

MOCK TEST PAPER
FINAL (NEW) COURSE: GROUP – II
PAPER 6E –GLOBAL FINANCIAL REPORTING STANDARDS

Candidates are required to answer any four case study 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

Flying Airways Ltd. is a company which manufactures aircraft parts and engines and sells them to large multinational companies like Boeing and Airbus Industries. The company prepares financial statements under International Financial Reporting Standards.

The Chief Financial officer of the company Mr. Laurel needs your help in closing the books and prepare the financial statements. He has asked his accountant Mr. Hardy to explain you the transactions for the year ended 31 March 2019. Mr. Hardy is confused as to how he should treat the transactions.

On 1 April 2018, the company began the construction of a new production line in its aircraft parts manufacturing shed.

Costs relating to the production line are as follows:

Details	Amount ₹ in million
Costs of the basic materials (list price ₹ 12.5 million less 20% trade discount)	10.00
Recoverable goods and services tax incurred but not included in the purchase cost	1.00
Employment costs of the construction staff for three months till 30 June 2018	1.20
Other overheads directly related to the construction	0.90
Payments to external advisors relating to the construction	0.50
Expected dismantling and restoration costs	2.00

The production line took two months to make ready for use and was brought into use on 31 May 2018.

The other overheads were incurred during the two months period ended on 31 May 2018. They included an abnormal cost of ₹ 0.3 million caused by a major electrical fault.

The production line is expected to have a useful economic life of eight years. After 8 years, Flying Airways Ltd. is legally required to dismantle the plant in a specified manner and restore its location to an acceptable standard. The amount of ₹ 2 million included in the cost estimates is the amount that is expected to be incurred at the end of the useful life of the production line. The appropriate discounting rate is 5%. The present value of Re. 1 payable in 8 years at a discount rate of 5% is approximately Re. 0.68.

Four years after being brought into use, the production line will require a major overhaul to ensure that it generates economic benefits for the second half of its useful life. The estimated cost of the overhaul, at current prices, is ₹ 3 million.

The Company computes its depreciation charge on a monthly basis.

No impairment of the plant had occurred by 31 March 2019.

On 1 July 2018, Flywing Airways Ltd. acquired 75% of the equity shares of Bolton Ltd. and gained control of Bolton Ltd. Bolton Ltd. has 12 million equity shares in issue. Details of the purchase consideration are as follows:

- On 1 July 2018, Flywing Airways Ltd. issued two shares for every three shares acquired in Bolton Ltd. On 1 July 2018, the market value of an equity share in Flywing Airways Ltd. was ₹ 6.50 and the market value of an equity share in Bolton Ltd. was ₹ 6.00.
- On 30 June 2019, Flywing Airways Ltd. will make a cash payment of ₹ 7.15 million to the former shareholders of Bolton Ltd. who sold their shares to Flywing Airways Ltd. on 1 July 2018. On 1 July 2018, Flywing Airways Ltd. would have needed to pay interest at an annual rate of 10% on borrowings.
- On 30 June 2020, Flywing Airways Ltd. may make a cash payment of ₹ 30 million to the former shareholders of Bolton Ltd. who sold their shares to Flywing Airways on 1 July 2018. This payment is contingent upon the revenues of Flywing Airways growing by 15% over the two-year period from 1 July 2018 to 30 June 2020. On 1 July 2018, the fair value of this contingent consideration was ₹ 25 million. On 31 March 2019, the fair value of the contingent consideration was ₹ 22 million.

On 1 July 2018, the carrying values of the identifiable net assets of Bolton Ltd. totalled ₹ 60 million. On 1 July 2018, the fair values of these net assets totalled ₹ 70 million. The rate of deferred tax to apply to temporary differences is 20%.

During the nine months ended on 31 March 2019, Bolton Ltd. had a poorer than expected operating performance. Therefore, on 31 March 2019 it was necessary for Flywing Airways Ltd. to recognize an impairment of goodwill arising on acquisition of Bolton Ltd., amounting to 10% of its total computed value.

During the year ended 31 March 2019, Flywing Airways Ltd. provided consultancy services to a customer regarding the installation of a new production system related aircraft parts. The system has caused the customer considerable problems, so the customer has taken legal action against the Company on the loss of profits that has arisen as a result of the problems with the system. The customer has claimed damages to the tune of ₹1.6 million.

The legal department of Flywing Airways Ltd. considers that there is a 25% chance the claim can be successfully defended. The legal department further stated that they are reasonably confident the Company is covered by insurance against these types of loss. The legal department planned to raise a claim as soon as the outcome of the case is confirmed. Mr. Hardy feels nothing needs to be provided for this claim as the Company is suitably covered against any possible losses.

Flywing Airways Ltd. delivered a quantity of aircraft components to a customer on 31 December 2018. The invoiced amount was ₹ 500,000. The Company expected to receive payment on 28 February 2019. However, no cash was received till 31 March 2019. On 30 April 2019, the credit control department informed that the customer has major cash flow problems as a result of the failure of one of its projects, sometime in February 2019.

They have agreed to allow the customer to settle the debt until 31 March 2020, by which time the customer is confident that the cash flow problems will be resolved.

Though Flywing Airways Ltd. currently expects that an annual interest of 6% (i.e. effective interest rate) can be received against any money lent out, yet it allowed this customer an interest free payment period.

Flywing Airways Ltd. also has an Associate company, Flyjet Limited. Following are the information of Flyjet Limited for the year ended 31 March 2019:

Particulars	Amount ₹ (million)
Net Income after taxes	120
Decrease in accounts receivables	20
Depreciation	25

Increase in inventory	10
Increase in accounts payable	7
Decrease in wages payable	5
Tax charge for the year (including deferred tax liabilities)	15
Profit from sale of land	2

You are required to assist Mr. Hardy the accountant and Mr. Laurel the CFO on account of the above transaction for the year ended 31 March 2019.

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.

- Which of the following items need to be capitalized in determining the cost of Production Line?
 - Abnormal cost of ₹ 0.3 million
 - Recoverable GST of ₹ 1 million
 - Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 2 million
 - Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 1.36 million
- Calculate the company's associate Flyjet Ltd.'s cash flow from operations?
 - ₹ 158 million
 - ₹ 170 million
 - ₹ 174 million
 - None of the above
- What accounting treatment should be done in Flywing Airways Ltd.'s books for the year ending 31 March 2019, as the customer has taken legal action against the Company on the loss of profits that has arisen as a result of the problems with the system?
 - Nothing needs to be provided for claim instituted by the customer as the Company is suitably covered against any possible losses.
 - Provision of ₹1.6 million should be recognised with a corresponding charge to profit or loss.
 - Provision of ₹0.4 million as per best possible outcome should be recognised with a corresponding charge to profit or loss.
 - Contingent Liability would be disclosed in the 31 March 2019 financial statements. Charge to profit or loss if any would be recognised in the period when the claim is settled.
- Which IFRS/IAS are applicable for accounting treatment at the year ended 31 March 2019, in transaction of aircraft components delivery to a customer as on December 2018.
 - IAS 37 / IFRS 9
 - IAS 10 / IAS 32
 - IFRS 9 / IAS 37
 - IFRS 9 / IAS 10

5. Calculate the closing balance of trade receivable as at 31 March, 2019 for the transaction related to aircraft components sold to a customer on 31 December 2018.
- (a) ₹ 5,00,000
 (b) ₹ 4,71,698
 (c) ₹ 4,44,998
 (d) ₹ Nil

II. Descriptive Questions:

6. Determine how much amount should be recognized in the statement of financial position and statement of profit and loss for the year ended 31 March, 2019 with respect to the construction of production line. **(7 Marks)**
7. Compute the impairment of goodwill on acquisition of Bolton Ltd. under both the methods permitted in the relevant IAS / IFRS for the initial computation of the non-controlling interest in Bolton Ltd. at the date of acquisition. Also state the accounting of such impairment of goodwill. **(8 Marks)**

CASE STUDY 2

RK Super Markets Ltd. owns a chain of retail stores across 16 different locations in the twin cities of Hyderabad and Secunderabad. For the year ended 31st March 2019, your firm of chartered accountants has been engaged for the stock audit assignment which comprises of the following:

- (a) Physical stock take at all store locations
 (b) Verification of inventory valuation reports submitted by each store-in-charge and approval of the same
 (c) Report to management regarding the final inventory value as on 31st March 2019 and
 (d) Report to the statutory auditors based on the final inventory valuation report after the changes as surfaced during the stock audit

A team of 32 articled assistants and four chartered accountants have been deployed by your firm to carry out the assignment. The physical stock take began at store location at 6 AM and went on till 10 PM, as the management couldn't afford to close the stores for more than one working day. The assignment was executed well on the day of physical stock take and the team along with the CAs gathered for the queries and observations for the next 3 days.

Retail method of valuation is applied to most of the stock items except for the items mentioned below which have been valued on the basis of FIFO or Weighted Average Cost.

Following observations were made by the team:

Store No. E004

I - Expired items:

Personal care category – Hand wash packs containing 20 units each (15 packs) had an expiry date of February, 2019. Cost-to-company (CTC) of each pack (20 units each) is ₹ 1,200. The same has been valued as inventory at net realisable value (NRV) with 2% more than the cost, because the supplier has an obligation to take back the expired stock with additional 2% over the cost.

The similar observation was made in the following stores which had the stock from the same lot:

Store No.	No. of packs
E001	14
S003	18

W002	17
N001	11
N002	13
N003	09

II – Quantity mismatch: (compiled across all the stores)

Item code	Category	Description	Reported Qty	Actual Qty	₹ Cost per UoM*
R-510101	Snacks	Biscuits	1,689 boxes	1,589 boxes	1,190
R-511012	Snacks	Namkeen	851 boxes	681 boxes	1,890
R-522104	Beverages	Coke	1,809 cases	1,691 cases	1,300
S-144109	Grains	Wheat	1851 gunny bags	1681 gunny bags	630
S-143118	Cooking Oil	Soyabean 5 Ltr	5,140 cans	5,014 cans	585
D-189107	Hygiene	Detergent Soap	2,018 boxes	1,973 boxes	705
D-125109	Hygiene	Dishwash Bars	1,619 boxes	1,508 boxes	647
D-119120	Hygiene	Sanitary Pads	1,819 boxes	1,718 boxes	1,200
P-121113	Kitchenware	NS Kadhai	561 units	516 units	329
P-713114	Baby care	Diapers	819 packs	759 packs	490

*Unit of measurement

III – Valuation policies and actual observations (compiled for each test case based on samples)

1. Stock held under safe custody for free items to be claimed by customers (on offers) have been valued at zero. Customers have a right to claim the free item within 14 days from date of invoice. If the time limit of 14-day exceeds, the claim is foregone by the customer. Majority of the free items require online registration by the buyers for participation in the contest conducted by the respective brand which needs to be done by the buyers within 3 days from the date of invoice.

Observations:

- (a) A few items were found written "Not for sale. This item needs to be given free along with". The cost of such items was included in the list of **miscellaneous goods** with a value of ₹ 5.8 Lacs.
 - (b) Out of it a few items under this category were found damaged. The replacement cost of such items would be ₹ 1.5 Lacs.
2. Grains and pulses are valued at cost on FIFO basis except for rice which is valued on weighted average cost basis.

Observations:

- (a) Following discrepancies were observed in the valuation of rice –

Quantity (gunny bags)	Weighted avg. cost per Unit	Value of inventory as per WAC formula	Value of inventory as reported
156	₹ 719	1,12,164	1,25,174
107	₹ 926	99,082	1,02,182
101	₹ 1,139	1,15,039	1,29,017
114	₹ 2,619	2,98,566	3,19,105

(b) Discrepancies pertaining to other grains and pulses were as follows:

Quantity (gunny bags)	Cost per Unit based on FIFO calculation	Value of inventory as per FIFO	Value of inventory as reported
162	₹ 2019	3,27,078	3,41,658
171	₹ 1630	2,78,730	2,94,975
139	₹ 2618	3,63,902	3,77,941
181	₹ 1325	2,39,825	2,58,649
152	₹ 2214	3,36,528	3,51,880

3. Snacks and Beverages are valued at weighted average cost.

Observations:

(a) Following discrepancies were noted in the valuation of snacks

Quantity (boxes)	Weighted avg. cost per box	Value of inventory as per WAC formula	Value of inventory as reported
166	₹ 703	1,16,698	1,20,018
167	₹ 653	1,09,051	1,13,727
171	₹ 813	1,39,023	1,42,443
169	₹ 809	1,36,721	1,40,101
170	₹ 715	1,21,550	1,24,270

(b) Valuation of beverages also had the following deviations

Quantity (12-bottles pack)	Weighted avg. cost per pack	Value of inventory as per WAC formula	Value of inventory as reported
301	₹ 612	1,84,212	1,87,523
315	₹ 615	1,93,725	1,98,765
319	₹ 627	2,00,013	2,04,798
325	₹ 630	2,04,750	2,10,925
311	₹ 633	1,96,863	2,03,705

IV – Other observations:

Two items of inventory belong to the own brand of the company. They get the items manufactured from various housewives on per unit cost basis. Following process is followed in respect of such own-brand items:

1. Daliya (broken wheat) is procured from housewives who process the whole wheat given by the company. Cost of tools required for the same are borne by the housewives which is a nominal investment of ₹ 3,000 each.
2. Turmeric powder is also procured in the similar manner where raw turmeric is given to housewives who process the same to return in powder form.
3. Packaging of both these products is done at company's central packing location in Kondapur village near Hyderabad.
4. The stock of wheat with housewives on the date of valuation was 1200 kgs and that of raw turmeric 150 kgs. The stage of completion of process at the place of housewives can't be determined.

5. The payment of housewives work is done based on return of goods after the process and quality check at the central packing location on daily basis at the rate of ₹ 6 / kg of Daliya and ₹ 25 / kg of turmeric powder.
6. Goods that are packed for final sale from the stores are dispatched on weekly basis to the respective stores.
7. Rent of ₹ 60,000 per month paid for the packing location is amortised over the number of units packed during the month. A normal capacity per day is 150 kgs of turmeric powder packed into 200 grams each and 1200 kgs of daliya packed into 500 grams and 1 kg in the ratio of 2:1 of total stock produced. Number of working days in a year should be assumed as 300 days, though the total days of the year should be considered as 360 days.
8. The packing unit has 20 workers and a quality manager. The average salary cost of the packing unit is ₹ 3,25,000 per month. Depreciation of packing tools and other miscellaneous assets at the packing unit is ₹ 1,80,000 per annum.
9. Direct cost of packaging works out to ₹ 1.5 per packing unit of turmeric powder and ₹ 2.15 and 3.25 of Daliya packing units of 500 grams and 1 kg pack respectively.

On the date of physical verification, the packing unit had a stock of five days as per normal capacity of each product.

I. Multiple Choice Questions [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. In personal care category, hand-wash item has been _____ by _____ keeping in view the valuation principles in IFRS.
 - (a) Undervalued, ₹ 2,328
 - (b) Undervalued, ₹ 2,823
 - (c) Overvalued, ₹ 2,328
 - (d) Overvalued, ₹ 1,18,728
2. Since the company has a right to return the expired goods to respective suppliers, it will be treated as
 - (a) Expense
 - (b) Loss of inventory
 - (c) Other Current Asset – Receivables from the Suppliers
 - (d) Income
3. The replacement cost of goods that need to be given as free items to customers shall be treated as _____ as per the principles of IFRS.
 - (a) Provision of ₹ 1.5 lacs
 - (b) Contingent liability of ₹ 1.5 lacs
 - (c) Loss of inventory of ₹ 1.5 lacs
 - (d) Expense of ₹ 1.5 lacs
4. The inventory cost of turmeric powder and daliya of RK brand shall not include the following:
 - (a) Cost of manpower at the packing unit
 - (b) Cost of tools used by the housewives in processing the goods

- (c) Depreciation of packing tools and other assets at the packing centre
- (d) Rent of the packing centre
5. During the year, the packing unit was closed for a month due to unforeseen circumstances. Due to which the normal capacity utilisation for the year was 11 months/12 months instead of 100%. Will it have any impact of the amount of depreciation allocated to packed units? How will the depreciation amount be allocated during the year?
- (a) No. Total depreciation of ₹ 1,80,000 will be allocated to the packed units
- (b) Yes. Depreciation of ₹ 1,65,000 will be allocated to the packed units and ₹ 15,000 will be recognised as expenses
- (c) Yes. Total depreciation of ₹ 1,80,000 will be recognised as expenses
- (d) No. Depreciation of ₹ 1,62,000 will be allocated to the packed units and ₹ 18,000 will be recognised as expenses

II. Descriptive Questions

6. Based on the deviations observed during the physical stock take, calculate the amount by which closing inventory is overvalued at RK Super Markets Ltd. Under normal circumstances. Exclude the stock of own-brand goods. **(4 Marks)**
7. News of health threat in particular brand noodles were going viral on social media since 29 March 2019. On 2 April 2019, the Supreme Court ordered a ban on the sale of such noodles with immediate effect until the investigations are complete which in all probability would take around 6 months' time. However, the existing stock will not be useful for sale. Line no. 2 and 3 in snacks category given in 3(a) refer to two different varieties of the noodles of that brand. What will be the treatment of that stock if the NRV is zero and the cost of safe disposal is ₹ 20,000? As per the agreement with the supplier the goods once sold by the supplier will be under the risk of the retailer. **(3 Marks)**
8. If the average cost of raw material for daliya and turmeric powder is ₹ 27.25 per kg and ₹ 105.50 per kg what is the value of inventory of turmeric powder and daliya of RK brand assuming that the cost of packing material in stock on the valuation date was ₹ 21,907 and ₹ 14,148 respectively for daliya and turmeric powder and allocation of fixed overheads is done in the ratio of 2:1 for daliya and turmeric?

(8 Marks)

CASE STUDY 3

The income statements and summarised statements of changes in equity of Apricot Ltd., Baxter Ltd. and Caramel Ltd. for the year ended 31 March 2019 are given below:

Income Statements	Apricot Ltd. ₹'000	Baxter Ltd. ₹'000	Caramel Ltd. ₹'000
Revenue	470,000	4,34,000	2,26,000
Cost of sales	(2,56,000)	(2,18,000)	(1,76,000)
Gross profit	214,000	2,16,000	50,000
Distribution costs	(18,000)	(17,000)	(15,000)
Administrative expenses	(19,000)	(16,000)	(17,000)
Investment income	37,300	Nil	Nil
Finance cost	(68,000)	(65,000)	(44,000)
Profit/(loss) before tax	146,300	1,18,000	(26,000)
Income tax expense	(41,000)	(33,000)	Nil
Profit/(loss) for the year	1,05,300	85,000	(26,000)

Summarised Statement of Changes in Equity

Balance at 1 April 2018	5,40,000	3,90,000	1,92,000
Comprehensive income for the year	1,05,300	85,000	(26,000)
Dividends paid on 31 December 2018	<u>(52,000)</u>	<u>(40,000)</u>	<u>Nil</u>
Balance at 31 March 2019	5,93,300	<u>4,35,000</u>	<u>1,66,000</u>

Additional Information:

(All amounts are in '000, unless otherwise stated)

On 1 October 2017, Apricot Ltd. purchased 75,000 of 1,00,000 equity shares in Baxter Ltd. Details of the share purchase were as follows:

- Apricot Ltd. issued two new equity shares for every three shares acquired in Baxter Ltd. On 1 October 2017 the market value of an Apricot Ltd.'s share was ₹6 and the market value of a Baxter Ltd.'s share was ₹3.20.
- Apricot Ltd. agreed to make additional cash payment of ₹1 for every share acquired in Baxter Ltd. to be paid on 30 September 2019. This payment is contingent on the profits of Baxter exceeding a cumulative target in the two-year period ending 30 September 2019. The fair value of this contingent payment was ₹ 55,000 on 1 October 2017. The fair value had risen to ₹58,000 by 31 March 2018 and to ₹64,000 by 31 March 2019. The directors of Apricot Ltd. correctly accounted for this contingent consideration in its financial statements for the year ended 31 March 2018 but no changes have been made to the carrying value of the contingent consideration since 31 March 2018.
- Apricot Ltd. incurred legal and professional costs of ₹5,000 connected with the acquisition; ₹ 2,400 of these costs related to the cost of issuing shares. Apricot Ltd. correctly accounted for these acquisition costs in its financial statements for the year ended 31 March 2018.

Apricot Ltd. decided to value the non-controlling interest in Baxter Ltd. at the date of acquisition at fair value in its consolidated financial statements. The market value of a Baxter Ltd. share at that date was used to calculate the fair value of the non-controlling interest.

The equity of Baxter Ltd. as shown in its own financial statements at 1 October 2017 was ₹ 3,00,000. At that date the property, plant and equipment (PPE) of Baxter Ltd. had a carrying value of ₹ 2,40,000 and a fair value of ₹ 2,80,000. The estimated future useful economic life of the PPE of Baxter Ltd. was four years from 1 October 2017. No disposals of PPE occurred between 1 October 2017 and 31 March 2019.

On 1 October, 2017, the directors estimated that the internally generated brand name of Baxter Ltd. had a fair value of ₹ 30,000 and a future useful economic life of 30 years.

All depreciation and amortisation is charged on a monthly basis and presented in cost of sales.

On 31 March 2018 and 31 March, 2019 the goodwill on consolidation of Baxter Ltd. was reviewed for impairment. No impairment of the goodwill was required as a result of the review on 31 March 2018. Baxter Ltd. is regarded as a single cash generating unit for impairment purposes. On 31 March 2019, Baxter Ltd.'s recoverable amount was estimated as ₹ 5,50,000. Any impairment of goodwill is charged to cost of sales.

On 1 October 2018, Apricot Ltd. purchased 40% of the equity shares of Caramel Ltd. for ₹ 75,000 in cash. This purchase allowed Apricot Ltd. to exercise a significant influence over Caramel Ltd. No material differences between the market value and the book value of the net assets of Caramel Ltd. were apparent at the date of the share purchase. On 31 March, 2019 an impairment review was conducted resulting in an impairment required of ₹ 1800.

Baxter Ltd. supplies products to Apricot Ltd. and Caramel Ltd. Sales of the products to Apricot Ltd. and Caramel Ltd. during the year ended 31 March 2019 were as follows (all sales were made at a mark-up of 33-1/3% on cost):

- Sales to Apricot Ltd. ₹ 18,000.
- Sales to Caramel Ltd. ₹ 12,000.

At 31 March 2019 and 31 March, 2018, the inventories of Apricot Ltd. and Caramel Ltd. included the following amounts in respect of goods purchased from Baxter Ltd.

Amount in inventory of

	31 March 2019 ₹ '000	31 March 2018 ₹ '000
Apricot Ltd.	3,600	2,100
Caramel Ltd.	2,700	Nil

At 1 April 2018, Apricot Ltd. had two equity investments that it designated as fair value through other comprehensive income in accordance with IFRS 9 *Financial Instruments*. At the date of acquisition:

Name	Original cost ₹ '000	Fair value at 31 st March 2018 ₹ '000	Fair value at 31 st March 2019 ₹ '000
Daimler Ltd.	12,000	15,000	NA
Ecostar Ltd.	11,000	14,000	15,400

On 31 January, 2019, Apricot Ltd. disposed of its investment in Daimler Ltd. for ₹ 19,500 and showed a profit on sale of as part of investment income. Apart from recording the receipt of dividend income no other entries have been made in the financial statements for the year ended 31 March 2019 regarding the investment in Ecostar Ltd. Both investments had been correctly treated in the financial statements for the year ended 31 March 2018.

On 1 April 2018, Apricot Ltd. issued 3,00,000 loan notes of ₹ 1 per note at par. The loan notes entitled the holders to an interest payment of 5 paise per note, payable annually in arrears. The loan notes are repayable at par on 31 March 2023. As an alternative to repayment the holders can elect to convert the notes into equity shares in Apricot Ltd. On 1 April 2018, investors in non-convertible notes expect an annual return of 8%. You are given the following discount factors:

Discount rate	Present value of Re.1 payable	
	At the end of year 5	Cumulatively at the end of years 1–5
5%	78.4 paise	₹4.33
8%	68.1 paise	₹3.99

On 1 April, 2018, the directors of Apricot Ltd. recorded a loan liability of ₹3,00,000 and in the year ended 31 March 2019, a finance cost of ₹15,000 (3,00,000 x 5 paise) in respect of these notes.

During the year ended 31 March 2019, Apricot Ltd. began production at three newly acquired chemical factories. The normal production process at each factory results in environmental damage through generation and disposal of effluent. Apricot Ltd. has a policy of only rectifying such damage when legally required to do so. Details of the damage caused at the three sites up to and including 31 March 2019 are as follows:

Factory	Damage caused by 31 March 2019 (₹'000)	Clean-up legislation in place at 31 March 2019?
A	3,000	Yes

B	1,000	No
C	2,000	No but legislation passed since year end with retrospective effect

No provision for environmental damage has been made in the financial statements. Any appropriate provision should be reported as part of cost of sales.

I. Multiple Choice Questions [2 Marks each] (Figures in Question 1-5 are in ` 000, unless otherwise stated)

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.

- Calculate the finance cost of convertible loan notes issued by Apricot Limited, for the period ending 31 March 2019.
 - ₹ 21,132
 - ₹ 24,000
 - ₹ 15,000
 - ₹ 13,208
- Calculate the amount of goodwill impairment as at 31 March 2019, related to acquisition of Baxter Limited.
 - ₹1,18,500
 - ₹ 53,500
 - ₹ 3,500
 - ₹ 32,000
- Compute the share of associate Caramel Limited, which Apricot Limited has to incorporate in its books for the period ending 31 March 2019
 - Loss- ₹ 5,200
 - Loss- ₹ 7000
 - Loss- ₹ 10,400
 - Loss- ₹ 26,000
- Calculate the amount which should be shown in other comprehensive income for the period ending 31 March 2019 on account of equity investment made by Apricot Ltd.
 - Gain of ₹ 1400
 - Gain of ₹ 4500
 - Gain of ₹ 4425
 - Gain of ₹ 5,900
- On conversion of a convertible instrument at maturity, the entity derecognizes the liability component and recognizes it as
 - Expense
 - A separate liability
 - Equity
 - Income

II. Descriptive Questions

6. Draw consolidated Statement of Profit & Loss and Other Comprehensive Income of Apricot Ltd. for the period ended 31 March 2019. Also prepare Consolidated Statement of Changes in Equity of the entity for the year ended 31 March 2019. **(15 Marks)**

CASE STUDY 4

Bean Ltd. is a diversified group having multiple business interests in many countries. The group publishes its financial statements in International Financial Reporting Standards.

During closure of books for the year ended 31st March 2019, certain transactions were highlighted by the group finance team. The Finance Controller is confused on the treatment of these transactions under International Financial Reporting Standards and needs your assistance.

On 1 April 2018, Bean Ltd. began joint construction of a pipeline with another investor. Bean Ltd. and the other investor have signed a contract that provides for joint operation and ownership of the pipeline. All of the ongoing expenditure, comprising maintenance plus borrowing costs, was to be shared equally. The pipeline was completed and ready for use on 1 October 2018, at which date its estimated useful economic life was 20 years.

The pipeline was first used on 1 January 2019. The total cash cost of constructing the pipeline was ₹ 40 million. This cost was partly financed by a loan of ₹ 10 million taken out on 1 April 2018. The loan carries interest at an annual rate of 10% with interest payable in arrears on 31 March each year. Between 1 January 2019 and 31 March 2019, it was necessary to spend ₹ 400,000 on maintenance costs.

On 1 April 2018, Bean Ltd. purchased some land for ₹ 10 million (including legal costs of ₹ 1 million) in order to construct a new factory. Construction work commenced on 1 May 2018. Bean Ltd. incurred the following costs in connection with its construction:

- Preparation and leveling of the land – ₹ 300,000.
- Purchase of materials for the construction – ₹ 6.08 million in total.
- Employment costs of the construction workers – ₹ 200,000 per month.
- Overhead costs incurred directly on the construction of the factory – ₹ 100,000 per month.
- Ongoing overhead costs allocated to the construction project using Bean Ltd.'s normal overhead allocation model – ₹ 50,000 per month.
- Income received during the temporary use of the factory premises as a car park during the Construction period – ₹ 50,000.
- Costs of relocating employees to work at the new factory – ₹ 300,000.
- Costs of the opening ceremony on 31 January 2019 – ₹ 150,000.

The factory was completed on 30 November 2018 (which is considered as substantial period of time) and production began on 1 February 2019. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it is estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 30% of the total cost of the building.

At the end of the 40-year period, Bean Ltd. has a legally enforceable obligation to demolish the factory and restore the site to its original condition. The directors estimate that the cost of demolition in 40 years' time (based on prices prevailing at that time) will be ₹ 20 million. An annual risk adjusted discount rate which is appropriate to this project is 8%. The present value of Re.1 payable in 40 years' time at an annual discount rate of 8% is 4.6 paise.

The construction of the factory was partly financed by a loan of ₹ 17.5 million taken out on 1 April 2018. The loan was at an annual rate of interest of 6%.

During the period 1 April 2018 to 31 August 2018 (when the loan proceeds had been fully utilised to finance the construction). Bean Ltd. received investment income of ₹ 100,000 on the temporary investment of the proceeds.

On 1 April 2018, Bean Ltd. raised loan finance from European investors. The investors subscribed for 50 million €1 loan notes at par. Bean Ltd. incurred incremental issue costs of €1 million. Interest of €4 million is payable annually on 31 March, starting on 31 March 2019. The loan is repayable in € after 10 years on 31 March 2028 at a premium and the effective annual interest rate implicit in the loan is 10%. The appropriate measurement basis for this loan is amortized cost. Bean Ltd. uses INR as its functional currency.

Relevant exchange rates are as follows:

- 1 April 2018 – €1 = ₹ 82.00.
- 31 March 2019 – €1 = ₹ 85.00
- Average for year ended 31 March 2019 – €1 = ₹ 83.00

On 1 April 2017 Bean Ltd. granted share options to 200 senior executives. The options will vest on 31st March 2020 subject to the following conditions:

- Each executive will be entitled to 1,000 options if the cumulative profit in the three-year period from 1 April 2017 to 31st March 2020 exceeds ₹ 30 million. If the cumulative profit for this period is between ₹ 35 million and ₹ 40 million, then 1,500 options will vest. If the cumulative profit for the period exceeds ₹ 40 million, then 2,000 options will vest.
- If an executive leaves during the three-year vesting period, then management would forfeit any rights of share options to those executives.
- Notwithstanding the above, no options will vest unless the share price at 31st March 2020 exceeds ₹ 5.

Details of the fair value of the shares and share options at relevant dates are as follows:

Date	Fair value of Bean Ltd.'s each share	Fair value of each option
	₹	₹
1 April 2017	4.00	0.50
31 March 2018	4.40	0.60
31 March 2019	4.60	0.75

The estimate of the cumulative profit for the three-year period ending 31 March 2020 was revised each year as follows:

Date	Expected profit for the three-year period
	₹ million
1 April 2017	32
31 March 2018	39
31 March 2019	45

On 1 April 2017, none of the relevant executives were expected to leave in the three-year period from 1 April 2017 to 31 March 2020 and none left in the year ended 31 March 2018. However, 10 executives left unexpectedly on 31 December 2018. None of the other executives are expected to leave before 31 March 2020. Bean Ltd. correctly reflected this arrangement in its financial statements for the year ended 31 March 2018.

I. Multiple Choice Questions [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. Suppose the company has issued preference shares that are redeemable at the option of the holder. Three months before the end of the year, it was probable that the holders would require redemption. Which one of the following is the appropriate classification for the annual payment of ₹ 12,000 to preference shareholders at year-end?
 - (a) Dividend ₹ 12,000
 - (b) Interest expense ₹ 12,000
 - (c) Dividend ₹ 3,000, interest expense ₹ 9,000
 - (d) Dividend ₹ 9,000, interest expense ₹ 3,000
2. At the end of the 40-year period, Bean Ltd. has a legally enforceable obligation to demolish the factory and restore the site to its original condition. Cost of demolition cost recognised as a provision would be:
 - (a) ₹ 20.0 million
 - (b) ₹ 9.2 million
 - (c) ₹ 0.92 million
 - (d) ₹ 10.0 million
3. Pursuant to IAS 21, any one of the following factors will not be used in determining the entity's functional currency:
 - (a) The currency that primarily influences the prices at which goods and services are sold
 - (b) The currency in which the costs of the entity are mainly denominated
 - (c) The currency which is used mostly for international trading in that industry
 - (d) The currency in which funds from financing are generated
4. Calculate the closing balance of loan finance at period end which the Bean limited has raised from European investors.
 - (a) ₹ 4,241.5 million
 - (b) ₹ 4,141.7 million
 - (c) ₹ 4,165.0 million
 - (d) ₹ 4,084.7 million
5. Calculate the exchange difference of loan finance from European investors to be recognized in profit or loss for the given period.
 - (a) Gain-₹ 156.8 million
 - (b) Loss-₹ 156.8 million
 - (c) Loss-₹ 223.5 million
 - (d) Gain-₹ 223.5 million

II. Descriptive Questions

6. Show treatment on Joint Arrangement with respect to borrowing cost, cost of asset, its depreciation and Statement of Profit or Loss for the year ending 31 March 2019. **(4 Marks)**

7. Compute the carrying amount of the factory as at 31 March 2019, depreciation and carrying amount as at 31 March 2019. **(7 Marks)**
8. Compute treatment related to share based payment to be included under Statement of Profit & Loss, comprehensive income and statement of financial position at 31 March 2019. **(4 Marks)**

CASE STUDY 5

Buildwell Ltd. is a diversified business group operating in multiple business segments across Europe, United States and Asia Pacific. It maintains its books of accounts and publishes its annual consolidated financial statements under International Financial Reporting Standards.

The central finance team has been working on closing the books of accounts and generating consolidated financial statements for the year ended 31 March 2019. You are the Finance Controller and your assistants want your views for finalization of financial statements.

On 1 April 2018, Buildwell Ltd. completed the manufacture of some inventory at a total cost of ₹ 8,00,000. In order to be suitable for sale in the ordinary course of business, the completed inventory needed to be stored in controlled conditions for a two-year period. The inventory is expected to sell for ₹ 12,00,000 after the two-year storage period. On the same day, Buildwell Ltd. sold the inventory to Black Ltd., a bank for ₹ 8,10,000. For this sale, Black Ltd. charged Buildwell Ltd. an administration fee of ₹ 10,000. Buildwell Ltd. retained physical custody of the inventory and ensured that the inventory is stored in the appropriate conditions.

As per the agreement with Black Ltd., Buildwell Ltd. would indemnify Black Ltd. against any losses caused by theft or inappropriate storage of the inventory. Buildwell Ltd. has the option to repurchase the inventory on 31 March 2020 for ₹ 933,120. On 1 April 2018, Black Ltd. would have required an annual return of 8% on loans made to customers such as Buildwell Ltd.

One of the directors of Buildwell Ltd., Mr. Ben Jones has informed Central Finance team that on 1 January 2019, his spouse acquired a controlling interest in one of Buildwell Ltd.'s major suppliers, Candour Ltd.

Mr. Jones seemed to think that this would have implications on the financial statements of Buildwell Ltd. However, your assistant in Central Finance is not clear about its implications/treatment while finalizing the financial statements.

Buildwell Ltd. has been purchasing goods from Candour Ltd. ₹ 1.5 million per month of the year ended 31 March 2019. As per the financial statements of Buildwell Ltd., this is a significant amount. While checking all the purchase transactions it was found that all the purchases from Candour Ltd. were made at normal market rates.

On 1 April 2018, Buildwell Ltd. had also leased a machine from Donovan Ltd. on a three-year lease. The expected future economic life of the machine on 1 April 2018 was eight years. If the machine breaks down, then under the terms of the lease, Donovan Ltd. would be required to repair the machine or provide a replacement.

Donovan Ltd. agreed to allow Buildwell Ltd. to use the machine for the first six months of the lease without the payment of any rental as an incentive to Buildwell Ltd. to sign the lease agreement. After this initial period, lease rentals of ₹210,000 were payable six-monthly in arrears, the first payment falling due on 31 March 2019.

On 1 June 2018, Buildwell Ltd. decided to dispose of the business and current and non-current assets of one of its divisions related to Speciality chemicals business which it had acquired several years ago. This disposal does not involve Buildwell Ltd. withdrawing from a particular market sector. The carrying values on 1 June 2018 of the assets to be disposed of were as follows:

Particulars	₹ Million
Goodwill	10.0

Property, Plant and Equipment	20.0
Patents and trademarks	8.0
Inventories	15.0
Trade Receivables	10.0

None of the assets of the business had suffered impairment as at 1 June 2018. At that date the inventories and trade receivables of the business were already stated at no more than their recoverable amounts.

Buildwell Ltd. offered the business for sale at a price of ₹ 46.5 million, which was considered to be reasonably achievable. Buildwell Ltd. estimated that the direct costs of selling the business would be ₹ 5,00,000. These estimates have not changed since 1 June 2018 and Buildwell Ltd. estimates that the business will be sold by 31 March 2019 at the latest.

One of the subsidiaries of Buildwell Ltd. submitted to Central Finance its Summarized Statement of Profit or Loss and Statement of Financial Position.

Summarized Statement of Profit or Loss for the year ended 31 March 2019

Particulars	Amount (₹)
Net sales	25,200,000
Less: Cash cost of sales	(19,200,000)
Depreciation	(600,000)
Salaries & wages	(2,400,000)
Operating expenses	(1,400,000)
Provision for taxation	<u>(880,000)</u>
Net Operating Profit	720,000
Non-recurring income – profit on sale of equipment	120,000
	840,000
Retained earnings and profit brought forward	1,518,000
	2,358,000
Dividends declared and paid during the year	(720,000)
Profit & loss balance as on 31 st March 2019	1,638,000

Summarized Statement of Financial Position

Assets	31 st March 2018	31 st March 2019
Property, Plant and Equipment:		
Land	480,000	960,000
Buildings and Equipment	3,600,000	5,760,000
Current Assets		
Cash	600,000	720,000
Inventories	1,680,000	1,860,000
Trade Receivables	2,640,000	960,000
Advances	78,000	90,000
Total Assets	9,078,000	10,350,000
Liabilities & Equity		
Share capital	3,600,000	4,440,000

Surplus in profit & loss	1,518,000	1,638,000
Trade Payables	2,400,000	2,340,000
Outstanding expenses	240,000	480,000
Income tax payable	120,000	132,000
Accumulated depreciation on buildings and equipment	1,200,000	1,320,000
Total	9,078,000	10,350,000

The original cost of equipment sold during the year 2018-2019 was ₹ 720,000.

Analyze the transactions mentioned above and show the treatment in line with relevant IFRS.

I. Multiple Choice Questions [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.

- Calculate the current liability of leased machine from Donovan Ltd. to be shown in the statement of financial position as at 31 March 2019.
 - ₹ 70,000
 - ₹ 1,40,000
 - ₹ 3,50,000
 - ₹ 4,20,000
- Compute the value of Speciality chemical division's Goodwill at the date of classification after re-measurement.
 - ₹ 7.3 million
 - ₹ 10 Million
 - ₹ Nil
 - ₹ 8 million
- Calculate the closing balance of Speciality chemical division's asset – Property, Plant and Equipment at the period end.
 - ₹ 21 million
 - ₹ 17.36 million
 - ₹ 6 million
 - ₹ 15 million
- Suppose financial statements of Buildwell Ltd. included an investment in associate at ₹ 66,00,000 in its consolidated statement of financial position at 31 March 2018. At 31 March 2019, the investment in associate had increased to ₹ 67,50,000. Buildwell Ltd.'s pre-tax share of profit in the associate was ₹ 4,20,000, with a related tax charge of ₹ 1,80,000. The net amount was included in the consolidated income statement for the year ended 31 March 2019.

There were no impairments to the investment in associate, or acquisitions or disposals of shares during the financial year.

What is the amount of the cash flow related to investment in associate for inclusion in the consolidated Statement of cash flows for the year ended 31 March 2019?

- Cash inflow of ₹ 90,000

- (b) Cash inflow of ₹ 240,000
 (c) Cash outflow of ₹ 90,000
 (d) Cash inflow of ₹ 420,000
5. Buildwell Ltd.'s another subsidiary reported net income of ₹ 25 million, which equals the company's comprehensive income. The company has no outstanding debt. Using the following information from the comprehensive statement of financial position (₹ in millions), what cashflow should the Buildwell Ltd.'s subsidiary report, as financing activity in the statement of cash flows?

Extract of Statement of Financial Position	31.03.2018 (₹)	31.03.2019 (₹)
Equity share capital	100	100
Further issue of equity shares	100	140
Retained earnings	100	115
Total shareholders' equity	300	357

- (a) Issuance of equity shares ₹ 240 million; dividends paid ₹ 10 million
 (b) Issuance of equity shares ₹ 100 million; dividends paid ₹ 10 million
 (c) Issuance of equity shares ₹ 140 million; dividends paid ₹ 10 million
 (d) Issuance of equity shares ₹ 40 million; dividends paid ₹ 10 million

II. Descriptive Questions

6. With respect to 'sale of inventory by Buildwell Ltd. to Black Ltd.', how much amount should be recognized in the Statement of profit or loss and Statement of financial position for the year ended 31 March 2019. Also show the classification of calculated amount as current or non-current in the Statement of financial position. **(4 Marks)**
7. How the effect of acquisition of controlling interest in Candour Ltd. by Mr. Ben Jones is to be reflected in the financial statements for the year ending 31 March 2019. **(3 Marks)**
8. Work out a cash flow statement for the year ended 31 March 2019. **(8 Marks)**