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Test Series: May, 2020

MOCK TEST PAPER - 1

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

You are a Chartered Accountant. You are offered a two month assignment at XYZ Ltd., an Indian listed manufacturing company producing wind turbines. Your job is to assist with the preparation of the year end consolidated accounts.

XYZ Ltd. has grown substantially over the last number of years as the demand for renewable energy has grown. It primarily manufactures medium-sized turbines on a supply only basis. In the past year, however, XYZ Ltd. has expanded in to the supply and maintenance of large-scale wind turbines used in wind farms. These contracts are generally much larger than the contracts XYZ Ltd. has dealt with to date.

XYZ Ltd. is exploring possibilities of listing its securities at an overseas stock exchange. The financial reporting requirements related to such listing include submission of financial statements as per IFRS.

XYZ Ltd. has owned shares in PQR Ltd. for many years, another Indian company manufacturing solar panels for installation on the roofs of residential properties.

At the office you meet General Manager (Accounts) who has the accounts almost complete they just need to be consolidated. He informs you that the Financial Controller mentioned that the company should value non-controlling interests at fair value at acquisition. General Manager (Accounts) gives you a copy of the latest draft financial statements (Appendix 1), a document detailing investments in other companies (Appendix 2) and outstanding issues that are needed to be adjusted.

Outstanding issues:

1. During the year, XYZ Ltd. purchased $10,200,000 of specialist raw materials from an American company. Purchase took place and was recognized in the financial statements on 1 December 20X1 when the exchange rate was $1: Rs. 65. The supplier has provided XYZ Ltd. with 6 month interest-free credit. At the reporting date of 31 March 20X2, the exchange rate was $1: Rs. 66. As at 31 March 20X2, 60% of the materials purchased were still in inventory in XYZ Ltd.

2. XYZ Ltd. offers a warranty on a number of its smaller sized supply only turbines. The turbines come with the warranty and is not sold separately anywhere. XYZ Ltd. has therefore made a provision of Rs. 5,10,000 for warranty claims. This represents 2% of total gross margin on this class of sales for the year ended 31 March 20X2. All turbines in this class are sold at a gross profit margin of 30%. In the past, 2% of these turbines have been validly returned during the warranty period. XYZ Ltd. provides a full refund on return of the faulty turbine, which is then scrapped. The warranty covers any problems that occur with the turbine in the first 6 months following sale, and sales have occurred evenly throughout the year.

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3. During the year, XYZ Ltd. completed its first supply and maintain contract. The turbines were supplied and operational on 31 January 20X2. The contract was for Rs. 3,91,00,000 and its terms included a provision that XYZ Ltd. maintains the turbines for a period of five years from the initial date of operation.

   If the turbines had been delivered on a supply and fit only contract they would have cost Rs. 3,40,00,000. The maintenance contract on a wind farm of this size would normally be Rs. 1,700,000 per annum. XYZ Ltd. has been paid in full for this contract and included the full Rs. 39,100,000 as revenue in the draft accounts for 31 March 20X2

4. Given the strong growth expected by XYZ Ltd. management is concerned about the possibility of key employees leaving. With this in mind, XYZ Ltd. introduced a share option scheme on 1 April 20X0 for all employees at manager level and above. 500 employees were eligible for the scheme. Each employee is entitled to 300 options to purchase equity shares at Rs. 34 per share, the fair value of each option at 1 April 20X0 was Rs. 9.01. The options vest on 31 March 20X3 if the employees continue to work for XYZ Ltd. during the three-year period. At 31 March 20X1, 495 of the staff were still employed and 480 were expected to be employed at the vesting date. XYZ Ltd.'s share price on 31 March 20X1 was Rs. 35.7 and the fair value of each option was Rs. 9.18. By 31 March 20X2, 490 of the staff were still employed and 475 were expected to be employed at the vesting date. XYZ Ltd.'s share price on 31 March 20X2 was Rs. 37.4 and the fair value of each option was Rs. 9.35. No entries have ever been made to record the share stock option scheme.

5. XYZ Ltd.'s revaluation surplus relates to its main manufacturing property. The property is leased with 40 years remaining on the lease. On 31 March 20X2, its carrying value was Rs. 9,60,00,000 with Rs. 24,00,000 of depreciation having been charged to cost of goods sold during the year. Due to falling property prices the fair value of the property at 31 March 20X2 was judged to be Rs. 8,40,00,000.

   Note: Impact on taxation may be ignored.

APPENDIX 1:

Draft Statements of Profit or Loss and Other Comprehensive Income

for the Year Ended 31 March 20X2.

		XYZ Ltd.	PQR Ltd.
		Rs. in million	Rs. in million
Revenue	A	421.6	164.9
Cost of goods sold		136	81.6
Selling and Distribution expenses		34	10.2
Administration expenses		20.4	5.1
Finance costs		17	1.7
Total Expenses	B	207.4	98.6
Profit before Tax	A-B	214.2	66.3
Tax expense		(42.5)	(13.6)
Profit for the year		171.7	52.7
Total comprehensive income for the year		171.7	52.7

Draft Statements of Financial Position as at 31 March 20X2

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		XYZ Ltd.	PQR Ltd.
ASSETS		**Rs. in million**	**Rs. in million**
Non-current assets			
Property, plant and equipment		450.5	76.5
Intangible assets		25.5	3.4
Investment property		37.4	
Investment in PQR Ltd.		13.6	
	A	527	79.9
Current assets			
Inventories		187	47.6
Trade Receivable		102	42.5
Prepayments		1.7	
Cash		56.1	30.6
	B	346.8	120.7
Total Assets	A+B	873.8	200.6
Equity and Liabilities			
Issued share capital Rs. 1 ordinary shares		255	27.2
Share premium		13.6	0
Retained earnings		280.5	130.9
Revaluation surplus		10.2	5.1
Total equity	C	559.3	163.2
Non-current liabilities		265.2	30.6
Current liabilities		49.3	6.8
	D	314.5	37.4
Total equity and liabilities	C+D	873.8	200.6

Appendix 2:

Investments in other companies

Investment in PQR Ltd.

XYZ Ltd. purchased 6.8 million ordinary shares in PQR Ltd. on 31 March 20XX. At that date the equity and liabilities of PQR Ltd. were as follows:

	Rs. in million
• Issued share capital Rs. 1 ordinary shares	27.2
• Retained earnings	30.6
• Revaluation surplus	1.7

During the year, PQR Ltd. sold goods to XYZ Ltd. for Rs. 2,550,000. These goods had cost PQR Ltd. Rs. 1,700,000. XYZ had goods worth Rs. 2,040,000 (at cost to XYZ Ltd.) in inventory at the reporting date. XYZ Ltd.'s accounts payable include an amount of Rs. 1,700,000 owing to PQR Ltd. (this agreed with the balance in PQR Ltd.'s books).

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Other information:

The 10% relevant present value (PV) is as follows:

Year	PV
1	0.909
2	0.826
3	0.751
4	0.683
5	0.621

I. Multiple Choice Question [2 Marks each]

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

1. What is the amount of exchange loss/gain to be recognized on 31 March 20X2 in relation to purchase of raw material from American Company?

   (a) Rs. 10.2 Million exchange loss

   (b) Rs. 6.12 Million exchange loss

   (c) Nil

   (d) Rs. 3.4 Million exchange loss **(2 Marks)**

2. At what amount should warranty provision be increased in books of accounts on 31 March 20X2?

   (a) Rs. 0.255 Million

   (b) Rs. 0.51 Million

   (c) Rs. 0.34 Million

   (d) Rs. 0.85 Million **(2 Marks)**

3. Out of contract revenue of Rs. 39,100,000 what should be segregation of maintenance contract and supply contract?

   (a) Rs. 39,100,000 only for maintenance and supply contract (no segregation required)

   (b) Maintenance contract Rs. 7,820,000, Supply contract Rs. 31,280,000

   (c) Maintenance contract Rs. 5,100,000, Supply contract Rs. 34,000,000

   (d) Maintenance contract Rs. 8,500,000, Supply contract Rs. 30,600,000 **(2 Marks)**

4. What is the amount of contract revenue that should be recognized on March 31, 20X2? Also state out of contract revenue of Rs. 39,100,000, what amount of deferred income should be recognized on 31 March 20X2?

   (a) Rs. 39.1Million; Current liability Rs. 703,448, Non-current liability Rs. 2,696,551

   (b) Rs. 35.7 Million; Current liability Rs. 1,700,069, Non-current liability Rs. 6,516,931

   (c) Rs. 31.54 Million; Current liability Rs. 1,564,000, Non-current liability Rs. 5,995,330

   (d) Rs. 30.883 Million; No liability **(2 Marks)**

5. What amount of annual charge on account of share option reserve should XYZ Ltd. had recognized on March 31, 20X1? What is the annual charge on account of share option reserve for the year ending 31 March 20X2?

   (a) Rs. 432,480; Rs. 423,470

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(b) Rs. 440,640; Rs. 447,610

(c) Rs. 454,410; Rs. 432,480

(d) Rs. 450,500; Rs. 440,640 **(2 Marks)**

II. Descriptive Questions

6. Pass the necessary entry for share option scheme introduced for all the employees on April 1, 20X0 with reference to relevant IFRS. (Show your calculations clearly) **(3 Marks)**

7. Prepare the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position of XYZ Ltd. Group for the year ended 31 March 20X2 in accordance with relevant IFRS (showing all relevant workings). **(12 Marks)**

CASE STUDY 2

Johansen Ltd. is a big business group in Northern Europe with diversified business interest. It maintains its books under International Financial Reporting Standards. While closing the books of company for the financial year ending 31 March 20X2, John Davies the Financial Controller of the organization came across certain transactions and is not sure how to treat them in the financial statements. You are a Chartered Accountant and John approaches you to help him out.

On 1 April 20X1it acquired a new subsidiary, Bosman Ltd., purchasing all 150 million shares of Bosman Ltd. The terms of the sale agreement included the exchange of four shares in Johansen Ltd. for every three shares acquired in Bosman Ltd. On 1 April 20X1, the market value of a share in Johansen Ltd. was Rs. 10 and the market value of a share in Bosman Ltd. Rs. 12·00.

The terms of the share purchase included the issue of one additional share in Johansen Ltd. for every five acquired in Bosman Ltd. if the profits of Bosman Ltd. for the two years ending 31 March 20X2 exceeded a target figure. Current estimates are that it is 80% probable that the management of Bosman Ltd. will achieve this target.

Legal and professional fees associated with the acquisition of Bosman Ltd. shares were Rs. 1,200,000, including Rs. 200,000 relating to the cost of issuing shares. The senior management of Johansen Ltd. estimate that the cost of their time that can be fairly allocated to the acquisition is Rs. 200,000. This figure of Rs. 200,000 is not included in the legal and professional fees of Rs. 1,200,000 mentioned above.

The individual Statement of Financial Position of Bosman Ltd. at 1 April 20X1 comprised net assets that had a fair value at that date of Rs. 1,200 million. Additionally Johansen Ltd. considered Bosman Ltd. possessed certain intangible assets that were not recognized in its individual Statement of Financial Position:

- Customer relationships – reliable estimate of value Rs. 100 million. This value has been derived from the sale of customer databases in the past.
- An in process research and development project that had not been recognised by Bosman Ltd. since the necessary conditions laid down in International Financial Reporting Standards for capitalisation were only just satisfied at 31 March 20X2. However, the fair value of the whole project (including the research phase) is estimated at Rs. 50 million.
- Employee expertise – estimated value of Director employees of Bosman Ltd. is Rs. 80 million. The market value of a share in Johansen Ltd. on 31 March 20X2 was Rs. 11.

On 1 March 20X2 the company embarked on a major staff training campaign. The training was provided during March 20X2. The campaign was outsourced to an external agency. The company paid Rs. 4 million to the agency on 1 March 20X2 and will be required to pay a further Rs. 2 million on 1 June 20X2 if its employees achieve specified performance targets related to the training in the year ended 31 March 20X2.

The directors consider that it will be possible for the employees to achieve these targets. However even with the campaign the targets will be very difficult to achieve.

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On 1 April 20X1 company granted 50 executives, call options to purchase up to 5000 shares each on 1 April 20X3. This was partly a means of deterring them from leaving as the options only vest if the executives are still employed on 1 April 20X3. According to Director Human Resources, they estimate 90% of the executives will remain with us for the two year period and exercise their options in full. Information on options is as under:

(a) The option price is Rs. 20 per share

(b) The market value of each share was Rs. 15 on 1 April 20X1 and Rs. 18 on 31 March 20X2.

(c) The market value of the share option was Rs. 2 on 1 April 20X1 and Rs. 2.20 on 31 March 20X2.

On 1 October 20X1, Johansen Ltd. subscribed for 40 million Rs. 1 loan notes in Carlton Ltd. The loan notes were issued at 90 paise and were redeemable at Rs. 1·20 on 30 September 20X6. Interest is payable on 30 September in arrears at 4% of par value. This represents an effective annual rate of return for Johansen Ltd. of 9·9%.

Johansen Ltd.'s intention is to hold the loan notes until redemption. Until 30 April 20X2 Carlton Ltd. was a successful company with a good reputation for settling all its liabilities at their due dates.

However, due to an event which occurred on 30 April 20X2, three of Carlton Ltd.'s major customers became insolvent and this caused liquidity problems for Carlton Ltd. During May 20X2 Carlton Ltd. entered into negotiations with all its creditors, including Johansen Ltd.

Johansen Ltd. agreed to forego the interest payments due on 30 September 20X2 and 20X3, with the payments from 30 September 20X4 onwards resuming as normal.

On 1 January 20X2 the directors of Johansen Ltd. decided to terminate production at one of the company's divisions. This decision was publicly announced on 31 January 20X2. The activities of the division were gradually reduced from 1 April 20X2 and closure is expected to be complete by 30 September 20X2.

At 31 January 20X2 the directors prepared the following estimates of the financial implications of the closure:

(i) Redundancy costs were initially estimated at Rs. 2 million. Further expenditure of Rs. 800,000 will be necessary to retrain employees who will be affected by the closure but remained with Johansen Ltd. in different divisions. This retraining will begin in early July 20X2. Latest estimates are that redundancy costs will be Rs. 1·9 million, with retraining costs of Rs. 850,000.

(ii) Plant and equipment having an expected carrying value at 31 March 20X2 of Rs. 8 million will have a recoverable amount Rs. 1·5 million. These estimates remain valid.

(iii) The division is under contract to supply goods to a customer for the next three years at a pre- determined price. It will be necessary to pay compensation of Rs. 600,000 to this customer. The compensation actually paid, on 31 May 20X2, was Rs. 550,000.

(iv) The division will make operating losses of Rs. 300,000 per month in the first three months of 20X2-20X3 and Rs. 200,000 per month in the next three months of 20X2-20X3. This estimate proved accurate for April 20X2 and May 20X2.

(v) The division operates from a leasehold premise. The lease is a non-cancellable operating lease with an unexpired term of five years from 31 March 20X2. The annual lease rentals (payable on 31 March in arrears) are Rs. 1·5 million. The landlord is not prepared to discuss an early termination payment.

Following the closure of the division it is estimated that Johansen Ltd. would be able to sub-let the property from 1 October 20X2.

Johansen Ltd. could expect to receive a rental of Rs. 300,000 for the six-month period from 1 October 20X2 to 31 March 20X3 and then annual rentals of Rs. 500,000 for each period ending 31 March 20X4 to 31 March 20X7 inclusive. All rentals will be received in arrears.

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Any discounting calculations should be performed using a discount rate of 5% per annum. You are given the following data for discounting at 5% per annum:

Present value of Re.1 received at the end of year 1 = Rs. 0·95

Present value of Re.1 received at the end of year 1–2 inclusive = Rs. 1·86

Present value of Re.1 received at the end of year 1–3 inclusive = Rs. 2·72

Present value of Re.1 received at the end of year 1–4 inclusive = Rs. 3·54

Present value of Re.1 received at the end of year 1–5 inclusive = Rs. 4·32

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. What would be the initial measurement of financial instruments as subscription of loan notes in Carlton Ltd.?
   (a) Rs. 40 million
   (b) Rs. 37.782 million
   (c) Rs. 38.4 million
   (d) Rs. 36 million
2. What would be the closing balance of financial instruments (as subscription of loan notes in Carlton Ltd.) as on 31 March 20X2?
   (a) Rs. 37.6 million
   (b) Rs. 34.218 million
   (c) Rs. 37.782 million
   (d) Rs. 36.182 million
3. What would be the amount of non-current asset as classification in the balance sheet with respect to subscription of loan notes in Carlton Ltd.?
   (a) Rs. 37.782 million
   (b) Rs. 36.182 million
   (c) Rs. 34.518 million
   (d) Rs. 40 million
4. What is the nature of event which occurred on 30 April 20X2, wherein three of Carlton Ltd.'s major customers became insolvent and thus causing liquidity problems for Carlton Ltd.?
   (a) Non adjusting event
   (b) Adjusting event
   (c) Prior period error
   (d) None of the above
5. How much provision should be made in the financial statements of 31 March 20X2 with respect tp onerous contract?
   (a) Rs. 4,520,000
   (b) Rs. 4,510,000
   (c) Rs. 64,80,000

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(d) Rs. 19,70,000

II. Descriptive Questions

6. Compute the goodwill on consolidation of Bosman Ltd. that will appear in the consolidated Statement of Financial Position of Johansen Ltd. at 31 March 20X2 with necessary explanation of adjustments therein. **(4 Marks)**

7. Explain whether staff training program will be treated as an intangible assets under specifications laid down by the relevant IFRS and also discuss its recognition aspect. **(4 Marks)**

8. What will be the treatment of call options granted to executives as on 31 March 20X2? **(3 Marks)**

9. Compute the amounts that will be included in the Statement of Profit & Loss for the year ended 31 March 20X2 in respect of the decision to close the division of Johansen Ltd. **(4 Marks)**

CASE STUDY 3

G Ltd., a listed entity and owned 90% by J Ltd. (the other shareholder being V Ltd.), has been served with a court order on 1st July 20X2 for installing certain infrastructural facilities and equipment required for environmental and other statutory compliance at its facility in Kanpur and which G Ltd. had failed to comply since its inception in 2010. G Ltd. has other such manufacturing facilities in many parts of India. The time limit for compliance of this court order is 15 months from the date of the order (i.e. 30th September 20X3) and if not complied with, G Ltd. may have to remove its existing plant on the grounds of failure to comply with the requirement to produce goods as per Government's rules and regulations. The financial year ending for the entity is 31st March of every year. G Ltd. has five subsidiaries (all within India). The financial statements for the year ending 31st March 20X3 have been authorized for issue on 15th May 20X3.

G Ltd. is in dire need of funds for the above compliance since its liquidity as well as financial position does not look good in 20X2. Due to its history of past multiple defaults on loans from various banks, obtaining funds is more difficult for G Ltd. Considering the lack of local funding avenues, G Ltd. has approached its parent J Ltd. based in a country from where outflow of funds by way of equity investment in general have been under scanner during the last one year by way of stringent rules and regulations. Hence the parent has assigned all its trade and loan receivables for a consideration of $ 1 such that G Ltd. is able to collect all the receivables. As per their initial trade terms, these receivables are collectible over a period ranging from 90 days to 12 months (being related parties). However the procedural delays are expected to cost an additional time of 2 months until credit in to G Ltd.'s bank account. G Ltd.'s analysis reveals that more than 75% of the receivables are with due dates falling between 9-12 months from the date of initial recognition i.e. most of them are due only after 31st March 20X3. Amidst all this lies also a concern that the parent' country might also tighten the screws on many other categories of outflows in the coming months but not sure if this will include collection of receivables (especially if these are assigned like the ones to G Ltd.).

Management of G Ltd has already been actively involved in or looking out for disposing two of its subsidiaries X Ltd. and Y Ltd. for improving its liquidity and streamlining its operations. The current status of the disposal plans regarding these two subsidiaries is as below:

X Ltd., Delhi	This is a dormant entity whose directors have been till date exploring possibilities of various types of business after shutting down its operations in 20XX. No plans of revival have surfaced yet. Management of G Ltd. has already entered in to a binding sale agreement on 1st May 20X2 for all its assets (i.e. only building and PPE – Refer table below) with a buyer from a different industry despite being able to find buyers in the same industry who only offered a low sale price. The agreement provides for a sale completion date on 30th April 20X3 and a maximum time up to 31st May 20X3

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	because the buyer has approached G Ltd. for making certain customized modifications in the building structure (i.e. fit outs and other renovations) to suit its purpose. PPE is agreed to be acquired as such. These activities will be funded in advance by the buyer and adjusted against the final and revised selling price which is fixed at Rs. 185 Lacs. Management of G Ltd. estimates that the required fit out works will require heavy demolition works involved and sourcing of appropriate contractors for the job. As a result it is impossible to have the fit-outs completed by 31st May 20X3. However it is noted that the agreement also provides for refund of all monies received by G Ltd. till date if the sale is not completed on or before 31st May 20X3. As on 31st March 20X3, G Ltd. has completed the required demolition works but is unsure about the availability of contractors for the fit out works and the possibility of completing before 31st May 20X3.
Y Ltd., Cochin	Y Ltd. is active in its operations since its commencement in 20XX. The necessary board resolution for the disposal of this operation has been passed on 1st February 20X3. As this is private company, no further formalities such as resolution in AGM is required for proceeding. The situation as at 31st March 20X3 is that advertisements have been given in the local newspapers and magazines regarding the offer for sale. The price offered is Rs. 475 Lacs based on a valuation report obtained from an independent valuation agency. Two prospective buyers have responded with counter offers which are acceptable to management although other terms of sale have been evaluated.

Note: The year 20XX is the year prior to the year 20X0.

X Ltd. only has a PPE (cost model) with book value of Rs. 75 lacs (fair value less costs to sell is Rs. 60 lacs determined to be the recoverable amount) and building (cost model) is Rs.150 lacs (fair value less costs to sell is Rs. 120 lacs determined to be the recoverable amount) as at 31st March 20X3. The non-current assets of Y Ltd. as on 31st March 20X3 (no liabilities outstanding) are as below:

Item	**Y Ltd. (Rs. In lacs)**	
	Book value	**Fair value less costs to sell**
Building (cost less depreciation)	175	148
Freehold Land (on revaluation model)	255	255
Plant and Machinery (cost less depreciation)	65	58
Investment in listed entities (fair value through P/L)	14	14
TOTAL	**509**	**475**

The group was a lessee in respect of various operating leases that have already been accounted as per IFRS 16 in the current year. Given the uncertainty of the situation around G Ltd., management of the entity is holding discussions on the following leases in which G Ltd. is a lessee. Below is the position as on 31st March 20X3:

Lease of Building at MG Street	The lease agreement provides for an option to renew the lease at the end of the first term that commenced on 1st July 20X0 and ends on 30th June 20X3. The lease can be renewed for another two years ending 30th June 20X5. The agenda of the AGM to be conducted on 30th April 20X3 contains an item in relation to

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	this lease. The lease rent is Rs.50,000 per month payable in advance. At the inception of the lease, G Ltd. had received an upfront cash subsidy under a Government scheme towards lease costs incurred for conducting the operations and as part of the scheme it was obliged to hold the lease for the entire period of 5 years ie including the renewal period. Post the court order the subsidy has been withdrawn and now management finds that the lease costly to continue.
Lease of service apartment at Tagore Street	This service apartment in Kanpur is situated close to the controversial plan. The lease agreement was for a non-cancellable term of two years ending 30th June 20X4 at a rent of Rs 25,000 per month in advance. No renewal options exist in this lease. However if the lessee early terminates the lease, it has to pay a penalty equal to Rs.2,50,000. Management has decided to terminate the lease by giving immediately a one-month notice to the landlord. Current market interest rate for borrowings for any term longer than one year is 7.5%. This decision of management is because post the court order fiasco a lot of senior executives have left and the service apartment is no more in need

As at 31st March 20X3, G Ltd. had the following financial assets in its Statement of Financial Position:

Item	Book value (Rs in lacs)	Fair value (Rs in lacs)	Management position
Equity shares of ABC Ltd. (listed)	13	13	They are presently measured at fair value through OCI through an irrevocable election. Given management's concerns about an impending liquidity crisis, it has been decided to optimize returns from the investment by cashing in on price fluctuations. No amounts lying in OCI. Assume that conditions required for reclassification are satisfied.
Trade receivables (acquired from Parent)	56	56	Management expects to collect all of them. But if there is a compulsion to shut down this operation, G Ltd. will re-assign the foreign receivables back to Parent for their contractual outstanding balances.
Corporate Bonds in D Ltd.	29	35	Measured at amortized cost. These are puttable at any time back to the issuer for the outstanding balance with some reasonable compensation for termination in line with the market expectations. Assume that conditions required for reclassification are satisfied and if required for liquidity these bonds will be put back to the issuer or sold in the market
Bonds issued by the parent country's Government	15	15	These bonds are maturing on 31st August 20X3 and measured at fair value through OCI. Recently the Government backed securities suffered a price decline post the Government's stringent norms and investment downgrading and not expected to recoup any time in the short future. However given stable rating for these bonds, the

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			maturity amount is expected to be fully collected. So as to avoid capital erosion and look for possible returns on the capital, management decided to wait till maturity. These bonds were bought in 20X0 at a fair value of Rs. 11 lacs.

G Ltd. had the following investments in associate H Ltd. (a foreign listed entity) which is being equity accounted in the consolidated financial statements of the group. As at 31st March 20X3, the status of the investments held is as below:

10,000 Equity shares of Rs.100 each	G Ltd. has a nominee director on the board of H Ltd. Following the news of the court order, the other members on the board have notified a resolution to remove the nominee director of G Ltd. who is believed to be the reason for the disaster in G Ltd. This has caused a decline in the fair value of the investment in the associate while there is an uncertainty of a worthy substitution. All material sale / purchase contracts with G Ltd. have been immediately terminated.
10% Unsecured Debentures issued at face value of Rs.10 lacs	These debentures carry an annual redemption feature and maturing on 30th June 20X4. However, since G Ltd. was in default of certain conditions subsequent in the investment agreement that included the said statutory compliance ordered by Indian Court, H Ltd. is not obliged any more to honour the repayment schedule until G Ltd. complies with the requirements of the statute as ordered by the court. Such conditions were included to comply with the obligations imposed by that foreign Government to eliminate environmental and quality issues faced in that country due to products originating from the Kanpur plant. As a result it is unclear whether and when the full amount will be settled as no negotiations are likely in this regard.

On 30th April 20X3, a Government-sponsored interim inspection was conducted that discovered zero progress on the satisfaction of the court obligation. As a result of this, Rs 12 lacs have been slapped on the directors as penalty for non-compliance. Management has gone on appeal in a higher court pleading on the grounds of non-availability of funds to complete the project and request extension of time. Although the legal counsel opines it is probable that G Ltd. will escape the levy of any amount of penalty it is highly unlikely that extension of time will be granted.

Post the filing of announcement at the National Stock Exchange regarding the results of the inspection on 1st May 20X3, the demand for stock of inventories (80,000 kgs) distributed from Kanpur plant to various stockists/ distributors spiraled downwards. On 10th May 20X3 aggrieved stockists and distributors have demanded a compensation of Rs 17.50 lacs for the decline in the net realizable value of those inventories. In response to it, on the same day, G Ltd. issued its own 15,000 shares whose current market value is Rs.120 per share. V Ltd., the non-controlling shareholder of G Ltd. has agreed to take over the stock of inventories (1,00,000 kgs) at their current book value of Rs 85 lacs (estimated NRV of Rs. 65 lacs on 31st March 20X3) lying unsold at the Kanpur facility in lieu of any cash dividend payable in that period. This has been officially communicated on 22nd May 20X3 though management of G Ltd. was unofficially aware of the minutes of J Ltd.'s AGM held on 14th May 20X3 containing resolution to take over the inventories.

I. Multiple Choice Questions [2 Marks each]

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

1. What will be the total impairment loss calculated for the buildings held by X Ltd. and Y Ltd.?
   - (a) Rs. 50 lacs
   - (b) Rs. 52 lacs
   - (c) Rs. 55 lacs
   - (d) Rs. 57 lacs
2. What will be the lease liability as on 31st March 20X3 for MG Street Building lease (assuming IBR of 8.5% and time value of money exist in the determined lease term)?
   - (a) Rs. 1,50,000
   - (b) Rs.1,48,938 (approx.)
   - (c) Rs. 1,23,3501 (approx.)
   - (d) None of these
3. What is the amount recognized in Profit or loss for the period ending 31st March 20X3 on account of Tagore street lease?
   - (a) Rs. 2,50,000
   - (b) Rs. 3,59,126
   - (c) Nil
   - (d) Rs. 3,75,000
4. Calculate the absolute net impact on OCI for the year ended 31st March 20X3.
   - (a) Rs. 6 lacs
   - (b) Rs. 2 lacs
   - (c) Rs 4 lacs
   - (d) Nil
5. Calculate the amount of year-end adjustments for inventory to P/L for the year ended 31st March 20X3?
   - (a) Rs. 18 lacs
   - (b) Rs. 85 lacs
   - (c) Rs. 20 lacs
   - (d) Rs. 12 lacs

II. Descriptive Questions [5 marks each]

6. You are required by management of G Ltd. to provide a complete advice on accounting implications regarding management's decision to sell X Ltd. and Y Ltd. Give reasons for your advice with reference to relevant IFRS with a brief note on any other accompanying requirement in IFRS 5. You are not required to calculate the impairment loss for the limited purpose of this question part.
7. As a close aide of management, proactively advise them on the accounting implications of their decisions or likely decisions regarding leases and investments (including in associates). Give brief and precise advice. You are not required to carry out the calculations for the limited purpose of this question part.

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8. What are the implications of the various events that occurred after 31st March 20X3 on the current year financials? Also briefly provide the accounting requirement in the immediate next reporting period with relevant IFRS reference? You are not required to carry out the calculations for the limited purpose of this question part.

CASE STUDY 4

Economy of Pune once depended heavily on auto industry and SMEs providing ancillary parts or services to the auto industry. Even today, the city's economy has a major share of auto industry. However, with the advent of IT corridors in 3 different parts of the city's outskirts, the economy of Pune has grown significantly through Software and Information Technology services in the recent times. Almost every major IT company of the country has its office(s) in Pune including the likes of TCS, Infosys, Wipro, Tech Mahindra and so on. Even some foreign MNCs also have their facilities in Pune like Capgemini, Cisco, and Atos etc.

Significant portion of the workforce for IT industry is drawn from Telangana and Andhra Pradesh even though people come from various parts of the country to work in Pune.

People from various parts of Andhra Pradesh have easy access to Hyderabad which has excellent connectivity not only within the country but also outside the country. According to a study published by an IT industry association, on an average about 5000 people migrate every month from Telangana and Andhra Pradesh to Pune. Since many of them travel for the first time to Pune they either have their parents, relatives or friends with them.

Travel from Hyderabad to Pune is popular and most economical through Indian Railways which take on an average 12 hours of travel time except Shatabdi Express which takes about 8 hours. Both the cities are also well-connected through flights but only a few people travel by flight. Another way is to travel by road which takes about 10 hours' time.

There have been many representations to the Indian Railways to start special train service between the two cities which will reach in 8 hours' time and will not have any halts in between. However, there has been no action on this front from the Ministry of Railways.

Two years ago, National Highways Authority of India (NHAI) had floated a Request for Proposal (RFP) which sought to build, operate and transfer an express highway between Pune and Hyderabad on the lines of the express highway that was built between Mumbai and Pune.

The proposed express highway between Pune and Hyderabad has a new route that will cover the distance in 409 kms as against the existing routes which are about 550 kms on an average. The new express highway aims to reduce the travel time between the two cities to merely 5 hours if the average speed is assumed to be 80kmph.

Charminar Expressways Ltd. is a company engaged in the business of BOT (build, operate and transfer) of express ways. It gets contracts either directly from the Government of India through NHAI or from Private Infrastructure companies like L&T Ltd., who have won the contracts from the Government bodies. The company had submitted its proposal and has won the contract from NHAI.

The proposed express highway has 11 tunnels that cover a distance of about 19 kms and 8 bridges (to cross over rivers, canals or other water-based areas) covering a distance of around 17 kms. Except these, the express highway will have normal (plain) road throughout the route.

The estimated cost of construction of Express Highway is as follows:

Nature of road	Cost per km (Rs. in Crore)
Normal (plain) road	2.95
Tunnel road	3.78
Bridge road	4.58

The cost/km above includes material, labour and overhead expenses from the beginning to the end of construction period which is expected to be 20 months from the date of commencement.

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The Asian Development Bank (ADB) has agreed to finance 50% of the project cost at a nominal interest of 3% per annum. Government of Telangana has agreed to grant 8% of the project cost since it will help the people of the state in employment opportunities. Also, Government of Maharashtra has agreed to grant 12% of the project cost since the proposed route will also help people of Solapur which has an entry and exit tolls in the express highway leading to Pune and Hyderabad. Moreover, the Central Government has agreed to grant 10% of the project cost.

Thus, 30% of the project cost is coming through Government Grants which will be credited to the Escrow account within 7 working days from the day the loan from ADB is disbursed. For the remaining 20% of the project cost, the company shall take a commercial loan from any nationalized bank for which the bank guarantee shall be provided by NHAI. ADB has agreed to charge interest from the day the project is completed / inaugurated and not during the construction phase. However, the nationalized bank shall continue charge interest from the date of disbursement at the rate of 10% p.a.

Charminar Expressways Ltd. has a reputation for timely completion of projects. This project was not an exception.

Following were the key terms of the contract:

1. Operator shall have sole responsibility of constructing the Express Highway as per the technical specifications given by the Grantor.
2. Operator shall manage the day-to-day administration and execution of the project till completion of the Express Highway and handover of the same to the Grantor.
3. Operator shall have an absolute right to collect toll from vehicles using the Express Highway for 21 years from the date of first commercial use of the Express Highway.
4. Operator shall repay the loan from ADB within 20 years along with interest cost from the toll collected by it. EMI for 20 year loan @ 3% would be Rs. 3.5 crore (approx.). Annual interest will be recognised in the books on equated cost basis.
5. Operator shall also repay the commercial loan from nationalized bank within 10 years along with interest cost from the toll collected by it. EMI for 10 year loan @ 10% would be Rs. 3.3 crore (approx.). Annual interest will be recognised in the books on equated cost basis.
6. Operator shall handover the Express Highway to the Grantor at the end of 21 years at a nominal cost of Rs. 5 Lacs.
7. Operator shall manage the cost of maintenance and administration of toll stations during the contract term on its own without any financial support from the Grantor.

The construction activity was completed in 19 months. The Prime Minister was invited to do the inauguration of service and make it open to the public at large.

Following toll charges were levied by the Operator in consultation with the Grantor:

Two and Three Wheelers not allowed.

Vehicle Type	Entire route	Solapur Entry/Exit
Car/Jeep/SUV	Rs. 650	Rs. 350
Truck/Bus/Van	Rs. 1150	Rs. 600
Goods Carrier/Heavy Trucks	Rs. 2050	Rs. 1100

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I. Multiple Choice Questions

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

Choose the best option from the given choices:

1. The Operator can recognise the Cost of building the Express Highway as Property Plant & Equipment for 21 years and derecognise the same in the year in which it is handed over to the Grantor.
   - (a) The statement is false since the Operator can recognise the cost of building the Express Highway as property, plant and equipment for 11 years only when the loan to nationalised bank is prepaid
   - (b) The statement is false since the Operator can recognise the cost of building the Express Highway as property, plant and equipment for 10 years only
   - (c) The statement is false as the contract does not give any right to the operator to control the use of Express highway
   - (d) The statement is true provided the related liabilities are also recognised by the Operator.
2. In this contract, the Operator has an absolute right to collect toll from users. This right can be recognized by the Operator as _____________.
   - (a) A financial asset
   - (b) An intangible asset
   - (c) Can't be recognised as an asset since the value can't be measured
   - (d) Contingent asset
3. Borrowing cost incurred by the Operator shall be treated as _______ during the construction phase of the Express highway.
   - (a) Expense
   - (b) Part of intangible asset (capitalised)
   - (c) Deferred revenue expenditure till the Express Highway is ready for public use
   - (d) Part of Property, plant & equipment (capitalised)
4. As part of the disclosures required for Service Concession Arrangement, which of the following is not required to be disclosed for a reporting period by the Operator?
   - (a) Revenue recognised from the Service Concession Arrangement
   - (b) Profit or loss from the Service Concession Arrangement during the year
   - (c) Classification of service arrangement
   - (d) Sources of funding the construction of a public service utility
5. Since the value of intangible asset received as consideration for provision of construction services by the operator is difficult to determine as it varies on the basis of actual toll collection from the users, what should be the best way to measure the value of intangible asset?
   - (a) Fair value of similar express highway built elsewhere in the country
   - (b) Cost incurred in building the Express highway till the same is open to public use
   - (c) Toll charges per vehicle multiplied by the number of vehicles
   - (d) Estimated cost of construction as funded by various Government grants and bank finance.

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II. Descriptive Questions [5 marks each]

6. Actual cost incurred for building the express highway was exactly 99.02% of the estimated cost. The nationalised bank had sanctioned a commercial loan of Rs. 250 Crore for 10 years as a term loan. The entire amount of the loan was used for procurement of various construction materials like cement, steel etc.

   Compute the amount at which intangible asset shall be recognized in the books of the operator as on the date of completion of construction activity ie date of inauguration.

7. Following data is available for the first year of operation (public use of the express highway).

   For the entire route:

Type of vehicle	No. of vehicles entered	% of return of those vehicles which entered
Car/Jeep/SUV	2,24,189	96
Truck/Bus/Van	55,109	99
Goods Carrier/Heavy Trucks	27,519	100

   For Solapur Entry and Exit only:

Type of vehicle	No. of vehicles entered	% of return of those vehicles which entered
Car/Jeep/SUV	1,15,803	95
Truck/Bus/Van	28,601	99
Goods Carrier/Heavy Trucks	14,149	100

   Disclose the amount of revenue recognized during the year from the Service Concession Arrangement.

8. If the cost of toll collection and overall supervision of the Express Highway for the first year was 10% of the actual toll collected (as per data given above), evaluate the amount of profit or loss incurred in the first year by the operator on the intangible asset?

CASE STUDY 5

Blue Ocean Limited is a company involved in manufacturing of industrial and medical gases and equipment's across various countries. It reports financial statements following International Financial Reporting Standards.

You are a Chartered Accountant and the Board of Directors has appointed your firm to close their books as at 31 March 20X2. On reviewing the accounting records and information of the company, you come across a list of issues which need to be dealt with as per the provisions of International Financial Reporting Standards.

Blue Ocean Limited is in the process of negotiating the acquisition of specialized machinery related to Air Separation Unit for industrial gases business. The following activities are carried out by the project team of Blue Ocean Limited for installing new machinery:

(1) A special site has to be prepared for the machinery installation. Hence the old site was dismantled and re-prepared for the new machinery at the cost of Rs. 1 million. Scrap recovered from this process was sold for Rs. 80 thousand. Cost of construction of the special site is Rs. 6 million.

(2) Negotiations were successful and it was decided that the old machinery which had carrying cost of Rs. 5 million but was now valued at Rs. 4 million will be exchanged for new specialized machinery valued at Rs. 20 million. The difference itself will be settled in cash.

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(3) It spent Rs. 4 lac on freight and Rs. 3 lac on installation.

(4) It spent materials worth Rs. 3 lac and wages of Rs. 1.2 lac on the trial run.

(5) Machinery was finally installed but owing to low capacity utilization, it incurred loss of Rs. 1 million.

(6) Blue Ocean Limited incurred costs of Rs. 5 lac for launching the product.

The Company holds a trademark with a carrying value of Rs. 1.7 million, which it uses to produce consumer goods. It is expected that the products will continue to be in demand for the foreseeable future, and the trademark has an indefinite life. At 31 March 20X2, based on a report by an independent expert, it is estimated that the recoverable amount of the trademark is only Rs. 1.6 million.

The Company acquired Bigben Llc during the year. The assets were valued at Rs. 5 million and the liabilities at Rs. 3 million. the purchase consideration was agreed at Rs. 1.5 million. The net assets acquired are worth Rs. 2.0 million, but the Company paid only Rs. 1.5 million for them. Blue Ocean Ltd. reassessed the fair values. It found that a contingent liability for a pending tax litigation in respect of Bigben Llc was likely to be paid Rs. 0.3 million. The fair value of purchase consideration was still found to be Rs. 1.5 million.

The financial statements of Blue Ocean Ltd. for the year ended 31 March 20X2 are under preparation. The rate of tax that applies to all companies in Blue Ocean group is 25%.

The deferred tax liability of Blue Ocean Ltd. at 31 March 20X1 was Rs. 2 million. This liability related to taxable temporary differences for property, plant and equipment of Rs. 8 million.

At 31 March 20X2, the carrying value of property, plant and equipment was Rs. 44 million and its tax base was Rs. 27 million. The carrying value of Rs. 44 million incorporates a surplus of Rs. 6 million that arose as a result of a property revaluation on 31 March 20X2. This property revaluation had no effect on the tax base of the property. This property has not been previously revalued.

Since December 20XX, Blue Ocean Ltd. has been carrying out a project to develop a more efficient production process. On 1 October 20X1, the project was assessed and found to be at a stage that justified capitalizing future costs incurred on the project.

Accordingly, an intangible asset of Rs. 9 million was included in the draft statement of financial position as on 31 March 20X2. Amortisation is expected to begin sometime in the year ended 31 March 20X3. All expenditure on the project qualifies for tax relief as the expenditure is incurred.

On 1 March 20X2, Blue Ocean Ltd. sold goods to one of its subsidiaries for Rs. 4 million. The goods cost the Company Rs. 3 million to manufacture. Prior to 31 March 20X2 the subsidiary sold 40% of the goods to a non-group company for Rs. 2.2 million.

On 31 March 20X2, Blue Ocean Ltd. borrowed Rs. 20 million from a non-group company. The financial liability is not designated as fair value through profit and loss. Blue Ocean Ltd. incurred costs of Rs. 1 million in connection with the borrowing and this qualified for tax relief in the year ended 31 March 20X2.

There were no other temporary differences affecting Blue Ocean group at 31 March 20X2.

Blue Ocean Limited has created employee goodwill by recognizing its retirement benefit package. An independent management consultant estimated the value of the goodwill at Rs. 5 million. In addition company recently purchased a patent that was developed by a competitor. The patent has an estimated useful life of five years.

During the year ended 31 March,20X2, Blue Ocean group changed its accounting policy for depreciating property, plant and equipment, so as to apply components approach fully, whilst at the same time adopting the revaluation model.

In years before 20X1-20X2, Blue Ocean group's asset records were not sufficiently detailed to apply a components approach fully. At the end of 31 March, 20X1, management commissioned an engineering survey, which provided information on the components held and their fair values, useful lives, estimated residual values and depreciable amounts at the beginning of 20X1-20X2.

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The results are shown as under:

Property, plant and equipment at the end of 31 March,20X1

	Rs. in million
Cost	25,000
Depreciation	(14,000)
Net book value	11,000
Depreciation expense for 20X1-20X2 (on old basis)	1,500
Some results of the engineering survey:	
Valuation	17,000
Estimated residual value	3,000
Average remaining asset life (years)	7

However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.

The board of directors considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller components approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X1-20X2.

Also, the change from a cost model to a revaluation model is required to be accounted for prospectively. Therefore, management concluded that it should apply Blue Ocean group's new policy prospectively from the start of 20X1-20X2.

Blue Ocean group's tax rate is 30 per cent.

A subsidiary of Blue ocean limited namely, Fantasy Ltd. produced a place of antivirus software and declared it as 'open' software. Anybody can download it for free from the internet and anyone can make changes to it. Fantasy Ltd. has spent Rs. 5 million in developing the software.

I. Multiple Choice Questions [2 Marks each]

1. Should Blue Ocean Limited report the goodwill with respect to retirement benefit package and patent purchased from its competitor, in its Balance Sheet?

	Goodwill	Patent
(a)	Yes	No
(b)	No	Yes
(c)	No	No
(d)	Yes	Yes.

2. What should be the treatment of antivirus software produced by Fantasy Limited?

   (a) The software will be treated as intangible asset and amortized over its useful life

   (b) The software will be tested for impairment depending on its recoverable value in future

   (c) The amount spent on the software will be capitalized under IAS 16

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(d) The software cost would be charged to revenue.

3. What would be the carrying amount of trademark as at 31 March 20X2 which it has been using to produce consumer goods?

   (a) Rs. 1.7 million

   (b) Rs. 1.6 million

   (c) Rs. 0.1 million

   (d) None of the above.

4. What will be the amount of net assets Bigben Llc acquired by Blue Ocean Limited as at 31 March 20X2.

   (a) Rs. 5.0 million

   (b) Rs. 2.0 million

   (c) Rs. 1.7 million

   (d) Rs. 3.0 million.

5. How much amount would be recognised in Statement of Profit or Loss for the period ending 31 March 20X2 for the transaction related to acquisition of Bigben Llc. by Blue Ocean Limited.

   (a) Profit of Rs. 0.2 million

   (b) Loss of Rs. 0.2 million

   (c) Profit of Rs. 0.5 million

   (d) None of the above, as profit or loss in such cases is not recognised in Statement of Profit or Loss.

II. Descriptive Questions (5 Marks each)

6. Calculate the total cost of the new asset, as per IFRS, to be recognized in the books and also explain treatment of payout of cash on exchange of old machinery with the help of a Journal entry.

7. Compute the charge or credit for deferred tax that will appear in the consolidated Statement of Profit or Loss of Blue Ocean Ltd. for the year ended 31 March 20X2. Support your figures with relevant explanations.

8. Compute the impact of change in accounting policy related to change in carrying amount of Property, Plant & Equipment under revaluation method and impact on taxes based on the basis of information provided. Show the impact of each item affected on financial statements by the analysis of stated issue.

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