PAPER – 1 : FINANCIAL REPORTING

*Question No.**1** is compulsory. Candidates are required to answer any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the answers.

Question 1

(a) Prepare the Consolidated Balance Sheet as on 31st March, 2018 of a group of companies comprising Usha Limited, Nisha Limited and Sandhya Limited. Their summarized balance sheets on that date are given below: *Amounts ₹ in lakh*

	Usha Ltd.	*Nisha Ltd.*	*Sandhya Ltd.*
Equity and Liabilities			
Shareholder's Equity			
Share capital (₹ 10 per share)	*300*	*200*	*160*
Reserves	*90*	*50*	*40*
Retained earnings	*80*	*25*	*30*
Current Liabilities			
Trade Payables	*235*	*115*	*90*
Bills Payable			
Usha Ltd.	*-*	*35*	*-*
Sandhya Ltd.	*15*	*-*	*-*
	720	*425*	*320*
Assets			
Non-Current Assets			
Tangible assets	*160*	*180*	*150*
Investment:			
16 lakh shares in Nisha Ltd.	*170*	*-*	*-*
12 lakh shares in Sandhya Ltd.	*-*	*140*	*-*
Current Assets			
Cash in hand and at Bank	*114*	*20*	*20*
Bills Receivable	*36*	*-*	*15*
Trade Receivables	*130*	*50*	*110*
Inventories	*110*	*35*	*25*
	720	*425*	*320*

The following additional information is available:

(i) Usha Ltd. holds 80% shares in Nisha Ltd. and Nisha Ltd. holds 75% shares in Sandhya Ltd. Their holdings were acquired on 30th September, 2017.

(ii) The business activities of all the companies are not seasonal in nature and therefore, it can be assumed that profits are earned evenly throughout the year.

(iii) On 1st April, 2017, the following balances stood in the books of Nisha Limited and Sandhya Limited.

₹ in lakh

	Nisha Limited	*Sandhya Limited*
Reserves	*40*	*30*
Retained earnings	*10*	*15*

(iv) ₹ 5 Lakh included in the inventory figure of Nisha Limited, is inventory which has been purchased from Sandhya Limited at cost plus 25%.

(v) The parent company has adopted an accounting policy to measure Non-controlling interest at fair value (quoted market price) applying Ind AS 103. Assume market prices of Nisha Limited and Sandhya Limited are the same as respective face values.

(vi) The capital profit preferably is to be adjusted against cost of control.

Note:** Analysis of profits and notes to accounts must be a part of your answer.* ***(16 Marks)

(b) Sun Limited has entered into a binding agreement with Moon Limited to buy a custom-made machine for ₹ 4,00,000. At the end of 2017-18, before delivery of the machine, Sun Limited had to change its method of production. The new method will not require the machine ordered which is to be scrapped after delivery. The expected scrap value is nil. Given that the asset is yet to be delivered, should any liability be recognized for the potential loss? If so, give reasons for the same, the amount of liability as well as the accounting entry. ***(4 Marks)***

Answer

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

Particulars	Note No.	(₹ 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

Notes to Accounts (₹ in lakh)

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

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	
	Sandhya Ltd.	90	440

Working Notes:

1. Analysis of Reserves and Surplus (₹ 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

		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

2. 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%

3. 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	

4. 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.

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.

(b) As per Ind AS 37, Executory contracts are contracts under which

- ❖ neither party has performed any of its obligations; or
- ❖ both parties have partially performed their obligations to an equal extent.

The contract entered by Sun Ltd. is an executory contract, since the delivery has not yet taken place.

Ind AS 37 is applied to executory contracts only if they are onerous.

Ind AS 37 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.

As per the facts given in the question, Sun Ltd. will not require the machine ordered. However, since it is a binding agreement, the entity cannot exit / cancel the agreement. Further, Sun Ltd. has to scrap the machine after delivery at nil scrap value.

These circumstances do indicate that the agreement/contract is an onerous contract. Therefore, a provision should be made for the onerous element of ₹ 4,00,000 ie the full cost of the machine.

		₹	₹
Onerous Contract Provision Expense A/c	Dr.	4,00,000	
To Provision for Onerous Contract Liability A/c			4,00,000
(Being asset to be received due to binding agreement recognized)			
Profit and Loss Account (Loss due to onerous contract)	Dr.	4,00,000	
To Onerous Contract Provision Expense A/c			4,00,000
(Being loss due to onerous contract recognized and asset derecognsied)			

Question 2

(a) XYZ Limited has three cash-generating units - X, Y and Z, the carrying amounts of which as on 31st March, 2018 are as follows:

Cash Generating Units	*Carrying Amount (₹ in lakh)*	*Remaining useful life in years*
X	*800*	*20*
Y	*1000*	*10*
Z	*1200*	*20*

XYZ Limited also has corporate assets having a remaining useful life of 20 years as given below:

Corporate Assets	*Carrying amount (₹ in lakh)*	*Remarks*
AU	*800*	*The carrying amount of AU can be allocated on a reasonable basis to the individual cash generating units.*
BU	*400*	*The carrying amount of BU cannot be allocated on a reasonable basis to the individual cash-generating units.*

Recoverable amounts as on 31st March, 2018 are as follows:

Cash-generating units	*Recoverable amount (₹ in lakh)*
X	*1000*
Y	*1200*
Z	*1400*
XYZ Limited	*3900*

Calculate the impairment loss if any of XYZ Ltd. Ignore decimals. ***(10 Marks)***

(b) How will you recognize and present the grants received from the Government in the following cases as per Ind AS 20?

(i) A Ltd. received one acre of land to setup a plant in backward area (fair value of land ₹ 12 lakh and acquired value by Government is ₹ 8 lakhs).

(ii) B Ltd. received an amount of loan for setting up a plant at concessional rate of interest from the Government.

(iii) D Ltd. received an amount of ₹ 25 lakh for immediate start-up of a business without any condition.

(iv) *S Ltd. received ₹10 lakh for purchase of machinery costing ₹80 lakh. Useful life of machinery is 10 years. Depreciation on this machinery is to be charged on straight line basis.*

(v) *Government gives a grant of ₹25 lakh to U Limited for research and development of medicine for breast cancer, even though similar medicines are available in the market but are expensive. The company is to ensure by developing a manufacturing process over a period of two years so that the cost comes down at least to 50%.* ***(5 Marks)***

(c) *Deluxe bike manufactured by Zed Limited is sold with an extended warranty of 2 years for ₹87,300 while an identical Deluxe bike without the extended warranty is sold in the market for ₹80,000 and equivalent warranty is given in the market for ₹10,000. How should Zed Limited recognize and measure revenue in the books on the sale of the bikes and warranty?* ***(5 Marks)***

Answer

(a) (i) Allocation of corporate assets to CGU

The carrying amount of AU is allocated to the carrying amount of each individual cash-generating unit. A weighted allocation basis is used because the estimated remaining useful life of Y's cash-generating unit is 10 years, whereas the estimated remaining useful lives of X and Z's cash-generating units are 20 years.

				(₹ in lakh)	
	Particulars	X	Y	Z	Total
(a)	Carrying amount	800	1000	1,200	3,000
(b)	Useful life	20 years	10 years	20 years	
(c)	Weight based on useful life	2	1	2	
(d)	Carrying amount (after assigning weight) (a x c)	1,600	1,000	2,400	5,000
(e)	Pro-rata allocation of AU	32% (1,600/5,000)	20% (1,000/5,000)	48% (2,400/5,000)	100%
(f)	Allocation of carrying amount of AU (32: 20: 48)	256	160	384	800
(g)	Carrying amount (after allocation of AU) (a+f)	1,056	1,160	1,584	3,800

(ii) Calculation of impairment loss

Step 1: Impairment losses for individual cash-generating units and its allocation

(a) Impairment loss of each cash-generating units

			(₹ in lakh)
Particulars	X	Y	Z
Carrying amount (after allocation of AU)	1,056	1,160	1,584
Recoverable amount	1,000	1,200	1,400
Impairment loss	56	Nil	184

(b) Allocation of the impairment loss (after rounding off)

				(₹ in lakh)
Allocation to	X		Z	
AU	14	(56x256/1,056)	45	(184x384/1,584)
Other assets in cash-generating units	42	(56x800/1056)	139	(184x1,200/ 1,584)
Impairment loss	56		184	

Step 2: Impairment loss for the larger cash-generating unit, i.e., XYZ Ltd. as a whole

						(₹ in lakh)
Particulars	X	Y	Z	AU	BU	XYZ Ltd.
Carrying amount	800	1,000	1,200	800	400	4,200
Impairment loss (Step I)	(42)	-	(139)	(59)*	-	(240)
Carrying amount (after Step I)	758	1,000	1,061	741	400	3,960
Recoverable amount						3,900
Impairment loss for the 'larger' cash-generating unit						60

*₹ 14 lakh + ₹ 45 lakh = ₹ 59 lakh.

(b) (i) The land and government grant should be recognized by A Ltd. at fair value of ₹ 12,00,000 and this government grant should be presented in the books as deferred income. (Refer footnote [1])

[1] As per the amendment made by MCA in Ind AS 20 on 21st September, 2018, alternatively if the company is following the policy of recognising non-monetary grants at nominal value, the company will not recognise any government grant. Land will be shown in the financial statements at ₹ 1.

(ii) As per para 10A of Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance', loan at concessional rates of interest is to be measured at fair value and recognised as per Ind AS 109. Value of concession is the difference between the initial carrying value of the loan determined in accordance with Ind AS 109, and the proceeds received. The benefit is accounted for as Government grant.

(iii) ₹ 25 lakh has been received by D Ltd. for immediate start-up of business. Since this grant is given to provide immediate financial support to an entity, it should be recognised in the Statement of Profit and Loss immediately with disclosure to ensure that its effect is clearly understood, as per para 21 of Ind AS 20.

(iv) ₹ 10 lakh should be recognized by S Ltd. as deferred income and will be transferred to profit and loss over the useful life of the asset. In this case, ₹ 1,00,000 [₹ 10 lakh / 10 years] should be credited to profit and loss each year over period of 10 years. (Refer footnote [2])

(v) As per para 12 of Ind AS 20, the entire grant of ₹ 25 lakh should be recognized immediately as deferred income and charged to profit and loss over a period of two years based on the related costs for which the grants are intended to compensate provided that there is reasonable assurance that U Ltd. will comply with the conditions attached to the grant.

(c) Zed Ltd. has sold two products viz Deluxe bike and the extended warranty. Revenue earned on sale of each product should be recognised separately.

Calculation of Revenue attributable to both the components:

Total fair value of Deluxe bike and extended warranty (80,000+10,000)	₹ 90,000
Less: Sale price of the Deluxe bike with extended warranty	(₹ 87,300)
Discount	₹ 2,700

Discount and revenue attributable to each component of the transaction:

Proportionate discount attributable to sale of Deluxe bike (2,700 x 80,000 / 90,000)	₹ 2,400
Revenue from sale of Deluxe bike (80,000 – 2,400)	₹ 77,600
Proportionate discount attributable to extended warranty (2,700 x 10,000 / 90,000)	₹ 300

[2] As per the amendment made by MCA in Ind AS 20 on 21st September, 2018, alternatively, if the company is following the policy of recognising non-monetary grants at nominal value, the company will not recognise any government grant. The machinery will be recognised at ₹ 70 lakh (₹ 80 lakh - ₹ 10 lakh). Reduced depreciation will be charged to the Statement of Profit or Loss.

Revenue from extended warranty (10,000 - 300) ₹ 9,700

Revenue in respect of sale of Deluxe bike of ₹ 77,600 should be recognised immediately and revenue from warranty of ₹ 9,700 should be recognised over the period of warranty ie. 2 years.

Question 3

(a) On 1st April, 2017 Good Time Limited purchased some land for ₹ 1.5 crore (including legal cost of ₹ 10 lakhs) for the purpose of constructing a new factory. Construction work commenced on 1st May, 2017. Good Time Limited incurred the following costs in relation to its construction.

	₹
Preparation and levelling of the land	*4,40,000*
Purchase of materials for the construction	*92,00,000*
Employment costs of the construction workers (per month)	*1,45,000*
Overhead costs incurred directly on the construction of the factory (per month)	*1,25,000*
Ongoing overhead costs allocated to the construction project (using the company's normal overhead allocation model) per month	*75,000*
Costs of relocating employees to work at new factory	*3,25,000*
Costs of the opening ceremony on 1st January, 2018	*2,50,000*
Income received during the temporary use of the factory premises as a store during the construction period.	*60,000*

The construction of the factory was completed on 31st December, 2017 and production began on 1st February, 2018. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it is estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building.

At the end of the 40 years period, Good Time Limited has a legally enforceable obligation to demolish the factory and restore the site to its original condition. The company estimates that the cost of demolition in 40 year's time (based on price prevailing at that time) will be ₹ 3 crore. The annual risk adjusted discount rate which is appropriate to this project is 8%. The present value of ₹ 1 payable in 40 years time at an annual discount rate of 8% is 0.046.

The construction of the factory was partly financed. by a loan of ₹ 1.4 crore taken out on 1st April, 2017. The loan was at an annual rate of interest of 9%. During the period 1st April, 2017 to 30th September, 2017 (when the loan proceeds had been fully utilized to finance the construction), Good Time Limited received investment income of ₹ 1,25,000 on the temporary investment of the proceeds.

You are required to compute the cost of the factory and the carrying amount of the factory in the Balance Sheet of Good Time Limited as at 31st March, 2018. ***(8 Marks)***

(b) Golden Era Limited grants 200 shares to each of its 400 employees on 1st January, 2016. The employee should remain in service during the vesting period so as to be eligible. The shares will vest at the end of the

1st year - If the company's earnings increase by 12%.

2nd year - If the company's earnings increase by more than 20% over the two year period.

3rd year - If the company's earnings increase by more than 20% over the three year period.

The fair value per share (non-market related) at the grant date is ₹ 61. In 2016, earnings increased by 10% and 22 employees left the company. The company expects that earnings will continue at a similar rate in 2017 and expect that the shares will vest at the end of the year 2017. The company also expects that additional 18 employees will leave the organization in the year 2017 and that 360 employees will receive their shares at the end of the year 2017. At the end of 2017 company's earnings increased by 18% (over the 2 years period). Therefore, the shares did not vest. Only 16 employees left the organization during 2017.

The company believes that additional 14 employees will leave in 2020 and earnings will further increase so that the performance target will be achieved in 2018. At the end of the year 2018, only 9 employees have left the organization. Assume that the company's earnings increased to desired level and the performance target has been met.

You are required to determine the expense as per Ind AS for each year (assumed as financial year) and pass appropriate journal entries. ***(8 Marks)***

(c) NAV Limited granted a loan of ₹ 120 lakh to OLD Limited for 5 years @ 10% p.a. which is Treasury bond yield of equivalent maturity. But the incremental borrowing rate of OLD Limited is 12%. In this case, the loan is granted to OLD Limited at below market rate of interest. Ind AS 109 requires that a financial asset or financial liability is to be measured at fair value at the initial recognition. Should the transaction price be treated as fair value? If not, find out the fair value. What is the accounting treatment of the difference between the transaction price and the fair value on initial recognition in the book of NAV Ltd.?

Present value factors at 12%:

Year	*1*	*2*	*3*	*4*	*5*
PVF	*0.892*	*0.797*	*0.712*	*0.636*	*0.567*

(4 Marks)

Answer

(a) Computation of the cost of the factory

	₹
Purchase of land	1,50,00,000

Preparation and levelling	4,40,000
Materials	92,00,000
Employment costs of construction workers (1,45,000 x 8 months)	11,60,000
Direct overhead costs (1,25,000 x 8 months)	10,00,000
Allocated overhead costs	Nil
Income from use of a factory as a store	Nil
Relocation costs	Nil
Cost of the opening ceremony	Nil
Finance costs	9,45,000
Investment income on temporary investment of the loan proceeds	(1,25,000)
Demolition cost recognised as a provision (3,00,00,000 x 0.046)	13,80,000
Total	2,90,00,000

Computation of carrying amount of the factory as at 31st March, 2018 ₹

		Land (Non-depreciable asset)	Factory (Depreciable asset)
Cost of the asset (Total cost 2,90,00,000)		1,50,00,000	1,40,00,000
Less: Depreciation			
On Land		Nil	
On Factory			
Depreciation on roof component (1,40,00,000 × 25% × 1/20 x 3/12)	43,750		
Depreciation on remaining factory (1,40,00,000 × 75% × 1/40 × 3/12)	65,625		(1,09,375)
Carrying amount of depreciable asset ie factory		1,50,00,000	1,38,90,625
Total cost			2,88,90,625

Note:

1. Interest cost has been capitalised based on nine month period. This is because, purchase of land would trigger off capitalisation.
2. All of the net finance cost of ₹ 8,20,000 (₹ 9,45,000 - ₹ 1,25,000) has been allocated to the depreciable asset i.e Factory. Alternatively, it can be allocated proportionately between land and factory.

(b) Since the earnings of the entity is non-market related, hence it will not be considered in fair value calculation of the shares given. However, the same will be considered while calculating number of shares to be vested.

Calculation of yearly expenses to be charged:

		2016	2017	2018
(a)	Total employees	400	400	400
(b)	Employees left (Actual)	(22)	(38)*	(47)**
(c)	Employees expected to leave in the next year	(18)	(14)	-
(d)	Year end – No of employees (a-b-c)	360	348	353
(e)	Shares per employee	200	200	200
(f)	Fair value of a share at the grant date	61	61	61
	Conditional increase in earnings	12%	20%	20%
	Actual increase in earnings	10%	18%	20%
(g)	Vesting period	1/2	2/3	3/3
(h)	Expenses (Refer Working Notes)	21,96,000	6,34,400	14,76,200

*22 + 16 = 38

** 22 +16 + 9 = 47

Journal Entries

31st March, 2016		₹	₹
Employee benefits expenses A/c	Dr.	5,49,000	
To Share based payment reserve (equity) A/c			5,49,000
(Equity settled shared based payment based on conditional vesting period)			
Profit and Loss A/c	Dr.	5,49,000	
To Employee benefits expenses A/c			5,49,000
(Employee benefits expenses transferred to Profit and Loss A/c)			
31st March, 2017			
Employee benefits expenses	Dr.	18,05,600	
To Share based payment reserve (equity)			18,05,600
(Equity settled shared based payment based on conditional expected vesting period)			

Profit and Loss A/c	Dr.	18,05,600	
To Employee benefits expenses A/c			18,05,600
(Employee benefits expenses transferred to Profit and Loss A/c)			
31st March, 2018			
Employee benefits expenses	Dr.	8,44,850	
To Share based payment reserve (equity)			8,44,850
(Equity settled shared based payment based on conditional expected vesting period)			
Profit and Loss A/c	Dr.	8,44,850	
To Employee benefits expenses A/c			8,44,850
(Employee benefits expenses transferred to Profit and Loss A/c)			
31st March, 2019			
Employee benefits expenses	Dr.	11,07,150	
To Share based payment reserve (equity)			11,07,150
(Equity settled shared based payment based on conditional expected vesting period)			
Profit and Loss A/c	Dr.	11,07,150	
To Employee benefits expenses A/c			11,07,150
(Employee benefits expenses transferred to Profit and Loss A/c)			
Share based payment reserve (equity) (353 x 200 x 61)	Dr.	43,06,600	
To Share Capital			43,06,600
(Share capital Issued)			

Working Notes:

1. Expense for 2016 (Jan to Dec) = No. of employees x Shares per employee x Fair value of share x Proportionate vesting period

   = 360 x 200 x 61 X 1/2

   = 21,96,000

   Expense recognized in the financial year 2015-2016= 21,96,000 x 3/12 = 5,49,000

2. Expense for 2017 (Jan to Dec) = No of employees x Shares per employee x Fair value of share x Proportionate vesting period) – Expense recognized in year 2016

   = [(348 x 200 x 61) x 2/3] – 21,96,000

   = 6,34,400

Expense recognized in the financial year 2016-2017= (21,96,000 x 9/12) + (6,34,400 x 3/12) = 16,47,000 + 1,58,600 = 18,05,600

3. Expense for 2018 (Jan to Dec) = (No of employees x Shares per employee x Fair value of share x Proportionate vesting period) – Expense recognized in year 2016 and 2017

= [(353 x 200 x 61) x 3/3] – (21,96,000 + 6,34,400)

= 14,76,200

Expense recognized in the financial year 2017-2018= (6,34,400 x 9/12) + (14,76,200 x 3/12) = 4,75,800 + 3,69,050 = 8,44,850

4. Expense recognized in the financial year 2018-2019=(14,76,200x9/12)= 11,07,150

(c) Since the loan is granted to OLD Ltd at 10% i.e below market rate of 12%. It will be considered as loan given at off market terms. Hence the Fair value of the transaction will be lower from its transaction price & not the transaction price.

Calculation of fair value

Year	Future cash flow (in lakh)	Discounting factor @ 12%	Present value (in lakh)
1	12	0.892	10.704
2	12	0.797	9.564
3	12	0.712	8.544
4	12	0.636	7.632
5	120+12=132	0.567	74.844
			111.288

The fair value of the transaction be ₹ 111.288 lakh.

Since fair value is based on level 1 input or valuation technique that uses only data from observable markets, difference between fair value and transaction price will be recognized in Profit and Loss as fair value loss i.e ₹ 120 lakh– ₹ 111.288 lakh= ₹ 8.712 lakh.

Note: One may also calculate the above fair value by the way of annuity on interest amount rather than separate calculation.

Question 4

(a) A machine was acquired by ABC Ltd. 15 years ago at a cost of ₹20 crore. Its accumulated depreciation as at 31st March, 2018 was ₹16.60 crore. Depreciation estimated for the financial year 2018-19 is ₹1 crore. Estimated Net Selling Price of the machine as on 31st March, 2018 was ₹1.20 crore, which is expected to decline by 20 per cent by the end of the next financial year.

Its value in use has been computed at ₹ 1.40 crore as on 1st April, 2018, which is expected to decrease by 30 per cent by the end of the financial year. Assuming that other conditions of relevant Accounting Standard for applicability of the impairment are satisfied:

(i) What should be the carrying amount of this machine as at 31st March, 2019?

(ii) How much will be the amount of write off (impairment loss) for the financial year ended 31st March, 2019?

(iii) If the machine had been revalued ten years ago and the current revaluation reserves against this plant were to be ₹ 48 lakh, how would you answer to questions (i) and (ii) above?

(iv) If the value in use was zero and the company was required to incur a cost of ₹ 8 lakh to dispose of the plant, what would be your response to questions (i) and (ii) above? ***(5 Marks)***

(b) An asset is sold in 2 different active markets at different prices. An entity enters into transactions in both markets and can access the price in those markets for the asset at the measurement date.

In Market A:

The price that would be received is ₹ 78, transaction costs in that market are ₹ 9 and the costs to transport the asset to that market are ₹ 6.

In Market B:

The price that would be received is ₹ 75, transaction costs in that market are ₹ 3 and the costs to transport the asset to that market are ₹ 6.

You are required to calculate:

(i) The fair value of the asset, if market A is the principal market, and

(ii) The fair value of the asset, if none of the markets is principal market. ***(5 Marks)***

(c) Future Limited undertakes a contract for construction of a Bridge on 01.04.2017. The contract was to be completed in two years. The following details are given below:

Contract Price ₹ 1250 Lakh

Cost incurred up to 31.03.2018 ₹ 780 Lakh

The company estimated that a further cost of ₹ 520 lakh would be incurred for completing the project.

What amount should be charged to revenue for the financial year 2017-18 as per the provisions of Ind AS 11 "Construction Contracts"?

Show the extracts of Profit and Loss account in the books of Future Limited. ***(5 Marks)***

(d) Navya Limited manufacturer of ceramic tiles has shown a net profit of ₹ 15,00,000 for the first quarter of 2018-2019. Following adjustments were made while computing the net profit:

(i) Bad debts of ₹ 1,64,000 incurred during the quarter. 75% of the bad debts have been deferred for the next three quarters (25% for each quarter).

(ii) Sales promotion expenses of ₹ 5,00,000 incurred in the first quarter and 90% expenses deferred to the next three quarters (30% for each quarter) on the basis that the sales in these quarters will be high in comparison to first quarter.

(iii) Additional depreciation of ₹ 3,50,000 resulting from the change in the method of depreciation has been taken into consideration.

(iv) Extra-ordinary loss of ₹ 1,36,000 incurred during the quarter has been fully recognized in this quarter.

Discuss the treatment required under Ind AS 34 and ascertain the correct net profit to be shown in the Interim Financial report of first quarter to be presented to the Board of Directors. ***(5 Marks)***

Answer

(a) As per the requirement of the question, the following solution has been drawn on the basis of AS 28

		(₹ in crore)
(i)	Carrying amount of plant (before impairment) as on 31st March, 2019	2.40
	Carrying amount of plant (after impairment) as on 31st March, 2019	0.98
(ii)	Amount of impairment loss for the financial year ended 31st March, 2019 (2.4 Cr.- 0.98 Cr)	1.42
(iii)	If the plant had been revalued ten years ago	
	Debit to revaluation reserve	0.48
	Amount charged to profit and loss (1.42 - 0.48)	0.94
(iv)	*If Value in use was zero*	
	Value in use (a)	Nil
	Net selling price (b)	(0.08)
	Recoverable amount [higher of (a) and (b)]	Nil
	Carrying amount (closing book value)	Nil
	Amount of write off (impairment loss) (₹ 2.4 Cr – Nil)	2.4
	Entire book value of plant will be written off and charged to profit and loss account.	

Working Notes:

(1) Calculation of Closing Book Value, as at 31st March, 2019

	₹ in crore
Opening book value as on 1.4.2018 (₹20 crore -16.60 crore)	3.40
Less: Depreciation for financial year 2018–2019	(1.00)
Closing book value as on 31.3.2019 (before impairment)	2.40

(2) Calculation of Estimated Net Selling Price on 31st March, 2019

	₹ in crore
Estimated net selling price as on 1.4.2018	1.20
Less: Estimated decrease during the year (20% of ₹ 1.20 Cr.)	(0.24)
Estimated net selling price as on 31.3.2019	0.96

(3) Calculation of Estimated Value in Use of Plant on 31st March, 2019

	₹ in crore
Estimated value in use as on 1.4.2018	1.40
Less: Estimated decrease during the year (30% of ₹1.40 Cr.)	(0.42)
Estimated value in use as on 31.3.2019	0.98

(4) Recoverable amount as on 31.3.2019 is equal to higher of Net selling price and value in use

	₹ in crore
Net selling price	0.96
Value in use	0.98
Recoverable amount	0.98
Impairment Loss [Carrying amount – Recoverable amount ie. (2.40 Cr. – 0.98 Cr)]	1.42
Revised carrying amount on 31.3.2019 is equal to Recoverable amount (after impairment)	0.98 Cr.

Note: Since question requires computation of Impairment Loss on 31.3.2019, hence impairment probability on 31.3.2018 has been ignored. However, since there is impairment probability at the beginning of the year as well, one may calculate the carrying amount at the beginning of the year after impairment and then calculate the impairment possibilities at the end of the year. Accordingly the solution will be as follows:

	₹ in crore
Carrying amount before impairment on 1.4.2018 (20 - 16.60)	3.40
Recoverable amount ie. higher of NSP (1.20 cr) and Value in use (1.40 cr)	1.40
Impairment loss	2.00
Revised carrying amount after impairment as on 1.4.2018	1.40
Less: Depreciation for 2018-2019 (as given in the question)	(1.00)
Carrying amount as on 31.3.2019	0.40
Recoverable amount as on 31.3.2019 (Refer W.N. 2, 3 and 4 above)	0.98
Impairment Loss as on 31.3.2019 (since carrying amount is less than recoverable amount)	NIL

(b) (i) If Market A is the principal market

If Market A is the principal market for the asset (i.e., the market with the greatest volume and level of activity for the asset), the fair value of the asset would be measured using the price that would be received in that market, after taking into account transport costs.

Fair Value of the asset will be

	₹
Price receivable	78
Less: Transportation cost	(6)
Fair value of the asset	72

(ii) If neither of the market is the principal market

If neither of the market is the principal market for the asset, the fair value of the asset would be measured using the price in the most advantageous market. The most advantageous market is the market that maximises the amount that would be received to sell the asset, after taking into account transaction costs and transport costs (i.e., the net amount that would be received in the respective markets).

Determination of most advantageous market:

	₹	₹
	Market A	Market B
Price receivable	78	75
Less: Transaction cost	(9)	(3)
Less: Transportation cost	(6)	(6)
Fair value of the asset	63	66

Since the entity would maximise the net amount that would be received for the asset in Market B i.e. ₹ 66, the fair value of the asset would be measured using the price in Market B.

Fair value of the asset will be

	₹
Price receivable	75
Less: Transportation cost	(6)
Fair value of the asset	69

(c) Statement showing the amount to be charged to Revenue as per Ind AS 11

	₹ in lakh
Cost of construction incurred upto 31.03.2018	780
Add: Estimated future cost	520
Total estimated cost of construction	1,300
Degree of completion (780/1,300 x 100)	60%

	₹ in lakh
Revenue recognized (1,250 x 60%)	750
Total foreseeable loss (1,300 – 1,250)	50
Less: Expense for the current year (780 – 750)	(30)
Loss to be provided for	20

Profit and Loss Account (Extract)

		₹ in lakh			*₹ in lakh*
To	Construction Costs	780	By	Contract Price	750
To	Provision for loss	20	By	Net loss	50
		800			800

(d) As per Ind AS 34, *Interim Financial Reporting*, the quarterly net profit should be adjusted and restated as follows:

(i) Bad debts of ₹ 1,64,000 have been incurred during current quarter. Out of this, the company has deferred 75% i.e. ₹ 1,23,000 to the next 3 quarters. This treatment is not correct as the expenses incurred during an interim reporting period should be recognised in the same period unless conditions mentioned in Ind AS 34 are fulfilled. Accordingly, ₹ 1,23,000 should be deducted from the net profit of the current quarter ₹ 15,00,000.

(ii) Deferment of sales promotion expenses of ₹ 4,50,000 is not correct. It should be charged in the quarter in which the expenses have been incurred. Hence, it should be charged in the first quarter only.

(iii) Recognising additional depreciation of ₹ 3,50,000 in the same quarter is correct and is in tune with Ind AS 34.

(iv) The treatment of extra-ordinary loss of ₹ 1,36,000 being recognised in the same quarter is correct.

Thus considering the above, the correct net profits to be shown in Interim Financial Report of the third quarter shall be ₹ 15,00,000 - ₹ 1,23,000 - ₹ 4,50,000 = ₹ 9,27,000.

Question 5

(a) Veer Limited issues convertible bonds of ₹ 75,00,000 on 1st April, 2018. The bonds have a life of five years and a face value of ₹ 20 each, and they offer interest payable at the end of each financial year at a rate of 4.5 per cent annum. The bonds are issued at their face value and each bond can be converted into one ordinary share in Veer Ltd at any time in the next five years. Companies of a similar risk profile have recently issued debt at 6 per cent per annum with similar terms but without the option for conversion.

You are required to:

(i) Provide the appropriate accounting entries for initial recognition as per the relevant Ind AS in the books of the company.

(ii) Calculate the stream of interest expenses across the five years of the life of the bonds.

(iii) Provide the accounting entries if the holders of the bonds elect to convert the bonds to ordinary shares at the end of the fourth year. ***(8 Marks)***

(b) New Era Development Limited has been preparing Value Added Statement for the past six years. The department of HRD (Human Resource Development) of the Company has suggested introducing a value added incentive scheme to motivate the employees for better performance. Under the scheme it is proposed that the best index performance favorable to employee i.e. Employee Costs to Added value, for the last six years, will be used as the target index for future calculations of the bonus to be paid.

After the target index is determined, any actual improvement in the index will be rewarded. The employer and the employee will be sharing any such improvement in the ratio of 3:5. The bonus is to be given at the end of the year, after the profit for the year is determined.

The following information is available for the last six years.

Summarized Value Added Statement for six years

₹ in lakh

Particulars for 31st March	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*
Sales	*240*	*280*	*380*	*460*	*520*	*600*

Less: Bought in Goods and Services	*(105)*	*(128)*	*(200)*	*(250)*	*(280)*	*(320)*
Added Value	*135*	*152*	*180*	*210*	*240*	*280*
Employees cost	*60*	*66*	*74*	*84*	*98*	*112*
Dividend	*8*	*10*	*15*	*20*	*24*	*30*
Taxes	*15*	*18*	*20*	*21*	*25*	*26*
Depreciation	*21*	*26*	*31*	*36*	*44*	*56*
Debenture Interest	*4*	*4*	*4*	*4*	*4*	*4*
Retained earning	*27*	*28*	*36*	*45*	*45*	*52*
Added Value	*135*	*152*	*180*	*210*	*240*	*280*

Summarized Profit & Loss account for the year ended 31st March, 2018

Particulars			*₹ in lakh*
Income			
Sales less returns		*680*	
Dividend and interest		*24*	
Miscellaneous income		*26*	
Total Income	*(A)*		*730*
Expenditure			
Production and Operating Expenses:			
Cost of Material		*250*	
Wages and Salaries		*89*	
Other Manufacturing expenses		*70*	*409*
Administrative Expenses :			
Administrative staff salary		*31*	
Executive Director's salary		*4*	
Administration expenses		*29*	*64*
Selling and Distribution expenses :			
Selling and distribution salaries		*20*	
Selling expenses		*6*	*26*
Financial expenses :			
Debenture interest		*4*	
Depreciation		*76*	*80*
Total expenditure	*(B)*		*579*

Profit before taxation	*(A-B)*		*151*
Provision for Taxation			*(47)*
Profit after taxation			*104*

From the above information, prepare value added statement for the year 31st March, 2018 and determine the amount of bonus payable to employees, if any. ***(8 Marks)***

(c) *Baby Limited manufactures consumable goods for infants like bath soap, cream, powder, oil etc. As part of its CSR policy, it has decided that for every pack of these goods sold, ₹ 0.75 will go towards the "Swachh Bharat Foundation" which will qualify as a CSR spend as per Schedule VII. Consequently, at the year end, the company sold 40,000 such packs and a total of ₹ 30,000 was recognized as CSR expenditure. However, this amount was not paid to the Foundation at the end of the financial year. Will the amount of ₹ 30,000 qualify to be CSR expenditure?* ***(4 Marks)***

Answer

(a) Present value of bonds at the market rate of debt

Present value of principal to be received in 5 years discounted at 6%

(75,00,000 x 0.747) = 56,02,500

Present value of interest stream discounted at 6% for 5 years

(3,37,500 x4.212) = 14,21,550

Total present value = 70,24,050

Equity component = 4,75,950

Total face value of convertible bonds = 75,00,000

(i) Journal Entries

	Dr. Amount (₹)	Cr. Amount (₹)
1st April, 2018		
Cash Dr.	75,00,000	
To Convertible bonds (liability)		70,24,050
To Convertible bonds (equity component)		4,75,950
(Being entry to record the convertible bonds and the recognition of the liability and equity components)		
31st March, 2019		
Interest expense Dr.	4,21,443	

To Cash		3,37,500
To Convertible bonds (liability)		83,943
(Being entry to record the interest expense)		

(ii) The stream of interest expense is summarised below, where interest for a given year is calculated by multiplying the present value of the liability at the beginning of the period by the market rate of interest, this is being 6 per cent.

Date	Payment	Interest expense at 6% (e of previous year x 6%)	Increase in bond liability (c-b)	Total bond liability (e of previous year +d)
(a)	(b)	(c)	(d)	(e)
1st April, 2018				70,24,050
31st March, 2019	3,37,500	4,21,443	83,943	71,07,993
31st March, 2020	3,37,500	4,26,480	88,980	71,96,973
31st March, 2021	3,37,500	4,31,818	94,318	72,91,291
31st March, 2022	3,37,500	4,37,477	99,977	73,91,268
31st March, 2023	3,37,500	4,46,232*	1,08,732	75,00,000

* Difference is due to rounding off.

(iii) If the holders of the bond elect to convert the bonds to ordinary shares at the end of the fourth year (after receiving their interest payments), the entries in the fourth year would be:

		Dr. (₹)	Cr. (₹)
31st March, 2022			
Interest expense A/c	Dr.	4,37,477	
To Cash A/c			3,37,500
To Convertible bonds (liability) A/c			99,977
(Being entry to record interest expense for the period)			
31st March, 2022			
Convertible bonds (liability) A/c	Dr.	73,91,268	
Convertible bonds (equity component) A/c	Dr.	4,75,950	
To Ordinary share capital A/c			78,67,218
(Being entry to record the conversion of bonds into ordinary shares of Veer Limited).			

(b) 1. Calculation of Target index

						(₹ in lakh)
Year ended 31st March	2012	2013	2014	2015	2016	2017
Employees costs	60	66	74	84	98	112
Value added	135	152	180	210	240	280
Percentage of 'Employee costs' to 'Value added'	44.44%	43.42%	41.11%	40%	40.83%	40%

Target index percentage is taken as **highest** of the above from the **employee's viewpoint** i.e. 44.44%.

2. Value Added Statement for the year 2017-2018

	(₹ in lakh)	*(₹ in lakh)*
Sales		680
Less: Cost of bought in goods & services		
Materials consumed	250	
Other manufacturing expenses	70	
Administrative expenses	29	
Selling expenses	6	(355)
		325
Add: Dividend and interest		24
Miscellaneous income		26
Value Added		375

3. Employee costs for 2017-2018

	(₹ in lakh)
Wages and salaries	89
Administrative staff salary	31
Executive Director's salary	4
Selling and distribution salaries	20
	144

Note: In the above solution, it is assumed that the Executive Director is in whole time employment of the company. Hence his cost has not been considered while calculating value added. Alternatively, it may be assumed that Executive Director is not an employee of the company. In such a situation, his salary will be included in 'Cost of bought in goods & services'. Accordingly, the value added will be ₹ 357 lakh and employees cost would be ₹ 140 lakh.

4. Calculation of target employee cost = Target Index Percentage x Value added

= 44.44% x ₹ 375 lakh= ₹ 166.65 lakh

5. Calculation of savings

Target employee cost	=	₹ 166.65 lakh
Less: Actual Cost	=	(₹ 144 lakh)
Saving	=	₹ 22.65 lakh

6. Calculation of Bonus payable for the year 2017-2018:

5/8 of savings is Bonus Payable = ₹22.65 lakh x 5/8 = ₹ 14.16 lakh.

(c) Baby Ltd. has earmarked 75 paise per pack to spend as CSR activities. However, only by earmarking the amount from such sale for CSR expenditure, the company cannot show it as CSR expenditure. To qualify the amount as CSR expenditure, it has to be spent. Hence, ₹ 30,000 will not be automatically considered as CSR expenditure till the time it is spent on CSR activities i.e it is deposited to 'Swachh Bharat Foundation'.

Question 6

(a) PB Limited purchased a plastic bottle manufacturing plant for ₹ 24 lakh on 1st April, 2015. The useful life of the plant is 8 years. On 30th September, 2017, PB Limited temporarily stops using the manufacturing plant because demand has declined. However, the plant is maintained in a workable condition and it will be used in future when demand picks up.

The accountant of PB Limited decided to treat the plant as held for sale until the demand picks up and accordingly measures the plant at lower of carrying amount and fair value less cost to sell. The accountant has also stopped charging depreciation for rest of the period considering the plant as held for sale. The fair value less cost to sell on 30th September, 2017 and 31st March, 2018 was ₹ 13.5 lakh and ₹ 12 lakh respectively.

The accountant has made the following working:

Carrying amount on initial classification as held for sale	***₹***	***₹***
Purchase price of Plant	*24,00,000*	
Less: Accumulated Depreciation [(₹ 24,00,000/8)x2.5 years]	*7,50,000*	*16,50,000*
Fair value less cost to sell as on 31st March, 2017		*12,00,000*
The value lower of the above two		*12,00,000*

Balance Sheet extracts as on 31st March, 2018

Particulars	*₹*
Assets	
Current Assets	
Other Current Assets	
Assets classified as held for sale	*12,00,000*

Required:

Analyze whether the above accounting treatment is in compliance with the Ind AS. If not, advise the correct treatment showing necessary workings. ***(8 Marks)***

(b) Growth Limited on 1st April, 2015 issued 50,000, 7% convertible debentures of face value of ₹100 per debenture at par. The debentures are redeemable at a premium of 10% on 31st March, 2020 or these may be converted into ordinary shares at the option of the holder. The interest rate for equivalent debentures without conversion rights would have been 10%. The date of transition to Ind AS is 1st April, 2017.

Suggest how Growth Limited should account for this compound financial instrument on the date of transition. Also discuss Ind AS on 'Financial Instrument' presentation in the above context.

The present value of ₹1 receivable at the end of each year based on discount rates of 7% and 10% can be taken as:

End of Year	*1*	*2*	*3*	*4*	*5*
7%	*0.94*	*0.87*	*0.82*	*0.76*	*0.71*
10%	*0.91*	*0.83*	*0.75*	*0.68*	*0.62*

(8 Marks)

(c) Sun Shine India Limited has a capital base of ₹150 Lakh and has earned profits to the tune of ₹17 lakh. The Return on Investment (ROI) of the particular industry to which the company belongs is 14%. If the services of a particular executive are acquired by the company, it is expected that the profit will increase by ₹3 lakh over and above the target profit.

Determine the amount of maximum bid price for that particular executive and the maximum salary that could be offered to him. ***(4 Marks)***

OR

Moon Ltd. acquires 75% of Star Limited on 1st April, 2017 for consideration transferred ₹ 60 lakh. Moon Limited intends to recognize the Non-Controlling Interest (NCI) at proportionate share of fair value of identifiable assets. With the assistance of a suitably qualified valuation professional, Moon Limited measures the identifiable net assets of Star

Limited at ₹ 90 lakh. Moon Limited performs a review and determines that the business combination did not include any transactions that should be accounted for separately from the business combination.

State whether the procedures followed by Moon Limited and the resulting measurements are appropriate or not. Also calculate the bargain purchase gain in the process. ***(4 Marks)***

Answer

(a) As per Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations', an entity shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

For asset to be classified as held for sale, it must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. In such a situation, an asset cannot be classified as a non-current asset held for sale, if the entity intends to sell it in a distant future.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Further Ind AS 105 also states that an entity shall not classify as held for sale a non-current asset that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use.

An entity shall not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.

In addition to Ind AS 105, Ind AS 16 states that depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

The Accountant of PB Ltd. has treated the plant as held for sale and measured it at the fair value less cost to sell. Also, the depreciation has not been charged thereon since the date of classification as held for sale which is not correct and not in accordance with Ind AS 105 and Ind AS 16.

Accordingly, the manufacturing plant should neither be treated as abandoned asset nor as held for sale because its carrying amount will be principally recovered through continuous use. PB Ltd. shall not stop charging depreciation or treat the plant as held for sale because its carrying amount will be recovered principally through continuing use to the end of their economic life.

The working of the same for presenting in the balance sheet will be as follows:

Calculation of carrying amount as on 31st March, 2018	₹
Purchase Price of Plant	24,00,000
Less: Accumulated depreciation (24,00,000/ 8 years) x 3 years	(9,00,000)
Carrying amount before impairment	15,00,000
Less: Impairment loss (Refer Working Note)	(3,00,000)
Revised carrying amount after impairment	12,00,000

Balance Sheet extracts as on 31st March 2018

Assets	₹
Non-Current Assets	
Property, Plant and Equipment	12,00,000

Working Note:

Fair value less cost to sell of the Plant = ₹ 12,00,000

Value in Use (not given) or = Nil (since plant has temporarily not been used for manufacturing due to decline in demand)

Recoverable amount = higher of above i.e. ₹ 12,00,000

Impairment loss = Carrying amount – Recoverable amount

Impairment loss = ₹ 15,00,000 - ₹ 12,00,000

= ₹ 3,00,000.

(b) Since the liability is outstanding on the date of Ind AS transition, Growth Ltd. is required to split the convertible debentures into debt and equity portion on the date of transition. Accordingly, first the liability component will be measured discounting the contractually determined stream of future cash flows (interest and principal) to present value by using the discount rate of 10% p.a. (being the market interest rate for similar debentures with no conversion option).

Calculation of Equity & Liability component on initial recognition

	(₹)
Present Interest payments for 5 years on debentures by applying annuity factor [(50,000 x 7% x 100) x 3.79]	13,26,500
PV of principal repayment (including premium) (50,000x110x0.62)	34,10,000
Total liability component	47,36,500
Total equity component (Balancing figure)	2,63,500
Total proceeds from issue of Debentures	50,00,000

Thus, on the date of transition, the amount of ₹ 50,00,000 being the amount of debentures will split as under:

Debt	₹ 47,36,500
Equity	₹ 2,63,500

(c) **EITHER**

Capital Base	=	₹ 1,50,00,000
Actual Profit	=	₹ 17,00,000
Target Profit @ 14%	=	₹ 21,00,000

Expected Profit on employing the particular executive

= ₹ 21,00,000 + ₹ 3,00,000 = ₹ 24,00,000

Additional Profit = Expected Profit – Actual Profit

= ₹ 24,00,000 – ₹ 17,00,000 = ₹ 7,00,000

$$\text{Maximum bid price} = \frac{\text{Additional Profit}}{\text{Rate of Return on Investment}} = \frac{7,00,000}{14\%} \times 100 = ₹\ 50,00,000$$

Maximum salary that can be offered = 14% of ₹ 50,00,000 i.e., ₹ 7,00,000

Maximum salary can be offered to that particular executive upto the amount of additional profit i.e., ₹ 7,00,000.

OR

(c) The amount of Star Ltd.'s identifiable net assets exceeds the fair value of the consideration transferred plus the fair value of the NCI in Star Ltd.'s, resulting in an initial indication of a gain on a bargain purchase. Accordingly, Moon Ltd. reviews the procedures it used to identify and measure the identifiable net assets acquired, to measure the fair value of both the NCI and the consideration transferred, and to identify transactions that were not part of the business combination.

Following that review, Moon Ltd. can conclude that the procedures followed and the resulting measurements were appropriate. (₹)

Identifiable net assets	90,00,000
Less: Consideration transferred	(60,00,000)
NCI (90,00,000 x 25%)	(22,50,000)
Gain on bargain purchase	7,50,000