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SUGGESTED SOLUTION

CA FINAL

SUBJECT- Elective (GFRS)

Test Code - FNJ 7312

BRANCH - () (Date :)

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Note:

1. **IFRS are principles based standards. Different possible views may be taken by the user based on the emphasis laid to particular facts and evidences. Therefore, alternate answers may be possible for the above questions, depending upon the view taken.**

2 **Hints for MCQs are given only for understanding of the answer.**

ANSWER CASE STUDY – 1

I. MULTIPLE CHOICE QUESTIONS (2*5 = 10 MARKS)

1. **(d) Value of inventory on an item by item basis is INR 14,290 and on a group basis is INR 14,540**

Item by item basis: Cost or NRV whichever is less	
A	INR 1,900
B	INR 5,000
C	INR 4,400
D	INR 2,990
	INR 14,290
Group basis:	
Cost or NRV whichever is less	INR 14,540
(Cost INR 14,600: NRV INR 14,540)	

2. **- (b) INR 4,360 lacs (approx.)**

Years	Cash flow (INR lacs)	Discount factor @10%	Present value (INR lacs)
Year 0	-	1.0000	-
year 1	1,050	0.9091	955
year 2	1,103	0.8264	912
year 3	1,158	0.7513	870
year 4	1,216	0.6830	831
year 5	1,276	0.6209	792
Value in use			**4,360**

3. **(b) INR 1,47,65,450**

Particulars	Amount
Cash paid	INR 90,00,000
Deferred consideration (50,00,000 x 1/1.10)	INR 45,45,450
Legal fees	INR 11,70,000
Stamp duty	INR 50,000
Cost of patent	**INR 1,47,65,450**

4. (c) A Ltd. should classify the plot as an investment property.

A Ltd. should classify the property as an investment property. Although management has not determined a use for the property after the park's development takes place, in the medium-term the land is held for capital appreciation. IFRS considers land as held for capital appreciation, if an entity has not determined that it will use the land either as owner-occupied property or for short term sale in the ordinary course of business.

5. **- (b) Pension fund is a defined contribution plan and A Ltd. should record an expense of INR 1,35,000 with an accrual of INR 15,000.**

This is a defined contribution plan. The charge to statement of profit or loss should be INR 1,35,000 (i.e., INR 27,00,000) x 5%. Thus, there will be accrual of INR 15,000 (i.e., INR 1,35,000 – INR 1,20,000).

II. DESCRIPTIVE

Solution 1

To determine whether arrangement contains lease under IFRS, A Ltd. should consider the following:

(a) Is the fulfilment of the arrangement dependent on the use of a specific asset or assets?

- ☐ Specific asset is not explicitly identified in the arrangement, however, the ATM machine and related assets are specifically developed to meet the bank's need.
- ☐ A Ltd. maintain proper records for all assets dedicated to the bank ATM network. However, as a general practice A Ltd. maintains the fixed asset register ATM site wise.
- ☐ Prior written approval of the bank is required for shifting/ closing any particular ATM site. A Ltd. cannot sell/ dispose-off any of the ATMs and related assets without prior written communication from the bank.

Thus, it can be said that implicitly a particular ATM is identified and dedicated to the bank for its use and the bank is dependent on the use of this specific asset.

(b) Whether the arrangement conveys the right to use the asset?

S. No.	Conditions to be evaluated that conveys the right-to-use the asset	Evaluation
1	Is it remote that one or more parties other than the purchaser will take more than an insignificant amount of the output or other utility that will be produced or generated by the asset during the term of the arrangement, and is the price that the purchaser will pay for the output neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output?	The entire utility generated from the assets is always utilised by the purchaser (Bank). When transactions are done by customers of other banks, the bank on whose ATM the transaction is being done will earn a certain fee on the same. In the present case, payment of fee by UVW Bank is based on per transaction basis. Thus, the said condition is not fulfilled as the price is contractually fixed per unit of output and it is equal to the current market price. Hence, other conditions will have to be further evaluated.

2	Does the purchaser obtain or control more than an insignificant amount of the output or other utility of the asset?	As discussed above, the entire utility generated from the assets is always utilised by the purchaser (Bank).
3	Does the purchaser have the ability or right to operate the asset or direct others to operate the asset in a manner it determines?	The 'right to operate or direct others to operate the asset' relates to the ability to make decisions about when and how the asset will be used to meet specific needs of the purchaser (Bank). In the above case, A Ltd. is required to operate the ATM site as per the standard operating procedure or other specifications laid down by the bank. Clear roles and responsibilities for each party is laid down in the agreement. Prior approval of the bank is required for shifting/ closing the ATM Site. All RBI circulars, notices and promotional material to be displayed at the ATM site or on the ATM will have to be approved by the bank prior to be being displayed. Thus, it can be said that the bank has the ability to operate or direct A Ltd. to operate the ATM site in the manner it desires.
4	Does the purchaser have the ability or right to control physical access to the underlying asset?	The 'right to control physical access' relates to the ability to prevent others from using or accessing the asset for their needs or restricting the ability of the supplier to move or use the asset as it desires. In the present arrangement, the bank restricts the rights of A Ltd. for advertising or promoting using the ATM machine/ site. Advertising/ promotional material as approved by the bank can be displayed on the machine/ site. In case of advertising by third/external party, the bank generally shares a portion of the revenue with A Ltd. In case of relocation of the site initiated by A Ltd., prior approval of the bank is required, without the same A Ltd. cannot proceed with any kind of relocation or shifting. Thus, it can be said that bank has the ability/ right to control physical access to the underlying asset.

Thus, there is a right of use of ATM and, thus, the arrangement contains a lease of ATM.

Classification of lease

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

S. No.	Classification whether the lease is a finance lease or an operating lease	Evaluation
1	The lease transfers ownership of the asset to the lessee by the end of the lease term.	The arrangement does not automatically transfer the ownership of the asset to the lessee at the end of lease term. There is an option with the bank to take-over the assets on termination of agreement.
2	The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised.	The arrangement contains an option that the ATM machine and related assets may be taken over by the bank at sufficiently lower price, however the bank generally does not opt for this takeover. The bank does not have the expertise to run a ATM site, it needs to hire a service provider to do the same for it thus on takeover of ATM or related assets the bank independently will not be able to run the ATM site. Considering the cost of maintaining the inventory of assets, selling the assets at scrap value does not seem to be a very viable option for the bank. Taking into account the above reasons and the historical trend that bank does not take over the assets on termination of agreement, it can be said that this condition is not fulfilled as it is not reasonably certain that the bank will exercise the option.
3	The lease term is for the major part of the economic life of the asset even if title is not transferred.	Life of ATM machine is 10 years, whereas the term of the arrangement is generally 5 years. Thus, it can be said that the lease term is not for a major part of the economic life of the asset.
4	At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.	In case of per transaction fee, the lease rentals are contingent in nature and, thus, it is difficult to comment whether minimum lease payments amounts to substantially all of the fair value of leased asset.
5	The leased assets are of such a specialised nature that only the lessee can use them without major modifications.	The assets installed are as per the specific requirements of the bank, but the same cannot be considered to be of specialised nature since the company follows a general practice of converting these ATMs into white label ATMs on termination of agreement.

Thus it can be concluded that the arrangement is an operating lease.

Separating payments for the lease and other payments

In case of the above arrangement, there are two elements involved:

(a) Lease of the ATM machine and related assets

(b) Services for management of ATM site (such as ATM managed services, ATM site management, first-line maintenance, consumables management services, cash management services, cash replenishment services and reconciliation activity).

The arrangement contains lease but there are other elements also involved which pertains to provision of services. Considering the guidance under IFRS, consideration paid for other elements should be separated at the inception of the arrangement on the basis of their fair values. For the purpose of separating the payments, A Ltd. will estimate the lease payments by reference to a lease agreement for a comparable asset that contains no other elements, or estimate the payments of other elements in the arrangement by reference to comparable agreement and then deducting these payments from the total payments under the arrangement.

(10 MARKS)

Solution 2

In order to determine whether a transaction/acquisition involves a Business Combination which to be covered within the scope of IFRS 3, the transaction should satisfy the definition of business contained under Para B7 of Appendix B to IFRS 3.

To constitute a business combination following conditions are provided in Para B7 of Appendix B to IFRS 3:

Criteria	Whether these criteria are satisfied
Input	Input in the form of tangible items such as building, furniture and fixtures, lobby, reception, dining area are present at the time of purchase of hotel from B Ltd. Hence, this criterion is met.
Process	Before the purchase of hotel by A Ltd. from B Ltd., B Ltd. has already entered into an agreement with D Ltd. dated 7 March 2008 for the provision of technical audit, pre-operating, marketing, management services in respect of the said hotel. Further, on transfer of the hotel by B Ltd. to A Ltd., the agreement with D Ltd. for operating and running the hotel was assigned to A Ltd. On a mere formality, A Ltd. had to enter into a separate agreement with D Ltd. before transfer of hotel by B Ltd. for provisions of operating and running business of the hotel. In the current case, D Ltd. was already present and was capable of supplying the missing element (i.e., the hotel management services) for producing the output. Also, the easier it is to obtain the missing element in a relatively short period of time, the more likely the activities are a business. Hence, this condition is also satisfied.
Output	Further, with the provision of input and process, output can be generated. However, it is not mandatory to have output on the date of business combination. IFRS 3 only provides that outputs are the results of input and processes applied to those inputs that provide and have the ability to provide a return in the form of dividend, lower cost or other economic

	benefits directly to the investor. Since economic benefits will flow to A Ltd. from operation of the business, output will be generated by applying processes to the input. Hence, the third condition is also satisfied.

Since, the above mentioned criteria are satisfied, the transaction can be said to be business which will be covered in IFRS 3, Business Combinations. Thus, purchase of hotel by A Ltd. from B Ltd. is a business combination considering the principles of IFRS 3.

(5 MARKS)

ANSWER CASE STUDY – 2

I. MULTIPLE CHOICE QUESTIONS (2*5 = 10 MARKS)

1. Option (c) : Factory - Rs. 14,400 thousand and Head office- Rs. 20,000 thousand

Hints

Dep on factory PPE= Rs. 1,600 thousand,

WDV as on 31st March 2017 = Rs. 14,400 thousand Recoverable amount = Rs. 15,000 thousand

Carrying amount = Lower of recoverable amount and WDV

= Rs. 14,400 thousand

Dep on Head office PPE = Rs. 1,100 thousand, WDV as on 31 March 2017 = Rs. 20,900 thousand Recoverable amount = Rs. 20,000 thousand

Carrying amount = Lower of recoverable amount and WDV

= Rs. 20,000 thousand

2. Option (c) : Item A- Rs. 5 lac and Item B- Rs. 2.30 Lac

Hints

Item A should be recognised at cost, which is Rs 5 lacs. Replacement cost is irrelevant for item A. This is because material was purchased for a profitable order, the net realisable value will be any way higher than the cost so no write - down is required. Item B should be recognized at Rs. 2.30 Lac being the net realisable value (Rs.2.60 Lac - Rs. 0.30 Lac) i.e. lower from cost Rs. 2.5 lac.

3. Option (a) : ABC Ltd. recognises a liability and an expense of 1.5% of profit

4. Option (a) : Rs. 13,717

Hints

The sale should initially be discounted to present value using ABC Ltd.'s cost of capital. Rs. 2 lacs discounted at 8% for two years gives an in itial present value of Rs. 171,468. This should be built up by 8% a year. Therefore, the amount to be recorded as finance income in 2016-17 is Rs. 13,717 (Rs. 171,468 x 8%)

5. Option (b) : Rs. 10,000

Hints

As a progress towards completion cannot reliably be measured, ABC Ltd. should recognize revenue to the level of recoverable cost. As ABC Ltd. has spent Rs. 10,000 to date this should be recorded in both Revenue and cost of sale.

II. DESCRIPTIVE

1. Computation of goodwill on consolidation

(a) Goodwill on consolidation	**Rs. in '000**
Cost of investment:	
Share exchange (90 million x 8/9 x Rs.2·80)	2,24,000
Contingent consideration	25,000
Fair value of non-controlling interest at date of acquisition (30 million x Rs.2·60)	78,000
	3,27,000
Net assets at 1 April 2016 (Refer W.N.)	(2,38,000)
Goodwill	89,000
(b) Non-controlling interest in PQR Limited	Rs. in '000
Fair value at date of acquisition	78,000
25% of post-acquisition increase in net assets [(2,64,000 – 2,38,000 x 25%] (Refer W.N))	6,500
	84,500

(5 MARKS)

Working Note – Net assets – PQR Limited

	1 April, 2016	**31 March, 2017**
	Rs. in '000	**Rs. in '000**

Share capital	120,000	120,000
Other components of equity	2,400	4,000
Retained earnings	86,000	115,000
Property adjustment	20,000	20,000
Extra depreciation ((92,000 – 80,000)/16)		(750)
Plant and equipment adjustment	9,000	9,000
Extra depreciation ((120,000 – 111,000)/3)		(3,000)
Intangible asset adjustment	8,000	8,000
Extra amortisation (8,000/4)		(2,000)
Deferred tax on fair value adjustments		
(20,000+9,000+8,000) x 20%	(7,400)	
(20,000+9,000+8,000)-(750+3,000+2,000) x 20%	______	(6,250)
Net assets for the consolidation	2,38,000	2,64,000

(5MARKS)

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

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

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

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

Therefore, the loan would initially be recorded at Rs.68·6 million (FC 49 million x 1·40).

The finance cost would be recorded at an average rate for the period since it accrues over a period of time.

The finance cost would be Rs.6·958 million (FC 4·9 million x 1·42).

The actual payment of interest would be recorded at Rs.5·8 million (FC 4 million x 1.45).

The loan balance is a monetary item so it is translated at the rate of exchange at the reporting date.

So the closing loan balance is Rs.72·355 million (FC 49·9 million x 1·45).

The exchange differences that are created by this treatment are recognised in profit or loss.

In this case, the exchange difference is ((Rs.68·6 million + Rs.6·958 million – Rs.5·8million) – Rs.72·355 million) = Rs.2·597 million.

This exchange loss is taken to profit or loss.

(5 MARKS)

ANSWER CASE STUDY – 3

I. MULTIPLE CHOICE QUESTIONS (2*5 = 10 MARKS)

1. **B**
2. **B**
3. **B**
4. **B**
5. **C**

II. DESCRIPTIVE

Solution 1

(I) As per IFRS 13, a fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highestand best use.

The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:

(a) A use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (eg the location or size of a property).

(b) A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (eg the zoning regulations applicable to a property).

(c) A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

Highest and best use is determined from the perspective of market participants, even if the entity intends a different use However, an entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximise the value of the asset.

To protect its competitive position, or for other reasons, an entity may intend not to use an acquired non-financial asset actively or it may intend not to use the asset according to its highest and best use. Nevertheless, the entity shall measure the fair value of a non-financial asset assuming its highest and best use by market participants.

In the given case, the highest best possible use of the land is to develop a commercial complex. Although the developing a business complex is against the business objective of the entity, it does not affect the basis of fair valuation as IFRS 13 does not consider an entity specific restriction for measuring the fair value.

Also, its current use as a parking lot is not the highest best use as the land has the potential of being used for building a commercial complex.

Therefore, the fair value of the land is the price that would be received when sold to a market participant who is interested in developing a commercial complex.

(6 MARKS)

(II) As per IFRS 13, unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. The unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

In the given case, Dong Seng Limited adopted discounted cash flow method, commonly used technique to value shares, to fair value the shares of the private company as there were no similar shares traded in the market. Hence, it falls under Level 3 of fair value hierarchy.

Level 2 inputs include the following:

(a) quoted prices for similar assets or liabilities in active markets.

(b) quoted prices for identical or similar assets or liabilities in markets that are not active.

(c) inputs other than quoted prices that are observable for the asset or liability.

If an entity can access quoted price in active markets for identical assets or liabilities of similar companies which can be used for fair valuation of the shares without any adjustment, at the measurement date, then it will be considered as observable input and would be considered as Level 2 inputs.

(3 MARKS)

Solution 2

Paragraph 3 of IAS 20, Government Grants and Disclosure of Government Assistance, states that Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity."
In accordance with the above, in the given case exemption of custom duty under EPCG scheme is a government grant and should be accounted for as per the provisions of IAS 20.

IAS 20 defines grant related to assets and grants related to income as follows:

"Grants related to asset are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.

Grants related to income are government grants other than those related to assets."

In the given case, based on the terms and conditions of the scheme, the grant received is to compensate the import cost of assets subject to an export obligation as prescribed in the EPCG Scheme and does not relate to purchase, construction or acquisition of a long term asset. Hence it is a grant related to income.

Accounting and Presentation of such grants

It may be further noted that as per paragraph 12 of IAS 20, government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate

Grants related to income are presented as part of profit or loss, over a period of six years, either separately or under a general heading such as 'Other income'. Alternatively, they are deducted in reporting the related expense.

(6 MARKS)

ANSWER CASE STUDY – 4

I. MULTIPLE CHOICE QUESTIONS (2*5 = 10 MARKS)

1. Option (a) : 10,000 will be debited in Profit and loss and 50,000 in Other comprehensive income

   Hints

   As per IAS 21, Exchange difference between transaction currency and functional currency is charged to profit and loss. And exchange difference on translation to presentation currency is charged to other comprehensive income.

2. Option (b) : Rs. 3,20,000

   Hints

   As per IAS 18, revenue is recognised once the performance obligation is satisfied. In the given case, performance obligation pertaining to sale of goods is satisfied , once the control of such goods is transferred to the customer. Accordingly, company may recognize revenue pertaining to sale of goods. For performance obligation of free services, revenue would be recognized over the period of three years as the control of such service is transferred over the period of time. Therefore, at the time of sale only Rs. 3,20,000 shall be recognized.

3. Option (b) : FVTPL

   Hints

   This will be a debt instrument but the returns are linked to the capital value change and hence will fail the SPPI test and hence FVTPL.

4. Option (a) : Rs. 170,000

   Hints

   Minimum lease payments includes the rent agreed by lessee to pay to lessor i.e. 1,20,000 in the given case. It also include residual value guarantee given by the lessee which is Rs. 50,000 in the present case. Contingent rent does not form part of minimum lease payments.

5. Option (b) : Rs. 29,320

   Hints

   The weighted average cost of borrowing is 7.33%

   ((Rs. 1 million × 6%) + (Rs. 2 million × 8%)) / Rs. 3 million. Therefore, the amount to be capitalised

   = 7.33% × Rs. 600,000 × 8/12 = Rs. 29,320.

II. DESCRIPTIVE

Solution 1

With regard to quantitative thresholds to determine reportable segment relevant in context of instant case, paragraph 13(b) of IFRS 8 states as follows:

"(b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss."

ABC Limited has 5 operating segments namely A, B, C, D and E. The segment profit/loss of respective segment will be compared with the greater of the following:

(i) All segments in profit, i.e., A, B and E – Total profit Rs. 8,280 crore.

(ii) All segments in loss, i.e., C and D – Total loss Rs. 6,800 crore.

Greater of the above – Rs. 8,280 crore.

Based on the above, reportable segments will be determined as follows:

Segment	Profit/(Loss) (Rs. in crores)	As absolute % of 8,280 crore	Reportable segments
A	780	9.4% or 9%	No
B	1,500	18.12% or 18%	Yes
C	(2,300)	27.78% or 28%	Yes
D	(4,500)	54.35% or 54%	Yes
E	6,000	72.46% or 72%	Yes

Total	1,480		

(5 MARKS)

Solution 2

Paragraph 42 of IFRS 3 provides that in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

Applying the above, ABC Ltd. records the following entry in its consolidated financial statements

		(Rs. in crores)	
		Debit	Credit
Identifiable net assets of XYZ Ltd.	Dr.	30,000	
Goodwill (W.N.1)	Dr.	4,000	
Foreign currency translation reserve	Dr.	100	
PPE revaluation reserve	Dr.	50	
To Cash			25,000
To Investment in associate -XYZ Ltd.			8,850
To Retained earnings (W.N.2)			50
To Gain on previously held interest in XYZ recognised in Profit or loss (W.N.3)			250
(Being acquisition of XYZ Ltd. recognised in the books of ABC Ltd.)			

(5 MARKS)

Working Notes

1. Calculation of Goodwill

	(Rs. in crores)
Cash consideration	25,000
Fair value of previously held equity interest in XYZ	9,000
Total consideration	34,000
Fair value of identifiable net assets acquired	(30,000)
Goodwill	4,000

2. The credit to retained earnings represents the reversal of the unrealised gain of Rs. 50 crores in Other Comprehensive Income related to the revaluation of property, plant and equipment. In accordance with IAS 16, this amount is not reclassified to profit or loss.

3. **Calculation of gain on the previously held equity interest in XYZ Ltd.**

	(Rs. in crores)
Fair Value of 30% interest in XYZ Ltd. at 1st April 2017	9,000
Carrying amount of interest in XYZ at 1st April 2017	(8,850)
	150
Unrealised gain previously recognised in OCI	100
Gain on previously held interest in XYZ recognised in profit or loss	250

(5 MARKS)

ANSWER CASE STUDY – 5

I. MULTIPLE CHOICE QUESTIONS (2*5 = 10 MARKS)

1. **A**
2. **D**
3. **C**
4. **C**
5. **D**

II. DESCRIPTIVE

Solution 1

(I) Under defined contribution plans, an entity agrees to contribute a limited amount to the fund as its legal or constructive obligation. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions; andas a result of this, actuarial risk (which means that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) falls on the employee and not on the entity like in defined benefit plan.

Further Multi-employer plans are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

(a) pool the assets contributed by various entities that are not under common control; and

(b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.

In the given case, Durable Industries alongwith other employees contribute to the plan and the plan pays the pension to the employees on retirement from the common pool of the asset. Also the companyhas no obligation after contributing annually to the industrial pension plan. Hence, it is a multi-employer plan under the defined contribution scheme. **(3 MARKS)**

(II) The discontinuation of old defined pension plan is a curtailment event. Durable Industries is supposed to recognised gain or loss on settlement when the legally bind agreement has been reached, that eliminates all further legal or constructive obligations for the benefits provided under the pension plan in exchange for lump sum payment.

As per para 109 of IAS 19 'Employee Benefits', the gain or loss on a settlement is the difference between:

(a) the present value of the defined benefit obligation being settled, as determined on the date of settlement

(b) the settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.

Accordingly, Durable Industries recognises a settlement gain of Rs. 2 crore (ie Rs. 7 crore – Rs. 5 crore) in its financial statements for the year ended 31st March, 2019.

(3 MARKS)

(iii) Paragraphs 15-17 of IFRS 11 state as follows:

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

An entity applies judgement when assessing whether a joint arrangement is a joint operation or a joint venture. An entity shall determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

As per para B16 of the standard, a joint arrangement that is not structured through a separate vehicle is a joint operation. In such cases, the contractual arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses.

In the present case, the arrangement among Supreme Developers Limited, Southern Constructions Limited and Concrete India Limited is not structured through a separate vehicle. All the three entities have joint control over the arrangement of land, supply of material and labour for the purpose of construction activity ie development project of luxurious holiday villas. They will be sharing profit from sale of villas and common costs and also incur their own separate costs. Accordingly, the arrangement is a joint operation.

(3 MARKS)

Solution 2

(a) Value of investment in Meru Ltd. as on 31st March, 2019 as per equity method in the consolidated financial statements of Sumeru Ltd.

	Rs.
Cost of Investment	3,00,00,000
Less: Share in Post-Acquisition Loss (1,00,00,000 x 35%)	(35,00,000)
Less: Unrealised gain on inventory left unsold with Meru Ltd. [{(50,000/3,00,000) x 1,00,000} x 35%]	(5,833)
Carrying value as per Equity method	2,64,94,167

(3 MARKS)

(b) Value of investment in Meru Ltd. as on 31st March, 2019 as per equity method in the consolidated financial statements of Sumeru Ltd.

	Rs.
Cost of Investment	3,00,00,000
Add: Share in Post-Acquisition Profit (1,50,00,000x 35%)	52,50,000
Less: Unrealised gain on inventory left unsold with Meru Ltd. [{(50,000/3,00,000) x 1,00,000} x 35%]	(5,833)
Less: Dividend (75,00,000 x 35%)	(26,25,000)
Carrying value as per Equity method	3,26,19,167

Note: In the absence of clarity in the information that whether unsold inventory is the cost value for Sumeru or Meru Ltd., the above solution has been given considering that Rs.1,00,000 is the cost price of the inventory for Sumeru Ltd

(3 MARKS)

Alternatively, if it is considered as cost price to Meru Ltd. then the solution will be as follows:

(a) Value of investment in Meru Ltd. as on 31st March, 2019 as per equity method in the consolidated financial statements of Sumeru Ltd.

	Rs.
Cost of Investment	3,00,00,000
Less: Share in Post-Acquisition Loss (1,00,00,000 x 35%)	(35,00,000)
Less: Unrealised gain on inventory left unsold with Meru Ltd. [{(50,000/3,50,000) x 1,00,000} x 35%]	(5,000)
Carrying value as per Equity method	2,64,95,000

(3 MARKS)

(b) Value of investment in Meru Ltd. as on 31st March, 2019 as per equity method in the consolidated financial statements of Sumeru Ltd.

	Rs.
Cost of Investment	3,00,00,000
Add: Share in Post-Acquisition Profit (1,50,00,000x 35%)	52,50,000
Less: Unrealised gain on inventory left unsold with Meru Ltd.	
[{(50,000/3,50,000) x 1,00,000} x 35%]	(5,000)
Less: Dividend (75,00,000 x 35%)	(26,25,000)
Carrying value as per Equity method	3,26,20,000

(3 MARKS)