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FINAL MAY 2019 EXAM

SUBJECT- FR

Test Code - FNJ 7097

BRANCH - () (Date :)

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Answer 1:

(A) As per Ind AS – 38 research cost of Rs. 8 and Rs. 10 crores to be expensed in respective years i.e. 2011 and 2012.

The **development expenses** can be capitalized from the date the internally generated assets (New distribution system in this case) meet the recognition criteria on and from 01.01.2013. Therefore cost of Rs. 30 + 36 + 40 = 106 crores is to be capitalized as an intangible assets.

However as per Ind AS – 38, the intangible should be carried at cost less accumulated amortization and accumulated impairment losses.

At the end of 2015 NDA Ltd. should recognize **impairment loss** of Rs. 7.46 crores (106.00 – 98.54) and carry the 'new distribution system' (intangible asset) at 98.54 crores in Balance sheet as per calculation given below.

Impairment loss is excess of carrying amount of asset over recoverable amount. **Recoverable amount** is higher of the two i.e. value in use (discounted future cash inflow) and market realizable value of asset. **(6 marks)**

The calculation of discounted future cash flow is as under assuming 10% discount rate.

Amt. (Rs. In crores)

Year	Cost Saving	Inflow by Marketing the System	Total Cash inflow	Discounted at 10%	Discounted cash flow
2016	16	10	26	0.909	23.634
2017	16	10	26	0.826	21.476
2018	16	10	26	0.751	19.526
2019	16	10	26	0.683	17.758
2020	16	10	26	0.621	16.146
					98.540

No amortization of asset shall be done in 2015 as amortization starts after use of asset, which is in 2016. **(4 marks)**

(B)

Paragraph 37 of Ind AS 103, inter alia, provides that the consideration transferred in a business combination should be measured at fair value, which should be calculated as the sum of (a) the acquisition-date fair values of the assets transferred by the acquirer, (b) the liabilities incurred by the acquirer to former owners of the acquiree and (c) the equity interests issued by the acquirer.

Further, paragraph 39 of Ind AS 103 provides that the consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement. The acquirer shall recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

With respect to contingent consideration, obligations of an acquirer under contingent consideration arrangements are classified as equity or a liability in accordance with Ind AS 32 or other applicable Ind AS, i.e., for the rare case of non-financial contingent consideration. Paragraph 40 provides that the acquirer shall classify an obligation to pay contingent consideration that meets the definition of a financial instrument as a financial liability or as equity on the basis of the definitions of an equity instrument and a financial liability in paragraph 11 of Ind AS 32, *Financial Instruments: Presentation*. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph 58 of Ind AS 103 provides guidance on the subsequent accounting for contingent consideration.

i) In the given case the amount of purchase consideration to be recognised on initial recognition shall be as follows:

Fair value of shares issued (10,00,000 x Rs. 20)	Rs. 2,00,00,000
Fair value of contingent consideration	Rs. 25,00,000
Total purchase consideration	Rs. 2,25,00,000

Subsequent measurement of contingent consideration payable for business combination

In general, an equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Ind AS 32 describes an equity instrument as one that meets both of the following conditions:

- There is no contractual obligation to deliver cash or another financial asset to another party, or to exchange financial assets or financial liabilities with another party under potentially unfavourable conditions (for the issuer of the instrument).
- If the instrument will or may be settled in the issuer's own equity instruments, then it is:
  - a non-derivative that comprises an obligation for the issuer to deliver a fixed number of its own equity instruments; or
  - a derivative that will be settled only by the issuer exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

In the given case, given that the acquirer has an obligation to issue fixed number of shares on fulfilment of the contingency, the contingent consideration will be classified as equity as per the requirements of Ind AS 32.

As per paragraph 58 of Ind AS 103, contingent consideration classified as equity should not be re-measured and its subsequent settlement should be accounted for within equity.

Here, the obligation to pay contingent consideration amounting to Rs. 25,00,000 is recognised as a part of equity and therefore not re-measured subsequently or on issuance of shares.

ii) The amount of purchase consideration to be recognised on initial recognition is shall be as follows:

Fair value shares issued (10,00,000 x Rs. 20)	Rs. 2,00,00,000
Fair value of contingent consideration	Rs. 25,00,000
Total purchase consideration	Rs. 2,25,00,000

Subsequent measurement of contingent consideration payable for business combination

The contingent consideration will be classified as liability as per Ind AS 32.

As per paragraph 58 of Ind AS 103, contingent consideration not classified as equity should be measured at fair value at each reporting date and changes in fair value should be recognised in profit or loss.

As at 31 March 2017, (being the date of settlement of contingent consideration), the liability would be measured at its fair value and the resulting loss of Rs. 15,00,000 (Rs. 40,00,000 - Rs. 25,00,000) should be recognised in the profit or loss for the period. A Ltd. would recognise issuance of 160,000 (Rs. 40,00,000/ 25) shares at a premium of Rs. 15 per share. **(10 marks)**

Answer 2:

(A)

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

Accordingly, the results of G Ltd will be included on a line-by-line basis in the consolidated statement of comprehensive income as part of the profit from continuing operations of U Ltd for the year ending 31st March 2018.

As per para 72 of Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets', restructuring includes sale or termination of a line of business. A constructive obligation to restructure arises when:

(a) an entity has a detailed formal plan for the restructuring

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

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

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

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

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

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

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

Therefore, the total provision required = Rs. 520 lakhs + Rs. 410 lakhs = Rs. 930 lakhs. **(10 marks)**

Note:
Various issues related to the applicability of Ind AS / implementation under Companies (Indian Accounting Standards) Rules, 2015, are being raised by preparers, users and other stakeholders. Although many clarifications have been issued by way of ITFG Bulletins or EAC Opinion, still issues are arising on account of varying interpretations on several of its guidance. Therefore, alternate answers may be possible for the above questions based on standards, depending upon the view taken.

(B)

Journal Entries

Year 2013		*Rs.*	*Rs.*
Employee Compensation Expense A/c	Dr.	57,04,205	
To Employee Stock Options Outstanding A/c			57,04,205
(Being the compensation expenses recognized in respect of the ESOP)			
Profit and Loss A/c	Dr.	57,04,205	
To Employee Compensation Expense A/c			57,04,205
(Being Expenses of the year transferred to P & L A/c)			
Year 2014			
Employee Compensation Expense A/c	Dr.	34,08,295	
To Employee Stock Options Outstanding A/c			34,08,295
(Being the compensation expenses recognized in respect of the ESOP)			
Profit and Loss A/c	Dr.	34,08,295	
To Employee Compensation Expense A/c			34,08,295
(Being Expenses of the year transferred to P & L A/c)			
Year 2015			
Employee Compensation Expense A/c	Dr.	51,37,500	
To Employee Stock Options Outstanding A/c			51,37,500
(Being the compensation expenses recognized in respect of the ESOP)			
Profit and Loss A/c	Dr.	51,37,500	
To Employee Compensation Expense A/c			51,37,500

(Being Expenses of the year transferred to P & L A/c)		
Year 2017		
Bank A/c Dr.	250,00,000	
Employee Stock Options Outstanding A/c Dr.	75,00,000	
To Share Capital A/c		50,00,000
To Securities Premium		275,00,000
(Being shares issued to employees against options vested in them in pursuance of the ESOP)		
Year 2018		
Bank A/c Dr.	125,00,000	
Employee Stock Options Outstanding A/c Dr.	37,50,000	
To Share Capital A/c		25,00,000
To Securities Premium A/c		137,50,000
(Being shares issued to employees against options vested in them in pursuance of the ESOP)		
Employee Stock Options Outstanding A/c Dr.	30,00,000	
To General Reserve A/c		30,00,000
(Being the balance standing to the credit of stock options outstanding account, in respect of vested options expired unexercised, transferred to general reserve account)		

(7 marks)

Working Notes:

1. **Fair value of options recognized as expense in the year 2013**

   Number of options expected to vest = 500 x 2,500 x .97 x .97x .97 = 11,40,841 options

   Fair value of options expected to vest = 11,40,841 × Rs. 15 = Rs. 171,12,615

   One third of fair value recognized as expense = Rs. 171,12,615 / 3 = Rs. 57,04,205

Calculation may also be done first on the basis of estimated employees in absolute figure and then multiply number of options. For instance 2,500 x 0.97 x 0.97 x 0.97 = 2282 employees (approx..) and then 2282 x 50 = 11,41,000 options and so on.

Year 2014	
Fair Value of options revised in the year = 500 × 2500 × 0.90 × 0.90 × 0.90 x Rs.15	Rs. 136,68,750
Revised cumulative expenses in year 2014 = 136,68,750 $\times \frac{2}{3}$	Rs. 91,12,500
Less: Already recognized in year 2013	Rs. (57,04,205)
Expenses to be recognized in year 2014	Rs. 34,08,295
Year 2015	
Number of options actually vested = 1900 × 500 = 9,50,000	
Fair Value of options actually vested = 9,50,000 x Rs. 15	Rs. 1,42,50,000
Less: Expense recognized till year 2015	Rs. (91,12,500)
Balance amount to be recognized	Rs. 51,37,500

(3 marks)

Answer 3:
(A)

Journal Entries

	INR	INR
For intra-state purchase		
Purchases A/c Dr.	68,000	
CGST Receivable A/c Dr.	6,120	
SGST Receivable A/c Dr.	6,120	
To Vendor A/c		80,240
For intra-state sale		
Debtors A/c Dr.	94,400	
To Sales A/c		80,000

To CGST payable A/c		7,200
To SGST payable A/c		7,200
For depositing GST to the Government		
Cash CGST ledger A/c (7,200-6120) Dr.	1,080	
Cash SGST Ledger A/c (7,200-6120) Dr.	1,080	
To Bank (to the Government)		2,160

(3 marks)

For set-off		
CGST Payable A/c Dr.	7,200	
To CGST Receivable A/c		6,120
To Cash CGST ledger A/c		1,080
SGST Payable A/c Dr.	7,200	
To SGST Receivable A/c		6,120
To Cash SGST ledger A/c		1,080

(3 marks)

(B)

In effect, this contract results in an initial net investment of Rs. 36 crores which yields a cash inflow of Rs. 10 crores every year, for five years. By discharging the obligation to pay variable interest rate payments, Entity S in effect provides a loan to Counterparty C.

Therefore, all else being equal, the initial investment in the contract should equal that of other financial instruments that consist of fixed annuities. Thus, the initial net investment in the pay-variable, receive-fixed interest rate swap is equal to the investment required in a non- derivative contract that has a similar response to changes in market conditions.

For this reason, the instrument fails the condition 'no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors'. Therefore, the contract is not accounted for as a derivative contract. **(5 marks)**

(C)

Calculation of Economic Value Added

	Rs.
Net Operating Profit After Tax	25,00,000
Less: Cost of capital employed (Refer W.N.)	(6,00,000)
Economic Value Added	19,00,000

Economic value added is greater than zero. Therefore, the company qualifies for the loan.

(2 marks)

Working Note: **(2 marks)**

Calculation of Cost of Capital employed	Rs.
Average total assets	75,00,000
Less: Average current liabilities	(15,00,000)
Capital employed	60,00,000

Cost of capital = Capital employed x Weighted average cost of

$$= \text{Rs. } 60,00,000 \times \frac{10}{100} = \text{Rs.}6 \text{ lacs}$$

(1 mark)

(D)

Once a company has fulfilled the net worth / turnover / net profit criterion for one year it has to fulfill its CSR obligations for the subsequent three financial years, even if it does not fulfill any of these criteria in those years.

In the given case XYZ Ltd. falls in the ambit of CSR obligations by fulfilling the criteria of net profit exceeding Rs. 5 crores in the year 20X1. So it has to discharge its CSR obligations by spending two percent of its average profit every year starting from 20X2 till 20X4. It cannot stop spending on CSR activities as per the Act after 20X2. **(4 marks)**

Answer 4:

(I) Consolidated balance sheet

A Ltd. and its subsidiaries Consolidated balance sheet as at 31st December, 2016

	(Rs. in '000)
Asset	
Non-current assets	
Land	200
Other assets	1,600

1,800

Liabilities

Share capital 400

Retained profit Non-current liabilities 800

Liabilities 600

1,800

(5 marks)

(II) Consolidation worksheet **(Rs. in '000)**

	A Ltd.	B Ltd.	Adjustments		Consolidated Balances (Dr./Cr.)
			Dr.	Cr.	
Profit before tax	150	180	-	90 (note-1)	420 Cr.
Share of profit	-	-	-	9 (note-2)	9 Cr.
before tax					
Tax	50	60	30	-	140 Dr.
Share of tax	-	-	3	-	3 Dr.
Profit after tax	**100**	**120**			**286 Cr.**
Extraordinary item	50	-	50	-	-
	-	-	62 (note-3)	-	62 Dr.
Retained profit	**150**	**120**			**224 Cr.**
Beginning	400	300	-	70	
Retained profit	-	-	-	30	800 Cr.
Ending retained	**550**	**420**			**1,024 Cr.**
Investment in B Ltd.	100	-		100	-
Investment in C Ltd.					
(300@30%)	90		54		144 Dr.
Other assets	970	800			1,770 Dr.
Share capital	400	100	100		400 Cr.
Retained profit	550	420			1,024 Cr.
Liabilities	210	280			490 Cr.

(7 marks)

(III) Consolidated accounts

A Ltd. and its subsidiaries Consolidated Statement of Profit and Loss for the year ending 31st December, 2017

	(Rs. in '000)
Profit before tax [150+180+90(120*9/12)] (Note 1)	420
Share of associated company's (9-3) (Note 2)	6
	426
Tax [50+60+30(40x9/12)]	140
Profit after tax	286
Extraordinary item : Loss on disposal of shares (See Note 3)	62

Retained profit for the year	224
Beginning retained profit	800
Ending retained profit	1,024

(3 marks)

A Ltd. and its subsidiaries Consolidated balance sheet as at 31st December, 2017

	(Rs. in '000)
Asset	
Non-current assets	
Investment in associated company (Note 4)	144
Other assets	1,770
	1,914
Liabilities	
Share capital	400
Retained profit	1,024
Non-current liabilities	
Liabilities	490
	1,914

(3 marks)

Note 1. C Ltd. Profit and Loss Account to be consolidated up to 30-9-2017 as per Ind AS-110.

Note 2. From 1 -10-2017 C Ltd. become associates therefore accounting for investment in associates have to be done as per Ind AS-28.

Note 3. Calculation of profit or loss on disposal of share of subsidiary in consolidated Profit and Loss Account as per Ind AS-28.

Loss Account as per Ind AS-28 Proceeds from disposal	Rs. 260,000
Less : Proportionate net asset value of C on the date of disposal (30-9-2017)	Rs. 3,22,000
Loss	***Rs. 62,000***

[As on 1 -1 -2016 the net asset value of C was Rs. 4,00,000 (Rs. 3,00,000 book value + Rs.1,00,000 revaluation profit).From 1 -1 -2017 to 30-9-2017 'C' Ltd. net asset increased by Rs. 60,000 (after tax) profit for 9 months (80x3/4). Which makes net asset as on 30-9-2017 of Rs. 4,60,000, 70% of 460,000 = Rs. 3,22,000]

Note 4. Investment in associates (as per Ind AS-28) 30% of net asset

As on i.e. 4,60,000*30% on 30-9-2017	Rs. 1,38,000
Share of profit in associates for 1 -10-2017 to 31 -12-2017	Rs. 6,000
	Rs. 1,44,000

(2 marks)

Answer 5:
(A)

Items impacting the Statement of Profit and Loss for the year ended 31st March, 20X1

(Rs.)

Current service cost	1,75,000
Gains and losses arising from translating the monetary assets in foreign currency	75,000
Income tax expense	35,000
Share based payments cost	3,35,000

(2 marks)

Items impacting the other comprehensive income for the year ended 31st March, 20X1

(Rs.)

Remeasurement of defined benefit plans	2,57,000
Changes in revaluation surplus	1,25,000
Gains and losses arising from translating the financial statements of a foreign operation	65,000
Gains and losses from investments in equity instruments designated at fair value through other comprehensive income	1,00,000

(2 marks)

(B)

(i) The tax loss creates a potential deferred tax asset for the group since its carrying value is nil and its tax base is Rs.30,00,000.

However, no deferred tax asset can be recognised because there is no prospect of being able to reduce tax liabilities in the foreseeable future as no taxable profits are anticipated.

(ii) The provision creates a potential deferred tax asset for the group since its carrying value is Rs. 20,00,000 and its tax base is nil.

This deferred tax asset can be recognised because X Ltd. is expected to generate taxable profits in excess of Rs. 20,00,000 in the year to 31st March, 2019.

The amount of the deferred tax asset will be Rs. 4,00,000 (Rs. 20,00,000 x 20%).

This asset will be presented as a deduction from the deferred tax liabilities caused by the (larger) taxable temporary differences.

(iii) The development costs have a carrying value of Rs. 15,20,000 (Rs. 16,00,000 – (Rs. 16,00,000 x 1/5 x 3/12)).

The tax base of the development costs is nil since the relevant tax deduction has already been claimed.

The deferred tax liability will be Rs. 3,04,000 (Rs. 15,20,000 x 20%). All deferred tax liabilities are shown as non-current.

(iv) The carrying value of the loan at 31st March, 2018 is Rs. 1,07,80,000 (Rs. 1,00,00,000 – Rs. 2,00,000 + (Rs.98,00,000 x 10%)).

The tax base of the loan is Rs.1,00,00,000.

This creates a deductible temporary difference of Rs. 7,80,000 (Rs. 1,07,80,000 –Rs. 1,00,00,000) and a potential deferred tax asset of Rs. 1,56,000 (Rs. 7,80,000 x 20%).

Due to the availability of taxable profits next year (see part (ii) above), this asset can be recognised as a deduction from deferred tax liabilities. **(4 x 2 marks = 8 marks)**

(C)

Statement of cash flows

Particulars		Amount (Rs.)
Cash flows from operating activities		
Profit before taxation (10,00,000 + 18,00,000)	28,00,000	
Adjustment for unrealised exchange gains/losses:		
Foreign exchange gain on long term loan [€ 2,00,000 x Rs. (50 – 45)]	(10,00,000)	
Decrease in trade payables [1,00,000 x Rs. (50 – 45)]	(5,00,000)	
Operating Cash flow before working capital changes	13,00,000	
Changes in working capital (Due to increase in trade payables)	50,00,000	
Net cash inflow from operating activities		63,00,000
Cash inflow from financing activity		50,00,000
Net increase in cash and cash equivalents		1,13,00,000
Cash and cash equivalents at the beginning of the period		2,00,000
Cash and cash equivalents at the end of the period		1,15,00,000

(8 marks)

Answer 6:

(A)

This regenerated electrical energy that is supplied back to the OHE is used by other accelerating trains in the same service line. DMRC can now claim 4,00,000 CERs for a 10 – years crediting period beginning December 2007 when the project was registered by the UNFCCC. This translates to Rs. 1.2 crore per year for 10 years.

India has the highest number of CDM projects registered and supplies the second highest number of Certified Emission Reduction units. Hence, India is already a strong supplier of Carbon Credits and can improve on it. **(5 marks)**

(B)

Calculation of Defined Benefit Obligation

If Darshan will complete minimum 5 year term, then it is assumed that he will retire in the 6^{th} year.

Accordingly, Expected last drawn salary in the 6th year

= Rs. 15,52,303 x 110% x 110% x 110% x 110% x 110% = Rs. 25,00,000

Defined Benefit Obligation (DBO) = Rs. 25,00,000 x 25% x 5 = Rs. 31,25,000

Amount of Rs. 6,25,000 will be charged to Profit and Loss Account of the company every year as cost for Defined Benefit Obligation. **(1 mark)**

Calculation of Current Service Cost to be charged per year

Year	Equal apportioned amount of DBO [i.e. Rs. 31,25,000/5 years]	PV factor Discounting @ 8%	Current service cost (Present Value)
a	b	c	d = b x c
1	6,25,000	0.735 (4 Years)	4,59,375
2	6,25,000	0.794 (3 Years)	4,96,250
3	6,25,000	0.857 (2 Years)	5,35,625
4	6,25,000	0.926 (1 Year)	5,78,750
5	6,25,000	1 (0 Year)	6,25,000

(2 marks)

Calculation of Interest Cost to be charged per year

Year	Opening balance	Interest cost	Current service cost	Closing balance
a	B	c = b x 8%	d	e = b + c + d
1	0	0	4,59,375	4,59,375
2	4,59,375	36,750	4,96,250	9,92,375
3	9,92,375	79,390	5,35,625	16,07,390
4	16,07,390	1,28,591	5,78,750	23,14,731
5	23,14,731	1,85,269*	6,25,000	31,25,000

*Due to approximations used in calculation, this figure is adjusted accordingly. **(2 marks)**

Note:

1. The question states that Darshan will complete minimum 5 year term. Accordingly, in the above solution, it is assumed that his retirement from service will be in the 6^{th} year.
2. The above solution has been given assuming that the last drawn salary implies in the question is the annual emolument.

However, alternatively one may assume last drawn salary as monthly salary. In such a situation the answer will be as follows:

Calculation of Defined Benefit Obligation

If Darshan will complete minimum 5 year term, then it is assumed that he will retire in the 6^{th} year.

Accordingly, Expected last drawn salary in the 6th year
= Rs. 15,52,303 x 110% x 110% x 110% x 110% x 110% = Rs. 25,00,000

Defined Benefit Obligation (DBO) = (Rs. 25,00,000/12) x 25% x 5 = Rs. 2,60,417

Amount of Rs. 52,083 (2,60,417 / 5) will be charged to Profit and Loss Account of the company every year as cost for Defined Benefit Obligation. **(1 mark)**

Calculation of Current Service Cost to be charged per year

Year	*Equal apportioned amount of DBO [i.e. Rs. 2,60,417 / 5 years]*	*Discounting @ 8% PV factor*	*Current service cost (Present Value)*
a	*b*	*c*	*d = b x c*
1	52,083	0.735 (4 Years)	38,281
2	52,083	0.794 (3 Years)	41,354
3	52,083	0.857 (2 Years)	44,635
4	52,083	0.926 (1 Year)	48,229
5	52,083	1 (0 Year)	52,083

(2 marks)

Year	*Opening balance*	*Interest cost*	*Current service cost*	*Closing balance*
a	*b*	*c = b x 8%*	*d*	*e = b + c + d*
1	0	0	38,281	38,281
2	38,281	3,063	41,354	82,698
3	82,698	6,616	44,635	1,33,949
4	1,33,949	10,716	48,229	1,92,894
5	1,92,894	15,440*	52,083	2,60,417

*Due to approximations used in calculation, this figure is adjusted accordingly. **(2 marks)**

(C)

As per paragraph 5 of Ind AS 23, a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

As per paragraph 17 of Ind AS 23, an entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the entity first meets all of the following conditions:

(a) It incurs expenditures for the asset.
(b) It incurs borrowing costs.
(c) It undertakes activities that are necessary to prepare the asset for its intended use or sale. The ship is a qualifying asset as it takes substantial period of time for its construction. Thus the related borrowing costs should be capitalized.

Marine Transport Limited borrows funds and incurs expenditures in the form of down payment on April 1, 20X0. Thus condition (a) and (b) are met. However, condition (c) is met only on March 1, 20X1, and that too only with respect to one ship. Thus there is no capitalisation of borrowing costs during the financial year ended March 31, 20X1. Even during the financial year ended March 31, 20X2, borrowing costs relating to the 'one' ship whose construction had commenced from March 1, 20X2 will be capitalised from March 1, 20X2 to March 31, 20X2. All other borrowing costs are expensed. **(5 marks)**

(D)

(i) Calculation and allocation of impairment loss in 2014 *(Amount in Rs. lakhs)* **(2 marks)**

	Goodwill	***Identifiable assets***	***Total***
Historical cost	2,000	4,000	6,000
Accumulated depreciation/amortisation (4 yrs.)	(1,600)	(1,067)	(2,667)
Carrying amount before impairment	400	2,933	3,333
Impairment loss*	(400)	(213)	(613)
Carrying amount after impairment loss	0	2,720	2,720

*** Notes:**

1. As per para 87 of AS 28, an impairment loss should be allocated to reduce the carrying amount of the assets of the unit in the following order:

   (a) first, to goodwill allocated to the cash-generating unit (if any); and

   (b) then, to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

   Hence, first goodwill is impaired at full value and then identifiable assets are impaired to arrive at recoverable value.

2. Since the goodwill has arisen on acquisition of assets, AS 14 comes into the picture. As per para 19 of AS 14, goodwill shall amortise over a period not exceeding five years unless a somewhat longer period can be justified. Therefore, the amortization period of goodwill is considered as 5 years.

(ii) Carrying amount of the assets at the end of 2016 *(Amount in Rs. lakhs)* **(1 mark)**

End of 2016	***Goodwill***	***Identifiable assets***	***Total***
Carrying amount in 2016	0	2,225	2,225
Add: Reversal of impairment loss (W.N.2)	-	175	175
Carrying amount after reversal of impairment loss	-	2,400	2,400

Working Note:

1. Calculation of depreciation after impairment till 2016 and reversal of impairment loss in 2016

			(Amount in Rs. lakhs)
	Goodwill	Identifiable assets	Total
Carrying amount after impairment loss in 2014	0	2,720	2,720
Additional depreciation (i.e. (2,720/11) x 2)	–	(495)	(495)
Carrying amount	0	2,225	2,225
Recoverable amount			3,420
Excess of recoverable amount over carrying amount			1,195

(2 marks)

Note: It is assumed that the restriction by the Government has been lifted at the end of the year 2016.