CA FINAL

Test Code – JKN-GFR-22

(Date:25-09-2020)

(Marks - 100)

The question paper comprises five case study questions. The candidates are required to answer any four case study questions out of five.

ENG Ltd. prepares consolidated financial statements to 31st March each year. During the year ended 31st March, 2020, the following events

1.1 L Ltd., a wholly owned subsidiary of ENG Ltd., incurred a loss adjusted for tax purposes of ` 30 lakh. L Ltd. is unable to utilise this loss against previous tax liabilities and local tax legislation does not allow L Ltd. to transfer the tax loss to other group companies. Local legislation however, allows L Ltd. to carry the loss forward and utilise it against its own future taxable profits. The directors of ENG Ltd. do not consider that L Ltd. will make taxable profit in the foreseeable future.

(a) Carrying amount is ` 30 Lakh and tax base is ` 30 Lakh.

(b) Carrying amount is Nil and tax base is ` 30 Lakh.

(c) Carrying amount is Nil and tax base is Nil.

(d) Carrying amount is`30 Lakh and tax base is Nil.

(2 Marks)

1.2 Just before 31st March, 2020, ENG Ltd. committed itself to closing a division after the year end, making several employees redundant. Therefore, ENG Ltd. recognised a provision for closure costs of ` 20 lakh in its Balance Sheet as at 31st March, 2018. Local tax legislation allows tax deductions for closure costs only when the closure takes place. In the year ended 31st March, 2021, ENG Ltd. expects to make taxable profits which are well more than ` 20 lakh. On 31st March, 2020, ENG Ltd. had taxable temporary differences from other sources which were greater than ` 20 lakh.

(a) Carrying amount is ` 20 Lakh and tax base is Nil.

(b) Carrying amount is Nil and tax base is Nil.

(c) Carrying amount and tax base are ` 20 Lakh.

(d) Carrying amount is Nil and tax base is ` 20 Lakh.

(2 Marks)

1.3 On 1st April, 2019, ENG Ltd. made an interest free loan to an employee of ` 8,00,000. The loan is due for repayment on 31st March, 2021 and ENG Ltd. is confident that the employee will repay the loan. ENG Ltd. normally requires an annual rate of return of 10% on loans. What amount of loan is to be shown as on 31st March, 2020?

(a) ` 8,00,000
(b) ` 1,38,843
(c) ` 6,61,157
(d) ` 7,27,273

(2 Marks)

1.4 On 1st April, 2019, ENG Ltd. gave a 3-year loan of ` 100 lakh to entity X. The market rate of return is 10% per annum. On 31st March, 2020, ENG Ltd. will receive a fixed number of shares in entity X in full settlement of the loan. Entity X paid the interest due of ` 8,00,000 on 31st March, 2020. Entity X has no liquidity problems. Following payment of interest, the fair value of this loan asset at 31st March, 2020 was estimated to be ` 105 lakh. As on 31st March, 2020, the loan will stand at what amount?

(a) ` 100 lakh
(b) ` 105 lakh
(c) `82,64,463
(d) ` 90,90,909

(2 Marks)

1.5 On 1st April, 2019 Eng Ltd. purchased an equity investment in entity Y for ` 120 lakh. The investment did not give K Ltd. control or significant influence over entity Y but the investment is seen as long term. K Ltd. plans to hold the investment till 31st March, 2022. On 31st March, 2020, the fair value of K Ltd.'s investment in entity Y was estimated to be `130 lakh. Market rate of interest is 10%. What will be investment amount outstanding as on 31st March, 2020 ?

(a) ` 130 lakh
(b) ` 120 lakh
(c) ` 99,17,355
(d) ` 1,09,09,091

(2 Marks)

1.6 ENG Ltd. has developed model to measure the expected credit loss based on the lifetime expected credit loss model. Accordingly, the Company has estimated the following provision matrix:

	Current	1-30 days past due	31-60days past due	61-90 days past due	More than 90 days past due
Default Rate	0.3%	1.6%	3.6%	6.6%	10.6%

The Company has a portfolio of trade receivables of ` 6 crore as on 31st ,March 2020 and operates in only one geographical region. The customer base of the Company consists of large number of small clients and trade receivables are categorised by common risk characteristics that are representative of the customer's abilities to pay all amounts due as per the contractual terms.

The trade receivables do not have significant financing component.

The above provision matrix is based on its historically observed default rate over the expected life of the trade receivables and is adjusted for forward looking estimate.

The Company has asked you to suggest whether the above system of making the provision for the expected credit loss is in accordance with the applicable Ind AS? If yes, please determine the expected credit loss for the Trade receivables outstanding as on 31st Mar, 2020 which are as follows:

	Current	1-30 days past due	31-60days past due	61-90 days past due	More than 90 days past due
% of Trade Receivables	50%	25%	13%	8%	4%

(3 Marks)

1.7 As part of its business expansion strategy, ENG Ltd. is in process of setting up a pharma intermediates business which is at very initial stage. For this purpose, the Company has acquired on 1st April, 2019, 100% shares of ABR Ltd. that manufactures pharma intermediates. The purchase consideration for the same was by way of a share exchange valued at ` 35 crore. The fair value of ABR Ltd.'s netassets was ` 15 crore, but does not include:

(i) A patent owned by ABR Ltd. for an established successful intermediate drug that has a remaining life of 8 years. A consultant has estimated the value of this patent to be ` 10 crore. However, the outcome of clinical trials for the same are awaited. If the trials are successful, the value of the drug would fetch the estimated `15crore.

(ii) The Company has developed and patented a new drug which has been approved for clinical use. The cost of developing the drug was ` 12 crore. Based on assessment, the valuer has estimated its market value at ` 20crore.

(iii) The Company's manufacturing facilities have received a favourable inspection by a government department. As a result of this, the Company has been granted an exclusive five-year license to manufacture and distribute a new vaccine. Although the license has no direct cost to the Company, its directors believe that obtaining the license is a valuable asset which assures guaranteed sales and the value for the same is estimated at ` 10crore.

The Company has requested you to suggest the accounting treatment of the above transaction under applicable Ind AS.

(4Marks)

1.8 Eng Ltd. had, taken loan from State Bank of India, the details of which are as follows:

(i) Amount of Loan - ` 1,000 crore

(ii) Date of Loan – 1st April, 2019

(iii) Terms of Payment

- Interest - No interest for the first two years of the loan tenure;
- Rate of Interest- 8% p.a. for next 3 years, 9% p.a. thereafter till the date of repayment

(iv) Interest is payable at the end of each year. (31st March)

(v) Repayment - Principal Repayment on 31st Marchl, 2027.

The Company has requested you to suggest the suitable accounting entries for all the years in the books of account along with the supporting working in compliance with applicable Ind AS.

(8 Marks)

Case Study 2

2.1 Entity A has its head office in India but operates an oil refinery in Saudi Arabia. All of the entity's income is denominated and settled in USD. The oil price is subject to the worldwide supply and demand, and crude oil is routinely traded in USD around the world. Around 40% of the entity's cash costs of imports are paid in USD. The remaining costs of 40% are paid in riyals and the balance costs are incurred in INR. What is the functional currency of Entity A?

(a) Riyal

(b) INR

(c) USD

(d) Choice between INR and USD

(2 Marks)

2.2 Management of Entity A decided to terminate 250 staff members within the next year. However, the costs of termination will arise over a longer period and are expected to be` 200 lakh, payable as ` 80 lakh in 1 years' time and ` 120 lakh in 2 years' time. The market yield for high-quality corporate bonds of both the years is 5.5%. What is the provision amount required to be done by Management?

(a) ` 2,00,00,000

(b) ` 75,82,938

(c) ` 1,07,81,429

(d) ` 1,83,64,360

(2 Marks)

2.3 A Ltd. follows Ind AS for its financial reporting. The Chief Operating Decision Maker- ("CODM") of the Company reviews all of its segment assets and liabilities based on their fair values. The recently joined finance manager of the Company has sought your advice on the preparation of the financial statements of the Company.

You are required to select the correct answer from the below-mentioned options:

(a) In the operating segment disclosures, the assets and liabilities should be disclosed at the amounts reported in the Balance Sheet. A disclosure should be given in the financial statements that the CODM reviews these amounts based on their fair values.

(b) In the operating segment disclosures, the assets and liabilities should be disclosed at the amounts reported in the Balance Sheet. Since review by CODM is an internal affair of the Company, no additional disclosure is required to be given in the financial statements.

(c) In the operating segment disclosures, the assets and liabilities should be disclosed at the fair values being reviewed by the CODM. The Company should also present a reconciliation between the amounts disclosed under the operating segment disclosures and the amounts reported in the Balance Sheet.

(d) In the operating segment disclosures, the assets and liabilities should be disclosed at the fair values being reviewed by the CODM. The Company should provide a note in the financial statements that the amounts disclosed under operating segment disclosures are at fair value, whereas the amounts reported under the Balance Sheet are measured depending on their nature and classification. A quantitative reconciliation in this regard is not required to be presented.

(2 Marks)

2.4 A Ltd. measures its land using the revaluation model under Ind AS. Because of revaluation gains, temporary differences have arisen on which deferred tax liability is required to be recognized. You are required to determine in which section of the financial statements the debit effect of deferred tax liability should be given. Select the correct answer from the below-mentioned options.

(a) Profit or loss

(b) Other comprehensive income

(c) Property, plant and equipment

(d) General reserve

(2 Marks)

2.5 A Ltd. is an entity engaged in trading of textiles. It purchased a building with the objective of earning rentals and capital appreciation. Since its parent, Cozy Ltd., required a building for its sales office, A Ltd. rented the building to Cozy Ltd. on market terms. A Ltd. classified the lease as an operating lease. Select the appropriate response from the below-mentioned options:

(a) The building should be recognised as Property, plant and equipment in the standalone Balance Sheet of A Ltd. as well as Consolidated Balance Sheet of Cozy Ltd.

(b) The building should be recognised as an investment property in the standalone Balance Sheet of A Ltd. as well as Consolidated Balance Sheet of Cozy Ltd.

(c) The building should be recognised as property, plant and equipment in the standalone Balance Sheet of A Ltd.; Cozy Ltd. should recognise the building in its Consolidated Balance Sheet as an investment property.

(d) The building should be recognised as an investment property in the standalone Balance Sheet of A Ltd.; Cozy Ltd. should recognise the building in its Consolidated Balance Sheet as Property, plant and equipment.

(2 Marks)

2.6 A Ltd. prepares the financial statement under Ind AS for the quarter year ended 30th June, 2019. During the 3 months ended 30th June, 2019 following events occurred:

On 1st April, 2019, the Company has decided to sell one of its divisions as a going concern following a recent change in its geographical focus. The proposed sale would involve the buyer acquiring the non-monetary assets (including goodwill) of the division, with the Company collecting any outstanding trade receivables relating to the division and settling any current liabilities.

On 1st April, 2019, the carrying amount of the assets of the division were as follows:

- Purchased Goodwill – ` 60,000
- Property, Plant & Equipment (average remaining estimated useful life two years) ` 20,00,000
- Inventories ` 10,00,000

From 1st April, 2019, the Company has started to actively market the division and has received number of serious enquiries. On 1st April, 2019, the directors estimated that they would receive ` 32,00,000 from the sale of the division. Since 1st April, 2019, market condition has improved and as on 1st August, 2019 the Company received and accepted a firm offer to purchase the division for ` 33,00,000.

The sale is expected to be completed on 30th September, 2019 and ` 33,00,000 can be assumed to be a reasonable estimate of the value of the division as on 30th June, 2019. During the period from 1st April to 30th June inventories of the division costing` 8,00,000 were sold for ` 12,00,000. At 30th June, 2019, the total cost of the inventories of the division was ` 9,00,000. All of these inventories have an estimated net realisable value that is in excess of their cost.

The Company has approached you to suggest how the proposed sale will be reported in the interim financial statements for the quarter ended. 30th June, 2019 giving relevant explanations.

(5 Marks)

2.7 A Limited is also engaged in the business of trading commodities. The company's main asset from this business are investments in equity shares, preference shares, bonds, non- convertible debenture (NCD) and mutual funds.

The Company collects the periodical income (i.e. interest, dividend, etc.) from the investments and regularly sells the investment in case of favouable market conditions. Such investments have been classified as non-current investments in the financial statements.

Also, the company buys and sells equity shares of companies for earning short term profits from the stock market.

The CFO of the company classified all the non-current investments as Fair Value Through Other Comprehensive Income (FVTOCI) and all the current investments as Fair value Through Profit and Loss (FVTPL).

Croton Limited raised the following queries:

(a) Can the Company classify the equity shares previously held under current investment as FVTOCI if the company decides to hold them for more than one- year (i.e. classify it as non-current)?

The Company had classified NCDs with a maturity period of less than twelve months from the reporting period as current. This has been classified as FVTPL by the CFO of the company. The Company wants to know whether these NCDs can be recognized as FVTOCI?

(4 Marks)

2.8 A Limited has to present its first financials under IFRS for the year ended March 31, 2019. The transition date is April 1, 2017.

The following adjustments were made upon transition to IFRS:

(a) The Company opted to fair value its land as on the date on transition.The fair value of the land as on April 1, 2017 was ` 9 crores. The carrying amount as on April 1, 2017 under the existing GAAP was ` 4.5 crores.

(b) The Company has recognised a provision for proposed dividend of ` 60 lacs and related dividend distribution tax of ` 18 lacs during the year ended March 31, 2017. It was written back as on opening balance sheet date.

(c) The Company fair values its investments in equity shares on the date of transition. The increase on account of fair valuation of shares is ` 175 lacs.

(d) The Company has an Equity Share Capital of ` 80 crores and Redeemable Preference Share Capital of ` 25 crores.

(e) The reserves and surplus as on April 1, 2017 before transition to IFRS was ` 95 crores representing ` 40 crores of general reserve and ` 5 crores of capital reserve acquired out of business combination and balance is surplus in the Retained Earnings.

(f) The company identified that the preference shares were in nature of financial liabilities.

What is the balance of total equity (Equity and other equity) as on April 1, 2017 after transition to IFRS. Show reconciliation between total equity as per existing GAAP and as per IFRS to be presented in the opening balance sheet as on April 1, 2017.Ignore deferred tax impact.

(6 Marks)

Case Study 3

3.1 Which of the following statements regarding the reclassification of financial instruments is CORRECT?

(a) Reclassification of financial assets and financial liabilities is required when the entity changes its business model for managing those financial assets and financial liabilities.

(b) Reclassification of financial assets is required when the entity changes its business model for managing the financial assets. Financial liabilities are not permitted to be reclassified.

(c) Reclassification of financial assets and financial liabilities is permitted when there is a change in the contractual cash flow characteristics of the financial assets and financial liabilities.

(d) Reclassification of financial assets and financial liabilities is permitted when terms of the contract are substantially modified. Determination of whether or not such modification is substantial requires exercise of significant judgement.

(2 Marks)

3.2 When a financial instrument is reclassified, the effect of such reclassification should be recognised by the entity, Select the correct answer from the below-mentioned options in respect of accounting of such reclassification:

(a) Accounting of the reclassification should be done retrospectively.

(b) Accounting of the reclassification should be done prospectively from the date on which entity decides to reclassify the instrument.

(c) Accounting of such reclassification should be done with effect from the first day of the reporting period following the reclassification.

(d) Accounting of the reclassification should be done prospectively only if it is impracticable to account for the change retrospectively.

(2 Marks)

3.3 Which of the following is the correct methodology to separate the liability and the equity component of a compound financial instrument (in the financial statements of the issuer)?

(a) Calculate the value of equity and liability components based on their respective fair values on initial recognition. Any residual amount should be recognised in profit or loss immediately.

(b) Calculate the value of equity and liability components based on their respective fair values on initial recognition. Any residual amount should be recognised directly in other comprehensive income.

(c) Calculate the fair value of the liability component on initial recognition, and allocate the residual value to the equity component.

(d) Calculate the fair value of the equity component on initial recognition, and allocate the residual value to the liability component.

(2 Marks)

3.4 E Ltd. is engaged in the business of transportation. Owing to the nature of the business, their requirements of short-term funds fluctuates significantly every month. Therefore, to effectively manage the requirements of cash, instead of obtaining a term loan, Efficient Ltd. relies mainly on bank overdrafts which are payable on demand.

Following table shows the month wise balance of their current account with the bank.

Month	**Debit / Credit balance**	**Balance (`in crore)**
October, 2019	Debit	2.0
November, 2019	Credit	4.0
December, 2019	Debit	2.0
January, 2020	Debit	1.5
February, 2020	Credit	4.5
March, 2020	Credit	3.7

For the purpose of Ind AS financial statements of E Ltd. for the year ended 31st March, 2020, its management has requested you to help them in appropriate classification of the bank over drafts. You are required to select the correct answer from the below-mentioned options:

(a) Bank overdrafts should be shown under current financial liabilities in the financial statements; Ind AS do not allow presentation of bank overdrafts as component of cash and cash equivalents in the statement of cash flows.

(b) Bank overdrafts should be shown under current financial liabilities in the financial statements; in the statement of cash flows, bank overdrafts should be presented as a component of cash and cash equivalents.

(c) Bank overdrafts must always be netted with cash and cash equivalents in the Balance Sheet; in the statement of cash flows, bank overdrafts should be presented as a component of cash and cash equivalents.

(d) Bank overdrafts must always be netted with cash and cash equivalents in the Balance Sheet; Ind AS does not allow presentation of bank overdrafts as component of cash and cash equivalents in the statement of cash flows.

(2 Marks)

3.5 E Ltd. prepares its financial statements under IFRS as well as US GAAP. For the purpose of its financial reporting for the year ended 31st March, 2020, it has following two questions for which it seeks your advice:

(i) During the year ended 31st March, 2020, E Ltd. entered into an agreement with the promoters of XYZ Ltd. to acquire 18% equity stake in XYZ Ltd. As per the agreement, E Ltd. has an option to purchase additional 5% equity stake in XYZ Ltd. from the promoters. As on 31st March 2020, the right of MR Ltd. to purchase additional 5% equity interest is exercisable. The equity shareholders are entitled to vote in the general meetings of XYZ Ltd. in proportion of the equity stake held by them.

Should the additional 5% equity interest be considered by E Ltd. in the assessment of whether it has significant influence on XYZ Ltd. as on 31st March, 2020? Select the correct answer from the below mentioned options:

(a) Under US GAAP as well as IFRS, the additional 5% equity interest should be considered in the evaluation.

(b) Under US GAAP as well as IFRS, the additional 5% equity interest should not be considered in the evaluation.

(c) Under US GAAP, the additional 5% equity interest should not be considered in the evaluation; under IFRS, the additional 5% equity interest should be considered in the evaluation.

(d) Under US GAAP, the additional 5% equity interest should be considered in the evaluation; under IFRS, the additional 5% equity interest should not be considered in the evaluation. **(2 Marks)**

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

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

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

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

Identify the type of joint arrangement as per IFRS

(5 Marks)

3.7 E Ltd management is concerned about the possibility of key employees leaving. With this in mind, E Ltd introduced a share option scheme on 1 April 2018 for all employees at manager level and above. 500 employees were eligible for the scheme. Each employee is entitled to 300 options to purchase equity shares at INR 34 per share, the fair value of each option at 1 April 2018 was INR 9.01. The options vest on 31 March 2021 if the employees continue to work for E Ltd during the three-year period. At 31 March 2019, 495 of the staff were still employed and 480 were expected to be employed at the vesting date. E Ltd's share price on 31 March 2019 was INR 35.7 and the fair value of each option was INR 9.18. By 31 March 2020, 490 of the staff were still employed and 475 were expected to be employed at the vesting date. E Ltd's share price on 31 March 2020 was INR 37.4 and the fair value of each option was INR 9.35. Calculate amount of Expenses for 2018-19 and 2019-20.

(5 Marks)

3.8 E Ltd. has certain non-convertible debentures and compulsorily convertible debentures with the following terms:

Particulars	Interest rate p.a.	Conversion/ redemption	Premium on redemption
Non-convertible debentures	15%	Debentures will be redeemed in three instalments- • INR 1,000 lacs due on 31 May 2019 • INR 1,000 lacs due on 31 May 2020 • INR 1,000 lacs due on 31 May 2021	E Ltd. will pay a premium on redemption of debentures @ 20% of its face value on 31 May 2021.
Compulsorily convertible debentures	5%	Subscriber has an option to convert CCDs into equity shares @ INR 100 each anytime starting 21 September 2012 till20 March 2022. On 20 March 2022, CCDs are to be mandatorily converted into equity shares of the company.	-

Suggest Accounting Treatment

(5 Marks)

Case Study 4

Global Ltd. is a highly reputed private company,the company's CFO has approached your advisory firm for assistance in applying Ind AS in 2019-20. The following brief details are provided toyou.

Global Ltd enters into a contract with a customer for the sale of equipment for `5 crores on 4th April, 2019. The contract includes acall option that gives the entity a right to repurchase the equipment for`5.3 crores on or before 31st March, 2020.

Global Ltd enters into a contract with another customer for the sale of an equipment for `5 crores on 4th April, 2019. The contract includes a put option that creates an obligation for the entity to repurchase the equipment at the customer's request for `4.8 crores on or before 31stMarch, 2020. The market price is expected to be Rs.4.5 crores.

Global Ltd obtains significant influence over Local Ltd by acquiring an investment of 20% at a cost of `2,00,000. At the date of the acquisition of the investment, the fair value of the associate's net identifiable assets is `9,50,000. The investment is accounted for under the equity method in the consolidated financial statements of Global Ltd.

Subsequently, Global Ltd acquires an additional investment of 15% in Local Ltd at a cost of `1,80,000, increasing its total investment in entity Y to 35%. There is no change in the status of investee, the investment is however, still an associate and accounted for using the equity method of accounting and the current fair value of the associate's net identifiable assets has increased to ` 10,00,000.
Assuming no directly attributable cost has been incurred and no profit / loss 6arose during the period since the acquisition of first 20%.

Global Ltd. acquired XYZ Ltd. on 28 February 2019. As part of the acquisition accounting, Global Ltd. recognised a provisional amount of INR 1 crore in respect of a patent developed by XYZ Ltd. However, the technology covered by the patent was new and Global Ltd. expected the cash flows to be generated by the patent to increase beyond those being generated at the time. Accordingly, Global Ltd. sought an independent valuation report from a third party consultant, which was not expected to be finalised for several months. Global Ltd. assessed the useful life of the patent to be 10 years.

Goodwill of INR 1.2 crores was recognised in the provisional accounting. The consolidated financial statements of Global Ltd. as at 31 March 2019 included appropriate disclosures about the provisional accounting. The valuation report is finalised subsequent to the issuance of the financial statements of the year 2018-19 but before the end of the measurement period. Based on the valuation, ABC Ltd. concludes that the fair value of the patent was INR 1.5 crores. Management does not revise the estimated useful life of the patent, which remains at 10 years.

Additional information:

Global Ltd had the following borrowings in place during 2018-2019. Loan A of ` 5 crores at 8% and Loan B of ` 10 crores at 9%. The company constructed a new factory

which cost `12 crores and was funded out of the existing borrowings. The factory took 9 months to complete of which 2 months there was lock down due to covid 19-.
The company purchased 1,000 equity shares in K Ltd. on 1st April, 2018. Since the investment was of a strategic nature, with no immediate plans to sell (or buy further), the management of Global decided to use the irrevocable election under Ind AS 109 to designate these investments at FVOCI.

Questions

4.1 Global Ltd., has invested in debt oriented mutual funds. The investment should be subsequently measured as:

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

4.2 What is the cost of borrowings to be capitalised with the cost of constructing the 6

(a) `66.67 lakhs.
(b) `1.04 crores.
(c) `77.99 lakhs.
(d) ` 60.66 lakhs.

4.3 For the equity investment in K Ltd., designated at FVOCI, the fair value gains and losses:

(a) Will always be recorded through equity and never realised in profit and loss, even when it is sold.
(b) Will be recorded through equity when .it is held by the company, but realised in profit and loss when it is sold.
(c) Will be recognised in profit and loss when it is held and when it is sold.
(d) Will be recorded through profit and loss when it is held by the company, but in equity when it is sold.

4.4 The junior accountant at Global Ltd. needs clarifications on the various new terminology relating to fair value. What source should he refer to first, when measuring fair value of an asset/liability?

(a) Principal market.
(b) Most advantageous market.
(c) Foreign market.
(d) Participant specific market.

4.5 Global Ltd. is in talks with a target company based in the US and the CFO has messaged you for a quick clarification on certain differences between IFRS and

US GAAP. Which of these sentences would be the correct response to your client?

(a) If certain criteria are met, US GAAP permits reversal of impairments of long lived assets held for use, whereas IFRS prohibits such reversals. IFRS requires the use of component approach for depreciation whereas US GAAP does not.

(b) If certain criteria are met, US GAAP permits reversal of impairments of long lived assets held for use, whereas IFRS prohibits such reversals. US GAAP requires the use of component approach for depreciation whereas IFRS does not.

(c) If certain criteria are met, IFRS permits reversal of impairments of long lived assets held for use, whereas US GAAP prohibits such reversals. IFRS requires the use of component approach for depreciation whereas US GAAP does not.

(d) If certain criteria are met, IFRS permits reversal of impairments of. long lived assets held for use, whereas US GAAP prohibits such reversals. US GAAP requires the use of component approach for depreciation whereas IFRS does not.

(2 x 5 = 10 Marks)

4.6 How will this transaction be sale transaction to the two customer would be treated under Ind AS 115?

(6 Marks)

4.7 How should goodwill / capital reserve be computed for Investment in Local Ltd.

(4 Marks)

4.8 How Global Ltd. is required to restate the comparative information for the year 2018-19 for Acqn. of XYZ ltd presented in the financial statements of the year 2019-20?

(5 Marks)

Case Study 5

A factory owned by ECL Limited was destroyed by fire. ECL Limited lodged an insurance claim for the value of the factory building, plant, and an amount equal to one year's net profit. During the year there were a number of meetings with the representatives of the insurance company.

5.1 Finally, before year-end, it was decided that ECL Limited would receive compensation for 90% of its claim. ECL Limited received a letter that the settlement cheque for that amount had been sent, but it was not received before year-end.

How should ECL Limited treat this in its financial statements?

(a) Record 90% of the claim as a receivable as it is virtually certain that the contingent asset will be received.

(b) Do not make any adjustments in the financials and only disclose the contingent asset in the notes on accounts.

(c) Wait until next year when the settlement cheque is actually received and not recognize or disclose this receivable at all since at year-end it is a contingent asset.

(d) Record 100% of the claim as a receivable at year-end as it is virtually certain that the contingent asset will be received, and adjust the 10% next year when the settlement check is actually received.

(2 Marks)

ECL Limited is preparing financials for the year ended March 31, 2020. The Company had some queries in preparation of certain data that is required to be presented in the financials. As the retainer of the Company, please advise the company for the following issues:

5.2 ECL ltd has issued 10,00,000 numbers of 9% cumulative preference shares. The Company has arrears of ` 15 crores of preference dividend as on March 31, 2020, it includes current year arrears of ` 1.75 crores. The Company did not declare anyWhat is the amount of dividend to be reduced from profit or loss for the year for calculating basic Earnings Per Share?

(a) ` 15 crores

(b) ` 1.75 crores

(c) ` 13.25 crores

(d) Noting, as no dividend has been declared by the entity.

(2 Marks)

ECL Limited are engaged also in the business of developing Malls and leasing out them to its customers. The Company has an ongoing project in Kerala. It had borrowed ` 75 crores from a Bank to meet the project expenses.

5.3 The construction of the qualifying assets was suspended for a period of 10 days on completion of each floor for the concrete to settle. Further there was a delay of two months due to extreme floods in Kerala during which the active development of the project was interrupted.

There was a further delay of 15 days in completion due to rectification of the faulty electric wirings which was discovered during final inspection.

As the consultant, advise the Company on, when the capitalisation of borrowing cost should be suspended?

(a) When there is a temporary delay for allowing the concrete to settle, which is a necessary part of the getting the asset ready for its intended use or sale.

(b) During the extended period for rectifying faulty wires, in which active development is interrupted but substantial technical and administrative work is being carried out.

(c) When all the activities necessary to prepare the Mall for its intended lease to customers are complete.

(d) During the extended period in which active development is interrupted due to floods and substantial technical and administrative work is not being carried out. **(2 Marks)**

5.4 ECL Limited is engaged in the manufacturing and sale of electrical goods. It sells it goods on a warranty of 3 years. Normally 5% of customers claim on their warranty. The provision in the first quarter was calculated as 5% of sales to date, which was `100 lacs. However, in the second quarter, a design fault was found and warranty claims were expected to be 10% for the whole of the year. Sales upto to the second quarter was ` 350 lacs. What would be the provision charged in the second quarter's interim financial statements?

(a) ` 30 lacs (b) ` 35 lacs

(c) ` 25 lacs (d) ` 20 lacs

(2 Marks)

ECL Limited purchased a trademark during the year ended March 31,2020 .

ECL Limited had incurred the following cost in connection with the trade mark:

S. No.	Particulars	Amount (`)
1.	One-time trademark purchase price	8,95,000

2.	Non-refundable taxes	38,000
3.	Training sales personnel on the use of the new trademark	45,000
4.	Research expenditures associated with the purchase of the new trademark	58,000
5.	Legal costs incurred to register the trademark	22,000
6.	Salaries of the administrative personnel	1,05,000

5.5 What is the value of trademark to be recognised in the books of Indian Investments Limited in accordance with IFRS?

(a) ` 11,18,000 (b) ` 10,73,000

(c) ` 9,55,000 (d) ` 9,10,000

(2 Marks)

5.6 ECL Limited issued 9% cumulative preference shares of ` 10 each on September 15, 2020 which are redeemable after 10 years.

You are appointed as the IFRS consultant of ECL Limited. Evaluate whether the preference shares are in nature of financial liability or equity instrument. Also, state the treatment of dividend paid to the preference shareholders under IFRS.

(4 Marks)

5.7 ECL Limited holds 25% interest in B Limited which is accounted for as investment in associate as per the equity method in the consolidated financial statements of A Limited. During the financial year ended March 2020, ECL Limited sold its 15% interest in B Limited to a third party X Limited for ` 80,000 and continues to hold 10% interest in B Limited as its financial asset. Carrying value of 25% investment in consolidated financial statements on the date of sale is ` 120,000 and fair value of retained interest is `65,000. Cumulative share of associate's other comprehensive income `20,000 represents exchange difference relating to a foreign operation.

How should this sale transaction and financial asset be accounted for in the financial statements of ECL Limited?

(5 Marks)

5.8 ECL Limited had agreed to build a Ship for a customer. The consideration to build the jet includes a fixed price of ` 15 crores plus a completion bonus of ` 50 lacs if completed within two months prior to May 30, 2022 (agreed date of completion as per the contract with customer). The contract also includes a performance bonus of` 0 to 50 lakhs depending on the number of Trips of the Ship during its first year of operation by the customer.

How will the transaction price of the contract be determined ?

(6 Marks)