Final New Syllabus

Paper - 6 E

Roll No. .... Global Financial Reporting Standards

i MAY 2019

Total No. of Case Study Questions – 3 Total No. of Printed Pages – 24

Time Allowed – 4 Hours Maximum Marks – 100

CRP2

Answers to questions are to be given only in English except in 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.

Answers in respect of Multiple Choice Questions are to be indicated in capital letters, i.e, A or B or C or D as the case may be.

"Working Notes should form part of the answer." However, in answers to objective type questions (MCQs carrying two marks each), working notes are not necessary.

"Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note."

Question No.-1

1.1 Monsoon Limited is engaged in the business of manufacturing sugar and chemicals. The Company has taken a term loan for ₹ 5 crores from SBI to buy certain plant and machinery during the year ended March 31, 2018. The loan is repayable over a period of 5 years.

The terms and conditions of the loan agreement requires the company to maintain a current ratio of 1.33 : 1 and debt-equity ratio of 1 : 2. If these loan covenants fall below this level, then the bank has a right to recall the entire loan.

Marks

(i) The Loan outstanding as on March 31, 2019 was ₹ 4.25 crores. The current ratio of Monsoon Limited was 1 : 1 and debt equity ratio was 0.5 : 2. SBI has sent a notice on April 5, 2019 demanding repayment of loan, on account of breach of terms of the loan agreement. **2**

The financials were signed on May 10, 2019. How the long-term loan has to be classified in the financials for the year ended March 31, 2019 ?

(A) Other current liabilities

(B) Current Financial Liability

(C) Non-current Financial Liability

(D) Other non-current liability

(ii) On receiving the notice, the CFO of Monsoon Limited negotiated with the bank and ensured to rectify the breach. As a result on April 25, 2019 the Bank has agreed not to recall the loan and allowed the Company to achieve the contracted current and debt-equity ratio by 2021. In that case, how the long-term loan has to be classified in the financials for the year ended March 31, 2019 ? **2**

(A) Other current liabilities

(B) Current Financial Liability

(C) Non-current Financial Liability

(D) Other non-current liability

1.2 Saffron Limited is engaged in the business of manufacturing canned foods. During the year ended March 31, 2019 the company has decided to change it's depreciation policy from straight line to units of production method for a more reliable estimate. How the change will be implemented in the books of accounts ? **2**

(A) Retrospective restatement

(B) Prospective application

(C) Retrospective application

(D) Both Retrospective restatement and Retrospective application

1.3 Bharath Fabrics Limited is an 100% export-oriented unit. It manufactures fabrics in India and exports it to foreign countries all around the world. Its entire trade receivable consists of foreign currency receivables. 2

The Company has prepared its financials for the year ended March 31, 2019 and it is due for authorization in its annual general meeting scheduled to be held on June 20, 2019. The management of the company observed that there were abnormal fluctuations in foreign currency rates during April to June 2019.

As the CFO / auditor of the Company suggest a suitable action from the following :

(A) Adjust the foreign exchange year-end balances to reflect the abnormal adverse fluctuations in foreign exchange rates.

(B) Disclose the post-balance-sheet event in footnotes as a non-adjusting event.

(C) Adjust the foreign exchange year-end balances to reflect all the abnormal fluctuations in foreign exchange rates (and not just adverse movements).

(D) Ignore the post-balance-sheet event.

1.4 India Turnings Limited has adopted revaluation model since 1st April, 2017 to measure its Property plant and equipment (PPE) and have revalued as follows : 2

(i) As on April 1, 2017 - PPE has been revalued up by ₹ 3,00,000

(ii) As on March 31, 2018 - PPE has been revalued down by ₹ 3,60,000

(iii) As on March 31, 2019 - PPE has been revalued up by ₹ 5,00,000

How will the increase in year 2018-19 be recognised in the financials of India Turnings Limited ?

(A) ₹ 5,00,000 is credited to other comprehensive income.

(B) ₹ 60,000 is credited to profit and loss account and ₹ 4,40,000 is credited to other comprehensive income.

(C) ₹ 60,000 is credited to other comprehensive income and ₹ 4,40,000 is credited to profit and loss account.

(D) ₹ 5,00,000 is credited to profit and loss account.

Marks

1.5 (i) Terrain Industries Limited bought a private jet for the use of its top-ranking officials. The cost of the private jet is ₹ 15 crores and has a composite useful life of 9 years. The engine of the jet has a useful life of 7 years. The private jet's tyres are replaced every 3 years. **2**

The Company is following straight line method of depreciation. What is the useful life to be considered ?

(A) 9 years of composite useful life

(B) 7 years useful life for the engine, 3 years useful life for the tyres, and 9 years useful life to be applied for the balance cost of the jet.

(C) 3 years useful life, based on conservatism (the lowest useful life of all the parts of the jet)

(D) 7 years useful life, based on simple average of useful lives of all major components of the jet.

(ii) Under the above same circumstances, what would be the useful life of the asset for the purpose of depreciation if the said company is following US GAAP ? **2**

(A) 9 years of composite useful life

(B) 7 years useful life for the engine, 3 years useful life for the tyres, and 9 years useful life to be applied for the balance cost of the jet.

(C) 3 years useful life, based on conservatism (the lowest useful life of all the parts of the jet)

(D) 7 years useful life, based on simple average of useful lives of all major components of the jet.

Marks

1.6 Global Limited, an Indian company acquired on September 30, 2018 70% of the share capital of Mark Limited, an entity registered as company in Germany. The functional currency of Global Limited is INR and its financial year end is March 31, 2019.

(i) The fair value of the net assets of Mark Limited was 23 million EURO and the purchase consideration paid is 17.5 million EURO on September 30, 2018. 2

The exchange rates as at September 30, 2018 was 82 INR/EURO and at March 31, 2019 was 84 INR/EURO.

What is the value at which the goodwill has to be recognised in the financial statements of Global Limited as on Mach 31, 2019 ?

(A) 451 million INR

(B) 462 million INR

(C) 451 million EURO

(D) 5.50 million EURO

(ii) Mark Limited sold goods costing 2.4 million EURO to Global Limited for 4.2 million EURO during the year ended March 31, 2019. The exchange rate on the date of purchase by Global Limited was 83 INR/EURO and on March 31, 2019 was 84 INR/EURO. The entire goods purchased from Mark Limited are unsold as on March 31,2019. Determine the unrealised profit to be eliminated in the preparation of consolidated financial statements. 2

(A) 149.40 million INR

(B) 151.20 million INR

(C) 199.20 million INR

(D) 201.60 million INR

1.7 An entity manufactures passenger vehicles. The time between purchasing of underlying raw materials to manufacture the passenger vehicles and the date the entity completes the production and delivers to its customers is 11 months. Customers settle the dues after a period of 8 months from the date of sale. 2

What is the Operating Cycle of the entity ?

(A) 11 months

(B) 12 months

(C) 19 months

(D) 8 months

Marks

1.8 Evaluate following situations with reference to relevant standards :

(i) Zest Limited is undertaking reorganisation. Under the plan, part of the entity's business will be demerged and will be transferred to a separate entity, Zeal Limited. This also will involve a transfer of part of the pension obligation to Zeal Limited. Because of this, Zeal Limited will have a deductible temporary difference for the year ended March 31, 2019. It is anticipated that Zeal will be loss-making for the first eleven years of its existence, but thereafter it will become a profitable entity. The future forecasted profit is based on estimates of sales to intergroup companies. Should Zeal Limited recognise the deductible temporary difference as a deferred tax asset ? **2**

(ii) Dharam Limited has a subsidiary in USA consequently which adopts US GAAP. It has valued its inventory under LIFO method for Income Tax purposes. Discuss its implication both from the point of view of US GAAP and also from the point of view of its consolidation with the parent company which follows IFRS. **4**

(iii) Jeevan India Limited is in the business of development of smart city. For development of smart city, Jeevan India Limited allots its land to customer on 99 years of lease. The customer is required to pay lease premium at the time of execution of lease deed and lease rent on annual basis over a period of 99 years. **4**

The lease premium amount is the market value of land and lease rent is nominal amount say ₹ 1 per square metre per year. The lease premium is non-refundable. As per the lease terms, on completion of 99 years, the lease is renewable at mutual consent of lessor and lessee.

How would income in respect of lease premium collected by Jeevan India Limited (which is the market value of land and is not refundable) at the time of execution of lease deed be recognised as per IFRS, if for subsequent years, only nominal lease rent is collected.

1.9 Comment on the following by quoting references from appropriate IFRS.

(i) Dong Seng Limited holds some vacant Land for which the use is not yet determined. The Land is situated in a prominent area of the city where lot of commercial complexes are coming up and there is no legal restriction to convert the land into a commercial land. **6**

The Company is not interested in developing the land to a commercial complex as it is not its business objective. Currently the land has been let out as a parking lot for the commercial complexes around.

The Company has classified the above property as investment property. It has approached you, an expert in valuation, to obtain fair value of the land for the purpose of disclosure under IFRS.

On what basis will the land be fair valued under IFRS ?

(ii) Dong Seng Limited holds equity shares of a private company. In order to determine the fair value of the shares, the company used discounted cash flow method as there were no similar shares available in the market. 4

Under which level of fair value hierarchy will the above inputs be classified ?

What will be your answer if the quoted price of similar companies were available and can be used for fair valuation of the shares ?

1.10 (i) Maroon Inc Limited has received an exemption of customs duty on import of capital goods under Export Promotion Capital Goods (EPCG) scheme. The exemption is subject to an export obligation of 6 times of duty saved on capital goods imported under EPCG scheme, to be fulfilled in 6 years reckoned from authorization issue-date. 6

Whether the above scheme is a government grant under IFRS ? If yes, then whether it is a Grant related to asset or Grant related to income. Discuss the way in which this has to be accounted for in the financial statements ?

(ii) Croton Limited is engaged in the business of trading commodities. The company's main asset are investments in equity shares, preference shares, bonds, non-convertible debentures (NCD) and mutual funds. 4

The Company collects the periodical income (i.e. interest, dividend, etc.) from the investments and regularly sells the investment in case of favourable 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 investments as FVTOCI if the company decides to hold them for more than one-year (i.e., classify it as non-current) ?

(b) 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 recognised as FVTOCI ?

Question No.-2

2.1 Gold Limited and Copper Limited are partners of a joint operations engaged in the business of mining precious metals. The entity uses a jointly owned drilling plant in its operations. 2

During the year ended March 31, 2019 an inspection was conducted by the government authorities in the mining fields. The inspection authorities concluded that adequate safety measures were not followed by the entity. As a consequence, a case was filed and a penalty of ₹ 50 crores have been demanded from the Company.

The legal counsel of the company has assessed the demand and opined that appeals may not be useful and the appeal orders will be unfavourable to the joint venture. Out of ₹ 50 crore, ₹ 30 crore will be reimbursed by the Copper Limited, as per the terms of the Joint operations Agreement. As at the year end, actual reimbursement was not received from the Copper Limited. How will the liability be disclosed in the books of Gold Limited ?

(A) As a provision for ₹ 20 crores and a contingent liability for ₹ 30 crores

(B) As a contingent liability for ₹ 50 crores

(C) As a provision for ₹ 30 crores and a contingent liability for ₹ 20 crores

(D) As a provision for ₹ 50 crores

Marks

2.2 A factory owned by ECL Limited was destroyed by fire. ECL Limited lodged an insurance claim for the value of the factory building, plant, and an amount equal to one year's net profit. During the year there were a number of meetings with the representatives of the insurance company. 2

Finally, before year-end, it was decided that ECL Limited would receive compensation for 90% of its claim. ECL Limited received a letter that the settlement cheque for that amount had been sent, but it was not received before year-end.

How should ECL Limited treat this in its financial statements ?

(A) Record 90% of the claim as a receivable as it is virtually certain that the contingent asset will be received.

(B) Do not make any adjustments in the financials and only disclose the contingent asset in the notes on accounts.

(C) Wait until next year when the settlement cheque is actually received and not recognise or disclose this receivable at all since at year-end it is a contingent asset.

(D) Record 100% of the claim as a receivable at year-end as it is virtually certain that the contingent asset will be received, and adjust the 10% next year when the settlement check is actually received.

2.3 Mittal Motors Limited is preparing financials for the year ended March 31, 2019. The Company had some queries in preparation of certain data that is required to be presented in the financials. As the retainer of the Company, please advise the company for the following issues :

(i) Mittal Motors has issued 10,00,000 numbers of 9% cumulative preference shares. The Company has arrears of ₹ 15 crores of preference dividend as on March 31, 2019, it includes current year arrears of ₹ 1.75 crores. The Company did not declare any dividend for equity shareholders as well as for preference shareholders. 2

What is the amount of dividend to be reduced from profit or loss for the year for calculating basic Earnings Per Share ?

(A) ₹ 15 crores

(B) ₹ 1.75 crores

(C) ₹ 13.25 crores

(D) Nothing, as no dividend has been declared by the entity.

Marks

(ii) Further Mittal Motors has also issued certain convertible debentures, which are outstanding as at the year end. For the purposes of computation of weighted average number of shares (to arrive at diluted EPS) when should the dilutive potential shares should be deemed to have been converted into shares ? 2

(A) At the start of the period

(B) The date of issue of the potential shares

(C) At the start of the period or, if later, the date of the issue of the potential shares

(D) At the end of the period

2.4 Bharath Developers Limited are engaged in the business of developing Malls and leasing out them to its customers. The Company has an ongoing project in Kerala. It had borrowed ₹ 75 crores from a Bank to meet the project expenses.

(i) The construction of the qualifying assets was suspended for a period of 10 days on completion of each floor for the concrete to settle. Further there was a delay of two months due to extreme floods in Kerala during which the active development of the project was interrupted. There was a further delay of 15 days in completion due to rectification of the faulty electric wirings which was discovered during final inspection. 2

As the consultant of Bharath developers, advise the Company on, when the capitalisation of borrowing cost should be suspended ?

(A) When there is a temporary delay for allowing the concrete to settle, which is a necessary part of the getting the asset ready for its intended use or sale.

(B) During the extended period for rectifying faulty wires, in which active development is interrupted but substantial technical and administrative work is being carried out.

(C) When all the activities necessary to prepare the Mall for its intended lease to customers are complete.

(D) During the extended period in which active development is interrupted due to floods and substantial technical and administrative work is not being carried out.

Marks

(ii) The Mall consisted of five phases. Bharath developers Limited has substantially completed all the work with regard to Phase I, II and III on March 5, 2019 and with regard to Phase IV and V on March 20, 2019. 2

The Company has carried out minor modifications based on specifications of the Lessee and handed over the shops to Lessees of Phase I, II and III on April 10, 2019 and to the lessees of Phase IV and V on April 15, 2019

Advise the Company on when it shall cease to capitalise the borrowing costs incurred with respect to the Mall ?

(A) March 20, 2019 for the entire mall

(B) April 15, 2019 for the entire mall

(C) March 5, 2019 for Phase I, II and III; March 20, 2019 for Phase IV and V

(D) April 10, 2019 for Phase I, II and III; April 15, 2019 for Phase IV and V

2.5 Boomerang Private Limited operates in the travel industry and incurs costs unevenly through the financial year. Advertising costs of ₹ 40 lacs were incurred on July 1, 2018, and staff bonuses are paid at year-end based on sales. Staff bonuses are expected to be around ₹ 400 lacs for the year; of that a sum of ₹ 60 lacs would relate to the period ending September 30, 2018. What costs should be included in the entity's quarterly financial report for the quarter ended September 30, 2018 ? 2

(A) Advertising costs ₹ 40 lacs; staff bonuses ₹ 100 lacs

(B) Advertising costs ₹ 10 lacs; staff bonuses ₹ 100 lacs

(C) Advertising costs ₹ 10 lacs; staff bonuses ₹ 60 lacs

(D) Advertising costs ₹ 40 lacs; staff bonuses ₹ 60 lacs

Marks

2.6 Bijli Limited is engaged in the manufacturing and sale of electrical goods. It sells it goods on a warranty of 3 years. Normally 5% of customers claim on their warranty. The provision in the first quarter was calculated as 5% of sales to date, which was ₹ 100 lacs. 2

However, in the second quarter, a design fault was found and warranty claims were expected to be 10% for the whole of the year. Sales upto to the second quarter was ₹ 300 lacs. What would be the provision charged in the second quarter's interim financial statements ?

(A) ₹ 30 lacs

(B) ₹ 35 lacs

(C) ₹ 25 lacs

(D) ₹ 20 lacs

2.7 Indian Investments Limited purchased a trademark during the year ended March 31, 2019.

(i) Indian Investments Limited had incurred the following cost in connection with the trade mark : 2

S. No	Particulars	Amount (₹)
1.	One-time trademark purchase price	8,50,000
2.	Non-refundable taxes	38,000
3.	Training sales personnel on the use of the new trademark	45,000
4.	Research expenditures associated with the purchase of the new trademark	58,000
5.	Legal costs incurred to register the trademark	22,000
6.	Salaries of the administrative personnel	1,05,000

What is the value of trademark to be recognised in the books of Indian Investments Limited in accordance with IFRS ?

(A) ₹ 11,18,000

(B) ₹ 10,73,000

(C) ₹ 9,55,000

(D) ₹ 9,10,000

Marks

(ii) You are the IFRS consultant for the company. Out of the following disclosures given by Indian Investments Limited, advice the company which disclosure is not required under relevant IFRS ? 2

(A) Fair value of similar intangible assets used by its competitors.

(B) Reconciliation of carrying amount at the beginning and the end of the year.

(C) Contractual commitments for the acquisition of intangible assets.

(D) Useful lives of the intangible assets.

2.8 Power India Limited issued 9% cumulative preference shares of ₹ 10 each, on September 15, 2012 which are redeemable after 10 years. 4

You are appointed as the IFRS consultant of Power India Limited. Evaluate whether the preference shares are in nature of financial liability or equity instrument. Also, state the treatment of dividend paid to the preference shareholders under IFRS.

2.9 Mathur India Private Limited has to present its first financials under IFRS for the year ended March 31, 2019. The transition date is April 1, 2017. 6

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 ₹ 10 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 ₹ 75 lacs.

(d) The Company has an Equity Share Capital of ₹ 80 crores and Redeemable Preference Share Capital of ₹ 25 crores.

Marks

(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.

2.10 (i) Uttar Pradesh State Government holds 60% shares in PQR Limited and 55% shares in ABC Limited. PQR Limited has two subsidiaries namely P Limited and Q Limited. ABC Limited has two subsidiaries namely A Limited and B Limited. Mr. KM is one of the Key management personnel in PQR Limited.

(a) Determine the entity to whom exemption from disclosure of related party transactions is to be given. Also examine the transactions and with whom such exemption applies. 4

(b) What are the disclosure requirements for the entity which has availed the exemption ? 2

2.10 (ii) KRR Enterprises Limited grants 150 shares to each employee on April 1, 2017. There were 300 employees as on that date. The shares will vest in the following manner : 4

(a) As on March 31, 2018 if the profit for the year increases 15% more than the profit for the year ended March 31, 2017 Or

(b) As on March 31, 2019 if the Profit for the year ended March 31, 2018 increases 10% more than the profit for the year ended March 31, 2017.
The employees should remain in service during the vesting period.
The fair value per share as on the grant date is ₹ 325. The Profit for the year ended March 31, 2018 increased by 12% as compared to the profit for the year ended March 31, 2017.
During the year ended March 31, 2018, 25 employees left the organisation. Also, it was predicted that further 35 employees will leave in the following year. However, only 28 employees left during the year ended March 31, 2019.
Determine the employee benefit expenses to be accounted each year. Also, pass the necessary journal entries.

2.11 Following is the balance sheet of Kuber Limited for the year ended March 31, 2019 10

(₹ in lacs)

	2019	2018
ASSETS		
Non-current Assets		
Property, plant and equipment	13,000	12,500
Intangible assets	50	30
Other financial assets	145	170
Deferred Tax Asset (net)	855	750
Other non-current assets	800	770
Total Non-current assets	**14,850**	**14,220**
Current Assets		
Financial assets		
Investments	2,300	2,500
Cash and cash equivalents	220	460
Other current assets	195	85
Total Current assets	**2,715**	**3,045**
Total Assets	**17,565**	**17,265**

Marks

EQUITY AND LIABILITIES		
Equity		
Equity share capital	300	300
Other equity	12,000	8,000
Total equity	**12,300**	**8,300**
Liabilities		
Non-current liabilities		
Long-term borrowings	2,000	5,000
Other non-current liabilities	2,740	3,615
Total non-current liabilities	**4,740**	**8,615**
Current liabilities		
Financial liabilities		
Trade payables	150	90
Bank Overdraft	75	60
Other current liabilities	300	200
Total current liabilities	**525**	**350**
Total liabilities	**5,265**	**8,965**
Total Equity and Liabilities	**17,565**	**17,265**

Additional Information :

(1) Profit for the year ended March 31, 2019 - ₹ 4,450 lacs

(2) Interim Dividend paid during the year - ₹ 450 lacs

(3) Depreciation and amortisation charged in the statement of profit and loss during the current year are as under

(a) Property, Plant and Equipment - ₹ 500 lacs

(b) Intangible Assets - ₹ 20 lacs

(4) During the year ended March 31, 2019 two machineries were sold for ₹ 70 lacs. The carrying amount of these machineries as on March 31, 2019 is ₹ 60 lacs.

(5) Income taxes paid during the year ₹ 105 lacs

Using the above information of Kuber Limited, construct a statement of cash flows under indirect method.

Question No.-3

3.1 Mirage India Private Limited is planning to dispose of a collection of assets during the year ended March 31, 2018. The entity designates these assets as a disposal group, and the carrying amount of these assets immediately before classification as held for sale was ₹ 75,00,000.

(i) Upon being classified as held for sale the assets were valued to ₹ 68,00,000. However, subsequently the Company also received an external valuation at ₹ 60,00,000. 2

How would the reduction in the value of the assets on classification as held for sale be treated in the financial statements ?

(A) The entity recognises a loss of ₹ 15,00,000 immediately before classifying the disposal group as held for sale.

(B) The entity recognises an impairment loss of ₹ 15,00,000.

(C) The entity recognises an impairment loss of ₹ 7,00,000.

(D) The entity recognises a loss of ₹ 7,00,000 immediately before classification as per relevant IFRS and then recognises a loss of ₹ 8,00,000 against assets held for sale.

(ii) Out of the assets classified as held for sale there were machineries for which active market was not available at present. Mirage India Private Limited anticipates that it might take 2 more years to sell the asset in the market. Meanwhile the strategy team of the company had found that the assets can be leased out to contractors for short term. Thus, these machineries no longer satisfy the criteria of an asset held for sale. Suggest the suitable treatment for the aforesaid machinery out of the following : 2

(A) Continue to measure the machineries at their current carrying value.

(B) Measure the machineries at lower of their carrying amount before the asset was classified as held for sale (as adjusted for subsequent depreciation, amortisation, or revaluations) and its recoverable amount at the date of the decision not to sell.

(C) Re-measure the machineries at their fair value.

(D) Recognise the machineries at their carrying amount prior to its classification as held for sale as adjusted for subsequent depreciation, amortisation, or revaluations.

Marks

3.2 Nickel Private Limited acquired 100% of Coal Private Limited, on January 1, 2018.

(i) The fair value of the purchase consideration was ₹ 10 crores consisting of ordinary shares of ₹ 100 each of Nickel. The fair value of the net assets acquired was ₹ 7.5 crores. At the time of the acquisition, the value of the ordinary shares of Nickel and the net assets of Coal were only provisionally determined. **2**

On November 30, 2018 it was finally determined that the fair value of Nickel's Shares was ₹ 11 crores and the fair value of net assets of Coal was ₹ 8 crores.

However, the directors of Nickel have seen the fair value of the company's shares decline since January 1, 2018, and wanted to adopt the fair value of the shares as of February 1, 2019, which will result in the fair value of consideration at being valued at ₹ 9 crores.

What is the value of purchase consideration and fair value of net assets of Coal Private Limited as at the date of acquisition ?

(A) Purchase consideration ₹ 11 crores, net asset value ₹ 8 crores.

(B) Purchase consideration ₹ 10 crores, net asset value ₹ 7.5 crores.

(C) Purchase consideration ₹ 9 crores, net asset value ₹ 8 crores.

(D) Purchase consideration ₹ 11 crores, net asset value ₹ 7.5 crores.

(ii) In addition to the above purchase consideration, the acquisition agreement states that an additional ₹ 2 crores will be paid if Coal Private Limited achieves a turnover of ₹ 80 crores in the next two years. On the date of acquisition, the fair value of the said consideration was ₹ 1.50 crores. In February 2019, due to Coal's declining performance it is determined that it is unlikely that it would meet budgeted turnover of ₹ 80 crores. **2**

How should Nickel treat the above consideration ?

(A) Nickel should not recognise the consideration as it is unlikely that it would be paid.

(B) Nickel should disclose the consideration as its contingent liability in its financial statements as it is a contingent liability which will be met only upon Coal Private Limited earning a turnover ₹ 80 crores.

Marks

(C) Nickel should recognise the fair value of consideration as part of the business combination, thus increasing goodwill and remeasure it at the end of each reporting period. The impact of change in fair value is recognised in the statement of profit and loss.

(D) There is no specific treatment prescribed under IFRS. Nickel should decide the appropriate accounting treatment based on the facts and circumstances of the case.

3.3 Thermal Solutions Limited started its business in India with Indian Rupee as its functional currency. After several years, the entity expanded and stored exporting its product to Europe. By the end of March 31, 2019, 90% of the business was conducted with Europe and the transactions were denominated in Euro. The raw materials required (for the products to be exported to Europe) are all imported materials and the purchase transactions are denominated in EURO. (Whereas during the year ended March 31, 2018 only 30% of trie business was conducted in Euro.) 2

What will be the functional currency of Thermal Solutions Limited for the year 2018-19 ?

(A) Changed to euro at the end of financial year 2018-19, if it is considered that the underlying transactions, events and conditions of business have changed.

(B) Changed to euro at the beginning of financial year 2018-19, if it is considered that the underlying transactions, events and conditions of business have changed.

(C) Changed to euro at the end of financial year 2017-18, if it is considered that the underlying transactions, events and conditions of business have changed.

(D) The functional currency remains to be Indian Rupee.

Marks

3.4 Himanshu Limited acquired 100% of the share capital of Global Tech Limited for a consideration of 20 million EURO on September 30, 2018. The fair value of the net assets of Global Tech at that date was 11 million EURO. The functional currency of Himanshu is Indian Rupee. The exchange rates as on September 30, 2018 was 85 INR/EURO and on March 31, 2019 was 89 INR/EURO. What is the value of goodwill in the books of Himanshu Limited as on March 31, 2019 ? **2**

(A) 765 million INR

(B) 935 million INR

(C) 800 million INR

(D) 801 million INR

3.5 Blueberry Limited manufactures various types of chocolates. A common base mixture is prepared in a huge mixing bowl from where it is sent though pipes to various compartments of machine for adding flavouring agents and other ingredients and then poured into moulds. The chocolates are then packed neatly by the machine and which are in turn sealed in cartons and then are sent through trucks for distribution. The various types of chocolate include Vanilla filling, strawberry filling, cashew chew, roasted almond, fruit and nut, crunchy crackle, the classic, jelly belly, etc. Each of the flavours are performing well individually and were contributing significantly towards the Company's revenue. **2**

Should the Company classify these different types of chocolates into different segments ?

(A) Yes, the Company should classify these different types of chocolates into different segments as they contribute significantly towards the Company's revenue.

(B) No, the given information is not adequate to determine whether these different types of chocolates should be classified as different segments.

(C) No, there is no need to create different segments for each type of chocolate the nature of the product, production process, type of customers and the method of distribution are common.

(D) Yes, the Company should classify these different types of chocolates into different segments as they consist of different raw materials, have their own customer base and are capable of generating significant revenue individually.

Marks

3.6 A portion of a mall is renovated by constructing a food court, spa and gaming zone so as to increase the footfalls in the mall. The food court and gaming zone are expected to result in a significant increase in sales for the shops and outlets of the mall. What should be the accounting treatment for the cost incurred for the renovation ? 2

(A) Expenses incurred for food court and gaming zone should be charged to statement of profit and loss;

(B) Expenses incurred for food court, spa and gaming zone should be charged to statement of profit and loss;

(C) Expenses incurred for food court, spa and gaming should be capitalised;

(D) Expenses incurred for food court and gaming should be capitalised.

3.7 Dharam Limited has spent ₹ 15 lacs in developing a new product during the year ended March 31, 2019. The development costs incurred were recognised as an intangible asset in accordance with IAS 38. For the purposes of computing the taxable income, these expenses are allowable in full in the year of incurring the expenses. At the year end, the Company recognised an impairment loss of ₹ 75,000 against the intangible asset. What is the tax base of the intangible asset ? 2

(A) ₹ 15,00,000

(B) ₹ 75,000

(C) ₹ 14,25,000

(D) ₹ 0

3.8 Ind AS 40 is not applicable to which of the following properties : 2

(A) Held under Finance lease and leased out under an operating lease;

(B) Held under finance lease and leased out under finance lease;

(C) Property acquired with a view for development and resale;

(D) Property occupied by Employees paying rent at less than market rate.

Marks

3.9 Answer the following questions with reference to appropriate IFRS :

(i) C Tech Solutions Limited is engaged in the business of developing software. It has a customary business practice of requiring both a signed license agreement and a purchase order/contract. **3**

A Limited approached C Tech Solutions to purchase their product X. A Limited issued a purchase order for purchase of the product and related Product Customisation Services (PCS) prior to the period ended March 31, 2019. Due to nonavailability of the authorised person, A Limited has not signed the purchase order/ contract till March 31, 2019. A Limited had already installed the software X in its employee's system and C Tech Limited had also started providing PCS services prior to March 31, 2019.

Evaluate whether revenue can be recognised under IFRS 15.

(ii) Planes India Limited had agreed to build a jet for a customer. The consideration to build the jet includes a fixed price of ₹ 15 crores plus a completion bonus of ₹ 50 lacs if completed within two months prior to May 30, 2019 (agreed date of completion as per the contract with customer). The contract also includes a performance bonus of ₹ 0 to 50 lakhs depending on the number of flights of the jet during its first year of operation by the customer. **7**

How will the transaction price of the contract be determined ?

3.10 Durable Industries India Limited is a renowned company known for its care towards employees.

(i) Durable Industries contributes to an industrial pension plan that provides a pension arrangement for its employees. It is a popular plan among the employers of the same industry. The Company does not have any obligation other than payment of annual contribution. Under this scheme the contribution is received from various employers and it is in turn used to compensate the employee of those companies after their retirement. Identify the nature of the above employee benefit plan with reference to IFRS. **3**

Marks

(ii) Durable Industries previously had a defined pension plan (a defined benefit pan) under which the employees who joined before April 1, 2012 were enrolled. With respect to employees who joined on or after April 1, 2012 were all enrolled in the industrial pension plan. The Company found that the industrial pension plan was more beneficial to the employees than the defined pension plan. Hence, during 2018-19 it decided to change all the employees from defined pension plan to the industrial pension plan. The entity paid ₹ 5 crore to the employees who in turn agreed to forfeit the pension entitlement from the defined pension plan. The liability recognised in the financials, for the year ended March 31, 2018, with respect to the pension liability was ₹ 7 crores. 3

How should this be accounted in the in the financials for the year ended March 31,2019 ?

(iii) Supreme developers Limited, 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. 4

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.

Marks

3.11 (i) Sumeru Limited holds 35% of total equity shares of Meru Limited, an associate company. The value of Investments in Meru Limited on March 31, 2018 is ₹ 3 crores in the consolidated financial statements of Sumeru Limited. 6

Sumeru Limited sold goods worth ₹ 3,50,000 to Meru Limited. The cost of goods sold is ₹ 3,00,000. Out of these goods worth ₹ 1,00,000 were in the closing stock of Meru Limited.

During the year ended March 31, 2019 the profit and loss statement of Meru Limited showed a loss of ₹ 1 crore.

(A) What is the value of investment in Meru Limited as on March 31, 2019 in the consolidated financial statements of Sumeru Limited, if equity method is adopted for valuing the investments in associates ?

(B) Will your answer be different if Meru Limited had earned a profit of ₹ 1.50 crores and declared a dividend of ₹ 75 lacs to the equity shareholders of the Company ?

(ii) Tee Limited is carrying on the business of developing light weight and medium weight guns for the Indian defence industry. Tee Limited acquired 48% of shares in Kay Limited, a company engaged in advanced research in weapons. Tee Limited acquired shares in Kay Limited to substantiate their position in the industry. 4

The remaining 52% of shares are held by the key management personnel of the Company Kay Limited. The Kay management consists of eleven people who are experts in the fields of advanced weapons and the core of the Company.

Tee Limited has the option to purchase remaining 52% at any time by paying 6 times the market price of the share. But on purchase of the shares it is highly possible that the key management personnel will leave the company.

(A) State whether Tee Limited has control over Kay Limited.

(B) What will be your answer if Tee Limited had 51% of shares in Kay Limited and Kay Limited can start the research, development and production of weapon only with the stringent approval process of the defence ministry of the Central Government.