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CA FINAL NOV'19

SUBJECT- F.R.

Test Code – FNJ 7236

**BRANCH - () (Date :)**

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## ANSWER-1

### 1. Computation of impairment loss and carrying value of each of the asset in CGU after impairment loss

#### (i) Calculation of carrying value of Machinery A and B before impairment

<u>Machinery A</u>		
Cost	(A)	Rs. 10,00,000
Residual Value		Rs. 50,000
Useful life		10 years
Useful life already elapsed		5 years
Yearly depreciation	(B)	Rs. 95,000
<b>WDV as at 31<sup>st</sup> March, 2018 [A- (B x 5)]</b>		<b>Rs. 5,25,000</b>
<u>Machinery B</u>		
Cost	(C)	Rs. 5,00,000
Residual Value		-
Useful life		10 years
Useful life already elapsed		3 years
Yearly depreciation	(D)	Rs. 50,000
WDV as at 31 <sup>st</sup> March, 2018 [C- (D x 3)]		Rs. 3,50,000

#### (i) Calculation of Value-in-use of Machinery A

Period	Cash Flows (Rs.)	PVF	PV
1	1,50,000	0.909	1,36,350
2	1,00,000	0.826	82,600
3	1,00,000	0.751	75,100
4	1,50,000	0.683	1,02,450
5	1,00,000	0.621	62,100
5	50,000	0.621	<u>31,050</u>
<b>Value in use</b>			<b><u>4,89,650</u></b>

#### (ii) Calculation of Fair Value less cost of disposal of Machinery A

	Rs.
Fair Value	7,00,000
<i>Less:</i> Dismantling cost	(1,50,000)
Packaging cost	(25,000)
Legal Fees	<u>(75,000)</u>
<b>Fair value less cost of disposal</b>	<b><u>4,50,000</u></b>

**(iii) Calculation of Impairment loss on Machinery A**

	Rs.
Carrying Value	5,25,000
<i>Less:</i> Recoverable Value ie higher of Value-in-use and Fair value less cost of disposal	<u>4,89,650</u>
<b>Impairment Loss</b>	<b><u>35,350</u></b>

**(iv) Calculation of Impairment loss of CGU**

1. First goodwill will be impaired fully and then the remaining impairment loss of Rs. 75,000 will be allocated to Machinery A and B.

If we allocate remaining impairment loss to Machinery A and B on pro-rata basis, it would come to Rs. 45,000 on Machinery A. However, the impairment loss of Machinery A cannot exceed Rs. 35,350. Hence,

impairment to CGU will be as follows:

	Carrying value before impairment loss	Impairment loss	Carrying value after impairment loss
	Rs.	Rs.	Rs.
Machinery A	5,25,000	35,350	4,89,650
Machinery B	3,50,000	39,650*	3,10,350
Inventory	2,00,000	-	2,00,000
Goodwill	<u>1,50,000</u>	<u>1,50,000</u>	-
<b>Total</b>	<b><u>12,25,000</u></b>	<b><u>2,25,000</u></b>	<b><u>10,00,000</u></b>

\* Balancing figure.

(7 MARKS)

**(b) Carrying value after adjustment of depreciation**

	Rs.
Machinery A [4,89,650 – {(4,89,650-50,000)/5}]	4,01,720
Machinery B [3,10,350 – (3,10,350/7)]	2,66,014
Inventory	2,00,000
Goodwill	_____ -
<b>Total</b>	<b><u>8,67,734</u></b>

(1 MARK)

**(c) Calculation of carrying value of CGU as on 31<sup>st</sup> March, 2019**

The revised value of CGU is Rs. 11 Lakh. However, impaired goodwill cannot be reversed. Further, the individual assets cannot be increased by lower of recoverable value or Carrying Value as if the assets were never impaired.

Accordingly, the carrying value as on 31<sup>st</sup> March, 2019 assuming that the impairment loss had never incurred, will be:

	Carrying Value	Recoverable Value	Final CV as at 31 <sup>st</sup> Mar 2019
Machinery A	4,30,000	4,50,000	4,30,000
Machinery B	3,00,000	(7,60,000 – 4,50,000) 3,10,000	3,00,000
Inventory	2,00,000	2,00,000	2,00,000
Goodwill	_____ -		
<b>Total</b>	<b><u>9,30,000</u></b>	<b><u>9,60,000</u></b>	<b><u>9,30,000</u></b>

Hence the impairment loss to be reversed will be limited to Rs. 62,266 only (Rs. 9,30,000 – Rs. 8,67,734).

(2 MARKS)

**ANSWER-2**

- A. The decision to offer the division for sale on 1<sup>st</sup> April, 2018 means that from that date the division has been classified as held for sale. The division available for immediate sale, is being actively marketed at a reasonable price and the sale is expected to be completed within one year.

The consequence of this classification is that the assets of the division will be measured at the lower of their existing carrying amounts and their fair value less cost to sell. Here the division shall be measured at their existing carrying amount ie Rs. 30,60,000 since it is less than the fair value less cost to sell Rs. 32,00,000.

The increase in expected selling price will not be accounted for since earlier there was no impairment to division held for sale.

The assets of the division need to be presented separately from other assets in the balance sheet. Their major classes should be separately disclosed either on the face of the balance sheet or in the notes.

The Property, Plant and Equipment shall not be depreciated after 1<sup>st</sup> April, 2018 so its carrying value at 30<sup>th</sup> June, 2018 will be Rs. 20,00,000 only. The inventories of the division will be shown at Rs. 9,00,000.

The division will be regarded as discontinued operation for the quarter ended 30<sup>th</sup> June, 2018. It represents a separate line of business and is held for sale at the year end.

The Statement of Profit and Loss should disclose, as a single amount, the post-tax profit or loss of the division on classification as held for sale.

Further, as per Ind AS 33, EPS will also be disclosed separately for the discontinued operation.

**(5 MARKS)**

**B. All numbers in Rs. in000.**

The lease of the asset by A Ltd. to B Ltd. would be regarded as a finance lease because the risks and rewards of ownership have been transferred to B Ltd. Evidence of this includes the lease is for the whole of the life of the asset and B Ltd. being responsible for repairs and maintenance.

As per para 36 of Ind AS 17, since the lease is a finance lease and A Ltd. is the lessor, A Ltd. will recognise a financial asset ie. as a receivable at an amount equal to the 'net investment in finance leases'. The amount recognised will be the present value of the minimum lease payments which will be 20,197.39 ie.  $2,787 \times 7.247$ .

The impact of the lease on the financial statements for the year ended 31<sup>st</sup> March, 2018 can best be seen by preparing a profile of the net investment in the lease for the first three years of the lease and shown below:

Year to 31 <sup>st</sup> March	Opening Balance	Finance income	Rental	Closing Balance
2017	20,197.39	1,615.79	(2,787)	19,026.18
2018	18,806	1,522.09	(2,787)	17,761.27
2019	17,301	1,420.90	(2,787)	16,395.17

During the year ended 31<sup>st</sup> March, 2018, A Ltd. will recognise income from finance leases of 1,522.09.

The net investment on 31<sup>st</sup> March, 2018 will be 17,761.27.

Of the closing net investment of 17,761.27, current asset will be shown for 2,787 and 14,974.27 as a non-current asset.

**(5 MARKS)**

### **ANSWER-3**

Ongoing through the queries raised by the Managing Director Mr. Y, the financial controller Mr. X explained the notes and reasons for their disclosures as follows:

- (a)** The accounting treatment of the majority of tangible non-current assets is governed by Ind AS 16 'Property, Plant and Equipment'. Ind AS 16 states that the accounting treatment of PPE is determined on a class by class basis. For this purpose, property and plant would be regarded as separate classes. Ind AS 16 requires that PPE is measured using either the cost model or the revaluation model. This model is applied on a class by class basis and must be applied consistently within a class. Ind AS 16 states that when the revaluation model applies, surpluses are recorded in other comprehensive income, unless they are cancelling out a deficit which has previously been reported in profit or loss, in which case it is reported in profit or loss. Where the revaluation results in a deficit, then such deficits are reported in profit or loss, unless they are cancelling out a surplus which has previously been reported in other comprehensive income, in which case they are reported in other comprehensive income.

According to Ind AS 16, all assets having a finite useful life should be depreciated over that life. Where property is concerned, the only depreciable element of the property is the buildings element, since land normally has an indefinite life. The estimated useful life of a building tends to be much longer than for plant. These two reasons together explain why the depreciation charge of a property as a percentage of its carrying amount tends to be much lower than for plant.

Properties which are held for investment purposes are not accounted for under Ind AS 16, but under Ind AS 40 'Investment Property'. As per Ind AS 40, investment properties should be accounted for under a cost model. ABC Ltd. had applied the cost model and thus our investment properties are treated differently from the owner occupied property which is annually to fair value.

**(5 MARKS)**

- (b)** As per Ind AS 38 'Intangible Assets', the treatment of expenditure on intangible items depends on how it arose. Internal expenditure on intangible items incurred during research phase cannot be recognised as an asset. Once it can be demonstrated that a development project is likely to be technically feasible, commercially viable, overall profitable and can be adequately resourced, then future expenditure on the project can be recognised as an intangible asset. The difference in the treatment of expenditure upto 30<sup>th</sup> September, 2017 and expenditure after that date is due to the recognition phase ie. research or development phase.

**ANSWER-4****A. (i) Calculation of capitalization rate on borrowings other than specific borrowings**

<i>Amount of loan (Rs.)</i>	<i>Rate of interest</i>	<i>Amount of interest (Rs.)</i>
7,00,000	12% =	84,000
<u>9,00,000</u>	11% =	<u>99,000</u>
<u>16,00,000</u>		<u>1,83,000</u>
Weighted average rate of interest (1,83,000/16,00,000) x 100	=	11.4375%

**(ii) Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses**

<b>Date of incurrence of expenditure</b>	<b>Amount spent</b>	<b>Financed through</b>	<b>Calculation</b>	<b>Rs.</b>
1 <sup>st</sup> April, 2017	1,50,000	Specific borrowing	$1,50,000 \times 9\% \times 10/12$	11,250
1 <sup>st</sup> August, 2017	2,00,000	Specific borrowing	$50,000 \times 9\% \times 10/12$	3,750
		General borrowing	$1,50,000 \times 11.4375\% \times 6/12$	8,578.125
1 <sup>st</sup> October, 2017	3,50,000	General borrowing	$3,50,000 \times 11.4375\% \times 4/12$	<b>13,343.75</b>
1 <sup>st</sup> January, 2018	1,00,000	General borrowing	$1,00,000 \times 11.4375\% \times 1/12$	953.125
				<b>37,875</b>

**Note:** Since construction of building started on 1<sup>st</sup> April, 2017, it is presumed that all the later expenditures on construction of building had been incurred at the beginning of the respective month.

**(iii) Total expenses to be capitalized for building**

	<i>Rs.</i>
Cost of building Rs. (1,50,000 + 2,00,000 + 3,50,000 + 1,00,000)	8,00,000
<i>Add:</i> Amount of interest to be capitalized	<u>37,875</u>
	<u>8,37,875</u>

**(ii) Journal Entry**

<i>Date</i>	<i>Particulars</i>		<i>Rs.</i>	<i>Rs.</i>
31.1.2018	Building account	Dr.	8,37,875	
	To Bank account			8,00,0000
	To Interest payable (borrowing cost)			37,875
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

**Note:** In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.2018.

(4 MARKS)

Alternatively, following journal entry may be passed if interest is paid on the date of capitalization:

<i>Date</i>	<i>Particulars</i>		<i>Rs.</i>	<i>Rs.</i>
31.1.2018	Building account	Dr.	8,37,875	
	To Bank account			8,37,875
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			



B. The profit and loss account was credited by Rs. 1,00,000 (US\$ 2000 × Rs. 50) towards interest income. It was credited by the exchange difference of US\$ 100,000 × (Rs. 50 - Rs.45) that is, Rs. 500,000. In preparing the cash flow statement, Rs. 500,000, the exchange difference, should be deducted from the 'net profit before taxes, and extraordinary item'. However, in order to reconcile the opening balance of the cash and cash equivalents with its closing balance, the exchange difference Rs. 500,000, should be added to the opening balance in note to cash flow statement.

Cash flows arising from transactions in a foreign currency shall be recorded in Z Ltd.'s functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

(4 MARKS)

### ANSWER-5

As per Ind 2 'Inventories', most by-products as well as scrap or waste materials, by their nature, are immaterial. They are often measured at net realizable value and this value is deducted from the cost of the main product.

#### 1) Calculation of NRV of By-product BP

Selling price of by-product	2,000 units x 20 per unit	40,000
Less: Separate processing charges of by- product BP		(8,000)
Packing charges		<u>(2,000)</u>
<b>Net realizable value of by-product BP</b>		<b><u>30,000</u></b>

#### 2) Calculation of cost of conversion for allocation between joint products MP1 and MP2

Raw material		1,50,000
Wages		90,000
Fixed overhead		65,000
Variable overhead		50,000
Less: NRV of by-product BP (See calculation 1)	30,000	
Sale value of scrap	<u>5,000</u>	<u>(35,000)</u>
<b>Joint cost to be allocated between MP1 and MP2</b>		<b><u>3,20,000</u></b>

**3) Determination of “basis for allocation” and allocation of joint cost to MP1 and MP2**

	<u>MP 1</u>	<u>MP 2</u>
Output in units (a)	5,000	4,000
Sales price per unit (b)	60	50
Sales value (a x b)	3,00,000	2,00,000
Ratio of allocation	3	2
Joint cost of Rs. 3,20,000 allocated in the ratio of 3:2 (c)	1,92,000	1,28,000
<b>Cost per unit [c/a]</b>	<b>38.4</b>	<b>32</b>

**4) Determination of value of closing stock of MP1 and MP2**

<b>Particulars</b>	<b>MP 1</b>	<b>MP 2</b>
Closing stock in units	250 units	100 units
Cost per unit	38.4	32
Value of closing stock	9,600	3,200

**(4\*2 = 8 MARKS)**