CA FINAL
Test Code – JK-GFR-22
(Date:08-10-2020)

(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 Ionger 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

4.1 M Ltd. has the following items in its books of accounts:

- A balance of INR 2,00,000 in a high-interest account. A Ltd. must give 28 days' notice in order to access this money, which is held with the intention of meeting working capital shortages.
- Overdraft of INR 5,00,000
- Investment in equity shares of V Ltd. having a fair value of INR 10,00,000. The shares are listed and can be sold immediately.

M Ltd. wishes to understand which of item referred to above qualify as 'cash and cash equivalents' for the purpose of preparation of cash flow statements under IFRS?

(a) Overdraft
(b) Overdraft and balance in high-interest account
(c) Overdraft, balance in high-interest account and investment in equity shares
(d) None of the above

(2 Marks)

4.2 On 1st January, 2020, M Ltd. classified one of its associates, ABC Ltd., as held for sale. Prior to such classification, the associate was accounted using equity method in US GAAP as well as IFRS. Following information is provided to you in relation to investment in ABC Ltd.:

Particulars	**₹ in lakh**
Carrying value of investment as per equity method of accounting as on 1st January,2020	48
Carrying value of investment as per equity method of accounting as on 31st March,2020	53
Fair value of investment as on 1st January, 2020	87
Fair value of investment as on 31st March, 2020	95
Estimated cost to sell the investment as on 1st January, 2020	2
Estimated cost to sell the investment as on 31st March, 2020	3

Atwhat amount should the investment in ABC Ltd. be measured as on 31st March, 2020? Select the correct answer from the below mentionedoptions:

(a) Under US GAAP, at ₹53 lakh; under IFRS, at ₹48 lakh.
(b) Under US GAAP, at ₹95 lakh; under IFRS, at ₹48 lakh.
(c) Under US GAAP, at ₹53 lakh; under IFRS, at ₹95 lakh.
(d) Under US GAAP, at ₹93 lakh; under IFRS, at ₹95 lakh.

(2 Marks)

4.3 A Ltd., R Ltd. and S Ltd. establish a new entity namely T Ltd. A Ltd. owns 50% of the voting rights in T Ltd., R Ltd. owns 30% voting rights while S Ltd. holds remaining 20% voting rights. The contractual arrangement among A Ltd., R Ltd. and S Ltd. specifies that at least 75% of the voting rights are required to make decisions about the activities of T Ltd.

How should A Ltd. account for its investment in T Ltd. in consolidated financial statements prepared under IFRS?

(a) Subsidiary
(b) Joint venture
(c) Associate
(d) None of the above

(2 Marks)

4.4 M Ltd. has following three borrowings in the period. All the borrowings are used to finance the production of qualifying assets.

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

Calculate the appropriate capitalisation rate under IFRS for borrowings above?

(a) 6% (b) 9.5%

(c) 12.5% (d) 13.33%

(2 Marks)

4.5 M Ltd. makes contributions to pension fund of employees @ 5% of the amount of salary. A Ltd. pays INR 10,000 per month into the pension scheme with any balance being paid in the first month of the following reporting year. The salary amount for year ended 31 March 2020 is INR 27,00,000.

Which of the following is correct in relation to the pension expense of M Ltd. for the year ended 31 March 2020?

(a) Pension fund is a defined contribution plan and M Ltd. should record an expense of INR 1,35,000 with a prepayment of INR 15,000.

(b) Pension fund is a defined contribution plan and M Ltd. should record an expense of INR 1,35,000 with an accrual of INR 15,000.

(c) Pension fund is a defined benefit plan and M Ltd. should record an expense of INR 1,35,000 with a prepayment of INR 15,000.

(d) Pension fund is a defined benefit plan and M Ltd. should record an expense of INR 1,35,000 with an accrual of INR 15,000.

(2 Marks)

4.6 M Ltd. has certain items appearing in its books of accounts:

1. Shares of X Ltd., subsidiary of M Ltd. of INR 10,00,000
2. Advance given to C Ltd. for purchase of goods of INR 50,000
3. Investment in perpetual debt amounting to INR 2,00,000 carrying an interest at 10%
4. Prepaid expense of INR 20,000
5. Deferred tax asset of INR 16,200
6. Input Tax Credit receivable of INR 4,560
7. Lease deposit paid of INR 1,00,000
8. Shares of M Ltd. amounting to INR 1,50,000 held by ESOP Trust

9. USD-INR option held by M Ltd. as a buyer of the option
10. Gold bullion of INR 60,00,000

Whether the items above are financial assets considering the guidance under IFRS?

(5 Marks)

4.7 M Ltd. has recently acquired stake in an entity US Ltd. by purchasing 60% of its equity for ₹ 150 crores in cash. The fair value of the non-controlling interest is determined to be₹ 100 crores. The net aggregate value of the identifiable assets and liabilities, as measured in accordance with Ind AS is determined at ₹ 50 crores. The Company wants you to compute the amount of goodwill to be recognised in the books of account considering both the measurement bases for computing the non-controlling interest as per applicable Ind AS.

(4 Marks)

4.8 On 1st April, 2019, M Ltd. purchased 10 Lakhs options to acquire shares in KS Ltd., a listed entity. The Company paid ₹ 0.25 per option which allows the Company to purchase shares in KS Ltd. for a price of ₹2 per share. The exercise date for the option was 31st December, 2019. On 31st December, 2019, when the market value of a share in KS Ltd. was ₹ 2.6 per share, the Company exercised all its options to acquire shares in KS Ltd.

In addition to the purchase price, the Company has also incurred directly attributable cost of ₹ 1,00,000 for purchase of 10 lakhs shares in KS Ltd. The Company has classified these shares as trading portfolio. However, the Company has not disposed of any of the shares in KS Ltd. between 31st December, 2019 to31st March, 2020.

The market value of the shares of KS Ltd. as on 31st March, 2020 is ₹ 2.90 per share.

The Company has requested you to suggest the accounting treatment of the above arrangement and transaction of acquisition of shares in KS Ltd.

(6 Marks)

Case Study 5

5.1 The junior accountant at U Ltd. is muddled up with accounting for various properties. Your help is required to identify which of the following are not examples of investment property:

(a) Property intended for sale in the ordinary course of business.

(b) Land held for long-term capital appreciation.

(c) A building that is vacant but is held to be leased out under one or more operating leases.

(d) Owner-occupied property.

(e) Land held for a currently undetermined future use.

(f) A building owned by the entity and leased out under one or more operating leases.

(g) Property that is leased to another entity under a finance lease.

(h) Property that is being constructed or developed for future use as investment property.

(2 Marks)

5.2 U Ltd. is planning to adopt Ind AS for the first time as at 31st March, 2020, with 1st April, 2018 as the date of transition. As at 31st March, 2018, the value of raw material inventories was incorrectly reported due to an error. The amounts are significant and the CFO is concerned as to whether this error is to be reported in the Ind AS financial statements and how to rectify it (choose one response):

(a) Fresho Ltd. shall report the impact of the error as a correction to Statement of Profit and Loss for the comparative period i.e., the year ended 31st March, 2019.

(b) The correction shall be reflected in a reconciliation as at the end of the first Ind AS reporting period i.e., as at 31st March, 2019.

(c) The impact of the correction is significant and it shall be amortized on a rational and systematic basis in the two first periods of Ind AS reporting i.e., years ended 31st March, 2019 and 31st March, 2020.

(d) The first Ind AS financial statements shall distinguish the correction of errors from changes in accounting policies and reported as part of the reconciliations as at 1st April, 2018.

(2 Marks)

5.3 U Ltd. is looking to raise funds using various methods but it is also concerned that some items may impact the income statement. Your advice is required on which of the following items will impact the Statement of Profit and Loss:

(a) Dividend payments on preference shares that are classified as financial liabilities.

(b) Incremental directly attributable costs incurred in successfully issuing a bond.

(c) Interest payments on bonds issued by U Ltd.

(d) Dividend payments of shares classified wholly as equity.

(e) Incremental directly attributable costs incurred in successfully issuing equity shares.

(2 Marks)

5.4 Under Ind AS, can U Ltd., in its separate financial statements, account for its investment in subsidiaries and associates at:

(a) Cost

(b) Market Value

(c) In accordance with Ind AS 109

(d) Option between (a) & (c)

(2 Marks)

5.5 On 1 June 2019, ULtd. decided to dispose of the business and current and non-current assets of one of its divisions related to Speciality chemicals business which it had acquired several years ago. This disposal does not involve U Ltd. withdrawing from a particular market sector. The carrying values on 1 June 2019 of the assets to be disposed of were as follows

Particulars	R Million
Goodwill	10.0
Property, Plant and Equipment	20.0
Patents and trademarks	8.0
Inventories	15.0
Trade Receivables	10.0

None of the assets of the business had suffered impairment as at 1 June 2019. At that date the inventories and trade receivables of the business were already stated at no more than their recoverable amounts.

U Ltd. offered the business for sale at a price of R 46.5 million, which was considered to be reasonably achievable. U Ltd. estimated that the direct costs of selling the business would be R 5,00,000. These estimates have not changed since 1 June 2019 and U Ltd. estimates that the business will be sold by 31 March 2020 at the latest.

Calculate the closing balance of Speciality chemical division's asset – Property, Plant and Equipment at the period end.

(a) R 21 million
(b) R 17.36 million
(c) R 6 million
(d) R 15 million

(2 Marks)

5.6 U Ltd. has lent an amount of ₹ 10 crores to some of its key suppliers. The loan has an annual rate of interest of State Bank of India Marginal Cost of Lending Rate (SBI MCLR) + 3% payable on yearly basis. The said loan is repayable after a period of 5 years from the date of disbursement of the loan. As per the policy of the Company, the Company would assign the loan to a third party in case the interest rates fall below 7%. Currently the SBI MCLR is at 5% and is expected to fall by 1% or 2% more in the near future. As and when the rate falls below 7% the Company will assign these to the third party. The fair value of the loan as on 31st December, 2019 is ₹ 12 crores. The Company has requested you to suggest how these loans to the suppliers need to be recorded as per Ind AS.

(6 Marks)

5.7 U Ltd holds 46% of 100 million equity shares issued by Y I td. This is recognized in associate in the separate financial statements at cost of ₹ 4,600 million. In the consolidated financial statement, the investment is accounted for applying equity method accounting at ₹ 6,900 million. The difference of 2,300 million has been recognized in the Consolidate Profit and loss as share of profit from the associate.

Fair value of identifiable assets and liabilities of Y Ltd. as on 1.4.2019

Assets (other than cash and cash equivalents) ₹14,000 Million;

Cash and cash equivalents ₹after repurchase 200 million;

Liabilities ₹2,000 million.

As on 1 April 2019, Y Ltd. repurchases 10 million equity shares at Market price @ ₹ 160 per share (i.e. for ₹ 1,600 million)

This repurchase gives controlling interest to X Ltd.

How should the company recognize the impact of gaining controlling interest in Y Ltd.?

(4 Marks)

5.8 U Ltd Is also engaged in the business of manufacturing of bottles for pharmaceutical companies and non-pharmaceutical companies. It has a wholly owned subsidiary, G Ltd, which is engaged in the business of pharmaceuticals. G Ltd purchases the pharmaceutical bottles from its parent company. The demand of G Ltd is very high and the operations of U Ltd are very large and hence to cater to its shortfall, G Ltd also purchases the bottles from other companies. Purchases are made at the competitive prices.

U Ltd sold pharmaceuticals bottles to G Ltd for Euro 12 lacs on 1st February, 2020. The cost of these bottles was ₹ 830 lacs in the books of U Ltd at the time of sale. At the year-end i.e. 31st March, 2020, all these bottles were lying as closing stock with G Ltd. What should be the accounting treatment for the elimination of Unrealised Profits in CFS?

Following additional information is available:

Exchange rate on 1st February, 2020	1 Euro = ₹ 83
Exchange rate on 31st March,2020	1 Euro = ₹85

(5 Marks)