CA FINAL N’19

SUBJECT- GFRS

Test Code – FNJ 7293

(Date :)

(Marks - 100)

Attempt any two out of three case study based questions.

Each case study carries 50 Marks.

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 2017 when the exchange rate was $1: INR 65. The supplier has provided XYZ Ltd with 6 month interest-free credit. At the reporting date of 31 March 2018, the exchange rate was $1: INR 66. As at 31 March 2018, 60% of the materials purchased were still in inventory in XYZ Ltd.
2. On 1 April 2017, XYZ Ltd entered into a lease with LRUS in respect of specialized manufacturing equipment. The cash price for the machine was INR 1560000 and XYZ Ltd agreed to make three annual payments of INR 480000 in advance and one final payment of INR 240000 at the end of the three-year term.

Under the terms of the lease, XYZ Ltd will be responsible for maintaining the machine. The lease does not have a break clause. The expected life of the asset is three years after which it will have a nil residual value. The interest rate implicit in the lease is 10%. To date the only entries to record the lease have been to debit cost of goods sold and credit bank with the first annual payment.

3. XYZ Ltd offers a warranty on a number of its smaller sized supply only turbines. XYZ Ltd has therefore made a provision of INR 510000 for warranty claims. This represents 2% of total gross margin on this class of sales for the year ended 31 March 2018. 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.

4. During the year, XYZ Ltd completed its first supply and maintain contract. The turbines were supplied and operational on 31 January 2018. The contract was for INR 39,100,000 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 INR 34000000. The maintenance contract on a wind farm of this size would normally be INR 1,700,000 per annum. XYZ Ltd has been paid in full for this contract and included the full INR 39,100,000 as revenue in the draft accounts for 31 March 2018

5. 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 2016 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 INR 34 per share, the fair value of each option at 1 April 2016 was INR 9.01. The options vest on 31 March 2019 if the employees continue to work for XYZ Ltd during the three-year period. At 31 March 2017, 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 2017 was INR 35.7 and the fair value of each option was INR 9.18. By 31 March 2018, 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 2018 was INR 37.4 and the fair value of each option was INR 9.35. No entries have ever been made to record the share stock option scheme.

6. 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 2018, its carrying value was INR 9,60,00,000 with INR 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 2018 was judged to be INR 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 2018.

		XYZ Ltd	PQR Ltd
		INR m	INR m
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 2018

		XYZ Ltd	PQR Ltd
ASSETS		INR m	INR m
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 INR 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 6.8m ordinary shares in PQR Ltd on 31 March 2013. At that date the equity and liabilities of PQR Ltd were as follows:

	INR m
• Issued share capital INR 1 ordinary shares	27.2
• Retained earnings	30.6
• Revaluation surplus	1.7

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

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

Questions

1. What is the amount of exchange loss/gain to be recognized on 31 March 2018 in relation to purchase of raw material from American Company?

   (a) INR 10.2 Million exchange loss

   (b) INR 6.12 Million exchange loss

   (c) Nil

   (d) INR 3.4 Million exchange loss (2 Marks)

2. What is the amount of finance cost that should be recognized on 31 March 2018 in respect of lease of specialized manufacturing equipment?

   (a) INR 0.101304 Million

   (b) INR 0.149304 Million

   (c) INR 0.156 Million

   (d) INR 0.108 Million (2 Marks)

3. At what carrying value should lease liability (non-current portion) be recognized on 31 March 2018?

   (a) INR 0.634344 Million

   (b) INR 1.114344 Million

   (c) INR 1.236 Million

   (d) INR 1.162344 Million (2 Marks)

4. At what amount should warranty provision be increased in books of accounts on 31 March 2018?

   (a) INR 0.255 Million

   (b) INR 0.51 Million

   (c) INR 0.34 Million

   (d) INR 0.85 Million (2 Marks)

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

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

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

   (c) Maintenance contract INR 5,100,000, Supply contract INR 34,000,000

   (d) Maintenance contract INR 8,500,000, Supply contract INR 30,600,000

   (2 Marks)

6. What is the amount of contract revenue that should be recognized on March 31, 2018?

   (a) INR 39.1Million

   (b) INR 35.7 Million

   (c) INR 31.54 Million

   (d) INR 30.883 Million (2 Marks)

7. Out of contract revenue of INR 39,100,000 what amount of deferred income should be recognized on 31 March 2018?

   (a) Current liability INR 1,564,000, Non-current liability INR 5,995,330

   (b) No liability

   (c) Current liability INR 703,448, Non-current liability INR 2,696,551

   (d) Current liability INR 1,700,069, Non-current liability INR 6,516,931 (2 Marks)

8. What amount of annual charge on account of share option reserve should XYZ Ltd had recognized on March 31, 2017?

   (a) INR 432,480

   (b) INR 440,640

   (c) INR 454,410

   (d) INR 450,500 (2 Marks)

9. What is the annual charge on account of share option reserve for the year ending 31 March 2018?

   (a) INR 447,610

   (b) INR 423,470

   (c) INR 432,480

   (d) INR 440,640 (2 Marks)

10. What amount of revaluation loss on account of revaluation of main manufacturing property can be adjusted from revaluation surplus on 31 March 2018?

    (a) INR 14.4 Million

    (b) Nil

    (c) INR 12 Million

    (d) INR 10.2 Million (2 Marks)

11. Pass the necessary entry for share option scheme introduced for all the employees on April 1, 2016 with reference to relevant IFRS. (Show your calculations clearly)

    (5 Marks)

12. 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 2018 in accordance with relevant IFRS (showing all relevant workings).

    (25 Marks)

CASE STUDY 2

You are Devansh, manager with XYZ Advisors LLP, a prestigious accounting and advisory firm. ABC Limited, a listed company has appointed your firm to assist in finalization of consolidated as well as separate financial statements of ABC Limited for the year ended 31 March 2017. ABC Limited prepares its consolidated as well as separate financial statements in accordance with 'International Financial Reporting Standards' (IFRS). The scope of work includes providing advice on key accounting issues. You have been assigned as in-charge for this project.

Finance controller Pankaj Garg of ABC Limited has shared following relevant information with you:

1. Company ABC Ltd. acquires PQR Ltd., which is engaged in software development business. PQR's main operation was to build customised software for banking industry. Currently PQR Ltd. is engaged in researching and developing its first product and creating an active market for the software. PQR Ltd. has not generated any revenues and has no existing customers. PQR's workforce is composed primarily of software engineers and programmers. PQR Ltd. has the intellectual property, software and fixed assets required to develop the customised software for banks.

2. ABC Ltd., purchases five investment properties that are fully rented to tenants. ABC Ltd., also takes over the contract with the property management company, which has unique knowledge related to investment properties in the area and makes all decisions, both of strategic nature and related to the daily operations of the property. Ancillary activities necessary to fulfil the obligations arising from these lease contracts are also in place, specifically activities related to maintaining the building and administering the tenants.

3. ABC is in the process of recording the acquisition of another subsidiary, MNO Limited, and has identified two items when reviewing the fair values of MNO's assets.

   The first item relates to Rs. 1 million spent on a new research project. This amount has been correctly charged to profit or loss by MNO in accordance with IAS 38: Intangible Assets, but the directors of ABC have reliably assessed the fair value of this research to be Rs. 1.2 million.

   The second item relates to the customers of MNO. The directors of ABC believe MNO has a particularly strong list of reputable customers which could be 'sold' to other companies and have assessed the fair value of the customer list at Rs. 3 million.

4. ABC Ltd. acquired a subsidiary, B Ltd. during the year. Summarised information from the consolidated statement of profit and loss and balance sheet is provided, together with some supplementary information:

Consolidated statement of profit and loss	Amount (Rs.)
Revenue	3,80,000
Cost of sales	(2,20,000)
Gross profit	1,60,000
Depreciation	(30,000)
Other operating expenses	(56,000)
Interest cost	(4,000)
Profit before taxation	70,000
Taxation	(15,000)
Profit after taxation	55,000

Consolidated balance sheet for the year ended 31st March	2017 Amount (Rs.)	2016 Amount (Rs.)
Assets		
Cash and cash equivalents	8,000	5,000
Trade receivables	54,000	50,000
Inventories	30,000	35,000

Property, plant and equipment	1,60,000	80,000
Goodwill	18,000	—
Total assets	2,70,000	1,70,000
Liabilities		
Trade payables	68,000	60,000
Income tax payable	12,000	11,000
Long term debt	1,00,000	64,000
Total liabilities	1,80,000	1,35,000
Shareholders' equity	90,000	35,000
Total liabilities and shareholders' equity	2,70,000	1,70,000

Other information:

All of the shares of B Ltd. were acquired for Rs. 74,000 in cash. The fair values of assets acquired and liabilities assumed were:

Particulars	Amount (Rs.)
Inventories	4,000
Trade receivables	8,000
Cash	2,000
Property, plant and equipment	1,10,000
Trade payables	(32,000)
Long term debt	(36,000)
Goodwill	18,000
Cash consideration paid	74,000

5. ABC Ltd. entered into a 20-year operating lease for a property on 1 April 2004 which has a remaining life of 8 years on 1 April 2016. The rental payments are Rs. 2.3 million per annum.

Prior to 1 April 2016, ABC Ltd. obtained permission from the owner of the property to make some internal alterations to the property so that it can be used for a new manufacturing process which ABC Ltd. is undertaking. The cost of these alterations was Rs. 7 million and they were completed on 1 April 2016 (the time taken to complete the alterations can be taken as being negligible). A condition granting permission was that ABC Ltd. would restore the property to its original condition before giving back the property at the end of the lease. The estimated restoration cost on 1 April 2016, discounted at 8% per annum to its present value is Rs. 5 million.

Objective Type Questions

Select the most appropriate answer from the options given for each question . **(2 Mark each)**

1. ABC Ltd. purchased 10,000 shares on 1st April 2016, making the election to use the alternative treatment under IFRS 9 i.e. FVTOCI. The shares cost Rs. 3.50 each. Transaction costs associated with the purchase were Rs. 500. At 31st March 2017, the shares are trading at Rs. 4.50 each.

   What is the gain to be recognized on these shares for the year ended 31st March 2017?

   a). Rs. 10,000

   b) Rs. 45,000
   c). Rs. 9,500
   d). Rs. 35,000

2. ABC Ltd. sells machines, and also offers installation and technical support services. The individual selling prices of each product are shown below.

Sale price of goods	Rs. 75,000
Installation	Rs. 25,000
A year's service	Rs. 50,000

   Company X bought a machine on 1st August 2016, and was charged a reduced price of Rs. 120,000.

   ABC Ltd. offers discount only when customers purchase a full package.

   How much should be recorded in revenue for the year ended 31 st March 2017?

   (a) Rs 80,000

   (b) Rs 106,667
   (c) Rs 120,000
   (d) Rs. 1,50,000

3. Which of the following items has correctly been included in ABC's revenue for the year?

   (a) Rs. 2 million in relation to a fee negotiated for an advertisement contract for R Ltd., one of ABC's clients. However, ABC Ltd. acted as an agent during the deal and was entitled only 10% commission.

   (b) Rs. 500,000 relating to a sale of specialised equipment on 31 st March 2017. The full sales value was Rs. 700,000 but Rs. 200,000 relates to servicing that ABC Ltd. will provide over the next 2 years, so ABC Ltd. has not included that in revenue this year.

   (c) Rs. 800,000 relating to a sale of some surplus land owned by ABC Ltd.

   (d) Rs. 1 million in relation to a sale of goods to a new customer on 31st March 2017. Control passed to the customer on 31st March 2017. However, Rs. 1 million is payable on 31st March, 2019. Interest rate is 10%.

4. ABC Ltd. has only two items of inventory on hand at its reporting date.

   Item 1 – Materials costing Rs. 24,000 bought for processing and assembly for a customer under a 'one off' order which is expected to produce a high profit margin. Since buying this material, the cost price has fallen to Rs. 20,000 if the sample material is bought again.

   Item 2 – A machine constructed for another customer for a contracted price of Rs. 36,000. This has recently been completed at a cost of Rs. 33,600. It has now been discovered that, in order to meet certain health and safety regulations, modifications at an extra cost of Rs. 8,400 will be required. The customer has agreed to meet half the extra cost.

   What should be the total value of these two items of inventory in the statement of financial position?

   (a) Rs. 53,600

   (b) Rs. 51,800

   (c) Rs. 51,600

   (d) Rs. 55,800

5. Using the requirements set out in IAS 10 'Events after the Reporting Period', state which of the following events for occurred after 31st March, 2017 would be considered as an adjusting event. The financial statements were approved by the directors on 31 August 2017.

   (a) A reorganisation of the enterprise, proposed by a director on 31 st January 2017 and agreed by the Board on 10th July 2017.

   (b) A strike by the workforce which started on 1st May 2017 and stopped all production for 10 weeks before being settled.

   (c) Receipt of cash from a claim on an insurance policy for damage caused by a fire in a warehouse on 1st January 2017. The claim was made in January 2017 and the amount of the claim had not been recognised in the financial statements at 31st March 2017 as it was uncertain whether the claim will be honoured. The insurance enterprise settled the claim by paying Rs. 1.5 million on 1st June 2017.

   (d) The enterprise had made large export sales to the USA during the year. The year-end receivables included Rs. 2 million for amounts outstanding that was due to be paid in US dollars between 1st April 2017 and 1st July 2017. By the time these amounts were received, the exchange rate had moved in favour.

6. ABC Ltd. has the following balances included on its trial balance at 31st

   March 2017: Taxation Rs. 4,000 Credit

   Deferred Tax Liability Rs. 12,000 Credit

The balance in the head 'Taxation' relates to an overprovision from 31 March 2016.

At 31st March 2017, the directors estimate that the provision necessary for taxation on current year profits is Rs. 15,000. The carrying amount of ABC Ltd.'s non-current assets exceeds the written-down value as per income tax by Rs. 30,000. The rate of tax is 30%.

What is the charge for taxation that will appear in the Statement of Profit or Loss for the year ending 31st March 2017?

(a) Rs. 23,000

(b) Rs. 28,000

(c) Rs. 8,000

(d) Rs. 12,000

7 ABC Ltd. is considering to control S Ltd. by acquiring its shares.

Which ONE of the following situations is unlikely to represent control over an investee S Ltd.?

a. Owning 55% of total shares of S Ltd. and being able to elect 4 out of 7 directors in the board

b. Owning 51% of total shares of S Ltd. but the constitution requires that decisions need the unanimous consent of all shareholders

c. Having currently exercisable options which would take the shareholding of the company to 55%

d. Owning 40% of the shares, but having the majority of voting rights within the company.

8. ABC Ltd. has a legal claim that is likely to be settled at the end of two years for an amount of Rs. 100 million. Discounting rate is 4.5%. Determine the amount of provision to be initially recognised.

(a) Rs. 100 million

(b) Rs. 91.57 million

(c) Rs. 95.69 million

(d) Rs. 95.5 million

9. An impairment of goodwill in a subsidiary company will be accounted for by ABC Ltd. in which of the following ways?

(a) It will always be deducted in full from the parent company retained earnings

(b) It will be apportioned between the parent company and the non-controlling interest (NCI) when the NCI is valued at fair value

(c) It will never be apportioned between the parent company and the NCI

(d) It will be apportioned between the parent company and the NCI where the

NCI is valued using the proportionate method

10. ABC Ltd. holds securities for dealing or trading purposes as they relate to the main revenue generating activity of the entity. In such a situation, cash flows arising from the purchase and sale of such securities are classified as

    (a) Operating activities.

    (b) Investing activities

    (c) Financing activities

    (d) Not shown in the statement of cash flows

II. Descriptive Questions

1. (i) Whether the acquisition of PQR Ltd. should be treated as a business and consequently accounted for as a business combination or whether acquisition should be accounted for as an asset acquisition?

(5 Marks)

(ii) Whether the acquired set of investment properties constitutes a business or not?

(5 Marks)

2. State whether the two items should be recognised in the consolidated statement of financial position of ABC Ltd on the acquisition of MNO. If yes, then state at which value the items will be recognised.

(5 Marks)

3. Prepare statement of cash flows under the indirect method on acquisition of B Ltd.

(10 Marks)

4. Explain how the lease , the alterations to the leased property and the restoration costs should be treated in the financial statements of ABC Ltd. **(5 Marks)**

CASE STUDY 3

Mr. H is a Chartered Accountant and is working in GHI & Co., Chartered Accountants as a Manager. GHI & Co. has recently been approached by A Ltd. for providing advice on certain accounting matters (discussed below). A Ltd. is an automotive supplier having a registered office in New Delhi and is listed on the Bombay Stock Exchange (BSE). It is considering the possibilities of listing its securities at London Stock Exchange for which it needs to submit its financial statements prepared under International Financial Reporting Standards (IFRS).

Following is the brief facts about the transactions entered into by the company for which an accounting advice is sought:

The CFO of A Ltd. wants an advice from GHI & Co., Chartered Accountants on the below accounting matters:

(a) A Ltd. is engaged in developing and producing exhaust systems (catalytic converter) for cars and motor vehicles using high quality, high performance technologies. Such goods are being manufactured on the basis of specifications provided by Original Equipment Manufacturers (OEM) B Ltd. The exhaust system consists of two modules: the hot-end components and cold-end components, hot-end to manage the emission and cold-end to manage the noise.

The Plant located at Kerala carries on the business of manufacture, assembly and sale of catalytic converter and exhaust systems for B Ltd. All the exhaust systems are designed, produced and assembled and tested in Kerala only. For designing, producing and assembling any component, A Ltd. uses its own equipment and tools that have been bought by A Ltd. and capitalised in the books of A Ltd. It also uses certain equipment and special tools that have been provided by the customer (OEM) for designing, producing and assembling of goods. The machines owned by A Ltd. and tools provided by B Ltd. that are used in the manufacturing process are being controlled by A Ltd. A Ltd. decides the way the machines and tools will be used for production. This includes its scheduling, number of shifts the equipment will be run, overall maintenance of the equipment etc.

In order for B Ltd. to manufacture/ develop a new product or in such a case where B Ltd. wants to establish a new look for its existing cars (modification in body part, fuel tank, and lightings), B Ltd. approaches A Ltd. to develop or design the exhaust system for a particular car model wherein the tools will be provided by B Ltd. only. All the development cost for developing the prototype such as the cost of material, labour cost, power, technical approvals for development of that component are incurred by A Ltd. A Ltd. is under contractual obligation to not share the design of the prototype developed except for B Ltd. or B Ltd. nominated vendors.

For the prototype developed, A Ltd. is required to obtain various technical approvals of design and quality standards from India to ensure that the prototype used can reap benefits and can be used to manufacture, design similar exhaust systems in future.

(b) A Ltd. has certain items appearing in its books of accounts:

1. Shares of X Ltd., subsidiary of A Ltd. of INR 10,00,000
2. Advance given to C Ltd. for purchase of goods of INR 50,000
3. Investment in perpetual debt amounting to INR 2,00,000 carrying an interest at 10%
4. Prepaid expense of INR 20,000
5. Deferred tax asset of INR 16,200
6. Input Tax Credit receivable of INR 4,560
7. Lease deposit paid of INR 1,00,000
8. Shares of A Ltd. amounting to INR 1,50,000 held by ESOP Trust
9. USD-INR option held by A Ltd. as a buyer of the option
10. Gold bullion of INR 60,00,000

(c) D Ltd. was incorporated as a special purpose entity to operate an outlet at airport pursuant

to a license agreement. Currently, the shareholding pattern of D Ltd. is as below:

Name of shareholders	Equity shares	Percentage of equity shares
E Ltd.	39,920,000	49.9%
A Ltd.	13,624,000	17.03%
F Ltd.	26,546,000	33.07%

E Ltd. is a subsidiary of A Ltd. which holds 54% in E Ltd.

F Ltd. and A Ltd. are required to hold a minimum of 25.5% and 17.03% of the shareholding and voting rights in D Ltd. at all times respectively and there shall be no change in its shareholding in D Ltd. without prior permission of E Ltd.

D Ltd. is managed by the *Board of Directors* consisting of 7 directors wherein shareholders are entitled to nominate director(s) in the proportion of their shareholding in D Ltd. as follows:

Percentage of equity shareholding	No. of directors
>74%	5
<=74% and >50%	4
<=50% and >26%	3
<=26%	1

The directors shall not be required to hold any shares in order to qualify as directors of D Ltd. The Board shall form the following committees of directors who shall be empowered and authorised by the Board to manage the affairs of D Ltd. in relation to the subject matter of each such committee:

(i) Audit Committee; and (ii) Business Committee.

The Chief Executive Officer (CEO) of D Ltd. shall be nominated by the F Ltd. (such nomination cannot be rejected by more than 2 times, i.e., third nomination shall be selected and appointed by the Board). The CEO shall be responsible for the day-to-day management and operations of D Ltd. and have such duties and responsibilities and authority as delegated to him by the Board.

The Chief Financial Officer (CFO) of D Ltd. shall be nominated by E Ltd. and shall be overall in-charge of and be responsible for the financial affairs and accounts of D Ltd.

Head of Procurement and Head of Retail shall be appointed by the Board by selecting suitable candidates through mutually agreed globally reputed international recruitment firms.

All other key management personnel shall be appointed by the Board.

The quorum for board meeting shall be at least 1/3rd of the total strength of the Board of Directors or 3 directors including nominee director of each F Ltd., A Ltd. and E Ltd., whichever is higher. The Chairman of the Board shall be E Ltd.'s director appointed by the Board.

- Board decisions on ordinary actions (actions other than special actions) - Decisions with respect to all ordinary actions shall require a simple majority (i.e., the affirmative

  vote of greater than 50% of the directors present at a meeting duly called and for which requisite quorum is present).
- Board decisions on affirmative voting items- Decision with respect to affirmative voting items (which include certain participating and protective rights) shall not be approved without the consent of at least one director nominated by E Ltd., A Ltd. and F Ltd. each. Such items include majority of the relevant activities of D Ltd. such as decisions related to financing in excess of Rs. 5,00,00,000 incurring operating expenses and marketing expenses in excess of Rs. 5,00,00,000 and INR 2,00,00,000 respectively.

D Ltd.'s main objective is to operate and maintain the outlet at airport with following main relevant activities for D Ltd.:

- Procuring of goods/products for selling it at the outlet.
- Incurring operating expenses and marketing of the goods and services.
- Availing or borrowing any funds or other working capital facilities to finance the operations of DLtd.
- Preparation and approval of annual business plan including capital & operating budgets.

Most of the above mentioned relevant activities are covered under affirmative voting items of the shareholders agreement.

A resolution, which has been first approved at Board Meeting, in relation to any item referred for the approval of the Shareholders shall be deemed to be passed at a General Meeting only if the resolution is passed in accordance with shareholders' agreement and Articles.

In case of deadlock, parties shall use all reasonable endeavours in good faith to resolve the dispute.

In case D Ltd. wishes to issue further securities, first right to subscribe and purchase such securities shall lie with the shareholders through written notice given by D Ltd. to each of the shareholders stating the number of shares/ securities to be issued and the price per share/ security (pre-emptive rights). Further, any new issue of shares or securities to any third party shall be subject to the approval of the Board and the shareholders.

F Ltd. has agreed that there shall be no change in its ownership or control or management without prior written consent of E Ltd., failing which E Ltd. has the right to terminate the Shareholders Agreement.

Upon expiry of the License Agreement, E Ltd. shall have the option (call option) to acquire shares of F Ltd. and A Ltd. at book value as determined by appraisal firm; and E Ltd. shall proceed to wind up D Ltd.

Upon occurrence of events of default by F Ltd. and E Ltd., party other than the defaulting party may require defaulting party:

- To sell to its all of the shares in D Ltd. at the price, which shall be lower of (a) the face value or (b) the Book Value determined by the appraisal firm in respect of shares of the defaulting party; or

- Require the defaulting party to purchase from non-defaulting party all of the shares held by non-defaulting party at the higher of (a) the face value or (b) the Book Value, determined by the Appraisal Firm in respect of shares of the non-defaulting party.

(d) A Ltd. acquires a piece of land in a business combination. The land is currently developed for industrial use as a site for a manufacturing facility. Nearby sites were recently developed for residential high-rise. It was determined that the land could be used to develop residential high-rise.

(e) A Ltd. has machinery with carrying amount of INR 10,000. A Ltd. has opted for revaluation model for class of assets under 'plant and machinery'. The asset was revalued to INR 12,000 in year 1. In year 2, the asset was revalued to INR 9,000.

(f) A Ltd. purchased an asset for INR 1,00,000 and the asset had an estimated useful life of 10 years and a residual value of zero. The entity has charged depreciation using the straight line method at INR 10,000 per annum. When the asset's net book value is INR 60,000, the directors reviewed the estimated life and decided that the asset will probably be useful for a further 4 years and, therefore, the total life is revised to 8 years.

(g) A Ltd. has an item of property, plant and equipment whose cost (INR 10,00,000) is fully tax deductible, deductions being given over a period shorter than the period over which the asset is being depreciated under IAS 16. At the reporting date, the asset has been depreciated to INR 5,00,000 for financial reporting; and INR3,00,000 for tax purposes.

(h) A Ltd. is planning to sell part of its business and has actively marketed the business at a fair price but, before the business can be sold, government approval is required for its sale. The sale time is difficult to determine and it may take longer than one year to sell the disposal group.

(i) A Ltd. sold some goods costing INR 3,500 to Q Ltd. at the beginning of the year. The consideration received by A Ltd. is 1,000 shares of Q Ltd. having fair value of INR 4 each. At the end of the year, the shares of Q Ltd. have a fair value of INR 5 each.

(j) An item of property, plant and equipment is included in the financial statements at a carrying amount of INR 5,00,000. The present value of the future cash flows from continuing to operate the asset is INR 4,10,000. The plant could be sold for net proceeds of INR 3,80,000.

(k) An item of inventory (raw material) costing INR 18,000 bought for processing and assembly for a profitable special order. Since buying these items, the cost price has fallen to INR 14,000.

(l) A Ltd., R Ltd. and S Ltd. establish a new entity namely T Ltd. A Ltd. owns 50% of the voting rights in T Ltd., R Ltd. owns 30% voting rights while S Ltd. holds remaining 20% voting rights. The contractual arrangement among A Ltd., R Ltd. and S Ltd. specifies that at least 75% of the voting rights are required to make decisions about the activities of T Ltd.

(m) A Ltd. has the following items in its books of accounts:

- A balance of INR 2,00,000 in a high-interest account. A Ltd. must give 28 days' notice in order to access this money, which is held with the intention of meeting working capital shortages.

- Overdraft of INR 5,00,000
- Investment in equity shares of V Ltd. having a fair value of INR 10,00,000. The shares are listed and can be sold immediately.

Descriptive questions (10 Marks each)

Question 1- What should be the accounting treatment of prototype developed by A Ltd. for the purpose of producing exhaust systems to B Ltd.? Give suitable rationale for your answer. Take necessary assumptions, if required.

Question 2: Whether the items in (b) above are financial assets considering the guidance under IFRS?

Question 3: Determine the relationship between A Ltd. and D Ltd., i.e., whether D Ltd. is a subsidiary of A Ltd. or is D Ltd. a joint venture of A Ltd. or D Ltd. is an associate of A Ltd.?

Objective type questions (2 Marks each)

Question 4: How is the highest and best use determined for land acquired in a business combination?

(a) Value of land used in the manufacturing operation
(b) Value of land as a vacant site for residential use
(c) Higher of value of land used in the manufacturing operation and value of land as a vacant site for residential use
(d) Lower of value of land used in the manufacturing operation and value of land as a vacant site for residential use

Question 5: Assuming no depreciation, how should the revaluation of machinery to INR 9,000 in year 2 (in (e) above) be accounted for under IFRS?

(a) An amount of INR 3,000 should be charged to statement of profit and loss.
(b) An amount of INR 3,000 should be charged to revaluation surplus.
(c) An amount of INR 2,000 should be charged to statement of profit and loss and amount of INR 1,000 should be charged to revaluation surplus.
(d) An amount of INR 2,000 should be charged to revaluation surplus and amount of INR 1,000 should be charged to statement of profit and loss.

Question 6: How should A Ltd. account for the revision in useful life of the asset referred to in (f) above?

(a) Useful life cannot be revised under IFRS, thus, revision in useful life to be ignored.
(b) Change in annual depreciation to INR 15,000 for next 4 years.
(c) Impact of INR 10,000 in statement of profit and loss in the year of change and change in annual depreciation to INR 12,500 for next years.
(d) Impact of INR 20,000 in statement of profit and loss in the year of change and continuing annual depreciation at INR 10,000 for next years.

Question 7: What should be the accounting base, tax base and taxable temporary difference on the item of property, plant and equipment referred to in (g) above?

(a) Accounting base = INR 5,00,000; tax base = INR 7,00,000; taxable temporary difference = INR 2,00,000
(b) Accounting base = INR 5,00,000; tax base = INR 10,00,000; taxable temporary difference = INR 5,00,000

(c) Accounting base = INR 10,00,000; tax base = INR 7,00,000; taxable temporary difference = INR 3,00,000

(d) (b) Accounting base = INR 10,00,000; tax base = INR 3,00,000; taxable temporary difference = INR 7,00,000

Question 8- How should A Ltd. classify the business referred to in (h) above?

(a) Property, plant and equipment
(b) Investment property
(c) Inventory
(d) Asset held for sale

Question 9- How A Ltd. should recognise revenue from transaction with Q Ltd.?

(a) Revenue should be recognised at INR 3,500 at the beginning of the year.
(b) Revenue should be recognised at INR 5,000 at the beginning of the year.
(c) Revenue should be recognised at INR 4,000 at the beginning of the year with an adjustment to revenue of INR 1,000 at the end of the year.
(d) Revenue should be recognised at INR 4,000 at the beginning of the year; subsequent adjustment to be accounted for under IFRS 9.

Question 10- Is the item of property, plant and equipment referred to in (j) above impaired and, if yes, then by what amount?

(a) Not impaired
(b) Impaired by INR 90,000
(c) Impaired by INR 1,20,000
(d) Impaired by INR 30,000

Question 11- At what amount the inventory at (k) above be valued under IFRS?

(a) INR 12,000
(b) INR 14,000
(c) INR 18,000
(d) Cannot be determined

Question 12- How should A Ltd. account for its investment in T Ltd. in consolidated financial statements prepared under IFRS?

(a) Subsidiary
(b) Joint venture
(c) Associate
(d) None of the above

Question 13- A Ltd. wishes to understand which of item referred to in (m) above qualify as ‘cash and cash equivalents’ for the purpose of preparation of cash flow statements under IFRS?

(a) Overdraft
(b) Overdraft and balance in high-interest account
(c) Overdraft, balance in high-interest account and investment in equity shares
(d) None of the above