BORROWING COSTS IND AS 23 (IAS 23)

Borrowing Cost is the aggregate of :

Sl.No.	Particulars	Amount
1.	Interest on Bank OD, Short term andlong term borrowings	XXXXXX
2.	Amortisation of premium or discounts on loans	XXXXXX
3.	Amortization of Ancilliary costs in the arrangement of loans	XXXXXX
4.	Finance Charges which are part of financial lease	XXXXXX
5.	Exchange differences reflecting to interest costs	XXXXXX
		XXXXXX

Problem:

Calculate the borrowing cost in the case of P Ltd., a distillery unit.

(a) 6 Crores arranged by 10% Debentures repayable after 8 years, 2 crores by 8 years loan from IFCI and 2 crores from O D with Canara Bank. The IFCI interest is 9% p.a. and OD interest is 13% p.a.
(b) The Cost of issue of Debentures is Rs.20 and lakhs.
(c) The Service charges for IFCI loan and consultancy charges together amounted 5% of loan.
(d) Debentures repayable at 5% premium.

Solution:

Sl.No.	Particulars	Amount
1.	Interest on Debentures (6 crs X 10%)	60,00,000
2.	Interest on IFCI loan 2 cr @ of 9%	18,00,000
3.	Interest on OD 2 Cr @ of 13%	26,00,000
4.	Issue cost of New Debentures (20,00,000/8)	2,50,000
5.	Service Charges and consultancy fee for IFCI loan (2 Cr @ 5% = 10,00,000/8)	1,25,000
6.	Premium on Debentures 6 Cr @ 5% = 30,00,000 / 8	3,75,000
	Total Annual Borrowing Cost	1,11,50,000

Problem:

Calculate the Borrowing Cost

(a) Project cost Rs.2 crores, 1 crore is financed by 8% debentures repayable in 5 years, 50 lakhs by ICICI Loan @10% pa. Interest and balance 50 lakhs loan from IDBI @ 12% pa Interest and both repayable in 4 years.
(b) The cost of Issue of debentures is Rs.3 lakhs
(c) The service and consultancy charges for ICICI and IDBI Rs.2 lakhs
(d) Debentures repayable at 5% premium

Solution:

Sl.No.	Particulars	Amount
1.	Interest on Debentures 1 Cr @ 8%	8,00,000
2.	Interest loan – ICICI 50 lakhs @ 10%	5,00,000
3.	Interest on loan- IDB I 50 lakhs @ 12%	6,00,000
4.	Cost of Issue of Debentures (3,00,000 / 5)	60,000
5.	Loan Service Charges (2,00,000 / 4)	50,000
6.	Premium on Debentures 2 crores @ 5% (10,00,000 / 5)	2,00,000
	Total Annul Borrowing Cost	22,10,000

GOVERNMENT GRANTS IND AS 20 (IAS 20)

PROFORMA JOURNAL ENTRIES

(1) If the grant amount is recoverable at a future date than the date of grant
Account Receivable A/c Dr.
To Deferred Income – Govt. Grant a/c

(2) If the grant amount is currently recoverable

Account Receivable A/c Dr
To Other Income- Govt. Grant a/c

(3) If it's given as cash Grant
Cash A/c Dr.
To Other INC- Govt. Grant a/c

(4) If it's given as waiver of a Govt. Loan
Loan Payable A/c Dr.
To Other Income- Govt. Grant a/c

Problem:
The Following Grants are eligible for a Company

(a) The Government has a promised a grant of Rs.25,00,000 in October 2016 to meet relocation of plant cost but payment will be received in Feb. 2017
(b) A Loan with local Government was taken three years ago to finance the reconstruction of office block. All the conditions necessary for the forgiveness of Rs.2,00,000 now has been met.
(c) The training cost of employees is Rs.1,00,000/-. In the current year 40% of training is completed and 50% of training cost would be reimbursed by Government.
(d) A Computer is purchased for Rs.1,00,000/- and is eligible for grant of Rs.20,000/-.

(e) The company is in financial trouble , the Government given cash Grant Rs.5,00,000 as a help to continue business.

(f) The Government pay Rs.2,00,000 for making up losses in export business.

Pass entries to record grants.

1.	Accounts Receivable A/c Dr To Deferred Income - Govt. Grant A/C	25,00,000	 25,00,000
2.	Loan Payable A/c Dr. To Other INC - Govt. Grant A/c	2,00,000	 2,00,000
3.(a)	Training Cost A/c Dr. To Cash A/c (1,00,000 X 40% Paid)	40,000	 40,000
3 (b)	Account Receivable A/c Dr. To Other Income – Govt. Grants A/c (50% of 40,000 recoverable)	20,000	 20,000
4 (a)	PPE (Computer) A/c Dr. To Cash A/c	1,00,000	 1,00,000
4 (b)	Account Receivable A/c Dr. To Other Income -Govt. Grant A/c	20,000	 20,000
5	Cash A/c Dr. To Other INC – Govt. Gants A/c Note: If it's explicitly cash grant cash/bank account should be debited. Otherwise account receivable a/c should be debited.	5,00,000	 5,00,000
6.	Accounts Receivable A/c Dr. To Other Income -Govt. Grant A/c	2,00,000	2,00,000

Problem:

The following are the Grants for a Company:

(1) Govt. Has promised a grant of Rs.30,00,000 in July 2016 to meet modernization cost but the payment will be received in March 2017.

(2) A loan with government was taken five years ago to make it a Eco-Friendly set up. The last instalment of Rs.3,00,000/- is eligible to be waived and all conditions for wavier are fulfilled.

(3) The employee training cost is estimated to be Rs.2,00,000/- and 60% of training is completed during the year and 50% would be reimbursed by the Govt.

(4) An generator is purchased for Rs.2,00,000/- and eligible for 50% grant.

(5) The Company is in financial trouble and Government gives a cash grant Rs.2,00,000/- to continue business to augment working capital.

(6) The Govt. Pays Rs.3,00,000/- for supporting losses in export business.

1.	Accounts Receivable A/c Dr To Deferred Income - Govt. Grant A/c	30,00,000	 30,00,000
2.	Loan Payable A/c Dr. To Other INC - Govt. Grant A/c	3,00,000	 3,00,000
3.(a)	Training Cost A/c Dr. To Cash A/c (2,00,000 X 60% Paid)	1,20,000	 1,20,000

3 (b)	**Account Receivable A/c Dr.** **To Other Income – Govt. Grants A/c(50% of 1.20,000 recoverable)**	**60,000**	**60,000**
4 (a)	**PPE (Generator) A/c Dr.** **To Cash A/c**	**2,00,000**	**2,00,000**
4 (b)	**Account Receivable A/c Dr.** **To Other Income -Govt. Grant A/c (2,00,000 X 50%)**	**1,00,000**	**1,00,000**
5	**Cash A/c Dr.** **To Other INC – Govt. Gants A/c**	**2,00,000**	**2,00,000**
6.	**Accounts Receivable A/c Dr.** **To Other Income - Govt. Grant A/c**	**3.,00,000**	**3,00,000**

Problem:

A Ltd., Purchases a land for Rs.10,00,000. After 4 years, the land is appreciated at Rs.14,00,000/-

1.	**PPE (Land) A/c Dr.** **To Cash a/c**	**10,00,000**	**10,00,000**
2.	**PPE (Land) A/c Dr.** **To Revaluation Reserve A/c**	**4,00,000**	**4,00,000**

Property Plant and Equipment IND AS 16 (IAS 16)

Problem:

A company has purchased a vehicle for Rs.20,000 and its policy is to keep vehicles for 4 years. The residual value of the vehicle at the fair market value is Rs.6,000.

Show the entries to be passed in Reporting.

Solution:

Depreciation = C – S / L = 20,000 – 6,000 / 4 = 14,000/4 = 3,500

Property plant and Equipment (Vehicle) A/c To Cash/Party A/c	Dr.	20,000	20,000

I year

Depreciation A/c To Accumulated Depreciation A/c	Dr.	3,500	3,500

II year

Depreciation A/c To Accumulated Depreciation A/c	Dr.	3,500	 3,500

III year

Depreciation A/c To Accumulated Depreciation A/c	Dr.	3,500	 3,500

IV year

Depreciation A/c To Accumulated Depreciation A/c	Dr.	3,500	 3,500

Termination on Sale

Cash A/c Accumulated Depreciation A/c To Property Plant and Equipment (vehicle) A/c	Dr. Dr.	6,000 14,000	 20,000

Problem:

A Ltd., Purchases a land for Rs.10,00,000. After 4 years, the land is appreciated at Rs.14,00,000/-

1.	**PPE (Land) A/c Dr.** **To Cash a/c**	**10,00,000**	 **10,00,000**
2.	**PPE (Land) A/c Dr.** **To Revaluation Reserve A/c**	**4,00,000**	 **4,00,000**

INTANGIBLE ASSESSTS IND AS 38 (IAS 38)

Acquisition and Exchange at Profit

A Company Acquired a franchise for Rs.8,00,000. It exchanges it for similar franchise in second year with a market value of Rs.9,00,000

Pass entries.

Intangible Asset A/c (Franchise) To Cash / Party A/c	Dr.	8,00,000	 8,00,000

Intangible Asset A/c (Franchise New) To Intangible Asset (Franchise Old) A/c To Revaluation reserve / Surplus A/c	Dr.	9,00,000	 8,00,000 1,00,000

Acquisition and Exchange at Loss

A Company Acquired a trade mark for Rs.18,00,000/- In the second year it exchange for a similar trade mark with a market value of Rs. 14,00,000.

Pass entries.

Intangible Asset (Trade Mark) A/c To Cash / Party A/c	Dr.	18,00,000	 18,00,000

Intangible Asset (Trade Mark New) A/c Amortization A/c To Intangible Asset (Trade Mark old) A/c	Dr. Dr.	14,00,000 4,00,000	 18,00,000

LEASES IND AS 17 (IAS 17)

Problem:

a.(Cost considered as capital and is not split into current and non-current)

A Company purchases a Land and Building on a lease contract and the compounded value of both is Rs 20,00,000 and the Land accounts for 60% of the value, Rs.4,00,000 at the time of acquisition of lease. Pass the entries to be passed in reporting.

Solution:

20,00,000 X 60% = 12,00,000 (Land)

20,00,000 X 40% = 8,00,000 (Building)

Property Plant and Equipment (Land) A/c	Dr.	12,00,000	

Property plant and Equipment (Building) A/c To Cash A/c To Lease Creditor A/c	Dr.	8,00,000	 4,00,000 16,00,000

b. (Lease Cost split into current and Non-current Items)

A Company Acquired a machinery on lease contract spreading 4 years and total value of machinery is Rs. 20,00,000, Rs. 3,00,000 is payable in the first year and Rs.17,00,000 is payable between 2nd to 4th years.

Pass the entry to be passed splitting the liability.

Property Plant and Equipment (Machinery) A/c To Lease Creditor (current) A/c To Lease Creditor A/c(Non- Current)	Dr.	20,00,000	 3,00,000 17,00,000

C. (Lease Rental Expenditure)

A company took business of another company on lease basis. The Fixed lease Rent payable is Rs. 5,00,000 Pa and contingent rent payable is 6% of turnover at the end of lease period. In the first year the turnover reported was Rs.20,00,000.

Pass the entry for recording lease rent.

Solution:

Lease Rent A/c To Cash A/c To Lease Creditor A/c	Dr.	6,20,000	 5,00,000 1.20,000

Calculation:

Fixed Rent Interest Rent (20,00,000 X 6%)	5,00,000 1,20,000 **6,20,000**

IMPAIRMENT OF ASSESTS IND AS 36 (IAS 36)

A Ltd., possessed a factory worth Rs.10,00,000. At the time of first valuation its value is taken at Rs.12,00,000. At the sub sequent / second valuation as Rs. 7,00,000.

Pass the entries to be passed for reporting.

First Valuation:

Property plant and Equipment (Factory) A/c To Revaluation Reserve A/c (revaluation Profit 12,00,000 – 10,00,000)	Dr.	2,00,000	 2,00,000

Second Valuation:

Revaluation Reserve A/c Depreciation A/c To Property, Plant and Equipment A/c (12,00,000 – 7,00,000 = 5,00,000)	Dr. Dr.	2,00,000 3,00,000	 5,00,000

Unit No. 3

NON – CONTROLLING INTEREST
IND AS 110 (IFRS 10)

Problem:1 (During the period subsequent to year of acquisition)

A Ltd., Balance Sheet as on 30-6-2016

Assets		
Non – Current Assest		
Land & Building		10,00,000
Plant & Machinery		5,00,000
Current Assets		
Stock		5,00,000
Debtors		3,00,000
Bank		2,00,000
		25,00,000
Capital And Liabilities		
Share holders fund		
Share Capital		8,00,000
Reserves & Surplus		
P & L a/c	3,00,000	
Reserves	2,00,000	
Share Premium	2,00,000	7,00,000
Non – Current Liabilities		
5 % Debentures		5,00,000
Current Liabilities		
Creditors		5,00,000
		25,00,000

1. Minorities hold 30% of Shares of voting rights and shares in A Ltd.,
2. All Shares were acquired during the financial year 2014-15
3. Fair value of Land and Building is Rs.12,00,000 and that of Plant and Machinery is Rs.4,00,000/- which are to be brought into books for calculations interest of parties.

Calculate Non-Controlling interest (NCI) as per IND AS 110.

Solution

Calculation of Non Controlling Interest:

Share Capital (8,00,000 X 30%)		2,40,000
<u>Reserves & Surplus:</u>		
P & L A/C (3,00,000 X 30%)	90,000	
Reserve 2,00,000 X 30%	60,000	
Share Holders Premium 2,00,000 X 30%	<u>60,000</u>	2,10,000
Surplus on Fair value of Land & Building (12,00,000-10,00,000=200,000*30%)		60,000
		5,10,000
(-) Deficit on Fair Value of Plant & Machinery (1,00,000*30%)		30,000
NCI		4,80,000

Problem No.2 (During the year acquisition)

A Ltd.,Balance sheet as on 31/3/2016

Particulars		Amount
Assets		
Non-Current Assets		
Land & Building		12,00,000
Equipment		8,00,000
Current Assets		
Stock		6,00,000
Receivables		4,00,000
Bank		2,00,000
		32,00,000
Capital & Laibility		
Share holders fund		15,00,000
Share Capital		
Reserves & Surplus		
Profit & Loss a/c	5,00,000	10,00,000
General Reserves	5,00,000	NIL
Non-current liabilities		
Current Laibilities		7,00,000
Payables		
		32,00,000

1) B ltd purchases 80% of shares on 1-10-15 & on that date profit & loss a/c of A ltd stood Rs. 2,00,000 & Reserves 3,00,000/-

2) For the purpose of calculations interest of parties it is decided to take the fair value of Land & building at Rs. 15,00,000 & equipment Rs. 7,00,000 to be incorporated and Depreciation is to be ignored. Calculate NCI .

Calculation of NCI

Particulars			AMOUNT
Share Capital			
(15,00,000*20%)			3,00,000
Share of capital profits			
Profit & Loss on 01-10-15	2,00,000		
Reserves on 01-10-15	3,00,000		
Appreciation of L&B	3,00,000		
(15,00,000-12,00,000)			
	8,00,000		
(-) Reduction In value of equipment			
(8,00,000-7,00,000)	1,00,000		
(20% * 7,00,000)	7,00,000		1,40,000
Share of Revenue profit			
Profit & Loss a/c	3,00,000		
(5,00,000-3,00,000)			
Reserves			
(5,00,000-3,00,000)	2,00,000		
(5,00,000 * 20%)	5,00,000		1,00,000
	NCI		5,40,000