CA FINAL Nov'.19

SUBJECT- Elective (GFRS)

Test Code – FNJ 7312

(Date :)

(Marks - 100)

Attempt Any FOUR Case Study out of FIVE Case Study of 25 marks each.

CASE STUDY – 1

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. deals in various businesses, besides manufacturing, including providing infrastructure managed services, hotel facilities, incidental services to banking sector. It has 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). A Ltd. also prepares its financial statements on a quarterly basis.

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. has obtained authorisation from Reserve Bank of India (RBI) to set up, own and operate ATMs, having life of 10 years, subject to the terms and conditions laid down by RBI in this regard. ATMs that are operated by A Ltd. are under the brand name of UVW Bank. The ATM machines and the related assets are property of A Ltd. A Ltd. sets up the infrastructure of the entire ATM site including civil structure, installation of equipment, commissioning of the site, etc. and also maintains the ATM set up including network connectivity.

A Ltd. has entered into an agreement with UVW Bank to establish, deploy and operate for and on behalf of UVW Bank, ATMs comprising of 500 ATMs (UVW Bank IAD Network) enabling the card holders to have access to and to avail the services through the ATMs, as per specifications provided in the agreement. A Ltd. will provide the following services:

a. Deployment, management and services

- The service provider shall deploy 500 ATMs within a period of 9 weeks but in no case exceeding 12 weeks from effective date or an extended period.
- The parties agree that deployment of ATMs will be consistent with the policies and the business strategies of UVW bank and mutually agreed parameters such as number of accounts per UVW Bank IAD ATM or any other specifications communicated by UVW bank.
- The key specifications laid down by UVW bank for ATM rollout shall be adhered to. The specification pertains to ATM site preparation and technical specifications for the ATM machine.
- The roll out plans shall be mutually agreed between the parties.
- A Ltd. shall ensure that all necessary permissions from the owner for assigning of lease and any/all related rights of A Ltd. in favour of UVW bank (without prior permission of the lessor of the site) is incorporated in the lease deed.

(b) ATM network establishment and operation

- A Ltd. shall provide the list of ATM sites where deployment of ATMs is proposed and the authorised officials of UVW Bank shall thereafter, upon inspection and assessment of the ATM site communicate its approval or rejection within 7 working days from such inspection.

- In case A Ltd. proposes to shift/ close any ATM under the IAD ATM network, A Ltd. shall give atleast 60 days prior notice to UVW Bank and shall proceed to close/shift such ATM only after the receipt of written approval of UVW Bank for such shifting/closure.
- A Ltd. confirms that UVW IAD bank network shall display prominently the UVW logos, brands together with other common acceptance marks as approved by the RBI. The service provider shall at all times be bound to display or exhibit the UVW bank logos, brands together with any RBI circulars, notice boards, display of offers or promotional material provided by UVW Bank in the manner as directed by UVW Bank. All promotional material displayed in the ATM site and on the ATM have to be approved by UVW bank prior to being displayed by A Ltd. In case of advertising by third/external party, the bank generally shares a portion of the revenue with A Ltd.
- UVW bank's authorised personnel shall at all times have access to the ATM for upgradation of the ATM related software and any other repairs which may be required.
- UVW Bank IAD ATM network will be operated in accordance with the Service level standards and operations procedures or any other standard as may be mutually agreed by the parties. The service level standard and operations procedures shall lay down the processes for various aspects such as service levels, deployment designs/models, branding, signage standards, cash supply, reconciliation, etc. in detail.

b. Connectivity

- The UVW bank IAD ATM Network shall be connected to UVW bank'.s host for ATM driving, switching and authorization by UVW Bank. UVW Bank shall provide A Ltd. a feed from UVW Bank's host, in order to provide the services contemplated in the agreement.

c. Term and Renewal- The term of the agreement shall continue for a period of five years from the completion of deployment. If either party is desirous of terminating the agreement at the expiry of the term, then the terminating party shall give a written notice to this effect of at least 60 days prior to the expiry of the term. Upon acceptance of the request for renewal in writing, this agreement shall be renewed and continued in full force and effect for successive 5 year periods (Renewal term) herein, unless it is otherwise agreed to between them.

d. Payment terms- UVW bank shall pay at the rate of INR 10 per ATM transaction for each successful ATM transaction. The service provider shall be required to raise an invoice within 7 working days of the subsequent month with details as shall be required by UVW bank from time to time in respect of the ATM transactions.

e. Ownership of ATMs and Related Assets

- A Ltd. may purchase and install ATMs and related assets through financing arrangements or other means required to deliver the services contemplated under this agreement.
- UVW bank acknowledges that A Ltd. has and shall have proprietary and beneficial interest in the ATMs and the related assets present, deployed and installed and all computer programs used in the ATMs (system software) upto a period of five years from the effective date or upto the date of enforcement of UVW BankRs.s pre-emptory rights, whichever is earlier.
- A Ltd. shall not attempt to sell, dispose-off, encumber or part with possession of the ATMs, related assets and system software in any way without prior written approval of UVW bank in writing and UVW bank shall have the first right of refusal and only upon a written communication by UVW bank refusing to purchase the ATMs, related assets and system software, A Ltd. may sell the same to third party.
- UVW shall have the first right to take-over the ATMs and the related assets after the expiry of give years from the effective date at zero cost or upon earlier termination of this agreement, at the depreciated value.

f. Other points for consideration

- A Ltd. is required to maintain a fixed asset register and the bank has a right to audit the fixed asset register. Each ATM machine and the related assets are tagged to a particular ATM site through internal order number.
- UVW Bank has the option to take-over the ATM and the related assets at zero value, however, it is highly unlikely that the bank will take-over the assets due to the following reasons:
  - It would be beneficial for the bank if it obtains a machine that is of latest technology and make.
  - Also, the bank does not have the required expertise and knowledge of managing the ATMs. The bank is mainly concerned with the management services of ATM that it obtains from A Ltd. Hence, if it takes over the ATMs on termination of the agreement it will again have to outsource the management of the ATMs to another third party.
  - There is significant operating cost that is attached to the maintenance of ATM machine and its related assets, thus, maintaining the inventory of such assets is also not a very viable option for the bank.
  - Historically also, the bank has so far never taken over any of the assets on termination of the agreement.
- The ATM machine at the end of the contract period is of substantial value to A Ltd. As a general practise A Ltd. converts these ATMs into White Label ATMs (not operated under the name of the Bank).
- 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.
- A Ltd. agrees and represents that its services shall meet the service level requirements as per the respective service level standards set out in the agreement. A Ltd. agrees that in case failure to meet service level requirements as per the service level standards set out in the agreement shall attract penalties.

(c) An agreement was entered into by A Ltd. and B Ltd. on 5 November 2008 for sale, transfer and to convey all its ownership of a hotel with the proportionate leasehold rights of the hotel space consisting of 1,00,000 square feet for a consideration of INR 80,00,00,000. The said land on which the hotel was constructed by B Ltd. was taken on lease from Delhi Development Authority on leasehold agreement dated 6 November 2004 for a period of 99 years. The agreement to sell entered between A Ltd. and B Ltd. provides that A Ltd. shall execute a separate maintenance agreement for the hotel in regards to the hotel management services with D Ltd. before taking possession, which shall form part and parcel of this agreement, whereas B Ltd. had already entered into an agreement with D Ltd. dated 7 March 2008 for the provision of technical audit, pre- operating, operating, managing and marketing service. Therefore, a supplementary agreement was executed on 7 April 2009 between A Ltd. and D Ltd. effective from 5 December 2008, which provided for assignment of the agreement already entered between B Ltd. and D Ltd. dated 7 March, 2008 for provision of technical audit, pre-opening, operating, managing and marketing services.

(d) A Ltd. has certain non-convertible debentures and compulsorily convertible debentures with the following terms:

Particulars	Interest rate p.a.	Conversion/ redemption	Premium on redemption
Non-convertible debentures	15%	Debentures will be redeemed in three instalments- INR 1,000 lacs due on 31 May 2017 INR 1,000 lacs due on 31 May 2018 INR 1,000 lacs due on 31 May 2019	A Ltd. will pay a premium on redemption of debentures @ 20% of its face value on 31 May 2019.
Compulsorily convertible debentures	5%	Subscriber has an option to convert CCDs into equity shares @ INR 100 each anytime starting 21 September 2012 till 20 March 2022. On 20 March 2022, CCDs are to be mandatorily converted into equity shares of the company.	-

(e) A Ltd. holds an equity instrument (i.e., financial asset) for which sale is contractually restricted for a specified period by limiting its transfer or sale to qualifying investors.

(f) A Ltd. has the following four items in inventory:

Item	Cost (INR)	Net realisable value (INR)
A	2,000	1,900
B	5,000	5,100
C	4,400	4,550
D	3,200	2,990

(g) A Ltd. has machinery with carrying amount of INR 10,000. A Ltd. has opted for revaluation model for class of assets under Rs.plant and machineryRs.. The asset was revalued to INR 8,000 in year 1. In year 2, the asset was revalued to INR 11,000.

(h) A Ltd. has following three borrowings in the period. All the borrowings are used to finance the production of qualifying assets.

Particulars	Outstanding liability	Interest
5 years bank loan	INR 60 lacs	INR 8 lacs
20 years bank loan	INR 100 lacs	INR 6 lacs
Bank overdraft	INR 40 lacs	INR 5 lacs

(i) A Ltd. holds a patent for one of the product it manufactures. The patent will expire in 5 years. During this period, the demand for the drug is forecast to grow at 5% per annum. Experience shows that competitors flood the market with similar product as soon as it is no longer protected by a patent. As a result, A Ltd. does not expect the patent to generate significant cash flows after 5 years. Net revenues from the sale of the product were INR 1,000 lacs last year. A Ltd. has decided that 10% is an appropriate discount rate for the appraisals of the cash flows associated with this product.

(j) A Ltd. acquired an exclusive rights to a patent that had been developed by another entity. The amount payable for the rights was INR 90,00,000 immediately and INR 50,00,000 in one yearRs.s time. A Ltd. has incurred legal fees of INR 11,70,000 in respect of the bid. With regard to the patent, the Government has charged a stamp duty of INR 50,000 for the registration of patent rights. A Ltd. cost of capital is 10%.

(k) A Ltd. has purchased a plot of land on the outskirts of Mumbai. The area has mainly low-cost public housing and very limited public transport facilities. The government has plans to develop the area as an industrial park in 5 years Rs. time and the land is expected to greatly appreciate in value if the government proceeds with the plan. Entity ARs.s management has not decided what to do with the property.

(l) The following material events have occurred after the reporting period and prior to the date of approval of the financial statements by the directors:

- The insolvency of a major credit customer
- The uninsured loss of inventory in a fire
- The proposal of a final equity dividend
- A change in foreign exchange rates.

(m) A Ltd. makes contributions to pension fund of employees @ 5% of the amount of salary. A Ltd. pays INR 10,000 per month into the pension scheme with any balance being paid in the first month of the following reporting year. The salary amount for year ended 31 March 2018 is INR 27,00,000.

(n) On 1st April, 2018, A Ltd. agreed to purchase USD ($) 20,000 from JT Bank in future on 31st March, 2019 for a rate equal to Rs. 68 per USD. A Ltd. did not pay any amount upon entering into the contract. Following information represents marked to market fair value of forward contracts at each reporting date:

As at 30th June, 2018 –	Rs.(25,000)
As at 30th September, 2018 -	Rs.(15,000)
As at 31st December, 2018 -	Rs. 12,000
Spot rate of USD on 31st March, 2019-	Rs.66 per USD.

I. MULTIPLE CHOICE QUESTIONS

Each question carries two marks.

1. What will be the value of inventory on an item by item basis and on a group basis?

(a) Value of inventory on an item by item basis is INR 14,600 and on a group basis is INR 14,540

(b) Value of inventory on an item by item basis is INR 14,850 and on a group basis is INR 14,540

(c) Value of inventory on an item by item basis is INR 14,540 and on a group basis is INR 14,540

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

2. What should be the 'value-in-use' of the patent for one of the product of A Ltd. under IFRS?

(a) INR 4151 lacs (approx.)
(b) INR 4,360 lacs (approx.)
(c) INR 5,526 lacs (approx.)
(d) INR 5,802 lacs (approx.)

3. Determine the cost of the patent rights in accordance with IFRS?

(a) 1,52,20,000 (b) INR 1,47,65,450

(c) INR 1,35,95,450 (d) INR 90,00,000

4. How should A Ltd. classify the plot of land on the outskirts of Mumbai for its IFRS financial statements?

   (a) A Ltd. should classify the plot as an intangible asset.
   (b) A Ltd. should classify the plot as a property, plant and equipment.
   (c) A Ltd. should classify the plot as an investment property.
   (d) A Ltd. should classify the plot as an inventory.

5. Which of the following is correct in relation to the pension expense of A Ltd. for the year ended 31 March 2018?

   (a) Pension fund is a defined contribution plan and A Ltd. should record an expense of INR 1,35,000 with a prepayment of INR 15,000.
   (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.
   (c) Pension fund is a defined benefit plan and A Ltd. should record an expense of INR 1,35,000 with a prepayment of INR 15,000.
   (d) Pension fund is a defined benefit plan and A Ltd. should record an expense of INR 1,35,000 with an accrual of INR 15,000.

II. DESCRIPTIVE QUESTION

Question 1 - Determine whether arrangements of ATM business contains a lease considering the guidance under IFRS? Provide appropriate reasoning for your answer. **(10 Marks)**

Question 2 - Whether purchase of hotel from B Ltd. by A Ltd. can be assessed as business combination under IFRS? Provide appropriate reasoning for your answer. **(5 Marks)**

CASE STUDY – 2

You are Praveen an Assistant Manager in Finance and Accounts department of ABC Group (hereby referred as ABC, ABC Ltd. or group) headed by Director- Finance Aditya Goel. You assist and report to Sumit Bansal, Manager of your department. You have joined the organisation just a month ago.

Sumit Bansal is on vacation for 15 days and financial statements of ABC Limited needs to be finalized within a week. Therefore, Mr. Goel needs your assistance in finalization of consolidated as well as separate financial statements of ABC Limited for the year ended 31st March 2017.

He provided you with the following relevant information:

1. On 1st April, 2016, ABC acquired 90 million shares in PQR Limited by means of share exchange which has been classified as Rs.fair value through other comprehensive incomeRs. in separate financial statements of ABC Limited. The terms of the business combination were as follows:

- ABC Limited issued eight shares for every, nine shares acquired in PQR Limited. On 1st April, 2016, the market value of ABC Limited's share was Rs.2.80 per share.
- ABC Limited will make a further cash payment to the former shareholders of PQR Limited on 30th June 2019. This payment will be based on the adjusted profits of PQR Limited for the three-year period upto 31st March 2019. On 1st April 2016, the fair value of this additional payment was estimated at Rs.25 million. This estimate had increased to Rs. 28

million by 31st March 2017 due to changes in circumstances since the date of acquisition.

Investment in PQR Limited has not been recorded in the draft financial statements of ABC Limited presented at later part of the study.

It is the group policy to value the non-controlling interest in subsidiaries at the date of acquisition at fair value. The market value of an equity share in PQR Limited at 1 April 2016 can be used for this purpose. On 1 April 2016, the market value of a PQR Limited share was Rs.2.60 per share.

On 1st April 2016, the individual financial statements of PQR Limited showed the following reserves balances:

- Retained earnings Rs.86 million.
- Other components of equity Rs.2·4 million.

The directors of ABC Limited carried out a fair value exercise to measure the identifiable assets and liabilities of PQR Limited at 1 April 2016. The following matters emerged:

- Property having a carrying value of Rs.140 million (including depreciable assets Rs.80 million) had an estimated market value of Rs.160 million (including depreciable assets Rs. 92 million). The remaining estimated economic life of the depreciable assets at 1st April 2016 was 16 years.
- Plant and equipment having a carrying value of Rs.111 million had a market value of Rs.120 million. The estimated future economic life of the plant and equipment at 1st April 2016 was three years. PQR Limited has not disposed of any of this plant and equipment since 1st April 2016.
- Intangible assets with an estimated market value of Rs.8 million had not been recognised in the individual financial statements of PQR Limited. The estimated future economic lives of these intangible assets at 1st April 2016 was four years.

The fair value adjustments have not been reflected in the individual financial statements of PQR Limited. In the consolidated financial statements, the fair value adjustments will be regarded as temporary differences for the purposes of computing deferred tax. The rate of deferred tax to apply to temporary differences is 20%.

Impairment of the goodwill on acquisition of PQR Limited is not required since 1 April 2016.

Below are the separate financial statements of ABC and PQR Limited as on 31st March 2017:

	ABC Limited	PQR Limited
	Rs.'000	Rs.'000
ASSETS		
Non-current assets:		
Property, plant and equipment	280,000	225,000
Investments	78,500	40,000

Current assets:	358,500	265,000
Inventories	85,000	56,000
Trade receivables	70,000	42,000
Cash and cash equivalents	14,000	11,000
	169,000	109,000
Total assets	527,500	374,000
EQUITY AND LIABILITIES		
Equity		
Share capital	160,000	120,000
Retained earnings	211,396	115,000
Other components of equity	5,604	4,000
Total equity	377,000	239,000
Non-current liabilities:		
Provision	1,500	Nil
Long-term borrowings	60,000	50,000
Deferred tax	22,000	25,000
Total non-current liabilities	83,500	75,000
Current liabilities:		
Trade and other payables	45,000	40,000
Short-term borrowings	22,000	20,000
Total current liabilities	67,000	60,000
Total equity and liabilities	527,500	374,000

2. On 1st April 2016, ABC has raised a long term loan from European investors. The investors subscribed for 50 million Foreign currency (FC) loan notes at par. ABC Ltd. incurred incremental issue costs of FC 1 million. Interest of FC 4 million is payable annually on 31st March, starting from 31st March 2017. The loan is repayable in FC on 31st March 2022 at a premium and the effective annual interest rate implicit in the loan is 10%. The appropriate measurement basis for this loan is amortised cost. Relevant exchange rates are as follows:

– 1st April 2016 – FC 1 = Rs.1·40.

– 31st March 2017 – FC 1 = Rs.1·45.

– Average rate for the year ended 31st March 2017 – FC 1 = Rs.1·42.

The functional currency of the group is Indian Rupee.

3. Trade receivables of ABC Ltd. include Rs. 2 million lent to a supplier on 1st April 2016, in order to assist them with their expansion plans. The cost incurred to arrange the loan is Rs. 100,000. Mr. Goel opined to recognise Rs. 100,000 as a cost in the current year. However, he had not charged interest on this loan since the loan was given to help supplier's short-term cash flow. The supplier was expected to repay Rs. 2.4 million on 31st March 2018. Mr. Goel believe that no profit will accrue this year but there will be a nice bonus next year when the repayment will be received. The finance department informed him that the effective annual rate of interest on this loan is 6·9%. However, Mr. Goel did not find any relevance of this information as no interest is payable according to him.

   Just before the year ending on 31st March 2017, ABC Ltd. came to know that the supplier is facing poor economic conditions which has caused significant problems to him. In order to help him, ABC Ltd. agreed to reduce the amount repayable by him on 31 st March 2018 to Rs.2.2 million. Mr. Goel feels that still ABC Ltd. will report profit next year on it.

4. Mr. Goel also mentioned that during the year ended 31 st March 2017, ABC Ltd. provided consultancy services to a customer regarding the installation of a new production system. The system has caused the customer considerable problems, so the customer has taken legal action against ABC Ltd. for the loss that has arisen as a result of the problems with the system installation. The legal department of the group felt that there is 25% chance to successfully defend the claim. However, at the same time it also felt that 75% chance is that ABC Ltd. may require to pay damages of Rs.1.6 million. Mr. Goel believes that ABC Ltd. should not suffer any overall loss because the legal department informed that the company is covered by insurance against such types of losses. Mr. Goel feels that ABC Ltd. will make a claim immediately if the outcome of the case is against the company. According to him no provision shall be made for it because ABC Ltd. is covered by insurance. However, disclosure by way of a note shall be given for it.

5. ABC Ltd. provides consultancy advice to other firms as well. On 1 st October 2016, ABC Ltd. signed a contract to supply 50 days of consultancy advice to a customer over the two-year period ending on 30th September 2018. The contract required ABC Ltd. to submit to six- monthly audits of the firm to ensure that the performance conditions in the contract had been adhered to in the immediately preceding six months. The first six - monthly audit was carried out shortly after 31st March, 2017 wherein the firm confirmed that ABC Ltd. had satisfactorily supplied 15 days of consultancy in the six-month. The total contract price was Rs.1·5 million payable on 30th September 2018 even though if the service of 50 days is rendered in the initial period of the service contract . ABC Ltd. has strong budgetary control systems in place and is able to accurately forecast the costs incurred in delivering the consultancy. An appropriate rate of interest to impute to this project would be 15% for the required period.

Besides above issues Praveen has some more doubts for which he requires your assistance.

I. MULTIPLE CHOICE QUESTIONS

Each question carries two marks.

1. Property, plant and equipment (PPE) of ABC Ltd. includes factory and head office PPE among other PPE. Factory and head office PPE have the carrying value of Rs. 16,000 thousand and Rs. 22,000 thousand respectively as on 1st April 2016. The remaining useful lives of both the PPE are 10 years and 20 years respectively. Company carried out an impairment testing on 31 March 2017 and noted that recoverable amount of factory and head office PPE as on that date is Rs. 15,000 thousand and Rs. 20,000 thousand respectively.

   At what amount factory and head office PPE shall be recorded on 31 March 2017 ?

   (a) Factory- Rs. 15,000 thousand and Head office- Rs.20,900 thousand

   (b) Factory- Rs. 15,000 thousand and Head office- Rs.20,000 thousand

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

   (d) Factory- Rs. 14,400 thousand and Head office- Rs. 20,900 thousand

2. ABC Ltd. has uncertainty over two items of inventory on 31 March 2017.
   Item A relates to raw material purchased for Rs. 5 lacs for a large profitable contract with supermarket. Since then, the purchase cost of these raw material has fallen to Rs. 4 lacs.
   Item B cost Rs. 2.5 lacs. It was damaged on 15 March 2017. After performing repairing work of Rs 30,000, it was sold for Rs. 2.6 lacs on 15 April 2017.

   Determine the value at which items A & B shall be recorded on 31st March, 2017.
   (a) Item A- Rs. 4 lac and Item B- Rs. 2.30 Lac
   (b) Item A- Rs.5 lac and item B- Rs. 2.60 Lac
   (c) Item A- Rs. 5 lac and Item B- Rs. 2.30 Lac
   (d) Item A – Rs. 4 lac and Item B- Rs.2.60 Lac

3. ABC Ltd. has introduced a profit sharing plan from 1st April, 2016 for its employees who serve the company through out the year. If no employees leave during the year, total profit sharing payments for the year will be 2% of profit. ABC Ltd. estimates that the employee turnover will be there and their profit share would be limited to 1.5%.

   Determine the accounting treatment for this profit sharing plan.

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

   (b) ABC Ltd. recognises a liability of 2% of profit.

   (c) No liability will be recognised.

   (d) Only expenses will be recognised on actual basis

4. ABC Ltd. offered a customer interest free credit for two years on a sale of goods for Rs. 2 lacs that was made on 1st April 2016. ABC Ltd. has cost of capital of 8% and has recorded Rs. 2 lacs as revenue. How much should be reclassified from revenue into finance income for the year ended 31 March 2017?

   (a) Rs. 13,717 (b) Rs. 14,815 (c) Rs. 16,000 (d) Rs. 28,532

5.. On 1st March 2017, ABC Ltd. began construction to build an asset for a customer. ABC Ltd. has spent Rs. 10,000 so far and believes that the construction may cost total Rs. 8 lacs to complete. The total price of the construction contract is Rs. 1 million. ABC Ltd. uses an output method to measure progress, but as the contract has only just begun, Mr. Goel is unable to measure the progress made towards completion at 31st March 2017. How much revenue should ABC Ltd. recognize for the year ending 31st March 2017?

(a) Nil (b) Rs. 10,000 (c) Rs. 12, 500 (d) Rs. 16,700

II. DESCRIPTIVE QUESTION

1. Compute the amount of 'Goodwill' and 'Non- controlling interest' to be shown in the Consolidated financial statements of ABC Limited as on 31 st March 2017 on acquisition of PQR Ltd. **(10 Marks)**

2 Advise the appropriate accounting treatment for the Foreign Currency loan to be made by ABC Ltd. in the books. **(5 Marks)**

CASE STUDY – 3

I. MULTIPLE CHOICE QUESTIONS

Each question carries two marks.

1. Monsoon Limited is engaged in the business of manufacturing sugar and chemicals. The Company has taken a term loan for Rs. 5 crores from SBI to buy certain plant and machinery during the year ended March 31, 2018. The loan is repayable over a period of 5 years.

   The terms and conditions of the loan agreement requires the company to maintain a current ratio of 1.33:1 and debt-equity ratio of 1: 2. If these loan covenants fall below this level, then the bank has a right to recall the entire loan.

   The Loan outstanding as on March 31, 2019 was Rs. 4.25 crores. The current ratio of Monsoon Limited was 1:1 and debt equity ratio was 0.5:2. SBI has sent a notice on April 5, 2019 demanding repayment of loan, on account of breach of terms of the loan agreement.

   The financials were signed on May 10, 2019. How the long-term loan has to be classified in the financials for the year ended March 31, 2019?

   (a) Other current liabilities (b) Current financial liability
   (c.) Non-current financial liability (d) Other non-current liability

2. Saffron Limited is engaged in the business of manufacturing canned foods. During the year ended March 31, 2019 the company has decided to change it's depreciation policy from straight line to units of production method for a more reliable estimate. How the change will be implemented in the books of more reliable estimate. How the change will be implemented in the books of accounts?
   (a) Retrospective restatement
   (b) Prospective application
   (c.) Retrospective application
   (d.) Both Retrospective restatement and Retrospective application.

3. Bharath Fabrics Limited is an 100% export-oriented unit. It manufactures fabrics in India and exports it to foreign countries all around the world. Its entire trade receivable consists of foreign currency receivables.

The Company has prepared its financials for the year ended March 31, 2019 and it is due for authorization in its annual general meeting scheduled to be held on June 20, 2019. The management of the company observed that there were abnormal fluctuations in foreign currency rates during April to June 2019.

As the CFO/auditor of the company suggest a suitable action from following:

(A) Adjust the foreign exchange year-end balances to reflect the abnormal adverse fluctuations in foreign exchange rates.

(B) Disclose the post- balance- sheet event in footnotes as a non-adjusting event.

(C) Adjust the foreign exchange year-end balances to reflect all the abnormal fluctuations in foreign exchange rates (and not just adverse movements).

(D) Ignore the post balance sheet event.

4. India Turnings Limited has adopted revaluation model since 1st April, 2017 to measure its Property plant and equipment (PPE) and have revalued as follows:

(i) As on April 1, 2017–PPE has been revalued up by Rs. 3,00,000.

(ii) As on March 31, 2018–PPE has been revalued down by Rs. 3,60,000

(iii) As on March 31, 2019–PPE has been revalued up by Rs. 5,00,000

How will the increase in year 2018-19 be recognized in the financials of India Turnings Limited?

(A) Rs. 5,00,000 is credited to other comprehensive income.

(B) Rs. 60,000 is credited to profit and loss account and Rs. 4,40,000 is credited to other comprehensive income.

(C) Rs. 60,000 is credited ton other comprehensive income and Rs. 4,40,000 is credited to profit and loss account.

(D) Rs. 5,00,000 is credited to profit and loss account.

5. An entity manufactures passenger vehicles. The time between purchasing of underlying raw materials to manufacture the passenger vehicles and the date the entity completes the production and delivers to its customers is 11 months. Customers settle the dues after a period of 8 months from the date of sale.

What is the Operating Cycle of the entity?

(a) 11 months (b) 12 months (c) 19 months (d) 8 months

II. DESCRIPTIVE QUESTION

Answer the following questions with reference to appropriate IFRS :

Question 1 –

(I) Dong Seng Limited holds some vacant Land for which the use is not yet determined. The Land is situated in a prominent area of the city where lot of commercial complexes are coming up and there is no legal restriction to covert the land into a commercial land.

The Company is not interested in development the land to a commercial complex as it is not its business objective. Currently the land has been let out as a parking lot for the commercial complexes around.

The Company has classified the above property as investment property. It has approached you, an expert in valuation, to obtain fair value of the land for the purpose of disclosure under IFRS.

On what basis will the land be fair valued under IFRS? **(6 Marks)**

(II) Dong Seng Limited holds equity shares of a private company. In order to determine the fair value of the shares, the company used discounted cash flow method as there were no similar shares available in the market.

Under which level of fair value hierarchy will the above inputs be classified?
What will be your answer if the quoted price of similar companies were available and can be used for fair valuation of the shares. (**3 Marks)**

Question 2 –

Maroon Inc. Limited has received an exemption of customs duty on import of capital goods under Export Promotion Capital Goods (EPCG) scheme. The exemption is subject to an export obligation of 6 times of duty saved on capital goods imported under EPCG scheme, to be fulfilled in 6 years reckoned from authorization issue-date.

Whether the above scheme is a government grant under IFRS? If yes, then whether it is a Grant related to asset or Grant related to income. Discuss the way in which this has to be accounted for in the financial statements? **(6 Marks)**

CASE STUDY – 4

You are Prateek Chaddha, Finance Controller with ABC Limited (referred to as 'Company' or 'ABC' also) and reports to CFO of the Company Mr. Ram Kumar. As Mr. Ram Kumar is not available for upcoming board meeting of the Company, you would be required to present financial statements for the year ended 31 March 2017 to the board of directors. You are working with your team to finalize the separate as well as consolidated financial statements of ABC Limited. One of your team member Ajay, who has recently joined the Company, is having certain doubts in accounting of certain items while preparing the financial statements.

He shares the following information with you:

1. ABC Limited has 5 operating segments namely A, B, C, D and E. The profit/loss of respective segments for the year ended March 31, 2017 are as follows:

Segment	Profit/(Loss) (Rs. in crore)
A	780
B	1,500
C	(2,300)
D	(4,500)
E	6,000
Total	1,480

Ajay is not able to understand how quantitative thresholds are determined based on profitability criteria when certain segments report profits and certain segments report losses .

2. One of the business of ABC Ltd. is construction of commercial properties. Its current policy for determining the percentage of completion of its contracts is based on the proportion of cost incurred to date compared to the total expected cost of the contract. One of ABC Ltd.'s contracts has an agreed price of Rs. 500 crores and estimated total costs of Rs. 400 crores. The cumulative progress of this contract is:

(Rs. in Crores)

Year ended	31st March 2016	31st March 2017
Cost incurred	160	290
Work certified and billed	150	320
Amount received against bills	140	300

ABC Ltd. prepared and published its financial statements for the year ended 31st March 2016. Relevant extracts are:

	Rs. in Crores
Revenue [(80/200) x 250]	200
Cost of sales	(160)
Profit	40

Balance Sheet (Extracts)

	Rs. in Crores
Current assets	
Amount due from customers	
Contract cost to date	160
Profit recognized	40
	200
Progress billing to date	(150)
Billing to be done	50
Contract asset (amount receivable) (150-140)	10

ABC Ltd. has received some adverse publicity in the financial press for taking its profit too early in the contract process, leading to disappointing profits in the later stages of contracts. Most of ABC Ltd. competitors take profit based on the percentage of completion as determined by the work certified compared to the contract price.

3. ABC Ltd. owns 25% of the voting rights in Y Ltd. and is entitled to appoint one director to the board, which consist of five members. The remaining 75% of the voting rights are held by two entities, each of which is entitled to appoint two directors.

A quorum of four directors and a majority of those present are required to make decisions. The other shareholders frequently call board meeting at the short notice and make decisions in the absence of ABC Ltd.'s representative. ABC Ltd. has requested financial information from Y Ltd., but this information has not been provided. ABC Ltd.'s representative has attended board meetings, but suggestions for items to be included on the agenda have been ignored and the other directors oppose any suggestions made by ABC Ltd.

4. On 1 April 2016, ABC Ltd. acquired 30% of the voting ordinary shares of XYZ Ltd. for Rs. 8,000 crores. ABC Ltd accounts its investment in XYZ Ltd., using equity method as prescribed under IAS 28, 'Investments in Associates and Joint Ventures'. At 31 March 2017, ABC Ltd recognised its share of the net asset changes of XYZ Ltd. using equity accounting as follows:

	(Rs. in crores)
Share of profit or loss	700
Share of exchange difference in OCI	100
Share of revaluation reserve of PPE in OCI	50

On 1 April 2017, ABC Ltd. acquired the remaining 70% of XYZ Ltd. for cash of Rs. 25,000 crores. The following additional information is relevant at that date

	(Rs. in crores)
Fair value of the 30% interest already owned	9,000
Fair value of XYZ's identifiable net assets	30,000

Besides above issues, Ajay has some more doubts for which he requires your assistance.

I. MULTIPLE CHOICE QUESTIONS

Each question carries two marks.

1. ABC Ltd. has a functional currency of INR. Suppose it elects a presentation currency of Euro. ABC Ltd. has made a borrowing in Japanese Yen (JPY) for 1 million JPY. The translation of JPY loan into INR resulted in exchange loss of 1,00,000 and translation from INR to Euro resulted in exchange loss of 50,000. The exchange differences will be dealt in:
   (a) 1,00,000 will be debited in Profit and loss and 50,000 in Other comprehensive income
   (b) 1,50,000 will be debited in Profit and loss
   (c) 1,50,000 will be debited in Other comprehensive income
   (d) 50,000 will be debited in Profit and loss and 1,00,000 in Other comprehensive income

2. During the year the ABC Ltd sold a product for Rs. 350,000 to a customer and gives three year free servicing as an initiative to increase brand's goodwill. The fair value of such servicing for three years would be Rs. 30,000. What amount of revenue should company recognise in the books of accounts at the time of sale assuming free service is a separate performance obligation and sale has been made at combined stand-alone selling price of both product and service?

   (a) Rs. 350,000 (b) Rs. 320,000 (c) Rs. 380,000 (d) None of the above

3. ABC Ltd. has invested in debt oriented mutual funds. The investment should be subsequently measured under IFRS 9 as:

(a) FVOCI (b) FVTPL (c) Amortise cost (d) Cost.

4. ABC Ltd. has taken a machine from Apex Ltd on lease of 1 year for a rent of Rs. 120,000 per annum. Further, there is a contingent rent of Rs. 60,000. Apex Ltd has guaranteed a residual value of Rs. 50,000 after a year. Calculate minimum lease payments as per IAS 17.

(a) Rs. 170,000 (b) Rs. 120,000 (c) Rs. 2,30,000 (d) Rs. 1,80,000

5. ABC Ltd. has the following loan finance in place during the year:

(i) Rs. 1 million of 6% loan finance

(ii) Rs. 2 million of 8% loan finance

It constructed a new factory which cost Rs. 600,000 and this was funded out of the existing loan finance. The factory took 8 months to complete.

Determine the borrowing costs to be capitalised to the cost of factory.

(a) Rs. 43,980 (b) Rs. 29,320 (c) Rs. 24,000 (d) Rs. 32,000

II. DESCRIPTIVE QUESTION

Question 1 -

Determine the reportable segments of ABC Ltd. **(5 Marks)**

Question 2 -

Pass the journal entry for business combination of ABC Ltd. and XYZ Ltd. on 1st April, 2017.

(10 Marks)

CASE STUDY – 5

I. MULTIPLE CHOICE QUESTIONS

Each question carries two marks.

1. Thermal Solutions Limited started its business in India with Indian Rupee as its functional currency. After several years, the entity expanded and started exporting its product to Europe. By the end of March 31, 2019, 90% of the business was conducted with Europe and the transaction were denominated in Euro. The raw materials required (for the products to be exported to Europe) are all imported materials and the purchase transactions are denominated in Euro. (Whereas during the year ended March 31, 2018 only 30% of trie business was conducted in Euro).
What will be the functional currency of Thermal Solutions Limited for the year 2018 -19?

(A) Changed to euro at the end of financial year 2018-19, if it is considered that the underlying transactions, events and conditions of business have changed.

(B) Changed to euro at the beginning of financial year 2018-19, if it is considered that the underlying transactions, events and conditions of business have changed

(C) Changed to euro at the end of financial year 2017-18, if it is considered that the underlying transactions, events and conditions of business have changed.

(D) The functional currency remains to be Indian Rupee.

2. Himanshu Limited acquired 100% of the share capital of Global Tech Limited for a consideration of 20 million EURO on September 30, 2018. The fair value of the net assets of Global Tech at that date was 11 million EURO. The functional currency of Himanshu is Indian Rupee. The exchange rates as on September 30, 2018 was 85 INR/EURO and on March 31, 2019 was 89 INR/EURO. What is the value of goodwill in the books of Himanshu Limited as on March 31, 2019?

(a) 765 million INR (b) 935 million INR

(c.) 800 million INR (d) 801 million INR

3. Blueberry Limited manufactures various types of chocolates. A common base mixture is prepared in a huge mixing bowl from where it is sent though pipes to various compartments of machine for adding flavouring agents and other ingredients and then poured into moulds. The chocolates are then packed neatly by the machine and which are in turn sealed in cartons and then are sent through trucks for distribution. The various types of chocolate include Vanilla filling, strawberry filling, cashew chew. roasted almond, fruit and nut, crunchy crackle, the classic, jelly belly, etc. Each of the flavours are performing well individually and were contributing significantly towards the Company's revenue.

Should the Company classify these different types of chocolates into different segments?

(A) Yes, the Company should classify these different types of chocolates into different segments as they contribute significantly towards the Company's revenue.

(B) No, the given information is not adequate to determine whether these different types of chocolates should be classified as different segments.

(C) No, there is no need to create different segments for each type of chocolate the nature of the product, production process, type of customers and the method of distribution are common.

(D) Yes, the Company should classify these different types of chocolates into different segments as they consist of different raw materials, have their own customer base and are capable of generating significant revenue individually.

4. A portion of a mall is renovated by constructing a food court, spa and gaming zone so as to increase the footfalls in the mall. The food court and gaming zone are expected to result in a significant increase in sales for the shops and outlets of the mall. What should be the accounting treatment for the cost incurred for the renovation ?

(A) Expenses incurred for food court and gaming zone should be charged to statement of profit and loss;

(B) Expenses incurred for food court, spa and gaming zone should be charged to statement of profit and loss;

(C) Expenses incurred for food court, spa and gaming should be capitalised;

(D) Expenses incurred for food court and gaming should be capitalised.

5. Dharam Limited has spent Rs. 15 lacs in developing a new product during the year ended March 31, 2019. The development costs incurred were recognised as an intangible asset in accordance with IAS 38. For the purposes of computing the taxable income, these expenses are allowable in full in the year of incurring the expenses. At the year end, the Company recognised an impairment loss of Rs.75,000 against the intangible asset. What is the tax base of the intangible asset?

(A) Rs. 15,00,000 (B) Rs. 75,000 (C) Rs. 14,25,000 (D) Rs. 0

II. DESCRIPTIVE QUESTION

Answer the following questions with reference to appropriate IFRS :

Question 1 -

Durable Industries India Limited is a renowned company known for its care towards employees.

(i) Durable Industries contributes to an industrial pension plan that provides a pension arrangement for its employees. It is a popular plan among the employers of the same industry. The Company does not have any obligation other than payment of annual contribution. Under this scheme the contribution is received from various employers and it is in turn used to compensate the employee of those companies after their retirement. Identify the nature of the above employee benefit plan with reference to IFRS. **(3 Marks)**

(ii) Durable Industries previously had a defined pension plan (a defined benefit pan) under which the employees who joined before April 1, 2012 were enrolled. With respect to employees who joined on or after April 1, 2012 were all enrolled in the industrial pension plan. The Company found that the industrial pension plan was more beneficial to the employees than the defined pension plan. Hence, during 2018-19 it decided to change all the employees from defined pension plan to the industrial pension plan. The entity paid Rs. 5 crore to the employees who in turn agreed to forfeit the pension entitlement from the defined pension plan. The liability recognised in the financials, for the year ended March 31, 2018, with respect to the pension liability was Rs. 7 crores.

How should this be accounted in the financials for the year ended March 31, 2019 ?

(3 Marks)

(iii) Supreme developers Limited, Southern Constructions Limited and Concrete India Limited jointed together to develop a project of luxurious holiday villas along the back waters of Bay of Bengal.

The land for the project was arranged by Supreme developers. Concrete India Limited supplied the raw materials like Cement, bricks, stones, rods, required for construction. Southern Constructions Limited took care of the labour required for construction of villas and interior decoration.

The common costs like site approval, registration, site preparation is borne equally by all the three parties.

In the contractual agreement it was mentioned that the profit from sale of villa will be shared equally after setting off the expenses incurred for developing the project.

Identify the type of joint arrangement as per IFRS. **(3 Marks)**

Question 2 -

Sumeru Limited holds 35% of total equity shares of Meru Limited, an associate company. The value of Investments in Meru Limited on March 31, 2018 is Rs. 3 crores in the consolidated financial statements of Sumeru Limited.

Sumeru Limited sold goods worth Rs. 3,50,000 to Meru Limited. The cost of goods sold is Rs. 3,00,000. Out of these goods worth Rs. 1,00,000 were in the closing stock of Meru Limited.

During the year ended March 31, 2019 the profit and loss statement of Meru Limited showed a loss of Rs. 1 crore.

(A) What is the value of investment in Meru Limited as on March 31, 2019 in the consolidated financial statements of Sumeru Limited, if equity method is adopted for valuing the investments in associates ?

(B) Will your answer be different if Meru Limited had earned a profit of Rs. 1.50 crores and declared a dividend of Rs. 75 lacs to the equity shareholders of the Company? **(6 Marks)**