

MOCK TEST PAPER 1

FINAL (NEW) COURSE: GROUP – II

PAPER 6E – GLOBAL FINANCIAL REPORTING STANDARDS

Question No.1 is compulsory. Candidates are required to answer any four questions from the remaining five questions.

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

Working notes should form part of the answers.

Time Allowed – 3 Hours

Maximum Marks – 100

CASE STUDY 1

You are a Chartered Accountant (CA) employed as a financial accountant with XYZ Ltd. (XYZ), an Indian listed company that manufactures and distributes electronic components for the telecommunications sector. XYZ Ltd is exploring possibilities of listing its securities at an overseas stock exchange, therefore, prepares consolidated financial statements up to 31st March each year under IFRS. Utkarsh hands you a folder (Appendix 1) containing the first draft of the consolidated financial statements for the year ended 31st March 20X6. He wants to pay a dividend this year but, although we have cash in the bank, Rahul, finance director, claims the debit on the consolidated retained earnings prohibits this.

XYZ has formed a strategic partnership with MNO Ltd (MNO). MNO is a newly formed start-up company which has yet to prepare any financial statements. To show our commitment to this partnership we subscribed for 10,000 Rs. 1 ordinary shares in MNO for Rs. 1.20 each. Professional fees of Rs. 3,000 were incurred on this transaction. MNO has 1,00,000 shares in issue and no dividends have been paid during the year. Rahul has informed me that it will not be possible for us to obtain a reliable fair value for this investment until at least another twelve months. Utkarsh wants you to go ahead and prepare some revised figures for me to present at the board in two days' time.

ABC & co confirmed that Rahul works in an office that provides services to MNO and he has no involvement in the services provided. A legal fees of Rs. 25,000 were paid to ABC during the year ended 31st March 20X6. There are following unresolved issues which require your review:

Outstanding Issues

1. As a way of improving cash flow, on 1 April 20X5 XYZ entered into a sale and leaseback arrangement in respect of an office building used for administration. The lease was in respect of the building only and there is no land element. The terms of the lease required ten annual rental payments of Rs. 2,16,000, payable in arrears on 31st march each year. The payment on 31st March 20X6 was recognised in rental expenses. The interest implicit in the lease was 7% and the fair value of minimum lease payments was Rs. 15,60,000. Present value of minimum lease payments after consideration of variable factors is assumed to be Rs. 15,60,000. The carrying value of the asset on 1 April 20X5 amounted to Rs. 12,00,000, and the sale proceeds were at fair value of Rs. 16,80,000. A profit on disposal of Rs. 4,80,000 was recognised in profit before tax (Appendix 1), in the Draft Consolidated Statement of Comprehensive Income on 1 April 20X5 and the asset was derecognised.
2. On 1 January 20X6, XYZ acquired 25,000 shares at Rs. 1 per share in JKL Ltd., a listed company that supplies raw materials for the manufacture of microchips. At 31st March 20X6, their market

value had risen to Rs. 2 per share, and a gain has been recognised in the consolidated Draft Statement of Comprehensive Income (against operating expenses) for the increase in value.

3. (i) XYZ holds 100% of the ordinary shares of PQR, acquired several years ago. The strategy behind the acquisition was to develop new revenue streams, including the design of new microchips. PQR has performed well but one of its major assets, an item of equipment, suffered a significant and unexpected deterioration in performance. Management expect to be able to use the machine for a further four years after 31st March 20X6, but at a reduced level. The equipment will be scrapped after four years. The financial accountant for PQR has produced a set of cash-flow projections for the equipment for the next four years, ranging from optimistic to pessimistic. Rahul thought that the projections were too conservative and she intended to use the highest figures each year. These were as follows:

	Rs.'000
Year ended 31st March 20X7	276
Year ended 31st March 20X8	192
Year ended 31st March 20X9	120
Year ended 31st March 20Y0	114

The above cash inflows should be assumed to occur on the last day of each financial year. The pre-tax discount rate is 9%. The machine could have been sold at 31st March 20X6 for Rs. 5,04,000, net of selling expenses. The machine had been re valued previously, and at 31st March 20X6 an amount of Rs. 36,000 was held in revaluation surplus in respect of the asset. The carrying value of the asset at 31st March 20X6 was Rs. 660,000. The Indian government has indicated that it may compensate the company for any loss in value of the assets up to its recoverable amount.

- (ii) On 1 April 20X1, XYZ acquired a freehold manufacturing building. The land element in the purchase price was Rs. 6,72,000 and the building element Rs. 24,00,000. The useful life of the building was estimated at 20 years. Since 1 April 20X1 there has been no change in the value of land. At the 31st March 20X3, the building element was re valued to Rs. 27,00,000 and the remaining useful life was unchanged. On 31st March, 20X6, the open market value of the building was determined at Rs. 19,80,000. The remaining useful life again remained unchanged. No accounting entries have yet been made in respect of the freehold building for the year ended 31st March 20X6.
4. XYZ issued Rs. 4,80,000 4% redeemable preference shares on 1st April 20X5 at par. Interest is paid annually in arrears and the first payment of Rs. 19,200 was made on 31st March 20X6 and debited directly to retained earnings. The bonds are redeemable for a cash amount of Rs. 7,20,000 on 31st March 20X8. The effective rate of interest on the redeemable preference shares is 18% per annum. The proceeds of the issue have been recorded within equity as this reflects the legal nature of the shares and the board of directors intends to issue new equity shares over the next two years to build up cash resources to redeem the preference shares.
5. One of the senior engineers at XYZ has been working on a process to improve manufacturing efficiency and, consequently, reduce manufacturing costs. This is a major project and has the full support of XYZ's board of directors. The senior engineer believes that the cost reductions will exceed the project costs within twenty four months of their implementation. Regulatory testing and health and safety approval was obtained on 1 June 20X5. This removed uncertainties concerning

the project, which was finally completed on 20 April 20X6. Costs of Rs. 18,00,000, incurred during the year to 31st March 20X6, have been recognised as an intangible asset. An offer of Rs. 7,80,000 for the new technology has been received and rejected by XYZ. Utkarsh believes that the project will be a major success and has the potential to save the company Rs. 12,00,000 in perpetuity. Director of research at XYZ, Neha, who is a qualified electronic engineer, is seriously concerned about the long term prospects of the new process and she is of the opinion that competitors will have developed new technology which will have replaced the new process within four years. She estimates that the present value of future cost savings will be Rs. 9,60,000 over this period. After that, she thinks that there is no certainty about its future.

6. M Ltd, another 100% wholly owned subsidiary of XYZ, started speculative office property development in March 20X5. The cost of development to 31st March 20X6 was Rs. 27,60,000. A valuer inspected the property at 31st March 20X6 and valued it at Rs. 28,80,000 in its condition at that date. The directors intend to sell the property to a buyer outside the group, and so it has been classified as an investment property. The gain has been recognised in the profit before tax in the Draft Statement of Comprehensive Income. A post-it on the page Utkarsh gave you earlier, suggested that Rahul was considering that because the property development was speculative with no contract, the property should not be classified as an investment property.

Appendix 1:

Draft Consolidated Statement of Comprehensive Income for the year ended 31st March 20X6	Rs.'000
Revenue	14,520
Cost of sales	-7,200
Gross profit	7,320
Operating expenses	(1,200)
Profit from operations	6,120
Finance costs	(600)
Profit on disposal of asset	480
Gains on investment property	<u>120</u>
Profit before taxation	6,120
Income tax	(1,800)
Profit for the year	4,320
<i>Other comprehensive income</i>	-
Total comprehensive income for the period	<u>4,320</u>

Draft Consolidated Statement of Financial Position as at 31st March 20X6

	<i>Rs.'000</i>
ASSETS	
<u>Non-current assets</u>	
Property, plant and equipment	4,200
Investment property	2,880
Goodwill and other intangibles	2,400
Financial assets (Note 1)	90

<u>Current assets</u>	2,430
Total assets	12,000
EQUITY AND LIABILITIES	
Ordinary share capital	3,600
Revaluation surplus	564
Preference share capital	480
Retained earnings	-360
Equity	4,284
<u>Non-current liabilities</u>	
Borrowings	1,596
<u>Current liabilities</u>	6,120
Total equity and liabilities	12,000

Note 1: Rs. 90,000 in respect of financial assets available for resale as outlined in outstanding issue 2 in the case study.

I. Multiple Choice Question [2 Marks each]

Choose the best option from the given choices for each of the question or statement below. Reasoning for the answer is not required to be given.

- What is the non-current liability for the lease of office building as at March 31, 20X6?
 - 14,53,200
 - 13,38,924
 - 14,46,000
 - 14,00,000
- What is the recoverable amount of the impaired machine of PQR as at March 31, 20X6?
 - 5,04,000
 - 5,07,600
 - 5,88,230
 - 6,60,000
- What is the impairment loss of the building on 1st April 20X6?
 - 2,70,000
 - 3,15,000
 - 3,24,000
 - Nil
- By how much will the equity reduce due to preference shares?
 - Nil
 - 480,000

- (c) 67,180
 - (d) 547,200
5. How much intangible asset will be capitalised during the year 20X5-20X6?
- (a) 1,800,000
 - (b) 1,500,000
 - (c) Nil
 - (d) 1,200,000

II. Descriptive Questions

6. Discuss elaborately the impact of the outstanding issues (1-6) above in the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Financial Position. Also explain their accounting treatment, wherever required. **(15 Marks)**

CASE STUDY 2

Kapsch Telecom Inc. is an American corporation that outsources some of its product engineering work to SasTech Ltd. in India. Both the parties have a long-term business relationship with each other – probably since more than 15 years.

In those 15 years, there have been multiple changes in management of both the parties. Kapsch has undergone many changes in the ownership and leadership in the last decade or so. In the outsourcing industry, it's a customary practice to request the customers for rate increase due to inflation and other factors that are specific to the contract.

Off-late there have been many instances of dissatisfaction from the customer due to attrition rate. Attrition refers to number of people leaving a company or a team. Attrition in the team is one of the biggest problems for Kapsch due to process-related hassles like interview of the replacement candidates, access to the file-sharing system and a few other factors.

SasTech Ltd. has been pressured for delivery and also forced to cut down the bill rate thereby reducing the profit margins. SasTech has an Offshore Development Centre (ODC) of 500 FTEs (Full-time employees) and an onsite support of Ten FTEs who work at the Kapsch location in USA.

ODC is a specific designated area within the company's premises. It requires special access to both employees and visitors who wish to enter into the ODC area. Even employees who are part of the same company but belong to team(s) other than the ODC can't enter the ODC area with their regular access card. Internet and other IT security is also special to the ODC through a dedicated leased-line which has a probability of 0.4% downtime.

Last contract with Kapsch, reviewed by both the parties, was almost 3 years ago. As a finance prime at SasTech Ltd., you have been asked by the Business Head to work closely with the Delivery Head and the legal team to look into the financial aspects of the contract.

Multiple scenarios were worked out and many rounds of discussion happened but there was no satisfactory response from both the parties towards the closure of negotiation. Finally, after 4 months of continuous follow-up, con-calls and the intervention of SasTech's CEO, the following key terms were agreed and accepted by both the parties: *(simplified extracts)*

1. *The monthly bill rate per FTE shall stand revised to USD 4400 from USD 4200 earlier for standard billing hours of 1920 per annum per ODC FTE.*
2. *Bill rate for Onsite FTEs shall stand revised to USD 11,000 per month from USD 10,500 earlier.*
3. *SasTech shall provide a buffer headcount of 10% (earlier 7%) of the total FTEs working in the ODC.*

(Buffer headcount is usually kept as replacement for any absent FTEs or loss of working hours due to any reason. The Buffer headcount is also trained on the job for the eventuality of attrition in the project. Buffer headcount is not billed to the client but absorbed as direct contract cost.)

4. *Other terms and conditions of the contract shall remain the same except that the following new terms will be inserted through Annexure which shall form an integral part of the contract:*
 - a. *Performance Bonus will be payable to SasTech at the rate of 10% of the quarterly billing done if the average billed hours of the ODC exceed 520 hours per FTE per quarter and the attrition rate is below 5% during that quarter.*
 - b. *Attrition Penalty will be payable by SasTech as per the following table:*

Attrition Rate during the quarter in the ODC	Attrition Penalty as a percentage of Quarterly billing done
6% to 8%	3.5%
8% to 10%	4.5%
10% to 12%	6.0%
More than 12%	10.0%

5. *The process of the timesheet approval shall remain the same except that the Project Manager of Kapsch in USA shall have a final approval authority. (Earlier, ODC manager in SasTech used to aggregate and ratify the timesheet and get the same approved by the Onsite lead of SasTech in USA and the same was counter-approved by the Project Manager from Kapsch. Now the project manager is changed since last 2 years.)*
6. *Billing will continue to be done on a quarterly basis and the credit period shall remain as 45 days from the end of last calendar day of the quarter for which billing is done.*
7. *SasTech shall continue to invoice at standard bill hours on a quarterly basis even when the actual billable hours as per final timesheet are more or less than the standard hours per FTE per month unless the actual billable hours fall below 150 per month per FTE. In that case the billing shall be done on actual billable hours. Actual billable hours are also used for billing in the quarter when SasTech is eligible for performance bonus.*
8. *Performance Bonus, if any, shall be billed separately within 20 working days from the end of the quarter in which such bonus becomes payable as per the contract.*
9. *Penalty, if any, shall be deducted from the latest quarterly bill received by Kapsch after the end of the relevant quarter.*
10. *Both the parties to the contract shall endeavour to close the approval process of billable hours within 7 working days from the end of each quarter.*
11. *Work done by Buffer FTEs, if any, shall not be counted for billing.*

Following is the timesheet and attrition data for four quarters since the renewed contract has come into force.

Period	Hours approved by SasTech	Hours approved by Kapsch	Attrition rate
Quarter 1 Financial Year 2019-2020	2,41,500	2,41,415	6.0%
Quarter 2 Financial Year 2019-2020	2,62,500	2,62,319	4.5%
Quarter 3 Financial Year 2019-2020	2,39,000	2,38,585	9.2%
Quarter 4 Financial Year 2019-2020	2,23,500	2,23,500	7.0%

Revenue from Kapsch accounts for more than 20% of the total revenue of SasTech Ltd. every year. However, Kapsch was not shown as a separate reportable segment until last audited annual financials of the company.

Since SasTech is a listed company on Bombay Stock Exchange as well as National Stock Exchange, the company has to publish quarterly financial information after the limited review of the auditors. The carrying amount of SasTech's ODC asset (for Kapsch) is Rs. 129 Lacs (after considering impact of contract with Kapsch during the year) as on 31st March 2020.

As a finance prime your help is required by the head of R2R (Record to report) team during each of the quarter close before the financial information is submitted to the auditors for limited review.

I. Multiple Choice Question [2 Marks each]

Choose the best option from the given choices for each of the question or statement below. Reasoning for the answer is not required to be given.

1. The Head of R2R was not aware of this latest contract with Kapsch in so much of details. You have discussed with him the main points of the contract including the Performance Bonus and Attrition Penalty. The Consideration agreed by both the parties in this contract is _____
 - (a) Variable and requires allocation to distinct performance obligation
 - (b) Variable but does not require specific allocation to distinct performance obligation
 - (c) Composite consideration
 - (d) Composite consideration with distinct performance obligations
2. SasTech Ltd. has decided to make provision for attrition penalty at the beginning of each quarter instead of booking that amount as loss in the case of liability of pay penalty. Historically, Kapsch ODC has seen at attrition rate of 7%. If the same attrition percentage is used for provision of attrition penalty what will be the provision amount for Q1FY19-20? Assume standard billing hours of 1920 per annum per FTE in ODC.
 - (a) USD 2,30,000
 - (b) USD 2,31,000
 - (c) USD 2,32,000
 - (d) USD 2,33,000
3. "Now that the contract has changed substantially and Kapsch accounts for about 20% of company's revenue we may have to show this as a separate operating segment", said the Head of R2R at SasTech Ltd. In view of the principles of IFRS, what is your view?
 - (a) Since there is only one such contract, separate reportable segment treatment is not called for.
 - (b) Head of the R2R team is right. It needs to be reported as a separate segment.
 - (c) Just a disclosure as special contract is required.
 - (d) Provision for Attrition Penalty is required.
4. The company is likely to get performance bonus for Quarter 2 Financial year 2019-2020. The final approval of timesheet has been received from Kapsch on 6th working day from the end of the quarter. Compute the amount of performance bonus that can be recognized as revenue before the financial information is passed on to the auditors for limited review.
 - (a) USD 0.72 million
 - (b) USD 0.71 million

- (c) USD 0.73 million
 - (d) USD 0.74 million
5. What are the two factors that compelled the organisation to treat Kapsch contract as a separate reportable segment?
- (a) Final approval process for timesheet and attrition
 - (b) Performance bonus and attrition penalty
 - (c) Threshold for segment recognition and total contract revenue
 - (d) Standard hours mentioned in the contract.

II. Descriptive Questions

6. If SasTech Ltd. has reported this contract as a separate reportable segment "Revenue from special contracts", prepare "Notes to account" to disclose the amount of adjustments made on account of performance bonus and attrition penalty for Financial Year 2019-2020. Working notes should be part of your answer but not the part of disclosure.

For calculation purposes assume 1 USD = Rs. 65.

[6 marks]

7. If final approval for timesheet for Q2FY19-20 was not received as on the date of preparing financials but received subsequently due to delay from Kapsch (as the concerned person was travelling), should the company recognise the performance bonus as Unbilled Revenue (classified as current asset in the balance sheet) or treat it as a revenue? Justify your answer citing specific reference from relevant IFRS and facts of the case.

[4 marks]

8. As on 31st March 2020, the ODC has no other liability except the provision for attrition penalty for Quarter 4 Financial Year 2019-2020. Disclose the amount of Segment revenue, Segment assets and Segment liabilities under "Revenue from Special Contracts" if there are no other contracts of similar nature for SasTech Ltd. For calculation purposes assume 1 USD = Rs. 65.

[5 marks]

CASE STUDY 3

Sai Caterers Pvt. Ltd., is a Panvel based company in the business of corporate catering since 2005. 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 Rs. 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 Rs. 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 1st Feb 2018.
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 Rs. 60k. 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:

	Rs. 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** – Rs. 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 Rs. 65,000 per month.

- **Daily feed to Cows** – Each cow needs a daily intake of green and dry feed worth Rs. 150
- **Medical expenses** – In addition to food, the cows also need a routine medical check-up once in a month it costs about Rs. 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 Rs. 2.7.
- **Electricity and other office overheads at the site** – Rs. 25,000 per month

Case status as on 31st March 2018 – Project implemented and in-house procurement plan is working.

Depreciation on project assets was provided for 2 months as 31st March 2018

As on 31st March 2019, 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 Rs. 8,000 and a female calf can fetch Rs. 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 @ Rs. 35 per litre for accounting purposes.

As per the company's plan, 'Godhan' was launched in June, 2018. Surplus of 1st quarter was supplied to the Directors at free of cost. However, from Q2 of Financial Year 2018-2019, 95% of the surplus milk was sold at the premium price.

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

I. Multiple Choice Question [2 Marks each]

Write the correct answer to each of the following questions by choosing best option out of the four given options. No reasoning is required to be given for choosing the correct option.

1. What is the carrying amount of Property, plant and Equipment of milk procurement project (rounded off to nearest lacs) as on 31st March 2018?
 - (a) Rs. 385 Lacs
 - (b) Rs. 384 Lacs
 - (c) Rs. 383 Lacs
 - (d) Rs. 382 Lacs
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 31st March 2019?

- (a) Rs. 390 Lacs (approx.)
 - (b) Rs. 391 Lacs (approx.)
 - (c) Rs. 392 Lacs (approx.)
 - (d) Rs. 393 Lacs (approx.)
3. What is sales value of milk sold under the brand "Godhan"?
- (a) Rs. 9.54 Lacs
 - (b) Rs. 9.34 Lacs
 - (c) Rs. 9.44 Lacs
 - (d) Can't be determined
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'
5. The carrying amount of cattle feed as on 31st March 2019 would be:
- (a) Cost or NRV whichever is lower
 - (b) Fair value less costs to sell
 - (c) Cost
 - (d) Only fair value

II. Descriptive Question [15 marks]

6. Based on the financial information given in the case, prepare Statement of Profit and Loss of the milk procurement unit ie. the project site for the year ended 31st March 2019. Draw the Statement for Profit and Loss till profit before tax level by ignoring the Notes to Accounts.

CASE STUDY 4

Creative Engineering Pvt. Ltd. is a company engaged in the business of making kitchen equipment that are either customized according to customer needs or standardised based on minimum requirement of customers in general.

Right from customization of gas stoves to large utensils there is a range of products manufactured and supplied. Since many institutional buyers do not know what will be the best arrangement for them, the company also does consultancy in this regard and visiting the facility of the buyer is an essential activity in that case.

In the general purpose category most of the customers are either restaurants or hotels although the size varies. In customised category most of the customers are Trusts of Temples, Gurudwaras and NGOs who supply free food to the visitors. Usually these customers also need a consultancy before buying the equipment.

Your firm is a statutory auditor of the company and you're one of the team members who is doing the audit for FY19-20. During the audit you have been provided with customer contracts for verification and audit of revenue. The extracts of some of the customer contracts executed during the year are given below:

- **Contract No. 123: Value – Rs. 51 Lacs**

Contractual rights and responsibilities - Trust

The trust has a right to terminate the contract any time before the actual equipment is installed in the designated facility. The company can however invoice for the actual cost of the raw material used for the equipment plus 10% of the cost of raw material as cancellation fee.

Termination

Termination notice by either party shall be given at least 7 days in advance through email followed by a formal notice of termination.

- **Contract no. 134: Value – Rs. 81 Lacs**

Payment terms:

The trust shall pay the contractual value as follows:

Rs. 5 lacs Consultancy – before final meeting on design

Rs. 35 lacs within 1 month from final meeting on design

Rs. 30 lacs within 2 months from final meeting on design

Balance amount – within 15 days from installation

Exit clause:

Both the parties to the contract shall be out of the contractual obligations when:

- (a) Installation is complete and successful trial is demonstrated to the NGO
- (b) All payments for contract value has been received by the company
- (c) Sign-off document is signed by both the parties

- **Contract no. 152: Value – Rs. 101 Lacs**

Uncertainty clause:

1. The NGO intends to commission the project in its entirety. However, there are a few uncertainties with regard to one or two locations where the equipment may not be required if the NGO decides to call off the branch operations in those locations. This will not affect the contract value.
2. Those locations are in the interiors of Rajasthan and Bihar State.
3. In the eventuality of any decision of the NGO in this regard, the same shall be communicated to the company in writing.
4. Any further understanding between the NGO and the company in this regard shall be final and shall not be affecting the rest of this contract.

Since this contract no. 152 involved execution at different locations across the country, the company had tied-up with different vendors who could help in manufacturing and supply of equipment as per the

design specifications given by the company. The aggregate amount payable to such vendors was Rs. 30 Lacs.

The uncertainty clause was indeed invoked during the year. Accordingly, the NGO informed the company that a location in Bihar has been called off. The NGO also requested for a discount of Rs. 10 lacs on the contract value to which the Board of Directors of the company have responded positively and accepted the same.

Apart from the contractual revenue from the Customized Equipment, the company had a revenue of Rs. 2.12 crores from generic customers who did not require any consultancy.

There were 19 contracts during the year where the company could only realise consultancy fee as the customers backed-off on the execution either because they thought the cost was higher or they postponed the implementation. The average consultancy fee for each contract was Rs. 5 lacs and the revenue from consultancy services alone was 12% of the total revenue for FY19-20. The company had executed totally 21 contracts (full-fledged from consultancy to execution) during the year.

I. Multiple Choice Questions

Write the correct answer to each of the following questions by choosing best option out of the four given options. Each question carries two marks.

1. The company's operating segments as per IFRS 8 would be:
 - a. Generic Equipment, Customized Equipment and Consultancy Services
 - b. Generic Equipment and Customized Equipment
 - c. Restaurants, Trusts and NGOs
 - d. Restaurants and Trusts
2. What is the value of Consultancy Segment revenue and the overall revenue of the company (excluding other income if any) for FY19-20?
 - a. Rs. 95 Lacs and Rs. 6.97 crore (approx.)
 - b. Rs. 95 Lacs and Rs. 7.92 crore (approx.)
 - c. Rs. 95 Lacs and Rs. 8.87 crore (approx.)
 - d. Rs. 95 Lacs and Rs. 8.02 crore (approx.)
3. What is the approximate value of revenue from customized equipment segment?
 - a. Rs. 5.80 crore
 - b. Rs. 2.12 crore
 - c. Rs. 4.85 crore
 - d. Rs. 6.97 crore
4. What is the value of revenue recognized from Contract No. 152 if the actual amount received by the company at various dates is Rs. 92 Lacs? The sign-off document is also signed by both the parties before 31st March, 2020 and it is established that there are no dues from both the parties.
 - a. Rs. 91 Lacs
 - b. Rs. 92 Lacs
 - c. Rs. 62 Lacs

- d. Rs. 61 Lacs
5. If Sign-off document was not signed by both the parties in Contract No.152 as on the date of balance sheet but signed subsequently on 15th April 2020, what would be treatment of Rs. 11 Lacs that was received as last milestone payment on 15th March 2020? As on 14th March 2020 Rs. 81 Lacs was already received and recognised as revenue. Installation and successful trials were done as on 10th March 2020.
- Rs. 10 Lacs as Revenue and Rs. 1 Lac as liability
 - Rs. 11 Lacs as liability
 - Rs. 11 Lacs as revenue
 - Rs. 11 Lacs as 'Advance from customer'

II. Descriptive Questions [5 marks each]

6. If Contract No. 123 was terminated by the customer with sufficient due notice in writing, what will be the accounting treatment of revenue? The cost incurred by the company for procurement of raw material was Rs. 26 Lacs. Allocable indirect cost was Rs. 5 Lacs.
- The customer had already made an advance payment of Rs. 5 Lacs which the company has accounted as revenue from consultancy fee. If the customer has honoured the rest of the contract by exercising the right to terminate before actual installation, compute the revenue from Contract No. 123 and make necessary disclosures as per para 113 of IFRS 15.
7. (i) In case of Contract no. 134, the installation and successful trial was achieved on 20th March 2020 and the last instalment payment of Rs. 11 Lacs was received on 2nd April 2020 and the sign-off document was signed by both the parties on 10th April 2020. Will the revenue of Rs. 11 Lacs be recognized as on 31st March 2020?
- (ii) If the company had similar situations of totally 11 contracts and the amount thus received after the balance sheet date was Rs. 101 Lacs what are the necessary disclosures as required by IFRS 15?
8. Make a note, forming part of Notes to accounts, in respect of Operating Segments. Restrict yourself on calculation of only revenue amount from each segment.

CASE STUDY 5

You are a qualified Chartered Accountant at XYZ Ltd, an Indian listed company which 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 its financial statements in accordance with International Financial Reporting Standards (IFRS) upto 31 March each year. You report to Anuj, the Financial Controller of XYZ Ltd.

Anuj called you to enquire about the consolidated financial statements. The financials disclosed that on 1 July 20X1, XYZ Ltd acquired 800,000 ordinary shares in ABC Ltd on incorporation at par (Rs. 1 per share). The remaining shares were subscribed for in equal proportions by two other companies: PQR Ltd and MNO Ltd. The issued share capital of ABC Ltd at date of acquisition of the shares was two million shares.

Anuj prescribed the Board of Directors of XYZ Ltd to go into an agreement with the goal that all key working and money related choices would require the consistent assent of each of the three parties. XYZ Ltd had not entered in any past contractual agreements of a comparable sort and, from past discussions,

you realize that Anuj is exploring the possibility to apply proportionate consolidation. You need to guarantee that the accounting treatment embraced will be suitable in future years.

Anuj told you that I noticed your draft statement of comprehensive income has not taken into account the acquisition of the shares in ABC Ltd, although, it looks to me as though it should be treated as an associate company. What do you think? The directors have requested an estimate of consolidated profit for the board meeting next week. Also, I will need some sort of explanation as to why you are making your adjustments: you and I both know that there is a lot of professional judgement involved in the application of some of the IFRS.

Outstanding Issues:

1. XYZ Ltd acquired a trade mark at a cost of Rs. 68,00,000 on 1 April 20X1. At that date the patent had an estimated useful life of 20 years. In the draft financial statements at 31 March 20X2, the trade mark is shown at Rs. 88,40,000 as per the advise of a brand valuation firm. An increase in fair value has been recognized in other comprehensive income and carried as a revaluation surplus within equity.
2. On 1 April 20X1, XYZ Ltd acquired 34,000 listed 4% Rs. 1 preference shares at their fair value (which was par value) in RST Ltd that are redeemable on 31 March 20X5. Transactions costs were negligible. The effective interest rate on preference shares is 6% and preference dividends are paid annually on 31 March each year. The market value of one preference share on 31 March 20X2 was Rs. 1.05. The board minute authorizing this investment recorded the decision to hold these preference shares until redemption and instructed cash flow forecasts to be prepared on this basis. Furthermore, the investment has not been made with the intention of making short-term profit.
3. XYZ Ltd acquired a non-current asset on 1 April 20X1. This non-current asset is located in an industrial development area and cost Rs. 1,02,00,000. The asset is expected to last five years. An impairment review was carried out on 31 March 20X2 and the projected cash flows relating to this asset were as follows:

Year ended	31-Mar	31-Mar	31-Mar	31-Mar
	20X3	20X4	20X5	20X6
Cash flows (Rs. '000)	952	1513	1700	1870

XYZ Ltd uses a discount rate of 5% in relation to cash flows and the Indian government have indicated that it may pay compensation for any loss of value of the assets up to 20% of any impairment loss.

4. On 1 April 20X1, XYZ Ltd entered into a six-year lease over one of its properties, the lessee agreeing to pay Rs. 204000 per quarter in advance. XYZ Ltd had acquired the property for use as its administrative offices five years earlier for Rs. 34,00,000 (land element costing Rs. 340000), at which time the useful life of the building was estimated at 34 years. XYZ Ltd vacated the property on 1 April 20X1 and its fair value at that date was estimated at Rs. 64,60,000. At 31 March 20X2, the property's fair value was estimated at Rs. 61,20,000. XYZ Ltd had not leased out any properties in the past.
5. The revenue included in the draft consolidated statement of comprehensive income includes sales to EFG Ltd (subsidiary of XYZ Ltd with 80% shareholding) of Rs. 25,50,000, all invoiced at cost plus 25%. On 31 March 20X2 the inventory included Rs. 6,37,500 in respect of such goods.

6. XYZ Ltd has a corporate office in Mumbai held under an operating lease. A specific requirement of the lease is that the asset is returned in good condition. The operating lease was signed in 20X1-20X2 and will last for four years. In order to meet the requirements of the lease, the board of directors of XYZ Ltd have agreed to refurbish the office building in four years time at a cost of Rs. 42,50,000. This figure includes the renovation of the exterior of the building and is based on current price levels. Due to the severe cold weather, XYZ Ltd will also have to spend Rs. 3,40,000 at the end of the next year on renovating the building. The directors are of the opinion that this expenditure will reduce, by an equivalent amount, the overall refurbishment costs payable at the end of the lease term. Relevant discount rate applicable in this case is 10%. No entries have been made for the above expenditure in the financial statements.
7. On 1 April 20X1, the fair value of the assets of XYZ Ltd's defined benefit plan were valued at Rs. 20,40,000 and the present value of the defined obligation was Rs. 21,25,000. On 31 March the plan received contributions from XYZ Ltd amounting to Rs. 4,25,000 and paid out benefits of Rs. 2,55,000. The current service cost for the financial year ending 31 March 20X2 is Rs. 5,10,000. An interest rate of 5% is to be applied to the plan assets and obligations. The fair value of the plan's assets at 31 March 20X2 was Rs. 23,80,000, and the present value of the defined benefit obligation was Rs. 27,20,000. No accounting entries have been made for the year ended 31 March 20X2.

Appendix 1:

Draft Consolidated Statement of Comprehensive Income for the year ended 31 March 20X2

	Rs.'000
Revenue	37187.5
Cost of Sales	-21802.5
Gross Profit	15385
Operating expenses	-2082.5
Suspense	-1275
Profit from operations	12027.5
Dividend from ABC Ltd	170
Finance Costs	-8041
Profit before taxation	4156.5
Tax	-1246.1
Profit for the year	2910.4
Other comprehensive income	
Revaluation	2040
Total comprehensive income for the year	4950.4
Attributable to	
Owners of XYZ Ltd	3961
NCI	989.4
	4950.4

Note 1:

The results from ABC Ltd financial statements for the six months ended 31 March 20X2 are as follows:

	Rs.'000
Revenue	5440
Cost of Sales	-2550
Gross Profit	2890
Operating expenses	-1275
Taxation	-263.5
Profit for the period	1351.5

The current draft consolidated statement of comprehensive income includes the dividends received from ABC Ltd during the year. No other amounts have been recognized in respect of ABC Ltd. A dividend of Rs. 4,25,000 was paid by ABC Ltd on 24 March 20X2.

I. Multiple Choice Question [2 Marks each]

- At what carrying value should trademark be recognized on March 31, 20X2?
 (a) Rs. 88,40,000
 (b) Rs. 68,00,000
 (c) Rs. 64,60,000
 (d) Rs. 83,98,000 **(2 Marks)**
- What should be the carrying value of Non- current asset at March 31, 20X2 which was acquired on 1 April, 20X1?
 (a) Rs. 81,60,000
 (b) Rs. 52,85,000
 (c) Rs. 1,50,00,000
 (d) Rs. 1,02,00,000 **(2 Marks)**
- How much amount of compensation receivable from Indian Government should be recognized on 31 March 20X2?
 (a) Rs. 5,75,000
 (b) No provision
 (c) Rs. 9,83,000
 (d) Rs. 8,33,000 **(2 Marks)**
- Which model can be used to calculate the carrying value of one of its property leased under six year lease agreement on 1 April 20X1?
 (a) Cost model only
 (b) Fair value model only
 (c) Either of the two
 (d) Fair value model if cost is higher than fair value, else cost model **(2 Marks)**
- How much amount of provision at March 31, 20X2 should be recognized for the corporate office held on lease in Mumbai?

- (a) Rs. 3,40,000
- (b) Rs. 32,11,810
- (c) Rs. 29,79,590
- (d) Rs. 45,90,000

(2 Marks)

II. Descriptive Question

6. Prepare the consolidated statement of comprehensive income for the year ended 31 March 20X2 after the incorporation of necessary adjustments w.r.t outstanding issues by providing required workings.

(15 Marks)