**Mock Test Paper - Series II: April, 2024**

**Date of Paper: 1 April, 2024**

**Time of Paper: 2 P.M. to 5 P.M.**

## FINAL COURSE: GROUP – I

## PAPER – 1: FINANCIAL REPORTING

## ANSWER TO PART – I CASE SCENARIO BASED MCQS

1. **Option (b) Current financial Liability**
2. **Option (c) Non-Current financial Liability**
3. **Option (c) ₹ 1,000 thousand**
4. **Option (d) ₹ 810 thousand is to be recognised in the year of sale and ₹ 90 thousand to be spread over next three years.**
5. **Option (c) : ₹ Nil**
6. **Option (d) : ₹ 15 million**
7. **Option (b) Deduct the grant received from the cost of the asset and depreciate the net carrying value over its useful economic life**
8. **Option (a) Grant relating to an inducement to begin developing the factory can be recognized immediately in the Statement of Profit or Loss**
9. **Option (d) ₹ 36 million**
10. **Option (c) ₹ 37.782 million**
11. **Option (b) : Agreement is in the nature of Joint Operations**
12. **Option (c) : ₹ 20,25,00,000**
13. **Option (a) : ₹ 50,62,500**
14. **Option (a) : F Ltd. can continue following the existing accounting policy of amortising the exchange differences in respect of loan over the balance period of such long-term liability routed through statement of profit and loss for the period**
15. **Option (c) : Scanned documents of several years will acquire unnecessary office space.**

## ANSWERS OF PART – II DESCRIPTIVE QUESTIONS

**1.** A Ltd. and B Ltd. will account for the transaction as a sale and leaseback.

Step 1

Since the consideration for the sale of the building is not at fair value, A Ltd. and B Ltd. make adjustments to measure the sale proceeds at fair value. Thus, the amount of the excess sale price of ₹ 6,00,000 (as calculated below) is recognised as additional financing provided by B Ltd. to A Ltd.

| Sale Price: | 60,00,000 |
|---|---|
| *Less:* Fair Value (at the date of sale): | (54,00,000) |
| **Additional financing provided by B Ltd. to A Ltd.** | **6,00,000** |

Step 2

Calculation of the present value of the annual payments which amounts to ₹ 29,88,000 (calculated considering 20 payments of ₹ 4,00,000 each, discounted at 12% p.a.) of which ₹ 6,00,000 relates to the additional financing (as calculated above) and balance ₹ 23,88,000 relates to the lease — corresponding to 20 annual payments of ₹ 80,320 and ₹ 3,19,680, respectively (refer calculations below).

**Proportion of annual lease payments:**

| | | |
|---|---|---|
| Present value of lease payments (as calculated above) (A) | | 29,88,000 |
| Additional financing provided (as calculated above) (B) | | 6,00,000 |
| Relating to the Additional financing provided | (C) = (E x B / A) | 80,320 |
| Relating to the Lease | (D) = (E – C) | 3,19,680 |
| Annual payments (at the end of each year) | (E) | 4,00,000 |

**A Ltd.:**

At the commencement date, A Ltd. measures the ROU asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right-of-use retained by A Ltd., calculated as follows:

| | | |
|---|---|---|
| Carrying Amount | (A) | 30,00,000 |
| Fair Value (at the date of sale) | (B) | 54,00,000 |
| Discounted lease payments for the 20-year ROU asset (C) | | 23,88,000 |
| **ROU Asset** | **[(A / B) x C]** | **13,26,667** |

A Ltd. recognises only the amount of the gain that relates to the rights transferred to B Ltd., calculated as follows:

| | | |
|---|---|---|
| Fair Value (at the date of sale) | (A) | 54,00,000 |
| Carrying Amount | (B) | 30,00,000 |
| Discounted lease payments for the 20-year ROU asset | (C) | 23,88,000 |
| **Gain on sale of building** | **(D) = (A - B)** | **24,00,000** |
| Relating to the right to use the building retained by A Ltd. (E) = [(D/A) x C] | | 10,61,333 |
| Relating to the rights transferred to B Ltd. | (D - E) | 13,38,667 |

At the commencement date, A Ltd. accounts for the transaction, as follows:

| | | | |
|---|---|---|---|
| Cash | Dr. | 60,00,000 | |
| ROU Asset | Dr. | 13,26,667 | |

| | | |
|---|---|---|
| To Building | | 30,00,000 |
| To Financial Liability | | 29,88,000 |
| To Gain on rights transferred | | 13,38,667 |

**B Ltd.:**

At the commencement date, B Ltd. accounts for the transaction, as follows:

| | | | |
|---|---|---|---|
| Building | Dr. | 54,00,000 | |
| Financial Asset (20 payments of ₹ 80,320 discounted @ 12% p.a.) (approx.) | Dr. | 6,00,000 | |
| To Cash | | | 60,00,000 |

After the commencement date, B Ltd. accounts for the lease by treating ₹ 3,19,680 of the annual payments of ₹ 4,00,000 as lease payments. The remaining ₹ 80,320 of annual payments received from A Ltd. are accounted for as:

(a) payments received to settle the financial asset of ₹ 6,00,000 and

(b) interest revenue.

**2. (a) Journal Entry**

| Date | Particulars | Dr. | Cr. |
|---|---|---|---|
| | | ₹ | ₹ |
| 1/4/20X1 | Loan to Mr. Y A/c Dr.<br>Pre-paid employee cost A/c Dr.<br>To Bank A/c<br>(Being loan to employee recorded at fair value) | 10,43,638<br>1,56,362 | <br><br>12,00,000 |
| 31/3/20X2 | Loan to Mr. Y A/c Dr.<br>To Finance Income A/c<br>(Being finance income @ 9% recorded in the books) | 93,927 | <br>93,927 |
| 31/3/20X2 | Bank A/c Dr.<br>To Loan to Mr. Y A/c<br>(Being installment received at the end of the year) | 3,00,000 | <br>3,00,000 |

**Working Notes:**

1. **Calculation of initial recognition amount of loan to employee**

| Year | Estimated Cash Flows | PV Factor @9% | Present Value |
|---|---|---|---|
| | ₹ | | ₹ |
| 31/3/20X2 | 3,00,000 | 0.9174 | 2,75,220 |
| 31/3/20X3 | 3,00,000 | 0.8417 | 2,52,510 |
| 31/3/20X4 | 3,00,000 | 0.7722 | 2,31,660 |
| 31/3/20X5 | 3,00,000 | 0.7084 | 2,12,520 |
| 31/3/20X6 | 40,000 (W.N.2) | 0.6499 | 25,996 |
| 31/3/20X7 | 40,000 (W.N.2) | 0.5963 | 23,852 |
| 31/3/20X8 | 40,000 (W.N.2) | 0.5470 | 21,880 |
| Fair Value of Loan | | | 10,43,638 |

2. **Computation of Interest to be paid**

| Year | Opening outstanding balance a | Cash Flows b | Principal outstanding at year end c | Interest @ 4% on a d | Cumulative Interest e |
|---|---|---|---|---|---|
| | | ₹ | ₹ | ₹ | ₹ |
| 31/3/20X2 | 12,00,000 | 3,00,000 | 9,00,000 | 48,000 | 48,000 |
| 31/3/20X3 | 9,00,000 | 3,00,000 | 6,00,000 | 36,000 | 84,000 |
| 31/3/20X4 | 6,00,000 | 3,00,000 | 3,00,000 | 24,000 | 1,08,000 |
| 31/3/20X5 | 3,00,000 | 3,00,000 | Nil | 12,000 | 1,20,000 |
| 31/3/20X6 | 1,20,000 | 40,000 (1,20,000/3) | | | |
| 31/3/20X7 | | 40,000 (1,20,000/3) | | | |
| 31/3/20X8 | | 40,000 (1,20,000/3) | | | |

3. **Computation of finance cost as per amortization table**

| Year | Opening Balance (1) | Interest @ 9% (2) | Repayment (3) | Closing Balance (1+2-3) |
|---|---|---|---|---|
| | ₹ | ₹ | ₹ | ₹ |
| 1/4/20X1 | | | | 10,43,638 |
| 31/3/20X2 | 10,43,638 | 93,927 | 3,00,000 | 8,37,565 |

| | | | | |
|---|---|---|---|---|
| 31/3/20X3 | 8,37,565 | 75,381 | 3,00,000 | 6,12,946 |
| 31/3/20X4 | 6,12,946 | 55,165 | 3,00,000 | 3,68,111 |
| 31/3/20X5 | 3,68,111 | 33,130 | 3,00,000 | 1,01,241 |
| 31/3/20X6 | 1,01,241 | 9,112 | 40,000 | 70,353 |
| 31/3/20X7 | 70,353 | 6,332 | 40,000 | 36,685 |
| 31/3/20X8 | 36,685 | 3,315* | 40,000 | Nil |

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

**(b) Table showing computation of tax charge:**

| | **Quarter ending 31st March, 20X1** | **Quarter ending 30th June, 20X1** | **Quarter ending30th September, 20X1** | **Quarter ending 31st December, 20X1** | **Year ending 31st December, 20X1** |
|---|---|---|---|---|---|
| | ₹ | ₹ | ₹ | ₹ | ₹ |
| Profit before tax | 50,000 | 50,000 | 50,000 | 50,000 | 2,00,000 |
| Tax charge | (12,500) | (15,000) | (15,000) | (15,000) | (57,500) |
| | 37,500 | 35,000 | 35,000 | 35,000 | 1,42,500 |

Since an entity's accounting year is not same as the tax year, more than one tax rate might apply during the accounting year. Accordingly, the entity should apply the effective tax rate for each interim period to the pre-tax result for that period.

**3. (a) Computation of goodwill impairment**

| | **NCI at fair value** | **NCI at of net assets** |
|---|---|---|
| | **₹ in '000** | **₹ in '000** |
| **Cost of investment** | | |
| Share exchange (6,000 x 75% x 2/3 x ₹ 6.50) | 19,500 | 19,500 |
| Deferred consideration (3,575 / 1.10) | 3,250 | 3,250 |
| Contingent consideration | 12,500 | 12,500 |
| **Non-controlling interest at date of acquisition:** | | |
| Fair value – 1,500 x ₹ 6 | 9,000 | |
| % of net assets – 34,000 (Refer W.N.) x 25% | | 8,500 |
| **Net assets on the acquisition date (Refer W.N.)** | (34,000) | (34,000) |
| **Goodwill on acquisition** | 10,250 | 9,750 |
| **Impairment @ 10%** | 1,025 | 975 |

**Working Note:**

| **Net assets on the acquisition date** | **₹ '000** |
|---|---|
| Fair value at acquisition date | 35,000 |
| Deferred tax on fair value adjustments [20% x (35,000 – 30,000)] | (1,000) |
| | 34,000 |

**(b)** **(i)** The gas will be used to generate electricity, which will be sold at a profit. The economic benefits from the contract include the benefits to the entity of using the gas in its business and, because the electricity will be sold at a profit, the contract is not onerous.

**(ii)** The electricity is sold to a wide range of customers. The entity first considers whether the assets used to generate electricity are impaired. To the extent that there is still a loss after the assets have been written down, a provision for an onerous contract should be recorded.

**(iii)** The only economic benefit from the purchase contract costing ₹ 2,30,000 are the proceeds from the sales contract, which are ₹ 1,80,000. Therefore, a provision should be made for the onerous element of ₹ 50,000, being the lower of the cost of fulfilling the contract and the penalty cost of cancellation (₹ 55,000).

**4. (a) Calculation of Investor Ltd.'s investment in XYZ Ltd. under equity method:**

| | ₹ | ₹ |
|---|---|---|
| **Acquisition of investment in XYZ Ltd.** | | |
| Share in book value of XYZ Ltd.'s net assets (35% of ₹ 90,00,000) | 31,50,000 | |
| Share in fair valuation of XYZ Ltd.'s net assets [35% of (₹ 1,10,00,000 – ₹ 90,00,000)] | 7,00,000 | |
| Goodwill on investment in XYZ Ltd. (balancing figure) | 9,00,000 | |
| **Cost of investment** | | **47,50,000** |
| **Profit during the year** | | |
| Share in the profit reported by XYZ Ltd. (35% of ₹ 9,00,000) | 3,15,000 | |
| Adjustment to reflect effect of fair valuation [35% of (₹ 20,00,000/10 years)] | (70,000) | |
| **Share of profit in XYZ Ltd. recognised in income by Investor Ltd.** | | **2,45,000** |
| **Long term equity investment** | | |
| FVTOCI gain recognised in OCI (35% of ₹ | | 70,000 |

| | | |
|---|---|---|
| 2,00,000) | | |
| Dividend received by Investor Ltd. during the year [35% of ₹ 10,00,000] | | (3,50,000) |
| **Closing balance of Investor Ltd.'s investment in XYZ Ltd.** | | **47,15,000** |

**(b) (i) Calculation of Basic EPS:**

Basic EPS = Profit for the year / Weighted average Number of shares outstanding

Basic EPS (Continued Operations) = Profit from continued operations / Weighted average Number of shares outstanding

= ₹ 90,00,000/ 10,00,000

= ₹ 9.00

Basic Loss per share

(Discontinued operations) = Loss from discontinued operations /Weighted average Number of shares outstanding

= ₹ (1,08,00,000)/10,00,000

= (₹ 10.80)

Overall Basic Loss per share = (₹ 18,00,000) / 10,00,000

= ₹ (1.80) (i)

**Calculation of Diluted EPS**

Diluted EPS = Profit for the year / Adjusted Weighted average Number of shares outstanding

EPS (Continued Operations) = Profit from continued operations / Adjusted Weighted average Number of shares outstanding

= ₹ 90,00,000 / 12,00,000 = ₹ 7.50

Loss per share
(Discontinued operations) = Loss from discontinued operations/ Adjusted weighted average number of shares outstanding

= ₹ (1,08,00,000) / 12,00,000 = (₹ 9.00)

Overall Diluted Loss per share = ₹ 18,00,000 / 12,00,000

= ₹ (1.50) (ii)

The income from continuing operations is the control number, there is a dilution in basic EPS for income from continuing operations (reduction of EPS from ₹ 9.00 to ₹ 7.50). Therefore,

even though there is an anti-dilution [Loss per share reduced from ₹ 1.80 (i) to ₹ 1.50 (ii) above], diluted loss per share of ₹ 1.50 is reported.

**(ii)** In case of loss from continuing operations, the potential shares are excluded since including those shares would result into anti-dilution effect on the **control number** (loss from continuing operations). Therefore, the diluted EPS will be calculated as under:

Diluted EPS = Profit for the year / Adjusted weighted average number of shares outstanding

Overall Profit = Loss from continuing operations + Gain from discontinued operations

= ₹ (30,00,000) + ₹ 1,08,00,000

= ₹ 78,00,000

Weighted average number of shares outstanding = 10,00,000

Diluted EPS = ₹ 7.80

The dilutive effect of the potential common shares on EPS for income from discontinued operations and net income would not be reported because of the loss from continuing operations.

**5. (a) (i)** On 1st April, 20X1, entity A entered into a single transaction with three identifiable separate components:

1. Sale of a good (i.e. engineering machine);
2. Rendering of services (i.e. engineering machine maintenance services on 30th September, 20X1 and 1st April, 20X2); and
3. Providing finance (i.e. sale of engineering machine and rendering of services on extended period credit).

**(ii) Calculation and allocation of revenue to each component of the transaction**

| ***Date*** | ***Opening balance*** | ***Finance income*** | ***Goods*** | ***Services*** | ***Payment received*** | ***Closing balance*** |
|---|---|---|---|---|---|---|
| 1st April, 20X1 | – | – | 2,51,927 | – | – | 2,51,927 |
| 30th September, 20X1 | 2,51,927 | 12,596 (Note 1) | – | 45,000 | – | 3,09,523 |
| 31st March 20X2 | 3,09,523 | 15,477 (Note 2) | – | – | – | 3,25,000 |
| 1st April, 20X2 | 3,25,000 | – | – | 75,000 | (4,00,000) | |

Notes:

1. Calculation of finance income as on 30th September, 20X1

= 5% x 2,51,927

= ₹ 12,596

2. Calculation of finance income as on 31st March, 20X2

= 5% x 3,09,523

= ₹ 15,477

**(iii) Journal Entries**

| Date | Particulars | Dr. (₹) | Cr. (₹) |
|---|---|---|---|
| 1st April, 20X1 | Mr. Anik Dr. | 2,51,927 | |
| | To Revenue - sale of goods (Profit or loss A/c) | | 2,51,927 |
| | (Being revenue recognised from the sale of the machine on credit) | | |
| | Cost of goods sold (Profit or loss) Dr. | 1,60,000 | |
| | To Inventories | | 1,60,000 |
| | (Being cost of goods sold recognised) | | |
| 30th September 20X1 | Mr. Anik Dr. | 12,596 | |
| | To Finance Income (Profit or loss) | | 12,596 |
| | (Being finance income recognised) | | |
| | Mr. Anik Dr. | 45,000 | |
| | To Revenue- rendering of services (Profit or loss) | | 45,000 |
| | (Being revenue from the rendering of maintenance services recognised) | | |
| | Cost of services (Profit or loss) Dr. | 30,000 | |
| | To Cash/Bank or payables | | 30,000 |
| | (Being the cost of performing maintenance services recognised) | | |
| 31st March 20X2 | Mr. Anik Dr. | 15,477 | |
| | To Finance Income (Profit or loss) | | 15,477 |
| | (Being finance income recognised) | | |
| 1st April, 20X2 | Mr. Anik Dr. | 75,000 | |

| | | | |
|---|---|---|---|
| | To Revenue - rendering of services (Profit or loss)<br>(Being revenue from the rendering of maintenance services recognised) | | 75,000 |
| | Cost of services (Profit or loss) Dr.<br>To Cash/Bank or payables<br>(Being the cost of performing maintenance services recognised) | 50,000 | 50,000 |
| | Cash/Bank Dr.<br>To Mr. Anik<br>(Being the receipt of cash from the customer recognised) | 4,00,000 | 4,00,000 |

**(b)** Ind AS 101 provides that a first-time adopter is encouraged, but not required, to apply Ind AS 102 on 'Share-based Payment' to equity instruments that vested before the date of transition to Ind AS. However, if a first-time adopter elects to apply Ind AS 102 to such equity instruments, it may do so only if the entity has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in Ind AS 102.

Having regard to the above, X Ltd. has the following options:

- For 100 options that vested before the date of transition:

  (a) To apply Ind AS 102 and account for the same accordingly, provided it has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in Ind AS 102.

  (b) Not to apply Ind AS 102.

  However, for all grants of equity instruments to which Ind AS 102 has not been applied, i.e., equity instruments vested but not settled before date of transition to Ind AS, X Ltd. would still need to disclose the information.

- For 200 options that will vest after the date of transition: X Ltd. will need to account for the same as per Ind AS 102.

**6. (a) (i)** In terms of Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations, an entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only

to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be *highly probable*.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the **sale should be expected to qualify for recognition as a completed sale within one year from the date of classification**, except in specific cases as permitted by the Standard, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The probability of required approvals (as per the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable.

An entity that is committed to a sale plan involving loss of control of a subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale when the criteria set out above are met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

Based on the provisions highlighted above, the disposal of D Ltd. appears to meet the criteria of **held for sale**. J Ltd. is the probable acquirer, and the sale is highly probable, expected to be completed seven months after the year end, well within the 12-months criteria highlighted above. Accordingly, D Ltd. should be treated as a disposal group, since a single equity transaction is the most likely form of disposal. In case D Ltd. is deemed to be a separate major component of business or geographical area of the group, the losses of the group should be presented separately as a discontinued operation within the Financial Statements of M Ltd.

In terms of Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations, an entity shall measure a non-current asset (or disposal group) classified as held for sale at the **lower of its carrying amount and fair value less costs to sell**. The carrying amount of D Ltd. (i.e., the subsidiary of M Ltd.) comprises of the net assets and goodwill less the non-controlling interest. The impairment loss recognised to reduce D Ltd. to fair value less costs to sell should be allocated first to goodwill and then on a pro-rata basis across the other non-current assets of the Company.

The Chief Operating Officer (COO) is incorrect to exclude any form of restructuring provision in the Financial Statements. Since the disposal is communicated to the media as well as the Stock Exchange, a constructive obligation exists. However, ongoing costs of business should not be provided for, only

**directly attributable costs of restructuring** should be provided. Future operating losses should be excluded as no obligating event has arisen, and no provision is required for impairment losses of Property, Plant and Equipment as it is already considered in the remeasurement to fair value less costs to sell. Thus, a provision is required for ₹ 13.75 crores (₹ 3.75 crores + ₹ 10 crores).

**(ii) Ethics**

Accountants have a duty to ensure that the financial statements are **fair**, **transparent** and **comply with the accounting standards**. Mr. X have committed several mistakes. In particular, he was unaware of which costs should be included within a restructuring provision and has failed to recognise that there is no obligating event in relation to future operating losses. A chartered accountant is expected to carry his work with **due care and attention** for lending credibility to the financial statements. Accordingly, he must update his knowledge and ensure that work is carried out in accordance with relevant ethical and professional standards. Failure to do so would be a breach of **professional competence**. Accordingly, Mr. X must ensure that this issue is addressed, for example by attending regular training and professional development courses.

It appears that the chief operating officer is looking for means to **manipulate** the financial statements for meeting the bonus targets. Neither is he willing to reduce the profits of the group by applying held for sale criteria in respect of D Ltd. nor is he willing to create appropriate restructuring provisions. Both the adjustment which comply with the requirements of Ind AS will result in reduction of profits. His argument that the management has a duty to maximize the returns for the shareholders is true, but such maximization must not be achieved at the cost of **objective** and **faithful representation** of the performance of the Company. In the given case, it appears that the chief operating officer is motivated by bonus targets under the garb of maximizing returns for the shareholders, thereby resulting in misrepresentation of the results of the group.

Further, by threatening to dismiss Mr. X, the COO has acted unethically. **Threatening and intimidating behaviour** is unacceptable and against all ethical principles. This has given rise to an **ethical dilemma** for Mr. X. He has a duty to produce financial statements but doing so in a fair manner could result in a loss of job for him. The chartered accountant should approach the chief operating officer and remind him the basic ethical principles and communicate him to do the necessary adjustments in the accounts so that they are fair and objective.

In case Mr. X, falls under undue influence of COO and applies the incorrect accounting treatment, he will be subject to

professional misconduct under Clause 1 of Part II of Second Schedule of the Chartered Accountants Act, 1949. The Clause 1 states that a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, for contravening the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council. As per the Guidelines issued by the Council, a member of the Institute who is an employee shall exercise due diligence and shall not be grossly negligent in the conduct of his duties.

**(b) Impact on consolidated balance sheet of P Ltd. group at 31st March, 20X2**

- The tax loss creates a potential deferred tax asset for the P Ltd. group since its carrying value is nil and its tax base is ₹ 10,00,000. However, no deferred tax asset can be recognised because there is no prospect of being able to reduce tax liabilities in the foreseeable future as no taxable profits are anticipated.
- The development costs have a carrying value of ₹ 19,00,000 (₹ 20,00,000 – (₹ 20,00,000 x 1/5 x 3/12)). The tax base of the development costs is nil since the relevant tax deduction has already been claimed. The deferred tax liability will be ₹ 5,70,000 (₹ 19,00,000 x 30%). All deferred tax liabilities are shown as non-current.
- The carrying value of the loan at 31st March, 20X2 is ₹ 1,07,80,000 (₹ 1,00,00,000 – ₹ 200,000 + (₹ 98,00,000 x 10%)). The tax base of the loan is 1,00,00,000. This creates a deductible temporary difference of ₹ 7,80,000 and a potential deferred tax asset of ₹ 2,34,000 (₹ 7,80,000 x 30%).

**(c) Either**

Paragraph 16(a) of Ind AS 8 provides that the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring are not changes in accounting policies.

As per Ind AS 16, 'property, plant and equipment' are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one period."

As per Ind AS 40, 'investment property' is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of business."

As per the above definitions, whether a building is an item of property, plant and equipment (PPE) or an investment property for an entity depends on the purpose for which it is held by the entity. It is thus possible that due to a change in the purpose for which it is held, a building that was previously classified as an item of property, plant and equipment may warrant reclassification as an investment property, or vice versa. Whether a building is in the nature of PPE or investment property is determined by applying the definitions of these terms from the perspective of that entity. Thus, the classification of a building as an item of property, plant and equipment or as an investment property is not a matter of an accounting policy choice. Accordingly, a change in classification of a building from property, plant and equipment to investment property due to change in the purpose for which it is held by the entity is **not** a change in an accounting policy.

**Or**

As per Ind AS 10, even if partial information has already been published, the reporting period will be considered as the period between the end of the reporting period and the date of approval of financial statements. In the above case, the financial statements for the year 20X1-20X2 were approved on 15th May, 20X2. Therefore, for the purposes of Ind AS 10, 'after the reporting period' would be the period between 31st March, 20X2 and 15th May, 20X2.