

MOCK TEST PAPER
FINAL COURSE
PAPER 6E: GLOBAL FINANCIAL REPORTING STANDARDS

ANSWER TO CASE STUDY 1

I. Answers to Multiple Choice Questions

1. Option (c) ₹29.208 million

Reason:

In accordance with the provisions of *IFRS 15, Revenue from contract with customers*, Performance obligations for Bergman Ltd would cover the following:

Sale of property

Security services

Bergman Ltd should allocate the transaction price of ₹32.5 million to the property and the security services based on their relative standalone selling prices as follows:

Property: ₹ 29.208m (₹29.500m x (₹30.000m / ₹30.300m))

Security services: ₹ 0.292m (₹ 29.500 x (₹ 0.3m / ₹ 30.300m))

2. Option(c); Commission to sales employees of ₹2.5 Million will be capitalized under IFRS 15 and amortized during the period of the contract.

Reason:

Commission to sales employees of ₹2.5 Million will be capitalized under IFRS 15 and amortized during the period of the contract pursuant to IFRS 15.

3. Option(a); The annual bonus is to be charged to Statement of Profit & Loss.

Reason:

The discretionary annual bonus is to be charged to Statement of Profit & Loss as this is not linked to any specific contract and cannot be considered incremental cost under IFRS15.

4. Option(b); ₹16,64,000

Reason:

Statement of total owners' equity would be:

Particulars	Amount (₹)
Equity share capital ₹1/- par value	5,50,000
Preference share capital ₹100 par value	1,75,000
Retained earnings	8,93,000
Accumulated other comprehensive income	46,000
Total	16,64,000

5. Option(c); The bond would be treated under amortized cost and resultant interest income considered under Statement of Profit & Loss.

Reason:

The bond would be treated under amortized cost and resultant interest income considered under Statement of Profit & Loss under IFRS 9.

Answers to Descriptive Questions

6. The provisions are in accordance with the provisions of *IFRS 15: Revenue from contract with customers*.

Statement of contract revenue

Particulars	Amount ₹ Million
Original contract value	5.0
Add: Variation	
Additional cost of generator room and claim	0.8
Increased cost of building material claimed by contractor	1.5
Incentives – as the contract was completed within one year	0.5
Total contract revenue	7.8

7. The computation of contract asset is shown as under:

Particulars	Amount (₹)
Site labour cost	3,000,000
Material used (₹ 5,000,000 – ₹ 500,000)	4,500,000
Depreciation of plant and equipment	750,000
Costs of moving plant & equipment and materials to and from contract site	100,000
Cost of hiring plant & equipment	150,000
Costs of design and technical assistance – ₹ 50,000 not included as beyond scope of contract.	200,000
Cost of rectification	500,000
Claims from local authority – included as this is ancillary to stadium project and is an obligation to local authority	200,000
Total	9,400,000

8. In the instant case, the treatment under IFRS 15 Revenue from Contracts with Customers would be as under:

- (a) On 31st March 20X6, Bergman Ltd will recognize only ₹10 million (₹12.1 million / (1+10%)²) as credit to revenue and debit to receivables.

Particulars	Amount ₹ Million	Amount ₹ Million
31st March 20X6		
Dr. Receivables A/c	10.0	
Cr. Revenue A/c		10.0
(Being revenue recognized as present value of revenue receivable after two years)		

- (b) On 31st March 20X7, it will recognize ₹1 million (₹ 10 million x 10%) as finance income and debit to receivables.

Particulars	Amount ₹ Million	Amount ₹ Million
31st March 20X7 Dr. Receivables A/c Cr. Finance Income A/c (Being revenue recognized as finance income is recognized based on unwinding of discount after one year)	1.0	1.0

- (c) On 31st March 20X8, it will recognize ₹1.1 million (₹11million x 10%) as finance income and debit to receivables.

Particulars	Amount ₹ Million	Amount ₹ Million
31st March 20X8 Dr. Receivables A/c Cr. Finance Income A/c (Being revenue recognized as finance income is recognized based on unwinding of discount after two years)	1.1	1.1
31st March 20X8 Dr. Bank A/c. Cr. Receivables A/c. (Being money received from customer against receivable)	12.1	12.1

9. The allocation results in the ₹0.800m discount being allocated proportionately to the two performance obligations.

Accounting treatment is shown as under: (₹)

Item	20X2-20X3	20X3-20X4	20X4-20X5	20X5-20X6
Cost/revalued amount of machinery	1,000,000	900,000	711,111	962,500
Impairment / revaluation		800,000	1,100,000	750,000
Depreciation	(100,000)	(88,889) (note 4)	(137,500) (note 5)	(107,143) (note 6)
Balance (WDV)	900,000	711,111	962,500	642,857
Revaluation gain / (loss)	-	(100,000)	388,889	(212,500)
Revaluation surplus balance	-	-	288,889	(76,389)
Transfer to statement of Profit & Loss / Revaluation surplus	-	(100,000) (note 1)	100,000 (note 2)	(Note 3)

Note 1: Debit to the statement of Profit & Loss

Note 2: Credit to the Revaluation surplus

Note 3: The balance in the Revaluation surplus will be (₹288,889 – ₹212,500) = ₹76,389 to be carried forward in the year 20X6-20X7.

Note 4: Depreciation calculated on revalued amount i.e. ₹ 800,000 for remaining useful life of 9 years. Depreciation amount equals to ₹800,000/9 = ₹88,889. This is for the year 20X3-20X4.

Note 5: Depreciation calculated on revalued amount of ₹1, 100,000 would be:

$\text{₹}1,100,000/8 = \text{₹}137,500$ for the year 20X4-20X5.

Note 6: Depreciation calculated on revalued amount of ₹750,000 would be:

$\text{₹}750,000/7 = \text{₹}107,143$ for the year 20X5-20X6.

10. This is a compound financial instrument under IAS 32: *Financial Instruments: Presentation*. This signifies that it has an equity and debt element into it.

So the calculation to be carried out Bergman Ltd would be as follows:

Year	Proceeds (₹)	DCF 12%	DCF (₹)
1	40,000	0.88	35,200
2	40,000	0.78	31,200
3	40,000	0.70	28,000
4	540,000	0.64	<u>345,600</u>
Total debt			440,000
Equity (balancing figure)			<u>60,000</u>
Total nominal value			<u>500,000</u>

Based on the above finance cost would be: ₹440,000 x 12% 52,800 and would be charged to Statement of Profit & Loss of Bergman Ltd.

Disclosure under Statement of Financial Position would be as under:

Debt (₹ 440,000 + ₹ 52,800)	<u>492,800</u>
Equity	<u>60,000</u>

11. Bergman Ltd will receive interest of ₹59 (₹1,250 x 4.72%) each year and ₹1,250 when the Instrument matures.

Bergman Ltd must allocate the discount of ₹250 and the interest receivable over the five year term at a constant rate on the carrying amount of the debt. To do this, it must apply the effective interest rate of 10%.

The following table shows the allocation over the years:

Year	Amortized cost	Interest income (10%)	Interest/Principal received	Amortized cost
20X1 – 20X2	1000	100	(59)	1041
20X2 – 20X3	1041	104	(59)	1086
20X3 – 20X4	1086	109	(59)	1136
20X4 – 20X5	1136	114	(59)	1190
20X5 – 20X6	1190	119	(1250+59)	-

Each year the carrying amount of the financial asset is increased by the interest income

For the year and reduced by the interest actually received during the year.

12. Calculation of purchase consideration ₹'000
- | | | |
|------------------------------------|--------|-------------|
| Profits for last three years | First | 8900 |
| | Second | 6500 |
| | Third | <u>3500</u> |
| Total profits for last three years | | 18900 |

Average profits (₹18900/3)		6300
Total value of Broccoli Ltd (6300 / 7.5%)		84000
Number of shares in Broccoli Ltd		10000
Value per share		8.40
Purchase consideration (10000000 x 40%) x 8.4		33600
Calculation of goodwill / bargain purchase	₹'000	₹'000
Fixed Assets		115000
Add: Appreciation in value	4000	119000
Less: Creditors	25000	
Less: amount written back	1000	24000
Net Asset		95000
Share in net asset (95000 x 80%)		76000 (A)
Cost of investment: Purchase consideration		33600
Less: Dividend recd (100,000,000 x 40% x 15%)	6000	27600
Add: Investment (10000000 x 40% x 12)	48000	75600 (B)
Bargain purchase (A – B)		400

ANSWER TO CASE STUDY 2

I. Answers to Multiple Choice Questions

1. **Option(a),** According to IAS 37: Provisions, contingent liabilities and contingent assets the Basis of treatment to consider a provision is as follows:

Criteria	Analysis
(a) Present obligation as a result	This is a present obligation as there is of obligating event a claim from customers worth ₹ 10 m
(b) Probable outflow	There is a probability of outflow but it is only 40%. – i.e. less than 50%
(c) Reliable estimate	Yes

Hence it is clear that the transaction does not meet all the criteria required to make a provision as mainly the probability of payout is less than 50%. Therefore, the provision should be reversed and this should be disclosed as contingent liability under IAS 37 guideline (a)

2. **Option(a)** Treat the entire amount as a provision its books of account as per IAS 37.
3. **Option(c),** Book 100% of the amount as provision under constructive obligation pursuant to IAS 37.
4. **Option(d).** Provide for the present value of the lease amount related to the old factory for the next four years in accordance with the provisions of IAS 37.
5. **Option(b).** Deferred tax liabilities of ₹9,000 pursuant to provisions of IAS 12.

Answers to Descriptive Questions

6. Two key financial reporting standards may be applied to provide the correct treatment of this issue:

IAS 37 – Provisions, contingent liabilities and contingent assets – stipulates that provisions should be made for the unavoidable consequences of events occurring before the reporting date.

IFRS 5 – Non-current assets and held for sale and discontinued operations – provides that non-current assets that are held for sale should be separately classified on the statement of financial position and measured at the lower of existing carrying value and fair value less costs to sell. IFRS 5 further states that the results of discontinued operations should be separately disclosed in the income statement.

As far as the issue of a provision is concerned the steps taken before the reporting date have effectively committed the entity to the closure. The basic principle laid down in IAS 37 is that provision should be made for the direct costs associated with the closure.

On this basis the expected redundancy costs and the contract termination costs (items (a) and (d) – total ₹20 million + ₹5 million = ₹25 million) should be provided for.

A further cost associated with the closure is the net cost of terminating the pension rights of the employees who accept redundancy [(item (b))

(₹10 million – ₹7.5 million = ₹2.5 million).

IAS 19 – Employee Benefits – stipulates that the costs of settlement or curtailment of pension rights are a one-off amount that should be recognized in the income statement of a contributing entity. Given that a provision is appropriate, this cost should be recognized.

The cost of redeployment and retraining (item (c)) is an ongoing cost associated with the continuing business and IAS 37 specifically states that restructuring provisions should not include those items.

The treatment of expected operating losses [item (g)] is also dealt with in IAS 37. This IAS states that a provision is inappropriate unless the losses are anticipated to arise on an onerous contract.

Therefore, the total provision for closure should be ₹25 million. The net pension asset/liability will be reduced/increased by the excess of the amount to be paid into the plan (₹10 million) over the liabilities the payment will extinguish (₹7.5 million).

As far as the non-current assets of the segment are concerned these satisfy the IFRS 5 criteria for assets held for sale.

An asset is classified as held for sale if its value will be recovered principally through sale as opposed to continuing use. The implications of this classification is that the plant and property will be classified as held for sale on the Statement of Financial Position and measured at the lower of existing carrying value and fair value less costs to sell.

This means that Asparagus Ltd will write down the plant and equipment by ₹11 million to ₹2 million but that the property will continue to be carried at ₹10 million. The net assets of the segment will be regarded as a disposal group and separately classified on the statement of financial position under a separate heading.

Under the principles of IFRS 5 it would be correct to show the results separately if the segment can be regarded as a discontinued operation.

In order for this to be the case the segment would have to be:

A component of the entity (where operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity) that either has been disposed of or is classified as held for sale and:

- Represents a separate major line of business or geographical area of operations or:
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or:
- Is a subsidiary acquired exclusively with a view to resale.
- In this case it appears that the segment would be regarded as a discontinued operation. This means that entity needs to disclose (as a minimum) a single amount on the face of the income statement comprising the total of:
- The post-tax profit or loss of the discontinued operation and
- The post-tax gain or loss recognized on the measurement to fair value less costs to sell of the assets of the discontinued operation.

Further disclosures relating to discontinued operations are required either on the face of the income statement or in the notes:

- The revenue, expenses and pre-tax profit or loss.
- The related income tax expense.
- The gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets of the discontinued operation (both before and after tax).

7. Summary of accounting treatment of Property A and Property B:

Extract of Statement of financial position at 31 March 20X2.

	Amount ₹'000
Non-current assets	18,000
Current assets (or non-current assets held for sale)	24,625

Extract of Statement of comprehensive income for the year ended 31 March 2019

	Amount ₹'000
Depreciation (375 + 400)	775
Impairment (21,600 – 18,000)	3,600

Explanations

From 1 January 20X2 property A would be regarded as held for sale under the principles of IFRS 5 – *Non-current assets held for sale and discontinued operations*. The property is available for immediate sale in its present condition and is being actively marketed at a reasonable price. On the other hand property B would not, since it cannot be sold until necessary repairs are carried out.

Property A would be depreciated up to the date of classification as held for sale but not thereafter. Therefore, depreciation of 375 ($15,000 \times 1/30 \times 9/12$) would be necessary in the year to 31 March 20X2. The property would be removed from non-current assets and shown in current assets or in a separate section of the assets side of the statement of financial position.

It would be measured at the lower of its carrying value of the date of classification of 24,625 ($25,000 - 375$) and its fair value less costs to sell of 28,000 – 24,625 in this case. The decline in property prices

affecting this property relates to an economic event occurring after the reporting date. Therefore, it would be regarded as a non-adjusting event after the reporting date. The event would be disclosed as a note to the financial statements but the decline in value would not be recognized.

Property B would be depreciated for the whole period and would remain in non-current assets. The depreciation required for the year ended 31 March 20X2 would be 400 (16,000 x 1/40). The fact that its fair value less costs to sell is estimated at ₹18 million whilst the carrying value prior to any write down is 21,600 (22,000 – 400) is *prima-facie evidence of impairment*.

Given that the property is to be sold – even though it cannot be classified as held for sale at 31 March 20X2 – this is the best indicator of the recoverable amount of the property.

8. The treatment of each of the above pursuant to the provisions of IAS 12 – Taxes is as under:

- The carrying value of the asset is ₹420,000 (₹500,000 – ₹80,000) and the tax base is ₹375,000 (₹500,000 – ₹125,000). Assuming that the asset will be written down to nil value both for accounts and tax purposes, this difference will be reversed in future, hence it is temporary in nature. Therefore, the temporary difference is ₹45,000 (₹420,000 – ₹375,000). This will be taxable temporary difference and give rise to a deferred tax liability of ₹45,000 x 20% = ₹9,000.
- The fair value of the building is ₹400,000 whereas the carrying value is ₹200,000. This signifies that the building will be sold at ₹400,000 in the future. Since the company has to pay tax on this sale in future, it needs to account for the deferred tax now. Hence taxable temporary difference would be ₹200,000 (₹400,000 – ₹200,000) and deferred tax liability would be ₹40,000 (₹200,000 x 20%).
- Carrying value of sales tax payable is ₹10,000 in 20X0-20X1 whereas the tax base is nil as the amount would be actually paid in 20X1-20X2. Hence this will give rise to deductible temporary difference of ₹10,000 and deferred tax asset would be ₹2,000 (₹10,000 x 20%).
- Since penalty is not a deductible expenditure as per local tax laws, this difference between accounting and tax profits will never be reversed in the future. Hence this is a permanent difference and will not have any impact on deferred tax.

9. Calculation of goodwill / bargain purchase

Item	₹	₹
Net Assets		
Property, Plant & Equipment	7,000,000	
Less: Depreciation (7,000,000 x 10%)	700,000	6,300,000
Investments at market value		6,000,000
Current Assets		6,800,000
Loans & Advances		2,200,000
Total Assets		21,300,000
Less: Total liabilities – creditors	5,500,000	
10% debentures	1,000,000	6,500,000
Equity		14,800,000
60% of equity (60% x ₹14,800,000) (A)		8,880,000
Cost of investment		
Equity – (1,000,000 x 60%) x ₹20	12,000,000	
Less: Dividend (600,000 x 2)	1,200,000	

Net cost of investment (B)	10,800,000
Goodwill (B – A)	1,920,000

10. The cash flow statement pursuant to IAS 7 would be as under:

Cash Flow statement

	₹'000
Cash flows from operating activities	
Net profit	60,000
Less: Exchange gain	(8,000)
Less: Profit on sale of investments	(12,000)
	40,000
Add: Depreciation on assets	11,000
Change in current assets and current liabilities	51,000
Less: Increase in debtors	(8,000)
Add: Decrease in stock	12,000
Less: Decrease in creditors	(6,000)
<i>Net cash from operating activities (A)</i>	49,000
Cash flows from investing activities	
Sale of investments	70,000
Purchase of fixed assets	(65,000)
<i>Net cash from investing activities (B)</i>	5,000
Cash flows from financing activities	
Issue of preference shares	9,000
Loan raised	4,500
Redemption of debentures	(5,700)
Interest paid	(945)
Dividend paid	(1,400)
<i>Net cash from financing activities (C)</i>	5,455
Net increase in cash and cash equivalents (A+B +C)	59,455
Add: Opening cash and cash equivalents	12,341
Closing cash and cash equivalents	71,796

ANSWER TO CASE STUDY 3

I. Answers to Multiple Choice Questions

1. Option (c) ₹ 1.5 million

Reason:

₹ 0.5 million per month x 3 month = ₹ 1.5 million

2. Option (b) Deferred tax liability: ₹ 28.67 million

Reason:

Refer W.N.11

3 Option (b) ₹ 3.522 million

Reason:

Refer W.N.8

4 Option (c) ₹ 1.41 million

Reason:

Refer W.N.7

5 Option (a) ₹ 0.8 million

Reason

	₹ in million
Fair value of Investment in Dinkar Ltd. as on 1.7.20X2	15.00
Fair value of Investment in Dinkar Ltd. as on 31.3.20X3	<u>16.00</u>
Increase in value of investment	1.00
Less: Tax @ 20%	<u>(0.20)</u>
Net increase in value	<u>0.80</u>

II. Answers to Descriptive Questions

6. Consolidated Statement of Financial Position of Ayushman Ltd at 31 March 20X3

	₹ in million
ASSETS	
Non-current assets:	
Property, plant and equipment (W.N.13)	397.35
Goodwill (W.N.3)	43.60
Investment in associate (W.N.10)	52.60
Other investments in Dinkar Ltd (15 + 1)	16.00
Total non-current assets	509.55
Current Assets:	
Inventories (W.N.14)	97.00
Financial assets	
Trade receivables (W.N.15)	88.00
Cash and cash equivalents (12 + 7)	19.00
Total current assets	204.00
Total Assets	713.55
EQUITY AND LIABILITIES	
Equity attributable to equity holders of the parent	
Share capital	180.00

Retained earnings (W.N.6)	186.05
Other components of equity (W.N.9)	<u>99.78</u>
	465.84
Non-controlling interest (W.N.5)	<u>39.50</u>
Total equity	505.34
Non-current liabilities	
Financial liabilities	
Long-term borrowings (45.05 (W.N.8) + 35)	80.05
Deferred tax liability (W.N.11)	28.67
Total non-current liabilities	108.72
Current liabilities:	
Financial liabilities	
Trade and other payables (W.N.16)	52.00
Contingent consideration	22.00
Short-term borrowings (17 + 7)	24.00
Provision for fines	1.50
Total current liabilities	99.50
Total equity and liabilities	713.55

Working Notes:

Shareholding ratio

Ayushman Ltd.	Parent	
Basti Ltd.	Subsidiary	80 million shares/100 million shares = 80% holding by Ayushman Ltd.
Cinkara Ltd.	Associate	40% holding by Ayushman Ltd.

1. Statement showing changes in the net assets value of Basti Ltd.

	1 October 20X1 ₹ in million	Change ₹ in million	31 March 20X3 ₹ in million
Share capital	100.00	-	100.00
Retained earnings	41.00	26.00	67.00
Other components of equity	3.00	2.00	5.00
Property adjustment – see below	20.00	(0.15)	19.85
Plant and equipment adjustment (W.N.2)	4	(1.50)	2.50
Inventory adjustment	1.00	(1.00)	Nil
Deferred tax on fair value adjustments (W.N.12)	(5.00)	0.53	(4.47)
Net assets for the consolidation	164.00	25.88	189.88

The post-acquisition increase in net assets is ₹ 25.88 million (₹ 189.88 million – ₹ 164.00 million). ₹ 2 million of this increase relates to other components of equity, the balance of ₹ 23.88 million relates to retained earnings.

2. Post-acquisition depreciation adjustments

Depreciation for the property = ₹ 0.15 million [(₹ 33 million – ₹ 30 million) x 1.5/30]

The closing adjustment is ₹ 19.85 million (₹ 20 million – ₹ 0.15 million)

Depreciation for the plant and equipment = ₹ 1.5 million [(₹ 64 million – ₹ 60 million) x 1.5/4]

The closing adjustment ₹ 2.5 million (₹ 4 million – ₹ 1.5 million)

3. Goodwill on consolidation (Basti Ltd)

	₹ in million
Cost of investment:	
Share exchange (80 million shares x ½ x ₹ 4 per share)	160.00
Contingent consideration	<u>20.00</u>
	180.00
Fair value of non-controlling interest at date of acquisition (20 million shares x ₹ 1.80 per share)	<u>36.00</u>
	216.00
Net assets at 1 October 20X1 (W.N.1)	<u>(164.00)</u>
Goodwill before impairment	52.00
Impairment (W.N.4)	<u>(8.40)</u>
Goodwill after impairment	<u>43.60</u>

4. Impairment of goodwill

	₹ in million
Carrying value of assets in cash generating unit	50.00
Allocated goodwill (20% x ₹ 52 million) (W.N.3)	<u>10.40</u>
Carrying amount of assets of CGU	60.40
Recoverable amount of assets of cash generating unit	<u>(52.00)</u>
Goodwill impairment taken to W.N.3	<u>8.40</u>

5. Non-controlling interest in Basti Ltd

	₹ in million
Fair value on date of acquisition (W.N.3)	36.00
20% of post-acquisition increase in net assets (₹ 25.88 million (W.N.1))	5.18
20% of goodwill impairment (₹ 8.4 million x 20%) (W.N.4)	<u>(1.68)</u>
Carried to Statement of Financial Position	<u>39.50</u>

6. Retained earnings

	₹ in million
Ayushman Ltd	183.00
Charge for share based payment for the period (W.N.7)	(1.41)
Additional finance cost on bonds (3.52 – 2.50) (W.N.8)	(1.02)
Provision for penalty for illegal operation of vehicles (0.5 x 3 month)	(1.50)
Increase in fair value of contingent consideration	

(₹ 22 million – ₹ 20 million)	(2.00)
Basti Ltd (80% x ₹ 23.88 million) (W.N.1)	19.10
Cinkara Ltd [(40% x (64–6))]	1.60
Unrealised profits on sales to Basti Ltd (16 million x 25%)	(4.00)
Unrealised profits on sales to Cinkara Ltd (10 million x 25% x 40%)	(1.00)
80% of impairment of goodwill on acquisition of Basti Ltd (₹ 8.4 million (W.N.4) x 80%)	<u>(6.72)</u>
Carried to Statement of Financial Position	<u>186.05</u>

7. Share based payment charge

	₹ in million
Expected total cost [(5,000 options x 1,000 employees x 93% x ₹ 1.20)]	5.58
Amount that should be recognized to date (2/4 x 5.58 million)	2.79
Recognised in draft financial statements (5,000 option x 1,000 employee x 92% x ₹ 1.20 x 1/4)	(1.38)
So additional amount to be recognized in Statement of Profit or Loss (2.79-1.38)	1.41

8. Convertible bonds

	₹ in million
Liability element [(₹ 2.5 million x 3.99 + (₹ 50 million x 0.681)]	44.03
Equity component (balancing figure)	<u>5.97</u>
Total Proceeds	<u>50.00</u>
Opening liability	44.03
Finance cost for the period (8%)	3.52
Actual interest paid	<u>(2.50)</u>
Closing liability	<u>45.05</u>

9. Other components of equity

	₹ in million
Ayushman Ltd	90.00
Add: Revaluation of investment in Dinkar Ltd [(1 million – (20% (deferred tax) x 1million)]	0.80
Add: Share based payment (W.N.7)	1.41
Add: Convertible bonds (W.N.8)	5.97
Basti Ltd (80% x ₹ 2 million) (W.N.1)	<u>1.60</u>
Carried to Statement of Financial Position	<u>99.78</u>

10. Investment in Cinkara Ltd

	₹ in million
Cost	52.00
Share of post-acquisition profits (W.N.6) [40% x (64-60)]	1.60
Unrealised profits (W.N.6) [10 x 25% x 40%]	<u>(1.00)</u>
Carried to Statement of Financial Position	<u>52.60</u>

11. Deferred tax liability

	₹ in million
A Ltd + B Ltd (15 + 9)	24.00
On revaluation of investment in D Ltd (W.N.9)	0.20
On fair value adjustments (W.N.12)	<u>4.47</u>
Carried to Statement of Financial Position	<u>28.67</u>

12. Deferred tax on fair value adjustments

	1 October 20X1 ₹ in million	31 March 20X3 ₹ in million
Land adjustment	20.00	19.85
Plant and equipment adjustment	4.00	2.50
Inventory adjustment	1.00	Nil
Net taxable temporary differences	25.00	22.35
Related deferred tax (20%)	5.00	4.47

13. Property, plant and equipment

	₹ in million
Ayushman Ltd	210.00
Basti Ltd	165.00
Fair value adjustment of property (W.N.2)	19.85
Fair value adjustment of plant and equipment (W.N.2)	<u>2.50</u>
Carried to Statement of Financial Position	<u>397.35</u>

14. Inventories

	₹ in million
Ayushman Ltd	65.00
Basti Ltd	36.00
Less: Unrealised profits on sales to Basti Ltd (16 million x 25%)	<u>(4.00)</u>
Carried to Statement of Financial Position	<u>97.00</u>

15. Trade and other receivables

	₹ in million
Ayushman Ltd	55.00
Basti Ltd	<u>38.00</u>
	93.00
Less: Inter-company adjustment	<u>(5.00)</u>
Carried to Statement of Financial Position	<u>88.00</u>

16. Trade and other payables

	₹ in million
Ayushman Ltd	34.00
Basti Ltd	<u>23.00</u>
	57.00
Less: Inter-company adjustment	<u>(5.00)</u>
Carried to Statement of Financial Position	<u>52.00</u>

ANSWER TO CASE STUDY 4

I. Answers to Multiple Choice Questions

1. Option (c) ₹ 383 Lacs

Reason:

Carrying value as on 31 March 20X1:

		₹ in lacs
Cows		120.00
Land		150.00
Civil structure (useful life 15 years)	$65 - \{(65 \text{ lacs} / 15 \text{ year} \times 12 \text{ month}) \times 2 \text{ month}\}$	64.28
Milking equipment and other tools (useful life 7 years)	$50 - \{(50 \text{ lacs} / 7 \text{ year} \times 12 \text{ month}) \times 2 \text{ month}\}$	48.81

2. Option (a) ₹ 390 Lacs (approx.)

Reason:

	Opening Balance 1.4.20X1	Additions	Deletions	Fair value adjustments	Depreciation for 12 months	Closing balance
	₹ in lacs	₹ in lacs	₹ in lacs	₹ in lacs	₹ in lacs	₹ in lacs
Cows	120	$(3.24 + 2.88)$ 6.12	(5×0.60) 3.00	-	-	123.12
Land	150			15		165.00
Civil structure (useful life 15 years)	64.28				4.33	59.94
Milking equipment and other tools (useful life 7 years)	48.81				<u>7.14</u>	<u>41.67</u>
						<u>389.73</u>

3. Option (b) - ₹ 9.34 Lacs

Reason:

Period	Actual production	Target	Surplus	Directors	Sold	Sales value (₹ in lakh)
Q1	2,27,505	2,27,500	5	5	-	-
Q2	2,41,040	2,39,200	1,840	92	1,748	1.57
Q3	2,42,880	2,39,200	3,680	184	3,496	3.15
Q4	2,39,400	2,34,000	5,400	270	5,130	<u>4.62</u>
						<u>9.34</u>

Sales value is calculated @ ₹ 90 per litre.

4. Option (a) IAS 2 'Inventories'

Reason:

As per para 3 of IAS 41, IAS 41 is applied to agricultural produce, which is the harvested produce of the entity's biological assets, at the point of harvest. Thereafter, IAS 2 Inventories or another applicable Standard is applied. Hence for unsold stock IAS 2 will be applied.

5. Option (b) Fair value less costs to sell

Reason:

Since cattle feed is covered under IAS 41 'Agriculture', the valuation shall be fair value less costs to sell.

II. Answers to Descriptive Questions

6. Statement of Profit or Loss of Sai Caterers Pvt. Ltd. (Milk Procurement Unit)

For the year ended 31 March, 20X2

	Particulars	Figures as at the end of current reporting period ₹ in lacs
I	Revenue from operations:	
	Revenue - From inter-segment transfers	328.97
	Revenue – Direct sales	9.34
II	Other Income	<u>-</u>
III	Total Income (I + II)	<u>338.31</u>
IV	EXPENSES	
	Cost of materials consumed:	
	Daily feed for cows	109.50
	Medical expenses on cows	4.80
	Employee benefits expense	43.80
	Depreciation expenses	11.47

	Other expenses:	
	Office overheads	3.00
	Distribution cost	25.67
	Marketing cost for Godhan	<u>1.56</u>
	Total expenses (IV)	<u>199.80</u>
V	Profit/(loss) before tax (I-IV)	138.51

Working Notes:

1. Employee benefits:

No. of employees required to manage cows = 20

Cost	(₹ 15,000 x 20 x 12 month)	₹36.00 lacs
Add: Cost of project manager	(₹ 65,000 x 1 x 12 month)	<u>₹7.80 lacs</u>
Total employee cost		<u>₹43.80 lacs</u>

2. Cost of daily feed:

₹ 150 x 200 cows x 365 days = ₹ 109.50 lacs

3. Medical cost:

₹ 200 x 200 cows x 12 months = ₹ 4.80 lacs

4. Distribution cost:

₹ 2.7 per litre for internal consumption

Total milk supplied during the year – 9,50,825 litres (2,27,505 + 2,41,040 + 2,42,880 + 2,39,400)

So, cost of distribution = 9,50,825 litres x ₹ 2.7 = ₹ 25.67 lacs

5. Marketing cost related to Godhan:

Milk sold under the brand – 10,374 litres (1,748 + 3,496 + 5,130)

Marketing Cost per litre (as given) ₹ 15

So, marketing cost = ₹ 15 x 10,374 litres = ₹ 1.56 lacs

6. Office overheads:

₹ 25,000 per month (given), so annually ₹ 3 lacs

7. Depreciation:

Refer answer to MCQ 2 above. According to it depreciation for the year = ₹ 11.47 lacs

8. Revenue

Revenue from Godhan (direct sales) – Milk sold – 10,374 litres at ₹ 90 per litre

= ₹ 9.34 lacs

Milk consumed internally = 9,39,900 litres.

Inter-segment transfers of milk is @ ₹ 35 per litre

So, internal revenue would be = 9,39,900 litre x ₹ 35.00 = ₹328.97 lacs

ANSWER TO CASE STUDY 5

I. Answers to Multiple Choice Questions

1. Option (d) : Nil
2. Option (a) : ₹ 5 million
3. Option (c) : ₹ 106.25 million

Reason for 1, 2 and 3:

Accounting treatment for the machine purchased through foreign currency contract and extracts from the financial statements (statement of comprehensive income and statement of financial position) for the years ended 31st December, 20X1 and 31st December, 20X2:

In accordance with IFRS 9: Financial Instruments, the treatment would be as under:

<u>Year ended 31st December, 20X1 (refer note-1)</u>	₹' Million
Statement of Profit & Loss and Other Comprehensive Income	
Gain on revaluation of effective hedging instrument	10
Statement of Financial Position	
In current assets – derivative financial instrument	10
 <u>Year ended 31st December, 20X2 (refer note-2)</u>	
Statement of Profit & Loss	
Depreciation of property, plant and equipment	(18.75)
Statement of Other Comprehensive Income	
Gain on revaluation of effective hedging instrument	5
Reclassification of gain on effective hedging instrument (adjusted through PPE)	(15)
Statement of Financial Position	
Property, plant and equipment	106.25

Note-1: Explanation and supporting calculations – year ended 31st December, 20X1

The property, plant and equipment is not recognised in the year ended 31st December, 20X1 because the contract to purchase is an executory one.

At 31st December, 20X1 the derivative will be shown on the statement of financial position under current assets at its fair value of ₹ 10 million.

The derivative has a nil cost so a gain in fair value of ₹ 10 million will be reported in the statement of other comprehensive income. Since, the derivative is designated as a hedging instrument, this will be taken to other comprehensive income rather than Statement of profit or loss.

Note-2: Explanation and supporting calculations – year ended 31st December, 20X2

Between 1st January, 20X2 and 31st March, 20X2, a further gain on revaluation of the derivative of ₹ 5 million (₹ 15 million – ₹ 10 million) will be recognised in other comprehensive income.

On 31st March, 20X2, the machine will be recognised in property, plant and equipment at cost. The initial amount recognised will be ₹ 140 million (USD 2 million x ₹ 70).

The gain of ₹ 15 million in other comprehensive income must be recognised in profit and loss.

This is done by adjusting the carrying value of the asset at the date of recognition.

Accordingly, depreciation for the current period is ₹ 18.750 million $[(₹ 140 \text{ million} - ₹ 15 \text{ million}) \times 1/5 \times 9/12]$.

Hence, the closing balance in property, plant and equipment is ₹ 106.25 million $(₹ 140 \text{ million} - ₹ 15 \text{ million} - ₹ 18.750 \text{ million})$.

4. Option (b) : When the forward contract is settled

Reason:

The financial asset will be removed from the statement of financial position of Skywalk Ltd. when the contract is settled on 31st March, 20X2.

5. Option (d) : All 1, 2 & 3 are correct.

II. Answers to Descriptive Questions (All figures are in ₹ 000)

6. According to IAS 36: *Impairment of Assets*, the entity recognizes impairment loss by allocating it in such a way that the carrying amount of the assets in the unit (or group of units) is reduced in the following order, if the carrying amount of a cash generating unit exceeds its recoverable amount:

- Any goodwill allocated to the cash generating units or group of units
- Other assets of the group pro-rata their carrying values

This pro-rata allocation is subject to some verification as per the IFRS. The entity should not reduce the carrying amount of an asset below the highest of:

- ☐ the fair value less cost to sell (if measurable)
- ☐ its value in use (if determinable) and
- ☐ zero.

Due to this limitation, if it is not possible to allocate an impairment loss to any asset then the amount of impairment loss that would otherwise have been allocated to the asset shall be allocated pro-rata to the other assets of the unit or group of units.

Items	Assets 1.9.20X1 ₹ '000	Provision 1.10.20X1 ₹ '000	Assets Revised 1.10.20X1 ₹ '000	Provision 31.12.20X1 ₹ '000	Assets revised 31.12.20X1 ₹ '000
Goodwill	120	(120)	0	0	0
Operating license	720	(120)	600	(60)	540
Bus terminal and rest rooms	180	(30)	150	(30)	120
Tow trucks	180	(30)	150	(30)	120
Bus coaches	600	(300)	300	0	300
	<u>1,800</u>	<u>(600)</u>	<u>1,200</u>	<u>(120)</u>	<u>1,080</u>
		W.N.1		W.N.2	

Working Note 1:

1. Total impairment loss – ₹ 18,00,000 – 12,00,000 = 6,00,000 as on 1.10.20X1.
2. Goodwill will be totally eliminated. The remaining impairment loss is ₹ 4,80,000.
3. We have to remove the value of buses that were totally destroyed (₹ 3,00,000).
4. The fair value of the rest of the buses is equivalent to cost (as given)
5. Remaining unallocated impairment loss = (₹ 4,80,000 - ₹ 3,00,000) = ₹ 1,80,000
6. The unallocated impairment loss of ₹ 180,000 is allocated as follows:

	₹ '000	₹ '000	₹ '000
	Carrying Value	Impairment Loss	Net value
- Operating licence	720	120	600
- Bus Terminal	180	30	150
- Tow Trucks	<u>180</u>	<u>30</u>	<u>150</u>
	<u>1,080</u>	<u>180</u>	<u>900</u>

Working Note 2:

Unallocated impairment loss of ₹ 1,20,000 is allocated as follows:

	₹ '000	₹ '000	₹ '000
	Carrying Value	Impairment Loss	Net value
- Operating licence	600	60	540*
- Bus Terminal	150	30	120
- Tow Trucks	<u>150</u>	<u>30</u>	<u>120</u>
	<u>900</u>	<u>120</u>	<u>780</u>

*On 31st December, 20X1, licence had a fair value of ₹ 5,40,000.

7. IAS 37 requires that provisions should be made for the unavoidable consequences of events occurring before the reporting date. The steps taken before the reporting date have effectively committed the entity to the closure. The basic principle laid down in IAS 37 is that provision should be made for the direct costs associated with the closure. On this basis the required provision would be:

	₹ '000
Redundancy costs	30,000
Onerous contract	<u>5,500</u>
Total	<u>35,500</u>

Skywalk Ltd. is committed to paying 8,000 to its pension plan but this will not form part of the closure provision. This is because the payment, when made, will enable the pension plan to discharge actuarial liabilities that are measured at 7,000. This one-off additional retirement benefit cost of 1,000 (8,000 – 7,000) will be recognized in the income statement of Skywalk Ltd. in the year to 31st December, 20X1 and the net retirement benefit obligation increased accordingly.

Redeployment costs relate to the ongoing activities of the entity and are not recognized as part of a closure provision. They would only be recognized as liabilities at 31st December, 20X1 if Skywalk Ltd. had entered into enforceable obligations to incur the costs.

The lease with 10 years left to run is an onerous contract given the lack of sub-letting opportunities. IAS 37 requires that the provision should be the lower of the cost of fulfilling the contract ($1,000 \times 6.14 = 6,140$) and the cost of early termination (5,500).

The anticipated loss on sale of plant of 9,000 ($11,000 - 2,000$) is not part of the closure provision. However, under the principles of *IFRS 5 – Non-current assets held for sale and discontinued operations* – the plant would be measured at the lower of the current carrying value (11,000) and fair value less costs to sell (2,000). The plant would be separately displayed in a new statement of financial position caption (non-current assets held for sale).

Future operating losses are not recognized as part of a closure provision as they relate to future events. There is no need to disclose the results of the business segment that is to be closed separately in the current financial year. This is because the business segment does not satisfy the definition of a discontinued operation in the current financial year. IFRS 5 states that a discontinued operation is a component of an entity that is disposed of or classified as held for sale before the year end. This component is being abandoned rather than sold so it will not be classified as discontinued until the closure occurs. In this case this occurs for the year ended 31st December, 20X1.

8. Critical date for this project is 31st December, 20X1 when the testing was completed and the new production technique was approved as being technically feasible and commercially viable from that date. Hence, according to *IAS 38 Intangible assets*, all expenses prior to that date would be charged to Income statement as Research cost. Expenses post that date would be treated as development cost which should be capitalized once the project is brought into use and amortized over the life of the asset.