

CASE SCENARIO – I

Sea-link Limited is a company which manufactures ship and vessel parts and sells them to large companies across the globe. The company prepares financial statements under Ind AS Reporting Standards.

The accountant of the company Mr. Lalit needs your guidance in closing the books and preparation of the financial statements. Mr. Lalit is confused as to how he should treat the transactions for the year ended 31st March 2023 and explained you the transactions.

On 1st May 2022, Sea-link Limited acquired 75% of the equity shares of Sea Hawk Limited and gained control of Sea Hawk Limited. Sea Hawk Limited has 90 lakh equity shares in issue. Details of the purchase consideration are as follows:

On 1st May 2022, Sea-link Limited issued two shares for every three shares acquired in Sea Hawk Limited. On 1st May 2022, the market value of an equity share in Sea-link Limited was ₹ 7.00 and the market value of an equity share in Sea Hawk Limited was ₹ 6.25.

On 30 April 2023, Sea-link Limited shall make a cash payment of ₹ 75.60 lakh to the former shareholders of Sea Hawk Limited who sold their shares to Sea-link Limited on 1st May 2022. On 1st May 2022, Sea link Limited would have needed to pay interest at an annual rate of 8% on borrowings.

On 30 April 2024, Sea-link Limited may make a cash payment of ₹ 250 lakhs to the former shareholders of Sea Hawk Limited who sold their shares to Sea-link Limited on 1st May 2022. This payment is contingent upon the revenues of Sea link Limited growing by 14% or more over the two-year period from 1st May 2022 to 30th April 2024. On 1st May 2022, the fair value of this contingent consideration was ₹ 230 lakh. On 31st March 2023, the fair value of the contingent consideration was ₹ 240 lakhs.

Sea-link Limited sold some ship and vessel components to a customer on 31st December 2022. The invoiced amount was ₹ 8,00,000. The company expected to receive the payment on 28th February 2023. However, no cash was received till 31st March 2023. On 30th April 2023, the credit control department informed that the customer has major cash flow problems because of the failure of one of its projects, sometime in January 2023. They have agreed to allow the customer to settle the debt until 31st March 2024, by which time the customer is confident that the cash flow problems will be resolved.

Though Sea-link Limited currently expects that an annual interest of 6% (i.e., effective interest rate) can be received against any money lent out, yet it allowed this customer an interest free payment period.

Sea-link Limited acquired 25% share capital of Boat Limited on 1st April 2022 for ₹ 1,40,000. The carrying value of net assets of Boat Limited was ₹ 4,00,000 and fair value was ₹ 5,00,000 on the date of acquisition.

Boat limited which became an Associate company of Sea-link Limited provided the following information relating to Boat Limited for the year ended 31st March 2023 :

Particulars	(₹ in lakh)
Net Income after taxes	200
Decrease in accounts receivables	40
Depreciation	25
Increase in inventory	20
Tax charge for the year (including deferred tax liabilities)	10

Profit from sale of land	5
--------------------------	---

Sea-link. Limited holds a financial asset that is actively traded in two different markets. The company transacts in both markets equally. The price of the asset in market A is ₹ 60 lakhs. If the company sells the asset in market A, it incurs a transaction cost of ₹ 4 lakh. The price of the asset in market B is ₹ 58 lakhs. If the company sells the asset in market B, it incurs a transaction cost of ₹ 1 lakh.

Sea link limited also deals in and sells the satellite communication software license for ships, perform its installation, provide software updates and technical support activities separately and so each performance obligation has a direct selling price and item-wise orders can be procured from the buyers based on their requirements.

Particulars	(₹ in lakh)
Software License	250
Installation service	50
Software updates	60
Technical support	40
Total	400

The customer wanted to place a composite contract for all the activities but did not agree to pay installation service charges. Sea-link Limited finally, after negotiations, agreed to waive installation service charges in full. Sea-slink Limited enters into a contract with a customer to provide all above goods and services at a lump sum amount of ₹ 350 lakhs transaction price for all the four performance obligations as part of the contract during the financial year 2022-23. You are required to assist Mr. Lalit on account of the above transaction for the year ended 31st March 2023 by:

Analyzing the transactions mentioned above and choose the correct option in the below questions 1 to 6 in line with the relevant Ind AS : (6 x 2 = 12)

1. Calculate the company's Associate Boat Ltd.'s cash flow from operations ?

- (a) ₹ 230 lakhs
- (b) ₹ 250 lakhs**
- (c) ₹ 255 lakhs
- (d) ₹ 240 lakhs

ANS 1. Option (B) = 250 Lakhs

Reason : Cashflow from operations (using Indirect Method)

		Rs Lakhs
A	Net Income After Tax	200
B	Add: Depreciation	25
C	Add: Tax Charges (including DTL)	10
D	Less: Profit from sale of land	(5)
E	Operating Profit before working capital changes	230
F	Add: Decrease in Accounts Receivable	40
G	Less: Increase in Inventory	(20)
H	Cashflow from operation	250

2. What is the amount of purchase consideration of acquisition of Sea Hawk Limited by Sea-link Limited in the business combination ?

- (a) ₹ 315 lakhs

- (b) ₹ 385 lakhs
(c) ₹ 615 lakhs
 (d) ₹ 390.60 lakhs

ANS 2. Option (C) : Rs 615 lakhs

Reason :

Purchase Consideration		Rs Lakhs
1	Shares (90 lakhs shares x 75% x 2/3 x ₹ 7)	315
2	Deferred consideration (75.60 x 0.926)	70
3	Contingent consideration (at fair value)	230
4	Total	615

3. How shall the Goodwill and investment in Boat Limited be recorded on the date of acquisition by Sea-link Limited in the books the company ?

- (a) Goodwill ₹ 40,000 and investment ₹ 1,00,000.
 (b) Goodwill ₹ 15,000 and investment ₹ 1,25,000.
 (c) Goodwill or ₹ 15,000 will be shown separately along with carrying amount of investment of ₹ 1,40,000,
(d) Goodwill of ₹ 15,000 will not be shown separately and will be recorded as part of carrying amount of investment ₹ 1,40,000,

ANS 3 : Option (D)

4. What amount be allocated as the transaction price of installation service as per the provisions of the relevant Ind AS?

- (a) ₹ 50 lakh
 (b) Nil
(c) ₹ 43.75 lakhs
 (d) ₹ 90 lakh

ANS 4 : Option (C) : Rs 43.75 lakhs

Transaction price allocated to installation service = $50/400 \times 350$
 = ₹ 43.75 lakhs

5. Sea-link Limited holds a financial asset that is actively traded in two different markets. The company transacts in both markets equally. The selling price of the financial asset and transaction cost to be incurred are different in both the markets, which hare already been given in above narration. You are required to determine the fair value of the financial asset ?

- (a) ₹ 56 lakh
 (b) ₹ 57 lakh
(c) ₹ 58 lakhs
 (d) ₹ 60 lakh

ANS 5: Option (C) : 58 Lakhs

Reason:

Identify most advantageous market

(Rs lakhs)

		Market A	Market B
A	Price	60	58
B	Less: Transaction Price	(4)	(1)
C	Net (A – B)	56	57

Note – Most advantageous market is market B. **Hence, fair value is Rs 58 lakhs.**

Note – Transaction cost is not considered in fair value determination.

6. Ind AS are applicable for accounting treatment for the year ended 31st March 2023, in transaction of ship vessel components delivery to a customer as on December 2022 ?

- (a) Ind AS 37 / Ind AS 109
- (b) Ind AS 10 / Ind AS 32
- (c) Ind AS 109 / Ind AS 32
- (d) Ind AS 109 / Ind AS 10**

ANS 6: Option (D) : IND AS 109/ IND AS 10

7. Which of the following common characteristics of derivative financial instruments distinguishes them from other types of financial instruments?

- (a) They impose a contractual obligation by one entity to deliver cash to another entity, to convey a contractual right.
- (b) They are financial investments in stocks, bonds, or other securities that are marketable.
- (c) They have a notional amount or payment provision that is based on the changes in one or more underlying variables.**
- (d) Most financial instruments are valued on the balance sheet at fair value, but derivatives are valued on the balance sheet at cost.

ANS 7: Option (C)

8. When applying conceptual framework, the Chartered Accountant shall :

- (i) Exercise professional judgment.
- (ii) Remain alert for new information and to changes in facts and circumstances,
- (iii) Use the reasonable and informed third party test,
- (a) (i) & (iii)
- (b) (ii) & (iii)
- (c) (i) & (ii)
- (d) (i), (ii) & (iii)**

ANS 8: Option (D) : I, II AND III

9. The Fancy Store inventory records, at March 31, revealed the following:

Particulars	₹
Inventory on hand, March 31 st	3,00,000
Inventory purchased F.O.B Shipping point, shipped by vendor on March 25 th , expected delivery date - April 1 st	1,00,000
inventory shipped to customers on March 28, F.O.B. destination, expected delivery date - April 2 nd	50,000
Goods held on consignment by Fancy Store, not included in inventory on hand	30,000

What is the value of Fancy Store's closing inventory at March 31st ?

- (a) ₹ 3,30,000
- (b) ₹ 3,00,000
- (c) ₹ 4,80,000
- (d) ₹ 4,50,000**

ANS 9: OPTION (D): Rs 4,50,000

Reason:

Calculation of Value of Inventory

	Rs
Inventory on Hand	3,00,000
(+) Inventory purchased on F.O.B shipping point (Read Note 1)	1,00,000
(+) Inventory shipped to customers F.O.B destinations, expected delivery date – 2 nd April (Read Note 2)	50,000
	4,50,000

Note 1– Stock held on consignment will not be included.

Note 2 - FOB shipping point, or "Free on Board shipping point," is a shipping term used in international and domestic trade to indicate that the buyer assumes ownership and responsibility for the goods once they leave the seller's shipping dock.

Note 3- FOB destination, or "Free on Board destination," is a shipping term used in international and domestic trade to indicate that the seller retains ownership and responsibility for the goods until they reach the buyer's specified location.

CASE SCENARIO – II :

The Financial Statement of Brown Limited for the year ended 31st March 2024 are being viewed and the accountant has requested you to share your views on the following issues.

Brown Limited is engaged in agricultural plantation and farming on a large scale. On 1st April, 2023, the company received a government grant for ₹ 10 Lakhs subject to a condition that it will continue to engage in plantation of eucalyptus tree for a forthcoming period of four years. Eucalyptus trees are not considered as bearer plant in this case. The management has a reasonable assurance that the entity will comply with condition of engaging in the plantation of eucalyptus tree for specified period of four years.

Brown Limited started construction of a godown on 1st October 2022 and had taken a loan of US \$ 10,000 on **1st April, 2023**, specifically for construction of the godown at an interest rate of 5% per annum for a tenure of one year. The exchange rate on 1st April 2023 was ₹ 75 per US\$. The exchange rate on 31st March 2024 was increased to ₹ 80 per US\$. The same amount could have been borrowed by Brown Limited on 1st April, 2023 in the local currency Rupee at an interest rate of 10% per annum for the same tenure. No other loan was taken by the company for construction of the godown and the construction of the godown was completed on **31st March, 2024**.

Brown Limited Purchased an office building on 1 April, 2021 and recorded it in the books at value of ₹ 5,00,000, under **cost model**, based on the IND AS 16 Property, Plant and Equipment. The building is being depreciated over a period of 20 years. Brown Limited no longer needs the office building space and on 1st April 2023, it entered into an agreement to lease the building to another company for 20 years. The valuation of the building was not changed and it stands at ₹ 4,25,000 in the books of the company after depreciation as at 31 March, 2024. The fair market value of the office building is pegged at ₹ 6,00,000 as on 31st March 2024,

Brown Limited acquired 10% additional shares in its existing subsidiary company namely, Black Limited at closing of the financial year 2023-24. As at the close of 31-03-2023, Brown Limited held 60% in Black Limited. The following relevant information is available in respect of the change in non-controlling interest in the subsidiary on the basis financial statements.

Separate Financial Statements	₹
Investment in subsidiary (60% interest) at cost as on 31 March 2023	1,20,000
Purchase price for additional 10% interest paid in financial year 2023-24	30,000
Consolidated Financial Statements	₹
Non-controlling interests (40%) as on 31 March 2023	84,000
Other Equity	2,00,000

Brown Limited has opened a new office in Gangtok under a lease. A specific requirement of the lease is that the asset is returned in good condition. The directors agreed for the same at a cost of ₹ 1.30 crores based on current price levels. The lease agreement was signed on 31st March 2024 and will last for five years. Due to severe cold weather, Brown Limited will have to spend ₹ 45,00,000. at the end of next year on renovating the building. In the directors' opinion, this expenditure will reduce, by an equivalent amount, against the overall refurbishment costs payable at the end of the lease term. Relevant discount rate applicable in this case is 10%.

Analyze the transactions mentioned above and choose the correct option in the below questions 10 to 15 in line with the relevant Ind AS (6 x 2 = 12)

10. What is the amount of the revaluation surplus that will be recognised by the company in respect of the building used as office and now given under lease as per applicable Ind AS ?

- (a) ₹ 1,00,000
- (b) ₹ 1,75,000
- (c) ₹ 75,000
- (d) Nil**

ANS 10 : Option (D) : NIL

Transfer will be made at carrying amount . The company had applied cost model under IND AS 16 till now. Hence, there is no revaluation surplus.

11. How much amount of provision should be recognized as at 31st March 2024 for the office held on lease in Gangtok?

- (a) ₹ 93,69,000**
- (b) ₹ 52,78,500
- (c) ₹ 1,30,00,000
- (d) ₹ 40,90,500

ANS 11: Option (A) : Rs 93,69,000

Reason:

Calculation of Provision to be recognised

Year	Payment	PVF @ 10%	Present Value
1	45,00,000	0.9091	40,90,950
5	85,00,000	0.6209	52,77,650
	1,30,00,000		93,68,600

12. What amount would be capitalized as borrowing cost of godown as per Ind AS 23 ?

- (a) ₹ 37,500
- (b) ₹ 40,000
- (c) ₹ 90,000
- (d) ₹ 75,000**

ANS 12: Option (D) : Rs 75,000

Reason :

Step 1 – Actual Borrowing cost on USD Borrowing

$$= \$ 10,000 \times 5\% \times 80 = \text{Rs } 40,000$$

Step 2: Exchange difference treated as borrowing cost – Lower of :

(i) Actual exchange difference

$$= 10,000 \times (80 - 75) = \text{Rs } 50,000$$

(ii) Local increment borrowing cost over foreign borrowing

$$= (\$ 10,000 \times 75 \times 10\%) - 40,000$$

$$= \text{Rs } 35,000$$

Step 3: Total Borrowing cost

$$= 40,000 + 35,000 = \text{Rs } 75,000$$

13. What is the amount if any that would be considered as the exchange difference to be accounted for against the loan taken for construction of godown as per Ind AS-21 –“The Effects of Changes in Foreign Exchange Rates” for the financial year 2023-24 ?

- (a) ₹ 15,000**
- (b) ₹ 50,000
- (c) ₹ 25,000
- (d) Nil

ANS 13: Option (A) : Rs 15,000

Reason :

Exchange difference accounted as per IND AS 21

$$= \text{Actual exchange difference} - \text{Exchange difference regarded as borrowing cost}$$

$$= 50,000 - 35,000$$

$$= \text{Rs } 15,000$$

14. At what value non- controlling interest and other equity will be shown in consolidated financial statement immediately after the change in the non- controlling interest in Black Limited?

- (a) ₹ 1,05,000 and ₹ 2,00,000 respectively
- (b) ₹ 54,000 and ₹ 2,00,000 respectively
- (c) ₹ 63,000 and ₹ 1,91,000 respectively**

(d) ₹ 84,000 and ₹ 2,00,000 respectively

ANS 14: Option (C) : Rs 63,000 and Rs 1,91,000 respectively

Reason:

		Debit	Credit
NCI A/c (10 / 40 X 84,000)	Dr	21,000	
Other Equity A/c (Balancing Figure)	Dr	9,000*	
To Bank A/c			30,000

Balance in NCI A/c = 84,000 – 21,000 = ₹ 63,000

Balance in other equity = 2,00,000 – 9,000 = ₹ 1,91,000

15. What is the correct accounting treatment by the company for the Government grant and is in accordance with the applicable Ind AS provisions?

- Recognise proportionate grant for ₹ 2.50 lakhs in Statement of Profit and Loss for the year ending 31st March 2024 as income following the principles laid down under Ind AS 20
- Recognise the grant ₹ 10 lakhs in Statement of Profit and Loss for the year ending 31st March 2024 as income following the principles laid down under Ind AS 20.
- Government grant for ₹10 lakhs shall be recognised in profit or loss when, and only when, the conditions attaching to the government grant are met i.e., after the expiry of specified period of four years of continuing engagement in the plantation of eucalyptus tree following the principles laid down under Ind AS 41.**
- Recognise proportionate grant for ₹ 2.50 lakhs in Statement of Profit and Loss for the year ending 31st March 2024 as income following the principles laid down under Ind AS 41.

ANS 15: Option (C)

Note: The government grant has been given subject to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of four years. This implies that it is a conditional grant.

As per IND AS 41,

- The grant shall be recognized as income when and only when the attached conditions are **fully met**. (The condition is bit stringent compared to IND AS 20).
- Till then, grant is shown as liability.
- Grant received is liability till all conditions are satisfied.

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 ICAI, 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.
- Compiled 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.