Roll No. ....

Final New Syllabus
Paper - 6 E
Global Financial Reporting Standards

JAN 2021

Total No. of Questions – **5**

Total No. of Printed Pages – **32**

Time Allowed – **4** Hours

Maximum Marks – **100**

MAE

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

The Question Paper comprises **five** case study questions.

The candidates are required to answer any **four** case study questions out of **five.**

Answer in respect of Multiple Choice Questions are to be marked on the OMR answer sheet only.

Answers to other questions to be written on the descriptive type answer book.

Answer to MCQs, if written in the descriptive type answer book will not be evaluated.

Candidates may use calculator.

Marks

CASE STUDY : 1

High Speed Limited ("the Company") is a car manufacturing company. During the year, the Company has entered into many transactions, details of which are given below. Finance controller of High Speed Limited requires your assistance in determining the accounting treatment of these transactions in accordance with Indian Accounting Standards.

Marks

1. 'High Speed Limited' manufactures and sells cars. The Company wants to foray into the two wheeler business and therefore it acquires 30% interest in 'Quick Bikes Limited' for ₹ 5,00,000 as at 01 Nov 2019 and an additional 25% stake as at 01 Jan 2020 for ₹ 5,00,000 at its fair value.

Following is the Balance Sheet of Quick Bikes Limited as at 01 Jan 2020 :

Liabilities	Carrying value	Fair value	Assets	Carrying value	Fair value
Share capital	1,00,000		Plant and equipment	3,50,000	7,50,000
Reserves	5,50,000		Investments in bonds	4,00,000	5,00,000
Trade payables	1,50,000	1,50,000	Trade Receivables	50,000	50,000
Total	**8,00,000**		**Total**	**8,00,000**	

Quick Bikes Limited sells the motorcycles under the brand name 'Super Start' which has a fair value of ₹ 3,50,000 as at 01 Jan 2020. This is a self-generated brand therefore Quick Bikes Limited has not recognized the brand in its books of accounts. Following is the standalone balance sheet of the Company as at 01 Jan 2020 :

Liabilities	Amount	Assets	Amount
Share capital	5,00,000	Plant and equipment	13,50,000
Reserves	15,00,000	Investment in Quick Bike	10,00,000
Short term loans	4,00,000	Trade Receivables	80,000
Trade payables	3,00,000	Cash and bank balances	5,20,000
Other liabilities	2,50,000		
Total	**29,50,000**	**Total**	**29,50,000**

2. While selling a car, the Company provides a written assurance to the customer that the car will function in the manner it is intended to function. However, if there is any breakdown in the car within 5 years due to manufacturing defect then the Company will replace the parts without any cost to the customer. The customer does not have the option to purchase the warranty separately. The Company has a past practice of providing routine maintenance services without any charge for 4 times over the period of 2 years from the date of purchase. Although the free maintenance services are not explicitly stated in the contract, however, the customer has a valid expectation that the Company will provide such services without any charge as advertised by the Company.

3. To expand further, the Company has entered into a Share Purchase Agreement ("SPA") with the shareholders of M/s. Fast Move Limited to purchase 30% stake in Fast Move Limited as at 01 June 2020 at a price of ₹ 30 per share. As per the terms of SPA, the Company has an option to purchase additional 25% stake in Fast Move Limited on or before 15th June 2020 at a price of ₹ 30 per share. Similarly, the selling shareholder has an option to sell additional 25% stake in Fast Move Limited on or before 15.06.2020 to the Company at a price of ₹ 30 per share. The decisions on relevant activities of Fast Move Limited are made in Annual General Meeting/Extraordinary General Meeting (AGM/EGM). A resolution in AGM/EGM is passed when more than 50% votes are casted in favor of the resolution. An AGM/EGM can be called by giving atleast 21 days advance notice to all shareholders.

4. During the year, the Company had issued Compulsory Convertible Debentures ("CCDs") on a private placement basis for ₹ 100 Lakhs. Each CCD is convertible into 5 shares at the end of 4 years from the date of issue and an annual interest is payable at the rate of 6% p.a. At initial recognition, the Company has recognized a liability component of compound instrument at ₹ 20,79,063. The Company also incurred expenses of ₹ 2,00,000 in connection with the issue of the instrument. Nature of expenses includes fees paid to legal advisors, registration and regulatory fees.

Marks

5. The Company acquired a 40% stake in New Motors Limited as at 1st Oct 2020 for ₹ 8,00,000 and classified the investment in New Motors Limited as an associate. As at 1st Oct 2020, the carrying amount and fair value of plant & equipment of New Motors Limited is ₹ 3,00,000 and ₹ 5,00,000 respectively with remaining useful life of 5 years (i.e. 20 quarters). From 1st Oct 2020 to 31st December 2020, New Motors Limited generated a profit of ₹ 50,000.

6. While selling a car, the Company provides a trade discount of 1% on sale price which is mentioned on the invoice. The Company provides a credit period of 7 days to its customers however if paid upfront then the Company gives an additional cash discount of 2%. The Company also provides a voucher worth ₹ 500 with validity of 1 year which can be used at an apparel store.

Questions :

1.1 At what amount the Company shall carry its investments in New Motors Limited in its consolidated financial statements as at 31st December 2020 ? **2**

(A) ₹ 8,00,000 (B) ₹ 8,20,000

(C) ₹ 8,16,000 (D) ₹ 8,10,000

1.2 How should the Company account for the trade discount, cash discount and voucher given to customers on sale of a car ? **2**

(A) Trade discount shall be reduced from the revenue however cash discount and value of voucher shall be charged as expenses.

(B) Trade discount and cash discount both shall be reduced from the revenue however value of voucher shall be charged as expenses.

(C) Trade discount, cash discount and value of voucher shall be charged as expenses.

(D) Trade discount, cash discount and value of voucher shall be reduced from revenue.

Marks

1.3 What shall be the accounting treatment of directly attributable expenses of ₹ 22 lakhs incurred in connection with the issue of Compulsory Convertible Debentures ? 2

(A) Entire ₹ 2,00,000 shall be recognized as expenses in the statement of profit and loss in current year.

(B) Entire ₹ 2,00,000 shall be reduced from equity in current year.

(C) A proportion of ₹ 1,58,419 shall be reduced from equity and Balance of ₹ 41,581 shall be recognized as interest cost over the period of 4 years using effective interest method.

(D) Entire ₹ 2,00,000 shall be recognized as interest cost over the period of 4 years using effective interest method.

1.4 With more acquisitions, at the end of the year, the Company has investments in 2 subsidiaries, 3 associates and 1 joint venture. Which of the following statements is correct in relation to accounting of these investments in separate financial statements ? 2

(A) The Company is required to measure all such investments at cost.

(B) The Company has an option to account the investments in associates and joint ventures using equity method of accounting and carry the investments in subsidiaries at cost.

(C) The Company has an option for each investment to measure either at cost or in accordance with Ind AS 109.

(D) The Company has an option to measure all such investments either at cost or in accordance with Ind AS 109. The option is available for each category of investments separately (i.e. subsidiaries, associates and joint venture).

Marks

1.5 What should be the accounting treatment of contingent liabilities assumed in a business combination ? 2

(A) The acquirer shall recognize the contingent liabilities assumed in a business combination at its fair value if it is a present obligation that arises from the past events and its fair value can be measured reliably.

(B) The acquirer shall recognize the contingent liabilities assumed in a business combination at gross amount involved.

(C) Contingent liabilities assumed in a business combination shall not be recognized however shall be disclosed in notes to accounts.

(D) Contingent liabilities assumed in a business combination shall not be recognized and not be disclosed in notes to accounts.

1.6 In relation to the acquisition of Quick Bikes Limited, you are required to : 7

(i) Pass the necessary journal entries to give effect of business combination in accordance with Ind AS 103 as at acquisition date 1st Jan 2020. Provide working notes. Ignore deferred tax implication ; and

(ii) Prepare a consolidated balance sheet of High Speed Limited as at 1st Jan 2020.

1.7 With the details provided in point 2 above, you are required to identify the performance obligations and when should the Company recognize the revenue for each of the performance obligation ? How should the Company account for warranty ? 5

1.8 With respect to the SPA entered by the Company, you are required to determine whether the Company has control over Fast Move Limited as at 1st June 2020. 3

CASE STUDY : 2

Feel Fresh Limited ("the Company) is into manufacturing and retailing of FMCG products listed on stock exchanges in India. The Company and its one of subsidiary has entered into various transactions accounting of which needs to be analysed in detail from the perspective of Ind AS implications. You being an Ind AS expert, CFO of the Company have appointed you to analyse the transaction based on following details :

1. One of its products is bathing soap which the Company sells under the brand name 'Feel Fresh'. The Company does not have its own manufacturing facilities for soap and therefore it enters into arrangements with a third party to procure the soaps. The Company entered into a long term purchase contract of 10 years with M/s. Radhey. Following are the relevant terms of the contract with M/s. Radhey.

   (i) M/s. Radhey has to purchase a machine costing ₹ 10,00,000 from the supplier as specified by the Company. The machine will be customized to produce the soaps as designed by the Company. This machine cannot be used by M/s. Radhey to produce the soaps for buyer other than the Company due to the design specifications. The machine has a useful life of 10 years and the straight line method of depreciation is best suited considering the use of the machine.

   (ii) The Company will pay ₹ 4.75 per soap for the first year of contract. This is calculated based on the budgeted annual purchase of 7,00,000 soaps as follows :

Particulars	Per soap price
Variable cost of manufacturing	4.00
Cost of machine (₹ 1,74,015/7,00,000 soaps)	0.25
M/s. Radhey's margin	0.50
Per soap cost to the Company	4.75

In case the Company purchases more than 7,00,000 (i.e. budgeted number of soaps) soaps in the first year then the cost of the machine (i.e. 0.25 per soap) will not be paid for soaps procured in excess of 7,00,000 units. However, in case Company procures less than budgeted number of soaps, then the Company will pay the differential unabsorbed cost of the machine, at the end of the year. For example, if the Company purchases only 6,00,000 soaps in first year then the differential amount of ₹ 24,015 (1,74,015 – (6,00,000 * 0.25)) will be paid by the Company to M/s. Radhey at the end of the year. Variable cost will be actualized at the end of the year.

(iii) The cost per soap will be calculated for each year in advance based on the budgeted number of soaps to be produced each year. An amount of ₹ 1,74,015 shall be considered each year for the cost of machine for year 1 to year 8 while calculating the cost per soap. Any differential under absorbed amount shall be paid by the Company to M/s. Radhey at the end of that year. A charge of ₹ 1,74,015 per annum for the machine is derived using borrowing cost of 8.00% p.a. For year 9 and year 10, only variable cost and margins will be paid.

(iv) M/s. Radhey does not have any right to terminate the contract but the Company has the right to terminate the contract at the end of each year. However, if the Company terminates the contract, it has to compensate M/s. Radhey for any unabsorbed cost of Machine. For example, if the Company terminates the contract at the end of second year then it has to pay ₹ 10,44,090 (i.e 1,74,015 per year * 6 remaining years). If it terminates the contract after the 8th year then the Company does not have to pay the compensation since the cost of the machine would have been absorbed.

(v) In the first year, the Company purchases 5,50,000 soaps at ₹ 4.75 per soap.

2. To reward its employees, the Company had launched a scheme effective 1st April 2017, in which the employees will be granted equity shares of the Company at below market price subject to certain conditions. Following details are provided :

(i) As per the scheme, each employee has an option to purchase 100 equity shares of the Company at ₹ 30 per share if the employee does not leave the Company for 3 years from the date launch of the scheme i.e. 31st March 2020.

(ii) Once 3 years completed by an employee, he/she can exercise the option within 1 year i.e. by 31st March 2021.

(iii) The closing share price on stock exchange as at 01 April 2017 is ₹ 62 per share with face value of ₹ 10 per share. The Company had appointed a registered valuer who derived the price of option at ₹ 50 using the Black Scholes model of option pricing.

(iv) There are a total of 300 employees eligible for the scheme. As at 31st March 2018, 10 employees left the Company and further 14 employees are expected to leave over the next 2 years. During the year 2018-19, a multi-national company entered into the retail industry which is hiring experienced workforce and therefore a high attrition is observed in the retail industry. 110 employees left the Company during the year ended 31st March 2019 and further 54 employees are expected to leave in the next one year. As at 31st March 2020, only 160 employees are remaining with the Company out of 300.

(v) Only 150 employees exercise the option to purchase the equity share during the year ended 31st March 2021.

Marks

3. The Company has entered into a lease agreement for its retail store as on 1st April 2018 for a period of 10 years. A lease rental of ₹ 56,000 per annum is payable in arrears. The Company recognized a lease liability of ₹ 3,51,613 at inception using an incremental borrowing rate of 9.5% p.a. as at 1st April 2018. As per the terms of lease agreement the lease rental shall be adjusted every 2 years to give effect of inflation. Inflation cost index as notified by the Income tax department shall be used to derive the lease payments. Inflation cost index was 280 for FY 2018-19 and 301 for FY 2020-21. The current incremental borrowing rate is 8.00% p.a.

4. Vikash Retail Private Limited, a subsidiary of the Company had suffered heavy losses in previous periods. These losses are accumulated and eligible for setoff from future taxable income while calculating tax liabilities for future periods. However, there is no convincing evidence available which convey that sufficient taxable profits will be available against which tax losses can be utilized.

5. The Company has also launched a share based payment plan under which it will grant Stock Appreciation Rights (SAR) to the employees of its subsidiary, Vikash Retail Private Limited. As per terms of the plan, the Company (i.e. parent) will pay an amount per SAR which is the difference between current stock price of the Company and stock price of the Company after 3 years. The amount will be paid by the Company directly to those employees of the subsidiary who completes 3 years from launch of the plan.

Marks

6. To ensure the availability of funds at the time of settlement of the scheme, the Company purchases its own shares from the open market. The Company will sell these shares in the market after 3 years when the Company will be required to pay cash to the employees of the subsidiary.

7. The Company has issued share capital of ₹ 1 crore divided into 10,00,000 equity shares of ₹ 10 each. As at 01 Jun 2019, the Company had issued 3,60,000 convertible warrants of ₹ 10 each. 6 warrants will be converted into 1 equity share of the Company at the end of 18 months from issue date. Warrants will not be redeemed.

Questions :

2.1 Which of the following statements correctly describes the accounting of lease arrangement for the retail store ? 2

(A) Increase in lease liability by ₹ 22,820 with corresponding debit to profit or loss.

(B) Increase in lease liability by ₹ 22,820 with corresponding increase in right of use asset.

(C) Increase in lease liability by ₹ 41,675 with corresponding debit to profit or loss.

(D) Increase in lease liability by ₹ 41,675 with corresponding increase in right of use asset.

2.2. What shall be the right accounting of tax losses accumulated by Vikash Retail Private Limited in its standalone financial statements ? 2

(A) The entity shall recognize the deferred tax asset on accumulated tax losses.

Marks

(B) The entity shall not recognize the deferred tax asset on accumulated tax losses neither it shall disclose in financial statements.

(C) The entity shall not recognize the deferred tax asset on accumulated tax losses however it shall disclose in financial statements the amount of accumulated tax losses and period by which it expires.

(D) The entity shall recognize the deferred tax asset on accumulated losses and shall also provide the justification in financial statements for recognition of deferred tax assets.

2.3 What shall be the accounting treatment of share appreciation rights given, in standalone financial statements of parent and subsidiary ? 2

(A) Parent and subsidiary both shall account it as equity settled share based transaction with corresponding debit/ credit in profit or loss.

(B) Parent shall account it as cash settled share based payment transaction with corresponding debit to investment in subsidiary. Subsidiary shall account it as equity settled share based payment transaction with corresponding credit to equity.

(C) Parent shall account it as equity settled share based payment transaction with corresponding debit to investment in subsidiary. Subsidiary shall account it as cash settled share based payment transaction with corresponding credit to equity.

(D) Parent and subsidiary both shall account it as cash settled share based transaction with corresponding debit/ credit in profit or loss.

Marks

2.4 Which of the following statements is correct for calculation of earnings per share of the Company for the year ended 31st March 2020 ? 2

(A) 10,50,000 shares shall be used as denominator for calculation of both basic and diluted earnings per share.

(B) 10,00,000 shares shall be used as denominator for calculation of basic earnings per share however 10,50,000 shares shall be used as denominator for calculation of diluted earnings per share.

(C) 10,60,000 shares shall be used as denominator for calculation of both basic and diluted earnings per share.

(D) 10,00,000 shares shall be used as denominator for calculation of basic earnings per share however 10,60,000 shares shall be used as denominator for calculation of diluted earnings per share.

2.5 How should the Company account for the amount invested in its own shares and profit earned or loss incurred on those shares while selling back in the market (to settle the SAR scheme) ? 2

(A) The Company shall recognize the amount invested as 'investment in equity shares' and measures it at fair value. The Company has an option to recognize the fair value gain/loss either in statement of profit and loss or in other comprehensive income.

(B) The Company shall reduce the amount invested from equity. Any gain earned or loss incurred on those shares shall also be adjusted directly in equity.

(C) Either (A) or (B) at the option of the Company.

(D) The Company shall recognize the amount invested as 'investment in equity shares'. Any gain earned or loss incurred on those shares shall be adjusted directly in equity.

Marks

2.6	Analyze the contract of the Company with M/s. Radhey and provide necessary accounting entries for first year in accordance with Ind AS with working notes. Assume all cash flows occur at the end of the year.	7
2.7	Provide necessary accounting entries during the life of share based payment scheme to account the scheme implemented by the Company. Provide working notes.	5
2.8	Calculate the deferred tax impact of the Company's investment in preference shares of Vanijya Capital Limited. Ignore education cess and surcharge, if any.	3

CASE STUDY : 3

A Limited and B Limited are companies registered under the Companies Act, 2013. A Limited is an Ind AS compliant entity and follows year ended March as its financial reporting period.

1. On 1st April 2018, they entered into an agreement to jointly engage in the hospitality business. For this purpose, they formed a partnership firm with the name of M/s. Star Hotel ("the Firm"). Under the relevant laws, the partners and the Firm are not considered as separate legal entities.

   To regulate the operations of the Firm, A Limited and B Limited entered into a partnership deed whose relevant terms and conditions are as follows :

   - A Limited and B Limited shall be the partners of the Firm.
   - Consent of both partners shall be required for taking decisions on any matter which may affect the returns of the business.

 Marks

- The Firm shall operate a three-storied hotel as follows :

Floor	**Rights and obligations relating to the floor**
Ground floor (Ground floor will comprise of reception, lobby, restaurant, laundry division, and general administration office)	Both partners shall jointly and equally own the legal and beneficial ownership of the ground floor including all of its assets and related liabilities. All the costs relating to the operation of the ground floor shall be jointly and equally shared by both the partners.
First floor (First floor will comprise of Indian themed rooms for customers)	A Limited shall have legal and beneficial ownership of the first floor including all of its assets and related liabilities. The net profit for the period attributable to the renting of rooms of first floor shall accrue solely to the account of A Limited.
Second floor (Second floor will comprise of Italian themed rooms for customers)	B Limited shall have legal and beneficial ownership of the second floor including all of its assets and related liabilities. The net profit for the period attributable to the renting of rooms of second floor shall accrue solely to the account of B Limited.
Third floor (Third floor will comprise of a banquet hall)	Both the partners shall jointly and equally own legal and beneficial ownership of the third floor including all of its assets and related liabilities. The net profit for the period attributable to the renting of the banquet hall shall accrue equally to the account of both the partners.

Marks

During the first year of operation of the hotel, A Limited many times doubted and objected to the manner in which the guests were preferentially convinced by the reception desk to occupy the Italian-themed rooms of the second floor.

To avoid the repetitive disputes, on 1st April 2019, A Limited and B Limited converted the partnership firm into a company named Star Hotel Private Limited ("the Company"). Under the relevant laws, the shareholders and the Company are considered as separate legal entities.

To regulate the operations of the Company, A Limited and B Limited entered into a shareholders' agreement with the following relevant terms and conditions :

- A Limited and B Limited shall transfer their individual rights regarding the respective floors of the hotel in favour of the Company such that the Company becomes the legal and beneficial owner thereof.
- The Company shall assume all the liabilities of A Limited and B Limited in relation to the hotel business.
- In consideration of transfer of rights and obligations by A Limited and B Limited in favour of the Company, A Limited and B Limited shall receive equity shares of the Company in equal proportion.
- Each equity share shall entitle the holder thereof one vote in the general meetings of the Company.
- The Company's Board shall consist of 6 directors. All the matters in relation to the operations of the Company, except certain reserved matters, shall be decided by the Board by a vote of simple majority. In case of equality of votes in respect of any matter other than the reserved matters, the chairman shall have a casting vote.
- Following are the Reserved Matters in respect of which decisions shall be taken only by unanimous consent of all the directors :
  - (i) Approval of the operating plan for each financial year;
  - (ii) Capital expenditure exceeding ₹ 20 crores in a year;
  - (iii) Entering into borrowing arrangements for an amount which is equal to or more than 30% of the Company's net worth; and
  - (iv) Any matter which may affect the returns of the business.

Marks

- A Limited and B Limited shall have the right to nominate 3 directors each in the Board. A Limited and B Limited shall have the right to replace the directors being nominated by them respectively with any other directors of their choice. The chairman of the Board shall be nominated by A Limited.
- The profits of the business may be distributed by the Company to the shareholders in the form of dividends which shall be approved by a simple majority of votes in a general meeting of the Company.
- Shareholders shall be entitled to dividends in the proportion of the share capital held by them.
- Upon liquidation of the Company, its net assets, after repayment of all of its liabilities, shall be distributed to the shareholders in the proportion of share capital held by them.
- During the period 1st April 2019 to 31st March 2024, A Limited shall have the right to sell all the equity shares held in the Company to B Limited at a price which is 10% more than the fair value determined by an independent valuer. If such right is exercised by A Limited, B Limited shall be under obligation to purchase the shares in accordance with this clause.

2. In order to meet the cleaning needs of its hospitality business, A Limited is also engaged in the manufacturing of certain specialized chemicals. During the manufacturing process, certain wastewater is produced which is released by A Limited in the nearby river. In order to reduce pollution of the rivers, the state government has introduced a scheme with the following salient features :

- If a manufacturer installs certain pre-approved wastewater treatment plant, the government will provide an interest free loan equal to 50% of the cost of the plant;

- Such loan will be repayable to the government in 5 years from the date of disbursal;
- The manufacturer availing the benefit of this scheme must treat the wastewater of its factory using the specified plant before releasing it to the river. If this condition is violated, the entire loan shall become immediately repayable to the government along with a penalty of ₹ 10 lakhs.

Cost of the wastewater treatment plant to be installed to avail the benefit of the scheme is ₹ 50 lakhs. A Limited decided to utilise this scheme because, if it were to obtain the similar loan from a bank, it would be available at a market interest rate of 12% per annum. Accordingly, A Limited applied for and obtained the government loan of ₹ 25 lakhs on 1st April 2018. A Limited purchased and installed the plant such that it became ready for use on the same date.

A Limited has an accounting policy of recognising government grant in relation to depreciable assets in the proportion of depreciation expense. It has determined that the plant will be depreciated over a period of 5 years using straight-line method. In the month of March 2020, government officials conducted a surprise audit and it was found that A Limited was not using the wastewater treatment plant as prescribed. Accordingly, on 31st March 2020, the government ordered A Limited to repay the entire loan along with penalty. A Limited repaid the loan with interest and penalty as per the order on 31 March 2020.

Additional information :

During the year A Limited bought control in C Limited. A Limited paid ₹ 10,00,000 in cash and issued 5,000 shares with face value of ₹ 10 each to the shareholders of C Limited; the market value of the shares is ₹ 12.5 each. A Limited incurred issue costs of ₹ 0.5 per share. It also paid ₹ 50,000 as professional fees to carry out the above transaction.

Questions :

3.1 What is the consideration transferred by A Limited to C Limited ? **2**

(A) ₹ 10,50,000 (B) ₹ 10,62,500
(C) ₹ 11,02,500 (D) ₹ 11,15,000

Marks

3.2 A Limited has the following options with regards to its own equity shares. Which of these should be included in the calculation of diluted earnings per share ? 2

(A) In the money purchased put options
(B) In the money purchased call options
(C) In the money written put options
(D) Out of the money written put options

3.3 The following table contains different components of employee benefits cost, with four options indicating the section of the financial statements in which such component should be recognised. You are required to select the correct option. 2

	Option (A)	Option (B)	Option (C)	Option (D)
Current service cost	Other comprehensive income	Statement of profit or loss	Statement of profit or loss	Statement of profit or loss
Past service cost	Other comprehensive income	Statement of profit or loss	Other comprehensive income	Other comprehensive income
Net interest	Other comprehensive income	Statement of profit or loss	Statement of profit or loss	Other comprehensive income
Remeasurements of the net defined benefit liability	Statement of profit or loss	Other comprehensive income	Other comprehensive income	Other comprehensive income

3.4 From the following items, identify what must be classified as other long-term benefits under Ind AS 19 : 2

(A) Paid maternity leave
(B) Cash bonus payable in August 2020 for results obtained up to 31st March 2020
(C) Deferred compensation payable 20 months after the period in which it is earned
(D) Lump sum retirement benefit of ₹ 10 lakhs that vests after five years of service

Marks

3.5 A Limited is considering the possibility of issuing its equity securities in the US capital market. For its regulatory filings in the USA, A Limited wants to choose US GAAP as its reporting framework. Which income tax rate should be used for the purposes of measuring deferred tax assets and deferred tax liabilities under Ind AS and US GAAP ? 2

(A) Under US GAAP, enacted rates should be used; under Ind AS, enacted or substantially enacted rates should be used.

(B) Under US GAAP, enacted or substantially enacted rates should be used; under Ind AS, enacted rates should be used.

(C) Under US GAAP as well as Ind AS, enacted or substantially enacted rates should be used.

(D) Under US GAAP as well as Ind AS, enacted rates should be used.

3.6 How should the arrangement with B Limited be classified and recognised in the financial statements of A Limited for the year ended 31 March 2019 ? Explain the basis of your conclusion. Additionally, describe the changes, if any, to the classification and recognition in the consolidated financial statements of A Limited for the year ended 31st March 2020. 8

3.7 In respect of the wastewater plant, measure the amount of government grant as on 1st April 2018. Determine the nature of the government grant and its accounting treatment (principally) for the year ended 31st March 2019. Also determine the impact on profit or loss, if any, on account of revocation of government grant as on 31st March 2020. 7

CASE STUDY : 4

1. PQR Holdings Limited is an IFRS compliant conglomerate based in London and has Pound sterling ("GBP") as its functional and presentation currency. On 1st April 2019, PQR Holdings Limited incorporated PQR India Limited as its wholly owned subsidiary in India. PQR India will be engaged in trading of items purchased from PQR Holdings. The shares of PQR India, having a face value of INR 10 each amounting to total of INR 500 crores, were issued to PQR Holdings in GBP on 1st April 2019.

Marks

PQR India has adopted Ind AS with effect from its incorporation. In accordance with Ind AS, management of PQR India has concluded that its functional currency is Indian Rupee ("INR"). Following is the summarized trial balance of PQR India as on 31st March 2020, being the reporting date of PQR India and PQR Holdings :

(**Note** : All amounts in the below mentioned trial balance are in crores of INR)

S. No.	Particulars	Debit Balances	Credit Balances
1.	Share capital	–	500.0
2.	Securities premium reserve on issue of equity shares	–	150.0
3.	Retained earnings	–	110.0
4.	Long-term borrowings	–	30.0
5.	Deferred tax liability	–	10.0
6.	Income tax payable	–	25.0
7.	Import duty payable	–	5.0
8.	Employee benefits payable	–	7.5
9.	Sundry trade payables	–	2.5
10.	Property, plant and equipment (net of depreciation)	550.0	–
11.	Computer software (net of amortisation)	70.0	–
12.	Inventories purchased on 15th March 2018 (there is no indicator of impairment)	200.0	
13.	Cash and bank balance	5.0	–
14.	Sundry trade receivables	17.0	–
15.	Allowance for doubtful trade receivables	–	2.0
	Total	**842.0**	**842.0**

Additional information relating to property, plant and equipment, and computer software :

Line item	Date of acquisition
Property, plant and equipment	30th April 2019
Computer software	5th May 2019

Accounting policy of PQR India in relation to shareholders' funds :

Since IFRS does not provide guidance on how to translate equity (that is, share capital and reserves), PQR India has adopted the following accounting policy :

Share capital	To be translated using historical exchange rate
Securities premium	To be translated using historical exchange rate
Retained earnings	To be translated using average exchange rate

Since the presentation currency of PQR Holdings is GBP, PQR India is required to translate its trial balance from INR to GBP. Following table provides relevant foreign exchange rates :

Closing spot rate as on 1st April 2019	1 INR = 0.0123 GBP
Closing spot rate as on 30th April 2019	1 INR = 0.0120 GBP
Closing spot rate as on 5th May 2019	1 INR = 0.0119 GBP
Closing spot rate on 15th March 2020	1 INR = 0.0108 GBP
Closing spot rate as on 31st March 2020	1 INR = 0.0109 GBP
Average exchange rate for the year ended 31st March 2020	1 INR = 0.0116 GBP

Marks

2. On 1st June 2019, VK Ltd determines that it has a highly probable forecasted purchase of plant and machinery costing USD 1,00,000 from AZ Inc, a US-based company. The purchase will take place on 30 April 2020. VK Ltd has Indian Rupee as its functional currency, and AZ Inc has US dollar as its functional currency. On 1 June 2019, VK Ltd. enters into a forward contract to purchase US $ 60,000 to partially meet the forecast US dollar payment. The forward contract locks in the value of the US dollar amount at a rate of US$1 = INR74; the relevant information is as follows :

Date	USD-INR Spot rate	USD-INR Forward rate	Fair value of Forward (INR)
01-Jun-2019	72	74	0
30-Jun-2019	73	73.5	1,50,000
30-Sep-2019	75	75.5	1,80,000
31-Dec-2019	77	76.5	1,50,000
31-Mar-2020	76	75.5	1,20,000
30-Apr-2020	75	74	60,000

Note : The fair value of the forward contract is provided by the banking counterparty. Any discounting impact may be ignored.

Other information :

3. SS Limited has recognized goodwill worth ₹ 40,00,000 in the past for a business combination. During the current year, it has impaired the goodwill by ₹ 8,00,000 and therefore the carrying amount of goodwill is ₹ 32,00,000. Amortisation or impairment of goodwill is not deductible as per the tax regulations applicable in the jurisdiction where SS Limited files its tax returns. Applicable tax rate is 30%.

Marks

4. During the financial year ended 31st March 2020, an entity (TM limited) decided to sell one of its manufacturing divisions. All the criteria indicating that the sale is highly probable were met during the financial year ending 31st March 2020, except for the marketing, which began only on 10th April 2020.

Questions :

4.1 What is the amount of deferred tax to be recognised by SS Limited on goodwill ? **2**

(A) Deferred tax liability of ₹ 9,60,000

(B) Deferred tax liability of ₹ 12,00,000

(C) Deferred tax asset of ₹ 12,00,000

(D) No deferred tax

4.2 TM Limited is preparing its financial statements for the year ending 31st March 2020 and requires your guidance on the disclosures with respect to the sale of the manufacturing division. Accordingly, choose the incorrect statement from the following options : **2**

(A) Adjust the financial statements for the effect of discontinued operations

(B) Include a description of the manufacturing division in the notes

(C) Include the reportable segment in which the manufacturing division is presented as per Ind AS 108 Operating Segments (if applicable) in the notes.

(D) Describe the facts and circumstances leading to the expected disposal and the expected manner and timing of that disposal in the notes.

Marks

4.3 TM Limited enters into a number of transactions each year. The accountant has requested your help to identify which of these must be accounted for as a business combination : **2**

(A) TM Limited purchases 30% equity in TP Ltd, an unlisted company.

(B) TM Limited purchases a 45% interest which gives it control over TR Ltd.

(C) TM Limited purchases one of many brand names and products of TQ Ltd.

(D) TM Limited purchases a 30% equity and invests in debentures of TS Ltd.

4.4 Which of the following are typical features of a service concession arrangement ? (select one or more) **2**

(A) The contract sets the initial prices to be levied by the operator.

(B) Any price revisions over the period of the service contract are at the discretion of the operator.

(C) The operator has to hand over the infrastructure to the grantor at the end of the arrangement.

(D) The operator is not responsible for any management of the infrastructure or related services and therefore acts as an agent of the grantor.

4.5 Which of the following categories of financial assets is NOT subject to impairment requirements of Ind AS 109 "Financial Instruments" ? **2**

(A) Equity instruments measured at fair value through profit or loss.

(B) Investment in debentures where (i) Contractual cash flows represent solely payment of principal and interest; and (ii) entity's business model is to hold financial assets in order to collect contractual cash flows.

(C) Lease receivables

(D) Trade debtors

Marks

4.6 As the accountant of PQR India, you are required to do the following for its standalone financial statements :

(a) Explain the principle of monetary and non-monetary items. Based on this principle, bifurcate the line items of the trial balance into monetary and non-monetary items. 3

(b) Translate the trial balance of PQR India from INR to GBP. 4

4.7 The Finance Manager of VK Ltd is wondering if it is necessary to follow hedge accounting under Ind AS, given that the whole transaction will be completed in less than a year. As the accountant at VK Ltd, you are required to do the following :

(a) What are the benefits of designating the forward contract into a hedging relationship, as compared to not making such a designation ? 3

(b) Assume that the hedge is designated on 1st June 2019, and the purchase transaction of plant and machinery occurred on 30th April 2020 as expected. Assume that the hedge is perfectly matched and effective, and no hedge ineffectiveness actually occurred at each testing date. 5

Prepare the journal entries (along with necessary explanations) to be passed as at each of the relevant dates as mentioned above in the table.

CASE STUDY : 5

1. NM Limited Ind AS compliant multinational company which is engaged in various businesses. CD Limited, a subsidiary of NM Limited, also follows Ind AS for its financial reporting and is engaged in the business of consultation for civil engineering projects such as highways, buildings, etc. On 1st April 2019, CD Limited won a contract to provide consultancy to the government in relation to a highway project. Following are the salient features of the contract :

- Total period for which CD Limited is required to provide consultancy is 2 years starting from 1st April 2019.

 Marks

- Total consultancy fees to be received by CD Limited during the contract period is ₹ 50 crores.
- On 1st April 2019, NM Limited will be required to provide a performance guarantee to the government for an amount up to ₹ 50 crores. If the consultancy services provided by CD Limited is not satisfactory, the government can invoke the performance guarantee. If the guarantee is invoked, NM Limited will be required to indemnify the government for the loss suffered because of non-satisfactory performance by CD Limited.

To execute the project, on 1st April 2019, CD Limited has availed a short-term loan of ₹ 30 crores from the bank with the following covenants :

- NM Limited shall provide a financial guarantee for an amount up to ₹ 30 crores.
- If CD Limited makes any default on repayment of the loan, NM Limited will be required to indemnify the bank up to an amount of ₹ 30 crores.

For providing the above-mentioned two guarantees, NM Limited has charged commission from CD Limited at the market rate of 1% of the guaranteed amount applicable to such guarantees. As per the revenue recognition policy of NM Limited, it has decided to recognise the guarantee commission income in profit or loss over a period of two years starting from 1st April 2019 using the straight-line method.

Based on the performance and credit history of CD Limited, the management of NM Limited has established that there is no need to recognise any impairment allowance. The CFO of NM Limited is of the opinion that both the guarantees given should not be recognised in the balance sheet of NM Limited. However, she believes that these guarantees should be disclosed as contingent liabilities in the notes to the financial statements.

 Marks

2. Following is the summarised statement of profit and loss of NM Limited as per Ind AS for the year ended 31st March 2020 :

Particulars	**₹ in crores**
Revenue from operations	580.00
Other income	28.00
(A) Total income	**608.00**
Purchases of stock-in-trade	20.00
Changes in inventories of stock-in-trade	3.00
Employee benefits expense	58.00
Finance costs	65.00
Depreciation and amortization expense	15.00
Other expenses	150.00
(B) Total expenses	**311.00**
(C) Profit before tax	**297.00**
Current tax	82.70
Deferred tax	0.75
(D) Tax expense	**83.45**
(E) Profit after tax [C-D]	**213.55**

Additional information :

- Corporate income tax rate applicable to NM Limited in India is 30%.
- Other income includes long-term capital gains of ₹ 5 crores which are taxable at the rate of 10%.
- Other expenses include the following items which are not deductible for income tax purposes :

Item	₹ in crores
Penalties	0.50
Impairment of goodwill	22.00
Corporate Social Responsibility expense	3.00

- Other expenses include research and development (R & D) expenditure of ₹ 4 crores in respect of which a 200% weighted deduction is available under income tax laws.
- Other income includes dividends of ₹ 2 crores, which is exempt from tax.
- Profit before tax of ₹ 297 crores includes (i) agriculture income of ₹ 25 crores which is exempt from tax; and (ii) profit of ₹ 30 crores earned in the USA on which NM Limited has paid tax at the rate of 20%.
- Depreciation as per income tax laws is ₹ 12.5 crores.

During review of the financial statements of NM Limited, the CFO multiplied profit after tax by the Indian income tax rate and arrived at ₹ 89.10 crores as the tax expense (₹ 297 crores × 30% = ₹ 89.10 crores). However, actual income tax expense appearing in the summarized statement of profit and loss is ₹ 83.45 crores.

Marks

Other information :

3. NM Limited's subsidiary P Limited is engaged in the business of jewellery. P Limited is planning to introduce a scheme named "Buy Now, Pay Later" for its slow moving inventory. Under the scheme, the customer can buy jewellery and pay the amount due after a period of one year from the invoice date. The credit period can be increased or decreased depending on the customer's requirements; the pricing in such cases will be appropriately adjusted in accordance with the prevalent market rates. Management is of the view that the scheme will boost its sales significantly, as the customers will not have to avail loans from financial institutions to purchase the jewellery, whose prevailing market interest rate is 12% per annum. Management of P Limited expects that all of its customers who avail the benefit of the scheme will pay the amount on their respective due dates without any default.

4. S Limited is a subsidiary of H Limited. S Limited's functional and presentation currency is INR, while the functional currency of its parent is USD and its presentation currency is EUR. S Limited has a firm commitment to buy a commodity in EUR. It has entered into a forward contract to hedge the firm commitment against foreign exchange risk. It has to prepare its financial statements for the purpose of consolidation financial statement for its parent.

5. Q Limited is a huge machine manufacturer. It has to overhaul its machinery every 3 years. It has purchased machinery worth ₹ 50,00,000. It is estimated that the overhaul costs will be ₹ 5,00,000. It is expected that the machine has a useful life of 10 years.

Questions :

5.1 The CFO of P Limited is preparing for an upcoming presentation explaining the impact of the "Buy Now, Pay Later" scheme, and the differences between Companies (Accounting Standards) Rules, 2006 ("IGAAP") as compared with Ind AS. Which of the following statements accurately summarises the accounting treatment ? **2**

Marks

(A) Under IGAAP, the revenue was recognised at its fair value determined by discounting the invoiced amount using 12% per annum as the discounting rate; however, under Ind AS, revenue will be recognised at the amount invoiced to the customer.

(B) Under IGAAP, the revenue was recognised at the amount invoiced to the customer; the same accounting treatment will continue under Ind AS.

(C) Under IGAAP, the revenue was recognised at the amount invoiced to the customer; however, under Ind AS, revenue recognition will be deferred until the expiry of the credit period.

(D) Under IGAAP, the revenue was recognised at the amount invoiced to the customer; however, under Ind AS, revenue will be recognised at its fair value to be determined by discounting the invoiced amount using 12% per annum as the discounting rate.

5.2 How can S Limited account for a hedge relationship for the purpose of preparing H Limited's consolidated financial statements ? **2**

(A) Cash flow hedge

(B) Fair value hedge

(C) Option to designate under cash flow hedge or fair value hedge

(D) Net investment hedge

5.3 How should Q Limited initially recognise the purchase of its machinery ? **2**

(A) Recognise the machine at its cost of ₹ 50,00,000 and depreciate over 10 years.

(B) Recognise two assets – the machine worth ₹ 45,00,000 to be depreciated over 10 years and costs related to overhaul of ₹ 5,00,000 to be depreciated over 3 years.

(C) Recognise two assets – the machine worth ₹ 50,00,000 to be depreciated over 10 years and costs related to overhaul of ₹ 5,00,000 to be depreciated over 3 years.

(D) Recognise an asset for ₹ 45,00,000 to be depreciated over 10 years and expense ₹ 5,00,000 immediately.

Marks

5.4 A company prepares segment information for its management reporting purposes. Under Ind AS 108 *Operating segments*, the company can also use this segment information to determine the appropriate segments for financial reporting. Applying this approach, which of these are the company's reportable segments under Ind AS 108 ? 2

(A) Segments deemed significant by the management and are reviewed regularly by them

(B) Segment whose information is presented by the company's industry peers

(C) Each segment whose operating results are reviewed regularly by the Board of directors of the company to make decisions about resources to be allocated to the segment

(D) Each segment whose operating results are reviewed regularly by the Managing director who is the chief operating decision maker to make decisions about resources to be allocated to the segment.

5.5 Which of the following is incorrect in respect of a cash flow statement under Ind AS ? 2

(A) The cash flow effects of disposals cannot be deducted from those of acquisitions.

(B) Cash payment to the shareholders for buying back its shares is a financing activity.

(C) An entity only includes the transactions between itself and the joint venture when preparing the consolidated cash flow statement.

(D) Non-cash investing and financing transactions are to be disclosed as part of the cash flow statement.

5.6 (A) Comment on the accounting and disclosure principles proposed by the CFO in respect of each of the guarantees. 2

(B) Provide necessary journal entries, if any, as on 1st April 2019, and 31st March 2020 in the books of NM Limited. 6

5.7 The CFO has sought your help in reconciling the difference between the two tax expense amounts. Prepare a reconciliation containing the disclosures as required under the relevant Ind AS. 7
