CA FINAL
Test Code – JK-GFR-21
(Date:06-09-2020)

(Marks - 100)

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

Case Study 1

Rainbow Limited is a large manufacturing company that has already adopted Ind AS. during the financial year 2017-18. The company is in the process of preparing its financial statements as per Ind AS for the financial year 2019-20. Some new developments have taken place during the year and the company is keen that the appropriate accounting treatment and disclosures under Ind AS are determined and highlighted to the Board of Directors. Rainbow Limited's CFO has sought your assistance and shared the following details with you.

Rainbow Limited is an Indian entity whose functional currency is INR. It has taken a plant on lease from Entity Y for 5 years to use in its manufacturing process for which it has to pay annual rentals in arrears of USD 10,000 every year.
On the commencement date, exchange rate was USD = INR 68. The average rate for Year 1 was 69 and at the end of year 1, (31/03/2020) the exchange rate was 70. The incremental borrowing rate of Entity X on commencement of the lease for a USD borrowing was 5% p.a.

Four years ago, Rainbow Limited had acquired a commercial property for ₹40 crores and immediately leased out the same to Turquoise Limited on an operating lease basis. The annual rental as per the agreement was determined to be ₹4 crores. As per the terms of the lease agreement, the lessee can cancel the lease by giving three months' notice in writing to the company. Turquoise Limited gave a notice on 1st October 2019 to vacate the property from 1st January, 2020. The fair value of such property was ₹ 58 crores as on 1st January, 2020.
On receiving such notice, Rainbow Limited has started the process of bifurcating the property into 10 identical units of equal size and sell it in the ordinary course of business. The company has incurred ₹12 crores as the expenses towards such conversion upto 31st March, 2020. The bifurcation process is still in progress as at

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that date and the company estimates that they need to spend a further of ₹ 8 crores to complete the project, after which each of these units could fetch ₹ 10 crores.
Rainbow Ltd. has a wholly owned subsidiary Canyons Ltd. Rainbow Ltd. has approached Canyons Ltd for assistance and seeing the long term potential, the Subsidiary company has funded ₹ 20 lakhs to Rainbow Ltd. as interest-free loan. The loan shall either be repayable on demand or after a fixed term which will be mutually agreed upon by the parent and the subsidiary. The market rate of interest for similar loan is 12% p.a.

On 1st April, 2018, the company issued a convertible bond that matures in five years. The bond can be converted into ordinary shares at any time. Rainbow Limited has calculated that the liability and equity components of the bond are₹ 80 lakhs for the liability component and ₹20 lakhs for the equity component, giving a total amount of the bond of ₹ 1 crore. The interest rate on the bond is 8% and local tax legislation allows a tax deduction for the interest paid in cash. The local tax rate is 30%.

In order to fund an upcoming project, Rainbow Limited borrowed ₹ 5 crores from a scheduled bank during 2019-20. The loan carries market interest rate and is repayable in 3 years. Given that the company invested a significant amount of time preparing the loan documentation and obtaining necessary approvals, Rainbow Limited has requested the bank to include an extension option. Accordingly, if the company so requires, it will have the option to extend the period of the loan at market rates prevailing at that date.

On 1st January, 2020, Rainbow Limited acquired a 60% stake in Shadow Limited. The cash consideration payable was ₹ 3 crore to be paid immediately, and ₹1.21 crores after two years. The fair value of net assets of Shadow Limited at acquisition date was₹ 5 crores. Rainbow Limited has calculated that its cost of capital is 10%. Non-controlling interest is measured at the proportionate share of identifiable net assets.

Rainbow Limited had purchased equipment P on 1st April, 2018 for ₹ 1 lakh and this had an estimated useful life of 10 years, with a residual value of zero. The asset is depreciated on a straight line basis. On 31st March, 2020, Rainbow Limited has revalued equipment P to
₹ 1.04 lakhs.

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Questions

1.1 Calculate the deferred tax liability arising on the convertible bond as at the 2 year ending 31st March, 20.

(a) ₹ 30,00,000.
(b) ₹ 2,40,000.
(c) ₹ 6,00,000.
(d) ₹ 24,00,000.

1.2 Calculate the amount of goodwill/capital reserve arising upon acquisition of Shadow Limited.

(a) ₹ 1 crore .goodwill
(b) ₹ 80 lakhs of capital reserve.
(c) ₹ 20 lakhs goodwill.
(d) ₹ 41 lakhs of goodwill.

1.3 The three year term loan obtained from the bank contains an option to extend the period of the loan at market rates prevailing at that date. State which of the following is correct:

(a) It is not an embedded derivative.
(b) It is an embedded derivative closely related to the loan.
(c) It is an embedded derivative but not closely related to the loan, so it needs to be separately accounted for.
(d) It is an embedded derivative but not closely related to the loan, so no further accounting is required.

1.4 What is the annual depreciation charge on equipment P for years 3 to 10 and what is the amount of revaluation surplus that can be transferred to retained earnings annually?

(a) Annual depreciation charge will be ₹10,000 and an annual transfer of ₹ 3,000 can be made from revaluation surplus to retained earnings.
(b) Annual depreciation charge, will be ₹10,000, however, annual transfer from revaluation surplus to retained earnings is not permitted.
(c) Annual depreciation charge will be ₹13,000 and an annual transfer of ₹ 3,000 may be made from revaluation surplus to retained earnings.
(d) Annual depreciation charge will be ₹ 13,000, however, annual transfer from revaluation surplus to retained earnings is not permitted.

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1.5 The CFO of Rainbow Limited is concerned that there may be an impairment of goodwill in one of the subsidiary companies. Clarify how impairment, if any, will be accounted for by the Parent company:

(a) It will always be deducted in full from the parent company retained earnings.

(b) It will be apportioned between the parent company and the Non-Controlling Interest (NCI) when the NCI is valued at fair value.

(c) It will never be apportioned between the parent company and the NCI

(d) It will be apportioned between the parent company and the NCI where the NCI is valued using the proportionate method.

(2 x 5 = 10 Marks)

1.6 Suggest the suitable accounting treatment, How will entity measure the right of use (ROU) asset and lease liability initially and at the end of 31/03/2020 including amount to be charged to profit & Loss account?

(6 Marks)

1.7 In regards to the property previously leased to Turquoise Limited, analyse the accounting implications of the bifurcation currently in progress under the relevant Ind AS and prepare a note on the classification, measurement and disclosure as at 31st March, 2019.

(4 Marks)

1.8 How should Rainbow Limited account for the interest-free loan Taken from Canyons Limited, under the following scenarios:

Scenario A: The loan is repayable on demand.

Scenario B: The loan is repayable after 5 years.

Provide necessary journal entries under both scenarios, in the books of Rainbow Limited and Canyons Limited for year 1.

(5 Marks)

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Case Study 2

Makers Ltd. is engaged in the business of manufacturing a number of products including moulds, dies and machinery. They have a wide customer base in automobile, infrastructure, construction and other sectors both within India and abroad.

Entity Makers Ltd (lessee) entered into an agreement to take on lease a floor of building from Entity Y (lessor) for a period of 5 years. At commencement of lease, Entity Makers ltd pays INR 10,00,000 as interest-free refundable security deposit to Entity Y to protect its (Y's) interest in the property. Entity Makers Ltd's effective interest rate is 10%. Entity X expects to obtain economic benefits from the right of use evenly over the term of the lease and accordingly amortises the right of use on a straight-line basis.

Entity X (lessee) enters into an arrangement with Entity Makers Ltd to lease 10,000 square feet of office space for a period of 10 years. The annual lease payments are INR 100,000 in the first year, increasing by 5 percent each year thereafter, payable in arrears. The economic life of office space is 40 years. The lease term is not for a major part of the remaining economic life of the office space (40 years), and the present value of the lease payments is not substantially all of the fair value of the office space. Furthermore, the title does not transfer to Entity X as a consequence of the lease and the lease does not contain an option for Entity X to purchase the office space. Besides, the asset is not specialised such that it clearly has an alternative use to Entity Makers Ltd. at the end of the lease term. Thus, on a holistic evaluation of the terms of the lease, Entity Makers Ltd determines that it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. Accordingly, the lease is classified by Makers Ltd as an operating lease.

At the beginning of Year 6, (2019-20) Entity X and Makers Ltd agree to amend the original lease for the remaining 5 years to include an additional 10,000 square feet of office space in the same building for an annual fixed payment of INR 150,000. The modified lease continues to be classified as an operating lease.

Makers Ltd. acquired 65% of shares on 1st June, 2019 in D Limited which is engaged in production of components of machinery. D Limited has 1,00,000 equity shares of ₹ 10 each. The quoted market price of shares of D Limited was ₹12 on the date of

acquisition. The fair value of D Limited's identifiable net assets as on 1st June, 2019 was ₹ 1,05,20,000.
Makers Limited wired ₹75,00,000 in cash and issued 50,000 equity shares as purchase consideration on the date of acquisition. The quoted market price of Makers Limited on the date of issue is ₹ 25 per share.

Makers Limited also agrees to pay additional consideration of ₹ 15,00,000, if the cumulative profit earned by D Limited exceeds ₹ 1 crore over the next three years. On the date of acquisition, D Limited assessed and determined that it is considered probable that the extra consideration will be paid. The fair value of this consideration on the date of acquisition is ₹ 10,00,000. D Limited incurred ₹ 1,50,000 in relation to the acquisition. It measures Non- controlling interest at fair value.

Additional information:
Makers Ltd. has identified five segments (denoted as A to E below, for ease of reference)

Segment	Sales		Total Sales	Profit	Assets
	Exports	Domestic			
A	1,20,00,000	-	1,20,00,000	10,00,000	2,00,00,000
B	2,50,00,000	80,00,000	3,30,00,000	30,00,000	15,50,00,000
C	4,50,00,000	-	4,50,00,000	61,00,000	18,00,00,000
D	2,70,00,000	60,00,000	3,30,00,000	30,00,000	20,00,00,000
E	40,00,000	50,00,000	90,00,000	9,00,000	1,50,00,000
		TOTAL	**13,20,00,000**	**1,40,00,000**	**57,00,00,000**

Makers Ltd. has entered into an lease for new office space for a period of 10 years from October 1, 2019. The escalation clause of the lease agreement states that the lease rent shall be escalated by 12% after completion of every 3 years. The general inflation rate in the economy is 5%. The initial lease rent agreed per month is ₹85,000.

The company has an identifiable asset QR with a carrying amount of ₹ 10,00,000. Its recoverable amount is ₹ 6,50,000. The tax base of QR is ₹ 8,00,000 and the tax rate is 30%. Impairment losses are not tax deductible. Makers Ltd. expects to continue to earn profits in future.

Makers Ltd. acquired the trademark for a product from ABC Ltd. in 2008-09 for ₹ 8,00,000. The trademark is expected to have an indefinite useful life. The

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carrying amount as on 1st April, 2019 is ₹ 8,00,000. Now due to competition, the sales of the product have declined by 25%. The management has made assessment and has ascertained that the trademark will continue to have indefinite useful life. The recoverable amount is ascertained as ₹ 6,00,000.

Questions

2.1 Based on the quantitative threshold, which of the above segments A to E would be considered as reportable segments?

(a) Segment C.

(b) Segments C, D and B.

(c) Segments B, C, D and E

(d) All are reportable segments.

2.2 What is the amount to be charged to the statement of profit and loss towards lease rent for the new office space for the year ended March 31, 2020?

(a) Nil

(b) ₹ 9,97,989.

(c) ₹ 5,87,935.

(d) ₹ 11,75,869.

2.3 For the identifiable asset QR, what would be the impact on the deferred tax asset/ liability at the end of the period?

(a) Nil impact.

(b) Deferred tax asset will have a closing balance of ₹1,05,000.

(c) Deferred Tax asset will have a balance of ₹60,000.

(d) Deferred tax asset will have a balance of ₹45,000.

2.4 In respect of the trademark with indefinite life, Makers Ltd. seeks your advice on the appropriate treatment from following:

(a) The entity can continue with the same carrying amount of ₹8,00,000.

(b) The entity can adopt amortisation for the amount of ₹6,00,000.

(c) The entity has to test the asset for impairment, as an external unfavourable event had occurred and reduce the carrying amount to ₹6,00,000.

(d) The entity is required to test the trademark for impairment every year and accordingly, the carrying amount will be reduced to ₹6,00,000.

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2.5 Makers Ltd. is evaluating a proposal to acquire the shares of C Ltd., a competitor. The company will proceed only if they will have a controlling stake, in accordance with the applicable accounting standards. Help them identify which one of the following situations will fail their objective, i.e., they are unlikely to have control over C Ltd.?

(a) Acquiring 56% of total shares of C Ltd and being able to elect 3 out of 5 directors on its Board.

(b) Acquiring 65% of total shares with decisions requiring unanimous consent of all shareholders.

(c) Owning 40% of the total shares and having the majority of voting rights in C Ltd.

(d) Having currently exercisable options which would effectively result in 60% ownership of total shareholding.

(2 x 5 = 10 Marks)

2.6 How should Entity Makers ltd account for interest-free deposit paid to Entity Y?

(5 Marks)

2.7 How would Entity Makers Ltd account for the modification in the lease contract? (Assuming IND AS 116 is Followed/ Applied From the Beginning of Lease.)

(6 Marks)

2.8 How will the acquisition of D Ltd. be accounted by Makers Limited, under Ind AS 103? Prepare detailed workings and pass the necessary journal entries. Aslo state the various options for accounting Gain on Bargain purchase ?

(4 Marks)

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Case Study 3

Your advisory client Gamma Limited is engaged in manufacturing and retail activities. Gamma Ltd entered into the following transactions during the year ended 31st March 2020.

(1) Entered into a speculative interest rate option costing ₹ 10,000 on 1st January 2020 to borrow ₹ 60,00,000 from ICICI Bank commencing 31st March 2012 for 6 months at 4%. The value of the option at 31st March 2020 was ₹ 15,250.

(2) Purchased 6% debentures in Y Ltd. on 1st April 2019 (their issue date) for ₹ 1,50,000 as an investment. Z Ltd. intends to hold the debentures until their redemption at a premium in 5 years' time. The effective rate of interest of the bond is 8.0%

(3) Purchased 50,000 shares in X Ltd. on 1st July 2019 fort ₹3.50 each as investment. The share price on 31st March 2020 was ₹ 3.75.

While preparing the financial statements for the year ended 31st March, 2020, Gamma Limited has observed two issues in the previous year Ind AS financial statements (i.e. 31st March, 2019) which are as follows:

Issue 1:

The company had presented certain material liabilities as non-current in its financial statements for periods as on 31st March, 2019. While preparing annual financial statements for the year ended 31st March, 2020, management discovers that these liabilities should have been classified as current. The management intends to restate the comparative amounts for the prior period presented (i.e., as at 31st March, 2019).

Issue 2:

The company had charged off certain expenses as finance costs in the year ended 31st March, 2019. While preparing annual financial statements for the year ended 31st March, 2020, it was discovered that these expenses should have been classified as other expenses instead of finance costs. The error occurred because the management inadvertently misinterpreted certain facts. The entity intends to restate the comparative amounts for the prior period presented in which the error occurred (i.e., year ended 31st March, 2019).

Additional information:

Gamma Ltd. granted share options to one of its technical directors on the condition that he will not work with a competitor (i.e., non-compete clause) for a period of three years. The fair value of the award at the date of the grant is ₹ 2,00,000, including the effect of the non-compete clause.

Gamma Ltd. has inventory of raw material Y of 10,000 units as at 31st March, 2020 with a carrying amount of ₹100 each. The current market value of that raw material is ₹95 each. Gamma Ltd. intends to use the raw material to manufacture a component to

be used by a customer. Gamma Ltd. estimates costs to completion and sale of ₹50 each and a selling price for the component is estimated to be₹ 145 each.

Gamma Limited sold a machinery Z for ₹9,00,000, to a new customer. To get into long term relationship with the customer, the terms of sale also include after sales service to be provided for next three years free of cost. The company also sells the sales service contract separately where the customer buys it after the initial warranty period at ₹1,00,000.

The company has stores across India. It deals mainly with three products A. B, and C. The company has a policy of refunding the entire purchase money provided the buyer returns the product without any damage within a period of 15 days in respect of Product A and B, and 6 months in respect of Product C. This policy has not been mentioned in any their written documents nor has been communicated in any other media. However, it is widely known. The company has duly complied with this policy in the past. The accountant has made an estimate, based upon past experience and the average probability that the cost involved in relation to the product return policy for each of the product is as follows:

	₹
Product A	1,50,000
Product B	2,50,000
Product C	5,00,000
Total	**9,00,000**

The management is of the view that no provision for returns needs to be created as there is no legal obligation on the part of the company.

Gamma Ltd. Subsidiary X ltd which has 500 million equity shares as on 31.3.2019 as well as on 31.3.2020. lts net profit for the years 2018-19 & 2019-20 were ₹600 million and 800 million respectively.

Effective tax rate of the entity is 23%.

X Ltd has issued 10 million 12% Convertible Debentures of ₹100 each on 1.1.2019, which are optionally convertible into 10 equity shares on 31.12.2025.

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Questions

3.1 What is the value of raw material Y of Gamma Ltd. as per applicable Ind AS?

(a) ₹9,50,000. (b) ₹11,00,000.

(c) ₹10,00,000. (d) ₹16,00,000.

3.2 How should the revenue be recognised in the books of account for the sale of machinery Z?

(a) ₹9,00,000 is to be recognised as revenue in the year of sale.

(b) ₹9,00,000 is to be recognised at the end of three years after sale.

(c) ₹9,00,000 is to be recognised in the year of sale and ₹1,00,000 to be spread over next three years.

(d) ₹8,10,000 is to be recognised in the year of sale and ₹ 90,000 to be spread over next three years.

3.3 Your advice is sought on the correct approach for Gamma Ltd.'s policy on return of Products A, B and C.(Ignoring IND AS 115)

(a) The provision has to be created as conservative policy has to be followed in accounting.

(b) The provision need not be created as the company is not under any legal obligation to return the purchase money.

(c) Provision has to be created for ₹ 9,00,000 as there exists a possibility of a future Obligation.

(d) The entity has to create a liability for ₹9,00,000 (or such amount as may be determined after adjustment of the time duration remaining) as there exists a present obligation as a result of past event.

3.4 What is the correct accounting treatment under Ind AS for the share options granted to Gamma Ltd.'s technical director?

(a) Gamma Ltd. should recognise an expense of ₹ 2,00,000 over the period of three years and cannot reverse the expense recognised even if the director goes to work for a competitor and loses the share options.

(b) Gamma Ltd. should recognise an expense of ₹2,00,000 over the period of three years and can reverse the expense recognised in case the director goes to work for a competitor and loses the share options.

(c) Gamma Ltd, should recognise an expense of ₹ 2,00,000 immediately and cannot reverse the expense recognised even if the director goes to work for competitor and loses the share options.

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(d) Gamma Ltd. should recognise an expense of ₹ 2,00,000 immediately and can reverse the expense recognised in case the director goes to work for a competitor and loses the share options.

3.5 The CFO of Gamma Ltd. is trying her best to understand the high level differences between IFRS and US GAAP. Which of the following is the correct hierarchy under US GAAP hierarchy for determining the selling price of a deliverable?

(a) First, the Vendor-Specific Objective Evidence must be used, if available. If not, then Third Party Evidence is used. If neither prices are available, then the entity must make its Best Estimate of Selling Price.

(b) First, the Best Estimate of Selling Price must be used, if available. If not, then Vendor- Specific Objective Evidence is used. If neither prices are available, then the entity must obtain Third Party Evidence.

(c) First, Third Party Evidence must be used, if available. If not, then Vendor-Specific Objective Evidence is used. If neither prices are available, then the entity must make its Best Estimate of Selling Price.

(d) First, Third Party Evidence must be used, if available. If not, then Vendor-Specific Objective Evidence is used. If neither prices are available, then the entity must use Cost plus a Reasonable Margin.

(2 x 5 = 10 Marks)

3.6 Compute Basic and Diluted EPS of X Ltd on 31.3.2019 and 31.3.2020 (Ignore need to Bifurcate convertible debentures into Debt & Equity)

(4 Marks)

3.7 You are required to show the accounting treatment of Financial Instruments and relevant extracts from the financial statements for the year ended 31st March 2020. Gamma Ltd. only designates financial assets as at fair value through profit or loss where it is unavoidable.

(7 Marks)

3.8 What is your analysis and recommendation in respect of the issues noted with the previously presented set of financial statements for the year ended 31st March, 2020?

(4 Marks)

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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)

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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)

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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)**

J.K.SHAH CLASSES

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

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.

J.K.SHAH CLASSES

(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)

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