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CA FINAL MAY'19

SUBJECT- GFRS

Test Code – FNJ 7182

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Case study 1:

I. Answers to Multiple Choice Questions (MCQs)

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

Hints

Dep on factory PPE= Rs. 1,600 thousand,

WDV as on 31st March 2017 = Rs. 14,400 thousand

Recoverable amount = Rs. 15,000 thousand

Carrying amount = Lower of recoverable amount and WDV

= Rs. 14,400 thousand

Dep on Head office PPE = Rs. 1,100 thousand, WDV as on

31 March 2017 = Rs. 20,900 thousand

Recoverable amount = Rs. 20,000 thousand

Carrying amount = Lower of recoverable amount and WDV
= Rs. 20,000 thousand

2. Option (a) : (i) and (ii)

3. Option (c) : Item A- Rs. 5 lac and Item B- Rs. 2.30 Lac

Hints

Item A should be recognised at cost, which is Rs 5 lacs. Replacement cost is irrelevant for item A. This is because material was purchased for a profitable order, the net realisable value will be any way higher than the cost so no write - down is required. Item B should be recognized at Rs. 2.30 Lac being the net realisable value (Rs.2.60 Lac - Rs. 0.30 Lac) i.e. lower from cost Rs. 2.5 lac.

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

Hints

The adjustment should be made retrospectively i.e. the prior year comparative financial statements are adjusted, alongside the opening retained earnings. The adjustment will increase the closing inventory of previous year. This will increase assets in previous year and also increase profits as higher amount would have been deducted from cost of sales.

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

6. Option (a) : Rs. 13,717

Hints

The sale should initially be discounted to present value using ABC Ltd.'s cost of capital. Rs. 2 lacs discounted at 8% for two years gives an in itial present value of Rs. 171,468. This should be built up by 8% a year. Therefore, the amount to be recorded as finance income in 2016-17 is Rs. 13,717 (Rs. 171,468 x 8%).

7. Option (b) : Rs. 10,000

Hints

As a progress towards completion cannot reliably be measured, ABC Ltd. should recognize revenue to the level of recoverable cost. As ABC Ltd. has spent Rs. 10,000 to date this should be recorded in both Revenue and cost of sale.

8. Option (c) : ii only

Hints

The overhaul does not represents a present obligation for ABC Ltd. as it has a choice whether to continue using the assets or not. While there is no legal obligation to repair the environmental damage caused, ABC Ltd. has constructive obligation due to its published environmental policies and record of honouring it.

9. Option (a) : Liquidation of the major customer

Hints

While the inventory sold at the loss, this is only because of damage which arose after the year end. The event causing this damage did not exist at the reporting date. Thus, this event is a non- adjusting event. However, liquidation of a customer, has to be adjusted as the receivables were in the balance sheet on 31st March 2017.

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

Hints

Consolidated trade receivable shall be reduced by Rs. 8,000 (being inter-company balance in books of ABC) and consolidated trade payable shall be reduced by Rs. 7,000 (being inter- company balance in books of PQR). Balance Rs. 1,000 shall be added to consolidated cash and cash equivalents (being balance of cash in transit).

II. Answers to Descriptive Questions

1. Computation of goodwill on consolidation

(a) Goodwill on consolidation	Rs. in ’000
Cost of investment:	
Share exchange (90 million x 8/9 x Rs.2·80)	2,24,000
Contingent consideration	25,000
Fair value of non-controlling interest at date of acquisition (30 million x Rs.2·60)	78,000
	3,27,000
Net assets at 1 April 2016 (Refer W.N.)	(2,38,000)
Goodwill	89,000

(b) Non-controlling interest in PQR Limited	Rs. in ’000
Fair value at date of acquisition	78,000
25% of post-acquisition increase in net assets [(2,64,000 – 2,38,000 x 25%] (Refer W.N))	6,500
	84,500

Working Note – Net assets – PQR Limited

	1 April, 2016	31 March, 2017
	Rs. in ’000	Rs. in ’000
Share capital	120,000	120,000
Other components of equity	2,400	4,000
Retained earnings	86,000	115,000
Property adjustment	20,000	20,000
Extra depreciation ((92,000 – 80,000)/16)		(750)
Plant and equipment adjustment	9,000	9,000
Extra depreciation ((120,000 – 111,000)/3)		(3,000)
Intangible asset adjustment	8,000	8,000
Extra amortisation (8,000/4)		(2,000)
Deferred tax on fair value adjustments		
(20,000+9,000+8,000) x 20%	(7,400)	

(20,000+9,000+8,000)- (750+3,000+2,000) x 20%	______	(6,250)
Net assets for the consolidation	2,38,000	2,64,000

2. The initial measurement of the loan in FC is FC 49 million (FC 50 million – FC 1 million).

The finance cost in FC is FC 4·9 million (FC 49 million x 10%).

The closing balance of the loan in FC is FC 49·9 million (FC 49 million + FC 4·9 million – FC 4 million).

IAS 21 – *The Effect of Changes in Foreign Exchange Rates* – states that foreign currency transactions are initially recorded at the rate of exchange in force when the transaction was first recognised.

Therefore, the loan would initially be recorded at Rs.68·6 million (FC 49 million x 1·40).

The finance cost would be recorded at an average rate for the period since it accrues over a period of time.

The finance cost would be Rs.6·958 million (FC 4·9 million x 1·42).

The actual payment of interest would be recorded at Rs.5·8 million (FC 4 million x 1.45).

The loan balance is a monetary item so it is translated at the rate of exchange at the reporting date.

So the closing loan balance is Rs.72·355 million (FC 49·9 million x 1·45).

The exchange differences that are created by this treatment are recognised in profit or loss.

In this case, the exchange difference is ((Rs.68·6 million + Rs.6·958 million – Rs.5·8million) – Rs.72·355 million) = Rs.2·597 million. This exchange loss is taken to profit or loss.

3. The loan to the supplier would be regarded as a financial asset. IFRS 9 provides that financial assets are normally measured at fair value.

Where the financial asset is one where the only expected future cash inflows are the receipts of principal and interest and the investor intends to collect these inflows rather than dispose of the asset to a third party, then IFRS 9 allows the asset to be measured at amortised cost using the effective interest method.

Assuming that this method is adopted, the cost of issuing the loan (i.e. transaction cost) is included in its initial carrying value rather than being taken to profit or loss as an immediate expense. This makes the initial carrying value Rs. 21,00,000 (20,00,000 + Rs. 1,00,000).

Under the effective interest method, part of the finance income is recognised in the current period rather than all in the following period when repayment is due.

The income recognized in the current period is Rs. 144,900 (Rs. 21,00,000 x 6·9%).

In the absence of information regarding the financial difficulties of the customer, the financial asset at 31 March 2017 would have been Rs. 2,244,900 (Rs. 21,00,000 + Rs.

144,900).

The information regarding financial difficulty of the customer is objective evidence that the financial asset has suffered impairment at 31 March 2017.

The asset is re-measured at the present value of the revised estimated future cash inflows, using the original effective interest rate.

Under the revised estimates the closing carrying amount of the asset would be Rs. 2,057,998 (Rs. 22,00,000 / 1.069).

The reduction in carrying value of Rs. 186,902 (Rs. 2,244,900 – Rs. 2,057,998) would be charged to profit or loss in the current period as an impairment of a financial asset.

Therefore, the net charge to profit or loss in respect of the current period i.e. would be Rs. 42,002 (Rs. 186,902 – Rs. 144,900).

4. It is necessary to consider the two parts of the issue separately.

The claim made by the customer needs to be recognised as a liability in the financial statements for the year ended 31 March 2017.

IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* – states that a provision should be made when, at the reporting date:

i. An entity has a present obligation arising out of a past event.
ii. There is a probable outflow of economic benefits.
iii. A reliable estimate can be made of the outflow.

All three of those conditions are satisfied here, and so a provision is appropriate.
The provision should be measured at the amount the entity would rationally pay to settle the obligation at the reporting date.

Where there is a range of possible outcomes, the individual most likely outcome is often the most appropriate measure to use.

In this case a provision of Rs.1·6 million seems appropriate, with a corresponding charge to profit or loss.

The insurance claim against our customer (to whom consultancy is provided) is a contingent asset.

IAS 37 states that contingent assets should not be recognised until their realisation is virtually certain, but should be disclosed where their realisation is probable.

Accordingly, the contingent asset would be disclosed in 2016 -2017 financial statements. Any credit to profit or loss arises when the claim is settled.

5. ABC can recognize revenue from this contract on 31st March 2017. This is because the contract price and costs are known, the customer has a good payment record, and stage of completion of the project can be determined.

Where material, the revenue should be measured at its present value.

In this case the present value of revenue for the project is Rs. 1,304,348 (Rs. 1,500,000 (1.15)).

The amount of revenue that can be recognized in the current period is Rs. 391,304 (Rs. 1,304,348 x 15/50).

The amount of Rs. 391,304 shall appear as a trade receivable at 31st March 2017.

Case Study 2:

I. Answers to Multiple Choice Questions (MCQs)

1. Option (a) : 10,000 will be debited in Profit and loss and 50,000 in Other comprehensive income

Hints

As per IAS 21, Exchange difference between transaction currency and functional currency is charged to profit and loss. And exchange difference on translation to presentation currency is charged to other comprehensive income.

2. Option (b) : Rs. 3,20,000

Hints

As per IAS 18, revenue is recognised once the performance obligation is satisfied. In the given case, performance obligation pertaining to sale of goods is satisfied , once the control of such goods is transferred to the customer. Accordingly, company may recognize revenue pertaining to sale of goods. For performance obligation of free services, revenue would be recognized over the period of three years as the control of such service is transferred over the period of time. Therefore, at the time of sale only Rs. 3,20,000 shall be recognized.

3. Option (b) : FVTPL

Hints

This will be a debt instrument but the returns are linked to the capital value change and hence will fail the SPPI test and hence FVTPL.

4. Option (a) : Rs. 170,000

Hints

Minimum lease payments includes the rent agreed by lessee to pay to lessor i.e. 1,20,000 in the given case. It also include residual value guarantee given by the lessee which is Rs. 50,000 in the present case. Contingent rent does not form part of minimum lease payments.

5. Option (b) : Rs. 29,320

Hints

The weighted average cost of borrowing is 7.33%

((Rs. 1 million × 6%) + (Rs. 2 million × 8%)) / Rs. 3 million.

Therefore, the amount to be capitalised

= 7.33% × Rs. 600,000 × 8/12 = Rs. 29,320.

6. Option (c) : (i) and (iii) only

7. Option (c) : FVTPL

Hints

This is a debt instrument but will fail the SPPI test and hence measured at FVTPL.

8. Option (b) : Liability

Hints

The requirement to pay dividend mandatorily will be stated in the terms of the preference shares as the contract terms need to be in accordance with the requirements of law. Therefore, the payment of dividend is a contractual obligation. Accordingly, the preference shares will be classified as liability.

9. Option (a) : The embedded derivative is closely related to the loan

Hints

The prepayment feature is only a compensation of lost time value due to pre-closure and hence this is economically closely related with the instrument and hence no bifurcation required.

10. Option (a) : Principal market

II. Answers to Descriptive Questions

1. With regard to quantitative thresholds to determine reportable segment relevant in context of instant case, paragraph 13(b) of IFRS 8 states as follows:

"(b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss."

ABC Limited has 5 operating segments namely A, B, C, D and E. The segment profit/loss of respective segment will be compared with the greater of the following:

(i) All segments in profit, i.e., A, B and E – Total profit Rs. 8,280 crore.

(ii) All segments in loss, i.e., C and D – Total loss Rs. 6,800 crore.

Greater of the above – Rs. 8,280 crore.

Based on the above, reportable segments will be determined as follows:

Segment	Profit/(Loss) (Rs. in crores)	As absolute % of 8,280 crore	Reportable segments
A	780	9.4% or 9%	No
B	1,500	18.12% or 18%	Yes
C	(2,300)	27.78% or 28%	Yes
D	(4,500)	54.35% or 54%	Yes
E	6,000	72.46% or 72%	Yes
Total	1,480		

2. (a) ABC's income statement (extracts) for the year ended:

	31st March 2017 (Rs. in crores)
Revenue (based on work certified) (320-200)	120
Cost of sales (balancing figure)	(96)
Profit [(320/500) x (500-400)] - 40	24

Statement of financial position (extracts) as on

	31 March 2017 (Rs. in crores)
Current assets	
Amount due from customers	
Contract cost to date	290
Profit recognized (40 + 24)	64
	354
Progress billing	(320)
Billing to be done	34
Contract assets (amount receivable) (320 - 300)	20

(b) The relevant issue here is what constitutes the accounting policy for construction contracts. Where there is uncertainty in the outcome of a contract, the appropriate accounting policy would be the completed contract basis (i.e. no profit is taken until the contract is completed). Similarly, any expected losses should be recognised immediately.

Where the outcome of a contract is reasonably foreseeable, the appropriate accounting policy is to accrue profits by the percentage of completion method. If this is accepted, it becomes clear that the different methods of determining the percentage of completion of construction contracts are different accounting estimates. Thus the change made by ABC Ltd. in the year to 31 March 2017 represents a change of accounting estimate.

3. Despite the fact that the ABC Ltd. owns 25% of the voting rights and has representations on the board, the existence of other shareholders holding a significant proportion of the voting rights prevent ABC Ltd. from exerting significant influence. ABC Ltd. have the power to participate in the financial and operating policy decision. However, other shareholders prevent ABC Ltd.'s efforts and stop ABC Ltd. from actually having any influence. Nevertheless, to examine the relationship between ABC Ltd. and Y Ltd. for which we have to examine the definition of significant influence as given in IFRS. As per the standard, significant influence requires participation in decision making process which ABC Ltd. has. Therefore, Y Ltd would be considered as an associate of ABC Ltd.

   Further, Y Ltd.'s policy decisions are largely taken by other two entities which implies that Y Ltd. is jointly controlled by the other two entities.

4. Paragraph 42 of IFRS 3 provides that in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

   Applying the above, ABC Ltd. records the following entry in its consolidated financial statements.

		(Rs. in crores)	
		Debit	Credit
Identifiable net assets of XYZ Ltd.	Dr.	30,000	
Goodwill (W.N.1)	Dr.	4,000	
Foreign currency translation reserve	Dr.	100	
PPE revaluation reserve	Dr.	50	
To Cash			25,000
To Investment in associate -XYZ Ltd.			8,850
To Retained earnings (W.N.2)			50
To Gain on previously held interest in XYZ recognised in Profit or loss (W.N.3)			250
(Being acquisition of XYZ Ltd. recognised in the books of ABC Ltd.)			

Working Notes

1. Calculation of Goodwill

	(Rs. in crores)
Cash consideration	25,000
Fair value of previously held equity interest in XYZ	9,000

Total consideration	34,000
Fair value of identifiable net assets acquired	(30,000)
Goodwill	4,000

2. The credit to retained earnings represents the reversal of the unrealised gain of Rs. 50 crores in Other Comprehensive Income related to the revaluation of property, plant and equipment. In accordance with IAS 16, this amount is not reclassified to profit or loss.

3. Calculation of gain on the previously held equity interest in XYZ Ltd.

	(Rs. in crores)
Fair Value of 30% interest in XYZ Ltd. at 1st April 2017	9,000
Carrying amount of interest in XYZ at 1st April 2017	(8,850)
	150
Unrealised gain previously recognised in OCI	100
Gain on previously held interest in XYZ recognised in profit or loss	250

Case Study 3:

I. Answers to Descriptive Questions

Answer 1

(a) In the present case, majority consent is required to conduct the relevant activities of C Ltd. A Ltd. has majority voting rights and decisions will be taken by the majority shareholders and A Ltd. also controls the relevant activities of C Ltd. by having control over costing, budgeting, pricing and marketing of the project. A Ltd. exercises control over this entity, it is exposed to variable returns from its involvement with C Ltd. and has the ability to affect those returns through its power over C Ltd. Therefore, considering the guidance under IFRS 10, A Ltd. might have to consolidate C Ltd. as its subsidiary.

(b) Since only three trustees out of ten, are closely related to A Ltd. who actively participate, and all trustees participate in their own capacity. Hence, A Ltd. doesn't have power over the trust. Further, donation given by A Ltd. to trust will never flow back to A Ltd. even in case of dissolution and discount allowed on tuition fee is also not material and not being borne by ABC Foundation. Hence, A Ltd. doesn't have any direct exposure, or rights, to variable returns of the trust. On analysis of the above facts and guidance available under IFRS 10, A Ltd. neither has power nor has exposure to variable returns. Thus, considering the requirement under IFRS 10, control could not be established. Thus, A Ltd. cannot consolidate ABC Foundation as its subsidiary under IFRS.

Answer 2

According to IFRS 9 criteria, A Ltd. and D Ltd. will classify the loan asset and liability, respectively, at amortised cost.

Scenario (a)

Since the loan is repayable on demand, it has fair value equal to cash consideration given. A Ltd. and D Ltd. should recognize financial asset and liability, respectively, at the amount of loan given. Upon, repayment, both the entities should reverse the entries that were made at the origination. It may be noted that this accounting outcome will not apply when there is evidence that the loan is repayable after a period of time, but is disguised as being repayable on demand. Consideration should be given to the substance of the arrangement.

Journal entries in the books of A Ltd.

At origination		
Loan to D Ltd. A/c	Dr.	INR 10,00,000
Bank A/c	Cr.	INR 10,00,000

On repayment		
Bank A/c	Dr.	INR 10,00,000
Loan to D Ltd. A/c	Cr.	INR 10,00,000

Journal entries in the books of D Ltd.

At origination		
Bank A/c	Dr.	INR 10,00,000
Loan from A Ltd. A/c	Cr.	INR 10,00,000

On repayment		
Loan from A Ltd. A/c	Dr.	INR 10,00,000
Bank A/c	Cr.	INR 10,00,000

Scenario (b)

Both A Ltd. and D Ltd. should recognise financial asset and liability, respectively, at fair value on initial recognition, i.e., the present value of INR 10,00,000 payable at the end of 3 years using discounting factor of 10%, i.e., INR 7,51,310. The difference between the loan amount and its fair value is treated as an equity contribution to the subsidiary. This represents a further investment by the parent in the subsidiary.

Journal entries in the books of A Ltd.

At origination		
Loan to D Ltd. A/c	Dr.	INR 7,51,315
Investment in A Ltd. A/c	Dr.	INR 2,48,685
Bank A/c	Cr.	INR 10,00,000

During periods to repayment- to recognise interest		
Year 1		
Loan to D Ltd. A/c	Dr.	INR 75,130
Interest income A/c	Cr.	INR 75,130
Year 2		
Loan to D Ltd. A/c	Dr.	INR 82,645
Interest income A/c	Cr.	INR 82,645
Year 3		
Loan to D Ltd. A/c	Dr.	INR 90,909
Interest income A/c	Cr.	INR 90,909
Note- Interest needs to be recognised in statement of profit and loss. The same cannot be adjusted against capital contribution recognised at origination.		

On repayment		
Bank A/c	Dr.	INR 10,00,000
Loan to D Ltd. A/c	Cr.	INR 10,00,000

Journal entries in the books of D Ltd.

At origination		
Bank A/c	Dr.	INR 10,00,000
Loan from A Ltd. A/c	Cr.	INR 7,51,130
Equity Contribution in A Ltd. A/c	Cr.	INR 2,48,690

During periods to repayment- to recognise interest		
Year 1		
Interest expense A/c	Dr.	INR 75,131
Loan from A Ltd. A/c	Cr.	INR 75,131

Year 2		
Interest expense A/c	Dr.	INR 82,645
Loan from A Ltd. A/c	Cr.	INR 82,645
Year 3		
Interest expense A/c	Dr.	INR 90,909
Loan from A Ltd. A/c	Cr.	INR 90,909

On repayment		
Loan from A Ltd. A/c	Dr.	INR 10,00,000
Bank A/c	Cr.	INR 10,00,000

Working Note:

Years	**Amount outstanding (opening)**	**Interest**	**Amount outstanding (closing)**
Beginning of year 1		-	INR 7,51,315
End of year 1	INR 7,51,315	INR 75,131	INR 8,26,446
End of year 2	INR 8,26,446	INR 82,645	INR 9,09,091
End of year 3	INR 9,09,091	INR 90,909	INR 10,00,000

Answer 3

(a) In present case, the said compressor's carrying amount will be recovered principally through sale and not through its continuing use. Further, the asset is retired from active use and it is kept idle, hence compressor is available for immediate sale in its present condition. Since the time, compressor was classified as 'assets held for disposal', A Ltd. was committed to sell the compressor and for such sale it invited global bids as well to fetch good price for such compressor. A Ltd. always had the intention of selling it immediately on receiving good price for the compressor. On receipt of bid from the buyer, U Ltd., A Ltd. initiated procedures to sell the compressor to him, but due to disagreement regarding currency of sales consideration at a later stage, a dispute arose between both the parties and the matter was taken to the Court, which later got transferred to the Arbitrator. Also a stay order has also been issued by the Court, restricting A Ltd. to sell the asset to any other party till the matter is resolved by the arbitrator, with whom case is currently pending. As a result, A Ltd. is not able to sell the compressor till the matter is resolved, pursuant to High Court's stay order. Till date, A Ltd. has complied with all the orders/ instructions received from the Court/ arbitrator and is awaiting arbitrator's verdict on this matter, which is expected to be July 2018. As on today, subject to the stay order, A Ltd. is still committed to sell the compressor. The compressor is currently not in use, but kept it idle, ready for sale. Hence, based on the facts of the case and considering the principles under IFRS 5, it can be said that A Ltd. is committed to sell the compressor but due to factors beyond the control of A

Ltd., i.e., stay order from the Court, it is restricted from selling the compressor till the matter is resolved by the assigned arbitrator. Hence, till the matter is resolved, compressor should be classified as 'non-current assets held for sale'.

(b) As on 31 March 2015, in Indian GAAP audited financial statements of A Ltd., compressor is classified as 'assets held for disposal' and valued at lower of net book value (carrying amount) and net realisable value, i.e., INR 6,522,681 in the present case. As per the guidance under IFRS 5, non-current assets held for sale should be measured at lower of carrying amount and fair value *less* costs to sell. There is a difference between the term 'net realisable value' and 'fair value *less* costs to sell', i.e., net realisable value is an exit price for an asset, whereas fair value *less* costs to sell is an entry price, i.e., price to be paid for acquiring an asset. Considering the facts in the present case, one can infer that 'fair value *less* costs to sell' is greater than 'net realisable value'. Hence, in the opening IFRS balance sheet of A Ltd., compressor should be valued at carrying amount, since on 31 March 2015, carrying amount is less than net realisable value and net realisable value is less than fair value *less* costs to sell.

II. Answers to Objective Type Questions

1. Option (b) : INR 49,60,000

Value of 400 units of chemicals	400 x 10,000	INR 40,00,000
Value of 100 units of chemicals	100 x 9,600	INR 9,60,000
Value of stock on 31 March 2018		**INR 49,60,000**

Sale value on the reporting date is irrelevant as Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. NRV is not the selling price on the reporting date.

2. Option (d) : INR 27,00,000

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 (since there is no qualifying asset)	-
Present value of estimated dismantling costs to be incurred after 10 years	INR 1,00,000
Operating losses before commercial production	-
Cost of machinery	**INR 27,00,000**

3. Option (a) : Deferred tax asset of INR 9,000

Particulars	**Carrying amount**	**Tax base**	**Temporary difference**
At acquisition	INR 1,50,000	INR 1,50,000	Nil
Accumulated depreciation	(INR 50,000)	(INR 50,000)	Nil
Impairment loss	(INR 30,000)	Nil	(INR 30,000)

Tax rate	30%
Deferred tax asset	INR 9,000

4. Option (d) : 20 months

Capitalisation under IAS 23 will commence from the date when the expenditure is incurred (1 May 2016) and must cease when the asset is ready for its intended use (28 February 2018); in this case a 22- month period. However, interest cannot be capitalised during a period where development activity is suspended ie for the period of two months from July, 2017 to August, 2017.

5. Option (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.

6. Option (c) : Intangible asset of INR 2,00,000; expense of INR 8,00,000 (Refer para 65, 74 and 76 of IAS 38)

Research expenditure	Expense as incurred
Development expenditure	• Expense if the recognition criteria for intangible assets are not met • Capitalise once the recognition criteria are met • Past expense cannot be capitalised

7. Option (b) : Single Contract

8. Option (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.

The 'non-compete' clause is a non-vesting condition, because A Ltd. does not receive any services. On the grant date, A Ltd. should immediately recognise a cost of INR 1,50,000, as the director is not providing any future services. A Ltd. cannot

reverse the expense recognised, even if the director goes to work for a competitor and loses the share options, because the condition is a non-vesting condition.

9. Option (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.

If the entity has an unconditional right to defer the settlement of the liability for at least twelve months, the debt should be classified as non-current liability. In the given case, liability becomes payable on demand, therefore, it will be classified as current even if the lender agreed after reporting date and before authorisation of financials for issue, not to demand payment as a consequence.

10. Option (a) : INR 25 lacs

Particulars	**Amount**
Fair value of consideration	INR 60,00,000
Fair value of non-controlling interest	INR 45,00,000
	INR 1,05,00,000
Less: Fair value of net assets	(INR 80,00,000)
Goodwill	**INR 25,00,000**