Question No. 1 is compulsory. Candidates are required to answer any four questions from the remaining five questions.

Wherever necessary, suitable assumptions may be made and disclosed by way of a note. Working notes should form part of the answers.

Question 1

(a) Hold Limited acquired 100% ordinary shares of ₹ 100 each of Sub Limited on 1st October, 2017. On 31st March, 2018 the summarized Balance Sheets of the two companies were as given below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Hold Limited (₹)</th>
<th>Sub Limited (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Non-current Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Property, Plant &amp; Equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Land &amp; Building</td>
<td>30,00,000</td>
<td>36,00,000</td>
</tr>
<tr>
<td>(b) Plant &amp; machinery</td>
<td>48,00,000</td>
<td>27,00,000</td>
</tr>
<tr>
<td>(ii) Investment in Sub Limited</td>
<td>68,00,000</td>
<td></td>
</tr>
<tr>
<td>(2) Current Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Inventory</td>
<td>24,00,000</td>
<td>7,28,000</td>
</tr>
<tr>
<td>(ii) Financial Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Trade Receivables</td>
<td>11,96,000</td>
<td>8,00,000</td>
</tr>
<tr>
<td>(b) Cash &amp; Cash Equivalents</td>
<td>2,90,000</td>
<td>1,60,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,84,86,000</strong></td>
<td><strong>79,88,000</strong></td>
</tr>
<tr>
<td><strong>II Equity and Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Equity Share Capital (Shares of ₹ 100 each fully paid)</td>
<td>1,00,00,000</td>
<td>40,00,000</td>
</tr>
<tr>
<td>(ii) Other Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Other Reserves</td>
<td>48,00,000</td>
<td>20,00,000</td>
</tr>
<tr>
<td>(b) Retained Earnings</td>
<td>11,44,000</td>
<td>16,40,000</td>
</tr>
<tr>
<td>(2) Current Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Bank Overdraft</td>
<td>16,00,000</td>
<td></td>
</tr>
<tr>
<td>(b) Trade Payable</td>
<td>9,42,000</td>
<td>3,48,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,84,86,000</strong></td>
<td><strong>79,88,000</strong></td>
</tr>
</tbody>
</table>
The retained earnings of Sub Limited showed a credit balance of ₹ 6,00,000 on 1st April, 2017 out of which a dividend of 10% was paid on 1st November 2017. Hold Limited has credited the dividend received to retained earnings account. There was no fresh addition to other reserves in case of both companies during the current financial year. There was no opening balance in the retained earnings in the books of Hold Limited.

Following are the changes in fair value as per respective Ind AS from the book value as on 1st October, 2017 in the books of Sub Limited which is to be considered while consolidating the Balance Sheets.

(i) Fair value of Plant and Machinery was ₹ 40,00,000. (Rate of depreciation on Plant and Machinery is 10% p.a.)

(ii) Land and Building appreciated by ₹ 20,00,000.

(iii) Inventories increased by ₹ 3,00,000.

(iv) Trade payable increased by ₹ 2,00,000.

Prepare Consolidated Balance Sheet as on 31st March, 2018. The Balance Sheet should comply with the relevant Ind AS and Schedule III of the Companies Act, 2013.

(15 Marks)

(b) Determine whether the following are insurance contracts as per Ind AS 104:

(i) Deferred annuity i.e., policyholder will receive, or can elect to receive, a life-contingent annuity at rates guaranteed at inception.

(ii) Deferred annuity i.e., policyholder will receive, or can elect to receive, a life-contingent annuity at rates prevailing when the annuity begins.

(iii) A contract permits the issuer to deduct an MVA (Market Value Adjustment) from surrender values or maturity payments to reflect current market prices for the underlying assets. The contract does not permit an MVA for death benefits.

(iv) A contract permits the issuer to deduct an MVA from surrender payments to reflect current market prices for the underlying assets. The contract does not permit an MVA for death and maturity benefits. The amount payable on death or maturity is the amount originally invested plus interest.

(v) An agreement that entity A will compensate entity B for losses on one or more contracts issued by entity B that do not transfer significant insurance risk.

(5 Marks)
Answer

(a) Consolidated Balance Sheet of Hold Ltd. and its subsidiary, Sub Ltd. as on 31st March, 2018

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Note No.</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, Plant &amp; Equipment</td>
<td>1</td>
<td>1,72,00,000</td>
</tr>
<tr>
<td>(2) Current Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>2</td>
<td>34,28,000</td>
</tr>
<tr>
<td>Financial Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade Receivables</td>
<td>3</td>
<td>19,96,000</td>
</tr>
<tr>
<td>Cash &amp; Cash equivalents</td>
<td>4</td>
<td>4,50,000</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td></td>
<td>2,30,74,000</td>
</tr>
<tr>
<td><strong>II. Equity and Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity Share Capital</td>
<td>5</td>
<td>1,00,00,000</td>
</tr>
<tr>
<td>Other Equity</td>
<td>6</td>
<td>99,84,000</td>
</tr>
<tr>
<td>(2) Current Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short term borrowings</td>
<td>7</td>
<td>16,00,000</td>
</tr>
<tr>
<td>Trade Payables</td>
<td>8</td>
<td>14,90,000</td>
</tr>
<tr>
<td><strong>Total Equity &amp; Liabilities</strong></td>
<td></td>
<td>2,30,74,000</td>
</tr>
</tbody>
</table>

It may be noted that the consolidation adjustments in respect of tax effect, in particular, deferred tax effect of temporary differences associated with fair value adjustments, determined in accordance with Ind AS 12 ‘Income Taxes’, will affect the above consolidated balance sheet.

Notes to accounts

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Property Plant &amp; Equipment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Land &amp; Building</td>
<td>86,00,000</td>
</tr>
<tr>
<td></td>
<td>Plant &amp; Machinery</td>
<td>86,00,000</td>
</tr>
<tr>
<td>2.</td>
<td>Inventories</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hold Ltd.</td>
<td>24,00,000</td>
</tr>
<tr>
<td></td>
<td>Sub Ltd.</td>
<td>10,28,000</td>
</tr>
<tr>
<td>3.</td>
<td>Trade Receivables</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hold Ltd.</td>
<td>11,96,000</td>
</tr>
<tr>
<td></td>
<td>Sub Ltd.</td>
<td>8,00,000</td>
</tr>
</tbody>
</table>

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4. **Cash & Cash equivalents**

<table>
<thead>
<tr>
<th></th>
<th>Hold Ltd.</th>
<th>Sub Ltd.</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hold Ltd.</td>
<td>2,90,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub Ltd.</td>
<td>1,60,000</td>
<td></td>
<td>4,50,000</td>
</tr>
</tbody>
</table>

7. **Short-term borrowings**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank overdraft of Hold Ltd.</td>
<td>16,00,000</td>
</tr>
</tbody>
</table>

8. **Trade Payables**

<table>
<thead>
<tr>
<th></th>
<th>Hold Ltd.</th>
<th>Sub Ltd.</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hold Ltd.</td>
<td>9,42,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub Ltd.</td>
<td>5,48,000</td>
<td></td>
<td>14,90,000</td>
</tr>
</tbody>
</table>

**Statement of changes in Equity:**

5. **Equity share Capital**

<table>
<thead>
<tr>
<th>Balance at the beginning of the reporting period</th>
<th>Changes in Equity share capital during the year</th>
<th>Balance at the end of the reporting period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,00,00,000</td>
<td>0</td>
<td>1,00,00,000</td>
</tr>
</tbody>
</table>

6. **Other Equity**

<table>
<thead>
<tr>
<th>Reserves &amp; Surplus</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Capital Reserve</td>
</tr>
<tr>
<td>Balance at the beginning</td>
<td>48,00,000</td>
</tr>
<tr>
<td>Profit or loss for the year (W.N.4)</td>
<td>0</td>
</tr>
<tr>
<td>Other comprehensive income for the year</td>
<td>0</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>0</td>
</tr>
<tr>
<td>Dividends</td>
<td>0</td>
</tr>
<tr>
<td>Gain on Bargain purchase on acquisition of a subsidiary* (W.N.5)</td>
<td>37,70,000</td>
</tr>
<tr>
<td>Balance at the end of reporting period</td>
<td>37,70,000</td>
</tr>
</tbody>
</table>

* It is assumed that there exists no clear evidence for classifying the acquisition of the subsidiary as a bargain purchase and, hence, the bargain purchase gain has been recognised directly in capital reserve. If, however, there exists such a clear evidence, the bargain purchase gain would be recognised in other comprehensive income and then accumulated in capital reserve. In both the cases, closing balance of capital reserve will be ₹ 37,70,000.
Working Notes:

1. Adjustments of Fair Value - Total Appreciation

<table>
<thead>
<tr>
<th></th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant &amp; Machinery (W.N.7)</td>
<td>11,50,000</td>
</tr>
<tr>
<td>Land and Building</td>
<td>20,00,000</td>
</tr>
<tr>
<td>Inventories</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Less: Trade Payables</td>
<td>(2,00,000)</td>
</tr>
<tr>
<td></td>
<td>32,50,000</td>
</tr>
</tbody>
</table>

2. Pre-acquisition reserves of Sub Ltd.

<table>
<thead>
<tr>
<th></th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Reserves on 1.4.2017</td>
<td>20,00,000</td>
</tr>
<tr>
<td>Retained earnings Balance on 1.4.2017</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Retained earnings balance as on 31.3.2018</td>
<td>16,40,000</td>
</tr>
<tr>
<td>Less: Retained earnings balance as on 1.4.2017</td>
<td>(6,00,000)</td>
</tr>
<tr>
<td>Add back: Dividend</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Profit for the year 2017-2018</td>
<td>14,40,000</td>
</tr>
<tr>
<td>Profit for 6 months (14,40,000 x 6/12)</td>
<td>7,20,000</td>
</tr>
<tr>
<td>Share of Hold Ltd.</td>
<td>33,20,000</td>
</tr>
</tbody>
</table>

There will be no Non-controlling Interest as 100% shares of Sub Ltd. are held by Hold Ltd.

3. Post-acquisition profits of Sub Ltd.

<table>
<thead>
<tr>
<th></th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for 6 months from 1.10.2017 to 31.3.2018 (14,40,000 x 6/12)</td>
<td>7,20,000</td>
</tr>
<tr>
<td>Less: Additional depreciation on account of revaluation of Plant and Machinery for 6 months [(40,00,000 x 10% x 6/12) – (30,00,000 x 10% x 6/12)]</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Adjusted post-acquisition profit attributable to Hold Ltd.</td>
<td>6,70,000</td>
</tr>
</tbody>
</table>

4. Consolidated profit or loss for the year

<table>
<thead>
<tr>
<th></th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hold Ltd. Retained earnings on 31.3.2018</td>
<td>11,44,000</td>
</tr>
<tr>
<td>Less: Retained earnings as on 1.4.2017</td>
<td>(0)</td>
</tr>
<tr>
<td>Profits for the year 2017-2018</td>
<td>11,44,000</td>
</tr>
<tr>
<td>Less: Elimination of intra-group dividend</td>
<td>(4,00,000)</td>
</tr>
<tr>
<td>Adjusted profit for the year</td>
<td>7,44,000</td>
</tr>
<tr>
<td>Sub Ltd. Adjusted profit attributable to Hold Ltd. (W.N.3)</td>
<td>6,70,000</td>
</tr>
<tr>
<td>Consolidated profit or loss for the year</td>
<td>14,14,000</td>
</tr>
</tbody>
</table>
5. **Goodwill/Gain on bargain purchase**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount paid for 40,000 shares of Sub Ltd.</td>
<td>68,00,000</td>
</tr>
<tr>
<td>Less: Share of Hold Ltd. in pre-acquisition equity of Sub Ltd.</td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>40,00,000</td>
</tr>
<tr>
<td>Pre-acquisition reserves of Sub Ltd. (W.N.2)</td>
<td>33,20,000</td>
</tr>
<tr>
<td>Fair value adjustments (W.N.1)</td>
<td>32,50,000</td>
</tr>
<tr>
<td>Gain on Bargain Purchase</td>
<td>37,70,000</td>
</tr>
</tbody>
</table>

6. **Value of Plant & Machinery**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hold Ltd.</td>
<td>48,00,000</td>
</tr>
<tr>
<td>Sub Ltd. Book value as on 31.3.2018</td>
<td>27,00,000</td>
</tr>
<tr>
<td>Book value as on 1.4.2017 (27,00,000/90%)</td>
<td>30,00,000</td>
</tr>
<tr>
<td>Less: Depreciation @ 10% for 6 months</td>
<td>(1,50,000)</td>
</tr>
<tr>
<td></td>
<td>28,50,000</td>
</tr>
<tr>
<td>Add: Appreciation on 1.10.2017</td>
<td></td>
</tr>
<tr>
<td>(Balancing fig. i.e., 40,00,000 – 28,50,000)</td>
<td>11,50,000</td>
</tr>
<tr>
<td>Revalued amount (given)</td>
<td>40,00,000</td>
</tr>
<tr>
<td>Less: Depreciation on ₹ 40,00,000 @ 10% for 6 months</td>
<td>(2,00,000)</td>
</tr>
<tr>
<td>Revalued amount (given)</td>
<td>38,00,000</td>
</tr>
</tbody>
</table>

7. **Consolidated retained earnings**

<table>
<thead>
<tr>
<th>Description</th>
<th>Hold Ltd.</th>
<th>Sub Ltd.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>As given</td>
<td>11,44,000</td>
<td>16,40,000</td>
<td>27,84,000</td>
</tr>
<tr>
<td><strong>Consolidation Adjustments:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Elimination of pre-acquisition element [6,00,000 + 7,20,000]</td>
<td>0</td>
<td>(13,20,000)</td>
<td>(13,20,000)</td>
</tr>
<tr>
<td>(ii) Elimination of intra-group dividend</td>
<td>(4,00,000)</td>
<td>4,00,000</td>
<td>0</td>
</tr>
<tr>
<td>(iii) Impact of fair value adjustments</td>
<td>0</td>
<td>(50,000)</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Adjusted retained earnings consolidated</td>
<td>7,44,000</td>
<td>6,70,000</td>
<td>14,14,000</td>
</tr>
</tbody>
</table>

**Note:** The above solution has been drawn by making following assumptions, at required places:

(i) Hold Ltd. measures the investment in Sub Ltd. at cost (less impairment, if any) in its separate financial statements as permitted in Ind AS 27, Separate Financial Statements.

(ii) Increase in land and buildings represents only land element.

(iii) Depreciation on plant and machinery is on WDV method.
(iv) Fair value adjusted trade payables continue to exist on 31.3.2018.

(v) Inventories are valued at cost, being lower than NRV and that application of cost formula for the purposes of consolidated financial statements results in entire fair value adjustment to be included in the carrying amount of inventories of Sub Ltd. on 31.3.2018.

(b) (i) It is an insurance contract if the transfer of insurance risk is significant. The contract transfers mortality risk to the insurer at inception, because the insurer might have to pay significant additional benefits for an individual contract if the annuitant elects to take the life contingent annuity and survives longer than expected (unless the contingent amount is insignificant in all scenarios that have commercial substance).

(ii) It is not an insurance contract at inception, if the insurer can re-price the mortality risk without constraints. Here the transfer of insurance risk is insignificant.

(iii) The policyholder obtains an additional death benefit because no MVA is applied on death. If the risk transferred by that benefit is significant, the contract is an insurance contract.

(iv) The policyholder obtains an additional benefit because no MVA is applied on death or maturity. However, that benefit does not transfer insurance risk from the policyholder because it is certain that the policyholder will live or die and the amount payable on death or maturity is adjusted for the time value of money. The contract is an investment contract.

(v) Even though Entity B does not transfer significant insurance risk still Entity A has to compensate for losses. So indirectly significant insurance risk is transferred. Therefore, reinsurance contract is an insurance contract as per Ind AS 104.

Question 2

(a) Notorola Limited has two divisions A and B. Division A has been making constant profits while Division B has been invariably suffering losses.

On 31st March 2018, the division-wise draft extract of the Balance Sheet was as follows:

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Assets Cost</td>
<td>500</td>
<td>1000</td>
<td>1500</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(450)</td>
<td>(800)</td>
<td>(1250)</td>
</tr>
<tr>
<td>Net Fixed Assets (A)</td>
<td>50</td>
<td>200</td>
<td>250</td>
</tr>
<tr>
<td>Current Assets</td>
<td>400</td>
<td>1000</td>
<td>1400</td>
</tr>
<tr>
<td>Less: Current Liabilities</td>
<td>(50)</td>
<td>(800)</td>
<td>(850)</td>
</tr>
<tr>
<td>Net Current Assets (B)</td>
<td>350</td>
<td>200</td>
<td>550</td>
</tr>
<tr>
<td>Total (A) + (B)</td>
<td>400</td>
<td>400</td>
<td>800</td>
</tr>
</tbody>
</table>
Division B along with its assets and liabilities was sold for ₹50 crore to Senovo Limited a new company, who allotted 2 crore equity shares of ₹10 each at a premium of ₹15 per share to the members of Notorola Limited in full settlement of the consideration, in proportion to their shareholding in the company. One of the members of the Notorola Limited was holding 52% shares of the company.

Assuming that, there are no other transactions, you are required to:

(i) Pass journal entries in the books of Notorola Limited.

(ii) Prepare the Balance Sheet of Notorola Limited after the entries in (i).

(iii) Prepare the Balance Sheet of Senovo Limited.

Balance Sheet prepared for (ii) and (iii) above should comply with the relevant Ind AS and Schedule III of the Companies Act, 2013. Provide Notes to Accounts, for 'Other Equity' in case of (ii) and 'Share Capital' in case of (iii), only. (10 Marks)

(b) Seeds Ltd. is operating in oil industry. Its business segments comprise crushing and refining. Certain information for financial year 2017-18 is given below:

(₹ in lakh)

<table>
<thead>
<tr>
<th>Segments</th>
<th>External Sale</th>
<th>Tax</th>
<th>Other Operating Income</th>
<th>Result</th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crushing</td>
<td>1,00,000</td>
<td>2,500</td>
<td>20,000</td>
<td>5,000</td>
<td>25,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Refining</td>
<td>35,000</td>
<td>1,500</td>
<td>7,500</td>
<td>2,000</td>
<td>15,000</td>
<td>5,000</td>
</tr>
</tbody>
</table>

Additional Information: (₹ in lakh)

- Unallocated revenue net of expenses is ₹1,500.
- Interest and bank charges is ₹1,000
- Income-tax expense is ₹1,000 (current tax ₹975 and deferred tax ₹25)
- Investments ₹5,000 and unallocated assets ₹5,000
- Unallocated liabilities, Reserves & Surplus and Share capital are ₹10,000; ₹15,000 and ₹5,000 respectively.
- Depreciation amounts for crushing and refining are ₹500 and ₹150 respectively.
Capital expenditure for crushing and refining are ₹2,500 and ₹1,000 respectively.
Revenue from outside India is ₹15,000 and segment assets outside India ₹5,000.

Based on the above information, how Seeds Ltd. would disclose information about reportable segment revenue, profit or loss, assets and liabilities for financial year 2017-18? (10 Marks)

Answer

(i) Journal of Notorola Ltd.

<table>
<thead>
<tr>
<th>(₹ in crore)</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Funds</td>
<td>Dr. 600</td>
<td></td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>Dr. 800</td>
<td></td>
</tr>
<tr>
<td>Provision for Depreciation</td>
<td>Dr. 800</td>
<td></td>
</tr>
<tr>
<td>To Fixed Assets</td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>To Current Assets</td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>To Capital Reserve</td>
<td></td>
<td>200</td>
</tr>
</tbody>
</table>

(Being division B along with its assets and liabilities sold to Senovo Ltd. for ₹50 crore)

In the given scenario, this demerger will meet the definition of common control transaction. Accordingly, the transfer of assets and liabilities will be derecognized and recognized as per book value and the resultant loss or gain will be recorded as capital reserve in the books of demerged entity (Notorola Ltd).

Notes: Any other alternative set of entries, with the same net effect on various accounts, may also be given.

(ii) Notorola Ltd.

Balance Sheet after demerger

<table>
<thead>
<tr>
<th>(₹ in crore)</th>
<th>Note No.</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Property, Plant and Equipment</td>
<td></td>
<td>50</td>
</tr>
<tr>
<td>Current assets</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>450</td>
</tr>
</tbody>
</table>
EQUITY AND LIABILITIES

<table>
<thead>
<tr>
<th>Equity</th>
<th></th>
<th>1</th>
<th>50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity share capital (of face value of ₹10 each)</td>
<td>1</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Other equity</td>
<td>2</td>
<td>350</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
<th>50</th>
<th>450</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities</td>
<td>50</td>
<td>450</td>
<td></td>
</tr>
</tbody>
</table>

Notes to Accounts

1. Equity Share Capital
   5 crore equity shares of face value of ₹ 10 each
   Consequent to transfer of Division B to newly incorporated company Senovo Ltd., the members of the company have been allotted 2 crore equity shares of ₹ 10 each at a premium of ₹ 15 per share of Senovo Ltd., in full settlement of the consideration in proportion to their shareholding in the company.

2. Other Equity
   Surplus (350 - 200)
   Add: Capital Reserve on reconstruction
   150
   200
   350

(iii) Balance Sheet of Senovo Ltd. (₹ in crore)

<table>
<thead>
<tr>
<th>Note No.</th>
<th>Amount</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td>Note No.</td>
<td>Amount</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>1,200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EQUITY AND LIABILITIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity share capital (of face value of INR 10 each)</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>Other equity</td>
<td>2</td>
<td>(220)</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td>600</td>
<td></td>
</tr>
</tbody>
</table>
Current liabilities

| Current liabilities | 800 | 1,200 |

Notes to Accounts

<table>
<thead>
<tr>
<th>₹ in crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Share Capital</td>
</tr>
<tr>
<td>Issued and Paid-up capital</td>
</tr>
<tr>
<td>2 crore Equity shares of ₹ 10 each fully paid up</td>
</tr>
<tr>
<td>(All the above shares have been allotted to the members of Notorola Ltd. on takeover of Division B from Notorola Ltd. as fully paid-up pursuant to contract without payment being received in cash)</td>
</tr>
<tr>
<td>2. Other Equity</td>
</tr>
<tr>
<td>Securities Premium</td>
</tr>
<tr>
<td>Capital reserve [50 - (1,200 – 1,400)]</td>
</tr>
<tr>
<td>(220)</td>
</tr>
</tbody>
</table>

 Segment revenues, results and other information

<table>
<thead>
<tr>
<th>₹ in lakh</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. External sales (gross)</td>
</tr>
<tr>
<td>1,00,000</td>
</tr>
<tr>
<td>Tax</td>
</tr>
<tr>
<td>External sales (net)</td>
</tr>
<tr>
<td>Other operating income</td>
</tr>
<tr>
<td>Total Revenue</td>
</tr>
<tr>
<td>2. Results</td>
</tr>
<tr>
<td>Segment results</td>
</tr>
<tr>
<td>Unallocated income (net of unallocated expenses)</td>
</tr>
<tr>
<td>Profit from operation before interest, taxation and exceptional items</td>
</tr>
<tr>
<td>Interest and bank charges</td>
</tr>
<tr>
<td>Profit before exceptional items</td>
</tr>
<tr>
<td>Exceptional items</td>
</tr>
<tr>
<td>Profit before taxation</td>
</tr>
<tr>
<td>Less: Income Taxes</td>
</tr>
</tbody>
</table>
3. **Other Information**

(a) **Assets**

<table>
<thead>
<tr>
<th>Category</th>
<th>India</th>
<th>Outside India</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment Assets</td>
<td>25,000</td>
<td>15,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Investments</td>
<td></td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Unallocated assets</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td>30,000</td>
<td>20,000</td>
<td>50,000</td>
</tr>
</tbody>
</table>

(b) **Liabilities/Shareholder’s funds**

<table>
<thead>
<tr>
<th>Category</th>
<th>India</th>
<th>Outside India</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment liabilities</td>
<td>15,000</td>
<td>5,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Unallocated liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td></td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Reserves and surplus</td>
<td></td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>Total liabilities / shareholder’s funds</td>
<td>30,000</td>
<td>20,000</td>
<td>50,000</td>
</tr>
</tbody>
</table>

(c) **Others**

<table>
<thead>
<tr>
<th>Nature</th>
<th>Non-cumulative redeemable preference shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repayment</td>
<td>Redeemable after 3 years</td>
</tr>
<tr>
<td>Date of Allotment</td>
<td>1st April 2015</td>
</tr>
<tr>
<td>Date of Repayment</td>
<td>31st March 2018</td>
</tr>
<tr>
<td>Total Period</td>
<td>3 Years</td>
</tr>
<tr>
<td>--------------</td>
<td>---------</td>
</tr>
<tr>
<td>Value of Preference Shares issued</td>
<td>5,00,00,000</td>
</tr>
<tr>
<td>Dividend Rate</td>
<td>0.0001% Per Annum</td>
</tr>
<tr>
<td>Market rate of interest</td>
<td>12% Per Annum</td>
</tr>
<tr>
<td>Present value factor</td>
<td>0.7118</td>
</tr>
</tbody>
</table>

(b) On 1st January 2017, Expo Limited agreed to purchase USD ($) 40,000 from E&I Bank in future on 31st December 2017 for a rate equal to ₹ 65 per USD. Expo Limited did not pay any amount upon entering into the contract. Expo Limited is a listed company in India and prepares its financial statements on a quarterly basis.

Using the definition of derivative included in Ind AS 109 and following the principles of recognition and measurement as laid down in Ind AS 109, you are required to record the entries for each quarter ended till the date of actual purchases of USD.

For the purpose of accounting, use the following information representing marked to market fair value of forward contracts at each reporting date:

<table>
<thead>
<tr>
<th>Date</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 31st March, 2017</td>
<td>₹ (50,000)</td>
</tr>
<tr>
<td>As at 30th June, 2017</td>
<td>₹ (30,000)</td>
</tr>
<tr>
<td>As at 30th September, 2017</td>
<td>₹ 24,000</td>
</tr>
<tr>
<td>Spot rate of USD on 31st December, 2017</td>
<td>₹ 62 per USD</td>
</tr>
</tbody>
</table>

(c) Ruby Ltd. has incurred USD ($) 2,00,000 in CERs registration, certification and other related costs during financial year 2015~16. This entitles the company to 1,80,000 CERs. The CERs are being traded at USD 1.2 per CER in MCX at the year end.

Pass journal entries for recognition of CERs, year-end value to be appeared in the financial statements and on the sale of CERs in the next year @ USD 1.2 per CER.

(4 Marks)

Answer

(a) 1. Analysis of the financial instrument issued by S Ltd. to its holding company H Ltd.

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

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

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

**Computations on initial recognition:**

<table>
<thead>
<tr>
<th>Transaction value of the Redeemable preference shares</th>
<th>₹ 5,00,00,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Present value of loan component @ 12% (5,00,00,000 x .7118)</td>
<td>(₹ 3,55,90,000)</td>
</tr>
<tr>
<td>Investment in subsidiary</td>
<td>₹ 1,44,10,000</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Date</th>
<th>Opening Balance</th>
<th>Interest @ 12%</th>
<th>Closing balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1&lt;sup&gt;st&lt;/sup&gt; April, 2015</td>
<td>3,55,90,000</td>
<td>-</td>
<td>3,55,90,000</td>
</tr>
<tr>
<td></td>
<td>31&lt;sup&gt;st&lt;/sup&gt; March, 2016</td>
<td>3,55,90,000</td>
<td>42,70,800</td>
<td>3,98,60,800</td>
</tr>
<tr>
<td>2</td>
<td>31&lt;sup&gt;st&lt;/sup&gt; March, 2017</td>
<td>3,98,60,800</td>
<td>47,83,296</td>
<td>4,46,44,096</td>
</tr>
<tr>
<td>3</td>
<td>31&lt;sup&gt;st&lt;/sup&gt; March, 2018</td>
<td>4,46,44,096</td>
<td>53,55,904*</td>
<td>5,00,00,000</td>
</tr>
</tbody>
</table>

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

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

**Journal Entries to be done at every reporting date**

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Amount</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1&lt;sup&gt;st&lt;/sup&gt; April, 2015</td>
<td>Investment (Equity portion) Redeemable Preference Shares To Bank (Being initial recognition of transaction recorded)</td>
<td>Dr. 1,44,10,000</td>
<td>Dr. 3,55,90,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>₹ 5,00,00,000</td>
</tr>
<tr>
<td>31&lt;sup&gt;st&lt;/sup&gt; March, 2016</td>
<td>Redeemable Preference Shares To Interest income (Being interest income on loan component recognized)</td>
<td>Dr. 42,70,800</td>
<td>42,70,800</td>
</tr>
</tbody>
</table>
31st March, 2017
Redeemable Preference Shares Dr. 47,83,296
To Interest income 47,83,296
(Being interest income on loan component recognized)

31st March, 2018
Redeemable Preference Shares Dr. 53,55,904
To Interest income 53,55,904
(Being interest income on loan component recognized)

31st March, 2018
Bank Dr. 5,00,00,000
To Redeemable Preference Shares 5,00,00,000
(Being settlement of transaction done at the end of the third year)

(b) **Assessment of the arrangement using the definition of derivative included under Ind AS 109.**

Derivative is a financial instrument or other contract within the scope of this Standard with all three of the following characteristics:

(a) its value changes in response to the change in foreign exchange rate (emphasis laid)

(b) it requires no initial net investment or an initial net investment is smaller than would be required for other types of contracts with similar response to changes in market factors.

(c) it is settled at a future date.

Upon evaluation of contract in question, on the basis of the definition of derivative, it is noted that the contract meets the definition of a derivative as follows:

(a) the value of the contract to purchase USD at a fixed price changes in response to changes in foreign exchange rate.

(b) the initial amount paid to enter into the contract is zero. A contract which would give the holder a similar response to foreign exchange rate changes would have required an investment of USD 40,000 on inception.

(c) the contract is settled in future

The derivative is a forward exchange contract.

As per Ind AS 109, derivatives are measured at fair value upon initial recognition and are subsequently measured at fair value through profit and loss.

**Accounting in each Quarter**

(i) **Accounting on 1st January 2017**

As there was no consideration paid and without evidence to the contrary the fair value of the contract on the date of inception is considered to be zero. Accordingly, no accounting entries shall be recorded on the date of entering into the contract.
(ii) Accounting on 31st March 2017

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Dr. (₹)</th>
<th>Cr. (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit and loss A/c</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>To Derivative financial liability</td>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td>(Being mark to market loss on forward contract recorded)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(iii) Accounting on 30th June 2017

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Dr. (₹)</th>
<th>Cr. (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivative financial liability A/c</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>To Profit and Loss A/c</td>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td>(Being partial reversal of mark to market loss on forward contract recorded)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(iv) Accounting on 30th September 2017

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Dr. (₹)</th>
<th>Cr. (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivative financial liability A/c</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>To Profit and Loss A/c</td>
<td>24,000</td>
<td>54,000</td>
</tr>
<tr>
<td>(Being gain on mark to market of forward contract booked as derivative financial asset and reversal of derivative financial liability)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(v) Accounting on 31st December 2017

The settlement of the derivative forward contract by actual purchase of USD 40,000

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Dr. (₹)</th>
<th>Cr. (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash (USD Account) (USD 40,000 x ₹ 62)</td>
<td>24,80,000</td>
<td></td>
</tr>
<tr>
<td>Profit and loss A/c</td>
<td>1,44,000</td>
<td>26,00,000</td>
</tr>
<tr>
<td>To Cash (USD 40,000 x ₹ 65)</td>
<td></td>
<td>24,000</td>
</tr>
<tr>
<td>To Derivative financial asset A/c</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Being loss on settlement of forward contract booked on actual purchase of USD)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(c) Journal Entries for recognition of CERs

(1) During the year 2015-2016 when CERs are granted

<table>
<thead>
<tr>
<th></th>
<th>USD</th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory (for CERs)</td>
<td>Dr.</td>
<td>200,000</td>
</tr>
<tr>
<td>To Bank / Payable A/c</td>
<td></td>
<td>200,000</td>
</tr>
</tbody>
</table>
(2) **For 2015-2016 year-end financial statements**

The company shall carry out a NRV assessment by comparing the realisable value of CERs with cost of USD 200,000. Since NRV of USD 216,000 (180,000 CERs x USD 1.2) is higher than cost of USD 200,000, the company shall continue to disclose the inventory at cost without any NRV mark-down. Therefore, no journal entry will be passed at the year-end for change in value. However, the company have to provide appropriate disclosure per AS 2.

This inventory of CERs shall be carried forward till related CERs are sold in the market.

(3) **On sale of CERs in the financial year 2016-2017**

<table>
<thead>
<tr>
<th></th>
<th>USD</th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank A/c</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Sale of CERs A/c</td>
<td></td>
<td>216,000</td>
</tr>
<tr>
<td>Profit and Loss A/c (Consumption)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Inventory</td>
<td></td>
<td>200,000</td>
</tr>
<tr>
<td>Sale of CERs A/c</td>
<td></td>
<td>216,000</td>
</tr>
<tr>
<td>To Profit and Loss A/c</td>
<td></td>
<td>216,000</td>
</tr>
</tbody>
</table>

**Question 4**

(a) **ABC Limited** issued 20,000 Share Appreciation Rights (SARs) that vest immediately to its employees on 1st April 2015. The SARs will be settled in cash. At that date it is estimated using an option pricing model, that the fair value of a SAR is ₹ 95. SAR can be exercised any time up to 31st March 2018. At the end of 31st March 2016 it is expected that 95% of total employees will exercise the option, 92% of total employees will exercise the option at the end of next year and finally 89% will be vested only at the end of the 3rd year. Fair values at the end of each period have been given below:

<table>
<thead>
<tr>
<th>Fair value of SAR</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>31st March, 2016</td>
<td>110</td>
</tr>
<tr>
<td>31st March, 2017</td>
<td>107</td>
</tr>
<tr>
<td>31st March, 2018</td>
<td>112</td>
</tr>
</tbody>
</table>

Discuss the applicability of Cash Settled Share based payments under the relevant Ind AS and pass the journal entries. **(10 Marks)**

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

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Property 1</th>
<th>Property 2</th>
<th>Property 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Price</td>
<td>Factory</td>
<td>Factory</td>
<td>Let-out Building</td>
</tr>
<tr>
<td></td>
<td>30,000</td>
<td>20,000</td>
<td>24,000</td>
</tr>
</tbody>
</table>

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

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

Evaluate whether the accounting policies adopted by Stars Ltd. in relation to these properties is in accordance of relevant Indian Accounting Standards (Ind AS). If not, advise the correct treatment along with workings. (10 Marks)

Answer

(a) Applicability of cash settled share-based payment transactions

For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability.

1. When vesting conditions are attached to the share based payment plans

   The recognition of such share based payment plans should be done by recognizing fair value of the liability at the time of goods/services received and not at the date of grant.

2. When no vesting period / condition is attached or to be fulfilled

   Cash settled share based payment can be recognized in full at initial recognition itself.

   Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period date and difference in fair value will be charged to profit or loss for the period as employee benefit expenses.

   At the date of settlement, the liability is paid in cash based on the fair value on the date of settlement.

Calculation of expenses recognized during the year on account of change in the fair value of SARs

<table>
<thead>
<tr>
<th>Period</th>
<th>Fair value</th>
<th>To be vested</th>
<th>Cumulative expenses</th>
<th>Expense / (benefit) for the current year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st April, 2015</td>
<td>a</td>
<td>b</td>
<td>c = a x b x 20,000</td>
<td>d = c -of current period – c of previous period</td>
</tr>
<tr>
<td></td>
<td>95</td>
<td>100%</td>
<td>19,00,000</td>
<td>19,00,000</td>
</tr>
</tbody>
</table>
### Journal Entries

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st April, 2015</td>
<td>Employee benefits expenses Dr.</td>
<td>19,00,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>To Share based payment liability</td>
<td></td>
<td>19,00,000</td>
</tr>
<tr>
<td></td>
<td>(Fair value of the SAR recognized initially)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31st March, 2016</td>
<td>Employee benefits expenses Dr.</td>
<td>1,90,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>To Share based payment liability</td>
<td></td>
<td>1,90,000</td>
</tr>
<tr>
<td></td>
<td>(Fair value of the SAR re-measured)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31st March, 2017</td>
<td>Share based payment liability Dr.</td>
<td>1,21,200</td>
<td></td>
</tr>
<tr>
<td></td>
<td>To Employee benefits expenses</td>
<td></td>
<td>1,21,200</td>
</tr>
<tr>
<td></td>
<td>(Fair value of the SAR re-measured &amp; reversed)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31st March, 2018</td>
<td>Employee benefits expenses Dr.</td>
<td>24,800</td>
<td></td>
</tr>
<tr>
<td></td>
<td>To Share based payment liability</td>
<td></td>
<td>24,800</td>
</tr>
<tr>
<td></td>
<td>(Fair value of the SAR remeasured &amp; recognized)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Share based payment liability Dr.</td>
<td>19,93,600</td>
<td></td>
</tr>
<tr>
<td></td>
<td>To Cash</td>
<td></td>
<td>19,93,600</td>
</tr>
<tr>
<td></td>
<td>(Settlement of SARs in cash)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### (b) (i) For classification of assets

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

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

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

### (ii) For valuation of assets

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

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

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

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

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

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

(iv) For treatment of depreciation

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

(v) Rectified presentation in the balance sheet

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

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

<table>
<thead>
<tr>
<th>Balance Sheet extracts as at 31st March 2017</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Non-Current Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Property, Plant and Equipment</td>
<td></td>
</tr>
<tr>
<td>Property 1 (30,000-3,000)</td>
<td>27,000</td>
</tr>
<tr>
<td>Property 2 (20,000 – 2,000)</td>
<td>18,000</td>
</tr>
</tbody>
</table>
Investment Property

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

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

Balance Sheet extracts as at 31st March 2017  ₹

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current Assets</td>
<td></td>
</tr>
<tr>
<td>Property, Plant and Equipment</td>
<td></td>
</tr>
<tr>
<td>Property 1</td>
<td>32,000</td>
</tr>
<tr>
<td>Property 2</td>
<td>22,000</td>
</tr>
<tr>
<td>Investment Properties</td>
<td></td>
</tr>
<tr>
<td>Property 3 (Fair value being 27,000) (Cost = 24,000-2,400)</td>
<td>21,600</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equity and Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Equity</td>
<td></td>
</tr>
<tr>
<td>Revaluation Reserve *</td>
<td></td>
</tr>
<tr>
<td>Property 1 (32,000 – 27,000)</td>
<td>5,000</td>
</tr>
<tr>
<td>Property 2 (22,000 –18,000)</td>
<td>4,000</td>
</tr>
</tbody>
</table>

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

**Question 5**

(a) *What are the provisions of section 135 of the Companies Act, 2013 regarding constitution of a Corporate Social Responsibility (CSR) Committee. Also explain the role of Corporate Social Responsibility (CSR) Committee and Board.*

XYZ Limited is a company which has net worth of ₹ 250 crore. It manufactures parts for automobiles. The sales of the company are affected due to low demand of the products. The previous year’s financial state of company are as below:

| (₹ in crore) |
|---|---|---|---|---|
| | 31st March 2018 (Current Year) | 31st March 2017 | 31st March 2016 | 31st March 2015 |
| Net Profit | 4.25 | 8.00 | 3.50 | 3.25 |
| Turnover | 500.00 | 900.00 | 400.00 | 350.00 |
Examine, whether the company has an obligation to form a CSR committee since the applicability criteria is not satisfied in the current financial year.  

(8 Marks)

(b) The following facts are given for the Sky Ltd:

- A Lease which is non-cancellable was initiated on 1st April 2014 for equipment with an expected useful life of five years.
- Three payments are due to the 'Lessor' of an amount of ₹ 1,02,000 per year beginning 31st March 2015. Included in the lease payments is a sum of ₹ 2,000 to be paid annually by the 'Lessee' for insurance.
- The 'Lessee' guarantees ₹ 20,000 residual value on 31st March 2017 to the Lessor.
- Irrespective of the ₹ 20,000 residual value guarantee, the leased asset is expected to have only ₹ 2,000 residual value to the lessee at the end of the lease term.
- The Lessee company depreciates similar equipment that it owns on a straight line basis.
- The fair value of the equipment at 1st April 2014 is ₹ 2,64,000.
- The Lessor's implicit rate is 10%. This fact is known to the Lessee company.

As per the provisions of Ind AS 17 ‘Leases’ -

(i) How should Lessee Company classify and record the lease transaction at its inception on 1st April 2014? Indicate journal entry also.

(ii) What are the journal entries the Lessee is required to make to record the lease payments and the interest, insurance and depreciation expenses on 31st March 2015 through 31st March 2017?

(iii) What entry should the Lessee make on 31st March 2017 to record the guaranteed residual value payment (assuming estimated residual value of ₹ 2,000) and to clear the lease related accounts from the lessee’s books?

(iv) What would be the Current and Non-current classification in the books of Lessee in the first year?

(Discount factor: 2015: 0.909; 2016: 0.826; 2017: 0.751)   

(12 Marks)

Answer

(a) A. As per section 135 of the Companies Act 2013

Every company having either

- net worth of ₹ 500 crore or more, or
- turnover of ₹ 1,000 crore or more or
- a net profit of ₹ 5 crore or more
during any financial year shall constitute a Corporate Social Responsibility (CSR) Committee of the Board consisting of three or more directors (including at least one independent director).

B. Role of Corporate Social Responsibility (CSR) Committee

The CSR Committee shall—

(a) formulate and recommend to Board-
   a. a CSR Policy indicating the activities to be undertaken by the company as specified in Schedule VII;
   b. the amount of expenditure to be incurred on the above activities and

(b) monitor the CSR Policy of the company from time to time.

C. Role of Board

Board shall disclose-

(a) The composition of CSR Committee in its report
(b) Approve the recommended CSR Policy for the company
(c) Disclose the contents of such Policy in its report and place it on the company’s website
(d) Ensure that the activities included in CSR Policy of the company are duly executed by the company
(e) Ensure that the company spends, in every financial year, at least two percent of the average net profits of the company made during the three immediately preceding financial years by giving preference to the local area and areas around it where it operates
(f) In case the company fails to spend such amount, the Board shall specify the reasons for not spending the amount.

D. In the given scenario

The MCA has clarified that ‘any financial year’ referred to under sub-section (1) of section 135 of the Act read with Rule 3(2) of Companies CSR Rule, 2014, implies ‘any of the three preceding financial years’.

A company which meets the ‘net worth’, ‘turnover’ or ‘net profits’ criteria in any of the preceding three financial years, but which does not meet the criteria in the relevant financial year, is still required to constitute a CSR Committee and comply with provisions of sections 135 of the Companies Act, 2013.

As per the criteria to constitute CSR committee -

1) Net worth greater than or equal to ₹ 500 Crore: This criterion is not satisfied.
2) Sales greater than or equal to ₹ 1000 Crore: This criterion is not satisfied.
3) **Net Profit greater than or equal to ₹ 5 Crore:** This criterion is satisfied in financial year ended March 31, 2017 when the net profit was ₹ 8 crore.

Hence, the XYZ Ltd. is required to form a CSR committee.

(b) (i) The Lessee company should record the asset as a finance lease since the risk and reward is transferred. Lessee has guaranteed to the lessor, the residual value of ₹ 20,000, in spite of the fact that the estimated residual value of the asset will be ₹ 2,000.

Further the lease payments substantially cover the fair value of leased asset as per calculation given below.

**Calculation of Present value of Minimum Lease Payments (MLP) at implicit rate of 10%**

<table>
<thead>
<tr>
<th>Year</th>
<th>Discount Factor</th>
<th>Minimum Lease payments (see note below)</th>
<th>Present Value of MLP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Lease Rentals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31st March, 2015</td>
<td>0.909</td>
<td>1,00,000</td>
<td>90,900</td>
</tr>
<tr>
<td>31st March, 2016</td>
<td>0.826</td>
<td>1,00,000</td>
<td>82,600</td>
</tr>
<tr>
<td>31st March, 2017</td>
<td>0.751</td>
<td>1,00,000</td>
<td>75,100</td>
</tr>
<tr>
<td>Guaranteed Residual Value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31st March, 2017</td>
<td>0.751</td>
<td>20,000</td>
<td>15,020</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>2,63,620</strong></td>
</tr>
</tbody>
</table>

**Note:** The contingent rent, taxes, insurance, maintenance expenses etc. if paid by the lessee to the lessor, then it does not form part of the minimum lease payments and will be expensed when incurred. Insurance expense is a kind of reimbursement from lessee to lessor. Hence in the above case, for calculation of present value of minimum lease payments only lease rental of ₹ 1,00,000 has been considered.

At the time of initial recognition, the lessee will recognise the leasehold asset at lower of below:

- Present value of MLP 2,63,620
- Fair value of leased asset 2,64,000

Hence, leasehold asset will be recognised at 2,63,620
Accounting entry for initial recognition would be:

Leasehold equipment Dr. 2,63,620
To Leasehold obligation 2,63,620

(ii) Lease rentals should split between principal portion of leasehold obligation and finance costs as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Opening balance</th>
<th>Payments</th>
<th>Finance costs @ 10%</th>
<th>Reduction in liability</th>
<th>Closing obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td>31st March, 2015</td>
<td>-</td>
<td>1,00,000</td>
<td>26,362</td>
<td>73,638</td>
<td>1,89,982</td>
</tr>
<tr>
<td>31st March, 2016</td>
<td>1,89,982</td>
<td>1,00,000</td>
<td>18,998</td>
<td>81,002</td>
<td>1,08,980</td>
</tr>
<tr>
<td>31st March, 2017</td>
<td>1,08,980</td>
<td>1,00,000</td>
<td>11,020*</td>
<td>88,980</td>
<td>20,000</td>
</tr>
</tbody>
</table>

* Difference is due to approximation.

In the books of Lessee

Journal Entries (at the time of subsequent measurement)

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>31st March 2015</td>
<td>Insurance Expenses</td>
<td>Dr. 2,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Leasehold obligation</td>
<td>Dr. 73,638</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Expenses</td>
<td>Dr. 26,362</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Depreciation</td>
<td>Dr. 87,207</td>
<td></td>
</tr>
<tr>
<td></td>
<td>To Cash</td>
<td>1,02,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>To Accumulated Depreciation</td>
<td>87,207</td>
<td></td>
</tr>
<tr>
<td>31st March 2016</td>
<td>Insurance Expenses</td>
<td>Dr. 2,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Leasehold obligation</td>
<td>Dr. 81,002</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Expenses</td>
<td>Dr. 18,998</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Depreciation</td>
<td>Dr. 87,207</td>
<td></td>
</tr>
<tr>
<td></td>
<td>To Cash</td>
<td>1,02,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>To Accumulated Depreciation</td>
<td>87,207</td>
<td></td>
</tr>
</tbody>
</table>
31st March 2017

<table>
<thead>
<tr>
<th>Account</th>
<th>Dr.</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance Expenses</td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td>Leasehold obligation</td>
<td></td>
<td>88,980</td>
</tr>
<tr>
<td>Interest Expenses</td>
<td></td>
<td>11,020</td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
<td>87,206</td>
</tr>
<tr>
<td>To Cash</td>
<td></td>
<td>1,02,000</td>
</tr>
<tr>
<td>To Accumulated Depreciation</td>
<td></td>
<td>87,206</td>
</tr>
</tbody>
</table>

(iii) Entries at the end of lease period

Leasehold Obligation Account Dr. 20,000
Accumulated Depreciation Account Dr. 2,61,620

To Cash Account Dr. 18,000
To Leasehold Equipment Account Dr. 2,63,620

(iv) The Current and Non-current Classification at the end of year 1 in the books of Lessee

Balance Sheet (An extract)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current Asset</td>
<td></td>
</tr>
<tr>
<td>Leasehold Asset</td>
<td></td>
</tr>
<tr>
<td>Gross Block</td>
<td>2,63,620</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>(87,207)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current Liability</td>
<td></td>
</tr>
<tr>
<td>Leasehold Obligation (payable after 12 months from the reporting date)</td>
<td>1,08,980</td>
</tr>
<tr>
<td>Current Liability</td>
<td></td>
</tr>
<tr>
<td>Leasehold Obligation (payable within 12 months from the reporting date)</td>
<td>81,002</td>
</tr>
</tbody>
</table>

Question 6

(a) XYZ Limited acquired 70% of equity shares of TUV Limited on 1st April, 2010 at cost of ₹2,00,000 when TUV Limited had an equity share capital of ₹20,00,000 and reserve and surplus of ₹1,60,000. In the four consecutive years, TUV Limited, fared badly and suffered losses of ₹5,00,000, ₹8,00,000, ₹10,00,000 and ₹2,40,000 respectively. Thereafter in 2014-15, TUV Limited, experienced turnaround and registered an annual profit of ₹1,00,000. In the next two years i.e. 2015-16 and 2016-17, TUV Limited recorded annual profits of ₹2,00,000 and ₹3,00,000 respectively. Calculate the minority
interests and cost of control at the end of each year for the purpose of consolidation, as per AS 21 "Consolidated Financial Statements". (10 Marks)

(b) A vendor namely 'See', who is in Delhi sells the Laptop worth ₹ 10,00,000 to 'Pee' a customer in Gujarat at ₹ 15,00,000 through 'Bee' an E-Commerce operator who is located in Mumbai. Laptops are purchased by vendor 'See' from another vendor 'Jee' from Kolkata. The E-Commerce operator charges commission at 2%. Pass the necessary journal entries in the books of vendor 'See' and E-Commerce operator, taking into consideration GST @ 18%. (6 Marks)

(c) Royal Silks, a textile chain operates a customer loyalty programme. It grants programme members loyalty points when they purchase textiles for a specified amount. Programme members can redeem the points for further purchase of textiles. The points have no expiry date. In one period, the entity grants 10,000 points. Management estimates the fair value of textiles for which each loyalty point can be redeemed as ₹ 125. This amount takes into account an estimate of the discount that management expects would otherwise be offered to customers who have not earned award credits from an initial sale. In addition, management expects only 8,000 of these points to be redeemed. At the end of the first year, 4,000 of the points have been redeemed in exchange for textiles, i.e. half of those expected to be redeemed. In the second year, management revises its expectations. It now expects 9,000 points to be redeemed altogether. During the second year, 4,100 points are redeemed. In the third year, a further 900 points are redeemed, i.e. that no more points will be redeemed after the third year.

How would the Royal Silks account for the customer loyalty programme? (4 Marks)

OR

XYZ Limited has a plant with the normal capacity to produce 10,00,000 units of a product per annum and the expected fixed overhead is ₹ 30,00,000, Fixed overhead, therefore based on normal capacity is ₹ 3 per unit.

Determine Fixed overhead as per Ind AS 2 'Inventories' if

(i) Actual production is 7,50,000 units.
(ii) Actual production is 15,00,000 units.

Answer

(a) Calculation of Minority interests and cost of control at the end of each year, as per AS 21

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit / (Loss)</th>
<th>Minority Interest (30%)</th>
<th>Consolidated P &amp; L (Dr.) Cr.</th>
<th>Minority's Share of losses borne by XYZ Ltd.</th>
<th>Cost of Control</th>
<th>₹ Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>At the time of acquisition in 2010</td>
<td>6,48,000 (W.N.)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>₹ Balance</td>
</tr>
</tbody>
</table>

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## Loss of minority borne by Holding Co.

<table>
<thead>
<tr>
<th>Year</th>
<th>Share of Holding Co.</th>
<th>Minority Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>(5,00,000)</td>
<td>(1,50,000)</td>
</tr>
<tr>
<td>2011-12</td>
<td>(8,00,000)</td>
<td>(2,40,000)</td>
</tr>
<tr>
<td>2012-13</td>
<td>(10,00,000)</td>
<td>(3,00,000)</td>
</tr>
<tr>
<td>2013-14</td>
<td>(42,000)</td>
<td>(42,000)</td>
</tr>
<tr>
<td>2014-15</td>
<td>1,00,000</td>
<td>(2,40,000)</td>
</tr>
<tr>
<td>2015-16</td>
<td>2,00,000</td>
<td>(30,000)</td>
</tr>
<tr>
<td>2016-17</td>
<td>3,00,000</td>
<td>2,10,000</td>
</tr>
</tbody>
</table>

### Working Note:

**Calculation of Minority interest and Cost of control on 1.1.2010**

<table>
<thead>
<tr>
<th>Item</th>
<th>Share of Holding Co.</th>
<th>Minority Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>100%</td>
<td>70%</td>
</tr>
<tr>
<td>Share Capital</td>
<td>20,00,000</td>
<td>14,00,000</td>
</tr>
<tr>
<td>Reserve</td>
<td>1,60,000</td>
<td>1,12,000</td>
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</table>

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<table>
<thead>
<tr>
<th></th>
<th>15,12,000</th>
<th>6,48,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Cost of investment</td>
<td>(20,00,000)</td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>4,88,000</td>
<td></td>
</tr>
</tbody>
</table>

**In the books of Vendor (See)**

| **Inter-state Purchases by Vendor** |  
| --- | --- |
| Purchases A/c | Dr. 10,00,000 |
| IGST Receivable A/c | Dr. 1,80,000 |
| To Jee | 11,80,000 |

| **Inter-state Sales by Vendor** |  
| --- | --- |
| Pee | Dr. 17,70,000 |
| To Sales A/c | 15,00,000 |
| To IGST Payable A/c | 2,70,000 |

| **For commission to e-commerce operator** |  
| --- | --- |
| Commission A/c | Dr. 30,000 |
| IGST Receivable A/c | Dr. 5,400 |
| To Bee | 35,400 |

| **For receipt of payment from e-commerce operator** |  
| --- | --- |
| Bank A/c (balancing figure) | Dr. 17,34,600 |
| Bee | Dr. 35,400 |
| To Pee | 17,70,000 |

| **For depositing GST to Government** |  
| --- | --- |
| Cash IGST ledger A/c (2,70,000 – 1,80,000 – 5,400) | Dr. 84,600 |
| To Bank A/c | 84,600 |

| **For set-off** |  
| --- | --- |
| IGST Payable A/c | Dr. 2,70,000 |
| To IGST Receivable A/c (1,80,000 + 5,400) | 1,85,400 |
| To Cash IGST ledger A/c | 84,600 |
In the books of E-Commerce Operator (Bee)

<table>
<thead>
<tr>
<th>Description</th>
<th>₹</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>For amount due</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pee</td>
<td>Dr. 17,70,000</td>
<td>17,70,000</td>
</tr>
<tr>
<td>To See</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For Commission</td>
<td></td>
<td></td>
</tr>
<tr>
<td>See</td>
<td>Dr. 35,400</td>
<td>5,400</td>
</tr>
<tr>
<td>To IGST Payable A/c</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Commission A/c</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For payment received and remitted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank A/c</td>
<td>Dr. 17,70,000</td>
<td>17,70,000</td>
</tr>
<tr>
<td>To Pee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>See (17,70,000 – 35,400)</td>
<td>Dr. 17,34,600</td>
<td>17,34,600</td>
</tr>
<tr>
<td>To Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Payment to the Government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash IGST Ledger A/c</td>
<td>Dr. 5,400</td>
<td>5,400</td>
</tr>
<tr>
<td>To Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For set-off</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IGST Payable A/c</td>
<td>Dr. 5,400</td>
<td>5,400</td>
</tr>
<tr>
<td>To Cash IGST Ledger A/c</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(c) Either

The fair value of textiles for which each loyalty point can be redeemed as ₹ 125. Since management expects that only 8,000 points to be reimbursed, the revenue that should be deferred is of ₹ 10,00,000 (8,000 x 125).

Year 1

At the end of the first year, 4,000 of the points have been redeemed in exchange for textiles, i.e., half of those expected to be redeemed. The entity recognises revenue of (4,000 points / 8,000 points) x ₹10,00,000 = ₹ 5,00,000.

Year 2

During the second year, 4,100 points are redeemed, bringing the total number redeemed to 4,000 + 4,100 = 8,100 points. The cumulative revenue that the entity recognises is (8,100 points / 9,000 points) x ₹ 10,00,000 = ₹ 9,00,000. The entity has recognised revenue of ₹ 5,00,000 in the first year, so it recognises ₹ 4,00,000 in the second year.
Year 3

In the third year, a further nine hundred points are redeemed, taking the total number of points redeemed to 8,100 + 900 = 9,000. Management continues to expect that only 9,000 points will ever be redeemed, i.e., that no more points will be redeemed after the third year. So the cumulative revenue to date is (9,000 points / 9,000 points) × ₹ 10,00,000 = ₹ 10,00,000. The entity has already recognised ₹ 9,00,000 of revenue (₹ 5,00,000 in the first year and ₹ 4,00,000 in the second year). So it recognises the remaining ₹ 1,00,000 in the third year. All of the revenue initially deferred has now been recognised.

Or

(i) Actual production is 7,50,000 units: Fixed overhead is not going to change with the change in output and will remain constant at ₹ 30,00,000, therefore, overheads on actual basis is ₹ 4 per unit (30,00,000 / 7,50,000).

Hence, by valuing inventory at ₹ 4 each for fixed overhead purpose, it will be overvalued and the losses of ₹ 7,50,000 will also be included in closing inventory leading to a higher gross profit than actually earned.

Therefore, it is advisable to include fixed overhead per unit on normal capacity to actual production (7,50,000 x 3) ₹ 22,50,000 and balance ₹ 7,50,000 shall be transferred to Profit & Loss Account.

(ii) Actual production is 15,00,000 units: Fixed overhead is not going to change with the change in output and will remain constant at ₹ 30,00,000, therefore, overheads on actual basis is ₹ 2 (30,00,000 / 15,00,000).

Hence by valuing inventory at ₹ 3 each for fixed overhead purpose, we will be adding the element of cost to inventory which actually has not been incurred. At ₹ 3 per unit, total fixed overhead comes to ₹ 45,00,000 whereas, actual fixed overhead expense is only ₹ 30,00,000. Therefore, it is advisable to include fixed overhead on actual basis (15,00,000 x 2) ₹ 30,00,000.

Note:

Various issues related to the applicability of Ind AS / implementation under Companies (Indian Accounting Standards) Rules, 2015, are being raised by preparers, users and other stakeholders. Although many clarifications have been issued by way of ITFG Bulletins or EAC Opinion, still issues are arising on account of varying interpretations on several of its guidance. Therefore, alternate answers may be possible for the above questions based on standards, depending upon the view taken.