CA FINAL MAY'19

SUBJECT- GFRS

Test Code – FNJ 7182

(Date :)

(Marks - 100)

Attempt any two case studies out of three. Each case study is of 50 marks.

Case Study 1:

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 'fair value through other comprehensive income' 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 Rs.'000	PQR Limited Rs.'000
ASSETS		
Non-current assets:		
Property, plant and equipment	280,000	225,000
Investments	78,500	40,000
	358,500	265,000
Current assets:		
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. Objective Type Questions

[Select the most appropriate answer from the options given for each question.

(2 Marks each)]

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 1 st 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. factored Rs. 2 million of its trade receivables to a bank during the year. The Bank paid Rs. 1.8 million to ABC Ltd. Bank charged ABC Ltd. Rs. 1 lac fee for this. All responsibility of receivables will be returned to ABC Ltd. if the debts are left unpaid after 6 months.

(i) Rs. 1.8 million shall be considered as loan and accounted for as financial liability

(ii) Rs. 1 lac fee should be deducted as transaction cost from financial liability

(iii) A loss of Rs. 2 lac should be recorded in the statement of profit and loss

(iv) The receivable should be derecognised from the statement of financial

position. State which two of the above treatment represents the correct

accounting treatment.

(a) (i) and (ii)

(b) (i) & (iii)

(c) (i) & (iv)

(d) All of the above

3. 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

4. ABC Ltd. uses first in first out method to measure its inventory for many years. On 1st April 2016, ABC Ltd. shifted to weighted average cost. This increased the inventory value at that date by Rs. 2 lacs. Which one of the following is NOT the correct accounting treatment for the financial statements for the year ended 31st March 2017?

(a) Increase only opening retained earnings in the statement of changes in equity by Rs. 2 lacs on 31st March, 2017.

(b) Increase inventory by Rs 2 lacs in the prior year comparative statement of financial position alongwith the opening retained earnings.

(c) Increase the cost of sales of the current year by Rs. 2 lacs.

(d) Reduce the profits in prior year comparative statement of profit and loss by Rs. 2 lacs .

5. ABC Ltd. has introduced a profit sharing plan from 1st April, 2016 for its employees who serve the company throughout 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.

6. 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

7. 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

8. Following issues have arisen in ABC Ltd. for which Mr. Goel is unsure how to account for:

i. ABC Ltd. operates number of machines requiring a regular overhaul to pass safety inspection. Many of these overhauling are due within next 12 months.

ii. ABC Ltd. has caused environmental damage during construction of new factory. There is no legislation requiring ABC Ltd. to repair the ground. ABC Ltd. has a well-documented, strong environmental policy and record of honouring it.

Provision should be created for which of the following issues.

(a) i and ii both

(b) i only

(c) ii only

(d) None of the above

9. On 15th April 2017, the following events were noted by ABC Ltd.:

(i) A major customer went into liquidation and

(ii) Inventory was damaged in flood. This was sold at loss on 20 th April 2017.

Which of the event should be considered as an adjusting event in the financial statements for the year ended 31st March 2017?

(a) Liquidation of the major customer

(b) Damaged inventory

(c) Neither of the event events are adjusting events

(d) Both the events are adjusting events

10. During the year, ABC Ltd. sold some items to PQR Ltd. The year end balances were reconciled with ABC Ltd. showing receivable of Rs. 8,000. This does not agree with payable recorded by PQR Ltd., with a difference being due to Rs. 1,000 cash in transit. Select the correct options for adjustment of such inter-company transaction as on 31st March, 2017in the consolidated balance sheet.

(a) Deduct consolidated trade receivable and trade payable by Rs. 8,000.

(b) Deduct consolidated trade receivable and trade payable by Rs. 7,000

(c) Deduct consolidated trade receivable and trade payable by Rs. 1,000

(d) Deduct consolidated trade receivable by Rs. 8,000, consolidated trade payable by Rs. 7,000 and add consolidated cash & cash equivalent by Rs. 1,000.

(e)

II. Descriptive Questions

1. Compute the amount of 'Goodwill' and 'Non- controlling interest' to be shown in the Consolidated financial statements of ABC Limited as on 31st 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)**

3 Do you agree with Mr. Goel that in case of loan given to a supplier, no interest shall be shown in current year's profit and loss. If not, suggest the correct accounting treatment with impact, if any on current year's profit and loss. Also, do you think any adjustment is required in current year's financial statements due to the financial problem being faced by the supplier? Also comment on the classification of such loan under the heading 'trade receivables'. **(5 Marks)**

4 Do you agree with the views of Mr. Goel on the legal action taken by the customer and the treatment suggested by him? State your answer with reasons. **(5 Marks)**

5 How much revenue should ABC Ltd. recognize for the year ended 31st March 2017 for the contract entered with the firm for providing the consultancy service for 24 months? **(5 Marks)**

Case Study 2:

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. OBJECTIVE TYPE QUESTIONS

Select the most appropriate answer from the options given for each question.

(2 Mark each)

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 recognize 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

6. Ajay has identified following potential liabilities as at 31 March 2017:

(i) The signing of a non-cancellable contract in March 2017 to supply goods in the following year on which due to a pricing error, a loss will be made.

(ii) The cost of reorganization which was approved by the board in August 2016 but has not yet been implemented, communicated to interested parties or announced publicly.

(iii) An amount of deferred tax relating to the gain on the revaluation of a property during the current year. ABC Ltd has no intention of selling the property in the foreseeable future.

(iv) The balance on the warranty provision which relates to products for which there are no outstanding claims and whose warranties had expired by 31 March 2017.

Which of the above should be recognized as liabilities as at 31 March 2017?

(a) (i) (ii) (iii) and (iv)

(b) (i) and (ii) only

(c) (i) and (iii) only

(d) (iii) and (iv) only

7. ABC Ltd. has invested in an optionally convertible debenture with a coupon rate of 5%. How this instrument will be subsequently measured in the financial statements of ABC Ltd. under IFRS 9?

(a) Amortised cost

(b) FVOCI without recycling

(c) FVTPL

(d) FVOCI with recycling.

8. ABC Ltd. has issued preference shares in a jurisdiction where the law mandatorily requires to declare dividend every year @ 10%. How should ABC Ltd. classify the instrument in its financial statement assuming that the preference shares are redeemable?

(a) Equity

(b) Liability

(c) Hybrid instrument

(d) Compound instrument.

9. ABC Ltd. has borrowed a loan from a bank which has a prepayment penalty to compensate the bank for any pre-closure of the loan. State which of the following is correct with respect to the embedded derivative.

(a) The embedded derivative is closely related to the loan

(b) The embedded derivative is not closely related to the loan

(c) The embedded derivative is an insurance contract

(d) There is no embedded derivative.

10. Ajay wants to value some of its asset/ liability at fair value. He has collected data from various sources like principal market, most advantageous market, foreign market and specified market participants. He could not understand which source should be referred first while measuring fair value of an asset/liability?

(a) Principal market

(b) Most advantageous market

(c) Foreign market

(d) Market participants specified

II. Descriptive Type Questions

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

2. (a) Assume that ABC Ltd. changes its method of determining the percentage of completion of contracts to that used by its competitors, as this would represent a change in an accounting estimate. Prepare equivalent extracts to the above for the year ended 31st March 2017. **(6 marks)**

(b) Identify, whether the change made by ABC Ltd. with respect to recognition of revenue for the construction contract represents a change in accounting estimate or a change in accounting policy and why? **(4 Marks)**

3. Examine the relationship between ABC Ltd. and Y Ltd. Also examine the relationship between Y Ltd and other two entities? **(5 Marks)**

4. Pass the journal entry for business combination of ABC Ltd. and XYZ Ltd. on 1st April, 2017. **(10 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 in the business of manufacturing industrial chemicals. 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).

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

(a) Under the scheme of demerger of B Ltd. effective from 1 April 2013, pharma division of B Ltd. has been demerged into C Ltd. The main intention of setting up C Ltd. is to construct and maintain various pharma projects demerged from B Ltd. A Ltd. holds 51% stake ownership and B Ltd. holds 49% stake ownership in C Ltd. The operations of C Ltd. are conducted through the Board of Directors who are nominated by A Ltd. and B Ltd. in equal proportion. A Ltd. has the exclusive right over the construction/structural design of the pharma projects. B Ltd. does not have any control over making structural changes. Further, all the cheques irrespective of value are processed and approved by A Ltd. Also, all product pricing decisions and marketing strategy are solely undertaken at the discretion of A Ltd. and do not require any approval from B Ltd.

(b) A trust named “ABC Foundation” has been formed on 1 April 2005. This trust has been recognised under Section 80G of the Income-tax Act, 1961. The core objectives of the trust are promoting education, training and research. Decision will be taken by the majority and the composition of trustees has effectively only three members (namely Mr. X, Mr. Y and Mr. Z) who are closely related to A Ltd. and who actively participate in the operations and management of A Ltd. Apart from them, the other seven trustees are independent to A Ltd. and does not have any relation with Mr. X and Mr. Y.

A Ltd. has constructed five schools and transferred the same to ABC Foundation on an arm’s length price. A Ltd. has been benefited from economies of scale and synergy benefits by selling these schools. There are no continuing benefits from these schools.

A Ltd. has contributed INR 10 crores during the financial year 2016-17 to the trust on account of statutory compliances namely Section 135 of the Companies Act, 2013 and claimed 50% eligible deduction under Section 80G of the Income-tax Act,1961. Employees of A Ltd. get a discount of 20% on school fees paid by them towards education of their children at these schools. The discount is not provided by ABC Foundation, instead the cost is borne by A Ltd.

Also the trustees may dissolve the trust by a unanimous decision and on dissolution, the assets of the trust will be transferred to a recognised trust under Section 80G of the Income-tax Act, 1961.

(c) A Ltd. has a wholly owned subsidiary D Ltd. D Ltd. faces financial crisis now and then. A Ltd. being a parent company, often helps D Ltd. by providing interest free loan. During the year, A Ltd. has provided INR 10 lacs interest-free loan to D Ltd. The current market rate of interest for similar loan is 10% p.a. These loans are provided by A Ltd. either to be repaid on demand or after fixed term depending upon the agreement.

(d) A Ltd. manufactures wide range of industrial chemicals. A Ltd. always strives to purchase machines with latest technology which can result in an efficient production of these chemicals so as to minimise wastages, manufacture more quantities from existing inputs, or reduce input consumption for manufacturing same quantities of output. Estimated useful lives of machineries purchased, vary significantly from 5 years to 25 years. On purchase of new machines, old machines have to be disposed of. For disposing old machines and equipment, which can be further used by some other party, A Ltd. invites bids. If machine can be used in other countries and can fetch good value, global tender is also floated. Details of such invitations are published on the company's website and in leading newspapers, for interested parties to view details of such bids invited by the company.

A synthesis gas compressor along with auxiliaries and spares pertaining to mechanical instrument installed in one of the plant costing INR 13 crores was purchased in 1982 and was used for 25 years. After being decommissioned, compressor was kept as a stand-by for a further period of 2 years and continued to be classified under 'plant and machinery'. However, the asset had reached its residual value before 2007 itself and no further depreciation was charged on compressor. In March 2009, it was decided to sell the compressor and as a result, it was reclassified to 'assets held for disposal'. As on 31 March 2009, details of compressor are as follows:

Particulars	**Amount**
Gross Block	INR 130,453,617
Accumulated depreciation as on 31 March 2009	INR 123,930,936
Written down value as on 31 March 2009	INR 6,522,681

Following entries were passed in books of A Ltd. on 31 March 2009, to reclassify the asset into 'assets held for disposal':

Assets held for disposal A/c	Dr.	INR 6,522,681
Accumulated depreciation A/c	Dr.	INR 123,930,936
Plant and machinery A/c	Cr.	INR 130,453,617

Since 31 March 2009, this compressor is classified as 'assets held for disposal'. Simultaneously, management floated a Global e-auction, inviting bids from potential parties specifically in USD. As on 31 March 2009, fair value of such asset was estimated to be INR 1.61 crores. U Ltd. quoted USD 54 lacs. Based on such high bid, A Ltd. proceeded to sell the compressor to U Ltd. At a later stage, U Ltd. claimed that bid amount was in INR and not in USD, consequently, A Ltd. refused to sell the compressor to him. This resulted in dispute between A Ltd. and U Ltd. and consequently A Ltd. filed a case in the Court against U Ltd. in 2012. U Ltd. is of the view that since A Ltd. committed to sell the asset to him, such asset should be sold to it only, whereas A Ltd. contends that since market value of such compressor is approximately INR 1.65 crores, then it cannot sell such asset for INR 54 lacs only, which is approximately 1/3rd of market value of the compressor. The Court directed both the parties to approach the arbitrator and issued a stay order on A Ltd., restricting it to sell the concerned asset to any other party, till the matter is resolved.

Arbitrator is expected to give his verdict in July 2018.

(e) A Ltd. has 500 units of chemicals in stock at the balance sheet date, i.e., 31 March 2018. These units are currently valued at net realisable value since their cost of manufacturing is very high. A Ltd. has entered into an agreement with the Government on 1st February 2018 to sell 400 units at INR 10,000 each on 5th April 2018. Remaining 100 units are expected to be sold in the following month when the price is expected to be at INR 9,600 each. The sale price of these chemicals as on 31 March 2018 is INR 9,000 per unit.

(f) A Ltd. is installing a new machinery in its plant. The machinery was purchased from R Ltd. It has incurred these costs:

- Basic price (as per supplier's invoice plus taxes)- INR 20,00,000
- Initial delivery and handling costs- INR 4,00,000
- Cost of site preparation- INR 2,00,000
- Interest charges paid to supplier of plant for deferred credit- INR 50,000
- Present value of estimated dismantling costs to be incurred after 10 years- INR 1,00,000
- Operating losses before commercial production- INR 2,00,000

(g) An asset was acquired at a cost of INR 1,50,000. The carrying amount is INR 70,000 after an impairment write down of INR 30,000 and cumulative depreciation of INR 50,000. Depreciation rate for accounting and tax laws is equal. Impairment loss is not deductible to tax. Tax rate applicable to A Ltd. is 30%.

(h) A Ltd. has taken an unsecured general purpose loan on 1 April 2016. The loan was utilised to finance the construction of a new building (to be used as store) which meets the definition of a qualifying asset in IAS 23. Construction of the store building commenced on 1 May 2016 and it was completed and ready for use on

28 February 2018, but did not open for trading until 31 March 2018. During the year, A Ltd. suspended the construction of the new building for a two-month period during July, 2017 – August, 2017.

(i) The carrying amount of one of the cash-generating unit of A Ltd. is INR 10,00,000 and the recoverable amount is INR 9,00,000. The goodwill allocated to the cash-generating unit is INR 50,000. The other assets in the cash-generating unit comprise of the plant and machinery and technical know-how with carrying amounts of INR 5,00,000 and INR 4,50,000, respectively.

(j) A Ltd. is developing a new process. During 2017, expenditure incurred was INR 10,00,000, of which INR 8,00,000 were incurred before 1st June 2017 and INR 2,00,000 were incurred between 1st June 2017 and 31st March 2018. At 1st June 2017, the process met the criteria for recognition as an intangible asset. The fair value of the know-how in the process is INR 5,00,000 on 31st March, 2018.

(k) A Limited submits two bids to Chemical Limited for two contracts that are closely related and will be performed in a continuous sequence. One bid is for the patent of the chemical plant and the second bid is for the manufacture of same chemical. If successful, A Limited (or any other bidder) has to accept both the contracts or reject both the contracts. However, two different contracts should be signed even though they are negotiated as a single package.

(l) A Ltd. has granted certain share options to one of its director on the condition that the director will not work with the competitor of the reporting entity (i.e. non-compete clause) for a period of at least three years. The fair value of the award at the date of grant, including the effect of the 'non-compete' clause, is INR 1,50,000.

(m) A Ltd. has a long-term loan arrangement containing a debt covenant. The specific requirements in the debt covenant have to be met as at 31 March every year. The loan is due for more than 12 months. A Ltd. breaches the debt covenant at or before the period end. As a result, the loan becomes payable on demand.

(n) A Ltd. acquired 60% equity shares of S Ltd. for INR 60 lacs. At the date of acquisition, fair value of net assets of S Ltd. is INR 80 lacs and fair value of non-controlling interest is INR 45 lacs.

Based on the facts given above, CFO of A Ltd. wants advice from GHI & Co., Chartered Accountants on the below accounting matters:

I. Descriptive questions

Question 1

Whether the following entities are subsidiaries of A Ltd. to be consolidated?

(a) C Ltd.

(b) ABC Foundation

(c) Provide appropriate reasoning for your answer considering the guidance under IFRS.

Question 2

How the interest-free loan should be accounted for under IFRS financial statements of A Ltd. and D Ltd. in the following scenarios:

(a) The loan is repayable on demand.

(b) The loan is repayable after 3 years.

Provide necessary journal entries in both cases.

Question 3

What will be the accounting implication under IFRS on A Ltd. in relation to the asset 'synthesis gas compressor' held by the company, i.e.,

(a) Whether such compressor can be classified under 'non-current assets held for sale' in A Ltd.'s IFRS financial statements?

(b) How non-current assets held for sale should be measured?

Provide appropriate reasoning for your answer considering the guidance under IFRS. Take necessary assumptions, if required.

II. Objective type questions

1. What will be the value of inventory of 500 units of chemicals on 31 March 2018?

   (a) INR 45,00,000

   (b) INR 49,60,000

   (c) INR 49,00,000

   (d) INR 50,00,000

2. At what amount the new machinery purchased from R Ltd. should be recognized?

   (a) INR 20,00,000

   (b) INR 29,50,000

   (c) INR 27,50,000

   (d) INR 27,00,000

3. What should be the deferred tax on asset referred to in (g) above?

   (a) Deferred tax asset of INR 9,000

   (b) Deferred tax liability of INR 9,000

   (c) No deferred tax should be recognized

(d) More information required to assess deferred tax implications

4. In case of construction of new building, for how many months, the interest should be capitalised in accordance with the principles of IFRS?

   (a) 23 months

   (b) 22 months

   (c) 21 months

   (d) 20 months

5. How should A Ltd. account for the impairment loss of one of its cash-generating unit mentioned in (i) above?

   (a) Impairment loss for the cash-generating unit of INR 1,00,000 should be allocated on a pro-rate basis among goodwill, plant and machinery and know-how on the basis of their carrying amount.

   (b) Impairment loss for the cash-generating unit of INR 1,00,000 should be first allocated to goodwill (i.e., INR 50,000) and remaining to technical know-how (i.e., INR 50,000).

   (c) Impairment loss for the cash-generating unit of INR 1,00,000 should be first allocated to goodwill (i.e., INR 50,000) and balance impairment loss of INR 50,000 should be allocated on a pro-rata basis between the plant and machinery and technical know-how based on their carrying amounts, at INR 26,000 and INR 24,000, respectively.

   (d) A Ltd. has a free choice for determining the method of allocation of impairment loss of INR 1,00,000 to the assets in the cash-generating unit.

6. What should be the accounting for expenditure incurred on developing new process by A Ltd. under IFRS?

   (a) Intangible asset of INR 5,00,000; expense of INR 5,00,000

   (b) Intangible asset of INR 10,00,000; expense of Nil

   (c) Intangible asset of INR 2,00,000; expense of INR 8,00,000

   (d) Intangible asset of INR 5,00,000; expense of INR 8,00,000

7. Suppose A Ltd. is successful in winning the bid of Chemical Limited. Then in such a situation, as per IAS 11, both the contracts should be accounted by A Limited as:

   (a) Two different contracts.

   (b) Single Contract.

   (c) Either (a) or (b) at the option of A Limited.

   (d) Either (a) or (b) as directed by Chemical Limited.

8. Which of the following accounting treatment is correct in relation to the share options given to one of the director of A Ltd.?

   (a) A Ltd. should recognise an expense of INR 1,50,000 over the period of three years and cannot reverse the expense recognised even if the director goes to work for a competitor and loses the share options.

   (b) A Ltd. should recognise an expense of INR 1,50,000 over the period of three years and can reverse the expense recognised in case the director goes to work for a competitor and loses the share options.

   (c) A Ltd. should recognise an expense of INR 1,50,000 immediately and cannot reverse the expense recognised even if the director goes to work for a competitor and loses the share options.

   (d) A Ltd. should recognise an expense of INR 1,50,000 immediately and can reverse the expense recognised in case the director goes to work for a competitor and loses the share options.

9. How should the loan be classified at year end for which A Ltd. has breached the debt covenant?

   (a) Current liability only if the lender demands payment as a consequence of breach.

   (b) Non-current liability even if the lender demands payments as a consequence of breach.

   (c) Current liability even if the lender agreed after reporting date and before authorisation of financial statements for issue, not to demand payment as a consequence.

   (d) Non-current liability if the lender agreed after reporting date and before authorisation of financial statements for issue, not to demand payment as a consequence.

10. Determine the amount of goodwill arising on acquisition of S Ltd. if non-controlling interest is measured using fair value method.

(a) INR 25 lacs

(b) INR 20 lacs

(c) INR 15 lacs

(d) INR 12 lacs