J.K. SHAH® CLASSES

CAFC → INTER CA → FINAL CA

FINAL CA
MAY '19
REVISION NOTES
Financial Reporting

Part - VII

/officialjksc Jkshahclasses.com/revision

Ind AS 102 – ACCOUNTING FOR SHARE BASED

Q.1. ABC Limited granted to its employees, share options with a fair value of INR 5, 00,000 on 1 April 2010, if they remain in the organization upto 31st March 2013. On 31st March 2011, ABC limited expects only 91% of the employees to remain in the employment. On 31st March 2012, company expects only 89% of the employees to remain in the employment. However, only 82% of the employees remained in the organisation at the end of March, 2013 and all of them exercised their options. Pass the Journal entries?

Q.2. XYZ issued 10,000 Share Appreciation Rights (SARs) that vest immediately to its employees on 1 April 2010. The SARs will be settled in cash. At that date it is estimated, using an option pricing model, that the fair value of a SAR is INR 95. SAR can be exercised any time upto 31 March 2013. At the end of period on 31 March 2011 it is expected that 95% of total employees will exercise the option, 92% of total employees will exercise the option at the end of next year and finally 89% will be vested only at the end of the 3rd year. Fair Values at the end of each period have been given below:

Fair value of SAR		**INR**
31-Mar-20X1		112
31-Mar-20X2		109
31-Mar-20X3		114

Pass the Journal entries?

Q.3. Tata Industries issued share-based option to one of its key management personal which can be exercised either in cash or equity and it has following features:

Option I	**Period**	**INR**
No of cash settled shares		74,000
Service condition	3 years	
Option II		
No of equity settled shares		90,000
Conditions:		
Service	3 years	
Restriction to sell	2 years	
Fair values		
Equity price with a restriction of sale for 2 years		115
Fair value grant date		135
Fair value 2010		138
2011		140
2012		147

Pass the Journal entries?

Q.4. Ankita Holding Inc. grants 100 shares to each of its 500 employees on 1st January 20X1. The employees should remain in service during the vesting period. The shares will vest at the end of the first year if the company's earnings increase by 12%;
Second year if the company's earnings increase by more than 20% over the two-year period; Third year if the entity's earnings increase by more than 22% over the three-year period.
The fair value per share at the grant date is INR 122. In 2011, earnings increased by 10%, and 29 employees left the organisation. The company expects that earnings will continue at a similar rate in 2012 and expects that the shares will vest at the end of the year 2012. The company also expects that additional 31 employees will leave the

organisation in the year 2012 and that 440 employees will receive their shares at the end of the year 2012. At the end of 2012, company's earnings increased by 18%. Therefore, the shares did not vest. Only 29 employees left the organization during 2012. Company believes that additional 23 employees will leave in 2013 and earnings will further increase so that the performance target will be achieved in 2013.
At the end of the year 2013, only 21 employees have left the organization. Assume that the company’s earnings increased to desired level and the performance target has been met.
Required:
Determine the expense for each year and pass appropriate journal entries?

Q.5. ACC limited granted 10,000 share options to one of its managers. In order to get the options, the manager has to work for next 3 years in the organization and reduce the cost of production by 10% over the next 3 years.

Fair value of the option at grant date was	INR 95
Cost reduction achieved-	
Year 1	12% Achieved
Year 2	8% Not expected to vest in future
Year 3	10% Achieved
How the expenses would be recorded?	

Q.6. Marathon Inc. issued 150 share options to each of its 1,000 employees subject to the service condition of 3 years. Fair value of the option given was calculated at INR 129. Below are the details and activities related to the SBP plan-?
Year 1:
35 employees left and further 60 employees are expected to leave
Share options re-priced (as MV of shares has fallen) as the FV fell to INR 50.
After the re-pricing they are now worth INR 80, hence expense is expected to increase by
INR 30.
Year 2:
30 employees left and further 36 employees are expected to leave
Year 3:
39 employees left
How the modification/ re-pricing will be accounted?

Q.7. Anara Fertilisers Limited issued 2000 share options to its 10 directors for an exercise price of INR 100.The directors are required to stay with the company for next 3 years.

Fair value of the option estimated	INR 130
Expected no of Directors to vest the option	8

During the year 2, there was a crisis in the company and Management decided to cancel the such scheme immediately. It was estimated further as below –

Fair value of option at the time of cancellation was	INR 90
Market price of the share at the cancellation date was	INR 99

There was a compensation which was paid to directors and only 9 directors were currently in employment. At the time of cancellation of such scheme, it was agreed to pay an amount of INR 95 per option to each of 9 directors.
How the cancellation would be recorded?

Q.8. Company P is a holding company for company B. A group share-based payment is being organized in which Parent issues its own equity-shares for the employees of company B. The details are as below –

No. of employees of company B	100
Grant date fair value of share	INR 87
No. of shares to each employee granted	25
Vesting conditions	Immediately

Pass the journal entry in the books of company P & company B?

JKSC

Ind AS 103

Q.1. P Ltd. acquires 80 % of share of S Ltd. for ₹ 120 lakhs. The fair value of the non – controlling interest's share in S Ltd. is ₹ 28 Lakhs whilst the value of non – controlling interest based upon the proportionate share of identifiable net assets acquired would give a value of ₹ 25 lakhs. The fair value of the S Ltd's net assets on acquisition has been determined as ₹ 125 Lakhs. Calculate the goodwill for both the situations?

Q.2. P Ltd. acquired 60% of S Ltd. on 1st Jan. 2017 for ₹ 100 lakhs cash payable immediately and ₹ 121 lakhs after years. The fair value of S Ltd.'s net assets at acquisition amounted to ₹ 300 lakhs. P Ltd.'s cost of capital is 10%. The deferred consideration was completed ignored when preparing group accounts as at 31st Dec. 2017. Calculate the goodwill arising on acquisition and show how the deferred consideration should be accounted for in P Ltd.'s consolidated financial statements.

Q.3. Xing Ltd. acquired Young Ltd. by transfer of its retail division (fair value of which is ₹ 360 million) and 10,00,000 equity shares to the owners of Young Ltd. Market price of equity shares of Xing Ltd (par value ₹ 10 each) as on the date of acquisition was ₹ 350 per share. It was decided to pay the purchase consideration to the liquidation of Young Ltd.

Assets and liabilities of retails segment of Xing Ltd.

(₹ Million)

	Carrying amount	Acquisition date fair value
Equipment	120	130
Inventories	120	150
Receivables	110	110
Trade payables	30	30

As on the acquisition date assets and liabilities of young Ltd. were as follows :

	Carrying amount	Acquisition date fair value
Land and Building	30	50
Plant and machinery	500	600
Equipment	20	10
Inventories	100	80
Receivables	100	80
Cash and Cash Equivalents	10	10
Assets	760	830
Loans	100	100
Trade Payables	30	30
Liabilities	130	130
Net Assets	630	700

Find out purchase consideration and goodwill on business combination. Show accounting entry of acquirer for business combination.

Q.4. Prince Ltd. holds 30% shares in Crown Ltd. which was acquired on 15/7/2014. In separate financial statements, the investment in associate is carried at cost ₹ 200 million. In the consolidated financial statements as at 31st March 2017, the investment is recognized applying equity method accounting at ₹ 300 million (inclusive of goodwill ₹ 15 million). Accretion to cost was partly recognise as share of profit in the profit and loss amounting to ₹ 80 million and balance ₹ 20 million in other comprehensive income.

On 1st April 2017, Prince Ltd. acquired another 30% stake of Crown Ltd. for ₹ 350 million. As on date of acquisition, fair value of identifiable assets and liabilities of crown Ltd. were determined as ₹ 1200 million and ₹ 200 million respectively. Deferred tax liability has been reassessed based on acquisition date fair value of assets and liabilities at ₹ 40 million. Market price of previously held 30% interest is ₹ 330 million. How should Price Ltd. recognise the acquisition of controlling stake in Crown Ltd.?

JKSC

Ind AS 108 – OPERATING SEGMENTS

1) **Operating Segments -** An operating segment is a component of an entity:
   a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity)
   b) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions(CODM) about resources to be allocated to the segment and assess its performance and
   c) for which discrete financial information is available

2) **Reportable Segments –** Ind AS 108 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria:
   a) Its reported revenue, from both external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments, or
   b) the absolute measure of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss, or
   c) its assets are 10 per cent or more of the combined assets of all operating segments.
   d) Operating Segment that does not meet any of the quantitative thresholds can be reported if management believes that information about the segment would be useful to users of financial statements.
   e) If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments must be identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75 per cent of the entity's revenue is included in reportable segments

3) Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics

4) **Disclosures –**
   a. general information about how the entity identified its operating segments and the types of products and services from which each operating segment derives its revenues
   b. judgements made by management in applying the aggregation criteria to allow two or more operating segments to be aggregated
   c. information about the profit or loss for each reportable segment, including certain specified revenues and expenses such as revenue from external customers and from transactions with other segments, interest revenue and expense, depreciation and amortisation, income tax expense or income and material non-cash items
   d. a measure of total assets and total liabilities for each reportable segment, and the amount of investments in associates and joint ventures and the amounts of additions to certain non-current assets ('capital expenditure')

e. an explanation of the measurements of segment profit or loss, segment assets and segment liabilities, including certain minimum disclosures, e.g. how transactions between segments are measured, the nature of measurement differences between segment information and other information included in the financial statements, and asymmetrical allocations to reportable segments

f. reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material items to corresponding items in the entity's financial statements

g. some entity-wide disclosures that are required even when an entity has only one reportable segment, including information about each product and service or groups of products and services

h. analyses of revenues and certain non-current assets by geographical area – with an expanded requirement to disclose revenues/assets by individual foreign country (if material), irrespective of the identification of operating segments

i. information about transactions with major customers

JKSC