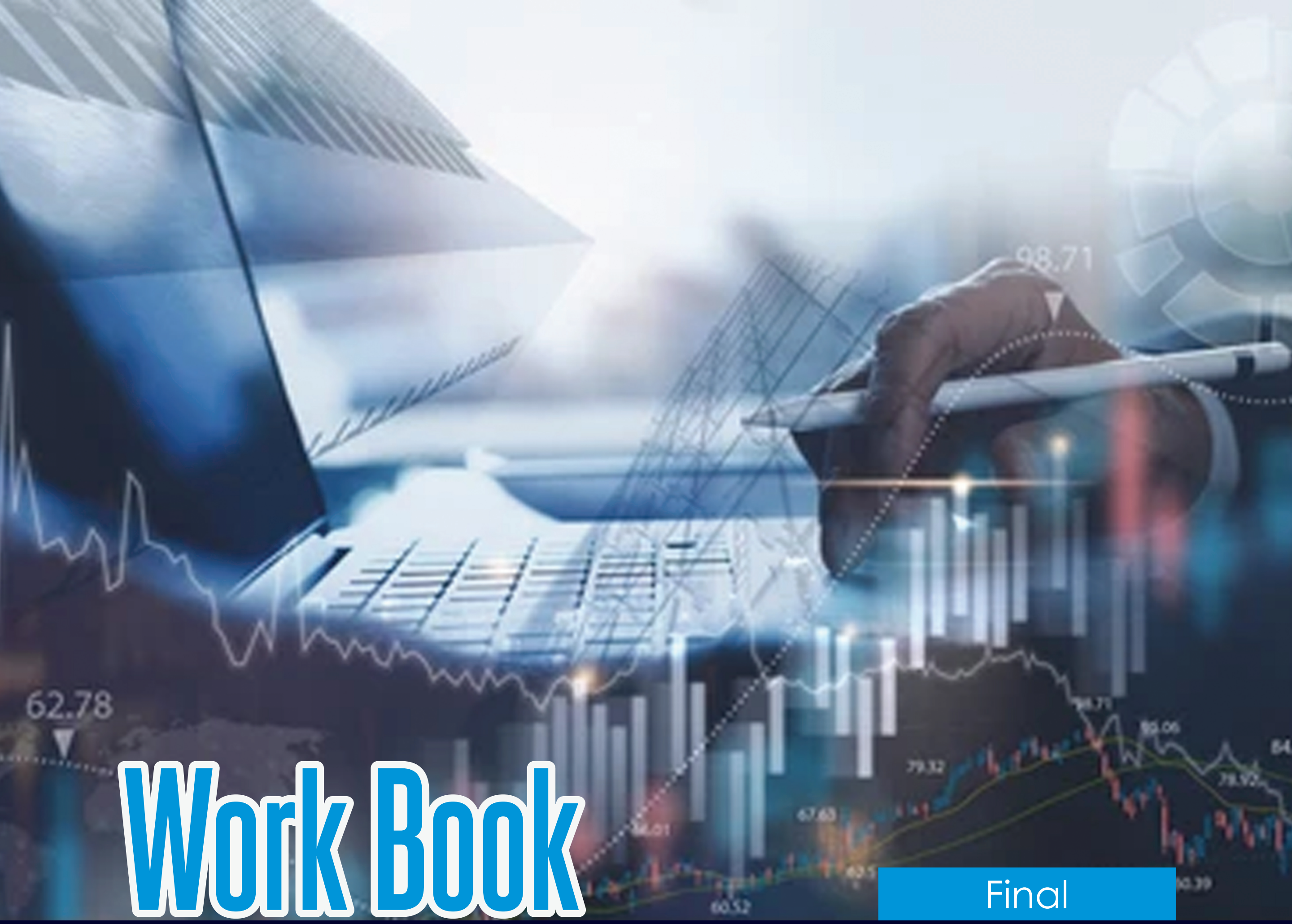

Work Book

Final

Corporate Financial Reporting

Paper 18

The Institute of Cost Accountants of India

Statutory Body under an Act of Parliament

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WORK BOOK
Corporate Financial Reporting

FINAL

Paper 18

SYLLABUS 2022

The Institute of Cost Accountants of India

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Preface

The landscape of professional education is undergoing a profound transformation, driven by the evolving demands of a globally integrated economy. In this dynamic environment, it is imperative to equip students not only with technical knowledge but also with the analytical skills and professional acumen essential for success.

Effective learning extends beyond theoretical understanding—it necessitates the development of strong conceptual foundations, critical thinking abilities, and disciplined study habits. These attributes are cultivated through continuous practice and engagement with thought-provoking academic material. To facilitate this process, the curriculum, instructional methods, and assessments must be designed to provide comprehensive, structured, and intellectually stimulating learning experiences.

Building on the success of the previous editions, we are pleased to present the **new edition of our 'Workbook' in an e-distributed format**. This edition has been meticulously developed to enhance students' comprehension and application of key concepts. Each chapter is structured to offer a seamless learning experience and integrating practical illustrations in a phased manner to align with the evolving regulatory framework.

We are confident that this new edition will continue to serve as a valuable academic resource, empowering students to achieve their professional aspirations with confidence and competence.

The Directorate of Studies

The Institute of Cost Accountants of India

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1 Specific Accounting Standards [Study Material - Module 1]

Illustration 1

A Ltd. prepares financial statements as of 31st March each year. On 1 April 2020, the company acquired a machinery for ₹ 16 Lakhs, which is expected to have a useful life of four years. This asset is eligible for full tax relief (100%) on its cost in the year of purchase.

For the financial year ending 31st March 2021, the draft accounts indicated a profit before tax of ₹20 Lakhs. The directors expect that this level of profit will continue in the foreseeable future.

The Company is subject to a tax rate of 30%. Other than the impact of the machinery, there is no other difference between accounting profit and taxable profit, nor between the tax base and carrying amount of net assets.

Based on the data above calculate the profit after tax for each of the four years ending 31st March, assuming deferred tax is recognized by the Company.

Solution:

(a)

First of all, it is necessary to compute the taxable profits of A Ltd. for each period and the current tax payable:

	Year ended 31 March				
	2021	**2022**	**2023**	**2024**	**Total**
	₹'000	**₹'000**	**₹'000**	**₹'000**	**₹'000**
Accounting profit	2,000	2,000	2,000	2,000	8,000
Add back Depreciation	400	400	400	400	1,600
Deduct Capital allowances	-1,600	-	-	-	-1,600
	800	2,400	2,400	2,400	8,000
Current tax at 30%	240	720	720	720	2,400

The deferred tax figures that are required in the statement of financial position are given below:

	Year ended 31 March			
	2021	**2022**	**2023**	**2024**
	₹000	**₹000**	**₹000**	**₹000**
Carrying amount	1200	800	400	0
Tax base	0	0	0	0
Temporary difference at year end	1200	800	400	0
Closing deferred tax liability (30%)	360	240	120	0
Opening deferred tax liability	0	-360	-240	-120
So charge/(credit) to P/L	360	-120	-120	-120

Calculation of profit after tax for the four year period including deferred tax are shown below:

	Year ended 31 March				
	2021	**2022**	**2023**	**2024**	**Total**
	₹000	**₹000**	**₹000**	**₹000**	
Profit before tax	2,000	2,000	2,000	2,000	8,000
Current tax	-240	-720	-720	-720	-2,400
Deferred tax	-360	120	120	120	-
Profit after tax	1,400	1,400	1,400	1,400	5,600

Illustration 2

An entity, ABC Ltd., provides the following information regarding its assets and liabilities as at 31 March 2024.

a) A machine was purchased for ₹ 2,00,000. To date, depreciation of ₹ 24,000 has been charged, and tax allowances of ₹ 60,000 have been claimed on it.

b) Interest receivable, as shown in the statement of Balance Sheet, amounts to ₹ 12,000. This interest will be taxed when it is received.

c) Trade receivables are recorded at a carrying amount of ₹ 28,000. The revenue related to these receivables has already been included in taxable profit.

d) Inventory has been written down by ₹ 1,200 on account of slow moving/non-moving which has resulted reduction in carrying value from ₹ 9,800 to ₹ 8,600 in the financial statement. For tax purposes, this reduction is not considered until the inventory is sold.

e) The current liabilities section includes accrued expenses of ₹ 21,000, which will be deductible for tax when the cash payment is made.

f) Accrued expenses have a carrying value of ₹ 7,500, and the corresponding expense has already been deducted for tax purposes.

Based on the given data, determine the carrying amount, tax base, and temporary difference for each of the assets and liabilities listed above.

Solution:

			Carrying Amount	Tax Base	Temp Differences
		₹	₹	₹	₹
a)	Non-current asset	1,76,000	1,40,000	36,000	
b)	Interest receivable	12,000	-	12,000	
c)	Receivable	28,000	28,000	-	
d)	Inventory		8,600	9,800	-1,200
e)	Accrual (cash basis for tax)	-21,000	-	-21,000	
f)	Accrual (already had tax relief)	-7,500	-7,500	-	

Illustration 3

During the year ended 31 March 2024, SUN Ltd. incurred ₹2 Crores in research and development costs for a new product. The entire amount has been recognised as an intangible asset. Below is a breakdown of the expenditure:

Description	₹ (Crores)
Raw Material Testing	0.4
Market research	0.3
Feasibility Study	0.2
Training to staff	0.2
Development activities	0.9

The costs related to development activities were incurred evenly throughout the year. However, it was not until 1 August 2023 that market research indicated the product had the potential to be profitable. By the reporting date, the development of the product was still incomplete.

You are required to show the appropriate accounting treatment for the research and development expenditure (along with reason(s)) for the year ended 31 March 2024.

Solution:

Expenditure on Raw material testing, market research, feasibility study and training to staff cannot be capitalised and so must be written off to profit or loss. Hence, the total that should be written off is tabulated below:

Description	₹ (Crores)
Raw Material Testing	0.4
Market research	0.3
Feasibility Study	0.2
Training to staff	0.2
Development activities (Note1)	0.3
Total	**1.4**

Dr Profit or loss	₹1.4 Cr.	
Cr Intangible assets		₹1.4 Cr.

Notes:

In relation to development activities, ₹0.3 Crores (4/12 × ₹0.9 Cr.) was incurred before the product was known to be commercially viable. This amount must also be written off to profit or loss.

Illustration 4

On 31 March 2021, an entity identified that one of its plant and machinery is always idle. At this date, the asset's carrying amount is ₹5,00,000, while its fair value is ₹325,000. Estimated costs of ₹25,000 would be incur to dispose off the asset.

If the asset is retained, the entity anticipates cash inflows of ₹2,00,000 at the end of each of the next two years. The discount rate applicable to this asset, reflecting its specific risks, is 10%.

Based on above details, you are required to:

(a) Calculate the loss on impairment of the plant & machine and show how this loss is to be treated in the books.

(b) Show how the answer to part (a) would be different if there was a balance of ₹1,00,000 in other components of equity relating to the prior revaluation of this specific asset?

Solution:

(a) The value in use is calculated as the present value of the asset's future cash inflows and outflows

	Cash flow	Discount Rate	PV
Year 1	2,00,000	0.91	1,82,000
Year 2	2,00,000	0.83	1,65,000
			3,47,000

The recoverable amount is the higher of the fair value less costs to sell

Fair Value	₹3,25,000
Costs required to dispose of the asset	₹25,000
	₹3,00,000
Value in use	₹3,47,000

The carrying amount of the asset of ₹5,00,000 exceeds the recoverable amount of ₹3,47,000. Therefore, the asset is impaired and must be written down by ₹1,53,000 (₹5,00,000 – ₹347,000).

This impairment loss would be charged to the statement of profit or loss and value of P&M will be reduced.

Dr Profit or loss ₹1,53,000

Cr P&M (PPE) ₹1,53,000

b) The asset must still be written down by ₹1,53,000. However, ₹1,00,000 of this would be recognised in other comprehensive income and the remaining ₹53,000 (₹1,53,000 – ₹1,00,000) would be charged to profit or loss.

Dr Profit or loss ₹53,000

Dr Other comprehensive income ₹1,00,000

Cr P&M (PPE) ₹1,53,000

Illustration 5

Factory is considered a cash-generating unit. On 01.04.2022 an explosion occurred at a factory, and the carrying amounts of its assets are as follows:

Asset	**₹000**
Goodwill	150
Patents & Copy rights	200
Plant & Machineries	450
Computers	350
Buildings	1,600
Total	2,750

An impairment review indicates a net selling price of ₹15 Lakhs for the factory and a value in use of ₹22.5 Lakhs. Half of the machines were destroyed in the explosion, but the remaining half can be sold for at least their carrying amount. The patents and copy rights have been expired and are now deemed to have no value.

Based on the above, calculate the loss on impairment and show how this loss should be recognized in the financial statements.

Solution:

The patents have been superseded and have a recoverable amount of ₹ nil. They therefore should be written down to ₹ nil and an impairment loss of ₹2,00,000 must be charged to profit or loss.

Half of the machines have been blown to pieces. Therefore, half of the carrying amount of the machines should be written off. An impairment loss of ₹2,25,000 will be charged to profit or loss.

The recoverable amount of the other assets cannot be determined so therefore they must be tested for impairment as part of their cash generating unit.

The total carrying amount of the CGU after the impairment of the patents and machines is ₹23,25,000 (see working below), whereas the recoverable amount is ₹22,50,000. A further impairment of ₹75,000 is therefore required.

This is firstly allocated to goodwill and then to other assets on a prorata basis. No further impairment should be allocated to the machines as these have already been written down to their recoverable amount.

Allocation of impairment loss to CGU

	Draft	Impairment	Revised
	₹ 000	₹ 000	₹ 000
Goodwill	150	75	75
Patents & Copy rights	Nil	Nil	Nil
Plant & Machineries	225	Nil	225
Computers	350	Nil	350
Buildings	1,600	Nil	1,600
	2,325	75	2,250

The total impairment charged to profit or loss is ₹5,00,000 (₹2,00,000 +₹2,25,000 + ₹75,000).

Illustration 6

A Ltd. acquired a business consisting of two cash-generating units (CGUs), X and Y, along with goodwill for the entire business. However, it is not feasible to allocate the goodwill to the individual CGUs. After two years, the carrying amounts and recoverable amounts of the net assets within the CGUs and the purchased goodwill are as follows:

Particulars	CGU X	CGU Y	Goodwill	Total
Carrying amount (₹ '000)	540	360	250	1150
Recoverable amount (₹ '000)	700	300		1000

From the data above calculate the impairment loss to be booked against each CGU, Goodwill and total impairment for the business.

Solution:

When corporate assets or goodwill cannot be allocated to individual CGUs, the impairment test must be conducted at the group level, encompassing the CGUs, in a two-step process.

First, the carrying amount of each CGU is compared with its recoverable amount. It is determined that CGU Y is impaired, resulting in a loss of ₹60,000, which reduces its carrying amount to ₹3,00,000.

Next, the carrying amount of the business as a whole, including goodwill, is compared with its recoverable amount. The total carrying amount of the business is now ₹10,90,000 (₹11,50,000 - ₹60,000). Since the recoverable amount of the business is ₹10,00,000, an additional impairment loss of ₹90,000 is recognized against goodwill (₹10,90,000 - ₹10,00,000).

Illustration 7

On 31 March 2023, a cash-generating unit underwent an impairment review with the following data:

Asset	Carrying Amount pre-impairment	Impairment Loss	Carrying Amount post-impairment
Goodwill	₹1,25,000	(₹1,25,000)	Nil
Property, plant, and equipment	₹3,75,000	(₹1,35,000)	₹2,40,000
Total	₹5,00,000	(₹2,60,000)	₹2,40,000

The property, plant, and equipment was initially acquired on 1 April 2021 for ₹500,000 and had an estimated useful life of 8 years. The company follow straight line of depreciation.

By 31 March 2024, the conditions that led to the impairment had reversed, and the recoverable amount of the cash-generating unit was reassessed at ₹4,50,000.

Based on the data above, calculate, the effect of the impairment reversal on the financial statements for the year ended 31 March 2024.

Solution:

The goodwill once impaired cannot be reversed.

The impairment of the PPE can be reversed. However, the reversal is limited to the carrying amount of the asset had no impairment loss been previously recognised.

The carrying amount of the PPE as at 31 March 2024 is ₹2,00,000 (₹2,40,000 × 5/6).

If the PPE had not been impaired, then its carrying value at 31 March 2024 would have been ₹3,12,500 (₹5,00,000 × 5/8).

Hence, the carrying amount of the PPE can be increased from ₹2,00,000 to ₹3,12,500. This will reduce the total impairment as on 31.03.2024 and increase profit by ₹1,12,500.

Illustration 8

PCB Ltd. has identified an impairment loss of ₹48 Lakhs for one of its cash-generating units. The carrying amount of the unit's net assets is ₹160 Lakhs, while the recoverable amount is ₹112 Lakhs. The carrying values of the unit's net assets before impairment loss if any are as follows:

Asset	**₹(Lakh)**
Goodwill	16
Building	22
Plant & Machinery	48
Vehicles	36
Patents	
Net monetary assets	26
Total	160

The net selling prices of the unit's assets are insignificant except for the building, which has a market value of ₹35 Lakhs. The net monetary assets are expected to be fully realized.

Based on the data above, show how the impairment loss should be allocated across the assets within the cash-generating unit.

Solution:

As per the accounting principles, the impairment loss will be firstly allocated to the goodwill, reducing its carrying amount to nil. Further, the impairment loss cannot be set against the Building because its net selling price is greater than its carrying amount. Further also, impairment loss cannot be set against the net monetary assets (receivables, cash, etc.) because they will be realised in full.

The balance of the impairment loss of ₹32 Lakh (₹48 – ₹16) Lakh is apportioned between the remaining assets in proportion to their carrying amounts.

The allocation of the impairment:

	Pre-impairment Value ₹(Lakh)	Impairment Loss ₹(Lakh)	Post impairment Value ₹(Lakh)
Goodwill	16	16	-
Building	22	-	22
Plant & Machinery	48	16*	32
Vehicles	36	12	24
Patents	12	4	8
Net monetary assets	26	-	26
Total	160	48	112

*((48/(48 + 36 + 12)) × 32Lakh

Illustration 9

On 1 April 2021, DEN Ltd. signs a four-year lease agreement for a property with annual lease payments of ₹16 lakhs, payable at the start of each year. The contract stipulates that lease payments will increase annually based on changes in the Consumer Price Index (CPI) over the preceding 12 months. As on 01-04-2021 the CPI is 120 which has not changed for last one year.

The CPI has risen to 150 on 01-04-2022. DEN Ltd. uses its incremental borrowing rate of 8% per year and its corresponding discounting factor is given in the below table:

Date	01-04-2022	01-04-2023	01-04-2024
Discounting factor	0.9259	0.8573	0.7938

DEN Ltd. uses straight line of depreciation on its PPE.

Based on the above details, account for the lease in the books of DEN Ltd:

a) For the financial year 2021-22. Working should be part of your answer.

b) On 01-04-2022 considering the change in the CPI.

Solution:

(a) Financial Year 2021-22

On 01-04-2021:

Dr Right-of-use asset	₹ 57.23 Lakh
Cr Cash/Bank	₹ 16 Lakh
Cr Lease liability	₹ 41.23 Lakh

(Being the first payment made and liability & right-of-use asset created as per lease agreement)

Working for lease liability & right of use asset value:

Date	Cash flow (₹ Lakh)	Discount rate	Present value (₹ Lakh)
01/04/2021	16	1	16.00
01/04/2022	16	0.9259	14.81
01/04/2023	16	0.8573	13.72
01/04/2024	16	0.7938	12.70
	Total		57.23

The asset is depreciated over the lease term of four years, giving a charge of ₹ 14.31 Lakh (₹57.23L/4).

Dr Depreciation (P/L)	₹ 14.31 Lakh
Cr Right-of-use asset	₹ 14.31 Lakh

The asset has a carrying amount at the reporting date of ₹ 42.92 Lakh ₹(57.23 –14.31) Lakh.

The interest charge on the liability is ₹ 3.30 Lakhs (W1).

Dr Finance costs (P/L)	₹ 3.30 Lakh
Cr Lease liability	₹ 3.30 Lakh

The liability has a carrying amount at the reporting date of ₹ 44.53L (W1).

(W1) Lease liability table

Year-ended	Opening ₹ (Lakh)	Interest (8%) ₹ (Lakh)	Closing ₹ (Lakh)
31/03/22	41.23*	3.30	44.53

*57.23L minus 16L

(b) on 01/04/2022

As per the terms of the contract (which is linked to CPI) the payment amount will be revised to ₹20 Lakhs (₹16L × 150/120). Accordingly, the lease liability is remeasured to reflect the revised lease payments (three payments of ₹ 20 Lakhs).

Date	Cash flow (₹/m)	Discount rate	Present value (₹/m)
01/04/22	20	1	20.00
01/04/22	20	0.9259	18.52
01/04/22	20	0.8573	17.15
			55.67

The lease liability must be increased by ₹ 11.14 Lakh ₹(55.67 L – 44.53) Lakh.

This increase in lease liability will require a corresponding increase in the Right to use asset carrying value so the entry will be:

Dr Right-of-use asset	₹ 11.14 Lakh
Cr Lease liability	₹ 11.14 Lakh

The payment of ₹20 L will then reduce the lease liability:

Dr Lease liability	₹ 20 Lakh
Cr Cash/ Bank	₹ 20 Lakh

The right-of-use asset's carrying amount of ₹ 54.06 Lakhs ₹(42.92L + 11.14) Lakh will be depreciated over the remaining lease term of three years.

Illustration 10

On 1April 2021, JET Ltd. entered into a three-year lease agreement for a machinery. The lessor is responsible for maintaining the machinery during the lease term. The total cost of the contract is ₹2,40,000, with JET Ltd. required to pay ₹80,000 annually, starting on 31 March 2022.

JET Ltd. separates non-lease components from lease components in its accounting. If negotiated separately, the standalone price of the machinery lease is ₹2,00,000, and the standalone price of the maintenance services is ₹50,000. JET Ltd.'s incremental borrowing rate is 6% per year and the discounting factor for this is:

Date	31-03-2022	31-03-2023	31-03-2024
Discounting factor	0.9434	0.8900	0.8396

The company follow straight line method of depreciation.

Based on the above detail, pass the journal entries in the books of JET Ltd. for the year ended 31 March 2022.

Solution

The annual payments of ₹80,000 should be allocated betweenthe lease and non-lease components of the contract based on their standalone selling prices:

Lease of machine: (₹200/(₹200 + ₹50)) × ₹80,000 = ₹ 64,000

Maintenance (₹50/(₹200 + ₹50)) × ₹80,000 = ₹ 16,000

The lease liability is calculated as the present value of the lease payments, as follows:

Year ended	Cash flow (₹)	Discounting factor	Present value (₹)
31/03/22	64,000	0.9434	60,378
31/03/23	64,000	0.8900	56,960
31/03/24	64,000	0.8396	53,734
			1,71,072

There are no direct costs so the right-of-use asset is recognised at the same amount:

Dr Right-of-use asset	₹1,71,072	
Cr Lease liability		₹1,71,072

Interest of ₹10,264 (W1) is charged on the lease liability.

Dr Finance costs (P/L)	₹ 10,264	
Cr Lease liability		₹ 10,264

The cash/bank payment reduces the liability.

Dr Lease liability ₹ 64,000

Cr Cash/ bank ₹ 64,000

The liability has a carrying amount of ₹ 1,17,336 at the reporting date.

The right-of-use asset is depreciated over the three years lease term. Which will be ₹57,024 (₹1,71,072/3 years).

Dr Depreciation (P/L) ₹ 57,024

Cr Right-of-use asset ₹ 57,024

The carrying amount of the right-of-use asset will be reduced to ₹ 1,14,048 (₹1,71,072 – ₹ 57,024).

(W1) Lease liability table

Year-ended	Opening (₹)	Interest @ 6% (₹)	Payments (₹)	Closing (₹)
31/03/2022	1,71,072	10,264	(64,000)	1,17,336

The cost of one year's maintenance will be expensed to profit or loss:

Dr Maintenance expense (P/L) ₹16,000

Cr Cash/ Bank ₹16,000

Illustration 11

On 1 April 2021, P Ltd. sells a machinery to Q Ltd. for ₹30 Lakh. The machinery has a fair value of ₹28 Lakh and a carrying amount of ₹12 Lakh before the sale. This sale satisfies the performance obligation under Ind AS 115, Revenue from Contracts with Customers.

Simultaneously, P Ltd. and Q Ltd. enter into a lease agreement where P Ltd. retains the right to use the machinery for five years. P Ltd. agrees to pay ₹5 Lakh annually at the end of each year. The lease has an implicit interest rate of 10%, and the present value of the lease payments is ₹19 Lakh.

Based on the given details, pass the necessary journal entries in the books of P Ltd. and Q Ltd. on 1 April 2021.

Solution:

In the Books of P Ltd.:

P ltd has received excess sales proceeds as compared to its fair value hence this amount i.e. ₹2 Lakh ₹(30 – 28) Lakh is treated as additional financing to the company. Hence the present value of lease liability will be bifurcated into liability for additional financing i.e. ₹ 2 Lakh and ₹ 17 Lakh as lease liability.

The entry required is as follows: ₹ in Lakh

Dr Cash/Bank	30.00
Dr Right-of-use asset (W1)	7.30
Cr Machine	12.00
Cr Lease liability	17.00
Cr Financial liability (Loan)	2.00
Cr Profit or loss (bal. fig.) (W2)	6.30

(Being sale of machinery and lease back is booked as per the agreement.)

W1:
This right-of-use asset in the books of P ltd will be measured as the rights retained in proportion of the previous carrying amount in that machinery i.e. ₹(17/28) Lakh × ₹12 Lakh = ₹ 7.3 Lakh

W2:
The gain in profit or loss is the proportion of the overall ₹16 Lakh gain on disposal ₹(28–12) Lakh that relates to the rights transferred to Q Ltd. i.e. ((28 – 17)/28) Lakh × ₹16 Lakh = ₹6.3 Lakh

In the Books of Q Ltd. Following journal will be passed:

Dr Machine	₹28 Lakh
Dr Financial asset (Loan given)	₹2 Lakh
Cr Cash/ Bank	₹30 Lakh

It will then account for the lease using normal lessor accounting rules.

Note

The amount received i.e. ₹ 5 Lakh will be allocated between the lease and the additional finance in proportion of the total present value of the payments that they represent. Hence be ₹4,47,368 ((17/19) Lakh × ₹5 Lakh) will be against lease and ₹52,632 ((2/19) Lakh × ₹5 Lakh) will be against additional finance (loan).

Illustration 12

On 17 January 2022, an entity, A Ltd. with a functional currency of dollars ($) sold goods to a German entity (B Ltd.) for €50,050. On 20 April 2022, the customer settled the outstanding balance. The company prepares financial statements as on 31st March each year.

Date	Exchange rate
17 January 2022	$1 = €3.25
31 March 2022	$1 = €3.48
20 April 2022	$1 = €3.03

Based on the data above -

(a) Pass the necessary journal entries in the books of A Ltd. to account for the above transactions during the FY 2021-22 & 2022-23, and

(b) Determine the exchange gain or loss arising from the settlement and explain its impact on the profit for the year(s)

Solution:

a) Journal Entries:

During the FY 2021-22

i. Journal Entries Initial recognition of Transaction on 17 Jan. 2022:

Dr Receivables (€50,050 ÷ 3.25)	$15,400	
Cr Sale		$15,400

ii. Journal Entry for Retranslation of Receivables (31 March 2022):

Dr Profit or loss (exchange loss)	$1,018	
Cr Receivables		$1,018

Working note: Calculation of exchange loss

Initial recognition = $15,400

Less: Receivable is retranslated using the closing exchange rate being monetary item $14,382 (€50,050 ÷ 3.48)

So Exchange loss = $ 1,018 ($15,400 - $14,382)

During the FY 2022-23

i. Settlement on 20 April 2022:

Dr Bank (€50,050 ÷ 3.03)	$16,518	
Cr Receivables		$14,382
Cr Profit or loss (exchange gain)		$2,136

b) Exchange Gain or Loss:

(i) The exchange loss of $1,018 is recognized in the profit or loss statement for the year ended 31.03.2022.

(ii) The exchange gain of $2,136 is recognized in the profit or loss statement for the year ended 31.03.2023.

Illustration 13

A Ltd., an entity has a functional and presentation currency of the Rupees (₹). On 1 April 2022, A Ltd. purchased a plot of land in another country for $1 Lakh. The land is purchased for capital appreciation only. The exchange rates on relevant dates are as follows:

Date	Exchange rate
1 April 2022	1$= ₹ 90
31 March 2023	1$= ₹ 92

Based on the above data:

i. Determine the initial recognition of the land in the functional currency of A Ltd.

ii. Explain with reason whether the land should be retranslated at the reporting date (31 March 2023).

iii. Clarify how the land is accounted for and its impact on the financial statements.

Solution:

1. **Initial Recognition:** The land is initially recognized at cost, translated into the functional currency using the exchange rate on the purchase date (1 April 2022). The land is recorded at ₹ 90,00,000 ($1 Lakh * 90 ₹/$).
2. **Retranslation at Reporting Date:** Land is classified as a non-monetary item under IND AS 16. Non-monetary items are not retranslated at the reporting date. Therefore, the value of the land remains at ₹ 90,00,000, irrespective of the change in exchange rates.
3. **Accounting Treatment Under IND AS:** As per Ind AS 40, Investment property only cost model is applicable for land being an investment property hence, as per Ind AS 16, no depreciation is charged. The land remains recorded at its initial cost of ₹ 90,00,000 in the financial statements. The change in exchange rates does not affect the value of the land in the financial statements, ensuring consistency in its measurement.

Illustration 14

An entity, S Ltd., has a reporting date of 31 March and uses the Rupee '₹' as its functional currency. S Ltd. obtained a loan in the foreign currency of dollar ($). The loan amount was $ 120,000, which was taken on 1 April 2022. A repayment of $ 40,000 was made on 1 June 2020.

The exchange rates during the year were as follows:

- 1 April 2022: $1 = ₹ 80
- 1 June 2022: $1 = ₹ 82
- 31 March 2023: $1 = ₹ 84

You are required to explain how the above transactions should be accounted for in the books of S Ltd. for the year ending 31 March 2023.

Solution:

On 1 April 2022, money was borrowed in dollar. This must be translated into the functional currency using the exchange rate on the transaction date. The transaction is recorded at ₹ 96,00,000 ($120,000 × 80).

Dr Bank	₹ 96,00,000	
Cr Loans		₹ 96,00,000

The repayment on 1 June 2022 must be translated into the functional currency using the exchange rate on the settlement date. The cash settlement is recorded at ₹32,80,000 ($40,000 × 82).

Dr Loans	₹32,80,000	
Cr Bank		₹32,80,000

Loans are a monetary liability. At the reporting date, the remaining loan of $80,000 ($120,000 – $40,000) must be translated at the year-end exchange rate. This gives a closing liability of ₹67,20,000 ($80,000 × 84).

	$	Rate	₹
1 April 2022	120,000	80	96,00,000
1 June 2022	(40,000)	82	(32,80,000)
Exchange loss (bal. fig)			4,00,000
	-------		-------
31 March 2023	80,000	84	67,20,000
	-------		-------

The double entry to record this loss:

Dr Profit or loss	₹ 4,00,000	
Cr Loans		₹ 4,00,000

Illustration 15

On 1 April 2021, Z Ltd. granted share options to each of its 200 employees, subject to a three-year vesting period. The options will vest only if the volume of sales increases by at least 5% annually during the vesting period. The number of options that vest depends on the average annual sales increase over the period:

- **5% to 10%** average annual increase: 100 share options per employee
- **10% to 15%** average annual increase: 200 share options per employee
- **Over 15%** average annual increase: 300 share options per employee

At the grant date, Z Ltd. estimated the fair value of each option at ₹10 and projected that the average annual sales increase would be between 10% and 15%. It also estimated that 22% of employees would leave before the end of the vesting period.

At each reporting date, the following information was available:

Reporting date	Employees leaving in Year	Further leaves expected prior to vesting date	Annual increase in sales volume	Expected sales volume increase over remaining vesting period	Average annual increase in sales volume to date
31-Mar-22	8	18	14%	14%	14%
31-Mar-23	6	4	18%	16%	16%
31-Mar-24	2		16%		16%

You are required to determine the remuneration expenses to be recognised in each year.

Solution:

Rep. date	**Calculation of equity**	**Equity** ₹000	**Expense** ₹000	**Note**
31-Mar-22	(174 × 200 × ₹10) × 1/3	116	116	1
31-Mar-23	(182 × 300 × ₹10) × 2/3	364	248	2
31-Mar-24	(184 × 300 × ₹10) × 3/3	552	188	3

Notes:

1. At 31-Mar-22, a total of 26 employees (8 + 18) are expected to leave by the vesting date meaning that 174 are expected to remain. The Company estimates that average annual growth in sales volume will be 14%. Consequently, it is estimated that eligible employees would each receive 200 share options at the vesting date.
2. At 31-Mar-23, a total of 18 employees (8 + 6 + 4) are expected to leave by the vesting date meaning that 182 are expected to remain. The Company estimates that the average growth in sales volume will be 16%. Consequently, it is estimated that eligible employees will each receive 300 share options at the vesting date.
3. At 31-Mar-24, it is known that total of 16 employees (8 + 6 + 2) have left at some point during the vesting period, leaving 184 eligible employees. As average annual growth in sales volume over the vesting period was 16%, eligible employees are entitled to 300 share options each.

Illustration 16

An entity has a reporting date of 31 March.

On 1 April 2021, the entity grants 200 Share Appreciation Rights (SARs) to each of its 300 employees, subject to the condition that they remain employed with the entity until 31 March 2024.

- **FY 2021-22:** During the year, 15 employees leave the entity. The entity estimates that an additional 45 employees will leave over the next two financial years (FY 2022-23 and FY 2023-24).

- **FY 2022-23:** During the year, 10 employees leave the entity. The entity revises its estimate, predicting that a further 25 employees will leave in FY 2023-24.
- **FY 2023-24:** During the year, 15 more employees leave the entity.

The fair value of a SAR at each reporting date is as follows:

	₹
31.03.2022	10
31.03.2023	12
31.03.2024	15

You are required to determine the expense for each of the three years of the scheme, and the liability to be recognised in the balance sheet as at 31 March for each of the three years.

Solution:

FY	Particulars	Liability at year end (₹ '000)	Expense for the year (₹ '000)
2021-22	((300 – 15 – 45) × 200 × ₹10 × 1/3)	160	160
2022-23	((300 – 15 – 10 – 25) × 200 × ₹12 × 2/3)	400	240
2023-24	((300 – 15 – 10 – 15) × 200 × ₹15)	780	380

Illustration 17

The management of a company has identified its operating segments based on geographical location. The following information is provided for these segments:

Segment	**Total Revenue (₹ 000)**	**External Revenue (₹ 000)**	**Internal Revenue (₹ 000)**	**Profit/Loss (₹ 000)**	**Assets (₹ 000)**
India	274	150	124	103	3,350
UAE	88	43	45	(25)	395
Japan	170	170	–	48	985
North America	380	225	155	122	3,810
UK	90	45	45	(16)	595
Canada	98	54	44	13	865
Total	1,100	687	413	245	10,000

In accordance with Ind AS 108, which operating segments must be reported in the financial statements?

Solution:

The 10% tests

Segment	10% total revenue (W1)	10% results test (W2)	10% assets (W3)	Report Requirement
India	Y	Y	Y	Y
UAE	N	N	N	N
Japan	Y	Y	N	Y
North America	Y	Y	Y	Y
UK	N	N	N	N
Canada	N	N	N	N

India, Japan and North America are reportable. However, it should be checked whether they comprise at least 75% of the company's external revenue.

The 75% test

	External revenue (₹000)
India	150
Japan	170
North America	225
Total	545

The external revenue generated by reportable segments is 79% (₹5,45,000/ ₹6,87,000) of total external revenue. The 75% test is met and no other segments need to be reported.

Conclusion

The reportable segments are India, Japan and North America.

(W1) 10% of total sales: 10% × ₹11 lakh = ₹1,10,000.

All segments whose total sales exceed ₹1,00,000 are reportable.

(W2) 10% of results in absolute figure

10% of profit making segments: 10% × (₹1,03,000 + ₹48,000 + ₹1,22,000 + ₹13,000) = ₹28,600

10% of loss making segments: 10% × (₹25,000 + ₹16,000) = ₹4,100

Therefore, all segments which make a profit or a loss of greater than ₹28,600 are reportable.

(W3) 10% of total assets: 10% × ₹100 Lakh = ₹10 Lac.

All segments whose assets exceed ₹10 Lakh are reportable

Illustration 18

X Ltd sells 1,100 units of a product to customers at a price of ₹150 per unit. Payment is received at the time the control of the product is transferred to the customers. X Ltd. has a return policy that allows customers to return any unused units within 60 days for a full refund. The cost incurred by X Ltd. for each unit is ₹120. Based on the experience in selling similar products, X Ltd. estimates that 950 units will not be returned.

How this transaction will be accounted for in the books of accounts of X Ltd. as per Ind AS 115.

Solutions:

In the Books of X Ltd.

1) Record Cash Receipt for All 1,100 Products:

Dr. Cash/Bank	₹1,65,000
Cr. Refund Liability	₹22,500
Cr. Revenue	₹1,42,500

2) Remove Inventory for All 1,100 Units Sold:

Dr. Cost of Sales	₹1,32,000
Cr. Inventory	₹1,32,000

Inventory is derecognized for all 1,100 units (1,100 units × ₹120=₹1,32,000).

3) Recognize Right to Recover Returned Goods for 150 Units:

Dr. Right to Recover Returned Goods	₹18,000
Cr. Cost of Sales	₹18,000

An asset is recognized for the right to recover inventory from the expected returns (150 units × ₹120 = ₹18,000).

Illustration 19

A Ltd. sells three products at the following stand-alone selling prices:

Product	Stand-alone selling price (₹)
Product A	200
Product B	140
Product C	110

A Ltd. sells one unit of each product to ASN for a total of ₹405.

How should A Ltd. allocate the discount in the transaction when

(a) The products are to be delivered at three separate points in time, and each delivery represents a separate performance obligation. A Ltd. regularly sells Products B and C together for ₹205 and Product A for ₹200.

(b) When the contract required the delivery of Products B and C at the same time and A Ltd. treat the delivery as a single performance obligation. A Ltd. regularly sells Products B and C together for ₹205 and Product A for ₹200.

(c) A Ltd. agrees to sell one unit of each product to ASN for a total of ₹405, although products are not usually sold at a discount. The products are to be delivered at three separate points in time, and the delivery of each product represents a separate performance obligation.

Solution:

(a)

Product	Stand-alone selling price (₹)	Allocated discount (₹)	Transaction price (₹)
Product A	200	0	200.00
Product B	140	(140 x 45/250) = 25.20	114.80
Product C	110	(110 x 45/250) = 19.80	90.20
Total	450	45	405.00

(b)

Product	Stand-alone selling price (₹)	Allocated discount (₹)	Transaction price (₹)
Product A	200	0	200
Products B and C	250	45	205
Total	450	45	405

(c)

Product	Stand-alone selling price (₹)	Allocated discount (₹)	Transaction price (₹)
Product A	200	(200 x 45/450) = 20	180
Product B	140	(140 x 45/450) = 14	126
Product C	110	(110 x 45/450) = 11	99
Total	450	45	405

Illustration 20

A Ltd. sells a machine on 1 April 2021. The terms of sale are that the enterprise will receive ₹50 Lakh on 31st March 2023 (2 years later).

An appropriate discount rate is 10% and discounting factors are as below:

Discounting Factor	Start of the Year	End of Year 1	End of Year 2
10%	1.0000000	0.9090909	0.8264462

Pass the necessary Journal entries in the books of A Ltd.

Solution:

Calculation of Interest income and amount for initial booking of debtor.

FY (i)	Opening 1st April (ii)	Interest for the Year @ 10% (iii = 10%*(ii))	Closing 31st March (iv = ii + iii)
2021-22	41,32,231*	4,13,223	45,45,454
2022-23	45,45,454	4,54,545	50,00,000

*(50 lakh × 0.8264462)

In the Books of A Ltd.
Journal Entries

Date	Particulars	Debit (₹)	Credit (₹)
01-04-2021	Sundry Debtors	41,32,231	
	Sales		41,32,231
	(initial recognition of sales)		
31-03-2022	Sundry Debtors	4,13,223	
	Interest Income		4,13,223
	(Recognition of interest income)		
31-03-2023	Sundry Debtors	4,54,545	
	Interest Income		4,54,545
	(Recognition of interest income)		
31-03-2023	Bank Account	50,00,000	
	Sundry Debtors		50,00,000
	(Realisation of Debtor)		

Illustration 21

On 1st April 2021, A Ltd. entered into a contract with ASN Ltd. to construct a building for a contract price of ₹ 10 lakhs. A Ltd. identifies a single performance obligation in the contract, which is fulfilled over time. A Ltd. uses costs incurred as a percentage of total expected costs as a measure of progress towards complete satisfaction of the performance obligation. At the start of the contract, the total expected cost is estimated to be ₹ 7 lakh. The Cost incurred till 31.03.2022 is ₹ 4.2 lakh.

On 15th May 2022, the contract is modified to change the kitchen cupboard specifications. ASN Ltd. agreed to an additional payment of ₹ 2.5 lakh for the modification, bringing the total contract price to ₹ 12.5 lakh. The estimated additional cost for the modification is ₹ 1 lakh, increasing the total expected costs to ₹ 8 lakh.

A Ltd. evaluates the modification and concludes that the remaining goods and services to be provided using the modified contract are not distinct from the goods and services transferred on or before the date of contract modification.

Provide the revenue to be booked till 15th May 2022 in the books of A Ltd.

Solution:

At the Year end 31.03.2022

A Ltd. has incurred costs to date of ₹420,000 which is 60% of the total expected costs (₹700,000).

The cumulative revenue and costs recognised for the first year are as follows:

	₹
Revenue (60% of 10,00,000)	6,00,000
Cost of sales (60% of 7,00,000)	(4,20,000)
Gross profit	1,80,000

On 15th May 2022 the contract is modified, and the company concludes that the remaining goods and services to be provided using the modified contract are not distinct from the goods and services transferred on or before the date of contract modification. Hence, the Company accounts for the contract modification as if it were part of the original contract.

On 15th May 2022 the progress of the work is 52.5% (₹420,000/₹800,000).

A catch-up adjustment on 15th May 2022 has to be made in the accounts as follows.

	₹
Revenue (52.5% of 12,50,000)	6,56,250
Revenue recognised to date	(6,00,000)
Catch-up adjustment	56,250

2 Valuation of Shares (Including Determination of Goodwill, Post-Valuation of Tangible and Intangible Assets) [Study Material - Module 2]

Illustration 1

The following is the Balance Sheet of Apex Ltd, as at 31st March, 2024

Assets		Amount (₹)
Goodwill		75,000
Property, Plant and Equipment (Note: 1)		3,65,500
Other Investments		85,000
Inventories		1,50,000
Trade Receivables (Note: 2)		2,80,000
Cash and cash equivalents		83,500
Preliminary Expenses		24,500
		10,63,500
Equity & Liabilities		Amount (₹)
Equity		
Equity Share capital		5,00,000
Other Equity		
General Reserve	1,50,000	
Profit & Loss Account	1,50,000	
Workmen's Profit-Sharing Reserve	50,000	
Workmen's Compensation Reserve	30,500	3,80,500
14% Debentures		1,25,000
Trade payables		58,000
		10,63,500

Note 1: Property, Plant and Equipment

Asset Name	Gross	Accumulated Depreciation	Net
Buildings	90,000	4,500	85,500
Plant & Machinery	2,50,000	37,500	2,12,500
Furniture	75,000	7,500	67,500
			3,65,500

Note 2: Trade Receivables

Trade Receivable	3,00,000
Less: Impairment allowance	20,000
Secured, considered good	2,80,000

Note 3: Equity Share capital consists 50,000 Equity Shares of ₹ 10 each.

It is given that Buildings are now worth Rs 1,75,000 and Plant and Machinery is worth ₹ 1,85,000. Future maintainable profit for the company after all the adjustment including tax is ₹ 1,25,600 Further, during the current year, the company has earned profit before tax ₹ 86,000. Tax to be considered is 30% & depreciation to be considered as below:

Particulars	**Rate of Depreciation**
Building	5%
Furniture	10%
Plant & Machinery	15%

You are required to calculate the Value of Goodwill which is 3 years' purchase of super profit. The company expects a normal return of 12% on average capital employed.

Solution:

1. Calculation of Capital Employed:

		Amount (₹)	Amount (₹)
Assets	Buildings	1,75,000	
	Plant and Machinery	1,85,000	
	Furniture	67,500	
	Investments	85,000	
	Inventories	1,50,000	
	Trade Receivables	2,80,000	
	Cash in Hand	83,500	
	Total Assets		10,26,000
Less: Liabilities			
	14% Debentures	1,25,000	
	Trade payables	58,000	
	Workmen's Profit-Sharing Reserve	50,000	
	Total Liabilities		2,33,000
	Capital Employed		**7,93,000**
	Less: ½ of the profit for the year [1/2 x 59,955]		**29,978**
	Average Capital Employed		**7,63,022**

2. Profit during the year:

Particulars	₹
Profit before tax	86,000.00
Less: Depreciation on increase/(decrease) in fair value of:	
Building (89,500 x 5/100)	4,475.00
Plant and Machinery (-27,500 x 15/100)	(4,125.00)
	85,650.00
Less: Tax @ 30%	25,695.00
Profit after tax	59,955.00

3. Calculation of Super Profit:

	₹
Future Maintainable Profit	1,25,600
Normal Profit (7,63,022 x 12%)	91,563.00
Super Profit	**34,037.00**

4. Calculation of Value of Goodwill:

Value of Goodwill = ₹ 34,037 x 3

= ₹ 1,02,111

Illustration 2

On March 31, 2023, the balance sheet of AK ltd disclosed the following position.

Assets	₹
Goodwill	70,000
Other Property, Plant and Equipment	6,00,000
Current Assets	4,40,000
	11,10,000

Equity & Liabilities	₹	₹
Equity:		
Share Capital		5,00,000
Other Equity:		
General Reserve	2,00,000	
Profit and Loss Account:	1,20,000	3,20,000
14% Debenture		1,40,000
Current Liabilities		1,50,000
		11,10,000

On the specified date, tangible Property, plant and equipment were independently assessed at ₹4,50,000, and goodwill was valued at ₹ 80,000. The net profits for the three years were as follows: 2020-21, ₹1,04,500; 2021-22, ₹1,05,000; and 2022-23, ₹1,04,600. Of these profits, 20% was allocated to the General Reserve, a proportion deemed reasonable for the industry in which the company operates. The fair return on investment for this industry is estimated at 18%.

Calculate the value of the company's share using

(a) the net assets method and

(b) the yield method. Ignore the impact of taxation.

Solution:

(a) Net Asset Value Method

	₹	₹
Goodwill as revalued		80,000
Tangible Fixed asset as revalued		4,50,000
Current Assets as per Balance Sheet		4,40,000
		9,70,000
Less: 14% Debentures	1,40,000	
Current Liabilities	1,50,000	2,90,000
Net Asset		6,80,000
No of Shares		50,000
Value Per Share = (Net Asset/No. of Shares)		13.60

(b) Yield Method:

Total Profit for the last Three year		
2020-21	1,04,500	
2021-22	1,05,000	
2022-23	1,04,600	3,14,100
Average Profit for the last three Years		1,04,700
Less: Transfer to General Reserve @20%		20,940
Average Profit after transfer to General Reserve		83,760
Expected return on equity share capital = (Expected Profit/Paid up share capital) x 100		16.75 (83,760/5,00,000) x 100
Value Per Share = (Expected Rate/Normal Rate x Paid up value of share)		9.31 (16.75/18 x10)

Illustration 3

The following is the balance sheet of SMC Ltd. as on March 31, 2023.

Assets		₹
Goodwill		43,000
Property, Plant and Equipment (Note 1)		5,10,000
Investment		1,10,000
Inventory		1,00,000
Trade Receivable		**1,20,000**
Cash and cash equivalents		40,000
		9,23,000
Equity & Liabilities		₹
Equity		
Equity Shares (Note 2)		4,30,000
Other Equity		
Profit & Loss Opening Balance	43,000	
Add: Profit for the year before providing for taxes	1,80,000	2,23,000
10% Debenture		1,30,000
Trade Payable		90,000
Provision for Taxation		50,000
		9,23,000

Note 1: Property, Plant and Equipment

Building	2,10,000
Plant and Machinery	3,00,000
	5,10,000

Note 2: There are 43,000 Equity Shares of ₹ 10 each

The profit figure includes ₹ 20,000 derived from investment income. The current market value of the assets is as follows:

Particulars	₹
Building	2,60,000
Plant and Machinery	3,60,000
Investment	1,60,000

The tax rate applicable to the company is 30%. The normal return on capital employed in this type of business is 11%. No adjustment for depreciation is necessary for the valuation of goodwill. Calculate the value of goodwill based on three years' purchase of the company's super profit.

Solution:

Average Trading Capital Employed

Particulars	₹	₹
Assets:		
Building		2,60,000
Plant and Machinery		3,60,000
Inventory		1,00,000
Trade Receivable		1,20,000
Cash and cash equivalents		40,000
Less: **Liabilities**		
10% Debenture	1,30,000	
Trade Payable	90,000	
Provision for Taxation	50,000	(2,70,000)
Capital Employed		6,10,000
Less: Half of current year's profit		(56,000)
		5,54,000

Working Notes:

The half of current year's profit is calculated as below:

Particulars	₹
Profit for the year	1,80,000
Less: Non-trading income	20,000
	1,60,000
Less: Income tax (assume 30%)	48,000
Current year's profit	1,12,000
Half of Current Year's Profit	**56,000**

Normal Profit = Average Capital Employed ×NRR $= \frac{\text{Average Capital Employed} \times \text{NRR}}{100}$ ₹ 60,940

$= \frac{5,54,000 \times 11}{100}$

= ₹ 60,940

Super Profit = Average Profit – Normal Profit = ₹ 1,12,000 – ₹ 60,940 =₹ 51,060

Therefore, Goodwill = Super Profit × No. of years' purchase

= ₹ 51,060 x 3 = ₹ 1,53,180

Illustration 4

Following is the Balance sheet of AK Limited as on 31st March, 2024:

Assets		₹
Goodwill		1,35,000
Property, Plant and Equipment (Note -1)		5,13,000
Investment (Note -2)		1,20,000
Trade Receivables (Note -3)		3,50,000
Inventories		2,10,000
Cash and Cash Equivalents		85,000
Preliminary expense		33,000
		14,46,000
Equity & Liabilities		₹
Equity		
Equity Shares (Note -4)		5,50,000
Other Equity:		
Reserve Fund	1,56,000	
Profit and Loss Account	1,70,000	
Workmen Compensation Fund	35,000	
Workmen Profit Sharing Fund	55,000	4,16,000
Trade Payables		3,30,000
Other Liabilities		1,50,000
		14,46,000

Note 1: Property, Plant and Equipment

Assets	Gross Value	Depreciation	Net Value
Building	2,80,000	56,000	2,24,000
Plant and Machinery	3,40,000	51,000	2,89,000
			5,13,000

Note 2: Investment is for replacement of plant & Machinery

Note 3: Trade Receivable

Gross	Reserve for Doubtful	Net
3,90,000	40,000	3,50,000

Note 4: Equity share comprises 5,500 equities share of ₹ 100 each.

Further Information:

(i) A Ltd. has been operating its business for several years and is now being taken over by another company. For this purpose, you are required to value goodwill using the "Capitalisation of Maintainable Profits Method." The following additional information is provided:

(a) The profits earned by the company for the last three years were as follows:

- Year ended 31st March, 2022: ₹ 3,42,000
- Year ended 31st March, 2023: ₹ 2,97,000
- Year ended 31st March, 2024: ₹ 3,27,000

These figures represent profits before tax, and the tax remained consistently 30%.

(b) The new company plans to operate the business using its own board of directors, eliminating the annual directors' fees of ₹ 12,000 paid by A Ltd.

(c) A significant increase in business volume is expected, requiring an additional rent expense of ₹ 18,000 per year.

(d) As of 31st March, 2025, the values of assets were:

- Buildings: ₹ 4,00,000
- Plant and machinery: ₹ 2,80,000

Provisions for doubtful debts are adequate, and there are no fluctuations in the values of investments or stock.

(e) The liability under the Workmen Compensation Fund amounted to ₹ 9,000.

(f) The expected rate of return on similar businesses is 15%.

You are required to calculate goodwill based on the above information, ensuring that all workings form part of your answer. Closing capital employed may be used for your calculations.

Solution:

Calculation of Average Profit

Simple Average = (Total profit (past year)/Total Number of years = ₹ 3,22,000

1. Calculation of future maintainable profit.

Particulars	₹
Simple Average Profit	3,22,000
Add: Directors' fees not required in future	12,000
Less: Extra rent payable in future	(18,000)

FMP before tax	3,16,000	
Less: Tax @ 30%	94,800	
FMP after tax	2,21,200	

2. Calculation of Capital Employed:

Particulars	₹	₹
Tangible Trading Asset (at Average Value):		
Building	4,00,000	
Plant and Machinery	2,80,000	
Investment	1,20,000	
Trade Receivables	3,50,000	
Inventories	2,10,000	
Cash and Cash Equivalents	85,000	14,45,000
Less: External Liabilities:		
Workmen Compensation Fund	9,000	
Workmen Profit Sharing Fund	55,000	
Trade Payables	3,30,000	
Other Liability	1,50,000	5,44,000
Capital Employed		**9,01,000**

3. NRR = 15%

4. Number of years' purchase = 3 years

5. Calculation for capitalised value of FMP:

Capitalised Value of FMP = FMP/NRR x 100 = ₹ 2,21,200/15 x 100 = ₹ 14,74,667

6. Calculation of Goodwill by capitalised of FMP Method:

Goodwill = Capitalised value of FMP – Capital Employed = ₹ 5,73,667

Illustration 5

From the following information supplied to you, ascertain the value of Goodwill of New SKT Ltd. which is carrying business as retail trader under the capitalisation of profit method.

Balance sheet as on March 31, 2024

Assets	₹
Goodwill	53,000
Property, Plant and Equipment (Note 1)	4,60,000
Inventories	3,10,000
Trade Receivables (–) Provisions for bad debts	2,40,000
	10,63,000

Equity & Liabilities	₹
Equity:	
Equity Shares	6,00,000
Other Equity:	
Profit and Loss Appropriation A/c	1,15,400
Bank Overdraft	1,18,600
Provision for Taxation	45,000
Trade Payable	1,84,000
	10,63,000

Note 1: Property, Plant and Equipment

Assets	Net Value
Building	2,35,000
Plant and Machinery	2,25,000
	4,60,000

The company began operations in 2017 with a paid-up capital of ₹ 6,00,000. The profits for recent years (after taxation) are as follows:

Year ending March, 31	₹
2020	Loss 45,000
2021	98,000
2022	1,25,000
2023	1,38,000
2024	1,50,000

(a) The loss in 2020 was due to a prolonged strike.

(b) The company has been paying income tax at an average rate of 25%, but the rate is expected to increase to 30% moving forward.

(c) Dividends were distributed at a rate of 12% for the year ending March 31, 2024.

(d) The market price of shares stood at ₹ 135 as of March 31, 2024.

(e) Profits up to 2024 were calculated after deducting ₹ 45,000 as remuneration for the managing director. From April 1, 2024, the Government has approved an increased remuneration of ₹ 75,000.

(f) The company has secured a contract that allows for the procurement of materials at advantageous prices, with the benefit estimated at ₹ 65,000 per annum for the next five years.

Solution:

1. Calculation for Average Profit:

Note: Loss in the years 2020 is to be ignored because it was due to prolonged strike which is a abnormal event in the normal course of business. We are excluding profit of the years 2021 also because impact of the strike was there in that year also.

	2022	**2023**	**2024**
Profit After tax =	1,25,000	1,38,000	1,50,000
Income Tax Rate	25%	25%	25%
Profit before tax =	**1,66,667**	**1,84,000**	**2,00,000**

2. Calculation for Weighted Average Profit:

Year	Profit	Weights	Product
2022	1,66,667	1	1,66,667
2023	1,84,000	2	3,68,000
2024	2,00,000	3	6,00,000
		6	11,34,667

Weighted Average Profit = ₹ 1,89,111

3. Calculation for FMP:

Weighted Average Profit	1,89,111
Less: Extra director's fees in future	(30,000)
Add: Profit likely to be earned in future	65,000
FMP before tax	2,24,111
Less: Tax at 30%	67,233
FMP after tax	1,56,878

4. Calculation for Capital Employed:

Particulars	₹	₹
Tangible Trading Assets:		
Building	2,35,000	
Plant & Machinery	2,25,000	
Inventories	3,10,000	
Trade Receivable	2,40,000	10,10,000
Less: External Liabilities:		
Bank OD	1,18,600	
Provision for Tax	45,000	
Trade Payable	1,84,000	3,47,600
Capital Employed		6,62,400

5. Calculation for NRR:

NRR= (Dividend Per Share/Market Price Per Share) x 100 = 9% (12/135*100)

6. Calculation of Normal Profit:

Normal Profit = Capital Employed x NRR = ₹ 59,616 (6,62,400*9%)

7. Calculation of Super Profit:

Super Profit = FMP – Normal Profit = ₹ 97,262 (₹ 1,56,878- ₹ 59,616)

8. Calculation of Goodwill by capitalisation of super profit method:

Goodwill = (Super profit/NRR) x 100 = ₹ 10,80,689

Illustration 6

On 31st Dec 2022, the Balance Sheet of OFC Ltd. was as follows:

Assets	₹
Property, Plant and Equipment (Note -1)	11,10,000
Inventory	10,50,000
Trade Receivable	4,65,000
	26,25,000
Equity & Liabilities	₹
Equity	
Equity Shares	16,00,000
Other Equity	
Profit and Loss A/c	3,45,000
Trade Payable	2,41,000
Bank Overdraft	63,000
Provision for taxation	1,42,000
Dividend equalisation fund	2,34,000
	26,25,000

Note 1: Property, Plant and Equipment

Building	7,25,000
Plant and Machinery	3,85,000
	11,10,000

Note 2: The company have 16000 equities share of ₹100 each.

The company's net profits, after deducting all working expenses and making provisions for depreciation and taxes, are as follows:

2018: ₹ 2,45,000

2019: ₹ 3,08,000

2020: ₹ 2,90,000

2021: ₹ 3,20,000

2022: ₹ 3,05,000

As of December 31, 2022, the Buildings were revalued at ₹ 8,15,000, and the Plant & Machinery at ₹ 5,35,000. Considering the nature of the company's operations, a 12% return on capital is deemed reasonable.

You are required to calculate the value of the company's shares. The revised property, plant and equipment values should be incorporated into the calculation, and goodwill should be determined based on 5 years' purchase of the annual super profits. Ignore the depreciation on the increase value of property, plant and equipment.

Solution:

i) Computation of Goodwill:

Calculation of average capital employed:

Total net assets:		
Buildings		8,15,000
Plant & Machinery		5,35,000
Stock		10,50,000
Sundry Debtors		4,65,000
		28,65,000
Less: External Liabilities		
Trade Payable	2,41,000	
Bank Overdraft	63,000	
Provision for taxation	1,42,000	4,46,000
Net assets or capital employed		24,19,000
Less: ½ of net profit of 2022 (3,05,000 x ½)		1,52,500
Average capital employed		22,66,500

ii) Normal Profit = Average capital employed x Normal rate of return =₹ 2,71,980 (22,66,500 x 12%)

iii) Average Profit

Total Profits = 14,68,000

Average Profit = 2,93,600

iv) Super Profit = Average profit – Normal Profit = 21,620 (2,93,600 - 2,71,980)

v) Goodwill = Super profit x No. of years purchase = 1,08,100 (21,620 x 5)

Valuation of Shares

Net assets (as above) = 24,19,000

Goodwill = 1,08,100

Net assets available for equity shareholders = 25,27,100 (24,19,000 + 1,08,100)

Intrinsic value of shares = Net asset available/No. of Share = 157.94 (25,27,000/16,000)

Illustration 7

Balance Sheet of Mr. X as on 31.12.2024 was as under:

Assets	₹
Property, Plant and Equipment (Note 1)	4,42,000
Inventory	18,000
Cash and cash equivalents	42,000
	5,02,000
Equity & Liabilities	₹
Equity	
Equity Shares of ₹ 10 each	3,50,000
Trade Payable	96,000
Bills Payable	56,000
	5,02,000

Note 1: Property, Plant and Equipment

Land	2,30,000
Machinery	1,60,000
Furniture	52,000
	4,42,000

The business profits for the five years ending December 31, 2024, are as follows:

Year	Profit (₹)
2020	48,000
2021	50,000
2022	53,000
2023	58,000
2024	61,000

The assets have been revalued as follows:

- Land: ₹ 2,34,000
- Machinery: ₹ 1,65,000
- Furniture: ₹ 48,000

A reasonable return on the capital invested is considered to be 12% per annum. Additionally, assume that the normal management remuneration is ₹9,000. Using the Capitalization Method, calculate the goodwill of the business.

Solution:

(A) Capitalisation of Average profit:

Average Profit = Total Profit of 5 yrs/5 =	54,000
Less: Remuneration	(9,000)
	45,000

Calculation of normal capital by capitalizing average Profit = ₹ 3,75,000 (45000/12%)

	₹	₹
Land		2,34,000
Machinery		1,65,000
Furniture		48,000
Inventory		18,000
Cash and cash equivalents		42,000
Less: Liabilities		5,07,000
Trade Payable	(96,000)	
Bills Payable	(56,000)	(1,52,000)
Net asset (Capital Employed)		3,55,000

Goodwill = Normal Capital - Actual Capital Employed = ₹ 20,000

(B) Capitalization of Super Profit:

	₹
Average Profit	45,000
Less Normal Profit 12% of ₹355000	42,600
Super Profit	2,400

Goodwill = 2,400 x 100/12 = ₹ 20,000.

3 Accounting of Financial Instruments [Study Material - Module 3]

Illustration 1

On 31st March 2022, PQR Ltd. issued the following preference shares for its new project.

i. 1 Lakh preference shares at ₹ 3 each. No dividends are payable. PQR Ltd. plans to redeem these shares in three years by issuing ordinary shares worth ₹ 3 lakhs, with the number of ordinary shares based on their fair value as of 31st March 2025

ii. 2 lakh preference shares at ₹ 2.80 each. No dividends are payable. These shares will be redeemed in two years by issuing 3 lakh ordinary shares

iii. 4 lakh preference shares at ₹ 2.50 each. These shares are not mandatorily redeemable and will only pay dividends if dividends are declared on ordinary shares

Answer these questions with reasons whether these financial instruments should be classified as financial liabilities or equity in the books of PQR Ltd. for the year ending 31st March 2022.

Solution:

(i) As defined, a financial liability is a contract that could potentially be settled in a variable number of the entity's own equity instruments. Hence, a contract that requires the entity to deliver a number of its equity instruments equivalent in value to a specified amount should be treated as a liability.

PQR Ltd. is required to redeem the first lot of preference shares by issuing ordinary shares worth ₹ 3 lakhs. Therefore, the ₹ 3 lakhs received from this preference share issuance should be recognized as a liability in the Balance sheet.

(ii) A contract to be settled through the delivery of a fixed number of the entity's own equity instruments is considered an equity instrument.

Since PQR Ltd. will redeem the second preference share issuance with a fixed number of ordinary shares, the ₹ 5.6 lakhs raised from this issuance should be classified as equity in the Balance sheet.

(iii) A financial liability arises if there is a contractual obligation to deliver cash or another financial asset.

In this case, PQR Ltd. is not required to redeem the instrument with cash, and the payment of dividends is conditional upon the payment of dividends on ordinary shares. Since there is no obligation to pay dividends on ordinary shares, there is no obligation to pay dividends on these preference shares.

Thus, this instrument does not constitute a financial liability, and the proceeds from the preference share issue should be classified as equity in the Balance sheet.

Illustration 2

On 1 April 2020, X Ltd. issued a loan note with a nominal value of ₹ 50,000. The note was issued at a discount of 16% of its nominal value, with issue costs of ₹ 2,000. The note carries an annual interest rate of 5% of the nominal value, payable in arrears. The bond will be redeemed on 1 April 2025 (after 5 years) at a premium of ₹ 4,611. The effective interest rate is 12% per year.

How should this loan note be accounted for in the financial statements of X Ltd. Find out the total finance cost and balance of loan which will appear in the 5 years' Balance Sheet. Pass the necessary journal entry for the first year.

Solution:

Calculation of Initial Liability:

	(₹)
Face value	50,000
Less: 16% discount	(8,000)
Less: Issue costs	(2,000)
Initial recognition of liability	40,000

Measurement of liability at amortised cost:

Year	Opening Balance	Finance Cost (Liability*12%) (₹50,000 × 5%)	Cash Payments	Closing Balance
	₹	₹	₹	₹
1	40,000	4,800	(2,500)	42,300
2	42,300	5,076	(2,500)	44,876
3	44,876	5,385	(2,500)	47,761
4	47,761	5,731	(2,500)	50,992
5	50,992	6,119	(2,500)	54,611
		27,111	(12,500)	

As per the above calculations, the total finance cost of the loan over the five-year period amounts to ₹ 27,111 which is recorded in Profit & loss statement in each year.

Journal Entries

In the books of X Ltd.

(i) Bank A/c	Dr.	40,000	
To Loan Note A/c			40,000
(Being liability recognised initially based on the net proceeds received)			
(ii) Financial Cost A/c	Dr.	4,800	
To Loan Note A/c			4,800
(Being finance cost for the year booked)			
(iii) Loan Note A/c	Dr.	2,500	
To Bank A/c			2,500
(Being payout recognised @5% is adjusted with the loan)			

Illustration 3

On 1 April 2021, A Ltd. issued a financial liability with a nominal value of ₹ 1 crore. The liability carries an interest rate of 5%, payable annually in arrears, and is due for repayment on 31 March 2024. A Ltd.'s business involves trading financial liabilities in the short-term market.

As of 31 March 2022, market interest rates have increased to 8%. The discounting factor for 8% is:

Year 1	0.926
Year 2	0.857

Explain how the financial liability should be accounted for as on 31 March 2022. Assuming that there is no active market for this instrument.

Solution:

Since the financial liability is traded in the short term, it is classified as **measured at fair value through profit or loss**. This requires the liability to be revalued at its fair value at the reporting date.

Further, there is no active market for this instrument, its fair value can be estimated by discounting the expected future cash flows using the current market interest rate of 8%. The calculations are as follows-

Date	Cash Flow (₹ lakhs)	Discount Factor	Present Value (₹ lakhs)
31/03/23	5	0.926	4.63
31/03/24	105	0.857	89.99
Total	-	-	**94.62**

The nominal value of the liability is ₹ 1 crore, while its fair value at the reporting date is ₹ 94.62 lakhs. The reduction of ₹ 5.38 lakhs is accounted for as follows:

Debit	Financial Liability:	₹ 5.38 lakhs
Credit	Profit or Loss:	₹ 5.38 lakhs

Illustration 4

B Ltd. very often acquires assets that are measured at fair value through profit or loss. To finance these purchases, B Ltd. issues bonds. To avoid an accounting mismatch, the bonds are designated to be measured at fair value through profit or loss.

During the reporting period, the fair value of the bonds decreased by ₹ 4 crore, and out of this ₹ 1.5 crore of the reduction attributed to changes in B Ltd.'s creditworthiness.

Explain the appropriate accounting treatment for the bonds.

Solution:

When a financial liability is designated at fair value through profit or loss to mitigate an accounting mismatch, the fair value changes must be separated into two components:

- fair value movement due to own credit risk, will go to other comprehensive income (OCI)
- the remaining fair value movement, will go to profit or loss.

Accordingly, in the given case, value of B Ltd.'s liability will be reduced by ₹ 4 crore. A credit of ₹ 1.5 crore will go to OCI and a credit of ₹ 2.5 crore will go to in profit or loss.

Illustration 5

On 1 April 2021, Z Ltd. issued a three-year convertible bond with a nominal value of ₹ 50,000 crores at par. It does not involve any issue cost. The other key details are as follows:

- The bond has a coupon rate of 10%, with interest payable annually in arrears on 31 March.
- The bond will be redeemed at par on 1 April 2024.
- Bondholders have the option to convert the bond into equity shares. The conversion terms allow bondholders to receive two 25 ₹ equity shares for every ₹ 100 owed on 1 April 2024.
- Similar bonds without conversion rights issued by comparable entities bear an interest rate of 12%.

Explain how Z Ltd. should account for this transaction, assuming that all bondholders choose to convert the bond into equity share.

Solution:

1. Allocating the Proceeds

On initial recognition, the proceeds from the convertible bond must be divided into **liability** and **equity** components.

Calculation of the Liability Component:

Date	Cash Flow (₹ Cr)	Discount Factor (12%)	Present Value (₹ Cr)
31-March-22	5,000	1/1.12	4,464.29
31-March-23	5,000	$1/1.12^2$	3,985.97
31-March-24	5,000	$1/1.12^3$	3,558.90
1-April-24	50,000	$1/1.12^3$	35,589.01
Total	-	-	**47,598.17**

- **Liability Component (A):** ₹ 47,598.17 Cr
- **Proceeds of Issue (B):** ₹ 50,000.00 Cr
- **Equity Component (B - A):** ₹ 2,401.83 Cr

2. Measuring the Liability at Amortized Cost

Financial Year	Opening Balance (₹ Cr)	Finance Cost (12%) (₹ Cr)	Payment (₹ Cr)	Closing Balance (₹ Cr)
2021-22	47,598.17	5,711.78	(5,000)	48,309.95
2022-23	48,309.95	5,797.19	(5,000)	49,107.14
2023-24	49,107.14	5,892.86	(5,000)	50,000.00

3. Conversion of the Bond

On 1 April 2024, all bondholders opt for conversion. The carrying amounts of the bond components are as follows:

Component	**Amount (₹ Cr)**
Equity	2,401.83
Liability – Bond	50,000.00
Total	**52,401.83**

Conversion Terms:

Bondholders receive two 25 ₹ equity shares for every ₹100 owned. For ₹50,000 Cr, **1,000 Cr shares** are issued:

- **Share Capital:** ₹ 25,000 crore (1,000 Cr shares × ₹ 25/share)
- **Share Premium:** ₹ 27,401.83 crore (₹ 52,401.83 Cr - ₹ 25,000.00 Cr)

Journal Entry:

Account	Debit (₹ Cr)	Credit (₹ Cr)
Dr Other Components of Equity	2,401.83	
Dr Liability	50,000.00	
Cr Share Capital		25,000.00
Cr Share Premium		27,401.83

(Being the liability fully extinguished, and the entire amount is classified as equity after its conversion)

Illustration 6

On 1 April 2020, XYZ Ltd. issues a three-year convertible loan with a nominal value of ₹ 100,000 at a coupon rate of 7%. The market interest rate for a comparable loan without conversion rights is 10%. The conversion terms allow bondholders to receive one equity share (nominal value ₹ 1) for every ₹ 10 of debt. Bondholders may choose to convert their loan into equity or have the loan redeemed at par on 31 March 2023.

Explain the accounting treatment for the loan in the following scenarios:

(a) All bondholders opt for conversion.

(b) All of the bondholders opt for redemption.

Solution:

Up to 31 March 2023, the accounting treatment remains identical until the conversion or redemption date.

1. Allocating the Proceeds

Since loan is convertible, it need to be split between the liability and equity components:

Calculation of the Liability Component:

Year ended	Cash Flow (₹)	Discount Factor (10%)	Present Value (₹)
31/03/21	7,000	1/1.10	6,363.64
31/03/22	7,000	$1/1.10^2$	5,785.12
31/03/23	7,000	$1/1.10^3$	5,259.20
31/03/23	100,000	$1/1.10^3$	75,131.48
Total	-	-	**92,539.44**

- **Liability Component (A):** ₹ 92,539.44
- **Proceeds of Issue (B):** ₹ 100,000
- **Equity Component (B - A):** ₹ 7,460.56

2. Annual Finance Costs and Carrying Amounts

The liability component is measured at amortized cost. The finance costs and carrying amounts are as follows:

Year	Opening Balance (₹)	Finance Cost (10%) (₹)	Cash Paid (₹)	Closing Balance (₹)
2020-21	92,539.44	9,253.94	(7,000)	94,793.39
2021-22	94,793.39	9,479.34	(7,000)	97,272.73
2022-23	97,272.73	9,727.27	(7,000)	100,000

3. Conversion or Redemption

(a) Conversion

At 31 March 2023, the carrying amounts are:

Component	Amount (₹)
Equity	7,460.56
Liability – Bond	100,000
Total	**107,460.56**

If bondholders opt for conversion, **10,000 equity shares** (₹ 100,000 ÷ 10) with a nominal value of ₹ 1 each are issued. The remaining ₹ 97,460.56 is recorded as **share premium**.

(b) Redemption

If all bondholders choose redemption, the carrying amounts at 31 March 2023 remain unchanged:

Component	Amount (₹)
Equity	7,460.56
Liability – Bond	1,00,000

The ₹ 100,000 liability is settled through a cash payment and the equity component of ₹ 7460.56 remains in equity.

Illustration 7

On 1 April 2021, ABC Ltd. purchased a ₹1,00,000 6% bond for ₹95,000, incurring ₹3,000 as transaction costs. The bond pays interest annually in arrears and will be redeemed at a premium of ₹3,973 over its nominal value on 31 March 2024. The effective interest rate is 8%.

The fair value of the bond at the end of each year is as follows:

- 31/03/22: ₹ 1,10,000
- 31/03/23: ₹ 1,04,000

How the bond would be accounted for in the following scenarios give the calculation long with its Presentation in Financial Statements.

(a) ABC Ltd.'s business model is to hold the bond until it matures.

(b) ABC Ltd.'s business model is to hold the bond until maturity but with the flexibility to sell it if more attractive investment opportunities arise.

(c) ABC Ltd.'s business model is to trade bonds in the short term. Assume that ABC Ltd. sold the bond at its fair value on 1 April 2022.

Solution:

(a) Business Model: Hold the Asset Until Redemption- to be classified as measured at amortized cost

Initially the bond is recognized at its fair value plus transaction costs, totaling ₹ 98,000 (₹ 95,000 + ₹ 3,000). Interest income is recognized using the effective interest rate of 8%.

The amortization schedule is as follows:

Year ended	Opening Balance	Interest (8%)	Receipt	Closing Balance
31/03/22	₹ 98,000	₹ 7,840	₹ 6,000	₹ 99,840
31/03/23	₹ 99,840	₹ 7,987	₹ 6,000	₹ 101,827
31/03/24	₹ 101,827	₹ 8,146	₹ 6,000	NIL
			Plus ₹ 1,03,973*	

*Redemption amounts along with premium**.**

Presentation in Financial Statement

FY	Interest for the year (₹)	Bond value on Balance Sheet date (₹)
2021-22	7,840	99,840
2022-23	7,987	101,827
2023-24	8,146	Nil

(b) Business Model: Hold Until Redemption, but may sell if Higher Returns Are Available

For this model, the bond is classified as measured at fair value through other comprehensive income (FVOCI). The bond is initially recognized at its fair value plus transaction costs, which totals ₹ 98,000 (₹ 95,000 + ₹ 3,000).

Interest income is recognized in profit or loss using the effective interest rate of 8%, and the bond is revalued to its fair value at year-end, with any gain or loss recognized in other comprehensive income as per the below table:

Year ended	Opening Balance (₹)	Interest# (₹)	Receipt (₹)	Total (₹)	Gain/ (Loss) (₹)	Closing Balance (₹)
31/03/22	98,000	7,840	6,000	99,840	10,160	110,000
31/03/23	110,000	7,987	6,000	111,987	(7,987)	104,000
31/03/24	104,000	8,146	6,000 Plus 1,03,973*	2,173	(2,173)	NIL

Interest as per amortization table [Refer part (a)]

* Redemption amounts along with premium

Presentation in Financial Statement

FY	Interest for the year (₹)	Gain/ (Loss) on revaluation recognized to OCI for the year (₹)	Bond value on Balance Sheet date (₹)
2021-22	7,840	10,160	1,10,000
2022-23	7,987	(7,987)	1,04,000
2023-24	8,146	(2,173)	Nil

(c) Business Model: Trade Bonds in the Short-Term

For this model, the bond is classified as measured at fair value through profit or loss (FVTPL). The bond is initially recognized at its fair value of ₹ 95,000, and the transaction costs of ₹ 3,000 are expensed in profit or loss.

In the year ending 31 March 2022, interest income of ₹ 6,000 (₹ 100,000 × 6%) is recognized in profit or loss. The bond is revalued to ₹ 110,000, with a gain of ₹ 15,000 (₹ 110,000 – ₹ 95,000) recognized in profit or loss.

On 1 April 2022, the bond is sold for its fair value of ₹ 110,000, and the financial asset is derecognized.

Illustration 8

X Ltd.'s trade receivables are short-term and do not have a significant financial component. Based on historical default rates, adjusted for any changes in forward-looking estimates, X Ltd. has estimated the following default rates for its trade receivables as on 31st March 2023:

Category	Not Overdue	Overdue within 1-30 days	Overdue within 31-60 days	Overdue for more than 60 days
Default Rate	0.6%	1.4%	6.2%	15.8%

The gross carrying amounts of X Ltd.'s trade receivables as on 31 March 2023, the reporting date, are as follows:

Category	Gross Carrying Amount (₹ Lakh)
Not Overdue	101
Overdue within 1-30 days	43
Overdue within 31-60 days	16
Overdue for more than 60 days	10

As on 1/4/2022, the loss allowance for trade receivable is ₹ 2 Lakhs.

Calculate the allowance on trade receivable that the Co., X ltd. should account for in its financial statements for the year ending 31st March 2023.

Solution:

The lifetime expected credit losses on the trade receivables are:

	Lifetime expected Credit looses
Not overdue (₹101 lakhs x 0.6%)	0.61
Overdue within 1-30 days (₹ 43 lakhs x 1.4%)	0.60
Overdue within 31-60 days (₹16 lakhs x 6.2%)	0.99
Overdue for more than 60 days (₹10 lakhs x 15.8%)	1.58
	3.78

The total lifetime expected credit losses amount to ₹ 3.78 Lakhs.

	₹ (in Lakhs)
Allowance as on 31/03/2023	3.78
Less: Opening Balance as on 1/04/2022	2
Additional Allowance required for the year ended 31/03/23	1.78

Illustration 9

On 1 April 2021, N Ltd. acquired a bond for ₹ 1 lakh, which is classified as a financial asset measured at amortised cost. The bond pays an interest of 12%, which is settled in arrears, and the repayment of the principal is due on 31 March 2023. The effective interest rate is 12%.

On 31 March 2022, N Ltd. received an interest payment of ₹ 12,000. N Ltd. estimated that there is a 5.5% probability of default on the bond over the next 12 months. In the event of a default within the next 12 months, N Ltd. expects that no further interest will be received, and only 60% of the principal amount will be received back on 31 March 2023. On 31 March 2022, the credit risk associated with the asset is considered low.

Calculate the following:

— the impairment loss, if any, for financial year 2021-22.

— The carrying value of financial asset as on 31/03/2022.

— The interest income to be recognised for the financial year 2021-22.

Solution:

Since the credit risk associated with the financial asset has not increased significantly, the loss allowance should be based on the 12-month expected credit losses. This calculation must take into account a range of potential outcomes, as well as the time value of money.

The calculated credit loss for the asset = ₹ 52,169.20 (W1)

The expected credit loss = ₹ 52,169.20 (present value of expected cash shortfall) * 5.5% (probability of default)

= ₹ 2,869

Hence, loss allowance = ₹ 2,869 (to be charged to P/L for the year ended 31/03/2022)

The financial asset's net carrying amount = ₹ 97,131 (₹ 100,000 - ₹ 2,869).

Interest in subsequent periods will continue to be charged on the gross carrying amount of ₹100,000 i.e. ₹ 1,00,000 x 12/100 = ₹ 12,000

W1: Calculation of Present Value of Expected Shortfall:

Year ended	Expected Cash Shortfall (₹)	Discount Rate	Present Value (₹)
31/03/22	12,000	0.8929	10,714.80
31/03/23	12,000	0.7972	9,566.40
31/03/23	40,000	0.7972	31,888.00
Total			52,169.20

Illustration 10

On 1 June 2019, XYZ Ltd. provided a loan of ₹ 12,000 to ABC Ltd., which has a four-year term. The coupon rate on the loan is 6%, and the effective interest rate is also 6%. Interest payments are made annually at the end of each year.

On 1 June 2022, ABC Ltd. informs XYZ Ltd. that it is facing significant financial difficulties. At this point, the current market interest rate has increased to 8%.

On 01/06/2022 the company XYZ Ltd. has estimated the following in respect of this loan.

About Interest	It will not be received
About Loan	Only ₹ 6,000 will be received

At this time, XYZ Ltd. has already recognized a loss allowance of ₹ 1,500 for the loan to ABC Ltd..

How should the loan be accounted for at this point?

Solution:

Based on the information about loan of ABC Ltd., it indicates that the asset has become credit impaired as ABC Ltd. is facing financial difficulties.

Calculation of Impairment Loss:

Particulars	Amount (₹)
Carrying Amount (Working Note 1)	12,000
Less: Present value of expected future cash flows (Working Note 2)	5,660
Expected Loss	6,340
Less: Loss Allowance already recognized	1,500
Additional loss allowance required	4,840

Working Notes:

1. Since, the coupon rate and the effective interest rate are identical, the asset's carrying amount remains fixed at ₹ 12,000.
2. The present value of the expected future cash inflows, discounted using the original effective interest rate, amounts to ₹ 5,660 (₹ 6,000 × 1/1.06).

Given that the asset is credit impaired, interest income will now be calculated based on the net carrying amount of ₹ 5,660 (gross carrying amount of ₹ 12,000 less the loss allowance of ₹6,340). Consequently, in the final year of the loan, interest income of ₹ 340 (5,660 × 6%) will be recognized in profit or loss.

Illustration 11

On 1st April 2018, V Limited issues convertible bonds worth ₹50,00,000. These bonds have a tenure of five years with a face value of ₹20 each and carry an annual interest rate of 5%, payable at the end of each financial year. The bonds are issued at face value, and each bondholder has the option to convert their bond into one ordinary share of V Limited at any time within the five-year period. Comparable companies with a similar risk profile have recently issued non-convertible debt at 7% per annum under similar terms.

Based on the above information,

1. Pass the journal entries for the initial recognition of the bonds.
2. Determine the interest expense for each of the five years during the bond's tenure.
3. Provide the accounting treatment if the bondholders choose to convert their bonds into ordinary shares at the end of the fourth year.

Solution:

(i) Computation of liability and equity components:

Year	Cash Flow (₹)	Discounting factor @ 7% (₹)	Present Value (₹)
1	2,50,000	$1/(1.07)^1$	2,33,645
2	2,50,000	$1/(1.07)^2$	2,18,360
3	2,50,000	$1/(1.07)^3$	2,04,074
4	2,50,000	$1/(1.07)^4$	1,90,724
5	2,50,000	$1/(1.07)^5$	1,78,247
5	50,00,000	$1/(1.07)^5$	35,64,931
Total			45,89,981

- Liability Component (A): ₹ 45,89,981
- Proceeds of Issue (B): ₹ 50,00,000
- Equity Component (B - A): ₹ 4,10,019

Journal Entries:

Date	Particulars	Debit Amount (₹)	Credit Amount (₹)
1st April, 2018	Cash/ Bank A/c To Convertible bonds (liability) A/c To Convertible bonds (equity component) A/c (Being entry to record the convertible bonds and the recognition of the liability and equity components)	50,00,000	 45,89,981 4,10,019
31st March, 2019	Interest expense A/c To Cash/ Bank A/c To Convertible bonds (liability) A/c (Being entry to record the interest expense)	3,21,299	 2,50,000 71,299

(ii) Computation of stream of interest expense:

Year	Opening Balance (₹)	Interest expense @ 7% (₹)	Payments (₹)	Closing Balance (₹)
1	45,89,981	3,21,299	(2,50,000)	46,61,280
2	46,61,280	3,26,290	(2,50,000)	47,37,570
3	47,37,570	3,31,630	(2,50,000)	48,19,200
4	48,19,200	3,37,344	(2,50,00 0)	49,06,544
5	49,06,544	3,43,456#	(2,50,000)	50,00,000
Total		**16,60,021**	**(12,50,000)**	

Balancing figure to make maturity amount = ₹ 50 Lakh

(iii) If the holders of the bond elect to convert the bonds to ordinary shares at the end of the fourth year (after receiving their interest payments), the entries in the fourth year would be:

Date	Particulars	Debit Amount (₹)	Credit Amount (₹)
31st March, 2022	Interest expense A/c	3,37,344	
	To Cash/ Bank A/c		2,50,000
	To Convertible bonds (liability) A/c		87,344
	(Being entry to record interest expense for the period)		
31st March, 2022	Convertible bonds (liability) A/c	49,06,544	
	Convertible bonds (equity component) A/c	4,10,019	
	To Ordinary share capital A/c		53,16,563
	(Being entry to record the conversion of bonds into ordinary shares of V Limited).		

Illustration 12

On 1st April 2018, X Ltd. issues convertible bonds amounting to ₹1.2 crore. These bonds have a maturity period of 8 years, a face value of ₹10 each, and an annual interest rate of 5.5%, payable at the end of each financial year.

The bonds are issued at face value, and each bondholder has the option to convert their bond into one ordinary share of X Ltd. at any time during the 8-year period.

Debt instruments with similar terms but without the conversion option have recently been issued by companies with a comparable risk profile at an annual interest rate of 8%.

The company incurred ₹10 Lakh in issue costs, increasing the effective interest rate to 9.45%.

Based on the data above,

(i) Pass the journal entries in the books of X Ltd. from Financial Year 2018-19 to Financial Year 2021-22.

(ii) Compute the interest expense for each of the 8 years of the bond's tenure.

(iii) Prepare the accounting entries if bondholders opt to convert their bonds into ordinary shares at the end of the fourth year, after receiving the interest payment for that year.

Solution:

(i) Computation of Equity and Liability component of Convertible Bonds:

Year	Cash Flow	Discounting factor 8%	Present Value
	₹	₹	₹
1	6,60,000	$1/1.08^{1}$	6,11,111
2	6,60,000	$1/1.08^{2}$	5,65,844
3	6,60,000	$1/1.08^{3}$	5,23,929
4	6,60,000	$1/1.08^{4}$	4,85,120
5	6,60,000	$1/1.08^{5}$	4,49,185
6	6,60,000	$1/1.08^{6}$	4,15,912
7	6,60,000	$1/1.08^{7}$	3,85,104
8	6,60,000	$1/1.08^{8}$	3,56,577
8	1,20,00,000	$1/1.08^{8}$	64,83,227
Total			1,02,76,008

Liability Component= ₹ 1,02,76,008

Proceeds of issue= ₹ 1,20,00,000

Equity Component= ₹ 17,23,992

The issue cost will have to be allocated between the liability and equity in proportion to their balances as per the initial recognition.

After allocating the issue cost, the liability and equity will have carrying amounts as follows:

	Liability (₹)	Equity (₹)
Proceeds	1,02,76,008	17,23,992
Issue cost	(8,56,334)	(1,43,666)
Total	94,19,674	15,80,326

Journal Entries

Date	Particulars	Dr.	Cr
1st April, 2018	Bank A/c	1,20,00,000	
	To Convertible bonds A/c (Liability)		1,02,76,008
	To Convertible bonds A/c (Equity)		17,23,992
	(Being recognition of convertible bonds at the date of issuance into liability and equity components)		

1st April, 2018	Convertible Bond (Liability)	8,56,334	
	Convertible Bond (Equity)	1,43,666	
	To Bank A/c		10,00,000
	(Being allocation of issue cost)		
31st March, 2019	Interest expense A/c	8,90,182	
	To Bank A/c		6,60,000
	To Convertible bonds A/c (Liability)		2,30,182
	(Being interest expense recorded at effective interest rate of 9.45% and actual interest paid @ 5.5%)		
31st March, 2020	Interest expense A/c	9,11,935	
	To Bank A/c		6,60,000
	To Convertible bonds A/c (Liability)		2,51,935
	(Being interest expense recorded at effective interest rate of 9.45% and actual interest paid @ 5.5%)		
31st March, 2021	Interest expense A/c	9,35,743	
	To Bank A/c		6,60,000
	To Convertible bonds A/c (Liability)		2,75,743
	(Being interest expense recorded at effective interest rate of 9.45% and actual interest paid @ 5.5%)		
31st March, 2022	Interest expense A/c	9,61,801	
	To Bank A/c		6,60,000
	To Convertible bonds A/c (Liability)		3,01,801
	(Being interest expense recorded at effective interest rate of 9.45% and actual interest paid @ 5.5%)		

(ii) Table showing computation of interest expense using amortised cost:

Year	Opening Balance	Interest Expenses @ 9.45%	Cash Payments	Closing Balance
	₹	₹	₹	₹
1	94,19,674	8,90,182	(6,60,000)	96,49,856
2	96,49,856	9,11,935	(6,60,000)	99,01,791
3	99,01,791	9,35,743	(6,60,000)	1,01,77,534
4	1,01,77,534	9,61,801	(6,60,000)	1,04,79,335

5	1,04,79,335	9,90,322	(6,60,000)	1,08,09,657
6	1,08,09,657	10,21,538	(6,60,000)	1,11,71,195
7	1,11,71,195	10,55,705	(6,60,000)	1,15,66,900
8	1,15,66,900	10,93,100	(6,60,000)	1,20,00,000
Total		**78,60,326**	**(52,80,000)**	

(iii) When holders of the bonds elect to convert the bonds to ordinary shares at the end of the 4th year (after receiving their interest payments), the entries would be:

Journal Entries:

Date	Particulars	Dr.	Cr
31st March, 2022	Convertible bonds A/c (liability) Convertible bonds A/c (equity) To Ordinary share capital A/c (Being bonds converted into ordinary shares of X Ltd.)	1,04,79,335 15,80,326	 1,20,59,661

Illustration 13

ASN Ltd. held a 3% stake in S Ltd., a public limited company. This investment was designated as fair value through other comprehensive income (FVOCI) and was measured at a fair value of ₹50 Lakh as on 31 March 2024, with a cumulative gain of ₹400,000 reported in equity. On 31 March 2024, G Ltd., another public limited company, acquired all of S Ltd.'s share capital. ASN Ltd. received shares in G Ltd. valued at ₹55 Lakh in exchange for its investment in S Ltd..

Discuss the accounting treatment of the share exchange in the financial statements for the year ended 31 March 2024 assuming that the shares in G Ltd. Is not held for trading.

Solution:

In this case, the transfer of shares in S Ltd. qualifies for derecognition as ASN Ltd. no longer retains any risks and rewards of ownership. ASN Ltd. has obtained a new financial asset which is the shares in G Ltd. Financial assets are initially recognised at fair value. The shares in G Ltd. should therefore be initially recognised at ₹55 Lakh. Since, it is not held for trading, a designation could be made upon initial recognition to account for this new financial asset at fair value through other comprehensive income.

A profit on disposal of ₹5 Lakh will be recorded in the statement of profit or loss. This is the difference between the initial carrying amount of the Shares in G Ltd. and the carrying amount of the shares in S Ltd. that have been derecognised.

The entries required are:

Particulars	Debit Amount (₹ Lakh)	Credit Amount (₹ Lakh)
Financial asset (shares in G Ltd.)	55	
Financial asset (shares in S Ltd.)		50
Profit on disposal		5

The cumulative gain of ₹400,000 reported in equity through OCI will remain in equity being in the nature of non re-classifiable item.

Illustration 14

N Limited has extended a loan of ₹20 lakh to O Ltd. for a tenure of 5 years at an interest rate of 5% per annum, which matches the Treasury bond yield for equivalent maturity. However, O Ltd. incremental borrowing rate is 11%.

Since the loan is provided at a below-market interest rate, Ind AS 109 mandates that financial assets or liabilities must be initially recognized at their fair value.

You are required to:

1. Determine whether the transaction price (₹20 lakh) can be treated as the fair value. If not, calculate the fair value of the loan.
2. Explain the accounting treatment of the difference between the transaction price and the fair value on initial recognition in the books of N Limited.

Present Value Factors at 11%:

Year	1	2	3	4	5
PVF	0.9009	0.8116	0.7312	0.6587	0.5935

Solution:

Since the loan is granted to O Ltd. at 5% i.e., below market rate of 11%. It will be considered as loan given at off market terms.

The Fair value of the transaction will be lower from its transaction price.

Year	Loan outstanding	Principal	Interest @5%	Total inflows	Discounting factor 11%	Present Value
	₹	₹	₹	₹	₹	₹
1	20,00,000	4,00,000	1,00,000	5,00,000	0.9009	4,50,450
2	16,00,000	4,00,000	80,000	4,80,000	0.8116	3,89,568
3	12,00,000	4,00,000	60,000	4,60,000	0.7312	3,36,352
4	8,00,000	4,00,000	40,000	4,40,000	0.6587	2,89,828
5	4,00,000	4,00,000	20,000	4,20,000	0.5935	2,49,270
						17,15,468

Thus, fair value of the transaction be ₹ 17,15,468.

Amortisation table

Year	Opening Balance	Finance Income 11%	Repayments	Closing Balance
	₹	₹	₹	₹
1	17,15,468	1,88,701	-5,00,000	14,04,169
2	14,04,169	1,54,459	-4,80,000	10,78,628
3	10,78,628	1,18,649	-4,60,000	7,37,277
4	7,37,277	81,100	-4,40,000	3,78,377
5	3,78,377	41,623#	-4,20,0000	0.00
Total		**5,84,532**	**-23,00,000**	

Balancing figure to make the closing balance NIL.

Treatment of Transaction in the books of N Ltd.

Since fair value is based on level 1 input or valuation technique that uses only data from observable markets, difference between fair value and transaction price will be recognized in Profit and Loss i.e., ₹ 20,00,000 – ₹ 17,15,468 =₹2,84,532.

Journal Entries - Initial Recognition

Particulars	Debit (₹)	Credit (₹)
Loan to O Ltd.	17,15,468	
P & L (Fair value adjustment) (bal. figure)	2,84,532	
To Bank		20,00,000

Illustration 15

On 1 April 2020, S Limited provided a housing loan of ₹15 lakhs to an employee at an interest rate of 6% per annum. The loan is repayable in five equal annual instalments, plus interest. The employee is not required to provide any specific performance in exchange for this benefit. The market rate for similar housing loans offered by banks is 10% per annum.

Provide the accounting treatment for the housing loan, interest income, and other related expenses in the financial statements of S Limited for the financial year 2020-2021.

Solution:

Computation of fair value of the loan shall be as follows:

Year ended	Out- standing loan	Principal	Interest income @6%	Total inflow	PVF @10%	Present Value
31 March,2021	15,00,000	3,00,000	90,000	3,90,000	0.909	3,54,510
31 March,2022	12,00,000	3,00,000	72,000	3,72,000	0.826	3,07,272
31 March,2023	9,00,000	3,00,000	54,000	3,54,000	0.751	2,65,854
31 March,2024	6,00,000	3,00,000	36,000	3,36,000	0.683	2,29,488

31 March,2025	3,00,000	3,00,000	18,000	3,18,000	0.621	1,97,478
Fair value of the loan						13,54,602

Computation of amortized cost of loan to employees

Financial year ending on 31st March	Amortised cost (opening balance)	Interest to be recognized @ 10%	Repayment (including interest)	Amortised cost (closing balance)
2021	13,54,602	1,35,460	3,90,000	11,00,062
2022	11,00,062	1,10,006	3,72,000	8,38,068
2023	8,38,068	83,807	3,54,000	5,67,875
2024	5,67,875	56,788	3,36,000	2,88,663
2025	2,88,663	29,337	318000 bal. fig.	Nil

Journal Entries to be recorded at every period end

1. On 1st April 2020

Particulars	Dr. Amount	Cr. Amount
Loan to employee (FA) A/c	13,54,602	
Prepaid employee cost A/c	1,45,398	
To Bank A/c		15,00,000
(Being loan asset recorded at initial fair value)		

2. On 31st March 2021

Particulars	Dr. Amount	Cr. Amount
Bank A/c	3,90,000	
To Finance income A/c (Profit and loss) @10%		1,35,460
To Loan to employee A/c		2,54,540
(Being first instalment of repayment of loan accounted for using the amortised cost and effective interest rate @ 10%)		
Employee benefit cost (profit and loss) A/c	29,080	
To Prepaid employee cost A/c (1,45,398/5)		29,080
(Being amortization of prepaid employee cost charged to profit and loss as employee benefit cost)		

Extracts of Balance sheet of Star Ltd. as on 31st March 2021

Non-current asset	
Financial asset	
Loan to employee (11,00,062 – 3,72,000 + 1,10,006)	8,38,068
Other non-current asset	
Prepaid employee cost	87,238

Current asset	
Financial asset	
Loan to employee (3,72,000 - 1,10,006)	2,61,994
Other current asset	
Prepaid employee cost	29,080

Illustration 16

On 1 April, 2021, H Ltd. provided a financial guarantee for a loan of ₹1,00,00,000 granted by Bank to its subsidiary, S Ltd. The loan has a term of three years, with interest payable annually at a rate of 7%, and the principal amount repayable at the end of the loan term.

Had H Ltd. not issued the guarantee, Bank would have charged S Ltd. an interest rate of 10%. H Ltd. did not charge H Ltd. any fee for the guarantee. There is NIL probability that S Ltd. will default the loan.

Pass the necessary journal entries and working should be part of your answer.

Solution:

1st April, 2021:

Computation of Fair Value of Financial Guarantee:

Particulars	Year 1 (₹)	Year 2 (₹)	Year 3 (₹)	Total (₹)
Cash flows based on interest rate of 10% (A)	10,00,000	10,00,000	10,00,000	30,00,000
Cash flows based on interest rate of 7% (B)	7,00,000	7,00,000	7,00,000	21,00,000
Interest rate differential (A - B)	3,00,000	3,00,000	3,00,000	9,00,000
Discount factor @ 10%	0.909	0.826	0.751	
Interest rate differential discounted at 10%	2,72,727	2,47,934	2,25,394	7,46,055
Fair value of financial guarantee contract (at inception)				

Journal Entry

Particulars	Debit	Credit
Investment in subsidiary	7,46,055	
To Financial guarantee (liability)		7,46,055
(Being financial guarantee initially recorded)		

Amortisation table for the financial guarantee by H Ltd. (Holding company to its subsidiary):

Year	Opening balance (₹)	EIR @ 10%	Benefits provided (₹)	Closing balance (₹)
1	7,46,055	74,606	(3,00,000)	5,20,661
2	5,20,661	52,066	(3,00,000)	2,72,727
3	2,72,727	27,273	(3,00,000)	0

31st March 2022:

The liability is therefore adjusted to as follows: The benefit net of unwinding interest is credited to Profit / loss account.

Particulars	Debit	Credit
Financial guarantee (liability)	2,25,394*	
To Profit or loss		2,25,394
(Being financial guarantee amortised)		

*(₹ 3,00,000-74,606)

The liability is therefore adjusted to as follows: The benefit net of unwinding interest is credited to Profit / loss account.

Particulars	Debit	Credit
Financial guarantee (liability)	2,25,394*	
To Profit or loss		2,25,394
(Being financial guarantee amortised)		

*(₹ 3,00,000-74,606)

31st March, 2023:

Particulars	Debit	Credit
Financial guarantee (liability)	2,47,934	
To Profit or loss		2,47,934
(Being financial guarantee amortised)		

31st March, 2024:

Particulars	Debit	Credit
Financial guarantee (liability)	2,72,727	
To Profit or loss		2,72,727
(Being financial guarantee amortised)		

4 NBFCs – Provisioning Norms, Accounting and Reporting [Study Material - Module 4]

Illustration 1

As of 31st March, when closing books of accounts, a Non-Banking Finance Company has classified its Loans and Advances as follows:

	₹ in lakhs
Standard assets	9,480
Sub-standard assets	830
Secured portions of doubtful debts:	
- upto one year	110
- one year to three years	85
- more than three years	54
Unsecured portions of doubtful debts	200
Loss assets	100

Determine the amount of provision that should be made against the Loans and Advances when NBFC is Non- Systemically Important Non-Deposit Taking Company having asset size less than ₹500 crore.

NBFC is a Deposit Taking Company (NBFC- D)

Solution:

i) Calculation of provision required on Loans and Advances as on 31st March, when Non-Banking Financial Company is Non- Systemically Important Non - Deposit taking Company having asset size less than ₹ 500 Cr

Category	Amount (in lakhs)	Percentage of provision	Provision (in lakhs)
Standard assets	9,480	0.25	23.7
Sub-standard assets	830	10	83
Secured portions of doubtful debts - upto one year	110	20	22

Secured portions of doubtful debts - one year to three years	85	30	25.5
Secured portions of doubtful debts - more than three years	54	50	27
Unsecured portions of doubtful debts	200	100	200
Loss assets	100	100	100
			481.20

i) **Calculation of provision required on Loans and Advances as on 31st March, when Non-Banking Financial Company is Deposit taking Company.**

Category	Amount (in lakhs)	Percentage of provision	Provision (in lakhs)
Standard assets	9480	0.4	37.92
Sub-standard assets	830	10	83
Secured portions of doubtful debts – upto one year	110	20	22
Secured portions of doubtful debts – one year to three years	85	30	25.5
Secured portions of doubtful debts – more than three years	54	50	27
Unsecured portions of doubtful debts	200	100	200
Loss assets	100	100	100
Total			495.42

Illustration 2

Tubelight Financiers Ltd., a Non-Banking Financial Company (NBFC), offering Hire Purchase solutions for the acquisition of consumer durables. The following details are extracted from its books for the year ending 31st March, 2024:

Assets Funded	Interest Overdue but recognized in Profit & Loss		Net Book Value of Assets Outstanding
	Period Overdue	Interest Amount	
		(₹ In crore)	(₹ In crore)
LCD Televisions	Up to 8 Months	700.00	28,000
Washing Machines	For 32 Months	200.00	4,000
Refrigerators	For 44 Months	100.00	2,500
Air Conditioners	For 71 Months	48.00	500
Mobile Phones	For 22 Months	50.00	1,200

You are required to calculate the amount of provision to be made.

Solution:

Based on the information, in respect of hire purchase and leased assets, provision shall be made as under:

Condition	Provision Requirement	Calculation	Provision (in lakhs)
(a) Where hire charges are overdue upto 12 months	Nil	-	-
(b) Where hire charges are overdue for more than 12 months but upto 24 months	10% of the net book value	10% x 1200	120
(c) Where hire charges are overdue for more than 24 months but upto 36 months	40% of the net book value	40% x 4,000	1600
(d) Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months	70% of the net book value	70% x 2500	1750
(e) Where hire charges or lease rentals are overdue for more than 48 months	100% of net book value	100% x 500	500
		Total	3970

Illustration 3

Using the following information, prepare the Profit and Loss Account for Daisy Ltd. for the year ended on 31.03.2024:

	(₹ in '000)
Interest and Discount (includes interest accrued on investments)	8,400
Other Income	415
Employee benefit cost	2,350
Interest expended	1,900
Interest accrued on investments	25
Rebate on bills discounted to be provided for	39

Additional information:

The advances of the Daisy Ltd. are classified as below:

Assets	**(₹ in '000)**
Standard assets	5,100
Doubtful assets (Unsecured)	520
Sub-standard assets (Fully Secured)	2,200
Doubtful assets - covered by security	
Upto 1 Year	130
more than 1 year and upto 3 years	710
More than 3 years	650
Loss assets	354
Total	9,664

25% of the current year's profit has to be transferred to Statutory Reserve.

Provide 30% of the profit towards provision for taxation.

Solution:

Daisy Ltd.

Profit and Loss Account for the year ended 31-03-2024

(₹ in '000)

	Particulars	**Note No.**	**Year ended on 31-3-2024**
I	Revenue from Operations		
	Interest Income	1	8,361.00
II	Other income		415.00
III	Total income (I+II)		8,776.00
IV	Expenses		
	Finance costs		1,900.00
	Employee benefit cost		2,350.00
	Provisions and Contingencies	2	1,678.40
	Total Expenses (IV)		5,928.40
V	Profit / (Loss) before Tax (III-IV)		2,847.60
VI	Tax expense	3	854.28
VII	Profit / (Loss) after Tax		1,993.32
	Appropriations		
	Transfer to Statutory Reserve @ 25%		498.33
	Balance carried over to Balance Sheet		1,494.99
			1,993.32

Working Notes:

1. Interest Income

			(₹ in '000)
(i)	Interest and discount	8,400	
	Less: Rebate on bills discounted not provided	(39)	
	Less: Interest accrued on investments	(25)	8,336
(ii)	Interest accrued on investments		25
			8,361

Interest accrued on investments needs to be shown separately

2. Calculation of provisions and contingencies

Assets	Amount (₹ in '000)	% of Provision	Provision (₹ in '000)
Standard assets	5,100	0.4	20.40
Sub-standard assets (Fully Secured)	2,200	10	220.00
Doubtful assets (Unsecured)	520	100	520.00
Doubtful assets - covered by security			
Upto 1 Year	130	20	26.00
More than 1 year and upto 3 years	710	30	213.00
More than 3 years	650	50	325.00
Loss assets	354	100	354.00
Total Provision	**9,664**		**1,678.40**

3. Calculation of provision on tax = 30% on [Total Income - Total Expenditure]

= 30% of ₹ [(8776 - (1900 + 2350 + 1678.4)]

= 854.28

5 Accounting for Business Combinations and Restructuring [Study Material - Module 5]

Illustration 1

On 1 June, 2021, AK Ltd. acquired a 65% stake in BK Ltd., a company engaged in manufacturing machinery components. BK Ltd. has 1,05,000 equity shares of ₹10 each, and the quoted market price of its shares was ₹14 per share on the acquisition date. The fair value of BK Ltd.'s identifiable net assets on 1 June, 2021, was ₹90,00,000.

As part of the purchase consideration, AK Ltd.:

1. Paid ₹52,00,000 in cash.
2. Issued 55,000 equity shares at a market price of ₹27 per share (nominal value ₹10 each).
3. Agreed to an additional consideration of ₹15,00,000, payable if BK Ltd.'s cumulative profit for the next three years exceeds ₹1,15,00,000. On the acquisition date, it was deemed probable that the extra consideration would be paid, and its fair value was assessed at ₹10,80,000.

BK Ltd. incurred ₹1,53,000 as acquisition-related costs. The Non-controlling Interest (NCI) is measured at fair value.

How will AK Ltd. account for the acquisition of BK Ltd. under Ind AS 103? Provide detailed workings and pass the necessary journal entries.

Solution:

Computation of Goodwill/Capital reserve on consolidation as per Ind AS 103:

Particulars	₹
Cost of investment:	
Share exchange (55,000 x 27)	14,85,000
Cash consideration	52,00,000
Contingent consideration	10,80,000
Consideration transferred at date of acquisition [A]	77,65,000
Fair value of non-controlling interest at date of acquisition [B] (1,05,000 × 35% × 14)	5,14,500

Total [C] = [A] + [B]	82,79,500
Net assets acquired at date of acquisition [D]	(90,00,000)
Capital Reserve [D] - [C]	7,20,500

Journal entry at the date of acquisition: (by AK Limited as per Ind AS 103)

Particulars	Dr. ₹	Cr. ₹
Identifiable net assets	90,00,000	
To Equity share capital (55,000 × 10)		5,50,000
To Securities Premium (55,000 × 17)		9,35,000
To Cash		52,00,000
To Provision for contingent consideration to BK Ltd.		10,80,000
To Non-controlling Interest		5,14,500
To Capital Reserve		7,20,500

Note:

In a business combination, acquisition-related costs (including stamp duty) are expensed in the period in which such costs are incurred and are not included as part of the consideration transferred. Therefore, ₹1,53,000 incurred by BK Ltd. in relation to acquisition, will be ignored by AK Ltd.

Illustration 2

In March 2023, ASN Ltd. acquired 100% control in SMC Ltd. through a business combination for a total consideration of ₹12,250 lakhs. At the acquisition date, the assets and liabilities of SMC Ltd. are as follows:

Items	₹ In lakhs
Assets	
Cash & cash equivalents	890
Trade receivables (net)	5,300
Property, plant and equipment	8,250
Deferred tax asset	405
Liabilities	
Trade payables	1,250
Borrowings	5,100
Employee entitlement liabilities	950
Deferred tax liability	375

The property, plant and equipment owned by SMC Ltd. have a fair value of ₹9,000 lakhs, while their tax written-down value is ₹7,000 lakhs. The trade receivables are net of a doubtful debts allowance of ₹400 lakhs.

For tax purposes:

- Bad debts are deductible only when they are written off against the allowance account by SMC Ltd.
- Employee benefit liabilities are deductible only upon payment.

SMC Ltd. also holds a brand name which has a fair value of ₹4,500 lakhs as per its independent valuation. It meets the recognition criteria for intangible assets under Ind AS 103: Business Combinations. However, the brand has no tax base, and no tax deductions can be claimed for it.

The applicable tax rate is 30%. Unless otherwise stated, it is assumed that all other items have a fair value and tax base equal to their carrying amounts on the acquisition date.

You are required to:

1. Compute the deferred tax assets and deferred tax liabilities arising from the business combination. (Do not offset these amounts.)
2. Calculate the goodwill to be recognized on consolidation.

Solution:

Company ASN Ltd. is the acquirer and Company SMC Ltd. is the acquiree

Reconciliation of existing Deferred Tax Asset and Liability in the Balance Sheet:

(a) The aggregate deferred tax asset is ₹ 405 lakhs, comprised of ₹ 120 lakhs (₹ 400 lakhs × 30%) in relation to the receivables and ₹ 285 lakhs (₹ 950 lakhs × 30%) in relation to the employee entitlement liabilities.

(b) The aggregate deferred tax liability is ₹ 375 lakhs which is because of difference in tax base and carrying value of plant & equipment (₹ (8,250 – 7,000) lakhs × 30%).

Computation of Deferred Tax:

						in lakhs
Particulars	Book value	Fair value	Tax Base	Taxable (Deductible) Temporary difference	Deferred tax Asset (Liability) @30%	DTA/ (DTL)
Cash	890	890	890	-	-	
Receivables	5,300	5,300	5,700	-400	120	DTA
Plant and equipment	8,250	9,000	7,000	2,000	-600	DTL
Brands		4,500	-	4,500	-1,350	DTL
Deferred tax asset	405	405				
Total assets		**20,095**				

Payables	-1,250	-1,250	-1,250	-	-	
Borrowings	-5,100	-5,100	-5,100	-	-	
Employee Entitlement liabilities	-925	-950	-	-950	285	DTA
Deferred tax liability	-375	-1,950				
Total liabilities		**-9,250**				

DTA = ₹ 405 (120+285) lakhs

DTL = ₹ 1,950 (600+1350) lakhs

Computation of Net Assets of Acquiree:

Particulars	Amount
Cash & cash equivalents	890
Trade receivables	5,300
Property, plant and equipment	9,000
Brands	4,500
Deferred tax asset	405
Total assets	**20,095**
Trade payables	-1,250
Borrowings	-5,100
Employee Entitlement liabilities	-950
Deferred tax liability	-1,950
Total liabilities	-9,250
Net Assets	**10,845**

Computation of Consideration Transferred:

Particulars	Amount
Consideration paid	12,250
	12,250

Goodwill will be calculated as under:

Particulars	Amount
Consideration Transferred	12,250
Non-controlling interest	NIL
Less: Fair value of Net identifiable assets	-10,845
Goodwill	1,405

Journal Entry – Acquisition Accounting:

Particulars	in lakhs	in lakhs
Identifiable Assets acquired	20,095	
Goodwill	1,405	
To Consideration Transferred		12,250
To Liabilities assumed		9,250
To Non-controlling interest		-

Illustration 3

The Balance Sheet of Buyer Ltd. and Seller Ltd., as at 31st March 2023 is provided below:

(in lakhs)

Assets	Buyer Ltd.	Seller Ltd.
Non-Current Assets:		
Property, plant and equipment	450	600
Investments	250	190
Current assets:		
Inventories	370	130
Financial assets		
Trade receivables	330	180
Cash and cash equivalents	150	260
Others	300	240
Total	**1850**	**1600**
Equity and Liabilities		
Equity		
Share capital-Equity shares of ₹ 100 each for Seller Ltd. & ₹ 10 each for Buyer Ltd.	500	400
Other Equity	700	275
Non-Current liabilities:		
Long term borrowings	180	350
Long term provisions	80	80
Deferred Tax liability	20	30
Current Liabilities:		
Short term borrowings	150	195
Trade payables	220	270
Total	**1850**	**1600**

Other information:

(i) Buyer Ltd. acquired 75% shares of Seller Ltd. on 1st April, 2023 by issuing its own shares in the ratio of 1 share of Buyer Ltd. for every 2 shares of Seller Ltd. The fair value of the shares of Buyer Ltd. was 45 per share.

(ii) The fair value exercise resulted in the following:

(1) Fair value of Property, Plant and Equipment (PPE) of Seller Ltd. as on 1st April, 2023 was ₹510 lakhs.

(2) Buyer Ltd. agreed to pay an additional payment (due after 2 years) as consideration that is higher of (i) ₹ 28 lakh or (ii) 25% of any excess profits in the first year after acquisition, over its profits in the preceding 12 months made by Seller Ltd.

Seller Ltd. has earned 25 lakh profit in the preceding year and expects to earn another 10 Lakh in the year of acquisition.

(3) In addition to above, Buyer Ltd. also has agreed to pay one of the founder shareholder-Director a payment of ₹ 18 lakhs provided he stays with the Company for two years after the acquisition.

(4) Seller Ltd. had certain equity settled share-based payment award (original award) which got replaced by the new awards issued by Buyer Ltd. As per the original term the vesting period was 4 years and as of the acquisition date the employees of Seller Ltd. have already served 2 years of service. As per the replaced awards, the vesting period has been reduced to one year (one year from the acquisition date). The fair value of the award on the acquisition date was as follows:

a. Original award - 8 lakhs

b. Replacement award – ₹ 10 lakhs

(5) Seller Ltd. had a lawsuit pending with a customer who had made a claim of ₹ 35, lakhs. Management reliably estimated the fair value of the liability to be ₹ 12 lakhs.

(6) The deferred tax liability as on 31.03.2023 appearing in the books of Seller Ltd. is on account of Property, plant and equipment.

(7) Assume that the applicable tax rate for both companies is 30%. Use discounting rate of 10% wherever it is required.

Based on the above data you are required to prepare opening consolidated balance sheet of Buyer Ltd. as on 1st April, 2023 along with workings.

Solution:

In this case, Buyer Ltd. has paid consideration to shareholders of Seller Ltd. Therefore, Buyer Ltd. is the acquirer and Seller Ltd. is the acquiree.

As the control over the business of Buyer Ltd. is transferred to Seller Ltd. on 1st April, 2023 that date is considered as the acquisition date.

Computation of Deferred Tax:

The deferred tax liability as on 31.03.2023 is ₹30 lakhs, which is on account of Property, Plant and equipment (PPE). Since the carrying value of PPE is ₹600 Lakhs the tax base for this item will be ₹ 500 Lakhs. [(600-tax base)×30% = 30].

The calculation of DTA / DTL as on 01.04.2023.

					in lakhs
Particulars	Book value	Fair value	Tax Base	Taxable (Deductible) Temporary difference	Deferred tax Asset (Liability) @ 30%
Property, Plant and equipment	600.00	510.00	500.00	-10.00	-3.00
Contingent Liability	Nil	-12.00	0.00	12.00	3.60
DTA					0.60

(only items where tax base is different from book value have been considered)

Computation of Net Assets of Acquiree:

Particulars	Amount
Property, plant and equipment	510.00
Investment	190.00
Inventories	130.00
Financial assets:	
Trade receivables	180.00
Cash and cash equivalents	260.00
Others	240.00
Deferred Tax Asset	0.60
	1,510.60
Long term borrowings	350.00
Long term provisions	80.00
Deferred tax Liability	-
Short term borrowings	195.00
Trade payables	270.00
Contingent liability	12.00

Particulars	Amount
	907.00
Net assets	**603.60**

Computation of Consideration Transferred:

The consideration transferred will comprise the following:

Particulars		Amount
Share capital of Parker Ltd.		400
Number of Shares (in lac)	4	
Shares to be issued in the ratio of 2:1 (in lac)	2	
Fair value per share		45.00
Consideration Transferred (2,00,000 × 75%×45 per share) (A)		67.50
Deferred consideration after discounting 28 lakhs for 2 years @10%		23.13
[28 x 0.826]- Working Note - I (B)		
Replacement award i.e. (8 x 2/4) - Working Note - II (C)		4.00
Total Consideration Transferred (A+B+C)		94.63

Working Note - I: Contingent and Deferred Consideration:

In the given case, ₹28 lakh is the minimum payment to be paid after 2 years and accordingly will be considered as deferred consideration. The other element of payment is contingent in nature as it is linked to further performance of the Company. Hence, value for the contingent portion has been ignored and amount which is certain has been considered with time value effect @ 10%.

Working Note - II: Replacement Award:

At the acquisition date, the employees had not rendered the required service and completed only 50% of required period of 4 years. Hence, ₹400,000 should be allocated as purchase consideration because this is the fair value of the original scheme at the acquisition date. The remaining ₹ 4,00,000 is recognised in the consolidated statement of profit or loss as a post-acquisition expense (employee cost) when the vesting conditions get satisfied.

Note:

The additional consideration of 25 lakh to be paid to the founder shareholder is contingent to him/her continuing in employment and hence has been ignored.

Measurement of NCI:

NCI will be recognized at ₹ 150.90 lakhs (25% of ₹ 603.6 Lakhs (net assets))

Computation of goodwill or gain on bargain purchase:

Particulars	₹ Lakhs
Consideration Transferred	94.63
Non-controlling interest	150.90
Less: Fair value of Net identifiable assets	603.60
Bargain Purchase Gain	358.07

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

(₹ in lakhs)

	Amount
Assets	
Non-current assets:	
Property, plant and equipment (450+510)	960.00
Investment (250 + 190)	440.00
Current assets:	
Inventories (370+130)	500.00
Financial assets:	
Trade receivables (330 + 180)	510.00
Cash and cash equivalents (150 + 260)	410.00
Others (300 + 240)	540.00
Deferred tax assets	0.60
Total	3360.60
Equity and Liabilities	
Equity	
Share capital - Equity shares of 100 each (500 +15)	515.00
Other Equity (Working Note - III)	1,114.57
Non-Controlling Interest	150.90
Non-current liabilities:	
Financial liabilities:	
Long term borrowings (180+350)	530.00
Long term provisions (80+80+23.81)	183.13
Deferred tax liability (20 + 0)	20.00
Current liabilities:	
Financial liabilities:	
Short term borrowings (150 + 195)	345.00
Trade payables (220 + 270)	490.00
Provision for law suit damages	12.00
Total	3,360.60

Working Note - III: Other Equity:

Other Equity	700.00
Replacement award (SBP Reserve)	4.00
Security Premium Reserve (2,00,000 shares x 75% ×₹35)	52.50
Capital Reserve (Bargain Purchase Gain)	358.07
	1114.57

Illustration 4

Four years ago, Sushma Ltd. (Sushma) acquired 80% of the shares in Trio Ltd for ₹1,50,000. On 30 June, Sushma sold all of these shares for ₹3,50,000. The net assets of Trio Ltd at the acquisition date were ₹74,000, and at the disposal date, they were ₹95,000. Half of the goodwill created at the time of acquisition had been written off in an earlier year. The fair value of the non-controlling interest in Trio Ltd at the acquisition date was ₹18,000. Sushma follows the full goodwill method for accounting of goodwill.

Determine:

(a) the profit or loss for Sushma arising from the disposal of the shares.

(b) the profit or loss for the group arising from the disposal of the shares.

Solution:

(a) Calculation of profit or loss for Sushma arising from the disposal of the shares:

	₹ '000
Sales proceeds	350
Cost of shares sold	150
Profit on disposal	200

(b) Calculation of the profit or loss for the group arising from the disposal of the shares:

	₹ '000	₹ '000
Sales proceeds		350
Net assets at disposal date	95	
Goodwill at disposal date (W1)	47	
Less: NCI at disposal date (W2)	(12.8)	(129.2)
Profit on disposal		220.8

Working Notes:

(W1) Goodwill

	₹ '000
Consideration	150
NCI at acquisition	18
FV of net assets at acquisition	(74)
Goodwill at acquisition	94
Impairment (₹94 × 50%)	(47)
Goodwill at disposal date	47

(W2) NCI at disposal date

NCI at acquisition	18
NCI % of post-acq'n net assets movement (20% (₹95 - ₹74))	4.2
NCI % of impairment (20% x ₹ 47 (W1))	(9.4)
	12.8

Illustration 5

AK Limited operates through two divisions, A and B. Division A has been generating steady profits, while Division B has been consistently incurring losses. The draft extract of the Balance Sheet as at 31/03/2023 for each division is as follows:

(₹ crore)

Particulars	A	B	Total
Fixed Assets Cost	600	1,200	1,800
Depreciation	-400	-750	-1,150
Net Fixed Assets (A)	200	450	650
Current Assets	460	900	1,360
Less: Current Liabilities	60	750	810
Net Current Assets (B)	400	150	550
Total (A) + (B)	**600**	**600**	**1,200**
Financed by:			-
Loan Funds	-	700	700
Capital: Equity * 10 each	50	-	50
Surplus	550	-100	450
Total	600	600	1,200

Division B, along with its assets and liabilities, was sold for ₹50 crore to ASN Limited. ASN Limited allotted 2 crore shares of ₹10 each to the members of AK Limited at a premium of ₹15 per share, in full settlement of the consideration, in proportion to their shareholding in the company. One of the members of AK Limited held 52% of the shares in the company.

There is no other transaction. You are required to:

(i) Pass journal entries in the books of AK Limited.

(ii) Prepare the Balance Sheet of AK Limited after passing the entries in (i) along with notes to accounts for 'Other Equity'

(iii) Prepare the Balance Sheet of ASN Limited along with notes to accounts for 'Share Capital'.

Solution:

(1) In the given scenario, this demerger will meet the definition of common control transaction. Accordingly, the transfer of assets and liabilities will be derecognized and recognized as per book value and the resultant loss or gain will be recorded as capital reserve in the books of demerged entity (AK Ltd.).

Journal of AK Ltd.:

(in crore)

Particulars	Debit	Credit
Loan Funds	700	
Current Liabilities	750	
Provision for Depreciation	750	
To Fixed Assets		1,200
To Current Assets		900
To Capital Reserve		100
(Being division B along with its assets and liabilities sold to ASN Ltd. for 50 crore)		

(ii) **Balance Sheet of AK Ltd.. (after demerger)**

(₹ crore)

Assets	Note No.	Amount
Non-current assets		
Property, Plant and Equipment		200
Current assets		460
		660

EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of 10 each)	1	50
Other equity	2	550
Liabilities		
Current liabilities		
Current liabilities		60
		660

Notes to Accounts:

No.	Particulars	(₹ crore)
1	Equity Share Capital	
	5 crore equity shares of face value of 10 each	50
	Consequent to transfer of Division B to newly incorporated company ASN Ltd., the members of the company have been allotted 2 crore equity shares of 10 each at a premium of 15 per share of ASN Ltd., in full settlement of the consideration in proportion to their shareholding in the company	
2	Other Equity	
	Surplus (550-100)	450
	Add: Capital Reserve on reconstruction	100
		550

(iii) **Balance Sheet of ASN Ltd.**

(in crore)

Particulars	Note No.	Amount
ASSETS		
Non-current assets		
Property, Plant and Equipment		450
Current assets		900
		1,350
EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of ₹ 10 each)	1	20
Other equity	2	(120)
Liabilities		
Non-current liabilities		
Financial liabilities		

Borrowings	700
Current Liabilities	
Current Liabilities	750
	1,350

Notes to Accounts:

No.	Particulars	
1	Share Capital	
	Issued and Paid-up capital	
	2 crore Equity shares of ₹ 10 each fully paid up	20
	(All the above shares have been allotted to the members of AK Ltd.. on takeover of Division B from AK Ltd.. as fully paid-up pursuant to contract without payment being received in cash)	
2	Other Equity	(120)
	Capital reserve	(100)

Illustration 6

The summarized Balance Sheet of SMC Limited as at 31st December, 2023, is provided below:

	₹ Lakhs
Assets:	
Property, plant & equipment (at cost less depreciation)	125
Debenture Redemption Reserve Investments	24
Cash and cash equivalents	80
Other Current Assets	210
Total	**439**
Liabilities	
Share Capital: 5,00,000 equity shares of ₹ 10 each fully paid	50
Other equity:	95
Profit And loss A/c	19
Debenture Redemption Reserve	20
12.5% Convertible Debentures, 80,000 Debentures of ₹ 100 each	80
Other loans	60
Current Liabilities and Provisions	115
Total	**439**

The debentures are due for redemption on 1st January 2024 at a 10% premium, with an option for debenture holders to convert 20% of their holdings into equity shares at ₹12 per share. The remaining 80% of the debenture amount, along with the 10% premium, will be paid in cash, and debenture holders must exercise the conversion option, failing which the entire amount will be redeemed in cash.

Assuming that:

(a) Except for 90 debenture holders holding a total of 20,000 debentures, the rest exercised the option for maximum conversion.

(b) The investments were realized at par on sale.

(c) All the transactions are put through, without any lag, on 1st January, 2024.

You are required to redraft the balance sheet of the company as of 1st January, 2024, after giving effect to the redemption. Show your calculations for the number of equity shares to be allotted and the necessary cash payment.

Solution:

SMC Limited

Balance Sheet as on 1st Jan, 2024

Particulars	NoteNo	₹ Lakhs
I. Assets		
(1) Non-Current Assets		
(a) Property, Plant & Equipment		
(i) Tangible assets		125.00
(2) Current Assets		
(a) Cash and cash equivalent (Refer W/N (iii))		29.20
(b) Other current assets		210.00
Total		364.20
II. Equity and Liabilities:		
(1) Equity		
(a) Share Capital	1	61.00
(b) Other equity	2	128.20
(2) Non-Current Liabilities		
(a) Long-term borrowing – Unsecured Loans		60.00
(3) Current Liabilities		
(a) Short-term provisions		115.00
Total		364.20

Notes to Accounts

1	**Share Capital**		
	6,10,000 Equity Shares		61.00
	(5,00,000 +1,10,000) of ₹ 10 each (Refer WN (i))		
2	**Reserves and Surplus**		
	General Reserve	95.00	
	Profit & Loss	19.00	
	Add: Debenture Redemption Reserve transfer	20.00	
		134.00	
	Less: Premium on redemption of debentures	-8.00	126.00
	(80,000 debentures x ₹ 10 per debenture)		
	Securities Premium		2.20
	(110,000 shares x 2) (Refer WN (i))		128.20

Working Notes:

(i)	**Calculation of number of shares to be allotted**		
	Total number of debentures		80,000
	Less: Number of debentures for which debenture holders did not opt for conversion		-20,000
			60,000
	20% of 60,000		12,000
	Redemption value of 12,000 debentures (12,000 x 110)		13,20,000
	Number of Equity Shares to be allotted:	1,10,000	
	13,20,000/12 = 1,10,000 shares of 10 each		
	Share Price per share for conversion		12
(ii)	**Calculation of cash to be paid**:		₹
	Total number of debentures		80,000
	Less: number of debentures to be converted into equity shares		-12,000

	Balance	68,000
	Redemption value of 68,000 debentures (68,000 × ₹ 110)	74,80,000
(iii)	**Cash and Bank Balance**:	₹
	Balance before redemption	80,00,000
	Add: Proceeds of investments sold	24,00,000
		1,04,00,000
	Less: Cash paid to debenture holders	-74,80,000
		29,20,000

Illustration 7

Red Ltd. and White Ltd. have been operating independently since 1st April 2021. On account of potential synergies, both companies decided to amalgamate their businesses. The amalgamation became effective from 1st April 2023, resulting in the formation of a new company, Pink Ltd., which took over the businesses of both Red Ltd. and White Ltd.

The summarized Balance Sheets of Red Ltd. and White Ltd. as at 31st March 2023 are presented below:

Liabilities	Red Ltd. (₹)	White Ltd. (₹)
Share Capital:		
Equity share of ₹ 10 each	15,00,000	14,50,000
Revaluation Reserve	1,00,000	2,00,000
General Reserve	1,65,000	85,000
Profit & Loss Account		
Opening Balance	1,50,000	1,20,000
Profit for the Year	2,00,000	1,30,000
15% Debentures of ₹ 100 each (Secured)	4,00,000	5,00,000
Trade payable	3,10,000	1,20,000
	28,25,000	26,05,000
Assets	**Red Ltd. (₹)**	**White Ltd. (₹)**
Land and Buildings	3,20,000	7,40,000
Plant and Machinery	16,00,000	12,60,000
Investments	1,00,000	60,000
Inventory	2,20,000	1,50,000
Trade Receivable	4,25,000	2,65,000
Cash at Bank	1,60,000	1,30,000
	28,25,000	26,05,000

Additional Information:

1. The authorised capital of the newly formed company, Pink Ltd., will be ₹50,00,000, divided into 2,00,000 equity shares of ₹25 each.

2. The trade payables of Red Ltd. include an amount of ₹15,000 payable to White Ltd., and the trade receivables of White Ltd. include ₹15,000 receivable from Red Ltd.

3. The Land & Buildings and inventory of Red Ltd. and White Ltd. are to be revalued as follows:

	Red Ltd. (₹)	White Ltd. (₹)
Land and Buildings	5,20,000	10,40,000
Inventory	1,80,000	1,25,000

Details of Purchase Consideration and Discharge:

(i) Equity Shares: Pink Ltd. will issue 1,80,000 fully paid-up equity shares of ₹25 each, allocated in proportion to the profitability of Red Ltd. and White Ltd. during the preceding two financial years.

(ii) Debentures: Pink Ltd. will issue 18% debentures of ₹100 each to the 15% debenture holders of Red Ltd. and White Ltd. The number of debentures will be such that the total interest payable remains unchanged.

Requirement:

Prepare the Balance Sheet of Pink Ltd. after amalgamation. Note that the amalgamation is classified as being in the nature of a purchase.

Solution:

Balance Sheet of Pink Ltd. as at 1st April, 2023

Particulars	Note No	₹
I. Assets		
(1) Non- Current assets		
(a) Property, Plant and Equipment	1	44,20,000
(b) Non-current investments		1,60,000
(2) Current assets		
(a) Current investments		-
(b) Inventories		3,05,000
(c) Trade receivable		6,75,000
(d) Cash and cash equivalents		2,90,000
Total		58,50,000
II. Equity and Liabilities		
(1) Equity		
(a) Share capital	2	45,00,000
(b) Other equity	3	1,85,000

Particulars		Note No	₹
(2) Non- Current Liabilities			
	(a) Long -Term borrowings	4	7,50,000
(3) Current Liabilities			
	(a) Trade payable		4,15,000
	Total		58,50,000

Notes to Accounts

1	**Property, Plant and Equipment**	₹	₹
	Tangible assets		
	Land and Buildings	15,60,000	
	Plant and Machinery	28,60,000	44,20,000
2	**Share Capital**		
	Equity Share Capital		
	Authorised share capital:		
	2,00,000 Equity Share of ₹ 25 each		50,00,000
	1,80,000 Equity shares of ₹ 25 each		45,00,000
	(all the above shares are allotted as fully paid up pursuant to contracts without payment being received in cash)		
3	**Other Equity**		
	Capital Reserve		1,85,000
4	**Long Term Borrowings**		
	Secured Loans		
	18% of Debentures (₹ 100 each)		7,50,000

Working Notes:

W1: Calculation of net assets taken over

Particulars		Red Ltd. (₹)	White Ltd. (₹)
Assets Taken over:			
Land and Buildings		5,20,000	10,40,000
Plant and Machinery		16,00,000	12,60,000
Investments		1,00,000	60,000
Inventory		1,80,000	1,25,000
Trade Receivable (W3)		4,25,000	2,50,000
Cash at Bank		1,60,000	1,30,000
	(i)	29,85,000	28,65,000

Particulars		Red Ltd. (₹)	White Ltd. (₹)
Liabilities taken over:			
Debentures (W2)		3,33,333	4,16,667
Trade payables (W3)		2,95,000	1,20,000
	(ii)	6,28,333	5,36,667
Net Assets taken over	(i) - (ii)	23,56,667	23,28,333

W2: **Calculation of value of Debentures to be issued in Pink Ltd.**

Red Ltd.

Existing Debenture interest @ 15%	₹ 4 lakhs x 15/100.	60,000
Debentures to be issued in Pink Ltd. @ 18% to maintain the same amount of interest	₹ 60000 x 100/18	3,33,333

White Ltd.

Existing Debenture interest @15%	₹ 5 lakhs x 15/100.	75,000
Debentures to be issued in Pink Ltd. @ 18% to maintain the same amount of interest	₹ 75000 x 100/18	4,16,667

W3: Trade receivable and trade payable

	Red Ltd. (₹)	White Ltd. (₹)
Trade receivable		
Balances before amalgamation	4,25,000	2,65,000
Less: receivable from Red	-	-15,000
	4,25,000	2,50,000
Trade Payable		
Balances before amalgamation	3,10,000	1,20,000
Less: Due to white	-15,000	-
	2,95,000	1,20,000

W4: Computation of Purchase Consideration:

			Red Ltd. (₹)	White Ltd. (₹)
1	Equity Shareholders			
	Equity based on two year profit			
	Op balance (i.e. FY21-22, as started w.e.f. 01/04/2021)		1,50,000	1,20,000
	Profit of the year (i.e. FY 22-23)		2,00,000	1,30,000
	Total		3,50,000	2,50,000
	$\frac{1,80,000 \times 350 \times ₹\ 25}{(350+250)}$		26,25,000	
	1,80,000 × 250 × ₹ 25			

			Red Ltd. (₹)	White Ltd. (₹)
	(350+250)			18,75,000
	Total Purchase consideration	(a)	26,25,000	18,75,000
	Net Assets takeover (W N - 1)	(b)	23,56,667	23,28,333
	Goodwill	(a-b)	2,68,333	
	Capital reserve	(b-a)		4,53,333

Goodwill arising from amalgamation shall be adjusted against Capital Reserve arising from amalgamation, and only balance of ₹ 1,85,000 is to be shown in the Balance Sheet of Pink Ltd as capital reserve.

Illustration 8

On 30 June 2024, AB Ltd. sold a 25% stake in JK Ltd. for ₹215,000. Five years earlier, AB Ltd. had acquired a 70% stake in JK Ltd.. AB Ltd. applies the full goodwill method. Prior to this disposal the Goodwill has been fully impaired and already written off in full.

Other details of JK Ltd. are as follows:

	₹
Net assets at disposal date	420,000
Fair value of a 45% holding at 30 June 2024	355,000
Carrying value of the non-controlling interest (NCI) on 30.06.2024	90,000

Show the accounting treatment in the consolidated financial statements.

Solution:

The group's holding in JK Ltd. has reduced from 70% to 45%. Control over JK Ltd. has been lost hence profit or loss on disposal need to be calculated.

Calculation of profit on disposal for the consolidated statement of profit or loss:

	₹	₹
Proceeds		2,15,000
FV of retained interest		3,55,000
		5,70,000
Net assets recognised at disposal	4,20,000	
Goodwill at disposal	-	
Less: NCI at disposal date	(90,000)	
		(3,30,000)
Profit on disposal		2,40,000

A 45% shareholding would normally give the investor significant influence over the investee and so this would meet the definition of an associate. Hence, from 30 June 2024, the investment will be accounted for using the equity method in the consolidated financial statements and the remaining investment in JK Ltd. will be recognised at its fair value of ₹3,55,000.

Illustration 9

Until 30 September 2024, H Ltd. was holding 90% stake in S Ltd. On this date, it sold 10% stake in S Ltd. for ₹22,000. At the time of the disposal, the carrying amount of S Ltd.'s net assets and goodwill were ₹1,15,000 and ₹35,000 respectively. The non-controlling interest (NCI) was valued at fair value at the time of acquisition.

Give accounting treatment in the consolidated financial statements of the H Ltd. group.

Solution:

H Ltd.'s shareholding has decreased from 90% to 80%. H Ltd. still exercises control over S Ltd. and therefore S Ltd. continues to be a subsidiary.

No gain or loss on the sale of the shares is recognized in the consolidated financial statements. Goodwill is not recalculated. Instead, the transaction is accounted for in equity, as an increase to the non-controlling interest.

	₹	
Cash proceeds	22,000	Debit
Increase in NCI [10% (₹1,15,000 + ₹35,000)]	15,000	Credit
Increase in other components of equity (Bal. fig.)	7,000	Credit

As per the calculation above, the non-controlling interest should be increased by ₹15,000 and the difference between the proceeds received and the increase in the non-controlling interest i.e. ₹7,000 will be recognized as an increase in the equity attributable to the owners of H Ltd.

6 Consolidated Financial Statements and Separate Financial Statements [Study Material - Module 6]

Illustration 1

On 1 April 2023, XYZ Ltd. (XYZ) acquired 60% of the shares of ABC Ltd. (ABC). At the acquisition date, ABC had share capital of ₹25,000 and retained earnings of ₹210,000.

ABC's property, plant, and equipment include land with a carrying value of ₹20,000 but a fair value of ₹60,000.

ABC also has intangible assets that include goodwill of ₹40,000, which resulted from the purchase of the proprietorship business. Furthermore, ABC possesses an internally generated brand, which is not recognized in the books of accounts, however, the fair value of this brand is ₹120,000.

The company, ABC disclosed a contingent liability in its financial statements, where a customer has initiated legal proceedings. Although legal counsel believes the risk is unlikely, if the customer prevails, estimated damages could be ₹10 lakh. The fair value of this contingent liability is assessed at ₹150,000 on the acquisition date.

Lastly, the management of the company, XYZ anticipate closing one of ABC's divisions, with an estimated redundancy payment cost of ₹225,000.

Based on the above information determine the fair value of ABC's identifiable net assets at the acquisition date.

Solution:

Fair Value of identifiable net assets at the acquisition date:

Particulars	₹
Share capital	25,000
Retained earnings	2,10,000
Land fair value uplift (WN 1)	40,000
Goodwill (WN 2)	(40,000)
Brand (WN 3)	1,20,000
Contingent liability (WN 4)	(1,50,000)
Anticipated redundancy cost (WN 5)	NIL
Fair value of identifiable net assets at acquisition	2,05,000

Working Notes:

1. Land should be recognised in the consolidated financial statements at ₹60,000. Therefore, its carrying amount must be increased by ₹40,000 (₹60,000 – ₹20,000).
2. Goodwill in the subsidiary's own financial statements is not an identifiable asset because it cannot be disposed of separately from the rest of the business. As such, it is not recognised in the consolidated financial statements.
3. The brand is unrecognised in the individual financial statements but must be recognised in the consolidated financial statements at its fair value of ₹1,20,000.
4. The contingent liability is disclosed in the individual financial statements. However, it must be recognised in the consolidated financial statements at its fair value of ₹1,50,000. This is a liability and so reduces the total fair value of the identifiable net assets.
5. No adjustment is made to the fair value of the net assets for the estimated redundancy provision. This is because no obligation exists as at the acquisition date.

Illustration 2

On 1 April 2023, X Ltd. acquired 60% of the equity shares in A Ltd. The total purchase consideration paid by X Ltd. for acquiring control of A Ltd. is as follows:

- An upfront cash payment of ₹2,00,000
- A deferred payment of ₹3,00,000, payable after one year
- 15,000 equity shares of X Ltd., each having a nominal value of ₹1 and a fair value of ₹4 as on the acquisition date
- A contingent consideration of ₹2,00,000, payable after one year if A Ltd. achieves a profit before tax (PBT) exceeding ₹25 Lakhs. The probability of achieving this target is 50%, and the fair value of the contingent consideration is determined using the present value of the expected value.
- X Ltd. is required to replace a share-based payment scheme previously granted by A Ltd. to its employees. At the acquisition date, the employees had rendered the required service but had not exercised their options. The fair value of the original award in A Ltd. was ₹4,50,000, whereas the fair value of X Ltd.'s replacement award (with no post-acquisition vesting conditions) was ₹6,00,000.
- Legal fees associated with the acquisition amounted to ₹25,000.

Using a discount rate of 10% wherever applicable, determine the fair value of the consideration transferred to acquire control of A Ltd.

Solution:

The total fair value of the consideration transferred is calculated below:

Particulars	₹
Cash paid	2,00,000
Deferred cash (WN 2)	2,72,727
Shares (WN 3)	60,000
Contingent consideration (WN 4)	90,909
Replacement share-based payment (WN 5)	4,50,000
Fair value of consideration	10,73,636

Working Notes:

1. Purchase consideration should be measured at its fair value as at the acquisition date.
2. Deferred cash = ₹2,72,727 ((₹300,000 × (1/1.1)).
3. Share consideration = ₹60,000 (15,000 × ₹4).
4. Contingent consideration should be measured at its fair value i.e. ₹90,909 ((₹200,000 × 50% × (1/1.1)).
5. Only ₹450,000 should be allocated as purchase consideration because this is the fair value of the original scheme at the acquisition date. The remaining ₹150,000 is recognised immediately in the consolidated statement of profit or loss as a post-acquisition expense because there are no vesting conditions to satisfy.
6. Legal fees are expensed to the statement of profit or loss.

Illustration 3

On 1st April 2024, Lucky Group acquired 80% of Happy for ₹6,00,000. The fair value of Happy's identifiable net assets at the acquisition date was ₹7,20,000.

On 31st March 2025, the carrying amount of Happy's net assets is ₹6,90,000 (excluding goodwill). Happy qualifies as a cash-generating unit. The recoverable amount of Happy's net assets is ₹7,00,000.

Determine the effect of the impairment review on 31st March 2025 in the following cases:

(a) the NCI at acquisition was measured at its fair value of ₹2,20,000.

(b) the NCI at acquisition was measured at its share of the fair value of Happy's identifiable net assets.

Solution:

(a) Full goodwill method

Goodwill arising on acquisition:

Particulars	₹ in '000
Fair value of consideration paid	600
NCI at acquisition	220
	820
Less fair value of net assets at acquisition	(720)
Goodwill	100

Impairment review:

Particulars	₹ in '000
Goodwill	100
Net assets	690
Carrying amount	790
Recoverable amount	(700)
Impairment	90

(b) Proportionate method

Goodwill arising on acquisition:

Particulars	₹ in '000
Fair value of consideration paid	600
NCI at acquisition (20% × ₹720,000)	144
	744
Less: fair value of net assets at acquisition	(720)
Goodwill	24

Impairment review:

Particulars	₹ in '000
Goodwill	24
Unrecognised NCI (20/80 × ₹24,000)	6
Total notional goodwill	30
Net assets	690
Carrying amount	720
Recoverable amount	(700)
Impairment	20

Illustration 4

Extracts from the Balance Sheet at 31 March 2024 for three companies ASN Ltd. (ASN), SB Ltd. (SB) & AC Ltd. (AC) are below:

	ASN Ltd. ₹ Lakhs	SB Ltd. ₹ Lakhs	AC Ltd. ₹ Lakhs
Non-current assets			
Property, plant and equipment	37	21	36
Investments in subsidiary and associates	19	–	–
Equity and liabilities			
Equity shares of ₹1 each	20	8	10
Retained earnings			
– at 31 March 2023	32	12	22
– for year ended 31 March 2024	19	6	12

The following information is relevant to the preparation of the consolidated Balance Sheet.

(i) Investments in subsidiary and associate are made on 01.04.2023 and the amount under this head includes the following:

Cash paid by ASN to AC for purchase of 30% of AC's equity shares for ₹ 1.8 per share and the cash consideration paid by ASN to SB for the shares acquired in SB @ Rs. 2 per SB's shares acquired. Investment does not include the share consideration paid by ASN to the shareholders of SB. Further the investment includes ₹1.6 lakh in professional costs associated with the acquisition of SB.

(ii) ASN acquired 6 lakhs equity shares of SB by exchanging one share of ASN for every two shares of SB, along with a cash payment as indicated in point no (i). Further, at the acquisition date, the market price of each ASN share was ₹6 and the market price of each SB share was ₹ 4.

(iii) At the time of acquisition, SB had an internally generated brand name, which was not recognized in its separate financial statements. ASN has estimated that this brand name has a fair value of ₹8 lakhs, with an indefinite useful life.

(iv) ASN values non-controlling interests at fair value at the acquisition date, using SB's share price for this purpose.

(v) Impairment testing on 31 March 2024 revealed that the recoverable amount of SB's net assets was ₹40 lakhs.

With the above data you are required to calculate:

(a) the carrying amount of goodwill arising on the acquisition of SB that will be reported in the consolidated Balance Sheet as at 31 March 2024.

(b) the investment in AC in the consolidated Balance Sheet as at 31 March 2024.

(c) the value for non-current assets which should appear in the consolidated Balance Sheet as at 31 March 2024.

Solution:

(a) Calculation of Goodwill on acquisition date:

Goodwill arising at acquisition is calculated as follows:

Particulars	₹ Lakhs
Fair value of consideration:	
Share exchange (WN 1)	18
Cash paid (WN 1)	12
FV of NCI at acquisition (WN 3)	8
Less: FV of net assets at acquisition (WN 2)	(28)
Goodwill at acquisition	10

Impairment of Goodwill:

	₹ Lakhs	₹ Lakhs
Goodwill (as determined above)		10
Net assets:		
Share capital	8	
Retained earnings bfd	12	
Profit for the period	6	
Brand value	8	
		34
Total carrying amount		44
Recoverable amount (as given)		(40)
Impairment		4

The impairment loss will reduce goodwill from ₹10 lakhs to ₹6 lakhs. The loss of ₹4 lakhs will be charged to the statement of profit or loss. ₹3 (4 x 75%) will go to parent company & ₹1 (4 X 25%) will go to NCI.

Working Notes:

1. Calculation of Consideration (at fair value):

Particulars	Calculation
(i) Share exchange	₹ 18 lakh [3 lakh shares (1/2 × 6 lakhs) × ₹ 6 each (at their fair value)]
(ii) Cash Paid	₹ 12 lakh (6 lakhs × ₹ 2)

The inclusion of ₹1.6 lakh (professional fees) in the investment is not correct and this must be written off in the statement of profit or loss.

1. Fair value of net assets at acquisition date:

SB's brand name is an identifiable asset because it can be sold separately. Therefore, it must be included in the consolidated financial statements at its fair value of ₹8 lakh. Therefore, the fair value of SB's identifiable net assets at acquisition = ₹28 lakhs (equity shares ₹8 lakh +retained earning ₹12 lakh + ₹8 lakh).

The brand has an indefinite useful life so will not be amortised. It should be reviewed annually for impairment.

2. Non-controlling interest (at fair value):

The value of NCI = ₹ 8 lakhs (2 lakh × ₹ 4).

(b) Calculation of value for investment in associate as on 31/03/2024.

Particulars		₹ in Lakh
Initial Investment in AC Ltd.	(10L x 30% x ₹ 1.8)	5.40
Add: Profit share for the year	(12L x 30%)	3.60
Carrying Value of associate as on 31/03/2024		9.00

(c) Extract from consolidated Balance Sheet as at 31 March 2024

Non-current assets

	₹ Lakhs
Property, plant and equipment (₹37 + ₹21)	58
Goodwill (₹10 lakhs – ₹4 lakhs impairment)	6
Intangible assets	8
Investment in associate	9
	81

Illustration 5

The Balance Sheet for three entities White Ltd. (White), Blue Ltd. (Blue) and Pink Ltd. (Pink) for the year ending 31st March,2024 are presented below:

	White	Blue	Pink
Assets	₹	₹	₹
Property, plant and equipment	100,000	80,000	65,000
Investments	125,000	–	–

Inventories	22,000	30,000	15,000
Receivables	70,000	10,000	4,000
Cash and cash equivalents	43,000	25,000	6,000
	-------	------	------
	360,000	145,000	90,000
	-------	------	------
Equity and liabilities			
Equity capital (₹1 shares)	100,000	75,000	40,000
Retained earnings as on 01/04/23	80,000	30,000	25,000
Profit during the year	1,20,000	20,000	15,000
Other components of equity (during the year)	10,000	5,000	–
Liabilities	50,000	15,000	10,000
	-------	------	------
	360,000	145,000	90,000
	-------	------	------

On 1st April 2023, White acquired 45,000 shares in Blue for ₹100,000. Blue's net assets had a fair value of ₹120,000, and the fair value of the non-controlling interest was ₹55,000. It is the group's policy to measure the non-controlling interest at acquisition at fair value.

The excess of the fair value of Blue's net assets over their carrying amounts at the acquisition date pertains to property, plant, and equipment, which had an estimated remaining useful life of five years. Goodwill has been assessed and was found to be impaired by ₹5,000.

On 1st April 2023, White purchased 12,000 equity shares in Pink for ₹25,000.

During the year, White sold goods to Blue for ₹20,000 at a 50% margin. By the reporting date, Blue had sold 90% of these goods. Included in the receivables of White and the liabilities of Blue are intragroup balances of ₹12,000.

On 4th April 2024, White received notice of a claim for damages from an employee as a result of a workplace accident that occurred on 20th February, 2024. Legal counsel has advised that there is a 60% chance White will lose the case and be required to pay damages of ₹50,000.

Prepare the consolidated Balance Sheet as at 31st March 2024.

Solution:

Consolidated Balance Sheet as at 31st March 2024	
	₹
Non-Current Assets	
Goodwill (WN3)	30,000
Property, plant and equipment (₹100,000 + ₹80,000 + ₹15,000 (WN2) – ₹3,000 (WN2))	1,92,000
Investment in Associate (WN7)	29,500
Current Assets	
Inventories (₹22,000 + ₹30,000 – ₹1,000 (WN6))	51,000
Receivables (₹70,000 + ₹10,000 – ₹12,000 inter.co)	68,000
Cash and cash equivalents (₹43,000 + ₹25,000)	68,000
	4,38,500
Equity capital	1,00,000
Retained earnings (WN5)	1,60,700
Other components of equity (WN5)	13,000
Non-controlling interest (WN4)	61,800
Total equity	3,53,500
Liabilities (₹50,000 + ₹15,000 – ₹12,000 inter.co + ₹50,000 (WN8))	1,03,000
	4,38,500
Working Notes:	

1. **Group structure**

   White is the parent

   Blue is a 60% subsidiary (45/75)

   Pink is a 30% associate (12/40)

   Both acquisitions took place on 01/04/2023

2. **Net assets of Blue**

	On Acquisition date	On Reporting date
	₹	₹
Equity capital	75,000	75,000
Other components of equity	-	5,000
Retained earnings	30,000	50,000
Fair value adjustment (FVA)	15000*	15,000
Depreciation on FVA (₹15,000/5)	-	(3,000)
*bal fig	1,20,000	1,42,000

1. Goodwill

	₹
Consideration	1,00,000
FV of NCI at acquisition date	55,000
	1,55,000
FV of net assets at acquisition (WN2)	(1,20,000)
Goodwill at acquisition date	35,000
Impairment	(5,000)
Goodwill at the reporting date	30,000

The impairment of goodwill need to be absorbed to NCI and Group in proportion to 40% and 60% respectively.

2. Non-controlling interest

	₹
Fair value of NCI at acquisition	55,000
NCI % of post-acquisition net assets	8,800
(40% × (₹,142,000 – ₹1,20,000) (WN2))	
NCI share of goodwill impairment (40% × ₹5,000)	(2,000)
	61,800

3. Group reserves

Group retained earnings

	₹
Parent	2,00,000
Provision (WN8)	(50,000)
Share of post-acquisition retained earnings:	
Blue: 60% × (₹20,000 – ₹3,000) (WN2)	10,200
Pink: 30% × ₹15,000	4,500
Group share of goodwill impairment	(3,000)
(60% × ₹5,000)	
Provision for unrealised profit (WN6)	(1,000)
	1,60,700

Other components of equity

	₹
Parent	10,000

Share of post-acquisition other components of equity:	3,000
Blue: 60% × (₹5,000 – Nil) (WN2)	
	13,000

4. Provision for unrealised profit

The profit on the intra-group sale was ₹10,000 (50% × ₹20,000).

The unrealised profit still in inventory is ₹1,000 (10% × ₹10,000).

The parent was the seller, so retained earnings is adjusted in (WN5)

Dr Retained earnings 1,000

Cr Inventories 1,000

5. Investment in the associate

	₹
Cost	25,000
Share of increase in retained earnings (30% × ₹15,000)	4,500
	29,500

6. Provision

The obligating event, the accident, happened during the reporting period. This means that there is an obligation from a past event, and a probable outflow of resources that can be measured reliably. A provision is therefore required for the best estimate of the amount payable, which is ₹50,000. This is charged to the statement of profit or loss so will reduce retained earnings in (WN5).

Dr Retained earnings 50,000

Cr Provisions 50,000

Illustration 6

For many years, H Ltd. (H) has held 80% of the ordinary shares of S Ltd. (S) and 30% of the ordinary shares of A Ltd. (A). The following information is needed to prepare the consolidated statement of profit or loss for the year ending 31st March, 2024.

Statements of profit or loss for the year ended 31st March, 2024

	H	S	A
	₹	₹	₹
Revenue	5,10,000	1,90,000	1,20,000
Total Revenue	**5,10,000**	**1,90,000**	**1,20,000**
Expenses:			
Cost of materials consumed	(98,000)	(62,500)	(55,000)
Employee benefits expense	(1,70,000)	(25,000)	(12,000)
Depreciation and amortization expense	(12,000)	(7,500)	(5,000)
Other expenses	(1,30,000)	(35,000)	(8,000)
Total expenses	**(4,10,000)**	**(1,30,000)**	**(80,000)**
Profit before tax	**1,00,000**	**60,000**	**40,000**
Tax	-33,000	-24,000	-12,000
Profit for the period	**67,000**	**36,000**	**28,000**

Note: There were no items of other comprehensive income in the year.

At the acquisition date, the fair value of S's plant and machinery, which had a remaining useful life of 10 years, exceeded its book value by ₹15,000.

During the year, S sold goods to H for ₹20,000 at a margin of 25%. By the end of the year, H had sold 60% of these goods.

The group's accounting policy is to measure non-controlling interests using the proportionate share of net assets method. The goodwill impairment loss for the current year was ₹1,200 which should be charged to other expenses.

As on 31/03/2024, the investment in A had been impaired by ₹2,500, of which there is no loss in the current year.

On 1 January 2024, H entered into a contract to provide a customer with support services for the next 12 months. H received the full payment of ₹45,000 in advance, and this amount was recognized as revenue.

Prepare the consolidated statement of profit or loss for the year ended 31st March, 2024.

Solution:

Consolidated Statement of Profit or Loss for the year ended 31st March, 2024

	₹
Revenue (₹5,10,000 + ₹1,90,000 – ₹20,000 (W3) – ₹33,750 (W4))	6,46,250
Total Income	6,46,250
Cost of materials consumed (₹98,000 + ₹62,500 – ₹20,000 (W3) + ₹2,000 (W3))	(1,42,500)
Employees' benefits expense (₹1,70,000 + ₹25,000)	(1,95,000)
Depreciation and amortization expense (₹12,000 + ₹7,500 + ₹1,500 (WN2))	(21,000)
Other expenses (₹1,30,000 + ₹35,000 + ₹1,200 Goodwill Impairment)	(1,66,200)
Total Expenses	5,24,700
Profit from operations	1,21,550
Share of profit of associate (30% × ₹28,000 Less Impairment ₹0 during the year)	8,400
Profit before tax	1,29,950
Tax (₹33,000 + ₹24,000)	(57,000)
Profit for the period	72,950
Attributable to:	
Equity holders of the parent (bal. fig)	66,450
Non-controlling interest (W5)	6,500
Profit for the period	72,950

Workings:

(W1) Group structure

H has held 80% of the ordinary shares of S and 30% of the ordinary shares of A.

(W2) Additional depreciation: ₹15,000/10 years = ₹1,500.

The adjusting entry is:

Dr Depreciation	1,500	
Cr PPE		1,500

(W3) Intra-group trading

The ₹20,000 trading between S and H must be eliminated:

Dr Revenue	20,000	
Cr Cost of material consumed		20,000

The profit on the sale was ₹5,000 (25% × ₹20,000). Of this, ₹2,000 (₹5,000 × 40%) remains within the inventories of the group. The Provision for Unrealized Profit adjustment is therefore:

Dr Cost of material consumed 2,000

Cr Inventories 2,000

(W4) Revenue

The performance obligation is satisfied over time. Based on the passage of time, the contract is 25% (3/12) complete so only 25% of the revenue should be recognized by the reporting date.

Therefore ₹33,750 (₹45,000 × 25%) should be removed from revenue and held as a liability on the SFP.

Dr Revenue 33,750

Cr Contract liability 33,750

(W5) Profit attributable to NCI

	₹	₹
S's profit for the year	36,000	
PURP (W3)	(2,000)	
Additional depreciation (W2)	(1,500)	
	32,500	
Profit attributable to NCI (32,500 × 20%)		6,500

Note: If the parent had sold goods to the subsidiary then the Provision for Unrealised Profit adjustment would not be included when calculating the profit attributable to the NCI.

Goodwill has been calculated using the share of net assets method. Therefore, none of the impairment loss is attributable to the NCI.

Illustration 7

P Ltd. has multiple investments in subsidiary companies. On 1 October 2023, it acquires 30% of the ordinary shares of A Ltd. for ₹18 lakhs. This acquisition grants P Ltd. significant influence over A Ltd., leading to its classification as an associate.

At the acquisition date, the fair value of A Ltd.'s net assets was equal to their carrying values, except for a building. The carrying value of the building was ₹12 lakhs, but its fair value was ₹20 lakhs. The remaining useful life of the building is 8 years.

Between 1 October 2023 and 31 March 2024, A Ltd. sold goods to P Ltd. for ₹10 lakhs, generating a profit of ₹60,000. All of these goods remain in the inventory of P Ltd. . This sale was made on credit, and the invoice is yet to be settled.

A Ltd. made a profit after tax of ₹6,50,000 for the year ended 31 March 2024 (profit is earned evenly throughout of the year). At 31 March 2024, the Company P Ltd. determined that the investment in the associate requires impairment by ₹45,000.

Prepare extracts from the consolidated Balance Sheet and the consolidated statement of profit or loss, reflecting the treatment of the associate for the year ended 31 March 2024.

Solution:

Extract of Consolidated Balance Sheet as on 31st March, 2024.

	₹
Non-current assets	
Investment in associate (W1)	18,37,500

Extract of Consolidated statement of profit or loss for year ended 31st March, 2024

Share of profit of associate (W2)	19,500

Note: Adjustment for receivables and payables held between P Ltd. and A Ltd. is not required.

(W1) **Investment in associate**

	₹
Acquisition cost	18,00,000
Share of post-acquisition profit (30% × ₹6,50,000 × 6/12)	97,500
Share of excess depreciation (30% × ((₹20 lakhs - ₹12 lakh)/8 years) x 6/12)	(15,000)
Impairment	(45,000)
Investment in associate	18,37,500

The inventory is held within the group so the parent's share of the Provision for Unrealised Profit is credited against inventory rather than the investment in the associate.

(W2) Share of profit of associate

	₹
P Ltd.'s share of B Ltd.'s profit after tax (30% × ₹6,50,000 × 6/12)	97,500
Impairment	(45,000)
P Ltd.'s share of excess depreciation (30% × ((₹20 lakhs - ₹12 lakh)/8 years) x 6/12)	(15,000)
P Ltd.'s share of Provision for Unrealised Profit (30% × ₹60,000)	(18,000)
Share of profit of associate	19,500

Illustration 8

A holds 80% of B. As on 31 October 2024, the carrying amount of B's net assets is ₹75 lakhs, excluding goodwill of ₹10 lakhs that was recognized at the time of the original acquisition.

The recoverable amount of the net assets of B is ₹80 lakhs.

Calculate the impairment of goodwill, if any, under the following situations:

(a) Non-Controlling Interest (NCI) at acquisition was measured at fair value

(b) Non-Controlling Interest (NCI) at acquisition was measured at its proportion of the fair value of the subsidiary's identifiable net assets.

Solution:

(a) NCI at fair value

If the NCI at acquisition was measured at fair value then full goodwill has been calculated. This means that recoverable amount should be compared with goodwill and subsidiary's net asset to calculate the impairment.

	₹ in lakhs
Goodwill	10
Net assets	75
Carrying amount	85
Recoverable amount	80
Impairment	5

The impairment loss will be allocated against goodwill, reducing it from ₹10 lakhs to ₹5 lakhs

The ₹5 lakhs impairment expenses will be charged to profit or loss. Of this, ₹4 lakhs (₹5,00,000 x 80%) is attributable to the group and ₹1 lakhs (₹5,00,000 x 20%) is attributable to the NCI.

(b) NCI using proportionate method

If the NCI at acquisition was measured using the proportionate method then only the group's share of the goodwill has been calculated- i.e. 80% of the goodwill. This means that the carrying amount of the subsidiary's net assets and goodwill cannot be compared to the subsidiary's recoverable amount on a like-for-like basis. As such, goodwill must be grossed up to include the NCI's unrecognised 20% share.

	₹ in lakhs	₹ in lakhs
Goodwill	10	
Unrecognised NCI (20/80 x ₹10 lakhs)	2.5	
Total notional goodwill		12.5
Net assets		75
Carrying amount		87.5
Recoverable amount		80
Impairment		7.5

The impairment loss is allocated against the total notional goodwill of ₹12.5 lakhs.

However, only the group's share of goodwill has been recognised in the financial statements and so only the group's share (80%) of the impairment is recognised. The impairment charged to profit or loss = ₹6 lakhs and goodwill will be reduced to ₹4 lakhs (₹10 lakhs- ₹6 lakhs)

Illustration 9

The statements of profit or loss for Light Ltd. (Light) and Fairy Ltd. (Fairy) for the year ended 31 March 2024 are as follows.

	Light	Fairy
	₹	₹
Revenue from operations	61,000	24,000
Investment Income	75	-
Total Revenue	**61,075**	**24,000**
Expenses:		
Cost of materials consumed	(40,500)	(19,200)
Employee benefits expense	(2,900)	(50)
Depreciation & Amortisation	(1,500)	(800)
Finance Cost	-	(200)
Other expenses	(3,100)	(150)
Total expenses	**(48,000)**	**(20,400)**
Profit before tax	**13,075**	**3,600**
Tax	(3,000)	(600)
Profit for the period	**10,075**	**3,000**
Retained earnings bfd	12,746	5,400

There were no items of other comprehensive income in the year.

Other relevant information:

1. On 1 July 2023, Light acquired 1,600 out of the 2,000 ₹1 equity shares of Fairy for ₹10,280. As on the acquisition date, the retained earnings of Fairy stood at ₹6,150.
2. At the acquisition date, the fair values of Fairy's net assets were the same as their carrying values, except for plant and equipment. This asset had a carrying value of ₹7,000 but a fair value of ₹10,200. The remaining useful life of the plant and equipment at the acquisition date was four years.
3. In the post-acquisition period, Light sold goods to Fairy for ₹15,000. The original cost of these goods was ₹12,000. In the subsequent months, Fairy sold ₹13,000 (at cost to Fairy) of these goods to third parties for ₹16,000.

4. Incomes and expenses (including depreciation) accrued evenly throughout the year.

5. Light follows a policy of valuing non-controlling interests using the full goodwill method. At the acquisition date, the fair value of the non-controlling interest was ₹2,520.

6. At the reporting date, the recoverable amount of Fairy's net assets was ₹14,150. Any impairment of goodwill should be recognized as part of other expenses.

Prepare a consolidated statement of profit or loss for Light group for the year ended 31st March, 2024.

Solution:

Consolidated Statement of Profit or Loss for the year ended 31st March, 2024

Particulars	**₹**
Revenue (₹61,000 + (9/12 × ₹24,000) – ₹15,000)	64,000
Investment income (₹75 + nil)	75
Total Income	64,075
Cost of materials consumed (₹40,500 + (9/12 × ₹19,200) – ₹15,000 + ₹600 (W6) + ₹400 (W5))	(40,900)
Employee benefits expense (₹2,900 + (9/12 × ₹50))	(2,937.5)
Depreciation & Amortisation ((₹1,500 + (9/12 × ₹800))	(2,100)
Finance costs (nil + (9/12 × ₹200))	(150)
Other expenses (₹3,100 + (9/12 × ₹150) + ₹300 (W2))	(3,512.5)
Total Expenses	49,600
Profit before tax	14,475
Tax (₹3,000 + (9/12 × ₹600))	(3,450)
Profit after tax for the period	11,025
Profit attributable to:	
Owners of the parent (bal. fig)	10,755
Non-controlling interest (W7)	270
	11,025

There were no items of other comprehensive income in the year.

(W1) Group structure – Light owns 80% of Fairy

- the acquisition took place three months into the year
- nine months is post-acquisition.

(W2) Goodwill impairment

	₹
Net assets of the subsidiary (W3)	13,000
Goodwill (W4)	1,450
	14,450
Recoverable amount	(14,150)
Impairment	300

The impairment will be allocated against goodwill and charged to the statement of profit or loss.

(W3) Net assets

	Acq'n date	Rep. date
	₹	₹
Equity capital	2,000	2,000
Retained earnings	6,150	8,400 #
Fair value adjustment – PPE (₹ 10,200 – ₹7,000)	3,200	3,200
Depreciation on FVA (W6)	-	(600)
	11,350	13,000

(₹5,400 bfd + ₹3,000)

(W4) Goodwill

	₹
Consideration	10,280
FV of NCI at acquisition	2,520
	12,800
FV of net assets at acquisition (W3)	(11,350)
Goodwill pre-impairment review (W2)	1,450

(W5) Provision for Unrealised Profit

₹2,000 (₹15,000 – ₹13,000) of the ₹15,000 intra-group sale remains in inventory.

The profit that remains in inventory is ₹400 ((₹15,000 – ₹12,000) × 2/15).

(W6) Excess depreciation

There has been a fair value uplift in respect of PPE of ₹3,200 which has a remaining life of 4 years. The depreciation charge in respect of this uplift in the current year statement of profit or loss is ₹600 ((₹3,200/4 years) × 9/12).

(W7) Profit attributable to the NCI

	₹	₹
Profit of Fairy (9/12 × ₹3,000)	2,250	
Excess depreciation (W6)	(600)	
Goodwill impairment (W2)	(300)	
Total (a)	1,350	
Profit attributable to the NCI [20% of (a)]		270

Illustration 10

The Balance sheets of Janvee Limited, Isha Limited and Tanisha Limited as on 31.03.2024 are given below:

Amounts in ₹ Lakhs

	Janvee Ltd.	Isha Ltd.	Tanisha Ltd.
Assets			
Non-Current Assets			
Tangible assets	180	200	140
Investments:			
16 lakhs shares in Isha Ltd.	170	-	-
12 Lakhs shares in Tanisha Ltd.		140	-
Current Assets			
Cash and cash equivalents	94	20	30
Bills Receivable	36	-	15
Trade Receivables	130	30	110
Inventories	110	35	25
	720	**425**	**320**
Equity and Liabilities			
Shareholder's Equity			
Share capital (10 per Share)	300	200	160
Reserves as on 01.04.2023	70	40	30
Reserve during the year	20	10	10
Retained earnings as on 01.04.2023	50	10	15
Retained earnings during the year	30	20	12
Current Liabilities			
Trade Payables	235	110	93
Bills Payable			
Janvee Ltd.	-	35	-
Tanisha Ltd.	15	-	-
	720	**425**	**320**

The following additional information is available:

(i) All acquisition of shares took place on 30th September, 2023. The parent company has chosen an accounting policy to measure non-controlling interest at fair value (quoted market price) in accordance with Ind AS 103. Assume that the market prices of Isha Limited and Tanisha Limited are equal to their respective face values. Further, it is assumed that profits are generated evenly throughout the year.

(ii) The inventory figure of Isha Limited includes ₹6 Lakhs worth of inventory that was purchased from Tanisha Limited at cost plus 20%.

Prepare the consolidated Balance Sheet as on 31 March, 2024 of the group. Working should be part of your answer.

Solution:

(i) Date of Acquisition (DOA) = 30th September, 2023

(ii) Computation of Effective Interest of Parent company i.e. Janvee Ltd. in Tanisha Ltd. (% of Acquisition)

Acquisition by Janvee Ltd. in Isha Ltd. = 80%

Acquisition by Isha Ltd. in Tanisha Ltd. = 75%

Acquisition by Group in Tanisha Ltd. (80% x 75%) = 60%

Thus, Non-controlling Interest = 40%

(iii) Analysis of Other Equity

Isha Ltd.:

(₹ in lakh)

Particulars	Pre-Acquisition Profits (Pre-30th September, 2023)	Post-Acquisition Profits (1st October, 2023 to 31st March, 2024)
Reserves on 1st April, 2023 Increase in Reserves	40 5	 5
Retained Earnings on 1st April, 2023 Increase in Retained Earnings	10 10	 10
	65	15
Thus, Equity/Net Assets on DOA: [Share Capital + Pre-Acquisition profits]	 265 [200 + 65]	

Tanisha Ltd.:

(₹ in lakh)

Particulars	**Pre-Acquisition Profits (Pre-30th September, 2023)**	**Post-Acquisition Profits (1st October, 2023 to 31st March, 2024)**
Reserves on 1st April, 2023 Increase in Reserves	30 5	 5
Retained Earnings on 1st April, 2023 Increase in Retained Earnings Unrealized Profit - Stock sale [6 × 1/6]	15 6 	 6 -1
	56	10
Thus, Equity/Net Assets on DOA: [Share Capital Pre-Acquisition profits]	 216 [160 + 56]	

Consolidated Balance Sheet as on 31st March, 2024

Particulars	**Note No.**	**(₹ in lakh)**
ASSETS		
Non-current assets		
Property, plant and equipment	1	520
Current assets		
(a) Inventories	2	169
(b) Financial assets		
Trade receivables	3	270
Bills receivable	4	1
(c) Cash and cash equivalents	5	144
Total Assets		**1,104**
EQUITY & LIABILITIES		
Equity attributable to owners of the parent		
Share capital		300
Other Equity		
Reserves (Working Note -1)		97
Retained Earnings (Working Note-1)		91
Capital Reserve (Working Note-3)		95
Non-controlling interests (Working Note-2)		83
Total equity		666

LIABILITIES		
Non-current liabilities		Nil
Current liabilities		
(a) Financial Liabilities		
(i) Trade payables	6	438
Total liabilities		438
Total equity and liabilities		**1,104**

Notes to Accounts:

(₹ in lakh)

1. Property Plant & Equipment		
Parent	180	
Isha Ltd.	200	
Tanisha Ltd.	140	520
2. Inventories		
Parent	110	
Isha Ltd. (35-1)	34	
Tanisha Ltd.	25	169
3. Trade Receivables		
Parent	130	
Isha Ltd.	30	
Tanisha Ltd.	110	270
4. Bills Receivable		
Parent (36-35)	1	
Tanisha Ltd. (15-15)	Nil	1
5. Cash & Cash equivalents		
Parent	94	
Isha Ltd.	20	
Tanisha Ltd.	30	144
6. Trade Payables		
Parent	235	
Isha Ltd.	110	
Tanisha Ltd.	93	438

Working Note - 1

Computation of Consolidated Other Equity:

Particulars	Reserves	Retained Earnings
Janvee Ltd.	90	80
Add: Share in Isha Ltd.	4 (5 x 80%)	8 (10 x 80%)
Add: Share in Tanisha Ltd.	3 (5 x 60%)	3 (5 x 60%)
	97	91

Working Note - 2

Computation of NCI (at Fair Value)

NCI for Goodwill/Bargain Purchase Gain-on DOA:

Particulars	Amount (Lakhs)	Amount (Lakhs)
	Isha Ltd.	**Tanisha Ltd.**
NCI at Fair Value (200 x 20%) (160 x 40%)	40	64

NCI for CBS:

Particulars	Amount (Lakhs)	Amount (Lakhs)
	Isha Ltd.	**Tanisha Ltd.**
NCI at Fair Value	40	64
Add: Share in Post-Acquisition Profits	3 (15 x 20%)	4 (10 x 40%)
	43	68
Less: NCI share of investment in Tanisha Ltd.*	-28	
	15	**68**
Total	83	

*20% of Investment in Tanish by Isha is made by NCI of Isha.

Working Note - 3

Computation of Goodwill/Bargain purchase gain

Particulars	Amount (Lakhs)	Amount (Lakhs)
	Isha Ltd.	**Tanisha Ltd.**
Consideration paid	170	112 [140 x 80%]

Add: NCI on DOA	40	64
Less: Acquisition date fair value of Net assets/ Equity	265	216
Capital Reserve	55	40
Total	95	

Illustration 11

On 31st March 2022, H Ltd acquired 90% of the ordinary shares of S Ltd for $2.75 lakh. At this date, S Ltd.'s retained earnings amounted to $ 1.5 Lakh. The fair value of the non-controlling interest at the acquisition date was $ 1.4 Lakh.

The financial statements of H Ltd and S Ltd for the year ended 31st March 2023 are presented below:

Statements of profit or loss for year ended 31st March 2023

	H Ltd ₹ Lakh	**S Ltd** $ Lakh
Revenue	**1200**	**5.15**
Costs	**(1000)**	**(4.50)**
Profit	**200**	**0.65**

Balance Sheet as at 31st March 2023

	H Ltd ₹ Lakh	**S Ltd** $ Lakh
Property, plant and equipment	**340**	**2.70**
Investments	**220**	**-**
Current assets	**40**	**1.30**
	600	**4.00**

	H Ltd ₹ Lakh	**S Ltd** $ Lakh
Share capital	**10**	**0.05**
Retained earnings	**330**	**2.15**
Liabilities	**260**	**1.80**
	600	**4.00**

There has been no intra-group trading. Goodwill arising on the acquisition of S Ltd is not impaired. The presentation currency of the consolidated financial statements is the rupee (₹).

Exchange rates are as follows:

	1$
31st March 2022	₹ 80
31st March 2023	₹ 85
Average for year to 31st March 2023	₹ 82

Prepare the consolidated balance sheet and the consolidated profit or loss and other comprehensive income for the group for the year ended 31st March 2023.

Solution:

Consolidated Balance Sheet as at 31st March 2023

	₹ Lakhs
Property, plant and equipment (WN 1)	569.50
Goodwill (WN 2)	221.00
Current assets (WN 1)	150.50
	941.00
Share capital	10.00
Retained earnings (WN 5)	377.97
Translation reserve (WN 6)	20.43
	408.40
Non-controlling interest (WN 4)	119.60
	528.00
Liabilities (WN 1)	413.00
	941.00

Consolidated Statement of profit or loss and other comprehensive income for year ended 31st March 2023

Revenue (WN 1)	1622.30
Costs (WN 1)	-1369.00
Profit for the year	253.30
Other comprehensive income – items that may be classified to profit or loss in future periods	
Exchange differences on translation of foreign subsidiary (₹13 + ₹9.70)	22.70
Total comprehensive income for the year	276.00
Profit attributable to:	
Shareholders of A Ltd (bal. fig.)	247.97

Non-controlling interest (10% × ($0.65 × 82 avg. rate))	5.33
Profit for the year	253.30
Total comprehensive income attributable to:	
Shareholders' of A Ltd (bal. fig.)	268.40
Non-controlling interest (₹5.33(profit) + ₹1.30 + ₹0.97)	7.60
Total comprehensive income for the year	276.00

Working Notes:

1. Translation of income and expenses of overseas subsidiary in Indian Rupees

Particulars	₹ Lakhs
Revenue (₹1,200 + ($5.15x82))	1622.30
Costs (₹1000+($4.5x82))	-1369.00
PPE (₹340 + ($2.7x85))	569.50
Investments (eliminated on consolidation)	0.00
Current assets (₹40 + ($1.3x85))	150.50
Share capital (A Ltd only)	10.00
Liabilities (₹260 + ($1.8x85))	413.00

Income and expenses of an overseas subsidiary are translated at the average rate and the assets and liabilities are translated at the closing rate.

1. **Goodwill calculation**

Particulars	$ Lakhs
Consideration	2.75
NCI at acquisition	1.40
Net assets at acquisition (WN3)	-1.55
	2.60
Goodwill impairments	0.00
Closing Goodwill	2.60

Goodwill is translated at the closing rate to give a value of ₹221L ($ 2.60x85).

	$ Lakhs	**Exchange Rate**	**₹ Lakhs**
Opening goodwill	2.60	80	208.00
Impairment loss in year	0.00	82	0.00
Translation gain*	0.00	Bal fig.	13.00
Closing goodwill	2.60	85	221.00

*The total translation gain of ₹13 Lakhs will be credited to other comprehensive income and then allocated to the group and NCI based on their respective shareholdings:
Group: ₹ 13 L × 90% = ₹ 11.7 L

NCI: ₹ 13L × 10% = ₹ 1.31

2. Net assets of B Ltd

	Acquisition Date	Reporting Date	Post acquisition
	$ Lakhs	$ Lakhs	$ Lakhs
Share capital	0.05	0.05	0.00
Retained earnings	1.50	2.15	0.65
	1.55	2.20	0.65

	$ Lakhs	Exchange Rate	₹ Lakhs
Opening net assets*	1.55	80	124.00
Profit/(loss) for the year*	0.65	82	53.30
Translation gain/(loss)#	0.00	Bal. fig.	9.70
Closing net assets*	2.20	85	187.00

*These figures are taken from the net assets working.

#The total translation gain of ₹9.70 Lakhs will be credited to other comprehensive income and allocated to the group and NCI based on their respective shareholdings:

Group: 9.70 L × 90% = ₹ 8.73 L

NCI: 9.70 L × 10% = ₹ 0.97 L

3. Non-controlling interest

	₹ Lakhs
NCI at acquisition ($1.40 x 80 opening rate)	112.00
NCI % of B Ltd.'s post-acquisition profits (10% × ($0.65 x 82 average rate))	5.33
NCI % of goodwill translation	1.30
NCI % of net assets and profit translation	0.97
	119.60

2. Retained earnings

	₹ Lakhs
100% of A Ltd	330.00
90% of B Ltd's post-acquisition profits (90% × ($0.65x82))	47.97
	377.97

3. Translation reserve

	₹ Lakhs
Group share of translation gain on Goodwill	11.70
Group share of translation gain on net assets	8.73
	20.43

4. Group Structure:

S Ltd. is 90% subsidiary of H Ltd.

Notes:

Notes:

The Institute of Cost Accountants of India

Statutory Body under an Act of Parliament

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