ISBN: 978-93-5586-186-3

Scanner Appendix

CA Final Group- I
(Solutions of May - 2023)

Paper - 1 : Financial Reporting

Chapter - 1 : Conceptual Framework for Financial Reporting Under Indian Accounting Standards (Ind AS)

2023 - May [4] (b)

→ **Financial information is useful if it is**
- Relevant &
- Faithfully represent what it purports to represent.

→ **Faithful representation:**
1. **Complete:** Complete depiction includes all info necessary for a user to understand descriptions & explanations.
2. **Neutral:** A neutral depiction is without bias in the selection or presentation of financial information.
3. **Free Form error:** Free from error means there are errors or omission in the description & process used to produce the reported info, has been selected & applied with no error in the process.

Chapter - 2 : Ind AS on Presentation of General Purpose Financial Statements

2023 - May [1] {C} (b)

(a) The loan is not due for payment at the end of reporting period the entity and the bank have agreed for said roll over prior to the end of reporting period for a period of 3 years. Since the entity has an unconditional right to defer the settlement of the liability for at least 12 months after the reporting paid, loan should be classified as non-current.

(b) Yes, the answer will be different if the arrangement for roll over is agreed upon after the end of the reporting period, since assessment is required to be made based on terms of existing loan facility. As at the end of reporting period, the entity does not have an unconditional right to defer settlement of the liability for 12 months after reporting period. Hence, the loan is to e classified as current.

(c) Yes, the answer will be different loan should be classified as current. This is because, as per Ind AS 1 when refinancing or rolling over the obligation is not at the discretion of he entity, the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

Chapter - 3 : Ind AS 115 : Revenue from Contracts with Customers

2023 - May [2] (b)

Working Notes:

For the year 2021-2022:

At the inception of contract:

Transaction price	₹ 30,00,000
Expected cost	(₹ 16,50,000)
Expected profit (45%)	₹ 13,50,000

At contract inspection, Z Ltd. excludes the ₹ 3,75,000 bonus from the transaction price because it can't conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occure.

By the end of 1st yr, the entity has satisfied 65% of its performance obligation on the basis of costs incurred to date. Z Ltd. reassesses the variable consideration & concludes that amt is still constrained.

Therefore, at 31.3.2022, the following would be recognized:

Revenue (A) = ₹ 19,50,000 (30,00,000 × 65%)

Costs (B) = ₹ 10,72,500 (16,50,000 × 65%)

Cross profit (C) = ₹ 8,77,500

For the year 2022-2023:

On 1st.4.2022, the contract is modified. As a result, the fixed consideration & expected cost is inc. by ₹ 2,25,000 & ₹ 1,20,000 respectively.

The Total consideration after the modification is ₹ 36,00,000 which is ₹ 32,25,000 fixed ₹ 3,75,000 completion bonus. Addition, the allowable time. For achieving bonus is extended by six months with results that Z Ltd. concludes it is highly probable that indicating the bonus in transaction price will not result in a significant reversal in the amt of cumulative revenue recognized. Therefore, the onus of ₹ 8,75,000 can be included in transaction price.

Ltd. Also concludes that the contract remains a single performance obligation. Thus, Z Ltd. accounts for the contract modification as if were part of original contract.

Therefore, on 15.4. Z Ltd. Updates its estimates of costs & revenue:

Z Ltd. Satisfied 60.60% of its performance obligation (₹ 10,72,500 actual compered to ₹ 17,70,000 total expected costs).

The entity recognize additional revenue ₹ 2,31,600 [(60.60% of ₹ 36,00,000) – ₹ 19,50,000 revenue recognized already] at the date of modification on 15.4.2022 as a cumulative catch up adjustment.

Total Revenue, Cost & resultant profit:

Particulars	21-22	22-23	Total
Revenue	19,50,000	16,50,000	36,00,000
Cost	10,72,500	6,97,500	17,70,000
Profit	8,77,500	9,52,500	18,30,000

2023 - May [2] (c)

Costs to be incurred comprise two major components – air conditioners and cost of construction service.

(a) The air conditioners are part of the overall construction project and are not a distinct performance obligation.

(b) The cost of air conditioners is substantial to the overall project and are incurred well in advance.

(c) Upon delivery at site, customer acquires control of such air conditioners.

(d) And there is no modification done to the air conditioners, which the company only procures and delivers at site. Nevertheless, as part of materials used in overall construction project, the company is a principal in the transaction with the customer for such air conditioners also.

Therefore, applying the guidance on Input method –

- The measure of progress should be made based on the percentage of costs incurred relative to the total budgeted costs.
- The cost of air conditioners should be excluded when measuring such progress and revenue for such air conditioners should be recognized to the extent of costs incurred.

The revenue to be recognized is measured as follows:

Particulars	**Amount (₹)**
Transaction price	40,00,000
Costs incurred:	
(a) Cost of air conditioners	12,00,000
(b) Other costs	4,00,000
Measure of progress:	4,00,000/20,00,000 = 20%
Revenue to be recognised:	
(a) For costs incurred (other than air conditioners)	Total attributable revenue = 28,00,000 % of work completed = 20% Revenue to be recognised = 5,60,000
(b) Revenue for air conditioners	12,00,000 (equal to costs incurred)
Total revenue to be recognised	12,00,000 + 5,60,000 = 17,60,000

Therefore for the year ended 31st March, 2023, the Company shall recognize revenue of ₹ 17,60,000 on the project.

2023 - May [5] (b)

→ As per Ind As 37 provision shall be recognised when:

(a) An entity has a present obligation as a result of post event

(b) It is probable that an outflow of resources embodying economic benefits will required to settle obligation &

(c) A reliable estimate can be made, not the amt of the obligation

→ For an event an obligation event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:

(a) Obligation can be enforced by law or

(b) The event creates alid expectations in other parties that they entity will discharge the obligation.

Analysis & conclusion:

→ On the basis of above, provision should be recognised as soon as the obligation event takes place because the entity is under legal obligation to restore the sea bed. Morever the amount of the provision would depend upon the extent of the obligation arising from obligation event. In the instant are, a legal obligation has arisen & to that extent provision for restoration of sea bed should be recognised.

Chapter - 4 : Ind AS on Measurement Based on Accounting Policies

2023 - May [6] (a)

i. As per Ind AS 10, in the case of a company, the financial statements will be treated as approved when board of directors approves the same. Hence in the given case, the financial statements are approved for issue on 26th June, 2022 (date of approval by the Board of Directors for issue of financial statements to the shareholders).

ii. An event after the reporting period is an adjusting event if it provides evidence of a condition existing at the end of the reporting period. Court order received after the reporting period (but before the financial statements are approved) provides evidence of the liability existing at the end of the reporting period. Therefore, the event will be considered as an adjusting event and, accordingly, the amount will be adjusted in financial statements for the financial year 2022-2023.

iii. In the instant case, the fire took place in January, 2023 (i.e. before the end of the reporting period). Therefore, the condition existed at the end of the reporting date though the debtor is declared insolvent after the reporting period. Accordingly, full provision for bad debt amounting to ₹ 3 lakhs should be made to cover the loss arising due to the bankruptcy of the debtor in the financial statements for the year ended 31st March, 2023.

iv. A decline in fair value of investments between the end of the reporting period and the date when the financial statements are approved for issue is a non-adjusting event. The decline in fair value does not normally relate to the condition of the investments at the end of the reporting period but reflects circumstances that have arisen subsequently. Therefore, D Limited should value the investments at ₹ 35 lakhs as on 31st March, 2023.

v. As per Ind AS 10, an entity should adjust the financial statements for the events that occurred after the reporting period, but before the financial statements are approved for issue, if those events provide evidence of conditions that existed at the end of the reporting period. In this case, negotiations continued with Varun Limited to acquire land from 1st December, 2022 till first week of April, 2023. Since on the reporting date, the condition was only on proposal state and transaction was completed on 1st week of April 2023, the event will be considered as a non-adjusting event as per Ind AS 10. Purchase of land should be recognized in the financial year 2023-2024.

However, the same may be disclosed in the Notes to Accounts for due information to the users of the financial statements.

Chapter - 7 : Ind AS on Assets of the Financial Statements

2023 - May [2] (a)

→ As per Ind As 105 on entity shall classify a non-current asset as held for sale if its carrying amt will be recovered through a sale transaction rather than through continuing use.

→ It must be available for immediate sale in its present obligation subject only to terms that are usual and customary for sales of such asset must be highly probable.

→ An entity shall not classify as per Ind As 105 asset that is to be abandoned. This is because its carrying amt will be recovered through continuing use.

Entity shall not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.

→ As per Ind As 16 depreciation does not cease when the asset becomes idle on is refined from active use unless asset is fully depreciated.

Analysis & Conclusion:

→ Accountant of Venus Ltd. has treated plant as held for sale and measured at FULCTS. Also depreciation has not been charged.

→ Accordingly, the manufacturing plant should neither held for sale nor abandoned because its carrying value recovered from continuing use. Venus Ltd. shall not stop charging depreciation also.

Calculation of Carrying Amount as on 31.3.2023

	₹
Purchase price	12,00,000
(–) Accumulated depreciation (12,00,000/8) × 3	(4,50,000)
Carrying Amount before impairment	7,50,000
(–) Impairment loss (W.N.)	(1,50,000)
Revised Carrying Amount after impairment	6,00,000

Balance Sheet (extracts) as on 31.3.2023

	₹
Assets	
Non-current Assets	
PPE	6,00,000

Working Notes:

Impairment loss

FULCTS = ₹ 6,00,000

Value in use = Nil

Recoverable amt = higher of above i.e. ₹ 6,00,000

Impairment loss = Carrying Amount – Recoverable Amount

= 7,50,000 – 6,00,000

= ₹ 1,50,000

2023 - May [3] (b)

(i) Computation of the cost of construction of the warehouse

Description	**Included in P.P.E. ₹**	**Explanation**

Purchase of land	42,00,000	Separately capitalised as cost of land and do not form part of cost of construction of warehouse
Legal fee for purchase of contract of land	1,50,000	Associated legal costs are direct costs for purchasing the land. Hence, separately capitalised as cost of land and do not form part of cost of construction of warehouse
Net cost of demolishing the existing structure	1,00,000	Given in the question to assume it as directly attributable to the cost of land. However, it will be adjusted with the proceeds from sale of salvaged material from demolition (1,35,000 – 35,000). Further, it will be separately capitalised as cost of land and do not form part of cost of construction of warehouse.
Total cost of land	**44,50,000**	
Architect and consultant's fee	2,70,000	A direct cost of constructing the warehouse
site preparation charges	1,00,000	A direct cost of constructing the warehouse
Cement and other materials	14,10,000*	A direct cost of constructing the warhouse net GST credit and wastage (15,00,000 - 50,000 - 40,000)
Expense to rectify the wrong design work	Nil	Assumed to be abnormal cost

Employment costs of the Construction workers	7,20,000	A direct cost of constructing the warehouse net for a nine- month period till 28th February, 2023 [(8,00,000/10) x 9]
Direct overhead costs	3,15,000	A direct cost of constructing the warehouse for a nine-month period (35,000 x 9)
Allocated overhead costs	Nil	Not a direct cost of construction
Income from temporary use of land as car parking area	Nil	Not essential to the construction so recognised directly in profit or loss
Finance costs	4,50,000	Capitalise the interest cost incurred in a nine-month period (from 1st June, 2022 to 28th February, 2023)
Investment income on temporary investment of the loan proceeds	(25,000)	Offset against the interest amount capitalised
Demolition cost recognised as a provision	7,36,000	Recognised as part of the initial cost at present value (i.e. 80,00,000 × 0.092)
Total cost of construction of a warehouse	39,76,000	

(ii) **Computation of depreciation charges for the year ended 31st March, 2023**

Note: Land is not depreciated as per Ind AS 16. Hence, only cost of warehouse is subject to depreciation.

Total depreciable amount as on 1st March, 2023	39,76,000	
Depreciation for 1 month must		

be in two parts:		
(a) Depreciation on root component	5,522	39,76,000 x 25% x 1/15 x 1/12
(b) Depreciation of remaining item	9,940	39,76,000 x 75% x 75%1/25 x1/12
Total depreciation for the year		
2022-2023	15,462	

(iii) Computation of carrying value of the warehouse on 31st March, 2023

	₹
Cost of the warehouse as on 1st March, 2023 [computed in (i) above]	39,76,000
Less: Depreciation for 1 month as computed in (ii) above	(15,462)
Carrying value of the warehouse as on 31st March, 2023	39,60,538

Note: In the above solution, it has been assumed that amount spent for rectifying the faulty design is not included in the cement and other material cost.

2023 - May [6] (c)

Statement showing computation of Inventory Cost:

Particulars	Amount	Remark
Cost of purchase	20,00,000	Purchase price RM 22,00,000 - 2,00,000 reenable taxes
Freight charges	1,00,000	Included in measurement
Costs of purchase	1,25,000	Purchase price of consumable stores
Cost of concession	1,42,000	Direct - cost

Production others	38,000	Fixed - cost
Production others	28,000	Product design costs & labour costs
Other costs	67,000	Refer Working Notes
Total cost of Inventories	25,00,000	

Working Notes:

Costs of testing product designed for specific customer:

Other cost = ₹ 40,000 material (i.e. 5000 from scrap) + ₹ 20,000 lakhs + ₹ 7,000 dep^{n}.

Chapter - 8 : Ind AS 41 : "Agriculture"

2023 - May [3] (a)

Journal Entries on 30 Sept & 3 - Oct - 2022.

(All figures in ₹)

Particulars	₹	₹
Loss (on death of 20 cows) Dr.	15,60,000	
To Biological asset A/c		15,60,000
(Loss booked on death of 20 cows)		
Biological Asset (Purchase of 20 new cows) Dr.	12,00,000	
Loss on initial recognition Dr.	60,000	
To Bank		12,60,000
(Initial recognition of 20 new purchased cows at fair value less costs to sell).		

Journal Entries on 31.3.2023

Loss on remeasurement of old cows Dr.	8,64,000	
To Biological assets		8,64,000
[(3,90,00,000 – 15,60,000) – 3,65,76,000]		
(Sub measurement of cows at Fair Value less costs to sell)		
Biological Asset (13,44,000 – 12,00,000 Dr.	1,44,000	
To Gain on remeasurement of new cows		1,44,000
(Sub measurement of cows at Fair Value less cost to sell).		

Inventory (Milk) as 31.3.23 = ₹ 57,000 [1,000 × 60 - 3)]

Working Notes:

Calculation of Biological asset at various dates:

Date	No. (a)	Age	Fair Value (₹) (b)	Cost to sell (₹) (c)	Net a = b - c	Biological asset (₹) a × d
1.4.2021	500	3 yrs	81,000	3,000	78,000	3,90,00,000
1.10.2021	- 20	3.5 yrs	81,000	3,000	78,000	- 15,60,000
1.10.2021	20	3 yrs	63,000	3,000	60,000	12,00,000
						3,86,76,000
31.3.2022	480	4 yrs	79,500	8,300	76,200	3,65,76,000
	20	1.5 yrs	70,500	3,300	67,200	13,44,000
						3,79,20,000

Chapter - 11 : Ind AS on Disclosures in the Financial Statements

2023 - May [3] (c)

(i) As per para 9(a) of Ind AS 24, Mr. M will be considered as a related party to X Limited, when

1. Mr. M has control or joint control over X Limited
2. Mr. M has significant influence over X Limited

Similar will be the circumstances for Mr. M being considered as related party to Y Limited.

(ii) Even if Mr. X has only significant influence over both the entities i.e., X Limited & Y Limited, then both the entities (X Limited & Y Limited) will not be considered as related party, if no direct or indirect control is exercised on each other in any of the manner.

2023 - May [5] (a)

(A) Information about Operating Segment:

1. The company's operating segments comprise:
   Coating: Consisting of decorative, automatic, industrial
   Others: Consisting of Chemical, polymer & related.
2. Segment revenue, results & other information.

(₹ in lakhs)

	Revenue	Paints	Others	Total
(1)	External Revenue (gross)	1,20,000	42,000	60,000

	GST	(3,000)	(1,800)	(4,800)
	Total Revenue (net)	1,17,000	40,200	1,57,200
	Other operating Income	24,000	9,000	33,000
	Total Revenue	1,41,000	49,200	1,90,200
(2)	Results			
	Segment results	6,000	2,400	8,400
	Unallocated income (net of Expenses)			1,800
	Profit from operation before Interest, tax & exceptional items			10,200
	Interest & bank charges			(1,200)
	Profit before exception items			9,000
	Exceptional items			Nil
	Profit before Taxation			9,000
	Income taxes:			
	Current			(1,170)
	Deferred			(30)
	Profit after Taxation			7,800
(3)	Other information			
(4)	**Assets:**			
	Segment Assets	30,000	18,000	48,000
	Investments			6,000
	Unallocated Assets			6,000
	Total Assets			60,000
(5)	**Liabilities/share's Funds:**			
	Segment liabilities	18,000	6,000	24,000
	Unallocated liabilities			12,000
	Share Capital			600
	R & S			18,000

	Total liabilities			60,000
(6)	**Others:**			
	Capital Exp.	(3,000)	(1,200)	
	Depreciation	(600)	(180)	
	Geographical Information			**₹ in lakhs**
		India (₹)	Outside India (₹)	Total (₹)
	Revenue	1,53,000	37,200	1,90,200
	Segment assets	54,000	6,000	60,000
	Capital Expenditure (300 + 1,200)	4,200		4,200

Chapter - 12 : Accounting and Reporting of Financial Instruments
2023 - May [4] (a)

(i) **Journal Entry**

Date	**Particulars**	**Dr.**	**Cr.**
		₹	₹
1/4/2019	Loan to Mrs. Jama Bai A/c Dr. Pre-paid employee cost A/c Dr. To Bank A/c (Being loan to employee recorded at fair value)	10,43,638 1,56,362	 12,00,000
31/3/2020	Loan to Mrs. Jama Bai A/c Dr. To Finance Income A/c (Being finance income @ 9% recorded in the books)	93,927	 93,927
31/3/2020	Bank A/c Dr. To Loan to Mrs. Jama Bai A/c (Being installment received at the end of the year)	3,00,000	 3,00,000

(ii) **In the books of Autumn Ltd. Loan to Mrs. Jama Bai A/c**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.2019	To Bank A/c	10,43,638	31.3.2020	By Bank A/c	3,00,000
31.3.2020	To Finance income (W.N.3)	93,927	31.3.2020	By Balance c/d	8,37,565
		11,37,565			11,37,565
1.4.2020	To Balance b/d	8,37,565	31.3.2021	By Bank A/c	3,00,000
31.3.2021	To Finance income (W.N.3)	75,381	31.3.2021	By Balance c/d	6,12,946
		9,12,946			9,12,946
1.4.2021	To Balance b/d	6,12,946	31.3.2022	By Bank A/c	3,00,000
31.3.2022	To Finance income (W.N.3)	55,165	31.3.2022	By Balance c/d	3,68,111
		6,68,111			6,68,111
1.4.2022	To Balance b/d	3,68,111	31.3.2023	By Bank A/c	3,00,000
31.3.2023	To Finance income (W.N.3)	33,130	31.3.2023	By Balance c/d	1,01,241
		4,01,241			4,01,241
1.4.2023	To Balance b/d	1,01,241	31.3.2024	By Bank A/c	40,000
31.3.2024	To Finance income (W.N.3)	9,112	31.3.2024	By Balance c/d	70,353
		1,10,353			1,10,353
1.4.2024	To Balance b/d	70,353	31.3.2025	By Bank A/c	40,000
31.3.2025	To Finance income (W.N.3)	6,332	31.3.2025	By Balance c/d	36,685
		76,685			76,685
1.4.2025	To Balance b/d	36,685	31.3.2026	By Bank A/c	40,000
31.3.2026	To Finance income (W.N.3)	3,315*			
		40,000			40,000

*Difference of ₹ 13 (₹ 3,315 – ₹ 3,302) is due to approximation.

Working Notes:

1. Calculation of initial recognition amount of loan to employee

Year	Estimated Cash Flows	PV Factor @9%	Present Value
	₹		₹
31/3/2020	3,00,000	0.9174	2,75,220
31/3/2021	3,00,000	0.8417	2,52,510
31/3/2022	3,00,000	0.7722	2,31,660
31/3/2023	3,00,000	0.7084	2,12,520
31/3/2024	40,000(W.N.2)	0.6499	25,996
31/3/2025	40,000(W.N.2)	0.5963	23,852
31/3/2026	40,000(W.N.2)	0.5470	21,880
Fair Value of Loan			10,43,638

2. Computation of Interest to be paid

Year	Opening outstanding balance a	Cash Flows b	Principal outstanding at year end c	Interest @ 4% on a d	Cumulative Interest e
		₹	₹	₹	₹
31/3/2020	12,00,000	3,00,000	9,00,000	48,000	48,000
31/3/2021	9,00,000	3,00,000	6,00,000	36,000	84,000
31/3/2022	6,00,000	3,00,000	3,00,000	24,000	1,08,000
31/3/2023	3,00,000	3,00,000	Nil	12,000	1,20,000
31/3/2024	1,20,000	40,000 (1,20,000/3)			
31/3/2025		40,000 (1,20,000/3)			
31/3/2026		40,000 (1,20,000/3)			

3. Computation of finance cost as per amortization table

Year	**Opening Balance (1)**	**Interest @ 9% (2)**	**Repayment (3)**	**Closing Balance (1+2-3)**
	₹	₹	₹	₹
1/4/2019				10,43,638
31/3/2020	10,43,638	93,927	3,00,000	8,37,565
31/3/2021	8,37,565	75,381	3,00,000	6,12,946
31/3/2022	6,12,946	55,165	3,00,000	3,68,111
31/3/2023	3,68,111	33,130	3,00,000	1,01,241
31/3/2024	1,01,241	9,112	40,000	70,353
31/3/2025	70,353	6,332	40,000	36,685
31/3/2026	36,685	3,315*	40,000	Nil

*Difference of ₹ 13 (₹ 3,315 – ₹ 3,302) is due to approximation.

2023 - May [6] (b)

Following is the table summarising the Computation on Initial Recognition:

Market Rate of interest	8%
Present value Faction	0.7938
Present value	60,00,000 × 0.7938 = 47,62,800
Loan component	47,62,800
Investment in sub	12,37,200

The computation of amortised cost at each reporting period date has been done as follows:

Year	**Date**	**Opening Asset**	**Interest @ 8%**	**Closing bal**
1	31.3.22	47,62,800	3,81,024	51,43,824
2	31.3.23	51,43,824	4,11,506	55,55,330
3	31.3.24	55,55,330	4,44,670	60,00,000

Accounting in the books of Weak Ltd. (Subsidiary)

Date	Particulars	Amount	Amount
	On the date of loan		
1.4.2021	Bank A/c Dr.	60,00,000	
	To Loan from Strong Ltd. (Payable)		47,62,800
	To Equity (Deemed capital contribution from ABC Ltd.)		12,37,200
	(Being the loan taken from Strong Ltd. recognised at fair value)		
31.3.2022	**At the end of Year 1**		
	Interest expense (Finance cost) Dr.	3,81,024	
	To Loan from Strong Ltd. (Payable)		3,81,024
	(Being interest expense recognised)		
31.3.2023	**At the end of Year 2**		
	Interest expense (Finance cost) Dr.	4,11,506	
	To Loan from Strong Ltd. (Payable)		4,11,506
	(Being interest expense recognised)		
31.3.2024	**At the end of Year 3**		
	Interest expense (Finance cost) Dr.	4,44,670*	
	To Loan from Strong Ltd. (Payable)		4,44,670
	(Being interest expense recognised)		
31.3.2024	**On repayment of loan**		
	Loan from Strong Ltd. (Payable) Dr.	60,00,000	
	To Bank A/c		60,00,000
	(Being loan repaid by Weak Ltd.)		

*Difference is due to approximation.

Chapter - 14 : Consolidated and Separate Financial Statements of Group Entities

2023 - May [1] {C} (a)

Consolidated Balance Sheet of Swan Ltd. as on 1st April, 2023

	Notes No.	₹ in lakhs
Assets		
Non-current assets		
Property, plant and equipment	9	2,000.00
Intangible assets	10	250.00
Financial assets		
Investment	11	1,200.00
Current assets		
Inventories	12	620.00
Financial assets:		
Trade receivables	13	1,580.00
Cash and cash equivalents	14	640.00
Other current assets	15	1,050.00
Total		7,340.00
Equity and Liabilities		
Equity		
Share capital - Equity shares of ₹ 10 each	1	1,260.00
Other equity	2	2,475.18
Non-controlling interest (W.N.4)		330.70
Non-current liabilities		
Financial liabilities		
Long-term borrowings	3	1,200.00
Long-term provisions	4	407.62
Deferred tax liability	5	231.50
Current Liabilities		
Financial liabilities		
Short-term borrowings	6	540.00
Trade payables	7	870.00
Short-term provision	8	25.00

Total		7,340.00

Notes to Accounts (All figures are ₹ in lakhs)

1. Equity Share capital

Equity shares of ₹ 10 each as per the balance sheet before acquisition of Duck Ltd.	1,200	
Shares allotted to Duck Ltd. (7,50,000 x 80% x ₹ 10)	60	1,260

2. Other Equity

As per the balance sheet before acquisition of Duck Ltd. 1,450		
Less: Acquisition cost (26)	1,424	
Replacement award	4.80	
Security Premium (7,50,000 shares x 80% x ₹ 90)	540	
Capital Reserve (W.N.5)	506.38	2,475.18

3. Long-term borrowings

As per the balance sheet before acquisition of Duck Ltd.	700	
Duck Ltd.	500	1,200

4. Long-term provisions

As per the balance sheet before acquisition of Duck Ltd.	140	
Deferred consideration	67.62	
Duck Ltd.	200	407.62

5. Deferred tax liability

As per the balance sheet before acquisition of Duck Ltd.	80	
Deferred tax impact due to acquisition of Duck Ltd. (W.N.2)	151.50	231.50

6. Short term borrowings

As per the balance sheet before acquisition of Duck Ltd.	250	
Duck Ltd.	290	540

7. Trade payables

As per the balance sheet before acquisition of Duck Ltd.	500	
Duck Ltd.	370	870

8. Short-term provisions

Lawsuit damages	5	
Income-tax demand	20	25

9. Property, plant and equipment

As per the balance sheet before acquisition of Duck Ltd.	800	
Duck Ltd.	1,200	2000

10. Intangible assets

Brand of Duck Ltd. acquired		250

11. Investment

As per the balance sheet before acquisition of Duck Ltd.	900	
Duck Ltd.	300	1,200

12. Inventories

As per the balance sheet before acquisition of Duck Ltd.	360	
Duck Ltd.	260	620

13. Trade receivables

As per the balance sheet before acquisition of Duck Ltd.	1,040	
Duck Ltd.	540	1,580

14. Cash and cash equivalents

As per the balance sheet before acquisition of Duck Ltd.	520		
Less: Acquisition cost paid	(26)		
Less: Paid to Duck Ltd.	(144)	350	
Duck Ltd.		290	640

15. Other current assets

As per the balance sheet before acquisition of Duck Ltd.	700	
Duck Ltd.	350	1,050

Working Notes:

1. Computation of Purchase Consideration

Particulars	No. of shares	₹ in lakhs
Share capital of Duck Ltd.		900
Number of shares	9,00,000	
Shares to be issued (5 shares against 6 shares of Duck Ltd.)	7,50,000	
Fair value of Swan Ltd.'s share is ₹ 100 per share		

Purchase consideration			
Shares issued (7,50,000x 80% x ₹ 100 per share)	(A)		600
Cash payment (₹ 20 x 9,00,000 x 80%)	(B)		144
Deferred consideration (discounting ₹ 90 lakhs for 3 years @10%)	(C)		67.62
Replacement award [Market based measure of the acquiree award (12) x ratio of the portion of the vesting period completed (2) / greater of the total vesting period (3) or the original vesting period (5) of the acquiree award (i.e. 12 x 2/5)]	(D)		4.80
Purchase consideration for 70% shares (A + B + C + D)			816.42

2. Computation of deferred tax impact due to change in fair value of asset and liabilities acquired

Particulars	**Book value (A)**	**Fair value (B)**	**FV adjustment (A-B)**
Property, plant and equipment	1,000	1,200	200
Intangible assets (Brand)	-	250	250
Investment	240	300	60
		1,750	510
Less: Contingent liability acquired			
Provision for lawsuit damages			(5)
Net difference in fair value			505
Deferred tax liability @ 30%			151.5

3. Computation of fair value of net identifiable assets acquired from Duck Ltd.

Particulars	**Book value**
Total assets as per the balance sheet	2,680
Add: Fair value adjustment in PPE and Investment (200+60)	260
Add: Intangible assets (Brand)	250
Fair value of total identifiable assets	3,190

Less: Total liabilities as per the balance sheet (500+200+290+370)		(1,360)
Less: Contingent liability acquired		
Lawsuit damages	5	
Income tax demand	20	(25)
Less: Defer tax liability (W.N.2)		(151.50)
Fair value of net identifiable assets (100%)		1,653.50

4. **Computation of non-controlling interest in Duck Ltd. (Proportionate share basis)**
   Non-controlling interest (1,653.50 x 20%) = 330.70
5. **Computation of capital reserve on acquisition of Duck Ltd.**

Particulars	Book value
Fair value of net identifiable assets	1,653.50
Less: Purchase consideration	(816.42)
Less: NCI (W.N.4)	(330.70)
Capital reserve	506.38

Notes:

(a) The value of replacement award is allocated between consideration transferred and post combination expense. The portion attributable to purchase consideration is determined based on the fair value of the replacement award for the service rendered till the date of the acquisition. Accordingly, ₹ 4.8 lakh (12 x 2/5) is considered as a part of purchase consideration and is credited to Swan Ltd.'s equity as this will be settled in its own equity. Since the fair value of the award on the acquisition date is ₹ 18 lakh the balance of (18 - 4.8) ₹ 13.2 lakh will be recorded as employee expense in the books of Duck Ltd. over the remaining life, which is 1 year in this scenario.

(b) With respect to deferred consideration, ₹ 90 lakh is the minimum payment to be paid after 3 years. The other element is if company meet certain target then they will get 30% of that or ₹ 90 lakh whichever is higher. In the given case, since the minimum what is expected to be paid the fair value of the contingent consideration has been considered as zero. The impact of time value on deferred consideration has been given @ 10%.

(c) The additional consideration of ₹ 15 lakhs to be paid to the founder shareholder is contingent to him/her continuing in employment and hence this will be considered as employee compensation and will be recorded as post combination expenses in the statement of profit and loss of Duck Ltd.

2023 - May [6] (d)

(a) **In P Ltd.'s Separate Financial Statements**

(i) Calculation of Gain or Loss on disposal in P Ltd.'s separate financial statements

	₹ in lakhs
Sales proceeds	114.0
Less: Cost of investment in subsidiary (75 x 80%)	(60.0)
Gain on sale in parent's account	54.00

(ii) Journal Entry in P Limited's separate financial statements₹ in lakhs

Date	Particulars		Dr.	Cr.
31.3.2023	Bank A/c	Dr.	114.00	
	Investment in Associates	Dr.	15.00	
	To Investment in subsidiary A/c			75.00
	To Gain on sale of subsidiary A/c			54.00
31.3.2023	Gain on sale of subsidiary A/c	Dr.	54	
	To Statement of Profit and Loss			54

Chapter - 16 : Integrated Reporting

2023 - May [4] (Or) (b)

In 2010, the JJRC was setup which aims to create the globally accepted integrated reporting framework:

JJRC is global coalition of:

- Regulators
- Investors
- Companies
- Standard Setters
- The accounting professions & NGOs

Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting with this purpose they issued informational integrated reporting framework. Integrated reporting as the name suggest will integrate both financial & non-financial information. In future, if will become the only report to be issued b the organisation.

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