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.

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 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)

To qualify as cash equivalents, an item must be readily convertible into cash having an insignificant risk of a change in value. Furthermore, it should be held for the purpose of meeting short-term cash commitments.

Bank overdraft is generally an integral part of company's cash management. Thus, it should be considered as component of cash.

The balance of INR 5,00,000 in a high-interest account is readily available since only 28 days' notice is required to access it. Also, the money is held for short-term purposes (i.e., working capital needs).

Shares are not cash equivalents since they possess significant risk of change in value.

Note: Alternative answers may be possible

This is a defined contribution plan. The charge to statement of profit or loss should be INR 1,35,000 (i.e., INR 27,00,000) x 5%. Thus, there will be accrual of INR 15,000 (i.e., INR 1,35,000 – INR 1,20,000).

4.2 (a)

4.3 (b)

A Ltd. does not control the arrangement because it needs the agreement of R Ltd. when making decisions. This would imply that A Ltd. and R Ltd. have joint control of the arrangement because decisions about the activities of T Ltd. cannot be made without A Ltd. and R Ltd. agreeing. In the consolidated financial statements of A Ltd., T Ltd. should be accounted for as a joint venture.

4.4 (b)

Particulars	Outstanding liability	Interest
5 years bank loan	INR 60 lacs	INR 8 lacs
20 years bank loan	INR 100 lacs	INR 6 lacs
Bank overdraft	INR 40 lacs	INR 5 lacs

Capitalisation rate = (8 + 6 + 5)/ (60 + 100 + 40) = 9.50%

4.5 (b)

4.6

1. Yes, however, investment in subsidiary is generally not covered under IFRS 9.
2. No, there is no contractual right to receive cash/other financial assets.
3. Yes, instrument contains contractual right to receive interest at stated rate.
4. No, there is no contractual right to receive cash/ other financial assets.
5. No, not arising because of contractual arrangement.
6. No, not arising because of contractual arrangement.
7. Yes, the lessee has contractual right to receive lease deposit at the end of lease term.
8. No, own equity instruments are not financial asset for the entity.
9. Yes, financial instruments include not only primary financial instruments but also derivatives instruments. Since the entity is option buyer, it is potentially favourable to the entity.
10. No, it's a commodity. Although gold bullion is highly liquid, there is no contractual right to receive cash or another financial asset.

4.7

(a) Computation of goodwill on consolidation

i. When NCI is measured at NCI's proportionate share of the acquiree'sidentifiable net assets

	₹ in crore
Cost of investment	150
Add: Non-controlling interest (50 crore x 40%)	20
	170
Less: Net aggregate value of identifiable assets	(50)
Goodwill	**120**

ii. When NCI is measured at fair value

	₹ in crore
Cost of investment	150
Add: Non-controlling interest (as given in the question which is same as the fair value on a pre-share basis of the purchasedinterest)	100
	250
Less: Net aggregate value of identifiableassets	(50)
Goodwill	**200**

4.8

The option to acquire shares in KS Ltd. would be regarded as a derivative financial instrument. This is because the value of the option depends on the value of an underlying variable (KS Ltd.'s share price). As per of Ind AS 109 'Financial Instruments', all derivatives are measured at fair value. On 1 April 2019, when M Ltd purchased 10 lakh options to acquire shares in KS Ltd. at ₹ 0.25 per option, M Ltd will recognise Option Asset for ₹ 2.5lac by passing the following journal entry:

Option on KS Ltd. shares	Dr.	₹ 2.5 lac	
To Bank			₹ 2.5 lac

M Ltd shall measure the option at fair value at the end of every reporting period and also before exercise. The increase in share price on exercise date represents fair value of the option as the time value is zero on exercise date. Therefore, M ltd will measure the option at₹ 6 lac (10 lac option x (2.6 – 2)) and recognize fair value gain of ₹ 3.5 lac in profit or loss.

The following journal entry will be passed:

Option on KS Ltd. shares	Dr.	₹ 3.5 lac	
To Fair value gain			₹ 3.5 lac

On exercise of the option on 31st December, 2019, QA will pay ₹20 lac for 10 lac shares of KS Ltd and the option derivative will be converted to shares of KS Ltd. Therefore, M will pass the following entry:

Investment in KS Ltd. equity shares	Dr.	₹ 26 lac	
To Bank			₹ 20 lac
To Option on KS Ltd. shares			₹ 6 lac

Ind AS 109 Financial Instruments requires that the transaction costs shall be added to fair value if the financial asset is measured at other than fair value through profit or loss.

In the given case, ₹ 1 lac incurred by M Ltd for acquiring equity shares of KS Ltd. will not be added to the fair value of the equity shares of KS Ltd. This is because equity shares of KS Ltd. are classified at fair value through profit or loss in accordance with paragraph

Ind AS 109 Financial Instruments. Therefore, M Ltd shall recognise₹ 1 lac incurred on acquisition of equity shares of KS Ltd. in profit or loss as on 31st March, 2020.

The investment is included in the statement of financial position at 31st March, 2020 as a current asset at its fair value of ₹ 29 lac. The increase in fair value of ₹3 lac is taken to the profit and loss.

Case Study 5

5.1 (a), (d), (g)

5.2 (d)

Reasoning:

Refer para 26 of Ind AS 101 which states that if an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraph 24(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.

5.3 (a), (b), (c)

Reasoning:

Any return on financial liabilities is shown as charge to Statement of Profit and Loss. As per para 35 of Ind AS 32, 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. Distributions to holders of an equity instrument shall be recognised by the entity directly in equity. Transaction costs of an equity transaction shall be accounted for as a deduction from equity.

5.4 (d)

Reasoning:

As per para 10 of Ind AS 27, when an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:

(a) at cost, or

(b) in accordance with Ind AS 109.

5.5 (d)

Pursuant to the provisions of IFRS 5, Non-current Assets Held for Sale and Discontinued Operations the business would be regarded as held for sale from 1 June 2019. The held for sale criteria apply because the business is being actively marketed at a reasonable price and the sale is expected to be completed within one year of the date of classification. Given this classification, IFRS 5 requires that the assets be separately classified under current assets in the statement of financial position. No further depreciation would be charged on these assets.

The assets will be measured at the lower of their current carrying amounts at the date of classification and their fair value less costs to sell. In this case, the total carrying amount after re-measurement will be R 46 million (R 46.5 million – R 0.5 million).

The impairment lossof R 17 million (R 63 million – R 46 million) will first be allocated to goodwill taking its carrying amount to nil.

None of the remaining impairment loss will be allocated to inventories or trade receivables since their recoverable amounts are at least equal to their existing carrying amounts.

The remaining impairment loss of R 7 million (R 17 million– R 10 million) will be allocated to the property, plant and equipment and the patents on a pro-rata basis.

The closing carrying amounts of the property, plant and equipment and the patents will be R 15 million and R 6 million respectively.

5.6

The company has a policy of assigning a loan when the interest rates fall below 7%. Therefore, the objective of the business model of the company is to maintain a particular interest yieldprofile.

Paragraph B4.1.4A of Ind AS 109 states that an entity may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flowsand selling financial assets.In this type of business model, the entity's key management personnel have made a decision that both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model.

Further, as per Paragraph B4.1.2A of Ind AS 109, a financial asset shall be measured at fair value through other comprehensive income if both of the following conditions aremet:

a. The financial asset is held within a business model whose objective is achieved by bothcollectingcontractualcashflowsandsellingfinancialassets;and
b. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

It is assumed that the cash flows of the loan give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Therefore, the loans will be measured at fair value through other comprehensive income. Accordingly, these loans will be carried at ₹12 crores in Balance Sheet as at 31st December 2019.

Where a financial asset is measured at fair value through other comprehensive income, the interest income which is included in profit or loss is same amount as would be recorded where the asset is measured at amortised cost. Therefore, the interest income on such loan @ 8% will be recorded in the statement of profit and loss.

The increase in the fair value of ₹ 2 crore will be recorded in other comprehensive income.

5.7

	₹ In million
Investment held before acquiring control at fair value (46 million shares @ ₹160 share)	7360.00
Non-controlling interest (44/90) x [Assets ₹ 14000 mullion + Cash & Cash Equivalents 2200 million - Liabilities 2000 million]	5964.44
	13324.44
Fair Value of Net Identifiable Assets (Assets ₹ 14000 million + Cash & Cash Equivalents ₹ 200 million – Liabilities 2000 million)	12200.00
Goodwill	**1124.44**

5.8

Accounting treatment in the books of U Ltd

U Ltd will recognize sales of ₹ 996 lacs (12 lacs Euro X 83) Profit on sale of inventory = 996 lacs – 830 lacs = ₹ 166 lacs.

Accounting treatment in the books of G Ltd

G Ltd will recognize inventory on 1st February, 2020 of Euro 12 lacs which will also be its closing stock at year end.

Accounting treatment in the consolidated financial statements

Receivable and payable in respect of above mentioned sale / purchase between U Ltd and G Ltd will get eliminated.

The closing stock of G Ltd will be translated at year end resulting in amount of closing stock of ₹ 1,020 lacs (12 lacs Euro X 85).

The restated amount of closing stock includes three components–

- Restated amount of cost of inventory for ₹ 850 lacs
- Profit element of ₹ 166 lacs; and
- Translated amount of profit element of ₹ 4 lacs.

At the time of consolidation, the two elements amounting to ₹ 170 lacs will be eliminated from the closing stock.