

**MOCK TEST PAPER**  
**FINAL COURSE: GROUP – II**  
**PAPER 6E –GLOBAL FINANCIAL REPORTING STANDARDS**

**Candidates are required to answer any four case studies out of five case studies.**

*Wherever necessary, suitable assumptions may be made and disclosed by way of a note.*

*Working notes should form part of the answers.*

**Time Allowed – 4 Hours**

**Maximum Marks – 100**

**CASE STUDY 1**

Bergman Ltd is a group having diversified business interests in construction contract and real estate business in various countries. It reports its financial statements under International Financial Reporting Standards. You are the Financial Controller of the group and have been entrusted in preparing the group financial statements for the year ended 31 March 20X6.

Under its construction business, the Company has been awarded a contract for the construction of a large warehouse at ₹5 million.

The customer added to the original scope of work a generator room and a compound wall and authorized ₹ 0.8 million.

The cost of building material increased by a large margin compared to the estimated cost when the contract was signed, the contractor claimed ₹ 1.5 million separately on this count.

It was agreed by the customer that if the contract is completed within one year, then the contractor would be awarded an incentive of ₹ 0.5 million.

The original contract was awarded to Bergman Ltd on 1<sup>st</sup> April 20X5 and the contractor completed the contract by 28<sup>th</sup> February 20X6. Your assistant is not sure how to calculate the contract revenue based on contract modification.

Bergman Ltd is working on a contract to build a stadium and the following amounts relate to the same:

	₹
Site labour cost	3,000,000
Material purchase	5,000,000
Depreciation of plant and equipment	750,000
Costs of moving plant & equipment and materials to and from contract site	100,000
Cost of hiring plant & equipment	150,000
Costs of design and technical assistance	250,000
inclusive of ₹ 50,000 for a connecting road in the adjoining neighborhood.	
Cost to fix a structural error made by Bergman Ltd Constructions	500,000
Claims from local authority for rearranging connecting roads approaching the stadium	200,000
Unused materials at the SOFP date	500,000

Your assistant needs guidance how to calculate the Contract Asset.

On 31<sup>st</sup> March 20X6, Bergman Ltd sold a property for a price of ₹12.1 million. The terms of the sale allowed the customer to extend the credit and the price was payable by the customer in cash as on 31<sup>st</sup> March 20X8.

Discount rate appropriate for the risk of this transaction was attributed to 10%. Your assistant feels the entire amount should be recognized as revenue.

Bergman Ltd, as a part of its real estate business, sells properties and provides security services for the first year of possession to the home buyers. Bergman Ltd sells properties for ₹30 million each and provides security services for ₹ 25,000 per month.

Bergman Ltd sells these properties and security services separately; therefore, they are distinct and accounted for as separate performance obligations.

Bergman Ltd enters into a contract to sell a property and one year of security services to a customer for ₹29.5 million. Your assistant is not sure how to allocate the transaction price of ₹29.5 million to the respective performance obligations.

Bergman Ltd owing to uncertain situation of global economy, has been facing a lot of ups and downs in its business in many countries.

The events faced by Bergman Ltd are summarized as below in one country in Central Europe:

- (a) As at 1 April 20X2, purchased construction machinery worth ₹ 1 m.
- (b) The useful economic life of the machinery is 10 years from that date.
- (c) As at 1 April 20X3, owing to the overall depression in the economy, the value of the machinery reduced to ₹ 800,000.
- (d) As at 1 April 20X4, the economy revived and the value of construction machinery went up to ₹ 1.1 m.
- (e) As at 1 April 20X5, superior versions of construction machinery were introduced in the market and accordingly machines possessed by Bergman Ltd had to be revalued at ₹ 750,000.

As a group policy Bergman Ltd. values its property, plant and equipment under revaluation basis.

Bergman Ltd issued a convertible loan note on April 1 20X2 with a nominal value of ₹ 500,000 was issued at par. It is redeemable on 31 March 20X6 also at par, or it may be converted (at the option of the holder) into ordinary shares on time basis of 100 new shares for each ₹100 of loan note.

An equivalent loan note without conversion option would have carried at coupon rate of 12%. Interest of ₹ 40,000 has been paid and charged as a finance cost.

The present value of Re.1 receivable at the end of each year, based on discount rate of 8% and 12% should be taken as:

End of year	8%	12%
1	0.93	0.88
2	0.86	0.78
3	0.79	0.70
4	0.73	0.64

Bergman Ltd purchased a debt instrument on 1<sup>st</sup> April 20X1 at its fair value of ₹ 1000. The debt instrument is due to mature on 31<sup>st</sup> March 20X6.

The instrument has a principal amount of ₹1250 and the instrument carries fixed interest at 4.72% that is paid annually. (The effective interest rate is 10%)

Bergman Ltd purchased 40% stake of Broccoli Ltd for ₹12 per share. After two years Bergman Ltd decided to purchase another 40% share in Broccoli Ltd. Broccoli Ltd has 10,000,000 equity shares of ₹ 10 each as fully paid up shares.

The purchase deal was finalized in the following terms:

- (a) Purchase price per share to be calculated on the basis of average profit of last three years capitalized at 7.5%. Profits for last three years are ₹3.5 mil, ₹6.5 mil and ₹8.9 mil.
- (b) Total assets of Broccoli Ltd was ₹115 mil. Assets to be appreciated by ₹4.0 mil.
- (c) Of the external creditors for ₹25.0 mil one creditor to whom ₹1.0 mil was due has expired and nothing is to be paid to settle this liability.
- (d) Broccoli Ltd declared dividend @ 15%.

### Multiple Choice Questions

1. Calculate allocation of transaction price and discount based on performance obligations against sale of property in accordance with provisions under the relevant IAS / IFRSs.
- (a) ₹29.2 million
  - (b) ₹30 million
  - (c) ₹29.208 million
  - (d) ₹26.73 million
- (2 Marks)**

2. Bergman Ltd also provides consultancy services to its customers. It has won a contract through a tender process and incurs following costs to obtain the contract:

	₹ Million
External legal fees for due diligence	2.50
Travel cost to deliver proposal	3.50
Commissions to sales employees	<u>2.50</u>
Total cost incurred	<u>8.50</u>

- (a) The total amount of ₹8.5 Million will be charged to revenue.
  - (b) Travel cost to deliver proposal of ₹3.5 Million will be capitalized under IFRS 15.
  - (c) Commission to sales employees of ₹2.5 Million will be capitalized under IFRS 15 and amortized during the period of the contract.
  - (d) Only external legal fees of ₹2.5 Million will be capitalized.
- (2 Marks)**
3. Bergman Ltd is a telecommunication company that pays discretionary annual bonus to its employees of the sales department based on annual sales target, EBITDA target and employees' ratings. Bergman Ltd wants advice as to the treatment of this cost under IFRS 15.
- (a) The annual bonus is to be charged to Statement of Profit & Loss.

- (b) The annual bonus is treated as incremental cost of obtaining contracts and hence eligible for capitalization and amortized during the period of the contract.
- (c) The annual bonus is to be treated as deferred revenue expenditure.
- (d) None of the above. **(2 Marks)**

4. Extract of Statement of Financial Position of Bergman Ltd at the end of the year as follows:

Particulars	Amount ₹
Investment in Betty Ltd at fair value	250,000
Deferred taxes	86,000
Equity share capital ₹1/- par value	550,000
Preference share capital ₹100 par value	175,000
Retained earnings	793,000
Accumulated other comprehensive income	146,000

The investment in Betty Ltd had an original cost of ₹220,000. It is assumed that the investment in Betty Ltd is classified as available for sale. Total owners' equity of Bergman Ltd at the year-end is closed to:

- (a) ₹16,18,000
  - (b) ₹16,64,000
  - (c) ₹17,14,000
  - (d) None of the above. **(2 Marks)**
5. Bergman Ltd purchased a 6% bond at par for ₹1,000,000 at the beginning of the year, interest rates have recently increased and the market value of the bond declined by ₹20,000. Determine the bond's effect on Bergman Ltd.'s financial statements under classification of securities under the following options.
- (a) The bond would be treated under fair value through profit or loss.
  - (b) The bond would be treated under amortized cost and resultant interest income capitalized.
  - (c) The bond would be treated under amortized cost and resultant interest income considered under Statement of Profit & Loss.
  - (d) None of the above. **(2 Marks)**

### Descriptive Questions:

- 6. Show treatment related to recognition of revenue for the construction of warehouse based on information provided in case study. **(1 Mark)**
- 7. Compute contract asset to build the stadium based on provisions under relevant IAS / IFRSs. **(2 Marks)**
- 8. Show treatment and workings with the help of journal entries for the entire duration related to financing transaction on recognition of revenue based on information provided in the case study. **(2 Marks)**
- 9. Show treatment on valuation of properties for different years based on revaluation in accordance with the provisions laid down by relevant IAS/IFRSs. **(3 Marks)**
- 10. How should Bergman Ltd account for the issued debt instrument over its five year term? **(2 Marks)**

11. How should Bergman Ltd account for the purchased debt instrument over its five year term? **(2 Marks)**
12. Calculate goodwill or bargain purchase in the books of Bergman Ltd in consolidated financial statement on acquisition of Broccoli Ltd. **(3 Marks)**

## CASE STUDY 2

Asparagus Limited is an entity that has business interests all around the world. They operate in the speciality chemicals sector and have entities in various countries in Europe, South Africa, Australia and Asia Pacific. The group prepares its financial statements under International Financial Reporting Standards.

The financial statements for the year ended 31 March 20X2 are currently in the process of preparation. You are the Financial Controller of the organization and you have been asked by the directors to finalize the financial statements for the reporting period.

On 28 February 20X2 the directors in their board meeting discussed and approved a new vision document and a business plan. The basic idea was to refocus the strategic direction of the group. In the process they found that one of the business segments did not fit into the new business strategy. Accordingly, the board decided to close down a business segment.

The closure commenced on 5 March 20X2 and was due to be completed on 30 June 20X2. On 10 March 20X2 letters were sent to employees offering voluntary redundancy or redeployment in other sectors of the business.

On 20 March 20X2 negotiations commenced with relevant parties with a view to terminating existing contracts of the business segment and arranging sales of its assets.

Latest estimates of the financial implications of the closure were as follows:

- (a) Redundancy costs will total ₹20 million, excluding the payment referred to in (b) below.
- (b) The pension plan (a defined benefit plan) will make a lump sum payment totaling ₹10 million to the employees who accept voluntary redundancy in termination of their rights under the plan. The organization paid this amount into the plan on 30 June 20X2.  

The actuaries have advised that the accumulated pension rights that this payment will extinguish have a present value of ₹7.5 million and this sum was unlikely to alter significantly before 31 July 20X2.
- (c) The cost of redeploying and retraining staff who did not accept redundancy worked out to ₹5.5 million.
- (d) The costs of terminating existing contracts, including professional fees, worked out to ₹5 million.
- (e) Plant having a net book value of ₹11 million at 31 March 20X2 was sold for ₹2 million.
- (f) A freehold property having a net book value of ₹10 million at 31 March 20X2 was sold for ₹15 million. The purchaser was not interested in acquiring the plant.
- (g) The operating losses of the business segment for April, May and June 20X2 were total ₹9 million.

In other case, On 31 December 20X1 the board of directors decided to dispose of two properties in different locations.

Both properties were actively marketed by the directors from 1 January 20X2 and sales are expected before the end of July 20X2.

Summary details of the two properties are as follows:

Property	Carrying amount 31 March 20X1 ₹'000	Depreciable amount 31 March 20X1 ₹'000	Estimated future economic life 31 March 20X1 ₹'000	Estimated fair value less costs to sell 31 December 20X1 ₹'000
A	25,000	15,000	30 years	28,000
B	22,000	16,000	40 years	18,000

Property A was available for sale without modifications from 1 January 20X2 onwards. On 31 March 20X2 the directors were reasonably confident that a sale could be secured for ₹28 million. However, after the year-end property prices in the area in which property A is located started to decline.

This was due to an unexpected adverse local economic event in April 20X2. Following this event the directors estimated that property A would now be sold for ₹22 million less selling costs and they are very confident that this lower price can be achieved.

Property B needed repair work carried out on it before a sale could be completed. This repair work was carried out in the two-week period beginning 10 April 20X2. The costs of this repair work are reflected in the estimated fair value less costs to sell figure for property B of ₹18 million (see above). This estimate remains valid.

While finalizing the financial statements you come across certain transactions related to which the tax treatment need to be studied and properly dealt with as per the provision of relevant IAS/IFRS.

The transactions are provided as under:

- The cost of an asset is ₹ 500,000. For the first year, the accounting depreciation is ₹80000, whereas the depreciation according to tax laws is ₹125,000.
- The company has a building with carrying value of ₹200,000. The entity decides to revalue the building to a fair value of ₹400,000.
- The company recognized a goods and services tax of ₹10,000 payable in 20X0-20X1 but it was paid in 20X1-20X2.
- The company paid a penalty of ₹5000 which is treated as an expense for accounting profits. However, according to local tax laws, a penalty is not a deductible expense when calculating tax profit.

Tax rate applicable to Asparagus Ltd. was 20%.

Asparagus Ltd acquired 60% shares of Belix Ltd. @ ₹20 per share.

Following are the extract of Statement of Financial Position of Belix Ltd.:

	₹
1000000 Equity shares of ₹10 each	10,000,000
10% debentures	1,000,000
Creditors	5,500,000
Fixed Assets	7,000,000
Investments	4,500,000
Current Assets	6,800,000
Loans & Advances	2,200,000

On the same day Belix Ltd. declared dividend at 20% and as agreed between both the Companies.

Property, Plant & Equipment were to be depreciated @ 10% and investment to be taken at market value of ₹6,000,000.

Asparagus Ltd. has a subsidiary named Sweetcorn Ltd. and the cash flow statement sent by the finance team of the subsidiary was as under:

	₹'000	₹'000
Net Profit	60,000	
<i>Add</i> Sale of investments	70,000	
Depreciation on assets	11,000	
Issue of preference shares	9,000	
Loan raised	4,500	
Decrease in stock	<u>12,000</u>	<u>106,500</u>
		166,500
<i>Less:</i> Purchase of fixed assets	65,000	
Decrease in creditors	6,000	
Increase in debtors	8,000	
Exchange gain	8,000	
Profit on sale of investments	12,000	
Redemption of debenture	5,700	
Dividend paid	1,400	
Interest paid	<u>945</u>	<u>107,045</u>
		59,455
<i>Add:</i> Opening cash and cash equivalent		<u>12,341</u>
Closing cash and cash equivalent		<u>71,796</u>

**Other Issues:**

**Issue 1:** Administrative expenses booked in the financial records include a provision of ₹ 4 million for the costs of a legal claim lodged against company by one of the customers. The customer is claiming ₹10 million and the lawyers of company have opined that there is 40% chance the claim will be successful.

**Issue 2:** Company manufactures a class of chemicals and the effluent generated out of its production process causes contamination. The organization has not been doing any clean up exercise because there is no legislation requiring cleaning up and the enterprise has been contaminating land and adjacent water bodies for several years. At 31 March 20X2 it was virtually certain that a law requiring a clean-up of land and water bodies already contaminated will be enacted shortly after the year end. The total cleanup cost estimated would be ₹20 Million.

**Issue 3:** Company has a published policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known and declared in its website. During the year ended the total amount of such refund worked out to ₹ 2.5 million.

**Issue 4:** One of the divisions of company operates profitably from a factory that it has leased under an operating lease. During March 20X2 the enterprise relocates its operations to a new factory site. The lease on the old factory is non-cancellable and continues for the next four year and the factory cannot be re-let to another user.

**Issue 5:** The cost of an asset is ₹ 500,000. For the first year, the accounting depreciation is ₹ 80,000, whereas the depreciation according to tax laws is ₹125, 000. Tax rate is 20%.

### Multiple Choice Questions

1. Under IAS 37, the action to be taken by the Company in case of Issue 1 would be:
  - (a) Treat the potential claim as contingent liability
  - (b) Provide for 40% of the claim
  - (c) Provide for the entire claim
  - (d) o nothing

**(2 Marks)**
2. What should the organization should in case of issue 2:
  - (a) Treat the entire amount as a provision its books of account
  - (b) Treat the entire amount as contingent liability
  - (c) Since the implementation of the legislation is uncertain, include a provision of 50% of the estimated amount as abundant precaution
  - (d) Do nothing

**(2 Marks)**
3. What should the organization should in case of issue 3:
  - (a) Treat this as a contingent liability
  - (b) Book 50% of the amount as provision
  - (c) Book 100% of the amount as provision under constructive obligation
  - (d) Do nothing

**(2 Marks)**
4. The organization needs to do the following in case of Issue 4:
  - (a) Ignore the lease amount related to the old factory
  - (b) Treat the lease amount as contingent liability
  - (c) Provide for the entire lease amount related to the old factory undiscounted for the next four years
  - (d) Provide for the present value of the lease amount related to the old factory for the next four years

**(2 Marks)**
5. In case of Issue 5, The deferred tax treatment under IAS 12: Taxes would be:
  - (a) Deferred tax assets of ₹9, 000
  - (b) Deferred tax liabilities of ₹9, 000
  - (c) Deferred tax asset of ₹45, 000
  - (d) Deferred tax liability of ₹ 45, 000

**(2 Marks)**

## Descriptive Questions

6. Show accounting treatment related to closure of business in accordance with the provisions of the relevant IAS/IFRSs based on information provided in the case study. Provide explanation for each of the items stated therein. Also show the required disclosures in the company's books. **(4 Marks)**
7. Show accounting treatment related to Property A and Property B as at 31<sup>st</sup> March 20X2, with regard to the provisions of relevant IAS/IFRSs based on information provided in the case study and also provide correct representation specially related to Statement of Financial Position and Statement of Profit & Loss and Comprehensive Income. You should support your computations with appropriate explanations of the treatments you have adopted. **(3 Marks)**
8. While studying the tax treatment of the transactions, you are required to ascertain the tax base, temporary differences of the Company (whether taxable or temporary) and resultant deferred tax asset/liability for the transactions provided in the case study pursuant to provisions of relevant IAS/IFRS. Give reasons for your answers. **(2 Marks)**
9. Calculate the goodwill or bargain purchase to be recorded in consolidated statement of financial position as per provisions laid down in the relevant IAS/IFRS. **(3 Marks)**
10. Please arrange and redraft the Cash Flow Statement of Sweet corn Ltd. in proper order keeping in mind the requirements of IAS 7. **(3 Marks)**

## CASE STUDY 3

Ayushman Ltd. is a manufacturer of Chemicals. As per the vision document approved by the Board of Directors, the company embarked upon having inorganic growth plans through acquisitions. To implement this initiative the company ventured ahead to acquire new companies in the same sector. It identified two companies, Basti Ltd. and Cinkara Ltd. with similar operations and synergies, which could help the company further for its growth in this sector.

The Statement of Financial Position of Ayushman Ltd. as at 31 March 20X3 was as follows:

	₹ in million
<b>ASSETS</b>	
<b>Non-current assets:</b>	
Property, plant and equipment (Note 1)	210
Investments:	
– in Basti Ltd. - 80% (Note 1)	180
- in Cinkara Ltd. - 40% (Note 3)	52
– in Dinkar Ltd. (Note 6)	15
<b>Non-current assets</b>	<b>457</b>
<b>Current Assets:</b>	
Inventories	65
Financial assets	
Trade receivables (Note 5)	55
Cash and cash equivalents	12

Current Assets	132
Total Assets	589
<b>EQUITY AND LIABILITIES</b>	
<b>Equity</b>	
Share capital (₹ 1 share)	180
Retained earnings (Note 4)	183
Other components of equity	90
Total equity	453
<b>Non-current liabilities:</b>	
Contingent consideration (Note 1)	20
Financial liabilities	
Long-term borrowings (Note 8)	50
Deferred tax	15
Total non-current liabilities	85
<b>Current liabilities:</b>	
Financial liabilities	
Trade and other payables (Note 5)	34
Short term borrowings	17
Total current liabilities	51
Total equity and liabilities	589

The Chief Financial Officer of the company provided the following details to you and has asked you as a Chartered Accountant to comprehend the issues involved and assist the CFO in completing the consolidation for the entity related to new acquisitions.

#### Detailed notes

**Note 1:** On 1 October 20X1, Ayushman Ltd. did a detailed financial due diligence on an entity named Basti Ltd. and went ahead to acquire 80% shares in Basti Ltd. by means of a share exchange. Ayushman Ltd. issued one share for every two shares acquired in Basti Ltd.

On 1 October 20X1, the market value of an Ayushman Ltd. share was ₹ 4 and the market value of a Basti Ltd. share was ₹ 1.80. The terms and conditions of the business combination stipulates that, an additional cash payment be made to the former shareholders of Basti Ltd. on 31 December 20X3 based on its post-acquisition financial performance in the first two years since acquisition. The fair value of this additional payment was ₹ 20 million on 1 October 20X1. The post-acquisition performance of Basti Ltd. was such that the fair value of this payment had increased to ₹ 22 million by 31 March 20X3.

The investment in Basti Ltd. and the non-current liabilities of Ayushman Ltd. at 31 March 20X2 include ₹ 20 million with respect to the additional payment due to be made on 31 December 20X3.

On 1 October 20X1 the individual financial statements of Basti Ltd. showed the following balances:

- Retained earnings to the tune of ₹ 41 million.

- Other components of equity ₹ 3 million.

As a part of the financial due diligence process, the directors of Ayushman Ltd. carried out a fair value exercise to measure the identifiable assets and liabilities of Basti Ltd. at 1 October 20X1.

The following matters emerged on completion of the exercise:

- A property, having a carrying amount of ₹ 50 million (depreciable amount ₹ 30 million), had a fair value of ₹ 70 million (depreciable amount ₹ 33 million). The estimated future economic life of the depreciable amount of the property at 1 October 20X1 was 30 years. The title of the property was still held by Basti Ltd. at 31 March 20X3.
- Plant and equipment, having a carrying amount of ₹ 60 million, had an estimated fair value of ₹ 64 million. The estimated future economic life of the plant at 1 October 20X1 was four years. This plant was still under the title of Basti Ltd. at 31 March 20X3.
- Inventory, having a carrying amount of ₹ 30 million, had an estimated market value of ₹ 31 million. This entire inventory had been sold since 1 October 20X1.

The fair value adjustments have not been reflected in the individual financial statements of Basti Ltd.

**The Statement of Financial Position of Basti Ltd. as at 31 March 20X3 was as under:**

	₹ in million
<b>ASSETS</b>	
<b>Non-current assets:</b>	
Property, plant and equipment	165
Investments:	Nil
Non-current assets	165
<b>Current Assets:</b>	
Inventories (Note 4)	36
Financial assets	
Trade receivables	38
Cash and cash equivalents	7
Current Assets	81
Total Assets	246
<b>EQUITY AND LIABILITIES</b>	
<b>Equity</b>	
Share capital of ₹ 1 each	100
Retained earnings	67
Other components of equity	5
Total equity	172
<b>Non-current liabilities:</b>	
Financial liabilities	
Long-term borrowings	35
Deferred tax	9

Total non-current liabilities	44
<b>Current liabilities:</b>	
Financial liabilities	
Trade and other payables (Note 5)	23
Short term borrowings	7
Total current liabilities	30
Total equity and liabilities	246

In accordance with the group policy, in the consolidated financial statements the fair value adjustments will be regarded as temporary differences for the purposes of computing deferred tax.

The rate of tax is 20% wherever required.

It is the group policy to value the non-controlling interest in subsidiaries at the date of acquisition at fair value. The fair value of an equity share in Basti Ltd. at 1 October 20X1 can be used for this purpose.

**Note 2 :** On 1 October 20X1, the directors of Ayushman Ltd. identified through Financial Due Diligence that Basti Ltd. comprised five cash-generating units and allocated the goodwill arising on acquisition equally across each cash-generating unit. No impairment of goodwill was apparent in the year ended 31 March 20X2.

During the year ended 31 March 20X3, four of the five cash-generating units performed very satisfactorily and no impairment of the goodwill allocated to these units had occurred. However, the performance of the remaining unit was below expectations. During the impairment review carried out at 31 March 20X3 assets (excluding goodwill) having a carrying amount in the consolidated financial statements of ₹ 50 million were allocated to this unit. The recoverable amount of these assets was estimated at ₹ 52 million.

**Note 3:** On 1 April 20X2, Ayushman Ltd. paid ₹ 52 million for 40% of the equity shares of Cinkara Ltd., a company within the same sector where Ayushman Ltd. operates. The retained earnings of Cinkara Ltd. on 1 April 20X2 were ₹ 60 million. According to the CFO, ignore any deferred taxation implications of the investment by Ayushman Ltd. in Cinkara Ltd. The investment in Cinkara Ltd. has not suffered any impairment since 1 April 20X2.

**The Statement of Financial Position of Cinkara Ltd. as at 31 March 20X3 was as under:**

	₹ in million
<b>ASSETS</b>	
<b>Non-current assets :</b>	
Property, plant and equipment	120
Investments:	Nil
Total non-current assets	120
<b>Current Assets:</b>	
Inventories (Note 4)	29
Financial assets	
Trade receivables (Note 5)	35
Cash and cash equivalents	9

Total current assets	73
Total Assets	193
<b>EQUITY AND LIABILITIES</b>	
<b>Equity</b>	
Share capital	60
Retained earnings	64
Other components of equity	Nil
Total equity	124
<b>Non-current liabilities:</b>	
Financial liabilities:	
Long-term borrowings	30
Deferred tax	12
Total non-current liabilities	42
<b>Current liabilities:</b>	
Financial liabilities:	
Trade and other payables	21
Short term borrowings	6
Total current liabilities	27
Total equity and liabilities	193

**Note 4:** The inventories of Basti Ltd. and Cinkara Ltd. at 31 March 20X3 included spares and components purchased from Ayushman Ltd. during the year at a cost of ₹ 16 million to Basti Ltd. and ₹ 10 million to Cinkara Ltd. Ayushman Ltd. generated a gross profit margin of 25% on the supply of these components. According to the CFO, ignore any deferred tax implications on it.

**Note 5:** The trade receivables of Ayushman Ltd. included ₹ 5million receivable from Basti Ltd. and ₹ 4 million receivable from Cinkara Ltd. in respect of the purchase of spares and components (Refer Note 4). The trade payables of Basti Ltd. and Cinkara Ltd. included equivalent amount payable to Ayushman Ltd.

**Note 6:** Ayushman Ltd.'s investment in Dinkar Ltd. does not provide Ayushman Ltd. sole control, joint control or significant influence. The investment was purchased on 1 July 20X2 for ₹ 15 million. The investment was classified as fair value through other comprehensive income. The fair value of the investment in Dinkar Ltd. on 31 March 20X3 was ₹ 16 million. In the tax jurisdiction in which Ayushman Ltd. is located unrealised profits on the revaluation of equity investments are not subject to current tax. Any such profits are taxed only when the investment is sold.

**Note 7:** As per the organization policy, on 1 April 20X1, Ayushman Ltd. granted 5,000 share options to each 1,000 key employees. The options are due to vest on 31 March 20X5 provided the employees remain in employment as at 31 March 20X5. On 1 April 20X1, the directors of Ayushman Ltd. estimated that 90% of the key employees would satisfy the vesting condition. However, actual employee turnover was such that this estimate was revised to 92% on 31 March 20X2 and 93% on 31 March 20X3.

At 1 April 20X1 the fair value of each share option was estimated at ₹ 1.20. This estimate was revised to ₹1.25 on 31 March 20X2 and ₹ 1.28 on 31 March 20X3. As per CFO's instructions, ignore the deferred tax implications on this item.

Ayushman Ltd. correctly recognised this transaction in the financial statements for the year ended 31 March 20X2.

However, they have made no additional adjustments in the financial statements for the year ended 31 March 20X3.

**Note 8:** Based on approval of the Board of Directors, on 1 April 20X2 Ayushman Ltd. issued 50 million bonds of ₹ 1 each at par. The annual interest payable on these bonds is 5% p.a., payable in arrears. The bonds are redeemable at par on 31 March 20X7 or convertible (at the option of the bond-holders) into equity shares as on that date. On 1 April 20X2 investors in bonds with no conversion option would have required an annual rate of return of 8%. On 1 April 20X2, the directors of Ayushman Ltd. included ₹ 50 million in long-term borrowings in respect of the bonds. The actual interest paid of ₹ 2.5 million was charged as a finance cost in Ayushman Ltd.'s income statement for the year ended 31 March 20X3.

Relevant discount factors are as under:	5%	8%
Present value of ₹ 1 payable at the end of year 5	78.4 paise	68.1 paise
Cumulative present value of ₹ 1 payable at the end of years 1-5	₹4.33	₹3.99

**Note 9:** On 1 July 20X2, a local statute was passed which necessitated Ayushman Ltd. to undertake modifications to its motor vehicles to enable reduction of harmful emissions. The modifications should have been completed by 31 December 20X2 at an estimated cost to Ayushman Ltd. of ₹ 3 million. In fact by 31 March 20X3 none of the vehicles had been modified although they continued to be used. It is quite likely that Ayushman Ltd. will be fined ₹ 0.5 million per month for the illegal use of the vehicles. The directors of Ayushman Ltd. intend to carry out the modifications during the year ended 31 March 20X4. They expect that a penalty will become payable very shortly as legal action has commenced against Ayushman Ltd.

Based on the aforesaid details the Chief Financial Officer wants you assist him in preparing the consolidated Statement of Financial Position of Ayushman Ltd. as at 31 March 20X3.

Please provide detailed working notes to show the flow of transactions into the consolidated Statement of Financial Position as at 31 March 20X3.

## I. Multiples Choice Questions

- What will be the amount of provision for fine for illegal use of vehicle, which Ayushman Ltd. have to make as on 31 March, 20X3.
  - ₹ 3 million
  - ₹ 0.5 million
  - ₹ 1.5 million
  - ₹ 6 million

**(2 Marks)**
- What is the deferred tax amount in consolidated financials of Ayushman Limited as at 31 March 20X3?
  - Deferred tax asset: ₹ 28.57 million
  - Deferred tax liability: ₹ 28.67 million
  - Deferred tax asset: ₹ 28.00 million

- (d) Deferred tax liability: ₹ 28.50 million **(2 Marks)**
3. Calculate the finance cost charged in the financial year 20X2-20X3 in Statement of Profit or Loss, for 50 million bonds issued on 1 April 20X2.
- (a) ₹ 2.5 million  
(b) ₹ 3.522 million  
(c) ₹ 1.995 million  
(d) Nil, since the interest payable on bonds is to be routed through Retained earnings **(2 Marks)**
4. Calculate the charge of share based payment to be recognised in statement of profit or loss for the financial year 20X2-20X3.
- (a) ₹ 1.38 million  
(b) ₹ 2.79 million  
(c) ₹ 1.41 million  
(d) ₹ 5.58 million **(2 Marks)**
5. What would be the increase in value of Investment in Dinkar Limited, during the period financial year 20X2-20X3 to be shown in Other Comprehensive Income?
- (a) ₹ 0.8 million  
(b) ₹ 1.0 million  
(c) ₹ 16 million  
(d) ₹ 15.8 million **(2 Marks)**

## II. Descriptive Questions

6. You are required to prepare the consolidated statement of financial position of Ayushman limited at 31 March 20X3, after consideration of each stated issue mentioned in the case study. **(15 Marks)**

### CASE STUDY 4

Sai Caterers Pvt. Ltd., is a Panvel based company in the business of corporate catering for more than 15 years. The Directors of the company are thinking about setting up a Dairy Unit to fulfil the company's need for fresh milk in its daily service to the clients. They thought Karjat, a place between Mumbai and Pune, is the best place for the project site since it has ample of water resources and green feed around.

For its 100+ corporate clients, the company estimates that on an average they need around 2500 litres of milk every day. Currently, the milk is being procured from multiple sources and the average cost per litre works out to be ₹ 38.89.

As a finance consultant, you're invited to the Board Meeting of the company where the final decision is to be taken by the Board of Directors. You witness the following during the board meeting: (text marked in italics)

Director -1

*"Well, we need to know the economics of cows better before we get into this completely."*

Director -2

“A cow gives milk for 6 months during the year so based on our need, we to have double the no. of cows to meet the annual sourcing need.”

Director -1

“Double the number? How does that help?”

Director -2

“We need to procure half the number who’s ready for milking and half the number which will be ready over the next 6 months. Each cow can reproduce at least once 14-18 months depending on the milk production level from the date of calving. Normally, there is dry-run of 60 days before calving. For commercial purpose, let’s consider that each cow will have a milking period of 8 months or about 5000 litres per cow per annum. So, based on that we’ll do the working with the help of our finance consultant.”

Director-1

“Alright. Sounds good. If the number of cows increase and the milk produced is more than what we require in business, we might sell the same at market rates”.

Finance Consultant (you)

“Well, I’ve a different take on that. Instead of mass-marketing at the market rates, you may consider premium pricing direct-to-home delivery. The advantage you have is, over the last 10 years, you have got good connections with CXOs of many clients. Everybody needs fresh milk. A normal packet milk that is available in mass-market is at least 7 days before it reaches the consumer. We can assure same-day delivery and the premium price can be about ₹ 90 per litre”.

Director -1

“Fantastic”

Director- 2

“Excellent idea! Let me think about the brand.”

The meeting goes and it ends with the following two major decisions:

1. The company will borrow 50% of Capex for setting-up in-house dairy unit and complete the project by 1 February 20X1.
2. Based on milk production levels being more than the captive consumption, the company shall launch “Godhan” a premium milk brand to market it to upper middle class market.

You come back from the meeting to your office and think through the next steps. In the next week you have gone to the office of the client and have worked out the additional details:

A milking cow costs about ₹ 60,000. On an average a cow produces about 20 litres of milk per day, however, a cow can produce milk only for 8 months in a year. The management has decided to buy 200 cows to avoid initial hiccups in procurement target.

The set-up costs are as follows:

	₹ in lacs
Land	150
Civil structure (useful life 15 years)	65
Milking equipment and other tools (useful life 7 years)	50

The recurring expenses are:

- **Manpower cost** – ₹ 15,000 per month per head.  
One person is required for every 10 cows to manage the daily operations.  
One project manager will be exclusively appointed for this at a cost of ₹ 65,000 per month.
- **Daily feed to Cows** – Each cow needs a daily intake of green and dry feed worth ₹ 150
- **Medical expenses** – In addition to food, the cows also need a routine medical check-up once in a month it costs about ₹ 200 per cow.
- **Distribution cost** – Clients of the company (both for catering business and Godhan) are located within a radius of 60 kilometres from the project site. A suitable and economic cost of transportation worked out by the operations team with the help of finance team reveals that an average cost of distribution per litre per day works out to be ₹ 2.7.
- **Electricity and other office overheads at the site** – ₹ 25,000 per month

Case status as on 31 March 20X1 – Project implemented and in-house procurement plan is working.

Depreciation on project assets was provided for 2 months as 31 March 20X1

As on 31 March 20X2, the no. of cows has gone down to 195 and there are 90 calves of which 54 are female. Each male calf has a market value of ₹ 8,000 and a female calf can fetch ₹ 6,000 with no cost to sell as buyers would come over to the site to buy the calves. 5 cows which died while calving were buried.

The supply of milk during the year was as follows:

Period	Actual production	Requirement for Internal usage
Quarter 1	2,27,505	2,27,500
Quarter 2	2,41,040	2,39,200
Quarter 3	2,42,880	2,39,200
Quarter 4	2,39,400	2,34,000

The milk required for catering business was transferred by the milk procurement unit @ ₹ 35 per litre for accounting purposes.

As per the company's plan, 'Godhan' was launched in June, 20X1. Surplus of 1<sup>st</sup> quarter was supplied to the Directors at free of cost. However, from Q2 of Financial Year 20X1-20X2, 95% of the surplus milk was sold at the premium price.

Direct expenses of Godhan related marketing and manpower was ₹15 per litre. The remaining 5% of surplus milk was distributed to directors for free.

## I. Multiple Choice Questions

1. What is the carrying amount of Property, plant and Equipment of milk procurement project (rounded off to nearest lacs) as on 31 March 20X1?
  - (a) ₹ 385 Lacs
  - (b) ₹ 384 Lacs
  - (c) ₹ 383 Lacs
  - (d) ₹ 382 Lacs

**(2 Marks)**
2. Assuming that the value of land was appreciated by 10% during fair value exercise, what is the carrying amount of Project PPE (rounded off to nearest lacs) as on 31 March 20X2?
  - (a) ₹ 390 Lacs (approx.)
  - (b) ₹ 391 Lacs (approx.)
  - (c) ₹ 392 Lacs (approx.)
  - (d) ₹ 393 Lacs (approx.)

**(2 Marks)**
3. What is sales value of milk sold under the brand "Godhan"?
  - (a) ₹ 9.54 Lacs
  - (b) ₹ 9.34 Lacs
  - (c) ₹ 9.44 Lacs
  - (d) Can't be determined

**(2 Marks)**
4. If there's any unsold stock of milk packets under the brand "Godhan", its valuation shall be done as per:
  - (a) IAS 2 'Inventories'
  - (b) IAS 41 'Agriculture'
  - (c) IAS 16 'Property, Plant and Equipment'
  - (d) IFRS 8 'Operating Segment'

**(2 Marks)**
5. The carrying amount of cattle feed as on 31 March 20X2 would be:
  - (a) Cost or NRV whichever is lower
  - (b) Fair value less costs to sell
  - (c) Cost
  - (d) Only fair value

**(2 Marks)**

## II. Descriptive Questions

6. Based on the financial information given in the case, prepare Statement of Profit or Loss of the milk procurement unit ie. the project site for the year ended 31 March 20X2. Draw the Statement for Profit or Loss till profit before tax level by ignoring the Notes to Accounts. 

**(15 Marks)**

## CASE STUDY 5

Skywalk Ltd. is a group established in Europe having diversified business interest. It maintains its records and financial statements under International Financial Reporting Standards.

The Board of Directors of the company hired your firm of Chartered Accountants to assist in closure of Financial Statements under IFRS as at 31<sup>st</sup> December, 20X1. While commencing the exercise you find that there are certain transactions which need to be addressed considering the provisions of IFRS.

One of the divisions of Skywalk Ltd. is related to travel across Europe, Asia Pacific and Australia. On 1<sup>st</sup> September, 20X1 it acquired Travelport Ltd. a popular travel company in Australia. Travelport Ltd. runs its bus coaches across Australia connecting tourists to Great Ocean Road from Melbourne and Blue Mountains from Sydney.

The summarized Statement of Financial Position of Travelport Ltd. at fair value on 1<sup>st</sup> September, 20X1 is as follows:

	₹ '000
Goodwill	120
Operating licence	720
Bus terminal and rest rooms	180
Tow trucks	180
Bus coaches (4 nos)	<u>600</u>
Total	<u>1,800</u>

Travelport Ltd. has recently renewed its operating licence for ten years. It is recorded at its renewal cost. The carrying values of the property and tow trucks are stated at their estimated replacement cost. The bus coaches are valued at net selling price.

Two of the coaches fell off the cliff on 1<sup>st</sup> October, 20X1 in a road accident on Great Ocean Road. This destroyed the two buses completely. The buses did not have any passengers on board as they were returning after routine servicing. Luckily the drivers managed to escape.

However, there was no way the coaches could be repaired and brought back to become road worthy for business again. This affected the Travelport's business which was valued at this date at an estimated ₹ 1.2 million. The other two buses had a recoverable value at least equal to the cost on 1<sup>st</sup> October, 20X1 and 31<sup>st</sup> December, 20X1.

After this incident the brand image of Travelport Ltd. receded, and the number of passengers fell considerably – even below the expected reduced capacity. The tourists felt they could not rely on the drivers of Travelport Ltd.

Therefore, the business value was reassessed on 31<sup>st</sup> December, 20X1 at ₹ 1.08 million. On the same day Skywalk Ltd. obtained an offer of ₹ 5,40,000 for the licence.

On 31<sup>st</sup> August, 20X1, the directors decided *on closure of a business division* in Europe which did not fit into its future vision and business strategy. The closure commenced on 5<sup>th</sup> October, 20X1 and was due to be completed on 31<sup>st</sup> December, 20X1. On 6<sup>th</sup> September, 20X1, letters were sent to relevant employees offering voluntary redundancy or redeployment in other sectors of the business.

On 13<sup>th</sup> September, 20X1, negotiations commenced with relevant parties with a view to terminating existing contracts of the business segment and arranging sales of its assets. Latest estimates of the financial implications of the closure are as follows:

- (i) Redundancy costs will total ₹ 30 million, excluding the payment referred to in (ii) below.
- (ii) The pension plan (a defined benefit plan) will make a lump sum payment totaling ₹ 8 million to the employees who accept voluntary redundancy for termination of their rights under the plan. Skywalk Ltd. will pay this amount into the plan on 31<sup>st</sup> January, 20X2.

The actuaries have advised that the accumulated pension rights that this payment will extinguish have a present value of ₹ 7 million and this sum is unlikely to alter significantly before 31<sup>st</sup> January, 20X2.

- (iii) The cost of redeploying and retraining staff who do not accept redundancy will total ₹ 6 million.
- (iv) The business segment operates out of a leasehold property that has an unexpired lease term of 10 years from 1<sup>st</sup> January, 20X1. The annual lease rentals on this property are ₹ 1 million, payable on 31<sup>st</sup> December in arrears. Negotiations with the owner of the property indicate that the owner would accept a single payment of ₹ 5.5 million in return for early termination of the lease.

There are no realistic opportunities for Skywalk Ltd. to sub-let this property. An appropriate rate to use in any discounting calculations is 10% per annum. The present value of an annuity of ₹ 1 receivable annually at the end of years 1 to 10 inclusive using a discount rate of 10% is ₹ 6.14.

- (v) Plant having a net book value of ₹ 11 million at 31<sup>st</sup> December, 20X1 will be sold for ₹ 2 million.
- (vi) The operating losses of the business segment for January, February and March, 20X2 are estimated at ₹ 10 million.

Your assistant is unsure of the extent to which the above transactions create liabilities that should be recognized as a closure provision in the financial statements as at 31<sup>st</sup> December, 20X1. He is also unsure as to whether or not the results of the business segment that is being closed need to be shown separately.

On 1<sup>st</sup> April, 20X1, Skywalk Ltd. commenced project developing a new production technique in one of its business entities that would significantly reduce wastage. A team of 50 staff were employed on the project and the total annual salary cost of this team was ₹ 2 million accruing evenly during the year.

Other direct costs of the design and testing of the new technique were ₹ 2,00,000 p.m. from 1<sup>st</sup> April, 20X1 to 31<sup>st</sup> December, 20X1 and ₹ 1,00,000 p.m. in January, February and March, 20X2.

By 30<sup>th</sup> June, 20X1 the team has developed an initial proposal and the technique was refined over the next six months, being subject to rigorous field testing. This testing was completed on 31<sup>st</sup> December, 20X1 and the new production technique was approved as being technically feasible and commercially viable from that date.

It was decided that the new production technique would be brought to practical use from 1<sup>st</sup> July, 20X2. On 31<sup>st</sup> December, 20X1, the directors estimated that the present value of the potential future cost savings the technique would generate were approximately ₹ 5 million.

On 1<sup>st</sup> October, 20X1, Skywalk Ltd. signed a contract to purchase a machine from a foreign supplier on 31<sup>st</sup> March, 20X2.

The purchase price of the machine, payable in cash on 31<sup>st</sup> March, 20X2, was USD 2 million. On 1<sup>st</sup> October, 20X1, Skywalk Ltd. entered into a forward contract to purchase USD 2 million on 31<sup>st</sup> March, 20X2 for ₹ 140.0 million. On 31<sup>st</sup> December, 20X1, a contract to buy USD 2 million on 31<sup>st</sup> March, 20X2 would have required a payment of ₹ 150.0 million. On 31<sup>st</sup> March, 20X2, the spot rate of exchange was ₹ 70

= USD 1. The forward contract was settled by the other party making a payment of ₹ 15 million to Skywalk Ltd. on that date.

Skywalk Ltd. estimated that the useful economic life of the machine was five years from 31<sup>st</sup> March, 20X2, with no residual value. Skywalk Ltd. uses hedge accounting whenever permitted by IFRS 9. The currency contract fully complies with the criteria and conditions for hedge accounting as set out in IFRS 9.

Being a firm of chartered accountants, you are required to answer the following questions based on provisions of relevant IFRS:

### I. Multiple Choice Questions

1. Show the amount to be recognized in balance sheet at 31<sup>st</sup> December, 20X1 of property, plant and equipment for purchases of machine from foreign supplier.
  - (a) ₹ 10 million
  - (b) ₹ 140 million
  - (c) ₹ 150 million
  - (d) Nil **(2 Marks)**
  
2. Calculate the gain on revaluation of the derivative for the year ended 31<sup>st</sup> December, 20X2.
  - (a) ₹ 5 million
  - (b) ₹ 10 million
  - (c) ₹ 15 million
  - (d) ₹ 11.25 million **(2 Marks)**
  
3. Calculate the net carrying amount of property, plant and equipment (machine purchased from foreign supplier) as at 31<sup>st</sup> December, 20X2.
  - (a) ₹ 119.00 million
  - (b) ₹ 127.50 million
  - (c) ₹ 106.25 million
  - (d) ₹ 121.25 million **(2 Marks)**
  
4. At which time the hedging instrument as derivative in this case is to be derecognized from books?
  - (a) When the property, plant and equipment has been purchased
  - (b) When the forward contract is settled
  - (c) When the company starts charging depreciation to property, plant and equipment
  - (d) At the end of relevant financial year when the contract is entered. **(2 Marks)**
  
5. What are the characteristics of Derivatives?
  - (1) Value changes in response to changes in specified underlying price / index
  - (2) Requires no or little net investment
  - (3) Settled at a future date

- (a) Only 1 & 3 are correct
- (b) Only 1 & 2 are correct
- (c) Only 2 & 3 are correct
- (d) All 1, 2 & 3 are correct

**(2 Marks)**

## **II. Descriptive Questions**

- 6. State the allocation of impairment losses and the valuation of each asset of Travelport Ltd. at 1<sup>st</sup> October, 20X1 and 31<sup>st</sup> December, 20X1 after impairment losses are recognized. **(8 Marks)**
- 7. Explain how the decision on closure of a business division should be reported in the financial statements of Skywalk Ltd. for the year ended 31<sup>st</sup> December, 20X1. **(5 Marks)**
- 8. Comment how project developing a new production technique would be treated in financial statements of Skywalk Ltd. **(2 Marks)**