MOCK TEST PAPER 1

FINAL COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

ANSWERS

1. (a) If Ind AS is applicable to any company, then Ind AS shall automatically be made applicable to all the subsidiaries, holding companies, associated companies, and joint ventures of that company, irrespective of individual qualification of set of standards on such companies.

In the given case it has been mentioned that the financials of Iktara Ltd. are prepared as per Ind AS. Accordingly, the results of its subsidiary Softbharti Pvt. Ltd. should also have been prepared as per Ind AS. However, the financials of Softbharti Pvt. Ltd. have been presented as per accounting standards (AS).

Hence, it is necessary to revise the financial statements of Softbharti Pvt. Ltd. as per Ind AS after the incorporation of necessary adjustments mentioned in the question.

The revised financial statements of Softbharti Pvt. Ltd. as per Ind AS and Division II to Schedule III of the Companies Act, 2013 are as follows:

STATEMENT OF PROFIT AND LOSS

for the year ended 31st March, 20X2

Particulars		Amount (₹)
Revenue from operations		10,00,000
Other Income (1,00,000 + 20,000) (refer note -1)		1,20,000
Total Revenue	**(A)**	**11,20,000**
Expenses:		
Purchase of stock in trade		5,00,000
(Increase) / Decrease in stock in trade		(50,000)
Employee benefits expenses		1,75,000
Depreciation		30,000
Other expenses		90,000
Total Expenses	**(B)**	**7,45,000**
Profit before tax	**(C = A - B)**	**3,75,000**
Current tax		1,25,700
Deferred tax (W.N.1)		4,800
Total tax expense	**(D)**	**1,30,500**
Profit for the year	**(E = C - D)**	**2,44,500**
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to Profit or Loss: Remeasurements of net defined benefit plans		1,000
Tax liabilities relating to items that will not be reclassified to Profit or Loss Remeasurements of net defined benefit plans (tax) [1000 x 30%]		(300)
Other Comprehensive Income for the period	**(F)**	**700**
Total Comprehensive Income for the period	**(E + F)**	**2,45,200**

BALANCE SHEET

as at 31st March, 20X2

Particulars	(₹)
ASSETS	
Non-current assets	
Property, plant and equipment	1,00,000
Financial assets	
Other financial assets (Long-term loans and advances)	40,000
Other non-current assets (capital advances) (refer note-2)	50,000
Current assets	
Inventories	80,000
Financial assets	
Investments (30,000 + 20,000) (refer note -1)	50,000
Trade receivables	55,000
Cash and cash equivalents/Bank	1,15,000
Other financial assets (Interest receivable from trade receivables)	51,000
TOTAL ASSETS	**5,41,000**
EQUITY AND LIABILITIES	
Equity	
Equity share capital	1,00,000
Other equity	2,45,200
Non-current liabilities	
Provision (25,000 – 1,000)	24,000
Deferred tax liabilities (4,800 + 300)	5,100
Current liabilities	
Financial liabilities	
Trade payables	11,000
Other financial liabilities (Refer note 5)	15,000
Other current liabilities (Govt. statuary dues) (Refer note 3)	15,000
Current tax liabilities	1,25,700
TOTAL EQUITY AND LIABILITIES	**5,41,000**

STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March, 20X2

A. EQUITY SHARE CAPITAL

	Balance (₹)
As at 31st March, 20X1	-
Changes in equity share capital during the year	1,00,000
As at 31st March, 20X2	1,00,000

B. OTHER EQUITY

	Reserves & Surplus
	Retained Earnings (₹)
As at 31st March, 20X1	-
Profit for the year	2,44,500
Other comprehensive income for the year	700
Total comprehensive income for the year	2,45,200
Less: Dividend on equity shares (refer note – 4)	-
As at 31st March, 20X2	2,45,200

DISCLOSURE FORMING PART OF FINANCIAL STATEMENTS:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and not recognized as liability as at the Balance Sheet date. (refer note 4)

Notes:

1. Current investment are held for the purpose of trading. Hence, it is a financial asset classified as FVTPL. Any gain in its fair value will be recognised through profit or loss. Hence, ₹ 20,000 (50,000 – 30,000) increase in fair value of financial asset will be recognised in profit and loss. However, it will attract deferred tax liability on increased value (Refer W.N).
2. Assets for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets.
3. Liabilities for which there is no contractual obligation to deliver cash or other financial asset to another entity, are not financial liabilities.
4. As per Ind AS 10, 'Events after the Reporting Period', If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognized as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1, Presentation of Financial Statements.
5. Other current financial liabilities:

	(₹)
Balance of other current liabilities as per financial statements	45,000
Less: Dividend declared for Financial Year 20X1 – 20X2 (Note – 4)	(15,000)
Reclassification of government statuary dues payable to 'other current liabilities'	(15,000)
Closing balance	15,000

Working Note:

Calculation of deferred tax on temporary differences as per Ind AS 12 for financial year 20X1 – 20X2

Item	Carrying amount (₹)	Tax base (₹)	Difference (₹)	DTA / DTL @ 30% (₹)
Property, Plant and Equipment	1,00,000	80,000	20,000	6,000-DTL
Pre-incorporation expenses	Nil	24,000	24,000	7,200-DTA
Current Investment	50,000	30,000	20,000	6,000-DTL
			Net DTL	4,800-DTL

(b) Paragraphs 37 and 38 of Ind AS 34, Interim Financial Reporting state that revenues that are received seasonally, cyclically, or occasionally within a financial year shall not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the entity's financial year. Examples include dividend revenue, royalties, and government grants. Additionally, some entities consistently earn more revenues in certain interim periods of a financial year than in other interim periods, for example, seasonal revenues of retailers. Such revenues are recognised when they occur.

Further, for costs incurred unevenly during the financial year, para 39 of Ind AS 34 states that costs that are incurred unevenly during an entity's financial year shall be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

In view of the above guidance, in the given case, dividend income received by ABC Limited cannot be anticipated and recognised in financial statements as of 30th June, 20X1.

Further, considering that 60% of advertising cost for the whole year has been incurred by ABC Ltd during the first quarter and 40% in the second quarter, it is a cost incurred unevenly. Applying principles of paragraph 39, it is not appropriate to defer the charge of an incurred advertising expense (60% of whole year cost) at the end of the quarter. Accordingly, all the advertising costs incurred till 30th June, 20X1 should be charged to P&L while preparing its financial statements as of 30th June, 20X1.

2. (a) Calculation of purchase consideration:

Particulars	**₹ in million**
Market value of shares issued (150 million x 4/3 x ₹ 10)	2,000
Initial estimate of market value of shares to be issued (150 million x 1/5 x ₹ 10)	300
Total consideration	2,300

Contingent consideration is recognized in full if payment is probable.

As per para 53 of Ind AS 103, acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with Ind AS 32 and Ind AS 109.

Statement of fair value of identifiable net assets at the date of acquisition

Particulars	₹ in million
As per Bosman Ltd.'s Balance Sheet	1,200
Fair value of customer relationships	100
Fair value of research and development project	50
Total net assets acquired	1,350

As per *Ind AS 38 'Intangible assets',* intangible assets can be recognized separately from goodwill provided they are identifiable, are under the control of the acquiring entity, and their fair value can be measured reliably.

Customer relationships that are similar in nature to those previously traded, pass these tests but employee expertise fail the 'control' test. Both the research and development phases of in process project can be capitalised provided their fair value can be measured reliably.

Statement of computation of goodwill

Particulars	₹ in million
Fair value of consideration given	2,300
Fair value of net assets acquired	(1,350)
Goodwill on acquisition	950

Paragraph 58 of Ind AS 103 provides guidance on the subsequent accounting for contingent consideration. In general, an equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Ind AS 32 describes an equity instrument as one that meets both of the following conditions:

- There is no contractual obligation to deliver cash or another financial asset to another party, or to exchange financial assets or financial liabilities with another party under potentially unfavourable conditions (for the issuer of the instrument).
- If the instrument will or may be settled in the issuer's own equity instruments, then it is:
  - a non-derivative that comprises an obligation for the issuer to deliver a fixed number of its own equity instruments; or
  - a derivative that will be settled only by the issuer exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

In the given case, given that the acquirer has an obligation to issue fixed number of shares on fulfillment of the contingency, the contingent consideration will be classified as equity as per the requirements of Ind AS 32.

As per paragraph 58 of Ind AS 103, contingent consideration classified as equity should not be re-measured and its subsequent settlement should be accounted for within equity.

(b) Computation of balance total equity as on 1st April, 20X1 after transition to Ind AS

			₹ in crore
Share capital- Equity share Capital			80.00
Other Equity			
General Reserve		40.00	
Capital Reserve		5.00	
Retained Earnings (95 – 5 - 40)	50.00		

Add: Increase in value of land (10 - 4.5)	5.50		
Add: Derecognition of proposed dividend (0.6 + 0.18)	0.78		
Add: Increase in value of Investment	0.75	57.03	102.03
Balance total equity as on 1st April, 20X1 after transition to Ind AS			182.03

Reconciliation between Total Equity as per AS and Ind AS

to be presented in the opening balance sheet as on 1st April, 20X1

		₹ in crore
Equity share capital		80.00
Redeemable Preference share capital		25.00
		105.00
Reserves and Surplus		95.00
Total Equity as per AS		200.00
Adjustment due to reclassification		
Preference share capital classified as financial liability		(25.00)
Adjustment due to derecognition		
Proposed Dividend not considered as liability as on 1st April, 20X1		0.78
Adjustment due to remeasurement		
Increase in the value of Land due to remeasurement at fair value	5.50	
Increase in the value of investment due to remeasurement at fair value	0.75	6.25
Equity as on 1st April, 20X1 after transition to Ind AS		182.03

3. (a) **When the exchange rate on 31st March, 20X2, is $ 1 = ₹ 50**.

The exchange loss in this case is ₹ 10,000 [$ 1,000 x (₹ 50 - ₹ 40)]. The borrowing cost is ₹ 2,000 ($ 1,000 x 4% x ₹ 50).

Had the entity borrowed funds in functional currency the borrowing cost would have been ₹ 4,800 (₹ 40,000 x 12%).

The entity will treat exchange difference upto ₹ 2,800 (₹ 4,800 – ₹ 2,000) as a borrowing cost that may be eligible for capitalisation under this Standard.

Thus, the total eligible borrowing cost is ₹ 4,800 (₹ 2,000 + ₹ 2,800) equivalent to the cost of borrowing cost in functional currency.

When the exchange rate on 31st March, 20X2, is $ 1 = ₹ 41.

The exchange loss would be ₹ 1,000 [$ 1,000 – (₹ 41 – ₹ 40)]. The entity will treat the entire exchange loss as an eligible borrowing cost as total borrowing cost i.e. ₹ 2,640 [(₹ 1,000 x 4% x 41) + ₹ 1,000] since exchange loss in foreign currency does not exceed the cost of borrowings in functional currency, i.e., ₹ 4,800.

(b) A discontinued operation is one that is discontinued in the period or classified as held for sale at the year end. The operations of G Ltd were discontinued on 30th April, 20X2 and therefore, would be treated as discontinued operation for the year ending 31st March, 20X3. It does not meet the criteria for held for sale since the company is terminating its business and does not hold these for sale.

As per para 72 of Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets', restructuring includes sale or termination of a line of business. A constructive obligation to restructure arises when an entity:

(a) has a detailed formal plan for the restructuring

(b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

The Board of directors of U Ltd have decided to terminate the operations of G Ltd. from 30th April, 20X2. They have made a formal announcement on 15th February, 20X2, thus creating a valid expectation that the termination will be implemented. This creates a constructive obligation on the company and requires provisions for restructuring.

A restructuring provision includes only the direct expenditures arising from the restructuring that are necessarily entailed by the restructuring and are not associated with the ongoing activities of the entity.

The termination payments fulfil the above condition. As per Ind AS 10 'Events after Reporting Date', events that provide additional evidence of conditions existing at the reporting date should be reflected in the financial statements. Therefore, the company should make a provision for ₹ 520 lakhs in this respect.

The relocation costs relate to the future conduct of the business and are not liabilities for restructuring at the end of the reporting period. Hence, these would be recognised on the same basis as if they arose independently of a restructuring.

The lease would be regarded as an onerous contract. A provision would be made at the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. Hence, a provision shall be made for ₹ 410 lakhs.

Further operating losses relate to future events and do not form a part of the closure provision.

Therefore, the total provision required = ₹ 520 lakhs + ₹ 410 lakhs = ₹ 930 lakhs.

(c) Either

Scenario A: At the lease commencement date, the lease term is six years (being the non-cancellable period). The renewal period of two years is not taken into consideration since Entity ABC is not reasonably certain to exercise the option because there are no penalties or other factors which indicate that the entity will opt for renewal of lease.

Scenario B: At the lease commencement, Entity XYZ determines that it is reasonably certain to exercise the renewal option because it would suffer a significant economic penalty if it abandoned the leasehold improvements at the end of the initial non-cancellable period of eight years. Thus, at the lease commencement, Entity XYZ concludes that the lease term is ten years (being eight years of non-cancellable period plus the renewal period of two years where the lessee is reasonably certain to exercise the option).

Scenario C: At the lease commencement date, the lease term is 21 months (three months per year over the seven annual periods as specified in the contract), i.e., the period over which Entity PQR controls the right to use the underlying asset.

(c) Or

As provided in Ind AS 111 'Joint Arrangements', this is a joint arrangement because two or more parties have joint control of the property under a contractual arrangement. The arrangement will be regarded as a joint operation because Alpha Ltd. and Gama Ltd. have rights to the assets and obligations for the liabilities of this joint arrangement. This means that the company and the other investor will each recognise 50% of the cost of constructing the asset in property, plant and equipment.

The borrowing cost incurred on constructing the property should under the principles of Ind AS 23 'Borrowing Costs', be included as part of the cost of the asset for the period of construction.

In this case, the relevant borrowing cost to be included is ₹ 50,00,000 (₹ 10,00,00,000 x 10% x 6/12).

The total cost of the asset is ₹ 40,50,00,000 (₹ 40,00,00,000 + ₹ 50,00,000) ₹ 20,25,00,000 crores is included in the property, plant and equipment of Alpha Ltd. and the same amount in the property, plant and equipment of Gama Ltd.

The depreciation charge for the year ended 31st March, 20X2 will therefore be ₹ 1,01,25,000 (₹ 40,50,00,000 x 1/20 x 6/12) ₹ 50,62,500 will be charged in the statement of profit and loss of the company and the same amount in the statement of profit and loss of Gama Ltd.

The other costs relating to the arrangement in the current year totalling ₹ 54,00,000 (finance cost for the second half year of ₹ 50,00,000 plus maintenance costs of ₹ 4,00,000) will be charged to the statement of profit and loss of Alpha Ltd. and Gama Ltd. in equal proportions - ₹ 27,00,000 each.

4. (a) **Contract 1:** The following factors indicate that this contract does not meet the 'own use' exemption:

- The contract permits net settlement, and
- There is a past practice of a significant proportion (i.e. 30%) of similar contracts being settled on a net basis either in cash or by sale of the oil seeds prior to delivery / shortly after taking delivery.

Therefore, this contract would fall within the scope of Ind AS 109 and should be recognised as a derivative instrument as on 1st October, 20X1. The contract would be in the nature of a forward contract to buy 100 MT of oil seeds as on 31st March, 20X2 at USD 400 per MT. Company Z would have to recognise the fair value changes (based on change in forward purchase rate) on this contract in the statement of profit and loss at each reporting date.

Contract 2: Contract 2 also permits net settlement in cash. Further, there have been some instances of similar domestic purchase contracts being settled net in cash in the past. However, these have been infrequent in nature and insignificant in proportion to the total value of similar contracts (i.e.1%).

Company Z is in the practice of taking delivery of the oil seeds purchased under similar contracts and using them for further processing in its plants.

This indicates that the domestic purchase contract meets the criteria for the 'own-use' exemption and should be considered as an executory contract.

Therefore, this contract would not fall within the scope of Ind AS 109.

Contract 3: This contract is in the nature of a derivative contract transacted on a commodity exchange and is required to be net settled in cash on maturity. Therefore, this derivative contract would be covered by Ind AS 109 and required to be classified and measured at FVTPL.

(b) Paragraph 5(d) of Ind AS 115 excludes non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this Standard would not apply to a contract between two oil companies that agree to an exchange of oil to fulfil demand from their customers in different specified locations on a timely basis.

However, the current scenario will be covered under Ind AS 115 since the same is exchange of dissimilar goods or services.

As per paragraph 47 of Ind AS 115, an entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

Paragraph 66 of Ind AS 115 provides that to determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or promise of non-cash consideration) at fair value.

On the basis of the above, revenue recognised by A Ltd. will be the consideration in the form of power units that it expects to be entitled for talk time sold, i.e. ₹ 50,000 (20,000 units x ₹ 2.5). The revenue recognised by B Ltd. will be the consideration in the form of talk time that it expects to be entitled for the power units sold, i.e., ₹ 50,000 (1,00,000 minutes x ₹ 0.50).

(c)

	Number of shares	**Profit ₹**
Profit		2,00,000
Outstanding shares	10,00,000	
New shares on conversion (weighted average)		
[(9/12) × (₹ 25,000 / 100) × 120]	22,500	-
Figures for basic EPS	10,22,500	2,00,000
Basic EPS is (₹ 2,00,000 / 10,22,500)		
= 0.196 per share		
Dilution adjustments		
Unconverted shares [(₹ 75,000 / 100) × 120]	90,000	
Interest: ₹ 75,000 × 5% × 0.7		2,625
Converted shares pre-conversion adjustment		
[(3/12) × (₹ 25,000 / 100) × 120]	7,500	
Interest: [(3/12) × ₹ 25,000 × 5% × 0.7]		219
	11,20,000	2,02,844

Diluted EPS is (₹ 2,02,844 / 11,20,000) = 0.181.

5. (a) The entity has made sale of two goods – machine and space parts, whose control is transferred at a point in time. Additionally, company agrees to hold the spare parts for the customer for a period of 2 - 4 years, which is a separate performance obligation. Therefore, total transaction price shall be divided amongst 3 performance obligations:

(i) Sale of machinery

(ii) Sale of spare parts

(iii) Custodial services for storing spare parts.

Recognition of revenue for each of the three performance obligations shall occur as follows:

- **Sale of machinery:** Machine has been sold to the customer and physical possession as well as legal title passed to the customer on 31st March, 20X3. Accordingly, revenue for sale of machinery shall be recognised on 31st March, 20X3.

- **Sale of spare parts:** The customer has made payment for the spare parts and legal title has been passed to specifically identified goods, but such spares continue to be physically held by the entity. In this regard, the company shall evaluate if revenue can be recognized on bill-and-hold basis if **all** below criteria are met:

(a)	the reason for the bill-and-hold arrangement must be substantive (for example, the customer has requested the arrangement)	The customer has specifically requested for entity to store goods in their warehouse, owing to close proximity to customer's factory
(b)	the product must be identified separately as belonging to the customer	The spare parts have been specifically identified and inspected by the customer
(c)	the product currently must be ready for physical transfer to the customer	The spares are identified and segregated, therefore, ready for delivery
(d)	the entity cannot have the ability to use the product or to direct it to another customer	Spares have been segregated and cannot be redirected to any other customer

Therefore, all conditions of bill-and-hold are met and hence, company can recognize revenue for sale of spare parts on 31st March, 20X3.

- **Custodial services:** Such services shall be given for a period of 2 to 4 years from 31st March, 20X3. Where services are given uniformly and customer receives and consumes benefits simultaneously, revenue for such service shall be recognized on a straight-line basis over a period of time.

(b) The USD contract for purchase of machinery entered into by company A includes an embedded foreign currency derivative due to the following reasons:

- The host contract is a purchase contract (non-financial in nature) that is not classified as, or measured at FVTPL.
- The embedded foreign currency feature (requirement to settle the contract by payment of USD at a future date) meets the definition of a stand-alone derivative – it is akin to a USD - ₹ forward contract maturing on 31st December, 20X1.
- USD is not the functional currency of either of the substantial parties to the contract (i.e., neither company A nor company B).
- Machinery is not routinely denominated in USD in commercial transactions around the world. In this context, an item or a commodity may be considered 'routinely denominated' in a particular currency only if such currency was used in a large majority of similar commercial transactions around the world. For example, transactions in crude oil are generally considered routinely denominated in USD. A transaction for acquiring machinery would not qualify for this exemption.
- USD is not a commonly used currency for domestic commercial transactions in the economic environment in which either company A or B operate. This exemption generally

applies when the business practice in a particular economic environment is to use a more stable or liquid foreign currency (such as the USD), rather than the local currency, for a majority of internal or cross-border transactions, or both. Here, companies A and B are companies operating in India and the purchase contract is an internal/domestic transaction. USD is not a commonly used currency for internal trade within this economic environment and therefore the contract would not qualify for this exemption.

Accordingly, company A is required to separate the embedded foreign currency derivative from the host purchase contract and recognise it separately as a derivative.

The separated embedded derivative is a forward contract entered into on 9th September, 20X1, to exchange USD 10,00,000 for ₹ at the USD / ₹ forward rate of ₹ 67.8 on 31st December, 20X1. Since the forward exchange rate has been deemed to be the market rate on the date of the contract, the embedded forward contract has a fair value of zero on initial recognition.

Subsequently, company A is required to measure this forward contract at its fair value, with changes in fair value recognised in the statement of profit and loss. The following is the accounting treatment at quarter-end and on settlement:

Accounting treatment:

Date	Particulars	Amount (₹)	Amount (₹)
09-Sep-X1	***On initial recognition of the forward contract***		
	(No accounting entry recognised since initial fair value of the forward contract is considered to be nil)	Nil	Nil
30-Sep-X1	***Fair value change in forward contract***		
	Derivative asset (company B) Dr. [(67.8-67.5) x10,00,000]	3,00,000	
	To Profit or loss		3,00,000
31-Dec-X1	***Fair value change in forward contract***		
	Forward contract asset (company B) Dr. [{(67.8-67) x 10,00,000} - 3,00,000]	5,00,000	
	To Profit or loss		5,00,000
31-Dec-X1	***Recognition of machinery acquired and on settlement***		
	Property, plant and equipment Dr. (at forward rate)	6,78,00,000	
	To Forward contract asset (company B)		8,00,000
	To Creditor (company B) / Bank		6,70,00,000

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

(a) In the given case, for valuation of inventory as on 31st March, 20X1, cost of inventory would be ₹ 10 million and net realisable value would be ₹ 7.5 million (i.e. Expected selling price ₹ 8 million – estimated selling expenses ₹ 0.5 million). Accordingly, inventory shall be measured at ₹ 7.5 million i.e. lower of cost and net realisable value. Therefore, inventory write down of ₹ 2.5 million would be recorded in the income statement of that year.

(b) As per para 33 of Ind AS 2, a new assessment is made of net realizable value in each subsequent period. It *inter alia* states that if there is increase in net realizable value because of changed economic circumstances, the amount of write down is reversed so that new carrying amount is the lower of the cost and the revised net realizable value.

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

6. (a) (A) Deferred Tax Liability as at 31st March, 20X2

Investment in L Ltd.:

Carrying Amount	= ₹ 75 Cr
Tax base	= ₹ 45 Cr (Purchase cost)
Temporary Difference	= ₹ 30 Cr

Since carrying amount is higher than the tax base, the temporary difference is recognized as a taxable temporary difference. Using the tax rate of 20%, a deferred tax liability of ₹ 6 Cr is recognized:

Head office building

Carrying Amount	= ₹ 45 Cr (Revalued amount on 31st March, 20X2)
Tax base	= ₹ 20.75 Cr (22 Cr – 1.25 Cr)
Temporary Difference	= ₹ 24.25 Cr

Since carrying amount is higher than the tax base, the temporary difference is recognized as a taxable temporary difference. Using the tax rate of 20%, a deferred tax liability of ₹ 4.85 Cr is created.

Total Deferred Tax Liability ₹ 6 Cr + ₹ 4.85 Cr = ₹ 10.85 Cr

(B) Charge to Statement of Profit and Loss for the year ended 31st March 20X2:

Investment in L Ltd.

Particulars	Carrying amount	Tax Base	Temporary Difference
Opening Balance (1st April, 20X1)	₹ 70 Cr	₹ 45 Cr	₹ 25 Cr
Closing Balance (31st March, 20X2)	₹ 75 Cr	₹ 45 Cr	₹ 30 Cr
Net Change			₹ 5 Cr
Increase in Deferred Tax Liability (20% tax rate)			₹ 1 Cr

Considering the increase in the value of investment arising through Statement of Profit and Loss, the accounting for the increase in deferred tax liability is made as under:

Tax expense (Profit or Loss Statement)	Dr.	₹ 1 Cr	
To Deferred Tax Liability			₹ 1 Cr

(Being increase in deferred tax liability recognized)

Head Office Building:

The deferred tax liability at 31st March, 20X1 is ₹ 3.6 Cr (20% x {₹ 40 Cr – ₹ 22 Cr}).

At 31st March, 20X2, prior to revaluation, the carrying amount of the property is ₹ 38 Cr and its tax base is ₹ 20.75 Cr (₹ 22 Cr – ₹ 1.25 Cr). The deferred tax liability at this point is ₹ 3.45 Cr (20% x {₹ 38 Cr – ₹ 20.75 Cr}).

The reduction in this liability is ₹ 0.15 Cr (₹ 3.6 Cr – ₹ 3.45 Cr). This would be credited to income tax expense in arriving at profit or loss.

Post revaluation, the carrying value of the building becomes ₹ 45 Cr and the tax base stays the same. Therefore, the new deferred tax liability is ₹ 4.85 Cr (20% x (₹ 45 Cr – ₹ 20.75 Cr)). The increase in the deferred tax liability of ₹ 1.4 Cr (₹ 4.85 Cr – ₹ 3.45 Cr) is charged to other comprehensive income.

(b) The amount recognized as an expense in each year and as a liability at each year-end) is as follows:

Year	Expense (₹)	Liability (₹)	Calculation of Liability
31st December, 20X5	2,16,000	2,16,000	= 36 x 1,000 x 12 x ½
31st December, 20X6	72,000	2,88,000	= 36 x 1,000 x 8
31st December, 20X7	1,62,000*	3,90,000	= 30 x 1,000 x 13
31st December, 20X8	(30,000)**	0	Liability extinguished

* Expense comprises an increase in the liability of ₹ 1,02,000 and cash paid to those exercising their SARs of ₹ 60,000 (6 x 1,000 x 10).

** Difference of opening liability (₹ 3,90,000) and actual liability paid [₹ 3,60,000 (30 x 1,000 x 12)] is recognised to Profit and loss ie ₹ 30,000.

Journal Entries

31st December, 20X5			
Employee benefits expenses	Dr.	2,16,000	
To Share-based payment liability			2,16,000
(Fair value of the SAR recognized)			
31st December, 20X6			
Employee benefits expenses	Dr.	72,000	
To Share-based payment liability			72,000
(Fair value of the SAR re-measured)			
31st December, 20X7			
Employee benefits expenses	Dr.	1,62,000	
To Share-based payment liability			1,62,000
(Fair value of the SAR recognized)			
Share-based payment liability	Dr.	60,000	
To Cash			60,000
(Settlement of SAR)			

31st December, 20X8			
Share-based payment liability	Dr.	30,000	
To Employee benefits expenses			30,000
(Fair value of the SAR recognized)			
Share-based payment liability	Dr.	3,60,000	
To Cash			3,60,000
(Settlement of SAR)			

Note: Last two entries can be combined.