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

Jefferson Ltd. is a diversified business group having interest in various fields of business ranging from automotives, pipelines to mining having multiple entities in various countries. The group follows International Financial Reporting Standards while finalizing their financial statements. Company is in the process to close its books for the year ending 31st March, 20X2. Owing to ongoing recession in many countries, the entities have not been viable and have been making recurring losses. So, the board of directors took an in-principle decision to withdraw from some of the markets especially in developing countries. At the board meeting held on 31st January, 20X2, the board of directors decided to discontinue the activities of a number of subsidiaries operating in some countries. This decision was made, because the board did not consider it likely that the subsidiaries could be sold.

This decision was communicated to the employees on 28th February, 20X2 and the activities of the subsidiaries affected were gradually curtailed starting on 1st May, 20X2, with an expected completion date of 30th September, 20X2.

For analyzing the case, the board has provided you with the following information regarding the closure programme:

(a) All the employees in affected subsidiaries were offered redundancy packages and some of the employees were offered employment in other parts of the group. These offers had to be accepted or rejected by 30th April, 20X2.

(b) On 31st March, 20X2 the directors estimated that the cost of redundancies would be ₹ 20 million and the cost of relocation of employees who accepted alternative employment would be ₹ 10 million. Following 30th April, 20X2 these estimates were revised to ₹ 22 million and ₹ 9 million respectively.

(c) Latest estimates are that the operating losses of the affected subsidiaries for the six months to 30th September, 20X2 will total ₹15 million.

(d) A number of the subsidiaries are leasing properties under non-cancellable operating leases. At 31st March, 20X2 the present value of the future lease payments relating to these properties totalled ₹ 6 million. The cost of immediate termination of these lease obligations would be ₹ 5 million.

(e) The carrying values of the freehold properties owned by the affected subsidiaries at 31st March, 20X2 totalled ₹ 25 million. The estimated net disposal proceeds of the properties are ₹ 29 million and all properties should realize a profit.

(f) The carrying value of the plant and equipment owned by the affected subsidiaries at 31st March, 20X2 was ₹ 18 million. The estimated current disposal proceeds of this plant and equipment is ₹ 2 million and its estimated value in use (including the proceeds from ultimate disposal) is ₹ 1.8 million.

Jefferson Ltd. has a subsidiary, Abacus Ltd. Following information relates to Abacus Ltd.:

Particulars	Amount (₹ in million)
Net Income	120
Decrease in accounts receivables	20
Depreciation	25
Increase in inventory	10
Increase in accounts payable	7
Decrease in wages payable	5
Increase in deferred tax liabilities	15
Profit from sale of land	2

On 31st December, 20X1, Jefferson Ltd. acquired all the 100 million equity shares of Abbott Ltd by issuing one share in Jefferson Ltd. for every two shares acquired in Abbott Ltd. On 31st December, 20X1 the market value of a Jefferson Ltd. share was ₹ 5.40 and the market value of Abbott Ltd. share was ₹ 2.40. The directors of Abbott Ltd. prepared a Statement of Financial Position as at 31st December, 20X1 and the net assets of Abbott Ltd. that were included were measured at ₹ 180 million (their fair values at that date). The directors of Jefferson Ltd noted that the following assets of Abbott Ltd had not been included in the draft Statement of Financial Position prepared by the directors:

(i) Internally developed brands having an identifiable fair value of ₹ 10 million at 31st December, 20X1.

(ii) The value of future services of existing employees that was estimated to have a value of ₹ 15 million at 31st December, 20X1.

During the board meeting, Jefferson Ltd approved the execution of a contract with the government in which it is given permission to carry out its excavating operations for five years. At the end of this period, the mine has to be filled up again and the entire land has to be landscaped. The present value of cost of such landscaping is expected to be ₹ 20,00,000. The liability of ₹ 20,00,000 has to be provided for in the first year itself, when the mining company begins its excavation work. Accordingly, Jefferson Ltd provided for this transaction on 31st March, 20X2. It cannot be provided for gradually over the five years of the mining operations, or in the fifth year (that is, at the end of the excavation work), because a liability has to be recognized as soon as the entity performs any operation affected by these environmental laws.

On 1st April, 20X1, Jefferson Ltd began joint construction of a pipeline with another investor Robson Ltd. Robson Ltd have signed a contract that provides for joint operation and ownership of the pipeline. The pipeline was constructed to run from Middle East to East Europe. All of the ongoing expenditure, comprising maintenance plus borrowing costs, was to be shared equally. The pipeline was completed and ready for use on 1st October, 20X1. The pipeline was first used on 1st January, 20X2, at which date its estimated useful economic life was 20 years. The total cash cost of constructing the pipeline was ₹ 75 million. This cost was partly financed by a loan of ₹ 30 million taken out on 1st April, 20X1. The loan carries interest at an annual rate of 10% with interest payable in arrears on 31st March each year. Between 1st January, 20X2 and 31st March, 20X2, it was necessary to spend ₹ 5,00,000 on maintenance costs.

Jefferson Ltd while working out its provisional financial statements reported net earnings ₹ 25,000 for the year ended 20X2. The Company had Class A 12,500 shares of ₹ 1 par value of common stock and 3,000 shares of ₹ 40 par value convertible preference shares outstanding during the year. The dividend rate on the preference shares is ₹ 2 per share. Each share of the convertible preference share can be converted into two Class A shares of Jefferson Ltd. During the year no convertible preference shares were converted.

The board of directors wants the Chief Financial Officer to compute the diluted earnings per share.

The Board requested to table a note on the issues highlighted above for the year ending 31st March, 20X2.

I. Multiple Choice Questions

1.1 To ensure a provision is made under IAS 37, the following conditions must be fulfilled:

(i) The entity must have a present obligation based on some past event

(ii) It is probable that there would be an outflow of economic resources, being the embodiment of economic benefits, will be required to settle the obligations

(iii) A reliable estimate can be made of the amount to be settled.

(iv) Any one of the above.

Which of the above is correct.

(a) (i)

(b) (ii) & (iii)

(c) (iv)

(d) (i), (ii) and (iii)

1.2 Using the information for Abacus Ltd. what is its cash flow from operations?

(a) `158 million

(b) `170 million

(c) `174 million

(d) `178 million

1.3 Compute the diluted earnings per share of Jefferson Ltd. based on information furnished in the case study.

(a) ₹ 1.35 per share

(b) ₹ 1.52 per share

(c) ₹ 1.02 per share

(d) ₹ 1.68 per share

1.4 Calculate the initial recognition value of property, plant and equipment to be included in Jefferson Ltd.'s books for joint construction of pipeline with Robson Ltd.

(a) ₹ 37.5 million

(b) ₹ 38.625 million

(c) ₹ 38.25 million

(d) ₹ 39 million

1.5 Calculate the total amount to be recognized in the Profit or Loss of Jefferson Ltd. for the year ending 31st March 20X2. Answer with reference to deal executed between Robson Ltd for joint construction of a pipeline.

(a) ₹ 1 million

(b) ₹ 1.95625 million

(c) ₹ 2.9125 million

(d) ₹ 1.9375 million (2 Marks each)

II. Descriptive Questions

1.6 What is the implication of IFRS 105 "Non-current Assets Held for Sale and Discontinued Operations" in the above question?

Explain the treatment of the following based on the facts and figures provided in the case study:

(i) Future operating losses

(ii) Onerous contracts

(iii) Provision for restructuring expenses

(iv) Implications of IAS 36 "Impairment of Assets" in the overall financial statements as on 31st March, 20X2. (7 Marks)

1.7. (i) Explain the treatment of brand in accordance with the provisions of IAS 38 "Intangible Assets" based on the case study. Would estimated value of future services of employees be treated as intangible assets?

(ii) With respect to initial consolidation of Abbott Ltd as at 31st December, 20X1, you are required to calculate the goodwill and explain how its carrying amount at 31st March, 20X2 would be measured in line with the application of relevant IFRS. (4 Marks)

1.8 Show treatment of provision for mining operations under the relevant IAS/IFRS. Explain through journal entries the transaction flow of provision for the given period of five years. (4 Marks)

CASE STUDY 2

XYZ Ltd is an Indian listed company that manufactures and distributes top-of-the-range security equipment. XYZ Ltd is exploring possibilities of listing its securities at an overseas stock exchange. The financial reporting requirements related to such listing include submission of financial statements as per IFRS. Therefore, XYZ Ltd prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) up to 31 March each year.

As a newly qualified Chartered Accountant, you commenced employment with XYZ Ltd three months ago. You understand that General Manager (Accounts), was working on the draft consolidated financial statements for the year ended 31 March 2X18. Vivek, Managing Director has given you a folder (appendix 1) containing extracts from the first draft of the consolidated financial statements for the year ended 31 March 2X18.

He asks you to provide explanation of accounting adjustments, together with any calculations required. Vivek further informs you that IFRS are making increasing use of fair values. However, the board of directors is anxious to use historic cost wherever possible to reduce the volatility within the financial statements. It was suggested by a director that the company make more use of a 'true and fair override' where appropriate. There is something similar in IFRS, and it is advised to make use of that in the preparation of the financial statements. Vivek hands you a folder marked 'outstanding issues'.

Outstanding Issues: (All figures are ₹ in thousand)

1. On 1 July 2X17, XYZ Ltd acquired 7,200 thousand shares of ABC Ltd out of 9,600 thousand issued ₹ 1 ordinary shares. The purchase consideration comprised:

   - An issue of four shares in XYZ Ltd for everyone share acquired in ABC Ltd. On 1 July 2X17, XYZ Ltd.'s market share price was ₹ 5.4.
   - A payment of ₹ 12,000 thousand in cash, deferred until 1 July 2X20. An appropriate discount rate is 8% per annum.

   On 1 July 2X17, the carrying value of ABC Ltd.'s net assets amounted to ₹ 1,68,000 thousand. This was equivalent to the fair value of net assets acquired, except in respect of ABC Ltd.'s internet domain name. The domain was registered several years ago and is maintained by the payment of a small annual fee which is recognised in administrative expenses. However, in June 2X17 ABC Ltd was offered ₹ 4,800 thousand by a company in the United Kingdom for the domain name, an offer which was subsequently refused. The directors of ABC Ltd were of the opinion that the domain name has an indefinite useful life. XYZ Ltd prefers to measure NCI using the proportionate method wherever possible. The draft consolidated financial statements (appendix 1) include 28,800 thousand ₹ 1 ordinary shares recognised in ordinary share capital, with a corresponding figure of ₹ 28,800 thousand debit included in intangible assets. ABC Ltd.'s profit for the year (attributable to ordinary shareholders) amounted to ₹ 9,600 thousand, which is yet to be accounted.

2. In order to persuade a large retail bank to purchase a new security system, XYZ Ltd offered a deferred payment contract. The security system, with a selling price of ₹ 4,800 thousand, was delivered to the customer on 1 April 2X17. The bank paid 20% of the selling price on that particular date. The balance will become payable on 1 April 2X19. The applicable finance charge is 8% per annum. The draft consolidated statement of profit or loss and other comprehensive income includes ₹ 4,800 thousand in revenue with respect to this transaction.

3. The following information is provided in respect to the defined benefit pension plan operated by XYZ Ltd for the year ended 31 March 2X18:

	₹ '000
Fair value of planned assets at 1 April 2X17	5,400
Present value of obligation at 1 April 2X17	6,660
Current service costs	864
Benefits paid	1,036
Contributions paid	738
Fair value of plan assets 31 March 2X18	7,884
Present value of obligation at 31 March 2X18	10,036

   The yield on blue chip corporate bonds at 1 April 2X17 was 5% and all benefits and contributions were to be paid on 31 March 2X18. On 1 April 2X17, the pension plan was amended to provide additional benefits, effective from that date. The present value of the additional benefits on 1 April 2X17 amounted to ₹ 630 thousand.

4. One of the senior engineers at XYZ Ltd has been working on a process to improve manufacturing efficiency and, consequently, reduce manufacturing costs. The senior engineer believes that the cost savings will exceed the project costs within twelve months of their implementation. Regulatory testing and health and safety approval was obtained on 1 June 2X17 and the project was finally completed on 10 April 2X18. Costs of ₹ 3,600 thousand, incurred uniformly during the year to 31 March 2X18, have

been recognised as an intangible asset. An offer for the new technology of ₹ 1,680 thousand has been received and rejected by the company. Vivek Singhania believes that the project will be a major success and has the potential to save the company ₹ 2,400 thousand in perpetuity. The director of research at XYZ Ltd is not convinced about the long-term prospects of the new process and is of the opinion that competitors will develop similar technology within five years. It is estimated that the present value of future cost savings will be ₹ 2,280 thousand over this period. After that, there is no certainty about its future.

5. On 1 April 2X17, XYZ issued 3% loan notes with a nominal value of ₹ 900 thousand. They were issued at a 5% discount and issue costs of ₹ 15.60 thousand were incurred. The loan notes will be repayable at a premium of 10% after four years.

6. There was an incident on 1 November 2X17 at the main manufacturing plant that led to six personal injury compensation claims. If these claims are successful, it is likely that a further two staff who were also injured will make claims. XYZ Ltd.'s lawyers estimate that it is probable that the claims will succeed and that the estimated average cost of each pay will be ₹ 30 thousand.

   General Manager (Accounts) has made a note in the file indicating that in order to avoid adverse publicity, the lawyers have recommended that XYZ Ltd settles the personal injury claims out of court as quickly as possible at their estimated amount for all eight employees injured. The personal injury claim is in advanced stages and XYZ Ltd's insurance company has agreed to refund the costs of the claim once the claims have been settled. An additional three employees have made claims for stress, rather than injury, arising from the accident. If these claims were to be successful, the lawyers have estimated that the likely pay-out would be around ₹ 12 thousand per employee. However, the lawyers have stated that they believe it would be very unlikely that these employees will win such a case.

7. One of the machines was damaged due to negligence by a worker. Although damaged, the machine can still function at around 80% of original capacity, which is still in excess of the capacity of the attached conveyor belt. For this reason, the management has decided against repairing or replacing the grinder. The machine was depreciated to a net book value of ₹ 5,000 thousand at 31 March 2X18. There is no active market for the machine. The machine does not generate cash inflows that are independent of cash inflows from other assets or groups of assets. It has been written down by 20% of the net book value to ₹ 4,000 thousand. This reflects 20% reduction in operating capacity, with the impairment loss posted to other expenses.

8. On 1 April 2X13, XYZ Ltd. acquired a freehold manufacturing building. The land element in the purchase price was ₹ 5,600 thousand and the building element ₹ 20,000 thousand. The useful life of the building was estimated at 20 years. Since 1 April 2X13 there has been no change in the value of land. At the 31 March 2X15, the building element was revalued to ₹ 22,500 thousand and the remaining useful life was unchanged. On 31 March 2X18, the open market value of the building was determined at ₹ 16,500 thousand. The remaining useful life again remained unchanged. No accounting entries have yet been made in respect of the freehold building for the year ended 31 March 2X18.

APPENDIX 1:

XYZ Ltd Group

Draft Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year end 31 March 2X18

	₹ '000
Revenue	15,888
Cost of sales	(10,590)
Gross profit	5,298

Distribution expenses	(3,084)
Administrative expenses	(960)
Profit from operations	1,254
Finance costs	(120)
Profit before taxation	1,134
Income tax	(255.6)
Profit for the year	878.4
Other comprehensive income	-
Total comprehensive income for the period	878.4

XYZ Ltd Group

Draft Consolidated Statement of Financial Position as at 31 March 2X18

ASSETS	₹'000
Non-current assets	
Intangibles	2,99,372
Property, plant and equipment	9,43,200
	12,42,572
Current assets	
Inventories	34,822
Trade receivables	54,844
Cash and cash equivalents	28,584
	1,18,250
Total assets	13,60,822
EQUITY AND LIABILITIES	
Ordinary share capital	12,00,000
Revaluation surplus	1,080
Retained earnings	75,440
Equity	12,76,520
Non-current liabilities	
Loans	12,302
Current liabilities	72,000
Total equity and liabilities	13,60,822

I. Multiple Choice Questions

2.1 What will be the carrying amount of intangible asset developed by senior engineers of XYZ Ltd on 31 March 2X18?

(a) ₹ 3,600 thousand

(b) ₹ 3,000 thousand

(c) ₹ 1,680 thousand

(d) ₹ 2,280 thousand

2.2 At what amount finance cost should be recognized in relation to issue of loan notes and by what amount should 3% loan notes be recognized on 31 March 2X18??

(a) ₹ 64.757 thousand; ₹ 877.157 thousand

(b) ₹ 76.457 thousand; ₹ 888.857 thousand

(c) ₹ 60.856 thousand; ₹ 873.256 thousand

(d) ₹ 87.257 thousand; ₹ 899.657 thousand

2.3 With what amount should XYZ Ltd recognize the personal injury claim compensation as on 31 March 2X18?

(a) ₹ 240 thousand

(b) ₹ 276 thousand

(c) Nil

(d) ₹ 216 thousand

2.4 What should be the total revenue recognized for the security system sold to Bank?

(a) ₹ 4,800 thousand

(b) ₹ 4,513 thousand

(c) ₹ 960 thousand

(d) ₹ 4,250 thousand

2.5 With what amount should P&L Account and OCI be debited/credited on account of defined benefit pension plan?

(a) ₹ 1,224 thousand; ₹ (406 thousand)

(b) ₹ 360 thousand; ₹ (136 thousand)

(c) ₹ 594 thousand; ₹ (1,036 thousand)

(d) ₹ 1,494 thousand; ₹ 332 thousand (2 Marks each)

II. Descriptive Questions

2.6 Prepare the necessary journal entries to make adjustment for acquisition of ABC Ltd. with reference to relevant IFRS and show all the relevant workings clearly. (5 Marks)

2.7 Whether any adjustment is required to be made in the books of accounts in relation to freehold manufacturing building and damaged machine, as referred to in outstanding issues 7 and 8. Explain with reasons and pass necessary journal entries, if any. (5 Marks)

2.8 In so far as the information provided allows, prepare a revised Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year end 31 March 2X18. (5 Marks)

CASE STUDY 3

Robsons Ltd has its many business interests areas like mining, agriculture, agro chemicals and dairy farms. It reports its financial statements under International Financial Reporting Standards.

Robsons Ltd charged off certain expenses as finance costs in its financial statements for the year ended 31st March, 20X1. While preparing annual financial statements for the year ended 31st March, 20X2, management discovered that these expenses should have been classified as other expenses instead of finance costs. The error occurred because the management inadvertently misinterpreted certain facts. Robsons Ltd intends to restate the comparative amounts for the prior period presented in which the error occurred (i.e., year ended 31 st March, 20X1).

Robsons Ltd. as a part of its agro business maintains an organic dairy farm. On 1st April, 20X1, Robsons Ltd carried out the following transactions:

– Purchased a large piece of land for ₹ 20 million.

– Purchased 10,000 dairy cows (average age at 1st April, 20X1 two years) for ₹ 1 million.

– Received a grant of ₹ 4,00,000 towards the acquisition of the cows. This grant was non-returnable.

During the year ending 31st March, 20X2, Robsons Ltd. incurred the following costs:

– ₹ 5,00,000 to maintain the condition of the animals (food and protection).

– ₹ 3,00,000 in breeding fees to a local farmer.

On 1st October, 20X1, 5,000 calves were born. There were no other changes in the number of animals during the year ended 31st March, 20X2. At 31st March, 20X2, Robsons Ltd. had 10,000 liters of unsold milk in inventory. The milk was sold shortly after the year end at market prices.

Information regarding fair values less point of sale costs is as follows:

Item	1 April 20X1 ₹	1 October 20X1 ₹	31 March 20X2 ₹
Land	20 million	22 million	24 million
New born calves (per calf)	20	21	22
Six month old calves (per calf)	23	24	25
Two year old cows (per cow)	90	92	94
Three year old cows (per cow)	93	95	97
Milk (per liter)	0.6	0.55	0.55

An equipment had been purchased, by the company, at a cost of ₹ 2,00,000 with an estimated useful life of ten years and nil residual value. It is depreciated on a straight line method. It was estimated at the beginning of the fifth year that the remaining useful life of the equipment is only three years and not six years.

A case for damages against Robsons Ltd was pending in court on 31st March 20X2, the end of reporting period. Robsons Ltd had estimated the probable liability at ₹ 6,00,000 and made a provision in the accounts. The Company's lawyers studied the claim and advised that the provision should be considered at ₹ 6,35,000 on 30th April, 20X2. The Company's auditors reviewed the legal opinion but felt that the provision should be made to the tune of ₹ 6,75,000. The Court gave a verdict on 31st May, 20X2 fixing the liability to ₹ 6,50,000. Robsons Ltd. accepted the verdict. The financial statements were authorised on 20th June 20X2.

Robsons Ltd. has executed a funded defined benefit plan for its employees. According to the plan, the pension provided is 1% of the final salary for each year of service. The projected unit credit method is used to determine the cost for the year. Twelve years is the expected average remaining working life of Robsons Ltd employees. The following information has been provided by the directors about the defined benefit plan for the year ended 31st March 20X2:

(a) During the year ended 31.3.20X2, the actuarial cost of providing benefits in respect of employees service was ₹ 320 million which is the present value of the pension benefits earned by the employees in the year

(b) The former employees were paid ₹ 330 million in pension benefits during the year.

(c) Robsons Ltd.'s contributions that were due to the fund were ₹ 220 million, however, because of cash flow problems, ₹ 60 million had not been paid by 31.3.20X2.

(d) for current and former employees, the present value of the obligation to be provided is:

	31.3.20X1 ₹ Million	31.3.20X2 ₹ Million
Present value of obligation (based on actuarial valuation)	24000	27000
Fair value of plan asset (based on market value)	23200	25360 *

*figures include contributions owed by Robsons Ltd

(e) On 1.4.20X1, the company amended the plan and the employees were now provided with an increased pension entitlement having a present value of ₹ 1000 million. Out of the ₹ 1,000 million, ₹ 800 million vests immediately and remaining ₹ 200 million is non-vested. These benefits will vest over a period of three years.

(f) Discount rate used to calculate net interest cost 10%

Robsons Ltd created a provision for claims under its warranty of products sold during the year. 5% of sales revenue had previously been set as the required provision amount as a matter of policy. However, after an analysis of five years sales and warranty claims the calculation of the provision amount has been changed to 7.5% of sales which is more realistic.

Robsons Ltd manufactures agro chemical products. The following information has been taken from the company's production and cost records for last year for one product:

Normal production capacity	50,00,000 units
Units produced	40,00,000 units
Conversion cost of finished goods	₹ 2,00,00,000
Raw materials	₹ 1,50,00,000
Fixed Overhead	₹ 60,00,000
Freight inward	₹ 8,00,000
Storage cost of finished goods	₹ 5,00,000
Abnormal waste	₹ 1,00,000

The following dates are relevant to the financial statements of Robsons Ltd for the year ended 31st March 20X2.

Management completes draft financial statements	5^{th} June 20X2
The Board of directors reviews them and authorises them	20^{th} June 20X2
Shareholders approve the financial statements	10^{th} July 20X2

I. Multiple Choice Questions

3.1 What should the company do if it has been estimated at the beginning of the fifth year that the remaining useful life of the equipment costing ₹ 2,00,000 is only three years and not six years?

(a) Change the depreciation charged per annum to ₹ 28,571 with retrospective effect as change in accounting estimate

(b) Change the subsequent depreciation per annum to ₹ 30,000 per annum

(c) Change the subsequent depreciation per annum to ₹ 40,000 per annum

(d) Continue charging depreciation of ₹ 20,000 per annum

3.2 Which is the date that will be construed as date of authorisation of the financial statements of Robsons Ltd.'s financials?

(a) 5^{th} June, 20X2

(b) 20^{th} June, 20X2

(c) 10^{th} July, 20X2

(d) 31^{st} March, 20X2

3.3 How should Robsons Ltd deal with the case pending in court on 31^{st} March, 20X2 whose final verdict has been passed on 31^{st} May 20X2?

(a) Retain probable liability at ₹ 6,00,000

(b) Increase provision to ₹ 6,35,000 treating it as adjusting event

(c) Increase provision to ₹ 6,50,000 treating it as adjusting event

(d) Increase provision to ₹ 6,75,000 treating it as adjusting event

3.4 The transaction for calculation of the provision amount to 7.5% of sales will be treated as:

(a) Change in accounting policy

(b) Change in accounting estimates

(c) Errors

(d) Prior period adjustment

3.5 From the manufacturing and cost records, with the assumption that no units remain unfinished at year-end, calculate the cost per unit.

(a) ₹ 10.15

(b) ₹ 10.45

(c) ₹ 10.25

(d) ₹ 10.30 (2 Marks each)

II. Descriptive Questions

3.6 Show treatment of biological assets under relevant IAS/IFRS and impact in Statement of Financial position and Statement of Profit & Loss based on information provided in the case study. **(6 Marks)**

3.7 Would this reclassification of expenses from finance costs to other expenses in the comparative amounts will be considered as correction of an error under IAS 8? Would the entity need to present a third balance sheet? **(3 Marks)**

3.8 Ascertain under relevant IAS / IFRS, the amounts related to Employee benefits that will be recognized in the statement of financial position and income statement of Robsons Ltd for the year ended 31.3.20X2 based on information provided in the case study. **(6 Marks)**

CASE STUDY 4

Mr. H is a Chartered Accountant and is working in GHI & Co., Chartered Accountants as a Manager. GHI & Co. has recently been approached by A Ltd. for providing advice on certain accounting matters (discussed below). A Ltd. is in the business of manufacturing industrial chemicals. It has a registered office in New Delhi and is listed on the Bombay Stock Exchange (BSE). It is considering the possibilities of listing its securities at London Stock Exchange for which it needs to submit its financial statements prepared under International Financial Reporting Standards (IFRS).

Following is the brief facts about the transactions entered into by the company for which an accounting advice is sought:

(a) Under the scheme of demerger of B Ltd. effective from 1 April 2XX9, pharma division of B Ltd. has been demerged into C Ltd. The main intention of setting up C Ltd. is to construct and maintain various pharma projects demerged from B Ltd. A Ltd. holds 51% stake ownership and B Ltd. holds 49% stake ownership in C Ltd. The operations of C Ltd. are conducted through the Board of Directors who are nominated by A Ltd. and B Ltd. in equal proportion. A Ltd. has the exclusive right over the construction/structural design of the pharma projects. B Ltd. does not have any control over making structural changes. Further, all the cheques irrespective of value are processed and approved by A Ltd. Also, all product pricing decisions and marketing strategy are solely undertaken at the discretion of A Ltd. and do not require any approval from B Ltd.

(b) A trust named "ABC Foundation" has been formed on 1 April 2XX1. This trust has been recognised under Section 80G of the Income-tax Act, 1961. The core objectives of the trust are promoting education, training and research. Decision will be taken by the majority and the composition of trustees has effectively only three members (namely Mr. X, Mr. Y and Mr. Z) who are closely related to A Ltd. and who actively participate in the operations and management of A Ltd. Apart from them, the other seven trustees are independent to A Ltd. and does not have any relation with Mr. X and Mr. Y.

A Ltd. has constructed five schools and transferred the same to ABC Foundation on an arm's length price. A Ltd. has been benefited from economies of scale and synergy benefits by selling these schools. There are no continuing benefits from these schools.

A Ltd. has contributed ₹ 10 crores during the financial year 2X12-2X13 to the trust on account of statutory compliances under the Companies Act and claimed 50% eligible deduction under Section 80G of the Income-tax Act,1961. Employees of A Ltd. get a discount of 20% on school fees paid by them towards education of their children at these schools. The discount is not provided by ABC Foundation, instead the cost is borne by A Ltd.

Also the trustees may dissolve the trust by a unanimous decision and on dissolution, the assets of the trust will be transferred to a recognised trust under Section 80G of the Income-tax Act, 1961.

(c) A Ltd. has a wholly owned subsidiary D Ltd. D Ltd. faces financial crisis now and then. A Ltd. being a parent company, often helps D Ltd. by providing interest free loan. During the year, A Ltd. has provided ₹ 10 lacs interest-free loan to D Ltd. The current market rate of interest for similar loan is 10% p.a. These loans are provided by A Ltd. either to be repaid on demand or after fixed term depending upon the agreement.

(d) A Ltd. manufactures wide range of industrial chemicals. A Ltd. always strives to purchase machines with latest technology which can result in an efficient production of these chemicals so as to minimise wastages, manufacture more quantities from existing inputs, or reduce input consumption for manufacturing same quantities of output. Estimated useful lives of machineries purchased, vary significantly from 5 years to 25 years. On purchase of new machines, old machines have to be disposed of. For disposing old machines and equipment, which can be further used by some other party, A Ltd. invites bids. If machine can be used in other countries and can fetch good value, global tender is also floated. Details of such invitations are published on the company's website and in leading newspapers, for interested parties to view details of such bids invited by the company.

A synthesis gas compressor along with auxiliaries and spares pertaining to mechanical instrument installed in one of the plant costing ₹ 13,00,00,000 was purchased 25 years back and used thereon for 25 years. After being decommissioned, compressor was kept as a stand-by for a further period of 2 years and continued to be classified under 'plant and machinery'. However, the asset had reached its residual value before 2XX3 itself (at 25 years) and no further depreciation was charged on compressor. In March 2XX5, it was decided to sell the compressor and as a result, it was reclassified to 'assets held for disposal'. As on 31 March 2XX5, details of compressor are as follows:

Particulars	*Amount*
Gross Block	₹ 130,453,617
Accumulated depreciation as on 31 March 2XX5	₹ 123,930,936
Written down value as on 31 March 2XX5	₹ 6,522,681

Following entries were passed in books of A Ltd. on 31 March 2XX5, to reclassify the asset into 'assets held for disposal':

Assets held for disposal A/c	Dr.	₹ 6,522,681	
Accumulated depreciation A/c	Dr.	₹ 123,930,936	
To Plant and machinery A/c			₹ 130,453,617

Since 31 March 2XX5, this compressor is classified as 'assets held for disposal'. Simultaneously, management floated a Global e-auction, inviting bids from potential parties specifically in USD. As on 31 March 2XX5, fair value of such asset was estimated to be ₹ 1,61,00,000. U Ltd. quoted USD 54,00,000. Based on such high bid, A Ltd. proceeded to sell the compressor to U Ltd. At a later stage, U Ltd. claimed that bid amount was in ₹ and not in USD, consequently, A Ltd. refused to sell the compressor to him. This resulted in dispute between A Ltd. and U Ltd. and consequently A Ltd. filed a

case in the Court against U Ltd. in 2XX8. U Ltd. is of the view that since A Ltd. committed to sell the asset to him, such asset should be sold to it only, whereas A Ltd. contends that since market value of such compressor is approximately ₹ 1,65,00,000, then it cannot sell such asset for ₹ 54,00,000 only, which is approximately 1/3rd of market value of the compressor. The Court directed both the parties to approach the arbitrator and issued a stay order on A Ltd., restricting it to sell the concerned asset to any other party, till the matter is resolved. Arbitrator is expected to give his verdict in July 2X14.

(e) A Ltd. is installing a new machinery in its plant. The machinery was purchased from R Ltd. It has incurred these costs:

- Basic price (as per supplier's invoice plus taxes)- ₹ 20,00,000
- Initial delivery and handling costs- ₹ 4,00,000
- Cost of site preparation- ₹ 2,00,000
- Interest charges paid to supplier of plant for deferred credit- ₹ 50,000
- Present value of estimated dismantling costs to be incurred after 10 years- ₹ 1,00,000
- Operating losses before commercial production- ₹ 2,00,000

(f) An asset was acquired at a cost of ₹ 1,50,000. The carrying amount is ₹ 70,000 after an impairment write down of ₹ 30,000 and cumulative depreciation of ₹ 50,000. Depreciation rate for accounting and tax laws is equal. Impairment loss is not deductible to tax. Tax rate applicable to A Ltd. is 30%.

(g) A Ltd. has taken an unsecured general purpose loan on 1 April 2X12. The loan was utilised to finance the construction of a new building (to be used as store) which meets the definition of a qualifying asset in IAS 23. Construction of the store building commenced on 1 May 2X12 and it was completed and ready for use on 28 February 2X14, but did not open for trading until 31 March 2X14. During the year, A Ltd. suspended the construction of the new building for a two-month period during July, 2X13 – August, 2X13.

(h) A Ltd. is developing a new process. During 2X13, expenditure incurred was ₹ 10,00,000, of which ₹ 8,00,000 were incurred before 1st June 2X13 and ₹ 2,00,000 were incurred between 1st June 2X13 and 31st March 2X14. At 1st June 2X13, the process met the criteria for recognition as an intangible asset. The fair value of the know-how in the process is ₹ 5,00,000 on 31st March, 2X14.

(i) A Ltd. has granted certain share options to one of its director on the condition that the director will not work with the competitor of the reporting entity (i.e. non-compete clause) for a period of at least three years. The fair value of the award at the date of grant, including the effect of the 'non-compete' clause, is ₹ 1,50,000.

Based on the facts given above, CFO of A Ltd. wants advice from GHI & Co., Chartered Accountants on the below accounting matters:

I. Multiple Choice Questions

4.1 At what amount, the new machinery purchased from R Ltd. should be recognised?

(a) ₹ 20,00,000

(b) ₹ 29,50,000

(c) ₹ 27,50,000

(d) ₹ 27,00,000

4.2 What should be the deferred tax on asset referred to in (f) above?

(a) Deferred tax asset of ₹ 9,000

(b) Deferred tax liability of ₹ 9,000

(c) No deferred tax should be recognised

(d) More information required to assess deferred tax implications

4.3 In case of construction of new building, for how many months, the interest should be capitalised in accordance with the principles of IFRS?

(a) 23 months

(b) 22 months

(c) 21 months

(d) 20 months

4.4 What should be the accounting for expenditure incurred on developing new process by A Ltd. under IFRS?

(a) Intangible asset of ₹ 5,00,000; expense of ₹ 5,00,000

(b) Intangible asset of ₹ 10,00,000; expense of Nil

(c) Intangible asset of ₹ 2,00,000; expense of ₹ 8,00,000

(d) Intangible asset of ₹ 5,00,000; expense of ₹ 8,00,000

4.5 Which of the following accounting treatment is correct in relation to the share options given to one of the directors of A Ltd.?

(a) A Ltd. should recognise an expense of ₹ 1,50,000 over the period of three years and cannot reverse the expense recognised even if the director goes to work for a competitor and loses the share options.

(b) A Ltd. should recognise an expense of ₹ 1,50,000 over the period of three years and can reverse the expense recognised in case the director goes to work for a competitor and loses the share options.

(c) A Ltd. should recognise an expense of ₹ 1,50,000 immediately and cannot reverse the expense recognised even if the director goes to work for a competitor and loses the share options.

(d) A Ltd. should recognise an expense of ₹ 1,50,000 immediately and can reverse the expense recognised in case the director goes to work for a competitor and loses the share options.

(2 Marks each)

II. Descriptive Questions

4.6 Whether the following entities are subsidiaries of A Ltd. to be consolidated?

(a) C Ltd.

(b) ABC Foundation

Provide appropriate reasoning for your answer considering the guidance under IFRS. **(3 Marks)**

4.7 How the interest-free loan should be accounted for under IFRS financial statements of A Ltd. and D Ltd. in the following scenarios:

(a) The loan is repayable on demand.

(b) The loan is repayable after 3 years.

Provide necessary journal entries in both cases. **(8 Marks)**

4.8 What will be the accounting implication under IFRS on A Ltd. in relation to the asset 'synthesis gas compressor' held by the company, i.e.,

(a) Whether such compressor can be classified under 'non-current assets held for sale' in A Ltd.'s IFRS financial statements?

(b) How non-current assets held for sale should be measured?

Provide appropriate reasoning for your answer considering the guidance under IFRS. Take necessary assumptions, if required. **(4 Marks)**

CASE STUDY 5

Veracruz Ltd has the portfolio of many divisions and products as a group which are dealing in different sectors.

Veracruz Ltd has a grocery retailer which operates a customer loyalty programme. It grants programme members loyalty points when they spend a specified amount on groceries. Programme members can redeem the points for further groceries. The points have no expiry date.

In one period, the entity grants 1000 points. Management estimates the fair value of groceries for which each loyalty point can be redeemed as ₹1.25. This amount takes into account an estimate of the discount that management expects would otherwise be offered to customers who have not earned award credits from an initial sale.

In addition, management expects only 800 of these points to be redeemed. At the end of year 20X1, 400 points have been redeemed in exchange for groceries. In 20X2, management revises expectations and now it is felt that 900 points will be redeemed.

During the second year, 410 points are redeemed, bringing the total redemption to 810 points.

In the third year 20X3 balance 90 points are redeemed taking the total points redeemed to 900. Management continues to expect 900 points will be redeemed.

The Statement of Financial Positions of Veracruz Ltd and Camden Ltd as at 31 December 20X2 are as under:

As at 31st December 20X2	Veracruz Ltd		Camden Ltd	
	₹	₹	₹	₹
Assets				
Non-current assets				
Tangible assets		50,000		25,000
Investments		25,000		
Loan stock of Camden Ltd		10,000		
Current assets				
Inventories	24,000		4,000	
Receivables	12,000		10,000	
Cash at bank	4,000	40,000	2,000	16,000
		1,25,000		41,000
Total assets				
Equity and Liabilities				
Capital and reserves				
Ordinary shares (Re.1)	75,000		15,000	
Retained earnings	25,000	1,00,000	7,500	22,500
Non-current liabilities				10,000
Loan stock				
Current liabilities				
Payables		25,000		8,500
Total Liabilities		1,25,000		41,000

Additional information:

1. Veracruz Ltd acquired 11,250 shares in Camden Ltd on 1st July 20X2 by issuing 2 shares for every 3 shares in Camden Ltd. The market price of Veracruz Ltd.'s shares was ₹ 3. Veracruz Ltd has not accounted for this investment yet.
2. Payables of Veracruz Ltd include ₹7000 payable to Camden Ltd.
3. Receivables in Camden Ltd comprise receivables from Veracruz Ltd only.
4. The retained earnings of Camden Ltd on acquisition date were ₹ 3500.
5. Fair value of the non-controlling interest is ₹ 7000.

Veracruz Ltd has a tax rate of 20% and has been attempting calculation of deferred tax assets / liabilities related to the following transactions:

(a) The cost of an asset is ₹ 500000. For the first year, the accounting depreciation is ₹ 80,000, whereas the depreciation according to tax laws is ₹ 125,000.

(b) 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.

(c) The company recognised a sales tax of ₹10,000 payable in 20X1 but it was paid in 20X2.

(d) The company paid a penalty of ₹5,000 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.

Other Issues:

Per unit cost information pertaining to Veracruz Ltd.'s inventory is as under:

Particulars	Cost per unit ₹
Original cost	210
Estimated selling price	225
Estimated selling costs	22
Replacement cost	197
Normal profit margin	12

Veracruz Ltd sold 20,000 gallons of aviation oil to Loxton Ltd on 1 February 20X2 at ₹ 50 per gallon. Veracruz Ltd delivered 10,000 gallons on 15 March 20X2 and the remaining 10,000 gallons on 15 April 20X2 . Payment terms were 50% due on 1 October 20X1, 25% due on first delivery and the remaining 25% due on second delivery.

At April 20X1, Veracruz Ltd entered into a contract to build a road for the government. Construction will take three years and there were performance obligations based on milestones at the end of each year. The following information as of 31st March 20X2 is available for the contract:

Total revenue according to contract	₹ 10,000,000
Total expected cost	₹ 8,000,000
Cost incurred during 20X1 on completion of first performance obligation.	₹ 1,200,000

Veracruz Ltd issued ₹10,000,000 worth of 8% debentures of face value ₹100 each on par value basis on 1st April 20X1. These debentures are redeemable at 12% premium at 31 March 20X5 or exchangeable for ordinary shares of Mega Ltd on 1:1 basis. The interest rate for similar debentures that do not carry conversion entitlement is 12%. You are required to calculate the value of the debt portion of the above compound financial instrument. The present value of the rupee at the end of years 1 to 4 at 8% and 12% are supplied to you as:

	8%	12%
31 March 20X2	0.926	0.893
31 March 20X3	0.857	0.797
31 March 20X4	0.794	0.712
31 March 20X5	0.735	0.636

I. Multiple Choice Questions

5.1. Per unit carrying value of Veracruz Ltd's inventory, as stated in other issue would be:

(a) ₹ 210

(b) ₹ 200

(c) ₹ 203

(d) ₹ 195

5.2. The amount of revenue to be recognized for sale of 20,000 gallons of aviation oil to Loxton Ltd for year ending 31 March 20X2 would be:

(a) ₹ 300,000

(b) ₹ 500,000

(c) ₹ 750,000

(d) ₹ 1,000,000

5.3. How much revenue will be reported for the contract to build a road for the government for the year ending 31 March 20X2?

(a) ₹1,200,000

(b) ₹ 300,000

(c) ₹1,500,000

(d) None of the above

5.4. For financial assets classified as bonds, how are unrealized gains and losses reflected in shareholders' equity?

(a) They are not recognized

(b) Shown as an adjustment in paid-in capital

(c) Recognized as amortized cost and measured through effective interest method

(d) None of the above

5.5. At 1 April 20X1,the equity and debt component for issuance of ₹10,000,000 worth of 8% debentures is:

	Equity component	Debt component
(a)	9,500,000	500,000
(b)	9,553,600	446,400
(c)	9,450,000	550,000
(d)	9,550,000	450,000

(2 Marks each)

II. Descriptive Questions:

5.6. With respect to customer loyalty program, show treatment related to recognition of revenue under relevant IAS / IFRSs from 20X1 to 20X3. (3 Marks)

5.7. With respect to consolidation of Veracruz Ltd with Camden Ltd prepare the following:

(i) Computation of goodwill

(ii) Computation of non-controlling interest

(iii) Computation of pre-acquisition reserves

(iv) A consolidated Statement of Financial Position for the group. (8 Marks)

5.8. Calculate the deferred tax assets/liabilities on the transactions highlighted in the case study. (4 Marks)