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CA FINAL N' 2019

F.R.

Test Code – FNJ 7275

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ANSWERS

1. Consolidated Balance Sheet of P Ltd as on 1st April, 20X2

(Rs. in Lakhs)

	Amount
Assets	
Non-Current Assets:	
Property, plant and equipment	650
Investment	500
Current assets:	
Inventories	400
Financial assets:	
Trade receivables	750
Cash and cash equivalents	300
Others	630
Total	3,230
Equity and Liabilities	
Equity	
Share capital- Equity shares of Rs. 100 each	514
Other Equity	1128.62
NCI	154.95
Non-Current liabilities:	
Long term borrowings	450
Long term provisions (50+70+28.93)	148.93
Deferred tax	28.5
Current Liabilities:	
Short term borrowings	250
Trade payables	550
Provision for Law suit damages	5
Total	3230

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 at Rs. 350 lakhs.
- 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, 2.5 (5 x 2/4) is considered as a part of purchase consideration and is credited to P Ltd equity as this will be settled in its own equity. The balance of 2.5 will be recorded as employee expense in the books of D 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 35 is the minimum payment to be paid after 2 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 35 whichever is higher. In the given case since 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 @ 10%.
- d. The additional consideration of Rs. 20 lakhs 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 D Ltd.

Working for Purchase consideration

Rs. in lakhs

Particulars		Amount
Share capital of D Ltd		400
Number of shares	4,00,000	
Shares to be issued 2:1	2,00,000	
Fair value per share		40
PC (2,00,000 x 70% x Rs. 40 per share) (A)		56.00
Deferred consideration after discounting Rs. 35 lakhs for 2 years @ 10% (B)		28.93
Replacement award Market based measure of the acquire award (5) 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 (5 x 2 / 4) (C)		2.50
PC in lakhs (A+B+C)		87.43

Purchase price allocation workings

Particulars	Book value (A)	Fair value (B)	FV adjustment (A-B)
Property, plant and equipment	500	350	(150)
Investment	100	100	-
Inventories	150	150	-
Financial assets:			
Trade receivables	300	300	-
Cash and cash equivalents	100	100	-
Others	230	230	-
Less: Long term borrowings	(200)	(200)	-
Long term provisions	(70)	(70)	-

Deferred tax	(35)	(35)	-
Short term borrowings	(150)	(150)	-
Trade payables	(300)	(300)	-
Contingent liability	-	(5)	(5)
Net assets (X)	625	470	(155)
Deferred tax Asset on FV adjustment (155 x 30%) (Y)		46.50	155
Net assets (X+Y)		516.5	
Non-controlling interest (516.50 x 30%) rounded off		154.95	
Capital Reserve (Net assets – NCI – PC)		274.12	
Purchase consideration (PC)		87.43	

Consolidation workings

	P Ltd.	D Ltd. (pre acquisition)	PPA Allocation	Total
Assets				
Non-Current Assets:				
Property, plant and equipment	300	500	(150)	650
Investment	400	100		500
Current assets:				
Inventories	250	150		400
Financial assets:				
Trade receivables	450	300		750
Cash and cash equivalents	200	100		300
Others	400	230		630
Total	2,000	1,380	(150)	3,230
Equity and Liabilities				
Equity				
Share capital- Equity shares of Rs. 100 each	500			
Shares allotted to D Ltd. (2,00,000 x 70% x Rs. 10 per share)			14	514
Other Equity	810		318.62	1128.62
Non-controlling interest	0		154.95	154.95
Non-Current liabilities:				
Long term borrowings	250	200		450
Long term provisions	50	70	28.93	148.93
Deferred tax	40	35	(46.5)	28.5

Current Liabilities:				
Short term borrowings	100	150		250
Trade payable	250	300	0	550
Liability for lawsuit damages		5	5	
Total	2,000	755	475	3,230
Other Equity				
Other Equity	810			810
Replacement award			2.5	2.5
Security Premium Reserve (2,00,000 shares x 70% x Rs.30)			42	42
Capital Reserve			274.12	274.12
	810		318.62	1,128.62

(20 MARKS)

2. (a) **Statement of Profit and Loss**

	Rs. '000
Operating lease rental	(260)
Amortisation of asset leased on finance lease	(225)
Finance cost relating to finance leases	(248.4)

Balance Sheet

	Rs. '000
Property, plant and equipment	4,275
Prepaid operating lease rentals:	
In non-current assets	1,080
In current assets	60
Lease liability:	
In non-current liabilities	(2,592.1)
In current liabilities	(56.3)

Explanation and supporting calculations:

Separate decisions are made for the land and buildings elements of the lease.

- 1) The **land lease is an operating lease** because land has an indefinite useful economic life and the lease term is 20 years.

The lease premium and annual rentals are apportioned 40% (3/7.5) to the land element.

Therefore, the premium for the land element is Rs. 12,00,000 (Rs. 30,00,000 x 40%) and the annual rentals for the land element Rs. 200,000 (Rs. 500,000 x 40%). This makes the total

lease payments Rs. 52,00,000 (Rs. 12,00,000 + 20 x Rs. 200,000).

The rental expense for the current period is Rs. 2,60,000 (Rs. 52,00,000 x 1/20). The amount paid in the current period regarding the land element is Rs. 14,00,000 (Rs.12,00,000 + Rs. 200,000). Therefore, there is a prepayment of Rs. 1,140,000 (Rs.14,00,000 – Rs. 2,60,000) at the year end.

In the next 19 periods, the rental expense will be Rs. 260,000 and the rental payment will be Rs. 200,000. Therefore Rs. 60,000 of the rental prepayment will reverse in each period. This means that Rs. 60,000 of the prepayment will be a current asset, and the balance a non-current asset.

- 2) The **buildings element of the lease will be a finance lease** because the lease term is for substantially all of the useful life of the buildings.

The premium apportioned to the buildings element is Rs. 18,00,000 (Rs. 30,00,000 x 60%) and the annual rental apportioned to the buildings is Rs. 300,000 (Rs. 500,000 x 60%).

The initial carrying value of the leased asset in PPE is Rs. 45,00,000 (Rs. 18,00,000 + Rs. 300,000 x 9).

Therefore, the annual depreciation charge is Rs. 2,25,000 (Rs. 45,00,000 x 1/20) and the closing PPE = Rs. 42,75,000 (Rs. 45,00,000 – Rs. 2,25,000).

The finance cost in respect of the finance lease and the closing non-current liability is shown in the working below.

The closing current liability is Rs. 56,300 (Rs. 26,48,400 – Rs. 25,92,100).

Lease liability profile – working

Year ended 31st March	Bal b/f Rs. '000	Finance Cost @ 9.2%	Lease rental payment Rs. '000	Bal c/F Rs. '000
2018	*2,700	248.4	(300)	2,648.4
2019	2,648.4	243.7	(300)	2,592.1

* Balance brought forward is equal to net of lease premium of Rs. 18,00,000 ie. Rs. 45,00,000 – Rs. 18,00,000 = Rs. 27,00,000.

(12 MARKS)

- (b) The above treatment needs to be examined in the light of the provisions given in Ind AS 10 'Events after the Reporting Period' and Ind AS 2 'Inventories'.

Para 3 of Ind AS 10 'Events after the Reporting Period' defines "Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any

other entity for issue. Two types of events can be identified:

- (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and
- (b) those that are indicative of conditions that arose after the reporting period (non adjusting events after the reporting period).

Further, paragraph 10 of Ind AS 10 states that:

“An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period”.

Further, paragraph 6 of Ind AS 2 defines:

“Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale”.

Further, paragraph 9 of Ind AS 2 states that:

“Inventories shall be measured at the lower of cost and net realisable value”.

Accountant of Jupiter Ltd. has re-measured the inventories after adjusting the event in its financial statement which is not correct and nor in accordance with provision of Ind AS 2 and Ind AS 10.

Accordingly, the event causing the damage to the inventory occurred after the reporting date and as per the principles laid down under Ind AS 10 ‘Events After the Reporting Date’ is a non-adjusting event as it does not affect conditions at the reporting date. Non-adjusting events are not recognised in the financial statements, but are disclosed where their effect is material.

Therefore, as per the provisions of Ind AS 2 and Ind AS 10, the consignment of inventories shall be recorded in the Balance Sheet at a value of Rs. 8 lakhs calculated below:

Rs.’ lakhs

Cost	8.00
Net realisable value	9.60
Inventories (lower of cost and net realisable value)	8.00

(8 MARKS)

3. (a)

The parent’s separate statement of profit and loss for 20X3-20X4 would show a gain on the sale of investment of Rs. 40,000 calculated as follow:

Rs. ‘000

Sale proceeds	200
Less: Cost of investment in subsidiary	<u>(160)</u>

Gain on sale in parent's account 40

However, the group's statement of profit & loss for 20X3-20X4 would show a gain on the sale of subsidiary of Rs. 8,000 calculated as follows:

		Rs.'000
Sale proceeds		200
Less: share of net assets at date of disposal (Rs. 2,25,000 X 80%)	(180)	
Goodwill on consolidation at date of sale (W.N 1)	<u>(12)</u>	<u>(192)</u>
Gain on sale in the group's account		<u>8</u>

Working Note

The goodwill on consolidation (assuming partial goodwill method) is calculated as follows:

		Rs.'000
Fair value of consideration at the date of acquisition		160
Non- controlling interest measured at proportionate share of the acquiree's identifiable net assets (1,75,000 X 20%)	35	
Less: fair value of net assets of subsidiary at date of acquisition	<u>(175)</u>	<u>(140)</u>
Goodwill arising on consolidation		20
Impairment at 31 March 20X3		<u>(8)</u>
Goodwill at 31 March 20X4		<u>12</u>

(6 MARKS)

Or

3(A) This is the case of Revenue recognised at a single point in time with multiple payments. As per the guidance given in Appendix B to Ind AS 21:

A Ltd. will recognise a non-monetary contract liability amounting Rs. 1,440 million, by translating USD 20 million at the exchange rate on 1st January, 2018 ie Rs. 72 per USD.

A Ltd. will recognise revenue at 31st March, 2018 (that is, the date on which it transfers the goods to the customer).

A Ltd. determines that the date of the transaction for the revenue relating to the advance consideration of USD 20 million is 1st January, 2018. Applying paragraph 22 of Ind AS 21, A Ltd. determines that the date of the transaction for the remainder of the revenue as 31st March, 2018.

On 31st March, 2018, A Ltd. will:

- derecognise the non-monetary contract liability of USD 20 million and recognise USD 20 million of revenue using the exchange rate as at 1st January, 2018 ie Rs. 72 per USD; and
- recognise revenue and a receivable for the remaining USD 30 million, using the exchange rate on 31st March, 2018 ie Rs. 75 per USD.
- The receivable of USD 30 million is a monetary item, so it should be translated

using the closing rate until the receivable is settled.

(6 MARKS)

3(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; or
- (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.

If the Company opts for the treatment as per option (a), then the revised carrying amount of the machinery will be:

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 A/c (Gross Block)	Dr.	Rs. 50	
To Accumulated Depreciation A/c			Rs. 20
To Revaluation Reserve A/c			Rs. 30

If the balance of accumulated depreciation is eliminated as per option (b), then the revised carrying amount of the machinery will be as follows:

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 A/c (Gross Block)			Rs. 80
Plant and Machinery A/c (Gross Block)	Dr.	Rs. 30	
To Revaluation Reserve			Rs. 30

Depreciation

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

the probability of success of legal action is very high but there is no concrete evidence which makes the inflow virtually certain. Hence, it will be considered as contingent asset only and shall not be recognized.

(5 MARKS)

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

(5 MARKS)

4(C) Computation of Deferred Tax Liability

- (i) MAT credit as on 31st December of Rs. 9.75 crore will be presented in the Balance Sheet as Deferred tax asset. DTA in the current year will be Rs. 1.25 crore (Rs. 9.75 crore – Rs. 8.50 crore)
- (ii) (a) In case defer tax is created only on account of depreciation

	Carrying value without revaluation	Value as per tax records	Tax base	Taxable	Total Deferred tax liability/ (asset) @ 20%	Credit to P&L during the year
A	b	c	d	E= b-d	F = e x 20%	g
31 st March, 2016	22 crore	22 crore	22 crore	nil	nil	nil
Less: Depreciation for the year 2016- 17	(2 crore)	(1.25 crore)				
Carrying value as on 31 st March, 2017	20 crore	20.75 crore	20.75 crore	(0.75 crore)	DTA (0.15 crore)	DTA (0.15 crore)

(b) Computation of tax effect taking into account the revalued figures and adjusting impact of tax effect on account of difference in depreciation

S. No.		Carrying value after revaluation	Value as per tax records	Tax base	Taxable / (deductible) temporary difference	Total Deferred tax liability / (asset) @ 20%	Credit to P&L during the year	Charged to OCI during the year
	a	b	c	d	E= b-d	F = e x 20%	g	h
I	31 st March, 2016	40 crore	22 crore	22 crore	18 crore	DTL 3.6 crore	-	DTL 3.6 crore
IV	Revalued again on 31.3.2017 (It is assumed that revaluation has been done after taking into consideration the impact of depreciation for the current year)	45 crore	20.75 crore (22-1.25)	20.75 crore	24.25 crore	DTL 4.85 crore	DTA (0.15 crore) (Refer table (a) above)	DTL 5 crore (Refer Note below) [5 DTL (B/F) – 0.15 DTA = 4.85 DTL]
V	Additional DTL/DTA required during the year (IV-I)					DTL 1.25 crore	DTA (0.15 crore) (Refer table (a))	DTL (1.40 crore) (Refer Note below)

Note:

As per para 65 of Ind AS 12, when an asset is revalued for tax purposes and that revaluation is related to an accounting revaluation of an earlier period, or to one that is expected to be carried out in a future period, the tax effects on account of revaluation of asset and the adjustment of the tax base are recognised in other comprehensive income in the periods in which they occur.

Here, it is important to understand that only the tax effects on account of revaluation of asset and the adjustment of the tax base are recognised in other comprehensive income. However, tax effects on account of depreciation of asset and the adjustment of the tax base are recognized in profit and loss.

Accordingly, first of all the tax effect has been calculated assuming that there is no revaluation (Refer Table (a) above) [Since the information for the carrying value before revaluation has not been mentioned, it is assumed to be equal to the

carrying amount as per the tax records]. Later the DTA arrived due to difference in depreciation is adjusted with the DTL created due to revaluation. DTA of Rs. 0.15 crore on account of depreciation will be charged to Profit and Loss and DTL of Rs. 1.40 crore will be charged to OCI. Net effect in the year 31.3.2017 will be DTL 1.25 crore (DTL 1.4 crore – DTA 0.15 crore) [Refer Table (b) above.

(10 MARKS)

5. (A) (i) At the time of initial recognition

Rs.

Liability component	Rs.
Present value of 5 yearly interest payments of Rs. 40,000, discounted at 12% annuity (40,000 x 3.605)	1,44,200
Present value of Rs. 5,00,000 due at the end of 5 years, discounted at 12%, compounded yearly (5,00,000 x 0.567)	2,83,500
	4,27,700
Equity component (Rs. 5,00,000 – Rs. 4,27,700)	72,300
Total proceeds	5,00,000

Note: Since Rs. 105 is the conversion price of debentures into equity shares and not the redemption price, the liability component is calculated @ Rs. 100 each only.

Journal Entry

	Rs.	Rs.
Bank	Dr. 5,00,000	
To 8% Debentures (Liability component)		4,27,700
To 8% Debentures (Equity component)		72,300
(Being Debentures are initially recorded a fair value)		

(ii) At the time of repurchase of convertible debentures

The repurchase price is allocated as follows:

	Carrying Value @ 12%	Fair Value @ 9%	Difference
	Rs.	Rs.	Rs.
Liability component			
Present value of 2 remaining yearly interest payments of Rs. 40,000, discounted at 12% and 9%, respectively	67,600	70,360	

Present value of Rs. 5,00,000 due in 2 years, discounted at 12% and 9%, compounded yearly, respectively	3,98,500	4,21,000	
Liability component	4,66,100	4,91,360	(25,260)
Equity component (5,25,000 -4,91,360)	72,300	33,640*	38,660
Total	5,38,400	5,25,000	13,400

*(5,25,000 – 4,91,360) = 33,640

Journal Entries

	Rs.	Rs.
8% Debentures (Liability component)	Dr. 4,66,100	
Profit and loss A/c (Debt settlement expense)	Dr. 25,260	
To Bank A/c		4,91,360
(Being the repurchase of the liability component recognised)		
8% Debentures (Equity component)	Dr. 72,300	
To Bank A/c		33,640
To Reserves and Surplus A/c		38,660
(Being the cash paid for the equity component recognised)		

(12 MARKS)

5(b) 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 $[(Rs. 2,000,000 \div Rs. 3,600,000) \times Rs. 600,000]$ allocated to Licence B. When Licence A is transferred, the entity recognises as revenue Rs. 266,667 $[(Rs. 1,600,000 \div Rs. 3,600,000) \times Rs. 600,000]$ 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 $(Rs. 2,000,000 \div Rs. 3,600,000 \times Rs. 400,000)$ 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 $(Rs. 1,600,000 \div Rs. 3,600,000 \times Rs. 400,000)$ 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)

6. (a) (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).

- (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.

(8 MARKS)

6(B)

Subsidiary's earnings per share

Basic EPS	Rs. 5.00 calculated:	Rs. 5,400 (a) – Rs.400 (b) 1,000 (c)
Diluted EPS	Rs. 3.66 calculated:	Rs. 5,400 (d) (1,000 + 75 (e) + 400(f))

Notes:

- Subsidiary's profit attributable to ordinary equity holders.
- Dividends paid by subsidiary on convertible preference shares.
- Subsidiary's ordinary shares outstanding.
- Subsidiary's profit attributable to ordinary equity holders (Rs. 5,000) increased by Rs. 400 preference dividends for the purpose of calculating diluted earnings per share.
- Incremental shares from warrants, calculated: $[(Rs. 20 - Rs. 10) \div Rs. 20] \times 150$.
- Subsidiary's ordinary shares assumed outstanding from conversion of convertible preference shares, calculated: 400 convertible preference shares \times conversion factor of 1.

Consolidated earnings per share

Basic EPS Rs. 1.63 calculated: $\frac{Rs. 12,000(a) + Rs. 4,300(b)}{10,000(c)}$

Diluted EPS Rs. 1.61 calculated: $\frac{Rs. 12,000 + Rs. 2,928(d) + Rs. 55(e) + Rs. 1,098(f)}{10,000}$

- (a) Parent's profit attributable to ordinary equity holders of the parent entity.
- (b) Portion of subsidiary's profit to be included in consolidated basic earnings per share, calculated: $(800 \times \text{Rs. } 5.00) + (300 \times \text{Re } 1.00)$.
- (c) Parent's ordinary shares outstanding.
- (d) Parent's proportionate interest in subsidiary's earnings attributable to ordinary shares, calculated: $(800 \div 1,000) \times (1,000 \text{ shares} \times \text{Rs. } 3.66 \text{ per share})$.
- (e) Parent's proportionate interest in subsidiary's earnings attributable to warrants, calculated: $(30 \div 150) \times (75 \text{ incremental shares} \times \text{Rs. } 3.66 \text{ per share})$.
- (f) Parent's proportionate interest in subsidiary's earnings attributable to convertible preference shares, calculated: $(300 \div 400) \times (400 \text{ shares from conversion} \times \text{Rs. } 3.66 \text{ per share})$.

(8 MARKS)

6(C)

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)