

Test Series: April 2021

MOCK TEST PAPER
FINAL (NEW) 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

XYZ Ltd is 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 and therefore XYZ Ltd prepares financial statements in accordance with International Financial Reporting Standards (IFRS) up to 31 March each year. XYZ Ltd has recently acquired shares in ABC Ltd and PQR Ltd, and prepares consolidated financial statements in accordance with IFRS. Draft Statements of Financial Position for each company are provided in Appendix 1.

You are a Chartered Accountant (CA) and have recently been appointed as financial controller of XYZ Ltd.

Your predecessor prepared some briefing notes (see below) regarding the preparation of the consolidated financial statements of the XYZ Ltd Group for the year ended 31 March 20X4. Please note that it is the group's policy to value its non-controlling interests at fair value. The fair value of the non-controlling interest in ABC Ltd at the 1 April 20X3 was Rs. 95.4 million.

The reinstated costs of expenditure on the development of new products are included within inventories as 'development inventories'. The costs do not meet the criteria in IAS 38 'Intangible Assets' for classification as intangibles and it is most unlikely that the net cash inflows from these products will be in excess of the development costs. In the current year, ABC Ltd has included Rs. 18 million of which Rs. 6 million relates to expenditure on a product written off in periods prior to 1 April 20X1. Commercial sales of this product had commenced during the year ended 31 March 20X4.

On speaking to the assistant accountant, you ascertain that XYZ Ltd purchased 4% debentures of Y Limited on 1 April 20X2 (their issue date) for Rs. 1.2 million. The term of the debenture issue was four years and the redemption value is Rs. 1.56 million. The effective rate of interest on the debentures is 10% and the relevant IFRS conditions are satisfied for the investment to be held at amortised cost. However, at the end of February 20X4, Y Limited

was declared bankrupt. All interest had been paid until that date. On 31 March 20X4, the liquidator announced that no further interest would be paid and only 80% of the maturity value would be repaid, on the original repayment date. The figure, rounded to the nearest million, included for this financial instrument in the draft statement of financial position (Appendix 1) amounted to Rs. 1,351,200. Having discussed the accounting treatment with assistant accountant, you are still unsure as to how the latter figure was arrived at and whether it needed to be adjusted.

Briefing notes:

1. The following information is relevant regarding the acquisition of shares in ABC Ltd and PQR Ltd:

Date of acquisition	Holding acquired	Retained earnings at acquisition date	Purchase consideration
	%	Rs. million	Rs. million
ABC Ltd: 1 April 20X3	80	270	480
PQR Ltd: 1 April 20X3	30	468	432

ABC Ltd and PQR Ltd have not issued any share capital since the acquisition of shareholdings by XYZ Ltd. The fair value of the net assets of ABC Ltd and PQR Ltd were the same as their carrying amounts at the date of acquisitions. XYZ Ltd has significant influence over PQR Ltd. An impairment loss of Rs. 9.6 million has been identified in respect of goodwill arising on the acquisition of ABC Ltd for the year ended 31 March 20X4. The recoverable amount of net assets of PQR Ltd has been deemed to be Rs. 1176 million at 31 March 20X4.

2. XYZ Ltd sold some trade receivables, which arose during March 20X4, to a factoring company on 31 March 20X4. The trade receivables sold are unlikely to default in payment based on past experience, but they are long dated with payment not due until 1 November 20X4. XYZ Ltd has given the factor a guarantee that it will reimburse any amounts not received from the factor. XYZ Ltd received Rs. 108 million from the factor, being 90% of the trade receivables sold. The trade receivables are not included in the statement of financial position of XYZ Ltd and the balance of Rs. 10.8 million (10% of trade receivables factored) which has not been received from the factor has been written off against retained earnings.
3. XYZ Ltd has contracted to purchase a specialised item of machinery from a company based in America for \$24 million on the following terms:

Non-refundable payment on signing of contract (1 January 20X4)	60%
Payment on delivery and installation (5 April 20X4)	40%

The following exchange rates are relevant:

	Rs. to Dollar
1 January 20X4	67
31 March 20X4	65
5 April 20X4	66

The deposit is included in trade receivables at the exchange rate on 1 January 20X4. For this type of machinery, a full year's charge for depreciation is made in the year of acquisition using the straight line method over five years.

- On 1 February 20X4, XYZ Ltd sold inventory costing Rs. 30 million to PQR Ltd for Rs. 42 million. At 31 March 20X4, the inventory was still held by PQR Ltd. On 10 April 20X4, the inventory was sold to a third party for Rs. 50.4 million.

Appendix 1:

Draft Statements of Financial Position for XYZ Ltd, ABC Ltd and PQR Ltd as at 31 March 20X4

	XYZ Ltd	ABC Ltd	PQR Ltd
	Rs. million	Rs. million	Rs. million
ASSETS			
Non-current assets			
Property, plant and equipment	4,080	360	540
Intangible assets	720	-	-
Investment in ABC Ltd (at cost)	480	-	-
Investment in PQR Ltd	432	-	-
Financial assets	<u>1.2</u>	<u> </u>	<u> </u>
	<u>5,713.20</u>	<u>360</u>	<u>540</u>
Current assets			
Inventories	1,920	180	270
Trade receivables	1,440	108	144
Cash	<u>1,200</u>	<u>72</u>	<u>36</u>
	<u>4,560</u>	<u>360</u>	<u>450</u>
Total Assets	<u>10,273.20</u>	<u>720</u>	<u>990</u>
EQUITY and LIABILITIES			
Issued capital Rs. 1 ordinary shares	3,600	180	360
Other reserves	720	-	-

Retained earnings	<u>961.2</u>	<u>360</u>	<u>540</u>
Total equity	<u>5,281.20</u>	<u>540</u>	<u>900</u>
Non-current liabilities	1,680	-	-
Current liabilities	<u>3,312</u>	<u>180</u>	<u>90</u>
	<u>4,992</u>	<u>180</u>	<u>90</u>
Total Equity and Liabilities	<u>10,273.20</u>	<u>720</u>	<u>990</u>

I. Multiple Choice Questions (2 Marks each)

- 1.1 What will be the amount of Goodwill as on 31 March 20X4, arising from the acquisition of ABC Ltd.?
 - (a) Rs. 115.8 Million
 - (b) Rs. 125.4 Million
 - (c) Rs. 295.8 Million
 - (d) Rs. 20.4 Million
- 1.2 With what amount should retained earnings of ABC Ltd be debited on account of development inventories on 31 March 20X4?
 - (a) Rs. 18 Million
 - (b) Rs. 6 Million
 - (c) Nil
 - (d) Rs. 12 Million
- 1.3 What will be the impairment loss from investment in associate for the year ending 31 March 20X4?
 - (a) Rs. 79.2 Million
 - (b) Rs. 100.8 Million
 - (c) Rs. 97.2 Million
 - (d) Rs. 75.6 Million
- 1.4 At what amount should exchange loss/gain be recognized as on 31 March 20X4 on account of deposit given for purchase of specialized item of machinery from company based in America?
 - (a) Rs. 28.8 Million exchange loss
 - (b) Nil
 - (c) Rs. 19.2 Million exchange loss
 - (d) Rs. 28.8 Million exchange gain

- 1.5 What will be the amount of impairment loss from 4% Debentures for the year ending 31 March 20X4?
- (a) Rs. 0.32 Million
- (b) Rs. 0.103 Million
- (c) Rs. 0.53 Million
- (d) Rs. 0.17 Million

II. Descriptive Questions

- 1.6. Prepare the consolidated statement of financial position of the XYZ Ltd Group as at 31 March 20X4, in accordance with the relevant IFRS after accounting for the above transactions. **(15 Marks)**

CASE STUDY 2

BC Ltd is a listed entity. On 10 April 20X3, it announced various employee incentive schemes, setting out the names of the employees, the objective of the scheme and a deadline by which individual agreements will be executed. To avoid hardships / misunderstanding among the beneficiaries of the scheme, the terms were customized to each individual employee depending on the type of department they were attached with. The details of the schemes were as below:

Name of Employee	Details of the scheme
A	A is the head of technical department. The department deals with projects on business process and cost re-engineering, which are executed to achieve annual targets on reduction in turnaround time (TAT) and cost savings - with A spearheading these activities. The Board of Directors of BC Ltd approved a resolution for the ESOP to A on 15 April 20X3, obtained shareholder resolution at the AGM on 18 April 20X3 when the fair value of the shares was Rs. 1520 per share. The terms of the agreement were later finalized in consultation with the CEO and the agreement was drafted and signed by A in the presence of the CEO on 20 April 20X3. The agreement provided for issue of 50,000 shares every quarter end, subject to achieving a quarterly 5% cost savings (duly certified by internal auditor) compared to previous quarter. The shares were issued at a price of Rs. 950 per share and the value of the option was calculated using the binomial option model as Rs 300 per share, based on the underlying fair value of Rs. 1520 per share. A is required to exercise the option within 30 September 20X4 and is required to be in employment till that date. As at 31 March 20X4, A was successful in achieving the 5% target only for the last quarter ending 31 March 20X4. Share based payment expense of Rs. 150 lacs was recognized based on the above terms.

B	B is the head of finance department. The entity is challenged with the availability of funds for its regular working capital needs, on account of difficulty in obtaining certain required collaterals and guarantees for obtaining the loans. As such, BC Ltd entered into an agreement with B on 20 April 20X3 wherein 10,000 shares were agreed to be issued at Rs. 875 per share, when fair value was determined (after considering the terms and conditions of the agreement) at Rs. 1505 per share. The option to purchase the shares was to be exercised on or before 30 September 20X4. The shares were to be issued if the loan was obtained by 31 March 20X4. By 31 March 20X4, the loan was formally sanctioned - which was a sufficient compliance of the performance condition. However, on the same day to avoid any confrontation with A (who is very influential), BC Ltd raised the exercise price of the share to Rs. 900 per share. As a result, the option valuation reduced from Rs. 345 per share on 20 April 20X3 to Rs. 296 per share. B was continuing with formal employment on that date. A share-based payment expense was recognized for Rs. 29.60 lacs for the period ending 31 March 20X4 on account of the agreement with B.
C	C is the head of Corporate Branding and Development. On 15 April 20X3, vide a signed agreement, he was provided with a scheme which entails payment of cash at the rate of Rs. 2.50 lacs for every 1% increase in share price of the entity. As an alternative, C can also choose to be issued equivalent number of shares at the rate of Rs. 900 per share when the fair value of the shares (taking in to account the terms and conditions of the offer) was Rs. 1508 per share. The option was valued at Rs. 324 per share which is equivalent to the fair value of the cash alternative on 15 April 20X3. During the year the share prices rose by 5%.

During the previous year ending 31 March 20X3, BC Ltd had acquired controlling stake in GD Ltd that included assuming the related employee obligations arising in both present and future reporting periods. During the takeover, the following employee obligations were assumed:

Employee	Particulars
D	D was eligible to an issue of 15,000 shares at their fair value commencing 1 April 20X1 when the fair value of the shares was Rs. 300 per share in the acquired entity, based on the condition that he remains in employment for a period of 5 years. The fair value of the option was determined to be Rs. 60 per share. On acquisition date of 31 March 20X3, BC Ltd modified the agreement with D to provide for issue of 4,000 shares at Rs. 1,000 per share when fair value on the acquisition date was Rs. 1,480 per share of BC Ltd. This resulted in an option valued at Rs. 275 per share. The condition was further revised to provide that the employee should remain in employment until 1 April 20X7.

E	E was eligible to an issue of 12,500 shares at nil exercise price commencing 1 April 20X1 when the fair value of the shares was Rs. 300 per share in the acquired entity, based on the condition that he remains in employment for a period of 5 years. The fair value of the option was determined to be Rs. 60 per share. On acquisition date of 31 March 20X3, BC Ltd modified the agreement with E to provide for issue of 4,000 shares at Rs. 1,050 per share when fair value on the acquisition date was Rs. 1,480 per share of BC Ltd. This resulted in an option valued at Rs. 275 per share. The condition was further revised to provide that the employee should remain in employment until 1 April 20X5.
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On 1 November 20X3, BC Ltd also entered into an agreement with an advisor (a separate corporate entity) for provision of advisory services over a period of 1 year in connection with an IPO and share buybacks to be done in November 20X4. The advisor is entitled to issue tax invoices every quarter, based on number of hours billed. However, the agreement provides for issue of equivalent number of equity shares of the parent of BC Ltd in India at the fair value on the date of the agreement. The number of shares to be issued is, however, determined and agreed between the parties every quarter until final settlement (which is only 30 October 20X4). During the year up to 31 March 20X4 a total of Rs. 69 lacs were billed by the advisor. The shares are required to be brought on-market and issued. Tax deduction is allowed only on final settlement on 30 October 20X4.

As part of the Employee Share Purchase Plan (ESPP), the following employees were eligible (on the below given terms and conditions):

Employee	Terms and Conditions
T	T was eligible to be issued 14,500 shares at an exercise price of Rs. 890 per share. The agreement was signed on 1 June 20X3, when the fair value of the option was Rs. 350 per share. The agreement provides for a loan equal to the total exercise price of the shares, subject to T remaining in employment for 2 years from the date of the grant. The shares will be held in a separate employee benefit trust that is not controlled by BC Ltd, until the time these shares get issued to T who will be eligible to receive dividends from the shares. On completion of the stipulated two years of employment, T will be able to exercise the option for a period of 1 year from the completion date. At that time, T may either be required to pay up the exercise price of the shares or allow the option to lapse. If T discontinues employment, then the shares will revert to BC Ltd with T not being eligible to any share or its future dividends. No requirement to repay the loan by T at any time during the period of the option.
V	V is eligible to be issued 14,500 shares at an exercise price of Rs. 890 per share. The agreement was signed on 1 June 20X3 when the fair value of the option was Rs. 350 per share. The agreement provides for a loan equal to

	the total exercise price of the shares, subject to T remaining in employment for 5 years from the date of the grant. An amount of Rs. 1,29,00,000 was therefore transferred to the employee at the time of the agreement being signed. The loan carries an interest of 12% p.a. and requires settlement in equal annual installments of principal at every anniversary of the agreement. The accumulated interest is payable only at the end of the term. The agreement provides that if the loan is not repaid, then BC Ltd is able to recover the amount from the salary and other non-statutory dues in addition to certain properties mentioned in the agreement as collaterals.
M	M is eligible to a zero-interest rate loan of Rs. 96 lacs corresponding to 11,000 shares. M can avail the loan any time during the period of 1 year from the date of agreement that was signed on 1 June 20X3, subject to being in employment for the said term. As required by the terms, M makes an upfront payment of a commitment fee of Rs. 1.65 lacs. The loan will be provided under a separate agreement. It is not possible to obtain fair valuation for this loan commitment due to non-availability of reliable information. However, it has been ascertained that M is looking for a career outside the organization and as such management is not likely to keep the loan offer open to M.

I. Multiple Choice Questions (2 Marks each)

- 2.1 What is the grant date for the ESOP arrangement with A?
- 10 April 20X3
 - 18 April 20X3
 - 15 April 20X3
 - 20 April 20X3
- 2.2 Total amount recognized in equity under the ESOP arrangement with C will be:
- Nil
 - Rs. 12.50 lacs
 - Determined by the split accounting method
 - Determined when more information is given
- 2.3 In the consolidated financial statements of the group, the arrangement with the advisor gives rise to:
- Equity-settled share based payment
 - Cash-settled share based payment
 - Hybrid arrangement
 - None of the above

- 2.4 In the case of employee M, the loan commitment fee should be
- Recognised as an adjustment to the effective interest rate
 - Recognised immediately in profit or loss account
 - Recognised straight-lined over the commitment window
 - Recognized as revenue as and when the performance obligation is satisfied.
- 2.5 Changes to the deferred tax arising from business combination impacts:
- Statement of Profit or Loss
 - Other Comprehensive Income
 - Goodwill
 - No changes – no impact.

II. Descriptive Questions

- 2.6 Analyse and comment in brief the accounting of each of the ESOPs and ESPPs launched or acquired during the year. **(15 Marks)**

CASE STUDY 3

Srikrishna Chemical Industries Ltd. is a listed company with a turnover of Rs. 1,008 crore for the financial year 20X1-20X2. The company has been reporting the following segments in its annual report:

- Agriculture
- Paint and adhesives
- Automobile
- Food & Beverages

Each segment has a business head supported by multiple teams and team members. For the year ended 31st March 20X2, the agriculture segment reported a revenue of Rs. 405 crore which has been traditionally a strong business of the company. Paint and Adhesives segment clocked a revenue of Rs. 284 crore which has grown by almost 10% over the previous year. Whereas the automobile segment recorded a de-growth of 5% over previous year to bring in Rs. 221 crore in revenues.

The segment-wise profits (PBT) reported are as under:

Agriculture	18%
Paint & Adhesives	15%
Automobile	14%
Food & Beverages	9%

During the board meeting, the business head of Food & Beverages (hereinafter referred as F&B), Mr. **Arnab** made the following statement:

“We were almost certain of crossing the hundred crore mark this year but due to some accounting requirements we couldn’t close on a revenue of around two crores. On the margins front, yes it’s below our company average, in fact way below, but we believe, the company has made right moves in the right direction and the margins are likely to improve in another couple of quarters.”

Each segment related interest expenses is identified and reported separately by the company’s accounts team. However, it was observed during the audit that interest income has been deducted from interest expense since interest income is a very insignificant as compared to interest expense for each of the operating segments.

The following data is available in respect of interest income and interest expenses:

Segment	Interest income	Interest expense	Net expenses reported (rounded off to nearest lacs)
Paint & Adhesives	Rs. 76,000	Rs. 13 Lacs	Rs. 12.0 Lacs
Automobile	Rs. 89,000	Rs. 15 Lacs	Rs. 14.0 Lacs
Food & Beverages	Rs. 57,000	Rs. 18 Lacs	Rs. 17.5 Lacs
Agriculture	Rs. 83,000	Rs. 14 Lacs	Rs. 13.0 Lacs

In August 20X2, the company has imported a new machine which can simplify the operations of its 3 existing machines which are working in sync with each other. Since the business is growing, the company intends to further simplify the operations even if it means a capital commitment for the company. The new machine’s base cost is USD 3.6 million. Further the cost of transit insurance, installation etc. till the time it is put to use in the company shall be Rs. 5 crore. The rate of USD to Rs. on the date of payment was Rs. - 68.55 per USD.

Once installed, the machine is expected to produce 5 million litres of liquid chemical after which the machine will have to be scrapped at a residual value of Rs. 2 crore (net of cost of removal and disposal).

Your firm of CAs was involved in the financial analysis of this machine from NPV perspective and the decision was taken only after your green signal.

Since the actual production of liquid chemical varies based on the demand, the management has decided to provide for depreciation based on the actual quantity of production through the new machine. However, for the purpose of planning and projected financial statements to drive budgets across the company, the following figures are made available.

Year ending 31st March 20X3 (actual) – 6 Lac litres

Projected:

Financial year 20X3-20X4 – 9 lac litres;

Financial year 20X4-20X5 – 10 lac litres;

Financial year 20X5-20X6 – 12 lac litres;

Financial year 20X6-20X7 – 13 lac litres

Due to the new machine being put to use, the old machines have been assessed by the auditor for impairment testing for the year ended 31st March 20X3. The following observations were made:

- (a) The 3 old machines are used occasionally (only 15 days since October 20X2), so that they are in working condition.
- (b) The carrying amount of those machines as on 31st March 20X2 was Rs. 631.34 crore.
- (c) The remaining useful life as on 30th September 20X2 (as per management representation and confirmed by external engineer) was 6 years.
- (d) The residual value at the end of 6 years would be Rs. 1 crore and the resale value as on 15th April 20X3 would be Rs. 500 crore (net of expenses for removal and sale).
- (e) The management intends to keep the machines for occasional use till 30th September 20X3 and then look for options to sell or not to sell.
- (f) The annual depreciation of the machines based on original useful life was Rs. 81.26 crore.

October 20X2

In the middle of October, 20X2 the segment results of F&B were reviewed. F&B has crossed a quarterly revenue number of Rs. 50 crore for the quarter ended 30th September 20X2 and the PBT has quickly gone up to 19% from 9%. The business head of F&B, Mr. Arnab, stated

“We’re proud to inform the board that on 23rd September 20X2, the company has incorporated another company, Anvitas Technologies Pvt. Ltd. entirely under the supervision of F&B segment. 51% of the shares are held by RK one of the brightest employees of the division who’s now entirely focusing on scientific way of reducing the harmful effect of wheat in human consumption. He has already filed a patent for the new solution developed by him. The company will have significant influence in the decision-making and once the product is commercially launched, the manufacturing rights will be entirely with our company.”

The company invested Rs. 500,000 including the cost of incorporation of company (shared) wherein the cost of shares was Rs. 490,000 (49,000 shares of Rs.10 each). For the year ended 31st March 20X3, Anvitas Technologies Pvt. Ltd. (the investee company) had a revenue

of Rs. 10 lacs on which it made a net profit of Rs. 3 Lacs. The patent was granted to RK who received the final approval on 19th March 20X3.

In April 20X3, a VC fund has approached Anvitas Technologies Pvt. Ltd offering an investment of Rs. 10 crore for a 20% stake already valuing the investee company at Rs. 50 crore. Since RK is having the controlling interest in the investee company, instead of issuing new shares, Arnab is willing to dilute the stake of the company by transferring the shares to the VC firm for Rs. 2 crores, thus enabling the new company to retain Rs. 8 crore for scaling of business.

The negotiations and discussions went on and finally, the company has decided to dilute 20% stake by transfer of shares in the name of the VC firm. Since the paperwork is going on, the deal was closed on 1st May 20X3. The company has already received the money on 30th April 20X3. The cost incurred for the transfer of shares and overall deal closure was Rs. 250,000. Even after the stake sale, Arnab will continue to be a director in Anvitas Technologies Pvt. Ltd.

The VC firm will not have any director representative in Anvitas Technologies Pvt. Ltd and it will not have any say in the day-to-day operations of the company. Quarterly results of the company shall be reviewed by the VC firm either in the board meeting (if invited by the Board) or outside the board meeting as per the comfort level of Anvitas Technologies Pvt. Ltd. The term sheet signed between Anvitas Technologies Pvt. Ltd and the VC firm talk about 30% ROI to the investor every year for a period of 3 years.

I Multiple Choice Questions (2 Marks each)

Choose the best option from the given choices for each of the question below:

3.1 Looks like the revenue from F&B does not make it a reportable segment as per the thresholds mentioned in IFRS 8. However, the management has still classified F&B as an operating segment and disclosed relevant information. This could be perhaps because:

- I. F&B Segment assets are 10% or more of the combined assets of all operating segments.
- II. Absolute amount of reported profit of F&B is 10% or more of the combined reported profit of all operating segments.
- III. Management believes that information about the segment would be useful to users of financial statements.

Which of the following is true?

- (a) Statement I only
- (b) Statement I & II
- (c) Statement I & III
- (d) Statement II & III

- 3.2 Is there any deviation from the principles of IFRS 8 in respect of interest income and interest expense? If yes, what is the amount of interest income to be restated in the segment reporting?
- (a) No. Not required.
 - (b) Yes. Rs. 305,000
 - (c) Yes. Rs. 300,000
 - (d) Yes. Not quantifiable.
- 3.3 Since Srikrishna Chemical Industries Ltd. has diluted its stake in the investee company it will stop following equity method of accounting from April 20X3 onwards for the investment done in Anvitas Technologies Pvt. Ltd.
- I. The above statement is true.
 - II. The above statement is false.
 - III. The above statement is partially true.
 - IV. The above statement is not applicable since equity method is not applicable.
- Which of the following is false?
- (a) Statement I only
 - (b) Statement II only
 - (c) Statement III only
 - (d) All statements except Statement III.
- 3.4 The VC firm that has invested in Anvitas Technologies Pvt. Ltd, can treat the investment as investment in associate since it holds 20% of the share capital of the company.
- I. The above statement is true.
 - II. Shareholding alone cannot be presumed as significant influence.
 - III. The above statement is false.
- Which of the following is true?
- (a) Statement I only
 - (b) Statement II only
 - (c) Statement III & II
 - (d) Statement I & II

- 3.5 The F&B business of the company has undergone huge changes in the recent past. After the deal with VC firm, the journey can be summarised as follows:
- (a) Reported Segment – Reportable Segment – Associate
 - (b) Reported Segment – Reportable Segment – Associate & Reportable Segment
 - (c) Reported Segment – Reportable Segment
 - (d) Reportable Segment – Associate & Reportable Segment.

II Descriptive Questions

- 3.6. Explain equity method of accounting for investment in associate companies in the consolidated statement of financial position. Show the workings for investment accounting in the books of Srikrishna Chemical Industries Ltd. for the investment done in Anvitas Technologies Pvt. Ltd. for the year ended 31st March 20X3 in a separate financial statements.

If the books of Srikrishna Chemical Industries Ltd are closed on a monthly basis by 10th day of the next month, what will be the accounting treatment of investment of the company in Anvitas Technologies Pvt. Ltd. as on 30th April, 20X3? Show calculations with brief explanations for the same. **(5 Marks)**

- 3.7 Based on the given information, calculate the depreciation of the new machine for the year ended 31st March 20X3 and the projected depreciation amount based on the projected units of output for the purpose of projected financial statements of the company. **(4 Marks)**

- 3.8 Is there any impairment of assets that need to be recognised by Srikrishna Chemical Industries Ltd as on 31st March 20X3? If yes, calculate the amount of impairment loss that will go to Income statement. Justify your answer in the light of relevant standard and pass the necessary journal entries. Do you think these assets should be shown under non-current assets held for sale as on 31st March 20X3? **(6 Marks)**

CASE STUDY 4

Jackson Ltd does business of manufacturing generator parts and generator sets for industrial and home use. They report their financial statements under International Financial Reporting Standards. While in the process of closing the books for the year ended 31 March 20X4, the Chief Financial Officer of the company identified a few transactions and asked for your assistance to show proper treatment.

On 1 April 20X3, Jackson Ltd purchased some land for Rs. 10 million. Jackson Ltd purchased the land in order to build a Plant for manufacturing generator parts. During the six months from 1 April 20X3 to 30 September 20X3, Jackson Ltd incurred costs totaling Rs. 3.5 million in preparing the land and erecting the structure of the Plant. This process caused some damage to the land for making it suitable for setting up the Plant. Jackson Ltd began operations on 1

October 20X3 and the directors estimate that the Plant site would have useful economic life of 10 years from that date.

Jackson Ltd is legally obliged to rectify the damage caused to the land for setting up the Plant. The directors estimate that the costs of this rectification after 10 years on 30 September, will be as follows:

- (i) Rs. 3 million to rectify the damage caused by the preparation of the land for setting up the Plant.
- (ii) Rs. 0.2 million for each year to rectify the damage caused owing to effluent generated out of the production process of the Plant.

Following this rectification work the land could potentially be sold to a third party for no less than its original cost of Rs. 10 million.

An annual discount rate appropriate for this project is 12%. The present value of Rs. 1 payable in 10 years' time with an annual discount rate of 12% is 32.2 paise. The present value of Rs. 1 payable in 9½ years' time with an annual discount rate of 12% is 34.1 paise.

On 31 March 20X1, Jackson Ltd purchased 80% of the equity of Kaplan Ltd for Rs. 190 million. The fair values of the net assets of Kaplan Ltd that were included in the consolidated statement of financial position of Jackson Ltd at 31 March 20X1 were measured at Rs. 200 million (their fair values at that date). It is the group policy to value the non-controlling interest in subsidiaries at the date of acquisition at its proportionate share of the fair value of the subsidiaries' identifiable net assets.

On 31 March 20X4, Jackson Ltd carried out its annual review of the goodwill on consolidation of Kaplan Ltd for evidence of impairment. No impairment had been evident when the reviews were carried out on 31 March 20X2 and 31 March 20X3. The review involved allocating the assets of Kaplan Ltd into three cash-generating units and computing the value in use of each unit. The carrying values of the individual units before any impairment adjustments are given below:

	Unit A Rs. in million	Unit B Rs. in million	Unit C Rs. in million
Intangible assets	30	10	-
Property, Plant and Equipment	80	50	60
Current Assets	<u>60</u>	<u>30</u>	<u>40</u>
Total	<u>170</u>	<u>90</u>	<u>100</u>
Value in use of unit	180	66	104

It was not possible to meaningfully allocate the goodwill on consolidation to the individual cash generating units but all the other net assets of Kaplan Ltd are allocated in the table shown above.

The intangible assets of Kaplan Ltd have no ascertainable market value but all the current assets have a market value that is at least equal to their carrying value. The value in use of Kaplan Ltd as a single cash-generating unit on 31 March 20X4 is Rs. 350 million.

On 1 December 20X3, Jackson Ltd as a part of its expansion plan, opened a new Plant for manufacturing genset parts in an area designated by the government as an economic development area.

On that day, the government provided Jackson Ltd with a grant of Rs. 30 million to assist it in the development of the factory.

This grant was provided in three parts:

- (i) Rs. 6 million of the grant was a payment by the government as an inducement to Jackson Ltd to begin developing the factory. No conditions were attached to this part of the grant.
- (ii) Rs. 15 million of the grant related to the construction of the factory at a cost of Rs. 60 million. The land was leased so the whole of the Rs. 60 million is depreciable over the estimated 40 year useful life of the factory.
- (iii) The remaining Rs. 9 million was received subject to keeping at least 200 employees working at the factory for a period of at least five years. If the number drops below 200 at any time in any financial year in this five year period, then 20% of the grant is repayable in that year.

From 1 December 20X3, 220 workers were employed at the factory and estimates are that this number is unlikely to fall below 200 over the relevant five year period.

Jackson Ltd planned the Plant under construction being financed through Rs. 8 million of debt and of which Rs. 6 million is a construction loan directly on the Plant. The rest is financed by the general debt of the company. Jackson Ltd would put to use the Plant when it is completed.

The debt structure of Jackson Ltd is as under:

	Rs. in million
– Construction loan @ 11%	6
– Long term debenture @ 9%	9
- Long term subordinated debenture @ 10%	3

The debentures and subordinated debentures were issued at the same time.

On 1 July 20X3, Jackson Ltd decided to sell one of its divisions following a recent change in its geographical focus. The proposed sale would involve the buyer acquiring the non-monetary assets (including goodwill) of the division, with Jackson Ltd collecting any outstanding trade receivables relating to the division and settling any current liabilities.

On 1 January 20X4, the carrying amounts of the relevant assets of the division were as follows:

- Purchased goodwill Rs. 0.6 million.
- Property, plant and equipment (average remaining estimated useful life two years) Rs. 2 million.
- Inventories Rs. 1 million.

From 1 January 20X4, Jackson Ltd began to actively market the division and has received a number of serious enquiries.

On 1 January 20X4, the directors estimated that they would receive Rs. 3.2 million from the sale of the division. Since 1 January 20X4, market conditions have improved and on 30 April 20X4 Jackson Ltd received and accepted a firm offer to purchase the division for Rs. 3.3 million. The sale is expected to be completed on 30 June 20X4.

Rs. 3.3 million can be assumed to be a reasonable estimate of the value of the division on 31 March 20X4.

During the period from 1 January 20X4 to 31 March 20X4, inventories of the division costing Rs. 0.8 million were sold for Rs. 1.2 million. At 31 March 20X4, the total cost of the inventories of the division was Rs. 0.9 million. All of these inventories have an estimated net realisable value that is in excess of their cost.

Further, on 1 January 20X4, Jackson Ltd acquired 30% of the shares of Tintin Ltd. The investment was accounted for as an associate in Jackson Ltd's consolidated financial statements. Both Jackson Ltd. and Tintin Ltd. have an accounting year end of 31 March 20X4. Jackson Ltd has no other investments in associates.

Net profit for the year in Tintin's income statement for the year ended 31 March 20X4 was Rs. 0.23 million. It declared and paid dividend of Rs. 0.1 million on 1 March 20X4. No other dividends were paid in the year.

I. Multiple Choice Questions (2 Marks each)

- 4.1 What would be the treatment for grant of Rs. 15 million related to the construction of the factory at a cost of Rs. 60 million?
- (a) Rs. 15 million grant in respect of the plant and equipment should be recognized immediately in the income statement, since the company is certain to build the factory.
 - (b) Deduct the grant received from the cost of the asset and depreciate the net carrying value over its useful economic life.
 - (c) Show the grant as a deferred credit and leave the initial carrying value of the property at Rs. 60 million. Thereafter the deferred credit would be released to the income statement at the end of 40th year.
 - (d) 0.375 million is to be credited in 20X3-20X4 in the income statement over 40 year period as deferred grant income.

- 4.2 What would be the treatment of grant of Rs. 6 million received from the government as an inducement to Jackson Ltd to begin developing the factory?
- Grant relating to an inducement to begin developing the factory can be recognized immediately in the Statement of Profit or Loss.
 - 0.15 million amount is to be credited each year in the income statement over 40 year period.
 - 1.2 million amount is to be credited each year in the income statement over 40 year period.
 - Net off the grant received against the cost of the asset and depreciate the net figure over its useful economic life.
- 4.3 What would be the treatment for grant of Rs. 9 million which was received with a condition to keep at least 200 employees working at the factory?
- Rs. 0.6 million would be recognized in the income statement for the current period ending 31 March, 20X4.
 - Rs. 1.8 million would be recognized in the income statement for the current period ending 31 March, 20X4.
 - Rs. 9 million would be recognized in the income statement for the period when at least 200 workers are employed in factory.
 - Rs. 0.225 million amount is to be credited each year in the income statement over 40 year period.
- 4.4 How will the possibility of refund of government grant with respect to Rs. 9 million be recognised in the books of Jackson Ltd.?
- Current liability.
 - Provision.
 - Contingent liability.
 - Nothing is required.
- 4.5 What amount will be shown as an inflow in respect of earnings from the associate in the statement of cash flows of Jackson Limited for the year ended 31 March 20X4?
- Rs. 0.020 million.
 - Rs. 0.026 million.
 - Rs. 0.030 million.
 - Rs. 0.046 million.

II. Descriptive Questions

- 4.6 What is the implication of rectification of damage of land mentioned in the case study? What is the relevant provision related to this concept under IFRS? **(4 Marks)**

- 4.7 Show treatment of impairment of goodwill as per the details provided in the case study?
(5 Marks)
- 4.8 Based on the debt structure of the organization, calculate the following:
- (1) total interest payable during the year ended 31 March, 20X4
 - (2) the capitalized interest cost to be recorded as an asset in the Statement of Financial Position
 - (3) amount of interest expense to be reported on the income statement. (3 Marks)
- 4.9 Explain the disclosure requirement related to sale of division and the treatment of property held for sale and discontinued operations? (3 Marks)

CASE STUDY 5

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 an automotive supplier having 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 are the brief facts about the transactions entered into by the company for which an accounting advice is sought by the CFO of A Ltd. from GHI & Co., Chartered Accountants:

- (a) A Ltd. has issued preference shares having face value of Rs. 100 for Rs. 1,00,00,000 on 17 October 20X1 to M Ltd. and N Ltd.

M Ltd. and N Ltd. have an option to subscribe to either of the following:

- 10% optionally convertible cumulative preference shares, redeemable at par.
- 0% optionally convertible preference shares, redeemable at 80% premium.

M Ltd. and N Ltd. have dividend rights which allow for cumulative dividend to be paid @ 10% as and when the company declares the same. The OCCPS should be redeemed after 10 years from the date of subscription subject to the following:

- Compliance with ECB guidelines
- All dividends in relation to the OCCPS have been paid on the maturity date.
- The redemption of the OCCPS occurs at a price equal to the face value of the OCCPS, or together with the premium payable in case of second option.

In case the OCCPS are not redeemed in compliance with the terms stated above, M Ltd. and N Ltd. shall have the right to exercise their option to convert the OCCPS into equity shares of the A Ltd. in full. The parties will agree to the conversion ratio at the time of the OCCPS conversion.

- (b) A Ltd. has following items appearing in its books of accounts:
1. Tax liability of Rs. 12,00,000
 2. Non-refundable revenue received in advance amounting to Rs. 1,57,000
 3. Non-refundable advance received against sale of government securities
 4. Liability for damages under a lawsuit amounting to Rs. 50,00,000
 5. Financial guarantees given of Rs. 6,50,000
- (c) As per discussion with the CFO of A Ltd., GHI & Co. Ltd. noted the following items:
1. A probable forecast transaction
 2. An issued loan with a fixed coupon
 3. USD 100 of a net investment which amounts to USD 150 in total (functional currency is Rs.)
 4. 50% of an interest rate swap
 5. A net position of USD 150 consisting of assets amounting to USD 250 and liabilities amounting to USD 100 (functional currency is Rs.)
- (d) A Ltd. provides the following information:

Particulars	Market A	Market B	Market C
Annual volume	30,000	12,000	6,000
Transactions per month	30	12	10
Price	Rs. 50	Rs. 48	Rs. 53
Transport cost	<u>Rs. 3</u>	<u>Rs. 3</u>	<u>Rs. 4</u>
Quoted value	Rs. 47	Rs. 45	Rs. 49
Transaction costs	<u>Rs. 1</u>	<u>Rs. 2</u>	<u>Rs. 1</u>
Net proceeds	<u>Rs. 46</u>	<u>Rs. 43</u>	<u>Rs. 48</u>

A Ltd. trades in market C.

- (e) A Ltd. has a machinery costing Rs. 15,00,000 having a useful life 10 years. Estimated cost of major overhaul planned after 3 years is Rs. 2,00,000.
- (f) A Ltd. received a subsidy of Rs. 15,00,000 from the Government in north-east India in return for setting up approved industrial activities in those states. One of the key condition of the subsidy is that A Ltd. needs to employ the locals staying in those states for a period of 5 years.
- (g) A Ltd. offers 400 shares to each of its 1000 staff if they stay with them for 3 years. The fair value of the shares on the date of offer was Rs. 50. At the end of year 1, 20 employees left and the entity estimates that 25% will left at the end of the vesting period.

During the second year, a further 20 employees left and the entity further revises its estimate of total departures over the vesting period from 25% to 28%. During the third year, a further 20 employees leave the entity.

- (h) As on 1 April 20X1, A Ltd. has opening shares of 10,00,000. On 31 May, A Ltd. issued 2,00,000 shares. On 30 November, A Ltd. made a bonus issue of 1 for every 3 shares held. On 28 February 20X2, A Ltd. issued another 2,50,000 shares.
- (i) A Ltd. has agreed in a directors' meeting to sell a building and has tentatively started looking for a buyer for the building. The price of the building has been fixed at Rs. 4 crores and a surveyor has valued the building based on market prices at Rs. 3.6 crores. A Ltd. will continue to use the building until another building has been found with equivalent facilities, and in a suitable location for the office staff, who will not be relocated until the new building has been found.

I. Multiple Choice questions (2 Marks each)
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- 5.1 Considering the principles of IFRS, determine the accounting for machinery (referred to in (e) above) held by A Ltd. ?
 - (a) Machinery of Rs. 15,00,000 should be depreciated over a period of 10 years.
 - (b) Machinery of Rs. 13,00,000 should be depreciated over a period of 10 years; major overhaul cost of Rs. 2,00,000 should be depreciated over a period of 3 years.
 - (c) Machinery of Rs. 15,00,000 should be depreciated over a period of 10 years and cost of major overhaul of Rs. 2,00,000 should be recognised at the end of third year.
 - (d) Machinery of Rs. 13,00,000 should be depreciated over a period of 10 years; major overhaul cost of Rs. 2,00,000 should be recognised at the end of third year.
- 5.2 How should A Ltd. account for the subsidy received from the Government for setting up approved industrial activities in north-east states?
 - (a) Subsidy received should be recognised on the date of receipt.
 - (b) Subsidy received should be recognised at the end of year 5, i.e., when the condition relating to employment is met.
 - (c) Subsidy received should be recognised over the period of 5 years, i.e., Rs. 3,00,000 per annum.
 - (d) Subsidy received should be recognised on the date of notification issued by the Government in this regard.
- 5.3 Determine the amounts to be recognised in the statement of profit and loss in relation to share based payments?

- (a) Expense in year 1 = Rs. 50,00,000; expense in year 2 = Rs. 50,00,000 and expense in year 3 = Rs. 50,00,000
 - (b) Expense in year 1 = Rs. 62,66,667; expense in year 2 = Rs. 62,66,667 and expense in year 3 = Rs. 62,66,667
 - (c) Expense in year 1 = Rs. 50,00,000; expense in year 2 = Rs. 46,00,000 and expense in year 3 = Rs. 92,00,000
 - (d) Expense in year 1 = Rs. 63,33,333; expense in year 2 = Rs. 64,00,000 and expense in year 3 = Rs. 60,66,667
- 5.4 Considering the facts in (h) above, determine the number of shares which would be used in the calculation of basic EPS under IFRS?
- (a) 14,50,000
 - (b) 15,76,389
 - (c) 18,50,000
 - (d) 13,20,834
- 5.5 How A Ltd. should classify the building referred to in (i) above?
- (a) Property, plant and equipment
 - (b) Inventory
 - (c) Investment property
 - (d) Asset held for sale

II. Descriptive Questions

- 5.6 What should be the classification of the OCCPS issued by A Ltd.? Analyse and evaluate in detail as per the requirements of relevant IFRS? **(7 Marks)**
- 5.7 Whether the items in (b) above are financial liabilities considering the guidance under IFRS? Also, whether the items in (c) above are qualifying hedged items under IFRS? **(4 Marks)**
- 5.8 From the table in (d) above, determine the principal market and the most advantageous market considering the guidance under IFRS? Also, determine the fair value in principal market and fair value in most advantageous market. **(4 Marks)**