MOCK TEST PAPER 2

FINAL COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

ANSWERS

1. (a) Consolidated Balance Sheet of A Ltd. and its subsidiary, S Ltd.

as at 31st March, 20X3

Particulars	**₹ in 000s**
I. Assets	
(1) Non-current assets	
(i) Property Plant & Equipment (W.N.4)	7,120.00
(ii) Intangible asset – Goodwill (W.N.3)	1,032.00
(2) Current Assets	
(i) Inventories (550 + 100)	650.00
(ii) Financial Assets	
(a) Trade Receivables (400 + 200)	600.00
(b) Cash & Cash equivalents (200 + 50)	250.00
Total Assets	9,652.00
II. Equity and Liabilities	
(1) Equity	
(i) Equity Share Capital (2,000 + 200)	2,200.00
(ii) Other Equity	
(a) Retained Earnings (W.N.6)	1190.85
(b) Securities Premium	160.00
(2) Non-Controlling Interest (W.N.5)	347.40
(3) Non-Current Liabilities (3,000 + 400)	3,400.00
(4) Current Liabilities (W.N.8)	2,353.75
Total Equity & Liabilities	9,652.00

Notes:

1. Since the question required not to prepare Notes to Account, the column of Note to Accounts had not been drawn.
2. It is assumed that shares were issued during the year 20X2-20X3 and entries are yet to be made.

Working Notes:

1. Calculation of purchase consideration at the acquisition date i.e. 1st April, 20X1

	₹ in 000s
Payment made by A Ltd. to S Ltd.	
Cash	1,000.00

Equity shares (2,00,000 shares x ₹ 1.80)	360.00
Present value of deferred consideration (₹ 5,00,000 x 0.75)	375.00
Total consideration	1,735.00

2. Calculation of net assets i.e. net worth at the acquisition date i.e. 1st April, 20X1

	₹ in 000s
Share capital of S Ltd.	500.00
Reserves of S Ltd.	125.00
Fair value increase on Property, Plant and Equipment	200.00
Net worth on acquisition date	825.00

3. Calculation of Goodwill at the acquisition date i.e. 1st April, 20X1 and 31st March, 20X3

	₹ in 000s
Purchase consideration (W.N.1)	1,735.00
Non-controlling interest at fair value (as given in the question)	380.00
	2,115.00
Less: Net worth (W.N.2)	(825.00)
Goodwill as on 1st April, 20X1	1,290.00
Less: Impairment (as given in the question)	258.00
Goodwill as on 31st March, 20X3	1,032.00

4. Calculation of Property, Plant and Equipment as on 31st March, 20X3

			₹ in 000s
A Ltd.			5,500.00
S Ltd.		1,500.00	
Add: Net fair value gain not recorded yet	200.00		
Less: Depreciation [(200/5) x 2]	(80.00)	120.00	1,620.00
			7,120.00

5. Calculation of Post-acquisition gain (after adjustment of impairment on goodwill) and value of NCI as on 31st March, 20X3

		₹ in 000s	₹ in 000s
		NCI (20%)	A Ltd. (80%)
Acquisition date balance		380.00	Nil
Closing balance of Retained Earnings	300.00		
Less: Pre-acquisition balance	(125.00)		
Post-acquisition gain	175.00		
Less: Additional Depreciation on PPE [(200/5) x 2]	(80.00)		
Share in post-acquisition gain	95.00	19.00	76.00
Less: Impairment on goodwill	258.00	(51.60)	(206.40)
		347.40	(130.40)

6. **Consolidated Retained Earnings as on 31st March, 20X3**

	₹ in 000s
A Ltd.	1,400.00
Add: Share of post-acquisition loss of S Ltd. (W.N.5)	(130.40)
Less: Finance cost on deferred consideration (37.5 + 41.25) (W.N.7)	(78.75)
Retained Earnings as on 31st March, 20X3	1,190.85

7. **Calculation of value of deferred consideration as on 31st March, 20X3**

	₹ in 000s
Value of deferred consideration as on 1st April, 20X1 (W.N.1)	375.00
Add: Finance cost for the year 20X1-20X2 (375 x 10%)	37.50
	412.50
Add: Finance cost for the year 20X2-20X3 (412.50 x 10%)	41.25
Deferred consideration as on 31st March, 20X3	453.75

8. **Calculation of current Liability as on 31st March, 20X3**

	₹ in 000s
A Ltd.	1,250.00
S Ltd.	650.00
Deferred consideration as on 31st March, 20X3 (W.N.7)	453.75
Current Liability as on 31st March, 20X3	2,353.75

(b) (i) An earnings-based valuation of A Ltd.'s holding of shares in XYZ Ltd.could be calculated as follows:

Particulars	
XYZ Ltd.'s after-tax maintainable profits (A)	₹ 70,000
Price/Earnings ratio (B)	15
Adjusted discount factor (C) (1- 0.20)	0.80
Value of XYZ Ltd. (A) x (B) x (C)	₹ 8,40,000

Value of a share of XYZ Ltd.= ₹ 8,40,000 ÷ 5,000 shares = ₹ 168

The fair value of A Ltd.'s investment in XYZ Ltd.'s shares is estimated at ₹ 42,000 (that is, 250 shares × ₹ 168 per share).

(ii) Share price = ₹ 8,50,000 ÷ 5,000 shares = ₹ 170 per share.

The fair value of A Ltd.'s investment in XYZ Ltd.'s shares is estimated to be ₹ 42,500 (250 shares × ₹ 170 per share).

2. (a) (i) Determination of how revenue is to be recognised in the books of ABC Ltd. as per expected value method

Calculation of probability weighted sales volume

Sales volume (units)	**Probability**	**Probability-weighted sales volume (units)**
9,000	15%	1,350
28,000	75%	21,000
36,000	10%	3,600
		25,950

Calculation of probability weighted sales value

Sales volume (units)	Sales price per unit (₹)	Probability	Probability-weighted sales value (₹)
9,000	90	15%	1,21,500
28,000	80	75%	16,80,000
36,000	70	10%	2,52,000
			20,53,500

Average unit price = Probability weighted sales value/ Probability weighted sales volume

= 20,53,500 / 25,950 = ₹ 79.13 per unit

Revenue is recognised at ₹ 79.13 for each unit sold. First 10,000 units sold will be booked at ₹ 90 per unit and liability is accrued for the difference price of ₹ 10.87 per unit (₹ 90 – ₹ 79.13), which will be reversed upon subsequent sales of 15,950 units (as the question states that ABC Ltd. achieved the same number of units of sales to the customer during the year as initially estimated under the expected value method for the financial year 20X1-20X2). For, subsequent sale of 15,950 units, contract liability is accrued at ₹ 0.87 (80 – 79.13) per unit and revenue will be deferred.

(ii) Determination of how revenue is to be recognised in the books of ABC Ltd. as per most likely method

Transaction price will be:

28,000 units x ₹ 80 per unit = ₹ 22,40,000

Average unit price applicable = ₹ 80

First 10,000 units sold will be booked at ₹ 90 per unit and liability of ₹ 1,00,000 is accrued for the difference price of ₹ 10 per unit (₹ 90 – ₹ 80), which will be reversed upon subsequent sales of 18,000 units (as question states that ABC Ltd. achieved the same number of units of sales to the customer during the year as initially estimated under the most likely method for the financial year 20X1-20X2).

(iii) Journal Entries in the books of ABC Ltd.

(when revenue is accounted for as per expected value method for financial year 20X1-20X2)

			₹	₹
1.	Bank A/c (10,000 x ₹ 90)	Dr.	9,00,000	
	To Revenue A/c (10,000 x ₹ 79.13)			7,91,300
	To Liability (10,000 x ₹ 10.87)			1,08,700
	(Revenue recognized on sale of first 10,000 units)			
2.	Bank A/c [(25,950 x ₹ 80)- 9,00,000]	Dr.	11,76,000	
	Liability	Dr.	86,124	
	To Revenue A/c (15,950 x ₹ 79.13)			12,62,124
	(Revenue recognized on sale of remaining 15,950 units (25,950 – 10,000). Amount paid by the			

	customer will be the balance amount after adjusting the excess paid earlier since, the customer falls now in second slab)			
3.	Liability (1,08,700 – 86,124)	Dr.	22,576	
	To Revenue A/c [25,950 x (80-79.13)]			22,576
	(On reversal of liability at the end of the financial year 20X1-20X2 i.e. after completion of stipulated time)			

Alternatively, in place of first two entries, one consolidated entry may be passed as follows:

Bank A/c (25,950 x ₹ 80)	Dr.	20,76,000	
To Revenue A/c (25,950 x ₹ 79.13)			20,53,424
To Liability (25,950 x ₹ 0.87)			22,576
(Revenue recognised on sale of 25,950 units)			

Note: In 2nd journal entry, it is assumed that the customer had paid balance amount of ₹ 11,76,000 after adjusting excess ₹ 1,00,000 paid with first lot of sale of 10,000 unit. However, one can pass journal entry with total sales value of ₹ 12,76,000 (15,950 units x ₹ 80 per unit) and later on pass third entry for refund. In such a situation, alternatively, 2nd and 3rd entries would be as follows:

Bank A/c (15,950 x ₹ 80)	Dr.	12,76,000	
To Revenue A/c (15,950 x ₹ 79.13)			12,62,124
To Liability			13,876
(Revenue recognised on sale of remaining 15,950 units (25,950 - 10,000))			
Liability (1,08,700 + 13,876)	Dr.	1,22,576	
To Revenue A/c [25,950 x (80-79.13)]			22,576
To Bank			1,00,000
(On reversal of liability at the end of the financial year 20X1-20X2 i.e. after completion of stipulated time and excess amount refunded)			

(b)

Sr. No.	Nature of transaction	Operating/Investing/ Financing/Not to be considered
1	Issued preference shares	Financing
2	Purchased the shares of 100% subsidiary company	Investing
3	Dividend received from shares of subsidiaries	Investing
4	Dividend received from other companies	Investing
5	Bonus shares issued	No cash flow
6	Purchased license for manufacturing of special drugs	Investing
7	Royalty received from the goods patented by the company	Operating

8	Rent received from the let-out building (letting out is not main business)	Investing
9	Interest received from loans and advances given	Investing
10	Dividend paid	Financing
11	Interest paid on security deposits	Financing
12	Purchased goodwill	Investing
13	Acquired the assets of a company by issue of equity shares (not parting any cash)	Not to be considered
14	Interim dividends paid	Financing
15	Dissolved the 100% subsidiary and received the amount in final settlement	Investing

3. (a) (i) **Value of property immediately before the classification as held for sale as per Ind AS 16 as on 31st March, 20X3**

	₹	
Purchase price	6,00,000	
Less: Accumulated depreciation	(80,000)	(for two years)
Less: Impairment loss	(50,000)	(5,20,000-4,70,000)
Carrying Amount	**4,70,000**	

On initial classification as held for sale on 31st March, 20X3, the value will be lower of:

Carrying amount after impairment	₹ 4,70,000
Fair value less cost to sell	₹ 4,60,000
On 31st March, 20X3, Non-current asset classified as held for sale will be recorded at	₹ 4,60,000.

Depreciation of ₹ 40,000 and Impairment Loss of ₹ 60,000 (50,000 +10,000) is charged in profit or loss for the year ended 31st March, 20X3.

(ii) **On 31st March, 20X4, held for sale property is reclassified as criteria doesn't met. The value will be lower of:**

Carrying amount immediately before classification on 31st March, 20X3	₹ 4,70,000
Less: Depreciation based on 13 years balance life	(₹ 36,154)
Carrying amount had the asset not classified as held for sale	₹ 4,33,846
Recoverable Amount	₹ 5,00,000

Property will be valued at ₹ 4,33,846 on 31st March, 20X4

Adjustment to the carrying amount of ₹ 26,154 (₹ 4,60,000 - 4,33,846) is charged to the profit or loss.

(b)

Activity	**Whether in the scope of Ind AS 41?**	**Remarks**
Managing animal-related	No	Since the primary purpose is to show

recreational activities like Zoo		the animals to public for recreational purposes, there is no management of biological transformation but simply control of the number of animals. Hence it will not be considered in the definition of agricultural activity.
Fishing in the ocean	No	Fishing in ocean is harvesting biological assets from unmanaged sources. There is no management of biological transformation since fish grow naturally in the ocean. Hence, it will not fall in the scope of the definition of agricultural activity.
Fish farming	Yes	Managing the growth of fish and then harvest for sale is agricultural activity within the scope of Ind AS 41 since there is management of biological transformation of biological assets for sale or additional biological assets.
Development of living organisms such as cells, bacteria viruses for research purposes	No	The development of living organisms for research purposes does not qualify as agricultural activity, as those organisms are not being developed for sale, or for conversion into agricultural produce or into additional biological assets. Hence, development of such organisms for the said purposes does not fall under the scope of Ind AS 41.
Growing of plants to be used in the production of drugs	Yes	If an entity grows plants for using it in production of drugs, the activity will be agricultural activity. Hence it will come under the scope of Ind AS 41.
Purchase of 25 dogs for security purposes of the company's premises	No	Ind AS 41 is applied to account for the biological assets when they relate to agricultural activity. Guard dogs for security purposes do not qualify as agricultural activity, since they are not being kept for sale, or for conversion into agricultural produce or into additional biological assets. Hence, they are outside the scope of Ind AS 41.

(c) (i) **False**. An integrated report may be prepared in response to existing compliance requirements and may be either a standalone report or be included as a distinguishable, prominent and accessible part of another report or communication.

(ii) **True.** The Framework is written ***primarily*** in the context of private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organizations.

(iii) **True.** If the report is required to include specified information beyond that required by this Framework, the report can still be considered an integrated report if that other information does not obscure the concise information required by this Framework.

(iv) **False.** An integrated report should include all material matters, both positive and negative, in a balanced way and without material error. Both the increases and reductions in the value of the important capital should be reflected. Where the information is not perfectly accurate, estimates should be used and appropriate processes should be in place to insure that the risk of material misstatement is reduced.

4. (a) ***1st April, 20X1***

A financial guarantee contract is initially recognised at fair value. The fair value of the guarantee will be the present value of the difference between the net contractual cash flows required under the loan, and the net contractual cash flows that would have been required without the guarantee.

Particulars	**Year 1 (₹)**	**Year 2 (₹)**	**Year 3 (₹)**	**Total (₹)**
Cash flows based on interest rate of 11% (A)	1,10,000	1,10,000	1,10,000	3,30,000
Cash flows based on interest rate of 8% (B)	80,000	80,000	80,000	2,40,000
Interest rate differential (A-B)	30,000	30,000	30,000	90,000
Discount factor @ 11%	0.901	0.812	0.731	
Interest rate differential discounted at 11%	27,030	24,360	21,930	73,320
Fair value of financial guarantee contract (at inception)				**73,320**

Journal Entry

Particulars		Debit (₹)	Credit (₹)
Investment in subsidiary	Dr.	73,320	
To Financial guarantee (liability)			73,320
(Being financial guarantee initially recorded)			

31st March, 20X2

Subsequently at the end of the reporting period, financial guarantee is measured at the higher of:

- the amount of loss allowance; and
- the amount initially recognised less cumulative amortization, where appropriate.

At 31st March, 20X2, there is 1% probability that Moon Limited may default on the loan in the next 12 months. If Moon Limited defaults on the loan, Sun Limited does not expect to recover any amount from Moon Limited. The 12-month expected credit losses are therefore ₹ 10,000 (₹ 10,00,000 x 1%).

The initial amount recognised less amortisation is ₹ 51,385 (₹ 73,320 + ₹ 8,065 (interest accrued based on EIR)) – ₹ 30,000 (benefit of the guarantee in year 1) (Refer table below). The unwound amount is recognised as income in the books of Sun Limited, being the benefit derived by Moon Limited not defaulting on the loan during the period.

Year	Opening balance ₹	EIR @ 11%	Benefits provided ₹	Closing balance ₹
1	73,320	8,065	(30,000)	51,385
2	51,385	5,652	(30,000)	27,037
3	27,037	2,963*	(30,000)	-

* Difference is due to approximation

The carrying amount of the financial guarantee liability after amortisation is therefore ₹ 51,385, which is higher than the 12-month expected credit losses of ₹ 10,000. The liability is therefore adjusted to ₹ 51,385 (the higher of the two amounts) as follows:

Particulars	Debit (₹)	Credit (₹)
Financial guarantee (liability) Dr.	21,935	
To Profit or loss		21,935
(Being financial guarantee subsequently adjusted)		

31 March 20X3

At 31 March 20X3, there is 3% probability that Moon Limited will default on the loan in the next 12 months. If Moon Limited defaults on the loan, Sun Limited does not expect to recover any amount from Moon Limited. The 12-month expected credit losses are therefore ₹ 30.000 (₹ 10,00,000 x 3%).

The initial amount recognised less accumulated amortisation is ₹ 27,037, which is lower than the 12-month expected credit losses (₹ 30,000). The liability is therefore adjusted to ₹ 30,000 (the higher of the two amounts) as follows:

Particulars	Debit (₹)	Credit (₹)
Financial guarantee (liability) Dr.	21,385*	
To Profit or loss (Note)		21,385
(Being financial guarantee subsequently adjusted)		

* The carrying amount at the end of 31 March 20X2 = ₹ 51,385 less 12-month expected credit losses of ₹ 30,000.

(b) The new turbine will produce economic benefits to MS Ltd., and the cost is measurable. Hence, the item should be recognised as an asset. The original invoice for the machine did not specify the cost of the turbine; however, the cost of the replacement ₹ 45,00,000 can be used as an indication (usually by discounting) of the likely cost, six years previously.

If an appropriate discount rate is 5% per annum, ₹ 45,00,000 discounted back six years amounts to ₹ 33,57,900 [₹ 45,00,000/$(1.05)^6$], i.e., the approximate cost of turbine before 6 years.

The current carrying amount of the turbine which is required to be replaced of ₹ 13,43,160 would be derecognised from the books of account (i.e., Original Cost ₹ 33,57,900 as reduced by accumulated depreciation for past 6 years ₹ 20,14,740, assuming depreciation is charged on straight-line basis).

The cost of the new turbine ₹ 45,00,000 would be added to the cost of machine, resulting in a revision of carrying amount of machine to ₹ 71,56,840. (i.e., ₹ 40,00,000* – ₹ 13,43,160 + ₹ 45,00,000).

*Original cost of machine ₹ 1,00,00,000 reduced by accumulated depreciation (till the end of 6 years) ₹ 60,00,000.

(c) The above security deposit is an interest free deposit redeemable at the end of lease term for ₹ 10,00,000. Hence, this involves collection of contractual cash flows and shall be accounted at amortised cost.

Upon initial measurement

Particulars	**Details**
Security deposit (A)	10,00,000
Total Lease Period (Years)	5
Discount rate	12%
Present value factor of 5th year end	0.56743
Present value of deposit at beginning (B)	5,67,427
Prepaid lease payment at beginning (A-B)	4,32,573

Journal Entries

Year – 1 beginning

Particulars		**Amount**	**Amount**
Security deposit A/c	Dr.	5,67,427	
ROU Asset	Dr.	4,32,573	
To Bank A/c			10,00,000

Subsequently, every annual reporting year, interest income shall be accrued @ 12% per annum and prepaid expenses shall be amortised on straight line basis over the lease term.

Year 1 end

Particulars		**Amount**	**Amount**
Security deposit A/c (5,67,427 x 12%)	Dr.	68,091	
To Interest income A/c			68,091

At the end of 5th year, the security deposit shall accrue ₹ 10,00,000 and prepaid lease expenses shall be fully amortised (i.e. depreciated as per Ind AS 116, this prepaid lease rent would be shown as ROU asset).

Journal entry for realisation of security deposit

Particulars		**Amount**	**Amount**
Security deposit A/c	Dr.	1,07,143	
To Interest income A/c			1,07,143
Bank A/c	Dr.	10,00,000	
To Security deposit A/c			10,00,000

5. (a) Extract of the Balance Sheet of RKA Private Ltd as at 31st March, 20X2 **₹ in lacs**

Closing net defined liability (1,580 – 1,275) lacs 305

Extract of the Statement of Profit or Loss of RKA Private Ltd for the year ended 31st March, 20X2

Particulars	**₹ in lacs**
Service cost	55

Net interest ***(W.N.1)***	21
Profit or loss	**76**
Other comprehensive income:	
Remeasurements ***(W.N.2)***	80
Total	**156**

Journal entries in the books of RKA Private Ltd.

Particulars		₹ in lacs	₹ in lacs
Profit & Loss	Dr.	76	
Other comprehensive income	Dr.	80	
To Cash (Contribution)			111
To Net defined benefit liability ***(W.N.3)***			45

Working Notes:

1. **Computation of Net interest taken to the Statement of Profit and Loss**

   = Discount rate x Opening net defined benefit liability

   = 8% x (1,400 – 1,140) lacs

   = 8% x 260 lacs = 21 lacs (Rounded off to nearest lacs)

2. **Computation of Remeasurements**

Defined Benefit Obligation Account

Particulars	₹ in lacs	Particulars	₹ in lacs
To balance c/d (given) (closing balance)	1,580	By balance b/d (given) (opening balance)	1,400
		By Current Service Cost (given)	55
		By Interest on Opening Liability (1,400 x 8%)	112
		By Actuarial loss (bal. figure)	13
	1,580		**1,580**

Note: The above computation can also be shown by preparing a Statement instead of ledger account.

Plan Assets Account

Particulars	₹ in lacs	Particulars	₹ in lacs
To balance b/d (given) (opening balance)	1,140	By balance c/d (given) (closing balance)	1,275
To Bank Account (contribution for the year)	111		
To Surplus / Actual Return (bal. figure)	24		
	1,275		**1,275**

Note: The above computation can also be shown by preparing a Statement instead of ledger account.

Net interest on opening balance of plan asset = ₹ 91 lacs (i.e. ₹ 1,140 lacs x 8%) (Rounded off to nearest lacs)

Hence, there is a decrease in plan assets due to remeasurement for which computation is as follows:

Actual Return – Net interest on opening plan asset

= ₹ 24 lacs – ₹ 91 lacs = ₹ 67 lacs.

Net remeasurement would be computed as follows:

Actuarial loss on liability + Loss on return

= ₹ 13 lacs + ₹ 67 lacs = ₹ 80 lacs.

3. **Computation of increase/ decrease in net defined benefit liability:**

Particulars	**₹ in lacs**
Opening net liability (₹ 1,400 lacs – ₹ 1,140 lacs)	260
Closing net liability ₹ 1,580 lacs – ₹ 1,275 lacs)	305
Increase in liability	**45**

(b) Journal Entries

Purchase of Machinery on credit basis on 30th January, 20X1:

		₹	₹
Machinery A/c ($ 5,000 x ₹ 60)	Dr.	3,00,000	
To Creditors-Machinery A/c			3,00,000
(Initial transaction will be recorded at exchange rate on the date of transaction)			

Exchange difference arising on translating monetary item on 31st March, 20X1:

		₹	₹
Profit & Loss A/c [($ 5,000 x ₹ 65) – ($ 5,000 x ₹ 60)]	Dr.	25,000	
To Creditors-Machinery A/c			25,000
Machinery A/c	Dr.	30,000	
To Revaluation Surplus (OCI)			30,000
[Being Machinery revalued to $ 5,500; (₹ 60 x ($ 5,500 - $ 5,000)]			
Machinery A/c	Dr.	27,500	
To Revaluation Surplus (OCI)			27,500
(Being Machinery measured at the exchange rate on 31.3.20X1 [$ 5,500 x (₹ 65 - ₹ 60)]			
Revaluation Surplus (OCI)	Dr.	17,250	
To Deferred Tax Liability			17,250
(DTL created @ of 30% of the total OCI amount)			

Exchange difference arising on translating monetary item and settlement of creditors on 31st March, 20X2:

		₹	₹
Creditors-Machinery A/c ($ 5,000 x ₹ 65)	Dr.	3,25,000	
Profit & loss A/c [($ 5,000 x (₹ 67 - ₹ 65)]	Dr.	10,000	
To Bank A/c			3,35,000
Machinery A/c [$ 5,500 x (₹ 67 - ₹ 65)]	Dr.	11,000	
To Revaluation Surplus (OCI)			11,000
Revaluation Surplus (OCI)	Dr.	3,300	
To Deferred Tax Liability			3,300
(DTL created @ of 30% of the total OCI amount)			

6. (a) (i) Calculation of Carrying amount of machine at the end of Year 2 ₹

Cost of machine	2,40,000
Accumulated depreciation for 2 years [2 years × (2,40,000 ÷ 20)]	(24,000)
Carrying amount of the machine at the end of Year 2	2,16,000

(ii) Calculation of carrying amount of the machine on 31 December Year 3 ₹

Carrying amount at the beginning of Year 3	2,16,000
Revaluation done at the beginning of Year 3	2,50,000
Revaluation surplus	34,000

(iii) Calculation of Impairment loss at the end of Year 4

When machine is revalued on 1 January Year 3, depreciation is charged on the revalued amount over its remaining expected useful life.

Valuation at 1 January (re-valued amount)	2,50,000
Accumulated depreciation in Year 3 (2,50,000 / 18)	(13,889)
Carrying amount of the asset at the end of Year 3	2,36,111
On 1 January Year 4, recoverable amount of the machine	1,00,000
Impairment loss (2,36,111 – 1,00,000)	1,36,111

An impairment loss of ₹ 34,000 will be taken to other comprehensive income (reducing the revaluation surplus for the asset to zero)

The remaining impairment loss of ₹ 1,02,111 (1,36,111 – 34,000) is recognised in the Statement of Profit and Loss for the Year 4.

(iv) Calculation of depreciation charge in the Year 4

Carrying value of the machine at the beginning of Year 4 ₹ 1,00,000

Estimated remaining useful life 10 years

Depreciation charge is (₹ 1,00,000 / 10 years) ₹ 10,000

(b)

S. No.	Particulars	Whether FA or not	Remarks
1	Investment in bonds debentures	FA	Contractual right to receive cash.
2	Loans and receivables	FA	Contractual right to receive cash.
3	Deposits given	FA	Contractual right to receive cash.
4	Trade & other receivables	FA	Contractual right to receive cash.
5	Cash and cash equivalents	FA	Specifically covered in the definition.
6	Bank balance	FA	Contractual right to receive cash.
7	Investments in equity shares	FA	Equity instrument of another entity.
8	Perpetual debt instruments like perpetual bonds, debentures and capital notes.	FA	Such instruments provide the contractual right to receive interest for indefinite future or a right to return of principal under terms that make it very unlikely or very far in the future.
9	Physical assets like inventories, property, plant and equipment etc.	No	Control of such assets does not create a present right to receive cash or another financial asset.
10	Right to use assets like lease vehicle etc.	No	Control of such assets does not create a present right to receive cash or another financial asset.
11	Intangibles like patents, trademark etc.	No	Control of such assets does not create a present right to receive cash or another financial asset.
12	Prepaid expenses like prepaid insurance, prepaid rent etc.	No	These instruments provide future economic benefit in the form of goods or services, rather than the right to receive cash.
13	Advance given for goods and services	No	These instruments provide future economic benefit in the form of goods or services, rather than the right to receive cash.

(c) **<u>Scenario A</u>**

X Ltd. should record full loss of ₹ 2,00,000 (10,00,000 – 8,00,000) in its books as that would represent the impairment loss because the market value has actually declined. This loss would have been recorded even if X Ltd. would have first impaired the asset and then sold to Y Ltd. at zero profit / loss. Following entry should be passed in the books of X Ltd.

Bank A/c	Dr.	8,00,000	
Loss on sale of asset	Dr.	2,00,000	
To Asset			10,00,000

Scenario B

X Ltd. should record loss to the extent of its share in Y Ltd. Hence, X Ltd.'s share in loss i.e. ₹ 1,00,000 [(10,00,000 – 8,00,000) x 50%] should be recorded by X Ltd. in its books. The loss should be recorded since the market value of the asset has actually declined and this would represent impairment. This loss would have been recorded even if Y Ltd. would have first recorded an impairment loss of ₹ 2,00,000 and then sold to X Ltd. at zero profit / loss. Following entry should be passed in the books of X Ltd.

Asset	Dr.	8,00,000	
Share in loss of Y Ltd.	Dr.	1,00,000	
To Bank			8,00,000
To Investment in Y Ltd.			1,00,000