Test Series: October, 2020

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**

ANSWERS TO CASE STUDY 1

Answers to Multiple Choice Questions

1. Option (d) Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹1.36 million

Justification:

As per para 16(c) of IAS 16, elements of cost of PPE includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

2. Option (b) ₹ 170 million

Justification:

Cash flow from operating activities – Indirect method

Particulars	**₹ in million**
Net Income after taxes	120
Depreciation	25
Profit from sale of land	(2)
Tax charges for the year (deferred tax liabilities)	15
	158
Decrease in accounts receivables	20
Increase in inventory	(10)
Increase in accounts payable	7
Decrease in wages payable	(5)
Cash flow from operations	170

3. Option (b) Provision of ₹ 1·6 million should be recognized with a corresponding charge to profit or loss.

Justification:

In accordance with IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets'* the claim made by the customer needs to be recognised as a liability in the financial statements for the year ended 31 March 2019.

The standard stipulates that a provision should be made when, at the reporting date:

– An entity has a present obligation arising out of a past event.

– There is a probable outflow of economic benefits.

– A reliable estimate can be made of the outflow.

Since, all three of the above conditions are satisfied here, a provision is required to be made.

The provision should be measured at the amount the entity would rationally pay to settle the obligation at the reporting date.

Where there is a range of possible outcomes, the individual most likely outcome is often the most appropriate measure to use.

In this case, a provision of ₹1·6 million seems appropriate, with a corresponding charge to profit or loss.

The insurance claim against our supplier is a contingent asset.

IAS 37 states that contingent assets should not be recognised until their realization is virtually certain, but should be disclosed where their realization is probable.

Therefore, the contingent asset would be disclosed in the 31 March 2019 financial statements. Any credit to profit or loss arises when the claim is settled.

4. Option (d) IFRS 9 / IAS 10

5. Option (b) ₹ 4,71,698

Justification for 4 & 5

We do need to take account of the information regarding the financial difficulties of the customer because these arose prior to 31 March 2019. *IAS 10 'Events after the Reporting Date',* would classify such an event as adjusting since it provides additional evidence of conditions existing at the reporting date. In this case the additional information relates to evidence of impairment of a financial asset.

IFRS 9 'Financial Instruments' requires financial assets to be reviewed at each reporting date for evidence of impairment. Such evidence exists here because although the customer is expected to pay the amount due the payment date has been deferred. As per para B5.5.33 of IFRS 9, for a financial asset that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial asset, an entity shall measure the expected credit losses as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate. Any adjustment is recognized in the profit or loss as an impairment gain or loss. Further, Para B5.5.44 provides that expected credit losses shall be discounted to the reporting date, not to the expected default or some other date, using the effective interest rate determined at initial recognition or an approximation thereof.

In such circumstances, IFRS 9 requires that the financial asset be re-measured at the present value of the expected future receipt, discounted (in the case of a trade receivable) at a current commercial rate of interest. Therefore, in the financial statements for the year ended 31 March 2019, asset should be measured at ₹ 471,698 (₹ 500,000/1.06) and an impairment loss of ₹ 28,302 (₹ 500,000 – ₹ 471,698) recognised in profit and loss.

In the year ended 31 March 2020, interest income of ₹28,302 (₹ 471,698 X 6%) should be recognised in profit and loss.

Answers to Descriptive Questions

6. Pursuant to IAS 16 - *Property, Plant and Equipment,* it is incorrect to show the recoverable goods and services taxes as part of the cost of property, plant and equipment. The standard stipulates that only irrecoverable taxes should be capitalized to the cost of the asset.

IAS 16 stipulates that the future overhaul is regarded as a separate component of property, plant and equipment for depreciation purposes.

Statement showing computation of Cost of production line

Particulars	₹ in million
Purchase cost	10.00
Goods and services tax – recoverable goods and services tax not included	-
Employment costs during the period of getting the production line ready for use	0.80
Other overheads – abnormal costs of ₹ 0.3 million has been excluded	0.60
Payment to external advisors – directly attributable cost	0.50
Dismantling costs – recognized at present value (2 million x 0.68)	1.36
Total	13.26

Value of asset carried to Statement of Financial Position

Particulars	₹ in million
Gross value from computation above	13.26
Less: Depreciation (W.N.1)	(1.70)
Net book value – carried to Statement of Financial Position	11.56

Provision for dismantling cost carried to Statement of Financial Position

Particulars	₹ in million
Non-current liabilities	1.36
Add: Finance cost (W.N.2)	0.06
Net book value – carried to Statement of Financial Position	1.42

Extract of Statement of Profit or Loss

Particulars	₹ in million
Depreciation (W.N.1)	1.70
Finance cost (W.N.2)	0.06
Amounts carried to Statement of Profit & Loss	1.76

Working Note:

1. Calculation of depreciation charge

Particulars	₹ in million
The asset is split into two depreciable components out of the total capitalization amount of 13.26 million:	
Depreciation for ₹ 3 million with a useful economic life of four years (3 million x ¼ x 10/12).	0.63

This is related to a major overhaul to ensure that it generates economic benefits for the second half of its useful life	
Depreciation for ₹ 10.26 million (13.26 – 3.00) with an useful economic life of eight years will be : ₹ 10.26 million x 1/8 x 10/12	1.07
Total (To Statement of Profit & Loss for the year ended 31 March 2019)	1.70

2. Finance costs

Particulars	**₹ in million**
Unwinding of discount (income statement – finance cost) 1.36 x 5% x 10/12	0.06
To Statement of Profit & Loss for the year ended 31st March 2019	0.06

7. Computation of Purchase consideration in business combination

	₹ in million
Share exchange (12 million x 75% x 2/3 x ₹ 6.50)	39.00
Deferred consideration (7.15 million/1·10)	6.50
Contingent consideration	25.00
Purchase Consideration	70.50

Computation of Non-controlling Interest under

Method I: NCI measured at Fair value

Method II: NCI measured at proportionate share of identifiable net assets

		Method I	**Method II**
		₹ in million	**₹ in million**
Purchase Consideration		70.50	70.50
Add: Non-controlling interest at date of acquisition:			
At fair value – 3 million x ₹ 6.00	18.00		
% of net assets – 68.00 (working) x 25%		17.00	
		88.50	87.50
Less: Net assets at the date of acquisition (Refer W.N.)		(68.00)	(68.00)
Goodwill on acquisition		20.50	19.50
Impairment @ 10%		2.05	1.95

Where the NCI is measured at fair value, the impairment should be attributed partly to retained earnings (₹ 1.54 million) and partly to NCI (₹ 0.51 million). The allocation is normally based on the group structure ie 75 : 25.

Where the NCI is measured at proportionate share of net assets, the impairment should be attributed wholly to retained earnings.

Working Note:

Net assets at the date of acquisition

	₹ in million
Fair value at acquisition date	70.00
Deferred tax liability on fair value adjustments [20% x (70.00 – 60.00)]	(2.00)
	68.00

ANSWER TO CASE STUDY 2

Answers to Multiple Choice Questions

1. **Option (d) Overvalued ₹ 1,18,728**

Justification

As per para 6 of IAS 2, inventories are assets:

(a) Held for sale in the ordinary course of business;

(b) In the process of production for such sale; or

(c) In the form of materials or supplies to be consumed in the production process or in the rendering of services.

Expired items are held for return to respective vendors and does not fit into any criteria above for recognition as inventory.

Hence the entire valuation done at NRV is overvalued inventory calculated as below:

Total expired stock of Hand wash packs is (15 + 14 +18 +17+ 11 +13 +9) = 97 packs

Total cost of 97 packs = ₹ 1,200 per pack x 97 packs = ₹ 1,16,400

Valuation done at NRV = ₹1,16,400 x 102% = ₹ 1,18,728

2. **Option (c) Other Current Asset – Receivables from the Suppliers**

Justification

The company has a contractual right to return the expired goods at cost + 2%, the entire amount of expired stock in the category at the NRV shall be recognised as receivables from supplier.

3. **Option (a) Provision of ₹ 1.5 lacs**

Justification

As per para 10 of IAS 37, a provision is a liability of uncertain timing or amount. Further, para 14 says, a provision shall be recognised when:

a) An entity has a present obligation (legal or constructive) as a result of a past event;

b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

c) A reliable estimate can be made of the amount of the obligation.

In the instant case, it is not clear as to how many customers will actually do the needful to claim the free item and within the prescribed time limit. However, the maximum amount of liability that may arise assuming all customers will do the needful can be estimated reliably. Hence a provision should be recognised.

4. Option (b) Cost of tools used by the housewives in processing the goods

Justification

Para 10 of IAS 2 specifies that the cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Further para 12 also elaborates on the examples of cost of conversion. Accordingly, in the instant case the cost of tools owned by the housewives does not fit in since the cost is not incurred by the company hence not forming part of the cost of inventory.

5. Option (b) Yes. Depreciation of ₹ 1,65,000 will be allocated to the packed units and ₹ 15,000 will be recognised as expenses

Justification

Para 13 of IAS 2 clarifies that the amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred.

Accordingly, the rate of allocation per unit will remain same based on the normal capacity. Any unallocated depreciation due to idle plant is to be recognised as an expense during the year.

In the instant case depreciation for the whole year is ₹ 1,80,000 and hence the per unit allocation cost of depreciation would be:

Particulars		₹
Depreciation per annum	(given) (a)	₹ 1,80,000
Normal capacity	Refer Working Note (b)	8,25,000 packs
Depreciation per packing unit	(a) / (b) = (c)	0.21818
Actual production units	(8,25,000 / 12) x 11 (d)	7,56,250
Depreciation allocated	(c) x (d) = (e)	1,65,000 (approx.)
Unallocated depreciation recognised as expense	(a) – (e) = (f)	15,000

Calculation of normal capacity:

Turmeric powder – (150 kg x 1,000 grams) / 200 grams each = 750 packs

Daliya 1,200 kg in the ratio of 2:1 = 800 kg and 400 kg

500 grams packs = (800 kg x 1,000 grams) / 500 grams each = 1,600 packs

1 kg packs = (400 kg x 1,000 grams) / 1,000 grams each = 400 packs

Total no. of packed units = 2,750 per day x 300 days = 8,25,000 packs

Answers to Descriptive Questions

6. As per para 9 of IAS 2, inventories shall be measured at the lower of cost and net realisable value.

Based on the audit observations, below is the calculation of overvaluation of inventory of RK Super Market Ltd. of all stores in toto:

Category/Item	Valuation as per IFRS principles	Valuation done by the company	Over-valuation (in ₹)
Personal care – hand-wash	Zero (Refer MCQ 1)	1,18,728	118,728
Due to quantity mismatch		(W.N.1)	10,43,457
Not-for-sale items (free)	Zero	580,000	5,80,000
Rice (W.N.2)	624,851	675,748	50,627
Grains & pulses (W.N.3)	15,46,063	16,25,103	79,040
Snacks (W.N.4)	623,043	640,559	17,516
Beverages (W.N.5)	979,563	10,05,716	26,153
Total			**19,15,521**

Working Notes:

1. Valuation difference due to quantity mismatch:

Item code	Category	Description	Reported Qty (1)	Actual Qty (2)	Difference	₹ Cost per UoM (3)	Difference [(1) – (2)] x (3)
R-510101	Snacks	Biscuits	1,689 boxes	1,589 boxes	100 boxes	1,190	1,19,000
R-511012	Snacks	Namkeen	851 boxes	681 boxes	170 boxes	1,890	3,21,300
R-522104	Beverages	Coke	1,809 cases	1,691 cases	118 cases	1,300	1,53,400
S-144109	Grains	Wheat	1,851 gunny bags	1,681 gunny bags	170 gunny bags	630	1,07,100
S-143118	Cooking Oil	Soyabean 5 Ltr	5,140 cans	5,014 cans	126 cans	585	73,710
D-189107	Hygiene	Detergent Soap	2,018 boxes	1,973 boxes	45 boxes	705	31,725
D-125109	Hygiene	Dishwash Bars	1,619 boxes	1,508 boxes	111 boxes	647	71,817
D-119120	Hygiene	Sanitary Pads	1,819 boxes	1,718 boxes	101 boxes	1,200	1,21,200
P-121113	Kitchenware	NS Kadhai	561 units	516 units	45 units	329	14,805
P-713114	Baby care	Diapers	819 packs	759 packs	60 packs	490	29,400
						Total	**10,43,457**

2. Overvaluation of Rice gunny bags

Valuation of Rice gunny bags as per IFRS principles (1,12,164 + 99,082 + 1,15,039 + 2,98,566) = ₹ 6,24,851

Valuation of Rice gunny bags done by the companies (1,25,174 + 1,02,182 + 1,29,017 + 3,19,105) = ₹ 6,75,478

Overvaluation = Valuation done by the company - Valuation as per IFRS

= ₹ 6,75,478 – ₹ 6,24,851 = ₹ 50,627

3. **Overvaluation of Grains and pulses gunny bags**

Valuation of Grains and pulses gunny bags as per IFRS principles (3,27,078 + 2,78,730 + 3,63,902 + 2,39,825 + 3,36,528) = ₹ 15,46,063

Valuation of Grains and pulses gunny bags done by the companies (3,41,658 + 2,94,975 + 3,77,941 + 2,58,649 + 3,51,880) = ₹ 16,25,103

Overvaluation = Valuation done by the company - Valuation as per IFRS

= ₹ 15,46,063 – ₹ 16,25,103 = ₹ 79,040

4. **Overvaluation of Snacks boxes**

Valuation of Snacks boxes as per IFRS principles (1,16,698 + 1,09,051 + 1,39,023 + 1,36,721 + 1,21,550) = ₹ 6,23,043

Valuation of Snacks boxes done by the companies (1,20,018 + 1,13,727 + 1,42,443 + 1,40,101 + 1,24,270) = ₹ 6,40,559

Overvaluation = Valuation done by the company - Valuation as per IFRS

= ₹ 6,40,559 – ₹ 6,23,043 = ₹ 17,516

5. **Overvaluation of Beverages packs**

Valuation of Beverages packs as per IFRS principles (1,84,212 + 1,93,725 + 2,00,013 + 2,04,750 + 1,96,863) = ₹ 9,79,563

Valuation of Beverages packs done by the companies (1,87,523 + 1,98,765 + 2,04,798 + 2,10,925 + 2,03,705) = ₹ 10,05,716

Overvaluation = Valuation done by the company - Valuation as per IFRS

= ₹ 10,05,716 – ₹ 9,79,563 = ₹ 26,153

7. Para 3 of IAS 10 defines Events after the reporting period as those events that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company. Further it identifies two types of events –

(a) Adjusting events – those that provide evidence of conditions that existed at the end of the reporting period; and

(b) Non-adjusting events – those that are indicative of conditions that arose after the reporting period.

Further, para 8 states that an entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting period.

Since news for health threat in noodles brand went viral on 29th March, 2019 and Supreme Court ordered ban on 2nd April, 2019 ie before the authorisation of the financial statements, this is an adjusting event. Therefore, the item of inventory shall be written down to NRV which is zero.

Also, a liability should be recognised for safe disposal of such item to the tune of ₹ 20,000.

So, the carrying amount of inventory should be reduced by ₹ 2,48,074 (109,051 + 139,023) assuming that correction is done as per principles of valuation laid down in IAS 2.

8. Inventory valuation of own-brand products – RK

Particulars	**Working / reference**	**Daliya**	**Turmeric Powder**
Raw material for processing with housewives (1 day stock)	1,200 kg x 27.25 150 kg x 105.5	32,700	 15,825
Finished Goods (5 days stock)	(W.N.2)	2,23,200	1,03,500

Packing material	(Given)	21,907	14,148
Allocation of fixed overhead ₹ 69,167 (W.N.3)	2:1	46,111	23,056
	Total	**3,23,918**	**1,56,529**

Working Notes:

1. Stock of finished goods

Particulars	**Stock of packs per day**	**Stock of packs for 5 days**
Turmeric powder (200 gms pack)	750	3,750
Daliya (500 gms pack)	1,600	8,000
Daliya (1 kg pack)	400	2,000
	2,750	13,750

2. Raw material, processing cost (paid to housewives) and packing material cost for finished goods

Particulars	**Working/ reference**	**Per day**		**For 5 Days**	
		Daliya	**Turmeric**	**Daliya**	**Turmeric**
Raw material for Daliya	1,200 x 27.25	32,700		1,63,500	
Raw material for Turmeric powder	150 x 105.5		15,825		79,125
Processing cost for Daliya	1,200 x 6	7,200		36,000	
Processing cost for Turmeric powder	150 x 25		3,750		18,750
Packing material for Daliya	(1,600 x 2.15) + (400 x 3.25)	4,740		23,700	
Packing material for Turmeric powder	750 x 1.5		1,125		5,625
				2,23,200	1,03,500

So, raw material and processing cost of Daliya for 5 days is ₹ 2,23,200 and

Raw material and processing cost of Turmeric Powder for 5 days is ₹ 1,03,500

3. Calculation of fixed overheads

a. **Rent of packing centre** = ₹ 60,000 per month

Number of units packed in a year = 8,25,000 packs (as computed for MCQ 5)

Number of units packed in a month = 8,25,000 / 12 months = 68,750 packs

Number of units packed in 5 days = (68,750 packs / 25 days) x 5 days = 13,750 packs

Rent for 5 days = (₹ 60,000 / 68,750 packs) x 13,750 packs = **₹ 12,000**

b. **Direct labour** = (3,25,000/30 days) x 5 days = **₹ 54,167**

c. **Depreciation** of miscellaneous assets

= 13,750 packs x 0.21818 (as computed for MCQ 5) = ₹ **3,000**

Total fixed overheads to be allocated = ₹ 12,000 + ₹ 54,167 + ₹ 3,000 **= ₹ 69,167**

ANSWER TO CASE STUDY 3

Answers to Multiple Choice Questions

1. **Option (a) ₹ 21,132**

   Justification: Refer working note 8

2 **Option (c) ₹ 3,500**

   Justification: Refer working note 4

3. **Option (b) Loss ₹ 7000**

   Justification: Refer working note 9

4 **Option (d) ₹ 5,900**

   Justification: Refer working note 10

5 **Option (c) Equity**

Answers to Descriptive Questions

6. (a) **Consolidated Statement of Profit & Loss and other comprehensive income for the year ended 31 March 2019**

	₹ '000
Revenue (W.N.1) Cost of sales (W.N.2)	886,000 (482,145)
Gross profit Distribution costs (18,000 + 17,000) Administrative expenses (19,000 + 16,000) Investment income (W.N.6) Finance cost (W.N.7) Share of losses of associate (W.N.9)	403,855 (35,000) (35,000) 2,800 (139,132) (7,000)
Profit before tax Income tax expense (41,000 + 33,000)	190,523 (74,000)
Net profit for the year Other comprehensive income (W.N.10)	116,523 5,900
Comprehensive income for the year	122,423
Net profit attributable to: Non-controlling interest (W.N.11) Controlling interest	 17,464 99,059
Net profit for the year	116,523
Comprehensive income attributable to Non-controlling interest	 17,464

Controlling interest	104,959
Comprehensive income for the year	122,423

(b) Consolidated statement of changes in equity for the year ended 31 March 2019

	Controlling interest ₹'000	Non-controlling interest ₹'000	Total ₹'000
Balance at 1 April 2018 (W.N.12 & W.N.13)	602,850	101,125	703,975
Comprehensive income for the year	104,959	17,464	122,423
Equity component of convertible bonds (W.N.14)	35,850		35,850
Dividends	(52,000)	(10,000)	(62,000)
Balance at 31 March 2019	691,659	108,589	800,248

WORKING NOTES:

1. Computation of Consolidated Revenue

	₹ '000
Apricot Ltd + Baxter Ltd (4,70,000 + 4,34,000)	9,04,000
Sales from Baxter Ltd to Apricot Ltd. (see note 1)	(18,000)
	8,86,000

2. Cost of Sales

	₹ '000
Apricot Ltd + Baxter Ltd	474,000
Sales from Baxter Ltd. to Apricot Ltd.	(18,000)
Environmental provision (3,000 + 2,000)	5,000
Unrealised profit adjustments:	
Baxter Ltd: (1/4 (3,600 – 2,100))	375
Caramel Ltd: (1/4 x 2,700 x 40%)	270
Extra depreciation (W3)	11,000
Change in the fair value of contingent consideration (₹64,000 – ₹58,000 – see note 2)	6,000
Impairment of goodwill (W4)	3,500
	482,145

Note 1 **On partial elimination of profits on transactions between associates and group-entities**

IAS 28 'Investments in Associates', requires partial elimination of unrealised profits on transactions between associates and group entities. Profits can only be included to the extent that they relate to the non-group share. This means that the group share of such profits is eliminated and an adjustment of ₹270 is required to profit in this case (see working 2 above).

The standard does not specify exactly how such an adjustment should be reported in the consolidated statement of comprehensive income. Accordingly, there are two possible approaches to eliminate this unrealized profit discussed as under:

1. The first approach would be to reduce consolidated revenue by the group share of the profit that relates to the inventory that is unsold by Caramel Ltd at the year-end. Accordingly, the consolidated revenue would be reduced by the profit portion of 270 and the Consolidated Revenue would be reported as [4,70,000 + 4,34,000 – 18,000 (intragroup sales) – 270 (unrealised profit relating to inventory unsold by Caramel Ltd at the year end]
2. The second approach would be to make the required adjustment in the Cost of Sales figure, where the amount of 0.270 million would be added to the Consolidated Cost of Sales.

We have followed the second approach since we choose not to make any adjustments to the Consolidated Revenue apart from elimination of intra-group transactions.

Note 2

The change in fair value of the contingent consideration could have alternatively be shown in other sections of the statement of comprehensive income – for example as an administration cost.

3. Computation of additional depreciation and amortization charges for the year 2018-19

	₹ '000
Depreciation of PPE – ¼ x (₹ 2,80,000 – ₹ 2,40,000) Amortisation of brand – 1/30 x ₹ 30,000	10,000 1,000
Depreciation & amortisation charges for a year	11,000

4. Impairment of goodwill on acquisition of Baxter Ltd.

	₹ '000
Carrying value of Baxter Ltd in the consolidated financial statements at 31 March 2019 (from Statement of Changes in Equity): Per own financial statements	435,000
Fair value adjustments:	
PPE – [(₹2,80,000 – ₹2,40,000) x (2·5/4 years)]	25,000
Brand – [₹30,000 x (28·5/30 years)]	28,500
Goodwill (W5)	65,000
Carrying value of Baxter Ltd.	5,53,500
Recoverable amount	(5,50,000)
Impairment of goodwill	3,500

5. Goodwill on acquisition of Baxter Ltd as on 1 October 2017

	₹'000	₹'000
Purchase consideration: Fair value of consideration given: Share exchange – 75,000 x 2/3 x ₹6 Contingent consideration Acquisition costs	 3,00,000 55,000 Nil	 3,55,000
Add: Fair value of non-controlling interest – 25,000 x ₹3·20		80,000 4,35,000
Less: Fair value of net assets of Baxter Ltd at 1 October 2017: Per own financial statements Fair value adjustment – PPE (₹2,80,000 – ₹2,40,000) Fair value adjustment – brand	 3,00,000 40,000 30,000	 (3,70,000)
Goodwill		65,000

6. Computation of consolidated investment income

	₹ '000
Apricot Ltd + Baxter Ltd Dividend received from Baxter Ltd (75% x 40,000) Profit on disposal recorded to be treated in accordance with IFRS. 9	37,300 (30,000) (4,500)
In consolidated statement of comprehensive income	2,800

7. Computation of consolidated finance costs

	₹ '000
Apricot Ltd + Baxter Ltd (68,000 + 65,000) Finance cost of convertible loan notes incorrectly recorded by Apricot Ltd Correct finance cost of convertible loan notes (W8)	1,33,000 (15,000) 21,132
In consolidated statement of comprehensive income	1,39,132

8. Finance costs of convertible loan notes

	₹ '000
Liability element of compound financial instrument at 1 April 2018 (3,00,000 x 5% x ₹3·99) + (300,000 x ₹0·681)	 2,64,150
So finance cost at 8% (264,150 x 0·08)	21,132

9. Share of losses of associate

	₹ '000
Total loss after tax of Caramel Ltd Share of loss of Apricot Ltd. ((26,000) x 40% x 6/12) in Caramel Ltd. Impairment loss on investment in Associate, Caramel Ltd.	(26,000) (5,200) (1,800)
Total loss of Apricot Ltd. In Caramel Ltd. As on 31st March 2019	(7,000)

10. Other comprehensive income

	₹ '000
Gain on revaluation of investment in Ecostar Ltd (15,400 – 14,000)	1,400
Profit on disposal to be treated in accordance with IFRS 9	4,500
	5,900

11. Non-controlling interest in Baxter Ltd.

	₹ '000
Net profit of Baxter Ltd Unrealised profit on intercompany sales (375 + 270) (W2) Extra depreciation and amortisation (W3) Impairment of goodwill of Baxter Ltd (W4)	85,000 (645) (11,000) (3,500)
	69,855
Non-controlling interest (25%)	17,464

12. Consolidated equity at 1 April 2018 ₹ '000

	Baxter	Apricot
Opening Equity per own records Post-acquisition as per own records (390,000 – 300,000) Extra depreciation and amortisation (11,000 (W.N.3) x 0·5)	 90,000 (5,500)	5,40,000
	84,500	
Group share (75%) Unrealised profit on opening inventory (1/4 x 2,100)		63,375 (525)
		602,850

13. Non-controlling interest in opening equity of Baxter Ltd.

	₹ '000	₹ '000
Fair value of non-controlling interest at the date of acquisition (W5) Consolidated post-acquisition increase in equity from date of acquisition to start of the period (W12)	 84,500	80,000

Non-controlling interest (25%)		21,125
Total		1,01,125

14. Equity element of convertible bonds

	₹'000
Total issue proceeds Liability component (W8)	3,00,000 (2,64,150)
Equity component	35,850

ANSWER TO CASE STUDY 4

Answers to Multiple Choice Questions

1. **Option (b) Interest expense ₹ 12,000**

Reasoning

Under IAS 32, the redeemable preference shares are classified as a liability from the date of issue because the holder has the right to demand redemption. Therefore, the instruments are a liability and the payment for the year is classified as interest. The probability of conversion makes no difference to the classification of the instruments.

2. **Option (c) ₹ 0.92 million**

Reasoning

Demolition cost recognised as a provision - Where an obligation must recognize as part of the initial cost.

The present value of Re.1 payable in 40 years' time at an annual discount rate of 8% is 4·6 paise. Hence the working is as under:

USD 20 Million x 4.6/100 = 0.92 million

3. **Option (c) The currency which is used mostly for international trading in that industry**
4. **Option (a) ₹ 4,241.5 million**
5. **Option (b) Loss-₹ 156.8 million**

Reasoning for 4 & 5

IAS 21 – *The Effect of Changes in Foreign Exchange Rates*

The initial measurement of the loan in € is €49 million (€50 million – €1 million).

The finance cost in € is €4·9 million (€49 million x 10%).

The closing balance of the loan in € is €49·9 million (€49 million + €4·9 million – €4 million).

IAS 21 – *The Effect of Changes in Foreign Exchange Rates* – stipulates that foreign currency transactions are initially recorded at the rate of exchange in force when the transaction was first recognized.

Therefore, the loan would initially be recorded at ₹ 4,018 million (€49 million x 82).

The finance cost would be recorded at an average rate for the period since it accrues over a period of time. The finance cost would be ₹ 406.7 million (€4·9 million x 83). The actual payment of interest would be recorded at ₹ 340 million (€4 million x 85). The loan balance is a monetary item so it is translated at the rate of exchange at the reporting date. So the closing loan balance is ₹ 4,241.5 million (€49·9 million x 85). The exchange differences that are created by this treatment are recognized in profit or loss. In this case, the exchange difference is ((₹ 4018 million + ₹ 406.7 million – ₹ 340 million) – ₹ 4, 241.5 million) = ₹ 156.8 million. This exchange loss is taken to Statement of Profit or Loss.

Answers to Descriptive Questions

6. As provided in *IFRS 11 'Joint Arrangements',* this is a joint arrangement because two or more parties have joint control of the pipeline under a contractual arrangement.

The arrangement will be regarded as a joint operation because Bean Ltd and the other investor have rights to the assets and obligations for the liabilities of this joint arrangement.

This means that Bean Ltd and the other investor will each recognize 50% of the cost of constructing the asset in property, plant and equipment.

The borrowing cost incurred on constructing the pipeline should, under the principles of IAS 23 – *Borrowing Costs*, be included as part of the cost of the asset for the period of construction.

In this case, the relevant *borrowing cost* to be included is ₹ 0.5 million.

(₹ 10 million x 10% x 6/12).

The *total cost of the asset* is ₹ 40·5 million (₹ 40 million + ₹ 0.5 million).

₹ 20.25 million is included in the property, plant and equipment of Bean Ltd and the same amount in the property, plant and equipment of the other investor.

The *depreciation charge* for the year ended 31 March 2019 will therefore be ₹ 1.0125 million (₹ 40.5 million x 1/20 x 6/12).

₹ 0.50625 million will be charged in the Statement of profit or loss of Bean Ltd and the same amount in the Statement of profit or loss of the other investor.

The other costs relating to the arrangement in the current year totaling ₹ 0.9 million (finance cost for the second half year of ₹ 0.5 million plus maintenance costs of ₹ 0.4 million) will be charged to the Statements of profit or loss of Bean Ltd and the other investor in equal proportions – ₹ 0.45 million each.

7. Computation of the cost of the factory

Particulars	₹ in million
Purchase of land - both the purchase of land and the associated legal costs are direct costs of constructing the factory	10.00
Preparation and leveling - A direct cost of constructing the factory	0.300
Cost of materials - A direct cost of constructing the factory	6.08
Employment costs of construction workers - A direct cost of constructing the factory for a seven-month period	1.40

Direct overhead costs - A direct cost of constructing the factory for a seven-month period	0.70
Allocated overhead costs - Not a direct cost of construction	Nil
Income from use as a car park - Not essential to the construction so recognised directly in profit or loss	Nil
Relocation costs - Not a direct cost of construction	Nil
Opening ceremony - Not a direct cost of construction	Nil
Finance costs - Capitalize the interest cost incurred in an eight-month period (purchase of land would not trigger off capitalization since land is not a qualifying asset. Infact, the construction started from 1 May 2018)	0.6125
Investment income on temporary investment of the loan proceeds - Must offset against the amount capitalized	(0.10)
Demolition cost recognised as a provision - Where an obligation must recognize as part of the initial cost	0.92
Total	**19.9125**

Computation of accumulated depreciation

Particulars	**₹ in million**
Total depreciable amount 9.9125 All of the net finance cost of (0.6125-0.10) has been allocated to the depreciable amount – as above	
Depreciation of roof : 9.9125 x 30% x 1/20 x 4/12	0.04956
Depreciation of remainder : 9.9125 x 70% x 1/40 x 4/12	0.05782
Total depreciation	**0.10738**

Computation of carrying amount

Particulars	**₹ in million**
Total depreciable amount	19.9125
Depreciation	0.10738
Carrying amount	**19.80512**

8. In accordance with *IFRS 2 'Share Based Payment'*, amount included in statement of financial position at 31 March 2019

Particulars	**Amount**
Number of executives - Expected to continue till 31.3.2020	190 Nos
Options vesting for each executive - Use expected number based on latest estimates as a non-market vesting condition	2000
Impact of expected share price - This is a market-based vesting condition and is ignored for this purpose	None
Fair value of option - Use fair value on grant date per IFRS 2	₹ 0·50
Proportion vesting - Two years through a three-year vesting period	2/3
Included in equity – (190 x 2,000 x ₹ 0·50 x 2/3)	₹ 126,667

Amount included in Statement of profit or loss and other comprehensive income for the year ended 31 March 2019

Particulars	Amount (₹)
Cumulative amount recognised in equity at 31 March 2019	126,667
Amount recognised in previous years – (200 x 1,500 x ₹ 0·50 x 1/3)	(50,000)
So included in current year's profit or loss	76,667

ANSWER TO CASE STUDY 5

I. Answers to Multiple Choice Questions

1. Option (a) ₹ 70,000

Justification:

In accordance with the principles of *IFRS 16 'Leases'* the lease of the machine is an operating lease because the risks and rewards of ownership of the machine remain with Donovan Ltd. The lease is for only three years of the eight-year life and Donovan Ltd is responsible for breakdowns, etc.

Therefore, Buildwell Ltd will recognize lease rentals as an expense in the statement of profit or loss. IFRS 16 stipulates that this should normally be done on a straight-line basis.

The total lease rentals payable over the whole lease term are ₹ 10,50,000 (₹ 2,10,000 x 5). Therefore, the charge for the current year is ₹ 3,50,000 (₹ 10,50,000 x 1/3).

The difference between the charge for the period (₹ 350,000) and the rent actually paid (₹ 210,000) will be shown as a liability in the statement of financial position at 31 March 2019. This amount will be ₹ 1,40,000.

₹ 70, 000 (2 x ₹ 2,10, 000 – ₹ 3,50, 000) of this liability will be current and ₹ 70,000 non-current.

2. Option (c) ₹ Nil

3. Option (d) ₹ 15 million

Justification for 2 & 3

Pursuant to the provisions of *IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'* the business would be regarded as held for sale from 1 June 2018. The held for sale criteria apply because the business is being actively marketed at a reasonable price and the sale is expected to be completed within one year of the date of classification. Given this classification, IFRS 5 requires that the assets be separately classified under current assets in the statement of financial position. No further depreciation would be charged on these assets.

The assets will be measured at the lower of their current carrying amounts at the date of classification and their fair value less costs to sell. In this case, the total carrying amount after re-measurement will be ₹ 46 million (₹ 46·5 million – ₹ 0·5 million).

The impairment loss of ₹ 17 million (₹ 63 million – ₹ 46 million) will first be allocated to goodwill taking its carrying amount to nil.

None of the remaining impairment loss will be allocated to inventories or trade receivables since their recoverable amounts are at least equal to their existing carrying amounts.

The remaining impairment loss of ₹ 7 million (₹ 17 million – ₹ 10 million) will be allocated to the property, plant and equipment and the patents on a pro-rata basis.

The closing carrying amounts of the property, plant and equipment and the patents will be ₹ 15 million and ₹ 6 million respectively.

4. Option (a) Cash inflow of ₹ 90,000

Justification:

Statement of investment in associates

Particulars	**Amount (₹)**
Opening balance of investment in Associate	66,00,000
Add: Share of profit in Associate [4,20,000-1,80,000]	240,000
Less: Cash flow (dividend paid by Associate) (balancing figure)	(90,000)
Closing balance of investment in Associate	67,50,000

5. Option (d) Issuance of equity shares ₹ 40 million; dividends paid ₹ 10 million

Justification:

Issuance of equity shares including further issue of equity shares (240 – 200) = ₹ 40 million

Dividends paid worked out as under:

Particulars	**₹ million**
Opening retained earnings	100
Add: Net income	25
Less: Cash dividend paid (balancing figure)	(10)
Closing retained earnings	115

Hence cash dividend paid ₹ 10 million.

II. Answers to Descriptive Questions

6. The transaction related to revenue is governed by the principles of IFRS 15 '*Revenue from Contracts with Customers'*.

One of the conditions imposed by IFRS 15 for recognizing the revenue from the sale of goods is that the control of ownership has to be passed to the 'buyer'.

Since Buildwell Ltd. continue the custody of the goods and the fact that it has the option to repurchase it on 31 March 2020 makes the probability high that the control is to be continued with Buildwell Ltd. only. Accordingly, based on the circumstances of the case, it is apparent that this is a financing transaction.

Therefore, the goods will remain in inventory at cost – being their manufactured cost of ₹ 8,00,000 plus one year's storage costs (or their net realisable value, whichever is lower). The net proceeds of ₹ 8,00,000, being a financial liability, is accounted for under the principles of IFRS 9 '*Financial Instruments'*.

Under IFRS 9, most financial liabilities are measured at amortized cost using the effective interest method. The finance cost for the period would be ₹ 64,000 (₹ 8,00,000 x 8%). This would be shown in the Statement of profit or loss.

The closing financial liability would be ₹ 8,64,000 (₹ 8,00,000 + ₹ 64,000). This would be shown as a current liability since the 'repurchase' occurs on 31 March 2020 – 12 months after the reporting date.

7. In accordance with *IAS 24 'Related Party Disclosures',* effective 1 January 2019, Candour Ltd. would be regarded as a related party of Buildwell Ltd. This is because Candour Ltd. is controlled by the close family member of one of Buildwell Ltd.'s key management personnel (Refer para 9 of IAS 24).

This means that from 1 January 2019, the purchases from Candour Ltd. would be regarded as related party transactions.

As per the provisions of para 18 of IAS 24, transactions with related parties need to be disclosed in the notes to the financial statements, together with the nature of the relationship. It is irrelevant whether or not these transactions are at normal market rates. As per para 23 of the standards, disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

The disclosure is required to state that Candour Ltd., controlled by the spouse of a director, supplied goods to the value of ₹ 4·5 million (3 x ₹ 1·5 million) in the current accounting period.

8. Cash Flow statement for the year ended 31st March 2019

(Indirect method)

Particulars	₹	₹
Cash flow from operating activities:		
Net Profit before taxes and extraordinary items (7,20,000+8,80,000)	16,00,000	
Add: Depreciation	6,00,000	
Operating profit before working capital changes	22,00,000	
Increase in inventories	(1,80,000)	
Decrease in trade receivables	16,80,000	
Advances	(12,000)	
Decrease in trade payables	(60,000)	
Increase in outstanding expenses	2,40,000	
Cash generated from operations	38,68,000	
Less: Income tax paid (Refer W.N.4)	(8,68,000)	
Net cash from operations		30,00,000
Cash from investing activities:		
Purchase of land	(4,80,000)	
Purchase of building & equipment (Refer W.N.2)	(28,80,000)	
Sale of equipment (Refer W.N.3)	3,60,000	
Net cash used for investment activities		(30,00,000)
Cash flows from financing activities:		
Issue of share capital	8,40,000	
Dividends paid	(7,20,000)	
Net cash from financing activities:		1,20,000
Net increase in cash and cash equivalents		1,20,000
Cash and cash equivalents at the beginning		6,00,000
Cash and cash equivalents at the end		7,20,000

Working Notes:

1. Building & Equipment Account

Particulars	₹	Particulars	₹
To Balance b/d	36,00,000	By Sale of assets	7,20,000

To Cash/bank (purchases)(bal. fig)	28,80,000	By Balance c/d	57,60,000
	64,80,000		64,80,000

2. Building & Equipment Accumulated Depreciation Account

Particulars	₹	Particulars	₹
To Sale of asset (acc. depreciation)	4,80,000	By Balance b/d	12,00,000
To Balance c/d	13,20,000	By Profit & Loss A/c (provisional)	6,00,000
	18,00,000		18,00,000

3. Computation of sale price of Equipment

Particulars	₹
Original cost	7,20,000
Less Accumulated Depreciation	4,80,000
Net cost	2,40,000
Profit on sale of assets	1,20,000
Sale proceeds from sale of assets	3,60,000

4. Provision for tax Account

Particulars	₹	Particulars	₹
To Bank A/c	8,68,000	By Balance b/d	1,20,000
To Balance c/d	1,32,000	By Profit & Loss A/c (provisional)	8,80,000
	10,00,000		10,00,000