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# SUGGESTED SOLUTION

## CA FINAL

### F.R.

## Test Code – JKN_FR_23

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

Tel : (022) 26836666

**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)** Considering facts of the case, Seller-lessee and buyer-lessor account for the transaction as a sale and leaseback.

Firstly, since the consideration for the sale of the building is not at fair value, Seller-lessee and Buyer - lessor make adjustments to measure the sale proceeds at fair value. Thus, the amount of the excess sale price of Rs. 3,00,000 (as calculated below) is recognised as additional financing provided by Buyer-lessor to Seller-lessee.

| | |
|---|---|
| Sale Price: | 30,00,000 |
| *Less:* Fair Value (at the date of sale): | (27,00,000) |
| **Additional financing provided by Buyer-lessor to Seller-lessee** | **3,00,000** |

Next step would be to calculate the present value of the annual payments which amounts to Rs. 14,94,000 (calculated considering 20 payments of Rs. 2,00,000 each, discounted at 12% p.a.) of which Rs. 3,00,000 relates to the additional financing (as calculated above) and balance Rs. 11,94,000 relates to the lease — corresponding to 20 annual payments of Rs. 40,164 and Rs. 1,59,836, respectively (refer calculations below).

**Proportion of annual lease payments:**

| | | |
|---|---|---|
| Present value of lease payments (as calculated above) | (A) | 14,94,000 |
| Additional financing provided (as calculated above) | (B) | 3,00,000 |
| Relating to the Additional financing provided | (C) = (E x B / A) | 40,160 |
| Relating to the Lease | (D) = (E – C) | 1,59,840 |
| Annual payments (at the end of each year) | (E) | 2,00,000 |

**(6 MARKS)**

**Seller-Lessee:**

At the commencement date, Seller-lessee measures the ROU asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right-of-use retained by Seller-lessee, calculated as follows:

| | | |
|---|---|---|
| Carrying Amount | (A) | 15,00,000 |
| Fair Value (at the date of sale) | (B) | 27,00,000 |
| Discounted lease payments for the 20-year ROU asset | (C) | 11,94,000 |
| **ROU Asset** | **[(A / B) x C]** | **6,63,333** |

Seller-lessee recognises only the amount of the gain that relates to the rights transferred to Buyer- lessor, calculated as follows:

| | | |
|---|---|---|
| Fair Value (at the date of sale) | (A) | 27,00,000 |
| Carrying Amount | (B) | 15,00,000 |
| Discounted lease payments for the 20-year ROU asset | (C) | 11,94,000 |
| **Gain on sale of building** | **(D) = (A - B)** | **12,00,000** |
| Relating to the right to use the building retained by Seller-lessee (E) = [(D / A) x C] | | 5,30,667 |
| Relating to the rights transferred to Buyer-lessor (D - E) | | 6,69,333 |

At the commencement date, Seller-lessee accounts for the transaction, as follows:

| | | | |
|---|---|---|---|
| Cash | Dr. | 30,00,000 | |
| ROU Asset | Dr. | 6,63,333 | |
| To Building | | | 15,00,000 |
| To Financial Liability | | | 14,94,000 |
| To Gain on rights transferred | | | 6,69,333 |

Buyer-Lessor:

At the commencement date, Buyer-lessor accounts for the transaction, as follows:

| | | | |
|---|---|---|---|
| Building | Dr. | 27,00,000 | |
| Financial Asset (20 payments of Rs. 40,160 discounted @ 12% p.a.) (approx.) | Dr. | 3,00,000 | |

| | | |
|---|---|---|
| To Cash | | 30,00,000 |

After the commencement date, Buyer-lessor accounts for the lease by treating Rs. 1,59,840 of the annual payments of Rs. 2,00,000 as lease payments. The remaining Rs. 40,160 of annual payments received from Seller-lessee are accounted for as:

**(a)** payments received to settle the financial asset of Rs. 3,00,000 ***AND***

(b) interest revenue.

**(6 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 | (160) |
| 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) | (12) | (192) |
| Gain on sale in the group's account | | 8 |

**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 | (175) | (140) |
| Goodwill arising on consolidation | | 20 |
| Impairment at 31 March 20X3 | | (8) |
| Goodwill at 31 March 20X4 | | 12 |

**(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).

Option (b) – 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).

**(8 MARKS)**

3(c) Ind AS 38 'Intangible Assets' requires an intangible asset to be recognised if, and only if, certain criteria are met. Regulatory approval on 1 June 20X5 was the last criterion to be met, the other criteria have been met as follows:

- Intention to complete the asset is apparent as it is a major project with full support from board
- Finance is available as resources are focused on project
- Costs can be reliably measured
- Benefits are expected to exceed costs – (in 2 years)

Amount of Rs. 15,00,000 (Rs. 18,00,000 x 10/12) should be capitalised in the Balance sheet of year ending 20X5-20X6 representing expenditure since 1 June 20X5.

The expenditure incurred prior to 1 June 20X5 which is Rs. 3,00,000 (2/12 x Rs. 18,00,000) should be recognised as an expense, retrospective recognition of expense as an asset is not allowed.

Ind AS 36 'Impairment of assets' requires an intangible asset not yet available for use to be tested for impairment annually.

Cash flow of Rs. 12,00,000 in perpetuity would clearly have a present value in excess of Rs. 12,00,000 and hence there would be no impairment. However, the research director is technically qualified, so impairment tests should be based on her estimate of a four-year remaining life and so present value of the future cost savings of Rs. 9,60,000 should be considered in that case Rs. 9,60,000 is greater than the offer received (fair value less costs to sell) of Rs. 7,80,000 and so Rs. 9,60,000 should be used as the recoverable amount.

So, the carrying amount should be consequently reduced to Rs. 9,60,000.

**Calculation of Impairment loss:**

| **Particulars** | **Amount Rs.** |
|---|---|
| Carrying amount (Restated) | 15,00,000 |
| Less: Recoverable amount | 9,60,000 |
| Impairment loss | 5,40,000 |

Impairment loss of Rs. 5,40,000 is to be recognised in the profit and loss for the year 20X5-20X6.

Necessary adjusting entry to correct books of account will be:

| | Rs. | Rs. |
|---|---|---|
| Operating expenses- Development expenditure Dr. | 3,00,000 | |
| Operating expenses–Impairment loss of intangible assets Dr. | 5,40,000 | 8,40,000 |
| To Intangible assets – Development expenditure | | |

**(6 MARKS)**

4. (a)

Ind AS 37 *"Provisions, Contingent Liabilities and Contingent Assets"* defines an onerous contract as "a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it".

Paragraph 68 of Ind AS 37 states that "the unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it".

In the instant case, cost of fulfilling the contract is Rs. 0.5 million (Rs. 2.5 million – Rs. 2 million) and cost of exiting from the contract by paying penalty is Rs. 0.25 million.

In accordance with the above reproduced paragraph, it is an onerous contract as cost of meeting the contract exceeds the economic benefits.

Therefore, the provision should be recognised at the best estimate of the unavoidable cost, which is lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it, i.e., at Rs. 0.25 million (lower of Rs. 0.25 million and Rs. 0.5 million).

**(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 Dr.<br>(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.<br>[(200 x 81 employees x Rs. 30) – 2,40,000] | 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)<br><br>@ 20% | Credit to P&L during the year |
|---|---|---|---|---|---|---|
| A | b | c | d | E= b-d | F = e x 20% | g |
| 31st 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 31st 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 | 31st 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 |
| T o 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 enti ty'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)**

**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: | $\frac{\text{Rs. } 5{,}400 \text{ (a)} - \text{Rs.}400 \text{ (b)}}{1{,}000 \text{ (c)}}$ |
| Diluted EPS | Rs. 3.66 calculated: | $\frac{\text{Rs. } 5{,}400 \text{ (d)}}{(1{,}000 + 75 \text{ (e)} + 400\text{(f)})}$ |

**Notes:**

(a) Subsidiary's profit attributable to ordinary equity holders.

(b) Dividends paid by subsidiary on convertible preference shares.

(c) Subsidiary's ordinary shares outstanding.

(d) 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.

(e) Incremental shares from warrants, calculated: [(Rs. 20 – Rs. 10) ÷ Rs. 20] × 150.

(f) Subsidiary's ordinary shares assumed outstanding from conversion of convertible preference shares, calculated: 400 convertible preference shares × conversion factor of 1.

**Consolidated earnings per share**

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

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

(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 × Rs. 5.00) + (300 × Re 1.00).

(c) Parent's ordinary shares outstanding.

(d) Parent's proportionate interest in subsidiary's earnings attributable to ordinary shares, calculated: (800 ÷ 1,000) × (1,000 shares × Rs. 3.66 per share).

(e) Parent's proportionate interest in subsidiary's earnings attributable to warrants, calculated: (30 ÷ 150) × (75 incremental shares × Rs. 3.66 per share).

(f) Parent's proportionate interest in subsidiary's earnings attributable to convertible preference shares, calculated: (300 ÷ 400) × (400 shares from conversion × Rs. 3.66 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)**