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CA FINAL

SUBJECT- FINANCIAL REPORTING

Test Code – FNJ 7317

BRANCH - () (Date :)

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ANSWER 1(A)

Consolidated Balance Sheet of the Group as on 31st March, 2018

Particulars	Note No.	(Rs. in lakh)
ASSETS		
Non-current assets		
Property, plant and equipment	1	490
Current assets		
(a) Inventories	2	169
(b) Financial assets		
Trade receivables	3	290
Bills receivable	4	1
(c) Cash and cash equivalents	5	154
Total assets		1,104
EQUITY & LIABILITIES		
Equity attributable to owners of the parent		
Share capital		300
Other Equity		
Reserves (W.N.5)		97
Retained Earnings (W.N.5)		89.9
Capital Reserve (W.N.3)		94
Non-controlling interests (W.N.4)		83.10
Total equity		664
LIABILITIES		
Non-current liabilities		Nil
Current liabilities		
(a) Financial Liabilities		
(i) Trade payables	6	440
Total liabilities		440
Total equity and liabilities		1,104

(5 MARKS)

Notes to Accounts (Rs. in lakh)

1.	**Property Plant & Equipment**		
	Parent	160	
	Nisha Ltd.	180	
	Sandhya Ltd.	150	490
2.	**Inventories**		
	Parent	110	
	Nisha Ltd. (35-1)	34	169
	Sandhya Ltd.	25	
3.	**Trade Receivables**		
	Parent	130	
	Nisha Ltd.	50	290
	Sandhya Ltd.	110	

4.	**Bills Receivable**		
	Parent (36-35)	1	
	Sandhya Ltd. (15-15)	-	1
5.	**Cash & Cash equivalents**		
	Parent	114	
	Nisha Ltd.	20	
	Sandhya Ltd.	20	154
6.	**Trade Payables**		
	Parent	235	
	Nisha Ltd.	115	440
	Sandhya Ltd.	90	

(2 MARKS)

Working Notes:

1. **Analysis of Reserves and Surplus** (Rs. in lakh)

		Nisha Ltd.		Sandhya Ltd.
Reserves as on 31.3.2017		40		30
Increase during the year 2017-2018	10		10	
Increase for the half year till 30.9.2017		5		5
Balance as on 30.9.2017 (A)		45		35
Total balance as on 31.3.2018		50		40
Post-acquisition balance		5		5

(1 MARK)

		Nisha Ltd.		Sandhya Ltd.
Retained Earnings as on 31.3.2017		10		15
Increase during the year 2017-2018	15		15	
Increase for the half year till 30.9.2017		7.5		7.5
Balance as on 30.9.2017 (B)		17.5		22.5
Total balance as on 31.3.2018		25		30
Post-acquisition balance		7.5		7.5
Less: Unealised gain on inventories (5 x 25%)		-		(1)
Post-acquisition balance for CFS		7.5		6.5
Total balance on the acquisition date ie.30.9.2017 (A+B)		62.5		57.5

(1.5 MARKS)

1. **Calculation of Effective Interest of Parent company ie. Usha Ltd. in Sandhya Ltd.**

   Acquisition by Usha Ltd. in Nisha Ltd. = 80%

   Acquisition by Nisha Ltd. in Sandhya Ltd. = 75%

   Acquisition by Group in Sandhya Ltd. (80% x 75%) = 60%

   Non-controlling Interest = 40%

(1 MARK)

2. Calculation of Goodwill / Capital Reserve on the acquisition date

	Nisha Ltd.	Sandhya Ltd.
Investment or consideration	170	(140 × 80%)112
Add: NCI at Fair value		
(200 x 20%)	40	
(160 x 40%)		64
	210	176
Less: Identifiable net assets (Share capital + Increase in the Reserves and Surplus till acquisition date)	(200+62.5)(262.5)	(160+57.5)(217.5)
Capital Reserve	52.5	41.5
Total Capital Reserve (52.5 + 41.5)	94	

(1.5 MARKS)

3. Calculation of Non Controlling Interest

	Nisha Ltd.	Sandhya Ltd.
At Fair Value (See Note 3)	40	64
Add: Post Acquisition Reserves (See Note 1)	(5× 20%) 1	(5 × 40%) 2
Add: Post Acquisition Retained Earnings (See Note 1)	(7.5 × 20%) 1.5	(6.5 × 40%) 2.6
Less: NCI share of investment in Sandhya Ltd.*	(140x20%) (28)*	
	14.5	68.6
Total (14.5 + 68.6)	83.1	

***Note:** The Non-controlling interest in Nisha Ltd. will take its proportion in Sandhya Ltd. So they have to bear their proportion in the investment made by Nisha Ltd. (as a whole) in Sandhya Ltd.

(1.5 MARKS)

5.. Calculation of Consolidated Other Equity

	Reserves	Retained Earnings
Usha Ltd.	90	80
Add: Share in Nisha Ltd.	(5 x 80%) 4	(7.5 × 80%) 6
Add: Share in Sandhya Ltd.	(5 ×60%) 3	(6.5 ×60%) 3.9
	97	89.9

Note: In the above solution, it is assumed date the sale of goods by Sandhya Ltd. is done after acquisition of shares by Nisha Ltd. Alternatively, one may assume that the sale has either been done before acquisition of shares by Nisha Ltd. in Sandhya Ltd. or sale has been throughout the year. Accordingly, there treatment for unrealized gain may vary.

(1.5 MARKS)

ANSWER 1(B)

(i) **For short term compensating expenses:** Diana. Ltd. will recognise a liability in its books to the extent of 5 days of PL for 1,000 employees and 10 days of PL for remaining 2,000 employees and 2 days of SL for 1,000 employees and 5 days of SL for remaining 2,000 employees in its books as an unused entitlement that has accumulated in 2017-2018.

(ii) **For profit sharing plan:** Diana. Ltd. will recognise Rs. 840 lakh (12,000 x 7%) as a liability and expense it in books of accounts.

(iii) **For defined contribution plan:** When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:

(a) Under Ind AS 19, the amount of Rs. 380 lakh (500-120) may be recognised as a liability (accrued expense), after deducting contribution already paid. However, if the contribution already paid would have exceeded the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense); and

(b) Also, Rs. 380 lakh will be recognised as an expense in this case study which will be disclosed as an expense in the statement of profit and loss.

(5 MARKS)

ANSWER 2(A)

Paragraph 27 of Ind AS 102 requires the entity to recognise the effects of repricing that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee.

If the repricing increases the fair value of the equity instruments granted paragraph B43(a) of Appendix B requires the entity to include the incremental fair value granted (ie the difference between the fair value of the repriced equity instrument and that of the original equity instrument, both estimated as at the date of the modification) in the measurement of the amount recognised for services received as consideration for the equity instruments granted.

If the repricing occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the repricing date until the date when the repriced equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period.

(4 MARKS)

Accordingly, the amounts recognised in years 1 and 2 are as follows:

Year	Calculation	Compensation expense for period	Cumulative compensation expense
		Rs.	Rs.
1	[1,850 employees× 1,000 options × Rs. 1.20] × 1/3	7,40,000	7,40,000
2	(1,840 employees× 1,000 options × [(Rs.1.20× 2/3)+ {(Rs.1.05 - 0.90) ×0.5/1.5}] – 7,40,000	8,24,000	15,64,000

Note: Year 3 calculations have not been provided as it was not required in the question.

(3 MARKS)

ANSWER 2(B)

The annual depreciation charges prior to the change in useful life were

Buildings	Rs. 1,50,00,000/15 =	Rs. 10,00,000
Plant and machinery	Rs. 1,00,00,000/10 =	Rs. 10,00,000
Furniture and fixtures	Rs. 35,00,000/7 =	Rs. 5,00,000
Total =		Rs. 25,00,000 (A)

(2 MARKS)

The revised annual depreciation for the year ending 31st March, 20X4, would be

Buildings	[Rs.1,50,00,000 – (Rs. 10,00,000 × 3)] / 10	Rs. 12,00,000
Plant and machinery	[Rs. 1,00,00,000 – (Rs. 10,00,000 × 3)] / 7	Rs. 10,00,000
Furniture and fixtures	[Rs. 35,00,000 – (Rs. 5,00,000 × 3)] / 5	Rs. 4,00,000
Total		Rs. 26,00,000 (B)

(2 MARKS)

The impact on Statement of Profit and Loss for the year ending 31st March, 20X4

= Rs. 26,00,000 – Rs. 25,00,000 = Rs. 1,00,000

This is a change in accounting estimate which is adjusted prospectively in the period in which the estimate is amended and, if relevant, to future periods if they are also affected. Accordingly, from 20X4-20X5 onward, excess of Rs. 1,00,000 will be charged in the Statement of Profit and Loss every year till the time there is any further revision.

(2 MARKS)

ANSWER 2(C)

(a) For a provision to be recognized, Para 14 of Ind AS 37 requires that:

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

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

c) a reliable estimate can be made of the amount of the obligation.

Here, the manufacturer has a present legal obligation. The obligation event is the sale of the product with a warranty.

Ind AS 37 outlines that the future sacrifice of economic benefits is probable when it is more likely than less likely that the future sacrifice of economic benefits will required. The probability that settlement will be required will be determined by considering the class of obligation (warranties) as a whole. In accordance with para 24 of Ind AS 37, it is more likely than less likely that a future sacrifice of economic benefits will be required to settle the class of obligations as a whole.

If a reliable estimate can be made the provision can be measured reliably. Past data can provide reliable measures, even if the data is not firm specific but rather industry based. Ind AS 37 notes that only in extremely rare cases, a reliable measure of a provision cannot be obtained. Difficulty in estimating the amount of a provision under conditions of significant uncertainty does not justify non-recognition of the provision.

Here, the manufacturer should recognize a provision based on the best estimate of the consideration required to settle the present obligation as at the reporting date.

(5 MARKS)

(b) The expected value of cost of repairs in accordance with Ind AS 37 is:

(80% x nil) + (15% x Rs. 20,00,000) + (5% x Rs. 50,00,000) = 3,00,000 + 2,50,000
= 5,50,000

(2 MARKS)

ANSWER 3(A)

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.

(1 MARK)

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.)			

(2 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 MARK)

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 3(B)

A. 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 any financial year shall constitute a Corporate Social Responsibility (CSR) Committee of the Board consisting of three or more directors (including at least one independent director).

(1.5 MARKS)

B. Role of Corporate Social Responsibility (CSR) Committee

The CSR Committee shall—

(a) formulate and recommend to Board-

a. a CSR Policy indicating the activities to be undertaken by the company as specified in Schedule VII;

b. the amount of expenditure to be incurred on the above activities and

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

(1 MARK)

C. Role of Board

Board shall disclose-

(a) The composition of CSR Committee in its report

(b) Approve the recommended CSR Policy for the company

(c) Disclose the contents of such Policy in its report and place it on the company's website

(d) Ensure that the activities included in CSR Policy of the company are duly executed by the company

(e) Ensure that the **company spends, in every financial year, at least two percent** of the **average net profits** of the company made **during the three immediately preceding financial years** by giving preference to the local area and areas around it where it operates

(f) In case the company fails to spend such amount, the Board shall specify the reasons for not spending the amount.

(2.5 MARKS)

D. In the given scenario

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

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

(1 MARK)

As per the criteria to constitute CSR committee -

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

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

(2 MARKS)

ANSWER 3(C)

Items impacting the Statement of Profit and Loss for the year ended 31st March, 2018 (Rs.)

Current service cost	1,05,000
Gains and losses arising from translating the monetary assets in foreign currency	45,000
Income tax expenses	21,000
Share based payments cost	2,01,000

(2 MARKS)

Items impacting the other comprehensive income for the year ended 31st March,2018 (Rs.)

Remeasurement of defined benefit plans	1,54,200
Changes in revaluation surplus	75,000
Gains and losses arising from translating the financial statements of a foreign operation	39,000
Gains and losses from investments in equity instruments designated at fair value through other comprehensive income	60,000

(2 MARKS)

ANSWER 4(A)

Calculation of Deductible temporary differences:

Deferred tax asset	=	Rs. 80,000
Existing tax rate	=	40%
Deductible temporary differences	=	80,000/40%
		= Rs.2,00,000

Calculation of Taxable temporary differences:

Deferred tax liability	=	Rs. 60,000
Existing tax rate	=	40%
Deductible temporary differences	=	60,000 / 40%
		= Rs. 1,50,000

Of the total deferred tax asset balance of Rs. 80,000, Rs. 28,000 is recognized in OCI

Hence, Deferred tax asset balance of Profit & Loss is Rs. 80,000 - Rs. 28,000 = Rs. 52,000

Deductible temporary difference recognized in Profit & Loss is Rs. 1,30,000 (52,000 / 40%)
Deductible temporary difference recognized in OCI is Rs. 70,000 (28,000 / 40%) .

(6 MARKS)

The adjusted balances of the deferred tax accounts under the new tax rate are:

Deferred tax asset		Rs.
Previously credited to OCI-equity	Rs. 70,000 x 0.45	31,500
Previously recognised as Income	Rs. 1,30,000 x 0.45	58,500
		90,000
Deferred tax liability		
Previously recognized as expense	Rs. 1,50,000 x 0.45	67,500

The net adjustment to deferred tax expense is a reduction of Rs. 2,500. Of this amount, Rs. 3,500 is recognised in OCl and Rs. 1,000 is charged to P&L.

(3 MARKS)

The amounts are calculated as follows:

	Carrying amount at 45%	**Carrying amount at 40%**	**Increase (decrease) in deferred tax expense**
Deferred tax assets			
Previously credited to OCI-equity	31,500	28,000	(3,500)
Previously recognised as Income	58,500	52,000	(6,500)
	90,000	80,000	(10,000)
Deferred tax liability			
Previously recognized as expense	67,500	60,000	7,500
Net adjustment			(2,500)

(3 MARKS)

An alternative method of calculation is:		Rs.
DTA shown in OCI	Rs. 70,000 x (0.45 - 0.40)	3,500
DTA shown in Profit or Loss	Rs. 1,30,000 x (0.45-0.40)	6,500
DTL shown in Profit or Loss	Rs. 1,50,000 x (0.45 -0.40)	7,500

Journal Entries

	Rs.	Rs.
Deferred tax asset	3,500	
OCI –revaluation surplus		3,500
Deferred tax asset	6,500	
Deferred tax expense		6,500
Deferred tax expense	7,500	
Deferred tax liability		7,500

<u>Alternatively</u>, a combined journal entry may be passed as follows:

	Rs.	Rs.
Deferred tax asset Dr.	10,000	
Deferred tax expense Dr.	1,000	
To OCI –revaluation surplus		3,500
To Deferred tax liability		7,500

(3 MARKS)

ANSWER 4(B)

Costs incurred in creating computer software, should be charged to research & development expenses when incurred until technical feasibility/asset recognition criteria have been established for the product. Here, technical feasibility is established after completion of detailed program design.

In this case, Rs. 5,30,000 (salary cost of Rs. 1,50,000, program design cost of Rs. 3,00,000 and coding and technical feasibility cost of Rs. 80,000) would be recorded as expense in Profit and Loss since it belongs to research phase.

Cost incurred from the point of technical feasibility are capitalised as software costs. But the conference cost of Rs. 60,000 would be expensed off.

In this situation, direct cost after establishment of technical feasibility of Rs. 3,00,000 and testing cost of Rs. 90,000 will be capitalised.

The cost of software capitalised is = Rs. (3,00,000 + 90,000) = Rs. 3,90,000.

(5 MARKS)

ANSWER 5(A)

This is a compound financial instrument with two components – liability representing present value of future cash outflows and balance represents equity component.

Total proceeds = 50,000 Shares x Rs. 180 each = Rs. 90,00,000

Dividend @ 10% = Rs. 9,00,000

a. Computation of Liability & Equity Component

Date	Particulars	Cash Flow	Discount Factor	Net present Value
01-Apr-2017		0	1	0.00
31-Mar-2018	Dividend	9,00,000	0.8696	7,82,640
31-Mar-2019	Dividend	9,00,000	0.7561	6,80,490
31-Mar-2020	Dividend	9,00,000	0.6575	5,91,750
31-Mar-2021	Dividend	9,00,000	0.5718	5,14,620
31-Mar-2022	Dividend	9,00,000	0.4971	4,47,390
Total Liability Component				30,16,890
Total Proceeds				90,00,000
Total Equity Component (Bal fig)				59,83,110

(3.5 MARKS)

b. Allocation of transaction costs

Particulars	Amount	Allocation	Net Amount
	a	b	a-b
Liability Component	30,16,890	60,338	29,56,552
Equity Component	59,83,110	1,19,662	58,63,448
Total Proceeds	90,00,000	1,80,000	88,20,000

(1 MARK)

c. Accounting for liability at amortised cost

- Initial accounting = Present value of cash outflows less transaction costs
- Subsequent accounting = At amortised cost, ie initial fair value adjusted for interest and repayments of the liability.

	Opening Financial Liability A	Interest @ 15.86% B	Cash Flow (Dividend payment) C	Closing Financial Liability A+B-C
01-Apr-2017	29,56,552			29,56,552
31-Mar-2018	29,56,552	4,68,909	9,00,000	25,25,461
31-Mar-2019	25,25,461	4,00,538	9,00,000	20,25,999
31-Mar-2020	20,25,999	3,21,323	9,00,000	14,47,322
31-Mar-2021	14,47,322	2,29,545	9,00,000	7,76,867
31-Mar-2022	7,76,867	1,23,133*	9,00,000	-

*Difference of Rs. 78 (adjusted in the interest value of 31st March, 2022) is due to approximation of figures in the earlier years.

(1.5 MARKS)

d. **Journal Entries to be recorded for entire term of arrangement are as follows:**

Date	Particulars		Debit Rs.	Credit Rs.
01-Apr-2017	Bank A/c	Dr.	88,20,000	
	To Preference Shares A/c			29,56,552
	To Equity Component of Preference shares A/c			58,63,448
	(Being compulsorily convertible preference shares issued. The same are divided into equity component and liability component as per the calculation)			
31-Mar-2018	Preference shares A/c	Dr.	9,00,000	
	To Bank A/c			9,00,000
	(Being dividend at the coupon rate of 10% paid to the shareholders)			
31-Mar-2018	Finance cost A/c	Dr.	4,68,909	
	To Preference Shares A/c			4,68,909
	(Being interest as per EIR method recorded)			
31-Mar-2019	Preference shares A/c	Dr.	9,00,000	
	To Bank A/c			9,00,000
	(Being dividend at the coupon rate of 10% paid to the shareholders)			
31-Mar-2019	Finance cost A/c	Dr.	4,00,538	
	To Preference Shares A/c			4,00,538
	(Being interest as per EIR method recorded)			
31-Mar-2020	Preference shares A/c	Dr.	9,00,000	
	To Bank A/c			9,00,000
	(Being dividend at the coupon rate of 10% paid to the shareholders)			
31-Mar-2020	Finance cost A/c	Dr.	3,21,323	
	To Preference Shares A/c			3,21,323
	(Being interest as per EIR method recorded)			
31-Mar-2021	Preference shares A/c	Dr.	9,00,000	
	To Bank A/c			9,00,000
	(Being dividend at the coupon rate of 10% paid to the shareholders)			
31-Mar-2021	Finance cost A/c	Dr.	2,29,545	
	To Preference Shares A/c			2,29,545
	(Being interest as per EIR method recorded)			
31-Mar-2022	Preference shares A/c	Dr.	9,00,000	
	To Bank A/c			9,00,000
	(Being dividend at the coupon rate of 10% paid to the shareholders)			
31-Mar-2022	Finance cost A/c	Dr.	1,23,133	
	To Preference Shares A/c			1,23,133
	(Being interest as per EIR method recorded)			

31-Mar-2022	Equity Component of Preference shares A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being preference shares converted in equity shares and remaining equity component is recognised as securities premium)	58,63,448	 1,25,000 57,38,448

(6 MARKS)

ANSWER 5(B)

Paragraph 5 of Ind AS 115 scopes out revenue arising from lease agreements. Principles enunciated under Ind AS 17, Leases would be applicable for revenue arising from leasing agreements.

Recognition of income in respect of lease would depend on its classification as per Ind AS 17, Leases.

If the lease of land is an operating lease, then it will be accounted for as given below:

- Lessors shall present assets subject to operating leases in their balance sheet according to the nature of the asset.
- Lease income from operating leases shall be recognised in income on a straight- line basis over the lease term, unless either:

(a) another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished, even if the payments to the lessors are not on that basis; or

(b) the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary according to factors other than inflation, then this condition is not met.

The long lease term may be an indication that the lease is classified as a finance lease. **If it is a finance lease** then lessor Jeevan India Ltd. shall recognise assets held under a finance lease in their balance sheets and present them as a receivable at an amount equal to the net investment in the lease. The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

Nominal lease rent collected every year will also be accounted every year on accrual basis.

(8 MARKS)

ANSWER 6(A)

Mediquick Ltd. should recognise the grants in the following manner:

- Rs. 50 lakhs have been received for immediate start-up of business. This should be recognised in the Statement of Profit and Loss immediately as there are no conditions attached to the grant.
- Rs. 70 lakhs should be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expense the related costs for whic h the grants are intended to

compensate. However, for this compliance, there should be reasonable assurance that Mediquick Ltd. complies with the conditions attached to the grant.

- Land should be recognised at fair value of Rs. 20 lakhs and government grants should be presented in the balance sheet by setting up the grant as deferred income.

  Alternatively, since the land is granted at no cost, it may be presented in the books at nominal value.

- Rs. 4 lakhs should be recognised as deferred income and will be transferred to profit and loss account over the useful life of the asset. In this cases, Rs. 1,00,000 [Rs. 4 lakhs/ 4 years] should be credited to profit and loss account each year over the period of 4 years.

  Alternatively, Rs. 4,00,000 will be deducted from the cost of the asset and depreciation will be charged at reduced amount of Rs. 6,00,000 (Rs. 10,00,000 – Rs. 4,00,000) i.e. Rs. 1,50,000 each year. **(5 MARKS)**

ANSWER 6(B)

Cost to be incurred comprises two major components – cost for elevators and cost of construction service.

(a) The elevators are part of the overall construction project and are not a distinct performance obligation

(b) The cost of elevators is substantial to the overall project and are incurred well in advance.

(c) Upon delivery at site, customer acquires control of such elevators.

(d) There is no modification done to the elevators, which the company only procures and delivers at site. Nevertheless, as part of materials used in overall construction project, the company is a principal in the transaction with the customer for such elevators also.

Therefore, applying the guidance on Input method –

- The measure of progress should be based on percentage of costs incurred relative to the total budgeted costs.
- The cost of elevators should be excluded when measuring such progress and revenue for such elevators should be recognized to the extent of costs incurred.

The revenue to be recognized is measured as follows:

Particulars	Amount (₹ in lakh)
Transaction price	480
Costs incurred:	
(a) Cost of elevators	144
(b) Other costs	48
Measure of progress	48 / 240 = 20%

Revenue to be recognised: **(₹ in lakh)**

(a) For costs incurred (other than elevators)	Total attributable revenue = 480 -144 = 336 % of work completed = 20% Revenue to be recognised = 67.20
(b) Revenue for elevators	(equal to costs incurred) 144
Total revenue to be recognised	144 + 67.2 = 211.20

Therefore, for the year ended 31st March, 2018, the company shall recognize revenue of ₹ 211.20 lakhs on the project.

Note: The above solution is given on the basis of Ind AS 115 irrespective of the financial year mentioned in the question.

(5 MARKS)

ANSWER 6(C)

As per para 30 (c) of Ind AS 34 'Interim Financial Reporting', income tax expense is **recognised in each interim period** based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

Accordingly, the management's contention that since the net income for the year will be zero no income tax expense shall be charged quarterly in the interim financial report, is not correct.

The following table shows the correct income tax expense to be reported each quarter in accordance with Ind AS 34:

Period	Pre-tax earnings (in Rs.)	Effective tax rate	Tax expense (in Rs.)
First Quarter	1,50,000	30%	45,000
Second Quarter	(50,000)	30%	(15,000)
Third Quarter	(50,000)	30%	(15,000)
Fourth Quarter	(50,000)	30%	(15,000)
Annual	**0**		**0**

(5 MARKS)

ANSWER 6(D)

Translation of the financial statements

	USD a	Rate/Euro b	Euro a/b
Property, plant and equipment	60,000	1.15	52,174
Receivables	9,00,000	1.15	7,82,609
Total assets	9,60,000		8,34,783
Issued capital	40,000		25,000
Opening retained earnings	25,000		15,000
Profit for the year	22,000	1.20	18,333
Accounts payable	8,15,000	1.15	7,08,696
Accrued liabilities	58,000	1.15	50,435
Total equity and liabilities	9,60,000		8,17,464
Foreign Currency Translation Reserve (FCTR) (Refer the below working)			17,319
Total equity and liabilities			8,34,783

Working of the cumulative balance of the FCTR

Particulars	Actual translated amount in Euro	Amount	Difference translated at closing rate of USD 1.15 / EURO
	a	b	b-a
Issued capital	25,000	34,783*	9,783
Opening retained earnings	15,000	21,739**	6,739
Profit for the year	18,333	19,130***	797
	58,333	... 75,652	17,319

$$^{*}\frac{40,000}{1.15} = 34,783 \quad {}^{**}\frac{25,000}{1.15} = 21,739 \quad {}^{***}\frac{22,000}{1.15} = 19,130$$

(5 MARKS)