PAPER – 1: FINANCIAL REPORTING

Part I-Amendments applicable from November, 2026 examination

In the year 2025, MCA has issued amendments viz two notifications at two different dates to amend the Companies (Indian Accounting Standards) Rules, 2015. The first amendment of the year was vide notification G.S.R. 291(E) dated 7th May, 2025 and the second amendment of the year was vide notification G.S.R. 549(E) dated 13th August, 2025. These amendments are generally brought by MCA to keep uniformity between Ind AS and IFRS.

1. Amendment in Ind AS notification G.S.R. 291(E) dated 7th May, 2025

The Ministry of Corporate Affairs (MCA) issued the Companies (Indian Accounting Standards) Amendment Rules, 2025 on May 7, 2025, primarily amending Ind AS 21 regarding a "lack of exchangeability" for foreign currencies, effective for annual periods starting on or after April 1, 2025. These amendments align Ind AS 21 with IAS 21, guiding how to determine the spot rate when a currency cannot be exchanged into another currency.

Under Ind AS 21, The Effects of Changes in Foreign Exchange Rates, a company on initial recognition, uses a spot exchange rate when translating a foreign currency transaction at the date of the transaction. Additionally, Ind AS 21 requires the use of a spot exchange rate when an entity reports foreign operation's results and financial position in its financial statements. A spot exchange rate is the exchange rate for immediate delivery.

However, in rare circumstances, it is possible that one currency cannot be exchanged into another. This lack of exchangeability can have a significant accounting impact over affected companies.

In this regard, the Ministry of Corporate Affairs (MCA) notified the Companies (Indian Accounting Standards) Amendment Rules, 2025, on May 7, 2025, amending Ind AS 21, The Effects of Changes in Foreign Exchange Rates. Effective for annual periods beginning on or after April 1, 2025, the amendments address the lack of exchangeability between two currencies by explaining -

- when a currency is exchangeable,
- providing guidance on estimating spot rates, and
- enhancing disclosure requirements.

Key highlights of the Amendment in Ind AS 21

❖ **Definition of Exchangeability:** A currency is exchangeable into another when an entity can **obtain the other currency within a time frame allowing for normal administrative delay**, through a mechanism that **creates enforceable rights**.

❖ **Estimate Spot Rate:** If exchangeability is lacking, the entity must estimate the spot rate to translate transactions, ensuring it reflects an orderly transaction.

❖ **Two-Step Approach**

<u>TWO-STEP APPROACH:</u>

The following diagram is to help entities assess whether a currency is exchangeable and estimate the spot exchange rate when a currency is not exchangeable.

Is the currency exchangeable into the other currency at the measurement date for the specified purpose	Yes → Apply the applicable requirements in Ind AS 21	**Step I:** Assessing whether a currency is exchangeable
No ↓ At the measurement date, estimate the spot exchange rate that meets the objective in paragraph 19A by using either: (a) an observable exchange rate without adjustment (see paragraphs A11–A16); or (b) another estimation technique (see paragraph A17)		**Step II:** Estimating the spot exchange rate when a currency is not exchangeable

STEP I: ASSESSING WHETHER A CURRENCY IS EXCHANGEABLE

An entity might determine that currency PC is not exchangeable into currency LC, even though currency LC is exchangeable into currency PC.

Following key factors are required to be considered when determining that a currency is exchangeable:

1. **Time frame:** An exchange transaction might not always complete instantaneously because of legal or regulatory requirements, or for practical reasons such as public holidays. A normal administrative delay in obtaining the other currency does not preclude a currency from being exchangeable into that other currency. What constitutes a normal administrative delay depends on facts and circumstances.

2. **Ability to obtain the other currency:** In assessing whether a currency is exchangeable into another currency, an entity shall consider its

ability to obtain the other currency, rather than its intention or decision to do so. A currency is exchangeable into another currency if an entity is able to obtain the other currency either directly or indirectly, even if it intends or decides not to do so. For example, regardless of whether the entity intends or decides to obtain PC, currency LC is exchangeable into currency PC if an entity is able to either exchange LC for PC, or exchange LC for another currency (FC) and then exchange FC for PC.

3. **Markets or exchange mechanisms:** In assessing whether a currency is exchangeable into another currency, an entity shall consider only markets or exchange mechanisms in which a transaction to exchange the currency for the other currency would create enforceable rights and obligations. It depends on facts and circumstances.

4. **Purpose of obtaining the other currency:** Different exchange rates might be available for different uses of a currency. This could affect an entity's ability to obtain those currencies and thus, lead to lack of exchangeability. Hence, it would be important for an entity to consider the purpose for which it obtains the other currency.

5. **Ability to obtain only limited amounts of the other currency:** A currency is not exchangeable into another currency if an entity is able to obtain no more than an insignificant amount of the other currency. An entity shall assess the significance of the amount of the other currency it is able to obtain for a specified purpose by comparing that amount with the total amount of the other currency required for that purpose.

   For example, an entity with a functional currency of LC has liabilities denominated in currency FC. The entity assesses whether the total amount of FC it can obtain for the purpose of settling those liabilities is no more than an insignificant amount compared with the aggregated amount (the sum) of its liability balances denominated in FC.

Where a currency is exchangeable into another currency, then the existing principles of Ind AS 21 would be applied for translation of the foreign currency transaction. But, where a currency is not exchangeable, an entity has to apply Step II.

STEP II: ESTIMATING THE SPOT EXCHANGE RATE WHEN A CURRENCY IS NOT EXCHANGEABLE

When a currency is not exchangeable, a company needs to estimate a spot rate. A company's objective when estimating a spot rate is only that it reflects the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.

To estimate a spot rate, a company should consider using:

1. **An observable exchange rate without adjustment**

   A company can use an observable rate if that rate satisfies the estimation objective – i.e. the rate reflects the price at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.

   To assess whether the exchange rates reflect the prevailing economic conditions, following needs to be considered:

   - Whether several observable exchange rates exist
   - The purpose for which the currency is exchangeable
   - The nature of the exchange rate; and
   - The frequency with which exchange rates are updated

   Examples of an observable exchange rate include:

   - A spot exchange rate for a purpose other than that for which the company is assessing exchangeability.
   - The first exchange rate at which a company is able to obtain the other currency for its specified purpose after exchangeability is restored. If a company opts to use this rate as an observable rate, then it would also need to consider
     - the time between the measurement date and the date at which exchangeability is restored,
     - inflation rates.

2. Using another estimation technique

When estimating a spot rate, the other alternative is that a company may use any observable exchange rate and adjust it as necessary. This includes using rates from exchange transactions in markets or exchange mechanisms that do not create enforceable rights and obligations- and adjust that rate, as necessary, to meet the estimation objective.

DISCLOSURE WHEN A CURRENCY IS NOT EXCHANGEABLE

An entity shall disclose:

(a) the currency and a description of the restrictions that result in that currency not being exchangeable into the other currency;

(b) a description of affected transactions;

(c) the carrying amount of affected assets and liabilities;

(d) the spot exchange rates used and whether those rates are:

 i. observable exchange rates without adjustment (see paragraphs A12–A16); or

 ii. spot exchange rates estimated using another estimation technique (see paragraph A17);

(e) a description of any estimation technique the entity has used, and qualitative and quantitative information about the inputs and assumptions used in that estimation technique; and

(f) qualitative information about each type of risk to which the entity is exposed because the currency is not exchangeable into the other currency, and the nature and carrying amount of assets and liabilities exposed to each type of risk.

When a foreign operation's functional currency is not exchangeable into the presentation currency or, if applicable, the presentation currency is not exchangeable into a foreign operation's functional currency, an entity shall also disclose:

(a) the name of the foreign operation; whether the foreign operation is a subsidiary, joint operation, joint venture, associate or branch; and its principal place of business;

(b) summarised financial information about the foreign operation; and

(c) the nature and terms of any contractual arrangements that could require the entity to provide financial support to the foreign operation, including events or circumstances that could expose the entity to a loss.

TRANSITION

In applying *Lack of Exchangeability,* the companies are not required to restate comparative information; instead, they adjust opening balance of retained earnings or cumulative amount of translation differences-accumulated in a separate component of equity.

2. Amendment in Ind AS notification G.S.R. 549(E) dated 13th August, 2025

The amendments notified in the Companies (Indian Accounting Standards) Second Amendment Rules, 2025 relate to:

A. Classification of liabilities as current or non-current and non-current liabilities with covenants (Ind AS 1, *Presentation of Financial Statements*)

B. Disclosure of supplier finance arrangements (Ind AS 7, *Statement of Cash Flows and* Ind AS 107 *Financial Instruments: Disclosures*)

C. Pillar Two Model Rules (Ind AS 12, *Income Taxes*).

A. AMENDMENT IN IND AS 1 '*PRESENTATION OF FINANCIAL STATEMENTS*'

Current – non-current classification of liabilities: In Ind AS 1, certain paragraphs have been inserted for the classification of certain liabilities as current or non-current. Further, companies may require making new disclosures for liabilities subject to covenants.

Right to defer settlement must exist at reporting date and have substance: Prior to the notification in Ind AS 1, companies classify a liability as current when they do not have an unconditional right to defer settlement for at least 12 months after the reporting date. The amendment has removed the requirement for a right to be ***unconditional*** and instead now requires that a right to defer settlement must exist at the reporting date and have substance.

Liabilities with covenants – clarification on classification criteria and introduction of new disclosures: A company will classify a liability as non-current if it has a right to defer settlement for at least 12 months after the reporting date. This right may be subject to a company complying with covenants specified in a loan arrangement.

Only covenants with which a company must comply ***on or before*** the reporting date affect the classification of a liability as current or non-current.

Covenants with which the company must comply after the reporting date (i.e. future covenants) do not affect a liability's classification at that date. However, when non-current liabilities are subject to future covenants, **companies will now need to disclose information** to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date.

Breach of covenant (effective for accounting periods beginning on or after 1 April 2025)

Ind AS 1 continues to carry the existing carve-outs from IAS 1 regarding the classification of liabilities when there is a breach of a material covenant that transforms the liability from non-current to current.

Where there is a breach of a material covenant 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 would not classify the liability as current, if the lender, after the reporting period and before the approval of the financial statements for issue, agreed not to demand payment as a consequence of the breach. However, in such circumstances, **the entity shall disclose information as per Ind AS 107 for each breach**.

Breach of covenant (effective for accounting periods beginning on or after 1 April 2026)

For accounting periods beginning on or after 1 April 2026, *the carve-out has been removed and hence when an entity breaches any covenant 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, it* *classifies the liability as current, even 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.* An entity classifies the liability as current because, at the end of the reporting period, it does not have the right to defer its settlement for at least 12 months after that date.

However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least 12 months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

If the following events occur between the end of the reporting period and the date the financial statements are approved for issue, *those events are disclosed as non-adjusting events* in accordance with Ind AS 10, *Events after the Reporting Period*:

(a) refinancing on a long-term basis of a liability classified as current;

(b) rectification of a breach of a long-term loan arrangement classified as current;

(c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement classified as current; and

(d) settlement of a liability classified as non-current.

Convertible debt may become current: Clarification on how a company classifies a liability that can be settled in its own shares – e.g. convertible debt.

When a liability includes a counterparty conversion option that involves a transfer of the company's own equity instruments, the conversion option is recognised as either equity or a liability separately from the host liability under Ind AS 32 Financial Instruments: Presentation. *The amendments states that when a company classifies the host liability as current or non-current, it can ignore only those conversion options that are recognised as equity.*

New disclosure requirements: As per the amendment in Ind AS 1, companies are now required to disclose information related to non-current liabilities from loan arrangements that are subject to future covenants in the notes to the financial statements. This disclosure aims to inform users about the potential risk that such liabilities may become repayable within 12 months following the reporting date.

The following new disclosures about covenants are required:

- Information about the covenants – e.g. nature of the covenants and when the company is required to comply with them and the carrying amount of related liabilities.
- Facts and circumstances, if any, that indicate the company may have difficulty complying with the covenants within the next 12 months of the reporting date – e.g. actions taken by the company during or after the reporting period to avoid or mitigate a potential breach, or the fact that the covenants would have been breached if assessed for compliance based on the company's circumstances at the reporting date (i.e. based on a hypothetical test at the reporting date).

Effective date –retrospectively application: Amendments in Ind AS 1 apply retrospectively for annual reporting periods beginning on or after 1 April 2025.

The amendment relating to breach of covenants on or before the reporting period that are aligned to IAS 1 are applicable for annual reporting periods beginning on or after 1 April 2026, retrospectively in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

B. AMENDMENT IN IND AS 7 *'STATEMENT OF CASH FLOWS'*

Supplier Finance Arrangements: Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements.

Arrangements that are solely credit enhancements for the entity (for example, financial guarantees including letters of credit used as guarantees) or instruments used by the entity to settle directly with a supplier the amounts owed (for example, credit cards) *are not supplier finance arrangements.*

An entity shall disclose in aggregate following information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk.

(a) the terms and conditions of the arrangements (for example, extended payment terms and security or guarantees provided). However, an entity shall disclose separately the terms and conditions of arrangements that have dissimilar terms and conditions.

(b) as at the beginning and end of the reporting period:

   (i) the carrying amounts, and associated line items presented in the entity's balance sheet, of the financial liabilities that are part of a supplier finance arrangement.

   (ii) the carrying amounts, and associated line items, of the financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers.

   (iii) the range of payment due dates for both the financial liabilities disclosed under (i) and comparable trade payables that are not part of a supplier finance arrangement. Comparable trade payables are, for example, trade payables of the entity within the same line of business or jurisdiction as the financial liabilities disclosed under (i). If ranges of payment due dates are wide, an entity shall disclose explanatory information about those ranges or disclose additional ranges (for example, stratified ranges).

(c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed under (b)(i). Examples of non-cash changes include the effect of business combinations, exchange differences or other transactions that do not require the use of cash or cash equivalents.

Transition-Effective date: An entity shall apply the supplier finance arrangements for the annual reporting periods beginning on or after 1 April 2025.

In applying supplier finance arrangements, an entity is ***not*** required to disclose:

(a) Comparative information for any reporting periods presented before the beginning of the annual reporting period in which the entity first applies these amendments;

(b) The following information as at the beginning of the annual reporting period in which the entity first applies those amendments

- ❖ the carrying amounts and associated line items presented in the balance sheet at the beginning and end of the reporting period for both the financial liabilities that are part of supplier finance arrangements in total and those for which the supplier has already been paid.
- ❖ the range of payment due dates for the financial liabilities that are part of supplier finance arrangements and comparable trade payables (e.g. trade payables within the same jurisdiction or business) that are not part of such arrangements as at the beginning of the annual reporting period in which the entity first applies these amendments.

(c) The information regarding supplier finance arrangements for any interim period presented within the annual reporting period in which the entity first applies these amendments.

C. AMENDMENT IN IND AS 12 '*INCOME TAXES*'

Pillar Two Legislation and Pillar Two Income Taxes: Pillar Two legislation includes Pillar Two Model Rules as per Organisation for Economic Co-operation and Development (OECD) including tax law that implements qualified domestic minimum top-up taxes described in those rules.

As an exception to the requirements in this Standard, *an entity shall neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.*

The amendments to Ind AS 12 states that

- ❖ An entity shall disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.
- ❖ An entity shall disclose separately its current tax expense (income) related to Pillar Two income taxes.
- ❖ In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation.
- ❖ To meet the above disclosure, an entity shall disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period.

This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an entity shall instead disclose a statement to that effect and disclose information about the entity's progress in assessing its exposure.

Part II-Questions and Answers

QUESTIONS

Case Scenario 1

KK Ltd. prepares its financial statements annually with 31 March as the reporting date. The financial statements of KK Ltd. are approved for issue on 25 May 20X2.

As at 31 March 20X2, KK Ltd. had a trade receivable of ₹ 10 million from Z Ltd., which was due for payment on 30 April 20X2. Z Ltd. had been a customer of KK Ltd. for several years and had an excellent payment history. At 31 March 20X2, there was no indication that Z Ltd. would be unable to settle the amount due. However, on 20 April 20X2, significant doubt arose regarding Z Ltd.'s ability to continue as a going concern because of the failure of certain major business projects.

On 1 August 20X1, KK Ltd. supplied products manufactured by it to C Ltd. The products were subsequently found to be faulty. On 1 October 20X1, C Ltd. commenced legal proceedings against KK Ltd. claiming damages for losses arising from the faulty products.

KK Ltd. determined that the products were faulty because of defective raw materials supplied by Y Ltd. Accordingly, on 1 December 20X1, KK Ltd. commenced legal proceedings against Y Ltd. to recover damages.

KK Ltd. consistently assessed that it was probable that both legal actions would succeed.

The estimates of damages were as follows:

Date	Damages payable by KK Ltd. to C Ltd.	Damages receivable from Y Ltd.
1 October 20X1	₹ 5.00 million	-
1 December 20X1	-	₹ 3.50 million
31 March 20X2	₹ 5.20 million	₹ 3.60 million
15 May 20X2	₹ 5.25 million	₹ 3.70 million
1 June 20X2 – settlement	₹ 5.30 million	₹ 3.75 million

The case against C Ltd. was settled on 1 June 20X2, when KK Ltd. paid ₹ 5.30 million. The case against Y Ltd. was also settled on that date, when Y Ltd. paid ₹ 3.75 million to KK Ltd.

Other information

During the year, KK Ltd. purchased a machine for ₹ 2,50,000. Depreciation of ₹ 50,000 was charged in arriving at accounting profit. The tax authorities allowed a deduction of ₹ 1,00,000 against taxable profits in the current period. The remaining cost will be deductible in future periods, either through depreciation or on disposal.

KK Ltd. also had interest receivable of ₹ 60,000 on 31 March 20X2. The related interest income is taxable on a cash basis, i.e., when the interest is actually received.

Based on the facts given above, choose the most appropriate answer to Questions 1 to 5 below as per the relevant Ind AS.

1. With respect to the ₹ 10 million trade receivable from Z Ltd., which of the following is the most appropriate treatment in KK Ltd.'s financial statements for the year ended 31 March 20X2?

   (A) No impairment allowance is required based on the information given; however, the material non-adjusting event should be disclosed if necessary to enable users to understand its financial effect.

   (B) Recognise an impairment allowance based on the information available on 20 April 20X2 because all events occurring before approval of financial statements are adjusting events.

   (C) Recognise a full impairment allowance because Z Ltd.'s going concern status became doubtful before approval of the financial statements.

   (D) Derecognise the trade receivable because Z Ltd. may not be able to settle the amount.

2. What is the tax base of the machine at 31 March 20X2?

   (A) ₹ 2,50,000

   (B) ₹ 2,00,000

(C) ₹ 1,50,000

(D) ₹ 1,00,000

3. What is the tax base of the ₹ 60,000 interest receivable?

(A) ₹ 60,000

(B) Nil

(C) ₹ 30,000

(D) ₹ 60,000 less the applicable tax rate

4. What amount should KK Ltd. recognise as a provision in respect of the legal action brought by C Ltd. in its financial statements for the year ended 31 March 20X2?

(A) ₹ 5.00 million

(B) ₹ 5.20 million

(C) ₹ 5.25 million

(D) ₹ 5.30 million

5. What is the appropriate accounting treatment for the amount recoverable from Y Ltd. in respect of the defective raw materials?

(A) Recognise an asset of ₹ 3.60 million because recovery is probable.

(B) Recognise an asset of ₹ 3.70 million because this is the estimate closest to the date of approval of financial statements.

(C) Recognise an asset of ₹ 3.75 million because this is the amount ultimately received.

(D) Do not recognise an asset; disclose the contingent asset and its estimated financial effect because the inflow is probable.

Case Scenario 2

Alpha Ltd. prepares its financial statements annually with 31 March as its reporting date.

At 31 March 20X2, the following liabilities were included in its financial statements:

- Trade payables of ₹ 1,20,000, relating to purchases for which the entire amount had already been allowed as a tax deduction when the purchases were made.
- Accrued liabilities of ₹ 40,000, relating to an expense for which a tax deduction will be available only when the liability is actually settled.

Alpha Ltd. also supplied components to a customer on 31 December 20X1 for an invoiced amount of ₹ 5,00,000. Payment was originally expected on 28 February 20X2. However, no payment was received.

On 30 April 20X2, Alpha Ltd. obtained information that the customer had developed significant cash-flow difficulties because one of its major projects had failed in February 20X2. Alpha Ltd. remained confident that the customer would ultimately settle the amount and therefore agreed to allow the customer to pay on 31 March 20X3.

Alpha Ltd. normally charges 6% annual interest on amounts it lends to customers. The customer was, however, allowed this extended interest-free payment period.

Based on the facts given above, choose the most appropriate answer to Questions 6 to 10 below as per the relevant Ind AS.

6. What is the tax base of the ₹ 1,20,000 trade payable?

   (A) Nil

   (B) ₹ 1,20,000

   (C) ₹ 60,000

   (D) ₹ 1,20,000 less applicable tax rate

7. What is the tax base of the ₹ 40,000 accrued liability?

   (A) Nil

   (B) ₹ 40,000

   (C) ₹ 20,000

   (D) ₹ 40,000 less applicable tax rate

8. How should Alpha Ltd. treat the information obtained on 30 April 20X2 regarding the customer's financial difficulties in preparing its financial statements for the year ended 31 March 20X2?

   (A) It should be ignored because the information was received after the reporting date.

   (B) It is a non-adjusting event because the customer's financial difficulties became known only after year-end.

   (C) It is an adjusting event because the information provides additional evidence of conditions that existed at the reporting date.

   (D) It should be recognised only in the financial statements for the year ending 31 March 20X3.

9. Based on the information available before the financial statements are approved for issue, what amount should be recognised for the trade receivable in the financial statements for the year ended 31 March 20X2, assuming the applicable discount rate is 6%?

   (A) ₹ 5,00,000

   (B) ₹ 4,71,698

   (C) ₹ 4,70,000

   (D) ₹ 5,30,000

10. What amount of interest income should Alpha Ltd. recognise for the year ended 31 March 20X3, assuming the customer pays ₹ 5,00,000 on that date?

   (A) Nil

   (B) ₹ 28,302

   (C) ₹ 30,000

   (D) ₹ 5,00,000

Professional and Ethical Duty of a Chartered Accountant

11. AlphaTech Ltd., a listed company, manufactures specialised industrial equipment and prepares its financial statements under Ind AS. For the

year ended 31 March 20X5, its reported revenue before the following transaction was ₹ 492 crore, against management's guidance of ₹ 500 crore.

On 25 March 20X5, AlphaTech received an order of ₹ 30 crore from Beta Industries Ltd. The equipment was delivered on 28 March 20X5 and management recognised the entire ₹ 30 crore as revenue immediately.

CA Rohan Mehta, responsible for financial reporting, noted the following:

- Beta Industries had a 90-day contractual right to return the equipment if it did not meet its production requirements.
- The equipment was highly customised and could not readily be sold to another customer without substantial modification.
- Installation and acceptance testing were not completed as at 31 March 20X5.
- The sales team had separately assured Beta Industries that AlphaTech would take back the equipment and provide a full refund if it did not perform as expected although this assurance was not expressly included in the main contract.
- The consideration of ₹ 30 crore was not received; payment was due 120 days after final acceptance by the customer.
- The CFO stated that AlphaTech had historically recognised revenue on dispatch and asked Rohan to approve the ₹ 30 crore revenue to meet the company's revenue target.

On 15 April 20X5, Beta Industries informed AlphaTech that the equipment had failed acceptance testing and exercised its right to return it. The equipment was returned on 25 April 20X5.

The CFO instructed Rohan not to reconsider the financial year 20X4-20X5 revenue, stating that the return occurred in the next financial year.

Required:

(a) Whether the ₹ 30 crore revenue should be recognised in financial year 20X4-20X5?;

(b) How the subsequent failure of acceptance testing and return of the equipment should be considered? and

(c) What should CA Rohan do in the given circumstances?

(d) What would be the consequences of failure by CA. Rohan to discharge his professional responsibility?

Ind AS 1: Presentation of Financial Statements

12. ABC Ltd. has a loan of ₹ 20 crore that is contractually repayable on 31 March 20X6. The loan agreement contains the following covenants relating to the company's working capital ratio:

Covenant	Testing date	Requirement
Working Capital ratio	31 March 20X1	At least 1.20
Working Capital ratio	30 September 20X1	At least 1.50

Under the terms of the loan agreement, if ABC Ltd. fails to comply with the working capital ratio requirement on any of the specified testing dates, the lender has the right to demand immediate repayment of the entire outstanding loan.

ABC Ltd. is preparing its financial statements for the year ended 31 March 20X1.

The following information is available:

1. The working capital ratio of ABC Ltd. on 31 March 20X1 is 1.30.
2. Based on its approved budgets and forecasts, management expects the working capital ratio to be 1.40 on 30 September 20X1.
3. Accordingly, although ABC Ltd. has complied with the covenant applicable at the reporting date, management expects that it will not comply with the covenant applicable on 30 September 20X1.
4. There are no other terms in the loan agreement that could result in the loan becoming repayable on demand as at 31 March 20X1.

Assume that the remaining terms of the loan are unchanged and that the lender has not waived or modified the covenant requirements.

Required:

(a) Determine whether the loan should be classified as current or non-current in the balance sheet of ABC Ltd. as at 31 March 20X1, giving reasons.

(b) Explain whether the expected failure to meet the working capital ratio of 1.50 on 30 September 20X1 affects the classification of the loan as at 31 March 20X1.

(c) State the additional disclosures, if any, required in the financial statements for the year ended 31 March 20X1 in respect of the future covenant.

(d) Assuming that the actual working capital ratio on 30 September 20X1 is 1.40, explain the consequence of such failure on the loan after the reporting date.

Ind AS 21: The Effects of Changes in Foreign Exchange Rates

13. A Ltd., whose functional currency is LC, has the following foreign currency liabilities denominated in FC as at 31 March 20X2:

Particulars	**FC**
Long-term foreign currency borrowing	10,00,000
Trade payables relating to import of electronic goods	10,000

During the year ended 31 March 20X2, A Ltd. imported electronic goods having a total value of FC 70,000.

The following additional information is available:

1. The relevant authority in A Ltd.'s jurisdiction permits A Ltd. to obtain FC up to 1,00,000 per year for payment for imports of electronic goods.

2. For repayment of long-term foreign currency borrowings, the relevant authority permits A Ltd. to obtain FC only up to 50,000 per year.

3. The restrictions are applicable at the level of the specified purpose for which FC is required. The authority does not permit

A Ltd. to use the FC obtained under the import quota for repayment of its long-term borrowing.

4. As at 31 March 20X2, the following exchange rates are observable:
   - LC 1.20 = FC 1. This is the rate at which A Ltd. is permitted to obtain FC for payment for imported electronic goods.
   - LC 1.32 = FC 1. This is the rate quoted in an unofficial / parallel market. However, transactions in this market do not create enforceable rights and obligations and therefore cannot be considered when assessing whether FC is exchangeable for the purpose of the borrowing.
5. The rate of LC 1.20 per FC is an observable exchange rate for a purpose other than repayment of the borrowing and, based on the facts and circumstances, A Ltd. concludes that this rate meets the objective of estimating the spot exchange rate at 31 March 20X2.
6. Assume that there are no other changes in the foreign currency liabilities during the year and ignore interest and transaction costs.

Required:

(a) Determine whether FC is exchangeable into LC at 31 March 20X2 separately for each of the two liabilities, giving reasons.

(b) Determine the exchange rate to be used for translating each liability into LC at 31 March 20X2 in accordance with the amended Ind AS 21.

(c) Calculate the amount of each liability to be recognised in LC in the financial statements of A Ltd. as at 31 March 20X2.

(d) Explain whether the LC 1.32 per FC unofficial market rate can be used in determining the exchangeability of FC and, if FC is determined to be non-exchangeable, whether such a rate can nevertheless be considered in estimating the spot exchange rate.

Ind AS 109: Financial Instruments

14. A Ltd. purchases ₹ 10 lakh, 10%, five-year government bonds on 1 April 20X5, with semi-annual interest payable on 30 September and 31 March, for ₹ 10.6 lakh (premium of ₹ 60,000). A Ltd. classifies the bonds as held to maturity (HTM) investments at amortised cost. The amortisation of the bonds to maturity, using the effective interest method is shown below:

Date	**Opening balance (a)**	**Cash received (b)**	**Effective interest rate @ 4.251% (c)**	**Carrying amount (d)**
1 April 20X5				10,60,000
1 October 20X5	10,60,000	50,000	45,061	10,55,061
1 April 20X6	10,55,061	50,000	44,851	10,49,912
1 October 20X6	10,49,912	50,000	44,632	10,44,544
1 April 20X7	10,44,544	50,000	44,404	10,38,948
1 October 20X7	10,38,948	50,000	44,166	10,33,114
1 April 20X8	10,33,114	50,000	43,918	10,27,032
1 October 20X8	10,27,032	50,000	43,659	10,20,691
1 April 20X9	10,20,691	50,000	43,390	10,14,081
1 October 20X9	10,14,081	50,000	43,109	10,07,190
31 March 2X10	10,07,190	50,000	42,810	10,00,000
Total		**5,00,000**	**4,40,000**	

On 1 October 20X6, A Ltd. sells the bond at its fair value of ₹ 10.50 lakh to a third party, with an agreement to repurchase the bond on 1 October 20X7 for ₹ 10.56 lakh. The transferee will be entitled to receive the interest due on 1 April 20X7 and 1 October 20X7 (i.e. ₹ 1 lakh), together with the difference between the repurchase price and sale price of ₹ 6,000, representing a lender's return of 10.081% per annum on the sale price.

Note: A Ltd. has decided to adopt the policy of not recording the said forward contract to repurchase the financial asset at a fixed price as an asset.

Required:

Determine profit/loss on the above transaction at the time of sale and repurchase of the transaction and also pass necessary journal entries for the same.

Ind AS 110: Consolidated Financial Statements

15. E Ltd. owns 90% of a subsidiary X Ltd., and the balance is NCI. It disposes of 60% of its interest in the subsidiary X Ltd. for ₹ 6,120 and loses control of the subsidiary X Ltd. It will de-consolidate the subsidiary X Ltd. and account for the remaining 30% interest as an associate using the equity method of accounting.

At the disposal date, the fair value of the retained investment is determined to be ₹ 4,080. The carrying value of the identifiable net assets of the subsidiary is ₹ 7,480, excluding goodwill. There is ₹ 1,020 of goodwill recorded related to the previously acquired interests in the subsidiary. The carrying value of NCI is ₹ 850. E Ltd. tested the subsidiary's goodwill and fixed assets prior to disposal and there was no impairment. There is ₹ 68 credit in the FVTOCI arising from a debt instrument and ₹ 170 credit in the revaluation reserve (revaluation of fixed assets) relating to the subsidiary. Ignore tax consequences.

Required:

(i) Determine the gain/loss on disposal of controlling interest

(ii) Determine the gain/loss on retained investment

(iii) Pass the journal entry on the disposal for 60% stake in X Ltd.

Ind AS 111: Joint Arrangements

16. K Ltd. prepares its financial statements to 31st March each year. The financial statements are approved for issue on 25th May.

On 1st April 20X1, K Ltd. entered into a joint arrangement with Y Ltd. to jointly operate a delivery depot. Y Ltd. is located and has major customers in the same geographical region as K Ltd. K Ltd. and Y Ltd. each made the following payments in respect of the arrangement on 1st April 20X1:

- ₹ 25 million each to purchase a joint 25-year leasehold interest in a depot which was close to both K Ltd. and Y Ltd.'s business premises. This depot was to act as headquarters for the delivery vehicles.

- ₹ 7.5 million each to purchase a fleet of delivery vehicles. The vehicles have an expected useful life of five years, with no expected residual value.

K Ltd. and Y Ltd. agreed to jointly use the delivery vehicles to deliver products to their customers and to share the operating costs of the depot equally. Any delivery charges to customers were levied by K Ltd. and Y Ltd. directly at the discretion of the individual entities.

During the year ended 31st March 20X2, the total cash cost of operating the depot was ₹ 8 million. This was paid equally by K Ltd. and Y Ltd. In the year ended 31st March 20X2, K Ltd. charged its customers a total of ₹ 2 million in delivery charges.

Required:

Explain how the above transaction would be reported in the financial statements of K Ltd. for the year ended 31 March 20X2.

Ind AS 12: Income Taxes

17. A Ltd. prepares financial statements to 31 March each year. The rate of income tax applicable to A Ltd. is 20%. The following information relates to transactions, assets, and liabilities of A Ltd. during the year ended 31 March 20X2

    (i) A Ltd. has a 40% shareholding in L Ltd. A Ltd. purchased this shareholding for ₹ 45 million. The shareholding gives A Ltd. significant influence over L Ltd. but not control and therefore A Ltd. accounts for its interest in L Ltd. using the equity method. The equity method carrying value of A Ltd.'s investment in L Ltd. was ₹ 70 million on 31 March 20X1 and ₹ 75 million on 31 March 20X2. In the tax jurisdiction in which A Ltd. operates, profits recognised under the equity method are taxed if and when they are distributed as a dividend or the relevant investment is disposed of.

(ii) A Ltd. measures its head office property using the revaluation model. The property is revalued every year on 31 March. On 31 March 20X1, the carrying value of the property (after revaluation) was ₹ 40 million and its tax base was ₹ 22 million. During the year ended 31 March 20X2, A Ltd. charged depreciation in its statement of profit or loss of ₹ 2 million and claimed a tax deduction for tax depreciation of ₹ 1.25 million.

On 31 March 20X2, the property was revalued to ₹ 45 million. In the tax jurisdiction in which A Ltd. operates, revaluation of property, plant and equipment does not affect taxable income at the time of revaluation.

There are no other temporary differences other than those indicated above.

Compute:

- The deferred tax liability of A Ltd. at 31 March 20X2.
- The charge or credit to both profit or loss and other comprehensive income relating to deferred tax for the year ended 31 March 20X2.

Include brief explanations to support your computations.

Ind AS 102: Share-based Payments

18. C Ltd. prepares its financial statements to 31 March each year. The financial statements are approved for issue on 20 May.

On 1 April 20X1, C Ltd. granted 2,000 employees 1,000 share options each. The options are due to vest on 31 March 20X4 provided the relevant employees remain in employment over the three-year period ending on 31 March 20X4.

On 1 April 20X1, the directors of C Ltd. estimated that 1,800 employees would qualify for the options on 31 March 20X4. This estimate was amended to 1,850 employees on 31 March 20X2, and further amended to 1,840 employees on 31 March 20X3.

On 1 April 20X1, the fair value of an option was ₹ 1.20. The fair value increased to ₹ 1.30 by 31 March 20X2 but, due to challenging trading conditions, the fair value declined after 31 March 20X2. On 30 September 20X2, when the fair value of an option was 90 paise, the directors repriced the options and this caused the fair value to increase to ₹ 1.05. Trading conditions improved in the second half of the year and by 31 March 20X3 the fair value of an option was ₹ 1.25.

Any additional costs that have occurred because of the repricing of the options on 30 September 20X2 should be spread over the remaining vesting period from 30 September 20X2 to 31 March 20X4.

Required:

Explain how the above event would be reported in the financial statements of C Ltd. for the year ended 31 March 20X3. Also provide necessary journal entries for the year ended 31 March 20X2 and 31 March 20X3.

Ind AS 24: Related Party Disclosures

19. CC Ltd prepares its financial statements to 31 March each year. The financial statements are approved for issue on 20 May.

On 1 June 20X1, the spouse of one of the directors of CC Ltd. purchased a controlling interest in O Ltd., a long-standing customer of CC Ltd.

Sales of products from CC Ltd. to O Ltd. in the two-month period from 1 April 20X1 to 31 May 20X1 totalled ₹ 8,00,000.

Following the share purchase by the spouse of one of the directors of CC Ltd. on 1 June 20X1, CC Ltd. began to supply the products at a discount of 20% to their normal selling price and allow O Ltd. three months' credit (previously O Ltd. was only allowed one month's credit, CC Ltd.'s normal credit policy).

Sales of products from CC Ltd. to O Ltd. in the ten-month period from 1 June 20X1 to 31 March 20X2 totalled ₹ 6 million.

On 31 March 20X2, the trade receivables of CC Ltd. included ₹ 1.8 million in respect of amounts owing by O Ltd.

Required:

Explain how the above event would be reported in the financial statements of CC Ltd. for the year ended 31 March 20X2.

Ind AS 7: Statement of Cashflows

20. The following details of P Ltd. pertain to the year ended 31st March 20X2:

- Paid lease liabilities (principal portion): ₹ 3,00,000
- The information on equity share capital and securities premium account is as under:

	1/4/20X1	31/3/20X2
Equity share capital (par value ₹ 1)	2,50,000	5,00,000
Securities premium	50,000	50,000

- On 10 October 20X1, a bonus issue of 1 share for every 5 ordinary shares was made utilising the securities premium account. The remainder of the increase in equity shares was due to an issue of shares for cash on 21st November 20X1.

From the above information, show the cash flows from financing activities to be shown in the statement of Cash flows for the year ended 31st March 20X2.

SUGGESTED ANSWERS

Answer to Multiple Choice Questions

1.	**(A)**		6.	**(B)**
2.	**(C)**		7.	**(A)**
3.	**(B)**		8.	**(C)**
4.	**(C)**		9.	**(B)**
5.	**(D)**		10.	**(B)**

11. (a) Correct Accounting treatment under Ind AS 115 'Revenue from Contracts with Customers'

Under Ind AS 115, revenue is recognised when, or as, a performance obligation is satisfied by transferring control of the promised goods or service to the customer. Accordingly, physical delivery or dispatch alone does not necessarily establish that revenue should be recognised.

In the present case, the following factors are relevant:

1. **Acceptance testing:** Testing had not been completed by 31 March 20X5. If the acceptance condition is substantive and control cannot be considered to have transferred before successful acceptance, revenue should be deferred.

2. **Right of return:** Beta Industries had a contractual right to return the equipment. Accordingly, if control had otherwise transferred, AlphaTech would recognise revenue only to the extent to which it expects to be entitled, together with a refund liability and an asset for its right to recover the product, as applicable.

3. **Other terms:** The equipment was highly customised, payment was conditional upon final acceptance, and the sales team had assured the customer of a full refund. These facts are relevant in determining the substance of the arrangement and whether control had transferred.

Therefore, AlphaTech cannot recognise the entire ₹ 30 crore merely because the equipment was dispatched on 28 March 20X5. It must first establish whether control had transferred by 31 March 20X5 and apply the right-of-return requirements, as applicable.

(b) Subsequent failure of acceptance testing and return

The fact that Beta Industries failed the acceptance test shortly after year-end and returned the equipment is significant.

At 31 March 20X5:

1. acceptance testing was pending;

2. the customer already had a contractual right of return;
3. payment was conditional upon final acceptance; and
4. the equipment had not successfully passed acceptance testing.

Accordingly, the subsequent failure may provide additional evidence about conditions existing at the reporting date, rather than representing an entirely new condition arising in Financial Year 20X5-20X6.

Therefore, the return cannot simply be ignored on the ground that it physically occurred after year-end. It should be considered in determining whether the original revenue recognition in Financial Year 20X4-20X5 was appropriate.

(c) Responsibility of CA Rohan

Rohan should not approve the ₹30 crore revenue merely to enable AlphaTech to achieve its revenue target. Management's revenue target is not a criterion for revenue recognition.

He should:

1. apply Ind AS 115 based on the facts and substance of the transaction;
2. exercise professional integrity, objectivity and professional judgement;
3. explain to management why the proposed accounting treatment may not comply with Ind AS;
4. document his assessment and the relevant evidence; and
5. if management refuses to make an appropriate adjustment, escalate the matter to the Audit Committee or those charged with governance, as appropriate.

Rohan should not allow management pressure or revenue targets to override the requirements of Ind AS 115 and his professional responsibilities.

(d) **Consequences of failure to discharge professional responsibility:**

In case CA Rohan succumbs to the undue influence of the CFO and knowingly approves an accounting treatment that is not in accordance with Ind AS, he may be liable for professional misconduct under Clause 1 of Part II of the Second Schedule to the Chartered Accountants Act, 1949. The Clause 1 states that a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, for contravening the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council. As per the Guidelines issued by the Council, a member of the Institute who is an employee shall exercise due diligence and shall not be grossly negligent in the conduct of his duties.

Accordingly, Rohan must exercise due care and professional judgment and should not allow management pressure or undue influence to override his professional responsibilities.

12. (a) **Classification of the loan as at 31 March 20X1:** The loan should be classified as a non-current liability as at 31 March 20X1.

The reason is that the covenant requiring a working capital ratio of at least 1.20 is tested on 31 March 20X1, i.e., on the reporting date. ABC Ltd. has a working capital ratio of 1.30 on that date and therefore complies with the covenant.

Accordingly, ABC Ltd. has the right to defer settlement of the loan for at least 12 months after the reporting date, subject to the requirements of Ind AS 1.

(b) **Effect of the covenant to be tested on 30 September 20X1:** The covenant requiring a working capital ratio of at least 1.50 is tested on 30 September 20X1, which is after the reporting date.

Under the amendment in Ind AS 1, covenants that an entity is required to comply with after the reporting date do not affect the classification of the liability as current or non-current at the reporting date.

Therefore, even though management expects the working capital ratio to be only 1.40 on 30 September 20X1 and consequently expects to fail the covenant, the loan will continue to be classified as non-current as at 31 March 20X1.

(c) **Disclosure relating to the future covenant:** Although the future covenant does not affect classification, ABC Ltd. is required to provide disclosures that enable users of the financial statements to understand the risk that the liability could become repayable within 12 months after the reporting date.

The disclosure should include information about:

- the covenant requiring a working capital ratio of at least 1.50 on 30 September 20X1;
- the fact that the company expects to fail this covenant; and
- the fact that failure would result in the loan becoming repayable on demand.

A suitable disclosure could be:

"The loan of ₹ 20 crore, classified as a non-current liability, is subject to a covenant requiring the Company to maintain a working capital ratio of at least 1.50 as at 30 September 20X1. Based on the Company's current forecasts, the working capital ratio is expected to be 1.40 on that date. Consequently, the Company expects not to comply with the covenant, which could result in the loan becoming repayable on demand within 12 months after the reporting date."

(d) **Consequence if the actual working capital ratio is 1.40 on 30 September 20X1:** If the actual working capital ratio on 30 September 20X1 is 1.40, ABC Ltd. will fail to meet the required ratio of 1.50.

Consequently, under the terms of the loan agreement, the lender will have the right to demand immediate repayment of the loan.

However, this does not retrospectively change the classification made at 31 March 20X1. The loan was appropriately classified as non-current at that reporting date because ABC Ltd. had complied with the covenant applicable on 31 March 20X1.

The failure on 30 September 20X1 would be relevant to the financial statements for the subsequent reporting period, subject to the applicable requirements of Ind AS 1.

13. (a) Assessment of exchangeability: The amendment in Ind AS 21 requires exchangeability to be assessed at the measurement date and for a specified purpose. Therefore, the fact that A Ltd. can obtain FC for one purpose does not automatically establish that it can obtain FC for another purpose. Consequently, the same currency may be exchangeable for settling trade payables but not exchangeable for repayment of a long-term borrowing.

Trade payables: A Ltd. is required to assess exchangeability for the specified purpose of settling trade payables arising from imports. The total imports during 20X1-20X2 are FC 70,000, which are within the annual permitted limit of FC 1,00,000. Accordingly, A Ltd. is able to obtain sufficient FC to settle the trade payables. Therefore, FC is exchangeable into LC for the purpose of settling the trade payables.

Long-term borrowing: For repayment of the long-term borrowing, A Ltd. can obtain only FC 50,000 in a year against the outstanding borrowing of FC 10,00,000. FC 50,000 is only 5% of the outstanding liability and is considered no more than an insignificant amount in relation to the amount required to settle the borrowing. Accordingly, FC is not exchangeable into LC for the purpose of settling the long-term borrowing.

Thus, the exchangeability assessment is made separately for the specified purposes rather than for FC as a currency generally.

(b) Exchange rates to be applied: For the trade payables, since FC is exchangeable for the specified purpose, A Ltd. applies the applicable requirements of Ind AS 21. Accordingly, the exchange rate is LC1.20 per FC.

For the long-term borrowing, FC is not exchangeable for the specified purpose. Therefore, A Ltd. is required to estimate the spot exchange rate at 31 March 20X2. Since the observable rate of LC 1.20 per FC for another purpose meets the objective of the amended Ind AS 21, A Ltd. may use that observable exchange rate without adjustment.

Therefore:

- Trade payables: LC 1.20 per FC
- Long-term borrowing: LC 1.20 per FC (estimated spot rate)

(c) Translation into LC

Liability	FC	Rate (LC/FC)	LC amount
Long-term borrowing	10,00,000	1.20	LC 12,00,000
Trade payables	10,000	1.20	LC 12,000
	10,10,000		LC 12,12,000

(d) Treatment of the unofficial market rate: The LC 1.32 per FC rate cannot be considered when determining whether FC is exchangeable because the unofficial/parallel market does not result in enforceable rights and obligations. However, once A Ltd. has determined that FC is not exchangeable for the purpose of the borrowing, observable exchange rates from unofficial or parallel markets may be considered as an input in estimating the spot exchange rate, subject to appropriate adjustments where necessary to meet the objective of paragraph 19A. The amendment in Ind AS 21 does not prescribe a hierarchy of observable exchange rates for this purpose.

14. Since the repurchase price is fixed at the outset, A Ltd. is precluded from de-recognising the bond. The transferee will be entitled to receive the interest due on 1 April 20X7 and 1 October 20X7 (i.e., ₹ 1 lakh), together with the difference between the repurchase price and sale price of ₹ 6,000. This represents a lender's return of 10.081% per annum on the sale price. Therefore, A Ltd. will continue to recognise the bond and the interest on it, as if it still holds the bonds.

A Ltd. will also record a liability of ₹ 10.50 lakh for the proceeds received. This liability accretes to the amount payable on repurchase of ₹ 10.56 lakh at 1 October 20X7, using the effective interest rate method. A Ltd. will continue to recognise a notional interest income in the periods to 1 April 20X7 and 1 October 20X7, and it will also account for an equal amount of notional interest paid to the third party. On 1 October 20X7 following repurchase of the bond by A Ltd., the liability of ₹ 10.56 lakh will be eliminated, as shown below:

Liability carrying value

Particulars	₹
Liability at 1 October 20X6	10,50,000
Interest payable for the half year to 31 March 20X7 @ 10.081%	52,926
Notional cash paid to third party on 31 March 20X7*	(50,000)
Balance at 31 March 20X7	**10,52,926**
Interest payable for the half year to 30 September 20X7 @ 10.081%	53,074
Notional cash paid to third party on 30 September 20X7*	(50,000)
Balance at 30 September 20X7	**10,56,000**
Liability repaid on 1 October 20X7 at repurchase price	(10,56,000)
	Nil

* Third party will receive interest directly from the bond as legal owner.

The transferee might be able to pledge or sell the bond during its period of ownership. In that situation, the transferor should reclassify the bond on its balance sheet as a loaned asset or repurchase receivable.

Sale and repurchase transaction (net settled in cash)

On 1 October 20X6, A Ltd. sells a bond at its fair value of ₹ 10.50 lakh to a third party, with an agreement to repurchase the bond on 1 October 20X7 for ₹ 10.56 lakh. The amortised cost of the bond at the sale date is ₹ 10,44,544.

The repurchase contract is to be settled net in cash (i.e. A Ltd. will not physically receive the bond back at the settlement date). The fair value of the asset at the settlement date amounts to ₹ 10.60 lakh. This means that A Ltd. will receive an additional ₹ 4,000 from the third party.

The fact that the forward repurchase agreement requires net settlement does not automatically lead to de-recognition. A Ltd. continues to recognise the asset. Since, A Ltd. will not physically receive the bond back, the bond will be de-recognised following receipt of the additional consideration of ₹ 4,000 at the settlement date. It would not be appropriate to continue to classify the bond as HTM at amortised cost. Instead, A Ltd. would need to reclassify the bond at FVTPL at the sale date of 1 October 20X6.

The entries are shown below:

Particulars	**₹**
Fair value of bond at 1 October 20X6	10,50,000
Amortised cost of bond at 1 October 20X6	(10,44,544)
Gain	**5,456**

Therefore, A Ltd. will record the bond at its fair value of ₹ 10.50 lakh and a corresponding liability of ₹ 10.50 lakh. The liability accretes to the repurchase price of ₹ 10.56 lakh, using the effective interest rate method.

At the settlement date of 1 October 20X7, immediately before de-recognition the bond will be fair valued to ₹ 10.60 lakh and a further gain of ₹ 10,000 will be recorded in P&L. Since the contract will be net settled in cash, the bond is then de-recognised. A Ltd. will record the following entries, from inception to settlement:

Particulars		**Dr. ₹**	**Cr. ₹**
Bank	Dr.	10,50,000	
To Liability			10,50,000
Bond at fair value	Dr.	10,50,000	
To Bond at HTM			10,44,544
To Gain on disposal (P&L)			5,456
Interest expense	Dr.	6,000	
To Liability			6,000

Bond at fair value (increase)	Dr.	10,000	
To P&L gain			10,000
Liability	Dr.	10,56,000	
Bank	Dr.	4,000	
To Bond at fair value			10,60,000

Although a forward repurchase agreement that requires net settlement in cash is economically equivalent to a deferred sale, A Ltd. cannot de-recognise the asset, because the risks and rewards of ownership have been retained until settlement.

15. **(i)** If a parent loses control of a subsidiary, the parent shall account for all amounts previously recognised in other comprehensive income (OCI) in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in OCI would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary.

Accordingly, a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset. Hence, the parent shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary. The revaluation reserve relating to the fixed assets, ₹ 170 is transferred to retained earnings in accordance with Ind AS 16 'Property, Plant and Equipment'.

The FVTOCI reserve arising from debt instrument under Ind AS 109 is recycled to P&L on disposal and is therefore included in the gain on disposal of controlling interest and on retained investment.

The gain or loss on the interest sold, and on the retained investment recognised in the income statement, is calculated as follows:

Particulars	₹
Fair value of the consideration (60%)	6,120
Fair value of retained investment (30%)	4,080
Carrying value of the NCI (10%)	850
Total	11,050
Less: Carrying value of former subsidiary's net assets	(8,500)*
	2,550
Add: FVTOCI reserve transferred to P/L as income	68
Gain on interest sold and on retained investment	2,618

* 7,480 + 1,020 = 8,500

(ii) Ind AS 112 requires a parent entity to separately disclose both the total gain or loss on the subsidiary's loss of control and the portion of the gain or loss related to the retained non-controlling investment. To obtain the information necessary for disclosure, a calculation of the portion related to the gain or loss on the retained non-controlling investment is, therefore, necessary. The ₹ 2,618 gain on the interest sold and the retained investment is recognised in the P&L and is disclosed in the consolidated financial statements. Additionally, Ind AS 112 requires the disclosure of the portion of the gain or loss related to the remeasurement of the retained non-controlling investment to fair value. This is calculated as follows:

Particulars	₹
Fair value of retained investment	4,080
Less: Percentage retained of carrying value of subsidiary [(7,480 + 1,020) × 30%]	(2,550)
Gain on retained investment	1,530

(iii) Journal entry on the disposal date

Particulars		**₹**	**₹**
Cash	Dr.	6,120	
Investment in associate	Dr.	4,080	
FVTOCI reserve	Dr.	68	
Revaluation reserve	Dr.	170	
NCI	Dr.	850	
To Net assets (including goodwill)			8,500
To Retained earnings			170
To Gain on disposal of controlling interest			2,618
(The accounting entry on the disposal date for the 60% interest sold, the gain recognised on the 30% retained investment and the de-recognition of the subsidiary)			

16. The joint arrangement with Y Ltd. is a joint operation because K Ltd. and Y Ltd. have equal rights to the assets and joint obligations for the liabilities relating to the arrangement. In a joint operation, the operators include their share of any jointly held assets. Therefore, the property, plant and equipment of K Ltd. at 31st March 20X2 will include:

- Leasehold property of ₹ 25 million x 24 years / 25 years

  = ₹ 24 million

- Plant and equipment of ₹ 7.5 million x 4 years / 5 years

  = ₹ 6 million

In a joint operation, the operators include their share of jointly incurred costs. Therefore, the statement of profit or loss of K Ltd. for the year ended 31st March 20X2 will include the following costs:

- Amortisation of lease premium ₹ 1 million.
- Depreciation of plant and equipment ₹ 1.5 million.

- Cash cost of operating the depot ₹ 4 million.

K Ltd. will also include its own discretionary delivery charges of ₹ 2 million as a reduction in its operating costs.

17. Deferred tax liability @ 20% as at 31 March, 20X2

Component	Explanation/working	₹ in million
Investment in L Ltd.	Carrying value is ₹ 75 million. Tax base is ₹ 45 million. Taxable temporary difference is ₹ 30 million. (20% × {₹ 75 million – ₹ 45 million})	6.00
Head office property	Carrying value is ₹ 45 million. Tax base is ₹ 20.75 million	4.85
	Total	**10.85**

* ₹ 22 million – ₹ 1.25 million = ₹ 20.75 million.

Deferred tax charge/(credit) to profit or loss for the year ended 31 March, 20X2

Component	Explanation/working	₹ in million
Investment in L Ltd.	Opening deferred tax liability is ₹ 5 million (20% × {₹ 70 million – ₹ 45 million}). Share of profits under the equity method is recognised in profit or loss. Tax charge is the difference between the closing and opening liability.	1.00
Head office property	Refer Working Note	(0.15)
	Total	**0.85**

Deferred tax charge/(credit) to other comprehensive income for the year ended 31 March 20X2

Component	Explanation/working	₹ in million
Head office property	Refer Working Note	1.40

Working Note:

Computation of deferred tax on property revaluation: The deferred tax liability at 31 March 20X1 is ₹ 3.6 million (20% of {₹ 40 million - ₹ 22 million}).

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

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

Following revaluation, the carrying value becomes ₹ 45 million and the tax base stays the same. So, the new deferred tax liability is ₹ 4.85 million [20% x (₹ 45 million - ₹ 20.75 million)].

The increase in the deferred tax liability of ₹ 1.4 million (₹ 4.85 million - ₹ 3.45 million) is debited to other comprehensive income.

18. Ind AS 102 'Share-based Payments', requires that equity settled share-based payments should be measured based on their fair value at the grant date, based on the number of options expected to vest based on estimates at the reporting date.

The cost should be spread over the vesting period - three years in this case.

This means that the charge to profit or loss in the year ended 31 March 20X2 = 1,850 × 1,000 × ₹ 1.20 × 1/3 = ₹ 7,40,000

Journal Entry as on 31 March 20X2

Employee benefits expenses (transferred to P/L) Dr.	7,40,000	
To Share-based payment reserve (equity)		7,40,000
(1/3 of expected vested equity instruments value)		

Based on the original arrangements, the cumulative balance in equity on 31 March 20X3 = ₹ 14,72,000 (1,840 × 1,000 × ₹ 1.20 × 2/3).

The impact of the repricing on 30 September 20X2 is to charge the incremental increase in fair value over the remaining vesting period on the same basis as the original charge.

Therefore, the additional credit to equity in respect of the repricing

= 1,840 × 1,000 × {₹ 1.05 – ₹ 0.90} × 6/18 = ₹ 92,000

The closing balance in equity

= ₹ 14,72,000 + ₹ 92,000 = ₹ 15,64,000.

The charge to profit or loss in the year ended 31 March 20X3

= ₹ 15,64,000 – ₹ 7,40,000 = ₹ 8,24,000.

Journal Entry as on 31 March 20X2

Employee benefits expenses (transferred to P/L) Dr.	8,24,000	
To Share-based payment reserve (equity)		8,24,000
(2/3 of expected vested equity instruments value)		

19. CC Ltd. would include the total revenue of ₹ 6.8 million (₹ 6 million + ₹ 0.8 million) from O Ltd. receivable in the year ended 31 March 20X2 within its revenue and show ₹ 1.8 million within trade receivables at 31 March 20X2.

The spouse of a director of CC Ltd. would be regarded as a related party of CC Ltd. because he/she is a close family member of one of the key management personnel of CC Ltd.

From 1 June 20X1, O Ltd. would also be regarded as a related party of CC Ltd. because from that date O Ltd. is an entity controlled by another related party.

Because O Ltd. is a related party with whom CC Ltd. has transactions, then CC Ltd. should disclose:

- The nature of the related party relationship.
- The revenue of ₹ 6 million from O Ltd. since 1 June 20X1.
- The outstanding balance of ₹ 1.8 million at 31 March 20X2.

In the current circumstances it may well be necessary for CC Ltd. to also disclose the favourable terms under which the transactions are carried out.

20. Extract of Statement of cashflows - showing cash flow from financing activities

	₹
Proceeds from issue of equity share capital (2,00,000 + 50,000) (W.N.1 and W.N.2)	2,50,000
Payment to lease liabilities	(3,00,000)
Net cash outflow from financing activities	**(50,000)**

Working Notes:

1. Equity Share Capital Account

	₹		₹
To Balance c/d	5,00,000	By Balance b/d	2,50,000
		By Bonus issue (1/5 × 2,50,000)	50,000
		By Bank (Issue of shares on 21st November (bal. fig.)	2,00,000
Total	**5,00,000**	**Total**	**5,00,000**

2. Securities Premium Account

	₹		₹
To Bonus issue (1/5 × 2,50,000)	50,000	By Balance b/d	50,000
To Balance c/d	50,000	By Bank (Premium received on issue of shares for cash on 21st November (bal. fig.)	50,000
Total	**1,00,000**	**Total**	**1,00,000**