J.K. SHAH®
TEST SERIES
Evaluate Learn Succeed

SUGGESTED SOLUTION

CA FINAL

SUBJECT-FR

Test Code – FNJ 7384

BRANCH - () (Date :)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.
Tel : (022) 26836666

NOTES: **(1) WORKING NOTES SHOULD FORM PART OF ANSWERS.**
(2) INTERNAL WORKING NOTES SHOULD ALSO BE CONSIDERED BY PAPER CHECKER.
(3) NEW QUESTION SHOULD BE ON NEW PAGE

Answer No.1

(A)

Consolidated Balance Sheet of David Ltd as on 1st April, 2019 (Rs. in lakh)

	Amount
Assets	
Non-current assets:	
Property, plant and equipment	850.00
Investment	500.00
Current assets:	
Inventories	400.00
Financial assets:	
Trade receivables	600.00
Cash and cash equivalents	350.00
Others	600.00
Total	3,300.00
Equity and Liabilities	
Equity	
Share capital - Equity shares of Rs. 100 each	514.00
Other Equity	1,067.49
Non Controlling Interest	173.70
Non-current liabilities:	
Financial liabilities:	
Long term borrowings	500.00
Long term provisions (100+80+23.81)	203.81
Deferred tax	11.00
Current liabilities:	
Financial liabilities:	
Short term borrowings	300.00
Trade payables	520.00
Provision for law suit damages	10.00
Total	3,300.00

(5 Marks)

Working Notes:

a. Fair value adjustment- As per Ind AS 103, the acquirer is required to record the assets and liabilities at their respective fair value. Accordingly, the PPE will be recorded atRs. 450 lakh.

b. The value of replacement award is allocated between consideration transferred and post combination expense. The portion attributable to purchase consideration is determined based on the fair value of the replacement award for the service rendered till the date of the acquisition. Accordingly, Rs. 3 lakh (6 x 2/4) is considered as a part of purchase consideration and is credited to David Ltd equity as this will be settled in its own equity. The balance of Rs. 3 lakh will be recorded as employee expense in the books of Parker Ltd over the remaining life, which is 1 year in this scenario.

c. There is a difference between contingent consideration and deferred consideration. In the given case, Rs. 30 lakh is the minimum payment to be paid after 3 years and accordingly will be considered as deferred consideration. The other element is if company meet certain target then they will get 25% of that or Rs. 30 lakh whichever is higher. In the given case, since the criteria is the minimum what is expected to be paid, the fair value of the contingent consideration has been considered as zero. The impact of time value on deferred consideration has been given @ 8%.

d. The additional consideration of Rs. 25 lakh to be paid to the founder shareholder is contingent to him/her continuing in employment and hence this will be considered as employee compensation and will be recorded as post combination expenses in the income statement of Parker Ltd.

(2 Marks)

Working Notes:

1. Computation of Purchase Consideration **Rs. in lakh**

Particulars		Amount
Share capital of Parker Ltd.		400
Number of shares	4,00,000	
Shares to be issued 2:1	2,00,000	
Fair value per share		50
Purchase consideration (2,00,000x70%xRs. 50 per share) (A)		70.00
Deferred consideration after discounting Rs. 30 lakh for 3 years @ 8% (B)		23.81
Replacement award - Market based measure of the acquiree award ie Fair value of original award (6) x ratio of the portion of the vesting period completed (2) / greater of the total vesting period (3) or the original vesting period (4) of the acquiree award ie (6 x 2 / 4) (C)		3.00
Purchase consideration (A+B+C)		96.81

(2 Marks)

2. Allocation of Purchase consideration

Particulars	Book value (A)	Fair value (B)	FV adjustment (A-B)
Property, plant and equipment	600	450	(150)
Investment	200	200	-
Inventories	100	100	-
Financial assets:			-
Trade receivables	200	200	-
Cash and cash equivalents	200	200	-
Others	300	300	
Less: Financial Liabilities			

Long term borrowings	(300)	(300)	-
Long term provisions	(80)	(80)	-
Deferred tax	(55)	(55)	-
Financial Liabilities			
Short term borrowings	(170)	(170)	-
Trade payables	(320)	(320)	-
Contingent liability	-	(10)	(10)
Net assets (X)	675	515	(160)
Deferred tax asset on fair value adjustment (160 x 40%) (Y)		64	160
Net assets (X+Y)		579	
Non-controlling interest (NCI) (579 x 30%) rounded off		173.70	
Capital reserve (Net assets – NCI – PC)		308.49	
Purchase consideration (PC)		96.81	

(3 Marks)

3. Computation of Consolidated amounts of consolidated financial statements

	David Ltd.	Parker Ltd. (pre- acquisition)	PPA Allocation	Total
Assets				
Non-current assets:				
Property, plant and equipment	400	600	(150)	850
Investment	300	200		500
Current assets:				
Inventories	300	100		400
Financial assets:				
Trade receivables	400	200		600
Cash and cash equivalents	150	200		350
Others	300	300		600
Total	1,850	1,600	(150)	3300
Equity and Liabilities				
Equity				
Share capital- Equity shares of Rs. 100 each	500			
Shares allotted to Parker Ltd. (2,00,000 x 70% x Rs. 10 per share)			14	514
Other Equity				
Other Equity	700			700
Replacement award			3	3
Security premium (2,00,000 shares x 70% x Rs. 40)			56	56
Capital reserve			308.49	308.49
Non-controlling interest	0		173.70	173.70

Non-current liabilities:				
Financial Liabilities				
Long term borrowings	200	300		500
Long term provisions	100	80	23.81	203.81
Deferred tax	20	55	(64)	11
Current liabilities:				
Financial Liabilities				
Short term borrowings	130	170		300
Trade payable	200	320	0	520
Liability for lawsuit damages			10	10
Total	1,850	925	525	3,300

(4 Marks)

(B)

As per Ind – AS 19, the entity should recognise the expected cost as liability with respect to profit sharing or bonus plans and in such computation it should consider the employees leaving the entity without receiving the benefits.

Calculation of number of employees eligible for profit sharing bonus

Total number of employees at the end of the year	104
Less : Number of employees who joined during the year and continued with the entity (these employees are not entitled for bonus it the CY as they did not serve throughout the year) (10 employed joined – 6 employees left means remaining 4 are continuing and included in the above count – hence deducted)	- 4
Total number of employees left during the year are already considered in the number of employees at the end of the year – hence not required to consider again.	-
Number of employees eligible for profit sharing bonus	100

Amount of bonus payable = Rs. 51,50,000 × 3/103 = Rs. 1,50,000

Per employee 0.03; so for 100 employees = 100 × 0.03 = 3%

(4 Marks)

Answer No.2

(A)

1 January,20X0

Ascertain the equity component of the convertible debt instrument			
Particulars	**Discount factor**	**(Rs)**	**(Rs)**
Total issue proceeds			1,000
Less: Liability component			
Present value of principal payable at the end of 10 years	0.342729	343	
Present value of interest payable for 20 half years		597	940
Total equity component			60

(4 marks)

Date	Particulars	Debit(Rs.)	Credit(Rs.)
1-01-X0	Bank A/c To Debentures A/c To Equity A/c	1,000	 940 60
	(Being debentures with convertible option issued. Equity and liability component separated and accounted.)		

(1 mark)

1 January 20X5

Value of liability component extinguished on repurchase on debentures			
	Carrying value(Rs)	**Fair value(Rs)**	**Difference(Rs)**
Liability component			
Present value of 10 remaining half yearly interest payments of Rs.50 each, discounted at 11% and 8%,respectively	377	405	
Present value of Rs 1,000 due in five years discounted at 11% and 8% respectively, compounded at half yearly costs	585	676	
Total present value of the liability component	962	1081	-119

(3 marks)

Date	Particulars	Debit(Rs.)	Credit(Rs.)
1-01-X5	Debentures A/c Debt settlement expenses A/c(P & L) To Cash A/c	962 119	 1,081
	(To recognise the repurchase of the liability component.)		

(1 mark)

Date	Particulars	Debit(Rs.)	Credit(Rs.)
1-01-X5	Debt settlement expenses A/c(P & L) To Debentures A/c	22	 22
	(To record the loss on derecognition of debentures, transferring the same to debt settlement expenses –profit and loss.)		

(1 mark)

Value of equity component extinguished on repurchase on debentures	
	Amount
Liability component of the debentures	
Liability component of debentures as computed above	1,081
Amount paid to repurchase debentures	1,600
Cash paid to repurchase the equity component	519

(3 marks)

Date	Particulars	Debit(Rs.)	Credit(Rs.)
1-01-X5	Equity A/c To Cash A/c	519	 519
	(To recognise the cash paid for the equity component (Rs 1,600-Rs 1,081))		

(1 mark)

(B)

Computation of debt component of convertible debentures on 1st April, 2015

Particulars	Amount (Rs.)
Present value of principal amount repayable after 4 years	
(A) 80,00,000 x 50% x 120% x 0.625 (12% discount factor)	30,00,000
(B) Present value of interest [8,00,000 x 80% x 3.001] (4 years cumulative 10% discount factor)	19,20,640
Total present value of debt component (A) + (B)	49,20,640
Issue proceeds from convertible debentures	80,00,000
Value of equity component	30,79,360

(4 Marks)

Journal entry at initial recognition

Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Bank A/c Dr.	80,00,000	
To 8% Debentures A/c (liability component)		49,20,640
To 8% Debentures A/c (equity component)		
(Being disbursement recorded at fair value)		30,79,360

Note: The question has been solved on the basis of the discounting factors given in the question.

(2 Marks)

Answer No.3

(A)

Calculation of Current Tax

Particulars	Domestic		Foreign	
	2018	**2017**	**2018**	**2017**
Profit Before Tax	1,500	200	1500	500
Add : Expenses that are not deductible	100	200	0	0
Taxable Income	**1,600**	**2200**	**1500**	**500**
Tax Rate	30%	30%	20%	20%
Current Tax	**480**	**660**	**300**	**100**
Current Tax for 2018 = 480 + 300	780			
Current Tax for 2017 = 660 + 100	760			
Reconciliation		**2018**	**2017**	

Accounting Profit (D + F)		3000	2500	
Tax @30%		900	750	
Add : Tax effect of expenses disallowed		30	60	
Effect of lower tax rate in Country B		–150	–50	
10% of 1500, 10% of 500				
Tax Expense		**780**	**760**	

The average effective tax rate is the tax expense (income) divided b the accounting profit.

(4 Marks)

(B)

Hours taken to produce 1 unit = 6,500 hours / 6,500 units = 1 hour per unit.

Fixed production overhead absorption rate:

= Fixed production overhead / labour hours for normal capacity

= Rs. 1,500 / 7,500

= Rs. 0.2 per hour

Management should allocate fixed overhead costs to units produced at a rate of Rs. 0.2 per hour.

Therefore, fixed production overhead allocated to 6,500 units produced during the year (one unit per hour) = 6,500 units x1 hour x Rs. 0.2 = Rs. 1,300.

The remaining fixed overhead incurred during the year of Rs. 200 (Rs. 1500 – Rs. 1300) that remains unallocated is recognised as an expense.

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

Variable production overhead absorption rate:

= Variable production overhead/actual hours for current period

= Rs. 2,600 / 6,500 hours = Rs. 0.4 per hour

Management should allocate variable overhead costs to units produced at a rate of Rs. 0.4 per hour.

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

Closing inventory = Opening inventory + Units produced during year – Units sold during year

= 2,500 + 6,500 – 6,700 = 2,300 units

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

= Number of units of closing inventory x Number of hours to produce each unit x (Fixed production overhead absorption rate + Variable production overhead absorption rate)

= 2,300 units x 1 hour x (Rs. 0.2 + Rs. 0.4) = **Rs. 1,380**

The remaining Rs. 2,720 [(Rs. 1,500 + Rs. 2,600) – Rs. 1,380] is recognised as an expense in the income statement as follows:

	Rs.
Absorbed in cost of goods sold (FIFO basis) (6,500 – 2,300) = 4,200 x Rs. 0.6	2,520
Unabsorbed fixed overheads, not included in the cost of goods sold	200
Total	**2,720**

(8 Marks)

(C)

Initial carrying amount of loan in books

Loan amount received	=	60,00,000 FCY
Less: Incremental issue costs	=	2,00,000 FCY
		58,00,000 FCY

Ind AS 21, "The Effect of Changes in Foreign Exchange Rates" states that foreign currency transactions are initially recorded at the rate of exchange in force when the transaction was first recognized.

Loan to be converted in INR = 58,00,000 FCY x Rs. 2.50/FCY

= Rs. 1,45,00,000

Therefore, the loan would initially be recorded at Rs. 1,45,00,000.

Calculation of amortized cost of loan (in FCY) at the year end:

Period	Opening Financial Liability (FCY) A	Interest @ 12% (FCY) B	Cash Flow (FCY) C	Closing Financial Liability (FCY) A+B-C
20X1-20X2	58,00,000	6,96,000	6,00,000	58,96,000

The finance cost in FCY is 6,96,000

The finance cost would be recorded at an average rate for the period since it accrues over a period of time.

Hence, the finance cost for FY 20X1-20X2 in INR is Rs. 16,84,320 (6,96,000 FCY x Rs. 2.42 / FCY)

The actual payment of interest would be recorded at 6,00,000 x 2.75 = INR 16,50,000

The loan balance is a monetary item so it is translated at the rate of exchange at the reporting date.

So the closing loan balance in INR is 58,96,000 FCY x INR 2.75 / FCY = Rs. 1,62,14,000

The exchange differences that are created by this treatment are recognized in profit and loss.

In this case, the exchange difference is

Rs. [1,62,14,000 - (1,45,00,000 + 16,84,320 – 16,50,000)] = Rs. 16,79,680.

This exchange difference is taken to profit and loss.

(8 Marks)

Answer No.4

(A)

(i) Here the operator has a contractual right to receive cash from the grantor. The grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The operator has an unconditional right to receive cash if the grantor contractually guarantees to pay the operator. Hence, operator recognizes a financial asset to the extent it has a contractual right to receive cash.

(1 mark)

(ii) Here the operator has a contractual right to charge users of the public services. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. Therefore, the operator shall recognise an intangible asset to the extent it receives a right (a licence) to charge users of the public service.

(1 mark)

(iii) Accounting treatment for preparation of financial statements

Bhilwara-Jabalpur Toll Project Journal Entries

	Particulars	**Dr. (Rs. in crore)**	**Cr. (Rs. in crore)**
	During construction:		
1	Financial asset A/c Dr.	110	
	To Construction revenue		110
	[To recognise revenue relating to construction services, to be settled in case]		
2	Cost of construction (profit or loss) Dr.	100	
	To Bank A/c (As and when incurred)		100
	[To recognise costs relating to construction services]		
	During the operation phase:		
3	Financial asset Dr.	15	
	To Finance revenue (As and when received or due to receive)		15
	[To recognise interest income under the financial asset model]		
4	Financial asset Dr.	75	
	To Revenue [(200-110) – 15]		75
	[To recognise revenue relating to the operation phase]		
5	Bank A/c Dr.	200	
	To Financial asset		200
	[To recognise cash received from the grantor]		

(5*1 = 5 marks)

Kolhapur-Nagpur Expressway -Intangible asset Journal Entries

	Particulars	Dr. (Rs. in crore)	Cr. (Rs. in crore)
	During construction:		
1	Cost of construction (profit or loss) Dr.	110	
	To Bank A/c (As and when incurred)		110
	[To recognise costs relating to construction services]		
	Intangible asset Dr.	200	
2	To Revenue		200
	[To recognise revenue relating to construction services provided for non-cash consideration]		
	During the operation phase:		
3	Amortisation expense Dr.	200	
	To Intangible asset (accumulated amortisation)		200
	[To recognise amortisation expense relating to the operation phase over the period of operation]		
4	Bank A/c Dr.	?	
	To Revenue		?
	[To recognise revenue relating to the operation phase]		

Note: Amount in entry 4 is kept blank as no information in this regard is given in the question.

(5 marks)

(B)

Paragraph 42 of Ind AS 103 provides that in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed of directly the previously held equity interest.

Applying the above, Deepak Ltd. records the following entry in its consolidated financial statements:

		(Rs. in crore)	
		Debit	Credit
Identifiable net assets of Shaun Ltd.	Dr.	16,200	
Goodwill (W.N.1)	Dr.	2,160	
Foreign currency translation reserve	Dr.	54	
PPE revaluation reserve	Dr.	27	
To Cash			13,500
To Investment in associate -Shaun Ltd.			4,779
To Retained earnings (W.N.2)			27
To Gain on previously held interest in Shaun Ltd. recognised in Profit or loss (W.N.3)			135
(Recognition of acquisition of Shaun Ltd.)			

(3 Marks)

Working Notes:

1. Calculation of Goodwill

	Rs. in crore
Cash consideration	13,500
Add: Fair value of previously held equity interest in Shaun Ltd.	4,860
Total consideration	18,360
Less: Fair value of identifiable net assets acquired	(16,200)
Goodwill	2,160

(2 Marks)

2. The credit to retained earnings represents the reversal of the unrealized gain of Rs. 27 crore in Other Comprehensive Income related to the revaluation of property, plant and equipment. In accordance with Ind AS 16, this amount is not reclassified to profit or loss.

(1 Marks)

3. The gain on the previously held equity interest in Shaun Ltd. is calculated as follows:

	Rs. in crore
Fair Value of 30% interest in Shaun Ltd. at 1st April, 2018	4,860
Carrying amount of interest in Shaun Ltd. at 1st April, 2018	(4,779)
	81
Unrealised gain previously recognised in OCI	54
Gain on previously held interest in Shaun Ltd. recognised in profit or loss	135

(2 Marks)

Answer No.5

(A)

Following adjustments / rectifications are required to be done

1. Reserve for foreseeable loss for Rs. 400 lakh, due within 6 months, should be a part of provisions. Hence it needs to be regrouped. If it was also part of previous year's comparatives, a note should be added in the notes to account on the regrouping done this year.
2. Interest accrued and due of Rs. 700 lakh on term loan will be a part of current liabilities. Thus, it should be shown under the heading "Other Current Liabilities".
3. As per Ind AS 2, inventories are measured at the lower of cost and net real isable value. The amount of any write down of inventories to net realisable value is recognised as an expense in the period the write-down occurs. Hence, the inventories should be valued at Rs. 1,200 lakh and write down of Rs. 300 lakh (Rs. 1,500 lakh – Rs. 1,200 lakh) will be added to the operating cost of the entity.
4. In the absence of the declaration date of dividend in the question, it is presumed that the dividend is declared after the reporting date. Hence, no adjustment for the same is made in the financial year 2018-2019. However, a note will be given separately in this regard (not forming part of item of financial statements).
5. Accrued income will be shown in the Statement of Profit and Loss as 'Other Income' and as 'Other Current Asset' in the Balance Sheet.
6. Since the deferred tax liabilities and deferred tax assets relate to taxes on income levied by the same governing taxation laws, these shall be set off, in accordance with Ind AS 12. The net DTA of Rs. 300 lakh will be shown in the balance sheet.
7. As per Division II of Schedule III to the Companies Act, 2013, the Statement of Profit and Loss should present the Earnings per Equity Share.
8. In Ind AS, Assets are not presented in the Balance sheet as 'Fixed Asset', rather they are classified under various categories of Non-current assets. Here, it is assumed as 'Property, Plant and Equipment'.
9. The presentation of the notes to 'Trade Receivables' will be modified as per the requirements of Division II of Schedule III.

(2 Marks)

Balance Sheet of Abraham Ltd. For the year ended 31st March, 2019

	Note No.	(Rs. in lakh)
ASSETS		
Non-current assets		
Property, plant and equipment		5,000
Deferred tax assets	1	300
Current assets		
Inventories		1,200
Financial assets		
Trade receivables	2	1,100
Cash and cash equivalents		2,000
Others financial asset (accrued interest)		300
TOTAL		9,900
EQUITY AND LIABILITIES		

Equity		
Equity share capital	3	1,000
Other equity	4	2,000
Non-current liabilities		
Financial liabilities		
Long-term borrowings	5	5,000
Current liabilities		
Financial liabilities		
Trade payables		300
Others	6	710
Short-term provisions (300 + 400)	7	700
Other current liabilities	8	190
TOTAL		9,900

(3 Marks)

Statement of Profit and Loss of Abraham Ltd. For the year ended 31st March, 2019

	Note No.	*(Rs. in lakh)*
Revenue from operations		6,000
Other income		300
Total income		6,300
Expenses		
Operating costs		3,199
Change in inventories cost	9	300
Employee benefits expense		1,200
Depreciation		450
Total expenses		5,149
Profit before tax		1,151
Tax expense		(201)
Profit for the period		950
Earnings per equity share		
Basic		9.5
Diluted		9.5
Number of equity shares (face value of Rs. 10 each)		100 lakh

(3 Marks)

Statement of Changes in Equity of Abraham Ltd.

For the year ended 31st March, 2019

3. Equity Share Capital (Rs. in lakh)

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

(0.5 Mark)

4. Other Equity (Rs. in lakh)

Particulars	Reserves & Surplus		Total
	Capital reserve	Retained Earnings	
Balance at the beginning of the year	500*	550	1,050
Total comprehensive income for the		950	950

year			
Balance at the end of the year	500	1,500	2,000

(0.5 Mark)

***Note:** Capital reserve given in the Note 1 of the question is assumed to be brought forward from the previous year. However, alternatively, if it may be assumed as created during the year.

1. Deferred Tax (Rs. in lakh)

Deferred Tax Asset	700
Deferred Tax Liability	400
	300

2. Trade Receivables (Rs. in lakh)

Trade receivables considered good		1,065
Trade receivables which have significant increase in credit risk	40	
Less: Provision for doubtful debts	(5)	35
Total		1,100

3. Long Term Borrowings (Rs. in lakh)

Term Loan from Bank (5,700 - 700)	5,000
Total	5,000

4. Other Financial Liabilities (Rs. in lakh)

Unclaimed dividends	10
Interest on term loan	700
Total	710

5. Short-term provisions (Rs. in lakh)

Provisions	300
Foreseeable loss against a service contract	400
Total	700

6. Other Current Liabilities (Rs. in lakh)

Billing in Advance	150
Other	40
Total	190

7. Dividends not recognised at the end of the reporting period

At year end, the directors have recommended the payment of dividend of 10% ie Rs. 1 per equity share. This proposed dividend is subject to the approval of shareholders in the ensuing annual general meeting.

(3 Marks)

(B)

According to paragraph 35 of Ind AS 16, when an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

(a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

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

Gross carrying amount	Rs. 250	[(200/120) x 150]
Net carrying amount	Rs. 150	
Accumulated depreciation	Rs. 100	(Rs. 250 – Rs. 150)

Journal entry

Plant and Machinery (Gross Block)	Dr.	Rs. 50	
To Accumulated Depreciation			Rs. 20
To Revaluation Reserve			Rs. 30

Depreciation subsequent to revaluation

Since the Gross Block has been restated, the depreciation charge will be Rs. 25 per annum (Rs. 250/10 years).

Journal entry

Accumulated Depreciation	Dr.	Rs. 25 p.a.	
To Plant and Machinery (Gross Block)			Rs. 25 p.a.

(4 Marks)

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

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

In this case, the gross carrying amount is restated to Rs. 150 to reflect the fair value and accumulated depreciation is set at zero.

Journal entry

Accumulated Depreciation	Dr. Rs. 80	
To Plant and Machinery (Gross Block)		Rs. 80
Plant and Machinery (Gross Block)	Dr. Rs. 30	
To Revaluation Reserve		Rs. 30

Depreciation subsequent to revaluation

Since the revalued amount is the revised gross block, the useful life to be considered is the remaining useful life of the asset which results in the same depreciation charge of Rs. 25 per annum as per Option A (Rs. 150 / 6 years).

Journal entry

Accumulated Depreciation	Dr.	Rs. 25 p.a.	
To Plant and Machinery (Gross Block)			Rs. 25 p.a.

(4 Marks)

Answer No.6

(A)

As per the definition of 'Events after the Reporting Period' and paragraph 8 of Ind AS 10, Events after the Reporting Period, financial statements should be adjusted for events occurring after the reporting period that provide evidence of conditions that existed at the end of the reporting period. In the instant case, the earthquake took place before the end of the reporting period, i.e., in February 20X1. Therefore, the condition exists at the end of the reporting date though the debtor is declared insolvent after the reporting period. Accordingly, full provision for bad debt amounting to Rs. 2 lakhs should be made to cover the loss arising due to the bankruptcy of the debtor in the financial statements for the year ended March 31, 20X1. Since provision for bad debts on account of amount due from that particular debtor was made @ 50%, XYZ Ltd should provide for the remaining amount as a consequence of declaration of this debtor as bankrupt.

In case, the earthquake had taken place after the end of the reporting period, i.e., after 31st March, 20X1, and XYZ Ltd. had not made any specific provision for the debtor who was declared bankrupt later on, since the earthquake occurred after the end of the reporting period no condition existed at the end of the reporting period. The company had made only general provision for bad debts in the ordinary business course and not to recognise the catastrophic situation of an earthquake. Accordingly, bankruptcy of the debtor in this case is a non-adjusting event.

As per para 21 of Ind AS 10, if non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

(a) the nature of the event; and
(b) an estimate of its financial effect, or a statement that such an estimate cannot be made."

If the amount of bad debt is considered to be material, the nature of this non-adjusting event, i.e., event of bankruptcy of the debtor should be disclosed along with the estimated financial effect of the same in the financial statements

(8 Marks)

(B)

As per paragraph 41 of Ind AS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.
Accordingly, the stated issues in question are to dealt as under:

Issue 1
In accordance with para 41, the reclassification of liabilities from non-current to current would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended March 31, 20X3, the comparative amounts as at 31 March 20X2 would be restated to reflect the correct classification.

Ind AS 1 requires an entity to present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements, if, inter alia, it makes a retrospective restatement of items in its financial statements and the restatement has a material effect on the information in the balance sheet at the beginning of the preceding period. Accordingly, the entity should present a third balance sheet as at the beginning of the preceding period, i.e., as at 1 April 20X1 in addition to the comparatives for the financial year 20X1-20X2.

Issue 2

In accordance with para 41, the reclassification of expenses from finance costs to other expenses would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended 31 March, 20X3, the comparative amounts for the year ended 31 March 20X2 would be restated to reflect the correct classification.

Ind AS 1 requires an entity to present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements if, inter alia, it makes a retrospective restatement of items in its financial statements and the restatement has a material effect on the information in the balance sheet at the beginning of the preceding period.

In the given case, the retrospective restatement of relevant items in statement of profit and loss has no effect on the information in the balance sheet at the beginning of the preceding period (1 April 20X1). Therefore, the entity is not required to present a third balance sheet.

(8 Marks)

(C)

Either

The above security deposit is an interest free deposit redeemable at the end of lease term for Rs. 20,00,000. Hence, this involves collection of contractual cash flows and shall be accounted at amortised cost.

Upon initial measurement

Particulars	**Details**
Security deposit (A)	20,00,000
Total lease period (Years)	5
Discount rate	12.00%
Present value annuity factor	0.567427
Present value of deposit at beginning (B)	**11,34,854**
Prepaid lease payment at beginning (A-B)	**8,65,146**

Journal entry at initial recognition

Particulars		**Amount**	**Amount**
Security deposit A/c	Dr.	11,34,854	
Prepaid lease expenses A/c	Dr.	8,65,146	
To Bank A/c			20,00,000

Subsequently, every annual reporting year, interest income shall be accrued @ 12% per annum and prepaid expenses shall be amortised on straight line basis over the lease term.

Following table shows the amortisation of security deposit based on discount rate:

Year	Opening balance (A)	Interest @ 12% (B)	Closing balance (A) = (A) + (B)
1	11,34,854	1,36,183	12,71,037
2	12,71,037	1,52,524	14,23,561
3	14,23,561	1,70,827	15,94,388
4	15,94,388	1,91,327	17,85,715
5	17,85,315	2,14,685*	20,00,000

*Difference is due to approximation.

Journal entries for Year 1-5 For – Year 1

Particulars		Amount	Amount
Security deposit A/c	Dr.	1,36,183	
To Interest income			1,36,183
Lease expense (8,65,146 / 5 years)	Dr.	1,73,029	
To Prepaid lease expenses			1,73,029

For – Year 2

Particulars		Amount	Amount
Security deposit A/c	Dr.	1,52,524	
To Interest income			1,52,524
Lease expense (8,65,146 / 5 years)	Dr.	1,73,029	
To Prepaid lease expenses			1,73,029

For – Year 3

Particulars		Amount	Amount
Security deposit A/c	Dr.	1,70,827	
To Interest income			1,70,827
Lease expense (8,65,146 / 5 years)	Dr.	1,73,029	
To Prepaid lease expenses			1,73,029

For – Year 4

Particulars		Amount	Amount
Security deposit A/c	Dr.	1,91,327	
To Interest income			1,91,327
Lease expense (8,65,146 / 5 years)	Dr.	1,73,029	
To Prepaid lease expenses			1,73,029

For – Year 5

Particulars		Amount	Amount
Security deposit A/c	Dr.	2,14,685	
To Interest income			2,14,685
Lease expense (8,65,146 / 5 years)	Dr.	1,73,030	
To Prepaid lease expenses			1,73,030

Journal entry for realisation of security deposit at the end of 5 th year

Particulars		Amount	Amount
Bank A/c	Dr.	20,00,000	
To Security deposit Ac			20,00,000

(4 Marks)

OR

(C)

Calculation of theoretical ex-rights value per share

$$\frac{\text{Fair value of all outstanding shares before the exercise of rights + total amount received from exercise of rights}}{\text{Number of shares outstanding before exercise + number of shares issued in the exercise}}$$

$$\frac{(\text{Rs.}11.00 \times 500 \text{ shares}) + (\text{Rs.}5.00 \times 100 \text{ shares})}{500 \text{ shares} + 100 \text{ shares}}$$

Theoretical ex-rights value per share = Rs.10.00

Calculation of adjustment factor

$$\frac{\text{Fair value per share before exercise of rights}}{\text{Theoretical ex-rights value per share}} \qquad \frac{\text{Rs. }11.00}{\text{Rs. }10.00} = 1.10$$

Calculation of basic earnings per share

	20X0	**20X1**	**20X2**
20X0 Basic EPS as originally reported: Rs.1,100 / 500 shares	Rs. 2.20		
20X0 Basic EPS restated for rights: Rs.1,100 / (500 shares x 1.1)	Rs. 2.00		
20X1 Basic EPS including effects of rights issue: {Rs.1,500 / [(500 x 1.1 x 2/12) + (600x10/12)]}		Rs. 2.54	
20X2 Basic EPS: Rs. 1,800 / 600 shares			Rs. 3.00

(4 Marks)