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CA FINAL NOV'19

SUBJECT- F.R.

Test Code – FNJ 7274

BRANCH - () (Date :)

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ANSWER – 1

ANSWER -A

This is the case of Revenue recognised at a single point in time with multiple payments. As per the guidance given in Appendix B to Ind AS 21:
A Ltd. will recognise a non-monetary contract liability amounting Rs. 1,440 million, by translating USD 20 million at the exchange rate on 1st January, 2018 ie Rs. 72 per USD.

A Ltd. will recognise revenue at 31st March, 2018 (that is, the date on which it transfers the goods to the customer).

A Ltd. determines that the date of the transaction for the revenue relating to the advance consideration of USD 20 million is 1st January, 2018. Applying paragraph 22 of Ind AS 21, A Ltd. determines that the date of the transaction for the remainder of the revenue as 31st March, 2018.

On 31st March, 2018, A Ltd. will:

- derecognise the non-monetary contract liability of USD 20 million and recognise USD 20 million of revenue using the exchange rate as at 1st January, 2018 ie Rs. 72 per USD; and
- recognise revenue and a receivable for the remaining USD 30 million, using the exchange rate on 31st March, 2018 ie Rs. 75 per USD.
- The receivable of USD 30 million is a monetary item, so it should be translated using the closing rate until the receivable is settled.

(5 MARKS)

ANSWER –B

With regard to going concern basis to be followed for preparation of financial statements, Ind AS 10 provides as follows:

"14 An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

15 Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting."

In accordance with the above, an entity needs to change the basis of accounting if the effect of deterioration in operating results and financial position is so pervasive that management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

In the instant case, since contract is expiring on 31st December 2017 and it is confirmed on 23rd April, 2017, i.e., after the end of the reporting period and before the approval of the financial statements, that no further contact is secured, implies that the entity's operations are expected to come to an end. Accordingly, if entity's operations are expected to come to an end, the entity needs to make a judgement as to whether it has any realistic possibility to continue or not. In case, the entity determines that it has no realistic alternative of continuing the business, preparation of financial statements for 2016-17 and thereafter on going concern basis may not be appropriate.

(5 MARKS)

ANSWER – 2

ANSWER -A

Profit or loss under weighted average valuation method is as follows:

	2018-2019	2017-2018 (Restated)
Revenue	324	296
Cost of goods sold	(168)	(159)
Gross profit	**156**	**137**
Expenses	(83)	(74)
Profit	**73**	**63**

Statement of changes in Equity (extract)

	Retained earnings	Retained earnings (Original)
At 1st April, 2017	423	423
Change in inventory valuation policy	10	-
At 1st April, 2017 (Restated)	**433**	**-**
Profit for the year 2017-2018	63	58
At 31st March, 2018	**496**	**481**
Profit for the 2018-2019	73	68
At 31st March, 2019	**569**	**549**

(5 MARKS)

ANSWER –B

The year-wise anticipated reversal of temporary differences is as under:

Particulars	Year ending on March 31, 20X2	Year ending on March 31, 20X3	Year ending on March 31, 20X4	Year ending on March 31, 20X5
Reversal of taxable temporary difference relating to accelerated depreciation over next 3 years (Rs. 9,000/3)	3,000	3,000	3,000	Nil
Reversal of deductible temporary difference relating to preliminary expenses over next 4 years (Rs. 4,000/4)	1,000	1,000	1,000	1,000

B Limited will recognise a deferred tax liability of Rs. 2,700 on taxable temporary difference relating to accelerated depreciation of Rs. 9,000 @ 30%.

However, it will limit and recognise a deferred tax asset on reversal of deductible temporary difference relating to preliminary expenses reversing up to year ending March 31, 20X4 amounting to Rs. 900 (Rs. 3,000 @ 30%). No deferred tax asset shall be recognized for the reversal of deductible temporary difference for the year ending on March 31, 20X5 as there are no taxable temporary differences. Further, the outlook is also a loss. However, if there are tax planning opportunities that could be identified for the year ending on March 31, 20X5 deferred tax asset on the remainder of Rs. 1,000 (Rs. 4,000 – Rs. 3,000) of deductible temporary difference could be recognised at the 30% tax rate.

(5 MARKS)

ANSWER – 3

ANSWER -A

(i) Yes, QA Ltd. is required to make provision for the claim from customer K as per Ind AS 37 since the claim is a present obligation as a result of delivery of faulty goods manufactured. Also, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations. Further, a reliable estimate of Rs. 5.2 crore can be made of the amount of the obligation while preparing the financial statements as on 31st March, 2017.

(ii) Option (A) : Statement of Profit and Loss A/c Dr. Rs. 5.2 crore

To Current Liability A/c Rs. 5.2 crore

(iii) As per para 31 of Ind AS 37, QA Ltd. shall not recognise a contingent asset. Here the probability of success of legal action is very high but there is no concrete evidence which makes the inflow virtually certain. Hence, it will be considered as contingent asset only

and shall not be recognized.

(6 MARKS)

ANSWER -B

Paragraph 9 of Ind AS 24 Related Party Disclosures defines Related Party Transactions as under:

"A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged."

Paragraph 6 of Ind AS 24 states as under:

"6 A related party relationship could have an effect on the profit or loss and financial position of an entity…"

In the given case, there is a transfer of resources to the extent of Rs.12 lac from the company to the parent towards software license. Of this transfer of resources, the company has consumed the benefits relating to Rs.3 lac of software license cost which is recognise in profit or loss. The benefits relating to Rs.9 lac of software license cost will be consumed in the next reporting period and therefore is recognised in balance sheet as prepaid expenses.

Paragraph 18 of Ind AS 24 states as under:

"18 If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments necessary for users to understand the potential effect of the relationship of the financial statements. At a minimum, disclosures shall include:

a. The amount of the transactions;
b. The amount of outstanding balances, including commitments, and;
   (i) Their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
   (ii) Details of any guarantees given or received;
c. Provisions for doubtful debts related to the amount of outstanding balances; and
d. The expense recognised during the period in respect of bad and doubtful debts due from related parties."

Therefore, the company has to disclose:

1. The amount of transaction with the parent of Rs.12 lac towards software license;
2. Outstanding balance of Rs.9 lac presented as prepaid expense along with the terms and conditions and state that the same will be settled in the next reporting period by receipt of software licensing services.
3. The amount of Rs.3 lac recognised as software license expense in profit or loss for the benefits consumed during the period to make it understandable to users.

Paragraph 113 of Ind AS 1 *Presentation of Financial Statements* states as under:

"113 An entity shall present notes in a systematic manner. An entity shall cross-reference each line items in the balance sheet and in the statement of profit and loss, and in the statement of changes in equity and of cash flows to any related information in the notes."

Therefore, the company shall cross-reference the software license expense recognised in profit or loss and prepaid expenses recognised in balance sheet to the notes disclosing related party transactions.

(4 MARKS)

ANSWER – 4

ANSWER -A

The entity should use First-In, First-Out (FIFO) method for its Ind AS 108 disclosures, even though it uses the weighted average cost formula for measuring inventories for inclusion in its financial statements. Where chief operating decision maker uses only one measure of segment asset, same measure should be used to report segment information. Accordingly, in the given case, the method used in preparing the financial information for the chief operating decision maker should be used for reporting under Ind AS 108.

However, reconciliation between the segment results and results as per financial statements needs to be given by the entity in its segment report.

(5 MARKS)

ANSWER –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

A Limited will recognise 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.	1,00,00,000	
To Deferred Income			25,23,344
To Loan Account			74,76,656

Rs. 25,23,344 is to be recognised in profit or loss on a systematic basis over the periods in which A Limited recognised as expenses the related costs for which the grant is intended to compensate.

If the loan is to finance a depreciable asset. Rs. 25,23,344 will be recognised in profit or loss on the same basis as depreciation.

(5 MARKS)

ANSWER – 5

ANSWER -A

The highest and best use of the land is determined by comparing the following:

- The value of the land as currently developed for industrial use (i.e., an assumption that the land would be used in combination with other assets, such as the factory, or with other assets and liabilities); and
- The value of the land as a vacant site for residential use, taking into account the costs of demolishing the factory and other costs necessary to convert the land to a vacant site. The value under this use would take into account risks and uncertainties about whether the entity would be able to convert the asset to the alternative use (i.e., an assumption that the land would be used by market participants on a stand-alone basis).

The highest and best use of the land would be determined on the basis of the higher of these values. In situations involving real estate appraisal, the determination of highest and best use might take into account factors relating to the factory operations (e.g., the factory's operating cash flows) and its assets and liabilities (e.g., the factory's working capital).

(5 MARKS)

ANSWER –B

	Number of shares	**Profit `**
Profit		200,000
Outstanding shares	1,000,000	
New shares on conversion (weighted average)		
9/12 × ` 25,000 / 100 × 120	22,500	-
Figures for basic EPS	1,022,500	200,000
Basic EPS is (` 200,000 / 1,022,500) = 0.196 per share		
Dilution adjustments		
Unconverted shares ` 75,000 / 100 × 120		90,000
Interest: ` 75,000 × 5% × 0.7		2,625
Converted shares pre conversion adjustment		
3/12 × ` 25,000 / 100 × 120	7,500	
Interest: [3/12 × ` 25,000 × 5% × 0.7]		219
	1,120,000	**202,844**
Diluted EPS is (` 202,844 / 1,120,000) = 0.181		

(5 MARKS)