Final New Syllabus

Paper - 6 E

Global Financial Reporting Standards

MAY 2018

Roll No. ....

Total No. of case study Questions – 3

Total No. of Printed Pages – 32

Time Allowed – 4 Hours

Maximum Marks – 100

HBJR

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 three case study questions. **The candidates are required to answer any two case study questions out of three.**

In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then only the requisite number of questions first answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.

In case of multiple choice questions, candidates are required to indicate their option in capital letters only.

Marks

Question No. I (Contains Part – A and Part – B) :

Part – A **30**

You are the Finance Manager of Giant Ltd., an Indian company preparing financials under Accounting Standards notified by the Companies (Accounting Standards) Rules, 2006 as amended (hereinafter referred to as IGAAP) and, after due approval from the concerned authorities, follows 31st December as its year end.

The CFO of the Company informs you that the Company wants to adopt IndAS on voluntary basis from the year ended 31st December, 2017. Accordingly, the Company will be required to:

- Restate its comparative consolidated statement of financial position as per IndAS as on 31st December, 2016.

Marks

– Present its opening consolidated statement of financial position as per IndAS as on 1st January, 2016 i.e. transition date.

You have the Consolidated Balance Sheet of Giant Ltd. as at 31st December, 2016 and 1st January, 2016 prepared under IGAAP as follows :

(₹ in lakhs)

Particulars	31st December, 2016	1st January, 2016
EQUITY AND LIABILITES		
SHAREHOLDERS' FUNDS :		
Equity Share Capital (face value of ₹ 100 each)	17,000	17,000
Reserves and Surplus	13,258	10,800
Minority Interest	5,110	4,845
Non-current liabilities :		
Long term borrowings	9,750	4,750
Deferred Tax Liabilities (net)	1,335	1,178
Other long-term liabilities	–	1,740
Long-term provisions	2,201	2,367
Current liabilities :		
Short term borrowings	5,060	5,011
Trade payables	2,626	1,894
Other current liabilities	5,581	4,768
Short-term provisions	1,342	1,000
TOTAL	**63,263**	**55,353**

Marks

ASSETS		
Non-current assets :		
Property, Plant & Equipment		
Tangible assets	21,792	19,138
Intangible assets	5,345	5,598
Goodwill on consolidation	5,945	5,945
Non-current investments	10,150	10,150
Long-term loans and advances	3,918	1,615
Current assets :		
Current investments	3,730	1,080
Inventories	2,818	2,514
Trade receivables	4,392	3,746
Cash and bank balances	285	260
Short-term loans and advances	4,888	5,307
TOTAL	**63,263**	**55,353**

The above financials include the following:

(1) Borrowings include 8% Optionally Convertible Debentures (OCD) issued on 1st July, 2016 for ₹ 5,000 lakhs. These debentures are convertible into equity shares of Giant Ltd. at the option of the holder at the end of the tenure of 5 years in the ratio of 1:1 i.e. each OCD will be converted to one equity share. Interest is paid annually on 30th June, each year. The market rate for issue of debentures without a conversion option is 10%. Accrued interest is included under Other current liabilities.

Marks

(2) Long-term loans and advances include interest-free security deposit for ₹ 700 lakhs placed by Giant Ltd. on 1st April, 2015 for premises that it has taken on lease. The amount of security deposit placed is abnormally higher as compared with other leasing transactions. The lease is non-cancellable operating lease for a term of 6 years. The rate of interest for such deposits is 9%. Rent expenses are straight-lined over the lease period.

(3) Investments consist of the following. These are measured at cost in the financials of Giant Ltd.

(₹ in lakhs)

Nature of investment	Current/ Non-current	31st December, 2016		1st January, 2016	
		Cost	Fair value	Cost	Fair value
Debt oriented mutual fund	Current	1,200	1,350	1,080	1,210
Equity oriented mutual fund	Current	2,530	2,682	–	–
Equity shares of Strategy Ltd. not held for trading (in the books of Dwarf Ltd.)	Non-current	5,400	5,620	5,400	5,550

Marks

Redeemable Debentures @ 10% coupon	Non-current	3,000	3,050	3,000	3,070
Optionally convertible preference shares @9%	Non-current	1,750	1,740	1,750	1,720
Total		**13,880**	**14,442**	**11,230**	**11,550**

Any diminution in value was considered as temporary and was not given effect.

(4) On 20th August, 2015, Giant Ltd. paid interim dividend of ₹ 1 per equity share. On 31st December, 2016, the Board of the Company has proposed dividend at ₹ 1.5 per equity share. The proposed dividend is included in short-term provisions.

Giant Ltd. is considering electing for the following exemptions on first-time adoption of IndAS, if permissible.

(a) Consider the fair value of property comprising of a building as deemed cost. The fair value as on 1st January, 2016 was ₹ 6,000 lakhs. On this date, the cost less accumulated depreciation of the property was ₹ 4,750 lakhs and the remaining useful life was 20 years. Based on the recent structural report obtained by the Company, the remaining useful life of the building is 15 years as on 31st December, 2017. This was the only building in this particular class of assets within Property, Plant and Equipment. The carrying amount of all other items of Property, Plant and Equipment qualify as carrying cost in accordance with IndAS 16.

Marks

(b) Restate past business combinations from 1st January, 2014. It had acquired a 60% stake in an unrelated entity, Dwarf Ltd. on 1st January, 2015. It had applied purchase method for accounting for the acquisition. The break-up of the net assets of Dwarf Ltd. recorded as on 1st January, 2015 is as follows :

(₹ in lakhs)

Particulars	Book value	Fair value
Plant and equipment (remaining life - 10 years)	6,262	8,140
Investments in equity instruments of Strategy Ltd. (5% stake)	5,400	5,130
Trade receivables	303	303
Trade payables and other current liabilities	290	290
Total net assets acquired	**11,675**	**13,283**

Giant Ltd. had recognized these assets at book value.

The purchase consideration was as follows:

(i) 70,00,000 shares at ₹ 100 each of Giant Ltd..

(ii) Cash of ₹ 5,800 lakhs payable over a period of three years as below :

Date of payment	Amount (₹ in lakhs)
31st December, 2015	2,320
31st December, 2016	1,740
31st December, 2017	1,740

The amount is disclosed under Other long-term liabilities and Other current liabilities.

You can assume the amount of payment in the next 12 months as the current portion. The discount rate on similar liabilities can be considered as 10%.

(iii) Giant Ltd. shall pay an additional consideration at 20% of the Earnings Before Interest and Tax (EBIT) of Dwarf Ltd. contingent upon the EBIT reaching specified levels at the end of the year 2018. Under IGAAP, this amount shall be recognised when payable.

The fair value of the consideration is as follows :

Date	**Amount (₹ in lakhs)**
1st January, 2015	500
31st December, 2015	505
31st December, 2016	507

The changes in fair value are not on account of new information obtained about facts and circumstances that existed as of the acquisition date.

Giant Ltd. incurred legal and professional fees of ₹ 150 lakhs in connection with the acquisition of Dwarf Ltd. and debited these costs in the goodwill amount while accounting under IGAAP.

It had recognized goodwill at ₹ 5,945 lakhs and non-controlling interest at ₹ 4,670 lakhs as on 1st January, 2015. Giant Ltd. has chosen the policy to measure the non-controlling interest at their proportionate share of net assets under IndAS.

Marks

On 31st December, 2013, it had merged its subsidiary, Miniature Ltd. in which it held 70% stake. It had accounted for the assets and liabilities taken over using the Pooling of Interest method. The break-up of the net assets of Miniature Ltd. recorded as on 31st December, 2013 is as follows :

(₹ in lakhs)

Particulars	Book value	Fair value
Plant and equipment (remaining life – 5 years)	1,361	1,200
Trade receivables	109	105
Trade payables and other current liabilities	70	70

The remaining shareholders were issued 4,20,000 equity shares at ₹ 100 per share of Giant Ltd. No goodwill or capital reserve was recognised on this transaction.

In the books of Giant Ltd., you are required to prepare the following :

- Opening IndAS consolidated statement of financial position as on 1st January, 2016.
- Comparative IndAS consolidated statement of financial position as on 31st December, 2016.
- Net worth reconciliation from IGAAP to IndAS as on 1st January, 2016 and 31st December, 2016.

Support your answer with detailed workings.

You may ignore deferred tax implications for the above.

Marks

Part – B

Answer the following with reference to the relevant IndAS with reasons and workings, if applicable.

(1) On 1st April, 2017, two entities enter into a five year lease. The lessor agrees to a rent-free period of one year as an incentive to the lessee for entering into the lease. The lessee will pay a fixed rent of ₹ 60 lakhs per annum for years 2 to 5. The lease income to be recognized by the lessor for the month of March, 2018 is _____ and March, 2019 is _____. 2

(2) Konglomerate Ltd. has a wide range of businesses and needs your help to identify which of the following items should be accounted for using IndAS 17 Leases (select all that apply) : 2

(A) Employment contracts.

(B) Right to use a unit in a multi-storey office complex.

(C) Licensing agreements for motion picture films.

(D) Agreements to explore for oil or natural gas.

(3) Fresho Ltd. is planning to adopt IndAS for the first time as at 31st March, 2018, with 1st April, 2016 as the date of transition. As at 31st March, 2016, 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 IndAS financial statements and how to rectify it (choose one response) : 2

(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, 2017.

(B) The correction shall be reflected in a reconciliation as at the end of the first IndAS reporting period i.e., as at 31st March, 2017.

(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 IndAS reporting i.e., years ended 31st March, 2017 and 31st March, 2018.

(D) The first IndAS financial statements shall distinguish the correction of errors from changes in accounting policies and reported as part of the reconciliations as at 1st April, 2016.

Marks

(4) Your colleague recently attended a seminar on fair value measurement, but the notes are drenched in sudden rains. Help her complete the following sentences using the choice of words given below. 2

(a) The fair value definition is based on the notion of an _________.

(b) Fair value is _________.

(c) The definition assumes _________.

(d) Fair value shall reflect _________.

market participants' current market conditions	entry price	an entity-specific value
a market-based measurement	a hypothetical and orderly exchange transaction	exit price

(5) HighEnd is an exclusive private club that has several facilities including restaurants, swimming pool, gym and golf. Members can only enroll by invitation and have an option to pay a single up-front, non-refundable membership fee rather than monthly or annual payments. The fee entitles members to most but not all of the Club's services for the member's life. For example, the Club has a highly popular aerobics and fitness facility. All members of HighEnd are entitled to attend daily classes by paying ₹ 20,000 for one year. No adjustment is made for classes not attended. There is an initial 2

Marks

registration fee of ₹ 1,000 for the welcome kit and the amount is non-refundable. How should the revenue be recognised by HighEnd ? (select all that apply) :

(A) The registration fee for the welcome kit etc. must be recognised upfront.

(B) The registration fee for the welcome kit etc. must be apportioned over the one year period.

(C) The annual fees for the aerobics and fitness classes must be recognised rateably over the time the individual is expected to require services of the club.

(D) The annual fees for the aerobics and fitness classes must be apportioned over the one year period.

(E) The lifetime membership fee must be apportioned over the one year period.

(F) The lifetime membership fee must be recognised upfront.

(G) The lifetime membership fee must be recognised rateably over the time the individual is expected to require services of the club.

(6) In accordance with IndAS 18 Revenue, interest shall be recognised using the ____ method and royalties shall be recognised on _____ basis in accordance with the substance of the relevant agreement. 2

Marks

(7) Pins and Needles Ltd. prepared its draft financial statements for the year ended 31st March, 2017 by 28th May, 2017. The audit took place during June and July and the Management authorised them for issue to the Board on 7th August, 2017. The Board approved the financial statements on 23rd August, 2017, with one amendment requested. Financial statements were sent to shareholders on 30th August, 2017. On what date did Pins and Needles Ltd. authorise the financial statements for issue ? 2

(A) 28th May, 2017

(B) 7th August, 2017

(C) 23rd August, 2017

(D) 30th August, 2017

(8) Needcash 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 : 2

(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 Needcash Ltd..

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

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

Marks

(9) The junior accountant at LeaseLand 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 : 2

(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.

(10) In accordance with Appendix A of IndAS 11, the operator of a service concession arrangement shall recognize a financial asset in respect of the arrangement to the extent that (select one or more that apply) : 2

(A) The grantor has guaranteed to pay the operator any shortfall between amounts received from users and a specified amount.

(B) The public are required to pay the operator a specified amount to use the service.

(C) The grantor will pay the operator based on the extent that the public uses the service.

(D) The grantor has guaranteed to pay the operator a specified amount.

Marks

Question No. II

QA Ltd. is a company registered under Companies Act, 2013 and is currently following IGAAP for preparation and presentation of financial statements. QA Ltd., is currently engaged in different business segments and is also looking to expand its operations. The Company is also exploring investment from an overseas investor to carry out the expansion plan.

During the month of April 2017, an overseas investor showed interest to acquire 51% stake in QA Ltd. and has appointed an independent consultant to carry out the due diligence of QA Ltd.. As per one of the conditions of Memorandum of Understanding (MoU), the Company is required to submit its financial statements for the year ended 31^{st} March, 2017 as per IndAS.

QA Ltd. has approached you to suggest the accounting treatment of the following issues under applicable IndAS.

(a) QA Ltd. is in the process of computation of the deferred taxes as per applicable IndAS and wants guidance on the tax treatment for the following : **8**

(i) QA Ltd. does not have taxable income as per the applicable tax laws, but pays 'Minimum Alternate Tax' (MAT) based on its books profits. The tax paid under MAT can be carried forward for the next 10 years and as per the Company's projections submitted to its bankers, it is in a position to get credit for the same by the end of eighth year. The Company is recognising the MAT credit as a current asset under IGAAP. The amount of MAT credit as on 31^{st} March, 2016 is ₹ 8.5 crores and as on 31^{st} March, 2017 is ₹ 9.75 crores;

 Marks

(ii) The Company had acquired 40% in GK LLC for an aggregate amount of ₹ 45 crores. The shareholding gives QA Ltd. significant influence over GK LLC but not control and therefore the said interest in GK LLC is accounted using the equity method. Under the equity method, the carrying value of investment in GK LLC was ₹ 70 crores on 31st March, 2016 and ₹ 75 crores as on 31st March, 2017. As per the applicable tax laws, profits recognised under the equity method are taxed if and when they are distributed as dividend or the relevant investment is disposed of;

(iii) The Company measures its head office property using the revaluation model. The property is revalued every year as on 31st March. On 31st March, 2016, the carrying value of the property (after revaluation) was ₹ 40 crores whereas its tax base was ₹ 22 crores. During the year ended 31st March, 2017, the Company charged depreciation in its Statement of Profit and Loss of ₹ 2 crores and claimed a tax deduction for tax depreciation of ₹ 1.25 crores. On 31st March, 2017, the property was revalued to ₹ 45 crores. As per the tax laws, the revaluation of Property, Plant & Equipment does not affect taxable income at the time of revaluation.

The Company has no other temporary differences other than those indicated above. The Company wants you to compute the deferred tax liability as on 31st March, 2017 and the charge/credit to the Statement of Profit and Loss and/or Other Comprehensive Income for the same. Consider the tax rate at 20%.

Marks

(b) QA Ltd. has purchased a machine during the current accounting period for ₹ 2,50,000. Depreciation of ₹ 50,000 was charged in arriving at the accounting profit for the current period. A deduction of ₹ 1,00,000 was available under the applicable tax laws. The remaining cost will be deductible in future periods, either as depreciation or as a deduction on disposal.

The Company also has a current asset of ₹ 60,000 related to interest receivable. The related interest revenue will be taxed on cash basis when it is received.

(i) For the above, difference between the tax base of machine and the carrying amount will result into ? (Give brief reasoning for your choice.) **2**

(A) Deferred Tax Asset

(B) Deferred Tax Liability

(C) None of the above

(ii) What will be the tax base of interest receivable and how will the same be treated in the financial statements prepared as per IndAS ? Give brief reasoning and working for your choice. **2**

(A) ₹ 60,000 and Deferred Tax Assets

(B) ₹ Nil and Deferred Tax Assets

(C) ₹ 60,000 and Deferred Tax Liability

(D) ₹ Nil and Deferred Tax Liability

Marks

(c) QA Ltd. had on 1st April, 2015 granted 1,000 share options each to 2,000 employees. The options are due to vest on 31st March, 2018 provided the employee remains in employment till 31st March, 2018. 6

On 1st April, 2015, the Directors of Company estimated that 1,800 employees would qualify for the option on 31st March, 2018. This estimate was amended to 1,850 employees on 31st March, 2016 and further amended to 1,840 employees on 31st March, 2017.

On 1st April, 2015, the fair value of an option was ₹ 1.20. The fair value increased to ₹ 1.30 as on 31st March, 2016 but due to challenging business conditions, the fair value declined thereafter. In September 2016, when the fair value of an option was ₹ 0.90, the Directors repriced the option and this caused the fair value to increase to ₹ 1.05. Trading conditions improved in the second half of the year and by 31st March, 2017 the fair value of an option was ₹ 1.25. QA Ltd. decided that additional cost incurred due to repricing of the options on 30th September, 2016 should be spread over the remaining vesting period from 30th September, 2016 to 31st March, 2018.

The Company has requested you to suggest the suitable accounting treatment for these transaction as on 31st March, 2017.

Marks

(d) During the year, QA Ltd. delivered manufactured products to customer K. The products were faulty and on 1st October, 2016 customer K commenced legal action against the Company claiming damages in respect of losses due to the supply of faulty product. Upon investigating the matter, QA Ltd. discovered that the products were faulty due to defective raw material procured from supplier F. Therefore, on 1st December, 2016, the Company commenced legal action against F claiming damages in respect of the supply of defective raw materials.

QA Ltd. has estimated that it's probability of success of both legal actions, the action of K against QA Ltd. and action of QA Ltd. against F, is very high.

On 1st October, 2016, QA Ltd. has estimated that the damages it would have to pay K would be ₹ 5 crores. This estimate was revised to ₹ 5.2 crores as on 31st March, 2017 and ₹ 5.25 crores as at 15th May, 2017. This case was eventually settled on 1st June, 2017, when the Company paid damages of ₹ 5.3 crores to K.

On 1st December, 2016, QA Ltd. had estimated that it would receive damages of ₹ 3.5 crores from F. This estimate was revised to ₹ 3.6 crores as at 31st March, 2017 and ₹ 3.7 crores as on 15th May, 2017. This case was eventually settled on 1st June, 2017 when F paid ₹ 3.75 crores to QA Ltd. QA Ltd. had, in its financial statements for the year ended 31st March, 2017, provided ₹ 3.6 crores as the financial statements were approved by the Board of Directors on 26th April, 2017.

(i) Whether the Company is required to make provision for the claim from customer K as per applicable IndAS ? If yes, please give the rationale for the same. 2

Marks

(ii) If the answer to (a) above is yes, what is the entry to be passed in the books of account as on 31st March, 2017 ? Give brief reasoning for your choice. 2

(A) Statement of Profit and Loss A/c Dr. ₹ 5.2 crores
To Current Liability A/c ₹ 5.2 crores

(B) Statement of Profit and Loss A/c Dr. ₹ 5.3 crores
To Non-Current Liability A/c ₹ 5.3 crores

(C) Statement of Profit and Loss A/c Dr. ₹ 5.25 crores
To Current Liability A/c ₹ 5.25 crores

(iii) What will the accounting treatment of the action of QA Ltd. against supplier F as per applicable IndAS ? 2

(e) QA Ltd. sold a property on 1st April, 2016 for ₹ 48 crores to raise cash for the future expansion of its business. The carrying value of the property on 1st April, 2016 was ₹ 50 crores and as per the independent valuation report the market value of the property is ₹ 55 crores and the distress sale value is ₹ 52 crores The estimated future life of the property as on 1st April, 2016 was 40 years. 5

However, since the administrative office of the Company was in the same premises and to avoid and logistic inconvenience, the Company on the same day has taken the same premises on the lease and the annual rental for 10 years is as follows :

Year	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Rent in ₹ crores	1.00	1.20	1.30	1.40	1.50	1.60	1.70	1.80	1.90	2.00

Marks

The lease agreement is for the period of 10 years, however the same is cancellable after initial period of 5 years. The Company as on date is expected to utilise the premises for entire period of 10 years.

As per market survey, rentals for a similar property for a similar period is expected to be ₹ 8.00 crores for the first five years and ₹ 11 crores for the next five years.

The Company wants you to suggest the accounting treatment of the above lease transaction as per applicable IndAS.

(f) QA 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 IndAS 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 IndAS. **4**

(g) On 1st April, 2016, QA 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, 2016. On 31st December, 2016, 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. **5**

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, 2016 to 31st March, 2017.

Marks

The market value of the shares of KS Ltd. as on 31st March, 2017 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.

(h) (1) QA Ltd. issued 10,00,000 of 8% Long Term bond-A Series of ₹ 1 each on 1st April, 2016. The bond tenure is 3 years. Interest is payable annually on 1st April each year. The investors expect an effective interest rate on the loan at 10%. QA Ltd. wants you to suggest the suitable accounting entries for the issue of these bonds as per applicable IndAS. Consider the discounting factor 3 years, 10% discounting factor is 0.751315 and 3 years cumulative discounting factor is 2.48685.

(i) What is the principal value of the bond at the initial recognition at the time of issue of bond as per applicable IndAS ? Give brief reasoning and working for your choice. **2**

(A) ₹ 10,00,000

(B) ₹ 8,51,251

(C) ₹ 7,51,315

(D) ₹ 9,20,161

Marks

(ii) What is the present value of the interest payment to be recognised as part of the sale price of the bond as per applicable IndAS ? Give brief reasoning and working for your choice. 2

(A) ₹ 1,25,632

(B) ₹ 2,12,213

(C) ₹ 1,98,948

(D) ₹ 2,16,321

(iii) What are the proceeds of the sale of the bond to be recognised at the time of initial recognition as per applicable IndAS ? Give brief reasoning and working for your choice. 2

(A) ₹ 10,00,000

(B) ₹ 9,50,263

(C) ₹ 9,82,576

(D) ₹ 10,21,122

(iv) What is the accounting entry to be passed at the time of accounting for payment of interest for the first year ? Give brief reasoning and working for your choice. 2

(A) Bond Interest expenses A/c ₹ 1,00,000
  To Discount on Bond A/c ₹ 20,000
  To Cash/Bank A/c ₹ 80,000

(B) Bond Interest expenses A/c ₹ 95,026
  To Discount on Bond A/c ₹ 15,026
  To Cash/Bank A/c ₹ 80,000

(C) Bond Interest expenses A/c ₹ 98,257
  To Discount on Bond A/c ₹ 18,257
  To Cash/Bank A/c ₹ 80,000

Marks

(2) QA Ltd. has also issued 10,00,000 of 8% Long Term Bond-B Series of ₹ 1 each on 1st April, 2016. The bond tenure is 3 years. Interest is payable annually on 1st April each year. However, the bond holders of this series are entitled to convert the bonds to shares of ₹ 1 each on the date of maturity, instead of receiving the principal repayment. Interest rate on the similar bond without conversion option is 10%. QA Ltd. has requested you to suggest the following for this type of instrument :

(a) What is entry to be passed at the date of issuance of the bond as per applicable IndAS ? Give brief reasoning for your choice. **2**

(A) Cash/Bank A/c ₹ 10,00,000
  To 8% LT Bond-Series-B A/c ₹ 8,00,000
  To Share Option A/c ₹ 2,00,000

(B) Cash/Bank A/c ₹ 10,00,000
  To 8% LT Bond-Series-B A/c ₹ 9,50,263
  To Share Option A/c ₹ 49,737

(C) Cash/Bank A/c ₹ 10,00,000
  To 8% LT Bond-Series-B A/c ₹ 9,60,287
  To Share Option A/c ₹ 39,713

Marks

(b) What is entry to be passed at the date of conversion of the bond as per applicable IndAS ? Give brief reasoning for your choice. 2

(A) 8% LT-Bond Series-B A/c	₹ 10,00,000	
Share Option A/c	₹ 39,713	
To Share Capital A/c		₹ 10,00,000
To Share Premium A/c		₹ 39,713

OR

(B) 8% LT-Bond Series-B A/c	₹ 10,00,000	
Share Option A/c	₹ 49,737	
To Share Capital A/c		₹ 10,00,000
To Share Premium A/c		₹ 49,737

Question No. III

UK Ltd. is a public company incorporated in India under the Companies Act, 1956. As on 31st December, 2016, it has two subsidiaries i.e. KK Ltd. and GK Ltd., and one associate concern SK Ltd. For preparation of its financial statements it follows IGAAP. On 1st January, 2017, UK LLC, a company incorporated in the United Kingdom had acquired majority stake and control in UK Ltd. and consequently UK Ltd. became a subsidiary of UK, LLC. Since in the near future, UK Ltd. is likely to adopt IndAS, it has approached you to advice on the below mentioned issues and has requested you to suggest the IndAS impact, if any, on the following items :

Marks

(a) The Company has purchased a new head office property for ₹ 10 crores. The new office building has 10 floors and the organisation structure of the Company is as follows : 8

Floor	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Use	Waiting Area	Admin	HR	Accounts	Inspection	MD Office	Canteen	Vacant		

Since the Company did not need the floors 8, 9 and 10 for its business needs, it has leased out the same to a restaurant on a long-term lease basis. The terms of the lease agreement are as follows :

- Tenure of Lease Agreement – 5 Years
- Non-Cancellable Period – 3 years
- Lease Rental-annual lease rental receivable from these floors are ₹ 10,00,000 per floor with an escalation of 5% every year.

Based on the certificate from its architect, UK Ltd. has estimated the cost of the 3 top floors as approximately ₹ 3 crores. The remaining cost of ₹ 7 crores can be allocated as 25% towards Land and 75% towards Building.

As on 31st December, 2017, UK Ltd. obtained a valuation report from an independent valuer who has estimated the fair value of the property at ₹ 15 crores. UK Ltd. wishes to use the cost model for measuring Property, Plant & Equipment and the fair value model for measuring the Investment Property. UK Ltd. depreciates the building over an estimated useful life of 50 years, with no estimated residual value.

Advise the Company on the accounting and disclosures for the above as per the applicable IndAS. Also discuss what would be the treatment had the Company adopted IFRS.

Marks

(b) In the year 2016, UK Ltd. had purchased a brand name "ALPHA" for an agreed price at ₹ 2.5 crores. Currently UK Ltd. has recorded the brand under the head "Intangible Assets". The Management of the Company believes that the acquired brand has an indefinite useful life - However it is currently amortising the same over a period of 10 years as per the applicable IGAAP. As on the date of preparation of the financial statements for the year ended 31st March, 2017, there is no available reliable estimate of the selling price for the brand, but the directors estimated that the value in use of the brand was ₹ 3.5 crores. The Directors of the Company wish to use the fair value model for measuring intangible assets whenever permitted by IndAS. Whether the Company is permitted to do so ? Provide your rationale for the same with specific reference to applicable IndAS. 4

(c) UK 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, 2017 is ₹ 12 crores. The Company has requested you to suggest how these loans to the suppliers need to be recorded as per IndAS. 6

Marks

(d) The Company is also in the business of the infrastructure and has two divisions under the same; (I) Toll Roads and (II) Wind Power. The brief details of these business and underlying project details are as follows :

I. Bhilwara-Jabalpur Toll Project – The Company has commenced the construction of the project in the current year and has incurred total expenses aggregating to ₹ 50 crores as on 31st December, 2017. Under IGAAP, the Company has recorded such expenses as Intangible Assets in the books of account. The brief details of the Concession Agreement are as follows :

- Total Expenses estimated to be incurred on the project – ₹ 100 crores;
- Fair Value of the construction services is ₹ 110 crores;
- Total Cash Flow guaranteed by the Government under the concession agreement is ₹ 200 crores;
- Finance revenue over the period of operation phase is ₹ 15 crores;
- Other income relates to the services provided during the operation phase.

II. Kolhapur-Nagpur Expressway – The Company has also entered into another concession agreement with Government of Maharashtra in the current year. The construction cost for the said project will be ₹ 110 crores. The fair value of such construction cost is approximately ₹ 200 crores. The said concession agreement is Toll based project and the Company needs to collect the toll from the users of the expressway. Under IGAAP, UK Ltd. has recorded the expenses incurred on the said project as an Intangible Asset.

Marks

(i) What would be the classification of Bhilwara-Jabalpur Toll Project as per applicable IndAS ? Give brief reasoning for your choice. 2

(A) Financial Asset Model;

(B) Intangible Asset Model;

(C) Bifurcated Model;

(D) None of the above

(ii) What would be the classification of Kolhapur-Nagpur Expressway Toll Project as per applicable IndAS ? Give brief reasoning for your choice. 2

(A) Financial Asset Model;

(B) Intangible Asset Model;

(C) Bifurcated Model;

(D) None of the above

Also, suggest suitable accounting treatment for preparation of financial statements as per IndAS for the above 2 projects. 6

(e) UK Ltd. has installed Wind Turbine Equipment at Rajasthan to generate electricity for which it has entered into a Power Purchase Agreement(PPA) with the State Government. The terms of the PPA are as follows: 2

– The PPA is for an initial period of 3 years, renewable at mutual terms and conditions. The Management estimates the useful life of such project around 20 years.

– The price per unit is fixed for a period of one year and is renewed every year as per the State Government policy.

Marks

- The Company's Management is of the view that the power generated by the project will be completely sold to the State Government and not to any third party. However, there is no such restriction prescribed in the PPA.
- Currently the Company has classified the Wind Turbine Equipment as part of the Property, Plant & Equipment and is charging depreciation on the same.

For the above PPA, which condition, as per the applicable IndAS, is not relevant in determining whether an arrangement is or contains a lease ? Give brief reasoning for your choice.

(A) Use of Specific Assets;

(B) Right to Operate the assets;

(C) Right to control the Physical access;

(D) Price is contractually fixed by the purchaser;

(E) None of the above

UK Ltd. also wants you to give your suggestion on the accounting of the above arrangement under applicable IndAS. 6

(f) Under IndAS, can UK Ltd., in its separate financial statements, account for its investment in subsidiaries and associates at : 2

(A) Cost

(B) Market Value

(C) In accordance with IndAS 109,

(D) Option between (A) & (C)

Give brief reasoning for your choice.

Marks

(g) The Company accounts for revenue as per applicable IGAAP. However, the Management of UK Ltd. has requested your view/suggestions on the following :

(a) Identify the key differences between IGAAP and IndAS while recognising the revenue from sale of goods and services. **2**

(b) The Company has sold certain items to a customer with after sale service for a period of two years from the date of such sale i.e. 1st October, 2017 without any additional charges. The total amount payable by the customer is agreed as follows:

- ₹ 8,00,000, if paid by 31st January, 2018;
- ₹ 8,10,000, if paid by 28th February, 2018;
- ₹ 8,20,000, if paid by 31st March, 2018.

Based on past experience it is highly probable that the customer makes the payment before 28th February, 2018. The standalone selling price of the product is ₹ 7,00,000 and two years' services are offered to the customer at ₹ 1,40,000.

(1) How many transactions are included in the above arrangement as per applicable IndAS ? Give brief reasoning for your choice. **2**

(A) One

(B) Two

(C) Three

(D) None of the above

Marks

(2) What is the amount of revenue to be considered for revenue recognition as per the applicable IndAS ? Give brief reasoning and working for your choice. 2

(A) ₹ 8,00,000

(B) ₹ 8,10,000

(C) ₹ 8,20,000

(D) None of the above

(3) What is the amount of revenue to be recognised under IndAS towards sale of product as per the terms of the contract with the customer ? Give brief reasoning and working for your choice. 2

(A) ₹ 7,00,000

(B) ₹ 6,75,000

(C) ₹ 6,80,000

(D) None of the above

(4) What is the amount of revenue to be recognised under IndAS towards sale of service as per the terms of the contract with the customer ? Give brief reasoning and working for your choice. 2

(A) ₹ 5,725

(B) ₹ 5,200

(C) ₹ 5,625

(D) None of the above

Marks

(5) What is the portion of current and non-current liabilities to be presented in the financial statements as per IndAS ? Give brief reasoning and working for your choice. 2

(A) Current – ₹ 52,525, Non-Current – ₹ 62,125

(B) Current – ₹ 67,500, Non-Current – ₹ 61,875

(C) Current – ₹ 62,125, Non-Current – ₹ 52,525

(D) None of the above