SUGGESTED SOLUTION

FINAL

SUBJECT- FR

Test Code – FNJ 7389

BRANCH - () (Date :)

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Answer 1:

(A)

Statement showing Cost of production line:

Particulars	Amount Rs.'000
Purchase cost	10,000
Goods and services tax – recoverable goods and services tax not included	-
Employment costs during the period of getting the production line ready for use (1,200 x 2 months / 3 months)	800
Other overheads – abnormal costs	600
Payment to external advisors – directly attributable cost	500
Dismantling costs – recognized at present value where an obligation exists (2,000 x 0.68)	1,360
Total	13,260

Carrying value of production line as on 31st March, 20X2:

Particulars	Amount Rs. '000
Cost of Production line	13,260
Less: Depreciation (W.N.1)	(1,694)
Net carrying value carried to Balance Sheet	11,566

Provision for dismantling cost:

Particulars	Amount Rs. '000
Non-current liabilities	1,360
Add: Finance cost (WN3)	57
Net book value carried to Balance Sheet	1,417

Extract of Statement of Profit & Loss

Particulars	Amount Rs. '000
Depreciation (W.N.1)	1,694
Finance cost (W.N.2)	57
Amounts carried to Statement of Profit & Loss	1,751

Extract of Balance Sheet

Particulars	Amount Rs. '000
Assets	
Non-current assets	
Property, plant and equipment	11,566
Equity and liabilities	
Non-current liabilities Other liabilities	1417

(9 Marks)

Working Notes:

1. Calculation of depreciation charge

Particulars	Amount Rs. '000
In accordance with Ind AS 16 the asset is split into two depreciable components: Out of the total capitalization amount of 13,260, Depreciation for 3,000 with a useful economic life (UEL) of four years (3,000 x ¼ x 10/12). This is related to a major overhaul to ensure that it generates economic benefits for the second half of its useful life	625
For balance amount, depreciation for 10,260 with an useful economic life (UEL) of eight years will be : 10,260 x 1/8 x 10/12	1,069
Total (To Statement of Profit & Loss for the year ended 31st March 20X2)	1,694

(2 Marks)

2. Finance costs

Particulars	Amount Rs. '000
Unwinding of discount (Statement of Profit and Loss – finance cost) 1,360 x 5% x 10/12	57
To Statement of Profit & Loss for the year ended 31st March 20X2	57

(1 Mark)

(B)

Method I : NCI measured at Fair value

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

	Method I	Method II
	Rs. '000	Rs. '000
Cost of investment		
Share exchange (12 million x 75% x 2/3 x Rs.6·50)	39,000	39,000
Deferred consideration (7.15 million /1.10)	6,500	6,500
Contingent consideration	25,000	25,000
Non-controlling interest at date of acquisition:		
Fair value – 3 million x Rs.6·00	18,000	
% of net assets – 68,000 (W.N.1) x 25%		17,000
	88,500	87,500
Net assets at date of acquisition (W.N.1)	(68,000)	(68,000)
Goodwill on acquisition	20,500	19,500
Impairment – 10%	2,050	1,950

Where the NCI is measured at fair value, the impairment should be attributed partly to retained earnings and partly to NCI. The allocation is normally based on the group structure (75/25 in this case).

Where the NCI is measured at % of net assets, the impairment should be attributed wholly to retained earnings. **(7 Marks)**

Working Notes:

1. Net assets at date of acquisition

	Rs. '000
Fair value at acquisition date	70,000
Deferred tax on fair value adjustments (20% x (70,000 – 60,000))	(2,000)
	68,000

(1 Mark)

Answer 2:
(A)

The amount recognized as an expense in each year and as a liability at each year end is as follows:

Year	*Expense(Rs.)*	*Liability(Rs.)*	
31 December 20X5	2,16,000	2,16,000	= 36 x 1,000 x 12 x ½
31 December 20X6	72,000	2,88,000	= 36 x 1,000 x 8
31 December 20X7	1,62,000	3,90,000	= 30 x 1,000 x 13 Expense comprises an increase in the liability of Rs. 102,000 and cash paid to those exercising their SARs of Rs. 60,000(6 x 1,000 x 10).
31 December 20X8	(30,000)	0	Liability extinguished. Excess liability reversed, because cash paid to those exercising their SARs Rs. 3,60,000 (30 x 1,000 x 12) was less than the opening liability Rs.3,90,000.

(5 marks)

Journal Entries

31 December 20X5			
Employee benefits expenses To Share based payment liability (Fair value of the SAR recognized)	Dr.	2,16,000	2,16,000
31 December 20X6			
Employee benefits expenses To Share based payment liability (Fair value of the SAR re-measured)	Dr.	72,000	72,000
31 December 20X7			
Employee benefits expenses To Share based payment liability (Fair value of the SAR recognized)	Dr.	1,62,000	1,62,000
Share based payment liability To Cash (Settlement of SAR)	Dr.	60,000	60,000
31 December 20X8			

Share based payment liability To Employee benefits expenses (Fair value of the SAR recognized)	Dr.	30,000	30,000
Share based payment liability To Cash (Settlement of SAR)	Dr.	3,60,000	3,60,000

(5 Marks)

(B)

The fair value of the loan is calculated at Rs.74,76,656.

Year	Opening Balance	Interest calculated @ 12%	Interest paid @ 5% on Rs. 1,00,00,000 + principal paid	Closing Balance
(a)	**(b)**	**(c) = (b) x 12%**	**(d)**	**(e) =(b) + (c) – (d)**
1	74,76,656	8,97,200	5,00,000	78,73,856
2	78,73,856	9,44,862	5,00,000	83,18,718
3	83,18,718	9,98,246	5,00,000	88,16,964
4	88,16,964	10,58,036	5,00,000	93,75,000
5	93,75,000	11,25,000	1,05,00,000	Nil

(2 marks)

A Limited will recognize Rs. 25,23,344 (Rs. 1,00,00,000 – Rs. 74,76,656) as the government grant and will make the following entry on receipt of loan:

Bank Account	Dr.	Rs.1,00,00,000	
To Deferred Income			Rs.25,23,344
To Loan Account			Rs.74,76,656

(1 mark)

Rs. 25,23,344 is to be recognized in profit or loss on a systematic basis over the periods in which A Limited recognize the related costs (which the grant intends to compensate) as expenses. **(1 mark)**

If the loan is to finance a depreciable asset, Rs.25,23,344will be recognized in profit or loss on the same basis as depreciation. **(1 mark)**

(C)

All figures are Rs. in'000.

On 31stMarch, 2018, A Ltd. will report a net pension liability in the statement of financial position. The amount of the liability will be 12,000 (68,000 – 56,000).

For the year ended 31stMarch, 2018, A Ltd. will report the current service cost as an operating cost in the statement of profit or loss. The amount reported will be 6,200. The same treatment applies to the past service cost of 1,500.

For the year ended 31st March, 2018, A Ltd. will report a finance cost in profit or loss based on the net pension liability at the start of the year of 8,000 (60,000 – 52,000). The amount ofthe finance cost will be 400 (8,000 x5%).

The redundancy programme represents the partial settlement of the curtailment of a defined benefit obligation. The gain on settlement of 500 (8,000 – 7,500) will be reported in the statement of profit orloss.

Other movements in the net pension liability will be reported as remeasurement gains or losses in other comprehensive income. **(3 marks)**

For the year ended 31st March, 2018, the re-measurement loss will be 3,400 (Refer W. N.).

Working Note:

Re measurement of gain or loss

	Rs. in '000
Liability at the start of the year (60,000 – 52,000)	8,000
Current service cost	6,200
Past service cost	1,500
Net finance cost	400
Gain on settlement	(500)
Contributions to plan	(7,000)
Remeasurement loss (balancing figure)	3,400
Liability at the end of the year (68,000 – 56,000)	12,000

(2 marks)

Answer 3(A):

To determine whether Pharma Limited can be continued tobe classified as an associate on transition to lndAS, we will have to determine whether Angel Limited controls Pharma Limited as defined under IndAS110.

An investor controls an investee if and only if the investor has all the following:

(a) Power over investee

(b) Exposure, or rights, to variable returns from its involvement with the investee

(c) Ability to use power over the investee to affect the amount of the investor's returns.

Since Angel Ltd. does not have majority voting rights in Pharma Ltd. we will have to determine whether the existing voting rights of Angel Ltd. are sufficient to provide it power over PharmaLtd.

Analysis of each of the three elements of the definition of control:

Elements / conditions	Analysis
Power over investee	Angel Limited along with its subsidiary Little Angel Limited (hereinafter referred to as "the Angel group")

	does not have majority voting rights in Pharma Limited. Therefore, in order to determine whether Angel group have power over Pharma Limited. we will need to analyse whether Angel group, by virtue of its non- majority voting power, have *practical ability tounilaterally direct the relevant activities* of Pharma Limited. In other words, we will need to analyse whether Angel group has **de facto power**overPharma Limited. Following is the analysis of *de facto* power of Angel over Pharma Limited: - The public shareholding of Pharma Limited (that is, 52% represents thousands of shareholders none individually holding material shareholding, - The actual participation of Individual public shareholders in the general meetings is minimal(that is, in the range of 6% to8%). - Even the public shareholders who attend the meeting do not consult with each other to vote. - Therefore, as per guidance of Ind AS 110, the public shareholders will not be able to outvote Angel group (who is the largest shareholder group) in any general meeting. Based on the above-mentioned analysis, we can conclude that Angel group has *de facto* power over Pharma Limited.
Exposure, or rights, to variable returns from its involvement with the investee	Angel group has exposure to variable returns from its involvement with Pharma Limited by virtue of its equity stake.
Ability to use power over the investee to affect the amount of the investor's returns	Angel group has ability to use its power (in the capacity of a principal and not an agent) to affect the amount of returns from Pharma Limited because it is in the position to appoint directors of Pharma Limited who would take all the decisions regarding relevant activities of Pharma Limited. Here, it is worthwhile to evaluate whether certain rights held by the bank would prevent Angel Limited's ability to use the power over Pharma Limited to affect its returns. It is to be noted that, all the rights held by the bank in relation to Pharma Limited are protective in nature as they do not relate to the relevant activities

	(that is, activities that significantly affect he Pharma Limited's returns) of Pharma Limited. As per lndAS 110, protective rights are the rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate. Therefore, the protective rights held by the bank should not be considered while evaluating whether or not Angel Group has control over Pharma Limited.
Conclusion: Since all the three elements of definition of control is present, it can be concluded that Angel Limited has control over Pharma Limited.	

Since it has been established that Angel Limited has control over Pharma Limited, upon transition to lnd AS, Angel Limited shall classify Pharma Limited as its subsidiary.

(15 marks)

Answer 3(B):

In case the expenditure incurred by the company is of such nature which may give rise to an 'Asset', it should be recognised by the company in its balance sheet, provided the control over the asset is with the Company and future economic benefits are expected to flow to the company. Where any CSR asset is recognized in its balance sheet, the same may be classified under natural head (e.g. Building, Plant &Machinery etc.) with specific sub-head of 'CSR Asset' if the expenditure satisfies the definition of'asset'.

For example, a building used for CSR activities where the beneficial interest has not been relinquished for lifetime by a company and from which any economic benefits flow to a company, may be recognised as 'CSR Building' for the purpose of reflecting the same in the balance sheet.

If an amount spent on an asset has been shown as CSR spend, then the depreciation on such asset cannot be claimed as CSR spend again. Once cost of the asset is included for CSR spend, then the depreciation on such asset will not be included for CSR spend even if the asset is capitalized in the books of accounts and depreciation charged there on.

(5 marks)

Answer 4:

(A)

The implied annual rate of return (one-year market rate of return) is 7.58% [(Rs. 1250/ Rs. 1080)0S -1] for Asset B which is applied to Asset A after adjustment for the yield curve. In case it is analyzed that the yield curve of the risky asset is just a parallel shift over the zero coupon yield curve (the risk free rate), then adjusted discount rate shall be 7.58% minus 0.40% i.e., 7.18. Fair value of Asset A is Rs. 1 000/1.0718 = Rs. 933.

When the discount rate adjustment technique is applied to fixed receipts or payments, the adjustment for risk inherent in the cash flows of the asset or liability being measured is included in the discount rate. **(4 marks)**

(B)

In the given case, the lease payments depend on a rate (i.e., LIBOR) and hence is included in measuring lease liability, As per Ind AS 116, the lease payments should initially be measured using the rate (i.e. LIBOR) as at the commencement date. LIBOR at that date is 2 percent; therefore, in measuring the lease liability, it is assumed that each year the payments will increase by 2 per cent, as follows:

Year	Lease Payment	Discount factor @ 5%	PV of lease payments
1	1,00,000	1	100,000
2	1,02,000	0.952	97,102
3	1,04,040	0.907	94,364
4	1,06,121	0.864	91,689
5	1,08,243	0.823	89,084
6	1,10,408	0.784	86,560
7	1,12,616	0.746	84,012
8	1,14,869	0.711	81,672
9	1,17,166	0.677	79,321
10	1,19,509	0.645	77,083
			8,80,887

Therefore, the lease liability is initially measured at Rs. 8,80,887

(6 marks)

(C)

Balance Sheet as at 31st March, 20X2(Extracts) **(4 Marks)**

Financial Assets:	Rs.
Interest rate option (W.N.1)	15,250
6% Debentures in Fox Ltd. (W.N.2)	1,53,000
Shares in Cox Ltd. (W.N.3)	1,87,500

Statement of Profit and Loss (Extracts)

Finance Income:	
Gain on interest rate option (W.N.1)	5,250
Effective interest on 6% Debentures (W.N.2)	12,000

Working Notes:

1. Interest rate option **(2 Marks)**

This is a derivative and so it must be treated as at fair value through profit or loss

Particulars	Rs.	Rs.

Initial measurement (at cost) Financial Asset Dr.	10,000	
To Cash A/c		10,000

At 31st March, 20X2

Particulars	Rs.	Rs.
(Re-measured to fair value) Financial Asset (Rs. 15,250 - Rs.10,000) Dr.	5,250	
To Profit and loss A/c		5,250

Financial Assets (Rs.10,000 + Rs.5,250) = Rs. 15,250 (Balance Sheet)

Gain on interest option = Rs. 5,250 (Statement of Profit and Loss)

2. Debentures (2 Marks)

On the basis of information provided, this can be treated as a held-to-maturity investment

Particulars	Rs.	Rs.
Initial measurement (at cost) Financial Asset Dr.	1,50,000	
To Cash A/c		1,50,000

At 31st March, 20X2 (Amortized cost)

Particulars	Rs.	Rs.
Financial Asset (Rs.1,50,000 x 8%) Dr.	12,000	
To Finance Income		12,000

Cash (Rs. 1,50,000 x 6%) Dr.	9,000	
To Financial asset		9,000

Amortized cost at 31st March, 20X2

(Rs. 150,000 + Rs. 12,000 – Rs. 9,000) = **Rs. 153,000 (Balance Sheet)**

Effective interest on 6% debenture = **Rs. 12,000 (Statement of Profit and Loss)**

3. Shares in Cox Ltd. **(2 Marks)**

These are treated as an available for sale financial asset (shares cannot normally be held to maturity and they are clearly not loans or receivables)

Particulars	Rs.	Rs.
Initial measurement (at cost) Financial Asset (Rs. 50,000 x Rs. 3.50) Dr.	1,75,000	
To Cash A/c		1,75,000

At 31st March, 20X2 (Re-measured at fair value)

Particulars	Rs.	Rs.
Financial Asset [(Rs. 50,000 x 3.75) – 1,75,000] Dr.	12,500	
To Equity A/c		12,500

Shares in Cox Ltd (Rs. 1,75,000 + Rs. 12,500) = Rs. 1,87,500 (Balance Sheet)

ANSWER 5 (A)

Profit or loss under weighted average valuation are as follows: Rs. In million

	2017	**2016 (Restated)**
Revenue	324	296
Cost of sales	(168)	(159)
Gross profit	**156**	**137**
Expenses	(83)	(74)
Profit	**73**	**63**

(2 marks)

Statement of changes in equity (extract) Rs. In million

	Retained earnings	**Retained earnings (Original)**
At 1st April, 2015	**423**	**423**
Change in inventory valuation policy	10	-
At 1st April, 2015 (Restated)	**433**	**-**
Profit for 2015-2016	63	58
At 31st March, 2016	**496**	**481**
Profit for 2016-2017	73	68
At 31st March, 2017	**569**	**549**

(3 marks)

ANSWER 5 (B)

Segment revenues, results and otherinformation

(Rs. in lakh)

	Revenue	**Coating**	**Others**	**Total**
1.	**External sales (gross)**	1,00,000	35,000	1,35,000
	Tax	(2,500)	(1,500)	(4,000)
	External sales (net)	97,500	33,500	1,31,000
	Other operating income	20,000	7,500	27,500
	Total Revenue	1,17,500	41,000	1,58,500
2.	**Results**			
	Segment results	5,000	2,000	7,000
	Unallocated income (net of unallocatedexpenses)			1,500
	Profit from operation before interest, taxation and exceptional items			8,500
	Interest and bank charges			(1,000)
	Profit before exceptional items			7,500
	Exceptional items			Nil
	Profit before taxation			7,500
	Less: Income Taxes			
	Current taxes			(975)
	Deferred taxes			(25)
	Profit after taxation			6,500
3.	Other Information			
(a)	Assets			
	Segment Assets	25,000	15,000	40,000
	Investments			5,000
	Unallocated assets			5,000
	Total Assets			50,000
(b)	Liabilities/Shareholder's funds			

	Segment liabilities	15,000	5,000	20,000
	Unallocated liabilities			10,000
	Share capital			5,000
	Reserves and surplus			15,000
	Total liabilities / shareholder's funds			50,000
(c)	Others			
	Capital Expenditure	2,500	1,000	3,500
	Depreciation	500	150	650

(8 marks)

(2) Geographical Information

			(Rs. in lakh)
	India	**Outside India**	**Total**
Revenue	1,43,500	15,000	1,58,500
Segment assets	35,000	5,000	40,000
Capital expenditure	3,500	-	3,500

Note: Segment revenue, results, assets and liabilities include the respective amounts identifiable to each of thesegments.

(2 marks)

ANSWER 5 (C).

The entity considers the requirements in paragraphs 56–58 of Ind AS 115 on constraining estimates of variable consideration to determine whether the estimated amount of variable consideration of Rs. 48,500 (Rs. 50 × 970 products not expected to be returned) can be included in the transaction price. The entity considers the factors in paragraph 57 of Ind AS 115 and determines that although the returns are outside the entity's influence, it has significant experience in estimating returns for this product and customer class. In addition, the uncertainty will be resolved within a short time frame (ie the 30-day return period). Thus, the entity concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognised (i.e. Rs. 48,500) will not occur as the uncertainty is resolved (i.e. overthe return period).

The entity estimates that the costs of recovering the products will be immaterial and expects that the returned products can be resold at a profit.

Upon transfer of control of the 1,000 products, the entity does not recognise revenue for the 30 products thatitexpectstobereturned.Consequently,inaccordancewithparagraphs55andB21ofIndAS 115, the entity recognises the following:

(a) revenue of Rs. 48,500 (Rs. 50 × 970 products not expected to be returned);

(b) a refund liability of Rs. 1,500 (Rs. 50 refund × 30 products expected to be returned); and

(c) an asset of Rs. 900 (Rs. 30 × 30 products for its right to recover products from customers on settling the refund liability).

(5 marks)

ANSWER 6 (A)

IndAS 38 specifically prohibits recognising advertising expenditure as an intangible asset. Irrespective of success probability in future, such expenses have to be recognized in profit or loss. Therefore, the treatment given by the accountant is correct since such costs shouldbe recognisedasexpenses.

However, the costs should be recognised on an accruals basis.

Therefore, of the advertisements paid for before 31stMarch, 2018, Rs.7,00,000 would be recognised as an expense and Rs.1,00,000 as a pre-payment in the year ended 31stMarch2018.

Rs. 4,00,000 cost of advertisements paid for since 31stMarch, 2018 would be charged as expenses in the year ended 31stMarch, 2019.

(4 marks)

ANSWER 6 (B)

A discontinued operation is one that is discontinued in the period or classified as held for sale at the year end. The operations of G Ltd were discontinued on 30thApril 2018 and therefore, would be treated as discontinued operation for the year ending 31stMarch 2019. It does not meet the criteria for held for sale since the company is terminating its business and does not hold these forsale.

Accordingly, the results of G Ltd will be included on a line-by-line basis in the consolidated statement of comprehensive income as part of the profit from continuing operations of U Ltd for the year ending 31st March2018.

As per para 72 of Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets', restructuring includes sale or termination of a line of business.

A constructive obligation to restructure arises when:

(a) an entity has a detailed formal plan for therestructuring

(b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected byit.

The Board of directors of U Ltd have decided to terminate the operations of G Ltd. from 30th April 2018. They have made a formal announcement on 15th February 2018, thus creating a valid expectation that the termination will be implemented. This creates a constructiveobligationonthecompanyandrequiresprovisionsforrestructuring.

A restructuring provision includes only the direct expenditures arising from the restructuring that are necessarily entailed by the restructuring and are not associated with the ongoing activities of the entity.

The termination payments fulfil the above condition. As per Ind AS 10 'Events after Reporting Date', events that provide additional evidence of conditions existing at the reporting date should be reflected in the financial statements. Therefore, the company should make a provision for Rs.520 lakhs in this respect.

The relocation costs relate to the future conduct of the business and are not liabilities for restructuring at the end of the reporting period. Hence, these would be recognised on the same basis as if they arose independently of a restructuring.

The operating lease would be regarded as an onerous contract. A provision would be made at the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. Hence, a provision shall be made for Rs.410lakhs.

Further operating losses relate to future events and do not form a part of the closure provision.

Therefore, the total provision required = Rs. 520 lakhs + Rs. 410 lakhs = Rs. 930 lakhs

(8 marks)

ANSWER 6 (C)

As per para39 of IndAS 7, the aggregate cash flows arising from obtaining control of subsidiaryshallbepresentedseparatelyandclassifiedasinvestingactivities.

As per para42 of IndAS 7, the aggregate amount of the cash paid or received as consideration for obtaining subsidiaries is reported in the statement of cash flows net of cash and cash equivalents acquired or disposed of as part of such transactions, events or changes incircumstances.

Further, investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

As per para42A of IndAS 7, cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities, unless the subsidiary is held by aninvestment entity, as defined in IndAS 110, and is required to be measured at fair value through profit or loss. Such transactions are accounted for as equity transactions and accordingly, the resulting cash flowsareclassifiedinthesamewayasothertransactionswithowners.

Considering the above, for the financial year ended March 31, 20 X2 total consideration of Rs. 15,00,000 less Rs. 250,000 will be shown under investing activities as " Acquisition of the subsidiary (net of cash acquired)".

There will not be any impact of issuance of equity shares as consideration in the cash flow statement however a proper disclosure shall be given elsewhere in the financial statements in a way that provides all the relevant information about the issuance of equity shares for non-cashconsideration.

Further, in the statement of cash flows for the year ended March 31, 20 X3, cash consideration paid for the acquisition of additional 10% stake in CompanyB will be shown under financingactivities.

(8 marks)