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SUGGESTEDANSWERS

CA FINAL

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Answers

Case Study 1

1.1 (b)

1.2 (a)

1.3 (d)

1.4 (b)

1.5 (a)

1.6

As per Ind AS 109 'Financial Instruments', for trade receivables or any contractual right to receive cash or another financial asset that result from transactions that are within the scope of revenue standard, are always measured at an amount equal to lifetime expected credit losses.

The trade receivables from the large number of small customers amount to` 6 crore and are measured using the provision matrix.

	Outstanding Trade Receivables (`in crore)	**Default rate**	**Lifetime expected creditloss allowance (`in crore)**
	(a)	**(b)**	**(a x b) = (c)**
Current	3	0.3%	0.009
1–30 days past due	1.5	1.6%	0.024
31–60 days past due	0.78	3.6%	0.02808
61–90 days past due	0.48	6.6%	0.03168
More than 90 days past due	0.24	10.6%	0.02544
	6		**0.1182**

1.7

As per para 13 of Ind AS 103 'Business Combination', the acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquire had not previously recognised as assets and liabilities in its financial statements. This may be the case when the asset is developed by the entity internally and charged the related costs to expense.

Based on the above, the company can recognise following Intangible assets while determining Goodwill / Bargain Purchase for the transaction:

(i) Patent owned by ABR Ltd.: The patent owned will be recognised at fair value by Eng Ltd. even though it was not recognised by ABR Ltd. in its financial statements. The patent will be amortised over the remaining useful life of the asset i.e. 8 years. Since the company is awaiting the outcome of the trials, the value of the patent cannot be estimated at ` 15 crore.

(ii) Grant of Licence to ABR Ltd. by the Government: As regards to the five- year license, para 44 of Ind AS 38 'Intangible Assets' requires to recognize grant asset at fair value. Eng Ltd. can recognize both the asset (license) and the grant at ` 10 crore to be amortised over 5 years.

Hence the revised working would be as follows:

Fair value of net assets of ABR Ltd.	` 15 crore
Add: Patent (10 + 20)	` 30 crore
Add: License	` 10 crore
Less: Grant for License	(` 10 crore)
	` 45 crore
Purchase Consideration	` 35 crore
Gain on Bargain purchase	**`10 crore**

1.8

The loan will be treated as Financial Liability at ammortised Cost.

The Effective Interest rate is 6 % approx.

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Initial Entry on 1/4/2019

Bank A/c Dr. 1,000

To Loan From SBI A/c 1000

Particulars	31/3/20	31/3/21	31/3/22	31/3/23	31/3/24	31/3/25	31/3/26	31/3/27
A) Interest Exps A/c Dr.	60	63.6	67.42	66.66	65.86	65.01	63.51	57.94
To Loan From SBI A/c	60	63.6	67.42	66.66	65.86	65.01	63.51	57.94
B) Loan From SBI A/c Dr.			80	80	80	90	90	1090
To Bank A/c			80	80	80	90	90	1090
Balance in Balance Sheet (Ammortised Cost)	1060	1123.6	1111.02	1097.68	1083.54	1058.55	1032.06	NIL

Rounded Off in Last year as Effective Interest rate is Approx. 6%

Case Study 2

2.1 (c)

2.2 (d)

2.3 (c)

2.4 (b)

2.5 (d)

2.6

The decision to offer the division for sale on 1st April, 2019 means that from that date the division is classified as held for sale. The division is available for immediate sale, is being actively marketed at a reasonable price and the sale is expected to be completed within one year.

The consequence of this classification is that the assets of the division will be measured at the lower of their existing carrying amounts and their fair value less cost to sell. Here the division shall be measured at their existing carrying amount ie` 30,60,000 since it is less that the fair value less cost to sell ` 32,00,000.

The increase in expected selling price will not be accounted for since earlier there was no impairment to division held for sale.

The assets of the division need to be presented separately from other assets in the balance sheet. Their major classes should be separately disclosed either on the face of the balance sheet or in the notes.

The Property, Plant and Equipment shall not be depreciated after 1st April, 2019 so its carrying value at 30th June, 2019 will be ` 20,00,000 only. The inventories of the division will be shown at ` 9,00,000.

The division will be regarded as discontinued operation for the quarter ended 30th June, 2018. It represents a separate line of business and is held for sale at the year end.

The Statement of Profit and Loss should disclose, as a single amount, the post-tax profit or loss of the division on classification as held for sale.

Further, as per Ind AS 33, EPS will also be disclosed separately for the discontinued operation.

2.7

(a) It seems that the equity shares are acquired for the purpose of selling it in the near term and therefore are held for trading. Such investments have been appropriately classified as subsequently measured at fair value through profit or loss. Such investments in equity shares cannot be classified as subsequently measured at fair value through other comprehensive income. The option to measure investment in equity shares at fair value through other comprehensive income has to be made at initial recognition. Therefore, equity shares that were held for trading previously cannot be reclassified to fair value through other comprehensive income due to change in business model to not held for trading.

(b) In absence of contractual terms of NCDs, it is assumed that the contractual terms give rise on specified dates to cash flows that are solely payment of principal and interest on the principal outstanding. The business model also includes sales of these instruments on a regular basis. Hence, these instruments will be classified

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as FVTOCI. Therefore, such NCD investments shall be classified as subsequently measured at Fair Value through Other Comprehensive Income. The classification does not change based on whether the investment is current or non-current as the end of the reporting period.

2.8

Computation of balance total equity as on April 1, 2017 after transition to IFRS

			`in crore
Share capital- Equity share Capital			80
Other Equity			
General Reserve		40	
Capital Reserve		5	
Retained Earnings (95-5-40)	50		
Add: Increase in value of land (9-4.5)	4.5		
Add: De recognition of proposed dividend (0.6 + 0.18)	0.78		
Add: Increase in value of Investment	1.75	57.03	102.03
Balance total equity as on April 1, 2017 after transition to IFRS			182.03

Reconciliation between Total Equity as per existing GAAP and IFRS to be presented in the opening balance sheet as on 1st April, 2017

		` in crore
Equity share capital (80+25)		80
Redeemable Preference share capital		25
		105
Reserves and Surplus		95
Total Equity as per existing GAAP		200
Adjustment due to reclassification		
Preference share capital classified as financial liability		(25)
Adjustment due to derecognition		
Proposed Dividend not considered as liability as on 1st April 2017		0.78
Adjustment due to re-measurement		

Increase in the value of Land due to re-measurement at fair value	4.5	
Increase in the value of investment due tore-measurement at fair value	1.75	6.25
Equity as on April 1, 2017 after transition to IFRS		**182.03**

Case Study 3

3.1 (b)

3.2 (c)

3.3 (c)

3.4 (b)

3.5 (c)

3.6

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

An entity applies judgement when assessing whether a joint arrangement is a joint operation or a joint venture. An entity shall determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

As per para B16 of the standard, a joint arrangement that is not structured through a separate vehicle is a joint operation. In such cases, the contractual arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses.

In the present case, the arrangement among Supreme Developers Limited, Southern Constructions Limited and Concrete India Limited is not structured through a separate

vehicle. All the three entities have joint control over the arrangement of land, supply of material and labour for the purpose of construction activity ie development project of luxurious holiday villas. They will be sharing profit from sale of villas and common costs and also incur their own separate costs. Accordingly, the arrangement is a joint operation.

3.7

The share option scheme is an equity settled transaction, E Ltd is receiving services from the staff in return for the granting of the share options. They must therefore measure the fair value of the share options at the grant date and charge the expected cost through the statement of profit or loss.

The relevant calculations and adjustments to the financial statements are shown below:

Year-end	Number options	Expected number of employees	FV	Expected cost	Cumulative charge	Recognition to date	Annual charge
31.3.2019	300	480	9.01	1,297,440	432,480	0	432,480
31.3.2020	300	475	9.01	1,283,925	855,950	432,480	423,470

3.8

Non-convertible debentures (NCDs)- In case of NCDs, the issuer has a contractual obligation to pay interest at the specified percentage of the face value of NCDs and redeem the principal at par/ premium upon maturity. When an instrument requires mandatory redemption by the issuer for a fixed or determinable amount, a contractual obligation to pay cash at redemption exists and, therefore, the instrument should be presented as a financial liability. Accordingly, NCDs issued by E Ltd. should be considered as financial liability in its book because such NCDs have a contractual obligation to pay interest to the investor at a specified percentage (15%) and redeem the principal at premium (20%).

Compulsorily convertible debentures (CCDs)- From an issuer's perspective, an instrument that is convertible into a fixed number of equity shares compulsorily comprises of two components. The first is a financial liability (issuer's contractual obligation to deliver cash or another financial asset for payment of interest). The second is an equity instrument, to convert it into a fixed number of the entity's ordinary shares. E Ltd. has issued CCDs to public which are mandatorily convertible into equity

shares of the Company. Further, the Company is liable to pay 5% p.a. interest on face value of the CCDs issued. For CCDs, E Ltd.'s obligation to make scheduled payments of interest is a financial liability that exists as long as the instrument is not converted. On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option. Further, the equity instrument is an embedded option to convert the liability into equity of the issuer. This option has value on initial recognition even when it is out of the money. E Ltd. on conversion of CCDs at maturity, should derecognise the liability component and recognise it as equity. The original equity component remains as equity (although it may be transferred from one line item within equity to another). There is no gain or loss on conversion at maturity. Thus,E Ltd. should separately recognise the liability and equity component in the CCDs issued to public.

Case Study 4

4.1 (b)

4.2 (d)

4.3 (a)

4.4 (a)

4.5 (c)

4.6 Ind AS 115, inter alia states that, "if an entity has anobligation or a right (a forward or a call option), to repurchase theasset, the customer does not obtain control of the asset because thecustomer is limited in its ability to direct the use of, and obtainsubstantially all of the remaining benefits from, the asset even thoughthe customer may have physical possession of the asset.

Consequently, the entity shall account for the contract as either of the following:

(i) a lease in accordance with Ind AS 116, Leases, if the entity canor must repurchase the asset for an amount that is less than theoriginal selling price of the asset, unless the contract is part of asale and leaseback transaction; or

(ii) a financing arrangement in accordance with paragraph B68 ifthe entity can or must repurchase the asset for an amount thatis equal to or more than the original selling price of the asset".

Accordingly,if the repurchase price of theasset is greater than the original selling price of the asset, itconstitutes a financing arrangement.

Thus, the entity should continue to recognise the asset and also recognise a financial liability for any consideration received from thecustomer. The difference between the amount received from thecustomer and the amount of consideration to be paid to the customer(i.e., `30,00,000 in this case) shall be treated as interest expense.

Ind AS 115 states that, "If an entity has an obligationto repurchase the asset at the customer's request (a put option) at aprice that is lower than the original selling price of the asset, the entity shall consider at contract inception whether the customer has asignificant economic incentive to exercise that right. The customer's exercising of that right results in the customer effectively paying theentity consideration for the right to use a specified asset for a period oftime. Therefore, if the customer has a significant economic incentive toexercise that right, the entity shall account for the agreement as alease in accordance with Ind AS 116, unless the contract is part of asale and leaseback transaction."

In accordance at the inception of the contract, the entity assesses whether the customer has a significant economic incentive to exercise the put option, to determine theaccounting for the transfer of the asset. In the given case, as the repurchase price is significantly greater than the expected market value, the entity concludes that the customer has a significanteconomic incentive to exercise its right, i.e., the put option. The entity determines there are no other relevant factors to consider whenassessing whether the customer has a significant economic incentiveto exercise the put option. Consequently, the entity concludes that control of the asset does not transfer to the customer, because thecustomer is limited in its ability to direct the use of, and obtainsubstantially all of the remaining benefits from, the asset.

Accordingly, the entity accounts for the transaction as a lease in accordance with Ind AS 116, Leases.

4.7 In this case, the carrying amount of the investment immediately prior to theadditional investment is `2,00,000.

Upon acquisition of additional 15% the equity-accounted amount for theassociate increases by `1,80,000. The notional goodwill applicable to thesecond tranche of the acquisition is ` 30,000 [` 1,80,000 – (15% × `10,00,000)].

The impact of the additional investment on Entity A's equity-accountedamount for Entity B is summarised as follows:

Particulars	% held	Carrying amount	Share of net assets	Goodwill included in investment
Existinginvestment	20%	2,00,000	1,90,000	10,000
Additionalinvestment	15%	1,80,000	1,50,000	30,000
Total investment	**35%**	**380,000**	**340,000**	**40,000**

4.8 Ind AS 103 provides that if the initial accounting for abusiness combination is incomplete by the end of the reporting period inwhich the combination occurs, the acquirer should report in its financialstatements provisional amounts for the items for which the accounting isincomplete. During the measurement period, the acquirer shouldretrospectively adjust the provisional amounts recognised at the acquisitiondate to reflect new information obtained about facts and circumstances thatexisted as of the acquisition date and, if known, would have affected themeasurement of the amounts recognised as of that date.

In accordance with above, the acquirer should revise comparativeinformation for prior periods presented in financial statements as required,including making any change in depreciation, amortisation or other incomeeffects recognised in completing the initial accounting.

Based on above, the comparative information presented in the financialstatements for the year 2019-20 needs to be restated for the measurementperiod adjustment as follows:

	31 March 2019	
	As stated originally	**Revised**
Profit or loss (patent amortisation)	83,333(1)	125,000 (2)
Goodwill	1,20,00,000	70,00,000 (3)
Patent	99,16,667 (4)	1,48,75,000 (5)

Notes:

1. 1,00,00,000 x 1 /10 x 1 / 12
2. 1,50,00,000 x 1 / 10 x 1 / 12
3. 1,20,00,000 – 50,00,000
4. 1,00,00,000 – 83,333
5. 1,50,00,000 – 125,000

Case Study 5

5.1 (a)

5.2 (b)

5.3 (d)

5.4 (a)

5.5 (c)

5.6 In determining whether a preference share is a financial liability or an equity instrument, an issuer assesses the particular rights attached to the share to determine whether it exhibits the fundamental characteristic of a financial liability or an equity instrument.

(A) Redeemable preference shares at a specified date:

This contains a financial liability because the issuer has an obligation to transfer financial assets to the holder of the share. The potential inability of an issuer to satisfy an obligation to redeem a preference share when contractually required to do so, whether because of a lack of funds, a statutory restriction or insufficient profits or reserves, does not negate the obligation. Hence, classified as 'financial liability'.

(B) Distributions on preference shares

Another important point for consideration is whether the company has an obligation to make payments of dividend ie, whether dividend on such preference shares are cumulative or non-cumulative.

Where dividends are cumulative, one needs to assess the key terms of the instrument to check if the entity has a contractual obligation. In cases where the preference shares entitled to dividend which is payable such that entity does not have an unconditional right to defer payment, then this provides the shareholders with a lender's return on the amount invested. This obligation is also not negated if the entity is unable to pay such dividend for lack of funds or insufficient distributable profits. Therefore, the obligation to pay dividend meets the definition of financial liability.

Conclusion: In the given case, 9% Cumulative Preference shares redeemable after10 years provides for mandatory fixed dividend payments and redemption of preference shares by Power India Ltd. for a fixed amount at a fixed future date. Since there is a contractual obligation to deliver cash (for both dividends and

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repayment ofprincipal) to the preference shareholder that cannot be avoided, the instrument is a financial liability in its entirety.

Treatment of dividend paid to preference shareholders under IFRS

The classification of a financial instrument as a financial liability or an equity instrument determines whether interest, dividends, losses and gains relating to that instrument are recognised as income or expense in profit or loss. Interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability shall be recognised as income or expense in profit or loss.

Since the preference shares are classified as financial liability, the dividend thereon will be considered in the nature of interest and accordingly be charged to Profit and Loss as part of finance cost.

5.7 Accordingly, in the given case, the equity method earlier followed by the entity needs to be discontinued from the date of transfer of 15% interest in B Limited (that is, the date on which B Limited ceases to be an associate of ECL Limited) and the retained interest will be accounted for as a financial asset. The retained financial interest will be classified and measured as per the principals of Ind AS 109. At inception (date of transfer of 15% interest in B Limited), the retained interest will be measured at fair value, i.e. ` 65,000

Any difference in fair value of any retained interest plus proceeds fromdisposal of 15% interest and the carrying amount of the investment at thedate the equity method was discontinued will be recognised in profit and lossi.e. `25,000 (`65,000 + ` 80,000 - `120,000).

Furthermore, the entire share of associate's other comprehensive income of`20,000 representing exchange difference relating to a foreign operationwill be reclassified to profit or loss.

The accounting entry shall be as follows:

(i) Derecognition of investment in associate and recognition of retained interest at fair value (`)

Particulars		Dr / Cr Amount
Investment in financial asset (10% stake) Dr.		65,000
Cash on sale of investment Dr.		80,000
To Investment in associate (carrying value) Cr.	120,000	

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To Profit and loss Cr. 25,000

(ii) Reclassifying from other comprehensive income to the statementof profit and loss

Particulars	**Dr / Cr Amount**
OCI (Equity) Dr.	20,000
To Profit and loss (reclassified as part of gain on partial disposal) Cr.	20,000

5.8 An entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.

Estimating variable consideration

An entity is required to estimate variable consideration using either the ’expected value’ or the ’most likely amount’ method, as described in the standard: An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled:

(a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of contracts with similar characteristics.

(b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (ie the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not).

An entity is required to choose between the expected value method and the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled. That is, the method

selected is not meant to be a 'free choice'. Rather, an entity selects the method that is best suited, based on the specific facts and circumstances of the contract.

Conclusion: In the given case, the contract includes both a fixed and a variable price as consideration. Hence the transaction price is equal to fixed consideration plus variable consideration.

The fixed consideration agreed is ` 15 crore.

The completion bonus of ` 50 lacs and performance bonus of ` Nil to 50 lacs would beconsidered as variable elements present in the contract while determining the transaction price.

The entity prepares a separate estimate for each element of variable consideration to which the entity will be entitled using the estimation methods described in IFRS 15 as below:

(a) The entity should use the most likely amount to estimate the variable consideration associated with the completion bonus. This is because there are only two possible outcomes (` 50 lacs or nothing) and it is the method that the entity would expect to better predict the amount of consideration to which it will be entitled. The company can estimate the time of completion of constructing the jet.

(b) The entity should use the expected value method to estimate the variable consideration associated with the broad range of performance bonus (ie based on number of flights taken up during the first year of operation). This is because it is the method that the entity would expect to better predict the amount of consideration to which it will be entitled.

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