Star Rating

On the basis of Maximum marks from a chapter	Nil
On the basis of Questions included every year from a chapter	Nil
On the basis of Compulsory questions from a chapter	☆☆

CHAPTER

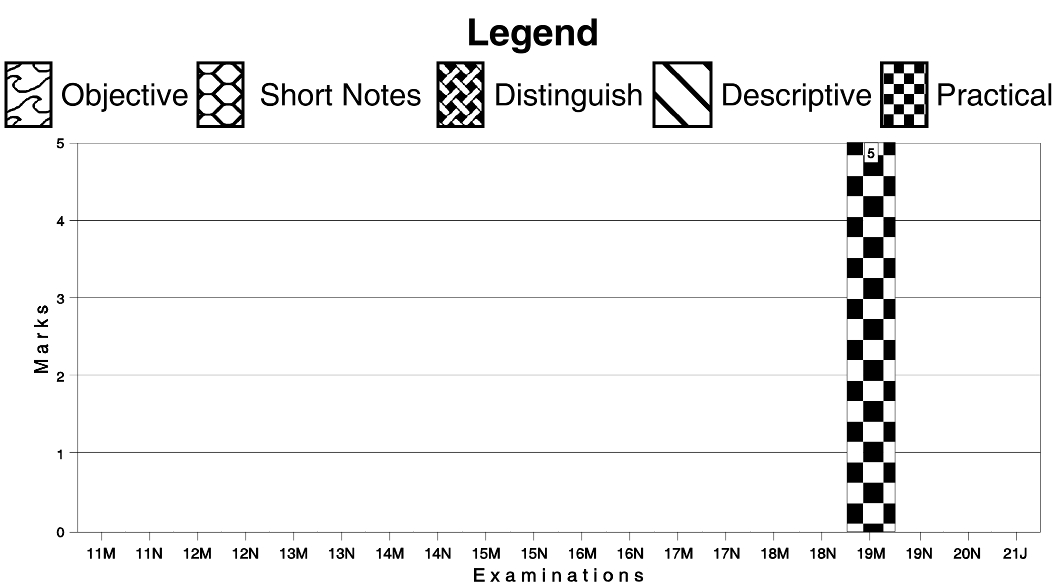
1

Framework for Preparation and Presentation of Financial Statements

THIS CHAPTER COMPRISES OF

☞ Framework and its purpose ☞ Users of Financial Statements ☞ Objectives to prepare financial statements ☞ Underlying assumptions ☞ Accrual Basis ☞ Going concern ☞ Qualitative aspects of financial statements ☞ Constraints on relevant and reliable information ☞ Elements of Financial Statements ☞ Recognition of the elements of financial statements ☞ Measurement of the elements of financial statements ☞ Financial Capital Maintenance vs. Physical Capital Maintenance

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



PRACTICAL QUESTIONS

2019 - May [2] (b) Mr. Unique commenced business on 01/04/17 with ₹ 20,000 represented by 5,000 units of the product @ ₹ 4 per unit. During the year 2017-18, he sold 5,000 units @ ₹ 5 per unit. During 2017-18, he withdraw ₹ 4,000.

- 31/03/18 : Price of the product @ ₹ 4.60 per unit
- Average price indices : 1/4/17 : 100 & 31/3/18 : 120

Find Out:

(i) Financial capital maintenance at Historical Cost
(ii) Financial capital maintenance at Current Purchasing Power
(iii) Physical Capital Maintenance (5 marks)

Answer:

(i) **Financial Capital Maintenance at Historical Costs**

	₹	₹
Closing capital (At historical cost)		21,000
Less: Capital to be maintained opening capital (At historical cost)	20,000	
Introduction (At historical cost)	Nil	(20,000)
Retained Profit		1,000

(ii) **Financial Capital Maintenance at Current Purchasing Power**

Opening equity at closing price = ₹ 20,000 × $\frac{120}{100}$ = ₹ 24,000

Closing equity at closing price = (₹ 25,000 - ₹ 4,000) = ₹ 21,000
Retained Profit = ₹ 21,000 - ₹ 24,000 = – ₹ 3,000 (Loss)

	₹	₹
Closing capital (At closing cost price)		21,000
Less: Capital to be maintained opening capital (At closing price)	₹ 24,000	
Introduction (At closing price)	Nil	(24,000)
Retained Profit		(3,000)

(iii) **Physical Capital Maintenance:**

Current Cost of opening stock = (5,000 units × 4.60)
= ₹ 23,000
Current Cost of closing cash = ₹ 21,000 (25,000 - 4,000)
Opening Equity at closing current costs = ₹ 23,000
Closing Equity at closing current costs = ₹ 21,000
Retained Profit= ₹ 21,000 - ₹ 23,000 = - ₹ 2,000

	₹	₹
Closing capital (At Current Cost)		21,000
Less: Capital to be maintained opening capital (At Current Cost)	23,000	
Introduction (At Current Cost)	Nil	(23,000)
Retained Profit		(2,000)

Space to write important points for revision

Topic not yet asked but equally important for examination

DESCRIPTIVE QUESTIONS

Q1. What is the purpose of Framework?

Answer:

The purpose of the framework is to:

1. Set out the concepts that underlie the preparation and presentation of financial statements in accordance with the Ind AS for external users.
2. Assist in the development of future Ind AS and in its review of existing Ind AS.
3. Assist in promoting harmonization of regulations, accounting standards and procedures relating to the presentation of financial statements.

4. Providing a basis for reducing the number of alternative accounting treatments permitted by Ind AS.
5. Assist preparers of financial statements in applying Ind AS and in dealing with topics that have yet to form the subject of an Ind AS.
6. Assist auditors in forming an opinion as to whether financial statements conform with Ind AS.
7. Assist users of financial statements in interpreting the information contained in financial statements prepared inconformity with Ind AS; and
8. Provide those who are interested in Ind AS with information about approach to their formulation.

—— Space to write important points for revision ——

Q2. What are the underlying assumptions in Financial Statements?

Answer:

The underlying assumptions in Financial Statements are:

1. **Accrual Basis:**
   The effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the Financial Statements of the periods to which they relate.
2. **Going Concern:**
   - The Financial Statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future.
   - It is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations, if such an intention or need exists, the Financial Statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

—— Space to write important points for revision ——

Q3. How are Assets and Liabilities recognised?

Answer:

Recognition of Assets

- **An asset is recognised in the Balance Sheet** when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.
- **An asset is not recognised in the Balance Sheet** when expenditure has been incurred for which it is considered improbable that economic benefits will flow to the entity beyond the current accounting period. Instead such a transaction results in the recognition of an expense in the statement of profit and loss.

Recognition of Liabilities

- **A liability is recognised in the Balance Sheet** when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.
- **In practice**, obligations under contracts that are equally proportionately unperformed (for example, liabilities for inventory ordered but not yet received) are generally not recognised as liabilities in the Financial Statements. However, such obligations may meet the definition of liabilities and, provided the recognition criteria are met in the particular circumstances, may qualify for recognition. In such circumstances, recognition of liabilities entails recognition of related assets or expenses.

Space to write important points for revision

Q4. What is the concept of materiality?

Answer:

- Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decision that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

- Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.
- Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstanding that information.

—— Space to write important points for revision ——

Q5. Elucidate the concept of True & Fair under the framework of Financial Statement under Ind AS.

Answer:

- The Framework does not directly address the True and Fair View or Fair Presentation.
- If the Qualitative Characteristics are applied along with the appropriate Accounting Standards this normally results in Financial Statements that convey what is generally understood as a True and Fair View of such information.
- Ind AS-1 states that presentation of a True and Fair View is achieved by compliance with applicable Ind AS.

—— Space to write important points for revision ——

Q6. How is Schedule III a supplement to AS?

Answer:

The Disclosure Requirements specified in Schedule III are in addition to and not in substitution of the Disclosure Requirements specified in the AS/Ind AS. Additional Disclosures specified in the AS/Ind AS shall be made in the Notes to Accounts or by way of Additional Statement, unless required to be disclosed on the face of the Financial Statements.

Similarly, all other disclosures as required by the Companies Act shall be made in the Notes to Accounts in addition to the requirements set out in this Schedule.

—— Space to write important points for revision ——

Star Rating

On the basis of Maximum marks from a chapter	Nil
On the basis of Questions included every year from a chapter	Nil
On the basis of Compulsory questions from a chapter	☆☆

CHAPTER 2

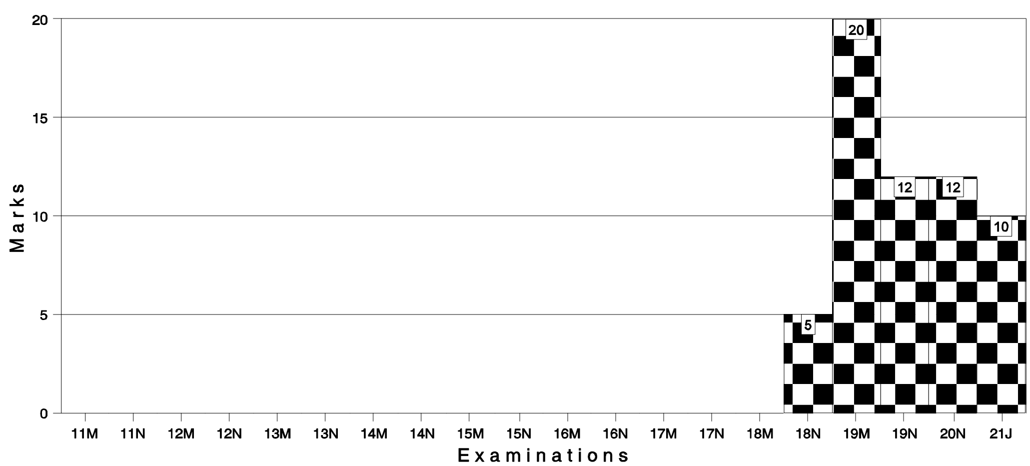
Ind AS on Presentation of Items in the Financial Statements

THIS CHAPTER COMPRISES OF

☞ Ind AS 1 ☞ Ind AS 7 ☞ Ind AS 34

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

Legend



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PRACTICAL QUESTIONS

2018 - Nov [4] (d) Navya Limited manufacturer of ceramic tiles has shown a net profit of ₹ 15,00,000 for the first quarter of 2018-19. Following adjustments were made while computing the net profit :

(i) Bad debts of ₹ 1,64,000 incurred during the quarter. 75% of the bad debts have been deferred for the next three quarters (25% for each quarter).

(ii) Sales promotion expenses of ₹ 5,00,000 incurred in the first quarter and 90% expenses deferred to the next three quarters (30% for each quarter) on the basis that the sales in these quarters will be high in comparison to first quarter.

(iii) Additional depreciation of ₹ 3,50,000 resulting from the change in the method of depreciation has been taken into consideration.

(iv) Extra-ordinary loss of ₹ 1,36,000 incurred during the quarter has been fully recognized in this quarter.

Discuss the treatment required under Ind AS 34 and ascertain the correct net profit to be shown in the Interim Financial report of first quarter to be presented to the Board of Directors. (5 marks)

Answer:

In the instant case, the quarterly net profit has not been correctly stated.

As per Ind. AS 34, Interim financial reporting, the quarterly net profit should be adjusted and restated as follows:

(i) Bad debts of ₹ 1,64,000 have been incurred during current quarter. Out of this, the company has deferred 75% i.e. ₹ 1,23,000 to the next three quarters. This treatment is not correct as the expenses incurred during an interim reporting period should be recognised in the same period unless conditions mentioned in paragraph 39 of Ind AS 34 are fulfilled. Accordingly, ₹ 1,23,000 should be deducted from ₹ 15,00,000.

(ii) As per Ind AS 34 the income and expense should be recognised when they are earned and incurred respectively. As per para 39 of Ind AS 34, the costs should be anticipated or deferred only when.

(a) It is appropriate to anticipate or defer that type of cost at the end of the financial year, and

(b) Costs are incurred unevenly during the financial year of an enterprise.

Therefore, the treatment done relating to deferment of ₹ 4,50,000 (₹ 5,00,000 × 90%) is not correct as expenditures are uniform throughout all quarters. It should thus be charged in the quarter in which expense have been incurred. Hence, it should be charged in the first quarter only.

(iii) Recognizing additional depreciation of ₹ 3,50,000 in the same quarter is correct and is in tune with Ind AS 34.

(iv) The treatment of extra-ordinary loss of ₹ 1,36,000 being recognised in the same quarter is correct.

Thus considering the above, the correct net profits to be shown in Interim Financial Report of the first quarter shall be ₹ 9,27,000 (₹ 15,00,000 - ₹ 4,50,000 - ₹ 1,23,000).

—— Space to write important points for revision ——

2019 - May [1] {C} (a) Following are the financial statements of JSP Limited:

Balance Sheet

Particulars	**Note**	**As at March, 2018 (₹ In lakh)**
EQUITY AND LIABILITIES		
Shareholders' Funds:		
Share Capital (Share of ₹ 10 each)		2,000
Reserves and Surplus	1	2,500
Non-Current Liabilities:		
Long-Term Borrowings	2	4,860
Deferred Tax Liabilities	3	100

Current Liabilities:		
Trade Payables		400
Short Term Provisions		310
Other Current Liabilities	4	250
TOTAL		10,420

ASSETS		
Non-Current Assets:		
Fixed Assets		5,600
Deferred Tax Assets	3	300
Current Assets:		
Inventories		1,520
Trade Receivables	5	1,800
Cash and Bank Balance		1,200
TOTAL		10,420

Statement of Profit & Loss

Particulars	**Note**	**Year ended March, 2018 (₹ In lakh)**
Revenue from Operations (a)		**7,500**
Expenses:		
Employee benefit expenses		1,750
Operating Costs		2,860
Depreciation		800
Total Expenses (b)		**5,410**

Profit before tax (a) – (b)		2,090
Tax Expense		(510)
Profit after tax		1,580

Notes to Accounts:

Note 1: Reserves and Surplus: **(₹ In lakh)**

Capital Reserve		400
Surplus from Profit & Loss		
Opening Balance	225	
Additions	1,580	1,805
Reserves for foreseeable Loss		295
Total		**2,500**

Note 2: Long Term Borrowings: **(₹ In lakh)**

Term Loan from Bank	4,860
Total	**4,860**

Note 3: Deferred Tax: **(₹ In lakh)**

Deferred Tax Asset	300
Deferred Tax Liability	(100)
Total	**200**

Note 4: Other Current Liabilities: **(₹ In lakh)**

Unclaimed Dividends	10
Billing in Advance	240
Total	**250**

Note 5: Trade Receivables: **(₹ In lakh)**

Considered Good (Outstanding within 6 months)	1,565
Considered doubtful (due from past 1 year)	253
Provision for doubtful debts	(18)
Total	**1,800**

Additional Information:

1. Share capital comprises of 200 lakh shares of ₹ 10 each.
2. Term Loan from bank for ₹ 4,860 lakh also includes interest accrued and due of ₹ 860 lakh as on the reporting date.
3. Reserves for foreseeable loss is created against a service contract due within 3 months.

You are required to:

(i) Identify and report the errors and misstatements in the above extract, wherever applicable.

(ii) Prepare the corrected Balance Sheet and Statement of Profit and Loss. (16 marks)

Answer:

Analysis of the Financial Statements:

1. Reserve for foreseeable loss for ₹ 295 lakhs, due within 3 months, should be a part of provisions. Hence, it needs to be regrouped, and if it was a part of previous year's comparatives, a note should be added in the notes to account on the regrouping done this year.
2. Interest accrued and due of ₹ 860 lakhs on term loan will be a part of current liabilities. Hence, it should be shown under the heading "Other Current Liabilities".
3. It can be inferred from the Note a, that the deferred tax liabilities and assets relate to taxes on income levied by the same governing taxation laws, hence these shall be set off, in accordance with AS 22. The net DTA of ₹ 200 lakhs will be shown in the balance sheet.

4. The notes to trade receivables is incorrectly presented. The recommended notes would be as below:

Trade receivables (Unsecured) consist of the following:	
(a) Over six months from the date they were due for payment	
(i) Considered good	0
(ii) Considered doubtful	253
Less: Provision for doubtful debts	(18)
(A)	235
(b) Others	
(i) Considered good	1,565
(ii) Considered doubtful	0
Less: Provision for doubtful debts	0
(B)	1,565
Total	1,800

5. The Statement of Profit and Loss needs to represent earnings per share, to be compliant with AS-20.
The Revised extracts of the financial statements:

Balance Sheet **(₹ in Lakhs)**

	Note No.	As at March 31, 2018
EQUITY AND LIABILITIES		
Shareholders' funds		
Share Capital		2,000
Reserves and surplus	1	2,205
Non-Current liabilities		
Long term borrowings	2	4,000

Current liabilities		
Trade Payables		400
Short term provisions		605
Other Current liabilities	4	1,110
Total		10,320
ASSETS		
Non Current Assets		
Fixed Assets		5,600
Deferred Tax Assets	3	200
Current Assets		
Inventories		1,520
Trade Receivables	5	1,800
Cash and Cash Equivalents		1,200
Total		10,320

Statement of Profit and Loss **(₹ in Lakhs)**

	Note No.	**Year ended March 31, 2018**
Revenue from operations		7,500
Expenses		
Employee Benefit Expense		1,750
Operating Costs		2,860
Depreciation		800
Total Expenses		5,410

Profit Before Tax		2,090
Tax Expense		510
Profit for the period		1,580
Earnings per Equity share		
Basic		7.90
Diluted		7.90
Number of equity shares (face value of ₹ 10 each)		200 lakhs

Revised Notes to Accounts (wherever applicable):

Note 1 : Reserve and Surplus **(₹ in Lakhs)**

Capital Reserve		400
Surplus from P & L		
Opening Bal	225	
Additions	1,580	1,805
Total		2,205

Note 2 : Long Term Borrowings

Term Loan from Bank	4,000
Total	4,000

Note 4 : Other Current Liabilities

Unclaimed dividends	10
Interest on Term Loan	860
Billing in Advance	240
Total	1,110

Space to write important points for revision

2019 - May [1] {C} (b) Mike Ltd. has undertaken following various transactions in the financial year ended 31.03.2018:

		(₹)
(a)	Remeasurement of defined benefit plans	1,54,200
(b)	Current service cost	1,05,000
(c)	Changes in revaluation surplus	75,000
(d)	Gains and losses arising from translating the monetary assets in foreign currency	45,000
(e)	Gains and losses arising from translating the financial statements of a foreign operation	39,000
(f)	Gains and losses arising from investments in equity instruments designated at fair value through other comprehensive income	60,000
(g)	Income tax expenses	21,000
(h)	Share based payments cost	2,01,000

Identify and present the transactions in the financial statements as per Ind AS 1 (4 marks)

Answer:

Items impacting the Statement of Profit and Loss for the year ended 31st March, 2018 (₹)

Current Service Cost	1,05,000
Gains and losses arising from translating the monetary assets in foreign currency	45,000
Income tax expense	21,000
Share based payments cost	2,01,000

Items impacting the other comprehensive income for the year ended 31st March, 2018 (₹)

Remeasurement of defined benefit plans	1,54,200
Changes in revaluation surplus	75,000
Gains and losses arising from translating the financial statement of a foreign operation	39,000
Gains and losses from investments in equity instruments designated at fair value through other comprehensive income	60,000

—— Space to write important points for revision ——

2019 - Nov [5] (a) Following are the Financial statements of Abraham Ltd:

Balance Sheet

Particulars	**Note**	**As at March 31,2019 (₹ in lakhs)**
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital (share of ₹ 10 each)		1,000
Reserves and surplus	1	2,400
Non-current liabilities		
Long- term borrowings	2	5,700
Deferred tax liabilities	3	400
Current liabilities		
Trade payables		300
Short-term provisions		300
Other current liabilities	4	200
TOTAL		**10,300**

ASSETS		
Non-current assets		
Fixed Assets		5,000
Deferred tax Assets	3	700
Current assets		
Inventories		1,500
Trade receivables	5	1,100
Cash and bank balances		2,000
TOTAL		**10,300**

Statement of Profit & Loss:

Particular	**Note**	**Year ended March 31,2019 (₹ in lakhs)**
Revenue from operations		**6,000**
Expenses:		
Employee Benefit Expense		1,200
Operating Costs		3,199
Depreciation		450
Total Expenses		**4,849**
Profit before tax		1,151
Tax Expense		201
Profit after tax		**950**

Notes to Account:

Note 1 : Reserve and surplus **(₹ in lakhs)**

Capital Reserve		500
Surplus from P & L		
Opening Balance	550	
Additions	950	1,500
Reserve for foreseeable loss		400
Total		**2,400**

Note 2 : Long Term Borrowings

Term Loan from Bank	5,700
Total	**5,700**

Note 3 : Deferred Tax

Deferred Tax Asset	700
Deferred Tax Liability	400
Total	**300**

Note 4 : Other Current Liabilities

Unclaimed dividends	10
Billing in Advance	150
Other Current Liabilities	40
Total	**200**

Note 5 : Trade Receivables

Considered good (outstanding within 6 months)	1,065
Considered doubtful (due from past 1 year)	40
Provision for doubtful debts	(5)
Total	**1,100**

Additional Information :

(i) Share capital comprises of 100 Lakh shares of ₹ 10 each.

(ii) Term Loan from bank for ₹ 5,700 Lakhs also includes interest accrued and due of ₹ 700 Lakhs as on the reporting date.

(iii) Reserve for foreseeable loss is created against a service contract due within 6 months.

(iv) Inventory should be valued at cost ₹ 1,500 Lakhs, NRV as on date is ₹ 1,200 Lakhs.

(v) A dividend of 10% was declared by the Board of directors of the company.

(vi) Accrued Interest income of ₹ 300 Lakhs in not booked in the books of the company.

(vii) Deferred taxes related to taxes on income levied by the same governing tax laws.

Identify and report the errors and misstatements in the above extracts and prepare corrected Balance Sheet and Statement of Profit & Loss and where required the relevant notes to the accounts with explanations thereof.

(12 marks)

Answer:

On evaluation of the financial statements, following was observed:

1. For foreseeable loss is provision is made and not reserves Hence, reserve for foreseeable loss ₹ 400 lakhs, (due within 6 months), should be a part of provision . Therefore, it needs to be regrouped. if it was also a part of previous year's comparatives, then a note should be added in the notes to account for regrouping done this year.
2. Interest accrued and due of ₹ 700 lakhs on term loan will be a part of current liabilities since it is supposed to be paid within 12 months from the reporting date. Hence, it should be shown under the heading Other (Current) Liabilities".
3. As per Ind AS 2, inventories are measured at the lower of cost and net realisable value. The amount of any write down of inventories to net realisable value is recognised as an expense in the period the write-down occurs. Hence, the inventories should be valued at ₹ 1,200 lakh and write down of ₹ 300 lakh (₹ 1,500 lakh – ₹ 1,200 lakh) will be added to the operating cost of the entity.

4. In the absence of the declaration date of dividend in the question, it is presumed that the dividend is declared after the reporting date. Hence, no adjustment for the same is made in the financial year 2018-2019. However, a note will be given separately in this regard (not forming part of item of financial statements).
5. Accrued income will be shown in the Statement of Profit and Loss as 'Other Income' and as 'Other Current Asset' in the Balance Sheet.
6. Since the deferred tax liabilities and deferred tax assets relate to taxes on income levied by the same governing taxation laws, these shall be set off, in accordance with Ind AS 12. The net DTA of ₹ 300 lakh will be shown in the Balance Sheet.
7. As per Division II of Schedule III to the Companies Act, 2013, the Statement of Profit and Loss should present the Earnings per Equity Share.
8. In Ind AS, Assets are not presented in the Balance sheet as 'Fixed Asset', rather they are classified under various categories of Non-current assets. Here, it is assumed as 'Property, Plant and Equipment'.
9. The presentation of the notes to 'Trade Receivables' will be modified as per the requirements of Division II of Schedule III.

Balance Sheet of Abraham Ltd.
For the year ended 31st March, 2019

	Note No.	(₹ in lakh)
ASSETS		
Non-current assets		
Property, plant and equipment		5,000
Deferred tax assets	1	300
Current assets		
Inventories		1,200

Financial assets		
Trade receivables	2	1,100
Cash and cash equivalents		2,000
Others financial asset (accrued interest)		300
Total		**9,900**
EQUITY AND LIABILITIES		
Equity		
Equity share capital	3	1,000
Other equity	4	2,000
Non-current liabilities		
Financial liabilities		
Long-term borrowings	5	5,000
Current liabilities		
Financial liabilities		
Trade payables		300
Others	6	710
Short-term provisions (300 + 400)	7	700
Other current liabilities	8	190
Total		**9,900**

Statement of Profit and Loss of Abraham Ltd.
For the year ended 31st March, 2019

	Note No.	**(₹ in lakh)**
Revenue from operations		6,000
Other income		300
Total income		6,300

Expenses		
Operating costs	9	3,199
Change in inventories cost		300
Employee benefits expense		1,200
Depreciation		450
Total expenses		5,149
Profit before tax		1,151
Tax expense		(201)
Profit for the period		950
Earnings per equity share		
Basic		9.5
Diluted		9.5
Number of equity shares (face value of ₹ 10 each)		100 lakh

Notes to Account:

1. Deferred Tax Asset **(₹ in lakh)**

Deferred Tax Asset	700
Deferred Tax Liability	400
	300

2. Trade Receivables **(₹ in lakh)**

Trade receivables considered good		1,065
Trade receivables which have significant increase in credit risk	40	
Less: Provision for doubtful debts	(5)	35
Total		1,100

3. Equity Share Capital **(₹ in lakh)**

Balance at the beginning of the reporting period	Changes in Equity share capital during the year	Balance at the end of the reporting period
1,000	0	1,000

4. Other Equity **(₹ in lakh)**

Particulars	Reserves & Surplus		Total
	Capital Reserve	Retained Earnings	
Balance at the beginning of the year	500	550	1,050
Total comprehensive income for the year		950	950
Balance at the end of the year	500	1,500	2,000

5. Long Term Borrowings **(₹ in lakh)**

Term Loan from Bank (5,700 - 700)	5,000
Total	5,000

6. Other Financial Liabilities **(₹ in lakh)**

Unclaimed dividends	10
Interest on term loan	700
Total	710

7. Short-term provisions **(₹ in lakh)**

Provisions	300
Foreseeable loss against a service contract	400
Total	700

8. Other Current Liabilities **(₹ in lakh)**

Billing in Advance	150
Other	40
Total	190

9. **Dividends not recognised at the end of the reporting period**
   At year end, the directors have recommended the payment of dividend of 10% i.e ₹ 1 per equity share. This proposed dividend is subject to the approval of shareholders in the ensuing annual general meeting.

—— Space to write important points for revision ——

2020 - Nov [1] {C} (a) On April 1st, 2020, Star Limited has advanced a housing loan of ₹ 15 lakhs to one of its employee at an interest rate of 6% per annum which is repayable in 5 equal annual installments along with interest at each year end. Employee is not required to give any specific performance against this benefit. The market rate of similar loan for housing finance by banks is 10% per annum.

The accountant of the company has recognized the staff loan in the balance sheet equivalent to the amount of housing loan disbursed i.e. ₹ 15 lakhs. The interest income for the year is recognized at the contracted rate in the Statement of Profit and Loss by the company i.e. ₹ 90,000 (6% of ₹ 15 lakhs).

Analyze whether the above accounting treatment made by the accountant is in compliance with the relevant Ind AS's. If not, advise the correct treatment of housing loan, interest and other expenses in the financial statements of Star Limited for the year 2020-21 along with workings and applicable Ind AS's.

You are required to explain how the housing loan should be reflected in the Ind AS compliant Balance sheet of Star Limited on March 31st, 2021.

(12 marks)

2021 - Jan [1] {C} (b) Entity A had obtained a long term bank loan during January 2019, which is subject to certain financial covenants. One of such covenants states that during the tenure of the loan, debt equity ratio of 65:35 is to be maintained at all time. In case of breach of this covenant, the loan will be repayable immediately. The loan agreement also states that these covenants will be assessed at the end of each quarter and reported to the bank within a month from the end of each quarter. If the covenants are breached at this time, the loan will be repayable immediately. The entity closes its annual accounts as on March 31st every year.

You are required to show how the loan will be classified as on March 31st, 2020, if:

(i) At the financial year end, Entity A determines that it is not in breach of any of the covenants;

(ii) At the quarter ending December 31, 2019, Entity A's debt equity ratio became 75:25 and thus breaches the covenant, however it obtains a waiver from the bank. The terms of the waiver specify that if Entity A rectifies the breach within a period of 12 months from the reporting date then the bank cannot demand repayment immediately on account of the breach during this period. Entity A expects to rectify the breach by raising additional equity capital by means of a rights issue to the existing shareholders and expects that the issue will be fully subscribed;

(iii) Considering the same facts as in (ii) above, except obtaining the waiver clause, what would be your answer? (5 marks)

2021 - Jan [6] (c) Z Ltd. (India) has an overseas branch in USA. It has a bank account having balance of USD 7,000 as on 1st April, 2019. During the financial year 2019-20, Z Ltd. acquired computers for its USA office for USD 280 which was paid on same date. There is no other transaction reported in USA or India.

Exchange rates between INR and USD during the financial year 2019-20 were:

Date	**USD 1 to INR**	
01st April, 2019	70.00	
30th November, 2019	71.00	(Date of purchase of computer)
31st March, 2020	71.50	
Average for 2019-20	70.50	

Please prepare the extract of Cash Flow Statement for the year ended 31st March, 2020 as per the relevant Ind AS and also show the foreign exchange profitability from these transactions for the financial year 2019-20 ?

(5 marks)

Topic not yet asked but equally important for examination

DESCRIPTIVE QUESTIONS

Q1. What are the General features of the financial statements?

Answer:

Ind AS - 1 Presentation of Financial Statements prescribes the following features and characteristics of financial statements to make them more relevant and reliable:

1. True and fair presentation and compliance with Ind ASs
2. Going concern
3. Accrual basis of accounting
4. Materiality and aggregation
5. Offsetting
6. Frequency of reporting
7. Comparative Information
8. Consistency of Presentation.

Space to write important points for revision

Q2. Elucidate the General Instructions for preparation of financial statements of a company required to comply with Ind AS.

Answer:

General Instructions for preparation of Financial Statements of a Company required to comply with Ind AS:

1. Every company, to which Ind AS apply, shall prepare its financial statements in accordance with Schedule III or with such modification as may be required under certain circumstances.
2. Where compliance with the requirements of the Act including Ind AS (except the option of presenting assets and liabilities in the order of liquidity as provided by the relevant Ind AS) as applicable to the companies require any change in treatment or disclosure including addition, amendment, substitution or deletion in the head or sub-head or

any changes *inter se,* in the financial statements or statements forming part thereof, the same shall be made and the requirements under Schedule III shall stand modified accordingly.

3. The disclosure requirements specified in Schedule III are in addition to and not in substitution of the disclosure requirements specified in the Ind AS. Additional disclosures specified in the Ind AS shall be made in the Notes or by way of additional statement or statements unless required to be disclosed on the face of the Financial Statements. Similarly, all other disclosures as required by the Companies Act, 2013 shall be made in the Notes in addition to the requirements set out in this Schedule.
4. (i) Notes shall contain information in addition to that presented in the Financial Statements and shall provide where required:
   (a) Narrative descriptions or disaggregations of items recognised in those statements; and
   (b) Information about items that do not qualify for recognition in those statements.

   (ii) Each item on the face of the Balance Sheet, Statement of Changes in Equity and Statement of Profit and Loss shall be cross-referenced to any related information in the Notes. In preparing the Financial Statements including the Notes, a balance shall be maintained between providing excessive detail that may not assist users of Financial Statements and not providing important information as a result of too much aggregation.
5. Depending upon the turnover of the company, the figures appearing in the Financial Statements shall be rounded off as below:

Turnover	Rounding off
(i) less than one hundred crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof.
(ii) one hundred crore rupees or more	To the nearest, lakhs, millions or crores, or decimals thereof.

Once a unit of measurement is used, it should be used uniformly in the Financial Statements.

6. Financial Statements shall contain the corresponding amounts (comparatives) for the immediately preceding reporting period for all items shown in the Financial Statements including Notes except in the case of first Financial Statements laid before the company after incorporation.
7. Financial Statements shall disclose all 'material' items, Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decision that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.
   Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.
   Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or mis- standing that information.
8. For the purpose of this Schedule, the terms used herein shall have the same meanings assigned to them in Indian Accounting Standards.
9. Where any Act or Regulation requires specific disclosures to be made in the standalone financial statements of a company, the said disclosures shall be made in addition to those required under this Schedule.

Part - I Balance Sheet

Name of the Company.........
Balance Sheet as at............

(Rupees in..........)

	Particulars	**Note No.**	**Figure as at the end of current reporting period**	**Figure as at the end of the previous reporting period**
	1	2	3	4

	Assets			
1.	**Non-Current Assets**			
	(a) Property, plant and Equipment			
	(b) Capital Work-in-Progress			
	(c) Investment Property			
	(d) Goodwill			
	(e) Other Intangible Assets			
	(f) Intangible Assets under developments			
	(g) Biological Assets other than bearer plants			
	(h) Financial Assets			
	(i) Investments (ii) Trade Receivable (iii) Loans (iv) Others (to be specified)			
	(i) Deferred Tax Assets (Net)			
	(j) Other Non-Current Assets			
2.	**Current Assets**			
	(a) Inventories			

	(b) Financial Assets (i) Investments (ii) Trade Receivable (iii) Cash and Cash Equivalents (iv) Bank Balances other than (iii) above (v) Loans (vi) Others (to be specified)			
	(c) Current Tax Assets (Net)			
	(d) Other Current Assets			
	Total Assets			
	Equity and Liabilities			
	Equity			
	(a) Equity Share Capital			
	(b) Other Equity			
	Liabilities			
1.	**Non-Current Liabilities**			
	(a) Financial Liabilities			
	(i) Borrowings (ii) Trade Payable (iii) Other Financial (Other than those specified in item (b), to be specified)			
	(b) Provisions			
	(c) Deferred Tax Liabilities (Net)			
	(d) Other Non-Current Liabilities			

2.	**Current Liabilities**			
	(a) Financial Liabilities			
	(i) Borrowings (ii) Trade Payable (iii) Other Financial (Other than those specified in item (c), to be specified)			
	(b) Other Current Liabilities			
	(c) Provision			
	(d) Current Tax Liabilities (Net)			
	Total Equity and Liabilities			

Statements of Change in Equity
Name of the Company...........
Statement of Changes in Equity for the period ended...........

(Rupees in.........)

(a) **Equity Share Capital**

Balance at the beginning of the reporting period	Changes in equity share capital during the year	Balance at the end of the reporting period

(b) **Other Equity**

	Reserves and Surplus													
	Share application money pending allotment	Equity Component of compound financial instruments	Capital Reserve	Securities Premium	Other Reserve (Specify nature)	Retained Earnings	Debt Instrument through Other Comprehensive Income	Equity Instrument through Other Comprehensive Income	Effective portion of Cash Flow Hedges	Revaluation Surplus	Exchange differences on translating the financial statements of a foreign operation	Other items of Other Comprehensive Income (Specifiy nature)	Money received against share warrants	Total
Balance at the beginning of the reporting period														
Changes in accounting policy or prior period error														
Restated balance at the beginning of the reporting period														

Total Comprehensive income for the year														
Dividends														
Transfer to retained earning														
Any other changes (to b e specified)														
Balance at the end of the reporting period														

Part - II Statement of Profit and Loss

Name of the Company.........

Statement of Profit and Loss for the period ended...........

(Rupees in..........)

	Particulars	**Note No.**	**Figure for the current reporting period**	**Figure for the previous reporting period**
(i)	Revenue From Operation			
(ii)	Other Income			
(iii)	**Total Income (I+II)**			
(iv)	**Expenses**			
	Cost of material consumed			
	Purchases of Stock-in-Trade			
	Changes in inventories of finished goods, Stock-in-Trade and work-in-progress			
	Employee benefits expense			
	Finance costs			
	Depreciation and amortization expense			
	Impairment of non-current assets.			
	Other expenses			
	Total expenses (IV)			
(v)	Profit/(loss) before exceptional items and tax (I-IV)			
(vi)	Exceptional Items			
(vii)	Profit/(loss) before tax (V-VI)			

(viii)	Tax expense: 1. Current tax 2. Deferred tax			
(ix)	Profit (Loss) for the period from continuing operations (VII-VIII)			
(x)	Profit/(loss) from discontinued operations			
(xi)	Tax expense of discontinued operations			
(xii)	Profit/(loss) from Discontinued operations (after tax) (X-XI)			
(xiii)	Profit/(loss) for the period (IX+XII)			
(xiv)	Other Comprehensive Income (a) (i) Items that will not be reclassified to profit or loss (ii) Income tax relating to items that will not be reclassified to profit or loss (B) (i) Items that will be reclassified to profit or loss (ii) Income tax relating to items that will be reclassified to profit or loss			
(xv)	Total Comprehensive Income for the period (XIII+XIV) (Comprising Profit (Loss) and Other Comprehen - sive Income for the period)			
(xvi)	Earnings per equity share (for continuing operation): 1. Basic 2. Diluted			

(xvii)	Earnings per equity share (for discontinued operations): 1. Basic 2. Diluted			
(xviii)	Earnings per equity share (for discontinued & continuing operations): 1. Basic 2. Diluted			

Space to write important points for revision

Q3. Why substance rather than legal form is used to account for transactions? Explain. What will be the effect of on the financial statements presentation if the substance of transaction is not recorded?

Answer:

In order to be useful information contained in financial statements must be relevant and reliable. This can only be achieved if the substance of transactions is recorded. If this did not happen the financial statements would not represent faithfully the transactions and other events that had occurred. Although there are many instances where there are genuine commercial reasons for contracts and transactions adopting the legal form that they do (e.g. to create a secure legal title to assets), equally the legal form is often used to achieve less desirable purpose.

In general these amount to manipulating the financial statements to create a favourable impression. The typical outcomes of such manipulation are:

- The omission of assets and particularly liabilities, from the Balance Sheet. For example, non-recording of assets purchased on finance lease by the lessee where legal title of the assets is with the lessor.
- Improvements to profits and profit smoothing
- Improvement of other performance measures such as earnings per share, liquidity ratios, profitability ratios and gearing.

Clearly such effects are not helpful to users of financial statements and thus it is important that the substance of a transaction should be recorded in order to avoid the above distortions.

Q4. How is Foreign Currency Cash Flows recorded and reported?

Answer:

1. Cash Flow from transactions in a foreign currency should be recorded in an Entity's reporting currency, by using the exchange rate at the date of the cash flow to the Foreign Currency amount.
2. Cash Flows of a Foreign Subsidiary shall be translated at the exchange rates between the functional currency and the Foreign Currency at the dates of the Cash Flows.

   Note: For (1) & (2) above, Weighted Average Rate may be used in accordance with Ind AS-21.
3. The effect of changes in exchange rates on C&CE held in a foreign currency should be reported, as a separate part of the reconciliation of changes in C&CE during the period.
4. Unrealised Gains and Losses arising from changes in foreign exchange rates are not Cash Flows.

—— Space to write important points for revision ——

Q5. What are the recognition and measurement principles followed under Ind AS-34. Interim Financial Reporting?

Answer:

1. **Same Accounting Policies as Annual:** An Entity should apply the same accounting policies in its Interim Financial Statements, as are applied in its Annual Financial Statements, except for accounting policy changes made after the date of the most recent Annual Financial Statements that are to be reflected in the next Annual Financial Statements.
2. **Year to date basis:** The frequency of an Entity's reporting (annual, half-yearly, or quarterly) should not affect the measurement of its annual results. Hence, measurements for interim reporting purposes should be made on a year-to-date basis.
3. **Seasonal Receipts:** Revenues that are received seasonally, cyclically or occasionally within a financial year should not be anticipated or deferred as of an interim date, if anticipation or deferral would not be appropriate at the end of the Entity's financial year, e.g. Dividend Revenue, Royalties, and Government Grants.

4. **Costs incurred unevenly:** Costs that are incurred unevenly during an Entity's financial year should be anticipated or deferred for Interim Reporting purposes, if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

Space to write important points for revision

Q.6 Is there any specific disclosure under Ind AS-1 for a company which is under liquidation process?

Answer:

The fundamental accounting assumption of Going Concern Concept does not stand valid for a company which is under liquidation.

Disclosure:

As per Ind AS-1 when an organisation does not prepare Financial Statements on a Going Concern basis it shall disclose:

(i) the fact that it has not prepared financial statements on a Going Concern basis.

(ii) the reason as to why the organisation is not regarded as a going concern

(iii) the basis on which it has prepared its Financial Statements

PRACTICAL QUESTIONS

Q1. In December 2017, X Ltd. entered into a Loan Agreement with a Bank. The Loan is repayable in three equal annual installments starting from December 2021. One of the Loan Covenants is that an amount equivalent to the Loan Amount should be contributed by Promoters by 24th March, 2018, failing which the Loan becomes payable on demand. As on 24th March, 2018, X Ltd. has not been able to get the Promoter's Contribution. On 25th March, 2018, X Ltd. approached the Bank and obtained a grace period up to 30th June, 2018 to get the Promoter's Contribution. The Bank cannot demand immediate repayment during the grace period. The annual reporting period of the Entity ends on 31st March, 2018.

(i) As on 31st March, 2018, how should the Entity classify the Loan?

(ii) Assume that in anticipation that it may not be able to get the Promoter's Contribution by the due date, in February 2018, the Entity approached the Bank and got the compliance date extended up to 30th June, 2018 for getting Promoter's Contribution. In this case, will the Loan Classification as on 31st March, 2018 be different from (a) above?

Answer:

(i) Ind AS-1 provides that "an Entity classifies the Liability as Non-Current if the Lender agreed by the end of the Reporting Period to provide a period of grace ending atleast 12 months after the reporting period, within which the Entity can rectify the breach and during which the Lender cannot demand immediate re-payment."
In the present case, following the default, grace period within which an Entity can rectify the breach is less than 12 months after the reporting period. Hence as on 31st March, 2018, the Loan will be classified as Current.

(ii) Ind AS-1 deals with classification of Liability as current or non-current in case of breach of a Loan Covenant, and does not deal with the classification in case of expectation of breach.
In this case, whether actual breach has taken place or not is to be assessed on 30th June, 2018, i.e. after the reporting date. Consequently, in the absence of actual breach of the Loan Covenant as on 31st March, 2018, the loan will retain its classification as Non-Current.

Space to write important points for revision

Q2. A Firm invests in a 5-year Bond of another company with a Face Value of ₹ 10,00,000 by paying ₹ 5,00,000. The effective Rate of Interest is 15%. The Firm recognizes proportionate Interest Income in its Income Statement throughout the period of Bond. Based on the above information answer the following questions:

(a) How the Interest Income will be treated in the Statement of Cash Flows during the period of the Bond?

(b) On maturity, should the receipt of ₹ 10,00,000 be split between Interest Income and Receipts from Investments Activity?

Answer:

1. Interest Income is recognized in the Statement of Profit and Loss, over the period of Bond. However, there will be no cash flow in these years because no cash has been received.
2. On maturity, receipt of ₹ 10,00,000 will be classified as under Investing Activity, with a further bifurcation of - (a) Interest Income, and (b) Amount received on Redemption of Bond.

—— Space to write important points for revision ——

Q3. ABC Ltd. reports quarterly, and has an Operating Loss carried forward of ₹ 100 Lakhs for income-tax purposes at the start of the current financial year for which a DTA has not been recognised. Makara earns ₹ 100 Lakhs in the first quarter of the current year, and expects to earn ₹ 100 Lakhs in each of the three remaining quarters. Excluding the Loss carried forward, the Estimated Average Annual Income-Tax Rate is expected to be 40%. Calculate the amount of Income-Tax Expense reported in each quarter.

Answer:

- Estimated Tax Liability on Annual Income = (Income ₹ 400 Lakhs - b/fd Loss ₹ 100 Lakhs) × 40% = ₹ 120 Lakhs.
- Estimated Average Annual Effective Income - Tax Rate = ₹ 120 Lakhs ÷ ₹ 400 Lakhs = 30%.
- For Ind AS-34 purposes, this Average Annual Effective Income-Tax Rate would be applied to earnings of each quarter.

  Accordingly, Tax Expense would be as follows:

Quarter	**Tax Expense**
1^{st}	₹ 30 lakhs
2^{nd}	₹ 30 lakhs
3^{rd}	₹ 30 lakhs
4^{th}	₹ 30 lakhs
Annual	₹ 120 lakhs

Q4. ABC Ltd. while acting as an agent for other organisations earns commission. It also has a sub agent to whom ABC Ltd. pays commission out of its commission income. Throw light on the possibility of set off commission and how net commission will be shown in statement of profit and Loss?

Answer:

- An organisation shall not offset assets and liabilities or income and expenses unless required or permitted by an Ind AS.
- Commission income and commission expense in this case are not a group of similar transactions which could offset each other.
- **Disclosure:**
  - Commission income should be shown as gross revenue of the company.
  - Commission expense should be shown as expense item separately without offsetting with one another.

Table Showing Marks of Compulsory Questions										
Year	16 M	16 N	17 M	17 N	18 M	18 N	19 M	19 N	20 N	21 J
Practical							20		12	5
Total							20		12	5