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SUBJECT- FINANCIAL REPORTING

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ANSWER 1(A)

Consolidated Balance Sheet of Hold Ltd. and its subsidiary, Sub Ltd.

as on 31st March, 2018

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

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

(4 MARKS)

Notes to accounts

			Rs.
1.	**Property Plant & Equipment**		
	Land & Building	86,00,000	
	Plant & Machinery	86,00,000	1,72,00,000
2.	**Inventories**		
	Hold Ltd.	24,00,000	
	Sub Ltd.	10,28,000	34,28,000
3.	**Trade Receivables**		
	Hold Ltd.	11,96,000	
	Sub Ltd.	8,00,000	19,96,000
4.	**Cash & Cash equivalents**		
	Hold Ltd.	2,90,000	
	Sub Ltd.	1,60,000	4,50,000
7.	**Short-term borrowings**		
	Bank overdraft of Hold Ltd.		16,00,000
8.	**Trade Payables**		
	Hold Ltd.	9,42,000	

	Sub Ltd.	5,48,000	14,90,000

(3 MARKS)

Statement of changes in Equity:

9. Equity share Capital

Balance at the beginning of the reporting period	Changes in Equity share capital during the year	Balance at the end of the reporting period
1,00,00,000	0	1,00,00,000

(0.5 MARK)

10. Other Equity

	Reserves & Surplus			**Total**
	Capital Reserve	**Other reserves**	**Retained Earnings**	
Balance at the beginning		48,00,000	0	48,00,000
Profit or loss for the year (W.N.4)		0	14,14,000	14,44,000
Other comprehensive income for the year		0	0	0
Total comprehensive income for the year		0	14,14,000	14,14,000
Dividends		0	0	0
Gain on Bargain purchase on acquisition of a subsidiary* (W.N.5)	37,70,000			37,70,000
Balance at the end of reporting period	37,70,000	48,00,000	14,14,000	99,84,000

* 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 Rs. 37,70,000.

(1.5 MARKS)

Working Notes:

1. Adjustments of Fair Value- Total Appreciation

	Rs.
Plant & Machinery (W.N.7)	11,50,000
Land and Building	20,00,000
Inventories	3,00,000
Less: Trade Payables	(2,00,000)
	32,50,000

2. Pre-acquisition reserves of Sub Ltd.

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

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. **Rs.**

Profit for 6 months from 1.10.2017 to 31.3.2018 (14,40,000 x 6/12)	7,20,000
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)]	(50,000)
Adjusted post-acquisition profit attributable to Hold Ltd.	6,70,000

4. Consolidated profit or loss for the year **Rs.**

Hold Ltd.	
Retained earnings on 31.3.2018	11,44,000
Less: Retained earnings as on 1.4.2017	(0)
Profits for the year 2017-2018	11,44,000
Less: Elimination of intra-group dividend	(4,00,000)
Adjusted profit for the year	7,44,000
Sub Ltd.	
Adjusted profit attributable to Hold Ltd. (W.N.3)	6,70,000
Consolidated profit or loss for the year	14,14,000

5. Goodwill/Gain on bargain purchase **Rs.**

Amount paid for 40,000 shares of Sub Ltd.		68,00,000
Less: Share of Hold Ltd. in pre-acquisition equity of Sub Ltd.		
Share capital	40,00,000	
Pre-acquisition reserves of Sub Ltd. (W.N.2)	33,20,000	
Fair value adjustments (W.N.1)	32,50,000	(1,05,70,000)
Gain on Bargain Purchase		37,70,000

6. Value of Plant & Machinery Rs.

Hold Ltd.		48,00,000
Sub Ltd. Book value as on 31.3.2018 27,00,000		
Book value as on 1.4.2017 (27,00,000/90%)	30,00,000	
Less: Depreciation @ 10% for 6 months	(1,50,000)	
	28,50,000	
Add: Appreciation on 1.10.2017		
(Balancing fig. i.e., 40,00,000 – 28,50,000)	11,50,000	
Revalued amount (given)	40,00,000	
Less: Depreciation on Rs. 40,00,000 @ 10% for 6 months	(2,00,000)	38,00,000
		86,00,000

7. Consolidated retained earnings

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

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.

(iv) 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.

(1 MARK x 7 = 7 MARKS)

ANSWER 1(B).

The entity should use First-In, First-Out (FIFO) method for its Ind AS 108 disclosures, even though it uses the weighted average cost formula for measuring inventories for inclusion in its financial statements. Where chief operating decision maker uses only one measure of segment asset, same measure should be used to report segment information. Accordingly, in the given case, the method used in preparing the financial information for the chief operating decision maker should be used for reporting under Ind AS 108.

However, reconciliation between the segment results and results as per financial statements needs to be given by the entity in its segment report.

(4 MARKS)

ANSWER 2(A).

The Company purchased 100 sheep at an auction for Rs. 60,000, the transportation cost was Rs. 1,500 and the auctioneer's fees were Rs. 600 (1% of Rs. 60,000).

The fair value of the sheep on 31st December would be Rs. 59,400 (Rs. 60,000-600) and it will be shown in the Balance Sheet. The transportation costs will not be considered as they are not considered a cost to sell according to Ind AS-41.

A loss of Rs. 2100 (1500+600) would be shown in the statement of profit and loss.

When the fair value of the sheep rises to Rs. 70,000 on 30th June 2016:

The Sheep will be measured at Rs. 69,300 (70000-700)

A gain of Rs. 9,900 (69,300-59,400) would be reflected in the Statement of profit and loss.

(5 MARKS)

ANSWER 2(B)

As per the question, IRR of the investment is 10%

Investment in lease is Rs. 3,00,000

If IRR is 10% that means RV. of minimum lease payment (MLP) from lessor point of view plus unguaranteed residual value is equal to RS. 3,00,000.

RV. of unguaranteed residual value = (40,000 x 0.7513) = Rs. 30,052

RV. of M.L.R should be (3,00,000-30,052) = Rs. 2,69,948

As at the beginning of lease period the RV. of MLP cover substantially the initial fair value i.e., 2,69,948/3,00,000 = 90% approx.

Moreover lease period covers major part of the lease of the asset. Hence, it is a finance lease.

Calculation of annual lease payment to the lessor: 2,69,948/2.4868 = Rs. 1,08,552

Gross investment in lease:	1,08,552 x 3 = Rs. 3,25,657
Unguaranteed residual value:	Rs. 40,000
	3,65,657
Less: RV. of Gross investment in lease	3,00,000
Unearned finance income	**65,657**

(6 MARKS)

ANSWER 2(C)

As required by paragraph B53 of the Ind AS 102, over the two-year vesting period, the subsidiary measures the services received from the employees in accordance, the requirements applicable to equity-settled share-based payment transactions as given in paragraph 43B. Thus, the subsidiary measures the services received from the employees on the basis of the fair value of the share options at grant date. An increase in equity is recognised as a contribution from the parent in the separate or individual financial statements of the subsidiary.

The journal entries recorded by the subsidiary for each of the two years are as follows:

Year 1	Rs.	Rs.
Remuneration expense Dr. (200 x 100 employees x Rs. 30 x 80% x ½)	2,40,000	
To Equity (Contribution from the parent)		2,40,000
Year 2		
Remuneration expense Dr. [(200 x 81 employees x Rs. 30) – 2,40,000]	2,46,000	
To Equity (Contribution from the parent)		2,46,000

(4 MARKS)

ANSWER 2(D).

Exchange rate changes are included in the list of non-adjusting post balance sheet events set out in Ind AS-1 0. Although the bank overdraft existed at the balance sheet date, the conditions that gave rise to the loss did not. The exchange rate fluctuation occurred subsequent to the balance sheet date. Accordingly in normal circumstances, the effect of the exchanges rate fluctuations should not be adjusted for in the financial statements. However, the effect of the exchange rate fluctuations should be referred to in the financial statements as a post balance sheet event if the fluctuations are of such a materiality that knowledge thereof could influence the economic decisions of users taken on the basis of the financial statements. Where this is case they should be quantified (as at the latest date before the financial statement are approved for issue by the directors) and disclosed by way of note to the financial statements.

(5 MARKS)

ANSWER 3(A).

(a) Cost of aircraft as per Ind AS-23 'Borrowing Cost' at 31/03/2014 **Rs.'000**

	Rs.'000
Cost of manufacture	28,000
Interest capitalised	3,650
[2 crores x 10% + (2 crores x 110x10%) x 3/4)]	31,650

Capitalization of finance costs ceases when the non-current assets are substantially complete Ind AS-23, hence only % years finance costs are capitalised.

Initial recognition of the assets will be at cost. However if the amount recognized when a non-current tangible asset is constructed exceeds its recoverable amount then it should be written down to its re-coverable amount. Thus the fleet of aircraft will be recognized in the Balance Sheet at Rs. 3 crores.

(3 MARKS)

(b) **At 31/03/2015** **(Rs.in '000)**

	Carrying amount 01.04.2014	Depreciation	Carrying amount 31.03.2015
Engines	9,000	3,000	6,000
Body	21,000	2,625	18,375
	30,000	5,625	24,375
Revaluation loss to profit or loss			(3,375)
Closing carrying amount (market value)			21,000

At 31/03/2016

	Carrying amount 01.04.2015	Depreciation	Carrying amount 31.03.2017
Engines	5,169	2,585	2,584
Body	15,831	2,262	13,569
	21,000	4,847	16,153

To Profit or loss	3,375	
To Other comprehensive income		72
Closing carrying amount (market value)		19,600

Ind AS-16 'Property, Plant and Equipment' states that where an asset's carrying amount is increased as a result of a revaluation, then the increase should be credited to equity.

However, if this reverses a revaluation decrease of the same asset then part should be recognized in the income to the extent of the previous revaluation loss.

(6 MARKS)

(c) **At 31/03/2017** **(Rs. in '000)**

	Carrying amount 01.04.2016	Depreciation	Carrying amount 31.03.2017
Engines	3,135	3,135	-
Body	16,465	2,744	13,721
	19,600	5,879	13,721
Addition			15,000
Closing carrying amount (market value)			28,721

(3 MARKS)

ANSWER 3(B).

(a) Case A—Variable consideration allocated entirely to one performance obligation

To allocate the transaction price, the entity considers the criteria in paragraph 85 and concludes that the variable consideration (ie the sales-based royalties) should be allocated entirely to Licence B. The entity concludes that the criteria are met for the following reasons:

(a) the variable payment relates specifically to an outcome from the performance obligation

to transfer Licence B (ie the customer's subsequent sales of products that use Licence B)

(b) allocating the expected royalty amounts of Rs. 2,000,000 entirely to Licence B is consistent with the allocation objective in paragraph 73 of Ind AS 115. This is because the entity's estimate of the amount of sales-based royalties (Rs. 2,000,000) approximates the stand- alone selling price of Licence B and the fixed amount of Rs. 1,600,000 approximates the stand-alone selling price of Licence A. The entity allocates Rs. 1,600,000 to Licence A. This is because, based on an assessment of the facts and circumstances relating to both licences, allocating to Licence B some of the fixed consideration in addition to all of the variable consideration would not meet the allocation objective in paragraph 73 of Ind AS 115.

The entity transfers Licence B at inception of the contract and transfers Licence A one month later. Upon the transfer of Licence B, the entity does not recognise revenue because the consideration allocated to Licence B is in the form of a sales-based royalty. Therefore, the entity recognises revenue for the sales-based royalty when those subsequent sales occur.

When Licence A is transferred, the entity recognises as revenue the Rs. 1,600,000 allocated to Licence A.

(4 MARKS)

Case B—Variable consideration allocated on the basis of stand-alone selling prices

To allocate the transaction price, the entity applies the criteria in paragraph 85 of Ind AS 115 to determine whether to allocate the variable consideration (ie the sales-based royalties) entirely to Licence B.

In applying the criteria, the entity concludes that even though the variable payments relate specifically to an outcome from the performance obligation to transfer Licence B (ie the customer's subsequent sales of products that use Licence B), allocating the variable consideration entirely to Licence B would be inconsistent with the principle for allocating the transaction price. Allocating Rs. 600,000 to Licence A and Rs. 3,000,000 to Licence B does not reflect a reasonable allocation of the transaction price on the basis of the stand-alone selling prices of Licences A and B of Rs. 1,600,000 and Rs. 2,000,000, respectively. Consequently, the entity applies the general allocation requirements of Ind AS 115.

The entity allocates the transaction price of Rs. 600,000 to Licences A and B on the basis of relative stand-alone selling prices of Rs. 1,600,000 and Rs. 2,000,000, respectively. The entity also allocates the consideration related to the sales-based royalty on a relative stand-alone selling price basis. However, when an entity licenses intellectual property in which the consideration is in the form of a sales-based royalty, the entity cannot recognise revenue until the later of the following events: the subsequent sales occur or the performance obligation is satisfied (or partially satisfied).

Licence B is transferred to the customer at the inception of the contract and Licence A is transferred three months later. When Licence B is transferred, the entity recognises as revenue Rs. 333,333 [(Rs. 2,000,000 ÷ Rs. 3,600,000) × Rs. 600,000] allocated to Licence B. When Licence A is transferred, the entity recognises as revenue Rs. 266,667 [(Rs. 1,600,000 ÷ Rs. 3,600,000) × Rs. 600,000] allocated to Licence A.

In the first month, the royalty due from the customer's first month of sales is Rs. 400,000. Consequently, the entity recognises as revenue Rs. 222,222 (Rs. 2,000,000 ÷ Rs. 3,600,000 × Rs. 400,000) allocated to Licence B (which has been transferred to the customer and is therefore a satisfied performance obligation). The entity recognises a contract liability for the Rs. 177,778 (Rs. 1,600,000 ÷ Rs. 3,600,000 × Rs. 400,000) allocated to Licence A. This is because although the subsequent sale by the entity's customer has occurred, the performance obligation to which the royalty has been allocated has not been satisfied.

(4 MARKS)

ANSWER 4.

(i) As an only exception to the principle of classification or designation of assets as they exist at the acquisition date is that for lease contract and insurance contracts classification which will be based on the basis of the conditions existing at inception and not on acquisition date.

Therefore, H Ltd. would be required to retain the original lease classification of the lease arrangements and thereby recognise the lease arrangements as finance lease.

(ii) The requirements in Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets', do not apply in determining which contingent liabilities to recognise as of the acquisition date as per Ind AS 103 'Business Combination'. Instead, the acquirer shall recognise as of the acquisition date a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to Ind AS 37, the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Hence H Ltd. will recognize contingent liability of Rs. 2.5 cr.

Since S Ltd. has indemnified for Rs. 1 cr., H Ltd. shall recognise an indemnification asset at the same time for Rs. 1 cr.

As per the information given in the question, this indemnified asset is not taxable. Hence, its tax base will be equal to its carrying amount. No deferred tax will arise on it.

(iii) As per Ind AS 103, non-current assets held for sale should be measured at fair value less cost to sell in accordance with Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations'. Therefore, its carrying value as per balance sheet has been considered in the calculation of net assets.

(iv) Any equity interest in S Ltd. held by H Ltd. immediately before obtaining control over S Ltd. is adjusted to acquisition-date fair value. Any resulting gain or loss is recognised in the profit or loss of H Ltd. **(4 MARKS)**

Calculation of purchase consideration as per Ind AS 103 **Rs.** in lakh

Investment in S Ltd.			
On 1st Nov. 2016	15%	[(12/100) x 395 x 15%]	7.11
On 1st Jan. 2017	45%		
Own equity given		10,000 x 12% x 45% x 1/2	270
Cash			50
Contingent consideration			22
			349.11

(1 MARK)

(ii) Calculation of defer tax on assets and liabilities acquired as part of the business combination, including current tax and goodwill.

Item	Rs. in crore				
	Book value	**Fair value**	**Tax base**	**Taxable (deductible) temporary difference**	**Deferred tax assets (liability) @ 30%**
Property, plant and equipment	40	90	40	50	(15)
Intangible assets	20	30	20	10	(3)
Investments	100	350	100	250	(75)
Inventories	20	20	20	-	-
Trade receivables	20	20	20	-	-
Cash held in functional currency	4	4	4	-	-
Non-current asset held for sale	4	4	4	-	-
Indemnified asset	-	1	1	-	-
Borrowings	20	20	20	-	-
Trade payables	28	28	28	-	-
Provision for warranties	3	3	3	-	-
Current tax liabilities	4	4	4	-	-
Contingent liability		0.5	-	(0.5)	0.15
Deferred tax Liability					**(92.85)**

(5 MARKS)

(iii) Calculation of identifiable net assets acquired

	Rs. in crore	Rs. in crore
Property, plant and equipment	90	
Intangible assets	30	
Investments	350	
Inventories	20	
Trade receivables	20	
Cash held in functional currency	4	
Non-current asset held for sale	4	
Indemnified asset	1	
Total asset		519
Less: Borrowings	20	
Trade payables	28	
Provision for warranties	3	
Current tax liabilities	4	
Contingent liability (2 + 0.5)	2.50	
Deferred tax liability (W.N.2)	92.85	(150.35)
Net identifiable assets		368.65

(3 MARKS)

(a) Calculation of NCI by proportionate share of net assets

Net identifiable assets of S Ltd. on 1.1.2017 (Refer W.N.3) = 372.85 crore

NCI on 1.1.2017 = 368.65 crore x 40% = 147.46 crore

Calculation of Goodwill as per Ind AS 103

Goodwill on 1.1.2017 = Purchase consideration + NCI – Net assets

= 349.11 + 147.46 – 368.65

= 127.92 crore

(1 MARK)

(b) As per para 45 of Ind AS 103 'Business Combination', if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete.

During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.

During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.

The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

Further, as per para 46 of Ind AS 103, the measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognised for a business combination. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of this Ind AS:

(a) the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree;

(b) .....

(c) ......; and

(d) the resulting goodwill or gain on a bargain purchase.

Para 48 states that the acquirer recognises an increase (decrease) in the provisional amount recognised for an identifiable asset (liability) by means of a decrease (increase) in goodwill.

Para 49 states that during the measurement period, the acquirer shall recognise adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date.

Para 50 states that after the measurement period ends, the acquirer shall revise the accounting for a business combination only to correct an error in accordance with Ind AS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

On 31st December, 2017, H Ltd. has established that it has obtained all the information necessary for the accounting of the business combination and the more information is not obtainable. Therefore, the measurement period for acquisition of S Ltd. ends on 31 st December, 2017.

On 31st May, 2017 (ie within the measurement period), H Ltd. learned that certain customer relationships existing as on 1st January, 2017 which met the recognition criteria of an intangible asset as on that date were not considered during the accounting of business combination for the year ended 31st March, 2017. Therefore, H Ltd. shall account for the acquisition date fair value of customer relations existing on 1st January, 2017 as an identifiable intangible asset. The corresponding adjustment shall be made in the amount of goodwill.

Accordingly, the amount of goodwill will be changed due to identification of new asset from retrospective date for changes in fair value of assets and liabilities earlier recognised on provisional amount (subject to meeting the condition above for measurement period). NCI changes would impact the consolidated retained earnings (parent's share). Also NCI will be increased or decreased based on the profit during the post-acquisition period.

Journal entry

Customer relationship	Dr. 3.5 crore	
To NCI		1.4 crore
To Goodwill		2.1 crore

However, the increase in the value of customer relations after the acquisition date shall not be accounted by H Ltd., as the customer relations developed after 1st January, 2017 represents internally generated intangible assets which are not eligible for recognition on the balance sheet.

(c) Since the contingent considerations payable by H Ltd is not classified as equity and is within the scope of Ind AS 109 'Financial Instruments', the changes in the fair value shall be recognised in profit or loss. Change in Fair value of contingent consideration (23 - 22) Rs. 1 crore will be recognized in the Statement of Profit and Loss.

(6 MARKS)

ANSWER 5(A).

Impact on consolidated balance sheet of PQR Ltd. group at 31st March, 2018

- The tax loss creates a potential deferred tax asset for the PQR Ltd. group since its carrying value is nil and its tax base is Rs. 30,00,000. However, no deferred tax asset can be recognised because there is no prospect of being able to reduce tax liabilities in the foreseeable future as no taxable profits are anticipated.
- The development costs have a carrying value of Rs. 15,20,000 (Rs. 16,00,000 – (Rs. 16,00,000 x 1/5 x 3/12)). The tax base of the development costs is nil since the relevant tax deduction has already been claimed. The deferred tax liability will be Rs. 4,56,000 (Rs. 15,20,000 x 30%). All deferred tax liabilities are shown as non- current.

- The carrying value of the loan at 31st March, 2018 is Rs. 1,07,80,000 (Rs. 1,00,00,000 – Rs. 200,000 + (Rs. 98,00,000 x 10%)). The tax base of the loan is 1,00,00,000. This creates a deductible temporary difference of Rs. 7,80,000 and a potential deferred tax asset of Rs. 2,34,000 (Rs. 7,80,000 x 30%).

(6 MARKS)

ANSWER 5(B).

Classification and Presentation criteria as per Ind AS-105 'Non-current Asset Held for sale and Discontinued Operations':

Held for sale classification: An entity classifies an asset or disposal group as held for sale if its carrying amount will be principally recovered through a sale transaction rather than through continuing use.

For this to be the case, the asset must be available for immediate sale in its present condition and the sale must be highly probable. For the sale to be highly probable, management must be committed to selling the asset or disposal group and be actively marketing the asset or disposal group at a reasonable price. In addition, the sale should be expected to qualify for recognition within one year of the date of classification.

(4 MARKS)

ANSWER 5(C).

The subsidiary is sold for €5 million/2 or $2.5 million. In the parent entity's accounts, a gain of $0.5million will be shown. ($2.5 - $2 million).

In the group financial statements, the cumulative exchange gain will have to be shown in profit or loss together with the gain on disposal. The gain on disposal is $(2.5 - 2.4) million, or $100,000, which is the difference between the sale proceeds and the net asset value of the subsidiary. To this is added the cumulative exchange gain of $300,000 to give a total gain of $400,000, which will be included in the group income statement.

(3 MARKS)

ANSWER 5(D).

The office building is a corporate asset which needs to be allocated to CGU A and B on a reasonable and consistent basis:

	A		B	Total
Carrying value of CGUs	20		30	50
Allocation of office building (office building is allocated in the ratio of Carrying value of CGU's)	4		6	10
Carrying value of CGU after Allocation of corporate asset	24		36	60
Recoverable Amount	18		38	56
Impairment Loss	6		-	

The impairment loss will be allocated on the basis of 4/24 against the building (Rs. 1 million) and 20/24 against the other assets (Rs. 5 million).

(3 MARKS)

ANSWER 5(E).

According to paragraph 1 of Ind AS-7, statement of cash flows forms an integral part of financial statements for each period for which financial statements are presented. According to Ind AS-1, Presentation of Financial Statements, complete set of financial statements include among other statements, a statement of cash flows for the period. From the above, it is clear that statement of cash flows is an integral part of financial statements and the same should be prepared for each period for which financial statements are presented i.e., annual period as well as interim reporting period. In this regard, it may be noted that Ind AS-34, Interim Financial Reporting, states that interim financial report shall comply with all of the requirements of Indian Accounting Standards. Ind AS 34 provides that interim financial report means a financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period. Accordingly, statement of cash flows can be presented in complete or condensed form.

(4 MARKS)

ANSWER 6(A).

Computation of theoretical ex-rights fair value per share as per Ind AS-33:

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights+ Total amount received from exercise of right.}}{\text{Number of shares outstanding prior to exercise + Number of shares issued in the exercise}}$$

$$= \frac{(\text{Rs.}21 \text{ x } 500000 \text{ shares}) + (\text{Rs.}15 \text{ x } 100000 \text{ shares})}{(500000+100000) \text{ shares}} = Rs.20.00$$

Theoretical ex-right value per share= Rs. 20.00

Computation of adjustment factor=

$$= \frac{\text{Fair value per share prior to exercise of rights 21.00}}{\text{Theoretical ex-rights value per share Rs. 20.00}}$$

Computation of earnings per share:

EPS for the year 2017 as originally reported: Rs. 11,00,000/5,00,000 — shares Rs. 2.20

EPS for the year 2017 restated for rights Issue: Rs. 11,00,000/(5,00,000 shares x 1.05) = Rs. 2.10

Basic EPS for the year 2018 including effects of Rights issue :

$$= \frac{\text{Rs. }15,00,000}{(5,00,000 \text{ x } 1.05 \text{ x } 2/12) + (6,00,000 \text{ x } 10/12)} = \text{Rs.}2.55$$

(6 MARKS)

ANSWER 6(B).

(i) As per section 135 of the Companies Act 2013

Every company having either

- net worth of Rs. 500 crore or more, or
- turnover of Rs. 1,000 crore or more or
- a net profit of Rs. 5 crore or more

during immediate preceding 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).

(3 MARKS)

(ii) A company which meets the net worth, turnover or net profits criteria in immediate preceding financial years, will need to constitute a CSR Committee and comply with provisions of sections 135 (2) to (5) read with the CSR Rules.

As per the criteria to constitute CSR committee -

1) Net worth greater than or equal to INR 500 Crores: This criterion is not satisfied.
2) Sales greater than or equal to INR 1000 Crores: This criterion is not satisfied.
3) Net Profit greater than or equal to INR 5 Crores: This criterion is satisfied in financial year ended March 31, 20X3.

Hence, the Company will be required to form a CSR committee.

(5 MARKS)

ANSWER 6(C).

(i) The redeemable preference shares are debt and therefore, will be recognized as financial liability

(ii) The preference shares will be initially recognized at proceeds received less transaction cost

	Amt.(Rs.)
Proceeds received	4,00,000
Less: Transaction cost	(20,000)
Initial recognition amount	3,80,000

(iii) The amount payable as interest and premium on redemption of preference share is:

	Amt.(Rs.)
On account of interest (400000 x 6%) x 4 year	96,000
On account of premium on redemption (485000-400000)	85,000
Total Amount payable	1,81,000

T& Co Ltd. must allocate the total outflow over the life of the shares at a constant rate on their carrying amount. The effective interest rate it has to apply in order to allocate the amount receivable over 4 years is 12% (with a rounding adjustment at the end). The carrying amount of redeemable preference shares is increased each year by the finance cost and reduced by any payments made to the holders of the preference shares.

Year	Amortized cost at beginning of the year	Amount payable at effective rate (12%)	Amount actually paid during the year	Amortized cost at the end
2014	3,80,000	45,600	(24,000)	4,01,600
2015	4,01,600	48,192	(24,000)	4,25,792
2016	4,25,792	51,095	(24,000)	4,52,887
2017	4,52,887	56,113	(4,85,000+24,000)	-

(6 MARKS)