PAPER –1: FINANCIAL REPORTING

PART I

RELEVANT AMENDMENTS, NOTIFICATIONS AND ANNOUNCEMENTS

A. Not Applicable for November, 2020 Examination

Guidance Note on Accounting for Expenditure on Corporate Social Responsibility Activities has been withdrawn on 6th July, 2020 by the Institute.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

B. Applicable for November, 2020 Examination

1. The Companies (Indian Accounting Standards) Second Amendments Rules, 2019 notified on 30th March, 2019

Headings	Details
Appendix C, Uncertainty over Income Tax *Treatments,* to Ind AS 12	MCA has inserted a new Appendix C to Ind AS 12, *Uncertainty over Income Tax Treatments.* The appendix explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses: ➢ how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty; ➢ that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. detection risk should be ignored; ➢ that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment; ➢ that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty; and ➢ that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

Amendments to Ind AS 12 – Income tax consequences of payments on financial instruments classified as equity	The amendments clarify that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. These requirements apply to all income tax consequences of dividends. Previously, it was unclear whether the income tax consequences of dividends should be recognised in profit or loss, or in equity, and the scope of the existing guidance was ambiguous
Amendments to Ind AS 19 – Plan amendment, curtailment or settlement	The amendments to Ind AS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must: ➢ calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change; ➢ any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling; and ➢ separately recognise any changes in the asset ceiling through other comprehensive income.
Amendments to Ind AS 23 – Borrowing costs eligible for capitalisation	In computing the capitalisation rate for generally borrowed funds, the entity should exclude borrowing costs on borrowings which are specifically used for the purpose of obtaining a qualifying asset until that specific asset is ready for its intended use or sale. Once such specific asset is ready for its intended use or sale, borrowing costs related to borrowings of such asset shall be considered as part of general borrowing costs of the entity and be used for computation of capitalisation rate on general borrowings.
Amendment to Ind AS 28 - Long-term Interests in Associates and Joint Ventures	An entity's net investment in associate or joint venture includes investment in ordinary shares, other interests that are accounted using the equity method, and other long term interests, such as preference shares and long term receivables or loans, the settlement of which is neither planned nor likely to occur in the foreseeable future. These

	long term interests are not accounted for in accordance with Ind AS 28, instead they are governed by the principles of Ind AS 109. As per para 10 of Ind AS 28, the carrying amount of entity's investment in its associate and joint venture increases or decreases (as per equity method) to recognise the entity's share of profit or loss of its investee associate and joint venture. Para 38 of Ind AS 38 further states that the losses that exceed he entity's investment in ordinary shares are applied to other components of the entity's interest in the associate or joint venture in the reverse order of their superiority. In this context, the amendments to Ind AS 28 clarify that the accounting for losses allocated to long-term interests would involve the dual application of Ind AS 28 and Ind AS 109. The annual sequence in which both standards are to be applied can be explained in a three step process: **Step 1: Apply Ind AS 109 independently** Apply Ind AS 109 (such as impairment, fair value adjustments etc.) ignoring any adjustments to carrying amount of long-term interests under Ind AS 28 (such as allocation of losses, impairment etc.) **Step 2: True-up past allocations** If necessary, prior years' Ind AS 28 loss allocation is trued up in the current year, because Ind AS 109 carrying value may have changed. This may involve recognizing more prior year's losses, reversing these losses or re-allocating them between different long-term interests. **Step 3: Book current year equity share** Any current year Ind AS 28 losses are allocated to the extent that the remaining long-term interest balance allows. Any current year Ind AS 28 profits reverse any unrecognized prior years' losses and then allocations are made against long-term interests.
Amendment to Ind AS 103 – Control over a joint operation achieved in stages	When a party to a joint operation, obtains control of a joint operation business, the transaction will be considered as a business combination achieved in stages. The acquirer should re-measure its previously held interest in the joint operation at fair value at the acquisition date.
Amendment to Ind AS 109 –	Some prepayment options could result in other party being forced to accept negative compensation – e.g. the lender receives an amount

Prepayment Features with Negative Compensation	less than the unpaid amounts of principal and interest if the borrower chooses to prepay. Earlier, these instruments were measured at FVTPL. However, now after amendment, such financial assets could be measured at amortised cost or at FVOCI if they meet the other relevant requirements of Ind AS 109. In other words, to qualify for amortised cost measurement**, the negative compensation must be 'reasonable compensation** for early termination of the contract' and the asset must be held within a 'held to collect' business model. To be eligible for the exception, the fair value of the prepayment feature would have to be **insignificant on initial recognition** of the asset. If this is impracticable to assess based on the facts and circumstances that existed on initial recognition of the asset, then the exception would not be available. Also financial assets prepayable at current fair value would be measured at FVTPL.
Amendment to Ind AS 111 – Joint control over a joint operation achieved in stages	The amendments clarify that the entity, who is a party to joint operation but was not having joint control earlier, now obtains joint control of a business that is a joint operation should not re-measure its previously held interest in the joint operation.

2. Amendment in Schedule III notified by MCA on 12.10.2018

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

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

Following amendments have been made

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

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

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

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

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

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

Following amendments have been made

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

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

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

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

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

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

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

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

(a) Trade Receivables considered good - Secured;

(b) Trade Receivables considered good - Unsecured;

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

(d) Trade Receivables - credit impaired."

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

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

(a) Loans Receivables considered good - Secured;

(b) Loans Receivables considered good - Unsecured;

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

(d) Loans Receivables - credit impaired,"

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

*"**FA. Trade Payables***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Single payment/receipt** The appendix states that the date of the transaction, for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, should be the date on which an entity initially recognises the non-monetary asset or liability arising from an advance consideration paid/received.
- **Multiple receipts/payments** The appendix states that, if there are multiple payments or receipts in advance of recognising the related asset, income or expense, the entity should determine the date of the transaction for each payment or receipt.

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

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

  Examples of evidence of a change in use include:

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

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

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

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

- Amendments to Ind AS 12, Income Taxes elucidate the existing guidance in Ind AS 12. They do not change the underlying principles of recognition of deferred tax asset. As per the amendment:
  - Existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period and is not affected by possible future changes in the carrying amount. Consequently, decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value in the books of the holder for which the tax base remains at cost gives rise to a deductible temporary difference. This is regardless of whether the holder expects to collect all the contractual cash flows of the debt instrument.
  - Determining the existence and amount of temporary differences and estimating future taxable profit against which deferred tax assets can be utilised are two separate steps. Recovering assets for more than their carrying amounts is inherent in an expectation of taxable profits and should therefore be included in estimated taxable profit if there is sufficient evidence to conclude that it is probable that the entity will recover the asset for more than its carrying amount. For example, an entity should assume that a debt investment measured at fair value will be recovered for more than its carrying value when that outcome is probable even if carrying value is below its tax base (original investment cost).
  - Recoverability of deferred tax assets are assessed in combination with other deferred tax assets where the tax law does not restrict the source of taxable profits against which particular types of deferred tax assets can be recovered. Where restrictions apply (for example where capital losses can be set off against capital gains), deferred tax assets are assessed in combination only with other deferred tax assets of the same type.
  - When comparing deductible temporary differences against future taxable profits, the determination of future taxable profits shall exclude tax deductions resulting from reversal of these deductible temporary differences.
- Amendment to Ind AS 28, Investments in Associates and Joint Ventures and Ind AS 112, Disclosure of Interests in Other Entities stating that:
  - Disclosures requirement of Ind AS 112 are applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of Ind AS 112).
  - In Ind AS 28, the option available with venture capital organisations, mutual funds, unit trusts and similar entities to measure their investments in associates or joint ventures at fair value through profit or loss (FVTPL) is available for each investment in an associate or joint venture.

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

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

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

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

  (1) relate directly to the contract,

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

  (3) are expected to be recovered.

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

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

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

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

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

(i) The current Ind AS 109 states that an entity shall measure trade receivables at their transaction price. Due to notification of Ind AS 115, an entity is required to measure trade receivables at their transaction price if the trade receivables do not contain a significant financing component in accordance with Ind AS 115.

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

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

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

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

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

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

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

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

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

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

The amendments cover following accounting areas:

Measurement of cash-settled share-based payments

Under Ind AS 102, the measurement basis for an equity-settled share-based payment should not be 'fair value' in accordance with Ind AS 113, 'Fair value measurement'. However, 'fair value' was not defined in connection with a cash-settled share-based payment. The amendment clarifies that the fair value of a cash-settled award is determined on a basis consistent with that used for equity-settled awards. Market-based performance conditions and non-vesting conditions are reflected in the 'fair value', but non-market performance conditions and service conditions are reflected in the estimate of the number of awards expected to vest.

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

Classification of share-based payments settled net of tax withholdings

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

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

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

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

- o The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date. The equity-settled share-based payment transaction is recognised in equity on the modification date to the extent to which goods or services have been received.
- o The liability for the cash-settled share-based payment transaction as at the modification date is derecognised on that date.
- o Any difference between the carrying amount of the liability derecognised and the amount of equity recognised on the modification date is recognised immediately in profit or loss.
- o The amendment requires any change in value to be dealt with before the change in classification. Accordingly, the cash-settled award is remeasured, with any difference recognised in the statement of profit and loss before the remeasured liability is reclassified into equity.

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

   (Refer Annexure V for overview of Ind AS 116)

Annexure IV

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

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

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

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

1. **Identify contract with a customer:** This Standard defines a 'contract' and a 'customer' and specifies five mandatory criteria to be met for identification of a contract.
2. **Identify performance obligations in contract:** At contract inception, assess the goods or services promised and identify as a performance obligation each promise to transfer to the customer either:
   (a) a good or service (or a bundle of goods or services) that is distinct; or
   (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.
3. **Determine transaction price:** This Standard uses transaction price approach instead of fair value approach in Ind AS 18 while determining amount of consideration. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised may include fixed amounts, variable amounts, or both. If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer. Estimate amount of variable consideration by using either the expected value method or the most likely amount method. The transaction price is also adjusted for the effects of the time value of money if the contract includes a significant financing component for any consideration payable to the customer.
4. **Allocate the transaction price to the performance obligations in the contract:** An entity typically allocates the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract. If a stand-alone selling price is not observable, an entity estimates it. Sometimes, the transaction price includes a discount or a variable amount of consideration that relates entirely to a part of the contract. The requirements specify when an entity allocates the discount or variable consideration to one or more, but not all, performance obligations in the contract. Any subsequent changes in the transaction price shall be allocated to the performance obligations on the same basis as at contract inception. Amounts allocated to a satisfied performance obligation shall be recognised as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

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

Treatment of Contract Costs

Ind AS 115 specifies the following requirements for contract costs:

1. *Incremental costs of obtaining a contract:*

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

2. *Costs to fulfil a contract:*

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

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

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

Presentation

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

- If a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional (i.e. a receivable), before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due (whichever is earlier).

- If an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable.
- An entity shall present any unconditional rights to consideration separately as a receivable.

Sale with a right of return

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

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

Warranties

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

Principal versus agent considerations

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

Repurchase agreements

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

Bill-and-hold arrangements

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

Disclosure

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

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

Appendix D of Ind AS 115 gives guidance on the accounting by operators for public-to-private service concession arrangements. This Appendix applies to both (a) infrastructure that the operator constructs or acquires from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the operator access for the purpose of the service arrangement. Infrastructure within the scope of this Appendix shall not be recognised as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator.

Carve out in Ind AS 115 from IFRS 15

As per IFRS

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

Carve out

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

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

S. No.	Particular	Ind AS 115	AS 7 and AS 9
1.	Framework of Revenue Recognition	Ind AS 115 gives a framework of revenue recognition within a standard. It specifies the core principle for revenue recognition which requires the 'revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services'.	AS 7 and AS 9 do not provide any such overarching principle to fall upon in case of doubt.
2.	Comprehensive Guidance on Recognition and Measurement of Multiple Elements within a Contract with Customer:	Ind AS 115 gives comprehensive guidance on how to recognise and measure multiple elements within a contract with customer.	AS 7 and AS 9 do not provide comprehensive guidance on this aspect.
3.	Coverage	Ind AS 115 comprehensively deals with all types of performance obligation contract with customer. However, it does not deal with revenue from 'interest' and 'dividend' which are covered in financial instruments standard.	AS 7 covers only revenue from construction contracts which is measured at consideration received / receivable. AS 9 deals only with recognition of revenue from sale of goods, rendering of services, interest, royalties and dividends.
4.	Measurement of Revenue	As per Ind AS 115, revenue is measured at transaction price, i.e., the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer,	As per AS 9, Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities. Revenue is measured by the charges

		excluding amounts collected on behalf of third parties.	made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. As per AS 7, revenue from construction contracts is measured at consideration received / receivable and to be recognised as revenue as construction progresses, if certain conditions are met.
5.	Recognition of Revenue	As per Ind AS 115, revenue is recognised when the control is transferred to the customer.	As per AS 9, revenue is recognised when significant risks and rewards of ownership is transferred to the buyer. As per AS 7, revenue is recognised when the outcome of a construction contract can be estimated reliably, contract revenue should be recognised by reference to the stage of completion of the contract activity at the reporting date.
6.	Capitalisation of Costs	Ind AS 115 provides guidance on recognition of costs to obtain and fulfill a contract, as asset	AS 7 and AS 9 do not deal with such capitalisation of costs.
7.	Guidance on Service Concession Arrangements	Ind AS 115 gives guidance on service concession arrangements and disclosures thereof	AS does not provide such guidance.
8.	Disclosure Requirements	Ind AS 115 contains detailed disclosure requirements.	Less disclosure requirements are prescribed in AS

Annexure V

Overview of Ind AS 116 “Leases”

Objective

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

Scope

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

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

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

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

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

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

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

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

Recognition exemption

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

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

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

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

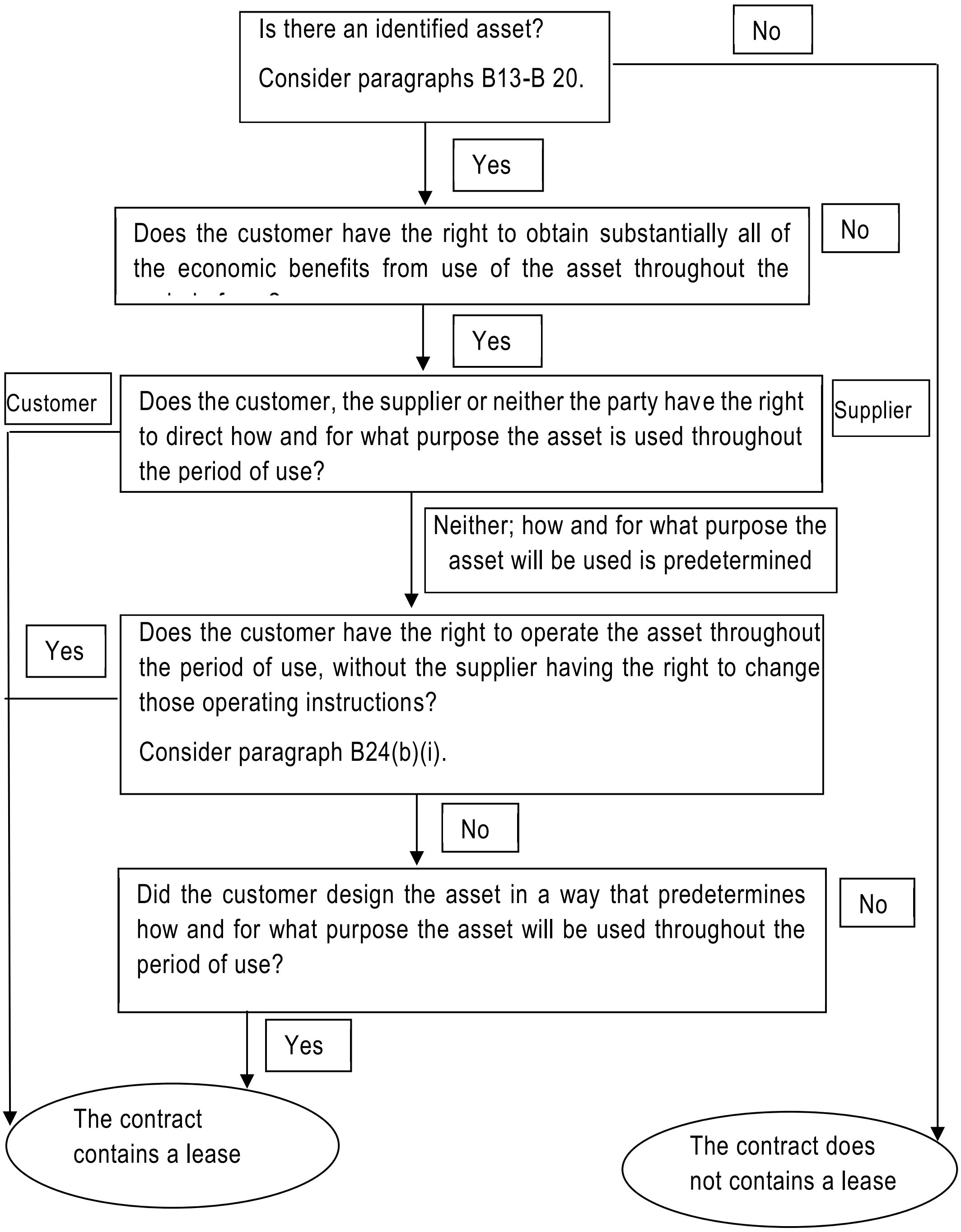
If a lessee subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset. Examples of low-value underlying assets can include tablet and personal computers, small items of office furniture and telephones.

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

Identifying a lease

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

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


Is there an identified asset?
Consider paragraphs B13-B 20.
No
Yes
Does the customer have the right to obtain substantially all of the economic benefits from use of the asset throughout the
No
Yes
Customer
Does the customer, the supplier or neither the party have the right to direct how and for what purpose the asset is used throughout the period of use?
Supplier
Neither; how and for what purpose the asset will be used is predetermined
Yes
Does the customer have the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions?
Consider paragraph B24(b)(i).
No
Did the customer design the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use?
No
Yes
The contract contains a lease
The contract does not contains a lease

Separating component of contract

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

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

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

Lease term

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

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

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

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

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

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

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

Recognition and Measurement of lease in the books of Lessee

On the commencement of the lease, lessee needs to recognise the right-of use asset and measure it at cost. Lessee should also recognise a lease liability and measure it at the present value of the lease payments that are not paid at that date. The lease payments should be discounted using the interest rate implicit in the lease, if readily determinable or else using the lessee's incremental borrowing rate.

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

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

Subsequent measurement

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

Cost model

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

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

Subsequent measurement of lease liability

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

Reassessment of lease liability

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

Presentation

The right-of-use assets should be either presented separately from other assets in the balance sheet or disclosed in the notes. If not presented separately, they should be presented in the appropriate line item of the balance sheet as if they were owned and disclose in the notes the line items which include such assets.

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

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

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

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

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

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

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

Accounting in the books of Lessor

Classification of leases

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

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

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

Finance lease and Operating lease

Recognition and measurement

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

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

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

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

Presentation

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

Sale and lease back – recognition and measurement

Determine whether transfer of asset is a sale of that asset

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

Transition date accounting

Definition of lease

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

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

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

Transition accounting: In the books of Lessee

A lessee is permitted to:

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

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

Modified retrospective approach

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

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

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

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

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

Transition accounting: In the books of Lessor

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

Sales and leaseback transaction

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

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

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

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

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

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

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

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

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

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

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

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

AS 1

1. (a) J Ltd. had made a rights issue of shares in 2018. In the offer document to its members, it had projected a surplus of ₹ 40 crore during the accounting year to end on 31st March, 2020. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of ₹ 10 crore. The board in consultation with the managing director, decided on the following:

(i) Value year-end inventory at works cost (₹ 50 crore) instead of the hitherto method of valuation of inventory at prime cost (₹ 30 crore).

(ii) Provide depreciation for the year on straight line basis on account of substantial additions in gross block during the year, instead of on the reducing balance method, which was hitherto adopted. As a consequence, the charge for depreciation at ₹ 27 crore is lower than the amount of ₹ 45 crore which would have been provided had the old method been followed, by ₹ 18 core.

(iii) Not to provide for "after sales expenses" during the warranty period. Till the last year, provision at 2% of sales used to be made under the concept of "matching of costs against revenue" and actual expenses used to be charged against the provision. The board now decided to account for expenses as and when actually incurred. Sales during the year total to ₹ 600 crore.

(iv) Provide for permanent fall in the value of investments - which fall had taken place over the past five years - the provision being ₹ 10 crore.

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2019-2020.

AS 2

(b) XYZ Limited is engaged in a business of manufacturing and supply of lubricants. For manufacturing of lubricant, company generally requires two types of raw material i.e. 1) Base Oil & 2) Additives.

For Base Oil procurement, the company's cost structure per litre is as follows:

(1) Material Cost (Base Oil) - ₹ 100 per Litre

(2) Custom Duty – 5% on Material Cost.

(3) Storage Tank Rent – ₹ 2 per litre.

(4) Custom House Agent charges – ₹ 1 per litre

(5) Inward Freight (i.e. Transportation cost for transferring the goods from Shore Tanks to Plants) – ₹ 3 per litre.

Costing manager informed you the following facts:

(1) We have purchased a 100 Litres of Base Oil from one of our Group Company situated in Singapore.

(2) Base Oil material is duly arrived at port and goods have been duly unloaded in storage tanks.

(3) Due to Covid 19 Lockdown, Base Oil is still lying in storage tanks as at 31.03.2020.

Costing Manager requires your assistance at what value Base Oil should be recorded as Inventory as per the provisions of AS 2:

AS 3

2. (a) From the following summary of cash account for the year ended 31st March, 2020 of X Ltd., calculate cash flow from Operating Activities using direct method.

Particulars	₹	Particulars	₹
To Balance b/d	1,25,000	By Cash purchases	1,30,000
To Cash sales	1,50,000	By Trade payables	1,44,000
To Trade receivables	1,60,000	By Rent paid	50,000
To Interest & dividend	2,000	By Office expenses	25,000
To Loan from Bank	1,50,000	By Income tax	30,000
To Sale of investment	80,000	By Investment	90,000
To Trade commission	40,000	By Repayment of loan	1,00,000
		By Interest on loan	7,000
		By Balance c/d	1,31,000
	7,07,000		7,07,000

AS 4

(b) Veera Limited is private Limited company. The year-end date for the company is 31st March, 2020. As at 31st March, 2020 a company has a total debtors of 30 crore (entire amount is overdue for payment). A company generally provide a provision for doubtful debts @ 5% of overdue debtor's amount and therefore during the year 2019-2020, Veera Limited recognises a provision for doubtful debts amounting ₹ 1.5 crore. Out of ₹ 30 crore, Company has one debtor called Swan Limited from which Veera limited has booked a receivable balance of ₹ 5 crore. On 31st March, 2020, RBI issues a list of defaulters in their website where Swan Limited had defaulted in paying the 5 EMI to their current banker. Hence company had made a provision of 50% for Swan Limited amounting ₹ 2.5 crore (including general provision for doubtful debts @ 5%). On 30th April, 2020, Swan Limited had filed the Bankruptcy application and become bankrupt on 15th May, 2020.

Board members of Veera Limited decided a board meeting date of 20th May, 2020 for adopting the 2019-2020 financials

Determine the Net Debtor Balance as at year ended 31st March, 2020.

AS 12

3. (a) XYZ Limited, engaged in providing support services to its group of companies which are situated outside India. The services provided broadly relates to support in new market development, financial control for group companies, taxation, marketing support, supply chain support and other related services. In respect of the export services, company is entitled to get benefit under the Service exports from India Scheme (SEIS). As per the scheme initiated by the government, they will give 5% incentive on net foreign exchange earned on services rendered to foreign entities. As per scheme, incentive will be in the form of duty credit which can be used for payment of various taxes levied on goods and services. These scripts come with a validity period of 18 months and with option to transfer or sale to other parties.

During the current period 2019-2020, company have raised an invoice amounting ₹ 2,00,000 for the above mentioned services to one of its group company i.e. Vera Limited - Singapore. Based on the company's previous experience, the Vera limited had defaulted in payments of sale proceeds. There were no foreign currency expenditure in FY 2019-2020.

You need to suggest the appropriate accounting treatment to finance manager as per the provisions of AS 12.

AS 13

(b) The following are the details of various investments held by Great Finance Ltd. as on 31.03.2020: (₹ in lakh)

Scripts		Cost	Market Price
A.	Equity Shares		
	A	55	57.50
	B	34	31.20
	C	72	67.00
	D	48	53.00
	E	88	102.30
	F	24	18.50

B.	Mutual Funds		
	MF-1	50.55	46.10
	MF-2	27.00	29.00
	MF-3	16.00	12.90
C.	PSUs Bonds		
	PB-1	14.00	15.50
	PB-2	9.00	8.70
	PB-3	7.00	7.80

(i) Find out the value of investments as on 31.03.2020 when:

(a) Considered category-wise

(b) Considered scrip-wise

Assuming investments in equity shares and mutual funds are current investments.

(ii) Can depreciation in the value of investment in mutual funds be offset against appreciation in the value of investment in equity shares and bonds of PSUs. Comment.

AS 15

4. Luv limited is a private Limited company. As per HR policy of Luv Limited, Grade F employees are eligible for sabbatical leave (Long term compensated absences as per AS 15). Till previous year, there were 15 employees who are eligible for Sabbatical leave and company had duly recorded the liability for long term compensated absences based on the actuarial valuation for eligible employees. During the current period out of total 15 employees, 13 employees have left the organisation and only 2 employees are continuing in LUV Limited. Due to budget constraint, CFO has denied to involve actuary and told finance manager to determine the liability based on the recent actuarial report available with them. Finance manager ensured the following:

- There is no material change in interest rate
- There is no change in fair value of plan assets.

Based on that, Finance manager have manually computed an amount of ₹ 5,00,000 (considering last year actuarial report as base) towards long term compensation liability without involving Actuary during the period ended 31.03.2020. Is this treatment is in line with AS 15?

AS 19

5. (a) WIN Ltd. has entered into a three year lease arrangement with Tanya sports club in respect of Fitness Equipment costing ₹ 16,99,999.50. The annual lease payments to be made at the end of each year are structured in such a way that the sum of the Present Values of the lease payments and that of the residual value together equal the cost of the equipment leased out. The unguaranteed residual value of the equipment at the expiry of the lease is estimated to be ₹ 1,33,500. The assets would revert to the lessor at the end of the lease. Given that the implicit rate of interest is 10% you are required to compute the amount of the annul lease and the unearned finance income. Discounting Factor at 10% for years 1, 2 and 3 are 0.909, 0.826 and 0.751 respectively.

(b) ABC Company limited had an investment in Venture Capital amounting ₹ 10 crore. Venture capital in turn had invested in the below portfolio companies (New Start- ups) on behalf of ABC Limited:

Portfolio Companies	**Amount of investment (in crore)**
Oscar Limited	2
Zee Limited	3
Star Limited	4
Sony Limited	1
Total	**10**

During the financial year 2019-2020, Venture Capital had sold their investment in Star Limited and realised an amount of ₹ 8 crore on sale of shares of star Limited and entire proceeds of ₹ 8 crore have been transferred by Venture Capital to ABC Limited.

Accounts manager have received the following additional information from venture capital on 31.03.2020:

(1) 8 crore have been deducted from their cost of investment and carrying amount of investment as at year end is 2 crore.

(2) Company had to offer capital gain tax @ 20% on the net sale consideration of ₹ 4 crore.

(3) Due to COVID 19, the remaining start-ups (i.e. Oscar Limited, Zee Limited, and Sony Limited) are not performing well and sooner they will wind up their operations. Venture capital is monitoring the situation and if required they will provide impairment in June 2020 Quarter.

You need to suggest accounts manager the correct accounting treatment as per AS 22 “Accounting for Taxes on Income”.

AS 25

6. (a) A Ltd. is dealing in seasonal products. The following is the quarterly sales pattern of the product:

Quarter 1	II	III	IV
Ending 31st March 20%	30th June 20%	30th September 50%	31st December 25%*

For the first quarter ending 31st March, 2020, A Ltd. gives you the following information:

	₹ in crore
Sales	100
Salary and other expenses	60
Advertisement expenses (routine)	4
Administrative and selling expenses	8

While preparing interim financial report for the first quarter, A Ltd. wants to defer ₹ 42 crore expenditure to third quarter on the argument that third quarter is having more sales, therefore third quarter should be debited by higher expenditure, considering the seasonal nature of business. The expenditures are uniform throughout all quarters.

Calculate the result of first quarter as per AS 25 and comment on the A Ltd. view.

AS 26

(b) X Ltd. carried on business of manufacturing of Bakery products. The company has two trademarks "Sun" and "Surya". One month before the company knows through one of the marketing managers that both trademarks have allegedly been infringed by other competitors engaged in the same field. After investigation, legal department of the company informed that it had weak case on trademark “Sun” if and strong case in regard to trademark “Surya”.

X Ltd. incurred additional legal fees to stop infringement on both trademarks.

Both trademarks have a remaining legal life of 10 years.

How should X Ltd. account for these legal costs incurred relating to the two trademarks?

7. (a) V Ltd. has 40% share in joint venture with S Ltd. V Ltd. sold a machinery of ₹ 200 lakh (WDV value), for ₹ 240 lakh on behalf of the Joint Venture. Calculate how

* P.S. :Read 25% as 10%.

much profit V Ltd. should recognize in its book in case the joint venture is a

- Jointly controlled operation.
- Jointly controlled asset.
- Jointly controlled entity.

Will your answer change, if V Ltd. sold a machinery of ₹ 200 lakh (WDV value), for ₹ 240 lakh to the Joint Venture?

AS 28

(b) H Ltd. which is in a business of manufacturing and export of its product. Sometimes, back in 2018, the Government put restriction on export of goods exported by H Ltd. and due to that restriction H Ltd. impaired its assets. H Ltd. acquired identifiable assets worth of ₹ 4,000 lakh for ₹ 6,000 lakh at the end of the year 2014. 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 2018, the company recognised the impairment loss by determining the recoverable amount of assets for ₹ 2,720 lakh. In 2020 Government lifted the restriction imposed on the export and due to this favourable change, H Ltd. re-estimate recoverable amount, which was estimated at ₹ 3,420 lakh.

Required:

(i) Calculation and allocation of impairment loss in 2018.

(ii) Reversal of impairment loss and its allocation as per AS 28 in 2020.

AS 29

8. An entity engaged in automobile sector has assessed the impact of COVID-19 outbreak on its future viability of business model. Senior Management has identified the need for restructuring some of its business activities and retrenching its employees in many areas. Senior Management is drawing up a plan for the consideration of the Board of Directors in their meeting scheduled in May 2020, which is subsequent to the reporting date of the current financial year i.e. 31st March, 2020. Can the entity recognise provisions for restructuring costs in the financial statements of the current year i.e. 2019-2020?

9. An entity engaged in tourism and hospitality is heavily dependent upon the tourists from India travelling overseas and foreign nationals visiting India. In the light of COVID-19 outbreak across the globe, the entity has analysed the likely impact of customers behaviour coupled with employment scenario on its revenue over the next one year. This review has indicated possible substantial operating losses during the next financial year i.e. 2020-2021. The entity is exploring the possibility of recognising certain amount of operating losses as provision in the financial statements of the current year itself i.e. 2019-2020. Is this accounting permitted under AS?

Ind AS vs IFRS

10. Highlight significant differences Ind AS 7 vis-a-vis AS 3 with reference to the followings:
    (i) Bank Overdraft Repayable on-demand;
    (ii) Cash Flows associated with extra-ordinary activities;
    (iii) Investment in Subsidiaries, Associates and Joint Ventures (Investee), and
    (iv) Disclosures.

Accounting for Corporate Restructuring

11. The summarised Balance Sheet of P Ltd. as on 31st March, 2020 is as under:

I. Equity and Liabilities

	Particulars	**₹**
1.	Shareholders Fund	
	Equity shares of ₹10 each	3,00,000
	6,000, 9% cumulative preference shares of ₹ 10 each	60,000
	Reserves & Surplus	(1,70,000)
2.	Non-current Liabilities	
	10% Debentures of ₹ 100 each	2,00,000
3.	Current Liabilities	
	Interest accrued on Debentures	20,000
	Trade Payables	1,50,000
	Total	**5,60,000**

II. Assets

	Particulars	**₹**
1.	Non-current Assets	
	Property, Plant and Equipment	3,40,000
	Intangible - Goodwill	10,000
2.	Current Assets	
	Inventory	80,000
	Trade Receivables	1,10,000
	Bank Balance	20,000
	Total	**5,60,000**

The following scheme of reconstruction is passed and sanctioned by the Court:

(i) A new company R Ltd. is formed with authorised share capital of ₹ 5,00,000 divided into 40,000 Equity Shares of ₹ 10 each and 10,000 9% Preference Shares of ₹ 10 each.

(ii) The new company will acquire the assets and liabilities of P Ltd. on the following terms:

(a) P Ltd.'s debentures are paid by similar debentures in new company and for outstanding accrued interest on debentures, equity shares of equal amount are issued at par.

(b) The trade payables are paid by issue of 12,000 equity shares at par in full and final settlement of their claims.

(c) Preference shareholders are to get equal number of equity shares issued at par. Dividend on preference shares is in arrears for three years. Preference shareholders to forgo dividend for two years. For balance dividend, equity shares of equal amount are issued at par.

(d) Equity shareholders are issued one share at par for every three shares held in P Ltd.

(iii) Current Assets are to be taken at book value (except inventory, which is to be reduced by 10%). Goodwill is to be eliminated. Balance of purchase consideration being attributed to property, plant and equipment.

(iv) Remaining equity shares of the new company are issued to public at par fully paid up.

(v) Expenses of ₹ 5,000 to be met from bank balance of P Ltd.

You are required to present:

(a) In the books of P Ltd.:

(i) Realisation and Reconstruction (combined) account.

(ii) Equity Shareholders' account.

(b) In the books of R Ltd.

(i) Bank Account.

(ii) Summarised Balance Sheet with notes to accounts.

Consolidated Financial Statements

12. On 1st April, 2019, Investments Ltd. a new company, raised its first Capital of ₹ 3,00,000 from the issue of 30,000 shares of ₹ 10 each at par, and on that date acquired the following shareholdings:

A Ltd. – 3,000 shares of ₹ 10 each fully paid for ₹ 35,000

B Ltd. – 10,000 shares of ₹ 10 each fully paid for ₹ 72,000

C Ltd. – 8,000 shares of ₹ 10 each fully paid for ₹ 92,000.

Apart from these transactions and those detailed below, investments Ltd. neither paid not received other monies during 2019-2020.

The following are the summarised Balance Sheets of the Subsidiary Companies on 31st March, 2020:

	A Ltd. ₹	B Ltd. ₹	C Ltd. ₹
Goodwill	4,000	—	15,000
Freehold Property	18,000	41,000	50,000
Plant	16,000	30,000	12,000
Inventory	11,000	32,000	21,000
Trade Receivables	4,000	8,000	17,000
Cash at Bank	1,000	2,000	11,500
Profit and Loss Account	—	18,000	—
	54,000	1,31,000	1,26,500
Share Capital	40,000	1,20,000	1,00,000
Reserves (as on 1.4.2019)	3,000	—	7,500
Profit and Loss Account	6,000	—	15,000
Trade Payables	5,000	11,000	4,000
	54,000	1,31,000	1,26,500

Other relevant information:

(1) The freehold property of C Ltd. is to be revalued at ₹ 65,000 as on 1.4.2019.

(2) Additional depreciation for the year 2019-2020 of ₹ 3,000 on the plant of B Ltd is to be provided.

(3) The inventory of A Ltd. as on 31st March, 2020 has been undervalued by ₹ 2,000 and is to be adjusted.

(4) As on 31st March, 2020 Investments Ltd. owed A Ltd. ₹ 3,500 and is owed ₹ 6,000 by B Ltd. C Ltd. is owed ₹ 1,000 by A Ltd. and ₹ 2,000 by B Ltd.

(5) The balances on Profit and Loss Accounts as on 31st March, 2019 were: A Ltd. ₹ 2,000 (credit); B Ltd. ₹ 12,000 (debit); and C Ltd. ₹ 4,000 (credit).

The credit balances of A Ltd. and C Ltd. were wholly distributed as dividends in June, 2019.

(6) During 2019-2020, A Ltd. and C Ltd. declared and paid interim dividends of 8% and 10% respectively.

You are required to prepare the Consolidated Balance Sheet of Investments Ltd. and its subsidiary companies as on 31st March, 2020, ignore taxation.

Financial Instruments

13. (a) T Motors Ltd. has issued puttable ordinary shares and puttable 'A' ordinary shares whereby holders of ordinary shares are entitled to one vote per share whereas holders of 'A' ordinary shares are not entitled to any voting rights. The holders of two classes of shares are equally entitled to receive share in net assets upon liquidation. Examine whether the financial instrument will be classified as equity.

(b) A Ltd. invested in equity shares of C Ltd. on 15th March for ₹ 10,000. Transaction costs were ₹ 500 in addition to the basic cost of ₹ 10,000. On 31st March, the fair value of the equity shares was ₹ 11,200 and market rate of interest is 10% per annum for a 10 year loan. Pass necessary journal entries. Analyse the measurement principle and pass necessary journal entries.

(c) Metallics Ltd. has made an investment in equity instrument of a company – Castor Ltd. for 19% equity stake. Significant influence not exercised. The investment was made for ₹ 5,00,000 for 10,000 equity shares on 1st April, 2019. On 30th June, 2019, the fair value per equity share is ₹ 45. The Company has taken an irrevocable option to measure such investment at fair value through other comprehensive income. Analyse the measurement principle and pass necessary journal entries.

Share Based Payment

14. Kishan Ltd. grants 250 stock options to each of its 800 employees on 1st April, 2018, conditional upon the employee remaining in the company for 2 years. The fair value of the option is ₹ 22 on the grant date and the exercise price is ₹ 70 per share. The number of employees expected to satisfy service condition are 720 in the first year and 670 in the second year. 30 employees left the company in the first year of service and 700 employees have actually completed second year vesting period. The profit of the enterprise before amortisation of the compensation cost on account of ESOP is ₹ 58,65,000 for 2018-2019 and ₹ 76,45,000 for 2019-2020. The fair value of shares for these years were ₹ 90 and ₹ 100 respectively. The company has 5 lakh shares of ₹ 10 each, outstanding at the end of both years.

Ignore taxation impacts, compute Basic and Diluted EPS for both the years.

Mutual Funds

15. A Mutual Fund raised funds on 01.04.2020 by issuing 10 lakh units @ 17.50 per unit. Out of this Fund, ₹ 160 lakh invested in several capital market instruments. The initial expenses amount to ₹ 9 lakh. During June, 2020, the Fund sold certain securities worth ₹ 100 lakh for ₹ 125 lakh and it bought certain securities for ₹ 90 lakh. The Fund Management expenses amounting to ₹ 5 lakh per month. The dividend earned was ₹ 3 lakh. 80% of the realised earnings were distributed among the unit holders. The market value of the portfolio was ₹ 175 lakh. Determine Net Asset value (NAV) per unit as on 30.06.2020.

NBFC

16. While closing its books of account on 31st March, 2020 a Non-Banking Finance Company has its advances classified as follows:

	₹ in lakh
Standard assets	16,800
Sub-standard assets	1,340
Secured portions of doubtful debts:	
– upto one year	320
– one year to three years	90
– more than three years	30
Unsecured portions of doubtful debts	97
Loss assets	48

Calculate the amount of provision, which must be made against the advances as per

(i) the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016; and

(ii) Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

Valuation of Brand

17. A Ltd. is a manufacturer-cum-dealer of 'Ruff-Tuff' brand of trousers. With passage of time, its brand has been well accepted in the market. The company has been approached by a foreign company engaged in the same trade to enter as partner in its business. A Ltd., in order to negotiate the deal wants to get its brand valued. The following information based on market research is available:

(i) Garment industry of which A Ltd. is a constituent, is expected to grow by 9% per annum during the next five years. The present market size of the industry is ₹ 7,500 crore.

(ii) There are other brands both national and international in the market. The existence of duplicate brands is unavoidable. The share of such players is estimated to be 63% of the total industry market. The market share of other national brands will increase @ 0.25% year on year basis in the next 5 years. The share of international brands is expected to grow 1.5 times of national brands. But the existence of duplicate brands is to fall by 2.5% over the period of next 5 years, spread equally.

(iii) The expected foreign partner needs the production line of the company to be re-engineered which will lead to an increase in the yield of the company by 3% after one year over the present yield of 10% followed thereafter by further increase of 5% year on year.

Following the market oriented approach, determine the brand value to be used for negotiation with the foreign company, considering the discount factor for 1st five years as 0.909; 0.826; 0.751; 0.683 and 0.621 (Monetary values in crore to be rounded off to nearest 2 decimal places).

Value Added Statement

18. The following data is given in respect of Happy Ltd. for the year ended 31.3.2020:

Abstract of Statement of Profit & Loss for the year ended 31.3.2020

	₹ in '000	₹ in '000
Income		
Sale	2,380	
Other Income	370	2,750
Expenditure		
Operating Cost	1,855	
Administrative Expenses	150	
Interest Cost	215	
Depreciation	240	2,460
Profit before tax		290
Provision for tax		87
Profit after tax		203
Credit balance as per last balance sheet		60
		263

Other Information:

		₹ in '000
1.	Operating cost consists of:	
	Material cost	1,220

	Wages, salaries & other benefits to employees	330
	Local taxes including cess	70
	Other manufacturing expenses	235
2.	Administrative expenses consist of:	
	Directors' Remuneration	55
	Audit Fee	25
	Provision for doubtful debts	8
	Others	62
3.	Interest cost consists of:	
	Interest on 10% debentures	180
	Interest on temporary bank overdraft	35
4.	The capital structure of the company consists of:	
	Equity share capital	1,500
	9% Preference share capital	600

You are required to prepare a Gross Value Added (GVA) statement and calculate the following ratios:

(a) GVA to Material Cost Ratio (Industry average 0.80)

(b) GVA to Employee Cost Ratio (Industry average 3.82)

(c) GVA to Sales Ratio (Industry average 0.70)

(d) GVA to Capital Employed Ratio (Industry average 0.30)

Also comment on the utility of the above ratios in comparison to the Industry average.

Market Value Added

19. The capital structure of W Ltd. whose shares are quoted on the NSE is as under:

Equity Shares of ₹ 100 each fully paid	₹ 505 lakh
9% Convertible Pref. Shares of ₹ 10 each	₹ 150 lakh
12% Secured Debentures of ₹ 10 each	5,00,000
Reserves	₹ 101 lakh
Statutory Fund	₹ 50,50,000

The Statutory Fund is compulsorily required to be invested in Government Securities. The ordinary shares are quoted at a premium of 500%; Preference Shares at ₹ 30 per share and debentures at par value.

You are required to ascertain the Market Value added of the company and also give your assessment on the market value added as calculated by you.

Human Resource Accounting

20. From the following information in respect of E Ltd., calculate the total value of human capital by following Lev and Schwartz model:

Distribution of employees of E Ltd.

Age	Unskilled		Semi-skilled		Skilled	
	No.	Av. Annual earnings (₹ '000)	No.	Av. Annual earnings (₹ '000)	No.	Av. annual earnings (₹ '000)
30-39	70	3	50	3.5	30	5
40-49	20	4	15	5	15	6
50-54	10	5	10	6	5	7

Apply 15% discount factor.

SUGGESTED ANSWERS

1. (a) As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts:

(i) During the year inventory has been valued at factory cost, against the practice of valuing it at prime cost as was the practice till last year. This has been done to take cognizance of the more capital intensive method of production on account of heavy capital expenditure during the year. As a result of this change, the year-end inventory has been valued at ₹ 50 crore and the profit for the year is increased by ₹ 20 crore.

(ii) In view of the heavy capital intensive method of production introduced during the year, the company has decided to change the method of providing depreciation from reducing balance method to straight line method. As a result of this change, depreciation has been provided at ₹ 27 crore which is lower than the charge which would have been made had the old method and the old rates been applied, by ₹ 18 crore. To that extent, the profit for the year is increased.

(iii) So far, the company has been providing 2% of sales for meeting "after sales expenses during the warranty period. With the improved method of production, the probability of defects occurring in the products has reduced considerably. Hence, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change, the profit for the year is increased by ₹ 12 crore than would have been the case if the old policy were to continue.

(iv) The company has decided to provide ₹ 10 crore for the permanent fall in the value of investments which has taken place over the period of past five years. The provision so made has reduced the profit disclosed in the accounts by ₹ 10 crore.

(b)

Particulars	**Amount**	**Remarks**
Material Cost	10,000	(100 Quantity x ₹ 100)
Custom Duty	500	(5% of Material Value)
Storage Tank	200	(100 Quantity x ₹ 2)
CHA Charges	100	(100 Quantity x ₹ 1)
Inward Freight	0	<Not yet incurred>
Total	**10,800**	

As per AS 2, the cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

As per AS 2, the costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

In above case, all the expenses (i.e. Custom duty, Storage Tank, CHA Charges) are directly attributable to the acquisition of material. Though, inward freight cost is directly attributable to the acquisition but it will be incurred once movement of goods happened between the Storage Tanks to plant, as at year end, the goods are still lying at Shore Tanks and hence such inward freight cost is not directly attributable to the acquisition of materials and hence considered as NIL.

2. (a) Cash Flow Statement of X Ltd.

for the year ended 31st March, 2020 (Direct Method)

Particulars	₹	₹
Cash flow from Operating Activities:		
Cash received from sale of goods	1,50,000	
Cash received from trade receivables	1,60,000	
Trade commission received	40,000	3,50,000
Less: Payment for cash purchases	1,30,000	
Payment to trade payables	1,44,000	
Office expenses	25,000	
Rent	50,000	
Payment of Income-tax	30,000	(3,79,000)
Net cash used in Operating Activities		(29,000)

(b) As per the definition of 'Events after the Reporting Period' of AS 4, financial statements should be adjusted for events occurring after the reporting period that provide evidence of conditions that existed at the end of the reporting period. In the instant case, the Swan Limited had defaulted in payments of their EMI's before the end of the reporting period, i.e., on 31st March 2020. Therefore, the condition exists at the end of the reporting date though the debtor is declared Bankrupt after the reporting period.

Accordingly, full provision for bad debt amounting to ₹ 5 crore should be made to cover the loss arising due to the bankruptcy of the Swan Limited in the financial statements for the year ended March 31, 2020. Since provision for bad debts on account of amount due from that debtor was made @ 5%, XYZ Ltd should provide for the remaining amount as a consequence of declaration of this debtor as bankrupt i.e. ₹ 4.75 crore.

Calculation:

Particulars	**Swan Limited**	**Others**	**Total**
Balance as at 31.03.2020	5	25	30
General PDD @ 5%	(0.25)	(1.25)	(1.5)
Increased PDD after RBI list of defaulters	(2.25)		(2.25)
Adjusting event	(2.50)	0	(2.50)
Total	**0**	**23.75**	**23.75**

Debtor as at 31.03.2020 will be ₹ 23.75 crore.

3. (a) As per para 6 of AS 12, Government grants available to the enterprise are considered for inclusion in accounts: (i) where there is reasonable assurance that the enterprise will comply with the conditions attached to them; and (ii) where such benefits have been earned by the enterprise and it is reasonably certain that the ultimate collection will be made. Mere receipt of a grant is not necessarily a conclusive evidence that conditions attaching to the grant have been or will be fulfilled.

Hence in the above scenario, Duty Credit scrips is provided by the government on 5 % of net foreign exchange earned. Based on the company's previous experience, the Vera limited (Customer) had defaulted in payments of sale proceeds and hence XYZ Limited does not have reasonable assurance that they will comply with the important condition of net foreign exchange earned and hence should not record a duty credit scrips as there is no reasonable assurance that the grant will be received from the government.

(b) (i) Value of investments as on 31.3.2020

Current investments for each category shall be valued at cost or market value, whichever is lower. For this purpose, the investments in each category shall be valued at the lower of cost and market value either scrip-wise or category-wise.

(a) Value of Investments as on 31.3.2020 (category-wise)

Type of Investment	Valuation Principle	Cost (₹ in lakh)	Fair value i.e. market price (₹ in lakh)	Value (₹ in lakh)
Equity Shares (Aggregated)	Lower of cost or fair value	321.00	329.50	321.00
Mutual Funds	Lower of cost or fair value	93.55	88.00	88.00
PSUs Bonds	Cost	30.00	32.00	30.00
				439.00

(b) Value of Investments as on 31.3.2020 (scrip-wise)

Scripts:		Cost	Market Price	Value	
A.	Equity Shares (Lower of cost or fair value)				
	A	55.00	57.50	55.00	
	B	34.00	31.20	31.20	
	C	72.00	67.00	67.00	

	D	48.00	53.00	48.00	
	E	88.00	102.30	88.00	
	F	24.00	18.50	18.50	307.70
B.	Mutual funds (Lower of cost or fair value)				
	MF-1	50.55	46.10	46.10	
	MF-2	27.00	29.00	27.00	
	MF-3	16.00	12.90	12.90	86.00
C.	PSUs Bonds				
	PB-1	14.00	15.50	14.00	
	PB-2	9.00	8.70	9.00	
	PB-3	7.00	7.80	7.00	30.00
					423.70

(ii) Inter category adjustments of appreciation and depreciation in values of investments cannot be done. Therefore, it is not possible to offset depreciation in investment in mutual funds against appreciation in the value of investments in equity shares and bonds of PSUs.

4. As per para 58 of the AS 15, the detailed actuarial valuation of the present value of defined benefit obligations may be made at intervals not exceeding three years. However, with a view that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date, the most recent valuation is reviewed at the balance sheet date and updated to reflect any material transactions and other material changes in circumstances (including changes in interest rates) between the date of valuation and the balance sheet date. The fair value of any plan assets is determined at each balance sheet.

Since AS-15 (Para 58) states that actuarial valuation needs to be done at least once in three years. Since management had done the actuarial valuation in Previous Year, they can go ahead with exemption for this year subject to evaluation and conclusion by management as at balance sheet date that there are no significant changes in the amount of liability compared to previous year. Hence working done by the finance manager is appropriate. It is in line with AS 15, since company had recently done the actuarial valuation in previous year and there is no material changes in the external environment.

5. (a) (i) Computation of annual lease payment to the lessor

	₹
Cost of equipment	16,99,999.50
Unguaranteed residual value	1,33,500.00

Present value of residual value after third year @ 10% (₹ 1,33,500 × 0.751)	1,00,258.50
Fair value to be recovered from lease payments (₹ 16,99,999.50– ₹ 1,00,258.50)	15,99,741.00
Present value of annuity for three years is 2.486	
Annual lease payment = ₹ 15,99,741/ 2.486	6,43,500.00

(ii) Computation of Unearned Finance Income

	₹
Total lease payments (₹ 6,43,500 x 3)	19,30,500.00
Add: Unguaranteed residual value	1,33,500.00
Gross investment in the lease	20,64,000.00
Less: Present value of investment (lease payments and residual value) (₹ 1,00,258.50+ ₹ 15,99,741)	(16,99,999.50)
Unearned finance income	3,64,000.50

(b) As company have to pay capital gain tax @ 20% on the net sale consideration as per income tax laws, then company have to recognise a current tax liability of 0.8 crore.

Particulars	Amount
Sale Consideration	8
Cost of Investment	4
Net gain on Sale Consideration	4
Tax @ 20%	0.8

As per para 7 of AS 22, Timing differences are those differences between taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent periods.

Particulars	Amount	Rationale
Taxable Income	4	As per income tax laws
Accounting Income	Nil	As the same is deducted from the cost of investment
Timing Difference	**4**	

As per para 15 of AS 22, deferred tax assets should be recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

Since in current scenario, due to Covid 19 the portfolio companies are not performing well and hence company may not have sufficient future taxable income which will reverse deferred tax assets and hence company should not recognise DTA of ₹ 0.8 crore and company should recognise only current tax liability of ₹ 0.8 crore.

6. (a) Calculation of the result of first quarter as per AS 25

Particulars	(₹ in crore)
Result of first quarter ending 31st March, 2020	
Turnover	100
Other Income	Nil
Total (a)	100
Less: Changes in inventories	Nil
Salaries and other expenses	60
Administrative and selling expenses (4 + 8)	**12**
Total (b)	72
Profit (a)-(b)	28

As per AS 25 on Interim Financial Reporting, the income and expense should be recognised when they are earned and incurred respectively. As per AS 25, the costs should be anticipated or deferred only when

(i) it is appropriate to anticipate that type of cost at the end of the financial year, and

(ii) costs are incurred unevenly during the financial year of an enterprise.

The expenditure of ₹ 42 crore made in the first quarter shall be charge in that quarter only i.e. when they are earned and incurred. Therefore, the argument given by A Ltd. relating to deferment of ₹ 42 crore is not tenable as expenditures are uniform throughout all quarters.

(b) As per para 59 of AS 26, subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense. However, if the subsequent expenditure enables the asset to generate future economic benefits in excess of its originally assessed standard of performance or can be measured and attributed to the asset reliably, then such subsequent expenditure should be added to the cost of the intangible asset.

The legal costs incurred for both the trademarks do not enable them to generate future economic benefits in excess of its originally assessed standard of performance. They only ensure to maintain them if the case is decided in favour of the company. Therefore, such legal costs must be recognised as an expense.

7. (a) (i) Machinery sold by V Ltd. is on behalf of the Joint Venture

V Ltd. will be recognizing 40% shares of profit in its financial statements irrespective of the kind of Joint Venture.

Calculation of share of profit of V Ltd. in the Joint Venture would be:

(₹ in lakh)

Sale price of machinery	240
Less: WDV of machinery	(200)
Profit on sale	40
Share of V Ltd. (40 lakh x 40%)	16

(ii) Machinery is sold by V Ltd. to the Joint Venture

As per AS 27, in case of 'jointly controlled operation' and 'jointly controlled assets' joint venture, the venturer should recognize the profit to the extent of other venturer's interest.

In the instant case, V Ltd. should recognize profit of (240 - 200) = 40 × 60%

= ₹ 24 lakh only.

However, in case of jointly controlled entities, V Ltd. should recognize full profit of ₹ 40 lakh in its separate financial statements. However, while preparing consolidated financial statement it should recognize the profit only to the extent of 60% i.e. ₹ 24 lakh.

(b) (i) Calculation and allocation of impairment loss in 2018

(Amount in ₹ lakh)

	Goodwill	**Identifiable assets**	**Total**
Historical cost	2,000	4,000	6,000
Accumulated depreciation/amortisation (4 yrs.)	(1,600)	(1,067)	(2,667)
Carrying amount before impairment	400	2,933	3,333
Impairment loss*	(400)	(213)	(613)
Carrying amount after impairment loss	0	2,720	2,720

***Notes:**

1. As per para 87 of AS 28, an impairment loss should be allocated to reduce the carrying amount of the assets of the unit in the following order:

   (a) first, to goodwill allocated to the cash-generating unit (if any); and

(b) then, to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

Hence, first goodwill is impaired at full value and then identifiable assets are impaired to arrive at recoverable value.

2. Since the goodwill has arisen on acquisition of assets, AS 14 comes into the picture. As per para 19 of AS 14, goodwill shall amortise over a period not exceeding five years unless a somewhat longer period can be justified. Therefore, the amortization period of goodwill is considered as 5 years.

(ii) Carrying amount of the assets at the end of 2020 (Amount in ₹ lakh)

End of 2020	**Goodwill**	**Identifiable assets**	**Total**
Carrying amount in 2020	0	2,225	2,225
Add: Reversal of impairment loss (W.N.2)	-	175	175
Carrying amount after reversal of impairment loss	-	2,400	2,400

Working Note:

1. Calculation of depreciation after impairment till 2020 and reversal of impairment loss in 2020

			(Amount in ₹ lakh)
	Goodwill	Identifiable assets	Total
Carrying amount after impairment loss in 2018	0	2,720	2,720
Additional depreciation (i.e. (2,720/11) x 2)	–	(495)	(495)
Carrying amount	0	2,225	2,225
Recoverable amount			3,420
Excess of recoverable amount over carrying amount			1,195

Note: It is assumed that the restriction by the Government has been lifted at the end of the year 2020.

2. Determination of the amount to be impaired by calculating depreciated historical cost of the identifiable assets without impairment at the end of 2020

(Amount in ₹ lakh)

End of 2020	Identifiable assets
Historical cost	4,000

Accumulated depreciation	(266.67 x 6 years) = (1,600)
Depreciated historical cost	2,400
Carrying amount (in W.N.1)	2,225
Amount of reversal of impairment loss	175

Notes:

1. As per para 107 of AS 28, in allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset should not be increased above the lower of:

   (a) its recoverable amount (if determinable); and

   (b) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior accounting periods.

   Hence impairment loss reversal is restricted to ₹ 175 lakh only.

2. The reversal of impairment loss took place in the 6^{th} year. However, goodwill is amortised in 5 years. Therefore, there would be no balance in the goodwill account in the 6^{th} year even without impairment loss. Hence in W.N. 2 above there is no column for recalculation of goodwill.

8. In accordance with AS 29, Provisions, Contingent Liabilities and Contingent Assets, a constructive obligation to restructure arises only when an entity has detailed formal plan for restructuring identifying the business or part of business concerned; the principal locations affected; the location, function, and approximate number of employees who will be compensated for terminating their services; the expenditures that will be undertaken; and when the plan will be implemented; and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Further, AS 29 provides that a management or board decision to restructure taken before the end of the reporting period does not give rise to a constructive obligation at the end of the reporting period unless the entity has, before the end of the reporting period

(a) started to implement the restructuring plan; or

(b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

In the given case, since COVID-19 pandemic impact started during March 2020, it is likely that the senior management started drawing up the plan for restructuring of some of its business activities after the end of the reporting period, i.e., 2019-2020. If that be so, as per AS 29, the management decisions subsequent to reporting date do not give rise to constructive obligation as of reporting date and no provision is required for restructuring costs as at 31 March 2020.

In this regard, AS 29 provides that if an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting period, disclosure is required AS 4, if the restructuring is material and non-disclosure could infl uence the economic decisions that users make on the basis of the financial statements.

9. AS 29 defines a liability as a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Further, in accordance AS 29 a provision is required to be recognised only when the following conditions are met:

(a) an entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation. However, it has been specifically provided in AS 29 that provisions for future operating losses shall not be recognised since the same do not meet the definition of liability and also conditions set out for recognising provisions.

In the given case, the entity, in the light of COVID-19 outbreak across the globe, after the review expected that there might be possible substantial operating losses during the next financial year i.e. 2020-2021. In this scenario, for losses expected in the next financial year, entity cannot create provisions for operating losses in the current financial year itself in accordance with AS 29.

However, AS 29 provides that an expectation of future operating losses might be an indication that certain assets of the operation may be impaired and an entity tests these assets for impairment AS 28, 'Impairment of Assets'.

10. Significant differences in Ind AS 7 vis-à-vis AS 3

(i) Bank Overdraft Repayable on Demand: Ind AS 7 specifically includes bank overdrafts which are repayable on demand as a part of cash and cash equivalents, whereas AS 3 is silent on this aspect.

(ii) Cash Flows associated with Extraordinary Activities: AS 3 requires cash flows associated with extraordinary activities to be separately classified as arising from operating, investing and financing activities, whereas Ind AS 7 does not contain this requirement. As per Ind AS, there is no concept of extra-ordinary item.

(iii) Investment in Subsidiaries, Associates and Joint Ventures (Investee): Ind AS 7 mentions the use of equity or cost method while accounting for an investment in an associate, joint venture or a subsidiary. It also specifically deals with the reporting of interest in an associate or a joint venture using equity method. AS 3 does not contain such requirements.

(iv) Disclosures: Ind AS 7 requires more disclosures as compared to AS 3 that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Ind AS 7 requires disclosure of segmental cash flows from the operating, investing and financing activities of each reportable segment. However, no such requirement is there in AS 3.

11. (a) In the books of P Ltd.

(i) Realisation and Reconstruction Account

	₹		₹
To Goodwill	10,000	By 10% Debentures	2,00,000
To Property, plant and equipment	3,40,000	By Interest accrued on debentures	20,000
To Inventory	80,000	By Trade payables	1,50,000
To Trade receivables	1,10,000	By R Ltd. (Purchase consideration) (W.N. 1)	1,65,400
To Bank (20,000 - 5,000)	15,000	By Equity shareholders A/c (loss on realization) (Bal. fig.)	25,000
To Preference share holders A/c (W.N.3)	5,400		
	5,60,400		5,60,400

Note: Expenses of ₹ 5,000, to be met from bank balance of P Ltd. Is adjusted from the bank balance of P Ltd. before its acquisition.

(ii) Equity shareholders' Account

	₹		₹
To Profit & loss A/c	1,70,000	By Equity Share capital	3,00,000
To Expenses	5,000		
To Equity shares in R Ltd.	1,00,000		
To Realisation and Reconstruction A/c	25,000		
	3,00,000		3,00,000

(b) In the books of R Ltd.

(i) Bank Account

	₹		₹
To Business Purchase	15,000	By Balance c/d (Bal. fig.)	1,09,600
To Equity shares application & allotment A/c (W.N. 4)	94,600		
	1,09,600		1,09,600

(ii) Balance Sheet as on 31st March, 2020

Particulars	Note No.	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
Share Capital	1	4,00,000
(2) Non-Current Liabilities		
Long-term borrowings	2	2,00,000
Total		6,00,000
II. Assets		
(1) Non-current assets		
Property, Plant and Equipment (W.N.2)		3,08,400
(2) Current assets		
(a) Inventories		72,000
(b) Trade receivables		1,10,000
(c) Cash and cash equivalents		1,09,600
Total		6,00,000

Notes to Accounts

		₹
1.	**Share Capital**	
	Authorised share capital	
	40,000 equity shares of ₹ 10 each	4,00,000
	10,000, 9% Preference shares of ₹ 10 each	1,00,000
		5,00,000

	Issued and Subscribed	
	40,000 shares of ₹ 10 each fully paid up	4,00,000
	(out of the above, 30,540 (W.N.4) shares have been allotted as fully paid-up pursuant to contract without payment being received in cash)	
2.	**Long Term Borrowings**	
	10% Debentures	2,00,000

Working Notes:

1. Calculation of Purchase consideration

	₹
Payment to preference shareholders	
6,000 equity shares @ ₹ 10	60,000
For arrears of dividend: (6,000 x ₹ 10) x 9%	5,400
Payment to equity shareholders	
(30,000 shares x 1/3) @ ₹ 10	1,00,000
Total purchase consideration	1,65,400

2. Calculation of fair value at which property, plant and equipment have been acquired by R Ltd.

Since, the question states that "balance of purchase consideration is being attributed to fixed assets", it is implied that the amount of purchase consideration is equal to the fair value at which the net assets have been acquired.

Therefore, the difference of fair value of net assets (excluding property, plant and equipment) and the purchase consideration is the fair value at which the property, plant and equipment have been acquired.

		₹
Purchase consideration / Net assets		1,65,400
Add: Liabilities:		
10% Debentures (including interest on debentures)		2,20,000
Trade payables		1,20,000
		5,05,400
Less: Inventory ₹ (80,000 - 8,000)	72,000	
Trade receivables	1,10,000	

Bank	15,000	(1,97,000)
Fair value at which property, plant and equipment has been acquired		3,08,400

3. **Preference shareholders' Account**

	₹		₹
To Equity Shares in R Ltd.	65,400	By Preference Share capital	60,000
		By Realisation and Reconstruction A/c (Bal. fig.)	5,400
	65,400		65,400

4. **Calculation of number of Equity shares issued to public**

	Number of shares	
Authorised equity shares		40,000
Less: Equity shares issued for		
Interest accrued on debentures	2,000	
Trade payables of P Ltd.	12,000	
Preference shareholders of P Ltd.	6,000	
Arrears of preference dividend	540	
Equity shareholders of P Ltd.	10,000	(30,540)
Number of equity shares issued to public at par for cash		9,460

12. **Consolidated Balance Sheet of Investments Ltd. and its subsidiaries A Ltd., B Ltd. and C Ltd. as on 31st March, 2020**

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	3,00,000
(b) Reserves and Surplus	2	46,850
(2) Minority Interest (W.N vi)		56,750
(3) Current Liabilities		
(a) Trade Payables	3	11,000
Total		4,14,600

II. Assets		
(1) Non-current assets		
Property, Plant and Equipment	4	1,79,000
Intangible assets	5	19,000
(2) Current assets		
(a) Inventories (W.N viii)		66,000
(b) Trade receivables	6	22,500
(c) Cash & Cash equivalents (W.N vii)		1,28,100
Total		4,14,600

Notes to Accounts

			₹
1.	**Share Capital**		
	30,000 shares of ₹ 10 each		3,00,000
2.	**Reserves and Surplus**		
	Capital Reserves (W.N. v)	25,950	
	Profit & loss (W.N. iv)	20,900	46,850
3.	**Trade Payables**		
	Trade Payables [5+11+4+3.5]	23,500	
	Less : Inter Co.[3.5+6+1+2]	(12,500)	11,000
4.	**Property, Plant and Equipment**		
	Freehold property (W.N. viii)	1,24,000	
	Plant (W.N viii)	55,000	1,79,000
5.	**Intangible assets**		
	Goodwill (Given in balance sheet)		19,000
6.	**Trade Receivables (W.N. viii)**	35,000	
	Less : Inter Co. debts	(12,500)	22,500

Shareholding Pattern

	A Ltd.	B Ltd.	C Ltd.
No. of shares	4,000	12,000	10,000
Held by Investment	3,000 i.e. 3/4th	10,000 i.e. 5/6th	8,000 i.e. 4/5th
Minority Interest	1/4th	1/6th	1/5th

Working Notes:

Analysis of Profits:

		Capital Profit ₹	Revenue Profit ₹
(i)	**C Ltd.**		
	Profit & Loss Account on 1.4.2019 less Div. (4,000 – 4,000)	—	
	Reserve on 1st April, 2019	7,500	
	Appreciation in the value of Freehold Property [65,000 - 50,000]	15,000	
	Profit for the year after interim dividend		15,000
	Total	22,500	15,000
	Minority Interest 20%	4,500	3,000
	Share of Investments Ltd.	18,000	12,000
(ii)	**B Ltd.**		
	Loss on the date of acquisition	(12,000)	
	Loss suffered during the year after additional dep of		
	(18,000 + 3,000 – 12,000)		(9,000)
		(12,000)	(9,000)
	Minority Interest (1/6)	2,000	1,500
	Share of Investment Ltd. (5/6)	(10,000)	(7,500)
(iii)	**A Ltd.**		
	Reserve on 1.4.2019	3,000	
	Profit on 1.4.2019 less Dividend (2,000 – 2,000)	—	—
	Profit earned during the year (after interim dividend ₹ 3,200) and Inventory adjustment [6,000 + 2,000]		8,000
		3,000	8,000
	Minority Interest (1/4)	750	2,000
		2,250	6,000
(iv)	Profit & Loss of Investment Ltd.		
	Revenue Profit of C Ltd. [WN (i)]	₹ 12,000	

	Revenue Loss of B Ltd. [WN (ii)]	(7,500)	
	Revenue Profit of A Ltd. [WN (iii)]	₹ 6,000	10,500
	Add: Interim dividend received [30,000 x 8 % + 80,000 × 10%]		10,400
			20,900
(v)	**Cost of Control / Capital Reserve**		
	Cost of Investments in A Ltd. less Dividend (35,000 – 1,500)		33,500
	Cost of Investments in B Ltd.		72,000
	Cost of Investments in C Ltd. less Dividend (92,000 – 3,200)		88,800
			1,94,300
	Paid up value of Shares held in A Ltd.	30,000	
	Paid up value of Shares held in B Ltd.	1,00,000	
	Paid up value of Shares held in C Ltd.	80,000	
	Capital Profits in A Ltd.	2,250	
	Capital Loss in B Ltd.	(10,000)	
	Capital Profits in C Ltd.	18,000	2,20,250
	Capital Reserve		25,950

(vi) Minority Interest

	A Ltd. ₹	B Ltd. ₹	C Ltd. ₹
Share Capital	10,000	20,000	20,000
Capital Profits/(Loss)	750	(2,000)	4,500
Revenue Profits	2,000	(1,500)	3,000
	12,750	16,500	27,500
			56,750

(vii) Bank A/c - Investments Ltd.

	₹		₹
To Share Capital	3,00,000	By Investments in A Ltd.	35,000
To Investments in A Ltd. [Dividend]	1,500	By Investments in B Ltd.	72,000

To Investments in C Ltd. [Dividend]	3,200	By Investments in C Ltd.	92,000
To Dividends - A Ltd. [Dividend]	2,400	By B Ltd. (indebtedness)	6,000
C Ltd. [Dividend]	8,000	By Balance c/d	1,13,600
To A Ltd.	3,500		
	3,18,600		3,18,600

(viii) Sundry Assets

		Freehold Property ₹	Plant ₹	Inventory ₹	Trade Receivables ₹	Cash at Bank ₹
(a)	Investments Ltd.	—	—	—	6,000	1,13,600
(b)	A Ltd.	18,000	16,000	13,000	4,000	1,000
(c)	B Ltd	41,000	27,000	32,000	8,000	2,000
(d)	C Ltd.	65,000	12,000	21,000	17,000	11,500
		1,24,000	55,000	66,000	35,000	1,28,100
	Less: Inter Co. debts				(12,500)	
					22,500	

13. (a) Neither of the two classes of puttable shares can be classified as equity, as they do not have identical features due to the difference in voting rights. It is not possible for T Motors Ltd. to achieve equity classification of the ordinary shares by designating them as being more subordinate than the 'A' ordinary shares, as this does not reflect the fact that the two classes of share are equally entitled to share in entity's residual assets on liquidation.

(b) The above investment is in equity shares of C Ltd. and hence, does not involve any contractual cash flows that are solely payments of principal and interest. Hence, these equity shares shall be measured at fair value through profit or loss. Also, an irrecoverable option exists to designate such investment as fair value through other comprehensive income.

Journal Entries

Particulars		Amount	Amount
Upon initial recognition –			
Investment in equity shares of C Ltd.	Dr.	10,000	
Transaction cost	Dr.	500	

To Bank A/c		10,500
(Being investment recognized at fair value plus transaction costs upon initial recognition)		
Profit and Loss A/c Dr.	500	
To Transaction cost		500
(Being transaction cost incurred on assets measured at FVTPL transferred to P&L A/c)		
Subsequently –		
Investment in equity shares of C Ltd. Dr.	1,200	
To Fair value gain on financial instruments		1,200
(Being fair value gain recognized at year end in P&L)		
Fair value gain on financial instruments Dr.	1,200	
To Profit and Loss A/c		1,200
(Being fair value gain transferred to P&L A/c)		

(c) The Company has made an irrecoverable option to carry its investment at fair value through other comprehensive income. Accordingly, the investment shall be initially recognised at fair value and all subsequent fair value gains/ losses shall be recognised in other comprehensive income (OCI).

Journal Entries

Particulars	Amount	Amount
Upon initial recognition –		
Investment in equity shares of C Ltd. Dr.	5,00,000	
To Bank A/c		5,00,000
(Being investment recognized at fair value plus transaction costs upon initial recognition)		
Subsequently –		
Fair value loss on financial instruments Dr.	50,000	
To Investment in equity shares of C Ltd.		50,000
(Being fair value loss recognised)		
Fair value reserve in OCI Dr.	50,000	
To Fair value loss on financial instruments		50,000
(Being fair value loss recognized in other comprehensive income)		

14. Calculation of Basic & Diluted EPS

	2018-2019	2019-2020
Profit before amortization of ESOP cost	58,65,000	76,45,000
Less: ESOP cost amortised (W.N. 2)	(19,80,000)	(18,70,000)
Net profit for shareholders	38,85,000	57,75,000
No. of shares outstanding (A)	5,00,000	5,00,000
Basic EPS	7.77	11.55
Potential equity (W.N. 1) (B)	19,250	52,500
Total number of equity shares (A + B)	5,19,250	5,52,500
Diluted EPS	7.48	10.45

Working Notes:

1. Calculation of Potential Equity

		2018-2019	2019-2020
a.	Actual number of employees	770	700
b.	Options granted per employee	250	250
c.	No. of options outstanding (a x b)	1,92,500	1,75,000
d.	Unamortised ESOP cost per option (₹)	(22-22/2) 11	0
e.	Exercise price (₹)	70	70
f.	Expected exercise price to be received (c x e) (₹)	1,34,75,000	1,22,50,000
g.	Unamortised ESOP cost (c x d) (₹)	21,17,500	-
h.	Total proceeds (₹) (f + g)	1,55,92,500	1,22,50,000
i.	Fair value per share	90	100
j.	No. of shares issued for consideration (h / i)	1,73,250	1,22,500
k.	Potential Equity (c - j)	19,250	52,500

2. Calculation of ESOP cost to be amortised

	2018-2019	2019-2020
Fair value of options per share	₹ 22	₹ 22
No. of options expected to/actually to vest under the scheme	(720 x 250) 1,80,000	(700 x 250) 1,75,000
Fair value of options	₹ 39,60,000	₹ 38,50,000

Value of options recognized as expenses	(₹ 39,60,000 / 2) 19,80,000	(₹ 38,50,000 – ₹ 19,80,000) 18,70,000

15. Total Funds raised by Mutual Fund = 17.5 x10 lakh = ₹ 175 lakh **(₹ in lakh)**

		₹	₹
Opening Bank Balance(175-160-9)		6	
Add: Proceeds from sale of securities		125	
Add: Dividend received		3	
Less:			134
Cost of securities purchased	90		
Management expenses (₹ 5 lakh x3 months)	15		
Realised gains distributed [80% of (₹ 125 lakh – ₹ 100 lakh)]	20		
Dividend distributed (80% of ₹ 3 lakh)	2.40		(127.40)
Closing Bank Balance			6.60
Closing Market value of portfolio			175.00
Closing Net Assets			181.60
No. of Units (Lakh)			10.00 lakh units
Closing NAV = ₹ 181.60 lakh divided by 10 lakh units	=		₹ 18.16

16. Calculation of provision required on advances as on 31st March, 2020 as per the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016

	Amount ₹ in lakh	Percentage of provision	Provision ₹ in lakh
Standard assets	16,800	0.25	42.00
Sub-standard assets	1,340	10	134.00
Secured portions of doubtful debts–			
– upto one year	320	20	64.00
– one year to three years	90	30	27.00
– more than three years	30	50	15.00
Unsecured portions of doubtful debts	97	100	97.00
Loss assets	48	100	48.00
			427.00

Calculation of provision required on advances as on 31st March, 2020 as per the Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

	Amount ₹ in lakh	Percentage of provision	Provision ₹ in lakh
Standard assets	16,800	0.40	67.20
Sub-standard assets	1,340	10	134.00
Secured portions of doubtful debts–			
– upto one year	320	20	64.00
– one year to three years	90	30	27.00
– more than three years	30	50	15.00
Unsecured portions of doubtful debts	97	100	97.00
Loss assets	48	100	48.00
			452.20

17. Market Share of A Ltd.

Calculation of last year's market share = 100% –63% = 37%

Increase or decrease in market share of other players [0.25+(.25 x 150%)-2.5/5] = 0.125% i.e. increase in others' market share every year over the period of 5 years. Hence, market share of A Ltd. is expected to decrease by 0.125% every year over the period of 5 years, from the current level of 37%.

Brand Valuation under Market Approach

Year	Market Size (₹ in crore)	Market Share of A Ltd.	Market Share (₹ in crore)	Expected Profit (₹ in crore)	Discount Factor	Discounted Cash Flow (₹ in crore)
1	7500 x 109% = 8,175	36.875%	3014.53	@ 10% = 301.45	0.909	274.02
2	8,175 x 109% = 8910.75	36.75%	3274.70	@ 13% = 425.71	0.826	351.64
3	8,910.75x 109% = 9712.72	36.625%	3557.28	@ 18% = 640.31	0.751	480.87
4	9,712.72 x 109% = 10,586.86	36.5%	3864.20	@ 23% = 888.77	0.683	607.03
5	10,586.86 x 109% = 11,539.68	36.375%	4197.56	@ 28% = 1,175.32	0.621	729.87
	Brand Value					2,443.43

Brand Value of A Ltd. under Market Oriented Approach is ₹ 2,443.43 crore.

18. **Happy Ltd.**

Value Added Statement for the year ended 31st March, 2020

		(in ₹ '000)
Sales		2,380
Less: Cost of Bought in Materials and Services:		
Operational Cost ₹ (1,220 + 235)	1,455	
Administrative Expenses ₹ (25+8+62)	95	
Interest cost	35	(1,585)
Value addition by manufacturing and trading activities		795
Add: Other Income		370
Gross Value Added		1,165

Application of Gross Value Added

	(₹ in '000)	(₹ in '000)	%
To Pay Employees:			
Wages/ Salaries to Administrative Staff		330	0.28
To Pay Directors:			
Directors' Remuneration		55	0.05
To Pay Government:			
Local taxes including cess	70		
Provision for tax	87	157	0.14
To Pay Providers of Capital			
Interest on Debentures		180	0.15
To Provide for maintenance			
Depreciation	240		
Retained Profit	203	443	0.38
		1,165	1.00

Ratios

(a) Gross Value Added to Material Cost Ratio = $\frac{\text{Gross Value Added}}{\text{Market Cost}} = \frac{1,165}{1,220} = 0.95$

Higher GVA ratio of Happy Ltd. in comparison to Industry shows that it has better material utilisation policy than industry's material utilisation policy.

(b) Gross Value Added to Employee Cost Ratio = $\frac{\text{Gross Value Added}}{\text{Employee Cost}} = \frac{1,165}{330}$ = 3.53

Higher GVA ratio of Industry in comparison to Happy Ltd. shows that Industry's labour productivity or policy is better than Happy Ltd.'s labour productivity or policy.

(c) Gross Value Added to Sales Ratio = $\frac{\text{Gross Value Added}}{\text{Sales}} = \frac{1,165}{2,380}$ = 0.49

Higher GVA ratio of Industry in comparison to Happy Ltd. shows that Industry's sales policy is better than Happy Ltd.'s sales policy.

(d) Gross Value Added to Capital Employed Ratio

$$= \frac{\text{Gross Value Added}}{\text{Equity share capital} + \text{Preference share capital} + \text{Retained Earnings}}$$

$$= \frac{1,165}{(1,500 + 600 + 263)} = 0.49$$

Higher GVA ratio of Happy Ltd. in comparison to Industry shows that managerial efficiency of Happy Ltd. is better than Industry. Happy Ltd. is able to efficiently utilise its capital in the generation of profit and in addition of value to its organisation.

Note: Capital Employed may also include Debentures ₹ 18,00,000 as per the concept of Value Added. In such a case, the ratio would be as follows:

Gross Value Added to Capital Employed Ratio

$$= \frac{\text{Gross Value Added}}{\text{Equity share capital} + \text{Preference share capital} + \text{Retained Earnings} + \text{Debentures}}$$

$$= \frac{1,165}{(1,500 + 600 + 263 + 1,800)} = 0.28$$

Lower GVA ratio of Happy Ltd. in comparison to Industry shows that Happy Ltd. is marginally below the industry average.

19. Market Value Added (MVA) is the difference between the current market value of a firm and the capital contributed by investors (both debenture holders and shareholders). In other words, it is the sum of all capital claims held against the company plus market value of debt and equity. If MVA is positive, firm has added value.

Market Value Added = Market value of firm less amount invested in the firm

		₹ in lakh
Equity Share Capital (market value)		
(505 lakh x 600%)		3030
Preference share capital (15,00,000 x 30)		450
Debentures		50
Current market value of firm		3,530
Less: Equity Share Capital	505	
Preference share capital	150	
Reserves	101	
Debentures	50	
Statutory Reserve	50.50	(856.50)
Market Value Added		2,673.50
The significant Market Value addition implies that the management of W Ltd. has created wealth for its shareholders and that market investors are willing to pay a price greater than the historical net worth of the company.		

20. The present value of earnings of each category of employees by applying 15% discount factor is ascertained as below:

(A) Unskilled employees:

Age group 30-39. Assume that all 70 employees are just 30 years old:

	Present value ₹
₹ 3,000 p.a. for next 10 years	15,057
₹ 4,000 p.a. for years 11 to 20	4,960
₹ 5,000 p.a. for years 21 to 25	1,025
	21,042

Age group 40-49. Assume that all 20 employees are just 40 years old:

₹ 4,000 p.a. for next 10 years	20,076
₹ 5,000 p.a. for years 11 to 15	4,140
	24,216

Age group 50-54: Assume that all 10 employees are just 50 years old:

₹ 5,000 p.a. for next 5 years	16,760

Similarly, present value of each employee under other categories will be calculated.

(B) Semi-skilled employees:

Age group 30-39

	Present value ₹
₹ 3,500 p.a. for next 10 years	17,567
₹ 5,000 p.a. for years 11 to 20	6,200
₹ 6,000 p.a. for years 21 to 25	1,230
	24,997

Age group 40-49

₹ 5,000 p.a. for next 10 years	25,095
₹ 6,000 p.a. for years 11 to 15	4,968
	30,063

Age group 50-54

₹ 6,000 p.a. for next 5 years	20,112

(C) Skilled employees:

Age group 30-39

	Present value ₹
₹ 5,000 p.a. for next 10 years	25,095
₹ 6,000 p.a. for years 11 to 20	7,440
₹ 7,000 p.a. for years 21 to 25	1,435
	33,970

Age group 40-49

₹ 6,000 p.a. for next 10 years	30,114
₹ 7,000 p.a. for years 11 to 15	5,796
	35,910

Age group 50-54

₹ 7,000 p.a. for next 5 years	23,464

Total value of Human Capital

Age	Unskilled		Semi-skilled		Skilled		Total	
	No.	Av. Annual earnings (₹ '000)	No.	Av. Annual earnings (₹ '000)	No.	Av. Annual earnings (₹ '000)	No.	Av. Annual earnings (₹ '000)
30-39	70	14,72,940	50	12,49,850	30	10,19,100	150	37,41,890
40-49	20	4,84,320	15	4,50,945	15	5,38,650	50	14,73,915
50-54	10	1,67,600	10	2,01,120	5	1,17,320	25	4,86,040
	100	21,24,860	75	19,01,915	50	16,75,070		57,01,845