SUGGESTED SOLUTION

CA FINAL

SUBJECT-FR

Test Code – FNJ 7417

BRANCH - () (Date :)

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

Answer No.1

(A) CONSOLIDATED BALANCE SHEET AS ON 31ST DECEMBER, 2018

	'000	'000
Non – Current assets		
Plant (Working Note – 4)	397	
Fixtures (200 + 50)	250	
		647
Intangible asset : goodwill (Working Note – 1)		77
		724
Current Assets		
Inventory (Working Notes – 5)	281	
Receivable (Working Note – 6)	200	
Bank	100	
		581
		1,305
Equity and Liabilities		
Share Capital		700
Retained earnings (Working Note – 2)		222
		922
Non – controlling interests (Working Note – 3)		83
		1,005
Current Liabilities		
Payable (Working Note – 7)	280	
Bank overdraft	20	
		300
		1,305

Working Notes

1. Goodwill	'000	'000
Consideration transferred		200.00
NCI at Fair Value (30% × 170,000 × $ 1.50)		76.5
Net assets acquired :		
Net assets acquired :		
Share capital	170	
Retained earnings	20	
Revaluation surplus (60 – 50)	10	
		200
Goodwill		76.5

2. Retained earnings:	P Co.	S.Co
	'000	'000
Given	215	50
Unrealized profit (Working Note – 5)	(9)	
Additional depreciation on plant (Working Note – 4)		(8)
At acquisition		(20)
		22
Share in S Co.'s post – acquisition retained earnings		
(70% × 22)	16	

3. Non – controlling interest :	222	
At acquisition (working Note – 1)		76.5
NCI share of post acquisition retained earnings (30% × 22)		6.6
		83.1
4.Plant :	**'000**	**'000**
P Co.		325
S.co.		
Given	70	
Revalued (60 – 50)	10	
Additional Depreciation due to revaluation (10 × 20% × 4)	(8)	
		72
		397
5. Inventory	**'000**	**'000**
P Co.		220
S. Co.	70	
Less : Unrealized Profits on unsold inventory(45 ×25/125)	(9)	
		61
		281
6. Receivables :	**'000**	**'000**
P.Co.		145
Less : Inter Co. Owings		35
		110
S Co.	105	
Less : Inter Co. Owings	15	
		90
		200
7. Payable	**'000**	**'000**
P. Co.		275
Less : Inter Co. Owings		15
		260
S Co.	55	
Less : Inter Co. Owings	35	
		20
		280

(16 MARKS)

(B)

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

Calculation of number of employees eligible for profit sharing bonus

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

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

Per employee 0.03; so for 100 employees = 100 × 0.03 = 3% **(4 Marks)**

Answer No.2

(A)

1 January,20X0

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

(4 marks)

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

(1 mark)

1 January 20X5

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

(3 marks)

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

(1 mark)

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

(1 mark)

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

(3 marks)

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

(1 mark)

(B)

As per Ind AS 2 'Inventories', inventory is measured at lower of 'cost' or 'net realisable value'. Further, as per Ind AS 10 : 'Events after Balance Sheet Date', decline in net realisable value below cost provides additional evidence of events occurring at the balance sheet date and hence shall be considered as 'adjusting events'.

(a) In the given case, for valuation of inventory as on 31st March 20X1, cost of inventory would be Rs. 10 million and net realisable value would be Rs. 7.5 million (i.e. Expected selling price Rs. 8 million – estimated selling expenses Rs. 0.5 million).

Accordingly, inventory shall be measured at Rs. 7.5 million i.e. lower of cost and net realisable value. Therefore, inventory write down of Rs. 2.5 million would be recorded in income statement of that year.

(b) As per Ind AS 2, a new assessment is made of net realizable value in each subsequent period. It inter alia states that if there is increase in net realizable value because of changed economic circumstances, the amount of write down in reversed so that new carrying amount is the lower of the cost and the revised net realizable value.

Accordingly, ad at 31st March 20X2, again inventory would be valued at cost or net realisable value whichever is lower. In the present case, cost is Rs. 1 million and net realisable value would be Rs. 10.5 million (i.e. expected selling price Rs. 11 million - estimated selling expenses Rs. 0.5 million). Accordingly, inventory would be recorded at Rs. 10 million and inventory write down carried out in previous year for Rs. 2.5 million shall be reversed.

(6 MARKS)

Answer No.3

(A)

Calculation of Current Tax

Particulars	Domestic		Foreign	
	2018	**2017**	**2018**	**2017**
Profit Before Tax	1,500	200	1500	500
Add : Expenses that are not deductible	100	200	0	0
Taxable Income	**1,600**	**2200**	**1500**	**500**
Tax Rate	30%	30%	20%	20%
Current Tax	**480**	**660**	**300**	**100**
Current Tax for 2018 = 480 + 300	780			
Current Tax for 2017 = 660 + 100	760			
Reconciliation		**2018**	**2017**	
Accounting Profit (D + F)		3000	2500	
Tax @30%		900	750	
Add : Tax effect of expenses disallowed		30	60	
Effect of lower tax rate in Country B		–150	–50	
10% of 1500, 10% of 500				
Tax Expense		**780**	**760**	

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

(4 Marks)

(B)

Initial measurement of Financial Assets :

We need to calculate present value of contractual cash flows discounted at market rate of interest i.e. 12%.

Date	Inflows				PVIF @12%	
	Principal (1)	Interest income @ 7% (2)	Interest income @ 4% (3)	Total Cash Flows (1 + 2 + 3)		Present Value
31st December, 2019	2,00,000	42,000	16,000	2,58,000	0.892	2,30,394
31st December, 2020	2,00,000	28,000	16,000	2,44,000	0.797	1,94,468
31st December, 2021	2,00,000	14,000	16,000	2,30,000	0.712	1,63,760
31st December, 2022	2,00,000	-	16,000	2,16,000	0.636	1,37,376
31st December, 2023	2,00,000		8,000	2,08,000	0.567	1,17,936
Fair value						8,43,934

Present value of contractual cash flows	**8,43,934**
Loan Amount	**10,00,000**
Prepaid Staff Cost	**1,56,066** #

 # Recognized on straight line basis and charged to P & L over 5 years.

Let us make Loan A/c.

Loan A/c.

Particulars	Amount	Particulars	Amount
1st January, 2019		31st December, 2019	
To Bank	8,43,934	By Bank	2,58,000
31st December, 2019		By Balance c/d (b /f)	6,87,206

To Interest	1,01,272		
(8,43,934 × 12%)			
	9,45,206		**9,45,206**
1st January, 2020		31st December, 2020	
To Balance b/d	6,87,206	By Bank	2,44,000
31st December, 2020		By Bank	1,67,007
To Interest	82,465	By Balance c/d (b /f)	3,58,664
(6,87,206 ×12%)			
	7,69,671		**7,69,671**

Working Note :

On 31st December, 2020 there has been a repayment of Rs. 2,00,000.
This amount has to be split in two components viz. Against Loan and against prepaid staff cost.
Carrying amount of loan, before repayment = 5,25,671
(6,87,206 + 82,465 – 2,44,000)

New Carrying amount based on revised cash flows = 3,58,664

(see table below)

Thus, difference = 1,67,007; represents reduction in loan A/c.

Out of repayment amount of Rs. 2,00,000; Rs. 1,67,007 reduces the loan A/c. and the remaining amount is reduced from prepaid staff cost i.e. Rs. 32,993.
Revised Prepaid staff cost = 1,56,066 – (31,213 × 2) – 32,993 = 60,647

This amount will be written off on straight line method over next 2 year.

Computation of new carrying value of loan :

Date	Inflows: Principal	Inflows: Interest income @ 7%	Inflows: Interest income @ 4%	Total Cash flows	PVIF @ 12%	Present Value
31st December, 2021	2,00,000	-	16,000	2,16,000	0.893	1,92,888
31st December, 2022	2,00,000	-	8,000	2,08,000	0.797	1,65,776
Total						**3,58,664**

Let us continue the ledger of Loan A/c.

Loan A/c.

Particulars	Amount	Particulars	Amount
1st January, 2021 To Balance b/d 31st December, 2021 To Interest (3,58,664 × 12%)	 3,58,664 43,040	31st December, 2021 By Bank By Balance c/d (b /f)	 2,16,000 1,85,704
	4,01,704		**4,04,704**
1st January ,2022 To Balance b/d 31st December, 2022 To Interest (b/f) Approximately equals (1,85,704 × 12%	 1,85,704 22,296	31st December, 2022 By Bank	 2,08,000
	2,08,000		**2,08,000**

(8 Marks)

(C)

Current tax = Taxable profit x Tax rate = Rs. 104 thousand × 25% = Rs. 26 thousand.

Computation of Taxable Profit :

	Rs. in thousand
Accounting profit	100
Add : Donation not deductible	8
Less : Excess Depreciation	(4)
Total Taxable profit	104

	Rs. in thousand	**Rs. in thousand**
Profit & Loss A/c. Dr.	26	
To Current Tax		26

Deferred Tax :

Machine's carrying amount according to Ind AS is Rs. 118 thousand (Rs. 120 thousand – Rs. 2 thousand)

Machine's carrying amount for taxation purpose = Rs. 114 thousand (Rs. 120 thousand – Rs. 6 thousand)

Deferred Tax liability = Rs. 4 thousand x 25%

		Rs. in thousand	
Profit & Loss A/c.	Dr.	1	
To Deferred Tax liability			1

Tax reconciliation in absolute numbers :

	Rs. in thousand
Profit before tax according to Ind AS	100
Applicable tax rate	25%
Tax	25
Expenses not deductible for tax purposes (Rs. 8 thousand × 25%)	2
Tax expense (Current and Deferred)	27

Tax rate reconciliation

Applicable tax rate	25%
Expenses not deductible for tax purposes	2%
Average effective tax rate	27%

(8 Marks)

<u>Answer No.4</u>

(A)

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

(1 mark)

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

(1 mark)

(iii) Accounting treatment for preparation of financial statements

Bhilwara-Jabalpur Toll Project Journal Entries

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

(5*1 = 5 marks)

Kolhapur-Nagpur Expressway -Intangible asset Journal Entries

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

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

(5 marks)

(B)

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

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

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

(3 Marks)

Working Notes:

1. Calculation of Goodwill

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

(2 Marks)

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

(1 Marks)

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

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

(2 Marks)

Answer No.5

(A)

Following adjustments / rectifications are required to be done

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

(2 Marks)

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

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

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

(3 Marks)

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

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

(3 Marks)

Statement of Changes in Equity of Abraham Ltd.

For the year ended 31st March, 2019

3. Equity Share Capital (Rs. in lakh)

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

(0.5 Mark)

4. Other Equity (Rs. in lakh)

Particulars	Reserves & Surplus		Total
	Capital reserve	Retained Earnings	
Balance at the beginning of the year	500*	550	1,050
Total comprehensive income for the year		950	950
Balance at the end of the year	500	1,500	2,000

(0.5 Mark)

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

1. Deferred Tax (Rs. in lakh)

Deferred Tax Asset	700
Deferred Tax Liability	400
	300

2. Trade Receivables (Rs. in lakh)

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

3. Long Term Borrowings (Rs. in lakh)

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

4. Other Financial Liabilities (Rs. in lakh)

Unclaimed dividends	10
Interest on term loan	700
Total	710

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

Provisions	300
Foreseeable loss against a service contract	400
Total	700

6. Other Current Liabilities (Rs. in lakh)

Billing in Advance	150
Other	40
Total	190

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

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

(3 Marks)

(B)

Measurement of the fair value of its Decommissioning liability

	Expected cash flows (Rs.) 1st April 2017
Expected labour costs (Refer W.N.)	65,625
Allocated overhead and equipment costs (0.80 × Rs. 65,625)	52,500
Contractor's profit mark – up [0.20* (Rs. 65,625 + Rs. 52,500)]	23,625
Expected cash flows before inflation adjustment	1,41,750
Inflation factor (4% for 10 years) on compounding	1.4802
Expected cash flows adjusted for inflation	2,09,818
Market risk premium (Rs. 2,09,818 × 5%)	10,491
Expected cash flows adjusted for market risk	2,20,309
Expected present value using discount rate of (5 + 3.5) 8.5% for 10 years.	97,443

Working Note :

Cash flow estimate (Rs.)	**Probability assessment**	**Expected cash flows (Rs.)**
50,000	25%	12,500
62,500	50%	31,250
87,500	25%	21,875
		65,625

(4 Marks)

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

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

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

Journal entry

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

Depreciation subsequent to revaluation

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

Journal entry

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

(4 Marks)

(C)

(1) Ind AS 20 Specifically scopes out the participation by the government in the ownership of an entity. In this fact pattern, Government has 100% shareholding in the entity. Accordingly, the entity needs to determine whether the payment is provided as a shareholder contribution or as a government.

Equity contribution will be recorded in equity while grants will affect the statement of profit and loss.

Where it is concluded that the contributions are in the nature of government grants, the entity shall apply the principles of Ind AS 20 retrospectively as specified in Ind AS 101.

Ind AS 20 requires all grants to be recognised as income on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Unlike AS 12, Ind AS 20 requires the grant to be classified as either a capital or an income grant and does not permit recognition of government grants in the nature of promoter's contribution directly to shareholders' funds.

Where it is concluded that the contributions are in the nature of shareholder contributions are recognised in capital reserve under previous GAAP, it is important to note the provisions of paragraph 10 of Ind AS 1010.

Accordingly, in the given case, contributions recognised in the Capital Reserve should be transferred to appropriate category under 'Other Equity' at the date of transition to Ind AS.

(2) The entity shall apply the same principles as mentioned above for accounting the contributions received by the entity subsequent to the transition date.

(4 MARKS)

<u>Answer No.6</u>

(A)

(i) Calculation of Annual Lease Payment (assuming it is payable at the end of each year :

Particulars	**Rs.**
Cost of the equipment / Fair Value (A)	1,50,000
Unguaranteed residual Value	20,000
Present value of unguaranteed residual value for 3 years @ 10% (20,000 × 0.751) – (B)	15,020
Present value of lease payments (A – B)	1,34,980
PVIFA for 3 years @ 10%	2.487
Annual Lease Payment (1,34,980/2.487)	54,275

(ii) Calculation of unearned finance income :

Particulars	**Rs.**
Gross investment in the lease [54,275 {see part (i) above} × 3 ÷ 20,000]	1,82,825
Less : Cost of the equipment / Fair value	1,50,000
Unearned finance income	32,825

(iii) Segregation of Finance Income :

Year	Opening Balance (1)	Finance Income @ 10% (10% on opening balance)	Lease payment received	Principal portion (2)	Closing Balance (1 – 2)
1	1,50,000	15,000	54,275	39,275	1,10,725
2	1,10,725	11,073	54,275	43,202	67,523
3	67,523	6,752	54,275	47,523	20,000
		(54,275 – 47,523) (balancing figure)		(67,523 – 20,000) (opening – closing)	(Guaranteed Residual value)

(6 MARKS)

(B)

The Companies Act, 2013 mandated the corporate entities that the expenditure incurred for Corporate Social Responsibility (CSR) should not be the expenditure incurred for the activities in the ordinary course of business. If expenditure incurred is for the activities in the ordinary course of business. If expenditure is for the activities in the ordinary course of business, then it will not be qualified as expenditure incurred on CSR activities.

The Statutory guidelines relating to CSR also require the deployment of funds for the benefit of the local ara of the Company. Since Nepal is another country the expenditure done there i.e. in Nepal shall not qualify to be accounted as CSR expenditure.

Further, it is presumed that the commercial activities performed at concessional rates are the activities done in the ordinary course of business of the company. Therefore, the treatment done by the Management by showing the expenditure incurred on such commercial activities in its financial statements as the expenditure incurred on activities undertaken to discharge CSR, is not correct.

(4 Marks)

(C)

In the instant case, A Ltd. approached the arbitrator before the end of the reporting period, who decided the award after the end of the reporting period but before approval of the financial statements for issue. Accordingly, the conditions were existing at the end of the reporting date because A Ltd. had approached the arbitrator before the end of the reporting period whose outcome has been confirmed by the award of the arbitrator.

Therefore, it is an adjusting event. Accordingly, the measurement of the provision is required to be adjusted for the event occurring after the reporting period.

As far as the recovery of the cost by A Ltd. from the other party is concerned, this right to recover was a contingent asset as at the end of the reporting period.

On the basis of the above, a contingent asset should be recognised in the financial statements of the period in which the realisation of asset and the related income becomes virtually certain.

In the instant case, the recovery of cost became certain when the arbitrator decided the award during F.Y. 2017 – 18. Accordingly, the recovery of cost should be recognised in the financial year 2017 – 18.

(5 Marks)

(D)

(Amount in Rs.)

	31.3.2016
Valuation as per Consolidated financial statements – Equity method valuation of investments in associate	7,50,000
Add : Goodwill on acquisition	1,00,000
	8,50,000
Carrying amount of investment in associate in Separate financial statements of the investor	11,00,000

As per evaluation carried out on 31.3.2016, the carrying amount of investment in associate in stand alone Balance Sheet exceeds the proportionate value of equity of the associate (equity method as per Ind As 28) and goodwill.

It indicates that investment may be impaired.

(5 MARKS)