make information useful if that information is irrelevant or does not provide a faithful representation of what it purports to represent.

Sometimes, one enhancing qualitative characteristic may have to be diminished to maximise another qualitative characteristic. For example, a temporary reduction in comparability as a result of prospectively applying a new Ind AS may be worthwhile to improve relevance or faithful representation in the longer term. Appropriate disclosures may partially compensate for non-comparability.

Question 18 : May 2025 – Paper

Assume operating cycle to be of twelve months. Classify the following deposits given by an entity in automobile industry during the year ended 31st March, 2025 either as current asset or non-current asset. Give reasons.

(i) Electricity deposit paid to permanently enhance the power load of the factory.

(ii) Tender deposit. Tender is likely to be opened & awarded to the lowest bidder within next six months.

(iii) GST demand deposited with the department against which the entity has filed an appeal before the appellate authorities. Appeal is likely to be heard after 30th June, 2026.

(iv) Earnest money deposit on award of a long-term job contract to be completed by 31st May, 2026. Earnest money is returnable only on completion of the job work.

Solution :

(i) Electricity Deposit - At all points of time, the deposit is recoverable on demand, when the connection is not required. However, practically, such electric connection is required as long as the entity exists. Hence, from a commercial reality perspective, an entity does not expect to realise the asset within twelve months from the end of the reporting period. Hence, electricity deposit should be classified as a non-current asset.

(ii) Tender Deposit - In the given case, tender is likely to be opened and awarded to the lowest bidder within six months. Therefore, it is expected that the refund of tender deposit will also be received within a few days or a month from the date of tender being opened and awarded. Hence, tender deposit will be classified as current asset in the books of the entity as on 31st March, 2025.

(iii) GST Demand Deposit paid under dispute - Since appeal is likely to be heard after 30th June, 2026 i.e., 15 months from 31st March, 2025 (reporting date), it should classify such GST demand deposit as non-current asset.

(iv) Earnest Money Deposit - Since the job contract is of long term in nature and is expected to be completed by 31st May, 2026, i.e., 14 months from 31st March, 2025 (reporting date), the earnest money deposit should be classified as non-current asset.

Question 19 : May 2025 – Paper

Discuss the limitations of general-purpose financial reporting.

Solution :

Limitations of General-Purpose Financial Reporting:

- General-purpose Financial Reporting does not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks;
- General-purpose Financial Reporting is not designed to show the value of a reporting entity; but they provide information to help existing and potential investors, lenders and other creditors to estimate the value of the reporting entity; and
- General-purpose Financial Reporting is not primarily directed to other parties, such as regulators and members of the public other than investors, lenders and other creditors.

Thanks ....

IND AS – 2 INVENTORIES

CHAPTER - 3

Question 1 : May 2018 – RTP

On 31 March 20X1, the inventory of ABC includes spare parts which it had been supplying to a number of different customers for some years. The cost of the spare parts was Rs.10 million and based on retail prices at 31 March 20X1, the expected selling price of the spare parts is Rs.12 million. On 15 April 20X1, due to market fluctuations, expected selling price of the spare parts in stock reduced to Rs.8 million. The estimated selling expense required to make the sales would Rs.0.5 million. Financial statements were authorised by Board of Directors on 20th April 20X1.

As at 31st March 20X2, Directors noted that such inventory is still unsold and lying in the warehouse of the company. Directors believe that inventory is in a saleable condition and active marketing would result in an immediate sale. Since the market conditions have improved, estimated selling price of inventory is Rs.11 million and estimated selling expenses are same Rs.0.5 million.

What will be the value inventory at the following dates:

(a) 31st March 20X1

(b) 31st March 20X2

Solution :

As per Ind AS 2 'Inventories', inventory is measured at lower of 'cost' or 'net realisable value'. Further, as per Ind AS 10: 'Events after Balance Sheet Date', decline in net realisable value below cost provides additional evidence of events occurring at the balance sheet date and hence shall be considered as 'adjusting events'.

(a) In the given case, for valuation of inventory as on 31 March 20X1, cost of inventory would be Rs.10 million and net realisable value would be Rs.7.5 million (i.e. Expected selling price Rs.8 million- estimated selling expenses Rs.0.5 million). Accordingly, inventory shall be measured at Rs.7.5 million i.e. lower of cost and net realisable value. Therefore, inventory write down of Rs.2.5 million would be recorded in income statement of that year.

(b) As per Ind AS 2, a new assessment is made of net realizable value in each subsequent period. It Inter alia states that if there is increase in net realizable value because of changed economic circumstances, the amount of write down is reversed so that new carrying amount is the lower of the cost and the revised net realizable value. Accordingly, as at 31 March 20X2, again inventory would be valued at cost or net realisable value whichever is lower. In the present case, cost is Rs.10 million and net realisable value would be Rs.10. 5 million (i.e. expected selling price Rs.11 million – estimated selling expense Rs.0.5 million). Accordingly, inventory would be recorded at Rs.10 million and inventory write down carried out in previous year for Rs.2.5 million shall be reversed.

Question 2 : May 2020 – RTP

The following is relevant information for an entity :

- Full capacity is 10,000 labour hours in a year.
- Normal capacity is 7,500 labour hours in a year.
- Actual labour hours for current period are 6,500 hours.
- Total fixed production overhead is Rs.1,500.
- Total variable production overhead is Rs.2,600.
- Total opening inventory is 2,500 units.
- Total units produced in a year are 6,500 units.
- Total units sold in a year are 6,700 units.
- The cost of inventories is assigned by using FIFO cost formula.

How overhead costs are to be allocated to cost of goods sold and closing inventory?

Solution :

1) As per AS 2 fixed overheads should be absorbed at actual overheads or budgeted overhead which is lower.

Actual $= \frac{1500}{6500}$ = Rs.0.23/hour

Budgeting $= \frac{1500}{7500}$ = Rs.0.2/hour

i.e. 6500 × 0.2 = Rs.1300

The balance of fixed overhead

i.e. 1500 – 1300 = 200 should be changed to P & L

2) Variable overheads = $\frac{2600}{6500}$ = Rs.0.4/hr.

3) Closing stock (units)

= Opening stock	2500
+ Production	6500
– Sold	6700
	2300 units

4) Time take to product 1 unit

$= \frac{6500\ \text{hrs}}{6500\ \text{units}}$ i.e. 1 hr./unit

5) Closing stock = 2300 units × 1 hr./unit × (0.2 + 0.4)

6) Cost of goods sold

Total overheads (1500 + 2600)	4100
– Closing stock	1380

– Cost charged to P & L	200
	2520

Question 3 : Nov 2020 – RTP

A company normally produced 1,00,000 units of a high precision equipment each year over past several years. In the current year, due to lack of demand and competition, it produced only 50,000 units. Further information is as follows:
Material = Rs.200 per unit;
Labour = Rs.100 per unit;
Variable manufacturing overhead = Rs.100 per unit;
Fixed factory production overhead = Rs.1,00,00,000;
Fixed factory selling overhead = Rs.50,00,000;
Variable factory selling overhead = Rs.150 per unit.
Calculate the value of inventory per unit in accordance with Ind AS 2. What will be the treatment of fixed manufacturing overhead?

Solution :

1) As per AS 2 fixed overhead should be absorbed at Actual CPU or budgeted CPU whichever is low

Actual $= \frac{1,00,00,000}{50,000}$ = Rs.200/unit

Budgeted $= \frac{1,00,00,000}{1,00,000}$ = Rs.100/unit

i.e. it should be absorbed at Rs.100/unit

2)

Inventory value	Rs.
Raw material	200/unit
Labour	100/unit
Variable manufacture O/H	100/unit
Fixed production O/H	100/unit
Total	500/unit

3) Balance fixed factory O/H
i.e. 1,00,00,000 – (50,000 × 100) = 50,00,000 and selling cost should be charged to Profit and Loss A/c.

Question 4 : May 2021 – RTP

On 1 January 20X1 an entity accepted an order for 7,000 custom-made corporate gifts.
On 3 January 20X1 the entity purchased raw materials to be consumed in the production process for Rs. 5,50,000, including Rs. 50,000 refundable purchase taxes. The purchase price was funded by raising a loan of Rs. 5,55,000 (including Rs. 5,000 loan-raising fees). The loan is secured by the inventories.

During January 20X1 the entity designed the corporate gifts for the customer.
Design costs included:

- cost of external designer = Rs. 7,000; and
- labour = Rs. 3,000.

During February 20X1 the entity's production team developed the manufacturing technique and made further modifications necessary to bring the inventories to the conditions specified in the agreement. The following costs were incurred in the testing phase:

- materials, net of Rs. 3,000 recovered from the sale of the scrapped output = Rs. 21,000;
- labour = Rs. 11,000; and
- depreciation of plant used to perform the modifications = Rs. 5,000.

During February 20X1 the entity incurred the following additional costs in manufacturing the customised corporate gifts:

- consumable stores = Rs. 55,000;
- labour = Rs. 65,000; and
- depreciation of plant used to manufacture the customised corporate gifts = Rs. 15,000.

The customised corporate gifts were ready for sale on 1 March 20X1. No abnormal wastage occurred in the development and manufacture of the corporate gifts.
Compute the cost of the inventory? Substantiate your answer with appropriate reasons and calculations, wherever required.

Solution :

Statement showing computation of inventory cost

Particulars	Amount (Rs.)	Remarks
Costs of purchase	5,00,000	Purchase price of raw material [purchase price (Rs. 5,50,000) less refundable purchase taxes (Rs. 50,000)]
Loan-raising fee	–	Included in the measurement of the liability
Costs of purchase	55,000	Purchase price of consumable stores
Costs of conversion	65,000	Direct costs—labour
Production overheads	15,000	Fixed costs—depreciation
Production overheads	10,000	Product design costs and labour cost for specific customer
Other costs	37,000	Refer working note
Borrowing costs	–	Recognised as an expense in profit or loss
Total cost of inventories	**6,82,000**	

Working Note:

Costs of testing product designed for specific customer:

Rs. 21,000 material (ie net of the Rs. 3,000 recovered from the sale of the scrapped output) + Rs. 11,000 labour + Rs. 5,000 depreciation.

Question 5 : Nov 2021 – RTP

Whether the following costs should be considered while determining the Net Realisable Value (NRV) of the inventories?

(a) Costs of completion of work-in-progress;
(b) Trade discounts expected to be allowed on sale; and
(c) Cash discounts expected to be allowed for prompt payment

Solution :

Ind AS 2 defines Net Realisable Value as the "estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale."

Costs of completion of work-in-progress are incurred to convert the work-in-progress into finished goods. Since these costs are in the nature of completion costs, in accordance with the above definition, the same should be deducted from the estimated selling price to determine the NRV of work-in-progress.

Trade Discount is "A reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment". Trade discount is allowed either expressly through an agreement or through prevalent commercial practices in the terms of the trade and the same is adjusted in arriving at the selling price. Accordingly, the trade discount expected to be allowed should be deducted to determine the estimated selling price.

Cash Discount is "A reduction granted by a supplier from the invoiced price in consideration of immediate payment or payment within a stipulated period." These types of costs are incurred to recover the sale proceeds immediately or before the end of the specified period or credit period allowed to the customer. In other words, these costs are not incurred to make the sale, therefore, the same should not be considered while determining NRV.

Question 6 : May 2023 – RTP

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

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

Applying the retail method, compute the following:

(a) Percentage of cost price over retail price;
(b) Cost of closing inventory;
(c) Value of cost of sales (at cost); and
(d) Profit earned during the year on sale of inventory

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

Solution :

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

Sr.No.	Particulars		Rs.
	Cost price of goods	6,250 + 19,500	25,750
	Retail price of goods	8,000 + 34,000	42,000
(a)	Cost percentage of retail price	25,750 / 42,000	61%
(b)	Closing inventory (at cost)	23,000 x 61%	14,030
(c)	Cost of sales for the period	[(6,250 + 19,500) - 14,030]	
	Sales for the period		
(d)	Profit earned on sale of goods during the year	19,000 – 11,720	7,280

Question 7 : Nov 2023 – RTP

A Ltd. began operations in the year 20X1-20X2. In 20X1-20X2, it incurred the following expenditures on purchasing the raw materials for its product:

a. Purchase price of the raw materials = Rs. 30,000;
b. Import duty and other non-refundable purchase taxes = Rs. 8,000;
c. Refundable purchase taxes = Rs. 1,000;
d. Freight costs for bringing the goods from the supplier to the factory's storeroom for raw materials = Rs. 3,000;
e. Costs of unloading the materials into the storeroom for raw materials = Rs. 20; and
f. Packaging = Rs. 2,000.

On 31st March, 20X2, A Ltd. received Rs. 530 volume rebate from a supplier for purchasing more than Rs. 15,000 from the supplier during the year.

A Ltd. incurred the following additional costs in the production run:

i. Salary of the machine workers in the factory = Rs. 5,000;
ii. Salary of factory supervisor = Rs. 3,000;
iii. Depreciation of the factory building and equipment used for production process = Rs. 600;
iv. Consumables used in the production process = Rs. 200;
v. Depreciation of vehicle used to transport the goods from the storeroom for raw materials to the machine floor = Rs. 400;
vi. Factory electricity usage = Rs. 300;
vii. Factory rental = Rs. 1,000; and
viii. Depreciation of the entity's vehicle used by the factory supervisor is Rs. 200.

During 20X1-20X2, A Ltd. incurred the following administrative expenses:

1. Depreciation of the administration building = Rs. 500;
2. Depreciation and maintenance of vehicles used by the administrative staff = Rs. 150; and
3. Salaries of the administrative personnel = Rs. 3,050.

Of the administrative expenses, 20% is attributable to administering the factory. Remaining expenses are attributable, in equal proportion, to the sales and other non-production operations (eg financing, tax and corporate secretarial functions).

In 20X1-20X2, A Ltd. incurred the following selling expenses:

a) Advertising costs = Rs. 300;
b) Depreciation and maintenance of vehicles used by the sales staff = Rs. 100; and
c) Salaries of the administrative personnel = Rs. 6,000.

Pass necessary journal entries to record the cost of inventory in the books of A Ltd.

Solution :

Journal Entries for the year 20X1-20X2

		Rs.	Rs.
Inventory A/c (W.N.1)	Dr.	42,490	
To Cash/Bank A/c			42,490
(To recognise the cost of raw materials purchased)			
Inventory A/c (W.N.2)	Dr.	11,240	
To Cash/Bank A/c (cost of direct labour)			5,000
To Property, plant and equipment (accumulated depreciation-factory equipment)			600
To Property, plant and equipment (accumulated depreciation-raw-materials delivery vehicle)			400
To Cash/Bank A/c (cost of electricity used)			300
To Property, plant and equipment (accumulated depreciation-factory supervisor's vehicle)			200
To Cash/Bank A/c (factory management's salaries)			3,000
To Cash/Bank A/c (factory rental)			1,000
To Cash/Bank A/c (administrative salaries attributable to the factory)			610
To Property, plant and equipment (attributable portion of accumulated depreciation- administration building)			100
To Property, plant and equipment (attributable portion of accumulated depreciation- administration vehicles)			30
(To recognise the costs of conversion)			
Inventory A/c (W.N.2)	Dr.	200	
To Inventory A/c (consumable stores)			200
(To recognise the costs of consumable stores inventory consumed)			

The total cost of inventories = Costs of purchase + Costs of conversion
= Rs. 42,490 + Rs. 11,240 + Rs. 200
= Rs. 53,930

Working Notes:

1. Computation of costs of purchase

	Rs.
Purchase price	30,000
Import duty and other non-refundable purchase taxes	8,000
Freight costs for bringing the goods to the factory storeroom	3,000

Cost of unloading the raw materials into the storeroom	20
Packaging	2,000
Less: Trade discounts, rebates and subsidies	(530)
Cost of purchase	42,490

Note: Refundable taxes do not form part of the cost of inventories.

2. Computation of costs of conversion

	Rs.
Direct labour	5,000
Fixed production overheads	
➢ Depreciation and maintenance of factory equipment	600
➢ Depreciation of vehicle used for transporting the goods	400
➢ Depreciation of vehicle used by factory supervisor	200
➢ Factory electricity usage	300
➢ Factory management	3,000
➢ Factory rental	1,000
Other costs of administering the factory	
➢ 20% of depreciation of administration building	100
➢ 20% of depreciation of administration vehicles	30
➢ 20% of administrative staff costs	610
Variable production overheads	
➢ Indirect material—consumables	200
Cost of conversion	**11,440**

Question 8 : May 2024 – RTP

B Limited has valued its Stock held for distribution as free items on claim by customers (on offers) at zero. Customers have a right to claim the free item within 14 days from date of invoice. If the time limit of 14-day exceeds, the claim is foregone by the customer.

The majority of the free items require online registration by the buyers for participation in the contest conducted by the respective brand which needs to be done by the buyers within 3 days from the date of invoice.

Out of it, a few items under this category were found damaged. The replacement cost of such items would be Rs. 2,50,000.

Determine whether the entity has to book loss of inventory or provide for replacement cost of the goods that need to be given as free items to customers as per the principles of Ind AS.

Solution :

Ind AS 2 deals with write-off in value of inventory. The stock of free items is valued at zero by the company. The question of "Loss of Inventory Rs. 2,50,000" does not arise as the claim of free stock is subject to various conditions like claim within 14 days, online registration within 3 days, etc. which are all contingent in nature.

However, provision is to be made for goods to be distributed in case claims from customers are received since the customer can claim the free items within 14 days from the date of invoice. Hence provision of Rs. 2,50,000 is to be made for.

Question 9 : May 2025 – RTP

Following information have been provided for A Ltd. which account for its inventories by using FIFO cost formula:

a) Full capacity is 10,000 labour hours in a year.
b) Normal capacity is 7,500 labour hours in a year.
c) Actual labour hours for current period are 6,500 hours.
d) Total fixed production overhead is Rs. 1,500,
e) Total variable production overhead is Rs. 2,600.
f) Total opening inventory is 2,500 units.
g) Total units produced in a year are 6,500 units.
h) Total units sold in a year are 6,700 units.
i) Total closing inventory is 2,300 units.

Required

How will the overhead cost be allocated to inventory at normal capacity and at less than normal production for the current year based on the above information and also show how much expense will be recognized in the statement of profit and loss?

Solution :

Management should allocate fixed overhead costs and variable overhead costs to units produced at a rate of Rs. 0.2 per hour = $\left(\frac{1,500}{7,500}\right)$ and Rs. 0.4 per hour = $\left(\frac{2,600}{6,500}\right)$ respectively.

Fixed production overhead absorption rate:
= Fixed production overhead / Labour hours under normal capacity
= Rs. 1,500/7,500
= Rs. 0.2 per hour

Therefore, Fixed production overhead allocated to 6,500 units produced during the year (one unit per hour) = 6,500 units x Rs. 0.2 = Rs. 1,300. The remaining Rs. 200 of overhead incurred that remains unallocated is recognized as an expense in the profit and loss.

The amount of fixed overhead allocated to inventory is not increased as a result of low production by using normal capacity to allocate fixed overhead.

Variable production overhead absorption rate:
= Variable production overhead / Actual hours for current period
= Rs. 2,600 / 6,500 units
= Rs. 0.4 per hour

The above rate results in the allocation of all variable overheads to units produced during the year.

As each unit has taken one hour to produce (6,500 hours /6,500 units produced), total fixed and variable production overhead recognized as part of cost of inventory:

= Number of units of closing inventory x number of hours to produce each unit x (fixed production overhead absorption rate + variable production overhead absorption rate)
= 2,300 x 1 x (Rs. 0.2+ Rs. 0.4) = Rs. 1,380
The remaining Rs. 2,720 {(Rs. 1,500 + Rs. 2,600) – Rs. 1,380} is recognized as an expense in the Statement of profit and loss as follows:

	Rs.
Absorbed in cost of goods sold (FIFO basis)	
(6,500- 2,300) = 4,200 x Rs. 0.6	2,520
Unabsorbed fixed overheads, also included in cost of goods sold	200
Total	2,720

Question 10 : May 2025 – Paper

In a manufacturing process of Milky Way Ltd., one by-product 'Universe' emerges besides two main products Galaxy 1 and Galaxy 2, apart from scrap. Details of cost of production process are hereunder:

Item	Unit	Amount (Rs.)	Output (Units)	Closing Stock as on 31st March, 2025
Raw Material	14,500	1,50,000	Galaxy 1: 5,000	Galaxy 1: 100
Wages		90,000	Galaxy 2: 4,000	Galaxy 2: 250
Fixed Overhead		65,000	Universe: 2,000	
Variable Overhead		50,000		

Average market price of Galaxy 1 and Galaxy 2 is Rs. 60 per unit and Rs. 50 per unit respectively, by-product is sold @Rs. 20 per unit. There is a profit of Rs. 5,000 on sale of by-product after incurring separate processing charges of Rs. 8,000 and packing charges of Rs. 2,000. Rs. 5,000 was realized from sale of scrap.
Calculate the value of closing stock of Galaxy 1 and Galaxy 2 as on 31st March, 2025.

Solution :

As per Ind AS 2 'Inventories', by-products as well as scrap or waste materials which are immaterial in nature, are measured at net realisable value and this value is deducted from the cost of the main product.

(1) Calculation of NRV of By-product Universe

		Rs.
Selling price of by-product	2,000 units x 20 per unit	40,000
Less: Separate processing charges of by-product Universe		(8,000)
Packing charges		(2,000)
Net realisable value of by product Universe		30,000

(2) Calculation of cost of conversion for allocation between joint products Galaxy 1 and Galaxy 2

		Rs.
Raw material		1,50,000
Wages		90,000
Fixed overhead		65,000
Variable overhead		50,000
Less: NRV of by-product Universe (See calculation 1)	30,000	
Sale value of scrap	5,000	(35,000)
Joint cost to be allocated between Galaxy 1 and Galaxy 2		3,20,000

(3) Determination of "basis for allocation" and allocation of joint cost to Galaxy 1 and Galaxy 2

	Galaxy 1	Galaxy 2
Output in units (a)	5,000	4,000
Sales price per unit (b)	Rs. 60	Rs. 50
Sales value (a x b)	Rs. 3,00,000	Rs. 2,00,000
Ratio of allocation	3	2
Joint cost of Rs. 3,20,000 allocated in the ratio of 3:2 (c)	Rs. 1,92,000	Rs. 1,28,000
Cost per unit [c/a]	Rs. 38.4	Rs. 32

(4) Determination of value of closing stock of Galaxy 1 and Galaxy 2

Particulars	Galaxy 1	Galaxy 2
Closing stock in units	100 units	250 units
Cost per unit	Rs. 38.4	Rs. 32
Value of closing stock	Rs. 3,840	Rs. 8,000

Question 11 : Jan 2026 – RTP

An entity manufactures a equipment in three stages. There is a market for semi-finished product for each state, but the entity only sells the completed equipment. The following are details of the cost structure of the equipment as at the year-end:

	Conversion Cost/unit Rs.	Selling price /unit Rs.
Stage 1	170	130
Stage 2 – Incremental cost	35	
	205	195
Stage 3- Incremental cost	62	

	267	275

Required:

Assuming that the selling cost are zero, what is the NRV of the semi-finished product in stage 1 and stage 2 at the year end?

Solution :

No impact for lower of cost and NRV provision is made at stage 1 and stage 2 because the final equipment will be sold at a profit. The profit margin on the estimated cost of completion should, therefore, be considered when calculating the net realisable value of work in progress if the entity has the ability to dispose of the finished product at a price that exceeds the production cost. The net realisable value of the semi-finished product at stage 1 is:

	Rs.
Selling price of completed product	275
Less: Stage 3 conversion costs	(62)
Less: Stage 2 conversion costs	(35)
Net realisable value at stage1	178

At stage 1, inventory will be valued at Rs. 170 (lower of cost i.e. Rs. 170 and NRV i.e. Rs. 178). The inventory at stage 1 will be valued at Rs. 170, though the selling price at stage 1 is Rs. 130.

Thanks ....

IND AS – 16 PROPERTY, PLANT & EQUIPMENT

CHAPTER - 4

Question 1 : May 2018 – RTP

A Ltd. purchased some Property, Plant and Equipment on 1st April, 2011, and estimated their useful lives for the purpose of financial statements prepared on the basis of Ind AS: Following were the original cost, and useful life of the various components of property, plant, and equipment assessed on 1st April, 2011

Property, Plant and Equipment	Original Cost	Estimated useful life
Building	1,50,00,000	15 years
Plant and Machinery	1,00,00,000	10 years
Furniture and Fixture	35,00,000	7 years

A Ltd. uses the straight-line method of depreciation. On 1st April, 2014, the entity reviewed the following useful lives of the property, plant, and equipment through an external valuation expert

Buildings	10 years
Plant and Machinery	7 years
Furniture and Fixture	5 years

There were no salvage values for the three components of the property, plant, and equipment either initially or at the time the useful lives were revised.

Compute the impact of revaluation of useful life on the Statement of Profit and Loss for the year ending 31st March, 2014.

Solution :

1. Depreciation for year ended 2012, 2013 and 2014

PPE	Original Cost	Estimated life	Depreciation PA
Building	1,50,00,000	15 years	10,00,000
Plant and Machinery	1,00,00,000	10 years	10,00,000
Furniture and Fixture	35,00,000	7 years	5,00,000
Total Depreciation			25,00,000

2. Depreciation for year ended 2015

PPE	Original Cost	Depre (3 years)	Carrying amount (1/4/14)	Revised Life	Depre
Building	1,50,00,000	30,00,000	1,20,00,000	10 years	12,00,000
Plant	1,00,00,000	30,00,000	70,00,000	7 years	10,00,000

Furniture	35,00,000	15,00,000	20,00,000	5 years	4,00,000
Total					**26,00,000**

Depreciation charge to Profit and Loss shall increase by Rs.1,00,000. As per IND AS 16, Property, Plant and Equipment entity shall review the estimated useful life estimated residual value atleast at the end each financial year. Any changes should be accounted for as change in estimate as per IND AS 8, Accounting Policy, changes in accounting estimates and errors.

Question 2 : May 2018 – PAPER

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

Particular	Property 1	Property 2	Property 3
	Factory	Factory	Let-out Building
Purchase Price	30,000	20,000	24,000
Market Value (31-03-2017)	32,000	22,000	27,000
Life	10 years	10 years	10 years
Subsequent Measurement	Cost Model	Revaluation Model	Revaluation Model

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

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

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

Solution :

(i) For classification of assets

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

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

According, to the facts given in the questions, since Property 1 and 2 are used as factory buildings, their classification as PPE is correct. However, Property 3 is held to earn rentals; hence, it should be classified as Investment Property. Thus, its classification as PPE is not correct. Property 3 shall be presented as separate line item as Investment Property as per Ind AS 40.

(ii) For valuation of assets

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

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

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

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

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

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

(iv) For treatment of depreciation

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

(v) Rectified presentation in the balance sheet

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

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

Balance Sheet extracts as at 31st March 2017

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

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

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

Balance Sheet extracts as at 31st March 2017

Assets		**Rs.**
Non-current Assets		
Property, Plant and Equipment		
Property 1 (30,000 – 3,000 + 5,000)	32,000	
Property 2 (20,000 – 2,000 + 4,000)	22,000	54,000
Investment Properties		
Property 3 (Fair value being 27,000) (Cost = 24,000-2,400)		21,600
Equity and Liabilities		
Other Equity		
Revaluation Reserve *		
Property 1 (32,000 – 27,000)	5,000	
Property 2 (22,000 –18,000)	4,000	9,000

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

Question 3 : Nov 2018 – RTP

On 1st October, 2017, A Ltd. completed the construction of a power generating facility. The total construction cost was Rs.2,00,00,000. The facility was capable of being used from 1st October, 2017 but A Ltd. did not bring the facility into use until 1st January, 2018. The estimated useful life of the facility at 1st October, 2017 was 40 years. Under legal regulations in the jurisdiction in which A Ltd. operates, there are no requirements to restore the land on which power generating facilities stand to its original state at the end of the useful life of the facility. However, A Ltd. has a reputation for conducting its business in an environmentally friendly way and has previously chosen to restore similar land even in the absence of such legal requirements. The directors of A Ltd. estimated that the cost of restoring the land in 40 years' time (based on prices prevailing at that time) would be Rs.1,00,00,000. A relevant annual discount rate to use in any discounting calculations is 5%. When the annual discount rate is 5%, the present value of Rs.1 receivable in 40 years' time is approximately 0.142.

Analyse and present how the above events would be reported in the financial statements of A Ltd. for the year ended 31st March, 2018 as per Ind AS.

Solution :

1) As per Ind AS 16 PPE should be depreciated from when it ready for use and not from when it is put to use. i.e. Dep. Should start from 1/10/17.

2) As per Ind AS 37, provision should be made over if company has constructive obligation so A Ltd. should provide for site restoration.

3) Cost of PPE on 1/10/17

Construction Cost	2,00,00,000
Site Restoration	14,20,000 (1,00,00,000 x 0.412)
	2,14,20,000

4) Dep. For 17-18 to be charged to P&L

$\frac{2,14,20,000}{40} \times \frac{6}{12}$ = Rs.2,67,750

5)

Closing PPE	=	2,14,20,000
– Dep.		2,67,750
		2,11,52,250

6) Finance cost on provision to be charged to P&L

$14,20,000 \times 5\% \times \frac{6}{12}$ = 35,500

7) Provision at end of year

= 14,20,000 + 35,500 = 14,55,500

8) Extracts of Balance Sheet

Asset		**Liability**	
NCA		NCL	
PPE	2,11,52,250	Provision	14,55,500

Question 4 : Nov 2018 – RTP / Nov 2019 – Paper

ABC Ltd is setting up a new refinery outside the city limits. In order to facilitate the construction of the refinery and its operations, ABC Ltd. is required to incur expenditure on the construction/development of railway siding, road and bridge. Though ABC Ltd. incurs (or contributes to) the expenditure on the construction/development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Whether ABC Ltd. can capitalise expenditure incurred on these items as property, plant and equipment (PPE)? If yes, how should these items be depreciated and presented in the financial statements of ABC Ltd. as per Ind AS?

Solution :

Ind AS 16 states that the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and

(b) the cost of the item can be measured reliably.

In the given case, railway siding, road and bridge are required to facilitate the construction of the refinery and for its operations. Expenditure on these items is required to be incurred in order to get future economic benefits from the project as a whole which can be considered as the unit of measure for the purpose of capitalisation of the said expenditure even though the company cannot restrict the access of others for using the assets individually. It is apparent that the

aforesaid expenditure is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
In view of this, even though ABC Ltd. may not be able to recognize expenditure incurred on these assets as an individual item of property, plant and equipment in many cases (where it cannot restrict others from using the asset), expenditure incurred may be capitalised as a part of overall cost of the project. From this, it can be concluded that, in the extant case the expenditure incurred on these assets, i.e., railway siding, road and bridge, should be considered as the cost of constructing the refinery and accordingly, expenditure incurred on these items should be allocated and capitalised as part of the items of property, plant and equipment of the refinery.

Question 5 : Nov 2018 – PAPER

On 1st April, 2017 Good Time Limited purchased some land for Rs.1.5 crore (including legal cost of Rs.10 lakhs) for the purpose of constructing a new factory. Construction work commenced on 1st May, 2017. Good Time Limited incurred the following costs in relation to its construction.

	Rs.
Preparation and levelling of the land	4,40,000
Purchase of materials for the construction	92,00,000
Employment costs of the construction workers (per month)	1,45,000
Overhead costs incurred directly on the construction of the factory (per month)	1,25,000
Ongoing overhead costs allocated to the construction project (using the company's normal overhead allocation model) per month	75,000
Costs of relocating employees to work at new factory	3,25,000
Costs of the opening ceremony on 1st January, 2018	2,50,000
Income received during the temporary use of the factory premises as a store during the construction period.	60,000

The construction of the factory was completed on 31st December, 2017 and production began on 1st February, 2018. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it is estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building.
At the end of the 40 years period, Good Time Limited has a legally enforceable obligation to demolish the factory and restore the site to its original condition. The company estimates that the cost of demolition in 40 year's time (based on price prevailing at that time) will be Rs.3 crore. The annual risk adjusted discount rate which is appropriate to this project is 8%. The present value of Rs.1 payable in 40 years time at an annual discount rate of 8% is 0.046.
The construction of the factory was partly financed. by a loan of Rs.1.4 crore taken out on 1st April, 2017. The loan was at an annual rate of interest of 9%. During the period 1st April, 2017 to 30th September, 2017 (when the loan proceeds had been fully utilized to finance the construction), Good Time Limited received investment income of Rs.1,25,000 on the temporary investment of the proceeds.
You are required to compute the cost of the factory and the carrying amount of the factory in the Balance Sheet of Good Time Limited as at 31st March, 2018.

Solution :

Computation of the cost of the factory

	Rs.
Purchase of land	1,50,00,000
Preparation and levelling	4,40,000
Materials	92,00,000
Employment costs of construction workers (1,45,000 x 8 months)	11,60,000
Direct overhead costs (1,25,000 x 8 months)	10,00,000
Allocated overhead costs	Nil
Income from use of a factory as a store	Nil
Relocation costs	Nil
Cost of the opening ceremony	Nil
Finance costs ($1,40,00,000 \times 9\% \times \frac{9}{12}$)	9,45,000
Investment income on temporary investment of the loan proceeds	(1,25,000)
Demolition cost recognised as a provision (3,00,00,000 x 0.046)	13,80,000
Total	**2,90,00,000**

Computation of carrying amount of the factory as at 31st March, 2018

Rs.

		Land (Non-depreciable asset)	Factory (Depreciable asset)
Cost of the asset (Total cost 2,90,00,000)		1,50,00,000	1,40,00,000
Less: Depreciation			
On Land		Nil	
On Factory			
Depreciation on roof component (1,40,00,000 × 25% × 1/20 x 3/12)	43,750		
Depreciation on remaining factory (1,40,00,000 × 75% × 1/40 × 3/12)	65,625		(1,09,375)
Carrying amount of depreciable asset ie factory		1,50,00,000	1,38,90,625
Total cost			2,88,90,625

Note:

1. Interest cost has been capitalised based on nine month period. This is because, purchase of land would trigger off capitalisation.
2. All of the net finance cost of Rs.8,20,000 (Rs.9,45,000 – Rs.1,25,000) has been allocated to the depreciable asset i.e Factory. Alternatively, it can be allocated proportionately between land and factory.

Question 6 : May 2019 – RTP / May 2020 – RTP

Company X performed a revaluation of all of its plant and machinery at the beginning of 2018-2019. The following information relates to one of the machinery:

	Amount ('000)
Gross carrying amount	Rs.200
Accumulated depreciation (straight-line method)	Rs.80
Net carrying amount	Rs.120
Fair value	Rs.150

The useful life of the machinery is 10 years and the company uses Straight line method of depreciation. The revaluation was performed at the end of the 4th year.

How should the Company account for revaluation of plant and machinery and depreciation subsequent to revaluation?

Solution :

As per Ind AS 16 PPE can be revalued by using any one of the following 2 methods.

1) Adjust the gross carrying amount.

	Current	Revised
Gross	200	250
– Dep.	80	100
Net	120	150

JE PPE 50
To PFD 20
To Revaluation Res. 30

2) Adjust the Net Carrying Amount

JE PFD 80
To Asset 80

Asset 30
To Revaluation Res. 30

Note : 1) Revaluation Reserve will be routed through OCI.

2) Dep. For shall be 25 i.e. $\frac{250}{10}$ or $\frac{150}{6}$

Question 7 : Nov 2020 – RTP

Entity X has a warehouse which is closer to factory of Entity Y and vice versa. The factories are located in the same vicinity. Entity X and Entity Y agree to exchange their warehouses. The carrying value of warehouse of Entity X is Rs.1,00,000 and its fair value is Rs.1,25,000. It exchanges its warehouse with that of Entity Y, the fair value of which is Rs.1,20,000. It also receives cash amounting to Rs.5,000. How should Entity X account for the exchange of warehouses?

Solution :

As per IND AS 16, Asset acquired in exchange of Non-monetary Asset or combination of monetary and Non-monetary asset should be recorded at fair value unless

(a) the exchange lacks commercial substance or

(b) the fair value of asset received or given up is not available.

Also, in evaluating if exchange lacks commercial substance entity should evaluate the extent to which future cash flow shall be impacted. The exchange has commercial substance if

(a) The future cash flow from Asset received differs from that of Asset given.

(b) The entity operations are affected.

(c) The difference in (a) or (b) is to significant relative to fair value of Asset exchanged.

In the given case, the future cash flow or the operation want be affected and therefore transactions lacks commercial substance. The entity should record the Asset received at carrying amount of Asset given up. Cash received should be used to reduce the cost of Asset received.

Journal Entry

Asset A/c	Dr.	95,000	
Cash A/c	Dr.	5,000	
To Asset A/c.			1,00,000

Question 8 : Jan 2021 – Paper

On 1st April 2019, an entity purchased an office block (building) for Rs.50,00,000 and paid a non-refundable property transfer tax and direct legal cost of Rs.2,50,000 and Rs.50,000 respectively while acquiring the building.

During 2019, the entity redeveloped the building into two-story building. Expenditures on re-development were:

- Rs.1,00,000 Building plan approval;
- Rs.10,00,000 construction costs (including Rs.60,000 refundable purchase taxes); and
- Rs.40,000 due to abnormal wastage of material and labour.

When the re-development of the building was completed on 1st October 2019, the entity rents out Ground Floor of the building to its subsidiary under an operating lease in return for rental payment. The subsidiary uses the building as a retail outlet for its products. The entity kept first floor for its own administration and maintenance staff usage. Equal value can be attributed to each floor.

How will the entity account for all the above mentioned expenses in the books of account?

Also, discuss how the above building will be shown in Consolidated financial statement of the entity as a group and in its separate financial statements as per relevant Ind AS.

Solution :

In accordance with Ind AS 16, all costs required to bring an asset to its present location and condition for its intended use should be capitalised. Therefore, the initial purchase price of the building would be:

Particulars	Amount (Rs.)
Purchase amount	50,00,000
Non-refundable property tax	2,50,000

Direct legal cost	50,000
	53,00,000
Expenditures on redevelopment:	
Building plan approval	1,00,000
Construction costs (10,00,000 – 60,000)	9,40,000
Total amount to be capitalised at 1st October 2019	63,40,000

Treatment of abnormal wastage of material and labour:

As per Ind AS 16, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset.

It will be charged to Profit and Loss in the year it is incurred. Hence, abnormal wastage of Rs. 40,000 will be expensed off in Profit & Loss in the financial year 2019-2020.

Accounting of property- Building

When the property is used as an administrative centre, it is not an investment property, rather it is an 'owner occupied property'. Hence, Ind AS 16 will be applicable.

When the property (land and/or buildings) is held to earn rentals or for capital appreciation (or both), it is an Investment property. Ind AS 40 prescribes the cost model for accounting of such investment property.

Since equal value can be attributed to each floor, Ground Floor of the building will be considered as Investment Property and accounted as per Ind AS 40 and First Floor would be considered as Property, Plant and Equipment and accounted as per Ind AS 16.

Cost of each floor = Rs.63,40,000 / 2 = Rs.31,70,000

As on 1st October 2019, the carrying value of building vis-à-vis its classification would be as follows:

(i) **In Separate Financial Statements:** The Ground Floor of the building will be classified as investment property for Rs.31,70,000, as it is property held to earn rentals. While First Floor of the building will be classified as item of property, plant and equipment for Rs.31,70,000.

(ii) **In Consolidated Financial Statements:** The consolidated financial statements present the parent and its subsidiary as a single entity. The consolidated entity uses the building for the supply of goods. Therefore, the leased-out property to a subsidiary does not qualify as investment property in the consolidated financial statements. Hence, the whole building will be classified as an item of Property, Plant and Equipment for Rs.63,40,000.

Question 9 : May 2021 – RTP

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?

Solution :

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. Hence, they should be classified in two separate classes of assets.

Question 10 : Nov 2021 – RTP

Heaven Ltd. had purchased a machinery on 1.4.2X01 for Rs. 30,00,000, which is reflected in its books at written down value of Rs. 17,50,000 on 1.4.2X06. The company has estimated an upward revaluation of 10% on 1.4.2X06 to arrive at the fair value of the asset. Heaven Ltd. availed the option given by Ind AS of transferring some of the surplus as the asset is used by an enterprise.

On 1.4.2X08, the machinery was revalued downward by 15% and the company also re-estimated the machinery's remaining life to be 8 years. On 31.3.2X10 the machinery was sold for Rs.9,35,000. The company charges depreciation on straight line method.

Prepare machinery account in the books of Heaven Ltd. over its useful life to record the above transactions.

Solution :

In the books of Heaven Ltd.

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1.4.2X01	To Bank / Vendor	30,00,000	31.3.2X02	By Depreciation (W.N.1)	2,50,000
			31.3.2X02	By Balance c/d	27,50,000
		30,00,000			**30,00,000**
1.4.2X02	To Balance b/d	27,50,000	31.3.2X03	By Depreciation	2,50,000
			31.3.2X03	By Balance c/d	25,00,000
		27,50,000			**27,50,000**

1.4.2X03	To Balance b/d	25,00,000	31.3. 2X04	By Depreciation	2,50,000
			31.3.2X04	By Balance c/d	22,50,000
		25,00,000			**25,00,000**
1.4.2X04	To Balance b/d	22,50,000	31.3.2X05	By Depreciation	2,50,000
			31.3.2X05	By Balance c/d	20,00,000
		22,50,000			**22,50,000**
1.4.2X05	To Balance b/d	20,00,000	31.3.2X06	By Depreciation	2,50,000
			31.3.2X06	By Balance c/d	17,50,000
		20,00,000			**20,00,000**
1.4.2X06	To Balance b/d	17,50,000	31.3.2X07	By Depreciation (W.N.2)	2,75,000
1.4.2X06	To Revaluation Reserve @ 10%	1,75,000	31.3.2X07	By Balance c/d	16,50,000
		19,25,000			**19,25,000**
1.4.2X07	To Balance b/d	16,50,000	31.3.2X08	By Depreciation	2,75,000
			31.3.2X08	By Balance c/d	13,75,000
		16,50,000			**16,50,000**
1.4.2X08	To Balance b/d	13,75,000	1.4.2X08	By Revaluation Reserve (W.N.4)	1,25,000
			31.3.2X09	By Profit and Loss A/c (W.N.5)	81,250
			31.3.2X09	By Depreciation (W.N.3)	1,46,094
			31.3.2X09	By Balance c/d	10,22,656
		13,75,000			**13,75,000**
1.4.2X09	To Balance b/d	10,22,656	31.3.2X10	By Depreciation	1,46,094
31.3.2X10	To Profit and Loss A/c (balancing figure)	58,438*	31.3.2X10	By Bank A/c	9,35,000
		10,81,094			**10,81,094**

Working Notes:

1. Calculation of useful life of machinery on 1.4.2X01

Depreciation charge in 5 years = (30,00,000 – 17,50,000) = Rs. 12,50,000

Depreciation per year as per Straight Line method = 12,50,000 / 5 years
= Rs. 2,50,000

Remaining useful life = Rs. 17,50,000 / Rs. 2,50,000 = 7 years

Total useful life = 5 years + 7 years = 12 years

2. Depreciation after upward revaluation as on 31.3.2X06

	Rs.
Book value as on 1.4.2X06	17,50,000
Add: 10% upward revaluation	1,75,000
Revalued amount	19,25,000

Remaining useful life 7 years (Refer W.N.1)

Depreciation on revalued amount = 19,25,000 / 7 years = Rs. 2,75,000 lakh

3. Depreciation after downward revaluation as on 31.3.2X08

	Rs.
Book value as on 1.4.2X08	13,75,000
Less: 15% Downward revaluation	(2,06,250)
Revalued amount	11,68,750

Revised useful life 8 years

Depreciation on revalued amount = 11,68,750 / 8 years = Rs. 1,46,094

4. Amount transferred from revaluation reserve

Revaluation reserve on 1.4.2X06 (A) Rs. 1,75,000

	Remaining useful life 7 years	
	Amount transferred every year (1,75,000 / 7)	Rs. 25,000
	Amount transferred in 2 years (25,000 x 2) (B)	Rs. 50,000
	Balance of revaluation reserve on 1.4.2X08 (A-B)	Rs. 1,25,000
5.	**Amount of downward revaluation to be charged to Profit and Loss Account**	
	Downward revaluation as on 1.4.2X08 (W.N.3)	Rs. 2,06,250
	Less: Adjusted from Revaluation reserve (W.N.4)	(Rs. 1,25,000)
	Amount transferred to Profit and Loss Account	Rs. 81,250

Question 11 : May 2022 – RTP

On 1st January, 20X1 an entity purchased an item of equipment for Rs. 600,000, including Rs. 50,000 refundable purchase taxes. The purchase price was funded by raising a loan of Rs. 605,000. In addition, the entity has to pay Rs. 5,000 in loan raising fees to the Bank. The loan is secured against the equipment.

In January 20X1 the entity incurred costs of Rs. 20,000 in transporting the equipment to the entity's site and Rs. 100,000 in installing the equipment at the site. At the end of the equipment's 10-year useful life the entity is required to dismantle the equipment and restore the building housing the equipment. The present value of the cost of dismantling the equipment and restoring the building is estimated to be Rs. 100,000.

In January 20X1 the entity's engineer incurred the following costs in modifying the equipment so that it can produce the products manufactured by the entity:

- Materials – Rs. 55,000
- Labour – Rs. 65,000
- Depreciation of plant and equipment used to perform the modifications – Rs. 15,000

In January 20X1, the entity's production staff were trained in how to operate the new item of equipment. Training costs included:

- Cost of an expert external instructor – Rs. 7,000
- Labour – Rs. 3,000

In February 20X1 the entity's production team tested the equipment and the engineering team made further modifications necessary to get the equipment to function as intended by management. The following costs were incurred in the testing phase:

- Materials, net of Rs. 3,000 recovered from the sale of the scrapped output – Rs. 21,000
- Labour – Rs. 16,000

The equipment was ready for use on 1st March, 20X1. However, because of low initial order levels the entity incurred a loss of Rs. 23,000 on operating the equipment during March. Thereafter the equipment operated profitably.

What is the cost of the equipment at initial recognition?

Solution :

Description	Calculation or reason	Rs.
Purchase price	Rs. 600,000 purchase price minus Rs. 50,000 refundable purchase taxes	550,000

Loan raising fee	Offset against the measurement of the liability	-
Transport cost	Directly attributable expenditure	20,000
Installation costs	Directly attributable expenditure	100,000
Environmental restoration costs	The obligation to dismantle and restore the environment arose from the installation of the equipment	100,000
Preparation costs	Rs. 55,000 materials + Rs. 65,000 labour + Rs. 15,000 depreciation	135,000
Training costs	Recognised as expenses in profit and loss account. The equipment was capable of operating in the manner intended by management without incurring the training costs.	-
Cost of testing	Rs. 21,000 materials (ie net of the Rs. 3,000 recovered from the sale of the scrapped output) + Rs. 16,000 labour	37,000
Operating loss	Recognised as expenses in profit and loss account	-
Borrowing costs	Recognised as expenses in profit and loss account	-
Cost of equipment		**9,42,000**

Question 12 : May 2022 – Paper

F Ltd. owned and land property whose future use was not determined as at 31st March, 2021. How should the property be classified in the books of F Ltd. as at 31st March, 2021?

During June 2021, F Ltd. commenced constriction of office building on it for own use. Premising that the construction of the office building is still in progress as at 31st March, 2022.

(i) How should the land property be classified by F Ltd. in its financial statements as at 31st March, 2022?

(ii) will there be a change in the carrying amount of the property resulting from any change in use of the investment property?

(iii) Whether the change in classification to, or from, investment property is a change in accounting policy to be accounted for in accordance with Ind AS 8, according policies, changes in accounting estimates and Errors?

(iv) Would you answer to (i) above be different if there were to be a management intention to commence construction of an office building for own use; however, no construction activity was planned by 31st March, 2022?

Solution :

Treatment for the year ended 31.03.2021:

As per paragraph 8(b) of Ind AS 40, any land held for currently undetermined future use, should be classified as an investment property. Hence the land property should be classified by F Ltd. as an investment property in the financial statements as at 31st March, 2021.

Treatment for the year ended 31.03.2022:

I. Since F Ltd. has commenced construction of office building on it for own use, the property should be reclassified from investment property to owner occupied as at 31st March, 2022.

II. As per para 59 of the standard, transfers between investment property, owner occupied and inventories do not change the carrying amount of the property transferred and they do not change the cost of the property for measurement or disclosure purposes.

III. No, the change in classification to or from investment properties is due to change in use of the property. No retrospective application is required, and prior period's financial statements need not be restated.

IV. As per para 57 of the Standard, an entity can change the classification of any property to and from an investment property when and only when there is a change in use. A change in use occurs when the property meets or ceases to meet the definition of investment property and there is evidence of the change in use. Mere management's intention for use of the property does not provide evidence of a change in use.

Since F Ltd. has no plans to commence construction of the office building during 2021-2022, the property should continue to be classified as an investment property by F Ltd. in its financial statements as at 31st March, 2022.

Question 13 : May 2023 – RTP

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

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

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

Solution :

Journal Entries in the books of Company X
for the year ending ended 31st March, 20X2

	Rs. In lakh	Rs. In lakh
Depreciation (profit or loss) Dr. To Accumulated depreciation (plant) (Being depreciation on plant recognised under straight-line method (1,50,00,000 x 1/20))	7.5	 7.5
Interest expense (profit or loss) Dr. To Provision for decommissioning (Being unwinding of decommissioning provision @10% recognised	1.0	 1.0

in the books)			
Plant To Provision for decommissioning 2.0 (Being increase in decommissioning provision recognised [13,00,000 – (10,00,000 +1,00,000)] at the end of the year)	Dr.	2.0	2.0

Question 14 : May 2023 – Paper

On 1st May 2022, Sanskar Limited purchased Rs.42,00,000 worth of land for construction of a new warehouse for stocking new products. The land purchased had an old temporary structure which was demolished for the purpose of construction of warehouse. The salvaged material from the demolition was to be sold as scrap. The company started the construction work of the warehouse on 1st June, 2022. Following costs were incurred by the company with regard to purchase of land and construction of warehouse :

Particulars	Amount (Rs.)
Legal fees for purchase contact of land and recording ownership	1,50,000
Architect and consultant's fee	2,70,000
Cost of demolishing existing structure on the purchased land	1,35,000
Site preparation charges for the warehouse	1,00,000
Purchase of Cement and other materials for the construction (including GST of Rs.1,00,000 and GST credit is 50% of the payment)	15,00,000
Employment costs if the construction workers	8,00,000
General overhead costs allocated to the construction work	30,000 per month
Overhead costs incurred directly on the construction of warehouse	35,000 per month
Income received from land used as temporary parking during construction phase	80,000

Additional information :

- Receipt of Rs.35,000 being proceeds from sale of salvaged and scrapped materials from demolition of existing structure.
- Materials costing Rs.40,000 was wasted and further Rs.1,20,000 was spent to rectify the wrong design work.
- The employment costs are for 10 months i.e. from 1st June 2022 till 3st March 2023.
- The construction of factory was completed on 28th February, 2023 (which is considered as substantial period of time as per Ind AS-23)
- The use of warehouse commenced on 1" March, 2023
- The overall useful life of factory building was estimated at 25 years om the date of completion; however, it is estimated that me roof of the warehouse will need to be replaced 15 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building.
- At the end of the 25-year period, Sanskar Limited is legally bound to demolish the factory and restore the site to its original condition. The directors of the company estimate that the cost of demolition in 25 years' time (based on prices prevailing at that time) will be Rs.80,00,000. An annual risk adjusted discount rate which is appropriate to this project is

10% per annum. The present value of Rs.1 payable in 25 years' time at an annual discount rate of 10% per annum is Rs.0.092.

- Sanskar Limited raised a loan of Rs.60 lakhs @ 10% per annum rate of interest on 1st June, 2022. The building of warehouse meets the definition of a qualifying asset in accordance with Ind AS-23 Borrowing Costs. Sanskar Limited received an investment income of Rs.25,000 on the temporary investment of the proceeds.
- Assume that cost of demolition of old structure is directly attributable to the cost of land.
- The company follows straight line method of depreciation.

You are required to compute :

i. Cost of construction of the warehouse
ii. Depreciation charge for the year ended 31st March, 2023
iii. Carrying value of Warehouse to be taken to Balance sheet of the Company on 31st March, 2023.

You should explain your treatment of all the amounts referred to in this question as part of your answer.

Solution :

(i) Computation of the cost of construction of the warehouse

Description	**Included in P.P.E. Rs.**	**Explanation**
Purchase of land	42,00,000	Separately capitalised as cost of land and do not form part of cost of construction of warehouse
Legal fee for purchase of contract of land	1,50,000	Associated legal costs are direct costs for purchasing the land. Hence, separately capitalised as cost of land and do not form part of cost of construction of warehouse
Net cost of demolishing the existing structure	1,00,000	Given in the question to assume it as directly attributable to the cost of land. However, it will be adjusted with the proceeds from sale of salvaged material from demolition (1,35,000 – 35,000). Further, it will be separately capitalised as cost of land and do not form part of cost of construction of warehouse.
Total cost of land	**44,50,000**	
Architect and consultant's fee	2,70,000	A direct cost of constructing the warehouse
Site preparation charges	1,00,000	A direct cost of constructing the warehouse
Cement and other materials	14,10,000*	A direct cost of constructing the warehouse net GST credit and wastage (15,00,000 – 50,000 – 40,000)
Expense to rectify the wrong design work	Nil	Assumed to be abnormal cost

Employment costs of the construction workers	7,20,000	A direct cost of constructing the warehouse for a nine-month period till 28th February, 2023 [(8,00,000/10) x 9]
Direct overhead costs	3,15,000	A direct cost of constructing the warehouse for a nine-month period (35,000 x 9)
Allocated overhead costs	Nil	Not a direct cost of construction
Income from temporary use of land as car parking area	Nil	Not essential to the construction so recognised directly in profit or loss
Finance costs	4,50,000	Capitalise the interest cost incurred in a nine-month period (from 1st June, 2022 to 28th February, 2023)
Investment income on temporary investment of the loan proceeds	(25,000)	Offset against the interest amount capitalised
Demolition cost recognised as a provision	7,36,000	Recognised as part of the initial cost at present value (i.e. 80,00,000 x 0.092)
Total cost of construction of a warehouse	39,76,000	

(ii) Computation of depreciation charges for the year ended 31st March, 2023

Note: Land is not depreciated as per Ind AS 16. Hence, only cost of warehouse is subject to depreciation.

Total depreciable amount as on 1st March, 2023	39,76,000	
Depreciation for 1 month must be in two parts:		
(a) Depreciation on roof component	5,522	39,76,000 x 25% x 1/15 x 1/12
(b) Depreciation of remaining item	9,940	39,76,000 x 75% x 1/25 x 1/12
Total depreciation for the year 2022-2023	15,462	

(iii) Computation of carrying value of the warehouse on 31st March, 2023 Rs.

Cost of the warehouse as on 1st March, 2023 [computed in (i) above]	39,76,000
Less: Depreciation for 1 month as computed in (ii) above	(15,462)
Carrying value of the warehouse as on 31st March, 2023	39,60,538

Note:** In the above solution, it has been assumed that amount spent for rectifying the faulty design is not included in the cement and other material cost. However, ***alternatively, it may be considered as part of gross cement and material cost and in such a case, the cost of material will further be reduced with the amount of rectifying the faulty design as follows:

(i) Computation of the cost of construction of the warehouse

Description	Included in P.P.E. Rs.	Explanation
Purchase of land	42,00,000	Separately capitalised as cost of land and do not form part of cost of construction of warehouse
Legal fee for purchase of contract of land	1,50,000	Associated legal costs are direct costs for purchasing the land. Hence, separately capitalised as cost of land and do not form part of cost of construction of warehouse
Net cost of demolishing the existing structure	1,00,000	Given in the question to assume it as directly attributable to the cost of land. However, it will be adjusted with the proceeds from sale of salvaged material from demolition (1,35,000 – 35,000). Further, it will be separately capitalised as cost of land and do not form part of cost of construction of warehouse.
Total cost of land	**44,50,000**	
Architect and consultant's fee	2,70,000	A direct cost of constructing the warehouse
Site preparation charges	1,00,000	A direct cost of constructing the warehouse
Cement and other materials	12,90,000*	A direct cost of constructing the warehouse net GST credit, wastage and rectification cost (15,00,000 – 50,000 – 40,000 – 1,20,000)
Employment costs of the construction workers	7,20,000	A direct cost of constructing the warehouse for a nine-month period till 2 8th February, 2023 [(8,00,000/10) x 9]
Direct overhead costs	3,15,000	A direct cost of constructing the warehouse for a nine-month period (35,000 x 9)
Allocated overhead costs	Nil	Not a direct cost of construction
Income from temporary use of land as car parking area	Nil	Not essential to the construction so recognised directly in profit or loss
Finance costs	4,50,000	Capitalise the interest cost incurred in a nine-month period (from 1st June, 2022 to 28th February, 2023)

Investment income on temporary investment of the loan proceeds	(25,000)	Offset against the interest amount capitalised
Demolition cost recognised as a provision	7,36,000	Recognised as part of the initial cost at present value (i.e 80,00,000 x 0.092)
Total cost of construction of a warehouse	38,56,000	

(ii) Computation of depreciation charges for the year ended 31st March, 2023

Note: Land is not depreciated as per Ind AS 16. Hence, only cost of warehouse is subject to depreciation.

Total depreciable amount as on 1st March, 2023	38,56,000	
Depreciation for 1 month must be in two parts:		
(a) Depreciation on roof component	5,356	38,56,000 x 25% x 1/15 x 1/12
(b) Depreciation of remaining item	9,640	38,56,000 x 75% x 1/25 x 1/12
Total depreciation for the year 2022-2023	14,996	

(iii) Computation of carrying value of the warehouse on 31st March, 2023 **Rs.**

Cost of the warehouse as on 1st March, 2023 [computed in (i) above]	38,56,000
Less: Depreciation for 1 month as computed in (ii) above	(14,996)
Carrying value of the warehouse as on 31st March, 2023	38,41,004

Question 15 : Nov 2023 – RTP

Besides manufacturing plants, A Ltd. has various other assets, not used for operational activities, e.g., freehold land, townships in different locations, excess of office space rented to ABC, etc. Also, A Ltd. has some land, which are kept vacant as per the government regulations which require that a specified area around the plant should be kept vacant.

The details of these assets are as under:

Property	Details
A Ltd.'s office building (registered office)	A Ltd.'s registered office in Delhi, is a 15 storey building, of which only 3 floors are occupied by A Ltd., whereas remaining floors are given on rent to other companies. These agreements are usually for a period of 3 years. According to A Ltd., such excess office space will continue to be let out on lease to external parties and have no plans to occupy it, at least in near future.

Flats in Township located in location 1	As regards township in Location 1, there are approximately 2,000 flats in the said township. It was built primarily for A Ltd.'s employees, hence, approximately 80% of the flats are allotted to employees and remaining flats are either kept vacant or given on rent to other external parties. A lease agreement is signed between A Ltd. and an individual party for every 12 months being 1st April to 31st March. The lease entered is a cancellable lease (cancellable at the option of any of the parties). Also, besides monthly rent, additional charges are levied by A Ltd. on account of electricity, water, cable connection, etc. According to A Ltd., there is no intention of selling such excess flats or allotting it to its employees.
Flats in township located in location 2	There are 1,000 flats in location 2 township, of which: • 400 flats are given to employees for their own accommodation. • 350 flats are given on rent to Central Government and State Government for accommodation of their employees. Average lease period being 12 months with cancellable clause in lease agreements. • 250 flats are kept vacant
Hostel located in location 1	60 rooms in the hostel have been let out to G Ltd., to give accommodation to their personnel. Lease agreement is prepared for every 11 months and renewed thereafter. Besides the monthly rent amount, some charges are levied towards water, electricity and other amenities, e.g., cable connection, etc.
Land in location 1	In 20X4, A Ltd. purchased a plot of land on the outskirts of a major city. The area has mainly low-cost public housing and very limited public transport facilities. The government has plans to develop the area as an industrial park in 5 years' time and the land is expected to greatly appreciate in value if the government proceeds with the plan. A Ltd. has not decided what to do with the property
Land in location 1	A portion of land has been leased out to C Ltd. for its manufacturing operations. Land has been given on lease on a lease rental of Rs. 10 lacs p.a. with a lease term of 25 years.
Land in location 2	A portion of the land has been given on rent to D Ltd. which has constructed a petrol pump on such land. It has been leased for a period of 40 years and renewed for a further period of 40 years.

Determine the classification of properties which are not held for operational purposes, with suitable reasoning in the financial statements of A Ltd.

Solution :

Property	Details
A Ltd.'s office building (registered office)	Excess portion of office space has been given on lease to earn rental income. Out of 15 storey building, only 3 floors are occupied by A Ltd. Such excess office space was constructed for the purpose of letting it out. According to A Ltd., such excess office space will continue to be let out on lease to external parties and have no plans to occupy it, at least in near future. Further, office space given on rent, although in same building, is separately identifiable from another owner-occupied portion and hence can be sold separately (if required). Hence, the excess space will qualify to be an investment property.
Flats in Township located in location 1	Excess flats have been given on lease to earn rental income. According to A Ltd., there is no intention of selling such excess flats or allotting it to its employees. Further, flats given on rent, can be sold separately from flats occupied by A Ltd.'s employees as they are separately identifiable. A Ltd. also charges its lessees on account of ancillary services, i.e., water, electricity, cable connection, etc., but the monthly charges in such cases are generally not significant as compared to rental payments. Hence, flats given on rent should qualify to be an 'investment property'. With regards to the flats kept vacant, A Ltd. has to evaluate the purpose of holding these flats, i.e., whether these would be kept for earning rentals or will it be allotted to its future employees. In case they are held for earning rentals, it would be classified as an investment property; and if they are held for allotment to future employees, it would form part of property, plant and equipment.
Flats in township located in location 2	350 flats are given on lease to earn rental income and assuming that management intends to let out these flats on rent in future, such flats should be classified as an 'investment property. With regards to the flats kept vacant, A Ltd. has to evaluate the purpose of holding these flats, i.e., whether these would be kept for earning rentals or will it be allotted to its future employees. In case they are held for earning rentals, it would be classified as an investment property; and if they are held for allotment to future employees, it would form part of property, plant and equipment.
Hostel located in location 1	Rooms in a hostel have been let out to G Ltd. to be used by its personnel. A Ltd. also charges G Ltd. on account of ancillary services, i.e., water, electricity, cable connection, etc., but the monthly charges in such cases are generally not significant as compared to rental payments. Hence, it should be classified as an 'Investment property'.

Land in location 1	Although management has not determined use for property after the development of park, yet in the medium-term the land is held for capital appreciation. As per Ind AS 40, if an entity has not determined that it will use the land either as owner-occupied property or for short term sale in the ordinary course of business, then it will be considered as land held for capital appreciation. Therefore, management should classify the property as an investment property.
Land in location 1	Since the land is held with an intention of giving it on lease and earning capital appreciation over a period, it should be classified as an 'Investment property'.
Land in location 2	Since the land is held with an intention of giving it on lease and earning capital appreciation over a period, it should be classified as 'Investment property'.

Question 16 : Nov 2023 – Paper

A shipping company is required by law to bring all its ships into dry dock every 5 years for a major inspection and overhaul. Overhaul expenditure might at first sight seem to be repair to the ships but is actually a cost incurred in getting the ship back into a seaworthy condition. As such the costs must be capitalised.

A ship that cost Rs. 40 Crore with 20-year life must have a major overhaul every 5 years. The estimated cost of the first overhaul is Rs. 10 Crores.

Calculate:

(i) the depreciation charged for first five years;

(ii) the carrying amount at the end of 5th year.

Solution :

(i) Computation of depreciation charged for the first 5 years

The depreciation charge for the first five years of the asset's life will be as follows:

	Overhaul component (Rs. in crores)	**Ship (other than overhaul component) (Rs. in crores)**
Cost	10	30
Years	5	20
Depreciation per year	2	1.50

Total accumulated depreciation for the first five years will be -

= (Rs. 2 crores + Rs. 1.50 crores) x 5 years

= Rs. 17.50 crores

(ii) Computation of carrying amount of the ship at the end of 5th year

Carrying amount of the ship at the end of 5th year = Rs. 40 crores – Rs. 17.50 crores

= Rs. 22.50 crores

Question 17 : Nov 2024 – RTP

On 1st October, 20X1, XY Ltd. completed the construction of a power generating facility. The total construction cost was Rs. 2 crore. The facility was capable of being used from 1st October, 20X1 but XY Ltd. did not bring the facility into use until 1st January, 20X2. The estimated useful life of the facility at 1st October, 20X1 was 40 years.

Under legal regulations in the jurisdiction in which XY Ltd. operates, there are no requirements to restore the land on which power generating facilities stand to its original state at the end of the useful life of the facility. However, XY Ltd. has a reputation for conducting its business in an environmentally friendly way and has previously chosen to restore similar land even in the absence of such legal requirements. The directors of XY Ltd. estimated that the cost of restoring the land in 40 years' time (based on prices prevailing at that time) would be Rs. 1 crore. A relevant annual discount rate to use in any discounting calculations is 5%. When the annual discount rate is 5%, the present value of Rs. 1 receivable in 40 years' time is approximately 0.142.

Explain and show how the above event would be reported in the financial statements of XY Ltd. for the year ended 31st March, 20X1. Ignore comments on potential future reclassification issues.

Solution :

The facility is depreciated from the date it is ready for use, rather than when it actually starts being used. In this case, then, the facility is depreciated from 1st October, 20X1.

Although XY Ltd. has no legal obligation to restore the piece of land, it does have a constructive obligation, based on its past practice and policies.

The amount of the obligation will be Rs. 14,20,000 being the present value of the anticipated future restoration expenditure (1,00,00,000 x 0.142).

This will be recognised as a provision under non-current liabilities in the balance sheet of XY Ltd. at 31st March, 20X2.

As time passes the discounted amount unwinds. The unwinding of the discount for the year ended 31st March, 20X2 will be Rs. 35,500 (14,20,000 x 5% x 6/12).

The unwinding of the discount will be shown as a finance cost in the statement of profit and loss and the closing provision will be Rs. 14,55,500 (14,20,000 + 35,500).

The initial amount of the provision is included in the carrying amount of the non-current asset, which becomes Rs. 2,14,20,000 (2,00,00,000 + 14,20,000).

The depreciation charge in profit or loss for the year ended 31st March, 20X2 is Rs. 2,67,750 (2,14,20,000 x 1/40 x 6/12).

The closing balance included in non-current assets will be Rs. 2,11,52,250 (2,14,20,000 – 2,67,750).

Question 18 : Nov 2024 – Paper

On 1st April, 2020, Peacock Ltd. started its manufacturing operations by installing a machine in the rented premises. The estimated life of the machine is 4 years. As per the terms of rental agreement, Peacock Ltd. has a present obligation to dismantle the machine and restore the premises into its original shape. The company estimates to incur Rs.6,00,000 at the end of 4th year to restore the premises into the original shape. The borrowing rate applicable to the company is 8%.

(Note: PV Factor for 4th year discounted @ 8% = 0.735)
You are required to:
(i) Advise the accounting treatment of the above; and
(ii) Pass necessary journal entries across all four years.

Solution :

(i) Accounting Treatment

The present value of such decommissioning and site restoration obligation at the end of 4th year is Rs. 4,41,000 [being 6,00,000 / (1.08)4]. Peacock Ltd. will recognize the present value of decommissioning liability of Rs. 4,41,000 as an addition to cost of PPE and will also recognize a corresponding decommissioning liability.

Further, the entity will recognize the unwinding of discount as finance charge every year till the estimated life of the machine.

(ii) Journal Entries

Date	Particular	Dr. (Rs.)	Cr. (Rs.)
1st April, 2020	Machine A/c (PPE) Dr. To Provision for decommissioning liability (Being the present value of decommissioning liability of Rs. 4,41,000 recognized as an addition to cost of PPE with corresponding recognition to decommissioning liability)	4,41,000	4,41,000
31st March, 2021	Finance charge Dr. To Provision for decommissioning liability (Being the unwinding of discount as finance charge recognized at the end of Year 1)	35,280	35,280
	Profit and Loss A/c Dr. To Finance charge (Being Finance charge transferred to Profit & Loss A/c)	35,280	35,280
31st March, 2022	Finance charge Dr. To Provision for decommissioning liability (Being the unwinding of discount as finance charge recognized at the end of Year 2)	38,102	38,102
	Profit and Loss A/c Dr. To Finance charge (Being Finance charge transferred to Profit & Loss A/c)		
31st March, 2023	Finance charge Dr. To Provision for decommissioning liability (Being the unwinding of discount as finance charge recognized at the end of Year 3)	41,151	41,151
	Profit and Loss A/c Dr. To Finance charge (Being Finance charge transferred to Profit & Loss A/c)	41,151	41,151

31st March, 2024	Finance charge Dr. To Provision for decommissioning liability (Being the unwinding of discount as finance charge recognized at the end of Year 4)	44,467	44,467
	Profit and Loss A/c Dr. To Finance charge (Being Finance charge transferred to Profit & Loss A/c)	44,467	44,467
	Provision for decommissioning liability Dr. To Bank A/c (Being decommissioning liability incurred at the end of the life of the machine i.e. 4th year)	6,00,000	6,00,000

Working Note:

The following table shows the unwinding of discount **(Rs.)**

Year	Opening Decommissioning Liability	Unwinding of Interest @ 8%	Closing Decommissioning Liability
1	4,41,000	35,280	4,76,280
2	4,76,280	38,102	5,14,382
3	5,14,382	41,151	5,55,533
4	5,55,533	44,467*	6,00,000

*Difference of Rs. 24 (44,467- 44,443) is due to rounding off.

Question 19 : Nov 2024 – Paper

Creative Limited performed a revaluation of all of its plant and machinery at the beginning of 1.4.2024. The following information relates to one of its Machinery:

	Amount in Rs.
Gross carrying amount	4,00,000
Accumulated depreciation (straight-line method)	1,60,000
Net carrying amount	2,40,000
Fair Value	3,00,000

The useful life of the machinery is 10 years, and the company uses Straight line method of depreciation. The revaluation was performed at the end of 4 years.

You are required to advise how the company should account for revaluation of plant and machinery and depreciation subsequent to revaluation. Also pass journal entries in relation to the above.

Solution :

According to paragraph 35 of Ind AS 16, when an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to

the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

(i) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset.

The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

In such a situation, the revised carrying amount of the machinery will be as follows:

Gross carrying amount Rs. 5,00,000 [(4,00,000/2,40,000) x 3,00,000]

Less: Net carrying amount (Rs. 3,00,000)

Accumulated depreciation Rs. 2,00,000 (1,60,000 + 40,000)

Journal Entry

Plant and Machinery (Gross Block)	Dr.	Rs. 1,00,000	
To Accumulated Depreciation			Rs. 40,000
To Revaluation Reserve			Rs. 60,000
(Being the value of gross block of the asset restated to make it consistent with revalued amount)			

Depreciation subsequent to revaluation

Since the Gross Block has been restated, the depreciation charge will be revised to Rs. 50,000 per annum (Rs. 5,00,000 /10 years).

Journal Entry

Deprecation	Dr.	Rs. 50,000	
To Accumulated Depreciation			Rs. 50,000
(Being the revised depreciation after revalued charged)			

(ii) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 39 and 40 of Ind AS 16.

In this case, the gross carrying amount is restated to Rs. 3,00,000 to reflect the fair value and accumulated depreciation is set at zero.

Journal Entry

Accumulated Depreciation	Dr.	Rs. 1,60,000	
To Plant and Machinery (Gross Block)			Rs.1,60,000
(Being the asset brought down to the carrying value)			
Plant and Machinery (Gross Block)	Dr.	Rs. 60,000	
To Revaluation Reserve			Rs. 60,000
(Being revaluation of the asset recognised)			

Depreciation subsequent to revaluation

Since the revalued amount is the revised gross block, the useful life to be considered is the remaining useful life of the asset which results in the same depreciation charge of Rs. 50,000 per annum as per Option A (Rs. 3,00,000 / 6 years).

Journal entry

Deprecation	Dr.	Rs. 50,000	
To Accumulated Depreciation			Rs. 50,000
(Being the revised depreciation charged to the Gross Block)			

Question 20 : May 2025 – Paper

Chimney Ltd. purchased a machinery on 1.4.2019 for Rs. 18,00,000. The machinery has no residual value. It was reflected in its books at Rs. 14,40,000 on 1.4.2021. The Company charges depreciation on straight line method.

The Company had estimated an upward revaluation of 8% on 1.4.2021 to arrive at the fair value of the asset. Chimney Ltd. availed the option given by Ind AS of transferring some of the surplus, as the asset is used by the enterprise.

On 1.4.2023, the machinery was revalued downward by 10% and the company also re-estimated the machinery's remaining life to be 8 years.

On 31.3.2025 the machinery was sold for Rs. 8,98,780.

You are required to prepare machinery account in the books of Chimney Ltd. over its useful life to record the above transactions.

Solution :

In the books of Chimney Ltd.

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1.4.2019	To Bank / Vendor	18,00,000	31.3.2020	By Depreciation (W.N.1)	1,80,000
			31.3.2020	By Balance c/d	16,20,000
		18,00,000			18,00,000
1.4.2020	To Balance b/d	16,20,000	31.3.2021	By Depreciation	1,80,000
			31.3.2021	By Balance c/d	14,40,000
		16,20,000			16,20,000
1.4.2021	To Balance b/d	14,40,000	31.3.2022	By Depreciation (W.N.2)	1,94,400
1.4.2021	To Revaluation Reserve	1,15,200	31.3.2022	By Balance c/d	13,60,800
		15,55,200			15,55,200
1.4.2022	To Balance b/d	13,60,800	31.3.2023	By Depreciation	1,94,400
			31.3.2023	By Balance c/d	11,66,400
		13,60,800			13,60,800
1.4.2023	To Balance b/d	11,66,400	1.4.2024	By Revaluation Reserve (W.N.4)	86,400
			31.3.2024	By Profit and Loss A/c (W.N.5)	30,240
			31.3.2024	By Depreciation (W.N.3)	1,31,220
			31.3.2024	By Balance c/d	9,18,540
		11,66,400			11,66,400

1.4.2024	To Balance b/d	9,18,540	31.3.2025	By Depreciation	1,31,220
31.3.2025	To Profit and Loss A/c (bal. fig.)	1,11,460	31.3.2025	By Bank A/c	8,98,780
		10,30,000			10,30,000

Working Notes:

1. Calculation of useful life of machinery on 1.4.2019

Depreciation charge in 2 years = (18,00,000 – 14,40,000)	= Rs. 3,60,000
Depreciation per year as per Straight Line method	]= 3,60,000/ 2 years = Rs. 1,80,000
Remaining useful life = Rs. 14,40,000/Rs. 1,80,000	= 8 years
Total useful life = 2 years + 8 years	= 10 years

2. Depreciation after upward revaluation as on 1.4.2021 **Rs.**

Book value as on 1.4.2021	14,40,000
Add:8% Upward revaluation	1,15,200
Revalued amount	15,55,200
Remaining useful life 8 years (Refer W.N.1)	
Depreciation on revalued amount = 15,55,200 / 8 years =	Rs. 1,94,400

3. Depreciation after downward revaluation as on 1.4.2023 **Rs.**

Book value as on 1.4.2023	11,66,400
Less:10% Downward revaluation	(1,16,640)
Revalued amount	10,49,760
Revised useful life 8 years	
Depreciation on revalued amount = 10,49,760 / 8 years	1,31,220

4. Amount transferred from revaluation reserve **Rs.**

Revaluation reserve on 1.4.2021 (A)	Rs. 1,15,200
Remaining useful life	8 years
Amount transferred every year (1,15,200 / 8)	Rs. 14,400
Amount transferred in 2 years (14,400 x 2) (B)	Rs. 28,800
Balance of revaluation reserve on 1.4.2023 (A-B)	Rs. 86,400

5. Amount of downward revaluation to be charged to Profit and Loss Account Rs.

Downward revaluation as on 1.4.2023 (W.N.3)	1,16,640
Less: Adjusted from Revaluation reserve (W.N.4)	(86,400)
Amount transferred to Profit and Loss Account	30,240

Question 21 : Jan 2026 – RTP

A Ltd. exchanges car X with a book value of Rs. 13,000 and a fair value of Rs. 13,250 for cash of Rs. 150 and car Y which has a fair value of Rs. 13,100. The transaction lacks commercial substance, because the entity's cash flows are not expected to change as a result of the exchange; in other words, the entity is in the same position as it was before the transaction.

Required:

State the value at which Car Y should be recognized in the books of A Ltd.

Solution :

Para 24 of Ind AS 16 *inter alia* states that in case of all exchange of item of property, plant and equipment, the cost of an item of property, plant and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up. **If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.**

Further, para 25 of Ind AS 16 states that an entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(a) **the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or**

(b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and

(c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

Since in the given case, there is no commercial substance, the entity recognizes the assets received at the book value of car X. Therefore, it recognizes cash of Rs. 150 and car Y as property, plant and equipment with a carrying value of Rs. 12,850.

Thanks ....

IND AS – 40
INVESTMENT PROPERTY

CHAPTER - 5

Question 1 : Nov 2018 – RTP

X Ltd. is engaged in the construction industry and prepares its financial statements up to 31st March each year. On 1st April, 2013, X Ltd. purchased a large property (consisting of land) for Rs.2,00,00,000 and immediately began to lease the property to Y Ltd. on an operating lease. Annual rentals were Rs.20,00,000. On 31st March, 2017, the fair value of the property was Rs.2,60,00,000. Under the terms of the lease, Y Ltd. was able to cancel the lease by giving six months' notice in writing to X Ltd. Y Ltd. gave this notice on 31st March, 2017 and vacated the property on 30th September, 2017. On 30th September, 2017, the fair value of the property was Rs.2,90,00,000. On 1st October, 2017, X Ltd. immediately began to convert the property into ten separate flats of equal size which X Ltd. intended to sell in the ordinary course of its business. X Ltd. spent a total of Rs.60,00,000 on this conversion project between 30th September, 2017 to 31st March, 2018. The project was incomplete at 31st March, 2018 and the directors of X Ltd. estimate that they need to spend a further Rs.40,00,000 to complete the project, after which each flat could be sold for Rs.50,00,000.

Examine and show how the three events would be reported in the financial statements of X Ltd. for the year ended 31st March, 2018, as per IND AS.

Solution :

1) From 1st April, 2013, the property would be regarded as an investment property since it is being held for its investment potential rather than being owner occupied or developed for sale.

   The property would be measured under the cost model. This means it will be measured at Rs.2,00,00,000 at each year end.

2) On 30th September, 2017, the property ceases to be an investment property. X Ltd. begins to develop it for sale as flats. The increase in the fair value of the property from 31st March, 2017 to 30th September, 2017 of Rs.30,00,000 (Rs.29,00,000 –Rs.26,00,000) would be recognised in P/L for the year ended 31st March, 2018.

   Since the lease of the property is an operating lease, rental income of Rs.10,00,000 (Rs.20,00,000 x 6/12) would be recognised in P/L for the year ended 31st March, 2018.

   When the property ceases to be an investment property, it is transferred into inventory at its then fair value of Rs.2,90,00,000. This becomes the initial 'cost' of the inventory.

3) The additional costs of Rs.60,00,000 for developing the flats which were incurred up to and including 31st March, 2018 would be added to the 'cost' of inventory to give a closing cost of Rs.3,50,00,000.

The total selling price of the flats is expected to be Rs.5,00,00,000 (10 x Rs.50,00,000). Since the further costs to develop the flats total Rs.40,00,000, their net realisable value is Rs.4,60,00,000 (Rs.5,00,00,000 – Rs.40,00,000), so the flats will be measured at a cost of Rs.3,50,00,000.

The flats will be shown in inventory as a current asset

Question 2 : Nov 2020 – RTP

Shaurya Limited owns Building A which is specifically used for the purpose of earning rentals. The Company has not been using the building A or any of its facilities for its own use for a long time. The company is also exploring the opportunities to sell the building if it gets the reasonable amount in consideration.

Following information is relevant for Building A for the year ending 31st March, 2020:

Building A was purchased 5 years ago at the cost of Rs.10 crore and building life is estimated to be 20 years. The company follows straight line method for depreciation.

During the year, the company has invested in another Building B with the purpose to hold it for capital appreciation. The property was purchased on 1st April, 2019 at the cost of Rs.2 crore. Expected life of the building is 40 years. As usual, the company follows straight line method of depreciation.

Further, during the year 2019-2020, the company earned / incurred following direct operating expenditure relating to Building A and Building B:

Rental income from Building A	=	Rs.75 lakh
Rental income from Building B	=	Rs.25 lakh
Sales promotion expenses	=	Rs.5 lakh
Fees & Taxes	=	Rs.1 lakh
Ground rent	=	Rs.2.5 lakh
Repairs & Maintenance	=	Rs.1.5 lakh
Legal & Professional	=	Rs.2 lakh
Commission and brokerage	=	Rs.1 lakh

The company does not have any restrictions and contractual obligations against buildings - A and B. For complying with the requirements of Ind AS, the management sought an independent report from the specialists so as to ascertain the fair value of buildings A and B. The independent valuer has valued the fair value of property as per the valuation model recommended by International valuation standards committee. Fair value has been computed by the method by streamlining present value of future cash flows namely, discounted cash flow method.

The other key inputs for valuation are as follows:

The estimated rent per month per square feet for the period is expected to be in the range of Rs.50 - Rs.60. It is further expected to grow at the rate of 10 percent per annum for each of 3 years. The weighted discount rate used is 12% to 13%.

Assume that the fair value of properties based on discounted cash flow method is measured at Rs.10.50 crore on 31st March, 2020.

What would be the treatment of Building A and Building B in the balance sheet of Shaurya Limited? Provide detailed disclosures and computations in line with relevant Indian accounting

standards. Treat it as if you are preparing a separate note or schedule, of the given assets in the balance sheet.

Solution :

1) As per IND AS 40, Investment Property is defined as property held to earn rentals or for capital appreci0ation or both rather than for use in production or supply of goods or services or for administrative purpose or sale in ordinary course of businesss.

2) Investment property should be initially measured at cost and subsequently should be measured at cost as per IND AS 16, cost model.

3) Investment property for year ended 31/3/2020.

Building A	–	Cost	10 Cr.
	–	Accumulated dep.	2.5 Cr.
			7.5 Cr.
Building B	–	Cost	2 Cr.
	–	Accumulated dep.	0.05 Cr.
			1.95 Cr.

4) Income statement for year 19-20

Rentals Income (75 + 25)	100
– Direct Expenses (5 + 1 + 2.5 + 1.5 + 2 + 1)	13
	87
– Deprecation (0.5 + 0.05)	55
	32

5) Disclosure

(a) Fair value of investment property 10.5 Cr. as per independent valuer, who are specialist in valuing investment properties.

(b) The company has no restrictions on the realisability of its investment properties and no contractual obligations to purchase. Construct or develop investment properties or for repairs, maintenance and enhancement.

(c) Description of valuation of techniques method – Discounted cash flow method

= Estimated Rental / sq.ft.	=	Rs.50 to Rs.60
= Rental growth	=	10% every 3 years
= Discount Rate	=	12% to 13%

Question 3 : May 2021 – RTP

X Ltd owned a land property whose future use was not determined as at 31 March 20X1. How should the property be classified in the books of X Ltd as at 31 March 20X1?

During June 20X1, X Ltd commenced construction of office building on it for own use. Presuming that the construction of the office building will still be in progress as at 31 March 20X2

(a) How should the land property be classified by X Ltd in its financial statements as at 31 March 20X2?
(b) Will there be a change in the carrying amount of the property resulting from any change in use of the investment property?
(c) Whether the change in classification to, or from, investment properties is a change in accounting policy to be accounted for in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors?
(d) Would your answer to (a) above be different if there were to be a management intention to commence construction of an office building for own use; however, no construction activity was planned by 31 March 20X2?

Solution :

As per paragraph 8(b) of Ind AS 40, any land held for currently undetermined future use, should be classified as an investment property. Hence, in this case, the land would be regarded as held for capital appreciation. Hence the land property should be classified by X Ltd as investment property in the financial statements as at 31 March 20X1.

As per Para 57 of the Standard, an entity can change the classification of any property to, and from, an investment property when and only when evidenced by a change in use. A change occurs when the property meets or ceases to meet the definition of investment property and there is evidence of the change in use. Mere management's intention for use of the property does not provide evidence of a change in use.

(a) Since X Ltd has commenced construction of office building on it for own use, the property should be reclassified from investment property to owner occupied as at 31 March 20X2.
(b) As per Para 59, transfers between investment property, owner occupied and inventories do not change the carrying amount of the property transferred and they do not change the cost of the property for measurement or disclosure purposes.
(c) No. The change in classification to, or from, investment properties is due to change in use of the property. No retrospective application is required and prior period's financial statements need not be re-stated.
(d) Mere management intentions for use of the property do not evidence change in use. Since X Ltd has no plans to commence construction of the office building during 20X1-20X2, the property should continue to be classified as an investment property by X Ltd in its financial statements as at 31 March 20X2.

Question 4 : July 2021 – Paper

Special Limited is a multinational entity that owns 3 properties. All 3 properties were purchased on 1st April, 2020. The following details were furnished :

Particulars	Property 1	Property 2	Property 3
Purchase price	Rs.750,000	Rs.1,050,000	Rs.1,200,000
Estimated life	10 years	15 years	15 years

Fai value as on 31st March, 2021	Rs.800,000	Rs.950,000	Rs.1,300,000

The Company uses Property 1 and Property 2 for its business purposes. The Company is exploring the opportunity to sell Property 3 if it gets reasonable consideration. Till the time it is not sold, the company has rented the property.

It has adopted revaluation model for subsequent measurement of these properties. The depreciation is charged on straight line method. However, the Company has not charged any depreciation on Property 1 and Property 3 for the current year since the fair value of properties exceeds their carrying amount. The difference between their fair value and carrying amount has been recognized in the statement of profit and loss. The properties are shown under the head Property, plant and equipment in the Balance sheet.

Analyze whether the accounting policies adopted by the Company in relation to the given properties are in accordance with Ind AS. If not, advise the correct treatment and present an extract of the Balance Sheet for the year ended 31st March, 2021.

Solution :

(a) Preamble:

The given issue needs to be examined in the umbrella of the provisions given in Ind AS 1 'Presentation of Financial Statements', Ind AS 16 'Property, Plant and Equipment' in relation to property '1' and '2' and Ind AS 40 'Investment Property' in relation to property '3'.

Guidance given in relevant Ind AS:

1. Property '1' and '2'

Definition and applicability:

As per Ind AS 16, Property plant and equipment are tangible items that:

(a) are held for use in the production or supply of goods or services or for administrative purposes; and

(b) are expected to be used during more than one period.

Hence, property 1 and 2 are held for use in the business, therefore Ind AS 16 shall apply in respect of these two properties.

Accounting Principles:

- If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.
- If an asset's carrying amount is decreased as a result of revaluation, the decrease shall be recognised in profit and loss statement.

2. Property '3'

Definition and applicability:

As per Ind AS 40, Investment property is property held to earn rentals or for capital appreciation or both, rather than for:

- Use in the production of goods or services or for administrative purposes; or
- Sale in the ordinary course of business.

Therefore, property 3 is an investment property and company shall follow cost model for its subsequent measurement.

Accounting Principles:

- An entity shall adopt as its accounting policy the cost model to all of its investment property; and (Refer paragraph 30 of Ind AS 40)
- requires that an entity shall disclose the fair value of investment property. (Refer paragraph 79 (e) of Ind AS 40

Further, paragraph 54 (2) of Ind AS 1 'Presentation of Financial Statements' requires that as a minimum, the balance sheet shall include line items that present the following amounts:

a. Property, Plant and Equipment
b. Investment Property.

Analysis:

As per the facts given in the question, Special Ltd. has

a. Presented all three properties in balance sheet as 'property, plant and equipment';
b. Not charged depreciation to Property '1' and '3';
c. Upward revaluation is recognised in the statement of profit and loss as profit; and
d. Applied revaluation model to Property '3' being classified as Investment Property.

The above accounting treatment is neither correct nor in accordance with provision of Ind AS 1, Ind AS 16 and Ind AS 40.

Accordingly, Special Ltd. shall depreciate Property 1 irrespective of the fact that, their fair value exceeds the carrying amount. The revaluation gain shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.

There is no alternative of revaluation model in respect to property '3' being classified as Investment Property and only cost model is permitted for subsequent measurement. However, Special Ltd. is required to disclose the fair value of the property in the Notes to Accounts. Further, Property '3' shall be presented as separate line item as Investment Property and depreciation should be charged on it as well.

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

Balance Sheet (extracts) as at 31st March, 2021

Assets	**Rs.**
Non-Current Assets	

Property, Plant and Equipment		
Property '1'	8,00,000	
Property '2'	9,50,000	17,50,000
Investment Properties		
Property '3' (1,200,000 – 80,000)		11,20,000
Equity and Liabilities		
Other Equity		
Revaluation Reserve		
Property '1' [8,00,000 – (7,50,000 – 75,000)]		1,25,000

The revaluation reserve should be routed through Other Comprehensive Income (subsequently not reclassified to Profit and Loss) and shown in a separate column under Statement of Changes in Equity.

Working Notes:

Particulars	Property 1	Property 2	Property 3
Purchase Price	Rs. 7,50,000	Rs. 10,50,000	Rs. 12,00,000
Estimated Life	10 years	15 years	15 years
Depreciation for the year	Rs. 75,000	Rs. 70,000	Rs. 80,000
Carrying Value as on 31st March, 2021	Rs. 6,75,000	Rs. 9,80,000	Rs. 11,20,000
Fair Value as on 31st March, 2021	Rs. 8,00,000	Rs. 9,50,000	Rs. 13,00,000
Subsequent Measurement	Fair Value	Fair Value	Cost
Revaluation Surplus / (Deficit)	Rs. 1,25,000	(Rs. 30,000)	

Question 5 : Nov 2022 – RTP

An entity owns a two-storey building. Floor 1 is rented out to independent third parties under operating leases. Floor 2 is occupied by the entity's administration and maintenance staff. The entity can measure reliably the fair value of each floor of the building without undue cost or effort. How the same will be classified / presented in the balance sheet as per relevant Ind AS. What will be the accounting treatment as per relevant Ind AS on initial and subsequent date?

Solution :

Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:

a) use in the production or supply of goods or services or for administrative purposes; or

b) sale in the ordinary course of business.

Property mentioned in (a) above would be covered under Ind AS 16 'Property, Plant and Equipment'.

On applying the above provisions, Floor 1 of the building is classified as an item of investment property by the entity (lessor) because it is held to earn rentals. Ind AS 40 is applicable in this

case. An investment property should be measured initially at its cost. After initial recognition, an entity shall measure all of its investment properties in accordance with Ind AS 16's requirements for cost model. However, entities are required to measure the fair value of investment property, for the purpose of disclosure even though they are required to follow the cost model.
Floor 2 of the building will be classified as property, plant and equipment because it is held by administrative staff i.e. it is held for use for administrative purposes. Ind AS 16 is applicable in this case. An item of property, plant and equipment that qualifies for recognition as an asset should be initially measured at its cost. After recognition, an entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

Question 6 : Nov 2024 – Paper

Anand Limited owns a Building X which is specifically used for the purpose of earning rentals. The Company has not been using the Building X or any of its facilities for its own use for a long time. The company is also exploring the opportunities to sell the building if it gets the reasonable amount in consideration.
Following information is relevant for Building X for the year ending 31st March 2024:
Building X was initially purchased at the cost of Rs.120 crores. At that time, the useful life of the building was estimated to be 10 years; out of which 5 years have been expired as on 1st April 2023: The company follows straight line method for depreciation.
During the year, the company has invested in another Building Y with the purpose to hold it for capital appreciation. The property was purchased on 1st April 2023 at the cost of Rs.20 crores. Expected life of the building is 20 years. As usual, the company follows straight line method of depreciation.
Further, during the year 2023-2024 the company earned/incurred the following, directly relating to Building X and Building Y:

Rental income from Building X	= Rs.15 crores
Rental income from Building Y	= Rs.5 crores
Sales promotion expenses	= Rs.0.50 crores
Fees and Taxes	= Rs.0.10 crores
Ground Rent	= Rs.0.25 crores
Repairs and Maintenance	= 0.15 crores
Legal and Professional	= Rs.0.20 crores
Commission and Brokerage	= Rs.0.10 crores

The company does not have any restrictions and contractual obligations against Property X and Y. For complying with the requirements of Ind AS, the management sought an independent report from the specialists so as to ascertain the fair value of buildings X and Y. The independent valuer has valued the fair value of property as per the valuation model recommended by international valuation standards committee. Fair value has been computed by the method by streamlining present value of future cash flows namely, discounted cash flow method.
The estimated rent per month per square feet for the period is expected to be in range of Rs.50 to Rs.60. And it is further expected to grow at the rate of 10 percent per annum for each of 3 years. The weightage discount rate used is 12% to 13%.

Assume that the fair value of properties based on discounted cash flow method is measured at Rs.105 crores. The treatment of fair value of properties is to be given in the financials as per the requirements of Indian Accounting Standards.

You are required to:

(i) Show how the Building X and Building Y would be the treated in the Balance Sheet of Anand Limited?

(ii) Provide detailed disclosures and computations in line with relevant Ind AS. (Treat it as if you are preparing a separate note or schedule, of the given assets in the Balance Sheet.)

Solution :

Investment property is held to earn rentals or for capital appreciation or both. Ind AS 40 shall be applied in the recognition, measurement and disclosure of investment property. An investment property shall be measured initially at its cost. After initial recognition, an entity shall measure all of its investment properties in accordance with the requirements of Ind AS 16 for cost model. The measurement and disclosure of Investment property as per Ind AS 40 in the balance sheet would be as follows:

	INVESTMENT PROPERTIES:			**(Rs. in crores)**
Particulars	**Property X**	**Property Y**		**Period ended 31st March, 2024**
Gross Amount:				
Opening balance	120.00		120.00	
Additions during the year	_____	20.00	20.00	
Closing balance (A)	120.00	20.00		140.00
Depreciation:				
Opening balance	60.00		60.00	
Depreciation during the year (12 + 1)	12.00	1.00	13.00	
Closing balance (B)	72.00	1.00		(73.00)
Net balance (A-B)	48.00	19.00		67.00

The changes in the carrying value of investment properties for the year ended 31st March, 2024 are as follows:

Amount recognized in Profit and Loss with respect to Investment Properties (Rs. in crores)

Particulars	**Period ending 31st March, 2024**
Rental income from investment properties (15.00 + 5.00)	20.00
Less: Direct operating expenses generating rental income (0.50 + 0.10 + 0.25 + 0.15 + 0.20 + 0.10)	(1.30)
Profit from investment properties before depreciation and indirect expenses	18.70

Less: Depreciation	(13.00)
Profit from earnings from investment properties before indirect expenses	5.70

Disclosure Note on Investment Properties acquired by the entity

The investment properties consist of Building X and Building Y. As at 31st March, 2024, the fair value of the properties is Rs. 105 crores. The valuation is performed by independent valuers, who are specialists in valuing investment properties. A valuation model as recommended by International Valuation Standards Committee has been applied. The Company considers factors like management intention, terms of rental agreements, area leased out, life of the assets etc. to determine classification of assets as investment properties.

The Company has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Description of valuation techniques used and key inputs to valuation on investment properties:

Valuation technique	Significant unobservable inputs	Range (Weighted average)
Discounted cash flow (DCF) method	- Estimated rental value per sq. ft. per month	- Rs. 50 to Rs. 60
	- Rent growth per annum	- 10% every 3 years
	- Discount rate	- 12% to 13%

Thanks ....

IND AS – 38
INTANGIBLE ASSETS

CHAPTER - 6

Question 1 : Nov 2018 – RTP

A Ltd. intends to open a new retail store in a new location in the next few weeks. It has spent a substantial sum on a series of television advertisements to promote this new store. It has paid for advertisements costing Rs.8,00,000 before 31st March, 2018. Rs.7,00,000 of this sum relates to advertisements shown before 31st March, 2018 and Rs.1,00,000 to advertisements shown in April, 2018. Since 31st March, 2018, A Ltd. has paid for further advertisements costing Rs.4,00,000. The accountant charged all these costs as expenses in the year to 31 March 2018. However, CFO of A Ltd. does not want to charge Rs.12,00,000 against 2017-2018 profits. He believes that these costs can be carried forward as intangible assets because the company's market research indicates that this new store is likely to be highly successful.

Examine and justify the treatment of these costs of Rs.12,00,000 in the financial statements for the year ended 31st March, 2018 as per Ind AS.

Solution :

Ind AS 38 specifically prohibits recognising advertising expenditure as an intangible asset. Irrespective of success probability in future, such expenses have to be recognized in profit or loss. Therefore, the treatment given by the accountant is correct since such costs should be recognised as expenses.

However, the costs should be recognised on an accruals basis.

(a) For Year 17 - 18

Total Amt. paid = Rs.8,00,000 out of which Rs.7,00,000 should be charged to P&L for year 17-18 and Rs.1,00,000 should be show as prepaid expenses.

(b) For year 18-19

Further Amt. paid was Rs.4,00,000. Total Rs.5,00,000 should be charged to P&L for year 18-19.

Question 2 : May 2019 – RTP

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

(i) A patent owned by ABR Ltd. for an established successful intermediate drug that has a remaining life of 8 years. A consultant has estimated the value of this patent to be Rs.10

crores. However, the outcome of clinical trials for the same are awaited. If the trials are successful, the value of the drug would fetch the estimated Rs.15 crores.

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

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

KK Ltd. has requested you to suggest the accounting treatment of the above transaction under applicable Ind AS.

Solution :

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

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

(i) **Patent owned by ABR Ltd.:** The patent owned will be recognised at fair value by KK Ltd. even though it was not recognised by ABR Ltd. in its financial statements. The patent will be amortised over the remaining useful life of the asset i.e. 8 years.

Since the company is awaiting the outcome of the trials, the value of the patent cannot be estimated at Rs.15 crore and the extra Rs.5 crore should only be disclosed as a Contingent Asset and not recognised.

(ii) **Patent internally developed by ABR Ltd.:** As per para 18 of Ind AS 103 'Business Combination', the acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition date fair values. Since the patent developed has been approved for clinical use, it is an identifiable asset, hence the same will be measured at fair value i.e. Rs.20 crore on the acquisition date.

(iii) **Grant of Licence to ABR Ltd. by the Government:** As regards to the five-year license, applying para 18 of Ind AS 103, grant asset will be recognised at fair value on the acquisition date by KK Ltd. On acquisition date, the fair value of the license is Rs.10 crore. However, since the question does not mention about the fair value of the identifiable liability with respect to grant of license for the acquirer, it is assumed that no conditions with respect to compliance of grant (if any) have been passed to the acquirer. Hence, the fair value of the liability with respect to grant, for acquirer would be nil. Only, the grant asset (license) would be recognised at Rs.10 crore in the books of acquirer KK Ltd.

Hence the revised working would be as follows:

Fair value of net assets of ABR Ltd.	Rs.15 crore
Add: Patent (10 + 20)	Rs.30 crore

Add: License	Rs.10 crore
Less: Grant for License	(Nil)
	Rs.55 crores
Purchase Consideration	(Rs.35 crores)
Bargain purchase	Rs.20 crore

Question 3 : Nov 2019 – PAPER

MNC Ltd. is in process of setting up a medicine manufacturing business which is at very initial stage. For this purpose, MNC Ltd. as part of its business expansion strategy acquired on 1st April, 2019, 100% shares of Akash Ltd., a company that manufactures pharmacy products. The purpose consideration for the same was by way of a share exchange valued at Rs.38 crores. The fair value of Akash Ltd.'s assets and liabilities were Rs.68 crores and Rs.50 crores respectively, but the same does not include the following :

(i) A parent owned by Akash Ltd. for an established successful new drug that has a remaining life of 6 years. A consultant has estimated the value of this patent to bee Rs.8 crores. However, the outcome of clinical trials for the same are awaited. If the trails are successful, the value of the drug would fetch the estimated Rs.12 crores.

(ii) Akash Ltd. has developed and patented another new drug which has been approved for clinical use. The cost of developing the drug was Rs.13 crores. Based on early assessment of its sales success, a reputed values has estimated is market value at Rs.19 crores. However, there is no active market for the patent.

(iii) Akash Ltd.'s manufacturing facilities have received a favourable inspection by a government department. As a result of this, the company has been granted an exclusive five-year license on 1st April, 2018 to manufacture and distribute a new vaccine. Although the license has no direct cost to the Company, its directors believe that obtaining the license is a valuable asset which assures guaranteed sales and the cost to acquire the license is estimated at Rs.7 crores for remaining period of life. It is expected to generate at least equivalent revenue.

Suggest the accounting treatment of the above transactions with reasoning under applicable Ind AS in e books of MNC Ltd.

Solution :

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

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

(i) Patent owned by Akash Ltd.: The patent owned will be recognised at fair value by MNC Ltd. even though it was not recognised by Akash Ltd. in its financial statements. The patent will be amortised over the remaining useful life of the asset i.e. 6 years. Since the company is awaiting the outcome of the trials, the value of the patent should be valued at Rs.8 crore.

It cannot be estimated at Rs.12 crore and the extra Rs.4 crore should only be disclosed as a contingent asset and not recognised.

(ii) **Patent internally developed by Akash Ltd.:** As per para 18 of Ind AS 103 'Business Combination', the acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition date fair values. Since the patent developed has been approved for clinical use, it is an identifiable asset, hence the same will be measured at fair value i.e. Rs.19 crore on the acquisition date.

(iii) **Grant of Licence to Akash Ltd. by the Government:** As regards to the five-year license, applying para 18 of Ind AS 103, grant asset will be recognised at fair value on the acquisition date by MNC Ltd. On acquisition date, the fair value of the license asset is Rs.7 crore. However, since the question does not mention about the fair value of the identifiable liability with respect to grant of license for the acquirer, it is assumed that the fair value of the liability with respect to grant, for acquirer is nil. Therefore, only, the grant asset (license) would be recognised at Rs.7 crore in the books of acquirer MNC Ltd.

Hence the revised working would be as follows:

Fair value of net assets of Akash Ltd. (68-50)	Rs.18 crore
Add: Patent (8 + 19)	Rs.27 crore
Add: License	Rs.7 crore
Less: Grant for License	(Nil)
	Rs.52 crore
Purchase Consideration	(Rs.38 crore)
Capital Reserve	Rs.14 crore

Question 4 : May 2020 – RTP

One of the senior engineers at XYZ has been working on a process to improve manufacturing efficiency and, consequently, reduce manufacturing costs. This is a major project and has the full support of XYZ's board of directors. The senior engineer believes that the cost reductions will exceed the project costs within twenty four months of their implementation. Regulatory testing and health and safety approval was obtained on 1 June 20X5. This removed uncertainties concerning the project, which was finally completed on 20 April 20X6. Costs of Rs.18,00,000, incurred during the year till 31st March 20X6, have been recognized as an intangible asset. An offer of Rs.7,80,000 for the new developed technology has been received by potential buyer but it has been rejected by XYZ. Utkarsh believes that the project will be a major success and has the potential to save the company Rs.12,00,000 in perpetuity. Director of research at XYZ, Neha, who is a qualified electronic engineer, is seriously concerned about the long term prospects of the new process and she is of the opinion that competitors would have developed new technology at some time which would require to replace the new process within four years. She estimates that the present value of future cost savings will be Rs.9,60,000 over this period. After that, she thinks that there is no certainty about its future. What would be the appropriate accounting treatment of aforesaid issue?

Solution :

Ind AS 38 'Intangible Assets' requires an intangible asset to be recognised if, and only if, certain criteria are met. Regulatory approval on 1 June 20X5 was the last criterion to be met, the other criteria have been met as follows:

- Intention to complete the asset is apparent as it is a major project with full support from board
- Finance is available as resources are focused on project
- Costs can be reliably measured
- Benefits are expected to exceed costs – (in 2 years)

Amount of Rs.15,00,000 (rs.18,00,000 x 10/12) should be capitalised in the Balance sheet of year ending 20X5-20X6 representing expenditure since 1 June 20X5.

The expenditure incurred prior to 1 June 20X5 which is Rs.3,00,000 (2/12 x Rs.18,00,000) should be recognised as an expense, retrospective recognition of expense as an asset is not allowed.

Ind AS 36 'Impairment of assets' requires an intangible asset not yet available for use to be tested for impairment annually.

Cash flow of Rs.12,00,000 in perpetuity would clearly have a present value in excess of Rs.12,00,000 and hence there would be no impairment. However, the research director is technically qualified, so impairment tests should be based on her estimate of a four-year remaining life and so present value of the future cost savings of Rs.9,60,000 should be considered in that case.

Rs.9,60,000 is greater than the offer received (fair value less costs to sell) of Rs.7,80,000 and so Rs.9,60,000 should be used as the recoverable amount.

So, the carrying amount should be consequently reduced to Rs.9,60,000.

Calculation of Impairment loss:

Particulars	**Amount Rs.**
Carrying amount (Restated)	15,00,000
Less: Recoverable amount	9,60,000
Impairment loss	5,40,000

Impairment loss of Rs.5,40,000 is to be recognised in the profit and loss for the year 20X5-20X6.

Necessary adjusting entry to correct books of account will be:

		Rs.	**Rs.**
Operating expenses- Development expenditure	Dr.	3,00,000	
Operating expenses–Impairment loss of intangible assets	Dr.	5,40,000	
To Intangible assets – Development expenditure			8,40,000

Question 5 : Nov 2020 – RTP

ABC Pvt. Ltd., recruited a player. As per the terms of the contract, the player is prohibited from playing for any other entity for coming 5 years and have to in the employment with the company and cannot leave the entity without mutual agreement. The price the entity paid to acquire this right is derived from the skills and fame of the said player. The entity uses and develops the player through participation in matches. State whether the cost incurred to obtain the right regarding the player can be recognised as an intangible asset as per Ind AS 38?

Solution :

As per Ind AS 38, for an item to be recognised as an intangible asset, it must meet the definition of an intangible asset, i.e., identifiability, control over a resource and existence of future economic benefits and also recognition criteria.

With regard to establishment of control, paragraph 13 of Ind AS 38 states that an entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits in some other way. Further, paragraph 15 of Ind AS 38 provides that an entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits expected from it, and it also meets the other parts of the definition. Since the right in the instant case is contractual, identifiability criterion is satisfied. Based on the facts provided in the given case, the player is prohibited from playing in other teams by the terms of the contract which legally binds the player to stay with ABC Ltd for 5 years.

Accordingly, in the given case, the company would be able to demonstrate control. Future economic benefits are expected to arise from use of the player in matches. Further, cost of obtaining rights is also reliably measurable. Hence, it can recognise the costs incurred to obtain the right regarding the player as an intangible asset. However, careful assessment of relevant facts and circumstances of each case is required to be made.

Question 6 : Jan 2021 – Paper

Super Sounds Limited had the following transactions during the Financial Year 2019-2020.

(i) On 1st April 2019, Super Sounds Limited purchased the net assets of Music Limited for Rs.13,20,000. The fair value of Music Limited's identifiable net assets was Rs.10,00,000. Super Sounds Limited is of the view that due to popularity of Music Limited's product, the life of goodwill is 10 years.

(ii) On 4th May 2019, Super Sounds Limited purchased a Franchisee to organize musical shows from Armaan TV for Rs.80,00,000 and at an annual fee of 2% of musical shows revenue. The Franchisee expires after 5 years. Musical shows revenue were Rs.10,00,000 for financial year 2019-2020. The projected future revenues for financial year 2020-2021 is Rs.25,00,000 and Rs.30,00,000 p.a. for remaining 3 years thereafter.

(iii) On 4th July 2019, Super Sounds Limited was granted a Copyright that had been applied for by Music Limited. During financial year 2019-2020, Super Sound Limited incurred

Rs.2,50,000 on legal cost to register the Patent and Rs.7,00,000 additional cost to successfully prosecute a copyright infringement suit against a competitor.

The life of the Copyright is for 10 years.

Super Sound Limited follows an accounting policy to amortize all intangible on SLM (Straight Line Method) basis or any appropriate basis over a maximum period permitted by relevant Ind AS, taking a full year amortization in the year of acquisition.

You are required to prepare:

(i) A Schedule showing the intangible section in Super Sound Limited Balance Sheet as on 31st March 2020, and

(ii) A Schedule showing the related expenses that would appear in the Statement of Profit and Loss of Super Sound Limited for the year ended 2019-2020.

Solution :

(i)

Super Sounds Limited

Balance Sheet (Extract relating to intangible asset) as at 31st March 2020

	Note no.	Rs.
Assets		
(1) Non- current asset		
Intangible assets	1	69,45,000

(ii)

Super Sounds Limited

Statement of Profit and Loss (Extract)

for the year ended 31st March 2020

	Note no.	Rs.
Revenue from Operations		10,00,000
Total Revenue		
Expenses:		
Amortization expenses	2	16,25,000
Other expenses	3	7,20,000
Total Expenses		

Notes to Accounts (Extract)

1. Intangible Assets

		Gross Block (Cost)			Accumulated amortisation			Net Block	
		Opening balance Rs.	Additions Rs.	Closing Balance Rs.	Opening balance Rs.	Additions Rs.	Closing Balance Rs.	Opening balance Rs.	Closing Balance Rs.
1	Goodwill* (W.N.1)	-	3,20,000	3,20,000	-	-	-	-	3,20,000
2	Franchise** (W.N.2)	-	80,00,000	80,00,000	-	16,00,000	16,00,000	-	64,00,000
3	Copyright (W.N.3)	-	2,50,000	2,50,000	-	25,000	25,000	-	2,25,000

		-	85,70,000	85,70,000	-	16,25,000	16,25,000	-	69,45,000

*As per Ind AS 36, irrespective of whether there is any indication of impairment, an entity shall test goodwill acquired in a business combination for impairment annually. This implies **that goodwill is not amortised annually but is subject to annual impairment, if any**.

**As per the information in the question, the limiting factor in the contract for the use is time i.e., 5 years and not the fixed total amount of revenue to be generated. Therefore, an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate and amortisation based on time can only be applied.

2	**Amortization expenses**		
	Franchise (W.N.2)	16,00,000	
	Copyright (W.N.3)	25,000	16,25,000
3	**Other expenses**		
	Legal cost on copyright	7,00,000	
	Fee for Franchise (10,00,000 x 2%)	20,000	7,20,000

Working Notes:

		Rs.
(1)	**Goodwill on acquisition of business**	
	Cash paid for acquiring the business	13,20,000
	Less: Fair value of net assets acquired	(10,00,000)
	Goodwill	**3,20,000**
(2)	**Franchise**	80,00,000
	Less: Amortisation (over 5 years)	(16,00,000)
	Balance to be shown in the balance sheet	**64,00,000**
(3)	**Copyright**	2,50,000
	Less: Amortisation (over 10 years as per SLM)	(25,000)
	Balance to be shown in the balance sheet	**2,25,000**

Question 7 : May 2021 – RTP

PQR Ltd. is a gaming developer company. Few years back, it developed a new game called 'Cloud9'. This game sold over 10,00,000 copies around the world and was extremely profitable. Due to its popularity, PQR Ltd. released a new game in the 'Cloud9' series every year. The games continue to be the bestseller. Based on Management's expectations, estimates of cash flow projections for the 'cloud9 videogame series' over the next five years have been prepared. Based on these projections, PQR Ltd. believes that cloud9 series brand should be recognised at INR 20,00,000 in its financial statement. PQR Ltd. has also paid INR 10,00,000 to MNC Ltd. to acquire rights of another video game series called the 'Headspace' videogame series. The said series have huge demand in the market.

Discuss the accounting treatment of the above in the financial statements of PQR Ltd.

Solution :

In order to determine the accounting treatment of 'cloud9 videogame series' and 'Headspace', definition of asset and intangible asset given in Ind AS 38 may be noted:

"An asset is a resource:

(a) controlled by an entity as a result of past events; and

(b) from which future economic benefits are expected to flow to the entity."

"An intangible asset is an identifiable non-monetary asset without physical substance."

In accordance with the above, for recognising an intangible asset, an entity must be able to demonstrate that the item satisfies the criteria of identifiability, control and existence of future economic benefits.

In order to determine whether 'cloud9 videogame series' meet the aforesaid conditions, following provisions of Ind AS 38 regarding Internally Generated Intangible Assets may be noted:

As per paragraph 63 and 64 of Ind AS 38, internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognised as intangible assets. Expenditure on such items cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognised as intangible assets.

Accordingly, though the cash flow projections suggest that the cloud9 brand will lead to future economic benefits, yet the asset has been internally generated; therefore, the Cloud9 brand cannot be recognised as intangible asset in the financial statements.

In order to determine whether 'Headspace' meet the aforesaid conditions, following provisions of Ind AS 38 regarding 'Separately acquired Intangible Assets' should be analused.

As per paragraphs 25 and 26 of Ind AS 38, normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 21(a) is always considered to be satisfied for separately acquired intangible assets. In addition, the cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.

The Headspace game has been purchased for INR 10,00,000 and it is expected to generate future economic benefits to the entity. Since Headspace game is a separately acquired asset and the future benefits are expected to flow to the entity, therefore, an intangible asset should be recognised in respect of the 'Headspace' asset at its cost of INR 10,00,000. After initial recognition, either cost model or revaluation model can be used to measure headspace intangible asset as per guidance given in paragraphs 74-87 of Ind AS 38. In accordance with this, Headspace intangible asset should be carried at its cost/revalued amount (as the case may be) less any accumulated amortisation and any accumulated impairment losses.

Question 8 : Nov 2021 – RTP

X Ltd. purchased a franchise from a restaurant chain at a cost of Rs. 1,00,00,000 under a contract for a period of 10 years. Can the franchise right be recognised as an intangible asset in the books of X Ltd. under Ind AS 38?

Solution :

Ind AS 38 'Intangible Assets', defines asset and intangible asset as under:

An asset is a resource:

(a) controlled by an entity as a result of past events; and

(b) from which future economic benefits are expected to flow to the entity.

An intangible asset is an identifiable non-monetary asset without physical substance.

In accordance with the above, for considering an asset as an intangible asset, an entity must be able to demonstrate that the item satisfies the criteria of identifiability, control over a resource and existence of future economic benefits.

In the given case, the franchise right meets the identifiability criterion as it is arising from contract to purchase the franchise right for 10 years. In addition, X Ltd. will have future economic benefits and control over them from the franchise right. Accordingly, the franchise right meets the definition of intangible asset. The same can be recognised if the following recognition criteria laid down in para 21 of Ind AS 38 is met:

An intangible asset shall be recognised if, and only if:

(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

(b) the cost of the asset can be measured reliably.

In the instant case, identifiability criterion is fulfilled, future economic benefits from franchise right are expected to flow to the entity and cost can also be measured reliably, therefore, X Ltd. should recognise the franchise right as an intangible asset.

Question 9 : May 2022 – RTP

D Ltd. a leading publishing house, purchased copyright of a book from its author for publishing the same. As per the terms of the contract, if D Ltd. chooses to make the payment upfront then, copyright consideration of Rs. 80,00,000 is to be paid (which is in line with general practice in such arrangements). However, the contract also provided that, in case D Ltd. chooses to pay the consideration after 2 years, then it will be required to pay Rs. 1,00,00,000. At what value should the intangible asset be recognised as per Ind AS 38?

Solution :

As per paragraph 32 of Ind AS 38, "If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalized in accordance with Ind AS 23, Borrowing Costs."

In the given case, if the payment for an intangible asset i.e. copyright is deferred beyond normal credit terms, the cash price equivalent Rs. 80,00,000 should be considered as its cost and the intangible asset will be recorded initially at this value.

The difference of Rs. 20,00,000 between cash price equivalent (i.e. Rs. 80,00,000) and the total payment (i.e. Rs. 1,00,00,000) should be recognised as interest expense over the period of credit (i.e. 2 years in this case), unless it is eligible for capitalisation in accordance with Ind AS 23, Borrowing Costs.

Question 10 : Nov 2022 – RTP

An entity has an intangible asset in the form of a product protected by patented technology which is expected to be a source of net cash inflows for at least 15 years. It has been recognised in the books on initial date at Rs. 12,00,000. The entity has a commitment from a third party to purchase that patent in five years for 60 per cent of the fair value of the patent at the date it was acquired, and the entity intends to sell the patent in five years. Company is amortising the asset in 15 years considering its residual value to be Zero. Annual amortization charged to Profit and Loss is Rs. 80,000. State, whether the accounting treatment done by the Company is in accordance with Ind AS 38? If not, then calculate the annual amortization of the intangible asset and also the amount at which it will be reflected in the balance sheet.

Solution :

For determination of amortisation of the intangible asset, which has finite useful life, two elements need to be determined: useful life and residual value.

Useful life is defined as:

(a) the period over which an asset is expected to be available for use by an entity; or

(b) the number of production or similar units expected to be obtained from the asset by an entity.

In the instant case, since the entity expects that the asset will be available for use by it for the period of 5 years and thereafter it will be transferred, the useful life of the asset is 5 years.

For residual value, paragraphs 100-102 of Ind AS 38 states that the residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:

(a) there is a commitment by a third party to purchase the asset at the end of its useful life; or

(b) there is an active market (as defined in Ind AS 113) for the asset and:

  (i) residual value can be determined by reference to that market; and

  (ii) it is probable that such a market will exist at the end of the asset's useful life.

The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. A residual value other than zero implies that an entity expects to dispose of the intangible asset before the end of its economic life.

An estimate of an asset's residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used.

On application of above paragraphs, the depreciable amount of the patent will be determined after deducting the residual value, which is 60% of its fair value at the date of its acquisition. Accordingly, the patent will be amortised over its useful life of 5 years, with a residual value equal to 60% of its fair value at the date of its acquisition. The patent will also be reviewed for impairment in accordance with Ind AS 36. Therefore, the accounting policy of amortising the asset over a period of 15 years considering its residual value of Zero is not in accordance with Ind AS 38.

Computation of correct amount of residual value and annual amortization:

		Rs.
Cost of Intangible asset		12,00,000
Residual value	(60% of Rs. 12,00,000)	7,20,000
Depreciable value of intangible asset	(12,00,000 – 7,20,000)	4,80,000
Useful life		5 years
Annual amortisation	(4,80,000 / 5)	Rs. 96,000 p.a.

Question 11 : Nov 2023 – RTP

A company engaged in the provision of Information Technology Products and Services incurred following expenditure during the development phase of its software product that is to be offered to its customers. The entity also purchases software from third parties for incorporating into its end software product offered to its customers. The company is in the process of launching it in the market for licensing to customers. The company also takes services of external professional software developers for such software development purpose. Costs incurred in relation to the development of its software product for the year ended 31st March, 20X2 are as follows:

Particulars	**Amount (Rs.thousands)**
Purchase price of imported software	600
Employment costs (Note 1)	1,200
Testing costs	1,800
Other costs directly related to customization (Note 2)	450
Professional fees paid for external software developers	220
Costs of training provided to staff to operate the asset	195
Costs of advertising in market	1,560
Administrative and general overheads	825

Note 1: The software was developed in nine months ended 31st December, 20X1 and was capable of operating in the manner intended by the entity. It was brought into use on 31st March, 20X2. The employment costs are for the period of twelve months (i.e. up to 31st March, 20X2). The employees were engaged in developing the software and related activities.

Note 2: Other costs directly related to development include an abnormal cost of Rs. 50,000 in respect of repairing the damage which resulted from a security breach.

What will be the amount of the software development costs that can be capitalized by explaining the reason for each element of cost?

Solution :

In the given fact pattern, the entity should apply the recognition and measurement principles relevant for an internally generated intangible asset. The entity has to ensure compliance with additional requirements relating to internally generated intangible assets in addition to general recognition criteria and initial measurement of intangible asset. In the instant case, for the measurement of software development cost, entity must evaluate the costs incurred for recognition of an intangible asset arising from development phase with reference to paragraphs 65 to 67 of Ind AS 38.

According to the said paragraphs, the initial carrying amount of the software will be computed as follows:

Particulars	Amount (Rs. in thousands)	Amount to be capitalised as Intangible Assets (Rs. in thousands)	Remarks
Purchase price of imported software	600	600	The cost of materials or / and services used or consumed in generating the intangible asset and any directly attributable cost of preparing the asset for its intended use.
Employment costs (Note 1)	1,200	900	Employment costs for the period of nine months are directly attributable costs. Therefore, the cost to be capitalized is Rs. 900 thousand (i.e., 9/12 x Rs. 1,200 thousand) for nine months as the asset was ready for its intended use by that time. It is assumed that Rs. 100 thousand is equally incurred each month. Capitalisation of eligible costs should cease when the asset is capable of operating in the manner intended by management.
Testing costs	1,800	1,800	The cost of testing whether the asset is functioning properly is a directly attributable cost. (Refer paragraph 59 of Ind AS 38)
Other costs directly related to development (Note 2)	450	400	Cost of identified inefficiencies deducted, i.e., Rs. 450 thousand – Rs. 50 thousand.
Professional fees paid for bringing the software to its working condition	220	220	The cost of materials or/and services used or consumed in generating the intangible asset
Costs of training provided to staff	195	Nil	Expenditure on training staff to operate the asset cannot be capitalised. (Refer paragraph 67 of Ind AS 38)
Costs of advertising in market	1,560	Nil	Selling, administrative and other general overhead expenditure cannot be capitalised. (Refer paragraph 67 of Ind AS 38)
Administrative and general overheads	825	Nil	
Total	6,850	3,920	

Accordingly, the initial carrying value of the software is Rs. 39,20,000. The remaining costs will be charged to profit or loss.

Question 12 : Nov 2023 – Paper

Beauty Ltd. purchased a patent right of a face-wash on 1st April, 2020 for Rs. 4,20,000; which has a legal life of 10 years. Due to the highly competitive nature of the product, the management of the company estimates a useful life of only 6 years. Straight line amortization is determined by the management to be the best method. As at 1st April, 2021, management is uncertain that the process can actually be made economically feasible and decides to write down the patent to an estimated market value of Rs. 2,00,000 and also decides to amortize it over 2 years. As at 1st April, 2022, having perfected the related production process, the asset is now appraised at a value of Rs. 3,50,000. Furthermore, the estimated useful life is now believed to be 3 more years.
You are required to determine the value of intangible asset at the end of financial year:

- 2020-2021;
- 2021-2022;
- 2022-2023.

Also, discuss the treatment of revaluation gain in financial year 2022-2023.

Solution :

Value as on 31st March 2021

Original cost	Rs. 4,20,000
Less: Amortisation (4,20,000 / 6 years)	(Rs. 70,000)
Net carrying value as on 31st March 2021	Rs 3,50,000

Value as on 31st March 2022

On 1st April 2021, the downward revaluation is recorded by writing down the asset to the estimated value of Rs. 2,00,000, which necessitates a Rs. 1,50,000 charge to profit & loss (carrying value Rs. 3,50,000 less fair value Rs. 2,00,000).
Amortisation provided for the financial year 2021-2022 is Rs. 1,00,000 (Rs. 2,00,000/2)
Net value as on 31st March 2022 = Rs. 2,00,000 – Rs. 1,00,000 = Rs. 1,00,000.

Value as on 31st March 2023

As on 1st April 2022, the carrying value of the patent is Rs. 1,00,000.
Revalued amount of patent is Rs. 3,50,000.
Out of total revaluation gain of Rs. 2,50,000, Rs. 1,50,000 will be charged to profit & loss and balance amount of Rs. 1,00,000 (Rs. 2,50,000 – Rs. 1,50,000) will be credited to revaluation reserve.
Amortisation provided for the financial year 2022-2023 is Rs. 1,16,667 (Rs. 3,50,000 / 3)
Net value as on 31st March 2023 = Rs. 3,50,000 – Rs. 1,16,667 = Rs. 2,33,333.

Question 13 : Nov 2024 – RTP

SS Limited had the following transactions during the Financial Year 20X1-20X2.

(i) On 1st April 20X1, SS Limited purchased the net assets of M Limited for Rs. 13,20,000. The fair value of M Limited's identifiable net assets was Rs. 10,00,000. SS Limited is of the view that due to popularity of M Limited's product, the life of goodwill is 10 years.

(ii) On 4th May 20X1, SS Limited purchased a Franchisee to organize musical shows from A TV for Rs.80,00,000 and at an annual fee of 2% of musical shows revenue. The Franchisee expires after 5 years. Musical shows revenue were Rs. 10,00,000 for financial year 20X1-

20X2. The projected future revenues for financial year 20X2-20X3 is Rs. 25,00,000 and Rs. 30,00,000 p.a. for remaining 3 years thereafter.

(iii) On 4th July 20X1, SS Limited was granted a Copyright that had been applied for by M Limited. During the financial year 20X1-20X2, SS Limited incurred Rs.2,50,000 on legal cost to register the Patent and Rs. 7,00,000 additional cost to successfully prosecute a copyright infringement suit against a competitor. The life of the Copyright is for 10 years.

SS Limited follows an accounting policy to amortize all intangible on SLM (Straight Line Method) basis or any appropriate basis over a maximum period permitted by relevant Ind AS, taking a full year amortization in the year of acquisition.

You are required to prepare:

(i) A Schedule showing the intangible section in SS Limited Balance Sheet as on 31st March 20X2, and

(ii) A Schedule showing the related expenses that would appear in the Statement of Profit and Loss of SS Limited for the year ended 20X1-20X2.

Solution :

(i)

SS Limited
Balance Sheet (Extract relating to intangible asset)
as at 31st March 20X2

Assets	**Note No.**	**Rs.**
(1) Non- current asset		
Intangible assets	1	69,45,000

(ii)

SS Limited
Statement of Profit and Loss (Extract)
for the year ended 31st March 20X2

	Note No.	**Rs.**
Revenue from Operations		10,00,000
Total Revenue		
Expenses:		
Amortization expenses	2	16,25,000
Other expenses	3	7,20,000
Total Expenses		

Notes to Accounts (Extract)

1. Intangible Assets

		Gross Block (Cost)			Accumulated amortisation			Net block	
		Opening balance	Additions	Closing Balance	Opening Balance	Additions	Closing Balance	Opening Balance	Closing Balance
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1	Goodwill* (W.N.1)	-	3,20,000	3,20,000	-	-	-	-	3,20,000
2	Franchise** (W.N.2)	-	80,00,000	80,00,000	-	16,00,000	16,00,000	-	64,00,000

3	Copyright (W.N.3)	-	2,50,000	2,50,000	-	25,000	25,000	-	2,25,000
		-	85,70,000	85,70,000	-	16,25,000	16,25,000	-	69,45,000

*As per Ind AS 36, irrespective of whether there is any indication of impairment, an entity shall test goodwill acquired in a business combination for impairment annually. This implies that goodwill is not amortised annually but is subject to annual impairment, if any.

**As per the information in the question, the limiting factor in the contract for the use is time i.e., 5 years and not the fixed total amount of revenue to be generated. Therefore, an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate and amortisation based on time can only be applied.

2	**Amortization expenses**		
	Franchise (W.N.2)	16,00,000	
	Copyright (W.N.3)	25,000	16,25,000
3	**Other expenses**		
	Legal cost on copyright	7,00,000	
	Fee for Franchise (10,00,000 x 2%)	20,000	7,20,000

Working Notes:

		Rs.
(1)	**Goodwill on acquisition of business**	
	Cash paid for acquiring the business	13,20,000
	Less: Fair value of net assets acquired	(10,00,000)
	Goodwill	**3,20,000**
(2)	**Franchise**	80,00,000
	Less: Amortisation (over 5 years)	(16,00,000)
	Balance to be shown in the balance sheet	**64,00,000**
(3)	**Copyright**	2,50,000
	Less: Amortisation (over 10 years as per SLM)	(25,000)
	Balance to be shown in the balance sheet	**2,25,000**

Thanks ....

IND AS – 105 NON CURRENT ASSETS & HELD FOR SALE & DISCONTINUING OPERATIONS

CHAPTER - 7

Question 1 : May 2018 – RTP

Following is the extract of the consolidated financial statements of A Ltd. for the year ended on:

Asset / Liability	**Carry amount as on 31st March, 20X1**
	(In Rs.000)
Attributed goodwill	200
Intangible assets	950
Financial asset measured at fair value through other comprehensive income	300
Property, plant & equipment	1100
Deferred tax asset	250
Current assets – inventory, receivables and cash balances	600
Current liabilities	(850)
Non-current liabilities – provisions	(300)
Total	**2,250**

On 15th September 20X1, Entity A decided to sell the business. It noted that the business meets the condition of disposal group classified as held for sale on that date in accordance with Ind AS 105. However, it does not meet the conditions to be classified as discontinued operations in accordance with that standard.

The disposal group is stated at the following amounts immediately prior to reclassification as held for sale.

Asset / Liability	**Carry amount as on 15th September 20X1**
	(In Rs.000)
Attributed goodwill	200
Intangible assets	930
Financial asset measured at fair value through other comprehensive income	360
Property, plant & equipment	1020
Deferred tax asset	250

Current assets – inventory, receivables and cash balances	520
Current liabilities	(870)
Non-current liabilities – provisions	(250)
Total	**2,160**

Entity A proposed to sell the disposal group at Rs 19,00,000. It estimates that the costs to sell will be Rs 70,000. This cost consists of professional fee to be paid to external lawyers and accountants. As at 31st March 20X2, there has been no change to the plan to sell the disposal group and entity A still expects to sell it within one year of initial classification. Mr. X, an accountant of Entity A remeasured the following assets/ liabilities in accordance with respective standards as on 31st March 20X2:

Available for sale	**(in Rs.000's)**
Financial assets	410
Deferred tax assets	230
Current assets- Inventory, receivables and cash balances	400
Current liabilities	900
Non- current liabilities- provisions	250

The disposal group has not been trading well and its fair value less costs to sell has fallen to Rs.16,50,000.

Required:

What would be the value of all assets/ liabilities within the disposal group as on the following dates in accordance with Ind AS 105?

(a) 15th September, 20X1 and

(b) 31st March, 20X2

Solution :

(a) As at 15th September, 20X1

The disposal group should be measured at Rs.18,30,000 (19,00,000 – 70,000). The impairment write down of Rs.3,30,000 (Rs.21,60,000 – Rs.18,30,000) should be recorded within profit from continuing operations.

The impairment of Rs.3,30,000 should be allocated to the carrying values of the appropriate non-current assets.

Asset/ (liability)	**Carrying value as at 15 June 2004**	**Impairment**	**Revised carrying value as per IND AS 105**
Attributed goodwill	200	(200)	-
Intangible assets	930	(62)	868
Financial asset measured at fair value through other comprehensive income	360	-	360
Property, plant & equipment	1,020	(68)	952
Deferred tax asset	250	-	250

Current assets – inventory, receivables and cash balances	520	-	520
Current liabilities	(870)	-	(870)
Non-current liabilities – provisions	(250	-	(250)
Total	**2,160**	**(330)**	**1,830**

The impairment loss is allocated first to goodwill and then pro rata to the other assets of the disposal group within Ind AS 105 measurement scope. Following assets are not in the measurement scope of the standard- financial asset measured at other comprehensive income, the deferred tax asset or the current assets. In addition, the impairment allocation can only be made against assets and is not allocated to liabilities.

(b) As on 31st March. 20X2:

All of the assets and liabilities, outside the scope of measurement under IND AS 105, are remeasured in accordance with the relevant standards. The assets that are remeasured in this case under the relevant standards are the Financial asset measured at fair value through other comprehensive income (Ind AS 109), the deferred tax asset (Ind AS 12), the current assets and liabilities (various standards) and the non-current liabilities (Ind AS 37).

Asset/ (liability)	**Carrying amount as on 15 September, 20X1**	**Change in value to 31st March 20X2**	**Impairment**	**Revised carrying value as per Ind AS 105**
Attributed goodwill	-	-	-	-
Intangible assets	868	-	-29	839
Financial asset measured at fair value through other comprehensive income	360	50	-	410
Property, plant & equipment	952	-	-31	921
Deferred tax asset	250	(20)	-	230
Current assets – inventory, receivables and cash balances	520	(120)	-	400
Current liabilities	(870)	(30)	-	(900)
Non-current liabilities – provisions	(250)	-	-	(250)
Total	**1,830**	**(120)**	**(60)**	**1,650**

Question 2 : Nov 2018 – PAPER

PB Limited purchased a plastic bottle manufacturing plant for Rs.24 lakh on 1st April, 2015. The useful life of the plant is 8 years. On 30th September, 2017, PB Limited temporarily stops using the manufacturing plant because demand has declined. However, the plant is maintained in a workable condition and it will be used in future when demand picks up.

The accountant of PB Limited decided to treat the plant as held for sale until the demand picks up and accordingly measures the plant at lower of carrying amount and fair value less cost to sell.

The accountant has also stopped charging depreciation for rest of the period considering the plant as held for sale. The fair value less cost to sell on 30th September, 2017 and 31st March, 2018 was Rs.13.5 lakh and Rs.12 lakh respectively.
The accountant has made the following working:

Carrying amount on initial classification as held for sale	**Rs.**	**Rs.**
Purchase price of Plant	24,00,000	
Less: Accumulated Depreciation [(Rs.24,00,000/8)x2.5 years]	7,50,000	16,50,000
Fair value less cost to sell as on 31st March, 2017		12,00,000
The value lower of the above two		12,00,000

Balance Sheet extracts as on 31st March, 2018

Particulars	**Rs.**
Assets	
Current Assets	
Other Current Assets	
Assets classified as held for sale	12,00,000

Required:
Analyze whether the above accounting treatment is in compliance with the Ind AS. If not, advise the correct treatment showing necessary workings.

Solution :
As per Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations', an entity shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.
For an Asset to be classified as held for sale it should be
1) Available for immediate sale in present condition and
2) Sale must be highly probable.
The Asset should be available for sale in present condition. The terms that are usual and customary for sale does not disqualify the Asset from being classified as held for sale. Its cannot be classified as held for sale if entity intends to sell it in distant future.
Sale is highly probable if :
1) The appropriate level of management is committed to plan to sell.
2) An Active Programme to trade a buyer is in Place.
3) The Asset is marketed for sale at a price that is reasonable in relation to its current fair value.
4) The sale if expected to be completed within 1 year.
5) Significant charges or withdrawal from plan to sale the Asset are unlikely.
Ind AS 105 also states that entity shall not classify an Asset as held for sale if the Asset is abandoned.
The Accountant of PB has treated the plant as held for which is not correct and not in accordance to Ind AS 105. It should not have stopped charging depreciation.
Instead entity should have impaired the Asset as per Ind AS 36.

Working :

Purchase Price	24,00,000
Accumulated dep. $\left(\frac{24,00,000}{8}\right) \times 3$	9,00,000
Carrying Amount	15,00,000
Recoverable Amount	12,00,000
Impairment Loss	3,00,000

Recoverable Amount is higher of
Value in use = Nil (since it is not in use)
Fair value less cost to sale = 12,00,000

Question 3 : May 2019 – RTP

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

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

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

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

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

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

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

Solution :

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

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

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

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

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

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

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

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

Question 4 : Nov 2019 – PAPER

On June 1, 2018 entity D Limited plans to sell a group of assets and liabilities, which is classified as a disposal group. On July 31, 2018, the Board of Directors approved and committed to the plan to sell the manufacturing unit by entering into a firm purchase commitment with entity G Limited. However, since the manufacturing unit is regulated, the approval from the regulator is needed for sale. The approval from the regulator is customary and highly probable to be received by November 30, 2018 and the sale is expected to be completed by March 31, 2019. Entity D Limited follows December year end. The assets and liabilities attributable to this manufacturing unit are as under :

(Rs. in lakhs)

Particular	**Carrying value as on December 31, 2017**	**Carrying value as on July 31, 2018**
Goodwill	1,000	1,000
Plant and Machinery	2,000	1,800
Building	4,000	3,700
Debtors	1,700	2,100
Inventory	1,400	800
Creditors	(600)	(500)
Loans	(4,000)	(3,700)
Net	**5,500**	**5,200**

The fair value of the manufacturing unit as on December 31, 2017 is Rs.4,000 and as on July 31, 2018 is Rs.3,700. The cost to sell is 200 on both these dates. The disposal group is not sold at the period end i.e., December 31, 2018. The fair value as on December 31, 2018 is lower then the carrying value of the disposal group as on that date.

Required :

(i) Assets whether the manufacturing unit can be classified a held for sale and reasons thereof. If yes, then at which date?

(ii) The measurement of the manufacturing unit as on the date of classification as held for sale.

(iii) The measurement of the manufacturing unit as at the end of the year.

Solution :

1. Assessing whether the manufacturing unit can be classified as held for sale

The manufacturing unit can be classified as held for sale due to the following reasons:

(a) The disposal group is available for immediate sale and in its present condition. The regulatory approval is customary and it is expected to be received in one year. The date at which the disposal group must be classified as held for sale is 31st July, 20X1, i.e., the date at which management becomes committed to the plan.

(b) The sale is highly probable as the appropriate level of management i.e., board of directors in this case have approved the plan.

(c) A firm purchase agreement has been entered with the buyer.

(d) The sale is expected to be complete by 31st March, 20X2, i.e., within one year from the date of classification.

2. Measurement of the manufacturing unit as on the date of classification as held for sale

Following steps need to be followed:

Step 1: Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable Ind AS.

This has been done and the carrying value of the disposal group as on 31st July, 20X1 is determined at Rs.5,600. The difference between the carrying value as on 31st December, 20X0 and 31st July, 20X1 is accounted for as per the relevant Ind AS.

Step 2: An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

The fair value less cost to sell of the disposal group as on 31st July, 20X1 is Rs.3,500 (i.e.3,700 – 200). This is lower than the carrying value of Rs.5,200. Thus an impairment loss needs to be recognised and allocated first towards goodwill and thereafter pro-rata between assets of the disposal group which are within the scope of Ind AS 105 based on their carrying value. Thus, the assets will be measured as under:

Particulars	**Carrying value**	**Impairment**	**Carrying value**
			as per Ind AS 105
	31st July, 20X1		**31st July, 20X1**
Goodwill	1,000	(1,000)	-
Plant and Machinery	1,800	(230)	1,570
Building	3,700	(470)	3,230
Debtors	2,100	-	2,100

Inventory	800	-	800
Creditors	(500)	-	(500)
Loans	(3,700)	-	(3,700)
	5,200	(1,700)	3,500

3. Measurement of the manufacturing unit as on the date of classification as at the year end
The measurement as at the year-end shall be on similar lines as done above.
The assets and liabilities in the disposal group not within the scope of this Standard are measured as per the respective Standards.
The fair value less cost to sell of the disposal group as a whole is calculated. This fair value less cost to sell as at the year-end shall be compared with the carrying value as at the date of classification as held for sale. It is provided that the fair value as on the year end is less than the carrying amount as on that date – thus the impairment loss shall be allocated in the same way between the assets of the disposal group falling within the scope of this standard as shown above.

Question 5 : Nov 2021 – RTP

On February 28, 20X1, Entity X is committed to the following plans:

(a) To sell a property after completion of certain renovations to increase its value prior to selling it. The renovations are expected to be completed within a short span of time i.e., 2 months.

(b) To sell a commercial building to a buyer after the occupant vacates the building. The time required for vacating the building is usual and customary for sale of such commercial property. The entity considers the sale to be highly probable.

Can the above-mentioned property and commercial building be classified as non-current assets held for sale at the reporting date i.e. 31st March, 20X1?

Solution :

Ind AS 105 provides guidance on classification of a non-current asset held for sale in paragraph 7 which states that, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

(a) In respect of Entity X's plan to sell property which is being renovated and such renovation is incomplete as at the reporting date. Although, the renovations are expected to be completed within 2 months from the reporting date i.e., March 31, 20X1, the property cannot be classified as held for sale at the reporting date as it is not available for sale immediately in its present condition.

(b) In case of Entity X's plan to sell commercial building, it intends to transfer the commercial building to a buyer after the occupant vacates the building and the time required for vacating such building is usual and customary for sale of such non-current asset. Accordingly, the criterion of the asset being available for immediate sale would be met and hence, the commercial building can be classified as held for sale at the reporting date.

Question 6 : May 2022 – RTP

X Ltd. acquires B Ltd. exclusively with a view to sale and it meets the criteria to be classified as discontinued operation as per Ind AS 105. Further, following information is available about B Ltd.:
Fair value of total assets excluding liabilities on acquisition – Rs. 360
Costs to sell as on acquisition and on reporting date – Rs. 10
Fair value of liabilities on acquisition and reporting date – Rs. 80
Fair value of total assets excluding liabilities on the reporting date – Rs. 340
How discontinued operation pertaining to B Ltd. should be measured in consolidated financial statements of X Ltd. on acquisition date and reporting date?

Solution :

Ind AS 105 defines a disposal group as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated in accordance with the requirements of paragraphs 80–87 of Ind AS 36, Impairment of Assets, or if it is an operation within such a cash- generating unit.
In the given case, B Ltd. is acquired exclusively with a view to sell and meets the criteria to be classified as discontinued operation.
The discontinued operation would be measured in accordance with paragraphs 15 and 16 of Ind AS 105
As per para 15, an entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.
As per para 16, if a newly acquired asset (or disposal group) meets the criteria to be classified as held for sale (see paragraph 11), applying paragraph 15 will result in the asset (or disposal group) being measured on initial recognition at the lower of its carrying amount had it not been so classified (for example, cost) and fair value less costs to sell. Hence, if the asset (or disposal group) is acquired as part of a business combination, it shall be measured at fair value less costs to sell.
Therefore, on acquisition date, in line with paragraph 16, X Ltd. will measure B Ltd. as a disposal group at fair value less costs to sell which will be calculated as Fair value of total assets excluding liabilities on acquisition – Costs to sell = Rs. 360 – Rs. 10 = Rs. 350.
Fair value of liabilities on acquisition = Rs. 80.
At the reporting date, in line with paragraph 15, X Ltd. will remeasure the disposal group at the lower of its cost and fair value less costs to sell which will be calculated as:
Fair value of total assets excluding liabilities on subsequent reporting date – Costs to sell
= Rs. 340 – Rs. 10 = Rs. 330
Fair value of liabilities on reporting date = Rs. 80.
At the reporting date, X Ltd. shall present these assets and liabilities separately from other assets and liabilities in its consolidated financial statements.
In the statement of profit and loss, X Ltd. shall recognise loss on subsequent measurement (of net assets at fair value) of B Ltd. which equals to Rs. 20 (Rs. 270 – Rs. 250).

Question 7 : May 2022 – Paper

Black Ltd. is a manufacturing company. The following balances as at 31st March, 2021 are from the audited Financial Statements and as at 30th September, 2021 and 31st March, 2022 are provided by the accountant of Black Ltd :

Asset (Liability)	Carrying Amount as at (Rs. In lakhs)		
	31.03.2021	30.09.2021	30.03.2022
Attributed goodwill	2,560	2,560	
Intangible assets	12,680	11,080	
Financial assets measured at Fair Value through other Comprehensive Income	4,310	5,260	7,310
Property, plant & equipment	16,820	18,670	
Deferred tax assets	3,120	3,120	2,970
Current assets : inventory, receivables, cash & cash equivalents	8,640	7,040	4,860
Current Liabilities	(11,110)	(13, 230)	(16,190)
Non-current liabilities : provisions	(3,670)	(4,610)	(4,610)
Total	**33,350**	**29,890**	**(5,660)**

Black Ltd. decided to sell the business on 30th September, 2021. The business meets the condition of disposal group classified as held for sale on that date in accordance with Ind AS 105. However, it does not meet the conditions to be classified as discontinued operations in accordance with Ind AS 105. Black Ltd. proposed to sell the disposal group at Rs.26,000 lakhs. The costs to sell is estimated at Rs.200 lakhs. As at 31st March, 2022, there has been no change to the plant to sell the disposal group and Black Ltd. still expects to sell it within one year of initial classification. The disposal group has not been trading well and its fair value less costs to sell has fallen to Rs.19,738 lakhs.

You are asked to calculate the value of all assets/liabilities within the disposal group as at 30th September, 2021 and 31st March, 2022 in accordance with Ind AS 105.

Solution :

(i) As at 30thSeptember, 2021

The disposal group should be measured at Rs. 25,800 lakh (Rs. 26,000 lakh - Rs. 200 lakh). The impairment write down of Rs. 4,090 lakh (Rs. 29,890 lakh – Rs. 25,800 lakh) should be recorded within profit from continuing operations.

The impairment of Rs. 4,090 should be allocated to the carrying values of the appropriate non-current assets.

Asset / (liability)	Carrying value as at 30th September, 2021	Impairment	Revised carrying value as per Ind AS 105
Attributed goodwill	2,560	(2,560)	-
Intangible assets	11,080	(570)*	10,510
Financial asset measured at fair value	5,260	-	5,260

through other comprehensive income			
Property, plant & equipment	18,670	(960)**	17,710
Deferred tax asset	3,120	-	3,120
Current assets – inventory, receivables and cash balances	7,040	-	7,040
Current liabilities	(13,230)	-	(13,230)
Non-current liabilities – provisions	(4,610)	-	(4,610)
Total	29,890	-4,090	25,800

*[(4,090 – 2,560) x {11,080/(11,080 + 18,670)}]

**[(4,090 – 2,560) x {18,670/(11,080 + 18,670)}]

The impairment loss is allocated first to goodwill and then pro-rata to the other assets of the disposal group within Ind AS 105 measurement scope. Following assets are not in the measurement scope of this standard- financial asset measured at other comprehensive income, the deferred tax asset or the current assets. In addition, the impairment allocation can only be made against assets and is not allocated to liabilities.

(ii) As on 31st March, 2022

All the assets and liabilities, outside the scope of measurement under Ind AS 105, are remeasured in accordance with the relevant standards. The assets that are remeasured in this case under the relevant standards are the financial asset measured at fair value through other comprehensive income (Ind AS 109), the deferred tax asset (Ind AS 12), the current assets and liabilities (various standards) and the non-current liabilities (Ind AS 37).

Asset / (liability)	Carrying amount as on 30th September, 2021	Change in value to 31st March, 2022	Impairment	Revised carrying value as per Ind AS 105
Attributed goodwill	-	-	-	-
Intangible assets	10,510	-	(1,051)*	9,459
Financial asset measured at fair value through other comprehensive income	5,260	2,050	-	7,310
Property, plant & equipment	17,710	-	(1,771)**	15,939
Deferred tax asset	3,120	-150	-	2,970
Current assets – inventory, receivables and cash balances	7,040	-2,180	-	4,860
Current liabilities	(13,230)	-2,960	-	(16,190)
Non-current liabilities – provisions	(4,610)	-	-	(4,610)
Total	25,800	(3,240)	(2,822)	19,738

*[2,822 x {10,510 /(10,510 + 17,710)}]

**[2,822 x {17,710 /(10,510 + 17,710)}]

Question 8 : Nov 2022 – RTP

Company A has financial year ending 31st March, 20X0. On 1st June, 20X0, the Company has classified its Division B as held for sale in accordance with Ind AS 105. How property, plant and equipment (PPE) for which the company has adopted cost model shall be measured immediately before the classification as held for sale on 1st June, 20X0?

Solution :

Paragraph 18 of Ind AS 105 provides that immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable Ind AS.

In the instant case, Company A should measure the property, plant and equipment (for which it has adopted cost model), in accordance with Ind AS 16, Property, Plant and Equipment. Hence, depreciation should be provided upto 31st May, 20X0.

Question 9 : May 2023 – RTP

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

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

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

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

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

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

Solution :

The decision to offer the division for sale on 1st January, 20X1 means that from that date the division is classified as held for sale. The division available for immediate sale, is being actively marketed at a reasonable price, and the sale is expected to be completed within one year.

The consequence of this classification is that the assets of the division will be measured at the lower of their existing carrying amounts (Rs. 7.20 lakhs i.e. Goodwill Rs. 1.2 lakh + PPE Rs. 4 lakhs + Inventory Rs. 2 lakhs) and their fair value less costs to sell(Rs. 6.40 lakhs). This implies that the assets of the division will be measured at Rs. 6.40 lakhs on 1st January, 20X1.

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

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

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

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

The division will be regarded as a discontinued operation for the year ended 31st March, 20X1. It will represent a separate line of business and will be held for sale at the year end.

The statement of profit and loss should disclose, as a single amount, the post-tax profit or loss of the division and the impairment loss arising on the re-measurement of the division on classification as held for sale. Further analysis of this single amount may be presented in the notes or in the statement of profit and loss. If it is presented in the statement of profit and loss it shall be presented in a section identified as relating to discontinued operations, i.e. separately from continuing operations.

Question 10 : May 2023 – Paper

Venus limited had purchased on 1st April 2020, a PPE kits manufacturing plant for Rs.12.00 lakhs. The useful life of the plant is 8 years. The deprecation is provided on straight line method. On 30th September 2022, Venus Limited temporarily discontinues the production at the said plant due to decline in the demand for PPE kits. However, the plant is maintained in a workable condition and it can be used in future whenever the demand picks up.

The accountant of Venus Limited decided to treat the plant as held for sale under Ind AS 105 until the demand picks up. She, thus measures the plant at lower of carrying amount and fair value less cost to sell. She also stopped charging the depreciation for the rest of period as the plant was held for sale. The fair value less cost to sell the said plant on 30th September, 2022 and 31st March, 2023 was Rs.6.75 lakhs and Rs.6.00 lakhs respectively.

She performed the following working to determine the carrying amount of the plant on initial classification as held for sale :

Particulars	**Rs. in**
Purchase price of the plant:	12
Less: Accumulated depreciation for 2.5 years (Rs.12.00 lakhs/8 years X 2.5 years)	3.75

	8.25
Fair value less cost to sales as on 30th September 2022	6.75
The carrying amount is lower of Rs.8.25 lakhs and Rs.6.75 lakhs	6.75

Balance Sheet extracts as at 31st March, 2023

Particulars	**Rs. in lakhs**
Asset	
Current Assets	
Other Current Assets	
Assets classified as held for sale	6.00

Discuss whether the above accounting treatment made by the accountant is as per applicable Ind AS. If not, what would be the correct treatment. Provide balance sheet extract as at 31st March 2023 together with the computation of the carrying value of PPE as at 31st March, 2023.

Solution :

The treatment of PPE kits manufacturing plant needs to be examined in the light of the provisions given in Ind AS 16 '*Property, Plant and Equipment*' and Ind AS 105 '*Non-current Assets Held for Sale and Discontinued Operations'.*

Paragraph 6 of Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations' states that an entity shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Paragraph 7 of Ind AS 105 states that for this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets (or disposal groups) and its sale must be highly probable. Thus, an asset cannot be classified as a non-current asset held for sale, if the entity intends to sell it in the distant future.

Further, paragraph 8 of Ind AS 105 states that for the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Paragraph 13 of Ind AS 105 states that an entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use.

Paragraph 14 of Ind AS 105 states that an entity shall not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.

Paragraph 55 of Ind AS 16 states that depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Going by the guidance given above, the Accountant of Venus Ltd. has treated the plant as held for sale and measured it at the fair value less cost to sell. Also, the depreciation has not been charged thereon since the date of classification as held for sale which is not correct and not in accordance with Ind AS 105 and Ind AS 16.

Accordingly, the manufacturing plant should neither be treated as abandoned asset nor as held for sale because its carrying amount will be principally recovered through continuous use. Venus Ltd. shall not stop charging depreciation or treat the plant as held for sale because its carrying amount will be recovered principally through continuing use to the end of their economic life.

The working of the same for presenting in the balance sheet is given as below:

Calculation of carrying amount as on 31st March, 2023	**Rs.**
Purchase Price of Plant	12,00,000
Less: Accumulated depreciation (12,00,000/ 8 years) x 3 years	(4,50,000)
	7,50,000
Less: Impairment loss	(1,50,000)
	6,00,000

Balance Sheet extracts as on 31st March, 2023

Assets	**Rs.**
Non-Current Assets	
Property, Plant and Equipment	6,00,000

Working Note:

Fair value less cost to sell of the Plant = Rs. 6,00,000

Value in use (not given) or Nil (since plant has temporarily not been used for manufacturing due to decline in demand)

Recoverable amount = higher of above i.e. Rs. 6,00,000

Impairment loss = Carrying amount – Recoverable amount

Impairment loss = Rs. 7,50,000 - Rs. 6,00,000 = Rs. 1,50,000.

Question 11 : Nov 2023 – RTP

Company X has identified one of its division (disposal group) to be sold to a prospective buyer and the Board has approved the plan to sell the division on 30th September, 20X1. The sale is expected to complete after one year but it still qualifies to be held for sale under Appendix B of Ind AS 105. Costs to sell the division is estimated to be Rs. 10 crores (to be incurred in March, 20X3). The fair value of the division is Rs. 400 crores (on 30th September, 20X1 and 31st March, 20X2) and carrying value is Rs. 500 crores.

How shall such a division (disposal group) be measured under Ind AS 105 on following reporting dates:

A. 30th September, 20X1

B. 31st March, 20X2

Consider the discounting factor @ 10% for 1 year to 0.909 and for 1.5 years to be 0.867.

Solution :

Paragraph 15 of Ind AS 105 states that an entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

Further, paragraph 17 of Ind AS 105 states that when the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in profit or loss as a financing cost.

Company X has identified a disposal group and is committed to sell the same. The sale is expected to be completed after a period of one year hence, it will measure the costs to sell such disposal group at present value as per paragraph 17 of Ind AS 105.

A. On 30th September, 20X1

The disposal group will be measured at fair value less costs to sell which will be as follows:

Fair value:	Rs. 400.00 crores	
PV of costs to sell:	(Rs. 8.67 crores)	(Rs. 10 crores x 0.867)
Total:	Rs. 391.33 crores	

B. On 31st March, 20X1

The disposal group will be measured at fair value less costs to sell which will be as follows:

Fair value:	Rs. 400.00 crores	
PV of costs to sell:	(Rs. 9.09 crores)	(10 x 0.909)
Total:	Rs. 390.91 crores	

The increase in costs to sell the division by Rs. 0.42 crore (Rs. 9.09 crores – Rs. 8.67 crores) will be recognised in profit and loss as financing cost in accordance with paragraph 17 of Ind AS 105.

Question 12 : Nov 2023 – Paper

The following details are available for Hydra Limited as at 31st March 2023:

Disposal Group	**Carrying Amount at the reporting data before classification as held for sale (Amount in Rs.)**	**Carrying amount as remeasured immediately before classification as held for sale (Amount in Rs.)**
Goodwill	7,50,000	7,50,000
Property, Plant and Equipment (carried at revalued amounts)	23,00,000	20,00,000
Building (carried at cost)	28,50,000	28,50,000
Investment in Equity Instruments	12,00,000	11,00,000
Inventory	9,00,000	7,50,000

Hydra Limited estimates that the fair value less costs to sell of the disposal group is Rs. 65,00,000. State, as per applicable Ind AS, how and at what amount of loss should Hydra Limited recognize 'disposal group' before classifying it as held for sale. Also compute the impairment loss if any, and how it should be allocated by Hydra Limited.

Solution :

Statement showing calculation of disposal group immediately before classifying it as held for sale

Disposal Group	Carrying Amount at the reporting data before classification as held for sale (Amount in Rs.)	Carrying amount as remeasured immediately before classification as held for sale (Amount in Rs.)
Goodwill	7,50,000	7,50,000
Property, Plant and Equipment (carried at revalued amounts)	23,00,000	20,00,000
Building (carried at cost)	28,50,000	28,50,000
Investment in Equity Instruments	12,00,000	11,00,000
Inventory	9,00,000	7,50,000
Total	80,00,000	74,50,000

The entity should recognise the loss of Rs. 5,50,000 (Rs. 80,00,000 – Rs. 74,50,000), in accordance with applicable Ind AS, immediately before classifying it as held for sale.

Computation and allocation of impairment loss

The entity estimated that fair value less costs to sell of the disposal group amounts to Rs. 65,00,000.

Since the entity has classified a disposal group as held for sale it should measure it at the lower of its carrying amount Rs. 74,50,000 and fair value less costs to sell Rs. 65,00,000 which comes to Rs. 65,00,000.

The entity should recognises an impairment loss of Rs. 9,50,000 (Rs. 74,50,000 – Rs. 65,00,000) when the disposal group is initially classified as held for sale.

The Inventory and Investment are remeasured as per Ind AS 2 and Ind AS 109 at not more than fair value at the date of remeasurement immediately classified as held for sale.

Therefore, this impairment loss of Rs. 9,50,000 is allocated to remaining assets in the proportion of their carrying value other than inventory and investment in equity instrument. Firstly, the impairment loss reduces the amount of goodwill in the disposal group. Then, the remaining impairment loss of Rs. 2,00,000 (Rs. 9,50,000 – Rs. 7,50,000) is used to other assets pro-rata based on the carrying amount of those assets as follows:

Table showing the allocation of impairment loss

Disposal Group	Carrying amount as remeasured immediately before classification as held for sale (as per applicable Ind AS) Rs.	Allocated Impairment Loss Rs.	Carrying amount after allocation of Impairment Loss Rs.
Goodwill	7,50,000	(7,50,000)	-

Property, Plant and Equipment (carried at revalued amounts)	20,00,000	(82,474)	19,17,526
Building (carried at cost)	28,50,000	(1,17,526)	27,32,474
Investment in Equity Instruments	11,00,000	-	11,00,000
Inventory	7,50,000	-	7,50,000
Total	74,50,000	(9,50,000)	65,00,000

Question 13 : May 2024 – Paper

Y Limited purchased a building for Rs. 30,00,000 on 1st April, 2021. The useful life of the building is estimated at 15 years. On 31st March, 2023, Y Limited classified the said building as held for sale. The impairment testing provides the estimated recoverable amount as Rs. 23,50,000.

The fair value less cost to sell on 31st March, 2023 was Rs. 23,00,000. On 31st March, 2024 the management of Y Limited changed the plan, as the building no longer met the criteria of held for sale. The recoverable amount as at 31st March, 2024 is Rs. 25,00,000.

You are required to recommend the accounting treatment of events for the year ending 31st March, 2023 and 31st March, 2024 and value the property at the end of 31st March, 2023 and 31st March, 2024.

Solution :

1. Value of property immediately before the classification as held for sale, as per Ind AS 16, as on 31st March, 2023

	Rs.
Purchase Price	30,00,000
Less: Accumulated Depreciation (for two years i.e. Rs. 2,00,000 per year)	(4,00,000)
	26,00,000
Less: Impairment loss (Rs. 26,00,000 – Rs. 23,50,000)	(2,50,000)
Carrying Amount	23,50,000

On initial classification as held for sale on 31st March, 2023, the value will be lower of:

Carrying amount after impairment	Rs. 23,50,000
Fair Value less Cost to sell	Rs. 23,00,000

On 31st March, 2023, non-current asset classified as held for sale will be recorded at Rs. 23,00,000.

Depreciation of Rs. 2,00,000 (for the year) and Impairment Loss of Rs. 3,00,000(Rs. 2,50,000 +Rs. 50,000) is charged in profit or loss for the year ended 31st March, 2023.

2. On 31st March, 2024, held for sale property is reclassified as criteria is not met. The value will be lower of:

Carrying amount immediately before classification on 31st March, 2023	Rs. 23,50,000

Less: Depreciation based on 13 years balance life	(Rs. 1,80,769)
Carrying amount had the asset is not classified as held for sale	Rs. 21,69,231

Recoverable Amount Rs. 25,00,000

Property will be valued at Rs. 21,69,231on 31st March, 2024.

Adjustment to the carrying amount of Rs. 1,30,769 (Rs. 23,00,000 – Rs. 21,69,231) is charged to the profit or loss.

Question 14 : Spet 2025 – RTP

A Ltd. has a wholly owned subsidiary B Ltd. A Ltd. sells subsidiary B Ltd. to C Ltd. a listed entity, for shares in C Ltd. and ends up owning 75% of C Ltd.'s shares.

The net assets of B Ltd. prior to the disposal are Rs. 10,00,000 (fair value Rs. 13,00,000) and goodwill previously capitalised and not impaired is Rs. 6,00,000; the carrying value of B Ltd. in A Ltd.'s books is Rs. 15,00,000.

At the date A Ltd. acquired B Ltd., B Ltd.'s profit and loss reserve was Rs. 400,000 and B has since made Rs. 100,000 post acquisition profits.

The position prior to the transaction was as follows: (Amount in Rs.)

Consolidation of A Ltd. and B Ltd. before transaction	**A Ltd.**	**B Ltd.**	**Elim**	**Consol**
Goodwill	-	-	6,00,000	6,00,000
Investment in subsidiary	15,00,000	-	(15,00,000)	-
Net assets	1,00,00,000	10,00,000	-	1,10,00,000
Total assets	**1,15,00,000**	**10,00,000**	**(9,00,000)**	**1,16,00,000**
Share capital	20,00,000	5,00,000	(5,00,000)	20,00,000
Retained earnings	95,00,000	1,00,000	-	96,00,000
Pre-acquisition reserves	-	4,00,000	(4,00,000)	-
Total equity	**1,15,00,000**	**10,00,000**	**(9,00,000)**	**1,16,00,000**

The net assets of C Ltd. prior to its acquisition of B Ltd. were Rs. 380,000 (fair value Rs. 500,000). C Ltd. then issued shares worth Rs. 17,50,000 (which is the fair value of the consideration given for the acquisition of 100% of B), being Rs. 600,000 nominal value and Rs. 11,50,000 premium.

The balance sheets of the three companies directly after the issue of shares by C Ltd. were as follows: (Amount in Rs.)

Summarized balance sheets	**A Ltd.**	**B Ltd.**	**C Ltd.**
Investment in subsidiary	1,750,000	-	1,750,000
Net assets	10,000,000	1000,000	380,000
	11,750,000	1000,000	2,130,000
Share capital	2000,000	500,000	800,000
Additional paid in capital	-	-	1,150,000
Retained earnings	9,750,000	500,000	180,000
Total equity	11,750,000	1,000,000	2,130,000

The parent A Ltd., had an interest in B Ltd. that cost Rs. 15,00,000 and has in effect swapped this for an interest in C Ltd.'s group. In its separate financial statements, A Ltd. states its investment in C Ltd. group at the fair value of the consideration given Rs. 17,50,000.

The non-controlling interest is determined with reference to the proportionate share of the acquired C Ltd.'s net identifiable assets.

Required:

(i) Compute gain or loss on effective disposal of B Ltd.

(ii) Compute goodwill on acquisition of C Ltd.

Note:

a. C Ltd. is not required to prepare consolidated financial statements.

b. Ignore the possibility that the transaction could be classified as a reverse acquisition of C Ltd. by B Ltd.

Solution :

Effective disposal of stake in B Ltd. [100%- (75% of 100%)] = 25% which will be considered as non-controlling interest in B Ltd.

With regard to A Ltd.'s consolidated financial statements, it is necessary to calculate the 'gain or loss' (on the disposal of 25% of B Ltd.) that is recognised in equity and the goodwill arising (on the acquisition of C Ltd.).

When control is retained, it should be noted that goodwill attributed to the portion sold remains unchanged and is allocated to the non-controlling interest. In addition, if control is retained, the gain or loss should be recognised in equity.

Gain or loss on disposal of 25% of B Ltd.	**Rs.**
Calculation of non-controlling interest B Ltd. in A's consolidated financial statement: Book value of assets and liabilities given up plus attributable goodwill [(Rs. 10,00,000 + Rs. 6,00,000) x 25%]	4,00,000
Less: Fair value of business received in consideration (W.N.1)	(4,37,500)
Gain on disposal recognized in equity	37,500

The net assets compared should include an appropriate portion of any cumulative exchange differences and any reserve on FVOCI debt investments previously recognised in other comprehensive income and accumulated in equity.

Goodwill on acquisition of 75% of C Ltd.	**Rs.**
Fair value of business given in consideration (Rs. 17,50,000 x 25%)	4,37,500
Non-controlling interest C Ltd. measured at the proportionate share of the acquired net-asset (Rs. 5,00,000 x 25%)	1,25,000
Less: Fair value of assets and liabilities acquired	5,62,500 (5,00,000)
Goodwill	62,500

The consolidated entry recognised is:

		Rs.	**Rs.**
Fair value of net identifiable assets -C Ltd.	Dr.	5,00,000	

Goodwill – C Ltd.	Dr.	62,500	
To Non-controlling interest B Ltd. (16,00,000 x 25%)			4,00,000
To Non-controlling interest – C Ltd. (500,000 x 25%)			1,25,000
To Equity			37,500

Consolidation of A Ltd., B Ltd. and C Ltd. after the transaction

(Amount in Rs.)

Consolidation of A Ltd., B Ltd. and C Ltd. after the transaction	A Ltd.	B Ltd.	C Ltd.	Elim	Consolidated
Goodwill (W.N.2)	-	-	-	6,62,500	6,62,500
Investment in subsidiary (W.N.3)	17,50,000	-	17,50,000	(35,00,000)	-
Net assets	1,00,00,000	10,00,000	3,80,000	1,20,000	1,15,00,000
	1,17,50,000	10,00,000	21,30,000	(27,17,500)	1,21,62,500
Equity share capital	20,00,000	5,00,000	8,00,000	(13,00,000)	20,00,000
Additional paid in capital	-	-	11,50,000	(11,50,000)	-
Retained earnings (W.N.4)	97,50,000	5,00,000	1,80,000	(7,92,500)	96,37,500
Non-controlling interest	-	-	-	5,25,000	5,25,000
Total equity	1,17,50,000	10,00,000	21,30,000	-27,17,500	1,21,62,500

Note:

C Ltd.'s net assets are adjusted to fair value for the purpose of the consolidation as A Ltd. has acquired 75% of C Ltd. and gained control of C Ltd.

Working Notes:

1. A Ltd. receives consideration (that is, shares in C Ltd.) with a fair value of Rs. 17,50,000. However, the amount included in the calculation is the amount attributable to the interest in B Ltd. that has been disposed of, that is 25% of Rs. 17,50,000 = Rs. 4,37,500.
   The fair value of the part of the subsidiary B that is effectively disposed of is derived from the price paid by C Ltd. for the whole of B Ltd. which is Rs. 17,50,000.
2. The goodwill balance of Rs. 6,62,500 represents the previous balance of the goodwill of Rs. 6,00,000 arising on the acquisition of B Ltd., plus the goodwill of Rs. 62,500 arising on the acquisition of C Ltd. The original goodwill arising on the acquisition of B Ltd. is retained and a portion (25%) is allocated to the non-controlling interest.
3. On consolidation the net assets of C Ltd. are increased from Rs. 3,80,000 to their fair value of Rs. 5,00,000.
4. **Computation of consolidated retained earnings**

	Rs.
Retained earnings of A Ltd. (excluding the investment revaluation gain of Rs. 2,50,000, which is reversed)	95,00,000
Add: Post-acquisition profits of B Ltd.	1,00,000
Add: Gain on disposal (recognised directly in equity)	37,500

	96,37,500

5. **Computation of non-controlling interest**

	Rs.
25% of C Ltd.'s fair value of net assets (Rs. 5,00,000 x 25%)	1,25,000
Add: 25% of B Ltd.'s net assets (including goodwill) (Rs. 16,00,000 x 25%)	4,00,000
	5,25,000

Thanks ....

IND AS – 23
BORROWING COST

CHAPTER - 8

Question 1 : May 2018 – RTP

An entity constructs a new head office building commencing on 1st September 20X1, which continues till 31st December 20X1. Directly attributable expenditure at the beginning of the month on this asset are Rs.100,000 in September 20X1 and Rs.250,000 in each of the months of October to December 20X1.

The entity has not taken any specific borrowings to finance the construction of the asset, but has incurred finance costs on its general borrowings during the construction period. During the year, the entity had issued 10% debentures with a face value of Rs.20 lacs and had an overdraft of Rs.500,000, which increased to Rs.750,000 in December 20X1. Interest was paid on the overdraft at 15% until 1 October 20X1, then the rate was increased to 16%.

Calculate the capitalization rate for computation of borrowing cost in accordance with IND AS 23 'Borrowing Costs'.

Solution :

1) Calculation of Capitalisation Rate

$$= \frac{2,79,583}{25,20,833} \times 100 = 11.09\%$$

Loan	Period	Wt	Rate	Interest
20,00,000	12m	2,00,000	10%	2,00,000
5,00,000	9m	3,75,000	15%	56,250
5,00,000	2m	83,333	16%	13,333
7,50,000	1m	62,500	16%	10,000
		25,20,833		2,79,583

2) Amount utilised for Asset

Amount	Period	Wt
1,00,000	4m	33,333
2,50,000	3m	62,500
2,50,000	2m	41,667
2,50,000	1m	20,833
		1,58,333

3) Borrowing cost to be capitalised

= 1,58,333 × 11.09% = 17,559

Question 2 : Nov 2018 – RTP

K Ltd. began construction of a new building at an estimated cost of Rs.7 lakh on 1st April, 2017. To finance construction of the building it obtained a specific loan of Rs.2 lakh from a financial institution at an interest rate of 9% per annum.

The company's other outstanding loans were:

Amount	Rate of Interest per annum
Rs.7,00,000	12%
Rs.9,00,000	11%

The expenditure incurred on the construction was:

April, 2017	Rs.1,50,000
August, 2017	Rs.2,00,000
October, 2017	Rs.3,50,000
January, 2018	Rs.1,00,000

The construction of building was completed by 31st January, 2018. Following the provisions of Ind AS 23 'Borrowing Costs', calculate the amount of interest to be capitalized and pass necessary journal entry for capitalizing the cost and borrowing cost in respect of the building as on 31st January, 2018.

Solution :

(i) Calculation of capitalization rate on borrowings other than specific borrowings

Amount of loan (Rs.)	Rate of interest		Amount of interest (Rs.)
7,00,000	12%	=	84,000
9,00,000	11%	=	99,000
16,00,000		=	1,83,000
Weighted average rate of interest (1,83,000/16,00,000) x 100			11.4375%

(ii) Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses

Date of incurrence of expenditure	Amount spent	Financed through	Calculation	Rs.
1st April, 2017	1,50,000	Specific borrowing	1,50,000 x 9% x 10/12	11,250
1st August, 2017	2,00,000	Specific borrowing	50,000 x 9% x 10/12	3,750
		General borrowing	1,50,000 x 11.4375% x 6/12	8,578.125
1st October, 2017	3,50,000	General borrowing	3,50,000 x 11.4375% x 4/12	13,343.75
1st January, 2018	1,00,000	General borrowing	1,00,000 x 11.4375% x 1/12	953.125
				37,875

Note : Since construction of building started on 1st April, 2017, it is presumed that all the later expenditures on construction of building had been incurred at the beginning of the respective month.

(iii) Total expenses to be capitalized for building

	Rs.
Cost of building Rs.(1,50,000 + 2,00,000 + 3,50,000 + 1,00,000)	8,00,000
Add : Amount of interest to be capitalized	37,875
	8,37,875

(iv) Journal Entry

Date	Particulars		Rs.	Rs.
31.1.2018	Building account	Dr.	8,37,875	
	To Bank account			8,00,0000
	To Interest payable (borrowing cost)			37,875
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

Note : In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.2018.

Alternatively, following journal entry may be passed if interest is paid on the date of capitalization:

Date	Particulars		Rs.	Rs.
31.1.2018	Building account	Dr.	8,37,875	
	To Bank account			8,37,875
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

Question 3 : Nov 2019 – RTP

On 1st April, 20X1, entity A contracted for the construction of a building for Rs.22,00,000. The land under the building is regarded as a separate asset and is not part of the qualifying assets. The building was completed at the end of March, 20X2, and during the period the following were made to the contractor.

Payment date	Amount (Rs.'000)
1st April, 20X1	200
30th June, 20X1	600
31st December, 20X1	1,200
31st March, 20X2	200
Total	**2,200**

Entity A's borrowings at its year end of 31st March, 20X2 were as follows:

a. 10%, 4-year note with simple interest payable annually, which relates specifically to the project; debt outstanding on 31st March, 20X2 amounted to Rs.7,00,000. Interest of Rs.65,000 was incurred on these borrowings during the year, and interest income of Rs. 20,000 was earned on these funds while they were held in anticipation of payments.

b. 12.5% 10-year note with simple interest payable annually; debt outstanding at 1st April, 20X1 amounted to Rs.1,000,000 and remained unchanged during the year; and

c. 10% 10-year note with simple interest payable annually; debt outstanding at 1st April, 20X1 amounted to Rs.1,500,000 and remained unchanged during the year.

What amount of the borrowing costs can be capitalized at year end as per relevant Ind AS?

Solution :

As per Ind AS 23, when an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity should determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

The amount of borrowing costs eligible for capitalization, in cases where the funds are borrowed generally, should be determined based on the expenditure incurred in obtaining a qualifying asset. The costs incurred should first be allocated to the specific borrowings.

Analysis of expenditure:

Date	Expenditure (Rs.'000)	Amount allocated in general borrowings (Rs.'000)	Weighted for period outstanding (Rs.'000)	
1st April 20X1	200	0		0
30th June 20X1	600	100*	100 × 9/12 =	75
31st Dec 20X1	1,200	1,200	1,200 × 3/12 =	300
31st March 20X2	200	200	200 × 0/12 =	0
Total	2,200			375

*Specific borrowings of Rs.7,00,000 fully utilized on 1st April & on 30th June to the extent of Rs.5,00,000 hence remaining expenditure of Rs.1,00,000 allocated to general borrowings.

The expenditure rate relating to general borrowings should be the weighted average of the borrowing costs applicable to the entity's borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Capitalisation rate = $\frac{(10,00,000 \times 12.5\%) + (15,00,000 \times 10\%)}{10,00,000 + 15,00,000}$ = 11%

Borrowing cost to be capitalized:	Amount (Rs.)
On specific loan	65,000
On General borrowing (3,75,000 × 11%)	41,250
Total	1,06,250
Less interest income on specific borrowings	(20,000)
Amount eligible for capitalization	86,250
Therefore, the borrowing costs to be capitalized are Rs.86,250.	

Question 4 : Nov 2019 – PAPER

An entity constructs a new office building commencing on 1st September, 2018, which continues till 31st December, 2018 (and is expected to go beyond a year). Directly attributable expenditure at the beginning of the month on this asset are Rs.2 Lakhs in September 2018 and Rs.4 Lakhs in each of the months of October to December 2018.

The entity has not taken any specific borrowings to finance the construction of the building but has incurred finance costs on its general borrowings during the construction period. During the year, the entity had issued 9% debentures with a face value of Rs.30 Lakhs and had an overdraft of Rs.4 Lakhs, which increased to Rs.8 Lakhs in December 2018. Interest was paid on the overdraft at 12% until 1st October, 2018 and then the rate was increased to 15%.

Calculate the Capitalization rate for computation of borrowing cost in accordance with Ind AS 'Borrowing Cost'.

Solution :

1) Calculation of Capitalisation Rate

Loan	Period	Wt	Rate	Interest
30,00,000	12m	30,00,000	9%	2,70,000
4,00,000	9m	3,00,000	12%	36,000
4,00,000	2m	66,667	15%	10,000
8,00,000	1m	66,667	15%	10,000
		34,33,333		3,26,000

$$CR = \frac{3,26,000}{34,33,000} \times 100 = 9.495\%$$

2) Amount utilised for Asset

Amount	Period	Wt
2,00,000	4m	66,667
4,00,000	3m	1,00,000
4,00,000	2m	66,667
4,00,000	1m	33,333
		2,66,667

3) Borrowing cost to be capitalized

= 2,66,667 × 9.495%

= 25,200

Question 5 : May 2021 – RTP

How will you capitalise the interest when qualifying assets are funded by borrowings in the nature of bonds that are issued at discount?

Y Ltd. issued at the start of year 1, 10% (interest paid annually and having maturity period of 4 years) bonds with a face value of Rs. 2,00,000 at a discount of 10% to finance a qualifying asset which is ready for intended use at the end of year 2.
Compute the amount of borrowing costs to be capitalized if the company amortizes discount using Effective Interest Rate method by applying 13.39% p.a. of EIR.

Solution :

As per the Standard, borrowing costs may include interest expense calculated using the effective interest method. Further, capitalisation of borrowing cost should cease where substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Thus, only that portion of the amortized discount should be capitalised as part of the cost of a qualifying asset which relates to the period during which acquisition, construction or production of the asset takes place.

Capitalisation of Interest

Hence based on the above explanation the amount of borrowing cost of year 1 & 2 are to be capitalised and the borrowing cost relating to year 3 & 4 should be expensed.

Quantum of Borrowing

The value of the bond to Y Ltd. is the transaction price ie ` 1,80,000 (2,00,000 – 20,000)
Therefore, Y Ltd will recognize the borrowing at ` 1,80,000.

Computation of the amount of Borrowing Cost to be Capitalised

Y Ltd will capitalise the interest (borrowing cost) using the effective interest rate of 13.39% for two years as the qualifying asset is ready for intended use at the end of the year 2, the details of which are as follows:

Year	Opening Borrowing	Interest expense @ 13.39% to be capitalised	Total	Interest paid	Closing Borrowing
	(1)	(2)	(3)	(4)	(5) = (3) - (4)
1	1,80,000	24,102	2,04,102	20,000	1,84,102
2	1,84,102	24,651	2,08,753	20,000	1,88,753
		48,753			

Accordingly, borrowing cost of Rs.48,753 will be capitalized to the cost of qualifying asset.

Question 6 : Nov 2021 – RTP

Nikka Limited has obtained a term loan of Rs. 620 lacs for a complete renovation and modernisation of its Factory on 1st April, 20X1. Plant and Machinery was acquired under the modernisation scheme and installation was completed on 30th April, 20X2. An expenditure of Rs. 510 lacs was incurred on installation of Plant and Machinery, Rs. 54 lacs has been advanced to suppliers for additional assets (acquired on 25th April, 20X1) which were also installed on 30th April, 20X2 and the balance loan of Rs. 56 lacs has been used for working capital purposes. Management of Nikka Limited considers the 12 months period as substantial period of time to get the asset ready for its intended use.

The company has paid total interest of Rs. 68.20 lacs during financial year 20X1-20X2 on the above loan. The accountant seeks your advice how to account for the interest paid in the books of accounts. Will your answer be different, if the whole process of renovation and modernization gets completed by 28th February, 20X2?

Solution :

As per Ind AS 23, Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

Where, a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Accordingly, the treatment of Interest of Rs. 68.20 lacs occurred during the year 20X1-20X2 would be as follows:

(i) When construction of asset completed on 30th April, 20X2

The treatment for total borrowing cost of Rs. 68.20 lakh will be as follows:

Purpose	**Nature**	**Interest to be capitalised**	**Interest to be charged to profit and loss account**
		Rs. in lakh	**Rs. in lakh**
Modernisation and renovation of plant and machinery	Qualifying asset	[68.20 x (510/620)] = 56.10	
Advance to suppliers for additional assets	Qualifying asset	[68.20 x (54/620)] = 5.94	
Working Capital	Not a qualifying asset		[68.20 x (56/620)] = 6.16
		62.04	**6.16**

(ii) When construction of assets is completed by 28th February, 20X2

When the process of renovation gets completed in less than 12 months, the plant and machinery and the additional assets will not be considered as qualifying assets (until and unless the entity specifically considers that the assets took substantial period of time for completing their construction). Accordingly, the whole of interest will be required to be charged off / expensed off to Profit and loss account.

Question 7 : May 2022 – RTP

X Ltd. commenced the construction of a plant (qualifying asset) on 1st September, 20X1, estimated to cost Rs. 10 crores. For this purpose, X has not raised any specific borrowings, rather it intends to use general borrowings, which have a weighted average cost of 11%. Total borrowing costs incurred during the period, viz., 1st September, 20X1 to 31st March, 20X2 were Rs. 0.5 crore. The other relevant details are as follows:

(Rs. in crore)

Month	Cost of construction Accrued	Cash outflows (paid in advance at the start of each month)
September	1.50	3
October	0.50	1.7
November	1.50	2.5
December	0.50	-
January	1.80	1
February	0.70	-
March	3.00	1.5

Based on the above information, discuss the treatment of borrowing cost as per cash outflow basis and accrual basis and also suggest the appropriate amount of interest that should be capitalised to the cost of the plant in the financial statements for the year ended 31st March, 20X2?

Solution :

Paragraph 14 of Ind AS 23, inter-alia, states that to the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. However, an entity shall exclude from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

In this context, a question arises whether such expenditure should be based on costs accrued or actual cash outflows. To contrast these two alternatives, presented below is the computation of borrowing costs based on both the alternatives:

Month	Cost of construction Accrued	Average capital expenditure	Cash outflows (paid in advance at the start of each month)	Average capital expenditure
September	1.50	1.50 x 7/12 = 0.875	3.00	3.00 x 7/12 = 1.75
October	0.50	0.50 x 6/12 = 0.25	1.70	1.70 x 6/12 = 0.85
November	1.50	1.50 x 5/12 = 0.625	2.50	2.50 x 5/12 = 1.04
December	0.50	0.50 x 4/12 = 0.17	-	-
January	1.80	1.80 x 3/12 = 0.45	1.00	1 x 3/12 = 0.25
February	0.70	0.70 x 2/12 = 0.12	-	-
March	3.00	3.00 x 1/12 = 0.25	1.50	1.50 x 1/12 = 0.125
	9.50	**2.74**	**9.70**	**4.02**

If the average capital expenditure on the basis of costs accrued is taken, the borrowing costs eligible to be capitalised would be Rs. 2.74 crore x 11% = 0.30 crore. Whereas, if average capital expenditure on the basis of cash flows is taken, the borrowing costs eligible to be capitalised would be Rs. 4.02 crore x 11% = 0.44 crore. Thus, there is a wide variance in the amount of borrowing cost to be capitalised, based on the accrual basis and on actual cash flows basis. This divergence is often experienced during the implementation of large projects, for example, an advance given to a supplier involves an upfront cash outflow while the actual expenditure accrues in later periods (with the receipt of goods and services).

As per paragraph 18 of Ind AS 23, expenditures on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. Expenditures are reduced by any progress payments received and grants received in connection with the asset (see Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance). The average carrying amount of the asset during a period, including borrowing costs previously capitalised, is normally a reasonable approximation of the expenditures to which the capitalization rate is applied in that period.

Where cash has been paid but the corresponding cost has not yet accrued interest becomes payable on payment of cash. Therefore, the amount so paid should be considered for determining the amount of interest eligible for capitalisation, subject to the fulfillment of other conditions prescribed in paragraph 16 of Ind AS 23. Accordingly, in the present case, interest should be computed on the basis of the cash flows rather than on the basis of costs accrued. Therefore, the amount of interest eligible for capitalisation would be Rs. 0.44 crore.

Another important factor to be noted is that paragraph 14 requires, inter alia, that the amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period. Thus, the amount of borrowing costs to be capitalised should not exceed the total borrowing costs incurred during the period, that is Rs. 0.5 crore.

Question 8 : May 2022 – Paper

Zera Limited obtained a term loan of Rs.1,080 lakhs for complete renovation and modernization of its factor on 1st April, 2021. Plant and Machinery was acquired under the modernization scheme and installation was completed on 30th April, 2022. An expenditure of Rs.910 lacs was incurred on installation of Plant and Machinery and the balance loan was used for working capital purpose. Management of Zera Limited considers the 12 months period as substantial period of time to get the asset ready for its intended use.

The company has paid total interest of Rs.94.40 lacs during financial year 2021-2022 on the above loan.

Discuss the treatment in the books of account of Zera Limited of interest paid of Rs.94.40 lakhs during the financial year 2021-22.

Will your answer be different, if the whole process of renovation and modernization gets completed by 31st December, 2021?

Solution :

Treatment procedure :

As per Ind AS 23, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

Where, a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Applicability to the given case:

Accordingly, the treatment of interest of Rs. 94.40 lakh occurred during the year 2021-2022 would be as follows:

(i) When construction of asset completed on 30th April, 2022

The treatment for total borrowing cost of Rs. 94.40 lakh will be as follows:

Purpose	Nature	Interest to be capitalised Rs. in lakh	Interest to be charged to profit and loss account Rs. in lakh
Modernisation and renovation of plant and machinery	Qualifying asset	[94.40 x (910/1,080)] = 79.54	
Working Capital	Not a qualifying asset		[94.40 x (170/1,080)] = 14.86
		79.54	14.86

(ii) When construction of assets is completed by 31st December, 2021

When the process of renovation gets completed in less than 12 months, the plant and machinery will not be considered as a qualifying asset until and unless the entity specifically considers that the asset took substantial period for completing its construction. Accordingly, the whole of interest will be charged off to Profit and Loss account.

Question 9 : Nov 2022 – RTP

Harish Construction Company is constructing a huge building project consisting of four phases. It is expected that the full building will be constructed over several years but Phase I and Phase II of the building will be operational as soon as they are completed.

Following is the detail of the work done on different phases of the building during the current year:

(Rs. in lakh)

	Phase I Rs.	Phase II Rs.	Phase III Rs.	Phase IV Rs.
Cash expenditure	10	30	25	30
Building purchased	24	34	30	38
Total expenditure	34	64	55	68
Total expenditure of all phases				221

Loan taken @ 15% at the beginning of the year				200

After taking substantial period of construction, at the mid of the current year, Phase I and Phase II have become operational. Find out the total amount to be capitalized and to be expensed during the year.

Solution :

	Particulars	Rs.
1	Interest expense on loan Rs. 2,00,00,000 at 15%	30,00,000
2	Total cost of Phases I and II (Rs. 34,00,000 +64,00,000)	98,00,000
3	Total cost of Phases III and IV (Rs. 55,00,000 + Rs. 68,00,000)	1,23,00,000
4	Total cost of all 4 phases	2,21,00,000
5	Total loan	2,00,00,000
6	Interest on loan used for Phases I & II, based on proportionate Loan amount = $\frac{30,00,000}{2,21,00,000} \times 98,00,000$	13,30,317 (approx.)
7	Interest on loan used for Phases III & IV, based on proportionate Loan amount = $\frac{30,00,000}{2,21,00,000} \times 1,23,00,000$	16,69,683 (approx.)

Accounting treatment:

1. **For Phase I and Phase II**
   Since Phase I and Phase II have become operational at mid of the year, half of the interest amount of Rs. 6,65,158.50 (i.e. Rs. 13,30,317/2) relating to Phase I and Phase II should be capitalized (in the ratio of asset costs 34:64) and added to respective assets in Phase I and Phase II and remaining half of the interest amount of Rs. 6,65,158.50 (i.e. Rs. 13,30,317/2) relating to Phase I and Phase II should be expensed off during the year.
2. **For Phase III and Phase IV**
   Interest of Rs. 16,69,683 relating to Phase III and Phase IV should be held in Capital Work-in-Progress till assets construction work is completed, and thereafter capitalized in the ratio of cost of assets. No part of this interest amount should be charged/expensed off during the year since the work on these phases has not been completed yet.

Question 10 : May 2023 – RTP

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

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

On 1st July 20X1, LT Ltd. issued 10% Redeemable Debentures of Rs. 50 crores. The proceeds from the debentures form part of the company's general borrowings, which it uses to finance the construction of the qualifying asset, ie, the building. LT Ltd. had no borrowings (general or specific) before 1st July 20X1 and did not incur any borrowing costs before that date. LT Ltd. incurred Rs. 25 crores of construction costs before obtaining general borrowings on 1st July 20X1 (pre-borrowing expenditure) and Rs. 25 crores after obtaining the general borrowings (post-borrowing expenditure).
For each of the financial years ended 31st March 20X1, 20X2 and 20X3, calculate the borrowing cost that LT Ltd. is permitted to capitalize as a part of the building cost

Solution :

Applying paragraph 17 of Ind AS 23 to the fact pattern, the entity would not begin capitalising borrowing costs until it incurs borrowing costs (i.e. from 1st July, 20X1)
In determining the expenditures on a qualifying asset to which an entity applies the capitalisation rate (paragraph 14 of Ind AS 23), the entity does not disregard expenditures on the qualifying asset incurred before the entity obtains the general borrowings. Once the entity incurs borrowing costs and therefore satisfies all three conditions in para 17 of Ind AS 23, it then applies paragraph 14 of Ind AS 23 to determine the expenditures on the qualifying asset to which it applies the capitalisation rate.

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

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

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

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

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

Borrowing Costs eligible for capitalisation = 18.75 cr. x 10% = Rs. 1.875 cr.
*LT Ltd. cannot capitalise borrowing costs before 1st July, 20X1 (the day it starts to incur borrowing costs). Accordingly, this calculation uses a capitalization period from1st July, 20X1 to 31st March, 20X2 for this expenditure.

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

Expenditure	Capitalization Period (current year)	Weighted average Accumulated Expenditure

Date	Amount		
1st January 20X1	Rs. 5 crore	3/12	Rs. 1.25 crore
30th June, 20X1	Rs. 20 crore	3/12	Rs. 5 crore
31st March, 20X2	Rs. 20 crore	3/12	Rs. 5 crore
31st March, 20X2	Rs. 1.875crore	3/12	Rs. 0.47 crore
30th June, 20X2	Rs. 5 crore	0/12	Nil
			Rs. 11.72 crore

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

Question 11 : May 2024 – RTP

PQR Limited is engaged in Tourism business in India. The company has planned to construct a Holiday Resort (Qualifying Asset) at Shimla. The cost of the project has been met out of borrowed funds of Rs. 100 lakhs at the rate of 12% p.a. Rs. 40 lakhs were disbursed on 1st April 20X2 and the balance of Rs. 60 lakhs were disbursed on 1st June 20X2. The site planning work commenced on 1st June 20X2, since the Chief engineer of the project was on medical leave. The company commenced physical construction on 1st July 20X2 and the work of construction continued till 30th September 20X2 and thereafter the construction activities stopped due to landslide on the road which leads to construction site. The road blockages have been cleared by the government machinery by 31st December 20X2. Construction activities have resumed on 1st January 20X3 and has completed on 28th February 20X3.

The date of opening has been scheduled for 1st March 20X3, but unfortunately, the District Administration gave permission for opening on 16th March 20X3, due to lack of safety measures like fire extinguishers which had not been installed by then.

Determine the amount of borrowing cost to be capitalized towards construction of the resort when

(i) Landslide is not common in Shimla and delay in approval from District Administration Office is minor administrative work leftover.

(ii) Landslide is common in Shimla and delay in approval from District Administration Office is major administrative work leftover.

Solution :

As per Ind AS 23 'Borrowing Costs', the commencement date for capitalisation of borrowing cost on qualifying asset is the date when the entity first meets all of the following conditions:

(a) it incurs expenditures for the asset;

(b) it incurs borrowing costs; and

(c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Further, an entity also does not suspend capitalising borrowing costs when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalisation continues during the extended period that high water levels delay construction of a bridge, if such high-water levels are common during the construction period in the geographical region involved.

An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Further, paragraph 23 explains that an asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that are outstanding, this indicates that substantially all the activities are complete.

In the given case since the site planning work started for the project on 1st June, 20X2, the commencement of capitalisation of borrowing cost will begin from 1st June, 20X2.

(i) When landslide is not common in Shimla and delay in approval from District Administration Office is minor administrative work leftover

In such a situation, suspension of capitalisation of borrowing cost on construction work will be considered for 3 months i.e. from October, 20X2 to December, 20X2 and cessation of capitalisation of borrowing cost shall stop at the time of completion of physical activities.

Accordingly, the borrowing cost to be capitalized will be effectively for 6 months i.e. from 1st June, 20X2 to 30th September, 20X2 and then from 1st January, 20X3 to 28th February, 20X3 i.e. total 6 months. The amount of borrowing cost will be Rs. 6,00,000 (1,00,00,000 x 6/12 x 12%).

(ii) When landslide is common in Shimla and delay in approval from District Administration Office is major administrative work leftover

Since landslides are common in Shimla during monsoon period, there shall be no suspension of capitalisation of borrowing cost during that period.

Further, an asset can be considered to be ready for its intended use only on receipt of approvals and after compliance with regulatory requirements such as "Fire Clearances" etc. These are very important to declare the asset as ready for its scheduled operation.

In the given case, obtaining the safety approval is a necessary condition that needs to be complied with strictly and before obtaining the same the entity will not be able to use the building. Accordingly, it is appropriate to continue capitalisation until the said approvals are obtained.

Hence, the capitalisation of the borrowing cost will be for 9.5 months i.e. from 1st June, 20X2 till 15th March, 20X3. The amount of borrowing cost will be Rs. 9,50,000 (1,00,00,000 x 9.5/12 x 12%).

Question 12 : Nov 2024 – RTP

X Ltd. commenced the construction of a plant (qualifying asset) on 1st September, 20X1, estimated to cost Rs. 10 crores. For this purpose, X Ltd. has not raised any specific borrowings, rather it intends to use general borrowings, which have a weighted average cost of 11%. Total borrowing costs incurred during the period, viz., 1st September, 20X1 to 31st March, 20X2 were Rs. 0.5 crore.

The other relevant details are as follows:

Month	Cost of construction accrued	Cash outflows (paid in advance at the start of each month)
September	1.50	3.00
October	0.50	1.70
November	1.50	2.50
December	0.50	—
January	1.80	1.00
February	0.70	—
March	3.00	1.50

What is the amount of interest that should be capitalised to the cost of the plant in the financial statements for the year ended 31st March, 20X2?

Solution :

Paragraph 14 of Ind AS 23, inter-alia, states that to the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. However, an entity shall exclude from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

In this context, a question arises whether such expenditure should be based on costs accrued or actual cash outflows. To contrast these two alternatives, presented below is the computation of borrowing costs based on both the alternatives:

Month	Costs accrued	Average capital expenditure	Cash outflows	Average capital expenditure
September	1.50	1.50x7/12 = 0.875	3.00	3.00x7/12=1.75
October	0.50	0.50x6/12 = 0.25	1.70	1.70x6/ 12 = 0.85
November	1.50	1.50x5/12 = 0.625	2.50	2.50x5/12 = 1.04
December	0.50	0.50x4/12 = 0.17	-	-
January	1.80	1.80x3/12 = 0.45	1.00	1x3/12 = 0.25
February	0.70	0.70x2/12 = 0.12	-	-
March	3.00	3.00x1/12 = 0.25	1.50	1.50x1/12 = 0.13
	9.50	2.74	9.70	4.02

If the average capital expenditure on the basis of costs accrued is taken, the borrowing costs eligible to be capitalised would be Rs. 2.74 crore x 11% = 0.30 crore. Whereas if average capital expenditure on the basis of cash flows is taken, the borrowing costs eligible to be capitalised would be Rs. 4.02 crore x 11% = 0.44 crore. Thus, there is a wide variance in the amount of borrowing cost to be capitalised, based on the accrual basis and on actual cash flows basis.

In this regard, paragraph 18 of Ind AS 23 states that expenditures on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. Expenditures are reduced by any progress payments received and grants received in connection with the asset (see Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance). The average carrying amount of the asset
during a period, including borrowing costs previously capitalised, is normally a reasonable approximation of the expenditures to which the capitalisation rate is applied in that period.
Where cash has been paid but the corresponding cost has not yet accrued interest becomes payable on payment of cash. Therefore, the amount so paid should be considered for determining the amount of interest eligible for capitalisation, subject to the fulfillment of other conditions prescribed in paragraph 16 of Ind AS 23. Accordingly, in the present case, interest should be computed on the basis of the cash flows rather than on the basis of costs accrued. Therefore, the amount of interest eligible for capitalisation would be Rs. 0.44 crore.
Another important factor to be noted is that paragraph 14 requires, inter alia, that the amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.
Thus, the amount of borrowing costs to be capitalised should not exceed the total borrowing costs incurred during the period, that is Rs. 0.5 crore.

Question 13 : Sept 2025 – Paper

R Limited commenced the construction of a factory building on 1st January, 2023. The construction process is expected to take about 18 months from 1st January, 2023 to 30th June, 2024. The factory building meets the definition of a qualifying asset. R Limited has incurred the following expenditure for the construction:

Date	Amount (Rs. in lakhs)
1st January, 2023	10
30th June, 2023	40
31st March, 2024	30
30th June, 2024	20

On 1st July, 2023, R Limited obtained a term loan of Rs. 100 lakhs from a nationalized bank at an interest rate of 12% per annum. The proceeds from the loan form a part of the company's general borrowings, which it uses to finance the construction of the factory building. R Limited had no borrowings (general or specific) before 1st July, 2023 and did not incur any borrowing costs before that date. R Limited incurred Rs. 50 lakhs of construction costs before obtaining general borrowings on 1st July, 2023 and Rs. 50 lakhs after obtaining the general borrowings.
You are required to calculate the borrowing costs that R Limited is permitted to capitalize as a part of the building cost for each of the financial years ended 31st March, 2023, 31st March, 2024 and 31st March, 2025.

Solution :

All figures are Rs. **in lakhs.**

Calculation of borrowing cost for financial year 2022-2023

Expenditure		**Capitalization Period (current year)**	**Weighted average Accumulated Expenditure**
Date	Amount		
1st January 2023	Rs. 10 Lakhs	0/3	Nil

Borrowing Costs eligible for capitalisation for financial year 2022-2023 = NIL. R Ltd. cannot capitalise borrowing costs before 1st July 2023 (the day it starts to incur borrowing costs).

Calculation of borrowing cost for financial year 2023-2024

Date	**Expenditure amount**	**Capitalization period (current year)**	**Weighted average accumulated expenditure**
1st January 2023	Rs. 10 Lakhs	9/12	7.50
30th June 2023	Rs. 40 Lakhs	9/12	30.00
31st March 2024	Rs. 30 Lakhs	0/12	Nil
Total			**37.50**

Borrowing Costs eligible for capitalisation for financial year 2023-2024
= 37.50 x 12% = Rs. 4.50 Lakh
Cost of the Qualifying asset till date i.e. 31st March 2024
= Rs. 10 Lakhs + Rs. 40 Lakhs + Rs. 30 Lakhs + Rs. 4.50 Lakhs = Rs. 84.50 Lakhs

Calculation of borrowing cost for financial year 2024-2025

Expenditure		**Capitalization Period (current year)**	**Weighted average Accumulated Expenditure**
Date	**Amount**		
1st January, 2023	Rs. 10 Lakhs	3/12	Rs. 2.5 Lakhs
30th June, 2023	Rs. 40 Lakhs	3/12	Rs. 10 Lakhs
31st March, 2024	Rs. 30 Lakhs	3/12	Rs. 7.5 Lakhs
31st March, 2024	Rs. 4.50 Lakhs	3/12	1.125 Lakhs
30th June, 2024	Rs. 20 Lakhs	0/12	NIL
Total			**Rs. 21.125 Lakhs**

Borrowing costs eligible for capitalisation = Rs. 21.125 lakh x 12%
= Rs. 2.535 lakh

Note:

Alternatively, one may present the calculation of borrowing cost to be capitalised for the financial year 2024-2025 as follows:
Cost as on 1st April 2024 = [(Rs. 84.50 Lakhs x 3/12) + (Rs. 20 Lakhs x 0/12)]
= 21.125 Lakhs

Question 14 : Jan 2026 – RTP

An entity has borrowed Rs. 10,00,000 specifically to finance the cost of constructing a new head office. The loan was availed on 1st May 20X8. Interest was payable at 12% per annum up to 1st February 20X9, after which the rate was revised to 13% owing to an increase in the Secured Overnight Financing Rate (SOFR). Construction of the building does not begin until 1st December 20X8 and continues, without interruption, until after the year end on 31st March 20X9. During the period of construction, the entity incurs directly attributable costs of Rs. 1,00,000 in December 20X8 and Rs. 250,000 in each month from January 20X9 to March 20X9 (for simplicity, it is assumed that these costs are incurred on the first day of each month). Each month, the borrowings (less any amount that is to be expended for the building works in that month) are re-invested and earn interest at a rate of 5% per annum.

For the year ended 31st March, 20X9, the entity incurred interest expense of Rs. 1,11,667 on the Rs. 10,00,000 loan and earned Rs. 37,917 as interest on the re-invested portion.

Required:

Determine the amount of borrowing cost to be capitalized to the qualifying asset for the year ended 31st March, 20X9.

Solution :

Statement showing the interest paid and received during the period of construction

	Rs.
Interest payable for December 20X8 at 12% (10,00,000 x 12% x 1/12)	10,000
Interest payable for January 20X9 at 12% (10,00,000 x 12% x 1/12)	10,000
Interest for February 20X9 at 13% (10,00,000 x 13% x 1/12)	10,833
Interest payable for March 20X9 at 13% (10,00,000 x 13% x 1/12)	10,834
Total interest payable during the construction period till March 20X9 (A)	41,667
Interest receivable on re-invested funds of Rs. 9,00,000 in September 20X9 [(10,00,000 – 1,00,000) x 5% x 1/12]	3,750
Interest receivable on re-invested funds of Rs. 6,50,000 in October 20X9 [(9,00,000 – 2,50,000) x 5% x 1/12]	2,708
Interest receivable on re-invested funds of Rs. 4,00,000 in November 20X9 [(6,50,000 – 2,50,000) x 5% x 1/12]	1,667
Interest receivable on re-invested funds of Rs. 1,50,000 in December 20X9 [(4,00,000 – 2,50,000) x 5% x 1/12]	625
Total interest receivable till March, 20X9 (B)	8,750
Net interest cost (A) - (B)	32,917

The borrowing is specific to the qualifying asset and the borrowing costs eligible for captialisation are the actual cost incurred during the construction period less any investment income on the temporary investment of the borrowings. The amount of borrowing costs that can be capitalised is Rs. 32,917.

Commencement of capitalization of borrowing costs will be said from the period when all the three criteria as mentioned in para 17 of Ind AS 23 are met. Although the funds were drawn down under the borrowings on 1st May 20X8, the construction started from 1st December, 20X8.

Hence, the borrowing costs incurred prior to 1st December, 20X8 cannot be said to be directly attributable to the asset's construction, as no expenditure on the asset is being incurred.

Thanks ....

IND AS – 36
IMPAIRMENT OF ASSETS

CHAPTER - 9

Question 1 : May 2018 – RTP

Himalaya Ltd. which is in a business of manufacturing and export of its product. Sometimes, back in 20X4, the Government put restriction on export of goods exported by Himalaya Ltd. and due to that restriction Himalaya Ltd. impaired its assets. Himalaya Ltd. acquired identifiable assets worth of Rs.4,000 lakhs for Rs.6,000 lakh at the end of the year 20X0. The difference is treated as goodwill. The useful life of identifiable assets is 15 years and depreciated on straight line basis. When Government put the restriction at the end of 20X4, the company recognised the impairment loss by determining the recoverable amount of assets for Rs.2,720 lakh. In 20X6 Government lifted the restriction imposed on the export and due to this favourable change, Himalaya Ltd. re-estimate recoverable amount, which was estimated at Rs.3,420 lakh.

Required:

(i) Calculation and allocation of impairment loss in 20X4.

(ii) Reversal of impairment loss and its allocation as per Ind AS 36 in 20X6

Solution :

1. (i) Calculation and allocation of impairment loss in 20X4

(Amount in Rs.lakhs)

	Asset	**Goodwill**	**Total**
20X0	4,000	2,000	6,000
–Dep. (4 yrs.)	1,067	–	1,067
20X4 – Carrying amount	2,933	2,000	4,933
Recoverable Amt.			2,720
Impairment Loss	213	2,000	2,213
Carrying amount after impairment	2,720	–	2,720

Note: As per Ind AS 36 impairment loss should be first charged to goodwill.

(ii) Reversal of impairment at end of 2006

(a) Carrying amount asset before Reversal :

	Asset
20X4	2,720
–Dep.(2 yrs.)	495
Carrying before Reversal	2,225

(b)

Carrying amount before Reversal	2,225
+ Reversal	175
Carrying amount after Reversal	2,400

Note : As per Ind AS 36 carrying amount after reversal should be lower of :

(a) Recoverable amount 3,420

(b) Carrying after depreciation without impairment

= 4,000 – Depreciation for 6 yrs. (15 yrs. of life)

= 4,000 – 1,600 = 2,400

Question 2 : Nov 2018 – RTP

M Ltd. has three cash-generating units: A, B and C. Due to adverse changes in the technological environment, M Ltd. conducted impairment tests of each of its cash-generating units. On 31st March, 2018, the carrying amounts of A, B and C are Rs.100 lakhs, Rs.150 lakhs and Rs.200 lakhs respectively.

The operations are conducted from a headquarter. The carrying amount of the headquarter assets is Rs.200 lakhs: a headquarter building of Rs.150 lakhs and a research centre of Rs.50 lakhs. The relative carrying amounts of the cash-generating units are a reasonable indication of the proportion of the head-quarter building devoted to each cash-generating unit. The carrying amount of the research centre cannot be allocated on a reasonable basis to the individual cash-generating units.

Following is the remaining estimated useful life of:

	A	B	C	Head quarter assets
Remaining estimated useful life	10	20	20	20

The headquarter assets are depreciated on a straight-line basis.

The recoverable amount of each cash generating unit is based on its value in use since net selling price for each CGU cannot be calculated. Therefore, Value in use is equal to

	A	B	C	M Ltd. as a whole
Recoverable amount	199	164	271	720*

*The research centre generates additional future cash flows for the enterprise as a whole. Therefore, the sum of the value in use of each individual CGU is less than the value in use of the business as a whole. The additional cash flows are not attributable to the headquarter building.

Solution :

1. Allocation of building to CGU A, B and C.

It should be done on the basis of carrying amount × life.

A = Life (10) × Carrying amount (100) = 1,000

B = Life (20) × Carrying amount (150) = 3,000

C = Life (20) × Carrying amount (200) = 4,000

i.e. 1 : 3 : 4

i.e. $150 \times \frac{1}{8}$ = 18.75 to A

$150 \times \frac{3}{8}$ = 56.25 to B

$150 \times \frac{4}{8}$ = 75 to C

2. Check for impairment loss for CGU after allocation of building.

	A	B	C
Carrying Amount	100	150	200
+Building	18.75	56.25	75
	118.75	206.25	275
Recoverable amount	199	164	271
Impairment loss	–	42.25	4

Impairment loss should be apply to building and CGU in rate of its carrying amount.

i.e. $42.25 \times \frac{150}{206.25}$ = 30.73 to CGU B

$42.25 \times \frac{56.25}{206.25}$ = 11.52 to Building

$4 \times \frac{200}{275}$ = 2.91 to CGU C

$4 \times \frac{75}{275}$ = 1.09 to Building

3. Carrying amount after impairment :

	A	B	C	Total
Carrying amount before	100	150	200	150
– Impairment loss	–	30.73	2.91	12.61
	100	119.27	197.09	137.39

4. Check of impairment of larger CGU (Including A, B, C, Building and Research Centre) :

	A	B	C	Building	Research Centre	Total
Carrying amount	100	119.27	197.09	137.39	50	603.75
Recoverable Amount	–	–	–	–	–	720
Impairment loss						Nil

Question 3 : Nov 2018 – PAPER

A machine was acquired by ABC Ltd. 15 years ago at a cost of Rs.20 crore. Its accumulated depreciation as at 31st March, 2018 was Rs.16.60 crore. Depreciation estimated for the financial year 2018-19 is Rs.1 crore. Estimated Net Selling Price of the machine as on 31st March, 2018 was Rs.1.20 crore, which is expected to decline by 20 per cent by the end of the next financial year. Its value in use has been computed at Rs.1.40 crore as on 1st April, 2018, which is expected to decrease by 30 per cent by the end of the financial year. Assuming that other conditions of relevant Accounting Standard for applicability of the impairment are satisfied:

(i) What should be the carrying amount of this machine as at 31st March, 2019?

(ii) How much will be the amount of write off (impairment loss) for the financial year ended 31st March, 2019?

(iii) If the machine had been revalued ten years ago and the current revaluation reserves against this plant were to be Rs.48 lakh, how would you answer to questions (i) and (ii) above?

(iv) If the value in use was zero and the company was required to incur a cost of Rs.8 lakh to dispose of the plant, what would be your response to questions (i) and (ii) above?

Solution :

As per the requirement of the question, the following solution has been drawn on the basis of AS 28

		Rs.in crore
(i)	Carrying amount of plant (before impairment) as on 31st March, 2019	2.4
	Carrying amount of plant (after impairment) as on 31st March, 2019	0.98
(ii)	Amount of impairment loss for the financial year ended 31st March, 2019 (2.4 Cr.- 0.98 Cr)	1.42
(iii)	If the plant had been revalued ten years ago	
	Debit to revaluation reserve	0.48
	Amount charged to profit and loss (1.42 - 0.48)	0.94
(iv)	If Value in use was zero	
	Value in use (a)	Nil
	Net selling price (b)	-0.08
	Recoverable amount [higher of (a) and (b)]	Nil
	Carrying amount (closing book value)	Nil
	Amount of write off (impairment loss) (Rs.2.4 Cr – Nil)	2.4
	Entire book value of plant will be written off and charged to profit and loss account.	

Working Notes:

(1) Calculation of Closing Book Value, as at 31st March, 2019

	Rs. in crore
Opening book value as on 1.4.2018 (Rs.20 crore -16.60 crore)	3.40
Less: Depreciation for financial year 2018–2019	(1.00)
Closing book value as on 31.3.2019 (before impairment)	2.40

(2) Calculation of Estimated Net Selling Price on 31st March, 2019

	Rs. in crore
Estimated net selling price as on 1.4.2018	1.20
Less: Estimated decrease during the year (20% of Rs.1.20 Cr.)	(0.24)
Estimated net selling price as on 31.3.2019	0.96

(3) Calculation of Estimated Value in Use of Plant on 31st March, 2019

	Rs.in crore
Estimated value in use as on 1.4.2018	1.40
Less: Estimated decrease during the year (30% of Rs.1.40 Cr.)	(0.42)
Estimated value in use as on 31.3.2019	0.98

(4) Recoverable amount as on 31.3.2019 is equal to higher of Net selling price and value in use

	Rs.in crore
Net selling price	0.96
Value in use	0.98
Recoverable amount	0.98
Impairment Loss [Carrying amount – Recoverable amount ie. (2.40 Cr. – 0.98 Cr)]	1.42
Revised carrying amount on 31.3.2019 is equal to Recoverable amount (after impairment)	0.98 Cr.

Question 4 : Nov 2018 – PAPER / Nov 2020 - Paper

XYZ Limited has three cash-generating units - X, Y and Z, the carrying amounts of which as on 31st March, 2018 are as follows:

Cash Generating Units	Carrying Amount (Rs.in lakh)	Remaining useful life in years
X	800	20
Y	1000	10
Z	1200	20

XYZ Limited also has corporate assets having a remaining useful life of 20 years as given below:

Corporate Assets	Carrying amount (Rs.in lakh)	Remarks
AU	800	The carrying amount of AU can be allocated on a reasonable basis to the individual cash generating units.
BU	400	The carrying amount of BU cannot be allocated on a reasonable basis to the individual cash-generating units.

Recoverable amounts as on 31st March, 2018 are as follows:

Cash-generating units	Recoverable amount (Rs.in lakh)
X	1000
Y	1200
Z	1400

XYZ Limited	3900

Calculate the impairment loss if any of XYZ Ltd. Ignore decimals.

Solution :

(i) Allocation of corporate assets to CGU

(Rs. in lakh)

	Particulars	X	Y	Z	Total
(a)	Carrying amount	800	1,000	1,200	3,000
(b)	Useful life	20 years	10 years	20 years	
(c)	Weight (CA x Life)	16,000	10,000	24,000	
(d)	Allocation of carrying amount of AU (16 : 10 : 24)	256	160	384	800
(e)	Carrying amount after allocation of AU) (a+f)	1,056	1,160	1,584	3,800

(ii) Calculation of impairment loss

Step 1: Impairment losses for individual cash-generating units and its allocation

(a) Impairment loss of each cash-generating units

(Rs. in lakh)

Particulars	X	Y	Z
Carrying amount (after allocation of AU)	1,056	1,160	1,584
Recoverable amount	1,000	1,200	1,400
Impairment loss	56	Nil	184

(b) Allocation of the impairment loss (after rounding off)

(Rs. in lakh)

Allocation to	X		Z	
AU	14	(56x256/1,056)	45	(184x384/1,584)
Other assets in cash-generating units	42	(56x800/1056)	139	(184x1,200/ 1,584)
Impairment loss	56		184	

Step 2: Impairment loss for the larger cash-generating unit, i.e., XYZ Ltd. as a whole

Particulars	X	Y	Z	AU	BU	XYZ Ltd.
Carrying amount	800	1,000	1,200	800	400	4,200
Impairment loss (Step I)	(420	-	(139)	(59)*	-	(240)
Carrying amount (after Step I)	758	1,000	1,061	741	400	3,960
Recoverable amount						3,900

Impairment loss for the 'larger' cash-generating unit		60

*Rs.14 lakh + Rs.45 lakh = Rs.59 lakh.

Question 5 : May 2019 – RTP

Elia limited is a manufacturing company which deals in to manufacturing of cold drinks and beverages. It is having various plants across India. There is a Machinery A in the Baroda plant which is used for the purpose of bottling. There is one more machinery which is Machinery B clubbed with Machinery A. Machinery A can individually have an output and also sold independently in the open market. Machinery B cannot be sold in isolation and without clubbing with Machine A it cannot produce output as well. The Company considers this group of assets as a Cash Generating Unit and an Inventory amounting to Rs.2 Lakh and Goodwill amounting to Rs.1.50 Lakhs is included in such CGU.

Machinery A was purchased on 1st April 2013 for Rs.10 Lakhs and residual value is Rs.50 thousands. Machinery B was purchased on 1st April, 2015 for Rs.5 Lakhs with no residual value. The useful life of both Machine A and B is 10 years. The Company expects following cash flows in the next 5 years pertaining to Machinery A. The incremental borrowing rate of the company is 10%.

Year	**Cash Flows from Machinery A**
1	1,50,000
2	1,00,000
3	1,00,000
4	1,50,000
5	1,00,000 (excluding Residual Value)
Total	**6,00,000**

On 31st March, 2018, the professional valuers have estimated that the current market value of Machinery A is Rs.7 lakhs. The valuation fee was Rs.1 lakh. There is a need to dismantle the machinery before delivering it to the buyer. Dismantling cost is Rs.1.50 lakhs. Specialised packaging cost would be Rs.25 thousand and legal fees would be Rs.75 thousand.

The Inventory has been valued in accordance with Ind AS 2. The recoverable value of CGU is Rs.10 Lakh as on 31st March, 2018. In the next year, the company has done the assessment of recoverability of the CGU and found that the value of such CGU is Rs.11 Lakhs ie on 31st March, 2019. The Recoverable value of Machine A is Rs.4,50,000 and combined Machine A and B is Rs.7,60,000 as on 31st March, 2019.

Required:

a) Compute the impairment loss on CGU and carrying value of each asset after charging impairment loss for the year ending 31st March, 2018 by providing all the relevant working notes to arrive at such calculation.

b) Compute the prospective depreciation for the year 2018-2019 on the above assets.

c) Compute the carrying value of CGU as at 31st March, 2019.

Solution :

(a) Computation of impairment loss and carrying value of each of the asset in CGU after impairment loss

(i) Calculation of carrying value of Machinery A and B before impairment

Machinery A		
Cost	(A)	Rs.10,00,000
Residual Value		Rs.50,000
Useful life		10 years
Useful life already elapsed		5 years
Yearly depreciation	(B)	Rs.95,000
WDV as at 31st March, 2018 [A- (B x 5)]		**Rs.5,25,000**
Machinery B		
Cost	(C)	Rs.5,00,000
Residual Value		-
Useful life		10 years
Useful life already elapsed		3 years
Yearly depreciation	(D)	Rs.50,000
WDV as at 31st March, 2018 [C- (D x 3)]		**Rs.3,50,000**

(ii) Calculation of Value-in-use of Machinery A

Period	Cash Flows (Rs.)	PVF	PV
1	1,50,000	0.91	1,36,350
2	1,00,000	0.83	82,600
3	1,00,000	0.75	75,100
4	1,50,000	0.68	1,02,450
5	1,00,000	0.62	62,100
5	50,000	0.62	31,050
Value in use			**4,89,650**

(iii) Calculation of Fair Value less cost of disposal of Machinery A

	Rs.
Fair Value	7,00,000
Less: Dismantling cost	(1,50,000)
Packaging cost	(25,000)
Legal Fees	(75,000)
Fair value less cost of disposal	**4,50,000**

(iv) Calculation of Impairment loss on Machinery A

	Rs.
Carrying Value	5,25,000

Less: Recoverable Value ie higher of Value-in-use and Fair value less cost of disposal	4,89,650
Impairment Loss	**35,350**

(v) Calculation of Impairment loss of CGU

1. First goodwill will be impaired fully and then the remaining impairment loss of Rs.75,000 will be allocated to Machinery A and B.
2. If we allocate remaining impairment loss to Machinery A and B on pro-rata basis, it would come to Rs.45,000 on Machinery A. However, the impairment loss of Machinery A cannot exceed Rs.35,350. Hence, impairment to CGU will be as follows:

	Carrying value before impairment loss	Impairment loss	Carrying value after impairment loss
	Rs.	Rs.	Rs.
Machinery A	5,25,000	35,350	4,89,650
Machinery B	3,50,000	39,650*	3,10,350
Inventory	2,00,000	-	2,00,000
Goodwill	1,50,000	1,50,000	-
Total	**12,25,000**	**2,25,000**	**10,00,000**

* Balancing figure.

(b) Carrying value after adjustment of depreciation

	Rs.
Machinery A [4,89,650 – {(4,89,650 – 50,000)/5}]	4,01,720
Machinery B [3,10,350 – (3,10,350/7)]	2,66,014
Inventory	2,00,000
Goodwill	-
Total	**8,67,734**

(c) Calculation of carrying value of CGU as on 31st March, 2019

The revised value of CGU is Rs.11 Lakh. However, impaired goodwill cannot be reversed. Further, the individual assets cannot be increased by lower of recoverable value or Carrying Value as if the assets were never impaired.

Accordingly, the carrying value as on 31st March, 2019 assuming that the impairment loss had never incurred, will be:

	Carrying Value	Recoverable Value	Final CV as at 31st Mar 2019
Machinery A	4,30,000	4,50,000	4,30,000
Machinery B	3,00,000	(7,60,000 – 4,50,000) 3,10,000	3,00,000

Inventory	2,00,000	2,00,000	2,00,000
Goodwill	-		
Total	**9,30,000**	**9,60,000**	**9,30,000**

Hence the impairment loss to be reversed will be limited to Rs.62,266 only (Rs.9,30,000 – Rs.8,67,734).

Question 6 : Nov 2019 – RTP

East Ltd. (East) owns a machine used in the manufacture of steering wheels, which are sold directly to major car manufacturers.

- The machine was purchased on 1st April, 20X1 at a cost of Rs.5,00,000 through a vendor financing arrangement on which interest is being charged at the rate of 10 per cent per annum.
- During the year ended 31st March, 20X3, East sold 10,000 steering wheels at a selling price of Rs.190 per wheel.
- The most recent financial budget approved by East's management, covering the period 1st April, 20X3 – 31st March, 20X8, including that the company expects to sell each steering wheel for Rs.200 during 20X3-X4, the price rising in later years in line with a forecast inflation of 3 per cent per annum.
- During the year ended 31st March, 20X4, East expects to sell 10,000 steering wheels. The number is forecast to increase by 5 per cent each year until 31st March, 20X8.
- East estimates that each steering wheel costs Rs.160 to manufacture, which includes Rs.110 variable costs, Rs.30 share of fixed overheads and Rs.20 transport costs.
- Costs are expected to rise by 1 per cent during 20X4-X5, and then by 2 per cent per annum until 31st March, 20X8.
- During 20X5-X6, the machine will be subject to regular maintenance costing Rs.50,000.
- In 20X3-X4, East expects to invest in new technology costing Rs.1,00,000. This technology will reduce the variable costs of manufacturing each steering wheel from Rs.110 to Rs.100 and the share of fixed overheads from Rs.30 to Rs.15 (subject to the availability of technology, which is still under development).
- East is depreciating the machine using the straight line method over the machine's 10 year estimated useful life. The current estimate (based on similar assets that have reached the end of their useful lives) of the disposal proceeds from selling the machine is Rs.80,000 net of disposal costs. East expects to dispose of the machine at the end of March, 20X8.
- East has determined a pre-tax discount rate of 8 per cent, which reflects the market's assessment of the time value of money and the risks associated with this asset.

Assume a tax rate of 30%. What is the value in use of the machine in accordance with Ind AS 36?

Solution :

Calculation of the value in use of the machine owned by East Ltd. (East) includes the projected cash inflow (i.e. sales income) from the continued use of the machine and projected cash outflows that are necessarily incurred to generate those cash inflows (i.e cost of goods sold). Additionally, projected cash inflows include Rs.80,000 from the disposal of the asset in March, 20X8. Cash outflows include routing capital expenditures of Rs.50,000 in 20X5-X6

As per Ind AS 36, estimates of future cash flows shall not include:

- Cash inflows from receivables
- Cash outflows from payables
- Cash inflows or outflows expected to arise from future restructuring to which an entity is not yet committed
- Cash inflows or outflows expected to arise from improving or enhancing the asset's performance
- Cash inflows or outflows from financing activities
- Income tax receipts or payments.

Hence in this case, cash flows do not include financing interest (i.e. 10%), tax (i.e. 30%) and capital expenditures to which East has not yet committed (i.e. Rs.1,00,000). They also do not include any savings in cash outflows from these capital expenditure, as required by Ind AS 36.

The cash flows (inflows and outflows) are presented below in nominal terms. They include an increase of 3% per annum to the forecast price per unit (B), in line with forecast inflation. The cash flows are discounted by applying a discount rate (8%) that is also adjusted for inflation.

Note: Figures are calculated on full scale and then rounded off to the nearest absolute value.

Year ended	20X3-X4	20X4-X5	20X5-20X6	20X6-X7	20X7-X8	Value in use
Quantity (A)	10,000	10,500	11,025	11,576	12,155	
Price per unit(B)	Rs.200	Rs.206	Rs.212	Rs.219	Rs.225	
Estimated cash inflows (C = A x B)	Rs.20,00,000	Rs.21,63,000	Rs.23,37,300	Rs.25,35,144	Rs.27,34,875	
Misc. cash inflow disposal proceeds (D)					Rs.80,000	
Total estimated cash inflows (E=C+D)	Rs.20,00,000	Rs.21,63,000	Rs.23,37,300	Rs.25,35,144	Rs.28,14,875	
Cost per unit (F)	Rs.160	Rs.162	Rs.165	Rs.168	Rs.171	
Estimated cash outflows (G = A x F)	(Rs.16,00,000)	(Rs.17,01,000)	(Rs.18,19,125)	(Rs.19,44,768)	(Rs.20,78,505)	
Misc. cash outflow: maintenance costs (H)			(Rs.50,000)			
Total estimated cash outflows (I = G + H)	(Rs.16,00,000)	(Rs.17,01,000)	(Rs.18,69,125)	(Rs.19,44,768)	(Rs.20,78,505)	
Net cash flows (J = E - I)	Rs.4,00,000	Rs.4,62,000	Rs.4,68,175	Rs.5,90,376	Rs.7,36,370	
Discount factor 8% (K)	0.9259	0.8573	0.7938	0.7350	0.6806	
Discounted future cash flows (L = J x K)	Rs.3,70,360	Rs.3,96,073	Rs.3,71,637	Rs.4,33,926	Rs.5,01,173	Rs.20,73,169

Question 7 : May 2020 – RTP

PQR Ltd. is the company which has performed well in the past but one of its major assets, an item of equipment, suffered a significant and unexpected deterioration in performance. Management expects to use the machine for a further four years after 31st March 20X6, but at a reduced level. The equipment will be scrapped after four years. The financial accountant for PQR Ltd. has produced a set of cash-flow projections for the equipment for the next four years, ranging from optimistic to pessimistic. CFO thought that the projections were too conservative, and he intended to use the highest figures each year. These were as follows :

	Rs. '000
Year ended 31st March 20X7	276
Year ended 31st March 20X8	192
Year ended 31st March 20X9	120
Year ended 31st March 20Y0	114

The above cash inflows should be assumed to occur on the last day of each financial year. The pre-tax discount rate is 9%. The machine could have been sold at 31st March 20X6 for Rs.6,00,000 and related selling expenses in this regard could have been Rs.96,000. The machine had been re valued previously, and at 31st March 20X6 an amount of Rs.36,000 was held in revaluation surplus in respect of the asset. The carrying value of the asset at 31st March 20X6 was Rs.6,60,000. The Indian government has indicated that it may compensate the company for any loss in value of the assets up to its recoverable amount.
Calculate impairment loss, if any and revised depreciation of asset. Also suggest how Impairment loss, if any would be set off and how compensation from government be accounted for?

Solution :
Carrying amount of asset on 31st March 20X6 = Rs.6,60,000
Calculation of Value in Use :

Year ended	Cash flow Rs.	Discount factor @ 9%	Amount Rs.
31st March, 20X7	2,76,000	0.9174	2,53,202
31st March, 20X8	1,92,000	0.8417	1,61,606
31st March, 20X9	1,20,000	0.7722	92,664
31st March, 20Y0	1,14,000	0.7084	80,758
		Total (Value in Use)	5,88,230

Calculation of Recoverable amount :

Particulars	Amount (Rs.)
Value in use	5,88,230
Fair value less costs of disposal (6,00,000 – 96,000)	5,04,000
Recoverable amount (Higher of value in use and fair value less costs of disposal)	5,88,230

Calculation of Impairment loss:

Particulars	Amount (Rs.)
Carrying amount	6,60,000
Less: Recoverable amount	(5,88,230)
Impairment loss	71,770

Calculation of Revised carrying amount:

Particulars	Amount (Rs.)
Carrying amount	6,60,000
Less: Impairment loss	(71,770)
Revised carrying amount	5,88,230

Calculation of Revised Depreciation:

Revised carrying amount – Residual value

Remaining life = (5,88,230 - 0) / 4 = Rs.1,47,058 per annum

Set off of Impairment loss:

The impairment loss of Rs.71,770 must first be set off against any revaluation surplus in relation to the same asset. Therefore, the revaluation surplus of rs.36,000 is eliminated against impairment loss, and the remainder of the impairment loss Rs.35,770 (Rs.71,770 – Rs.36,000) is charged to profit and loss.

Treatment of Government compensation:

Any compensation by government would be accounted for as such when it becomes receivable. At this time, the government has only stated that it may reimburse the company and therefore credit should not be taken for any potential government receipt.

Question 8 : Nov 2020 – RTP

The UK entity with a sterling functional currency has a property located in US, which was acquired at a cost of US$ 1.8 million when the exchange rate was £1 = US$ 1.60. The property is carried at cost. At the balance sheet date, the recoverable amount of the property (as a result of an impairment review) amounted to US$ 1.62 million, when the exchange rate £1 = US$ 1.80. Compute the amount which is to be reported in Profit & Loss of UK entity as a result of impairment, if any. Ignore depreciation. Also analyse the total impairment loss on account of change in value due to impairment component and exchange component.

Solution :

1)	Cost of Asset (18,00,000 $/1.6)			11,25,000
	– Recoverable Amount (16,20,000/1.8)			9,00,000
	Impairment Loss			2,25,000
2)	Impairment Loss			2,25,000
	(a) Exchange Component			
	(18,00,000/1.8) =		10,00,000	
	(18,00,000/1.6) =		11,25,000	1,25,000
	(b) Fall in value			
	(18,00,000/1.8) =		10,00,000	
	(16,20,000/1.8) =		9,00,000	1,00,000

Question 9 : May 2021 – RTP

On 31 March 20X1, Vision Ltd acquired 80% of the equity shares of Mission Ltd for Rs. 190 million. The fair values of the net assets of Mission Ltd that were included in the consolidated statement of financial position of Vision Ltd at 31 March 20X1 were Rs. 200 million. It is the Group's policy to value the non-controlling interest in subsidiaries at the date of acquisition at its proportionate share of the fair value of the subsidiaries' identifiable net assets.

On 31 March 20X4, Vision Ltd carried out its annual review of the goodwill on consolidation of Mission Ltd and found evidence of impairment. No impairment had been evident when the reviews were carried out at 31 March 20X2 and 31 March 20X3. The review involved allocating the assets of Mission Ltd into three cash-generating units and computing the value in use of each unit. The carrying values of the individual units before any impairment adjustments are given below:

	Unit A Rs. in million	**Unit B Rs. in million**	**Unit C Rs. in million**
Intangible assets	30	10	-
Property, Plant and Equipment	80	50	60
Current Assets	60	30	40
Total	170	90	100
Value in use of unit	180	66	104

It was not possible to meaningfully allocate the goodwill on consolidation to the individual cash generating units but all the other net assets of Mission Ltd are allocated in the table shown above. The intangible assets of Mission Ltd have no ascertainable market value but all the current assets have a market value that is at least equal to their carrying value. The value in use of Mission Ltd as a single cash-generating unit on 31 March 20X4 is Rs. 350 million.

Discuss and compute the accounting treatment of impairment of goodwill as per Ind AS 36?

Solution :

The goodwill on consolidation of Mission Ltd that is recognized in the consolidated balance sheet of Vision Ltd is Rs. 30 million (Rs. 190 million – 80% x Rs. 200 million). This can only be reviewed for impairment as part of the cash generating units to which it relates. Since here the goodwill cannot be meaningfully allocated to the units, the impairment review is in two parts.

Units A and C have values in use that are more than their carrying values. However, the value in use of Unit B is less than its carrying amount. This means that the assets of unit B are impaired by Rs. 24 million (Rs. 90 million – Rs. 66 million). This impairment loss will be charged to the statement of profit and loss.

Assets of Unit B will be written down on a pro-rata basis as shown in the table below:

(Rs. in million)

Asset	**Impact on carrying value**		
	Existing	**Impairment**	**Revised**
Intangible assets	10	(4)	6
Property, plant and equipment	50	(20)	30

Current assets	30	Nil*	30
Total	90	(24)	66

* The current assets are not impaired because they are expected to realize at least their carrying value when disposed of.

Following this review, the three units plus the goodwill are reviewed together i.e. treating Mission Limited as single cash generating Unit. The impact of this is shown in the following table, given that the recoverable amount of the business as a whole is Rs. 350 million:

(Rs. in million)

Component	**Impact of impairment review on carrying value**		
	Existing	**Impairment**	**Revised**
Goodwill (see note below)	37.50	(23.50)	14.00
Unit A	170.00	Nil	170.00
Unit B (revised)	66.00	Nil	66.00
Unit C	100.00	Nil	100.00
Total	373.50	(23.50)	350.00

Note: As per Appendix C of Ind AS 36, given that the subsidiary is 80% owned the goodwill must first be grossed up to reflect a notional 100% investment. Therefore, the goodwill will be grossed up to Rs. 37.50 million (Rs. 30 million x 100/80).

The impairment loss of Rs. 23.50 million is all allocated to goodwill, leaving the carrying values of the individual units of the business as shown in the table immediately above.

The table shows that the notional goodwill that relates to a 100% interest is written down by Rs. 23.50 million to Rs. 14.00 million. However, in the consolidated financial statements the goodwill that is recognized is based on an 80% interest so the loss that is actually recognized is Rs. 18.80 million (Rs. 23.50 million x 80%) and the closing consolidated goodwill figure is Rs. 11.20 million (Rs. 14.00 million x 80%) or (Rs. 30 million – Rs. 18.80 million).

Question 10 : July 2021 – Paper

A Limited purchased as asset of Rs.200 lakh on 1st April 2017. It has useful life of 4 years with no residual value. Recoverable amount of the asset is as follows :

As on	**Recoverable amount**
31st March, 2018	Rs.120 lakh
31st March, 2019	Rs.80 lakh
31st March 2020	Rs.56 lakh

Calculate the amount of impairment loss or its reversal, if any,

– On 31st March, 2018;
– On 31st March, 2019;
– On 31st March, 2020;

Depreciation is provided on SLM basis under the cost method.

Solution :

As on 31st March, 2018

Carrying amount of the asset (opening balance)	Rs. 200 lakh
Depreciation (Rs. 200 lakh / 4 years)	(Rs. 50 lakh)
Carrying amount of the asset (closing balance)	Rs. 150 lakh
Recoverable amount (given)	Rs. 120 lakh
Difference	Rs. 30 lakh

Therefore, an impairment loss of Rs. 30 lakh should be recognised as on 31st March, 2018. Depreciation for subsequent years should be charged on the carrying amount of the asset (after providing for impairment loss), i.e., Rs. 120 lakh.

As on 31st March, 2019

Carrying amount of the asset (opening balance)	Rs. 120 lakh
Depreciation (Rs. 120 lakh / 3 years)	(Rs. 40 lakh)
Carrying amount of the asset (closing balance)	Rs. 80 lakh
Recoverable amount (Given)	Rs. 80 lakh
Difference	NIL

Therefore, no impairment loss should be recognised as on 31st March, 2019.

As on 31st March, 2020

Carrying amount of the asset (opening balance)	Rs. 80 lakh
Depreciation (Rs. 80 lakh / 2 years)	(Rs. 40 lakh)
Carrying amount of the asset (closing balance)	Rs. 40 lakh
Recoverable amount (given)	Rs. 56 lakh
Difference	(Rs. 16 lakh)

Since, the recoverable amount of the asset exceeds the carrying amount of the asset by Rs. 16 lakh, impairment loss recognised earlier should be reversed. However, reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognised for the asset in prior years. Carrying amount as on 31st March, 2020 had no impairment loss being recognised would have been Rs. 50 lakh [ie. Rs. 200 lakh – (200 lakh / 4 x 3)]. Therefore, the reversal of an impairment loss of Rs. 10 lakh (Rs. 50 lakh - Rs. 40 lakh) should be done as on 31st March, 2020.

Question 11 : Nov 2022 – Paper

Violet Limited is a beverage manufacturing company having various plants across India. There is Machinery A in the Surat plant which is used for the purpose of bottling. There is one more machinery which is Machinery B clubbed with Machinery A. Machinery A can individually have an output and also be sold independently in the open market. Machinery B cannot be sold in isolation and without clubbing with Machinery A it cannot produce output as well. The company considers this group of assets as a Cash Generating Unit and an Inventory amounting to Rs.1.65 lakhs and Goodwill amounting to Rs.1.50 lakhs is included in such CGU.

Machinery A was purchased on 1st April 2016 for Rs.12 lakhs and residual value is Rs.60 thousands. Machinery B was purchased on 1st April, 2018 for Rs.5 lakhs with no residual value. The useful life

of both Machinery A and B is 10 years. The company expects following cash flows in the next 5 years pertaining to Machinery A. The incremental borrowing rate of company is 10% p.a.

Year	Cash Flows from Machinery A
1	2,00,000
2	1,50,000
3	1,00,000
4	1,50,000
5	1,00,000 (Excluding Residual Value)
Total	**7,00,000**

On 31st March, 2021, the professional valuers have estimated that the current market value of machinery A is Rs.8.5 lakhs. There is a need to dismantle the machinery before delivering it to the buyers. Dismantling cost is Rs.1.60 lakhs. Specialized packaging cost would be Rs.30,000 and legal fees would be Rs.68,000.

The inventory has been valued in accordance with Ind AS 2. The recoverable value of CGU is Rs.10 lakhs as on 31st March, 2021. In the next year, the company has done the assessment of recoverability of the CGU and found that the value of such CGU is Rs.11 lakhs i.e. on 31st March, 2022. The recoverable value of Machinery A is Rs.5,50,000 and combined for Machinery A and Machinery B is Rs.8,00,000 as on 31st March, 2022.

You are required to :

(i) Compute the impairment loss on CGU and carrying value of each asset after charging impairment loss for the year ending 31st March, 2021 by providing all the relevant working notes to arrive at such calculation.

(ii) Compute the carrying value after considering prospective depreciation for the year 2021-2022 on the above assets.

(iii) Compute the carrying value of CGU as at 31st march, 2022.

(Note : Present value factor of Rs.1 should be taken upto 4 decimal for the purpose of calculation)

Solution :

(i) Computation of impairment loss and carrying value of each of the asset in CGU after impairment loss

(a) Calculation of carrying value of Machinery A and B before impairment

Machinery A		
Cost	(A)	Rs. 12,00,000
Residual value		Rs. 60,000
Useful life		10 years
Useful life already elapsed		5 years
Yearly depreciation	(B)	Rs. 1,14,000
WDV as at 31st March 2021 [A- (B x 5)]		Rs. 6,30,000
Machinery B		
Cost	(C)	Rs. 5,00,000
Residual value		-

Useful life		10 years
Useful life already elapsed		3 years
Yearly depreciation	(D)	Rs. 50,000
WDV as at 31st March 2021 [C- (D x 3)]		Rs. 3,50,000

(b) Calculation of Value-in-use of Machinery A

Period	Cash Flows (Rs.)	PVF@10%	PV
1	2,00,000	0.9091	1,81,820
2	1,50,000	0.8264	1,23,960
3	1,00,000	0.7513	75,130
4	1,50,000	0.6830	1,02,450
5	1,00,000	0.6209	62,090
5	60,000	0.6209	37,254
Value in use			5,82,704

(c) Calculation of Fair Value less cost of disposal of Machinery A

	Rs.
Fair Value	8,50,000
Less: Dismantling cost	(1,60,000)
Packaging cost	(30,0000
Legal Fees	(68,000)
Fair value less cost of disposal	5,92,000

(d) Calculation of Impairment loss on Machinery A

	Rs.
Carrying Value	6,30,000
Less: Recoverable Value i.e. higher of Value-in-use (Rs. 5,82,704) and Fair value less cost of disposal (Rs. 5,92,000)	- 5,92,000
Impairment Loss	38,000

(e) Calculation of Impairment loss of CGU

1. First goodwill will be impaired fully and then the remaining impairment loss of CGU will be allocated to Machinery A and Machinery B.
2. After deduction of value of goodwill Rs. 1,50,000 from total impairment loss of CGU of Rs. 2,95,000, remaining impairment loss would be Rs. 1,45,000. If we allocate remaining impairment loss to Machinery A and B on pro-rata basis, it will come to Rs. 93,214 on Machinery A. However, the impairment loss of Machinery A cannot exceed Rs. 38,000 since its recoverable value is Rs. 5,92,000. Hence, impairment loss to CGU will be as follows:

	Carrying value before impairment loss	Impairment loss	Carrying value after impairment loss
	Rs.	Rs.	Rs.
Machinery A	6,30,000	38,000	5,92,000
Machinery B	3,50,000	1,07,000*	2,43,000
Inventory	1,65,000	-	1,65,000
Goodwill	1,50,000	1,50,000	-
Total	12,95,000	2,95,000	10,00,000

* Balancing figure.

(ii) Carrying value after adjustment of depreciation of 2021-2022

	Rs.
Machinery A [5,92,000 – {(5,92,000 - 60,000)/5}]	4,85,600
Machinery B [2,43,000 – (2,43,000/7)]	2,08,286
Inventory	1,65,000
Goodwill	-
Total	8,58,886

(iii) Calculation of carrying value of CGU as on 31st March 2022

The revised value of CGU is Rs. 11 lakh. However, impaired goodwill cannot be reversed. Further, the individual assets cannot be increased above the lower of recoverable value or carrying value as if the assets were never impaired.

Accordingly, the carrying value as on 31st March 2022 assuming that the impairment loss had never incurred, will be:

	Carrying Value	Recoverable Value	Final CV as at 31st March 2022
Machinery A	[12,00,000 - (1,14,000 x 6)] 5,16,000	5,50,000	5,16,000
Machinery B	[5,00,000 – (50,000x4)] 3,00,000	(8,00,000 – 5,50,000) 2,50,000	2,50,000
Inventory	1,65,000*	1,65,000*	1,65,000*
Goodwill	-	-	-
Total	9,81,000	9,65,000	9,31,000

Hence, the impairment loss to be reversed will be limited to Rs. 72,114 only (Rs. 9,31,000 – Rs. 8,58,886).

*Note: The question required valuation of CGU at the year-end 31st March 2022, for which value of inventory was required. In the absence of the value of inventory for the year ended 31st March 2022, it is assumed that the value of inventory for the year ended 31st March 2022 is same as it was for the year ended 31st March, 2021.

Question 12 : Nov 2023 – RTP

On 31st March, 20X1, Jackson Ltd. purchased 80% of the equity of Kaplan Ltd. for Rs. 190 million. The fair values of the net assets of Kaplan Ltd. that were included in the consolidated balance sheet of Jackson Ltd. at 31st March, 20X1 were measured at Rs. 200 million (their fair values at that date). It is the group policy to value the non-controlling interest in subsidiaries at the date of acquisition at its proportionate share of the fair value of the subsidiaries' identifiable net assets.
On 31st March, 20X4, Jackson Ltd. carried out its annual review of the goodwill on consolidation of Kaplan Ltd. for evidence of impairment. No impairment had been evident when the reviews were carried out on 31st March, 20X2 and 31st March, 20X3. The review involved allocating the assets of Kaplan Ltd. into three cash-generating units and computing the value in use of each unit.
The carrying values of the individual units before any impairment adjustments are given below:

	Unit A **Rs. in million**	**Unit B** **Rs. in million**	**Unit C** **Rs. in million**
Intangible assets	30	10	-
Property, Plant and Equipment	80	50	60
Current Assets	60	30	40
Total	170	90	100
Value in use of unit	180	66	104

It was not possible to meaningfully allocate the goodwill on consolidation to the individual cash generating units but all the other net assets of Kaplan Ltd. are allocated in the table shown above. The intangible assets of Kaplan Ltd. have no ascertainable market value but all the current assets have a market value that is at least equal to their carrying value. The value in use of Kaplan Ltd. as a single cash-generating unit on 31st March, 20X4 is Rs. 350 million.
Recommend the treatment for impairment of goodwill.

Solution :

The goodwill on consolidation of Kaplan Ltd. that is recognized in the consolidated balance sheet of Jackson Ltd. is Rs. 30 million (Rs. 190 million – 80% x Rs. 200 million). This can only be reviewed for impairment as part of the cash generating units to which it relates. Since here the goodwill cannot be meaningfully allocated to the units, the impairment review is in two parts.
Units A and C have values in use that are more than their carrying values. However, the value in use of Unit B is less than its carrying amount. This means that the assets of unit B are impaired by Rs. 24 million (Rs. 90 million – Rs. 66 million). This impairment loss will be charged to the Statement of Profit and Loss.
Assets will be written down on a pro-rata basis as shown in the table below:

Rs. In million

Asset	**Impact on carrying value**		
	Existing	**Impairment**	**Revised**
Intangible assets	10	(4)	6
Property, plant and equipment	50	(20)	30
Current assets	30	Nil*	30

Total	90	(24)	66

*The current assets are not impaired because they are expected to realize at least their carrying value when disposed of.

Following this review, the three units plus the goodwill are reviewed together. The impact of this is shown in the following table, given that the recoverable amount of the business as a whole is Rs. 350 million.

Rs. in million

Component	**Impact of impairment review on carrying value**		
	Existing	**Impairment**	**Revised**
Goodwill (see below)	37.50	(23.50)	14.00
Unit A	170.00	Nil	170.00
Unit B (revised)	66.00	Nil	66.00
Unit C	100.00	Nil	100.00
Total	373.50	(23.50)	350.00

As per Appendix C of Ind AS 36, given that the subsidiary is 80% owned the goodwill must first be grossed up to reflect a notional 100% investment. Therefore, the goodwill will be grossed up to Rs. 37.50 million (Rs. 30 million x 100/80). The impairment loss of Rs. 23.50 million is all allocated to goodwill, leaving the carrying values of the individual units of the business as shown in the table immediately above.

The table shows that the notional goodwill that relates to a 100% interest is written down by Rs. 23.50 million to Rs. 14.00 million. However, in the consolidated financial statements the goodwill that is recognized is based on an 80% interest so the loss that is actually recognized is Rs. 18.80 million (Rs. 23.50 million x 80%) and the closing consolidated goodwill figure is Rs. 11.20 million (Rs. 14.00 million x 80%) or (Rs. 30 million – Rs. 18.80 million).

Question 13 : Nov 2024 – RTP

At 31st March, 20X1, the assets of a CGU are being reviewed for impairment. The carrying value of the CGU's net assets is Rs.65 lakhs (excluding any restructuring provision), and remaining useful economic life of recognised asset is eight years.

Management's approved budgets at 31st March, 20X1 include restructuring costs of Rs. 3,50,000 to be incurred in 20X2; the restructuring is expected to generate cost savings of Rs. 1,00,000 per annum from 20X3 onwards. Formal budgets have been prepared for the three years to 31st March, 20X4. A zero-growth rate is assumed, because market conditions are extremely competitive, and this is expected to continue for the foreseeable future. The future cash flow estimates are as follows:

Year	**With restructuring consideration Rs.**	**Without restructuring consideration Rs.**
20X1-20X2	5,20,000	8,70,000
20X2-20X3	10,00,000	9,00,000
20X3-20X4	10,50,000	9,50,000
20X4-20X5	10,50,000	9,50,000

20X5-20X6	10,50,000	9,50,000
20X6-20X7	10,50,000	9,50,000
20X7-20X8	10,50,000	9,50,000
20X8-20X9	10,50,000	9,50,000

In 20X2, the net cash flows without restructuring (Rs. 8,70,000) exceed the net cash flows with restructuring (Rs. 5,20,000) by the amount of the restructuring costs (Rs. 3,50,000).

The future cash flows (which exclude inflation) have been discounted at a rate of 4%. For simplicity, it has been assumed that the cash flows arise at the end of each year.

Compute Impairment Loss at 31st March, 20X1 when-

(i) Restructuring costs is recognised in the financial statements at 31st March, 20X1

(ii) Restructuring costs is not recognised in the financial statements at 31st March, 20X1

Solution :

Computation of present value of cash flows under both the following conditions:

(Amount in Rs.)

Year	**Discount factor**	**With restructuring consideration**		**Without restructuring coordination**	
		Future net cash flows	**Present value**	**Future net cash flows**	**Present value**
	(a)	**(b)**	**(c)=(a)x(b)**	**(d)**	**(e)=(a)x(d)**
20X1-20X2	0.962	5,20,000	5,00,000	8,70,000	8,36,000
20X2-20X3	0.925	10,00,000	9,25,000	9,00,000	8,32,000
20X3-20X4	0.889	10,50,000	9,33,000	9,50,000	8,45,000
20X4-20X5	0.855	10,50,000	8,98,000	9,50,000	8,12,000
20X5-20X6	0.822	10,50,000	8,63,000	9,50,000	7,81,000
20X6-20X7	0.790	10,50,000	8,30,000	9,50,000	7,51,000
20X7-20X8	0.760	10,50,000	7,98,000	9,50,000	7,22,000
20X8-20X9	0.730	10,50,000	7,67,000	9,50,000	6,94,000
Value in use			65,14,000		62,73,000

The impairment calculations at 31st March, 20X1 differ according to whether or not provision for the restructuring costs is recognised in the financial statements. This will depend on whether the requirements of Ind AS 37 have been met for recognition.

(i) Provision for restructuring costs recognised at 31st March, 20X1

If provision has been made for restructuring costs, the costs and benefits of the restructuring are taken into account in determining the CGU's value in use. Here, the post – restructuring value in use (Rs. 6,514,000) exceeds the CGU's carrying value (Rs. 6,500,000 less restructuring provision of Rs. 350,000). Hence, there is no impairment of the CGU's assets.

In the year to 31st March, 20X1, the financial statements reflect the following charges.

Restructuring provision	Rs. 350,000
Impairment loss	Nil

(ii) No provision for restructuring costs recognised at 31st March, 20X1

If no provision for restructuring costs is permitted by Ind AS 37, the costs and benefits of the restructuring have to be stripped out of the projections in determining the CGU's value in use. Here, the CGU's carrying value (Rs. 65,00,000) exceeds its pre-restructuring value in use (Rs. 62,73,000). Therefore, there is an impairment loss of Rs. 2,27,000.

In the year to 31st March, 20X1, the financial statements reflect the following charges:

Restructuring provisions	Nil
Impairment loss	Rs. 2,27,000

Question 14 : May 2025 – Paper

Tiny Ltd. deals in trading of cars across India. It became 100% subsidiary of Any Ltd. on 1st April, 2022 at a purchase consideration of Rs. 64 crores. At the time of acquisition, the fair value of the net identifiable assets of Tiny Ltd. was Rs. 51 crores and goodwill was Rs. 13 crores.

The useful life of Tiny Ltd.'s assets as on 1st April, 2022 was estimated to be 15 years with no residual value. Any Ltd. follows straight line depreciation method.

On 31st March 2024, the government issued new guidelines due to which Tiny Ltd. had to close few of its showrooms. As a result, Tiny Ltd.'s revenue was estimated to reduce by 30%. This adverse change in marketplace and regulatory conditions indicated impairment. As a result, Any Ltd. had to estimate the recoverable amount of goodwill and net assets of Tiny Ltd. on 31st March 2024. No independent cash inflows can be identified to any individual assets. So, the entire operation of Tiny Ltd. was treated as a CGU. Due to the regulatory entangle it was not possible to determine the selling price of Tiny Ltd. as a CGU. Its value in use was estimated by the management at Rs. 35 crores.

Recently, on 31st March, 2025, the government withdrew the guidelines issued on 31st March, 2024. The management expects a favourable change in net cash flows. The recoverable amount of Tiny Ltd.'s net asset is re-estimated. The value in use is expected to be Rs. 52 crores and fair value less cost to disposal is expected to be Rs. 48 crores.

You are required to:

(i) Calculate the impairment loss, if any, as on 31st March 2024.

(ii) Also advise the accounting treatment for reversal of impairment loss and the subsequent depreciation thereon.

Solution :

Since the fair value less costs of disposal is not determinable the recoverable amount of the CGU is its value in use. The carrying amount of the assets of the CGU on 31st March, 2024 is as follows:

Calculation of Impairment loss

			Rs. in crores
	Goodwill	**Other assets**	**Total**
Historical Cost	13.00	51.00	64.00
Accumulated Depreciation [(51/15) x 2]	-	(6.80)	(6.80)
Carrying Amount	13.00	44.20	57.20

Impairment Loss	(13.00)	(9.20)	(22.20)

Revised Carrying Amount

Impairment Loss = Carrying Amount – Recoverable Amount (Rs. 57.20 crore - Rs. 35 crore) = Rs. 22.20 crore is charged to Statement of Profit and Loss for the period ending 31st March, 2024 as impairment loss.

Impairment loss is allocated first to goodwill Rs. 13 crore and remaining loss of Rs. 9.20 crore (Rs. 22.20 crore – Rs. 13 crore) is allocated to the other assets.

Reversal of Impairment loss

Reversal of impairment loss is recognised subject to that the impairment loss on goodwill cannot be reversed.

The increased carrying amount of an asset after reversal of an impairment loss not to exceed the carrying amount that would have been determined had no impairment loss been recognised in prior year.

Calculation of carrying amount of identifiable assets had no impairment loss is recognised

	Rs. in crore
Historical Cost	51.00
Accumulated Depreciation for 3 years [(51/15) x 3]	(10.20)
Carrying amount had no impairment loss is recognised on 31st March, 2025	40.80

Carrying amount of other assets after recognition of impairment loss

	Rs. in crore
Carrying amount on 31st March, 2024	35.00
Accumulated Depreciation for 1 year [(35 /13) x 1] [rounded off to nearest two decimal]	(2.69)
Carrying amount on 31st March, 2025	32.31

1. Recoverable amount on 31st March, 2025 would be Rs. 52 crore [i.e. higher of fair value less costs of disposal (Rs. 48 crore) and value in use (Rs. 52 crore)]
2. The impairment loss recognised previously can be reversed only to the extent of lower of re-estimated carrying amount (Rs. 40.80 crore) and recoverable amount (Rs. 52 crore) i.e. Rs. 40.80 crore.
3. Impairment loss reversal will be Rs. 8.49 crore i.e. (Rs. 40.80 crore – Rs. 32.31 crore). This amount is recognised as income in the statement of profit and loss for the year ended 31st March, 2025.
4. The carrying amount of other assets at 31st March, 2025 after reversal of impairment loss will be Rs. 40.80 crore.
5. From 1st April, 2025, the depreciation charge will be Rs. 3.40 crore i.e. (Rs. 40.80 crore/12)

Question 15 : Sept 2025 – Paper

Nancy Ltd. owns various machines including a machine used in the manufacture of air conditioners. The performance of this machine deteriorated significantly in last few months. This

machine is expected to work for next five years after 31st March, 2025 at a reduced level and after that it will be scrapped. The cash flow projections for the machine for the next five years are as follows:

Year	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
Amount in Rs.	24,70,000	18,60,000	16,30,000	10,10,000	8,50,000

Additional Information

(i) The above cash inflows should be assumed to occur on the last day of each financial year.

(ii) The pre-tax discount rate is 10%. Present value factor of Rs. 1 at 10% is as under:

2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
0.909	0.826	0.751	0.683	0.621

(iii) The machine could have been sold at 31st March, 2025 for Rs. 60,00,000 and related selling expenses in this regard could have been Rs. 11,50,000.

(iv) The machine had been revalued previously, and at 31st March, 2025 an amount of Rs. 3,80,000 was held in revaluation surplus in respect of this machine.

(v) The carrying value of the machine at 31st March, 2025 was Rs. 68,20,000.

You are required to calculate impairment loss for the year 2024-2025, if any and revised depreciation of the machine for subsequent years. The machine is depreciated on SLM basis.

Solution :

Calculation of Value in Use

Year ended	Cash flow (Rs.)	Discount factor @ 9%	Amount (Rs.)
31st March, 2026	24,70,000	0.909	22,45,230
31st March, 2027	18,60,000	0.826	15,36,360
31st March, 2028	16,30,000	0.751	12,24,130
31st March, 2029	10,10,000	0.683	6,89,830
31st March, 2030	8,50,000	0.621	5,27,850
		Total (Value in Use)	**62,23,400**

Calculation of Recoverable Amount

Particulars	Amount (Rs.)
Value in use	62,23,400
Fair value less costs of disposal (60,00,000 – 11,50,000)	48,50,000
Recoverable amount (Higher of value in use and fair value less costs of disposal)	62,23,400

Calculation of Impairment Loss

Particulars	Amount (Rs.)
Carrying amount	68,20,000
Less: Recoverable amount (Revised carrying amount)	(62,23,400)
Impairment loss	5,96,600

Set off of Impairment Loss:

The impairment loss of Rs. 5,96,600 must first be set off against any revaluation surplus in relation to the same asset. Therefore, the revaluation surplus of Rs. 3,80,000 is eliminated against impairment loss, and the remainder of the impairment loss Rs. 2,16,600 (Rs. 5,96,600 – Rs. 3,80,000) is charged to profit and loss.

Calculation of Revised Carrying Amount

Particulars	Amount (Rs.)
Carrying amount	68,20,000
Less: Impairment loss	(5,96,600)
Revised carrying amount	62,23,400

Calculation of Revised Depreciation:

(Revised carrying amount – Residual value)/Remaining life

Revised Depreciation = (62,23,400 - 0)/5 = Rs.12,44,680 per annum

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Thanks ....

IND AS – 116 LEASES

CHAPTER - 10

Question 1 : Nov 2020 – RTP

Entity X (lessee) entered into a lease agreement ('lease agreement') with Entity Y (lessor) to lease an entire floor of a shopping mall for a period of 9 years. The annual lease rent of Rs. 70,000 is payable at year end. To carry out its operations smoothly, Entity X simultaneously entered into another agreement ('facilities agreement') with Entity Y for using certain other facilities owned by Entity Y such as passenger lifts, DG sets, power supply infrastructure, parking space etc., which are specifically mentioned in the agreement, for annual service charges amounting to Rs. 1,00,000. As per the agreement, the ownership of the facilities shall remain with Entity Y. Lessee's incremental borrowing rate is 10%.

The facilities agreement clearly specifies that it shall be co-existent and coterminous with 'lease agreement'. The facility agreement shall stand terminated automatically on termination or expiry of 'lease agreement'.

Entity X has assessed that the stand-alone price of 'lease agreement' is Rs.1,20,000 per year and stand-alone price of the 'facilities agreement' is Rs.80,000 per year. Entity X has not elected to apply the practical expedient in paragraph 15 of Ind AS 116 of not to separate non-lease component (s) from lease component(s) and accordingly it separates non-lease components from lease components.

How will Entity X account for lease liability as at the commencement date?

Solution :

1) As per IND AS 116, the Entity X identifies that contract contains lease of premises and non-lease component of facilities availed. Since Entity X has not availed practically expedient as provided, it will separate lease and non-lease component.

2) As per IND AS 116, the total consideration of 1,70,000 (1,00,000 + 70,000) should be allocated to lease and non-lease in ratio of their stand along price as follows :

$$\text{Building} = 1,70,000 \times \frac{1,20,000}{1,20,000 + 80,000} = 1,02,000$$

$$\text{Facilities} = 1,70,000 \times \frac{80,000}{1,20,000 + 80,000} = 68,000$$

3) Leases should recognise ROV Asset and Lease liability at commencement date.

Incremental borrowing cost = 10%

∴ PV of LR = 1,02,000 + PVIFA (10%, 9)

= 5,87,420

4) Non lease component of Rs.68,000 should be changed to P/L at end of every year.

Question 2 : Nov 2020 – Paper

Venus Ltd. (Seller-lessee) sells a building to Mars Ltd. (Buyer-lessor) for cash of Rs. 28,00,000. Immediately before the transaction, the building is carried at a cost of Rs. 13,00,000. At the same time, Seller- lessee enters into a contract with Buyer-lessor for the right to use the building for 20 years, with an annual payment of Rs. 2,00,000 payable at the end of each year.

The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements for determining when a performance obligation is satisfied in accordance with Ind AS 115 "Revenue from Contracts with Customers".

The fair value of the building at the date of sale is Rs. 25,00,000. Initial direct costs, if any, are to be ignored. The interest rate implicit in the lease is 12% p.a., which is readily determinable by Seller-lessee. Present Value (PV) of annual payments (20 payments of Rs. 2,00,000 each discounted @ 12%) is Rs. 14,94,000.

Buyer-lessor classifies the lease of the building as an operating lease. How should the said transaction be accounted by Venus Ltd.?

Solution :

Considering facts of the case, Venus Ltd. (seller-lessee) and Mars Ltd. (buyer-lessor) account for the transaction as a sale and leaseback.

Firstly, since the consideration for the sale of the building is not at fair value, Seller-lessee and Buyer - lessor make adjustments to measure the sale proceeds at fair value. Thus, the amount of the excess sale price of Rs. 3,00,000 (as calculated below) is recognised as additional financing provided by Buyer-lessor to Seller-lessee.

Sale Price:	28,00,000
Less: Fair Value (at the date of sale):	(25,00,000)
Additional financing provided by Buyer-lessor to Seller-lessee	3,00,000

The present value of the annual payments is Rs. 14,94,000 (as given in the question).

Out of this Rs. 14,94,000, Rs. 3,00,000 relates to the additional financing (as calculated above) and balance Rs. 11,94,000 relates to the lease.

Accounting by Venus Ltd. (seller-lessee):

At the commencement date, Seller-lessee measures the ROU asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right-of-use retained by Seller-lessee, calculated as follows:

Carrying Amount	(A)	13,00,000
Fair Value (at the date of sale)	(B)	25,00,000
Discounted lease payments for the 20 year ROU asset	(C)	11,94,000
ROU Asset	[(A / B) x C]	6,20,880

Seller-lessee recognises only the amount of the gain that relates to the rights transferred to Buyer-lessor, calculated as follows:

Fair Value (at the date of sale)	(A)	25,00,000

Carrying Amount	(B)	13,00,000
Discounted lease payments for the 20-year ROU asset	(C)	11,94,000
Gain on sale of building	(D) = (A - B)	12,00,000
Relating to the right to use the building retained by Seller-lessee	(E)=[(D/A)xC]	5,73,120
Relating to the rights transferred to Buyer-lessor	(D - E)	6,26,880

At the commencement date, Seller-lessee accounts for the transaction, as follows:

Bank / Cash A/c	Dr.	28,00,000	
ROU Asset A/c	Dr.	6,20,880	
To Building			13,00,000
To Financial Liability			14,94,000
To Gain on rights transferred			6,26,880

Question 3 : Jan 2021 – Paper

Coups Limited availed a machine on lease from Ferrari Limited. The terms and conditions of the Lease are as under:

Lease period is 3 years, machine costing Rs.8,00,000.

- Machine has expected useful life of 5 years.
- Machine reverts back to Ferrari Limited on termination of lease.
- The unguaranteed residual value is estimated at Rs.50,000 at the end of 3rd year.
- 3 equal annual installments are made at the end of each year.
- Implicit Interest Rate (IRR) = 10%.
- Present value of Rs.1 due at the end of 3rd year at 10% rate of interest is 0.7513.
- Present value of annuity of Rs.1 due at the end of 3rd year at 10% IRR is 2.4868.

You are required to ascertain whether it is a Finance Lease or Operating Lease and also calculate Unearned Finance Income with the relevant context to relevant Ind AS.

Solution :

It is assumed that the fair value of the machine on lease is equivalent to the cost of the machine.

(i) 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.

(ii) Computation of annual lease payment to the lessor

	Rs.
Cost of equipment / fair value	8,00,000
Unguaranteed residual value	50,000
Present value of residual value after third year @ 10% (50,000 x 0.7513)	37,565
Fair value to be recovered from lease payments (8,00,000 – 37,565)	7,62,435
Present value of annuity for three years is 2.4868	
Annual lease payment = 7,62,435 / 2.4868	3,06,593

The present value of lease payment i.e., Rs.7,62,435 is more than 95% of the fair market value i.e., Rs.8,00,000. The present value of minimum lease payments substantially covers the initial fair value of the leased asset and lease term (i.e. 3 years) covers the major part of the life of asset (i.e. 5 years). Therefore, it constitutes a finance lease.

(iii) Computation of Unearned Finance Income

	Rs.
Total lease payments (Rs.3,06,593 x 3)	9,19,779
Add: Unguaranteed residual value	50,000
Gross investment in the lease	9,69,779
Less: Present value of investment (lease payments and residual value) (37,565 + 7,62,435)	(8,00,000)
Unearned finance income	1,69,779

Question 4 : May 2021 – RTP

Entity X is an Indian entity whose functional currency is Indian Rupee. It has taken a plant on lease from Entity Y for 5 years to use in its manufacturing process for which it has to pay annual rentals in arrears of USD 10,000 every year. On the commencement date, exchange rate was USD = Rs. 68. The average rate for Year 1 was Rs. 69 and at the end of year 1, the exchange rate was Rs. 70. The incremental borrowing rate of Entity X on commencement of the lease for a USD borrowing was 5% p.a.

How will entity X measure the right of use (ROU) asset and lease liability initially and at the end of Year 1?

Solution :

On initial measurement, Entity X will measure the lease liability and ROU asset as under:

Year	Lease Payments (USD)	Present Value factor @ 5%	Present Value of Lease Payment	Conversion rate (spot rate)	INR value
1	10,000	0.952	9,520	68	6,47,360
2	10,000	0.907	9,070	68	6,16,760
3	10,000	0.864	8,640	68	5,87,520
4	10,000	0.823	8,230	68	5,59,640
5	10,000	0.784	7,840	68	5,33,120
Total			**43,300**		**29,44,400**

As per Ind AS 21, The Effects of Changes in Foreign Exchange Rates, monetary assets and liabilities are restated at each reporting date at the closing rate and the difference due to foreign exchange movement is recognised in profit and loss whereas non-monetary assets and liabilities carried measured in terms of historical cost in foreign currency are not restated.

Accordingly, the ROU asset in the given case being a non-monetary asset measured in terms of historical cost in foreign currency will not be restated but the lease liability being a monetary liability will be restated at each reporting date with the resultant difference being taken to profit and loss.

At the end of Year 1, the lease liability will be measured in terms of USD as under:
Lease Liability:

Year	Initial Value (USD) (a)	Lease Payment (b)	Interest @ 5% (c) = (a x 5%)	Closing Value (USD) (d = a + c - b)
1	43,300	10,000	2,165	35,465

Interest at the rate of 5% will be accounted for in profit and loss at average rate of Rs. 69 (i.e., USD 2,165 x 69) = Rs. 1,49,385.

Particulars		Dr. (Rs.)	Cr. (Rs.)
Interest Expense	Dr.	1,49,385	
To Lease liability			1,49,385

Lease payment would be accounted for at the reporting date exchange rate, i.e. Rs. 70 at the end of year 1

Particulars		Dr. (Rs.)	Cr. (Rs.)
Lease liability	Dr.	7,00,000	
To Cash			7,00,000

As per the guidance above under Ind AS 21, the lease liability will be restated using the reporting date exchange rate i.e., Rs. 70 at the end of Year 1. Accordingly, the lease liability will be measured at Rs. 24,82,550 (35,465 x Rs. 70) with the corresponding impact due to exchange rate movement of Rs. 88,765 (24,82,550 – (29,44,400 + 1,49,385 – 700,000) taken to profit and loss.
At the end of year 1, the ROU asset will be measured as under:

Year	Opening Balance (Rs.)	Depreciation (Rs.)	Closing Balance (Rs.)
1	29,44,400	5,88,880	23,55,520

Question 5 : July 2021 – Paper

Ted entered into a lease contract with lessor to lease 2,000 sqm of retail space for 5 years. The rentals are payable monthly in advance. The lease commenced on 1st April 2019. In the year 2020, as a direct consequence of Covid 19 pandemic, Ted has negotiated with the lessor which may results in the following situations.

- Lessor agrees a rent concession under which the monthly rent will be reduced by 30% per month for the 12 months commencing 1st October, 2020.
- Ted is granted a rent concession by the lessor whereby the lease payments for the period October 2020 to December 2020 are deferred. Three months are added to the end of the lease term at same monthly rent.
- Lessor offers to reduce monthly rent by 50% for the months October 2020 to March 2021 on the condition that its space is reduced from 2,000 sq m to 1,500 sq m.

Analyse the given situations in the light of Ind AS 116 and comment on whether rent concession/deferral is eligible for practical expedient?

Solution :

Applicability of practical expedient:

The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic.

As a practical expedient, a lessee may elect not to assess a rent concession as a lease modification only if **all** 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; and

(c) there is no substantive change to other terms and conditions of the contract

Analysis:

Based on above guidance, answer to the given situations with the lessor would be as follows:

- Lessor agrees a rent concession under which the monthly rent will be reduced by 30% per month for the 12 months commencing 1st October 2020:

  The rent deferral does not satisfy the criteria to apply the practical expedient because out of the listed eligibility criteria given in Ind AS 116, rent concession reduces lease payments starting from October, 2020 and reduction will continue till September, 2021 which is beyond 30th June 2021. Therefore, Ted is not permitted to apply the practical expedient.

- Ted is granted a rent concession by the lessor whereby the lease payments for the period October 2020 to December 2020 are deferred. Three months are added to the end of the lease term at same monthly rent:

  (a) condition is met since revised consideration in the lease is substantially the same as the original

  (b) condition is met since the rent concession only reduces lease payments originally due in 2020 – i.e. before 30th June 2021.

  (c) condition is met since the lessee assesses that three-month extension at the end of the lease term is with substantially the same lease payments. Hence, it would not constitute a substantive change.

  Since, the rent concession is a direct consequence of COVID-19 and all three conditions are met, rent concession is eligible for application of practical expedient in this case.

- Lessor offers to reduce monthly rent by 50% for the months October 2020 to March 2021 on the condition that its space is reduced from 2,000 sqm to 1,500 sqm:

  The rent concession does not satisfy the criteria to apply the practical expedient because out of the listed eligibility criteria given in Ind AS 116, there is a substantive change to the terms and conditions of the lease as there is a change in the scope of lease by reducing the space from 2,000 sqm to 1,500 sqm. Therefore, Ted is not permitted to apply the practical expedient.

Question 6 : Nov 2021 – RTP

The Company has entered into a lease agreement for its retail store as on 1st April, 20X1 for a period of 10 years. A lease rental of Rs. 56,000 per annum is payable in arrears. The Company recognized a lease liability of Rs. 3,51,613 at inception using an incremental borrowing rate of 9.5% p.a. as at 1st April 20X1. As per the terms of lease agreement, the lease rental shall be adjusted every 2 years to give effect of inflation. Inflation cost index as notified by the Income tax department shall be used to derive the lease payments. Inflation cost index was 280 for financial year 20X1-20X2 and 301 for financial year 20X3-20X4. The current incremental borrowing rate is 8% p.a.

Show the Journal entry at the beginning of year 3, to account for change in lease.

Solution :

As per para 27 (b) of Ind AS 116, variable lease payments that depend on an index or a rate, are initially measured using the index or rate as at the commencement date.

At the beginning of the third year, Lessee remeasures the lease liability at the present value of eight payments of Rs. 60,200 discounted at an original discount rate of 9.5% per annum as per para 43 of Ind AS 116.

Year	Revised lease rental	Discount factor @ 9.5%	Present value
3	[(56,000 / 280) x 301] = 60,200	0.913	54,963
4	60,200	0.834	50,207
5	60,200	0.762	45,872
6	60,200	0.696	41,899
7	60,200	0.635	38,277
8	60,200	0.58	34,916
9	60,200	0.53	31,906
10	60,200	0.484	29,137
			3,27,127

Table showing amortised cost of lease liability

Year	Opening balance	Interest @ 9.5%	Rental paid	Closing balance
1	3,51,613	33,403	56,000	3,29,016
2	3,29,016	31,257	56,000	3,04,273

Difference of Rs. 22,854 (3,27,127 – 3,04,273) will increase the lease liability with corresponding increase in ROU Asset as per para 39 of Ind AS 116.

Journal entry at the beginning of year 3 would be:

Right-of-use asset Dr. Rs. 22,854

To Lease liability Rs. 22,854

Question 7 : May 2022 – RTP

Case I

Scenario 1: The 'last mile' is a dedicated cable that connects Entity Y's network with the end customer's device. The use of this cable is at the discretion of the customer. Entity Y decides the location of end points and has right to replace the lines (dedicated cable), however it is not practical to replace the lines, since replacement would require additional costs to be incurred without any corresponding benefit. Whether the arrangement would be within the scope of Ind AS 116?

Scenario 2: If it is practical for the Entity Y to replace the lines and Entity Y would benefit from this replacement, would the answer be different?

Case II

Customer X enters into a 10-year contract with a utility company, Entity Y, for the right to use three specified, physically distinct fibers within a larger cable connecting Mumbai to Delhi. Customer makes the decisions about the use of the fibers by connecting each end of the fibers to its electronic equipment. Entity Y owns extra fibers but can substitute those for Customer's fibers only for reasons of repairs, maintenance or malfunction. The useful life of the fiber is 15 years. Whether this arrangement is covered under Ind AS 116?

Case III

Customer X enters into a 10-year contract with Entity Y for the right to use a specified amount of capacity within a cable connecting Mumbai to Delhi. The specified amount is equivalent to Customer X having the use of the full capacity of three fiber strands within the cable (the cable contains multiple fibers with similar capacities). Entity Y makes decisions about the transmission of data (i.e., Entity Y lights the fibers, makes decisions about which fibers are used to transmit Customer's traffic). The useful life of the fiber is 15 years. Whether this arrangement is covered under Ind AS 116?

Solution :

Paragraph 9, B9, B13 and B14 of Ind AS 116 state the following:

"9 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."

"B9 To assess whether a contract conveys the right to control the use of an identified asset for a period of time, an entity shall assess whether, throughout the period of use, the customer has both of the following:

(a) the right to obtain substantially all of the economic benefits from use of the identified asset; and

(b) the right to direct the use of the identified asset."

"B13 An asset is typically identified by being explicitly specified in a contract. However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer."

"B14 Even if an asset is specified, a customer does not have the right to use an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use. A supplier's right to substitute an asset is substantive only if both of the following conditions exist:

(a) the supplier has the practical ability to substitute alternative assets throughout the period of use (for example, the customer cannot prevent the supplier from substituting the asset and alternative assets are readily available to the supplier or could be sourced by the supplier within a reasonable period of time); and

(b) the supplier would benefit economically from the exercise of its right to substitute the asset (i.e., the economic benefits associated with substituting the asset are expected to exceed the costs associated with substituting the asset)."

Paragraph B20 of Ind AS 116 which provides guidance regarding identified asset in case of portion of assets states that a capacity portion of an asset is an identified asset if it is physically distinct (for example, a floor of a building). A capacity or other portion of an asset that is not physically distinct (for example, a capacity portion of a fibre optic cable) is not an identified asset, unless it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from use of the asset.

Paragraph B21 of Ind AS 116, inter alia, states that to control the use of an identified asset, a customer is required to have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use (for example, by having exclusive use of the asset throughout that period). A customer can obtain economic benefits from use of an asset directly or indirectly in many ways, such as by using, holding or subleasing the asset.

Further, paragraph B24 of Ind AS 116 provides that a customer has the right to direct the use of an identified asset throughout the period of use if the customer has the right to direct how and for what purpose the asset is used throughout the period of use.

Paragraph B25 of Ind AS 116 states that a customer has the right to direct how and for what purpose the asset is used if, within the scope of its right of use defined in the contract, it can change how and for what purpose the asset is used throughout the period of use. In making this assessment, an entity considers the decision-making rights that are most relevant to changing how and for what purpose the asset is used throughout the period of use. Decision-making rights are relevant when they affect the economic benefits to be derived from use. The decision-making rights that are most relevant are likely to be different for different contracts, depending on the nature of the asset and the terms and conditions of the contract.

Case I

Scenario 1:

(i) As per paragraph B13 of Ind AS 116, 'Last mile' which is a dedicated cable is an identified asset since it is physically distinct.

(ii) There are no substantive substitution rights with Entity Y, as it does not have the practical ability to substitute alternative assets throughout the period of use.

Thus, this arrangement is within the scope of Ind AS 116.

Scenario 2:

If Entity Y has the practical ability to replace the lines and it would benefit from such replacement, Entity Y has substantive substitution rights. In such case, this arrangement for the 'last mile cable' will not be within the scope of Ind AS 116.

Case II

The fibers are specified in the contract and are physically distinct. Hence, in accordance with paragraph B13 and B20, the said three fibers are identified asset.

Paragraph B18, inter alia, states that the supplier's right or obligation to substitute the asset for repairs and maintenance, if the asset is not operating properly or if a technical upgrade becomes available does not preclude the customer from having the right to use an identified asset.
Further, paragraph B27 provides that although rights such as those to operate or maintain an asset are often essential to the efficient use of an asset, they are not rights to direct how and for what purpose the asset is used and can actually be dependent on the decisions about how and for what purpose the asset is used.
In accordance with the above, as Entity Y can substitute these three distinct fibers only for reasons of repairs, maintenance or malfunction, it does not preclude them from being an identified asset. Further, the Customer X has right to control the use of the identified fibers for 10 year since it has–

(a) the right to obtain substantially all of the economic benefits from use of the identified fibers throughout the period of use, i.e., 10 years; and
(b) the right to direct the use of the fibers as it makes the decisions about the use of the fibers, i.e., it has right to direct how and for what purpose the fibers are used throughout the period of use.

Hence, this arrangement is within the scope of Ind AS 116.

Case III

Paragraph B20 specifically provides that a capacity or other portion of an asset that is not physically distinct (for example, a capacity portion of a fiber optic cable) is not an identified asset, unless it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from use of the asset.
In the given case, the capacity portion that will be provided to Customer X is not physically distinct from the remaining capacity of the cable and does not represent substantially all of the capacity of the cable, thus, it is not an identified asset. Further, Entity Y makes all decisions about the transmission of data, (i.e., supplier lights the fibers, makes decisions about which fibers are used to transmit customer's traffic).
Thus, the contract does not contain a lease and is therefore not within the scope of Ind AS 116.

Question 8 : Nov 2022 – RTP

A company manufactures specialised machinery. The company offers customers the choice of either buying or leasing the machinery. A customer chooses to lease the machinery. Details of the arrangement are as follows:

(i) The lease commences on 1st April, 20X1 and lasts for three years.
(ii) The lessee is required to make three annual rentals payable in arrears of Rs. 57,500.
(iii) The leased machinery is returned to the lessor at the end of the lease.
(iv) The fair value of the machinery is Rs. 1,50,000, which is equivalent to the selling price of the machinery
(v) The machinery cost Rs. 1,00,000 to manufacture. The lessor incurred costs of Rs. 2,500 to negotiate and arrange the lease.
(vi) The expected useful life of the machinery is 3 years. The machinery has an expected residual value of Rs. 10,000 at the end of year three. The estimated residual value does not change over the term of the lease.

(vii) The interest rate implicit in the lease is 10.19%.

The lessor classifies the lease as a finance lease.

How should the Lessor account for the same in its books of accounts? Pass necessary journal entries.

Solution :

The cost to the lessor for providing the machinery on lease consists of the book value of the machinery (Rs. 1,00,000), plus the initial direct costs associated with entering into the lease (Rs. 2,500), less the future income expected from disposing of the machinery at the end of the lease (the present value of the unguaranteed residual value of Rs. 10,000 discounted @ 10.19%, being Rs. 7,470). This gives a cost of sale of Rs. 95,030.

The lessor records the following entries at the commencement of the lease:

		Rs.	Rs.
Lease receivable	Dr.	1,50,000	
Cost of sales	Dr.	95,030	
To Inventory			1,00,000
To Revenue			1,42,530
To Creditors/Cash			2,500

The sales profit recognised by the lessor at the commencement of the lease is therefore Rs. 47,500 (Rs. 1,42,530 - Rs. 95,030). This is equal to the fair value of the machinery of Rs. 1,50,000, less the book value of the machinery (Rs. 1,00,000) and the initial direct costs of entering into the lease (Rs. 2,500). Revenue is equal to the lease receivable (Rs. 1,50,000), less the present value of the unguaranteed residual value (Rs. 7,470).

Year	Lease receivable at the beginning of year (Rs.) (a)	Lease payments (Rs.) (b)	Interest Income (10.19% per annum) (Rs.) (c)	Decrease In lease receivable (Rs.) (d)=(b)-(c)	Lease receivable at the end of year (Rs.) (e)=(a)-(d)
1	1,50,000	57,500	15,285	42,215	1,07,785
2	1,07,785	57,500	10,983	46,517	61,268
3	61,268	57,500	6,232*	51,268	10,000

*Difference is due to approximation

The lessor will record the following entries:

			Rs.	Rs.
Year 1	Cash/Bank	Dr.	57,500	
	To Lease receivable			42,215
	To Interest income			15,285
Year 2	Cash/Bank	Dr.	57,500	
	To Lease receivable			46,517
	To Interest income			10,983
Year 3	Cash/Bank	Dr.	57,500	

	To Lease receivable		51,268
	To Interest income		6,232

At the end of the three-year lease term, the leased machinery will be returned to the lessor, who will record the following entries:

		Rs.	Rs.
Inventory	Dr.	10,000	
To Lease receivable			10,000

Question 9 : Nov 2022 – Paper

Lessee enters into a 10 years lease for 6000 square metres of office space. The annual lease payments are Rs.1,00,000 payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 8% p.a. At the beginning of the 6th year, lessee and lessor agree to amend the original lease to reduce the space to only 3000 square metres of the original space starting from the first quarter of year 6. The annual fixed lease payments (from year 6 to year 10) are Rs.60,000. Lessee's incremental borrowing rate at the beginning of year 6 is 6% p.a.

You are required to analyse the effect of the said modification and give journal entries for the same in the books of Lessee.

Note : Give your calculation by adopting the present value factor as :

Year	1	2	3	4	5	6	7	8	9	10
8%	0.9259	0.8573	0.7938	0.7350	0.6806	0.6302	0.5835	0.5403	0.5002	0.4632
6%	0.9434	0.8900	0.8396	0.7921	0.7473	0.7050	0.6651	0.6274	0.5919	0.5584

Solution :

Calculation of ROU asset and lease liability before modification: **(in Rs.)**

Year	Lease Liability				ROU asset		
	Initial value	Lease payments	Interest expense @ 8%	Closing balance	Initial Value	Depreciation	Closing balance
	a	b	c = a x 8%	d = a - b + c	e	f	g
1	6,71,000 (Refer W.N.)	1,00,000	53,680	6,24,680	6,71,000	67,100	6,03,900
2	6,24,680	1,00,000	49,974	5,74,654	6,03,900	67,100	5,36,800
3	5,74,654	1,00,000	45,972	5,20,626	5,36,800	67,100	4,69,700
4	5,20,626	1,00,000	41,650	4,62,276	4,69,700	67,100	4,02,600
5	4,62,276	1,00,000	36,982	3,99,258	4,02,600	67,100	3,35,500
6	3,99,258				3,35,500		

At the effective date of the modification (at the beginning of Year 6), Lessee remeasures the lease liability based on:

(a) A five-year remaining lease term,

(b) Annual payments of Rs. 60,000 and

(c) Lessee's incremental borrowing rate of 6% p.a.

Year	Lease Payment (A)	Present value factor @ 6% (B)	Present value of lease payments (A x B = C)
6	60,000	0.9434	56,604
7	60,000	0.8900	53,400
8	60,000	0.8396	50,376
9	60,000	0.7921	47,526
10	60,000	0.7473	44,838
Total			2,52,744

Alternative manner of above calculation:
Annual lease payments x Sum of PVF from year 6th year to 10th year @ 6% discount rate
= Rs. 60,000 x 4.2124 = Rs. 2,52,744

Lessee determines the proportionate decrease in the carrying amount of the ROU Asset on the basis of the remaining ROU Asset (i.e., 3,000 square metres corresponding to 50% of the original ROU Asset).

50% of the pre-modification ROU Asset (Rs. 3,35,500) is Rs. 1,67,750.

50% of the pre-modification lease liability (Rs. 3,99,258) is Rs. 1,99,629.

Consequently, lessee reduces the carrying amount of the ROU Asset by Rs. 1,67,750 and the carrying amount of the lease liability by Rs. 1,99,629 and recognises the difference between the decrease in the lease liability and the decrease in the ROU Asset (Rs. 1,99,629 – Rs. 1,67,750 = Rs. 31,879) as a gain in profit or loss account at the effective date of the modification (at the beginning of Year 6).

Journal Entry

Particulars		Debit (Rs.)	Credit (Rs.)
Lease Liability	Dr.	1,99,629	
To ROU Asset			1,67,750
To Profit & Loss			31,879

Lessee recognises the difference between the reduced 50% lease liability of Rs. 1,99,629 and the modified lease liability of Rs. 2,52,744 (which equals Rs. 53,115) as an adjustment to the ROU Asset reflecting the change in the consideration paid for the lease and the revised discount rate.

Journal Entry

Particulars		Debit (Rs.)	Credit (Rs.)
ROU Asset	Dr.	53,115	
To Lease Liability			53,115

Working Note:

Calculation of Initial value of ROU asset and lease liability:

Year	Lease Payment(A)	Present value factor @ 8% (B)	Present value of lease payments (A x B = C)

1	1,00,000	0.9259	92,590
2	1,00,000	0.8573	85,730
3	1,00,000	0.7938	79,380
4	1,00,000	0.7350	73,500
5	1,00,000	0.6806	68,060
6	1,00,000	0.6302	63,020
7	1,00,000	0.5835	58,350
8	1,00,000	0.5403	54,030
9	1,00,000	0.5002	50,020
10	1,00,000	0.4632	46,320
			6,71,000

Alternative manner of above calculation:
Annual lease payments x Sum of PVF from year 1 to 10 @ 8% discount rate
= Rs. 1,00,000 x 6.71 = Rs. 6,71,000

Note: It is assumed that even after modification, annual lease payment will continue to be made at the end of the year as mentioned under the original terms of the lease.

Question 10 : May 2023 – RTP

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

Scenario A:

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

Scenario B:

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

Solution :

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

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

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

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

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

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

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

Scenario A

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

To account for the lease incentive

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

Recurring monthly journal entries in Years 1 – 5

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

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

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

Scenario B

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

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

To record the lease incentive

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

Recurring monthly journal entries in Years 1 – 5

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

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

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

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

Question 11 : Nov 2023 – RTP

Entity X, a utility company enters into a contract for twenty years with Entity Y, a power company, to purchase all of the electricity produced by a new solar power station. The solar power station is explicitly specified in the contract and Entity Y has no substitution rights. Entity Y owns the solar power station and will receive tax credits relating to the construction and ownership of the solar power station, and Entity X will receive renewable energy credits that accrue from use of the solar power station.

Whether Entity X has the right to obtain substantially all of the economic benefits from the solar power station during the period of arrangement?

Solution :

Paragraphs B21 of Ind AS 116 states that to control the use of an identified asset, a customer is required to have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use (for example, by having exclusive use of the asset throughout that period). A customer can obtain economic benefits from use of an asset directly or indirectly in many ways, such as by using, holding or subleasing the asset. The economic benefits from use of an asset include its primary output and by-products (including potential cash flows derived from these items), and other economic benefits from using the asset that could be realised from a commercial transaction with third party.

In the given case, Entity X has the right to obtain substantially all of the economic benefits from the use of the solar power station over the 20-year period because it obtains:

– electricity produced by the power station i.e. the primary product from use of the asset over the lease term and
– renewable energy credits – i.e. the by-product from use of the asset.

Although Entity Y will receive economic benefits from the solar power station in the form of tax credits, those economic benefits relate to the ownership of the solar power station rather than the use of the power station. Thus, these credits are not considered in this assessment.

Question 12 : Nov 2023 – Paper

A consumer products entity, Entity A Limited (lessee) enters into a lease agreement with Entity B Limited (lessor) for a dedicated production line to manufacture one of its store-brand household products for a period of three years. Entity A Limited has agreed to order a minimum 1,00,000 units per month and to make a payment to Entity B Limited as per the following agreed rates:

(i) Rs. 240 per unit if the ordered quantity is between 1,00,000 to 1,20,000 units;
(ii) Rs. 246 per unit if the ordered quantity is between 1,20,001 to 1,50,000 units.

As per the terms of the agreement, Entity A Limited has the exclusive right to use the production line. Entity B Limited cannot use the specified production line for any other customer. The type of household product is specified in the contract. Entity A Limited issues instructions to Entity B about the quantity and timing of products to be delivered. If the production line is not producing the household product for Entity A, it remains idle. Entity B Limited operates and maintains the production line on a daily basis. Entity A Limited has estimated that for manufacturing each unit, Entity B Limited incurs an average cost of Rs. 195. Further, the observable stand-alone price for

the rent of the production line is Rs. 60,00,000 per month. Entity A Limited's incremental borrowing rate at the commencement date of the lease is 10% per annum.

Entity A Limited concludes that the arrangement contains a lease as per Ind AS 116. It also elects not to apply the practical expedient in paragraph 15 of Ind AS 116 of not to separate the non-lease component(s) from the lease component(s). Accordingly, it separates non-lease components from lease components.

You are required to:

(i) Analyse the above and identify lease component(s) and non-lease component(s);

And at the commencement of the lease:

(ii) Compute and allocate the consideration into lease component(s) & non-lease component(s);

(iii) Compute the lease liability (the present value factor @ 10% per annum of 2.49 for 3 years may be adopted);

(iv) Determine the recognition / treatment of lease component(s) and non-lease component(s).

Solution :

(i) and (ii) Identification of lease and non-lease components and allocation of consideration into these components

In the given case, the agreement contains a lease component (production line) and a non-lease component (job work). As Entity A has not elected to apply the practical expedient as provided in paragraph 15 of Ind AS 116, it will separate the lease and non-lease components and allocate the total consideration to the lease and non-lease components in the ratio of their relative stand-alone selling prices.

As Entity A is required to purchase a minimum of 1,00,000 units per month at the rate of Rs. 240 per unit, there is in substance fixed payment of Rs. 2,40,00,000 per month – although the payments are structured as variable lease payments, there is no genuine variability in those payments as Entity A is required to purchase a minimum quantity 1,00,000 units per month, i.e., for Rs. 2,40,00,000 per month.

The observable stand-alone price for lease component (which is factory rent) is Rs. 60,00,000. The observable stand-alone price of non-lease component (which is job work charges) is Rs. 1,95,00,000 (Rs. 195 x 1,00,000 units).

Entity A is required to allocate the total consideration per month as follows:

Observable standalone price: Lease component	Rs. 60,00,000
Observable standalone price: Non-lease component	Rs. 1,95,00,00
Total	Rs. 2,55,00,000
Lease component as a percentage of observable prices (Rs. 60 lakh / Rs. 255 lakh) x 100	23.53%
Allocation of consideration to lease component (Rs. 2,40,00,000 x 23.53%)	Rs. 56,47,200
Non-lease component (Rs. 2,40,00,000 – Rs. 56,47,200)	Rs. 1,83,52,800

(iii) Computation of lease liability

The total allocation for a year will be Rs. 6,77,66,400 (Rs. 56,47,200 x 12)

As Entity A's incremental borrowing rate is 10%, it discounts lease payments using this rate and the lease liability at the commencement date is calculated as follows:

Lease Liability at commencement date = Rs. 6,77,66,400 x 2.49 = Rs. 16,87,38,336.

(iv) Accounting treatment of lease components and non-lease component

(a) Entity A recognises lease liability amounting to Rs. 16,87,38,336 as at commencement date based on lease payments amounting to Rs. 56,47,200 per month.

(b) The remaining amount of Rs. 1,83,52,800 (Rs. 2,40,00,000 – Rs. 56,47,200) which is attributable to job work charges is recognised in the statement of profit and loss as and when incurred.

Question 13 : May 2024 – Paper

Sun Limited has entered into a Lease Agreement with Moon Limited for taking on lease an office building of 1000 square feet at the rate of Rs. 500 per square feet per annum for a period of 10 years. The annual lease payments are payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Sun Limited's incremental rate of borrowing at the commencement date is 6% per annum. At the beginning of the year 7, the lessor and the lessee agree to amend the original lease by extending the contractual lease term by another four years. The annual lease payments are unchanged for the extended period also. Sun Limited's incremental rate of borrowing at the commencement of Year is 7% per annum.

How should the said modification be accounted for in the books of Sun Limited? Give your calculation by adopting the Present Value factor as under:

Year	1	2	3	4	5	6	7	8	9	10	Cumul.
7%	0.935	0.873	0.816	0.763	0.713	0.666	0.623	0.582	0.544	0.508	7.023
6%	0.943	0.890	0.840	0.792	0.747	0.705	0.665	0.627	0.592	0.558	7.359

Solution :

At the effective date of the modification (at the beginning of Year 7), Sun Ltd. (Lessee) remeasures the lease liability based on:

(a) An eight-year remaining lease term

(b) Annual payments of Rs. 5,00,000 and

(c) Lessee's incremental borrowing rate of 7% p.a.

1. Calculation of Lease liability as at commencement date

Year	Lease Payment	Present value factor @ 6%	Present value of lease payments
	(A)	(B)	(A x B = C)
	Rs.	Rs.	Rs.
1	5,00,000	0.943	4,71,500
2	5,00,000	0.890	4,45,000
3	5,00,000	0.840	4,20,000

4	5,00,000	0.792	3,96,000
5	5,00,000	0.747	3,73,500
6	5,00,000	0.705	3,52,500
7	5,00,000	0.665	3,32,500
8	5,00,000	0.627	3,13,500
9	5,00,000	0.592	2,96,000
10	5,00,000	0.558	2,79,000
Lease liability as at commencement date			36,79,500

Alternatively, Present Value of lease liability may be calculated as follows:
= Rs. 5,00,000 x 7.359 = Rs. 36,79,500.

2. Calculation of Lease liability immediately before modification date

Year	Opening lease liability	Interest @ 6%	Lease payments	Closing liability
	(A)	(B) =[A x 6%]	(C)	(D) = [A+B-C]
	Rs.	Rs.	Rs.	Rs.
1	36,79,500 (W.N.1)	2,20,770	5,00,000	34,00,270
2	34,00,270	2,04,016	5,00,000	31,04,286
3	31,04,286	1,86,257	5,00,000	27,90,543
4	27,90,543	1,67,433	5,00,000	24,57,976
5	24,57,976	1,47,479	5,00,000	21,05,455
6	21,05,455	1,26,327	5,00,000	17,31,782
				17,31,782
	Lease liability as at modification date			

3. Calculation of modified lease liability

Year	Lease Payment	Present value factor @ 7%	Present value of lease payments
	(A)	(B)	(A x B=C)
	Rs.	Rs.	Rs.
7	5,00,000	0.935	4,67,500
8	5,00,000	0.873	4,36,500
9	5,00,000	0.816	4,08,000
10	5,00,000	0.763	3,81,500
11	5,00,000	0.713	3,56,500
12	5,00,000	0.666	3,33,000
13	5,00,000	0.623	3,11,500
14	5,00,000	0.582	2,91,000
Modified lease liability			29,85,500

Alternatively, Present Value of lease payment of modified lease term may be calculated as follows:
= Rs. 5,00,000 x 5.971 = Rs. 29,85,500.

4. Adjustment to ROU asset

	Rs.
Modified Lease liability (W.N.3)	29,85,500
Original Lease liability as at modification date (W.N.2)	(17,31,782)
Adjustment to ROU asset	12,53,718

The modified lease liability equals Rs. 29,85,500 (W.N. 3). The lease liability immediately before the modification (including the recognition of the interest expense until the end of Year 6) is Rs. 17,31,782 (W.N.2). Sun Ltd. (Lessee) recognises the difference between the carrying amount of the modified lease liability and the carrying amount of the lease liability immediately before the modification (i.e., Rs. 12,53,718) (W.N.4) as an adjustment to the ROU Asset.
The ROU asset will be increased by Rs. 12,53,718 on the date of modification.

Question 14 : Nov 2024 – RTP

Case I

Scenario 1: The 'last mile' is a dedicated cable that connects Entity Y's network with the end customer's device. The use of this cable is at the discretion of the customer. Entity Y decides the location of end points and has right to replace the lines (dedicated cable), however it is not practical to replace the lines, since replacement would require additional costs to be incurred without any corresponding benefit. Whether the arrangement would be within the scope of Ind AS 116?

Scenario 2: If it is practical for Entity Y to replace the lines and Entity Y would benefit from this replacement, would the answer be different?

Case II

Customer X enters into a 10-year contract with a utility company, Entity Y, for the right to use three specified, physically distinct fibers within a larger cable connecting Mumbai to Delhi. Customer makes the decisions about the use of the fibers by connecting each end of the fibers to its electronic equipment. Entity Y owns extra fibers but can substitute those for Customer's fibers only for reasons of repairs, maintenance or malfunction. The useful life of fiber is 15 years. Whether this arrangement is covered under Ind AS 116?

Case III

Customer X enters into a 10-year contract with Entity Y for the right to use a specified amount of capacity within a cable connecting Mumbai to Delhi. The specified amount is equivalent to Customer X having the use of the full capacity of three fiber strands within the cable (the cable contains multiple fibers with similar capacities). Entity Y makes decisions about the transmission of data (i.e., Entity Y lights the fibers, makes decisions about which fibers are used to transmit Customer's traffic). The useful life of fiber is 15 years.
Whether this arrangement is covered under Ind AS 116?

Solution :

Case I

Scenario 1:

(i) As per paragraph B13 of Ind AS 116, 'Last mile' which is a dedicated cable is an identified asset since it is physically distinct.

(ii) There are no substantive substitution rights with Entity Y, as it does not have the practical ability to substitute alternative assets throughout the period of use.
Thus, this arrangement is within the scope of Ind AS 116.

Scenario 2:

If Entity Y has the practical ability to replace the lines and it would benefit from such replacement, Entity Y has substantive substitution rights. In such case, this arrangement for the 'last mile cable' will not be within the scope of Ind AS 116.

Case II

The fibers are specified in the contract and are physically distinct. Hence, in accordance with paragraph B13 and B20, the said three fibers are identified asset.

Paragraph B18, inter alia, states that, "the supplier's right or obligation to substitute the asset for repairs and maintenance, if the asset is not operating properly or if a technical upgrade becomes available does
not preclude the customer from having the right to use an identified asset."

Further, paragraph B27 provides that although rights such as those to operate or maintain an asset are often essential to the efficient use of an asset, they are not rights to direct how and for what purpose the asset is used and can actually be dependent on the decisions about how and for what purpose the asset is used.

In accordance with the above, as Entity Y can substitute these three distinct fibers only for reasons of repairs, maintenance or malfunction, it does not preclude them from being an identified asset.

Further, the Customer X has right to control the use of the identified fibers for 10 year since it has -

(a) the right to obtain substantially all of the economic benefits from use of the identified fibers throughout the period of use, i.e., 10 years; and

(b) the right to direct the use of the fibers as it makes the decisions about the use of the fibers, i.e., it has right to direct how and for what purpose the fibers are used throughout the period of use.

Hence, this arrangement is within the scope of Ind AS 116.

Case III

Paragraph B20 specifically provides that a capacity or other portion of an asset that is not physically distinct (for example, a capacity portion of a fiber optic cable) is not an identified asset, unless it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from use of the asset.

In the given case, the capacity portion that will be provided to Customer X is not physically distinct from the remaining capacity of the cable and does not represent substantially all of the capacity of the cable, thus, it is not an identified asset. Further, Entity Y makes all decisions about the

transmission of data, (i.e., supplier lights the fibers, makes decisions about which fibers are used to transmit customer's traffic).
Thus, the contract does not contain a lease and is therefore not within the scope of Ind AS 116.

Question 15 : Sept 2025 – RTP

Wealth Ltd. has entered into lease agreement with a lessor for a period of 5 years at the annual lease rental of Rs. 8 lakhs. There is an option at the end of the said period that lease can be owned by lessee. Other factors to be noted are discount rate of 8% per annum and interest rate implicit in the lease of 10% per annum.
Wealth Ltd. is reasonably certain to exercise the option to purchase the leased asset at the end of lease term and Rs. 56,00,000 is the exercise price agreed in the lease term for purchasing of land at the end of the 5th year. Therefore, the same has been considered in computing the present value of the lease liability.
At the end of the year 3, Wealth Ltd. exercised the option to purchase the land at value of Rs. 56 lakhs, whereas the market value on that date was Rs. 75 lakhs.
For revised discount rate, consider the interest rate implicit in the lease.

Required

(i) Calculate the lease liability and right of use asset for the lease with the lessor. RoU is depreciated on SLM basis.

(ii) Provide the amounts reflecting in the balance sheet, profit and loss and statement of cash flows at the end of year 1.

(iii) What are the accounting entries if Wealth Ltd. decides to purchase the leased property at the end of year 3?

Solution :

(i) Calculation of ROU Asset and Lease Liability:

Year	Lease Payments / Purchase Price	PVF @ 10%	PV of Lease payments
1	8,00,000	0.909	7,27,200
2	8,00,000	0.826	6,60,800
3	8,00,000	0.751	6,00,800
4	8,00,000	0.683	5,46,400
5	64,00,000 (8,00,000 + 56,00,000)	0.621	39,74,400
			65,09,600

Entity would amortise the right-of-use asset over the useful life of the underlying asset (5 years). Annual amortisation expense would be Rs. 13,01,920 (Rs. 65,09,600 / 5 years). Accordingly, ROU Asset balance at the end of Year 1 is Rs. 52,07,680 (Rs. 65,09,600 - Rs. 13,01,920).

(ii) Presentation at the end of Year 1:

In Balance Sheet	In Profit and Loss	In Statement of Cash Flows
ROU Asset:	Depreciation	Cash flow from financing activities:

Rs. 52,07,680 (W.N.2)	= Rs. 13,01,920 (W.N.2)	Lease payment = Rs. 8,00,000
Lease Liability: Rs. 63,60,560 (W.N.1)	Interest expense (Finance cost) = Rs. 6,50,960 (W.N.1)	

(iii) In the above part (i), it was considered that lessee was reasonably certain that he will exercise the option at the end of 5th year that's why the same has been considered in determination of lease payment. Now, lessee is exercising the option at the end of 3rd year which implies that there is **change in the assessment of an option** to purchase the underlying asset. Hence, paras 39 and 40(b) of IFRS 16 will come into the picture which are as follows (only relevant part have been reproduced here):

39 After the commencement date, a lessee shall apply paragraphs 40–43 to remeasure the lease liability 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.

40 A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate,

if either:

(a)

(b) **there is a change in the assessment of an option to purchase the underlying asset**, assessed considering the events and circumstances described in paragraphs 20–21 in the context of a purchase option. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

Therefore, the lease liability has to be remeasured on change in the assessment of exercising the option.

Original lease liability is Rs. 60,16,278 (Working Note 1). Since at the end of the 3rd year, the lease has been terminated due to exercise of option to purchase the asset, the revised lease liability is the amount paid on exercising the option i.e. Rs. 56,00,000. The difference of original lease liability and revised lease liability will decrease the carrying amount of the right-of-use asset.

Accordingly, the adjustment to ROU Asset would be

= Rs. 60,16,278–Rs. 56,00,000 = Rs. 4,16,278.

Journal Entry

Particulars		**(Rs.)**	**(Rs.)**
Lease liability	Dr.	4,16,278	
To ROU Asset			4,16,278
(Adjustment of difference in original lease liability and revised lease liability to ROU Asset)			
PPE	Dr.	21,87,562	
To ROU Asset			

(Rs. 26,03,840 (Refer W.N.2) - Rs. 4,16,278) (ROU Asset balance transferred to PPE on exercising of lease option)			
Lease Liability	Dr.	56,00,000	
To Bank/Lease payable			56,00,000
(Extinguishment of lease liability)			

Note: We have stopped till the entry to exercise the option to purchase the leased asset (as per the requirement of the question). Treatment for change in the value of PPE due to its fair value has not been considered here.

Working Notes:

1. Calculation of outstanding Lease Liability at the end of 3rd year

Year	Opening balance (A)	Interest @ 10% (B)	Lease payments (C)	Closing balance (A) + (B) - (C)
	Rs.	Rs.	Rs.	Rs.
1	65,09,600	6,50,960	8,00,000	63,60,560
2	63,60,560	6,36,056	8,00,000	61,96,616
3	61,96,616	6,19,662	8,00,000	60,16,278

2. Calculation of ROU Asset balance at the end of 3rd year

Year	Opening balance (A)	Depreciation (B)	Closing balance (A-B)
	Rs.	Rs.	Rs.
1	65,09,600	13,01,920	52,07,680
2	63,60,560	13,01,920	39,05,760
3	61,96,616	13,01,920	26,03,840

Thanks ....

IND AS – 41 AGRICULTURE

CHAPTER - 11

Question 1 : Nov 2018 – RTP

As at 31st March, 2017, a plantation consists of 100 Pinus Radiata trees that were planted 10 years earlier. The tree takes 30 years to mature, and will ultimately be processed into building material for houses or furniture. The enterprise's weighted average cost of capital is 6% p.a.
Only mature trees have established fair values by reference to a quoted price in an active market. The fair value (inclusive of current transport costs to get 100 logs to market) for a mature tree of the same grade as in the plantation is:
As at 31st March, 2017: 171
As at 31st March, 2018: 165
Assume that there would be immaterial cash flow between now and point of harvest.
The present value factor of Rs.1 @ 6% for
19th year = 0.331
20th year = 0.312
State the value of such plantation as on 31st March, 2017 and 2018 and the gain or loss to be recognised as per Ind AS.

Solution :

As at 31st March, 2017, the mature plantation would have been valued at 17,100 (171 x 100).
As at 31st March, 2018, the mature plantation would have been valued at 16,500 (165 x 100).
Assuming immaterial cash flow between now and the point of harvest, the fair value (and therefore the amount reported as an asset on the statement of financial position) of the plantation is estimated as follows:
As at 31st March, 2017: 17,100 x 0.312 = 5,335.20.
As at 31st March, 2018: 16,500 x 0.331 = 5,461.50.

Gain or loss

The difference in fair value of the plantation between the two year end dates is 126.30 (5,461.50 – 5,335.20), which will be reported as a gain in the statement or profit or loss (regardless of the fact that it has not yet been realised).

Question 2 : Nov 2020 – RTP

Entity A purchased cattle at an auction on 30th June 2019

Purchase price at 30th June 2019	Rs.1,00,000
Costs of transporting the cattle back to the entity's farm	Rs.1,000
Sales price of the cattle at 31st March, 2020	Rs.1,10,000

The company would have to incur similar transportation costs if it were to sell the cattle at auction, in addition to an auctioneer's fee of 2% of sales price. The auctioneer charges 2% of the selling price, from both, the buyer as well as the seller.
Calculate the amount at which cattle is to be recognised in books on initial recognition and at year end 31st March, 2020.

Solution :

1) As per IND AS 41, Biological Assets should be measured at fair value less cost to sale. According, cattle should be recognised at

Purchase price	1,00,000
– Cost of transportation	1,000
– Auctioneer's commission (2%)	2,000
	97,000

2) Since the amount paid is 1,03,000, i.e. (1,00,000 + 1,000 + 2,000) the difference should be recorded as recognition loss.

3) Subsequent measurement at 31/3/2020

Sale value	1,10,000
– Transport cost	1,000
– Auctioneer Commission (2%)	2,200
	1,06,800

Question 3 : Jan 2021 – Paper

On 1st November 2019, Crattle Agro Limited purchased 100 goats of special breed from a market for Rs.10,00,000 with a transaction cost of 2%. Goats fair value decreased from Rs.10,00,000 to Rs.9,00,000 as on 31st March 2020. Determine the fair value on the date of purchase and as on financial year ended 31st March 2020. Also pass relevant journal entries on 1st November 2019 and 31st March 2020.

Solution :

The fair value less cost to sell of goats on the date of purchase i.e. on 1st November, 2019, would be Rs.9,80,000 (10,00,000-20,000). Expense of Rs. 20,000 would be recognised in profit and loss.

On date of Purchase

Biological Asset	Dr.	9,80,000	
Expense on initial recognition	Dr.	20,000	
To Bank			10,00,000

(Being biological asset purchased)

On 31st March, 2020 goats would be measured at Rs. 8,82,000 as Biological Asset (9,00,000-18,000) and loss of Rs. 98,000 (9,80,000 - 8,82,000) would be recognised in profit or loss.

At the end of reporting period

Loss – Change in fair value	Dr.	98,000	
To Biological Asset			98,000

(Being change in fair value recognised at the end of reporting period)
Note: It is assumed that the transaction cost is borne by the seller.

Question 4 : May 2021 – RTP

Analyse whether the following activities fall within the scope of Ind AS 41 with proper reasoning:

- Managing animal-related recreational activities like Zoo
- Fishing in the ocean
- Fish farming
- Development of living organisms such as cells, bacteria and viruses
- Growing of plants to be used in the production of drugs
- Purchase of 25 dogs for security purpose of the company's premises.

Solution :

Activity	Whether in the scope of Ind AS 41?	Remarks
Managing animal-related recreational activities like Zoo	No	Since the primary purpose is to show the animals to public for recreational purposes, there is no management of biological transformation but simply control of the number of animals. Hence it will not fall in the purview of considered in the definition of agricultural activity.
Fishing in the ocean	No	Fishing in ocean is harvesting biological assets from unmanaged sources. There is no management of biological transformation since fish grow naturally in the ocean. Hence, it will not fall in the scope of the definition of agricultural activity.
Fish farming	Yes	Managing the growth of fish and then harvest for sale is agricultural activity within the scope of Ind AS 41 since there is management of biological transformation of biological assets for sale or additional biological assets.
Development of living organisms such as cells, bacteria viruses	Analysis required	The development of living organisms for research purposes does not qualify as agricultural activity, as those organisms are not being developed for sale, or for conversion into agricultural produce or into additional biological assets. Hence, development of such organisms for the said

		purposes does not fall under the scope of Ind AS 41. However, if the organisms are being developed for sale or use in dairy products, the activity will be considered as agricultural activity under the scope of Ind AS 41.
Growing of plants to be used in the production of drugs	Yes	If an entity grows plants for using it in production of drugs, the activity will be agricultural activity. Hence it will come under the scope of Ind AS 41.
Purchase of 25 dogs for security purposes of the company's premises	No	Ind AS 41 is applied to account for the biological assets when they relate to agricultural activity. Guard dogs for security purposes do not qualify as agricultural activity, since they are not being kept for sale, or for conversion into agricultural produce or into additional biological assets. Hence, they are outside the scope of Ind AS 41.

Question 5 : July 2021 – Paper

Sewa Dairy Limited prepared financial statements to 31st March each year. On 1st April 2020 the Company carried out the following transactions :

- Purchased a land for Rs.60 lakhs
- Purchased 200 dairy cows (Average age at 1st April 2020 – 2 years) for Rs.20 lakhs. Received a non – refundable grant of Rs.10 lakhs towards the acquisition of the cows.

During the year ending 31st March 2021n the company on its dairy cows incurred Rs.8.50 lakhs to maintain their condition 9food and protection) and Rs.4.60 lakhs as breeding fee to a local farmer. On 1st October 2020, 120 calves were born. There were no other changes in the number of animals during the year ended 31st March 2021. Sewa Dairy Limited had 3,200 litres of unsold milk in inventory as on 31st March 2021. The milk was sold on 1st and 2nd April 2021 at market prices.

The information regarding fair values is as follows :

Items	Fair values less cost to sell (All values in Rs.)		
	1st April 2020	1st Oct. 2020	31st March 2021
Land	60 Lakhs	70 Lakhs	80 Lakhs
New born calves (per calf)	2,000	2,300	2,500
6 months old calves (per calf)	2,200	2,500	2,800
2 years old cow (per cow)	10,000	10,250	10,500
3 years old cow (per cow)	10,500	10,800	11,000
Milk per litre	25	27	30

Prepare extract from the Balance Sheet (assuming land under cost method) and Statement of Profit and Loss that would be reflected in the financial statements of Sewa dairy Limited for the year ended 31st March, 2021. Discuss the relevant Ind AS in support of your workings.

Solution :

Extract from the Statement of Profit and Loss of Sewa Diary Limited for the period ended on 31st March, 2021

		WN	Amount
Income			
Change in fair value of purchased dairy cow		WN 2	2,00,000
Government Grant		WN 3	10,00,000
Change in the fair value of newly born calves		WN 4	3,36,000
Fair Value of Milk		WN 5	96,000
Total Income	**(A)**		**16,32,000**
Expenses			
Maintenance Costs		WN 2	8,50,000
Breeding Fee		WN 2	4,60,000
Total Expense	**(B)**		(13,10,000)
Net Income	**(A-B)**		3,22,000

Extracts from Balance Sheet of Sewa Diary Limited As at 31st March, 2021

	WN		Amount
Property, Plant and Equipment:			
Land	WN 1		60,00,000
Biological assets other than bearer plants:			
Dairy Cow	WN 2	22,00,000	
Calves	WN 4	3,36,000	25,36,000
Inventory:			
Milk	WN 5		96,000

Working Notes:

1. **Land:** The purchase of the land is not covered by Ind AS 41. The relevant standard which would apply to this transaction is Ind AS 16. Under this standard, the land would initially be recorded at cost and depreciated over its useful economic life, which is usually considered to be infinite. Hence, no depreciation would be appropriate. Under Cost Model, no recognition would be made for post-acquisition changes in the value of land.
2. **Dairy Cows:** Under the 'fair value model' laid down in Ind AS 41 the mature cows would be recognised in the Balance Sheet at 31st March, 2021 at the fair value of 200 x Rs. 11,000 = Rs. 22,00,000.
   Increase in price change 200 x (10,500 - 10,000) = 1,00,000
   Increase in physical change 200 x (11,000 – 10,500) = 1,00,000
   The total difference between the fair value of matured herd and its initial cost (Rs. 22,00,000 – Rs. 20,00,000 = a gain of Rs. 2,00,000) would be recognised in the profit and

loss along with the maintenance cost and breeding fee of Rs. 8,50,000 and Rs. 4,60,000 respectively.

3. **Grant:** Grant relating to agricultural activity is not subject to the normal requirement of Ind AS 20. Under Ind AS 41 such grants are credited to income as soon as they are unconditionally receivable rather than being recognised over the useful economic life of the herd. Therefore, Rs. 10,00,000 would be credited to income of the company.
4. **Calves:** They are a biological asset and the fair value model is applied. The breeding fee is charged to income and an asset of 120 x Rs. 2,800 = Rs. 3,36,000 recognised in the Balance sheet and credited to Profit and loss.
5. **Milk:** This is agricultural produce and initially recognised on the same basis as biological assets. Thus, the milk would be valued at 3,200 x Rs. 30 = Rs. 96,000. This is regarded as 'cost' for the future application of Ind AS 2 to the unsold milk.

Question 6 : Nov 2022 – RTP

ABC Ltd. is in the business of manufacturing an apple beverage and requires large quantity of apples to manufacture such beverage. In order to satisfy its requirement of apples, it enters into 3 years lease contracts with owners of apple orchards. The lease contracts are mainly of two types:

(1) **Contract 1:** The owner of the apple orchard (i.e. the lessor) raises the apple trees to produce apples. ABC Ltd. (i.e. lessee) makes a fixed annual payment to the owner of the apple orchard who is required to cultivate the produce as per the specifications of ABC Ltd. ABC Ltd. harvests the apples itself for fulfilling its requirement of apples.

(2) **Contract 2:** ABC Ltd. obtains the apple orchard from owner (i.e. the lessor) to raise the apple trees for subsequent harvest of the apples to ensure that the apples are as per the requirements of ABC Ltd. ABC Ltd. makes a fixed annual payment to the owner of the apple orchards (i.e. the lessor).

Explain whether ABC Ltd. is engaged in agricultural activity as per Ind AS 41 in both of the cases?

Solution :

Paragraph 5 of Ind AS 41, Agriculture defines agricultural activity and biological transformation as follows:

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

"Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset."

Contract 1:

As per contract 1, during the 3 years of the contract, ABC Ltd. only harvests apples from the apple orchards whereas biological transformation is managed by the owners of the apple orchards (i.e. the lessor). Since ABC Ltd. is not involved in the biological transformation of the apple orchards and is only harvesting biological assets , it cannot be said to be an agricultural activity as per Ind AS 41. Hence, ABC Ltd. is not engaged in agricultural activity as per Ind AS 41.

Contract 2:

As per contract 2, ABC Ltd. obtains the apple orchards and is actively involved in the raising of apple trees in order to ensure that the apples are as per its requirements. Since, it is actively managing the biological transformation and harvest of biological asset, Hence, ABC Ltd. is engaged in agricultural activi ty as per Ind AS 41.

Question 7 : Nov 2022 – Paper

A herd of 15, 4 year old cows valued at Rs.500 thousands per cow were held in 'M Dairy Farm' as at 1st April 2021. The following transactions took place on 1st October, 2021 :

(A) One cow aged 4.5 years was purchased for Rs.520 thousands.

(B) One calf was born.

No cow was sold or disposed off during the year.

The per cow/calf fair value less cost to sell was as follows :

	Rs. in thousands
4 year old cow on 1st April 2021	500
New born calf on 1st October 2021	400
4.5 year old cow on 1st October 2021	520
New born calf on 31st March, 2022	410
0.5 year old calf on 31st March, 2022	440
4 year old cow on 31st March, 2022	516
4.5 year old cow on 31st March, 2022	540
5 year old cow on 31st March, 2022	560

You are required to :

(i) Calculate change in fair value less costs to sell showing :
  (a) The portion attributable to physical changes
  (b) The portion attributable to price changes.

(ii) Calculate the carrying cost of the herd as on 31st March, 2022.

(iii) Prepare an extract of the livestock account for the year ended 31st March, 2022.

Solution :

(i) Change in fair value less costs to sell, due to physical change and price change:

Rs. in thousand

Fair value less costs to sell of herd at 1st April 2021 (15 × 500)			7,500
Purchase on 1st October 2021 (1 x 520)			520
(a)	**Increase in fair value less costs to sell due to price change:**		
	15 cows x (516 – 500)	240	
	1 cows x (540 – 520)	20	
	1 calf x (410 – 400)	10	270
(b)	**Increase in fair value less costs to sell due to physical change:**		
	15 cows x (560 – 516)	660	
	1 cows x (560 – 540)	20	
	1 calf x (440 – 410)	30	

	1 calf x 400 (Gain on initial recognition)	400	1,110
			9,400

(ii) Calculation of carrying cost of herd as on 31st March 2022 i.e.

Fair value less costs to sell of herd at 31st March 2022

16 × 560	8,960	
1 × 440	440	9,400

(iii) Extract of Livestock Account for the year 31st March 2022

Particulars	Amount (Rs. in 000)	Particulars	Amount (Rs. in 000)
To Opening Stock	7,500	By Closing Balance	9,400
To Purchases (1x520)	520		
To Increase in fair value (Price Changes)	270		
To Increase in fair value (Physical Changes)	1,110		
Total	**9,400**	**Total**	**9,400**

Question 8 : May 2023 – RTP

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

Solution :

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

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

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

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

b) harvesting of biological assets for sale or for conversion into agricultural produce or into additional biological assets. Therefore, when fishing involves managed activity to grow and procreate fishes in designated areas, such fishing is an agricultural activity as per the above definition. Managing the growth of fish for subsequent sale is an agricultural activity as per Ind AS 41.

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

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

Question 9 : May 2023 – Paper

ABC Limited is into dairy farm. Cows are milked on a daily basis. After milking, milk is immediately kept in cold storage. The milk is sold to retail distributors on a weekly basis.

On 1st April 2022 ABC Ltd. had 500 cows which were all 3 years old. During the financial year 2022 - 23, some of the cows became sick and on 30th September 2022, 20 cows died. On 1st October 2022, ABC Limited purchased 20 replacement cows from the market for Rs.63,000 each. These 20 cows were all 1 year old when they were purchased. On 31st March 2023, ABC Ltd. had 1000 litres of milk in cold storage which had not been sold to retail distributors. The market price of milk as at 31st March 2023 was Rs.60 per litre. While selling the milk to distributors, ABC Limited incurs selling costs of Rs.3 per litre. These amounts did not change during March 2023 and are not expected to change during April 2023.

Information relating to fair value and costs to sell is given below:

Date	Fair Value of a dairy cow aged				Cost to sell a cow
	1 year	1.5 year	3 years	4 years	
01.04.2022	60,000	66,000	81,000	75,000	3,000
01.10.2022	63,000	69,000	84,000	78,000	3,000
31.03.2023	64,500	70,500	87,000	79,500	3,300

You can assume that fair value of 3.5 year old cow as on 30th September 2022 is Rs.81,000.

Provide necessary journal entries in the books of account with respect to cows for above events and transactions in the financial statement of ABC Limited as at (i) 30th September 2022; (ii) 1st October 2022 and (iii) 31st March 2023. Also determine the value of milk inventory as at 31st March 2023.

Solution :

Journal Entries (All figures in Rs.)

S. No.	Date	Particulars		Dr.	Cr.
(i)	30th Sept., 2022	Loss (on death of 20 cows) (Refer W.N.)	Dr.	15,60,000	
		To Biological asset			15,60,000
		(Loss booked on death of 20 cows)			
(ii)	1st Oct., 2022	Biological Asset (purchase of 20 new cows) (Refer W.N.)	Dr.	12,00,000	
		Loss on initial recognition (of 20 new cows)	Dr.	60,000	
		To Bank			12,60,000
		(Initial recognition of 20 new purchased cows at fair value less costs to sell)			

(iii)	31st Mar., 2023	Loss on remeasurement of old cows	Dr.	8,64,000	
		To Biological asset [(3,90,00,000 – 15,60,000) – 3,65,76,000]			8,64,000
		(Subsequent measurement of cows at fair value less costs to sell)			
		Biological Asset	Dr.	1,44,000	
		(13,44,000 – 12,00,000)			
		To Gain on remeasurement of new cows			1,44,000
		(Subsequent measurement of cows at fair value less costs to sell)			

Inventory (Milk) as at 31st March, 2023 = Rs. 57,000 [1,000 x (60 – 3)]

Working Note:

Calculation of Biological asset at various dates

Date	Number	Age	Fair Value (Rs.)	Cost to Sell (Rs.)	Net (Rs.)	Biological asset (Rs.)
1st April, 2022	500	3 years	81,000	3,000	78,000	3,90,00,000
30th September, 2022	(20)	3.5 years	81,000	3,000	78,000	(15,60,000)
1st October, 2022	20	1 year	63,000	3,000	60,000	12,00,000
						3,86,40,000
31st March, 2023	480	4 years	79,500	3,300	76,200	3,65,76,000
	20	1.5 years	70,500	3,300	67,200	13,44,000
						3,79,20,000

Question 10 : Nov 2023 – RTP

M. Chinnaswamy & Brothers Ltd. is a company that is engaged in growing and maintaining coconut palms and selling their output in various forms. The company has a farmland having 2,00,000 coconut palms in the coastal area of Karnataka near Mangalore.

The fair value of each coconut palm is derived based on the average realisable price of Rs. 30 per nut (fruit). Each coconut palm grows 80 nuts per annum on an average basis. Each coconut palm can generate revenue for as long as 80 years and the current palms are only 20-year-old. The management thinks that considering the risk factors in business, the valuation of each palm can be considered at 5 times its annual revenue.

During August, 20X5, the Ooty Hotels Association (OHA) chairman and his team visited the corporate office of the company at Mangalore. The deal was to supply tender coconuts to Ooty Hotels at an agreed price throughout the year. The agreement came into effect from 1st September, 20X5 whereby the company shall reserve 15,000 coconut palms (out of 2,00,000 coconut palms) for OHA and will charge a concessional rate of Rs. 15 only per nut supplied to OHA. OHA will in turn supply the tender coconuts to each Ooty Hotel at the same price. This

contract price is applicable irrespective of the ownership of palm trees (it is not an entity-specific restriction). All tender coconuts of these 15,000 coconut palms were used by OHA irrespective of the agreement being effective from 1st September, 20X5.
What will be the valuation of 2,00,000 coconut palms in the company's farm for the quarter ended 30th September, 20X5?

Solution :

Para 16 of Ind AS 41 says that entities often enter into contracts to sell their biological assets or agricultural produce at a future date. Contract prices are not necessarily relevant in measuring fair value, because fair value reflects the current market conditions in which buyers and sellers would enter into a transaction. As a result, the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract.
Moreover, the OHA contract represents just 7.5% [(15,000 / 2,00,000) x 100] of the total number of palms in the farm. Hence, the contract price can't be considered for fair valuation of the entire inventory of bearer plants.
The valuation in this case would be as follows:
Adding the fair value for 15,000 coconut palm (15,000 palm x 80 nuts x Rs. 15 x 5 times) and 1,85,000 coconut palm (1,85,000 palm x 80 nuts x Rs. 30 x 5 times), we get total valuation of 2,00,000 coconut palm as Rs. 231 crore.

Question 11 : Nov 2024 – RTP

ABC Ltd. is in the business of manufacturing an apple beverage and requires a large quantity of apples to manufacture such beverage. In order to satisfy its requirement of apples, it enters into 3 years lease contracts with owners of apple orchards. The lease contracts are mainly of two types:

(1) Contract 1: The owner of the apple orchard (i.e. the lessor) raises the apple trees to produce apples. ABC Ltd. (i.e. lessee) makes a fixed annual payment to the owner of the apple orchard who is required to cultivate the produce as per the specifications of ABC Ltd. ABC Ltd. harvests the apples itself for fulfilling its requirement of apples.

(2) Contract 2: ABC Ltd. obtains the apple orchard from owner (i.e. the lessor) to raise the apple trees for subsequent harvest of the apples to ensure that the apples are as per the requirements of ABC Ltd. ABC Ltd. makes a fixed annual payment to the owner of the apple orchards (i.e. the lessor).

Whether ABC Ltd. is engaged in agricultural activity as per Ind AS 41 in both of the cases?

Solution :

Contract 1:

As per contract 1, during the 3 years of the contract, ABC Ltd. only harvests apples from the apple orchards whereas biological transformation is managed by the owners of the apple orchards (i.e. the lessor). Since ABC Ltd. is not involved in the biological transformation of the apple orchards and is only harvesting biological assets, it cannot be said to be an agricultural activity as per Ind AS 41. Hence, ABC Ltd. is not engaged in agricultural activity as per Ind AS 41.

Contract 2:

As per contract 2, ABC Ltd. obtains the apple orchards and is actively involved in the raising of apple trees in order to ensure that the apples are as per its requirements. Since, it is actively managing the biological transformation and harvest of biological asset. Hence, ABC Ltd. is engaged in agricultural activity as per Ind AS 41.

Question 12 : Sept 2025 – RTP

A Ltd. purchased 100 goats at an auction for Rs. 1,00,000 on 30th September, 20X7. Subsequent transportation costs were Rs. 1,000. A Ltd. would have to incur the same transportation costs if it had sold its goats in this auction. In addition, there would be a 2% auctioneer's fee on the market price of the goats payable by the seller. A Ltd. so incurred Rs. 500 on veterinary expenses.
On 31st March 20X8, the market value of the goats in the most relevant market increases to Rs. 1,10,000. Transportation costs of Rs. 1,000 would have to be incurred by the seller to get the goats to the relevant market. An auctioneer's fee of 2% on the market price of the goats would be payable by the seller.
On 1st June 20X8, the entity sold 18 goats at auction for Rs. 20,000 and incurred transportation charges of Rs. 150. In addition, there was a 2% auctioneer's fee on the market price of the goats paid by the seller.
On 15th September, 20X8, the fair value of the 82 goats was Rs. 82,820. 42 goats were slaughtered on that day, with a total slaughter cost of Rs. 4,200. The total market price of the carcasses on that day was Rs. 48,300, and the estimated transportation cost to sell the carcasses is Rs. 420. No other selling costs are expected.
On 30th September, 20X8, the market price of the remaining 40 goats was Rs. 44,800. The estimated transportation cost is Rs. 400. In addition, there would be a 2% auctioneer's fee on the market price of the goats payable by the seller.
A Ltd. adopts the fair value model to recognize biological assets, as required by the standard, and reports on 30th September and 31st March each year and determines fair value on these dates.
Pass Journal Entries for the above transactions.

Solution :

Journal Entries

		Rs.	Rs.
Initial recognition of goats at 30th September, 20X7			
Biological asset (goats)	Dr.	97,000	
Loss on initial recognition	Dr.	4,000	
To Cash (purchase and transport to farm)			1,01,000
(Initial recognition of the goats at fair value less costs to sell)			
Veterinary expenses	Dr.	500	
To Cash			500
Recognition of veterinary expenses at 30th September, 20X7 (such expenses do not, in themselves, affect the fair value)			
Biological asset (goats)	Dr.	9,800	
To Gain on change in fair value less costs to sell (1,06,800-97,000)			9,800

(Subsequent measurement of biological assets at fair value less costs to sell at 31st March, 20X7 reporting date)			
Sale of goats on 1st June, 20X8			
Cash	Dr.	19,450	
Selling expenses (150+400)	Dr.	550	
To Revenue			20,000
(Recognition of the revenue from the sale of goats)			
Transfer of biological assets to inventory on 15th September, 20X8			
Inventory (Carcasses)	Dr.	47,880	
Fair value loss on goats	Dr.	1,176	
To Biological asset (goats) (the proportion of goats sold using the fair value at the previous reporting period, 31st March, 20X8) (1,06,800 x 42/100)			44,856
To Cash			4,200
(Transfer of goats slaughtered to inventory)			
Subsequent measurement of goats at 30th September, 20X8			
Loss on change in fair value less costs to sell	Dr.	18,440	
To Biological asset (goats) (fair value of goats at last reporting date less transfer to inventory) (43,504-(1,06,800-44,856))			18,440
(Subsequent measurement of biological assets at fair value less costs to sell at 30th September, 20X8 reporting date)			

Working Notes :

1	**The fair value less costs to sell at initial recognition**	**Rs.**
	Fair value in the most relevant market	1,00,000
	Transport costs	(1,000)
	Auctioneer's fee	(2,000)
		97,000
2	**The fair value less costs to sell at 31st March, 20X8 and gain thereupon**	
	Fair value in the most relevant market	1,10,000
	Transport costs	(1,000)
	Auctioneer's fee	(2,200)
		1,06,800
	Less: Original cost recorded	(97,0000
		9,800
3	**The fair value less estimated costs to sell of the carcasses on 15th September, 20X8**	
	Market value of carcasses	48,300
	Transport costs	(420)

		47,880
	Initial cost of the carcasses at the date of transfer to inventory is measured at the fair value less costs to sell of the carcasses. [Ind AS 41.13]	
4	**The fair value less costs to sell at 30th September, 20X8**	
	Fair value in most relevant market	44,800
	Transport costs	(400)
	Auctioneer's fee	(896)
		43,504

The reduction in the herd due to the sale of goats at 1st June, 20X8 is included in the fair value adjustment at 30th September, 20X8. An alternative to the above presentation is to remeasure the goats to fair value just prior to the point at which they are sold and record a cost of sales figure separately with a corresponding reduction in the value of the biological assets. This will result in the same net profit for the period, but the presentation of cost of sales and net fair value re-measurements on biological assets will be different.

Thanks ….

IND AS – 7
CASH FLOW STATEMENT

CHAPTER - 12

Question 1 : May 2018 – RTP

Company A acquires 70% of the equity stake in Company B on July 20, 20X1. The consideration paid for this transaction is as below:

(a) Cash consideration of Rs.15,00,000

(b) 200,000 equity shares having face of Rs.10 and fair value of Rs.15 per share.

On the date of acquisition, Company B has cash and cash equivalent balance of Rs.2,50,000 in its books of account.

On October 10, 20X2, Company A further acquires 10% stake in Company B for cash consideration of Rs.8,00,000.

Advise how the above transactions will be disclosed/presented in the statement of cash flows as per Ind AS 7.

Solution :

1) As per Ind AS 7, the aggregate cash flows arising from obtaining control of subsidiary shall be presented separately and classified as investing activities.

2) As per Ind AS 7, the aggregate amount of the cash paid or received as consideration for obtaining subsidiaries is reported in the statement of cash flows net of cash and cash equivalents acquired or disposed of as part of such transactions, events or changes in circumstances.

   Further, investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

3) As per Ind AS 7, cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities, unless the subsidiary is held by an investment entity, as defined in Ind AS 110, and is required to be measured at fair value through profit or loss.

4) Considering the above, for the financial year ended March 31, 20X2 total consideration of Rs.15,00,000 less Rs.2,50,000 will be shown under investing activities as "Acquisition of the subsidiary (net of cash acquired)".

5) There will not be any impact of issuance of equity shares as consideration in the cash flow statement however a proper disclosure shall be given elsewhere in the financial statements in a way that provides all the relevant information about the issuance of equity shares for non-cash consideration.

6) Further, in the statement of cash flows for the year ended March 31, 20X3, cash consideration paid for the acquisition of additional 10% stake in Company B will be shown under financing activities.

Question 2 : May 2019 – RTP

Z Ltd. has no foreign currency cash flow for the year 2017. It holds some deposit in a bank in the USA. The balances as on 31.12.2017 and 31.12.2018 were US$ 100,000 and US$ 102,000 respectively. The exchange rate on December 31, 2017 was US$1 = Rs.45. The same on 31.12.2018 was US$1 = Rs.50. The increase in the balance was on account of interest credited on 31.12.2018. Thus, the deposit was reported at Rs.45,00,000 in the balance sheet as on December 31, 2017. It was reported at Rs.51,00,000 in the balance sheet as on 31.12.2018. How these transactions should be presented in cash flow for the year ended 31.12.2018 as per Ind AS 7?

Solution :

The profit and loss account was credited by Rs.1,00,000 (US$ 2000 × Rs.50) towards interest income. It was credited by the exchange difference of US$ 100,000 × (Rs.50 – Rs.45) that is, Rs.500,000. In preparing the cash flow statement, Rs.500,000, the exchange difference, should be deducted from the 'net profit before taxes, and extraordinary item'. However, in order to reconcile the opening balance of the cash and cash equivalents with its closing balance, the exchange difference Rs.500,000, should be added to the opening balance in note to cash flow statement.

Cash flows arising from transactions in a foreign currency shall be recorded in Z Ltd.'s functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

Question 3 : Nov 2019 – RTP

Following is the balance sheet of Kuber Limited for the year ended 31st March, 20X2

(Rs.in lacs)

	20X2	**20X1**
ASSETS		
Non-current Assets		
Property, plant and equipment	13,000	12,500
Intangible assets	50	30
Other financial assets	145	170
Deferred tax asset (net)	855	750
Other non-current assets	800	770
Total non-current assets	**14,850**	**14,220**
Current assets		
Financial assets		

Investments	2,300	2,500
Cash and cash equivalents	220	460
Other current assets	195	85
Total current assets	**2,715**	**3,045**
Total Assets		
EQUITY AND LIABILITIES		
Equity		
Equity share capital	300	300
Other equity	12,000	8,000
Total equity	**12,300**	**8,300**
Liabilities		
Non-current liabilities		
Long-term borrowings	2,000	5,000
Other non-current liabilities	2,740	3,615
Total non-current liabilities	**4,740**	**8,615**
Current liabilities		
Financial liabilities		
Trade payables	150	90
Bank Overdraft	75	60
Other current liabilities	300	200
Total current liabilities	**525**	**350**
Total liabilities	**5,265**	**8,965**
Total Equity and Liabilities	**17,565**	**17,265**

Additional Information :

(1) Profit after tax for the year ended 31st March, 20X2- Rs.4,450 lacs

(2) Interim Dividend paid during the year – Rs.450 lacs

(3) Depreciation and amortisation charged in the statement of profit and loss during the current year are as under

  (a) Property, Plant and Equipment – Rs.500 lacs

  (b) Intangible Assets – Rs.20 lacs

(4) During the year ended 31st March, 20X2 two machineries were sold for Rs.10 lacs. The carrying amount of these machineries as on 31st March, 20X2 is Rs.60 lacs.

(5) Income taxes paid during the year Rs.105 lacs

Using the above information of Kuber Limited, construct a statement of cash flows under indirect method. Other non-current / current assets and liabilities are related to operations of Kuber Ltd. and do not contain any element of financing and investing activities.

Solution :

Statement of Cash Flows

		Rs. in lacs
Cash flows from Operating Activities		
Net Profit after Tax	4,450	
Add: Tax Paid	105	
	4,555	
Add: Depreciation & Amortisation (500 + 20)	520	
Less: Gain on Sale of Machine (70-60)	(10)	
Less: Increase in Deferred Tax Asset (855-750)	(105)	
	4,960	
Change in operating assets and liabilities		
Add: Decrease in financial asset (170 - 145)	25	
Less: Increase in other non-current asset (800 - 770)	(30)	
Less: Increase in other current asset (195 - 85)	(110)	
Less: Decrease in other non-current liabilities (3,615 – 2,740)	(875)	
Add: Increase in other current liabilities (300 - 200)	100	
Add: Increase in trade payables (150-90)	60	
	4,130	
Less: Income Tax	(105)	
Cash generated from Operating Activities		**4,025**
Cash flows from Investing Activities		
Sale of Machinery	70	
Purchase of Machinery [13,000-(12,500 – 500-60)]	(1,060)	
Purchase of Intangible Asset [50-(30-20)]	(40)	
Sale of Financial asset - Investment (2,500 – 2,300)	200	
Cash outflow from Investing Activities		**(830)**
Cash flows from Financing Activities		
Dividend Paid	(450)	
Long term borrowings paid (5,000 – 2,000)	(3,000)	
Cash outflow from Financing Activities		**(3,450)**
Net Cash outflow from all the activities		**(255)**
Opening cash and cash equivalents (460 – 60)		**400**
Closing cash and cash equivalents (220 – 75)		**145**

Question 4 : May 2020 – RTP / Nov 2020 – Paper

Entity A acquired a subsidiary, Entity B, during the year. Summarised information from the Consolidated Statement of Profit and Loss and Balance Sheet is provided, together with some supplementary information.

Consolidated Statement of Profit and Loss	**Amount (Rs.)**
Revenue	3,80,000
Cost of sales	(2,20,000)
Gross profit	1,60,000
Depreciation	(30,000)
Other operating expenses	(56,000)
Interest cost	(4,000)
Profit before taxation	**70,000**
Taxation	(15,000)
Profit after taxation	**55,000**

Consolidated balance sheet	**20X2**	**20X1**
Assets	**Amount (Rs.)**	**Amount (Rs.)**
Cash and cash equivalents	8,000	5,000
Trade receivables	54,000	50,000
Inventories	30,000	35,000
Property, plant and equipment	1,60,000	80,000
Goodwill	18,000	—
Total assets	**2,70,000**	**1,70,000**
Liabilities		
Trade payables	68,000	60,000
Income tax payable	12,000	11,000
Long term debt	1,00,000	64,000
Total liabilities	**1,80,000**	**1,35,000**
Shareholders' equity	**90,000**	**35,000**
Total liabilities and shareholders'	**2,70,000**	**1,70,000**

Other information :

All of the shares of entity B were acquired for Rs.74,000 in cash. The fair values of assets acquired and liabilities assumed were:

Particulars	**Amount (Rs.)**
Inventories	4,000
Trade receivables	8,000
Cash	2,000
Property, plant and equipment	1,10,000
Trade payables	(32,000)
Long term debt	(36,000)
Goodwill	18,000
Cash consideration paid	**74,000**

Prepare the Consolidated Statement of Cash Flows for the year 20X2, as per Ind AS 7.

Solution :

This information will be incorporated into the Consolidated Statement of Cash Flows as follows:

Statement of Cash Flows for the year ended 20X2 (extract)

	Amount (Rs.)	Amount (Rs.)
Cash flows from operating activities		
Profit before taxation	70,000	
Adjustments for non-cash items:		
Depreciation	30,000	
Decrease in inventories (W.N. 1)	9,000	
Decrease in trade receivables (W.N. 2)	4,000	
Decrease in trade payables (W.N. 3)	(24,000)	
Interest paid to be included in financing activities	4,000	
Taxation (11,000 + 15,000 – 12,000)	(14,000)	
Net cash generated from operating activities		79,000
Cash flows from investing activities		
Cash paid to acquire subsidiary (74,000 – 2,000)	(72,000)	
Net cash outflow from investing activities		(72,000)
Cash flows from financing activities		
Interest paid	(4,000)	
Net cash outflow from financing activities		(4,000)
Increase in cash and cash equivalents during the year		**3,000**
Cash and cash equivalents at the beginning of the year		**5,000**
Cash and cash equivalents at the end of the year		**8,000**

Working Notes:

1. Calculation of change in inventory during the year

	Rs.
Total inventories of the Group at the end of the year	30,000
Inventories acquired during the year from subsidiary	(4,000)
	26,000
Opening inventories	35,000
Decrease in inventories	9,000

2. Calculation of change in Trade Receivables during the year

	Rs.
Total trade receivables of the Group at the end of the year	54,000
Trade receivables acquired during the year from subsidiary	(8,000)
	46,000
Opening trade receivables	50,000
Decrease in trade receivables	4,000

3. Calculation of change in Trade Payables during the year

	Rs.
Trade payables at the end of the year	68,000

Trade payables of the subsidiary assumed during the year	(32,000)
	36,000
Opening trade payables	60,000
Decrease in trade payables	24,000

Question 5 : Nov 2020 – RTP

During the financial year 2019-2020, Akola Limited have paid various taxes & reproduced the below mentioned records for your perusal:

- Capital gain tax of Rs.20 crore on sale of office premises at a sale consideration of Rs.100 crore.
- Income Tax of Rs.3 crore on Business profits amounting Rs.30 crore (assume entire business profit as cash profit).
- Dividend Distribution Tax of Rs.2 crore on payment of dividend amounting Rs.20 crore to its shareholders.
- Income tax Refund of Rs.1.5 crore (Refund on taxes paid in earlier periods for business profits).

You need to determine the net cash flow from operating activities, investing activities and financing activities of Akola Limited as per relevant Ind AS.

Solution :

1)

Particulars	Amount (Rs. Cr.)	Activity
Sale Consideration	100	Investing Activity
Capital gain tax	(20)	Investing Activity
Business Profit (Cash Profit)	30	Operating Activity
Tax on Business Profit (30%)	(3)	Operating Activity
Dividend Payment	(20)	Financing Activity
Dividend distribution tax	(2)	Financing Activity
Income Tax Refund	1.5	Operating Activity

2) Net Calculations

Operating Activity	28.5
Investing Activity	80
Financing Activity	(22)
Net Cash or Equivalent generated	86.5

Question 6 : Jan 2021 – Paper

Z Ltd. (India) has an overseas branch in USA. It has a bank account having balance of USD 7,000 as on 1st April 2019. During the financial year 2019-2020, Z Ltd. Acquired computers for its USA office for USD 280 which was paid on same date. There is no other transaction reported in USA or India.

Exchange rates between INR and USD during the financial year 2019-2020 were:

Date	USD 1 to INR
1st April 2019	70.00
30th November 2019	71.00 (Date of purchase of computer)
31st March 2020	71.50
Average for 2019-2020	70.50

Please prepare the extract of Cash Flow Statement for the year ended 31st March 2020 as per the relevant Ind AS and also show the foreign exchange profitability from these transactions for the financial year 2019-2020?

Solution :

In the books of Z Ltd.

Statement of Cash Flows for the year ended 31st March 2020

	Rs.	Rs.
Cash flows from operating activities		
Net Profit (Refer Working Note)	10,360	
Adjustments for non-cash items:		
Foreign Exchange Gain	(10,360)	
Net cash outflow from operating activities		0
Cash flows from investing activities		
Acquisition of Property, Plant and Equipment	(19,880)	
Net cash outflow from Investing activities		(19,880)
Cash flows from financing activities		0
Net change in cash and cash equivalents		(19,880)
Cash and cash equivalents at the beginning of the year i.e. 1st April 2019		4,90,000
Foreign Exchange difference		10,360
Cash and cash equivalents at the end of the year i.e. 31st March 2020		4,80,480

Working Note:

Computation of Foreign Exchange Gain

Bank Account USD	Date	USD	Exchange Rate	Rs.
Opening balance	1.4.2019	7,000	70.00	4,90,000
Less: Purchase of Computer	30.11.2019	280	71.00	19,880
Closing balance calculated		6,720		4,70,120
Closing balance (at year end spot rate)	31.3.2020	6,720	71.50	4,80,480
Foreign Exchange Gain credited to Profit and Loss account				10,360

Question 7 : May 2021 – RTP

From the following data, identify the nature of activities as per Ind AS 7.

S.no	Nature of transaction
1	Cash paid to employees
2	Cash paid for development of property costs
3	Borrowings repaid
4	Cash paid to suppliers
5	Loan to Director
6	Bonus shares issued
7	Dividends paid
8	Cash received from trade receivables
9	Proceeds from sale of PPE
10	Depreciation of PPE
11	Advance received from customers
12	Purchased goodwill
13	Payment of promissory notes

Solution :

S.no	Nature of transaction	Activity as per Ind AS 7
1	Cash paid to employees	Operating activity
2	Cash paid for development of property costs	Investing activity
3	Borrowings repaid	Financing activity
4	Cash paid to suppliers	Operating activity
5	Loan to Director	Investing activity
6	Bonus shares issued	Non-cash item
7	Dividends paid	Financing activity
8	Cash received from trade receivables	Operating activity
9	Proceeds from sale of PPE	Investing activity
10	Depreciation of PPE	Non-cash item
11	Advance received from customers	Operating activity
12	Purchased goodwill	Investing activity
13	Payment of promissory notes	Financing activity

Question 8 : Nov 2021 – RTP

From the following data of Galaxy Ltd., prepare statement of cash flows showing cash generated from Operating Activities using direct method as per Ind AS 7:

	31.3.20X2 (Rs.)	31.3.20X1 (Rs.)
Current Assets:		
Inventory	1,20,000	1,65,000

Trade receivables	2,05,000	1,88,000
Cash & cash equivalents	35,000	20,500
Current Liabilities:		
Trade payable	1,95,000	2,15,000
Provision for tax	48,000	65,000

Summary of Statement of Profit and Loss		Rs.
Sales	85,50,000	
Less: Cost of sales	(56,00,000)	29,50,000
Other Income		
Interest income	20,000	
Fire insurance claim received	1,10,000	1,30,000
		30,80,000
Depreciation	(24,000)	
Administrative and selling expenses	(15,40,000)	
Interest expenses	(36,000)	
Foreign exchange loss	(18,000)	(16,18,000)
Net Profit before tax and extraordinary income		14,62,000
Income Tax		(95,000)
Net Profit		13,67,000

Additional information:

(i) Trade receivables and Trade payables include amounts relating to credit sale and credit purchase only.

(ii) Foreign exchange loss represents increment in liability of a long-term borrowing due to exchange rate fluctuation between acquisition date and balance sheet date.

Solution :

Statement Cash Flows from operating activities
of Galaxy Ltd. for the year ended 31 March 20X2 (Direct Method)

Particulars	**Rs.**	**Rs.**
Operating Activities:		
Cash received from Trade receivables (W.N. 3)		85,33,000
Less: Cash paid to Suppliers (W.N.2)	55,75,000	
Payment for Administration and Selling expenses	15,40,000	
Payment for Income Tax (W.N.4)	1,12,000	(72,27,000)
		13,06,000
Adjustment for exceptional items (fire insurance claim)		1,10,000
Net cash generated from operating activities		14,16,000

Working Notes:

1. Calculation of total purchases

Cost of Sales = Opening stock + Purchases – Closing Stock
Rs. 56,00,000 = Rs. 1,65,000 + Purchases – Rs. 1,20,000
Purchases = Rs. 55,55,000

2. Calculation of cash paid to Suppliers

Trade Payables

	Rs.		Rs.
To Bank A/c (balancing figure)	55,75,000	By Balance b/d	2,15,000
To Balance c/d	1,95,000	By Purchases (W.N. 1)	55,55,000
	57,70,000		**57,70,000**

3. Calculation of cash received from Customers

Trade Receivables

	Rs.		**Rs.**
To Balance b/d	1,88,000	By Bank A/c (balancing figure)	85,33,000
To Sales	85,50,000	By Balance c/d	2,05,000
	87,38,000		**87,38,000**

4. Calculation of tax paid during the year in cash

Provision for tax

	Rs.		**Rs.**
To Bank A/c (balancing figure)	1,12,000	By Balance b/d	65,000
To Balance c/d	48,000	By Profit and Loss A/c	95,000
	1,60,000		**1,60,000**

Question 9 : Nov 2022 – RTP

What will be the classification for following items in the statement of cash flows of both (i) Banks / Financial institutions and (ii) Other Entities?

S. No.	Particulars
1	Interest received on loans and advances given
2	Interest paid on deposits and other borrowings
3	Interest and dividend received on investments in subsidiaries, associates and in other entities
4	Dividend paid on preference and equity shares, including tax on dividend paid on preference and equity shares by other entities
5	Finance charges paid by lessee under finance lease
6	Payment towards reduction of outstanding finance lease liability
7	Interest paid to vendor for acquiring fixed asset under deferred payment basis
8	Principal sum payment under deferred payment basis for acquisition of fixed assets

9	Penal interest received from customers for late payments
10	Penal interest paid to suppliers for late payments
11	Interest paid on delayed tax payments
12	Interest received on tax refunds

Solution :

The following are the classification of various activities in the Statement of Cash Flows:

S. No.	Particulars	Classification for reporting cash flows	
		Banks / financial institutions	Other entities
1.	Interest received on loans and advances given	Operating Activities	Investing activities
2.	Interest paid on deposits and other borrowings	Operating Activities	Financing activities
3.	Interest and dividend received on investments in subsidiaries, associates and in other entities	Investing activities	Investing activities
4.	Dividend paid on preference and equity shares, including tax on dividend paid on preference and equity shares by other entities	Financing activities	Financing activities
5.	Finance charges paid by lessee under finance lease	Financing activities	Financing activities
6.	Payment towards reduction of outstanding finance lease liability	Financing activities	Financing activities
7.	Interest paid to vendor for acquiring fixed asset under deferred payment basis	Financing activities	Financing activities
8.	Principal sum payment under deferred payment basis for acquisition of fixed assets	Investing activities	Investing activities
9.	Penal interest received from customers for late payments	Operating Activities	Operating Activities
10.	Penal interest paid to suppliers for late payments	Operating Activities	Operating Activities
11.	Interest paid on delayed tax payments	Operating Activities	Operating Activities
12.	Interest received on tax refunds	Operating Activities	Operating Activities

Question 10 : Nov 2023 – RTP

One of the subsidiaries of Buildwell Ltd. submitted to Central Finance its Summarized Statement of Profit and Loss and Balance Sheet.

Summarized Statement of Profit and Loss for the year ended 31st March, 20X3

Particulars	Amount (Rs.)
Net sales	2,52,00,000
Less: Cash cost of sales	(1,92,00,000)
Depreciation	(6,00,000)
Salaries & wages	(24,00,000)
Operating expenses	(14,00,000)
Provision for taxation	(8,80,000)
Net Operating Profit	7,20,000
Non-recurring income – profit on sale of equipment	1,20,000
	8,40,000
Retained earnings and profit brought forward	15,18,000
	23,58,000
Dividends declared and paid during the year	(7,20,000)
Profit & loss balance as on 31st March, 20X3	16,38,000

Summarized Balance Sheet

Assets	31st March, 20X2	31st March, 20X3
Property, Plant and Equipment:		
Land	4,80,000	9,60,000
Buildings and Equipment	36,00,000	57,60,000
Current Assets		
Cash	6,00,000	7,20,000
Inventories	16,80,000	18,60,000
Trade Receivables	26,40,000	9,60,000
Advances	78,000	90,000
Total Assets	90,78,000	1,03,50,000
Liabilities & Equity		
Share capital	36,00,000	44,40,000
Surplus in profit & loss	15,18,000	16,38,000
Trade Payables	24,00,000	23,40,000
Outstanding expenses	2,40,000	4,80,000
Income tax payable	1,20,000	1,32,000
Accumulated depreciation on buildings and equipment	12,00,000	13,20,000
Total	90,78,000	1,03,50,000

The original cost of equipment sold during the year 20X2-20X3 was Rs. 7,20,000.
Prepare a statement of cashflows the year ended 31st March 20X3.

Solution :

Statement of Cash Flows for the year ended 31st March, 20X3 (Indirect method)

Particulars	Rs.	Rs.
Cash flow from operating activities:		
Net Profit before taxes and extraordinary items (7,20,000 + 8,80,000)	16,00,000	
Add: Depreciation	6,00,000	
Operating profit before working capital changes	22,00,000	
Increase in inventories	(1,80,000)	
Decrease in trade receivables	16,80,000	
Advances	(12,000)	
Decrease in trade payables	(60,000)	
Increase in outstanding expenses	2,40,000	
Cash generated from operations	36,68,000	
Less: Income tax paid (Refer W.N.4)	(8,68,000)	
Net cash from operations		30,00,000
Cash from investing activities:		
Purchase of land	(4,80,000)	
Purchase of building & equipment (Refer W.N.2)	(28,80,000)	
Sale of equipment (Refer W.N.3)	3,60,000	
Net cash used for investment activities		(30,00,000)
Cash flows from financing activities:	8,40,000	
Issue of share capital	(7,20,000)	
Dividends paid		1,20,000
Net cash from financing activities:		1,20,000
Net increase in cash and cash equivalents		6,00,000
Cash and cash equivalents at the beginning		7,20,000
Cash and cash equivalents at the end		

Working Notes:

1. Building & Equipment Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	36,00,000	By Sale of assets	7,20,000
To Cash / bank (purchases)(bal. fig)	28,80,000	By Balance c/d	57,60,000
	64,80,000		64,80,000

2. Building & Equipment Accumulated Depreciation Account

Particulars	Rs.	Particulars	Rs.
To Sale of asset (acc. depreciation)	4,80,000	By Balance b/d	12,00,000
To Balance c/d	13,20,000	By Profit & Loss A/c (provisional)	6,00,000

	18,00,000		18,00,000

3. Computation of sale price of Equipment

Particulars	Rs
Original cost	7,20,000
Less: Accumulated Depreciation	(4,80,000)
Net cost	2,40,000
Profit on sale of assets	1,20,000
Sale proceeds from sale of assets	3,60,000

4. Provision for tax Account

Particulars	Rs.	Particulars	Rs.
To Bank A/c	8,68,000	By Balance b/d	1,20,000
To Balance c/d	1,32,000	By Profit & Loss A/c (provisional)	8,80,000
	10,00,000		10,00,000

Question 11 : May 2024 – RTP

Following is the Balance Sheet of Mars Ltd: Rs. in Lakhs

Particulars	31.3.20X3	31.3.20X2
ASSETS		
Non-Current Assets		
Property, Plant and Equipment	450	410
Intangible asset	90	90
Deferred Tax Asset (net)	45	45
Other Non-current Asset	95	85
Total Non-current Assets	680	630
Current Assets		
Financial Asset		
Investments	100	60
Trade Receivables	580	600
Cash and Cash Equivalents	300	300
Inventories	800	700
Other Current Assets	160	120
Total Current Assets	1,940	1,780
Total Assets	**2,620**	**2,410**
Equity and Liabilities		
Equity		
Equity Share Capital	280	250
Other Equity	980	820

Total Equity	1,260	1,070
Non-current Liabilities		
Financial Liabilities		
Borrowings	360	300
Other Non-current Liabilities	90	80
Total Non-current Liabilities	450	380
Current Liabilities		
Financial Liabilities		
Trade Payable	455	450
Bank Overdraft	410	420
Other current liabilities	45	90
Total Current Liabilities	910	960
Total Liabilities	1,360	1,340
Total Equity and Liabilities	**2,620**	**2,410**

Additional Information:

(a) Profit before tax for the year is Rs. 200 lakhs and provision for tax is Rs. 40 lakhs.

(b) Property, Plant and Equipment purchased during the year Rs. 100 lakhs.

(c) Current liabilities include Capital creditors of Rs. 25 lakhs as at 31st March 20X3 (Nil – 31st March 20X2)

(d) Long Term Borrowings raised during the year Rs. 120 lakhs.

From the information given, prepare a Statement of Cash Flows following Indirect Method. Assume that Bank overdraft is an integral part of the entity's cash management.

Solution :

Statement of Cash Flows for the year ended 31st March, 20X3

	(Rs. in lakhs)	**(Rs. in lakhs)**
Cash flows from operating activities		
Profit before taxation	200	
Adjustments for non-cash items:		
Depreciation [410 - (450 - 100)]	60	
	260	
Increase in inventories (800 - 700)	(100)	
Decrease in trade receivables (600 - 580)	20	
Increase in other non-current assets (95 - 85)	(10)	
Increase in other current assets (160 - 120)	(40)	
Increase in non-current liabilities (90 - 80)	10	
Increase in trade payables (455 – 25 - 450)	(20)	
Other current liabilities (Refer Note 1) [(90 + 40) - 45]	(85)	
Net cash generated from operating activities		35
Cash flows from investing activities		

Cash paid to purchase PPE (100-25)	(75)	
Cash paid to acquire investment (100-60)	(40)	
Net cash outflow from investing activities		(1150
Cash flows from financing activities		
Raising of equity share capital (280 - 250)	30	
Long-term borrowings raised during the year	120	
Long-term borrowings repaid during the year [(300 + 120) - 360]	(60)	
Net cash outflow from financing activities		90
Increase in cash and cash equivalents during the year		10
Cash and cash equivalents at the beginning of the year (420-300) (Refer Note 2)		(120)
Cash and cash equivalents at the end of the year (410-300) (Refer Note 2)		(110)

Note: Other current liabilities are assumed to consist of provision for taxation.

Question 12 : May 2025 – RTP

The opening balance sheet at 1st April, 20X6 of an Indian company (which account for its transactions in INR (Rs.), which consists of cash of Rs. 1,00,000 and share capital of Rs. 100,000. The Company borrows a long term loan on 30th September, 20X6 for US $ 2,200 when the rate of exchange is 1 US $= Rs. 87. There are no other transactions during the year. The exchange rate at the balance sheet date of 31st March, 20X7 is 1 US $ = Rs. 85.

The summarized balance sheet at 31st March, 20X7 is as follows:

	Rs.	Rs.
Assets		
Cash (1,00,000 + 1,91,400)		2,91,400
		2,91,400
Equity and liabilities		
Capital and reserves		
Share capital	1,00,000	
Other Equity		
Retained Earning	4,400	1,04,400
Non- current liabilities		
Long -term loan		1,87,000
Total equity and liabilities		2,91,400

Required :

How the foreign exchange difference arising from unsettled transactions will reflect in the Statement of Cash Flows?

Solution :

The foreign currency loan, having been translated at the rate ruling at the receipt date to Rs. 1,91,400 (US $ 2,200 x Rs. 87), is translated at the balance sheet date to Rs. 1,87,000 (US $ 2,200 x Rs. 85). The exchange gain of Rs. 4,400 is recognised in the Statement of profit and loss. The cash is made up of Rs. 1,00,000 (received from the share issue) and Rs. 1,91,400 (received on converting the currency loan immediately to Rs.).

Statement of Cash Flows

	Rs.
Cash flows from operating activities	
Profit	4,400
Less: Foreign exchange gain	(4,400)
Net cash flow from operating activities A	0
Cash flows from financing activities	
Receipts of foreign currency loan	1,91,400
Net cash flow from financing activities B	1,91,400
Net increase in cash and cash equivalent A+B	1,91,400
Cash and cash equivalents at the beginning of the reporting period	1,00,000
Cash and cash equivalents at the end of the reporting period*	2,91,400

* Represents year end cash balances.

The exchange gain of Rs. 4,400 does not have any cash flow effect and is related to financing activities. Therefore, it needs to be eliminated from profit. A similar adjustment would be necessary if the loan remains outstanding at 31st March, 20X8.

Question 13 : Sept 2025 – RTP

A Ltd., whose functional currency is Indian Rupee, had a balance of cash and cash equivalents of Rs. 2,00,000, but no trade receivables or trade payables on 1st April, 20X2. During 20X2-20X3, A Ltd. entered into the following foreign currency transactions:

1. A Ltd. purchased goods for resale from Europe for € 1,00,000 when the exchange rate was € 1 = Rs. 105. This balance is still unpaid at 31st March, 20X3 when the exchange rate is € 1 = Rs. 100.
2. A Ltd. sold the goods to an American client for $ 1,50,000 when the exchange rate was $1 = Rs. 85. This amount was settled when the exchange rate was $1 = Rs. 87.
3. A Ltd. also borrowed € 1,00,000 under a long-term loan agreement when the exchange rate was € 1 = Rs. 105 and immediately converted it to Rs. 1,05,00,000.

Recommend how cash flows arising from above transactions would be reported in the statement of cash flows under indirect method.

Solution :

An exchange gain on retranslation of the trade payable of Rs. 5,00,000 is recorded in profit or loss [€ 1,00,000 x (105 – 100) = Rs. 5,00,000].

A further exchange gain of Rs. 3,00,000 regarding the trade receivable is recorded in the statement of profit or loss [$ 1,50,000 x (87 – 85) = Rs. 3,00,000].

The loan was retranslated at 31st March, 20X3 @ Rs. 100 = Rs. 1,00,00,000, with a further exchange gain of Rs. 5,00,000 recorded in the statement of profit or loss.
A Ltd. therefore records a cumulative exchange gain of Rs. 13,00,000 (5,00,000 + 3,00,000 + 5,00,000) in arriving at its profit for the year.
In addition, A Ltd. records a gross profit of Rs. 22,50,000 (Rs. 1,05,00,000 – Rs. 1,27,50,000) on the sale of the goods.

Statement of Cash Flows
Cash flows from operating activities (Indirect method)

Particulars	Amount (Rs.)
Profit before taxation (22,50,000 + 13,00,000)	35,50,000
Adjustment for unrealised exchange gains/losses:	
Foreign exchange gain on long term loan	(5,00,000)
Decrease in trade payables	(5,00,000)
Operating cash flow before working capital changes	25,50,000
Changes in working capital (Due to increase in trade payables)	1,05,00,000
Net cash inflow from operating activities	1,30,50,000
Cash inflow from financing activity	1,05,00,000
Net increase in cash and cash equivalents	2,35,50,000
Cash and cash equivalents at the beginning of the period	2,00,000
Cash and cash equivalents at the end of the period (W.N.)	2,37,50,000

Note: Taxation is ignored.

Working Note:

Closing Cash and Cash Equivalents

Particulars	Amount (Rs.)
Opening balance of cash and cash equivalents	2,00,000
Add: Received from settlement of Trade Receivables	1,30,50,000
Add: Received from conversion of loan	1,05,00,000
	2,37,50,000

Question 14 : Sept 2025 – Paper

Modern Limited, whose functional currency is Indian Rupee, had a balance of cash and cash equivalents of Rs. 5,00,000, but there are no other assets or liabilities in its financial statements as on 1st April, 2024. During the year 2024-2025, the company has entered into the following foreign currency transactions:

(i) It purchased goods for resale from Spain for Euro 1,00,000 when the exchange rate was 1 Euro = Rs. 77. This balance is still unpaid at 31st March, 2025 when the exchange rate was 1 Euro = Rs. 72. An exchange gain of Rs. 5,00,000 on the retranslation of Trade Payables is recorded in the Statement of Profit and Loss.

(ii) It sold the goods to an American client for US $ 1,00,000 when the exchange rate was 1 US $ = Rs. 82. This amount was settled when the exchange rate was 1 US $= Rs. 85. The

exchange gain regarding the Trade Receivable is recorded in the Statement of Profit and Loss.

(iii) Modern Limited also borrowed Euro 1,00,000 under a long-term loan agreement when the exchange rate was 1 Euro = Rs. 75 and immediately converted it into Rs. 75,00,000. The loan was retranslated at 31st March, 2025 at Rs. 72, with an exchange gain recorded in the Statement of Profit and Loss. The loan is still payable.

Modern Limited, therefore, records a cumulative exchange gain of Rs. 11,00,000 (5,00,000 + 3,00,000 + 3,00,000) in arriving at its profit for the year. Besides it also records a trading profit of Rs. 5,00,000 (Rs. 82,00,000 - Rs. 77,00,000) on the sale of goods.

How would the cash flows arising from the above transactions be reported in the Statement of Cash flows of Modern Limited prepared under Indirect Method as per applicable Ind AS? Ignore taxation.

Solution :

An exchange gain on retranslation of the trade payable of Rs. 5,00,000 is recorded in profit or loss [€ 1,00,000 x (77 – 72) = Rs. 5,00,000].

A further exchange gain of Rs. 3,00,000 regarding the trade receivable is recorded in the statement of profit or loss [$ 1,00,000 x (85 – 82) = Rs. 3,00,000].

The loan was retranslated at 31st March 2025 @ Rs. 72 = Rs. 72,00,000, with a further exchange gain of Rs. 3,00,000 recorded in the statement of profit or loss.

Statement of Cash Flows

Particulars	**Rs.**
Cash flows from operating activities (Indirect method)	
Profit before taxation (5,00,000 + 11,00,000)	16,00,000
Adjustment for unrealised exchange gains / losses:	
Foreign exchange gain on long term loan	(3,00,000)
Foreign Exchange gain on trade payables	(5,00,000)
Operating cash flow before working capital changes	8,00,000
Changes in working capital (Due to increase in trade payables)	77,00,000
Net cash inflow from operating activities	85,00,000
Cash inflow from financing activity	75,00,000
Net increase in cash and cash equivalents	1,60,00,000
Cash and cash equivalents at the beginning of the period	5,00,000
Cash and cash equivalents at the end of the period (Refer W.N.)	1,65,00,000

Working Note:

Closing Cash and Cash Equivalents

Particulars	**Rs.**
Opening balance of cash and cash equivalents	5,00,000
Add: Received from settlement of Trade Receivables	85,00,000
Add: Received from conversion of loan	75,00,000

	1,65,00,000

Note: One may show changes in working capital net of foreign exchange gain of Rs. 72,00,000.

Question 15 : Jan 2026 – RTP

Z Ltd. had acquired a subsidiary V Ltd. during the year 20X1-20X2. Summarized information from the consolidated statement of profit and loss and balance sheet together with some supplementary information have been provided:

Consolidated Statement of Profit and Loss for the year 20X1-20X2

	Rs.
Revenue	4,56,000
Cost of sales	(2,64,000)
Gross profit	1,92,000
Depreciation	(36,000)
Other operating expenses	(67,200)
Interest cost	(4,800)
Profit before taxation	84,000
Taxation	(18,0000
Profit after taxation	66,000

Consolidated Balance Sheet as at 31st March

	20X2 Rs.	20X1 Rs.
Assets		
Non-current assets		
Property, plant and equipment	1,92,000	96,000
Goodwill	21,600	-
Current assets		
Inventories	36,000	42,000
Financial assets		
Trade receivables	64,800	60,000
Cash and cash equivalents	9,600	6,000
Total	**3,24,000**	**2,04,000**
Equity and Liabilities		
Shareholders' equity	1,08,000	42,000
Non-current liabilities		
Long term debt	1,20,000	76,800
Current liabilities		
Income tax payables	14,400	13,200
Financial liabilities		

Trade payables		81,600	72,000
	Total	**3,24,000**	**2,04,000**

Other information

All of the shares of V Ltd. were acquired for Rs. 88,800 in cash. The fair values of assets acquired and liabilities assumed were:

Particulars	**Rs.**
Inventories	4,800
Trade receivables	9,600
Cash	2,400
Property, plant and equipment	1,32,000
Trade payables	(38,000)
Long-term debt	(43,200)
Goodwill	21,600
Cash consideration paid	88,800

Required:

Prepare a consolidated statement of cashflows for the year 20X1-20X2 under indirect method.

Solution :

Consolidated Statement of Cash Flows for the 20X1-20X2

	Rs.	**Rs.**
Cash flows from operating activities		
Profit after taxation		84,000
Adjustments for non-cash items:		
Depreciation	36,000	
Interest paid to be included in financing activities	4,800	40,800
		1,24,800
Adjustments for working capital changes:		
Decrease in inventories (W.N.1)	10,800	
Decrease in trade receivables (W.N.2)	4,800	
Decrease in trade payables (W.N.3)	(28,800)	(13,200)
		1,11,600
Less: Taxation (13,200 + 18,000 – 14,400)		(16,800)
Net cash generated from operating activities		94,800
Cash flows from investing activities		
Cash paid to be acquired subsidiary (88,800 – 2,400)	(86,400)	
Net cash outflow from investing activities		(86,400)
Cash flows from financing activities		
Interest paid	(4,800)	
Net cash outflow from financing activities		(4,800)

Increase in cash and cash equivalents		3,600
Cash and cash equivalents at the beginning of the year		6,000
Cash and cash equivalents at the end of the year		9,600

Working Notes:

1. Computation of increase/decrease in inventory of the Group for the year

	Rs.
Total inventory of the Group at the end of the year	36,000
Inventory acquired during the year from subsidiary	(4,800)
Closing inventory	31,200
Less: Opening inventory	(42,000)
Decrease in inventory	(10,800)

2. Computation of increase/decrease in trade receivables of the Group for the year

	Rs.
Total trade receivables of the Group at the end of the year	64,800
Trade receivables acquired during the year from subsidiary	(9,600)
Closing trade receivables	55,200
Less: Opening trade receivables	(60,000)
Closing trade receivables	(4,800)

3. Computation of increase/decrease in trade payables of the Group for the year

	Rs.
Trade payables at the end of the year	81,600
Trade payables of the subsidiary assumed during the year	(38,400)
Closing trade payables	43,200
Less: Opening trade payables	(72,000)
Closing trade payables	(28,800)

Thanks ....

IND AS – 8 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES & ERRORS

CHAPTER - 13

Question 1 : May 2019 – RTP

ABC Ltd. changed its method adopted for inventory valuation in the year 2018-2019. Prior to the change, inventory was valued using the first in first out method (FIFO). However, it was felt that in order to match current practice and to make the financial statements more relevant and reliable, a weighted average valuation model would be more appropriate.

The effect of the change in the method of valuation of inventory was as follows:

- 31st March, 2017 - Increase of Rs.10 million
- 31st March, 2018 - Increase of Rs.15 million
- 31st March, 2019 - Increase of Rs.20 million

Profit or loss under the FIFO valuation model are as follows:

	2018-2019	2017-2018
Revenue	324	296
Cost of goods	(173)	(164)
Gross profit	**151**	**132**
Expenses	(83)	(74)
Profit	**68**	**58**

Retained earnings at 31st March, 2017 were Rs.423 million

Present the change in accounting policy in the profit or loss and produce an extract of the statement of changes in equity in accordance with Ind AS 8.

Solution :

Profit or loss under weighted average valuation method is as follows :

	2018-2019	2017-2018 (Restated)
Revenue	324	296
Cost of goods	(168)	(159)
Gross profit	**156**	**137**
Expenses	(83)	(74)
Profit	**73**	**63**

Statement of changes in Equity (extract)

	Retained earnings	Retained earnings (Original)
At 1st April, 2017	423	423
Change in inventory valuation policy	10	-
At 1st April, 2017 (Restated)	**433**	**-**
Profit for the year 2017-2018	63	58
At 31st March, 2018	**496**	**481**
Profit for the 2018-2019	73	68
At 31st March, 2019	**569**	**549**

Question 2 : Nov 2019 – RTP

During 20X4-X5, Cheery Limited discovered that some products that had been sold during 20X3-X4 were incorrectly included in inventory at 31st March, 20X4 at Rs.6,500.

Cheery Limited's accounting records for 20X4-X5 show sales of Rs.104,000, cost of goods sold of Rs.86,500 including Rs.6,500 for the error in opening inventory), and income taxes of Rs.5,250.

In 20X3-X4, Cheery Limited reported:

	Rs.
Sales	73,500
Cost of goods sold	(53,500)
Profit before income taxes	20,000
Income taxes	(6,000)
Profit	14,000
Basic and diluted EPS	2.8

The 20X3-X4 opening retained earnings was Rs.20,000 and closing retained earnings was Rs.34,000. Cheery Limited's income tax rate was 30% for 20X4-X5 and 20X3-X4. It had no other income or expenses.

Cheery Limited had Rs.50,000 (5,000 shares of Rs.10 each) of share capital throughout, and no other components of equity except for retained earnings.

State how the above will be treated /accounted in Cheery Limited's Statement of profit and loss, statement of changes in equity and in notes wherever required for current period and earlier period(s) as per relevant Ind AS.

Solution :

Cheery Limited

Extract from the Statement of profit and loss

		(Restated)
	20X4-X5	**20X3-X4**
	Rs.	**Rs.**
Sales	1,04,000	73,500
Cost of goods sold	(80,000)	(60,000)
Profit before income taxes	**24,000**	**13,500**

Income taxes	(7,200)	(4,050)
Profit	**16,800**	**9,450**
Basic and diluted EPS	3.36	1.89

Cheery Limited
Statement of Changes in Equity

	Share capital	Retained earnings	Total
Balance at 31st March, 20X3	50,000	20,000	70,000
Profit for the year ended 31st March, 20X4 as restated	_____	9,450	9,450
Balance at 31st March, 20X4	**50,000**	**29,450**	**79,450**
Profit for the year ended 31st March, 20X5	_____	16,800	16,800
Balance at 31st March, 20X5	**50,000**	**46,250**	**96,250**

Extract from the Notes

Some products that had been sold in 20X3-X4 were incorrectly included in inventory at 31st March, 20X4 at Rs.6,500. The financial statements of 20X3-X4 have been restated to correct this error. The effect of the restatement on those financial statements is summarized below:

	Effect on 20X3-X4
(Increase) in cost of goods sold	(6,500)
Decrease in income tax expenses	1,950
(Decrease) in profit	(4,550)
(Decrease) in basic and diluted EPS	(0.91)
(Decrease) in inventory	(6,500)
Decrease in income tax payable	1,950
(Decrease) in equity	(4,550)

There is no effect on the balance sheet at the beginning of the preceding period i.e. 1st April, 20X3.

Question 3 : May 2020 – RTP

While preparing the financial statements for the year ended 31st March, 20X3, Alpha Limited has observed two issues in the previous year Ind AS financial statements (i.e. 31st March, 20X2) which are as follows:

Issue 1:

The company had presented certain material liabilities as non-current in its financial statements for periods as on 31st March, 20X2. While preparing annual financial statements for the year ended 31st March, 20X3, management discovers that these liabilities should have been classified as current. The management intends to restate the comparative amounts for the prior period presented (i.e., as at 31st March, 20X2).

Issue 2:

The company had charged off certain expenses as finance costs in the year ended 31st March, 20X2. While preparing annual financial statements for the year ended 31st March, 20X3, it was discovered that these expenses should have been classified as other expenses instead of finance costs. The error occurred because the management inadvertently misinterpreted certain facts. The entity intends to restate the comparative amounts for the prior period presented in which the error occurred (i.e., year ended 31st March, 20X2).
What is your analysis and recommendation in respect of the issues noted with the previously presented set of financial statements for the year ended 31st March, 20X2?

Solution :

As per Ind AS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.
Accordingly, the stated issues in question are to dealt as under:

Issue 1

In accordance with para 41, the reclassification of liabilities from non-current to current would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended March 31, 20X3, the comparative amounts as at 31 March 20X2 would be restated to reflect the correct classification.
Ind AS 1 requires an entity to present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements, if, inter alia, it makes a retrospective restatement of items in its financial statements and the restatement has a material effect on the information in the balance sheet at the beginning of the preceding period. Accordingly, the entity should present a third balance sheet as at the beginning of the preceding period, i.e., as at 1 April 20X1 in addition to the comparatives for the financial year 20X1-20X2.

Issue 2

In accordance with para 41, the reclassification of expenses from finance costs to other expenses would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended 31 March, 20X3, the comparative amounts for the year ended 31 March 20X2 would be restated to reflect the correct classification.
Ind AS 1 requires an entity to present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements if, inter alia, it makes a retrospective restatement of items in its financial statements and the restatement has a material effect on the information in the balance sheet at the beginning of the preceding period.
In the given case, the retrospective restatement of relevant items in statement of profit and loss has no effect on the information in the balance sheet at the beginning of the preceding period (1 April 20X1). Therefore, the entity is not required to present a third balance sheet.

Question 4 : May 2021 – RTP

In 20X3-20X4, after the entity's 31 March 20X3 annual financial statements were approved for issue, a latent defect in the composition of a new product manufactured by the entity was discovered (that is, a defect that could not be discovered by reasonable or customary inspection). As a result of the latent defect the entity incurred Rs.100,000 in unanticipated costs for fulfilling its warranty obligation in respect of sales made before 31 March 20X3. An additional Rs.20,000 was incurred to rectify the latent defect in products sold during 20X3-20X4 before the defect was detected and the production process rectified, Rs.5,000 of which relates to items of inventory at 31 March 20X3. The defective inventory was reported at cost Rs. 15,000 in the 20X2-20X3 financial statements when its selling price less costs to complete and sell was estimated at Rs.18,000. The accounting estimates made in preparing the 31 March 20X3 financial statements were appropriately made using all reliable information that the entity could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Analyse the above situation in accordance with relevant Ind AS.

Solution :

Ind AS 8 is applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset. This change in accounting estimate is an outcome of the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Further, the effect of change in an accounting estimate, shall be recognised prospectively by including it in profit or loss in: (a) the period of the change, if the change affects that period only; or (b) the period of the change and future periods, if the change affects both.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were approved for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

On the basis of above provisions, the given situation would be dealt as follows:

The defect was neither known nor reasonably possible to detect at 31 March 20X3 or before the financial statements were approved for issue, so understatement of the warranty provision Rs. 1,00,000 and overstatement of inventory Rs. 2,000 (Note 1) in the 31 March 20X3 financial statements are not a prior period errors.

The effects of the latent defect that relate to the entity's financial position at 31 March 20X3 are changes in accounting estimates.

In preparing its financial statements for 31 March 20X3, the entity made the warranty provision and inventory valuation appropriately using all reliable information that the entity could reasonably be expected to have obtained and had taken into account the same in the preparation and presentation of those financial statements.
Consequently, the additional costs are expensed in calculating profit or loss for 20X3-20X4.
Working Note:
Inventory is measured at the lower of cost (ie Rs. 15,000) and fair value less costs to complete and sell (i.e. Rs. 18,000 originally estimated minus Rs. 5,000 costs to rectify latent defect) = Rs. 13,000.

Question 5 : Nov 2022 – RTP

While preparing interim financial statements for the half-year ended 30th September, 20X1, an entity notes that there has been an under-accrual of certain expenses in the interim financial statements for the first quarter ended 30th June, 20X1. The amount of under accrual is assessed to be material in the context of interim financial statements. However, it is expected that the amount would be immaterial in the context of the annual financial statements. The management is of the view that there is no need to correct the error in the interim financial statements considering that the amount is expected to be immaterial from the point of view of the annual financial statements. Whether the management's view is acceptable?

Solution :
Paragraph 41 of Ind AS 8, inter alia, states that financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows.
As regards the assessment of materiality of an item in preparing interim financial statements, paragraph 25 of Ind AS 34, Interim Financial Statements, states that while judgement is always required in assessing materiality, this Standard bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from non-disclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period.
As per the above, while materiality judgements always involve a degree of subjectivity, the overriding goal is to ensure that an interim financial report includes all the information that is relevant to an understanding of the financial position and performance of the entity during the interim period. It is therefore not appropriate to base quantitative assessments of materiality on projected annual figures when evaluating errors in interim financial statements.
Accordingly, the management is required to correct the error in the interim financial statements since it is assessed to be material in relation to interim period data.

Question 6 : May 2023 – RTP

In 20X3-20X4, after the entity's 31st March, 20X3 annual financial statements were approved for issue, a latent defect in the composition of a new product manufactured by the entity was discovered (that is, a defect that was not discoverable by reasonable or customary inspection). As a result of the latent defect, the entity incurred Rs. 1,00,000 in unanticipated costs for fulfilling its warranty obligation in respect of sales made before 31st March, 20X3. An additional Rs. 20,000 was incurred to rectify the latent defect in products sold during 20X3-20X4 before the defect was detected and the production process rectified, Rs. 5,000 of which relates to items of inventory at 31st March, 20X3. The defective inventory was reported at cost (Rs. 15,000) in the financial statements of 20X2-20X3 when its selling price less costs to complete and sell was estimated at Rs. 18,000. The accounting estimates made in preparing the 31st March, 20X3 financial statements were appropriately made using all reliable information that the entity could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
Analyse the above situation in accordance with Ind AS 8

Solution :

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

Working Note:

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

Question 7 : Nov 2023 – RTP

In its financial statements for the year ended 31st March, 20X2, Y Ltd. reported Rs. 73,500 revenue (sales), Rs. 53,500 cost of sales, Rs. 6,000 income tax expense, Rs. 20,000 retained earnings at 1st April, 20X1 and Rs. 34,000 retained earnings at 31st March, 20X2.
In 20X2-20X3, after the 20X1-20X2 financial statements were approved for issue, Y Ltd. discovered that some products sold in 20X1-20X2 were incorrectly included in inventories at 31st March, 20X2 at their cost of Rs. 6,500.
In 20X2-20X3, Y Ltd. changed its accounting policy for the measurement of investments in associates after initial recognition from cost model to the fair value model as per Ind AS 109. It acquired its only investment in an associate for Rs. 3,000 many years ago. The associate's equity is not traded on a securities exchange (that is, a published price quotation is not available). The

fair value of the investment was determined reliably using an appropriate equity valuation model on 31st March, 20X3 at Rs. 25,000 (20X1-20X2: Rs. 20,000 and 20X0-20X1: Rs. 18,000).
At 31st March, 20X3, as a result of usage of improved lubricants, Y Ltd. reassessed the useful life of Machine A from four years to seven years. Machine A is depreciated on the straight-line method to a Nil residual value. It was acquired for Rs. 6,000 on 1st April, 20X0.
Inventories of the type manufactured by Machine A were immaterial at the end of each reporting period.
Y Ltd.'s accounting records for the year ended 31st March, 20X3, before accounting for change in accounting policy and change in accounting estimate, record Rs. 1,04,000 revenue (sales), Rs. 86,500 cost of sales (including Rs. 6,500 for the error in opening inventory and Rs. 1,500 depreciation for Machine A) and Rs. 5,250 income tax expense.
Y Ltd. presents financial statements with one year of comparative information.
For simplicity, the tax effect of all items of income and expenses should be assumed to be 30% of the gross amount.
Draft an extract showing how the correction of the prior period error, change in accounting policy and change in accounting estimate could be presented in the Statement of Profit and Loss and Statement of Changes in Equity (Retained Earnings) and disclosed in the Notes of Y Ltd. for the year ended 31st March, 20X3.

Solution :

Extract of Y Ltd.'s Statement of Profit and Loss
for the year ended 31st March, 20X3

	20X2-20X3	Reference to W.N.	20X1-20X2 Restated	Reference to W.N.
Revenue	1,04,000		73,500	
Cost of sales (20X1-20X2 previously Rs. 53,500)	(79,100)	1	(60,000)	4
Gross profit	24,900		13,500	
Other income — change in the measurement policy i.e. the value of investment in associate at FVTPL	5,000	2	2,000	5
Profit before tax	29,900		15,500	
Income tax expense	(8,970)	3	(4,650)	6
Profit for the year	20,930		10,850	

Extract of Y Ltd.'s Statement of Changes in Equity (Retained Earnings)
for the year ended 31st March, 20X3

	20X2-20X3	Reference to W.N.	20X1-20X2 Restated	Reference to W.N.

Retained earnings, as restated, at the beginning of the year	34,000		20,000	
➢ as previously stated	(4,550)	7		
➢ effect of the correction of a prior period error	11,900	13	10,500	12
➢ effect of a change in accounting policy				
	41,350		30,500	
Profit for the year	20,930		10,850	
Retained earnings at the end of the year	62,280		41,350	

Y Ltd.

Extract of Notes to the Financial Statements for the year ended 31st March, 20X3

Note X : Change in Accounting Estimates

Due to usage of improved lubricants the estimated useful life of the machine used for production was increased from four years to seven years. The effect of the change in the useful life of the machine is to reduce the depreciation allocation by Rs 900 in 20X2-20X3 and 20X3-20X4. The after-tax effect is an increase in profit for the year of Rs. 630 for each of the two years.

Depreciation expense in 20X4-20X5 to 20X6-20X7 is increased by Rs. 600 because of revision in the useful life of machinery, as under the initial estimate, the asset would have been fully depreciated at the end of 20X3-20X4. The after-tax effect for these three years is a decrease in profit for the year by Rs. 420 per year.

Note Y : Correction of Prior Period Error

In 20X2-20X3 the entity identified that Rs. 6,500 products that had been sold in 20X1-20X2 were included erroneously in inventory at 31st March, 20X2. The financial statements of 20X1-20X2 have been restated to correct this error. The effect of the restatement is Rs. 6,500 increase in the cost of sales and Rs. 4,550 decrease in profit for the year ended 31st March, 20X2 after decreasing income tax expense by Rs. 1,950. This resulted in Rs. 4,550 (decrease) restatement of retained earnings at 31st March, 20X2.

Note Z : Change in Accounting Policy

In 20X2-20X3 the entity changed its accounting policy for the measurement of investments in associates from cost model to fair value model as per Ind AS 109. Management judged that this policy provides reliable and more relevant information because dividend income and changes in fair value are inextricably linked as integral components of the financial performance of an investment in an associate and measurement at fair value is necessary if that financial

performance is to be reported in a more meaningful way. This change in accounting policy has been accounted for retrospectively. The comparative information has been restated. A new line item, 'Other income — change in the fair value of investment in associate', has been added in the Statement of Profit and Loss and Retained Earnings. The effect of the restatement has been to add income of Rs. 2,000 as a result of the increase in value of the associate during the year ended 31st March, 20X2 which resulted in Rs. 1,400 increase in profit for the year (after including a resulting increase in income tax expense of Rs. 600). This, together with Rs. 10,500 (increase) restatement of retained earnings at 31st March, 20X1, resulted in a Rs. 11,900 increase in retained earnings at 31st March, 20X2. Furthermore, profit for the year ended 31st March, 20X3 was Rs. 3,500 higher (after deducting Rs. 1,500 tax effect) as a result of recording a further Rs. 5,000 (W.N.2) increase in the fair value of the investment in an associate.

Working Notes:

1. Rs. 86,500 (given) minus Rs. 6,500 correction of error (now recognised as an expense in 20X1-20X2) minus Rs. 900 (W.N.9) effect of the change in accounting estimate.
2. Rs. 25,000 fair value (20X2-20X3) minus Rs. 20,000 fair value (20X1-20X2) = Rs. 5,000 (the effect of applying the new accounting policy (fair value model) in 20X2-20X3).
3. Rs. 5,250 + Rs. 1,950 (W.N.8) + 30% (Rs. 900 (W.N.9) reduction in depreciation resulting from the change in accounting estimate) + 30% (Rs. 5,000 increase in the fair value of investment property — change in accounting policy) = Rs. 8,970.
4. Rs. 53,500 as previously stated + Rs. 6,500 (products sold and incorrectly included in closing inventory in 20X1-20X2) = Rs. 60,000 (that is, the prior period error is corrected retrospectively by restating the comparative amounts).
5. Rs. 20,000 fair value (20X1-20X2) minus Rs. 18,000 fair value (20X0-20X1) = Rs. 2,000 (the effect in 20X1-20X2 of the change in accounting policy for investments in associates from the cost model to the fair value model).
6. Rs. 6,000 as previously stated minus Rs. 1,950 (W.N.8) correction of prior period error + 30% (Rs. 2,000 change in accounting policy) = Rs. 4,650.
7. Rs. 6,500 (products sold and incorrectly included in inventory in 20X1-20X2) – Rs. 1,950 (W.N.8) (tax overstated in 20X1-20X2) = Rs. 4,550.
8. Rs. 6,500 (products sold and incorrectly included in inventory in 20X1-20X2) x 30% (income tax rate) = Rs. 1,950.
9. Rs. 1,500 depreciation (using old estimate, that is, Rs. 6,000 cost ÷ 4 years) minus Rs. 600 (W.N.10) (using new estimate of useful life) = Rs. 900.
10. Rs. 3,000 (W.N.11) carrying amount ÷ 5 years remaining useful life = Rs. 600 depreciation per year.
11. [Rs. 6,000 cost minus (Rs. 1,500 depreciation x 2 years)] = Rs. 3,000 carrying amount at 31st March, 20X2.
12. (Rs. 18,000 fair value of investment in associates at 31st March, 20X1 minus Rs. 3,000 carrying amount based on the cost model at the same date) x 0.7 (to reflect 30% income tax rate) = Rs. 10,500 (effect of a change in accounting policy (from cost model to fair value model)).

13. Rs. 10,500 (W.N.12) + [Rs. 2,000 (W.N.5) x 0.7 (to reflect 30% income tax rate)] = Rs. 11,900.

Question 8 : Nov 2023 – Paper

HG Incredibles Limited had in the recent past made a right issue. In its offer document to its members, it had projected a surplus of Rs. 50 crores during the year ending 31.03.2023. The draft result for the year ended 31.03.2023, prepared on the hitherto followed accounting policies and presented for perusal of the Board of Directors showed a surplus of Rs. 5 Crores. The Board in consultation with the Managing Director, decided on the following:

(i) Value year-end Inventory at Works Cost (Rs. 40 Crores) instead of hitherto method of valuation of inventory at Prime Cost (Rs. 20 Crores);

(ii) Not to provide for "After Sales Expenses" during the warranty period. Till the last year, provision for 1% of Sales used to be made under the concept of "matching of costs against revenue" and actual expenses used to be charged against provision. The Board now decided to account for expenses as and when actually they are incurred. Sales during the year was Rs. 800 Crores;

(iii) Provide depreciation for the year on Straight Line Method on account of substantial additions in Gross Block during the year, instead of on Reducing Balance Method, which was hitherto adopted. As a consequence, Rs. 21 Crores depreciation is now less charged than it would have been provided under the old method. (Rs. 67 Crores on Reducing Balance method and Rs. 46 Crores in Straight Line Method).

(iv) Provide for other than temporary fall in the value of investments, which fall took place in last 6 years, amounting to Rs. 12 Crores.

Discuss the above situations as per applicable Ind AS, particularly Ind AS 8. Whether the above are changes in accounting policies or changes in estimates?

Solution :

(i) Paragraph 36(a) of Ind AS 2, 'Inventories', specifically requires disclosure of 'cost formula used' as a part of disclosure of accounting policies adopted in measurement of inventories. Accordingly, a change in cost formula is a change in accounting policy. The entity should apply the change in the accounting policy retrospectively. For retrospective application of a change in accounting policy, adjust the opening balance of each affected component for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied. Usually, the adjustment is made to retained earnings.

Income tax effect due to change in accounting policy will be accounted for in accordance with Ind AS 12.

(ii) Here, since the question talks about making of provision, it is assumed that assurance warranty has been provided by the entity. Further, providing for 1% against after sales expenses is an accounting policy decision. Now since, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred, there is a change in accounting policy decision.

The change in accounting policy is accounted for retrospectively. For retrospective application of a change in accounting policy, adjust the opening balance of each affected component for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied. Usually, the adjustment is made to retained earnings.

Income tax effect due to change in accounting policy will be accounted for in accordance with Ind AS 12.

(iii) Determination of depreciation method involves an accounting estimate and thus depreciation method is not a matter of an accounting policy. Accordingly, as per Ind AS 16, a change in depreciation method should be accounted for as a change in accounting estimate in accordance with Ind AS 8. Change in accounting estimate is accounted for prospectively. However, the effect of the change is recognised as income or expense of the year in which the change is made. The effect, if any, on future periods is recognised as income or expense in those future periods.

(iv) Accounting for investment made by the entity falls under the purview of Ind AS 109 'Financial Instruments'. As per Ind AS 109, subsequent measurement of financial instruments is done on following basis:

(a) Measured at Amortised cost

(b) Measured at Fair value through Other Comprehensive Income (FVTOCI)

(c) Measured at Fair value through Profit or Loss (FVTPL)

In case the entity has subsequently measured its financial asset i.e. investment on the basis of FVTOCI or FVTPL, then change in fair value would have been recorded earlier in previous reporting period too. In such a case, there is no change in accounting policy or accounting estimate. However, if the entity had not accounted for previous changes in its books, then it is an error. If the material error occurred before the earliest prior period presented, an entity shall, unless impracticable, correct the same retrospectively in the first set of financial statements approved for issue after their discovery by restating the opening balances of assets, liabilities and equity for the earliest prior period presented. Further, fair value change is to be accounted for at every reporting date. Hence, restatement of the comparative amounts for the prior period(s) presented in which the error occurred is also required to be done.

Further, if an entity reclassifies any financial asset, it must do so prospectively from reclassification date. The entity shall not restate any previously recognised gains, losses (including impairment gains or losses) or interest. Reclassification of financial asset will be accounted for in accordance with the guidance given in Ind AS 109.

Question 9 : Nov 2024 – Paper

You are required to analyse the following cases and advise whether they are related with prior period errors or change in accounting estimate:

(a) As per the judgement of court an arrear of salaries and wages relating to previous year amounting to Rs.15,00,000 will be paid in the current year. At the end of previous year, the management of the company was of the opinion that arrears of salaries and wages

would not be required to be paid and accordingly no provision was made at the end of previous year.

(b) Expenses of Rs.1,50,000 of the previous year which were omitted from books of accounts of the previous year due to an oversight.

(c) The amount of provision for doubtful debts as at the end of the previous year was Rs.10,00,000 of which debts of Rs.6,00,000 were realized during the current year.

(d) Company had taken a Group Insurance policy. During the previous year due to mistake of Insurance Company the company paid less premium, which insurance company is demanding to pay now.

Solution :

(a) In case, it is assumed that the judgement of court has been received after the approval of previous year's financial statements of the reporting entity and the probability for payment of arrears of salaries and wages was remote in the previous year because of which the entity had neither made any provision or disclosure, then the liability for arrears of salary and wages would be considered as a change in accounting estimate in the current year.

Alternatively, if it is assumed that in case the judgement of court has been received before the approval of financial statements of the previous year, then the entity should have adjusted the liability in that year itself. In the absence of said accounting treatment in the previous year, it will be considered a mistake and would be accounted for as a prior period error.

(b) In the given case, since the information regarding expenses of Rs. 1,50,000 in the previous year was available with the entity, and was omitted due to an oversight, it will be considered as a prior period error.

(c) As per para 32 of Ind AS 8, a loss allowance for expected credit losses (i.e. provision for doubtful debts) applying Ind AS 109, *Financial Instruments,* is an example of accounting estimate. Hence, any change in the previous year's estimate on account of recovery of such loss allowance in the current year would be a change in the accounting estimate in the current year because of the uncertainties inherent in business activities and it is not possible to measure the provision for doubtful debts with precise accuracy.

(d) This is neither a case of prior period error nor a change in accounting estimates. In the given case, the company did not have any information as on the balance sheet date and it is the mistake committed by the Group Insurance company and not the reporting entity. Hence, the demand for an additional premium amount by the Group Insurance Company will not be considered as a prior period error for the reporting entity. Further, the entity had paid the premium amount in the previous year, so no accounting estimate was involved thereupon. Therefore, the additional demand cannot be considered as a change in accounting estimate for the reporting entity.

Question 10 : Sept 2025 – Paper

While preparing the financial statements for the year ended 31st March, 2025, Gama Ltd. observed two issues in the previous year Ind AS financial statements (i.e. 31st March, 2024) which are as follows:

Issue 1:

The company had presented certain material liabilities as non-current in its financial statements as on 31st March, 2024. While preparing annual financial statements for the year ended 31st March, 2025, management discovers that these liabilities should have been classified as current. The management intends to restate the comparative amounts for the prior period i.e. as at 31st March, 2024.

Issue 2:

The company had charged off certain expenses as finance costs in the year ended 31st March, 2024. While preparing annual financial statements for the year ended 31st March, 2025, it discovered that these expenses should have been classified as other expenses instead of finance costs. The error occurred because the management inadvertently misinterpreted certain facts. The entity intends to restate the comparative amounts for the prior period in which the error occurred i.e. year ended 31st March, 2024.

You are required to analyze the above issues and give your recommendation as to their treatment in preparation of the financial statements for the financial year 2024-2025.

Solution :

As per paragraph 41 of Ind AS 8, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

Issue 1

In accordance with the guidance provided above, the reclassification of liabilities from non-current to current would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended 31st March 2025, the comparative amounts as at 31st March 2024 would be restated to reflect the correct classification.

Issue 2

The reclassification of expenses from finance costs to other expenses would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended 31st March 2025, the comparative amounts for the year ended 31st March 2024 would be restated to reflect the correct classification.

In the given case, the retrospective restatement of relevant items in statement of profit and loss has no effect on the information in the balance sheet at the beginning of the preceding period (1st April 2023). Therefore, the entity is not required to present a third balance sheet.

Question 11 : Jan 2026 – RTP

During 20X3, T Ltd. discovered that prepayments of Rs. 680 made during 20X1 had not been recognised in profit or loss as the related expenses were incurred. The prepayments should have been recognised as an expense of Rs. 170 in 20X1; Rs. 425 in 20X2; and Rs. 85 in 20X3. The misstatement is material.

Extract from draft 20X3 Statement of Profit and Loss before correction of error

	Draft 20X3	20X2
Revenue	10,200	6,800
Less: Expenses	(9,350)	(6,120)
Net profit	850	680

Extract from Statement of Changes in Equity

	Draft 20X3	20X2
Opening retained earnings	24,480	23,800
Add: Current-year net profit	850	680
Closing retained earnings	25,330	24,480

The opening balance of retained earnings is adjusted and comparatives are restated when practicable to reflect the correction of the error. Assume there are no tax effects.

Required:

Draw the revised Statement of Profit and Loss (extract) and Statement of Changes in Equity (extract) after rectifying the above error.

Solution :

In restating the comparatives, the adjustment will be included in the appropriate line item. In addition, the financial statements will include full disclosure regarding the error and the adjustments made to correct it as per para 49 of Ind AS 8. The restated comparative financial statements should be accompanied with the heading 'restated' to highlight for users the fact that the comparative financial statements are not the same as the financial statements previously published.

Statement of Profit and Loss after correction of error (Extract)

	20X3 Rs.	20X2 (Restated) Rs.
Revenue	10,200	6,800
Less: Expenses (9,350 + 85)	(9,435)	(6,545)
Net profit	765	255

Statement of Changes in Equity (Extract)

	20X3 Rs.	20X2 (Restated) Rs.
Opening retained earnings as reported previously	-	23,800
Correction of an error related to previous years	-	(170)
Opening retained earnings (restated)	23,885	23,630
Current-year net profit	765	255
Closing retained earnings	24,650	23,885

Thanks ....

IND AS – 10 EVENTS AFTER REPORTING PERIOD

CHAPTER - 14

Question 1 : May 2019 – RTP

XYZ Ltd. was formed to secure the tenders floated by a telecom company for publication of telephone directories. It bagged the tender for publishing directories for Pune circle for 5 years. It has made a profit in 2013-2014, 2014-2015, 2015-2016 and 2016-2017. It bid in tenders for publication of directories for other circles – Nagpur, Nashik, Mumbai, Hyderabad but as per the results declared on 23rd April, 2017, the company failed to bag any of these. Its only activity till date is publication of Pune directory. The contract for publication of directories for Pune will expire on 31st December 2017. The financial statements for the F.Y. 2016-17 have been approved by the Board of Directors on July 10, 2017.

Whether it is appropriate to prepare financial statements on going concern basis?

Solution :

With regard to going concern basis to be followed for preparation of financial statements, Ind AS 10 provides as follows:

1) An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.
2) Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting."

In accordance with the above, an entity needs to change the basis of accounting if the effect of deterioration in operating results and financial position is so pervasive that management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

In the instant case, since contract is expiring on 31st December 2017 and it is confirmed on 23rd April, 2017, i.e., after the end of the reporting period and before the approval of the financial statements, that no further contact is secured, implies that the entity's operations are expected to come to an end. Accordingly, if entity's operations are expected to come to an end, the entity needs to make a judgement as to whether it has any realistic possibility to continue or not. In case, the entity determines that it has no realistic alternative of continuing the business, preparation of financial statements for 2016-17 and thereafter on going concern basis may not be appropriate.

Question 2 : Nov 2019 – RTP

ABC Ltd. received a demand notice on 15th June, 2017 for an additional amount of Rs.28,00,000 from the Excise Department on account of higher excise duty levied by the Excise Department compared to the rate at which the company was creating provision and depositing the same. The financial statements for the year 2016-17 are approved on 10th August, 2017. In July, 2017, the company has appealed against the demand of Rs.28,00,000 and the company has expected that the demand would be settled at Rs.15,00,000 only. Show how the above event will have a bearing on the financial statements for the year 2016-17. Whether these events are adjusting or non-adjusting events and explain the treatment accordingly.

Solution :

Ind AS 10 defines 'Events after the Reporting Period' as follows:

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified:

(a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and

(b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period)

In the instant case, the demand notice has been received on 15th June, 2017, which is between the end of the reporting period and the date of approval of financial statements. Therefore, it is an event after the reporting period. This demand for additional amount has been raised because of higher rate of excise duty levied by the Excise Department in respect of goods already manufactured during the reporting period. Accordingly, condition exists on 31st March, 2017, as the goods have been manufactured during the reporting period on which additional excise duty has been levied and this event has been confirmed by the receipt of demand notice. Therefore, it is an adjusting event.

In accordance with the principles of Ind AS 37, the company should make a provision in the financial statements for the year 2016-17, at best estimate of the expenditure to be incurred, i.e., Rs.15,00,000.

Question 3 : Nov 2019 – PAPER

Discuss with reasons whether these events are in nature of adjusting or non-adjusting and the treatment needed in light of accounting standard Ind AS 10.

(i) Moon Ltd. won an arbitration award on 25th April, 2019 for Rs.1 crore. From the arbitration proceeding, it was evident that the Company is most likely to win the arbitration award. The directors approved the financial statements of year ending 31.03.2019 on 1st May 2019. The management did not consider the effect of the above transaction in FY-2018-19, as it was favourable to the company and the award came after the end of the financial year.

(ii) Zoom Ltd. have a trading business of Mobile telephones. The Company has purchased 1000 mobiles phones at Rs.5,000 each on 15th March, 2019. The manufacturers of phone had announced the release of the new version on 1st March, 2019 but not announced the price. Zoom Ltd, has valued inventory at cost of Rs.5,000 each at the year ending 31st March, 2019.

Due to arrival of new advance version of Mobile Phone on 8th April, 2019, the selling prices of the mobile stocks remaining with company was dropped at Rs.4,000 each.

The financial statements of the company valued mobile phones @ Rs.5,000 each and not at the value @ Rs.4,000 less expenses on sales, as the price reduction in selling price was effected after 31.03.2019.

(iii) There was an old due from a debtor amounting to Rs.15 Lakhs against whom insolvency proceedings was instituted prior to the financial year ending 31st March, 2019. The debtor was declared in solvent on 15th April, 2019.

(iv) Assume that subsequence to the year end and before the financial statements are approved, Company's management announces that it will restructure the operations of the company. Management plans to make significant redundancies and to close a few divisions of company's business; however, there is not formal plan yet. Should management recognize a provision in the books if the company decides subsequent to end of the accounting year to restructure its operations?

Solution :

As per Ind AS 10, the treatment of stated issues would be as under:

(i) **Adjusting event:** It is an adjusting event as it is the settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period. Even though winning of award is favorable to the company, it should be accounted in its books as receivable since it is an adjusting event.

(ii) **Adjusting event:** The sale of inventories after the reporting period may give evidence about their net realizable value at the end of the reporting period, hence it is an adjusting event as per Ind AS 10. Zoom Limited should value its inventory at Rs.40,00,000. Hence, appropriate provision must be made for Rs.15 lakh.

(iii) **Adjusting event:** As per Ind AS 10, the receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted.

The bankruptcy of a customer that occurs after the reporting period usually confirms that the customer was credit-impaired at the end of the reporting period.

(iv) **Non – adjusting event:**

Announcing or commencing the implementation of a major restructuring after reporting period is a non-adjusting event as per Ind AS 10. Though this is a non-adjusting event occurred after the reporting period, yet it would result in disclosure of the event in the financial statements, if restructuring is material.

This would not require provision since as per Ind AS 37, decision to restructure was not taken before or on the reporting date. Hence, it does not give rise to a constructive obligation at the end of the reporting period to create a provision.

Question 4 : May 2020 – RTP

A company manufacturing and supplying process control equipment is entitled to duty draw back if it exceeds its turnover above a specified limit. To claim duty drawback, the company needs to file application within 15 days of meeting the specified turnover. If application is not filed within stipulated time, the Department has discretionary power of giving duty draw back credit. For the year 20X1-20X2 the company has exceeded the specified limit of turnover by the end of the reporting period. However, duty drawback can be claimed on filing of application within the stipulated time or on discretion of the Department if filing of application is late. The application for duty drawback is filed on April 20, 20X2, which is after the stipulated time of 15 days of meeting the turnover condition. Duty drawback has been credited by the Department on June 28, 20X2 and financial statements have been approved by the Board of Directors of the company on July 26, 20X2. What would be the treatment of duty drawback credit as per the given information?

Solution :

In the instant case, the condition of exceeding the specified turnover was met at the end of the reporting period and the company was entitled for the duty drawback. However, the application for the same has been filed after the stipulated time. Therefore, credit of duty drawback was discretionary in the hands of the Department. Since the claim was to be accrued only after filing of application, its accrual will be considered in the year 20X2-20X3 only.

Accordingly, the duty drawback credit is a contingent asset as at the end of the reporting period 20X1-20X2, which will be realised when the Department credits the same.

As per para 35 of Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets, contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset.

In accordance with the above, the duty drawback credit which was contingent asset for the F.Y. 20X1 -20X2 should be recognised as asset and related income should be recognized in the reporting period in which the change occurs. i.e., in the period in which realisation becomes virtually certain, i.e., F.Y. 20X2 - 20X3.

Question 5 : Nov 2020 – RTP

In one of the plant of PQR Ltd., fire broke out on 10.05.2020 in which the entire plant was damaged. PQR Ltd. estimated the loss of Rs.40,00,000 due to fire. The company filed a claim with the insurance company and expects recovery of Rs.27,00,000 from the claim. The financial statements for the year ending 31.03.2020 were approved by the Board of Directors on 12th June, 2020. Discuss the accounting treatment of the above situation.

Solution :

As per IND AS 10 – Evens after reporting period are those favourable or unfavourable, that occur between the end of reporting period and the date when financial statements are approved by board and director.

The event of fire is event after reporting period. If the event leads to deterioration of business that it lead to closure of business that Co. Needs to charge the base of accounting i.e. not follow going concern concept.

However if entity feels that business will continue through with some set back then note to the extent should be given in financial statements.

Question 6 : Jan 2021 – Paper

H Ltd. constructed a warehouse at a cost of Rs.10 lakhs in 2015. It first became available for use by H Ltd. on 1st January 2016. On 29th January 2020, H Ltd. discovered that its warehouse was damaged. During early February 2020, an investigation revealed that the damage was due to a structural fault in the construction of the warehouse. The fault became apparent when the warehouse building leaked severely after heavy rainfall in the week ended 27th January 2020. The discovery of the fault is an indication of impairment. So, H Ltd. was required to estimate the recoverable amount of its warehouse at 31st December 2019. This estimate was Rs.6,00,000. Furthermore, H Ltd. Reassessed the useful life of its warehouse at 20 years from the date that it was ready for use. Before discovering the fault, H Ltd. had depreciated the warehouse on the straight -line method to a nil residual value over its estimated 30-year useful life.

Seepage of rain water through the crack in the warehouse caused damage to inventory worth about Rs.1,00,000 (cost price) and became un-saleable. The entire damaged inventory was on hand as at 31st December, 2019. H Ltd. has not insured against any of the losses.

It accounts for all its property, plant and equipment under the cost model. H Ltd.'s annual financial statements for the year ended 31st December, 2019 were approved for issue by the Board of Directors on 28th February, 2020.

You are required to :

(i) Prepare accounting entries to record the effects of the events after the end of the reporting period in the accounting records of H Ltd. for the year ended 31st December, 2019. Kindly ignore tax impact;

(ii) Discuss disclosure requirement in above case as per relevant Ind AS; and

(iii) Will your answer be different if there was no structural fault and damage to the warehouse had been caused by an event that occurred after 31st December, 2019?

Solution :

(i) Journal Entries on 31st December 2019

		Rs.	Rs.
Depreciation expense A/c (W.N.1)	Dr.	19,608	
To Warehouse or Accumulated depreciation A/c			19,608

(Being additional depreciation expense recognised for the year ended 31st December 2019 arising from the reassessment of the useful life of the warehouse)			
Impairment loss A/c (W.N.2)	Dr.	2,47,059	
To Warehouse or Accumulated depreciation A/c			2,47,059
(Being impairment loss recognised due to discovery of structural fault in the construction of warehouse at 31st December 2019)			

(ii) (a) **The damage to warehouse is an adjusting event** (occurred after the end of the year 2019) for the reporting period 2019, since it provides evidence that the structural fault existed at the end of the reporting period. It is an adjusting event, in spite of the fact that fault has been discovered after the reporting date.

The effects of the damage to the warehouse are recognised in the year 2019 reporting period. Prior periods will not be adjusted because those financial statements were prepared in good faith (eg regarding estimate of useful life, assessment of impairment indicators etc) and had not affected the financials of prior years.

(b) Damage of inventory due to seepage of rainwater Rs.1,00,000 occurred during the year 2020. **It is a non-adjusting event** after the end of the 2019 reporting period since the inventory was in good condition at 31st December 2019. Hence, no accounting has been done for it in the year 2019.

H Ltd. must disclose the nature of the event (i.e. rain-damage to inventories) and an estimate of the financial effect (i.e. Rs.1,00,000 loss) in the notes to its 31st December 2019 annual financial statements.

(iii) If the damage to the warehouse had been caused by an event that occurred after 31st December 2019 and was not due to structural fault, **then it would be considered as a non-adjusting event** after the end of the reporting period 2019 as the warehouse would have been in a good condition at 31st December 2019.

Working Notes:

1. Calculation of additional depreciation to be charged in the year 2019

Original depreciation as per SLM already charged during the year 2019
= Rs.10,00,000/ 30 years = Rs.33,333.

Carrying value at the end of 2018 = 10,00,000 – (Rs.33,333 x 3 years) = Rs.9,00,000

Revised depreciation = 9,00,000 / 17 years = Rs.52,941

Additional depreciation to be recognised in the books in the year 2019
= Rs.52,941 – Rs.33,333 = Rs.19,608

2. Calculation of impairment loss in the year 2019

Carrying value after charging depreciation for the year 2019
= Rs.9,00,000 – Rs.52,941 = Rs.8,47,059

Recoverable value of the warehouse = Rs.6,00,000

Impairment loss = Carrying value - Recoverable value

= Rs.8,47,059 - Rs.6,00,000 = Rs.2,47,059

Question 7 : May 2022 – RTP

XYZ Ltd. sells goods to its customer with a promise to give discount of 5% on list price of the goods provided that the payments are received from customer within 15 days. XYZ Ltd. sold goods of Rs. 5 lakhs to ABC Ltd. between 17th March, 20X1 and 31st March, 20X1. ABC Ltd. paid the dues by 15th April, 20X1 with respect to sales made between 17th March, 20X1 and 31st March, 20X1. Financial statements were approved for issue by Board of Directors on 31st May, 20X1. State whether discount will be adjusted from the sales at the end of the reporting period.

Solution :

As per Ind AS 115, 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.

In the instant case, the condition that sales have been made exists at the end of the reporting period and the receipt of payment within 15 days' time after the end of the reporting period and before the approval of the financial statements confirms that the discount is to be provided on those sales. Therefore, it is an adjusting event.

Accordingly, XYZ Ltd. should adjust the sales made to ABC Ltd. With respect to discount of 5% on the list price of the goods.

Question 8 : May 2023 – Paper

Discuss the following situations as per Ind AS 10 :

(i) The financial statements of a Company for the year 2021-22 are approved by the management and were sent on 5th June 2022 for review and approval to its supervisory board i.e., Board of Directors. The supervisory board approves the financial statements on 26th June 2022. The financial statements are then made available to shareholders on 4th July 2022. The financial statements are approved by shareholders in their annual general meeting on 18th August 2022 and then filed with Ministry of Corporate Affairs (MCA) on 19th August, 2022. Determine & discuss the date on which financial statements were approved.

(ii) A Company is in litigation with Income Tax Department with respect to allow ability of certain exemptions for financial year 2018–19. No provision for tax has been made for disallowances of exemptions as the Company was under bonafide belief based on a legal opinion that it will succeed in litigation. On 21st April, 2023 the Hon'ble Supreme Court rejected the Company's claim. The Order is received on 30th April 2023. The financial statements for the financial year 2022 - 23 of the Company are yet to be approved. The earlier year financial statements stands approved. Advise in financial statements of which financial year the impact of the Order of the Hon'ble Supreme Court should be recognized.

(iii) Z Limited while preparing its financial statements on 31st March, 2023 made a provision for doubtful debts @ 6% on accounts receivables. In the last week of January, 2023, a debtor for 3 lakhs had suffered heavy loss due to fire; the loss was not covered by any insurance policy. Z Limited, considering the event of fire made a provision @ 60% of the

amount receivables from that debtor apart from the general provision @ 6% on remaining debtors. The same debtor was declared insolvent on 10th April, 2023. The financial statements have not yet been approved. You are required to suggest whether the company should provide for the full loss arising out of insolvency of the debtor in the financial statements for the year ended 31st March, 2023.

(iv) D Limited acquired equity shares of another company on 1st March, 2023 at a cost of Rs.28 lakhs. The fair market value of these shares on 31st March, 2023 was Rs.35 lakhs and the company measured it at Rs.35 lakhs (assume that it is classified as FVTOCI as per Ind As 109 and change in fair value is transferred to 'fair value fluctuation reserve'). Due to market conditions subsequent to the reporting date, the value of investment drastically came down to Rs.20 lakhs. The financial statements have not yet been approved. You are required to suggest whether D Limited should value the investments at Rs.35 lakhs for Rs.20 lakhs as on 31st March, 2023.

(v) Tanmay Limited was in negotiation with Varun Limited from 1st December, 2022 to acquire land for Rs.5.00 crores. The negotiations were concluded in the first week of April 2023. The transaction was completed by last week of April, 2023. In which financial year, the purchase of land should be recognized ?

Solution :

i. As per Ind AS 10, in the case of a company, the financial statements will be treated as approved when board of directors approves the same. Hence in the given case, the financial statements are approved for issue on 26th June, 2022 (date of approval by the Board of Directors for issue of financial statements to the shareholders).

ii. An event after the reporting period is an adjusting event if it provides evidence of a condition existing at the end of the reporting period. Court order received after the reporting period (but before the financial statements are approved) provides evidence of the liability existing at the end of the reporting period. Therefore, the event will be considered as an adjusting event and, accordingly, the amount will be adjusted in financial statements for the financial year 2022-2023.

iii. In the instant case, the fire took place in January, 2023 (i.e. before the end of the reporting period). Therefore, the condition existed at the end of the reporting date though the debtor is declared insolvent after the reporting period. Accordingly, full provision for bad debt amounting to Rs. 3 lakhs should be made to cover the loss arising due to the bankruptcy of the debtor in the financial statements for the year ended 31st March, 2023.

iv. A decline in fair value of investments between the end of the reporting period and the date when the financial statements are approved for issue is a non-adjusting event. The decline in fair value does not normally relate to the condition of the investments at the end of the reporting period but reflects circumstances that have arisen subsequently. Therefore, D Limited should value the investments at Rs. 35 lakhs as on 31st March, 2023.

v. As per Ind AS 10, an entity should adjust the financial statements for the events that occurred after the reporting period, but before the financial statements are approved for issue, if those events provide evidence of conditions that existed at the end of the reporting period.

In this case, negotiations continued with Varun Limited to acquire land from 1st December, 2022 till first week of April, 2023. Since on the reporting date, the condition was only on proposal state and transaction was completed on 1st week of April 2023, the event will be considered as a non-adjusting event as per Ind AS 10. Purchase of land should be recognized in the financial year 2023-2024.

However, the same may be disclosed in the Notes to Accounts for due information to the users of the financial statements.

Question 9 : May 2024 – RTP

The company has made sales of Rs. 60,00,000 to a customer SS LLP on 31st December 20X2. The normal credit is for one month. However, sometimes, it goes upto 2 months. The company expects to receive the payment by 28th February 20X3. However, no payment has been received till 31st March 20X3. On 15th April 20X3, the sales department of the company became aware that the customer is passing through financial crisis and has major cash flow problems.

The company has agreed to allow the customer to settle the debt by 31st March 20X4, by which time the customer is confident that the cashflow problem will be resolved.

The company expects that an annual interest of 9% (i.e. effective interest rate) can be received against any money lent out, yet it allowed the customer an interest-free payment period.

Determine the amount to be shown as 'trade receivable' from SS LLP in the books of the company as on 31st March 20X3.

Solution :

Ind AS 10 'Events after the Reporting Date', classify an event as adjusting if it provides additional evidence of conditions existing at the reporting date. In this case the additional information relates to evidence of impairment of a financial asset, since the customer had financial difficulties prior to 31st March 20X3.

Ind AS 109 'Financial Instruments' requires financial assets to be reviewed at each reporting date for evidence of impairment. Such evidence exists here because although the customer is expected to pay the amount due the payment date has been deferred. As per para B5.5.33 of Ind AS 109, for a financial asset that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial asset, an entity shall measure the expected credit losses as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate. Any adjustment is recognized in the profit or loss as an impairment gain or loss. Further, para B5.5.44 of Ind AS 109 provides that expected credit losses shall be discounted to the reporting date, not to the expected default or some other date, using the effective interest rate determined at initial recognition or an approximation thereof.

In such circumstances, Ind AS 109 requires that the financial asset be re-measured at the present value of the expected future receipt, discounted (in the case of a trade receivable) using effective interest rate. Therefore, in the financial statements for the year ended 31st March 20X3, asset should be measured at Rs. 55,04,587 (Rs. 60,00,000 / 1.09) and an impairment loss of Rs. 4,95,413 (Rs. 60,00,000 – Rs. 4,95,413) recognised in profit and loss.

In the year ended 31st March 20X4, interest income of Rs. 4,95,413 (Rs. 55,04,587 x 9%) should be recognised in the profit and loss.

Question 10 : Nov 2024 – RTP

H Ltd. constructed a warehouse at a cost of Rs.10 lakhs in 20X1. It first became available for use by H Ltd. on 1st April, 20X2. On 29th April, 20X6, H Ltd. discovered that its warehouse was damaged. During early May 20X6, an investigation revealed that the damage was due to a structural fault in the construction of the warehouse. The fault became apparent when the warehouse building leaked severely after heavy rainfall in the week ended 27th April 20X6. The discovery of the fault is an indication of impairment. So, H Ltd. was required to estimate the recoverable amount of its warehouse at 31st March 20X6. This estimate was Rs. 6,00,000. Furthermore, H Ltd. reassessed the useful life of its warehouse at 20 years from the date that it was ready for use. Before discovering the fault, H Ltd. had depreciated the warehouse on the straight-line method to a nil residual value over its estimated 30-year useful life.

Seepage of rain-water through the crack in the warehouse caused damage to inventory worth about Rs. 1,00,000 (cost price) and became un-saleable. The entire damaged inventory was on hand as at 31st March, 20X6. H Ltd. has not insured against any of the losses.

It accounts for all its property, plant and equipment under the cost model. H Ltd.'s annual financial statements for the year ended 31st March, 20X6 were approved for issue by the Board of Directors on 28th May, 20X6.

You are required to :

(i) Prepare accounting entries to record the effects of the events after the end of the reporting period in the accounting records of H Ltd. for the year ended 31st March, 20X6. Kindly ignore tax impact.

(ii) Discuss disclosure requirement in above case as per relevant Ind AS.

(iii) Will your answer be different if there was no structural fault and damage to the warehouse had been caused by an event that occurred after 31st March, 20X6?

Solution :

(i) **Journal Entries on 31st March, 20X6**

		Rs.	Rs.
Depreciation expense A/c (W.N.1)	Dr.	19,608	
To Warehouse or Accumulated depreciation A/c			19,608
(Being additional depreciation expense recognised for the year ended 31st March 20X6 arising from the reassessment of the useful life of the warehouse)			
Impairment loss A/c (W.N.2)	Dr.	2,47,059	
To Warehouse or Accumulated depreciation A/c			2,47,059
(Being impairment loss recognised due to discovery of structural fault in the construction of warehouse at 31st March, 20X6)			

(ii) (a) **The damage to warehouse is an adjusting event** (occurred after the end of the year 20X6-20X6) for the reporting period 20X5-20X6, since it provides evidence that the structural fault existed at the end of the reporting period. It is an adjusting event, in spite of the fact that fault has been discovered after the reporting date.

The effects of the damage to the warehouse are recognised in the year 20X5-20X6 reporting period. Prior periods will not be adjusted because those financial statements were prepared in good faith (eg. regarding estimate of useful life, assessment of impairment indicators etc.) and had not affected the financials of prior years.

(b) Damage of inventory due to seepage of rainwater Rs. 1,00,000 occurred during the year 20X5-20X6. **It is a non-adjusting event** after the end of the 20X5-20X6 reporting period since the inventory was in good condition at 31st March 20X6. Hence, no accounting has been done for it in the year 20X5-20X6.

H Ltd. must disclose the nature of the event (i.e. rain-damage to inventories) and an estimate of the financial effect (i.e. Rs. 1,00,000 loss) in the notes to its 31st March 20X6 annual financial statements.

(iii) If the damage to the warehouse had been caused by an event that occurred after 31st March 20X6 and was not due to structural fault, **then it would be considered as a non-adjusting event** after the end of the reporting period 20X5-20X6 as the warehouse would have been in a good condition at 31st March 20X6.

Working Notes:

1. Calculation of additional depreciation to be charged in the year 20X5-20X6

Original depreciation as per SLM already charged during the year 20X5-20X6 = Rs. 10,00,000/ 30 years = Rs. 33,333.

Carrying value at the end of 20X4-20X5 = 10,00,000 – (Rs. 33,333 x 3 years) = Rs. 9,00,000

Revised depreciation = 9,00,000 / 17 years = Rs. 52,941

Additional depreciation to be recognised in the books in the year 20X5-20X6 = Rs. 52,941 – Rs. 33,333 = Rs. 19,608

2. Calculation of impairment loss in the year 20X5-20X6

Carrying value after charging depreciation for the year 20X5-20X6
= Rs. 9,00,000 – Rs. 52,941 = Rs. 8,47,059

Recoverable value of the warehouse = Rs. 6,00,000

Impairment loss = Carrying value - Recoverable value
= Rs. 8,47,059 - Rs. 6,00,000 = Rs. 2,47,059

Thanks ....

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