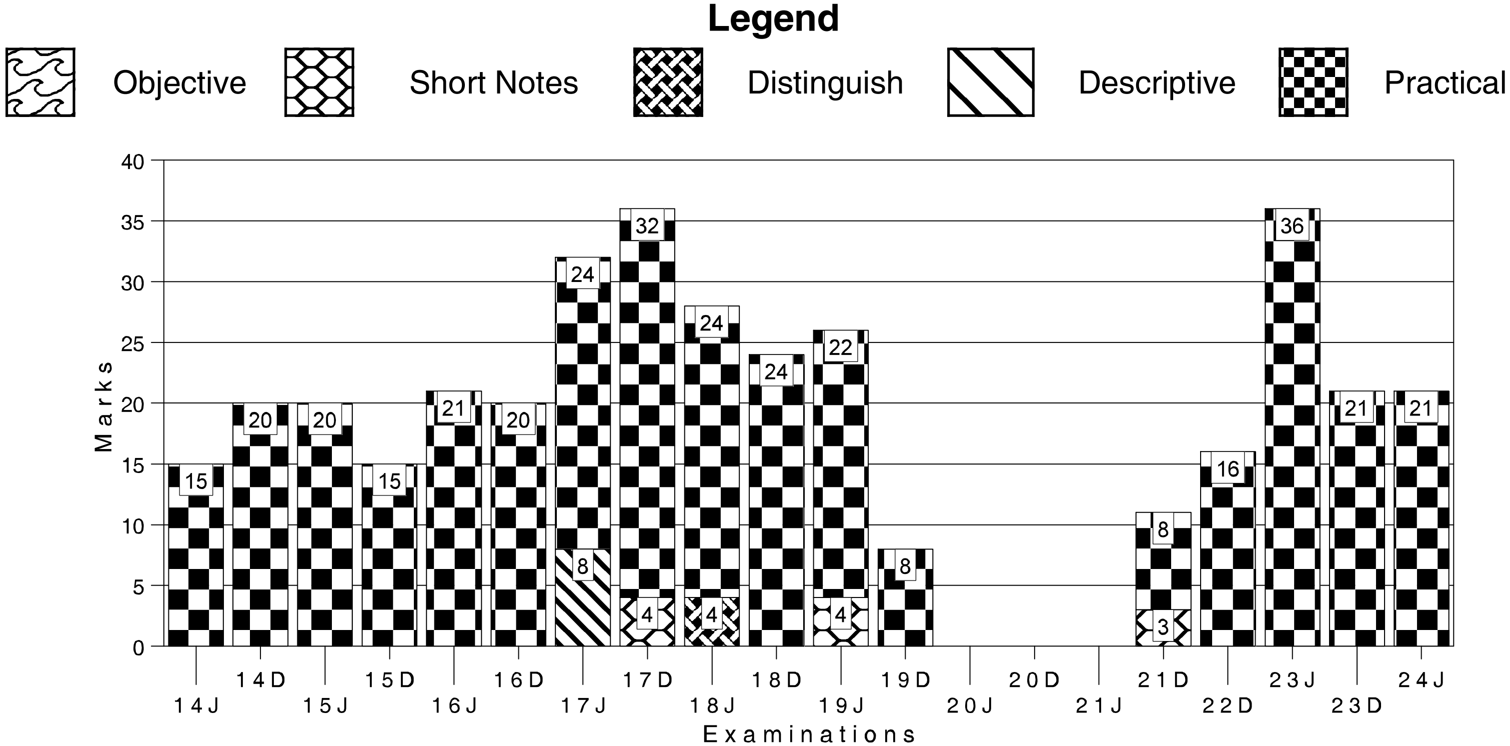
Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



1 SPECIFIC ACCOUNTING STANDARDS

THIS CHAPTER INCLUDES

SHORT NOTES

2017 - Dec [8] Write short note on the following:
(e) IND AS-102: share-based Payment. **(4 marks)**

Answer:

IND AS 102: Share based Payment:

(I) **Objectives:** To specify the financial reporting by an entity when it undertakes a share based payment transaction. It requires an entity to reflect in its profit or loss and financial position the effects of share based payment transaction, including expenses associated with transactions in which share options are granted.

(II) **Scope:** This AS shall be applied to all share based payments, in which an entity acquires or receives goods or services. There are following 3 types of shares based payments:

(a) equity settled share based payment transactions;
(b) cash settled share based payment transactions;
(c) share based payment transaction with cash alternatives;

(III) **Non-applicability:** IND AS - 102 doesn't apply in following cases
(a) Share issued as consideration in a business combination
(b) Certain contract transactions falling within IND AS 32 or IND AS 109; relating to financial instruments.

2019 - June [8] Write short note on the following:
(c) Fair value hierarchy as per Ind AS 113 **(4 marks)**

Answer:

Fair value hierarchy as per Ind AS 113:

Ind AS 113 establishes a fair value hierarchy into three levels of the inputs to valuation techniques for measuring fair value.

- **Level 1-** Based on quoted prices(unadjusted) for identical asset or liabilities that is traded in a currently active market.
- **Level 2-** Other than included within Level 1 that are observable for the asset or liabilities either directly or indirectly.
- **Level 3-** Unobservable inputs for asset or liabilities

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical asset or liabilities (Level 1 inputs) and the lowest priority unobservable inputs (Level 3 inputs).

2021 - Dec [4] Write short on Fair value hierarchy as per Ind AS 113.
(3 marks) [Sec. C - Six LAQ]

Answer:

Please refer 2019 - June [8] (c) on page no. 13

DISTINGUISH BETWEEN

2018 - June [8] (b) Differences between Ind AS 21 and IAS 21 on treatment of exchange difference. **(4 marks)**

Answer:

There are some differences between Ind AS 21 and IAS 21 regarding treatment of exchange differences. Ind AS 21 provides some carve outs.

IAS 21

- Exchange differences arising on translation or settlement of foreign currency monetary items are recognized in profit or loss in the period in which they arise.
- Exchange differences on monetary items, that in substance, from part of net investment in a foreign operation, are recognized in profit or loss in the period in which they arise in the separate financial statements and in other comprehensive income in the consolidated financial statements and reclassified from equity to profit or loss on disposal of the net investment.

IND AS 21

- Similar to IFRS, However an entity may continue the policy adopted for exchange differences arising from translation of long term foreign currency monetary items recognized in the financial statements for the period ending immediately before the beginning of the first Ind As financial reporting period as per previous GAAP.

DESCRIPTIVE QUESTIONS

2017 - June [3] (b) State the scope of Ind AS - 102. **(8 marks)**

Answer:

An entity shall apply this Standard in accounting for all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received, including:

(a) equity-settled share-based payment transactions,

(b) cash-settled share-based payment transactions, and

(c) transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments, except as specified.

In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case this Standard applies.

PRACTICAL QUESTIONS

2012 - Nov [7] Answer the following :

(a) Goodluck Limited grants 180 share options to each of its 690 employees. Each grant containing condition on the employees working for Goodluck Ltd. over the next 4 years. Goodluck Ltd. has November 2, 2012 estimated that the fair value option is ₹ 15. Goodluck Ltd. also estimated that 30% of employees will leave during four year period and hence forfeit their rights to the share option. If the above expectations are correct, what amount of expenses to be recognised during vesting period? **(4 marks)** ***[CAFG - I]***

Answer:

Expense to be recognized during 4 years' vesting period

Year	Calculation	Expenses for the period (₹)	Cumulative expenses (₹)
1	690 employees x 180 options x 70% x ₹ 15 x 1/4	3,26,025	3,26,025
2	[690 employees x 180 options x 70% x ₹ 15 x 2/4 years] - ₹ 3,26,025	3,26,025	6,52,050
3	[690 employees x 180 options x 70% x ₹ 15 x 3/4 years] - ₹ 6,52,050	3,26,025	9,78,075
4	[690 employees x 180 options x 70% x ₹ 15 x 4/4 years] - ₹ 9,78,075	3,26,025	13,04,100

Total amount of the expenses to be recognized during 4 years' vesting period will be ₹ 13,04,100.

2012 - Dec [2] (a) Following details are given for Samrat Ltd. for the year ended 31st March, 2012:

		(₹ in Lakhs)
Sales:		
Food Products	5,650	
Plastic & Packaging	625	
Health & Scientific	345	
Others	162	6,782
Expenses:		
Food Products	3,335	
Plastic & Packaging	425	
Health & Scientific	222	
Others	200	4,182
Other Items:		
General Corporate Expenses		562
Income from Investments		132
Interest expenses		65
Identifiable Assets:		
Food Products	7,320	
Plastic & Packaging	1,320	
Health & Scientific	1,050	
Others	665	10,355
General Corporate Assets		722

Other Information:

(i) Inter Segment Sales :

Food Products	55
Plastic & Packaging	72
Health & Scientific	21
Others	7

(ii) Opening profit includes ₹ 33 lakhs on inter-segment sales;

(iii) Information about inter-segment expenses are not available.

You are required to prepare a statement showing financial information about Samrat Ltd.'s operation in different industry segments. **(8 marks)**

Answer:

	Food Products	**Plastic & packaging**	**Health & Scientific**	**Others**	**Inter Segment Elimination**	**Consolidated**
External Sales	5595	553	324	155	-	6627
Inter Segment Sales	55	72	21	7	155	-
Total	5650	625	345	162	155	6627
Segment Expenses	3335	425	222	200	122	4060
Operating Profit	2315	200	123	(38)	33	2567
General Corporate Expenses						(562)
Income from Investments						132
Interest						(65)
Income from continuing operations						2072
Identifiable Assets	7320	1320	1050	665	-	10355
Corporate Assets						722
Total Assets						**11077**

2013 - June [1] {C} (c) (i) From the following information, determine the possible value of brand under potential earning model:

	₹ in lakhs
Profit before tax	650
Income Tax	150
Tangible PPE	1,000
Identifiable Intangibles other than brand	500
Expected normal return on Tangible PPE	300
Appropriate Capitalisation Factor for Intangibles	25%

(2 marks)

Answer:

Calculation of Possible Value of Brand

Particulars	**in lakh**
Profit after Tax (650 – 150)	500
Less: Profit allocated to tangible PPE:	300
Profit relating to intangible assets including Brand:	200
Capitalization factor 25%	
Capitalized value of intangibles including brand $\left[\frac{200}{25} \times 100\right]$	800
Less: Identified intangibles other than Brand:	500
Brand Value	300

2013 - June [2] (a) ALEENA LTD. is in the business of manufacturing and export of its product. Sometimes back in 2010, the Government put restriction on export of goods exported by Aleena Ltd. Due to that restriction Aleena Ltd. impaired its assets. The Company acquired at the end of the year 2006 identifiable assets worth ₹ 5,000 lakh and paid ₹ 7,500 lakh, balance is treated as Goodwill. The useful life of the identifiable assets are 15 years and depreciated on straight-line basis. When Government put the restriction at the end of year 2010, the Company recognized the impairment loss by determining the recoverable amount of assets at ₹ 3,400 lakh.

In 2012, Government lifted the restriction imposed on the export and due to this favourable change, Aleena Ltd. re-estimated recoverable amount, which was estimated at ₹ 4,275 lakh.

The amortization period of Goodwill to be taken as 5 years.

Required:

(i) Calculation and allocation of Impairment loss in 2010.

(ii) Reversal of an Impairment loss and its allocation at the end of year 2012. **(4 + 4 = 8 marks)**

Answer:

(i)

ALEENA LTD.

CALCULATION AND ALLOCATION OF IMPAIRMENT LOSS FOR THE ASSETS AFTER END OF YEAR 2010

Amount in ₹ lakh

Particulars	**Goodwill**	**Identifiable Assets**	**Total**
Historical Cost	2,500.00	5,000.00	7,500.00
Accumulated Amortization for 2007 to 2010	2,000.00	1,333.00	3,333.00
Carrying Amount:	500.00	3,667.00	4,167.00
Recoverable amount at the End of 2010 = 3,400			
Impairment of Loss (4,167 – 3,400) = 767			
Impairment Loss allocated first to Goodwill and balance to other Assets			
Carrying Amount after	500.00	267.00	767.00
Impairment loss	Nil	3,400.00	3,400.00

(ii)

Reversal of an impairment loss and its allocation For the assets at the end of year 2012

	Goodwill	**Identifiable Assets**	**Total**
Carrying amount	Nil	2,782.00 (3,400 – 618) (W.N.1)	2,782.00
Recoverable Amount			4,275.00
Excess of Recoverable amount			1,493.00
The impairment loss to be reversed in 2012 will be as under:			
Carrying Amount of Asset in 2012 had no impairment loss in 2010 been recognized (W.N.2) (3667 – 667)			3,000.00

Carrying Amount of Asset at the end of 2012 after Recognizing impairment loss in 2010 and depreciation for 2 years	2,782.00
ALEENA Ltd. can increase the amount of the assets by (3000 – 2782)	218.00

Hence, Reversal of impairment loss to be reversed in 2012 by Crediting the same to Profit / Loss statement is ₹ 218 Lakh.

Working Notes:

(1) [(3,400)/11 years] x 2 years = ₹ 618 (lakh)

(2) $3,667 - \left(\frac{5,000}{15} \times 2\right)$ = 3,667 – 667 = ₹ 3,000 Lakh

2013 - Dec [1] Answer the following:

(b) Jupiter Ltd. has an asset, which is carried in the Balance Sheet on 31.03.2012 of ₹ 500 lakhs. As of that date, the value in use is ₹ 400 lakhs and the net selling price is ₹ 375 lakhs.

From the above data:

(i) Calculate Impairment Loss

(ii) Prepare Journal Entries for adjustment of Impairment Loss

(iii) Show how the Impairment Loss will be shown in the Balance Sheet

(c) From the following information for Rishab Ltd. for the year ended 31.03.2013, calculate the deferred tax asset/liability.

Accounting Profit	₹ 10,00,000
Book Profit as per MAT (Minimum Alternate Tax)	₹ 9,00,000
Profit as per Income Tax Act	₹ 1,00,000
Tax Rate	30%
MAT Rate	10%

(5 × 2 = 10 marks)

Answer:

(b) (i) Calculation of Impairment Loss

Recoverable amount is higher of value in use ₹ 400 and Net Selling Price ₹ 375

Thus, Recoverable Amount = ₹ 400

Impairment Loss = Carried Amount – Recoverable Amount

= ₹ 500 lakhs – ₹ 400 lakhs = ₹ 100 lakhs.

(ii) **Journal Entries**

Particulars	**Dr. (₹ in Lakhs)**	**Cr. (₹ in Lakhs)**
(a) Impairment Loss A/c Dr. To Asset A/c (Being the entry for accounting for impairment loss)	100	 100
(b) Profit and Loss A/c Dr. To Impairment Loss A/c (Being the entry to transfer impairment loss to P/L A/c)	100	 100

(iii) Balance Sheet of Jupiter Ltd. as on 31.3.2012 (Extracts)

	Amount In Lakhs
Asset Less: Depreciation	500
Less: Impairment Loss	100
	400

Answer:

(c) Tax as per accounting profit 10,00,000 × 30% = ₹ 3,00,000

Tax as per income tax profit 1,00,000 × 30% = ₹ 30,000

Tax as per MAT 9,00,000 × 10% = ₹ 90,000

Tax Expense = Current Tax + Deferred Tax

Therefore Deferred Tax Liability as on 31. 3.2013 = ₹ 3,00,000 – ₹ 30,000 = ₹ 2,70,000

Amount of Tax to be debited in Profit and Loss A/c for the year 31.3.2013:

= Current Tax + Deferred Amount of Tax liability + Excess of MAT over current tax

= 30,000 + 2,70,000 + (90,000 – 30,000) = ₹ 3,60,000

Alternative answer for second part of the answer

Amount of tax to be debited in Profit and Loss A/c for the year 31.3.2013 = Current Tax (MAT) + Deferred Tax = 90,000 + 2,70,000 = 3,60,000

Both the options can be considered favourably.

2013 - Dec [5] (a) MANASI Ltd. leased a machine to SB Ltd. on the following terms:

	₹ in Lakhs
Fair Value of the Machine	4.00
Lease Term	5 years
(Payable at each year-end)	
Lease Rental per annum	1.00
Guaranteed Residual Value	0.20
Expected Residual Value	0.40
Internal Rate of Return	15%

Depreciation is provided on straight line method at 10% per annum. Ascertain Unearned Financial Income. Show necessary Journal Entries in the books of the Lessee in the first year of operation.

Tabulate for the lease period, the lease rentals segregated into Finance charges and reduction of outstanding liability. **(10 marks)**

Answer :

Unearned Finance Income is the difference between

(a) the gross investment in the lease and

(b) the present value of minimum lease payments under a finance lease from the standpoint of the lessor, and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

Gross Investment in the lease is the aggregate of :

(a) minimum lease payments from the standpoint of the lessor, and

(b) any unguaranteed residual value according to the lessor.

Gross Investment = Minimum Lease Payments + Unguaranteed residual value

= (Total lease rent + Guaranteed Residual Value) + Unguaranteed Residual value

= [(₹ 1,00,000 × 5 years) + (₹ 20,000)] + ₹ 20,000

= 5,40,000

(i) Table showing present value of minimum lease payments (MLP) and unguaranteed residual value (URV)

Year	MLP (Inclusive of URV) ₹	IRR - DISC. FACTOR@15%	Present Value
1	1,00,000	0.8696	86,960
2	1,00,000	0.7561	75,610
3	1,00,000	0.6575	65,750
4	1,00,000	0.5718	57,180
5	1,00,000	0.4972	49,720
	20,000 (GRV)	0.4972	9,944
	5,20,000		**3,45,164(i)**
	20,000 (URV)	0.4972	**9,944(ii)**
	5,40,000 (a)	(i) + (ii)	**3,55,108(b)**

Unearned Finance Income = (a) - (b)
= ₹ (5,40,000 - 3,55,108)
= ₹ 1,84,892

JOURNAL ENTRIES IN THE BOOKS OF SB LTD.

Particulars	Amount ₹	Amount ₹
At the inception of lease Machinery A/c Dr. To Manasi Ltd. A/c (Being lease of machinery recorded at present value of minimum lease payments)	 3,45,164	 3,45,164
At the end of first year of lease Finance Charges A/c Dr. To Manasi's Ltd. A/c (Being finance charges due for the 1st year)	 51,775	 51,775

Manasi's Ltd. A/c Dr. To Bank A/c (Being the lease rent paid to the lessor which includes o/s liability of ₹ 48,225 and finance charges of ₹ 51,775)	1,00,000	 1,00,000
Depreciation A/c Dr. To Machinery A/c (Being the depreciation provided @ 10% on Straight Line Method)	34,516	 34,516
Profit and Loss A/c Dr. To Depreciation A/c To Finance Charges A/c (Being the transfer of depreciation and finance charges to Profit and Loss A/c)	86,291	 34,516 51,775

Working Note:
Table showing apportionment of lease payments by SB Ltd. between the finance charges and the reduction of outstanding liability.

Year	O/S Liabilities Opening Balance	Minimum Lease	Finance Charges	Reduction In Principal Amount	O/s Liability Closing Balance
1	3,45,164	1,00,000	51,775	48,225	2,96,939
2	2,96,939	1,00,000	44,541	55,459	2,41,480
3	2,41,480	1,00,000	36,222	63,778	1,77,702
4	1,77,702	1,00,000	26,655	73,345	1,04,357
5	1,04,357	1,00,000	15,654	84,346	20,011

2013 - Dec [7] (a) Srihari Ltd. granted 500 options to each of its 2,500 employees in 2005 at an exercise price of ₹ 50 when the market price was the same. The constructual life (vesting and exercise period) of the options granted is 6 years with the vesting period and exercise period being 3 years each. The expected life is 5 years and the annual forfeitures are expected at 3%. The fair value per option is arrived at ₹ 15. During 2006, the management decides to revise its estimated forfeiture rate at 10% per annum. Of the 2,500 employees, 1,900 employees have completed the 3 year vesting period. 1,000 employees exercise their right to obtain shares vested in them in pursuance of ESOP at the end of 2009 and 500 employees exercise their right at the end of 2010. The rights of the remaining employees expire unexercised at the end of 2010. The face value per share is ₹ 10.

Show the necessary Journal Entries for the above information. **(10 marks)**

Answer :

Journal Entries in the books of Srihari Ltd.

Year		Particulars	Dr.(₹)	Cr. (₹)
2005	(a)	Employee Compensation Expenses A/c Dr. To Employees Stock Options Outstanding (Being the compensation expenses recognized in respect of the ESOP)	57,04,205	57,04,205
	(b)	Profit and Loss A/c Dr. To Employee Compensation Expenses A/c (Being expenses of the year transferred to Profit and Loss A/c)	57,04,205	57,04,205
2006	(a)	Employee Compensation Expenses A/c Dr. To Employee Stock Options Outstanding (Being the compensation expenses recognised in respect of ESOP)	34,08,295	34,08,295
	(b)	Profit and Loss A/c Dr. To Employee Compensation Expenses A/c (Being expenses of the year transferred to Profit and Loss A/c)	34,08,295	34,08,295
2007	(a)	Employee Compensation Expenses A/c Dr. To Employee Stock Options Outstanding (Being the compensation expenses recognised in respect of ESOP)	51,37,500	51,37,500
	(b)	Profit and Loss A/c Dr. To employee Compensation Expenses A/c (Being expenses of the year transferred to Profit and Loss A/c)	51,37,500	51,37,500

2009	(a)	Bank A/c Dr. Employee Stock Options Outstanding A/c Dr. To Share Capital A/c To Securities Premium A/c (Being shares issued to employees against options vested in them in pursuance of ESOP)	2,50,00,000 75,00,000	 50,00,000 2,75,00,000
2010	(a)	Bank A/c Dr. Employees Stock Options Outstanding A/c Dr. To Share Capital A/c To Securities Premium A/c (Being shares issued to employees against options vested in them in pursuance of the ESOP)	1,25,00,000 37,50,000	 25,00,000 1,37,50,000
	(b)	Employees Stock Options Outstanding A/c Dr. To General Reserve (Being the balance standing to the credit of stock options outstanding account, in respect of vested option expired unexercised, transferred to General Reserve A/c)	30,00,000	 30,00,000

Working Note:

1. Fair Value of Options Recognised as Expenses:

Year	Details
2005	Number of Options expected to vest = 500 × 2,500 × 0.97 × 0.97 × 0.97 = 11,40,841 options Fair value of Options expected to vest = 11,40,841 × ₹ 15 = ₹ 1,71,12,615 One third of the fair value recognised as expenses = ₹ 1,71,12,615 / 3 = ₹ 57,04,205
2006	Fair value of Options revised in the year = 500 × 2,500 × 0.90 × 0.90 × 0.90 × ₹ 15 = ₹ 1,36,68,750 Revised cumulative expenses in the year 2006 = ₹ 1,36,68,750 × 2/3 = ₹ 91,12,500 *Less*: Already recognized in year 2005 = ₹ 57,04,205 **Expenses to be recognized in year 2006 = ₹ 34,08,295**
2007	Number of options actually vested = 1,900×500 = 9,50,000 Fair value of options actually vested = 9,50,000×15 = 1,42,50,000 Less: Expenses recognised till the year 2007 = 91,12,500 **Balance amount to be recognised = 51,37,500**

2. Amount recorded in Share Capital Account and Securities Premium Account upon issue of shares:

Particulars	2009	2010
Number of employees exercising option	1,000	500
Number of shares issued upon exercise of option @ 500 per employee	5,00,000	2,50,000
Exercise price received @ ₹ 50 per share	2,50,00,000	1,25,00,000
Corresponding amount recognised in the Employee Stock Options Scheme A/c @ 15 per option	75,00,000	37,50,000
Total consideration	3,25,00,000	1,62,50,000
Amount to be recorded in Share Capital A/c @ ₹ 10 per share	50,00,000	25,00,000
Amount to be recorded in Securities Premium A/c @ ₹ 55 per share (₹ 65 - ₹ 10)	2,75,00,000	1,37,50,000
	3,25,00,000	1,62,50,000

2014 - June [1] Answer of the following :

(a) Lal National Ltd. is developing a new production process. During the financial year 31st March, 2013, the total expenditure incurred on this process was ₹ 75 lakhs. The production process met the criteria for recognition as an intangible asset on 1st December, 2012. Expenditure incurred till this date was ₹ 28 lakhs. Further expenditure incurred on the process for the financial year ending 31st March, 2014 was ₹ 140 lakhs. As at 31st March, 2014, the recoverable amount of know-how embodied in the process is estimated to be ₹ 125 lakhs. This includes estimates of future cash outflows as well as inflows.

You are required to work out: (Ignoring depreciation for this purpose)

(i) What is the expenditure to be charged to the profit and loss account for the financial year ended 31st March, 2013?

(ii) What is the carrying amount of the intangible asset as at 31st March, 2013?

(iii) What is the expenditure to be charged to the profit and loss account for the financial year ended 31st March, 2014?

(iv) What is the carrying amount of the intangible asset as at 31st March, 2014? **(5 marks)**

Answer:

(a) (i) **Expenditure to be charged to the P&L Account for the financial year ended 31-03-2013:** Expenditure incurred up to 1.12.2012 will be taken to profit and loss account for the financial year ending 31.03.2013, which is ₹ 28 lakhs.

(ii) **Carrying Amount:** It means such amount of expenditure incurred after 1.12.2012 i.e. ₹ 75 lakhs - ₹ 28 lakhs = ₹ 47 lakhs.

(iii) **Expenditure to be charged to the P&L Account for the financial year ended 31.03.2014:**

Particulars	**Amount (₹ in Lakhs)**
Carrying Amount as on 31.03.2013	47
Expenditure Incurred during the F.Y. 2013-2014	140
Total Book Cost	187
Recoverable Amount, as estimated	125
Difference to be charged to P&L Account as impairment	**62**

(iv) **Carrying Amount as on 31st March 2014:** It will be recoverable amount as on 31.03.2014 i.e. ₹ 125.

2014 - June [5] (a) Diamond Ltd. grants 50 stock options to each of its 1,000 employees on 1.4.2011 for ₹ 20, depending upon the employees at the time of vesting options. The market price of the share is ₹ 50. These options will vest at the end of year 1, if the earning of Diamond Ltd. is 16% or it will vest at the end of the year 2, if the average earning of two years is 13%, or lastly it will vest at the end of the third year, if the average earning of 3 years will be 10%. 2,500 unvested options lapsed on 31.03.2012. 2,000 unvested options lapsed on 31.03.2013 and finally 1,750 unvested options lapsed on 31.03.2014.

Following is earning of Diamond Ltd.:

Year ended on	Earning
31.03.2012	14%
31.03.2013	10%
31.03.2014	7%

850 employees exercised their vested options within a year and remaining options were un-exercised at the end of the contractual life. Pass journal entries with proper narrations for the above transactions. **(10 marks)**

Answer:

Journal Entries

Date	Particulars		₹	₹
31.03.2012	Employees compensation expenses A/c To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP i.e. 50 options each granted to 1,000 employees at a discount of ₹ 30 each, amortized on straight line basis over the vesting years.)	Dr.	7,12,500	7,12,500
31.03.2012	Profit and Loss A/c To Employee compensation expenses A/c (Being compensation expense charged to Profit and Loss A/c.)	Dr.	7,12,500	7,12,500
31.03.2013	Employees compensation expenses A/c To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP.)	Dr.	1,97,500	1,97,500
31.03.2013	Profit and Loss A/c To Employee compensation expenses A/c (Being compensation expense charged to Profit and Loss A/c.)	Dr.	1,97,500	1,97,500
31.03.2014	Employees compensation expenses A/c To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP.)	Dr.	4,02,500	4,02,500

31.03.2014	Bank A/c (850 × 50 × 20) Dr. ESOS outstanding A/c [(13,12,500/43,750) × 42,500] To Equity Share Capital (42,500 × 10) To Securities Premium A/c (42,500 × 40) (Being 42,500 options exercised at an exercise price of ₹ 50 each)	8,50,000 12,75,000	 4,25,000 17,00,000
31.03.2014	Profit and Loss A/c Dr. To Employee compensation expenses A/c (Being compensation expense charged to Profit and Loss A/c.)	4,02,500	 4,02,500
31.03.2014	ESOS outstanding A/c Dr. To General Reserve A/c (Being ESOS outstanding A/c on lapse of 1,250 options at the end of exercise of option period transferred to General Reserve A/c.)	37,500	 37,500

Working Note:

Statement showing compensation expenses to be recognized

Particulars	Year 1 (31.03.2012)	Year 2 (31.03.2013)	Year 3 (31.03.2014)
Expected vesting period (at the end of the year)	I^{st} Year	II^{nd} Year	III^{rd} Year
Number of options expected to vest	47,500 Options	45,500 Options	43,750 Options
Total Compensation expenses accrued @30 (i.e. 50 - 20)	14,25,000	13,65,000	13,12,500
Compensation Expenses of the year *Less:* Compensation Expenses recognized previously	14,25,000×½ = 7,12,500 Nil	13,65,000×2/3 = 9,10,000 7,12,500	13,12,500 9,10,000
Compensation expenses to be recognized for the year	₹ 7,12,500	1,97,500	4,02,500

2014 - Dec [1] (a) S. Ltd. is having a plant (asset) carrying amount of which is ₹ 100 lakhs as on 31st March, 2011. Its balance useful life is 3 years and residual value at the end of 3 years is ₹ 10 lakhs. Estimated future cash flow from using the plant in next 3 years are:

For the year ended on	Estimated cash flow (₹ in lakhs)
31.03.2012	40
31.03.2013	20
31.03.2014	20

Calculate "Value in use" for plant, if discount rate is 10%. Also calculate the recoverable amount, if net selling price of plant on 31st March, 2014 is ₹ 50,00,000, P.V. factor @10% for years 31.03.2012, 31.03.2013 and 31.03.2014 are 0.909, 0.826 and 0.751 respectively. **(5 marks)**

(b) X. Ltd. has leased equipment costing ₹ 4,98,70,200 over its useful life for a 3 year lease period on the following terms:

(i) The estimated unguaranteed residual value would be ₹ 2,00,000.

(ii) The annual lease payments have been structured in such a way that the sum of their present values together with that of the residual value of the asset will equal the cost thereof.

(iii) Implicit interest rate is 10%.

Ascertain the annual lease payment and the unearned finance income.

P.V. factor @ 10% for years 1-3 are 0.909, 0.826 and 0.751 respectively. **(5 marks)**

Answer:

(a) (i) **Calculation of "Value in Use"** [i.e. Present value of estimated cash flow by use of asset and residual value]

Year	Future cash flow	Discount @10% rate	Discounted cash flow [₹ in lakhs]
31.03.2012	40	0.909	36.36

31.03.2013	20	0.826	16.52
31.03.2014	20	0.751	15.02
31.03.2014	10 [Residual Value]	0.751	7.51
"Value in use"			**75.41**

(ii) **Calculation of recoverable amount:** If net selling price of plant on 31.03.2014 is ₹ 50,00,000, the recoverable amount will be higher of ₹ 75.41 lakhs (value in use) and ₹ 50 lakhs (net selling price), hence recoverable amount is ₹ 75.41 lakhs.

Answer:

(b) As per the question, IRR of the investment is 10% and investment in lease is ₹ 4,98,70,200. It means PV of minimum lease payment (MLP) from lessor point of view plus unguaranteed residual value is equal to ₹ 4,98,70,200.

P.V. of unguaranteed residual value = 2,00,000 × 0.751 = ₹ 1,50,200

P.V. of MLP should be (4,98,70,200 - 1,50,200) = 4,97,20,000

(i) **Calculation of annual lease payment to the lessor:** 4,97,20,000/2.486 = ₹ 2,00,00,000

(ii) **Calculation of unearned finance income**

Gross investment in lease [2,00,00,000 × 3] Unguaranteed residual value	₹ 6,00,00,000 ₹ 2,00,000
Total *Less*: P.V. of Gross investment in lease	6,02,00,000 4,98,70,200
Unearned Finance Income	1,03,29,800

2014 - Dec [4] (c) Himalaya Ltd. announced a Stock Appreciation Right (SAR) on 01.04.2011 for each of its 400 employees. The scheme gives the employees the right to claim cash payment equivalent to excess on market price of company's shares on exercise date over the exercise price ₹ 125 per share in respect of 100 shares, subject to condition of continuous employment for 3 years. The SAR is exercisable after 31.03.2014, but before 30.06.2014. The fair value of SAR was ₹ 21 in 2011-12, ₹ 23 in 2012-13 and

₹ 24 in 2013-14. In 2011-12, the company estimates that 2% of employees shall leave the company annually. This was revised to 3% in 2012-13. Actually, 10 employees left the company in 2011-12, 5 left in 2012-13 and 3 left in 2013-14. The SAR therefore actually vested to 382 employees. On 30.06.2014, when the SAR was exercised, the intrinsic value was ₹ 25 per share.

Show the Stock Appreciation Right Account by fair value method.

(10 marks)

Answer:

1. Computation of Expenses to be recognized under Stock Appreciation Rights (SAR)

(a) Year 2011-12

Total Number of Employees as on 01.04.2011	400
Number of employees expected to be eligible ($400 \times 0.98 \times 0.98 \times 0.98$)	376
Number of SAR expected to vest = (376 Employees × 100 shares)	37,600 SAR
Total Fair Value of Options Expected to vest = 37,600 Shares × Fair Value of SAR ₹ 21 per share	₹ 7,89,600
Vesting Period	3 Years
Value of SAR recognized as Expense in the Year 2011-12 = 7,89,600 /3 years	₹ 2,63,200

(b) Year 2012-13

Number of SAR expected to vest = [400-10 Employees ×.97× 0.97 × 100 shares)	36,700 SAR
Total Fair Value of Options Expected to vest = 36,700 Shares× Fair Value of SAR ₹ 23 per shares	₹ 8,44,100
Vesting Period	3 Years
Number of years expired	2 years

Cumulative Value of SAR to be recognized as Expenses in 2011-12 and 2012-13 [8,44,100 × 2÷3]	₹ 5,62,733
Value of SAR already recognized as Expense in the Year 2011-12	₹ 2,63,200
Value of SAR to be recognized as Expense in the Year 2012-13	₹ 2,99,533

(c) Year 2013-14

Number of SAR actually vested = [400-10-5-3] Employees × 100 shares per Employee	38,200
Total Fair Value of SAR to be recognized as Expenses = 38,200 Shares × Fair Value of SAR ₹ 24 per shares	₹ 9,16,800
Less: Value of SAR already recognized earlier in F.Y. 2011-12 & 2012-13	₹ 5,62,733
Value of SAR to be recognized as Expense in the Year 2013-14	₹ 3,54,067

(d) Year 2014-15

Cash Payment (38,200 Shares × Intrinsic Value of SAR per share ₹ 25)	9,55,000
Less: Value of SAR recognized as expense in books	9,16,800
Value of SAR recognized as Expense in the Year 2014-15	₹ 38 ,200

2. Provision for Stock Appreciation Right A/c

Year	Particulars	₹	Particulars	₹
2011-12	To Balance c/d	2,63,200	By Employees' Compensation A/c	2,63,200
	Total	**2,63,200**	**Total**	**2,63,200**
2012-13	To Balance c/d	5,62,733	By Balance b/d By Employees' Compensation A/c	2,63,200 2,99,533
	Total	**5,62,733**	**Total**	**5,62,733**

2013-14	To Balance c/d	9,16,800	By Balance c/d By Employees' Compensation A/c	5,62,733 3,54,067
	Total	**9,16,800**	**Total**	**9,16,800**
2014-15	To Bank (38,200 × 25)	9,55,000	By Balance c/d By Employees' Compensation A/c	9,16,800 38,200
	Total	**9,55,000**	**Total**	**9,55,000**

Note: "Provision for Stock Appreciation Right by Fair Value A/c" is a provision and not a liability. It should be disclosed under Current Liabilities and not under share capital/ reserves.

2015 - June [1] (a) Neel Limited is developing a new production process. During the financial year ended 31st March, 2014, the company has incurred total expenditure of ₹ 60 lakhs on the process. On 1st December, 2013 the process has met the norms to be recognised as intangible assets and the expenditure incurred till that date is ₹ 25 lakhs. During the financial year ending on 31st March, 2015, the company has further incurred ₹ 90 lakhs. The recoverable amount as on 31.3.2015 of the process is estimated to be ₹ 85 lakhs. You are required to work out as per AS-26:

(i) Amount to be charged to Profit and Loss Account for the financial year ending on 31st March, 2014 and 31st March, 2015 (ignore depreciation), and

(ii) Carrying value of intangible asset as at 31.3.2014 and 31.3.2015.

(5 marks)

(b) Zoom Limited purchased a machine four years ago for ₹ 30 lakhs and depreciates it at 10% p.a. on Straight-line Method. At the end of fourth year, it has revalued the machine at ₹ 15 lakh and has written off the loss on revaluation to Profit and Loss Account. However, on the date of revaluation, the market price is ₹ 14 lakhs and expected disposal costs are ₹ 50,000.

(i) Compute amount of impairment loss on the basis that fair value for revaluation purpose is determined by market value and the value in use is estimated at ₹ 12 lakh.

(ii) What will be the accounting treatment in respect of impairment loss computed above? **(5 marks)**

Answer: (a)

(i) Calculation of amount to be charged in P & L A/c:

- **For F.Y. 2013-14**
  Expenditure incurred up to 1-12-2013 i.e. before the date of recognition will be taken up to profit and loss account for the financial year ended 31-03-2014, which is ₹ 25,00,000.
- **For F.Y. 2014-15**
  Impairment loss of F.Y. will be charged to profit and loss account of 2014-15, which will be calculated as:

Particulars	Amount (₹)
Carrying amount as on 31-03-2014	35,00,000
Expenditure during 2014-15	90,00,000
Total Book Cost of Intangible Assets	1,25,00,000
Less: Recoverable amount, as estimated	85,00,000
Difference to be charged to Profit and Loss A/c, as impairment	40,00,000

(ii) Calculation of carrying value of intangible assets:

- **In F.Y. 2013-14**
  Carrying amount will be the expenditure incurred after the date of recognition of impairment assets i.e. Expenditure incurred after 1-12-2013 i.e. ₹ 35,00,000 (₹ 60,00,000 - 25,00,000).
- **In F.Y. 2014-15**
  Carrying amount as on 31-03-2015 will be cost of intangible assets less impairment loss i.e. ₹ 85,00 ,000 (₹ 1,25,00,000 - 40,00,000).

Answer: (b)

(i) Computation of Impairment loss:

Particulars	Amount (₹)
Net selling price = Market Value- Disposal Costs = ₹ 14,00,000 - ₹ 50,000	13,50,000
Value in use	12,00,000

Recoverable Amount = Net Selling Price or Value in use, whichever is higher Carrying Amount after revaluation	13,50,000 15,00,000
Impairment Loss = Carrying Amount- Recoverable Amount	(1,50,000)

(ii) Accounting Treatment of Impairment Loss:

Date	Particulars	Dr. (₹)	Cr. (₹)
At the end of Fourth year	Impairment Loss A/c To Machine A/c (Being machine impaired)	1,50,000	1,50,000
At the end of Fourth year	Profit & Loss A/c To Impairment Loss A/c (Being Loss charged to P&L A/c)	1,50,000	1,50,000

2015 - June [4] (c) INDIKAN Ltd. announced a 'Share Based Payment Plan' for its employees who have completed 3 years of continuous service on 1st April, 2011. The plan is subject to a 3-year vesting period.
The following relevant information is provided to year in this regard:

(i) The eligible employees can either have the option to claim the difference between the exercise price of ₹ 150 per share and the market price in respect of the share on vesting date in respect of 4000 shares or such employees are entitled to subscribe to 5000 shares at the exercise price.

(ii) Any shares subscribed to, by the employees shall carry a 3-year lock-in restriction. All shares carry face value of ₹ 10.

(iii) The current Fair value of the shares at (ii) above is ₹ 70 and that in respect of freely tradable shares is higher by 25%.

(iv) The Fair value of the shares not subjected to Lock-in restriction at the end of each year increases by a given % from its preceding value as under:

	year 2011-12	year 2012-13	year 2013-14
% of Increase	4	10	14

You are required to draw up the following Accounts under both options:

(1) Employees' Compensation Account
(2) Provision for Liability Component Account
(3) ESOP outstanding Account **(10 marks)**

Answer:

Working Note:

1. Statement of Equity Component and Debt Component in Option

Particulars	Amount (₹)
Fair Value under Equity Settlement (5,000 × ₹ 70)	3,50,000
Less: Fair Value under cash settlement [4,000 × ₹ 87.50 (₹ 70 + 25% of ₹ 70)] [Liability Component]	3,50,000
Equity component	Nil
Vesting Period	3 Years

2. Statement of expenses to be recognized each year

Particulars	11-12	12-13	13-14
(a) Number of options expected to vest	4,000	4,000	4,000
(b) Fair value estimates per share at year end	₹ 91	₹ 100.10	114.11
(c) Total Fair Value of Liability Component (a × b)	₹ 3,64,000	₹ 4,00,400	₹ 4,56,440
(d) Total Cumulative Cost of Options	₹ 1,21,333 [(c) × 1/3]	₹ 2,66,933 [(c) × 2/3]	₹ 4,56,440 [(c) × 3/3]

(e) *Less:* Cumulative Fair value already recognized exps.	-	₹ 1,21,333	₹ 2,66,933
(f) Expenses to be recognized for the period	₹ 1,21,333	₹ 1,45,600	₹ 1,89,507

Ledger Accounts

1. Employees' Compensation Expense A/c

year	Particulars	Amount (₹)	Particulars	Amount (₹)
2011-12	To Provision for Liability A/c	1,21,333	By P&L A/c	1,21,333
		1,21,333		1,21,333
2012-13	To Provision for Liability A/c	1,45,600	By P&L A/c	1,45,600
		1,45,600		1,45,600
2013-14	To Provision for Liability A/c	1,89,507	By P&L A/c	1,89,507
		1,89,507		1,89,507

2. Provision for Liability Component A/c

Year	Particulars	Amount (₹)	Particulars	Amount (₹)
2011-12	To balance c/d	1,21,333	By Employee Compensation A/c	1,21,333
		1,21,333		1,21,333
2012-13	To balance c/d	2,66,933	By Balance b/d By Employee Compensation A/c	1,21,333 1,45,600
		2,66,933		2,66,933
2013-14	To balance c/d	4,56,440	By Balance b/d By Employee Compensation A/c	2,66,933 1,89,507
		4,56,440		4,56,440

2015 - Dec [1] (a) M/s. Eagle Ltd. gives you the following information as on 31.03.2015:

(i) The Company has charged depreciation of ₹ 6,45,600 in its books of accounts, while as per income-tax computation, the depreciation available to the company is ₹ 7,64,100.

(ii) The expense of ₹ 6,85,500 has been charged to profit and loss account which are disallowed under the Income-tax Act.

(iii) The Company has debited share issue expenses of ₹ 5,46,400, which will be available for deduction under the Income-tax Act for the next year.

(iv) The Company has made provision for doubtful debts for ₹ 45,600 during the year.

(v) The Company has made donation of ₹ 3,00,000, which has been debited to profit and loss account and only 50% thereof will be allowed as deduction as per Income-tax law.

You are required to compute the deferred tax assets and deferred tax liability as on 31.03.2015. The tax rate applicable is 30%. **(5 marks)**

Answer:

Statement showing Calculation of Deferred Tax Asset (DTA) and Deferred Tax Liability (DTL)

Particulars		Amount of difference (₹)	Nature of difference	DTA @30% (₹)	DTL @ 30% (₹)
(i)	Excess allowable depreciation as per income tax law	1,18,500	Timing	-	35,550
(ii)	Disallowed expenses as per income tax	6,85,500	Permanent	-	-
(iii)	Shares issue expenses charged in books but to be allowed as deduction in income tax from next year	5,46,400	Timing	1,63,920	-

(iv) Provision for doubtful debts-disallowed as per income tax law	45,600	Permanent	-	-
(v) Donation debited to P&L Account, but disallowed as per income tax	1,50,000	Permanent	-	-
Total			**1,63,920**	**35,550**

2015 - Dec [4] (c) Happy Ltd. granted on 1st April, 2012, 60,000 Employees stock options at ₹ 30, when the market price was ₹ 60. These options will vest at the end of year 1, if the earning of Happy Ltd. is more than 14% or it will vest at the end of the year 2, if the average earning of two years is more than 11% or lastly it will vest at the end of third year, if the average earning of 3 years will be 8% or more. 2,000 unvested options lapsed on 31st March, 2013. 1500 unvested options lapsed on 31st March, 2014 and finally 1000 unvested options lapsed on 31st March, 2015.

The earnings of Happy Ltd. was as follows:

Year ended on	Earning in %
31.03.2013	12%
31.03.2014	9%
31.03.2015	5%

Employees exercised for 55,000 stock options which vested in them at the first opportunity and the balance options were lapsed.

Pass necessary journal entries and show the necessary working.

(10 marks)

Answer:

Statement of Cost

Journal Entries

Date	**Particulars**	₹	₹
31.03.2013	Employees Compensation Expenses A/c Dr. To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP)	8,70,000	8,70,000

31.03.2013	Profit and Loss A/c To Employee compensation expenses A/c (Being compensation expense charged to Profit and Loss A/c)	Dr.	8,70,000	8,70,000
31.03.2014	Employees Compensation Expenses A/c To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP)	Dr.	2,60,000	2,60,000
31.03.2014	Profit and Loss A/c To Employee compensation expenses A/c (Being compensation expense charged to Profit and Loss A/c)	Dr.	2,60,000	2,60,000
31.03.2015	Employees Compensation Expenses A/c To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP)	Dr.	5,35,000	5,35,000
31.03.2015	Bank A/c ESOS outstanding A/c To Equity Share Capital (55,000×10) To Securities Premium A/c (55,000×50) (Being 55,000 options exercised at an exercise price of ₹ 30 each)	Dr.	16,50,000 16,50,000	5,50,000 27,50,000
31.03.2015	ESOS Outstanding A/c To General Reserve A/c (Being ESOS outstanding A/c on lapse of options at the end of exercise of option period transferred to General Reserve A/c)	Dr.	15,000	15,000

Working Note:

Statement showing compensation expenses to be recognized

Particulars	Year 1 (31.03.2013)	Year 2 (31.03.2014)	Year 3 (31.03.2015)
Expected vesting period (at the end of the year)	2nd Years	3rd Years	3rd Years

Number of options expected to vest	58,000 Options	56,500 Options	55,500 Options
Total Compensation expenses accrued @₹ 30 [i.e. 60-30]	₹ 17,40,000	₹ 16,95,000	₹ 16,65,000
Compensation Expen-ses of the year *Less:* Compensation Expenses recognized previously	₹ 17,40,000×½ = ₹ 8,70,000 Nil	₹ 16,95,000×2/3 = ₹ 11,30,000 8,70,000	₹ 16,65,000×3/3 = ₹ 16,65,000 11,30,000
Compensation expenses to be recognized for the year	₹ 8,70,000	₹ 2,60,000	₹ 5,35,000

2016 - June [1] {C} Answer the following:

(b) Global Ltd. is showing an intangible asset at ₹ 90 lakhs as on 01-04-2015. This asset was acquired for ₹ 120 lakhs on 01-04-2012 and the same was available for use from that date. The company has been following the policy of amortization of the intangible asset over a period of 12 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant accounting standard.

(5 marks)

Answer :

The given problem is based upon Ind AS 38, which provides for amortisation of intangible assets, over the useful life of the assets. In the given case there is no problem as the amortisation is being done as per SLM method, in 12 years as per company's policy. Again it is being shown in the balance sheet at the depreciated value.

But here it is not clear in the question about the nature of the intangible assets, if we assume it as goodwill then it should be amortised within 10 years. In that case amortisation is not proper. Accordingly, Global Ltd. would be required to restate the carrying amount of intangible assets as on 01-04-2015 at ₹ 120 lakhs less ₹ 36 lakhs (₹ 120 lakhs/10 years × 3 years) ₹ 84 lakhs. The difference of ₹ 6 lakhs i.e. (₹ 90 lakhs – ₹ 84 lakhs) will be adjusted against the opening balance of revenue reserve. The carrying amount of ₹ 84 lakhs would be amortized over remaining 7 years by ₹ 12 lakhs per year.

2016 - June [6] (a) Merlin Ltd. grants 1,000 employees stock options on 01.04.2012 at ₹ 50, when the market price is ₹ 200. The vesting period is 3 years and the maximum exercise period is one year. 300 unvested options lapse on 01.05.2014. 600 options are exercised on 30.06.2015. 100 vested options lapse at the end of the exercise period.

Required:

Pass journal entries in the book of Merlin Ltd. giving suitable narrations.

(8 marks)

Answer:

MERLIN LTD.
Journal Entries

Date	Particular	Debit (₹)	Credit (₹)
01.04.2012	Deferred Employees Compensation Expenses A/c Dr. To Employee Stock Options Outstanding A/c (Being granting of 1000 equity shares, under employees stock option scheme at an issue price of ₹ 50 against the current market price of ₹ 200. Option valued at ₹ 150 i.e. difference between the Fair Market Value and the option issue price. Option cost to be amortized over the vesting period of 3 years.)	1,50,000	 1,50,000
31.03.2013	Employee Compensation Expenses A/c Dr. To Deferred Employee Compensation Expenses A/c (Being amortization of Employee compensation expenses i.e. Option cost to the extent of expense relating to Financial Year 2011-12 = (1,50,000×1)/3 years)	50,000	 50,000
31.03.2014	Employee Compensation Expense A/c Dr. To Deferred Employee Compensation Expenses A/c (Being amortization of Employee compensation expense i.e. option cost to the extent of expense relating to Financial Year 2012 - 13 = (₹ 1,50,000 × 1)/3 years)	50,000	 50,000
01.05.2014	Employee Stock Options Outstanding A/c Dr. To Deferred Employee Compensation Expenses A/c To General Reserve A/c (Being Lapse of 300 unvested Options, to the extent of Employees Compensation expenses amortized (i.e. 30000 = (1,00,000 × 300)/100) transferred to General Reserve to the extent not amortized (₹15,000 = 50,000×300/1,000 shares), reversed against Employees Stock Options outstanding)	45,000	 15,000 30,000

31.03.2015	Employee Compensation Expense A/c Dr. To Deferred Employee Compensation Expenses A/c (Being amortization of Employee Compensation expense on eligible unvested options of the end of vesting period i.e. Option cost to the extent of expense relating to F.Y. 2013-14 = [(1,50,000×1)/3 years × (700 share/1000) shares)]	35,000	 35,000
30.06.2015	Bank A/c (600 shares × Exercise Price ₹ 50) Dr. Employee Stock Option Outstanding A/c (600×150) Dr. To Paid up Equity Share Capital A/c (600×10) To Security Premium A/c (Being exercise of 600 options at ₹ 50 per share. Shares deemed to be issued at Fair Value of ₹ 150 per share, per ₹ 10 shares.₹ 190 per share transferred to securities premium account)	30,000 90,000	 6,000 1,14,000
31.03.2016	Employee Stock Options Outstanding A/c Dr. To General Reserve A/c (Being 100 vested options-lapsed at the end of expiry period, balance in stock options outstanding transferred to General Reserve)	15,000	 15,000

2016 - June [7] (b) ABC Ltd. has three segments viz. A, B and C. The total assets of the company is ₹ 20 crores. The assets of each of the above segments are as under:

	₹ in crores
Segment A	2.10
Segment B	8.90
Segment C	9.00
	20.00

Assets of each segment include deferred tax assets of ₹ 0.60 crores in A, ₹ 0.50 crores in B and ₹ 0.40 crores in C.

The accountant of ABC Ltd. contends that all the segments are reportable segments. Comment. **(8 marks)**

Answer:

Segment assets do not include income tax assets. The revised assets and reportable segments can be showed as:

Particulars	Segments			
	A	B	C	Total
	₹ in crores	₹ in crores	₹ in crores	₹ in crores
Segment Assets	2.10	8.90	9.00	20.00
Less: Deferred Tax Assets	(0.60)	(0.50)	(0.40)	(1.50)
Net Segment Assets	1.50	8.40	8.60	18.50
Percentage to total net segment assets	8.11%	45.40%	46.49%	100%

AS per As 17 'Segment Reporting', one of the criteria for identification of a business segment as a reportable segment is, when its segment assets are 10% or more of the total assets of all segments accordingly the following are reportable segments B and C.

2016 - Dec [1] {C} Answer the following:

(a) SWIFT Ltd. acquired a patent at a cost of ₹ 144 lakh for a period of six years and the product life cycle is also six years. The company capitalized the cost and started amortising at ₹ 24 lakh per annum. After 3 years, it was found that the product life cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years are expected to be ₹ 48 lakh, ₹ 72 lakh, ₹ 60 lakh, ₹ 56 lakh and ₹ 52 lakh respectively.

Find out the amortization cost of the patent for each of the years.

(c) From the following details of Zebra Ltd., calculate the deferred tax asset/liability and the amount of tax to be debited in the Profit & Loss A/c under different heads for the year ended 31-03-2016.

Particulars	₹
Accounting profit	15,00,000
Book profit as per MAT	13,50,000

Profit as per Income-tax Act	2,00,000
Tax rate	30%
MAT rate	7.50%

(5 marks each)

Answer:

(a)

Total cost of the patent is ₹ 144 lakhs.

Amortization for first 3 years = (144/6) × 3 = ₹ 72 lakhs.

Unamortized amount of ₹ 144 lakhs – ₹ 72 lakhs = ₹ 72 lakhs to be written off for next 5 years in proportion of cash flows from the product in these years. The amount to be written off during next year's calculated as follows:

Year	Net cash flow (₹)	Ratio	Amortization Amount (₹)
4	48	0.167	12.02
5	72	0.25	18.00
6	60	0.208	14.98
7	56	0.194	13.97
8	52	0.181	13.08
Total	288	1.00	72.00

(c)

Tax expense as per accounting profit	15,00,000 × 30%	= ₹ 4,50,000
Tax as per Income tax profit	2,00,000 × 30%	= ₹ 60,000
Tax as per MAT	13,50,000 × 7.5%	= ₹ 1,01,250

Deferred tax liability as on 31-03-2016 (Tax expense – Current tax)	4,50,000 – 60,000	= ₹ 3,90,000

Amount of tax to be debited in the Profit & Loss A/c under different heads for the year ended 31-03-2016.

Current tax	₹ 60,000
Deferred tax liability	₹ 3,90,000
Excess of MAT over current tax	₹ 41,250
Total	₹ 4,91,250

2016 - Dec [5] (a) QUITTLE LTD. announced a Stock Appreciation Right (SAR) on 01.04.2012 for each of its 900 employees. The scheme gives the employees the right to claim cash payment equivalent to excess of market price of company's shares on exercise date, over the exercise price ₹ 150 per share in respect of 100 shares, subject to the conditions of continuous employment of 3 years. The SAR is exercisable after 31.03.2015 before 30.06.2015.

Particulars	2012-13	2013-14	2014-15
Fair value of SAR (₹)	40	45	50
Actual No. of employees left	40	25	15
Company estimation for employees leaving the company annually	4%	6%	--

On 30.06.2015 when SAR was exercised, the intrinsic value per share was ₹ 60 per share.

Required:

Show provision for Stock Appreciation Right (SAR) account along with necessary workings by fair value method. **(10 marks)**

Answer:

QUITTLE LTD.

Calculation of Provision for Stock Appreciation Right (SAR):

(As per guidance note on Accounting for employee share based payment)

Particulars	2012-13	2013-14	2014-15
No. of SARS Expected	79,257.60	78,490	82,000
	(860 × .96 × .96 × 100 SARS)	(835 × 0.94 × 100 SARS)	(820 employee × 100 SARS)
Fair Value (₹)	40	45	50
Closing provision required (₹)	(40 × 79257.60 × 1/3) = 10,56,768	(45 × 78,490 × 2/3) = 23,54,700	(50 × 82,000) = 41,00,000
Opening Provision (₹)	0	10,56,768	23,54,700
Expense for the year (₹)	10,56,768	12,97,932	17,45,300

Provision for Stock Appreciation Right (SAR) Account (for 2012-13)

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance c/d	10,56,768	By Employee Compensation Expenses	10,56,768
	10,56,768		**10,56,768**

Provision for Stock Appreciation Right (SAR) Account (for 2013 - 14)

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance c/d	23,54,700	By Balance b/d	10,56,768
		By Employee Compensation Expenses	12,97,932
	23,54,700		**23,54,700**

Provision for Stock Appreciation Right (SAR)Account (for 2014-15)

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance c/d	41,00,000	By Balance b/d	23,54,700
		By Employee Compensation Expenses	17,45,300
	41,00,000		**41,00,000**

Provision for Stock Appreciation Right (SAR)Account (for 2015-16)

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bank (82,000 × 60)	49,20,000	By Balance b/d	41,00,000
		By Employee Expenses	8,20,000
	49,20,000		**49,20,000**

2017 - June [2] (a) Shiva Infrastructures Limited obtained a contract for construction of a bridge for ₹ 100 Lakhs. The contract will be completed within 3 years for which total cost to be incurred is ₹ 85 Lakhs. The following data pertain to the construction period: **(₹ in Lakhs)**

Particulars/Year	I	II	III
Cumulative costs incurred to date	30	70	85
Estimated cost yet to be incurred at year end	60	10	—
Progressive billing made during the year	20	65	15
Collections of billings	15	60	25

You are required to calculate the stage of completion and profit recognized in Statement of Profit and Loss as per AS-7 **(8 marks)**

Answer:

Particulars	**₹ in Lakhs**	**₹ in Lakhs**	**₹ in Lakhs**
Initial amount of Revenue agreed in contract	100	100	100
Variation	–	–	–
Total Contract Revenue (A)	100	100	100
Contract Cost Incurred	30	70	85
Contract cost yet to be incurred to complete	60	10	–
Total Estimated Contract Cost (B)	90	80	85
Estimated Profit [(A) – (B)]	10	20	15
Stage of Completion	$\frac{30}{90} \times 100$ = 33.33%	$\frac{70}{80} \times 100$ = 87.5%	$\frac{85}{85} \times 100$ = 100%

Profit to be recognized in statement of profit as per AS-7

Particulars	**Year I**	**Year II**	**Year III**
(A) Stage of Completion in %	33.33%	87.50%	100%
(B) Revenue to be recognized Total Contract Revenue × Stage of Completion i.e. 100 Lakhs × A	33.33	87.50	100.00
(C) Cumulative Cost Incurred till the year end	30.00	70.00	85.00

(D) Cumulative Profit to be recognized at the end of each year (Revenue Recognized each year- Cumulative Cost) i.e. (B – C)	3.33	17.50	15.00
(E) Profit/(Loss) recognized each year = Cumulative profit to be recognized at the end of current year – Cumulative Profit recognized till previous year	3.33	14.17 i.e. (17.50 – 3.33)	(2.50) i.e. (15.00 – 17.50)

2017 - June [3] (a) Sewada Ltd. made the following payments during the year ended 31st March, 2017:

	Payment made for	**₹ in Lakhs**
(i)	To acquire a Software	204
(ii)	To acquire a Website for a period of 8 years	165
(iii)	To acquire a Copyright for a period of 15 years	135
(iv)	To acquire Goodwill of a firm	155
(v)	To acquire Goodwill arising under amalgamation in the nature of purchase	110
(vi)	To acquire a Patent for a period of 5 years. The net cash flows from the product during these 5 years are expected to be ₹ 36 Lakhs; ₹ 46 Lakhs; ₹ 44 Lakhs; ₹ 40 Lakhs and ₹ 34 Lakhs	60

You are required to find out the amortization cost of the each of the item to be charged to Statement of Profit and Loss . **(8 marks)**

Answer:

(i) Amortization Cost of Software = ₹ 204 Lakhs/5 = ₹ 40.80 Lakhs per year (Since maximum amortization period of software is 5 years)

(ii) Amortization Cost of Website = ₹ 165 Lakhs/5 = ₹ 33 Lakhs per year (Since maximum amortization period of Website is 5 years)

(iii) Amortization Cost of Copy-right = ₹ 135 Lakhs/10 = ₹ 13.50 Lakhs per year (Since maximum amortization period of Copy-right is 10 years unless a higher period is justified with reasons in Notes to Accounts)

(iv) Amortization Cost of Goodwill = ₹ 155 Lakhs/10 = ₹ 15.50 Lakhs per year (Since maximum amortization period of Goodwill is 10 years unless a higher period is justified with reasons in Notes to Accounts)

(v) Amortization Cost of Goodwill arising under amalgamation in the nature of purchase = ₹ 110 Lakhs/5 = ₹ 22 Lakhs per year (Since maximum amortization period of such Goodwill is 5 years)

(vi) Amortization Cost of Patent

Year	**Net Cash Flow** (₹)	**Amortization Ratio**	**Amortization Amount** (₹)
1	36,00,000	0.18	10,80,000
2	46,00,000	0.23	13,80,000
3	44,00,000	0.22	13,20,000
4	40,00,000	0.20	12,00,000
5	34,00,000	0.17	10,20,000
	2,00,00,000	1.00	60,00,000

2017 - June [6] (a) Dhoora Ltd. granted 1500 stock options to its employees on 01.04.2013 at ₹ 50 per share. The vesting period is 2½ years and the maximum exercise period is one year. Market price on that date is ₹ 190 per share. All the options were exercised on 30.06.2016. Pass journal entries in the books of company, if the face value of equity share is ₹ 10 per share and account books are closed on 31st March in every year. **(8 marks)**

Answer:

Journal of Dhoora Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31.3.14	Employees Stock Option Expenses A/c Dr. To Employees Stock Option Outstanding A/c (Being expenses on 1500 stock options recognised)		84,000	 84,000
31.3.14	P/L A/c Dr. To Employees Stock Option Expenses A/c (Being Employees Stock Options expenses transferred)		84,000	 84,000
31.3.15	Employees Stock Option Expenses A/c Dr. To Employees Stock Option Outstanding A/c (Being expenses on 1500 stock options recognised)		84,000	 84,000
31.3.15	P/L A/c Dr. To Employees Stock Option Expenses A/c (Being Employees Stock Options expenses transferred)		84,000	 84,000
31.3.16	Employees Stock Option Expenses A/c Dr. To Employees Stock Option Outstanding A/c (Being expenses on 1500 stock options recognised)		42,000	 42,000
31.3.16	P/L A/c Dr. To Employees Stock Option Expenses A/c (Being Employees Stock Options expenses transferred)		42,000	 42,000
30.6.16	Bank A/c Dr. Employees Stock Option Outstanding A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being 1500 options exercised @ ₹ 50 per option)		75,000 2,10,000	 15,000 2,70,000

Working Notes:

Calculation of intrinsic value of option = Market price per share - Exercisable price per share = ₹ 190 – ₹ 50 = ₹ 140

Employee Compensation Expenses to be recognised:

	2013-14 (₹)	2014-15 (₹)	2015-16 (₹)
Gross Value of employee compensation expenses	84,000	1,68,000	2,10,000
Gross Value = No. of Options expected to vest × Intrinsic Value × expired period/ Vesting period	[1,500×140×1/2.5]	[1,500×140×2/2.5]	[1,500×140]
Less: Expenses already recognised upto preceding accounting period	—	84,000	1,68,000
Hence, Expenses to be recognised	84,000	84,000	42,000

2017 - Dec [2] (a) N. Ram Co. are heavy engineering contractors specializing in construction of dams. From the records of the company the following data is available pertaining to year ended 31st March, 2017:

	₹ in Crores
Total Contract Price	720
Work Certified	300
Work pending certification	60
Estimated further cost to completion	420
Stage wise payments received	264
Progress payments in pipe line	72

Using these data and applying the relevant accounting standard you are required to

(i) compute the amount of profit/loss for the year ended 31st March, 2017.

(ii) arrive at the contract work in progress as at the end of financial year 2016-2017.

(iii) determine the amount of revenue to be recognized out of the total contract value.
(iv) work out the amount due from/to customers as at year end.
(v) list down relevant disclosures with figures as per relevant accounting standard. **(8 marks)**

Answer:

(i) **Calculation of Contract Work – in – Progress and Stage of Completion**

(₹ in Crores)

Particulars	**2017**
A. Work Certified	300
B. Work pending Certification	60
C. Contract Work – in – Progress (A + B)	**360**
D. Estimated Cost for Completion of Contract	420
E. Total Completion Cost of Project (C + D)	780
F. Stage of Completion (Cost Incurred till year End/ Total Completion Cost of Project) i.e. (C/E)	0.461538 or 46.1538%

(ii) **Revenue and Profit/Loss to be recognized in statement of profit**

(₹ in Crores)

Particulars	**2017**
A. Revenue to be recognized Total Contract Revenue × Stage of Completion i.e. ₹ 720 Lakhs x 46.1538%	332.31
B. Cost Incurred till the year end (Contract Expenses recognized during the year)	360.00
C. Loss to be recognized at the end of each year (Revenue Recognized in year – Cost Incurred till year End) i.e. (A – B)	27.69

D. Total Expected Loss on Contract i.e. Total Estimated Cost for Completion of Contract – Total Contract Revenue = ₹ 780 Lakhs – ₹ 720 Lakhs	60.00
E. Further Loss to be recognized in year = D – C	32.31

(iii) **Amount due from/to customers**

(₹ **in Crores)**

Particulars	**2017**
A. Contract Work – In – Progress	360.00
B. *Add:* Contract Revenue Recognized during the year	332.31
C. *Less:* Contract Expenses Recognized during the year	360.00
D. *Less:* Further loss recognized during the year	32.31
E. *Less:* Progress Payment Received/to be Received (₹ 264 Lakhs + ₹ 72 Lakhs)	336.00
F. Amount Due from/(to) Customers (A + B – C – D – E) As this amount is in negative it would be treated as amount due to customers and will be shown in current liabilities.	(36)

(iv) **The relevant disclosures are given below:**

	₹ in crores
Contract revenue till 31st March, 2017	332.31
Contract expenses till 31st March, 2017	360.00
Recognized losses for the year 31st March, 2017	(60)
Progress billings (264 + 72)	336
Retention (billed but not received from contractee)	72
Gross amount due to customers	36

2017 - Dec [2] (b) Mahi Ltd. began construction of a new building on 1st April, 2016. It obtained ₹ 50 Lakhs special loan from State Bank of India to finance the construction of the building on 1st April, 2016 at an interest rate of 10%. The company's other outstanding two non-specific loans were:

Amount	Rate of Interest
₹ 80 Lakhs	11%
₹ 150 Lakhs	13%

The expenditures that were made on the building project were as follows:

	₹ in Lakhs
April 2016	50
July 2016	55
October 2016	125
March 2017	36

Building was completed by 31st March, 2017. Following the principles prescribed in Ind AS 23 Borrowing Cost, calculate the amount of interest to be capitalized and pass one Journal entry for capitalizing the cost and borrowing cost in respect of the building. **(8 marks)**

Answer:

(i) **Computation of average accumulated expenses**

	₹ in Lakhs
₹ 50 Lakhs × 12/12	50.00
₹ 55 Lakhs × 9/12	41.25
₹ 125 Lakhs × 6/12	62.50
₹ 36 Lakhs × 1/12	3.00
	156.75

(ii) **Calculation of average interest rate other than for specific borrowings.**

Amount of Loan (₹)	**Rate of Interest**	**Amount of Interest (₹)**
₹ 80 Lakhs	11%	= 8.80
₹ 150 Lakhs	13%	= 19.50
₹ 230 Lakhs		= 28.30
Weighted average rate of interest 28.30/230		= 12.304% (approx)

(iii) **Interest on average accumulated expenses**

	₹ in Lakhs
Specific borrowings (₹ 50 Lakhs × 10%)	5.0000
Non-specific borrowings ₹ 156.75 – ₹ 50 = ₹ 106.75 Lakhs × 12.304%	13.1345
Amount of interest to be capitalized	18.1345

Actual Interest Cost
(50 ×10%) + (80×11%) + (150×13%) = 33.3
Amount to be capitalised is ₹ 18.1345 as it is not more than 33.3 (actual interest)

(iv) **Total expenses to be capitalized for building**

	₹ in Lakhs
Cost of building (50 + 55 + 125 + 36) Lakhs	266.0000
Add: Amount of interest to be capitalized	18.1345
	284.1345

(v) **Journal Entry** **₹ in Lakhs**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
31.3.17	Building A/c Dr. To Bank A/c (Being amount of cost of building and borrowing cost thereon capitalized)		284.1345	 284.1345

2017 - Dec [3] (a) Sanwar Ltd. made a loss of ₹ 50 Lakhs for the year ending 31st March, 2015. For the year ending 31st March, 2016 and 31st March, 2017 it made profits of ₹ 25 Lakhs and ₹ 32 Lakhs respectively. It is assumed that the loss of a year can be carried forward for eight years and tax rate is 30%. By the end of the 31.03.2015, the company feels that there will be sufficient taxable income in the future years against which carry forward loss can be set off. There is no difference between taxable income and accounting income except that the carry forward loss is allowed in the years ending on 31st March, 2016 and 2017 for tax purposes. Prepare a statement showing Profit and Loss before Tax and after Tax for the years ending 31st March, 2015, 2016 and 2017. **(8 marks)**

Answer:

	Particulars	2014-15	2015-16	2016-17
(a)	Accounting Profit / Loss	(50,00,000)	25,00,000	32,00,000
(b)	Income Tax Profit before adjustment	(50,00,000)	25,00,000	32,00,000
(c)	*Less:* Set off of Brought Forward Losses	-	(25,00,000)	(25,00,000)
(d)	Loss Carried Forward to Subsequent Years	(50,00,000)	(25,00,000)	-
(e)	Income Tax Profit = (b) – (c)	NIL	NIL	7,00,000
(f)	Difference between Accounting and Taxable Profit (e – a)	50,00,000	(25,00,000)	(25,00,000)
(g)	Income Difference classified into: 1. Permanent Diff. 2. Timing Diff. – Originating 3. Timing Diff. – Reversing	 NIL (50,00,000) NA	 NIL NA (25,00,000)	 NIL NA (25,00,000)

(h)	Current Tax = (e) × 30%	-	-	2,10,000
(i)	Deferred tax - DTA / (DTL) originating during the year	(50,00,000× 30%) 15,00,000	-	
	- (DTA) / DTL reversing during the year	-	(7,50,000) (25,00,000 ×30%)	(7,50,000) (25,00,000× 30%)
(j)	Tax Expense = Current Tax + Deferred Tax	(15,00,000)	7,50,000	9,60,000
(k)	Book Profit after Tax = (a – j)	(35,00,000)	1,750,000	22,40,000

2017 - Dec [6] (a) A company has its share capital divided into shares of ₹ 10 each. On 1st April, 2016 it granted 10,000 employees' stock options (ESOP) at ₹ 40, when the market price was ₹ 130. The options were to be exercised between 16th December, 2016 and 15th March, 2017. The employees exercised their options for 9,500 shares only; the remaining options lapsed. The company closes its books on 31st March every year. Show Journal entries up to the year ended 31.03.2017. **(8 marks)**

Answer:

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
2016 April. 1	Employee Compensation Expense To Employee Stock Option Outstanding A/c (Being grant of 10,000 stock options to employees at ₹ 40 when market price is ₹ 130)	Dr.	9,00,000	 9,00,000
Dec, 16 to 15-Mar-17	Bank A/c Employee Stock Option Outstanding A/c To Share Capital A/c To Securities Premium (Being allotment to employees of 9.500 equity shares of ₹ 10 each at a premium of ₹ 120 per share in exercise of stock options by employees)	Dr. Dr.	3,80,000 8,55,000	 95,000 11,40,000

2017 Mar. 16	Employee Stock Option Outstanding A/c To Employee Compensation Expense (Being entry for lapse of stock options for 500 shares)	Dr.	45,000	45,000
	Profit & Loss A/c To Employee Compensation Expense (Being transfer of employee compensation expense to profit and loss account)		8,55,000	8,55,000

2018 - June [2] (b) The Chief Accountant of STOCK Ltd. gives the following data regarding its six segments:

₹ in lakhs

Particulars	M	N	O	P	Q	R	Total
Segment Assets	50	25	10	5	5	5	100
Segment Results	–50	–140	80	10	–10	10	–100
Segment Revenue	200	320	200	90	90	100	1000

Identify the Reportable Segments. **(8 marks)**

Answer:

A business segment or geographical segment should be identified as a reportable segment if:

(i) Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue - external and internal of all segments; or

(ii) Its segment result whether profit or loss is 10% or more of:
The combined result of all segments in profit or the combined result of all segments in loss, whichever is greater in absolute amount; or

(iii) Its segment assets are 10% or more of the total assets of all segments.

Criteria For Reportable Segment	Reportable Segment Fulfilling Criteria
1. 10% of Total Revenue (i.e.10% of ₹ 1,000 Lakhs)	M, N, O and R

2. 10% of Total Result (i.e.10% of ₹ 200 Lakhs)	M, N, O
3. 10% of Total Assets (i.e.10% of ₹ 100 Lakhs)	M, N, O

Hence, Reportable Segments as per AS 17 are M, N, O and R only.

2018 - June [3] (a) From the given information, you are required to compute the Deferred Tax Assets and Deferred Tax Liability for Ramanujam Limited as on 31st March, 2018. The tax rate applicable is 35%.

(i) The Company has charged Depreciation of ₹ 7,42,900 in its Books of Accounts while as per Income Tax computation, the Depreciation available to the Company is ₹ 8,65,400.

(ii) The Company has made Provision for Doubtful Debts for ₹ 54,300 during the year.

(iii) The Company has debited Share Issue Expenses of ₹ 6,23,500 which will be available for deduction under the Income Tax Act from the next year.

(iv) The expenses of ₹ 7,84,500 has been charged to Profit and Loss Account which are disallowed under the Income Tax Act.

(v) The Company has made Donation of ₹ 2,00,000 which has been debited to Profit and Loss Account and only 50% thereof will be allowed as deduction as per Income Tax Law. **(8 marks)**

Answer:

COMPUTATION OF DTA / DTL (₹)

Description	Adj	Net Amt Diff.	Nature of	Treatment	DTA/DTL at 35%
Profit before Tax as per Books		XXX			
Add: Depreciation as per Books	7,42,900		Timing	Difference Originating in the current year. So, Create DTL.	(42,875)
Less: Depreciation as per IT	(8,65,400)	(1,22,500)	Permanent	Ignored	NA

Add: Provision disallowed in IT		(54,300)	Timing	Difference originating in the current year. So, Create DTA.	2,18,225
Add: Share Issue Exp. Disallowed u/s 35D		6,23,500	Permanent	Ignored	NA
Add: Expense					
Disallowed under IT (assumed to be permanent diff)		7,84,500			
Add: Donation (50% of 2 Lakhs)		1,00,000	Permanent	Ignored	NA
Total Income		XXX			

2018 - June [6] (a) Virtual Limited granted on 1st April, 2015, 100000 Employees Stock Option at ₹ 40, when the Market Price was ₹ 60. These options will vest at the end of Year 1, if the earning of Virtual Limited is more than 15% or it will vest at the end of the year 2, if the average earnings of two years is more than 12% or lastly it will vest at the end of third year, if the average earnings of 3 years will be 9% or more. 6,000 unvested options lapsed on 31st March, 2016. 5,500 unvested options lapsed on 31st March, 2017 and finally 3,000 unvested options lapsed on 31st March, 2018.

Year ended on	**Earnings in %**
31.03.2016	13%
31.03.2017	9%
31.03.2018	7%

Employees exercised for 85,000 Stock Options which vested in them at the first opportunity and the balance options were lapsed. Pass necessary journal entries and show the necessary working. **(8 marks)**

Answer:

Journal of Virtual Ltd.

Date	Particulars		Dr. (₹)	Cr. (₹)
31.3.2016	Employees Compensation Expenses A/c To ESOS Outstanding A/c (Being Compensation Expenses recognized in respect of Employee Stock Option, i.e. 94,000 options at a discount of ₹ 20 each)	Dr.	9,40,000	 9,40,000
	P&L A/c To Employees Compensation Expense A/c (Being the t/f of ECE A/c)	Dr.	9,40,000	 9,40,000
31.3.2017	Employees Compensation Expenses A/c To ESOS Outstanding A/c (Being Compensation Expenses recognized in ESOP A/c)	Dr.	2,40,000	 2,40,000
	P&L A/c To Employees Compensation Expense A/c (Being the t/f of ECE A/c)	Dr.	2,40,000	 2,40,000
31.3.2018	Employees Compensation Expenses A/c To ESOS Outstanding A/c (Being Compensation Expenses recognized in ESOP)	Dr.	5,30,000	 5,30,000
	P&LA/c To Employees Compensation Expense A/c (Being the t/f of ECE A/c)	Dr.	5,30,000	 5,30,000

	Bank A/c [85,000 x ₹ 40]	Dr.	34,00,000	
	ESOS Outstanding A/c	Dr.	17,00,000	
	To Equity Share Capital A/c [85,000 x ₹ 10]			8,50,000
	To Securities Premium A/c [85,000 x ₹ 50]			42,50,000
	(Being 85,000 Options exercised)			
	ESOS Outstanding A/c [500 x ₹ 20]	Dr.	10,000	
	To General Reserve A/c			10,000
	(Being ESOP outstanding A/c on lapse of 500 options transferred to General Reserve)			

Working Notes:

Expense to be Recognised Each Year

Particulars	Year 1	Year 2	Year 3
Length of the expected vesting period (at the end of the year)	2 years	3 years	3 years
A. No. of Options expected to vest	94,000	88,500	85,500
B. Fair Value of An option	₹ 20	₹ 20	₹ 20
C. Total Fair Value of Option [A x B]	18,80,000	17,70,000	17,10,000
D. Total Expense accrued at the end of year (₹)	9,40,000	11,80,000	17,10,000
	(D/2)	(D x 2/3)	(D x 3/3)
E Expense recognised till the end of previous year (₹)	Nil	9,40,000	11,80,000
F. Expense to be recognized for the year (₹) [D - E]	9,40,000	2,40,000	5,30,000

2018 - Dec [2] (a) State whether or not Ind AS are applicable for the following Companies/Banks. If yes, also state the effective date of applicability.

(i) A chemical company having Net Worth below INR 250 crore already listed on National Stock Exchange in India.
(ii) A publishing company having Net Worth below INR 250 crore in process of listing on National Stock Exchange in India.
(iii) An Unlisted FMCG Company having Net Worth of INR 250 crore.
(iv) An Unlisted NBFCs having Net Worth of INR 500 crore
(v) An Unlisted NBFCs having Net Worth of INR 250 crore
(vi) Scheduled Commercial Banks (excluding RRB's and UCBs)
(vii) Insurance Companies
(viii) A chemical company listed on SME exchange
(ix) An Unlisted FMCG Company having Net Worth below INR 250 crore
(x) A listed NBFCs having Net Worth below INR 250 crore
(xi) A Regional Rural Bank having Net Worth of INR 250 crore
(xii) An Urban Cooperative Bank having Net Worth of INR 250 crore

(8 marks)

Answer:

Companies	Whether applicable	With effect from
1. A chemical company having Net Worth below 250 crore already listed on National Stock Exchanges in India .	Yes	1st April, 2017 (with comparatives)
2. A publishing company having Net Worth below 250 crore in process of listing on National Stock Exchanges in India.	Yes	1st April, 2017 (with comparatives)
3. An Unlisted FMCG Company having Net Worth of INR 250 crore	Yes	1st April, 2017 (with comparatives)
4. An Unlisted NBFCs having Net Worth of INR 500 crore.	Yes	1st April, 2018 (with comparatives)

5. An Unlisted NBFCs having Net Worth of INR 250 crore.	Yes	1st April, 2019 (with comparatives)
6. 0 Scheduled Commercial Banks (excluding RRB's & UCBs)	Yes	1st April, 2019 (with comparatives)
7. 0 Insurance Companies	Yes	1st April, 2020 (with comparatives)
8. A chemical company listed on SME exchange.	No	
9. An Unlisted FMCG Company having Net Worth below INR 250 crore.	No	
10. A listed NBFCs having Net Worth below INR 250 crore	No	
11. A Regional Rural bank having Net Worth of INR 250 crore.	No	
12. An Urban Co-operative bank having Net Worth of INR 250 crore.	No	

2018 - Dec [3] (a) Bharat Tushar Ltd. borrowed funds for modernization and development of its factory as follows

Date on which Funds borrowed	Funds Borrowed (₹)	Rate of Interest
01.04.2018	12,00,000	13%
01.07.2018	40,00,000	14%
01.10.2018	16,00,000	15.5%

Expenditure incurred on Construction of a Building (₹)	Date on which it is incurred
6,00,000	01.04.2017
2,00,000	01.05.2017
3,00,000	01.07.2017
8,00,000	01.12.2017

The Construction of a Building completed on 31.12.2017. However, it was put to use only on 01.04.2018. A sum of ₹ 20 lakhs has been advanced for purchase of Plant & Machinery which was installed by 31st March, 2018. ₹ 29 lakhs has been utilized for working capital requirements. Show the treatment of Interest. **(8 marks)**

Answer:

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized. A qualifying asset is an asset that necessarily takes a substantial period of time (usually 12 months or more) to get ready for its intended use or sale. If an asset is ready for its intended use or sale at time of its acquisition then it is not treated as a qualifying asset.

Particulars	Nature	Treatment of Interest
1. Construction of a building = ₹ 1.12 lakhs	Qualifying Asset	Interest to be capitalized As per W.N. (iii)
2. Advance for Purchase of Plant & Machinery	Not a Qualifying Asset*	Interest to be charged to P&L A/c.
*On the basis that Plant & Machinery is ready for its intended use at the time of its acquisition/purchase.		
3. Working Capital	Not a Qualifying Asset	Interest to be charged to P&L A/c.

Interest Costs to be charged to Profit & Loss Account = Total Interest – Interest to be capitalized = ₹ 7,00,000 – ₹ 1,12,000 = ₹ 5,88,000.

(I) **Calculation of Capitalized Rate**

Date of Loan	O/S Loan	Interest Rate	Months for Loan is O/S	Product	Total Interest
A	B	C	D	E = B x D	F = B x C x D/12
42,738	12,00,000	13%	12	1,44,00,000	1,56,000
42,741	40,00,000	14%	9	3,60,00,000	4,20,000

42,744	16,00,000	15.5%	6	96,00,000	1,24,000
			Total	6,00,00,000	7,00,000

Average Amount Outstanding = 600,00,000/12 = 50,00,000

Capitalization Rate = (7,00,000 / 50,00,000) × 100 = 14 %

(II) **Calculation of Average Carrying Amount of the Building during a Period**

Expenditure incurred is incurred	Date on which it	Months	Products
A	B	C	D = A x C
6,00,000	01/04/2017	9	54,00,000
2,00,000	01/05/2017	8	16,00,000
3,00,000	01/07/2017	6	18,00,000
8,00,000	01/12/2017	1	8,00,000
		Total	96,00,000

Average carrying amount of Building during a period = 96,00,000 /12 = 8,00,000

(III) Interest to be capitalized = Average carrying amount of Building x Capitalization

Rate = ₹ 8,00,000 = 0.14 x ₹ 1,12,000

2018 - Dec [6] (a) At the beginning of year 1, an enterprise grants 300 options to each of its 1000 employees. The contractual life of option granted is 6 years.

Other relevant information is as follows:

Vesting Period	3 years	Exercise Period	3 years
Expected Life	5 years	Exercise Price	₹ 50
Market Price	₹ 50	Expected forfeitures per year	3%

The option granted vest according to a graded schedule of 25% at the end of the year 1, 25% at the end of the year 2 and the remaining 50% at the end of the year 3.

You are required to calculate total compensation expenses for the options expected to vest and cost and cumulative cost to be recognised at the end of all the 3 years assuming that expected forfeiture rate does not change during the vesting period when.

(i) The fair value of these options, computed based on their respective expected lives, are ₹ 10, ₹ 13, ₹ 15 per options, respectively.

(ii) The intrinsic value of the options at the grant date is ₹ 6 per options.

(8 marks)

Answer:

(i) Based on Fair Value Method

1. Since the options granted have a graded vesting schedule, the enterprise segregates the total plan into different groups, depending upon the vesting dates and treats each of these groups as a separate plan.
2. **Number of Optoins Expected to Vest Under Each Group :**

Vesting Date (Year-end)		**Options expected to vest**
1	300 options x 1,000 employees x 25% x 0.97	72,750 options
2	300 options x 1,000 employees x 25% x 0.97 x .97	70,568 options
3	300 options x 1,000 employees x 50% x 0.97 x .97 x .97	1,36,901 options
Total options expected to vest		2,80,219 options

3. **Total Compensation Expense for the Options Expected to Vest**

Vesting Date (Year-end)	**Expected Vesting (No. of Options)**	**Value per Option (₹)**	**Compensation Expense (₹)**
1	72,750	10	7,27,500
2	70,568	13	9,17,384
3	1,36,901	15	20,53,515
	2,80,219		36,98,399

4. Recognition of Compensation Expense

Vesting Date (End of year)	Cost to be recognized		
	Year 1	**Year 2**	**Year 3**
1	7,27,500		
2	4,58,692	4,58,692	
3	6,84,505	6,84,505	6,84,505
Cost for the year	18,70,697	11,43,197	6,84,505
Cumulative cost	18,70,697	30,13,894	36,98,399

(ii) Based on Intrinsic Value Method

Total Compensation Expense for the Options Expected to Vest

Vesting Date (End of Year)	Expected Vesting (No. of Options)	Value per Option (₹)	Compensation Expense (₹)
1	72,750	6	4,36,500
2	70,568	6	4,23,408
3	1,36,901	6	8,21,406
	2,80,219		16,81,314

Recognition of Compensation Expense

Vesting Date (End of Year)	Cost to be recognized		
	Year 1	**Year 2**	**Year 3**
1	4,36,500		
2	2,11,704	2,11,704	
3	2,73,802	2,73,802	2,73,802
Cost for the year	9,22,006	4,85,506	2,73,802
Cumulative cost	9,22,006	14,07,512	16,81,314

2019 - June [3] (a) An equipment is leased for 3 years and its useful life is 5 years. Both the cost and the fair value of the equipment are ₹ 6,00,000. The amount will be paid in 3 installments and at the termination of lease, lessor will get back the equipment. The unguaranteed residual value at the end of 3 years is ₹ 80,000. The (internal rate of return) IRR of the investment is 8%. The annual payments have been determined in such a way that the present value of the lease payment plus the residual value is equal to the cost of machinery. The present value of ₹ 1 due at the end of 1st 2nd 3rd year at 8% rate of interest is 0.9259, 0.8573 and 0.7938 respectively.

(i) Calculate unearned finance income.

(ii) Segregate the finance income in the hands of lessor. **(8 marks)**

Answer:

(i) Calculation of Annual Payment:

	₹
Cost of equipment	6,00,000
Less: PV of unguaranteed residual value for 3 years @ 8% (₹ 80,000 × 0.7938)	(63,504)
Fair value to be recovered from 3 years Annual Lease Payment	5,36,496
Annuity for 3 years @ 8% (0.9253 + 0.8573 + 0.7938)	2.577
Annual Lease Payment (₹ 5,36,496 / Annuity for 3 years @ 8%)	2,08,186

(ii) Unearned Finance Income:

	₹
Total Lease payment (₹ 2,08,186 × 3)	6,24,558
Add: Residual value	80,000
Gross investment	7,04,558
Less: Present / Fair value of Investment	(6,00,000)
Unearned Finance Income	1,04,558

(iii) Segregation of Finance Income

(All figures in ₹)

Year	**Lease**	**Finance charges @ 8% on outstanding**	**Repayment**	**Outstanding**
	Rentals	**amount of the year**		**Amount**
	(a)	**(b)**	**(c)**	**(d)**
		(d of previous year × 8%)	a-b	(d = d of previous year - c of current year)
0				6,00,000
I	2,08,186	48,000	1,60,186	4,39,814
II	2,08,186	35,185	1,73,001	2,66,813
III	2,08,186	21,373**	1,86,813	80,000*
	6,24,558	1,04,558	5,20,000	

*This amount is unguaranteed residual value of equipment i.e. ₹ 80,000

** Difference in interest value is due to approximation.

Alternative Calculation:

Year	**Net Investment in the Lease = Receivable (₹)**	**Finance Income @ 8% on Nil (₹)**	**Total Lease Payments received from Leasee (₹)**	**Balance Reduction in Receivable (i.e. Principal) (₹)**
1	**2**	**3 = 2 × 8%**	**4**	**5 = 4-3**
1	6,00,000	48,000	2,08,186	1,60,186
2	6,00,000 - 1,60,186 = 4,39,814	35,185	2,08,186	1,73,001
3	4,39,814 - 1,73,001 = 2,66,813	21,345	2,08,186	1,86,841
3 (end)	2,66,813 - 1,86,841 = 79,972	–	80,000 (URV)	(difference is due to rounding off) Nill

2019 - June [3] (b) A machine was acquired by ABC Ltd. 15 years ago at a cost of ₹ 20 crore. Its accumulated depreciation as at 31st March, 2018 was ₹ 16.60 crore. Depreciation estimated for the financial year 2018-19 is ₹ 1crore. Estimated Net Selling Price of the machine as on 31st March, 2018 was ₹ 1.20 crore, which is expected to decline by 20 per cent by the end of the next financial year.

Its value in use has been computed at ₹ 1.40 crore as on 1st April, 2018, which is expected to decrease by 30 per cent by the end of the financial year. Assuming that other conditions of relevant accounting standard for applicability of the impairment are satisfied:

(i) What should be carrying amount of this machine as at 31st March, 2019?

(ii) How much will be the amount of write off (impairment loss) for the financial year ended 31st March, 2019?

(iii) If the machine had been revalued ten years ago and the current revaluation reserves against this plant were to be ₹ 48 lakh, how would you answer to question (i) and (ii) above? **(8 marks)**

Answer:

(b) As per the requirements of the question, the following solution has been drawn:

(₹ in crore)

(i)	Carrying amount of plant (before impairment) as on 31st March, 2019	2.4
(ii)	Carrying amount of plant (after impairment) as on 31st March, 2019	0.98
(iii)	Amount of impairment loss for the financial year ended 31st March, 2019 (2.4 Cr-0.98 Cr)	1.42
	If the plant had been revalued 10 years ago	
	Debit to revaluation reserve	0.48
	Amount charged to Capital profit and loss (1.42 - 0.48)	0.94

Working Notes:

1. Calculation of closing Book Value as at 31st March, 2019:

	₹ in crore
Opening book value as on 01.04.2018	3.4
Less: Depreciation for financial year 2018-2019	(1.00)
Closing book value as on 31.03.2019 (before impairment)	2.4

2. Calculation of Estimated Net selling price on 31st March, 2019:

	₹ in crore
Estimated net selling price as on 1.4.2018	1.2
Less: Estimated decrease during the year (20% of ₹ 1.20 Cr.)	(0.24)
Estimated net selling price as on 31.03.2019	0.96

3. Calculation of Estimated Value in Use of Plant on 31st March, 2019:

	₹ in crore
Estimated value in sue on 1.4.2018	1.4
Less: Estimated decrease during the year (30% of ₹ 1.40 Cr.)	(0.24)
Estimated value in use as on 31.03.2019	0.98

4. Recoverable amount as on 31.03.2019 is equal to higher of Net selling price and value in use:

	₹ in crore
Net selling price	0.96
Value in use	0.98
Recoverable amount	0.98
Impairment Loss [Carrying amount - Recoverable amount i.e. (2.40 Cr. -098 Cr.)]	1.42
	0.98

Note: Since question requires computation of Impairment loss on 31.3.2019, hence impairment probability on 31.03.2018 has been ignored. However, since there is impairment probability at the beginning of the year as well, one may calculate the carrying amount at the beginning of the year afer impairment and then calculate the impairment possibilities at the end of the year.

Accordingly the solution will be as follows:

	₹ in crore
Carrying amount before impairment on 1.4.2018 (20-16.60)	3.40
Recoverable amount i.e., higher of NSP (1.20 cr.) and the value in use (1.40 cr.)	1.40
Impairment loss	2.00
Revised carrying amount after impairment as on 01.04.2018	1.40
Less: Depreciation for 2018-19 (as given in the question)	(1.00)
Carrying amount as on 31.03.2019	0.40
Recoverable amount as on 31.03.2019 (Refer W.N 2,3 and 4 above)	0.98
Impairment Loss as on 31.3.2019 (since carrying amount is less than recoverable amount)	NIL

2019 - June [6] (a) (ii) A Company has its share capital divided into shares of ₹ 10 each. On 1st April, 2017 it granted 10000 employees' stock options (ESOP) at ₹ 40, when the market price was ₹ 130. The options were to be exercised between 16th December, 2017 and 15th March, 2018. The employees exercised their options for 9500 shares only; the remaining options lapsed. The Company closes its books on 31st March every year. Show Journal entries up to the year ended 31.03.2018. **(6 marks)**

Answer:

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
2017 April, 1	Employee Compensation Expense A/c To Employee Stock Option Outstanding A/c (Being grant of 10,000 stock options to employees at ₹ 40 when market price is ₹130)	Dr.	9,00,000	 9,00,000
Dec, 16 to 15-Mar-18	Bank A/c Employee Stock Option Outstanding A/c To Share Capital A/c To Securities Premium A/c (Being allotment to employees of 9,500 equity shares of ₹ 10 each at a premium of ₹ 120 per share in exercise of stock options by employees)	Dr. Dr.	3,80,000 8,55,000	 95,000 11,40,000
2018 Mar, 16	Employee Stock Option Outstanding A/c To Employee Compensation Expense A/c (Being entry for lapse of stock options for 500 shares)	Dr.	45,000	 45,000
	Profit & Loss A/c To Employee Compensation Expense A/c (Being Employees Stock Options expenses transferred)	Dr.	8,55,000	 8,55,000

2019 - Dec [6] (b) Jal Agni Ltd. provides you the following particulars in respect of stock options grated:

Grant Date	**April 1, 2015**
Number of Employees covered	1050
Number of Options granted per Employee	50
Vesting Condition: Continuous employment for 3 years	

Nominal value per share (₹)	100
Exercise Price per share (₹)	125
Market Price per share on Grant Date (₹)	149
Vesting Date	March 1, 2018
Exercise Date	March 31, 2019
Fair Value of Option per share on Grant Date (₹)	30

Position on	31.03.2016	31.03.2017	31.03.2018
Estimated Annual Rate of Departure	2%	3%	
Number of Employees left	30	20	16
Number of Employees entitled to exercise option			984

On 31st March, 2019, 960 Employees exercised the option and 24 Employees did not exercise the option.

Required:

Compute Expenses to be recognised in each year and Value of Options Forfeited by Fair Value Method. **(8 marks)**

Answer:

Calculation of Expenses recognized during the vesting period:

Year	Calculation	Cumulative remuneration expense (₹)	Remuneration expense recognized in each year (₹)
1	980 × 50 × 30 × 1/3 (Note #)	4,90,000	4,90,000
2	970 × 50 × 30 × 2/3 (Note #)	9,70,000	4,80,000
3	984 × 50 × 30 × 3/3 (Note #)	14,76,000	5,06,000
	Total		**14,76,000**

Note #:

At the end of year 1, 30 left and annual departure 2% for remaining 2 years, estimated no. of employees entitled to option = (1,050 – 30) ×0.98×0.98 = 980 approx.

At the end of year 2, 30 + 20 left and annual departure 3% for remaining 1 year, estimated no. of employees entitled to option = (1,050 – 30 -20) × 0.97 = 970.

At the end of year 3, 30+20+16 left and 1,050-30-20-16 = 984 are entitled to option.

Value of options forfeited = 24 × 50 × 30 = 36,000.

2021 - Dec [1] Property, Plant & Equipment appeared at ₹ 50,00,000 in the Trial Balance of MALLYA co which is not a going concern. Property, Plant & Equipment are subject to depreciation @10% on WDV basis. Realizable value of Property, Plant & Equipment 80%. Realizable Expenses 5%. At what amount depreciation will be shown in the Income Statement of MALLYA co. **(1 mark) [Sec. B - SAQ]**

Answer:

As Mallaya Co. is not a going concern, therefore Property. Plant & Equipment would be shown at Net Realizable Value. Hence the amount of Depreciation would be = ₹ 12,00,000 [₹ 50,00,000 – ₹ 38,00,000 (i.e. ₹ 50,00,000 x 0.80 x 0.95)]

2021 - Dec [1] Given the following information of NIKITA Ltd.

Goods of ₹ 60,000 were sold on 20-3-2021 but at the request of the buyer these were delivered on 10-4-2021.

On 15-1-2021 goods of ₹ 1,50,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-3-2021.

₹ 1,20,000 worth of goods were sold on approval basis on 1-12-2017. The period of approval was 3 months after which they were considered sold, buyer sent approval for 75% goods up to 31-1-2021 and no approval or disapproval received for the remaining goods till 31-3-2021.

Apart from the above, the company has made cash sales of ₹ 8,70,000 (gross). Trade discount of 5% was allowed on the cash sale.

Calculate the total revenue to be recognized for the year ending 31-3-2021.

(3 marks) [Sec. C - Five LAQ]

Answer:

Total Revenue to be recognized for the year ending 31/03/2021
= ₹ 10,06,500

Total Revenue Calculation for NIKITA Ltd. for the Year Ending 31-3-2021:

To calculate the total revenue to be recognized for NIKITA Ltd. for the year ending 31-3-2021, let's break down each transaction and determine if the revenue can be recognized within the year.

1. **Goods sold on 20-3-2021 and delivered on 10-4-2021**
   The goods were sold in March but delivered in April. Since the goods were sold in March 2021, full revenue of ₹ 60,000 will be recognised.
2. **Goods sent on consignment basis on 15-1-2021**
   Total goods sent: ₹ 1,50,000
   Unsold goods (20%) with consignee: ₹ 30,000
   Sold goods (80%): ₹ 1,20,000
   Revenue can be recognized for the goods sold, which is ₹ 1,20,000.
3. **Goods sold on approval basis on 1-12-2020**
   Since the approval period is 3 months, the goods pending approval are considered sold by 31-3-2021 but as goods were sent on 01-12-2017, revenue is not related to current financial year.
   Total revenue from goods sold on approval: Nil in current year.
4. **Cash sales made during the year**
   Gross cash sales: ₹ 8,70,000
   Trade discount (5% of 8,70,000): ₹ 43,500
   Net cash sales after discount: ₹ 8,26,500
   Now, let's add up all the revenue that can be recognized:
   1. Revenue from goods sold in March, 2021 : ₹ 60,000
   2. Revenue from goods sent on consignment basis: ₹ 1,20,000
   3. Net cash sales after discount: ₹ 8,26,500

   Total revenue to be recognized for the year ending 31-3-2021:
   60,000 + 1,20,000 + 8,26,500 = ₹ 10,06,500

2021 - Dec [4] BS Ltd acquired machinery on lease from BHARAT Ltd on the following terms:

Lease Term 5 Years, Fair Value of Machinery (useful life 15 years) ₹ 45 lakhs, Annual Lease Rental payable at ₹ 10 lakhs, ₹ 8 lakhs, ₹ 6 lakhs, ₹ 4

lakhs, ₹ 2 lakh at the end of each year, Implicit Rate of Return (IRR) 15% State with reason whether the Lease is Operating Lease or Finance Lease. Present value. factors @ 15% for years 1 to 5 are 0.8696, 0.7561, 0.6575, 0.5718 and 0.4972 respectively.
Who will provide Depreciation and of what amount for the First year? Lessee follows Depreciation rate@ 10% p.a. on straight line basis. Lessor follows Depreciation rate@ 6–2/3 % p.a. on straight line basis.

(3 marks) [Sec. C - Five LAQ]

Answer:

(i) It is an operating lease since the Present Value of Minimum Lease Payment is substantially less than the Fair Value of Machinery.
Present Value of Minimum Lease Payment = (10 lakhs × 0.8696) + (8 lakhs × 0.7561) + (6 lakhs × 0.6575) + (4 lakhs × 0.5718) + (2 lakhs × 0.4972) = ₹ 21.9714 lakhs, whereas Fair Value of Machinery = ₹ 45 lakhs and Lease Term (i.e. 5 years) is substantially less than the useful life of Machinery (i.e. 15 years).

(ii) In the case of Operating Lease, Lessor will provide Depreciation = ₹ 45 lakhs × $6\frac{2}{3}$% = ₹ 3 lakhs

2021 - Dec [14] The Chief Accountant of JIWARAM COFECTIONERS Ltd. gives the following data regarding its six segments:

							₹ in lakhs
Particulars	**M**	**N**	**O**	**P**	**Q**	**R**	**Total**
Segment Assets	100	50	20	10	10	10	200
Segment Results	-100	-280	160	20	-20	20	-600
Segment Revenue	400	640	400	180	180	200	2000

Identity the Reportable Segments. **(1 mark) [Sec. B - SAQ]**

Answer:

Reportable Segments are M, N, O and R

Criteria for identifying Reportable Segments Segments fulfilling Criteria

(1) 10% of Total Revenue i.e. 200 M, N, O and R
(2) 10% of Total Result (Profit or Loss whichever is greater in the absolute term) i.e. 40 M, N and O
(3) 10% of Total Assets i.e. 20 M, N and O

2022 - Dec [2] (a) PRITHVI Ltd. provides you the following information:

(i) On 31st March, 2022, goods worth ₹1,00,000 were sold to JAL Ltd. but due to refurnishing of their showroom being underway, on their request, goods were delivered on 10th April, 2022.

(ii) On 1st Jan, 2022 goods of ₹ 2,00,000 were sent on consignment basis of which 40% of the goods unsold are lying with the consignee at the year-end on 31st March, 2022.

(iii) On 15th Feb, 2022 goods worth ₹ 3,00,000 were sent to AGNI Ltd. on approval basis and on 15th March, 2022 goods worth ₹4,00,000 were sent to VAYU Ltd. on approval basis. The period of approval was 1 month. AGNI Ltd. sent approval for 75% goods sold on 10th March, 2022 and no approval or disapproval received for the remaining goods till 31st March, 2022. VAYU Ltd. pledged 60% goods to get financial help for 1 month but no approval or disapproval received for the remaining goods till 31st March, 2022.

(iv) On 1st Jan, 2022, PRITHVI Ltd. entered into an agreement with AAKASH Ltd. for sale of goods costing ₹5,00,000 at a profit of 20% on sale and on the same day PRITHVI Ltd. entered into another agreement with AAKASH Ltd. for repurchasing the same goods at ₹6,60,000 on 1st April, 2022.

(v) Obtained advertisement rights for ₹800 lakhs in February 2022 and procured advertisement for ₹1,200 lakhs. 25% of the advertisements appeared before the public in March 2022 and balance appeared in April 2022.

Required: Calculate the amount to be recognized as revenue for the year ended 31st March, 2022. **(5 marks)**

Answer:

(i) ₹ 1 lakh will be recognized as revenue for F.Y. 2021-22

(ii) ₹ 1.2 lakhs (2 lakhs*60%) will be recognized as revenue for F.Y. 2021-22

(iii) ₹ 5.4 lakhs (3 lakhs + 2.4 lakhs)will be recognized as revenue for F.Y. 2021-22. In case no approval or disapproval is received w.r.t goods within stipulated period, they are assumed to be sold. If goods are pledged, then they are assumed to be purchased by the buyer. 40% of goods sent to VAYU Limited (₹ 1.6 lakhs) will have no effect in F.Y. 2021-22, as period of it's approval has not yet expired.

(iv) ₹ 0.35 loss to be booked (₹ 6.6 lakhs re-purchase – ₹ 6.25 sales)

(v) ₹ 100 lakhs [(1200-800)*25%] will be recognized as revenue for F.Y. 2021-22.

2022 - Dec [2] (b) ALOEVERA, GINGER & TULSI Ltd. which is developing a new production process provides the following information:

Year	
2019-2020	The total expenditure incurred on this process was ₹ 100 lakhs of which ₹ 44 lakhs incurred before 1st December, 2019 when the production process met the criteria for recognition as an intangible asset.
2020-2021	Development Phase began on 1st April, 2020 and completed after incurring an expenditure of ₹ 400 lakhs.
2021-2022	From 1st April, 2021 the company implemented the new process design which will result in a after-tax cost saving of ₹ 100 lakhs per annum for the next five years. The Company's Cost of Capital is 10%. (The present value of annuity factor of ₹ 1 for 5 years @10% = 3.79).

You are required to work out:

(i) What is the expenditure to be recognized as an expense in the Statement of Profit and Loss for the year ended 31st March, 2020?

(ii) What is the carrying amount of the Intangible Asset as at 31st March, 2020 and 31st March, 2021?

(iii) What is the Cost of internally generated Intangible Asset to be recognised?

(iv) What is the expenditure to be recognized as an expense in the Statement of Profit and Loss for the year ended 31st March, 2021?

(v) What is the amount of amortization of the intangible assets to be recognized as an expense in the Statement of Profit and Loss for the year ended 31st March, 2022?

(vi) What is the carrying amount of the Intangible Asset as at 31st March, 2022? **(6 marks)**

Answer:

Year	Accounting Treatment	Reasons as per AS 26
(I) 2019 - 2020	1. Expenditure on research ₹ 44 lakhs should be recognised as an expense when it is incurred. 2. Expenditure on Development i.e. ₹ 56 lakhs incurred since the Date(1.12.2019) when Recognition Criteria met shall be the Carrying amount as of 31-3-2020.	1. No Intangible Asset arising from research should be recognised. 2. An Intangible Asset arising from development should be recognised if, and only if, an enterprise can demonstrate all of the conditions specified in the standard.
(II), (III) and (IV) 2020-2021	Actual Expenditure = ₹ 56 lakhs + ₹ 400 lakhs = ₹ 456 lakhs PV of Future Cash Inflows = ₹100 lakhs x 3.79= ₹ 379 lakhs Intangible Asset should be recognised at ₹ 379 lakhs being lower of Fair Value and Book Value.	1. The expenditure incurred before the intangible asset is available for use should be added to the cost of the intangible asset. 2. Intangible Assets should be recognised at lower of Fair Value(estimated by

		discounting estimated future net cash flows) and Book Value.
	₹ 77 lakhs being the Impairment Loss [i.e. Book Value(56 + 400) – Recoverable Amount(379)] should be recognized as an expense in the Statement of Profit and Loss for the year ended 31st March 2021.	3. Excess of Book Value over Fair Value should be recognised as Impairment Loss in the Statement of Profit and Loss.
(V) and (VI) 2021-2022	₹ 379 lakhs/5 = ₹ 75.8 lakhs should be amortised for each year beginning with 2021-2022. Carrying Amount of the Intangible Asset as at 31.3.2022 = ₹ 379 lakhs - ₹ 75.8 lakhs = ₹ 303.2 lakhs	Depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life (not exceeding 10 years from the date when the asset is available for use). Amortization should commence when the asset is available for use.

2022 - Dec [2] (c) B Ltd. acquired machinery on lease from A Ltd. on the following terms:

Lease Term	5 Years
Fair Value of Machinery	₹ 20 lakhs
Annual Lease Rental at the end of each year	₹ 5 lakhs
Guaranteed Residual Value (GRV)	₹ 1 lakh
Expected Residual Value	₹ 2 lakhs
Implicit Rate of Return (IRR)	15%

Required: Pass the necessary entries in the books of the Lessee & Lessor for the First year. Also prepare their Balance Sheets at the end of First year. Depreciation @ 10% per annum is provided on straight line basis. [Present Value of ₹ 1 at 15% Rate of Interest at the end of 1st year, 2nd year, 3rd year, 4th year and 5th year are 0.8696, 0.7561, 0.6575, 0.5718 and 0.4972 respectively.] **(5 marks)**

Answer:

Present value of Minimum Lease payment

Year	MLP	Discount rate (15%)	PV
1	5,00,000	0.8696	4,34,800
2	5,00,000	0.7561	3,78,050
3	5,00,000	0.6575	3,28,750
4	5,00,000	0.5718	2,85,900
5	6,00,000 (including 1,00,000 GRV)	0.4972	2,98,320
Total	26,00,000		17,25,820

Present value of MLP (₹ 17,25,820) is less than Fair value at the inception of lease (₹ 20 lakhs), so the leased asset and liability should be recognized at ₹ 17,25,820/-

Apportionment of Finance Lease (Rate of Interest 15%)

Year	Liability (₹)	MLP (₹)	Finance Charge (₹)	Principal amount of reduction (₹)
0	17,25,820	----	----	----
1	14,84,693 (17,25,820 – 2,41,127)	5,00,000	2,58,873 (17,25,820*15%)	2,41,127 (5,00,000 – 2,58,873)
2	12,07,397 (14,84,693 – 2,77,296)	5,00,000	2,22,704 (rounded-off) (14,84,693*15%)	2,77,296 (5,00,000 – 2,22,704)
3	8,88,507 (12,07,397 – 3,18,890)	5,00,000	1,81,110 (rounded-off) (12,07,397*15%)	3,18,890 (5,00,000 – 1,81,110)

4	5,21,783 (8,88,507 – 3,66,724)	5,00,000	1,33,276 (rounded-off) (8,88,507*15%)	3,66,724 (5,00,000 – 1,33,276)
5	----	6,00,000	78,267 (rounded-off) (5,21,783*15%)	5,21,783 (6,00,000 – 78,267) (also suitably adjusted for balancing figure of ₹ 50)

Books of Lessee

Journal Entries

	Particulars		Amount (₹)	Amount (₹)
1st year	Lease Rent A/c	Dr.	5,00,000	
	To Bank A/c			5,00,000
	Lease Liability A/c	Dr.	2,41,127	
	Finance Charges A/c	Dr.	2,58,873	
	To Lease Rent A/c			5,00,000
	Depreciation A/c (17,25,820*20%)	Dr.	3,45,164	
	To Lease Liability A/c			3,45,164
	Profit and Loss A/c	Dr.	6,04,037	
	To Finance Charges A/c			2,58,873
	To Depreciation A/c			3,45,164

Extract of Balance Sheet

Year	Liability	Amount (₹)	Asset	Amount (₹)
1st Year	Lease Liability A/c	14,84,693	Fixed Asset under Finance Lease	17,25,820
			Less: Depreciation	3,45,164
				13,80,656

Books of Lessor

Journal Entries

	Particulars		**Amount (₹)**	**Amount (₹)**
1^{st} year	Bank A/c	Dr.	5,00,000	
	To Lease Rent A/c			5,00,000
	Lease Rent A/c	Dr.	5,00,000	
	To Lease Asset A/c			2,41,127
	To Finance Income A/c			2,58,873
	Finance Income A/c	Dr.	2,58,873	
	To Profit & Loss A/c			2,58,873

2023 - June [2] (a) (i) GINGER TULSI LTD. acquired a patent at a cost of ₹ 80,00,000 on April 1, 2019. The company started amortizing the asset at ₹ 5,00,000 per annum since 31^{st} March, 2021. Since 31^{st} March, 2022, the company started amortizing the asset as per Ind AS 38. On 31^{st} March, 2023, it was found that the product life-cycle may continue for another 5 years from then. The net cash flows from the product during another 5 years are expected to be ₹ 36,00,000, ₹ 46,00,000, ₹ 44,00,000, ₹ 40,00,000 and ₹ 34,00,000. On 31^{st} March, 2025, it is felt that no further benefit will accrue in the future. Pass the necessary journal entry to record Amortization of Cost of Patent as per Ind AS 38 for the year 2021-2022 to 2024-2025.

(5 marks)

(ii) PARMATMA TULSI Ltd. provides you the following information:

01.04.2015	Borrowed ₹ 5,00,000 @12% p.a. to construct 10 Machines and incurred ₹ 8,00,000 on Materials, ₹ 2,00,000 on Labour, ₹ 50,000 towards freight & insurance, ₹ 20,000 towards carriage inward, ₹ 10,000 on-site preparation & installation. Estimated total physical life is 10 years but the company considers it is likely that it will sell the property after 4 years.

01.10.2016	Machines became ready for trial run production after incurring Expenses on Trial Run ₹ 20,000. Sale Proceeds of Goods produced during the trial run ₹ 5,000.
01.01.2017	Machines became ready for commercial production. The estimated residual value is ₹ 2,00,000. Govt. Grant received for these machines ₹ 2,00,000.
01.04.2017	The company does not begin using the machine until 1st April, 2017. Put the machines to commence the commercial production.
01.10.2017	Sold one machine for ₹ 93,500.
31.03.2019	Remaining useful life of the property is reassessed as 4 years and the residual value is re-estimated at ₹ 2,20,000 and the property is revalued upwards by ₹ 45,000.
31.03.2020	The company decides to adopt written-down value method by charging depreciation @ 20%.
31.03.2021	The Machines became idle and are retired from active use (but not held for disposal).
31.03.2022	The Idle Machines are held for disposal but the Machines could not be disposed off till the end of the year when Realizable Value of Machines is 75% of carrying amount subject to 10% Realizable Expenses.
31.03.2023	The Idle Machines held for disposal during year are actually disposed off for 75% of the carrying amount.

Required: Prepare Plant and Machinery A/c as per Ind AS 16. **(5 marks)**

Answer:

(i) **Journal Entries**

Date	Particular	Dr.(₹)	Cr.(₹)
31/03/2021	Amortization A/c Dr.	5,00,000	
	To Patent A/c		5,00,000

31/03/2022	Profit and Loss A/c Dr.	11,00,000	
	Amortization A/c Dr.	8,00,000	
	To Patent A/c		19,00,000
31/03/2023	Amortization A/c Dr.	10,08,000	
	To Patent A/c		10,08,000
31/03/2024	Amortization A/c Dr.	12,88,000	
	To Patent A/c		12,88,000
31/03/2025	Amortization A/c Dr.	33,04,000	
	To Patent A/c		33,04,000

(ii) As per Plant & Machinery A/c:

Closing balance as on 31-03-2017 = ₹ 9,50,000
Closing balance as on 31-03-2018 = ₹ 6,75,,000
Closing balance as on 31-03-2019 = ₹ 5,95,000
Closing balance as on 31-03-2020 = ₹ 4,76,,000
Closing balance as on 31-03-2021 = ₹ 3,80,800
Closing balance as on 31-03-2022 = ₹ 2,57,040
Loss on sale of Assets 31-03-2023 = ₹ 64,260

2023 - June [4] (a) On 1.7.2019 AMLA, GILOY & TULSI Ltd. grants 200 options to each of its 2,100 employees at ₹ 120 when the market price is ₹ 400. The vesting date is 31st March, 2022 and the exercise date is 31st March, 2023. At the end of year 1, the company found that 100 employees had left and estimated the expected annual forfeitures rate at 10%. Fair Value of a share issued under ESOP was ₹ 186. At the end of year 2, the company found that 80 employees had left and reestimated the expected annual forfeitures rate at 5%. Fair Value of a share issued under ESOP was ₹ 208. At the end of year 3, the company found that 192 employees had left. Fair Value of a share issued under ESOP was ₹ 160. Only 1,700 employees exercised their options on 31st March, 2023. The face value of equity share is ₹ 10 per share. As per Ind AS 102–

(a) Calculate Expenses to be recognised in year 1 by Fair Value Method.

(4 marks)

(b) Calculate Expenses to be recognised in year 2 by Fair Value Method. **(4 marks)**

(c) Calculate Expenses to be recognised in year 3 by Fair Value Method. **(1 mark)**

(d) Calculate Value of Options Forfeited. **(1 mark)**

Answer:

Expenses to be recognized/(reserved):

Year 1 = ₹ 58,32,000
Year 2 = ₹ 1,45,96,800
Year 3 =(₹ 66,04,800)

Value of Options Forfeited = ₹ 2,24,000

2023 - June [8] (a) B Ltd. acquired machinery on lease from A Ltd. on the following terms:

Lease Term	₹ 5 Years
Fair Value of Machinery	₹ 20 lakhs
Annual Lease Rental at the end of each year	₹ 5 lakhs
Guaranteed Residual Value (GRV)	₹ 1 lakh
Expected Residual Value	₹ 2 lakhs
Implicit Rate of Return (IRR)	15%

Required: Pass the necessary entries in the books of the Lessee & Lessor for the First year. Depreciation @ 10% per annum is provided on straight line basis. [Present Value of ₹ 1 at 15% rate of Interest at the end of 1^{st} year, 2^{nd} years, 3^{rd} years, 4^{th} years and 5^{th} years are 0.8696, 0.7561, 0.6575, 0.5718 and 0.4972 respectively.] **(8 marks)**

Answer:

Journal of B Ltd.

Particulars		**Dr.(₹)**	**Cr.(₹)**
Machinery A/c	Dr.	17,25,820	
To A Ltd.'s A/c			17,25,820
Finance Charges A/c	Dr.	2,58,873	
To A Ltd.'s A/c			2,58,873

A Ltd.'s A/c	Dr.	5,00,000	
To Bank A/c			5,00,000
Depreciation A/c	Dr.	1,72,582	
To Machinery A/c			1,72,582
Profit and Loss A/c	Dr.	4,31,455	
To Depreciation A/c			1,72,582
To Finance Charges A/c			2,58,873

Journal of A Ltd.

Particulars		Dr. (₹)	Cr. (₹)
Lease Receivable A/c	Dr.	17,75,540	
To Machinery A/c			17,75,540
Bank A/c	Dr.	5,00,000	
To Lease Receivable A/c			2,33,680
To Finance Income A/c			2,66,320
Finance Income A/c	Dr.	2,66,320	
To P&L A/c			2,66,320

2023 - June [8] (b) (i) AATMA TULSI Ltd. which is developing a new production process provides the following information:

Year	
2020-2021	The total expenditure incurred on this process was ₹ 100 lakhs of which ₹ 44 lakhs incurred before 1st Dec., 2020 when the production process met the criteria for recognition as an intangible asset.
2021-2022	Development Phase began on 1st April, 2021 and completed after incurring an expenditure of ₹ 400 lakhs.

2022-2023	From 1st April, 2022 the company implemented the new process design which will result in a after-tax cost saving of ₹ 100 lakhs per annum for the next five years. The Company's Cost of Capital is 10%. (The present value of annuity factor of ₹ 1 for 5 years @ 10% = 3.79).

You are required to work out the following as per Ind AS 38:

(a) What is the expenditure to be recognized as an expense in the Statement of Profit and Loss for the year ended 31st March, 2021?

(b) What is the carrying amount of the Intangible Asset as at 31st March, 2021 and 31st March, 2022?

(c) What is the Cost of internally generated Intangible Asset to be recognised?

(d) What is the expenditure to be recognized as an expense in the Statement of Profit and Loss for the year ended 31st March, 2022?

(e) What is the amount of amortization of the intangible assets to be recognized as an expense in the Statement of Profit and Loss for the year ended 31st March, 2023?

(f) What is the carrying amount of the Intangible Asset as at 31st March, 2023? **(4 marks)**

Answer:

Year	**Accounting Treatment**	**Reason as per IND AS 38**
(a) 2020-2021	1. Expenditure on research ₹ 44 lakhs should be recognised as an expense when it is incurred.	1. No intangible asset arising from research should be recognised.
	2. Expenditure on development i.e. ₹ 56 lakhs incurred since the date (1.12.2020) when recognition criteria met shall be the carrying amount as of 31-3-2021.	2. An intangible asset arising from development should be recognised if, and only if, an enterprise can demonstrate all of the conditions specified in the standard.

	Actual expenditure = ₹ 456 lakhs PV of future cash inflows = 379 lakhs. Intangible asset should be recognised at ₹ 379 lakhs being lower of Fair Value and Book Value.	1. The expenditure incurred before the intangible asset is available for use should be added to the cost of the intangible asset. 2. Intangible assets should be recognised at lower of Fair Value (estimated by discounting estimated future net cash flows) and Book Value.
(b), (c) and (d) 2021-2022	₹ 77 lakhs being the impairment loss [i.e. Book Value (₹ 56 lakhs + ₹ 400 lakhs) – Recoverable amount(₹ 379 lakhs)] should be recognized as an expense in the statement of Profit and Loss for the year ended 31st March 2022.	3. Excess of Book Value over Fair Value should be recognised as impairment loss in the statement of Profit and Loss.
(e) and (f) 2022-2023	₹ 75.8 lakhs should be amortised for each year beginning with 2022-2023. carrying amount of the intangible asset as at 31.3.2023 = ₹ 303.2 lakhs	Depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life(not exceeding 10 years from the date when the asset is available for use). Amortization should commence when the asset is available for use.

2023 - June [8] (b) (ii) GARLIC TULSI Ltd. began construction of a new building on 1st April, 2022. It obtained ₹ 2 lakhs special loan to finance the construction of the building on 1st April, 2022 at an interest rate of 10%. The company's other outstanding non-specific loans were as follows:

Date on which Funds borrowed	Funds Borrowed	Rate of Interest
1/4/2022	₹ 12,00,000	13%
1/7/2022	₹ 40,00,000	14 %
1/10/2022	₹ 16,00,000	15.5 %

Date on which it is incurred	Expenditure incurred on Construction of a Building
01/04/2022	₹ 6,00,000
01/05/2022	₹ 1,50,000
01/7/2022	₹ 3,00,000
01/12/2022	₹ 12,00,000

The construction of the building completed on 31.12.2022. However, it was put to use only on 01.04.2023. A sum of ₹ 20 lakhs has been advanced for purchase of Plant & machinery which was installed by 31st March, 2023. ₹ 29 lakhs has been utilized for working capital requirements.

Required: Show the treatment of Interest as per Ind AS 23 and pass the Journal Entries relating to Interest. **(4 marks)**

Answer:

Particulars	Nature	Treatment of Interest
1. Construction of a building	Not a Qualifying Asset since the time taken to construct	Interest to be charged to P&L A/c

	the building is not a substantial period i.e. less than one year	
2. Advance for Purchase of Plant & Machinery	Not a Qualifying Asset since Plant & Machinery is ready or its intended use at the time of its acquisition/purchase.	Interest to be charged to P&L A/c
3. Working Capital	Not a Qualifying asset	Interest to be charged to P&L A/c

Total Interest = ₹ 7,20,000

Journal

Date	Particulars		Dr. (₹)	Cr. (₹)
31.12.22	Building A/c	Dr.	22,50,000	
	To Bank A/c			22,50,000
31.03.23	Interest on Loan A/c	Dr.	7,20,000	
	To Loan A/c			7,20,000
31.03.23	P&L A/c	Dr.	7,20,000	
	To Interest on Loan A/c			7,20,000

2023 - Dec [2] (a) BEAS Ltd. has leased equipment over its useful life that costs ₹ 7,46,55,100 for a three-year lease period starting from 01.04.2022. After the lease term the asset would revert to the Lessor. You are informed that:

(i) The estimated unguaranteed residual value would be ₹ 1 lakh only.
(ii) The annual lease payments have been structured in such a way that the sum of their present values together with that of the residual value of the asset will equal the cost thereof.
(iii) Implicit interest rate is 10%.

Ascertain the annual lease payment and the unearned finance income.
(P.V. factor @10% for years 1 to 3 are 0.909, 0.826 and 0.751 respectively.)
(7 marks)

Answer:

1. Cost of Equipment and Residual Value:
   - Cost of the equipment: ₹ 7,46,55,100
   - Estimated residual value: ₹ 1,00,000
2. Calculation of the Present Value of Residual Value:
   - Use the PV factor for year 3 at a 10% interest rate: 0.751
   - Present value of residual value = ₹ 1,00,000 * 0.751 = ₹ 75,100
3. Determining the Present Value of Lease Payments:
   - The total cost to be recovered through lease payments = Cost of equipment - Present value of residual value
   - This amount is ₹ 7,46,55,100 - ₹ 75,100 = ₹ 7,45,80,000
4. Calculating the Annual Lease Payment:
   - Let the annual lease payment be represented as 'D'
   - The present value of lease payments should equal ₹ 7,45,80,000
   - Use the PV factors for years 1 to 3: 0.909, 0.826, and 0.751
5. Formula for Present Value of Lease Payments:
   - Present value of lease payments = D * (0.909 + 0.826 + 0.751)
   - Present value of lease payments = D * 2.486
6. Solving for 'D':
   - ₹ 7,45,80,000 = D * 2.486
   - Annual lease payment 'D' = ₹ 7,45,80,000 / 2.486
   - Annual lease payment 'D' = ₹ 3,00,00,000
7. Calculation of Unearned Finance Income:
   - Total lease payments over three years = ₹ 3,00,00,000 * 3 = ₹ 9,00,00,000
   - Add the residual value to total lease payments: ₹ 9,00,00,000 + ₹ 1,00,000 = ₹ 9,01,00,000
   - Total amount recoverable by the lessor = ₹ 9,01,00,000
   - Cost of equipment = ₹ 7,46,55,100
   - Unearned finance income = Total amount recoverable - Cost of equipment
   - Unearned finance income = ₹ 9,01,00,000 - ₹ 7,46,55,100
   - Unearned finance income = ₹ 1,54,44,900

2023 - Dec [2] (b) KOEL Ltd. acquired a machine on 1st April, 2017 for ₹ 14 crores that had an estimated useful life of 7 years. The machine is depreciated on straight line basis and does not carry any residual value. On 1st April, 2021, the carrying value of the machine was reassessed at ₹ 10.20 crores and the surplus arising out of the revaluation being credited to revaluation reserve. For the year ended March 2023, conditions indicating an impairment of the machine existed and the amount recoverable ascertained to be only ₹ 1.58 crores. The company had followed the policy of writing down the revaluation surplus by the increased charge of deprecation resulting from the revaluation.

You are required to calculate the loss on impairment of the machine and show how this loss is to be treated in the books of KOEL Ltd. **(7 marks)**

Answer:

1. Initial Details of the Machine:
   - Acquisition date: 1st April 2017
   - Acquisition cost: ₹ 14 crores
   - Estimated useful life: 7 years
   - Depreciation method: Straight Line Basis
   - Residual value: Nil
2. Depreciation Calculation:
   - Annual depreciation = Acquisition cost / Useful life
   - Annual depreciation = ₹ 14 crores / 7 years = ₹ 2 crores per year
3. Carrying Value on 1st April 2021:
   - Depreciation from 1st April 2017 to 31st March 2021 (4 years) = ₹ 2 crores * 4 = ₹ 8 crores
   - Carrying value on 1st April 2021 before revaluation = ₹ 14 crores - ₹ 8 crores = ₹ 6 crores
4. Revaluation on 1st April 2021:
   - Reassessed carrying value = ₹ 10.20 crores
   - Revaluation surplus = Reassessed value - Carrying value before revaluation
   - Revaluation surplus = ₹ 10.20 crores - ₹ 6 crores = ₹ 4.20 crores
   - Revaluation reserve credited = ₹ 4.20 crores
5. Depreciation After Revaluation:
   - New carrying value post-revaluation = ₹ 10.20 crores

- Remaining useful life from 1st April 2021 = 3 years
- Annual depreciation post-revaluation = ₹ 10.20 crores / 3 years = ₹ 3.40 crores per year

6. Carrying Value on 31st March 2023:
   - Depreciation for 2 years (from 1st April 2021 to 31st March 2023) = ₹ 3.40 crores * 2 = ₹ 6.80 crores
   - Carrying value on 31st March 2023 before impairment = ₹ 10.20 crores - ₹ 6.80 crores = ₹ 3.40 crores
7. Impairment on 31st March 2023:
   - Recoverable amount = ₹ 1.58 crores
   - Impairment loss = Carrying value before impairment - Recoverable amount
   - Impairment loss = ₹ 3.40 crores - ₹ 1.58 crores = ₹ 1.82 crores
8. Treatment of Impairment Loss:
   - As per para 60 of Ind AS 36, the impairment loss should first be set off against any revaluation surplus in revaluation reserve.
   - Remaining impairment loss after setting off against revaluation reserve should be charged to the Profit and Loss Account.
9. Calculation of Set Off Against Revaluation Reserve:
   - Revaluation surplus initially credited = ₹ 4.20 crores
   - Depreciation impact due to revaluation surplus for 2 years = ₹ 1.40 crores (₹ 4.20 crores / 3 years * 2 years)
   - Remaining revaluation reserve = ₹ 4.20 crores - ₹ 1.40 crores = ₹ 2.80 crores
   - Impairment loss set off against revaluation reserve = ₹ 1.40 crores
10. Remaining Impairment Loss to be Debited to Profit and Loss Account:
    - Remaining impairment loss = ₹ 1.82 crores - ₹ 1.40 crores = ₹ 0.42 crores

2023 - Dec [3] (a) On 31.03.2022 A Ltd. enter into a contract with a customer for sale of goods of ₹ 6,000 granting 50% discount voucher to be availed in future purchase up to ₹ 4,500 within 30 days. Ordinarily 10% discount is allowed on sales. Ordinary discount will not be available to avail the 50% discount voucher. There is 60% probability that the customer will redeem the discount voucher and the estimated amount of purchase is ₹ 3,000. In April 2022, the discount vouchers are redeemed for purchase of additional goods of ₹ 4,200. Find revenue recognition in 2021-22 and in 2022-23. **(7 marks)**

Answer:

There are two performance obligations-one for sale of goods and other for sale of discount vouchers. Their standalone prices:

Goods	₹ 5,400
Discount Vouchers	₹ 720
Total	₹ 6,120

Transaction price is ₹ 5,400 which is sale price less current discount of 10%. It is to be allocated between performance obligations of goods and discount vouchers proportionately.

Allocation to goods	= ₹ 4,765
Allocation to Discount Voucher	= ₹ 635

Thus in 2021-22, Revenue is recognised for ₹ 4765 only, which is transaction price less future discount.

Discount Voucher is carried as a liability at ₹ 635.

In 2022-23, this liability will be cancelled and revenue will be recognised for ₹ 635, when the discount voucher is redeemed or it expires.

The transaction price for additional sale during 2022-23 being ₹ 4,200 less 50% discount voucher being ₹ 2,100 comes to ₹ 2,100. Total revenue for 2022-23 is, therefore, ₹ 2,100 plus the revenue upon cancellation of liability in the form of advance for goods in the year 2021-22 i.e., ₹ 635.

Thus, the total revenue for 2022-23 is ₹ 2,735.

2024 - June [2] (a) X Ltd. a lessee, entered into a lease agreement with Y Ltd., a lessor, to lease an entire floor of a mall for a period of 9 years. The annual lease rent of ₹ 1,40,000 is payable each year at the end of the year. To carry out its functions smoothly, X Ltd. entered into another agreement (facilities agreement) with Y Ltd. to use the facilities owned by Y Ltd. such as passenger lift, DG sets, power supply infrastructure, parking space etc., which are specifically mentioned in the agreement for annual service charges amounting to ₹ 2,00,000. The ownership of the facilities will remain with Y Ltd. The incremental borrowing rate of X Ltd. is 10%.

The facility agreement shall co- exist with the lease agreement and will terminate along with the termination of the lease agreement.

X Ltd. has assessed that the stand- alone price of the lease agreement is ₹ 2,40,000 p.a. and that of the facilities agreement is ₹ 1,60,000 p.a. X Ltd.

has not elected to apply the practical expedient of not separating the lease components from non-lease components and accordingly separates the non-lease components from lease components.

Discuss how X Ltd. will account for the lease liability as at the commencement date.

[**Note:** The present value factors for ₹ 1@ 10% p.a. for the years 1 to 9 are 0.909, 0.826, 0.751, 0.683, 0.621, 0.564, 0.513, 0.467, 0.424 respectively]

(7 marks)

2024 - June [2] (b) Y Ltd. is developing a new distribution system of its material. Following are the costs incurred at different stages of R&D.

Year	2019-20	2020-21	2021-22	2022-23	2023-24
Phase	Research	Research	Development	Development	Development
Cost(₹ in cr.)	16	20	60	72	80

On 31.03.2024, the company identified the level of cost savings at ₹ 32 crore p.a. expected to be achieved by the new system over a period of five years. In addition, the system developed can be marketed by way of consultancy which will earn additional cash flow of ₹ 20 crore p.a. over the five-year period. The fair value net of cost of disposal is ₹ 190 crore.

Y Ltd. demonstrated that the new system met the criteria for asset recognition on 01.04.2021. The system shall be available for use from 01.04.2024. For testing for impairment, 10% discount factor can be taken.

Determine:

(i) The amount chargeable as expense.

(ii) The amount to be capitalized as intangible asset up to 31.03.2024.

(iii) Impairment loss to be recognized for 2023-24.

(iv) The final carrying amount of the intangible on 31.04.2024 after recognizing the impairment loss.

[Given, PVIFA (10%, 5) = 3.79] **(7 marks)**

2024 - June [3] (a) A machinery is sold in two different active markets at two different prices. Ram Ltd. enters into transactions in both the markets and can access the prices in those markets for the machinery at the measurement date. The details are as under:

Market X: The price that would be received is ₹ 26,000, transaction costs in the market are ₹ 3,000 and the costs to transport the machinery to that market are ₹ 2,000; and

Market Y: The price that would be received is ₹ 25,000, transaction costs in the market are ₹ 1,000 and the costs to transport the machinery to that market are ₹ 2,000. Based on the above details, you are required to calculate:

(i) the fair value of the machinery if market X is the principal market; and

(ii) the fair value of the machinery if neither of the markets is the principal market. **(7 marks)**

Topic Not Yet Asked But Equally Important for The Examination

SHORT NOTES

Q. 1. Write short notes on 'Revenue from contracts with customers as per Ind AS-115.

Answer:

Ind AS-115 sets the principles about how to recognize revenue and to measure the amount at which revenue is recognized from contracts with customers.

Revenue is the consideration for satisfying performance obligation undertaken in the contract. Revenue is recognized as and when performance obligation is satisfied and it is measured at the amount of transaction price attributable to the satisfied performance obligation.

In an ordinary contract for sale of goods the performance obligation is satisfied when goods are transferred to the customer and revenue (Sale) is recognized at the (sale value) transaction price.

But there may be complications at different stages in revenue recognition and measurement. The different stages can be enumerated as below:

I. Identifying the contract.
II. Identifying performance obligation.
III. Satisfaction of performance obligation.

IV. Determination of and allocation of transaction price to performance obligation.

While stages I to III are for recognition of revenue stage IV is for its measurement.

An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customers. An asset is transferred when (or as) the customer obtains control of that asset.

When (or as) a performance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction price that is allocated to that performance obligation.

The nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price.

An entity shall allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis as per the standard, except for allocating discounts and allocating variable consideration.

DESCRIPTIVE QUESTIONS

Q. 1. How the lessor measures the right-of-use assets at the time of commencement date and after the commencement date as per Ind AS-116?

Answer:

(I) At the commencement date, a lessee shall measure the right-of-use asset at cost.

The cost of the right-of-use asset shall comprise:

(i) the amount of the initial measurement of the lease liability

(ii) any lease payments made at or before the commencement date, less any lease incentives received;

(iii) any initial direct costs incurred by the lessee; and

(iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

(i) fixed payments (including in-substance fixed payments as described in paragraph 842), less any lease incentives receivable;

(ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

(iii) amounts expected to be payable by the lessee under residual value guarantees;

(iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

(v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, a lessee shall measure the right-of-use asset applying a cost model unless it applies the revaluation model as applied to the particular class of PPE.

To apply a cost model, a lessee shall measure the right-of-use asset at cost:

(a) less any accumulated depreciation and any accumulated impairment losses; and

(b) adjusted for any remeasurement of the lease liability specified.

(II) After the commencement date, a lessee shall measure the lease liability by:

(a) increasing the carrying amount to reflect interest on the lease liability;

(b) reducing the carrying amount to reflect the lease payments mode; and

(c) remeasuring the carrying amount to reflect any reassessment or lease modifications.

A lessee shall either present in the balance sheet, or disclose in the notes:

(a) right-of-use assets separately from other assets.

(b) lease liabilities separately from other liabilities.

A lessee shall disclose information about its leases for which it is a lessee in a single note or separate section in financial statements.

PRACTICAL QUESTIONS

Q. 1. D Ltd. offers the employees shares at a discount in recognition of their past services. In total 60,000 shares of ₹ 10 each where accepted (and paid) by the employees at weighted average price of ₹ 40 when weighted average market price of the shares on the purchase date was ₹ 60. Pass journal entries.

Answer:

As for past services employees expense will be fully recognized immediately. Market value of shares = 60,000 × ₹ 60 = ₹ 36,00,000. Concession in share price is same as share option = ₹ 20 (i.e., 60 – 40). Hence service received is measured of ₹ 20* 60,000 = ₹ 12,00,000; Amount paid per share = ₹ 40; for 60,000 shares total bank received by the company = ₹ 24,00,000; Premium per share = market price - paid up value = 60 - 10 = 50; Security premium total credited and to be shown under Other Equity = ₹ 50* 60,000 = 30,00,000.

Journal

Bank	24,00,000	
Employee expense	12,00,000	
To Equity Share Capital		6,00,000
To Other Equity (Security Premium)		30,00,000
(Employee expense recognized for share based payment by issue of equity of concession)		

Q. 2. Z Ltd. grants 100 share options to each of its 400 employees conditional on their continuing in service for 3 years. Fair value of share option on the grant date is ₹ 30. Z Ltd. estimates that 20 per cent of employees will leave during the three year period and therefore forfeit their rights to the share options.

During year 1, 18 employees leave. The entity revises its estimate of total employee departures over the three year period from 20 per cent to 16 per cent.

During year 2, a further 20 employees leave. The entity revises its estimate of total employee departures over the three year period from 16 per cent to 13 per cent.

During year 3, a further 14 employees leave.

All the continuing employees exercised the option to subscribe in the equity shares of ₹ 10 each of ₹ 50 only, when market price stands at ₹ 80. The fair value of the option of the grant date is taken of ₹ 30 only.

Pass journal entries with working notes.

Answer:

Calculation of Expenses recognized during the vesting period:

Year	Calculation	Cumulative remuneration expense (₹)	Remuneration expense recognized in each year (₹)
1	400*100*30*84%*1/3 (Note #)	3,36,000	3,36,000[1]
2	400*100*30*87%*2/3 (Note #)	6,96,000	3,60,000[2]
3	348*100*30*3/3 (Note #)	10,44,000[4]	3,48,000[3]
	Total		10,44,000[4]

Note #: At the end of year 1, 16% is revised estimated departure, balance 84% is taken for calculation at the end of year 2, 13% is revised estimated departure, balance 87% is taken for calculation and at the end of year 3. 52 is actual departure, and balance 348 is taken for calculation.

Journal entries (without narration) in the books of Z Ltd.:

During the vesting period:

Year 1: Employee Expenses	Dr.	3,36,000	
To, Share based payment reserve (Other Equity)			3,36,000[1]
Year 2: Employee Expenses	Dr.	3,60,000	
To, Share based payment reserve (Other Equity)			3,60,000[2]
Year 3: Employee Expenses	Dr.	3,48,000	
To, Share based payment reserve (Other Equity)			3,48,000[3]

At the time option is exercised:

Bank [348*100*50*]	Dr.	17,40,000	
Share based payment reserve (Other Equity)	Dr.	10,44,000[4]	
To Equity Share Capital [348*100*10]			3,48,000
To, Other Equity (Security Premium) [348*100*70]			24,36,000

Q. 3. MLL Ltd. grants 80 cash share appreciation rights (SARs) to each of its 400 employees, on condition that the employees remain in its employment for the next three years. During year 1, 30 employees leave. The entity estimates that a further 50 will leave during years 2 and 3. During year 2, 40 employees leave and the entity estimates that a further 30 will leave during year 3. During year 3, 40 employees leave. At the end of year 3, 100 employees exercise their SARs, another 120 employees exercise their SARs at the end of year 4 and the remaining employees exercise their SARs at the end of year 5.

The entity estimates the fair value of the SARs of the end of each year in which a liability exists as shown below. At the end of year 3, all SARs held by the remaining employees vest. The intrinsic values of the SARs at the date of exercise (which equal the cash paid out) at the end of years 3, 4 and 5 are also shown below.

At the end of year	Fair Value (₹)	Intrinsic Value (₹)
1	15	
2	16	
3	18	15
4	21	20
5		24

Answer:

a: Basis of Calculation

At the end of Year	[Actual]+Estimated reduction in no. of employees	Expense and liability recognized for	SAR exercised by	Remaining Employees
1	[30]+50 = 80	320 employees of ₹ 15		
2	[30+40]+30 = 100	300 employees of ₹ 16		
3	[30+40+40] = 110	290 employees of ₹ 18	100 employees of ₹ 15	190
4			120 employees of ₹20	70
5			70 employees of ₹ 24	0

b: Calculation of employee expense and liability

Year	Calculation		Expense	Liability
1	(400 - 80)*80*15*1/3		1,28,000	1,28,000L1
2	(400-100)*80*16*2/3-L1		1,28,000	2,56,000L2
3	(400-110-100)*80*18-L2	17,600		2,73,600L3
	100*80*15*	1,20,000	1,37,600	
4	(190-120)*80*18-L3	-1,56,000		1,17,600L4
	120*80*20	1,92,000	36,000	
5	0-L4	-1,17,600		0
	70*80*24	1,34,400	16,800	
			4,46,400	

c: **Journal:**

Year 1:	Employee Expense Dr.	1,28,000	
	To Share based Payment Liability		1,28,000
	(Fair value of SAR recognized)		
Year 2:	Employee Expense Dr.	1,28,000	
	To Share based Payment Liability		1,28,000
	(Fair Value of SAR recognized and remeasured)		
Year 3:	Employee Expense Dr.	1,37,600	
	To Share based Payment Liability		1,37,600
	(Fair Value of SAR recognized and remeasured)		
	Share based payment Liability Dr.	1,20,000	
	To Cash		1,20,000
	(SAR settled for 100 employees)		
Year 4:	Share based payment Liability Dr.	1,56,000	
	Employee Expense Dr.	36,000	
	To Cash		1,92,000
	(SAR settled for 120 employees)		
Year 5:	Share based payment Liability Dr.	1,17,600	
	Employee Expense Dr.	16,800	
	To Cash		1,34,400
	(SAR settled for 70 employees)		