CA FINAL FR – FINANCIAL REPORTING NEW SCHEME
MAY 2024 EXAM PAPER WITH SOLUTION
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(AIR -2nd rank, 4th rank, and 24th rank in CA Foundation, CA Intermediate and CA Final respectively).

QUESTION : 1

The Accountant Mr. Ramesh Kanna of 'H' Limited submitted to you the following Standalone Balance Sheet extracts as at 31st March 2024 :

Assets	H Ltd.		S Ltd.		A Ltd.	
Non-current assets						
Property, Plant and Equipment	5,50,000		4,80,000		2,50,000	
Financial Assets: Investments:						
14,000 shares in S Ltd.	5,60,000		—		—	
4,000 shares in A Ltd.	1,00,000	12,10,000		4,80,000		2,50,000
(a) Current assets						
Inventory	4,85,000		3,82,500		2,45,500	
(b) Financial Assets						
Cash and cash equivalents	89,000		98,000		1,77,000	
Trade receivables	3,95,000	9,69,000	3,05,000	7,85,500	1,78,500	6,01,000
Total Assets:		**21,79,000**		**12,65,500**		**8,51,000**
Equity & Liabilities						
Shareholder's Equity						
Equity Share Capital (` 10 per share)	5,00,000		2,00,000		1,00,000	
Other Equity Retained earnings	9,00,000	14,00,000	7,50,000	9,50,000	4,24,000	5,24,000
Non-current liabilities						
Financial Liabilities Borrowings-Term Loans		4,00,000		1,50,000		1,00,000
Current liabilities						
Financial Liabilities Trade payables		3,79,000		1,65,500		2,27,000
Total Liabilities :		**21,79,000**		**12,65,500**		**8,51,000**

The following additional information is made available in respect of these companies:

(i) H Limited purchased the shares in S Limited on 31st October retained earnings of S Limited was ` 500,000 and the, shares in A Limited were acquired on 30th June 2023 when retained earnings stood at ` 1,75,000.

(ii) Inventory of A Limited as on 31st March, 2024 include inventory valued at ` 60,000 which had been purchased from H Limited, on 01-01-2024 at cost plus 20%.

(iii) Trade Payable of H Limited includes ` 25,000 payable to A Limited, the amount receivable being recorded in the receivables of A Limited.

(iv) Goodwill in respect of the acquisition of S Limited has been fully impaired. The recoverable amount of the investment in A Limited exceeds its' carrying value at 31st March 2024. Non-controlling interest is valued at the proportionate share of the identifiable net assets.

(v) 10% dividends were declared by both H Limited and S Limited whereas A Limited declared 15% dividend for the year 2023-24.

(vi) On 31st March, 2024, S Limited made a bonus issue of one equity share for every two shares held by the shareholders of S Limited.

(vii) Dividends were declared but were not accounted for by all these companies in the books before the year end. Similarly, the bonus issued by S Limited was not reflected in the statement of financial position as on 31st March, 2024.

You are required to take note of the above available information and draw the consolidated Balance-Sheet of H Limited as at 31st March-2024. Notes to accounts are not required. **(14 Marks)**

SOLUTION:

Note:

% Shareholding in S Ltd = 14,000 / 20,000 = 70% . S Ltd is subsidiary of H Ltd.

% Shareholding in A Ltd = 4,000 / 10,000 = 40%. A Ltd is associate of H Ltd.

STEP 1: Statement of INA – S Ltd

		Date of Acquisition	Post- Acquisition	Total
A	Share Capital	2,00,000	-	2,00,000
B	Retained Earnings	5,00,000	2,50,000	7,50,000
C	**Total**	**7,00,000**	**2,50,000**	**9,50,000**
D	Allocation • H Ltd (30%) • NCI (70%)		 1,75,000 75,000	

STEP 2: Calculation of Goodwill – S Ltd

		Amount
A	Investment in Subsidiary	5,60,000
B	Add: NCI (STEP 1) (7, 00,000 X 30%)	2,10,000
C	Less: Identifiable Net Assets	**(7,00,000)**
D	Goodwill	70,000
E	(-) Impairment of Goodwill	70,000
F	**Goodwill on Balance Sheet Date**	**0**

Step 3: Calculation of NCI

		Rs
A	NCI on Acquisition Date (Step 2)	2,10,000
B	Add: Post – Acquisition Change (Step 1)	75,000
C	NCI on Balance Sheet Date	2,85,000

Step 4: Statement of INA – A Ltd (Associate)

		Date of Acquisition	Post- Acquisition	Total
A	Share Capital	1,00,000	-	1,00,000
B	Retained Earnings	1,75,000	2,49,000	4,24,000
		2,75,000	**2,49,000**	**5,24,000**
C	H Ltd's Share (40%)		99,600	

Step 5: Calculation of Goodwill /Capital Reserve of A Ltd

		Rs
A	Cost of Investment in A Ltd	1,00,000
B	(-) Share in INA (40% x 2,75,000)	1,10,000
C	Capital Reserve (Gain on Bargain Purchase)	(10,000)

Note- Gain on Bargain Purchase will be directly recognised in equity as Capital Reserve.

Journal Entry

Investment in A Ltd	Dr. 10,000	
To Capital Reserve		10,000

Step 6: Carrying Amount of Investment in A Ltd

		Rs
A	Cost	1,00,000
B	Add: Gain on Bargain Purchase (Step 5)	10,000
C	Add: Post- Acquisition Change (Step 4)	99,600

D	Less: Unrealised Profit on Stock (Down-stream) (20/120 x 60,000 x 40%)	(4,000)
E.	Less: Dividend receivable from A Ltd (100,000 x 15% x 40%)	(6,000)
F	**Carrying Amount as on 31/3/2024**	**2,05,600**

Note: <u>Journal Entry for dividend declared by A Ltd</u>

Dividend Receivable from A Ltd Dr. 6,000

To Investment in A Ltd 6,000

Step 7: Consolidated Equity

		Rs	Rs
A	**Retained Earning**		
	H Ltd	9,00,000	
	Add: Share in Post – Acquisition Profits of -		
	• S Ltd (Step 1)	1,75,000	
	• A Ltd (Step 4)	99,000	
	(-) Unrealised Profit on Stock (Step 6)	(4,000)	
	(-)Goodwill Impairment	(70,000)	
	(-) Dividend Declared (10% x 5,00,000)	(50,000)	10,50,000
B	**Capital Reserve (Step 5)**		10,000
C	**Total Consolidated Equity**		**10,60,000**

Step 8: Consolidated Balance Sheet as at 31/03/2024

		Rs	Rs
A	**<u>Assets</u>**		
1	**Non- Current Assets**		
(a)	PPE (5,50,000 + 4,80,000)	10,30,000	
(b)	Financial Assets		
	• Investment in A Ltd (Step 6)	1,99,600	
(c)	Goodwill (Step 2)	0	12,29,600
2	**<u>Current Assets</u>**		
(a)	Inventory (4,85,000 + 3,82,500)		8,67,500
(b)	Financial Assets		
	• Cash and Cash Equivalent (89,000 +98,000)		1,87,000
	• Trade Receivables (3,95,000 + 3,05,000)		7,00,000
	• Dividend Receivable from A Ltd **(Step 6)**		6,000
	Total		**29,90,100**
B	**<u>Equity And Liabilities</u>**		
1	**Shareholder's Equity**		
(a)	Share Capital		5,00,000
(b)	Other Equity (Step 7)		10,60,600
(c)	NCI (Step 3)		2,85,000
2	**Non- Current Liabilities**		
(a)	Financial Liabilities		
	• Borrowing – Term Loan (4,00,000 + 1,50,000)		5,50,000
3	**Current Liabilities**		
	• Trade Payable (3,79,000 + 1,65,500)		5,44,000
	• Dividend Payable		50,000
	Total		**29,90,100**

Tutorial Notes :

- Dividend declared by Subsidiary (S Ltd)) will not affect the answer.
- Bonus shares issued by S Ltd will not affect the answer, hence, not adjusted.
- In case of Associate, contra items are not eliminated because associate's net assets are not consolidated.

● Time adjustment is not done because retained earnings is given on the acquisition date.

● As NCI is valued using proportionate share in INA, goodwill impairment will not be allocated to NCI.

● As recoverable amount of Investment in A Ltd > carrying value, no impairment will arise.

QUESTION : 2 (a)

Dark Limited is engaged in the construction and operation of thermal power plants in the country. It has entered into a purchase contract for USD 2,00,000 with Bright Limited, on 1st October, 2023 for purchase of power plant equipment on 31st March 2024. It is pertinent to note that the functional currency of both companies is INR. Dark Limited and Bright Limited are listed companies in India and prepare their financial statements on a quarterly basis as per Ind AS.

Spot Rate as on 1st October 2023 ` /USD	**75**
Spot Rate as on 31st December 2023 ` /USD	**82**
Three month forward rate on 31st December 2023 ` /USD	**70**
Six month forward rate on 1st October 2023 ` /USD	**80**
Spot Rate on 31st March, 2024 ` /USD	**85**

Assume that this contract has an embedded derivative that is not closely related and requires separation. You are required to pass the necessary Journal Entries in the books of Bright Limited from the inception of the contract till the actual sale of equipment. (10 Marks)

SOLUTION:

Note- The contract has two components –

(i) Host contract – To sell power plant equipment denominated in INR at 6 months forward rate.

(ii) Forward Contract to buy USD and pay INR

Note- Consider sale at forward rate. Hence, sale value of Machine in INR.
= 2,00,000 X 80
= INR 1,60,00,000

Note- Consider Derivative contract to buy USD 2 Lacs @ Rs 55

Books of Bright Ltd (Seller) - Journal Entries

Date	Particulars		Debit	Credit
1.10.23	Host Contract – No Entry			
	Forward Contract – No Entry			
	(Because no cash was received or paid)			
31.12.23	P & L [2,00,000 X (80 – 70)]	Dr.	20,00,000	
	To Derivative Liability			20,00,000
	(Being derivative revalued)			
31.03.24	Derivative Liability A/c	Dr.	20,00,000	
	Derivative Asset A/C	Dr.	10,00,000	
	To P & L A/c [2 Lacs x (85-70)]			30,00,000
31.03.24	Debtors A/c (2 Lacs x 80)	Dr.	1,60,00,000	
	To Sales A/c			1,60,00,000
	(Being power plant equipment sold)			
31.03.24	Debtors A/c	Dr.	10,00,000	
	To Derivative Assets A/C			10,00,000
	(Being Derivative Asset Transferred)			
31.03.24	Bank A/c (2 Lacs x INR 85/$)	Dr.	1,70,00,000	
	To Debtors A/c			1,70,00,000
	(Bank amount realised)			

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QUESTION : 2 (b)

In December 2022, X Limited entered into a loan agreement with a Bank. The loan is repayable in five annual installments commencing from 1st October 2024. One of the material provisions of the loan agreement is that X limited should create an equitable its assets in favour of the Bank by 31st March, 2023 failing which the loan would become payable on demand. X Limited is not able to create the equitable mortgage by 31st March 2023. In April, 2023 X Limited started negotiation with the Bank and requested it not to demand payment due to non-creation of the equitable mortgage.

Meanwhile the financial statements of X Limited for the year ended 31st March, 2023 were approved for issue on 30th May, 2023. In the month of June 2023, the Bank agreed that the payment would not be demanded immediately as a consequence of breach of the material provision. How would the Joan liability be classified by X Limited as at 31st March 2023 ? (4 Marks)

SOLUTION :

As per para 74 of Ind AS 1 "Presentation of Financial Statements" where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

In the given case, the lender agreed for not to demand payment but only after the financial statements were approved for issuance. The financial statements were approved for issuance in the month of May 2023 and both companies agreed for not to demand payment in the month of July 2023 although negotiation started in the month of April 2023 but could not agree before May 2023 when financial statements were approved for issuance.

Hence, the liability should be classified as current in the financial statement for the year ended March 31, 2023.

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QUESTION : 3 (a)

Sun Limited has entered into a Lease Agreement with Moon Limited for taking on lease an office building of 1000 square feet at the rate of ` 500 per square feet per annum for a period of 10 years. The annual lease payments are payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Sun Limited's incremental rate of borrowing at the commencement date is 6 annum. At the beginning of the year 7, the lessor and the lessee agree to amend the original lease by extending the contractual lease term by another four years. The annual lease payments are unchanged for the extended period also. Sun Limited's incremental rate of borrowing at the commencement of Year 7 is 7 % per annum.

How should the said modification be accounted for in the books of Sun Limited ? Give your calculation by adopting the Present Value factor as under:

Year	1	2	3	4	5	6	7	8	9	10	Cumul.
7%	0.935	0.873	0.816	0.763	0.713	0.666	0.623	0.582	0.544	0.508	7.023
6%	0.943	0.890	0.840	0.792	0.747	0.705	0.665	0.627	0.592	0.558	7.359

(8 Marks)

SOLUTION :

Step 1: Lease Rental per annum

= 1000 X 500

= Rs 5,00,000

Step 2: Calculation of Lease Liability at Commencement

		Rs
A	Annual Lease Liability	5,00,000
B	Lease Term	10 years
C	PVAF (6% , 10 years)	7.359
D	Lease liability at commencement (A x C)	36,79,500

Step 3: ROU Asset

=Lease Liability = 36, 79,500

Step 4: Lease Liability at the beginning of year 7 (i.e. end of the 6th year)

		Rs
A	Annual Lease Liability	5,00,000
B	Remaining Lease Term	4 years
C	PVAF (6% , 4 years)	3.465
D	**Lease liability at beginning of year 7 (A x C)**	**17,32,500**

Step 5: ROU Asset at the beginning of year 7 (i.e. end of the 6th year)

=(36,79,500 / 10) X 4 years

=14,71,800

Note – At the beginning of year 7, lease term is extended by another 4 years. We will calculate revised liability using revised rate of 7%. This is called lease modification. The increase in liability will be adjusted in ROU Asset.

Step 6: Calculation of Revised Lease Liability at the beginning of year 7

		Rs
A	Annual Lease Payment	5,00,000
B	Revised Term (4+4)	8 years
C	PVAF (7% , 8 years)	5.973
D	**Revised lease liability (A x C)**	**29,86,500**

Step 7: Increase in lease liability

=29,86,500 – 17,32,500

=12,54,000

Step 8: Journal Entity

		Debit	Credit
ROU Asset A/c	Dr	12,54,000	
To Lease Liability A/C			12,54,000
(Being increase in lease liability)			

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QUESTION : 3 (b)

The CFO of GOLD Limited, a manufacturing company, provided you the following information for your valuable opinion.

The Company had issued 8% convertible debentures amounting to `320 Lakhs on 1st April 2022 and repayable on 31st March-2026 at par. Interest is payable annually. As an alternative to repayment at par, the holder on maturity can elect exchange their convertible debentures for 250 Lakhs ordinary shares in the company. On 1st April 2022 the prevailing market interest rate for four-year convertible debentures which had no right of conversion was 10% Using an annual discount rate of 10%, the present value of ` 1 payable in 4th year is 0.683 and the cumulative present value of ` 1 payable at the end of years one to four is 3.169. From the above information you are required to calculate the finance cost convertible debentures and its closing balance as on 31st March 2024 to be presented in the financial statements. (6 Marks)

SOLUTION :

This is a compound instrument. Hence, we will apply split accounting.

Step1: Calculation of Financial Liability

Year	Contractual Cash-flow	PV Factor @ 10%	Present Value (Rs Lacs)
1-4	8% x 320 = 25.60	3.169	81.1264
4	320	0.683	218.56
			299.6864

Step 2: Calculation of Equity

		Rs Lacs
A	Proceeds	320
B	Less: Financial Liability (Step 1)	299.6864
C	Equity (A – B)	20.3136

Step 3: Amortisation Schedule for Financial Liability

Year	Opening Balance	Financial Cost @ 10%	Cash Flow	Closing Balance
2022-23	299.6864	29.9686	(25.60)	304.055
2023-24	304.055	30.4055	(25.60)	308.8605
2024-25	308.8605	30.8861	(25.60)	314.1466

Presentation in Statement of Profit and Loss for the year ended 31.03.2024 (extract)

		Rs Lacs
	Borrowing Cost	30.4055

Balance Sheet As at 31.03.2024 (Extract)

		Rs Lacs

	Equity and Liabilities	
(a)	**Equity**	
	• Other Equity (8% Convertible Debentures)	20.3136
(b)	**Non - Current Liabilities**	
	• Financial Liabilities	
	• 8% Convertible Debentures	308.8605

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QUESTION : 4 (a)

Based on the advice from actuaries regarding contribution levels and overall liabilities of the defined benefit retirement plan to pay benefits to past and present employees, the Accountant Mr. Krishna of M/s. TUNA Limited provides the following information:

(i) **On 1st April 2023, the actuaries of the company advised that the present value of the defined obligation was ` 2,88,420. On the same date, the fair value of the assets of the defined benefit plan was ` 2,49,670 and the annual market yield on government bonds was 8%.**

(ii) **During the year ended 31st March 2024, TUNA Limited made contribution of ` 33,650 into the plan and the plan paid out benefits of ` 20,160 to retired members. Both these payments were made on 31st March 2024.**

(iii) **The actuaries advised that the current service cost for the year ended 31st March 2024 was ` 29,760. On 28th February 2024, the rules of the plan were amended with retrospective effect. These amendments that the present value of the defined obligation was increased by ` 7,280 from that date.**

(iv) **During the year ended 31st March, 2024, TUNA Limited was in negotiation with employee representatives regarding planned redundancies. The negotiations were completed shortly before the year end arid redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by ` 38,390. Before 31st March 2024, TUNA Limited made payments of ` 36,270 to the employees affected by the redundancies in compensation for the curtailment of their benefits. These payments were made out of the assets of the retirement benefits plan.**

(v) **On 3151 March, 2024, the actuaries advised that the present value of the defined benefit obligation was ` 3,26,480. On the same date, the fair value of the assets of the defined benefits plan were ` 2,68,340.**

Examine and present how the above events would be reported in the financial statements of TUNA Ltd. for the year ended 31st March 2024 as per Ind AS. Please note that the finance costs to be computed on the opening balance.

(8 Marks)

SOLUTION :

Step 1: **PV of DBO A/c**

Date		Rs	Date		Rs
			1.04.23	By Balance B/d	2,88,420
31.03.24	To Benefits Paid	20,160	31.03.24	By Interest Cost (8%)	23,074
31.03.24	To Curtailment A/c	38,390	31.03.24	By Current Service Cost	29,760
			31.03.24	By Past Service Cost	7280
31.03.24	To Balance c/d	3,26,480	31.03.24	By Actuarial Loss (Bal. Figure)	36,496*
		3,85,030			**3,85,030**

Step 2: **Plan Asset A/c**

Date		Rs	Date		Rs
1.04.23	To Balance B/d	2,49,670	31.03.24	By Benefits Paid	20,160
31.03.24	To Expected Return (8%)	19,974	31.03.24	By Curtailment A/c	36,270
31.03.24	To Contribution	33,650	31.03.24	By Balance c/d	2,68,340
31.03.24	To Actuarial Gain (Bal. Figure)	1,476*			
		3,24,770			**3,24,770**

Step 3: Reporting in Financial Statement

		Rs Lacs	Rs Lacs
A	**Statement of Profit and Loss**		
1	**Employee Benefit Expenses**		
	• Current Service Cost	29,760	
	• Net Finance Cost (23,074 – 19,974)	3,100	

	• Past Service Cost	7,280	
	• Curtailment Gain (38,390 – 36,270)	(2,120)	38,020
2	**Other Comprehensive Income**		
	• Items that cannot be recycled		
	• Remeasurement Loss (36,496 - 21,476)		15,020
B	**Balance Sheet**		
	Equity and Liabilities		
	• Non- Current Liabilities		
	• Long – Term Provisions		
	• Provision for DBO	3,26,480	
	• Less: Plan Assets	(2,68,340)	58,140

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QUESTION : 4 (b)

ABC Limited has received the following grants for its newly started venture of manufacturing defense equipment in the defense corridor:

(i) **` 25 lakhs received as an incentive for setting up industry in the defense corridor without any further condition.**

(ii) **` 50 lakhs received for carrying out research and development in the field of innovation of defense equipment.**

(iii) **Besides ABC Limited is awarded a government grant of ` 6 lakhs payable over three years (` 4 lakhs in the first year, ` 1 lakh each in year 2 and 3), on the condition of creating 10 new jobs and maintaining them for Shears. The employees are recruited at a cost of ` 3,60,000 and the wage bill for the first year is ` 8,00,000, rising by ` 80,000 in each of the next 2 years. ABC Limited has a reasonable assurance that it will comply with the conditions attached to them and the grants will be received.**

How should ABC Limited account for the above grants including the deferred income if any in its books of account?
(6 Marks)

SOLUTION :

(i) ABC Ltd should recognise Rs 25 Lacs immediately in the statement of Profit or Loss as there are no further conditions attached to the grant.

(ii) ABC Ltd should recognise Rs 50 Lacs in the statement of profit and loss on a systematic basis over the period which the entity recognises as expense the related costs for which the grants are intended to compensate provided that there is reasonable assurance that ABC Ltd will comply with the conditions attached to the grant.

(iii) When there is reasonable assurance that ABC will comply with the conditions attached to the grant and grant will be received, the grant of Rs 6,00,000 should be recognised at the beginning of the first year as receivable and will be compensated for the related costs over 3 years.

Initial Journal Entry:

Grant Receivable A/c	Dr. 6, 00,000	
To Deferred Income		6, 00,000

Calculation of Grant Income and Deferred Income

Year	Labour Cost	Grant Income (Shown in SOPL)	Deferred Income at the end of year (Shown in Balance Sheet)
1	11,60,000	6 lacs x 1160/3000 =2,32,000	6,00,000 – 2,32,000 = 3,68,000
	(3,60,000 + 8,00,000)		
2	8,80,000	6 lacs x 880/3000 = 1,76,000	3,68,000 – 1,76,000 = 1,92,000
	(8,00,000 + 80,000)		
3	9,60,000	6 lacs x 960/3000 = 1,92,000	1,92,000 – 1,92,000 = 0
	(8,80,000 + 80,000)		
	30,00,000	**= 6,00,000**	

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QUESTION : 5 (a)

Q Limited offers a new product X for sale to its customers at a price of ` 1,500. As a part of the Scheme, Q Limited gives the customers a discount voucher which entitles them a 30% discount on any future purchases up to ` 1,500 in the next 30 days. Q Limited intends to offer a 5% discount on all sales during the next 30 days as a part of the seasonal promotion. The 5% discount cannot be used in addition to the 30% discount voucher.

Q Limited believes that there is 80% likelihood that a customer will redeem the voucher and on an average, a customer will purchase ` 1,000 of additional products.

Find out is there any performance obligation on the part of Q Limited and if so calculate the stand alone and allocated transaction price. (5 Marks)

SOLUTION :

Entity has following performance obligations.

a) To deliver Product A, and

b) To deliver discount voucher. These will be considered at stand-alone prices at inception date.

a) Stand-alone price of goods = 1,500

b) Stand-alone price of discount voucher

= Effective discount % x Expected future purchases x Probability of redemption

= (30% - 5%) x 1,000 x 0.80

= ` 200

Allocation of Transaction Price (1,500 : 200)

		Calculation	`
A.	Product A	1,500 x 1,500 / 1,700	1324
B.	Discount Voucher	1,500 x 200 / 1,700	176
			1,500

Journal Entries

Date	**Particulars**		**Debit**	**Credit**
1.	**On Date of Contract – No Entry**			
2.	**On Delivery of goods (Assume billing is on the same date)**			
	Debtors A/c	Dr.	1,500	
	To Revenue from sale			1324
	To Liability for Discount Voucher			176
	(Being goods sold)			
3 (i)	**On Redemption date –** The customer uses discount voucher. Our stock will reduce and the entity will earn lower revenue due to discount voucher			
	Liability for Discount Voucher A/c	Dr.	176	
	To Revenue			176
	(Being discount voucher re-deemed)			
3 (ii)	**If discount voucher is cancelled or expired**			
	Liability for Discount Voucher A/c	Dr.	176	
	To Revenue A/c			176
	(Being revenue recognised on expiry of discount voucher)			
	(It is change in estimate)			

Note – The effective discount rate is 25% because in any case the customer would have got a discount of 5%.

If discount voucher expires, then revenue is recognised without corresponding matching cost. However, this is allowed because it is a change in estimate.

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QUESTION : 5 (b)

A Limited has chosen to elect the deemed cost exemption for carrying value of its property, plant and equipment as per previous GAAP in accordance with Ind AS 101. However, it does not wish to select the exemption available as per Ind AS 101 of capitalising exchange fluctuation on long-term foreign currency monetary items to property, plant and equipment and accordingly, it did not opt to avail the exemption available as per Ind AS 101 for previous GAAP policy of capitalizing

exchange fluctuation to PPE.

In such a case, how would the company be required to treat the foreign exchange fluctuation already capitalised to the cost of property, plant and equipment under previous GAAP and also what will be the treatment of fluctuation on long-term foreign currency monetary items on transition date and after the transition date to Ind AS by the company in light of the above options exercised by the company ? **(5 Marks)**

SOLUTION :

- Ind AS 101 permits to continue with the carrying value for all of its property, plant and equipment as per the previous GAAP and use that as deemed cost for the purposes of first time adoption of Ind AS.
- Accordingly, the carrying value of property, plant and equipment as per previous GAAP as at the date of transition need not be adjusted for the exchange fluctuations capitalized to property, plant and equipment.
- Separately, it allows a company to continue with its existing policy for accounting for exchange differences arising from translation of long term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP.
- Accordingly, given that Ind AS 101 provides these two choices independent of each other, it may be possible for an entity to choose the deemed cost exemption for all of its property, plant and equipment and not elect the exemption of continuing the previous GAAP policy of capitalising exchange fluctuation to property, plant and equipment.
- In such a case, in the given case, a harmonious interpretation of the two exemptions would require **the company to recognise the property, plant and equipment at the transition date at the previous GAAP carrying value (without any adjustment for the exchanges differences capitalized under previous GAAP) but for the purposes of the first (and all subsequent) Ind AS financial statements, foreign exchange fluctuation on all long term foreign currency borrowings that arose after the transition date would be recognised in the statement of profit and loss.**

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QUESTION : 5 (c) EITHER

Explain the criteria in the Conceptual Framework for Financial Reporting for the recognition and de-recognition of an asset. **(4 Marks)**

SOLUTION :

Recognition of Asset

Assets recognised in FS if such recognition is relevant and provides faithful representation, or

(i) When no uncertainties are involved

(ii) It can be reliably measured

(ii) and upon recognition economic benefits will flow to or flow from entity.

Example :

An Insurance claim which is likely to be finalized will not be recognized as an asset unless there is a probability of success which ideally should be more likely than not.

Derecognition of Asset

- Derecognition is the removal of all or part of a recognised asset from an entity's balance sheet.
- Derecognition normally occurs when that item no longer meets the definition of an asset.
- **Assets** should be derecognised when entity loses control wholly or partially. In case of partial loss of control, asset is partially derecognised.

OR

List out the entities which were covered under Phase I & II under the Companies (Indian Accounting Standards) Rules 2015 as notified by the MCA along with the specific date of coverage with its exclusions, if any.

(5 Marks)

SOLUTION :

Roadmap For Implementation Of Indian Accounting Standards (Ind As):

(For Companies other than banks, NBFCs and Insurance Companies)

Phase I **1st April 2015 or thereafter (with Comparatives): Voluntary Basis** for any company and its holding, subsidiary, JV or associate company

1st April 2016: Mandatory Basis

(a) Companies listed/in process of listing on Stock Exchanges in India or Outside India having net worth > INR 500 crore

(b) Unlisted Companies having net worth > INR 500 crore

(c) Parent, Subsidiary, Associate and J. V of Above

Phase II **1st April 2017: Mandatory Basis**

(a) All companies which are listed/or in process of listing inside or outside India on Stock Exchanges not covered in Phase I (other than companies listed on SME Exchanges)

(b) Unlisted companies having net worth INR 500 crore > INR 250 crore

(c) Parent, Subsidiary, Associate and J. V of Above

Companies listed on SME exchange not required to apply Ind AS

✓ Once Ind AS are applicable, an entity shall be required to follow the Ind AS for all the subsequent financial statements.

✓ Companies not covered by the above roadmap shall continue to apply existing Accounting Standards notified in Companies (Accounting Standards) Rules, 2006.

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QUESTION : 6 (a)

Discuss how "Cloud Computing" has positively impacted the accounting function and list out the challenges faced by the users of it in cloud computing environment. (5 Marks)

SOLUTION :

Cloud computing refers to the delivery of computing services over the internet. It allows accountants to access their data and software from any device with an internet connection.

The entire world was hit in 2020 with probably the biggest black swan event of the past couple of decades- the COVID-19 pandemic. The continuous lockdowns severely impacted businesses, and operations came to a standstill. This in turn led to viewing cloud computing as a serious alternative compared to traditional client-server architecture in physical locations controlled by the entities themselves.

With the advent of cloud computing, persons could access the systems from their respective locations, work remotely during the lockdown and ensure that the accounting process and reporting requirements did not suffer adversely.

Common Applications / Cases of Cloud Computing

- Cloud Storage:
- Software as a Service (SaaS):
- Infrastructure as a Service (IaaS):
- Platform as a Service (PaaS):
- Cloud-based Communication and Collaboration:
- Cloud-based E-commerce:
- Big Data Analytics:

Challenges in Cloud Computing

Following are the potential challenges which may emerge in cloud computing:

➡ Since cloud-based software are completely online, they could be prone to hackers who could 'steal' data or passwords or compromise the integrity of the processed data, thereby causing disruptions to the businesses.

➡ Strong net connectivity is a must for cloud-computing to be a success. Though there has been a huge surge in network and mobile connectivity in the past decade, connectivity in non-metros, tier-2 or tier-3 cities is not well-developed, which could create accessibility issues to the users of the cloud-based accounting software.

*****

QUESTION : 6 (b)

Y Limited purchased a building for ` 3 0,00,000 on 1st April 2021. The useful life of the building is estimated at 15 years. On 31st March 2023, Y Limited classified the said building as held for sale. The impairment testing provides the estimated recoverable amount as ` 23,50,000.

The fair value less cost to sell on 31st March, 2023 was ` 23,00,000. On 31st March, 2024 the management of Y Limited changed the plan, as the building no longer met the criteria of held for sale. The recoverable amount as at 31st March 2024 is ` 25,00,000.

You are required to recommend the accounting treatment of events for the year ending 31st March 2023 and 31st March 2024 and value the property at the end of 31st March 2023 and 31st March 2024. (5 Marks)

SOLUTION :

1.4.2021	31.3.2022	31.3.2023	31.3.2024
Cost = 30,00,000 Life = 15 years		Held for sale (HFS) RA = 23,50,000 FVLCTS = 23,00,000	Change in plan RA = 25,00,000

STEP 1 – Calculation of carrying amount on 31.3.2023

S. No.	Particulars		Rs.
A.	Cost on 1.4.2021		30,00,000
B.	Depreciation for 2 years $\frac{30,00,000}{15 \text{ Years}} \times 2 \text{ Years}$		4,00,000
C.	Carrying Amount as at 31.3.2023	(A-B)	26,00,000
D.	Recoverable Amount		23,50,000
E.	Impairment loss under IND AS 36 (charged to P & L)		2,50,000
F.	Updated Carrying amount	(C-E)	23,50,000
G.	Fair value less cost to sell		23,00,000
H.	Impairment loss under IND AS 105 (charged to P & L)		50,000

STEP 2 – Change in plan : Calculation of New carrying amount on discontinuation of held for sale accounting.

S. No.	Particulars	Rs.
A.	Carrying Amount (Step 1)	23,00,000
B.	New carrying amount upon change in plan	
	Lower of :	
	a) Carrying Amt. had no Held for Sale applies $\frac{23,50,000}{13 \text{ Years}} \times 12$	21,69,231
	a) Recoverable Amount	25,00,000
C.	New Carrying Amount will be	21,69,231
D.	Amount to be transferred to profit & loss on change in plan (23,00,000 – 21,69,231)	1,30,769

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QUESTION : 6 (c)

Dhruv Limited, a production company, sells television to various companies all over India. Company's financial year ends on 31st March.

For the financial year 2022-23, the company had a net profit after taxes of ` 2.4 crores. It prepares and publishes an interim financial report for each quarter of the year. The net profit of the company for the second quarter of 2023-24 is ` 56 Lakhs.

Following adjustments are to be made while computing the net profit of second quarter:

(i) **The company has a practice of declaring bonus of 5% of its profit after taxes of previous financial year. It has a history of doing so and the amount is recognised equally in each quarter It declared bonus on 1st June 2023 but recognised the full amount in second quarter.**

(ii) **The company intends to incur major repair and renovation expense for the office building. For, this purpose, it has started seeking quotations from vendors. It also has tentatively identified a vendor and expected costs are ` 34 lakhs. It provided for the same in this quarter.**

(iii) **Exceptional loss of ` 4.2 Lakhs incurred during the second quarter due to workers strike. 50% of exceptional loss has**

been deferred to next quarter.

Ascertain the correct net profit with reasons to be shown in the Interim Financial Report of Second quarter to be presented to the Board of Directors. **(5 Marks)**

SOLUTION :

Calculation of Correct Quarterly Income for the second quarter of 2023-2024

		Rs.
A.	Income already calculated	56,00,000
B.	Add : Bonus relating to other Quarters (2,40,00,000 x 5% × 3/4) (since the company has past record of declaring annual bonus every year, the same may be accrued using a reasonable estimate)	9,00,000
C.	Add: Repairs and renovation expense wrongly provided. The entity does have a legal or constructive obligation. The mere intention or necessity to incur expenditure related to the future is not sufficient to give rise to an obligation.	34,00,000
D.	Less : Exceptional loss of Rs.420,000 / 2 = 2,10,000 wrongly deferred to next quarter	(2,10,000)
E.	**Correct Income of Second Quarter (A to D)**	**96,90,000**

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About CA, CPA Vinod Kumar Agarwal

Summary:

Founder Member of A.S. Foundation, India's Leading Academy for C.A. Course, CA Vinod Kumar Agarwal is a fellow member of ICAI and a past member of the Board of Studies, ICAI. With a teaching experience of twenty one years, he has guided more than 1,00,000 students and is ranked as one of the best teachers for Accounts and Financial Management at Intermediate level and Financial Reporting and AFM at Final Level. He has authored books on Accounts, Advanced Auditing for CA Final, Auditing for Intermediate, Accounting Standards, Ind AS, Costing and Financial Management, and his books have sold more than 2,00,000 copies.

Education:

- Passed the **Certified Public Accountant (CPA) (USA)** exam in 2007.
- Post-graduation from Pune University with First Class.
- Graduation from B.M.C.C, Pune with distinction.
- Passed the Diploma in Business Finance Conducted by ICFAI, Hyderabad.
- Passed the Derivative Module test conducted by National Stock Exchange.
- **Also appeared for UPSC exam and cleared Mains twice.**

Teaching Experience:

- **Teaches Accounts, Advanced Accountancy, Financial management and Economics for Finance at CA Intermediate Level and Financial Reporting and Advanced Financial Management (AFM) at CA Final level.**
- **Pioneer of creating and distributing video tutorials in pen drives/google drive among students.**
- **Produced All India Toppers (1st Rank) in CPT examination and final examination apart from more than 250 all India merit-holders.**
- **More than 30000 Facebook subscribers, more than 1,35,000 YouTube subscribers.**
- **Sold more than 40000 video lectures in pen-drive and google-drive mode.**
- **In 2019, launched a brand VKNOW, to become a national brand for digital learning.**

Publications and Achievements:

- A **merit holder in all the three levels of exams conducted by ICAI** (2nd rank, 4th rank, and 24th rank in CA Foundation, CA Intermediate and CA Final respectively).
- **Scored 99 marks in Accountancy in CA Foundation.**
- Authored books on Accounts, Advanced Auditing for CA Final, Auditing for Intermediate, Accounting Standards, Ind AS, Costing and Financial Management.
- Complied a book "No Truth, Only Interpretations", a book on motivation, inspiration and guidance.
- Compiled a book, "Mind Candy", a book on motivation.
- Compiled a book, "Sweet Voice", a book on inspirational quotes.
- **Working experience** with India's top firms Firms like **M/s. S.B. Billimoria and A.F. Ferguson (both member firm of Deloitte).**
- Published article in the Students Newsletter of ICAI on "Valuation of Equity Shares" and "Stock Market Index".
- Presented a paper on "Corporate Governance and Role of Auditor" in National Students Conference held in Goa.

Teaching Approach:

- Simple and effective way of teaching through concept building, class-room practice, home-exercise, and power-point presentation.
- A large variety of problems are solved in the class to meet the examination requirements.
- Notes are updated frequently covering amendments and exam problems.