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FINAL CA
MAY '19
REVISION NOTES
Financial Reporting

Part - IX

Ind AS 21 – THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

1) Ind AS 21 applies to the followings :

a) Accounting for transactions in Foreign Currency
b) Translating the Financial Statement of foreign branches
c) Translating the Financial Statement of foreign subsidiary
d) Accounting for Fixed Asset acquired by taking foreign currency loan.

2) Definitions:

a) **Functional Currency :** It is the currency of the primary economic environment in which the entity operates i.e. normally generate & expends cash.
b) **Presentation Currency :** It is the currency in which the financial statements are presented.
c) **Foreign Currency :** Currency other than reporting currency of an enterprise.
d) **Exchange Rate :** Ratio for exchange of two currencies.
e) **Average Rate :** Mean of the exchange rate in force during a period. The period may be week, fortnight, month, etc.
f) **Closing rate:** Rate at the Balance Sheet date
g) **Monetary Items :** Money held and Assets and Liabilities to be record or paid in fixed or determinable amounts of money e.g. Cash, Bank balance, Receivables, Payables.
h) **Non-monetary items :** Assets and Liabilities other than monetary items e.g. Fixed Assets, Inventories, Investment in Equity shares.
i) **Settlement date :** Date at which a receivable is due to be collected or a pay able is due to be paid.
j) **Recoverable Amount :** Amount which the enterprise expects to recover from the future use of an asset, including its residual value on disposal.

3) Interrelated Foreign Currency transactions can be recognised at the exchange rate as applicable to the net amount of receivable or payable.

4) A Foreign Currency transaction should be recorded on the same date at the exchange rate applicable to the date of the transaction, i.e. Spot Rate. Average rate that approximates the actual rate can be adopted for a period instead of spot rate for each transaction date provided exchange rates do not fluctuate significantly.

5) A single transaction may have to be translated more than once. For e.g. a credit purchase / credit sale of goods will be translated at transaction date. If the amount is not settled by the year end then the creditors / debtors will again be translated for preparation of Balance Sheet. Finally the exchange rate may have varied when the settlement date arrives needing yet another translation.

6) Monetary items are the Balance Sheet are reported at the closing rate. Non-monetary items other than Fixed Asset are reported at the exchange rate at the date of transaction.

7) Contingent Liability will be translated at closing rate.

8) **Disclosure:** An enterprise should disclose the amount of exchange difference included in net profit or loss for the period.

Ind AS 24 – INDIAN ACCOUNTING STANDARD RELATED PARTY DISCLOSURES

1. Objective

The objective of IND AS 24 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties

2. Who are related parties?

A related party is a person or entity that is related to the reporting entity

(a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) Has control or joint control of the reporting entity;
(ii) Has significant influence over the reporting entity; or
(iii) Is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
(iii) Both entities are joint ventures of the same third party.
(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
(vi) The entity is controlled or jointly controlled by a person identified in (a).
(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. The following are deemed not to be related:

- two entities simply because they have a director or key manager in common
- providers of finance, trade unions, public utilities, and departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity, simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process)
- a single customer, supplier, franchiser, distributor, or general agent with whom an entity transacts a significant volume of business merely by virtue of the resulting economic dependence

4. A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged

5. **Disclosure**
   Relationships between parents and subsidiaries - Regardless of whether there have been transactions between a parent and a subsidiary, an entity must disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so must also be disclosed

6. **Management compensation -** Disclose key management personnel compensation in total and for each of the categories like short-term employee benefits, post-employment benefits, other long-term benefits, termination benefits etc.

7. Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or otherwise) of the entity.

8. If there have been transactions between related parties, disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosures would be made separately for each category of related parties and would include:
   - The amount of the transactions.
   - The amount of outstanding balances, including terms and conditions and guarantees.
   - Provisions for doubtful debts related to the amount of outstanding balances
   - Expense recognised during the period in respect of bad or doubtful debts due from related parties.

Ind AS 21

Q.1. On 1st January, 2019 Sonali Ltd. imported \$ 1,00,000 worth of goods from Robin Traders of USA. The payment for the import was made on 15.4.2019. Sonali Ltd. closes its books on 31st March, every year. The exchange rates on the relevant dates were :

01-1-2019	1 \$ = Rs.46
31-3-2019	1 \$ = Rs.45
15-4-2019	1 \$ = Rs.48

Record the above transaction in the books Sonali Ltd. in accordance with Ind AS 21.

Q.2. X Ltd., an Indian company imported goods worth AUD \$10,000 on 24/02/2018 when the exchange rate was AUD \$ 1 = ₹ 36.60. However, the creditors were settled only on 05/06/2018, when the exchange rate was AUD \$ 1 = ₹ 37.50.
Exchange rate on 31/03/2018 was AUD \$ 1 = ₹ 37.00.
Determine the exchange gain / loss for the financial years : 2017 - 2018 & 2018 - 2019.

Ind AS 24

Q.1. A Ltd. sold to B Ltd. goods having a sales value of ₹ 50 lakhs during the financial year ended 31.3.2018. Mr. X, the Managing Director and Chief Executive of A Ltd. owns nearly 100% of the capital of B Ltd. The sales were made to B Ltd. at the normal selling price of A Ltd. The chief accountant of A Ltd. does not consider that these sales should be treated any differently from any other sale made by the company despite being made to a controlled company, because the sales were made at normal and that too, at arm's length prices. Discuss the above issue from the view point Ind AS 24.

ACCOUNTING FOR CARBON CREDITS

CLASSWORK SECTION

Q.1. A company has incurred USD 100,000 in CERs registration, certification and other related costs during financial year 2011-2012. This entitles the company to 90,000 CERs.

Required:

Pass necessary Journal entries for recognition of CERs, year-end value to be appeared in the financial statements (assuming that the CERs are being traded at USD 1.2 per CER in MCX at the year-end) and on sale of CERs in the next year @USD 1.2 per CER.

Q.2. PQR Ltd has 2 lakh units of CER under validation stage and 60,000 units have been approved by UNFCCC. What in the treatment required for the above?

Q.3. 1,60,000 units of carbon credit (CER) has been produced by LMN Ltd. Currently the value of CER under different situations are as follows:

(i) Cost @ ₹ 200 per unit i.e. CER

(ii) Market Value @ ₹ 160 per unit i.e. CER

(iii) Net Realisation Value ₹ 150 per unit i.e. CER

(iv) Disposal Value ₹ 140 per unit i.e. CER

Explain how income recognition will be done as per relevant and applicable Accounting Standards?

QUESTIONS WITH SOLUTIONS

Q.4. A company in India (developing country) switches from coal power to wind energy, an activity which definitely reduces carbon emission. The CDM board then certifies. Carbon Credits stating that the company has reduced Carbon dioxide emissions by 1, 00,000 tonnes per year. It issued 1, 00,000 CERs as Carbon Credits.

These CERs can be sold to the companies unable to meet their targets in developed countries. Calculate the amount which can be earned by the Indian company on sale of such CERS assuming that the price of 1 CER is around 5 Euros. I Euro is equal to INR 78

Solution

Total CERS earned = 1, 00,000

Value per CER = Euro 5

Amount which can be earned by an Indian Company if sold at this rate

= 1, 00,000 CERs x 5 Euro x INR 78 = INR 3, 90, 00,000.

Q.5. XYZ Ltd is an energy company working on its annual report. Please advise on the following enquiries by its accounts department:

(i) Balance sheet disclosure

(ii) Measurement of carbon credit

Solution

(i) It is disclosed as an intangible asset under AS 26.

(ii) Measurement of carbon credit is done as per AS 2. As per AS 2, inventory should be valued at the lower of cost and net realisable value. Hence the treatment should be done accordingly.

ACCOUNTING FOR E-COMMERCE

CLASSWORK SECTION

Q.1. B an E-commerce operator is acting as an agent between the Vendor 'S' and Customer 'P'. The E commerce operator is located in Mumbai. While the Vendor is in Delhi who sells the Pen drive worth ₹ 1, 00,000 to Customer in Gujarat at ₹ 1, 50,000. Pen drives are purchased by Vendor S from Vendor H from Kolkata. The E commerce operator charges commission at 2%. Pass the necessary Journal Entries in the Books of Vendor and E commerce operator, taking into consideration 18% GST.

Q.2. When the following companies would recognise revenue:

(a) Amazon sells mobile to customer with no return policy:

(b) Amazon sells mobile to customer with no return policy. It enters into logistic with DHL to insure the logistics and risks during delivery.

(c) Amazon sells mobile to customer with return policy of 15 days.

Q.3. How will you recognise revenue in case of Linkedin:

(a) Non-refundable fee

(b) Premium Membership Annual fee

Q.4. A Ltd. an E-commerce dealer purchases the goods from the vendor worth ₹ 68,000 from Pune and sells the same in Mumbai at ₹ 80,000. It follows ILM of e-commerce business. Taking GST into consideration pass necessary Journal Entries.

QUESTIONS WITH SOLUTIONS

Q.5. An e-commerce company purchases traded goods from a wholesaler. It would sell these goods to the end customer and may or may not carry the associated inventory risk as it purchases goods from the wholesaler only when it receives orders from the end customer. However, it may bear the risk of those inventory items that have been returned by the customers. Determine the revenue recognition for e-commerce Company.

Solution

In the given case, the e-commerce company does not seem to bear significant inventory risk, however, it may bear the following:

1. Credit risk
2. Is primarily responsible for providing the goods to the customer, i.e., fulfilling the order
3. Direct pricing discretion
4. Discretion in selecting the supplier/ wholesaler

Therefore, in this case, the e-commerce company should reflect gross billing to its Customers as its revenue.

Q.6. An e-commerce company is a travel agent that sell travel tickets through an e-commerce platform. Travel agents sell airline tickets to the public, generally at a price determined with reference to the market rate, but often pay the airline a discounted amount. The travel agent does not bear any general inventory risk because it does not carry tickets as its inventory and buys tickets only when it receives orders or bookings from customers.

What should be the revenue of the e-commerce company acting as a travel agent? Will your answer get change if the e-commerce company bears the credit risk say when corporate customers have an account with the travel agent and settle the account only after the travel agent has paid the airline for the ticket?

Solution

In the given case, the travel agent does not bear any inventory risk, nor is it responsible for carrying out the services related to the ticket itself, because this is the responsibility of the airlines. The travel agent provides a service on behalf of various airlines and other suppliers and earns a fee. The travel agent's revenue should reflect only the fee and not the gross amount billed to the customer.

The fact that the agency sometimes bears credit risk is not a determining factor and does not compel the agency to reflect the gross billing as revenue.