

Final New Syllabus

Paper - 6 E

MAY 2022

Roll No. Global Financial Reporting Standards

Total No. of Case Study Questions – 5

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Total No. of Printed Pages – 31

Time Allowed – 4 Hours

Maximum Marks – 100

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Answer 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.

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

Answers in respect of Multiple-Choice Questions are to be marked on the OMR Answer Sheet as given on the Cover Page of the descriptive answer book.

Answer to Multiple Choice Questions, if written inside the descriptive answer book will not be evaluated.

Candidates should answer the Case Study Questions as selected by them in totality i.e., MCQ as well as descriptive Question of the same Case Study Question.

Candidates are not permitted to answer MCQs of one Case Study Question and the descriptive questions of another Case Study Question and vice-versa.

Candidates may use calculator.

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Case Study Question : 1

Star Ltd. does business of manufacturing generator parts and generator sets for industrial and home use. They report their financial statements under International Financial Reporting Standards. While in the process of closing the books for the year ended 31st March 2021, the Chief Financial Officer of the company identified a few transactions and asked for your assistance to show proper treatment.

On 1st April 2020, Star Ltd purchased some land for ₹ 20 Lakhs. Star Ltd. purchased the land in order build a Plant for manufacturing generator parts.

During the six months from 1st April 2020 to 30 September 2020, Star Ltd. incurred costs totaling ₹ 7.0 Lakhs in preparing the land and erecting the structure of the Plant. This process caused some damage to the land for making it suitable for setting up the Plant. Star Ltd. began operations on 1st October 2020 and the directors estimate that the Plant site would have useful economic life of 10 years from that date.

Star Ltd. is legally obliged to rectify the damage caused to the land for setting up the Plant. The directors estimate that the costs of this rectification after 10 years on 30 September, will be as follows:

- ₹ 6 Lakhs to rectify the damage caused by the preparation of the land for setting up the Plant ;

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Following this rectification work the land could potentially be sold to a third party for no less than its original cost of ₹ 20 Lakhs.

An annual discount rate appropriate for this project is 12%. The present value of ₹ 1 payable in 10 years' time with an annual discount rate of 12% is 32.2 paise. The present value of ₹ 1 payable in 9½ years' time with an annual discount rate of 12% is 34.1 paise.

On 31st March 2018, Star Ltd. purchased 80% of the equity of Galaxy Ltd. for ₹ 380 Lakhs. The fair values of the net assets of Galaxy Ltd. that were

included in the consolidated statement of financial position of Star Ltd. at 31st March 2018 were measured at ₹ 400 Lakhs (their fair values at that date). It is the group policy to value the non-controlling interest in subsidiaries at the date of acquisition at its proportionate share of the fair value of the subsidiaries' identifiable net assets.

On 31st March 2021, Star Ltd. carried out its annual review of the goodwill on consolidation of Galaxy Ltd. for evidence of impairment. No impairment had been evident when the reviews were carried out on 31st March 2019 and 31st March 2020. The review involved allocating the assets of Galaxy Ltd. into three cash-generating units and computing the value in use of each unit.

The carrying values of the individual units before any impairment adjustments are given below :

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Particular	Unit A ₹ in Lakhs	Unit B ₹ in Lakhs	Unit C ₹ in Lakhs
Intangible assets	60	20	—
Property, Plant and Equipment	160	100	120
Current Assets	120	60	80
Total	340	180	200
Value in use of unit	360	132	208

It was not possible to meaningfully allocate the goodwill on consolidation to the individual cash generating units but all the other net assets of Galaxy Ltd. are allocated in the table shown above.

The intangible assets of Galaxy Ltd. have no ascertainable market value but all the current assets have a market value that is at least equal to their carrying value. The value in use of Galaxy Ltd. as a single cash-generating unit on 31st March 2021 is ₹ 700 Lakhs.

On 1st December 2020, Star Ltd. as a part of its expansion plan, opened a new Plant for manufacturing genset parts in an area designated by the government as an economic development area.

On that day, the government provided Star Ltd. with a grant of ₹ 60 Lakhs to assist it in the development of the factory.

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This grant was provided in three parts :

- (i) ₹ 12 Lakhs of the grant was a payment by the government as an inducement to Star Ltd. to begin developing the factory. No conditions were attached to this part of the grant.
- (ii) ₹ 30 Lakhs of the grant related to the construction of the factory at a cost of ₹ 120 Lakhs. The land was leased so the whole of the ₹ 120 Lakhs is depreciable over the estimated 40 year useful life of the factory.
- (iii) The remaining ₹ 18 Lakhs was received subject to keeping at least 200 employees working at the factory for a period of at least five years. If the number drops below 200 at any time in any financial year in this five year period, then 20% of the grant is repayable in that year.

From 1st December 2020, 220 workers were employed at the factory and estimates are that this number is unlikely to fall below 200 over the relevant five year period.

Star Ltd. planned the Plant under construction being financed through ₹ 16 Lakhs of debt and of which ₹ 12 Lakhs is a construction loan directly on the Plant. The rest is financed by the general debt of the company. Star Ltd. would put to use the Plant when it is completed.

The debt structure of Star Ltd. is as under :

Particular	₹ in Lakhs
Construction Loan @ 11%	₹ 12.00
Long term Debenture @ 9%	₹ 18.00
Long term Subordinate Debenture @ 10%	₹ 6.00

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The debentures and subordinated debentures were issued at the same time.

On 1st July 2020, Star Ltd. decided to sell one of its divisions following a recent change in its geographical focus. The proposed sale would involve the buyer acquiring the non-monetary assets (including goodwill) of the division, with Star Ltd. collecting any outstanding trade receivables relating to the division and settling any current liabilities.

On 1st January 2021, the carrying amounts of the relevant assets of the division were as follows:

- Purchase goodwill ₹ 1.2 Lakhs;
- Property, plant and equipment (average remaining estimated useful life two years) ₹ 4 Lakhs;
- Inventories ₹ 2 Lakhs.

From 1st January 2021, Star Ltd. began to actively market the division and has received a number of serious enquiries.

On 1st January 2021, the directors estimated that they would receive ₹ 6.4 Lakhs from the sale of the division. Since 1st January 2021, market conditions have improved and on 30th April 2021 Star Ltd. received and accepted a firm offer to purchase the division for ₹ 6.6 Lakhs. The sale is expected to be completed on 30th June 2021.

₹ 6.6 Lakhs can be assumed to be a reasonable estimate of the value of the division on 31st March 2021.

During the period from 1st January 2021 to 31st March 2021, inventories of the division costing ₹ 1.6 Lakhs were sold for ₹ 2.4 Lakhs. At 31st March 2021, the total cost of the inventories of the division was ₹ 1.8 Lakhs. All of these inventories have an estimated net realizable value that is in excess of their cost.

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Further, on 1st January 2021, Star Ltd. acquired 30% of the shares of Tara Ltd. The investment was accounted for as an associate in Star Ltd's consolidated financial statements. Both Star Ltd. and Tara Ltd. have an accounting year end of 31st March 2021. Star Ltd. has no other investments in associates.

Net profit for the year in Tara's income statement for the year ended 31st March 2021 was ₹ 0.46 Lakhs. It declared and paid dividend of ₹ 0.2 Lakhs on 1st March 2021. No other dividends were paid in the year.

Multiple Choice Questions

2×5
=10

1.1 What would be the treatment for grant of ₹ 30 Lakhs related to the construction of the factory at a cost of ₹ 120 Lakhs?

- (A) ₹ 30 Lakhs grant in respect of the plant and equipment should be recognized immediately in the income statement, since the company is certain to build the factory.
- (B) Deduct the grant received from the cost of the asset and depreciate the net carrying value over its useful economic life.
- (C) Show the grant as a deferred credit and leave the initial carrying value of the property at ₹ 120 Lakhs. Thereafter the deferred credit would be released to the income statement at the end of 40th year.
- (D) Discount the grant and release after 40 years.

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1.2 What would be the treatment of grant of ₹ 12 Lakhs received from the government as an inducement to Star Ltd. to begin developing the factory ?

- (A) Grant relating to an inducement to begin developing the factory can be recognized immediately in the Statement of Profit or Loss.
- (B) ₹ 0.30 Lakhs amount is to be credited each year in the income statement over 40 year period.
- (C) ₹ 2.4 Lakhs amount is to be credited each year in the income statement over 40 year period.
- (D) Net off the grant received against the cost of the asset and depreciate the net figure over its useful economic life.

1.3 What would be the treatment for grant of ₹ 18 Lakhs which was received with a condition to keep at least 200 employees working at the factory?

- (A) ₹ 1.2 Lakhs would be recognized in the income statement for the current period ending 31st March, 2021.
- (B) ₹ 3.6 Lakhs would be recognized in the income statement for the current period ending 31st March, 2021.
- (C) ₹ 18 Lakhs would be recognized in the income statement for the period when at least 200 workers are employed in factory.
- (D) ₹ 0.45 Lakhs amount is to be credited each year in the income statement over 40 year period.

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1.4 Changes to the deferred tax arising from business combination impacts :

- (A) Statement of Profit or Loss
- (B) Other Comprehensive Income
- (C) Goodwill
- (D) No changes – No impact

1.5 What amount will be shown as an inflow in respect of earnings from the associate in the statement of cash flows of Star Limited for the year ended 31st March 2021?

- (A) ₹ 0.040 Lakhs
- (B) ₹ 0.052 Lakhs
- (C) ₹ 0.060 Lakhs
- (D) ₹ 0.092 Lakhs

Descriptive Questions

1.6 What is the implication of rectification of damage of land mentioned in the case study ? What is the relevant provision related to this concept under IFRS ? 3

1.7 Show treatment of impairment of goodwill as per the details provided in the case study ? 4

1.8 Based on the debt structure of the organization, calculate the following : 5

- (a) total interest payable during the year ended 31st March, 2021
- (b) the capitalized interest cost to be recorded as an asset in the Statement of Financial Position
- (c) amount of interest expense to be reported on the income statement.

1.9 Explain the disclosure requirement related to sale of division and the treatment of property held for sale and discontinued operations ? 3

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Case Study Question : 2

EARTH Limited is an IFRS compliant multinational company which is engaged in various businesses. PLUTO Limited, a subsidiary of EARTH Limited, also follows IFRS for its financial reporting and is engaged in the business of consultation for civil engineering projects such as highways, buildings, etc. On 1st April 2021, PLUTO 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 PLUTO Limited is required to provide consultancy is 2 years starting from 01st April 2021.
- Total consultancy fees to be received by PLUTO Limited during the contract period is ₹ 50 crore.
- On 1st April 2021, EARTH Limited will be required to provide a performance guarantee to the Government for an amount up to ₹ 50 crore. If the consultancy services provided by PLUTO Limited is not satisfactory, the Government can invoke the performance guarantee. If the guarantee is invoked, EARTH Limited will be required to indemnify the Government for the loss suffered because of non-satisfactory performance by PLUTO Limited.

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To execute the project, on 01st April 2021, PLUTO Limited has availed a short- term loan of ₹ 30 crore from the bank with the following covenants:

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

For providing the above-mentioned two guarantees, EARTH Limited has charged commission from PLUTO Limited at the market rate of 1% of the guaranteed amount applicable to such guarantees. As per the revenue recognition policy of EARTH Limited, it has decided to recognize the guarantee commission income in profit or loss over a period of two years (term of the contract) starting from 1st April 2021 using the straight-line method.

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

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Following is the summarized statement of profit and loss of EARTH Limited as per IFRS for the year ended 31st March 2022:

Particulars	₹ in Crores
Revenue from operations	1,160.00
Other income	56.00
Total Income (A)	1,216.00
Purchase of stock-in-trade	40.00
Changes in inventories of stock-in-trade	6.00
Employee benefits expense	116.00
Finance costs	130.00
Depreciation and amortization expense	30.00
Other expenses	300.00
Total Expenses (B)	622.00
Profit Before Tax (A-B)	594.00
Current tax	165.40
Deferred tax	1.50
Tax Expenses	166.90
Profit after Tax	427.10

Additional information :

- Corporate income tax rate applicable to EARTH Limited is 30%.
- Other income includes long-term capital gains of ₹ 10 crore which are taxable at the rate of 10%.

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- Other expenses include the following items which are not deductible for income tax purposes :

Item	₹ in Crores
Penalties	1.00
Impairment of goodwill	44.00
Corporate Social Responsibility expense	6.00

- Other expenses include research and development (R & D) expenditure of ₹ 8 crore in respect of which a 200% weighted deduction is available under income tax laws.
- Other income includes dividends of ₹ 4 crore, which is exempt from tax.
- Profit before tax of ₹ 594 crore includes (i) agriculture income of ₹ 55 crore which is exempt from tax; and (ii) profit of ₹ 60 crore earned in the USA on which EARTH Limited has paid tax at the rate of 20%.
- Depreciation as per income tax laws is ₹ 25.0 crore.

During review of the financial statements of EARTH Limited, the CFO multiplied profit before tax by the income tax rate and arrived at ₹ 178.2 crore as the tax expense ($₹ 594 \text{ crore} \times 30\% = ₹ 178.2 \text{ crore}$). However, actual income tax expense appearing in the summarized statement of profit and loss is ₹ 166.9 crore.

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Other information :

On 1st April 2021, EARTH Ltd. issues a new instrument with the following characteristics.

- Face value 100, issue price 90.
- Cumulative dividend payable at 5% per annum for 10 years. After 10 years, the dividend is payable at the discretion of the issuer.
- The holder of the note has the option to convert to ordinary shares of EARTH Ltd. after 10 years, and conversion will be 10 ordinary shares for each instrument.
- The holder can demand redemption for the face value at any time, with six months' notice up until the end of 10 years. After 10 years, redemption is at the discretion of the issuer.
- There is no fixed maturity date.

S Limited is a subsidiary of H Limited which is an associate of T Ltd. T Ltd. is an associate of EARTH 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 with its parent.

EARTH Limited is a huge machine manufacturer. It has to overhaul its machinery every 3 years. It has purchased machinery worth ₹ 1,00,00,000. It is estimated that the overhaul costs will be ₹ 10,00,000. It is expected that the machine has a useful life of 10 years.

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Multiple Choice Questions

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2.1 How should the instrument be classified by EARTH Ltd. in the first 10 years in accordance with IAS 32 ? Select which one of the following is correct.

- (A) as equity
- (B) as a liability
- (C) as either equity or liability
- (D) as a compound instrument

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

- (A) Cash flow hedge
- (B) Fair value hedge
- (C) Option to designate under cash flow hedge or fair value hedge
- (D) Net investment hedge

2.3 How should EARTH Limited initially recognize the purchase of its machinery ?

- (A) Recognize the machine at its cost of ₹ 1,00,00,000 and depreciate over 10 years.
- (B) Recognize two assets - the machine worth ₹ 90,00,000 to be depreciated over 10 years and costs related to overhaul of ₹ 10,00,000 to be depreciated over 3 years.
- (C) Recognize two assets - the machine worth ₹ 1,00,00,000 to be depreciated over 10 years and costs related to overhaul of ₹ 10,00,000 to be depreciated over 3 years.
- (D) Recognize an asset for ₹ 90,00,000 to be depreciated over 10 years and expense ₹ 10,00,000 immediately.

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2.4 A company prepares segment information for its management reporting purposes. Under IFRS 8 '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 IFRS 8?

- (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.

2.5 Which of the following is incorrect in respect of a cash flow statement under IFRS ?

- (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.

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Descriptive Questions

- 2.6 Comment on the accounting and disclosure principles proposed by the CFO in respect of each of the guarantees. 4
- 2.7 Provide necessary journal entries, if any, as on 1st April, 2021, and 31st March, 2022 in the books of EARTH Limited. 4
- 2.8 The CFO has sought your help in reconciling the difference between the two tax expense amounts. Prepare a reconciliation containing the disclosure as required under the relevant IFRS. 7

Case Study Question : 3

Princess Ltd. is manufacturing readymade garments and it is having branches throughout India.

Princess Ltd. acquires 60% of the equity shares of Dude Ltd. a private entity, for ₹ 48.75 crore during the year. The fair value of its identifiable net assets is ₹ 75 crore. The fair value of the 40% of the ordinary shares owned by non-controlling shareholders is ₹ 32.5 crore. Carrying amount of Dude Ltd.'s net assets is ₹ 60 crore.

On 1st April 2020, a 8% convertible loan with a nominal value of ₹ 6,00,000 was issued at par. It is redeemable on 31st March 2024 also at par. Alternatively, it may be converted into equity shares on the basis of 100 new shares for each ₹ 200 worth of loan.

An equivalent loan without the conversion option would have carried interest at 10%. Interest of ₹ 48,000 has already been paid and included as a finance cost. (PVF Year 1 : 0.91; Year 2 : 0.83; Year 3 : 0.75; Year 4 : 0.68 The amount to be recognized as liability is to be rounded off to the nearest thousand.)

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On 1st April 2020, the fair value of the assets of Princess Ltd's defined benefit plan were valued at ₹ 10,20,000 and the present value of the defined obligation was ₹ 10,62,500. On 31st March, 2021 the plan received contributions from Princess Ltd. amounting to ₹ 2,12,500 and paid out benefits of ₹ 1,27,500. The current service cost for the financial year ending 31st March 2021 is ₹ 2,55,000. An interest rate of 5% is to be applied to the plan assets and obligations. The fair value of the plan's assets at 31st March 2021 was ₹ 11,90,000, and the present value of the defined benefit obligation was ₹ 13,60,000.

Princess Ltd. has the policy that it will rectify the manufacturing defects if any, or replace the defected goods with fresh garments if they are reported within three months of purchase.

If minor defects were detected in all products sold, repair costs of ₹ 2 million would result. If major defects were detected in all products sold, repair costs of ₹ 6 million would result. The company's past experience and future expectations indicate that, for the coming year, 85% of the goods sold will have no defects, 10% of the goods sold will have minor defects and 5% of the goods sold will have major defects. In accordance with the standard, the company assesses the probability of an outflow for the warranty obligations as a whole.

On 1st January, 2021, Princess Ltd. notified that a customer R was taking legal action against the company in respect of a financial losses incurred by

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the customer R. Customer R alleged that the financial losses were caused due to supply of faulty products on 31st October, 2020 by the Company.

Princess Ltd. defended the case but considered, based on the progress of the case up to 31st March, 2021, that there was an 80% probability they would have to pay damages of ₹ 20 lakhs to the customer R.

However, the accountant of Princess Ltd. has not recorded this transaction in its financial statement as the case is not yet finally settled. The case was ultimately settled against the company resulting in to payment of damages of ₹ 25 lakhs to the customer R on 15th May, 2021. The financials have been authorized by the Board of Directors in its meeting held on 18th May, 2021.

Princess Ltd. issued 12% debenture worth ₹ 3,00,00,000 to fund the construction of Administrative Block on 1st July, 2020 but the development activities has yet to be started. On 1st April, 2020, Princess Ltd. began the construction of a Plant being qualifying asset using the existing borrowings. Expenditure drawn down for the construction was: ₹ 75,00,000 on 1st April, 2020 and ₹ 3,75,00,000 on 1st January, 2021.

Princess Ltd. also had the following loans in place at the end of 31st March, 2021 :

(Amounts in '000)

Loan	1 st April, 2020	31 st March, 2021
18% Bank Loan	15,000	15,000
16% Term Loan	45,000	45,000
12% Debentures	-	30,000

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Multiple Choice Questions :

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3.1 What will be the Goodwill, when non-controlling interests are measured at fair value ?

- (A) ₹ 6.25 crore
- (B) ₹ 11.25 crore
- (C) ₹ 15.0 crore
- (D) ₹ 26.25 crore

3.2 What will be the Goodwill, when non-controlling interests are measured at proportionate share of identifiable net assets ?

- (A) ₹ 2.5 crore
- (B) ₹ 3.75 crore
- (C) ₹ 6.25 crore
- (D) ₹ 11.0 crore

3.3 The borrowing cost that can be capitalized for the plant should be

- (A) ₹ 27,84,375
- (B) ₹ 42,75,000
- (C) ₹ 53,43,750
- (D) ₹ 74,25,000

3.4 The expected value of the cost of repairs is

- (A) ₹ 7,00,000
- (B) ₹ 5,00,000
- (C) ₹ 4,50,000
- (D) ₹ 4,00,000

10% Bank Loan	100,000	100,000
15% Term Loan	40,000	40,000
12% Debentures	40,000	40,000
	180,000	180,000

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3.5 The capitalization rate for the plant is

(A) 4.5%

(B) 12.0%

(C) 16.5%

(D) 17.25%

3.6 Analyze whether the accounting treatment made by the accountant, in case of customer R is in compliance of the IFRS. If not, advise the correct treatment along with working for the same.

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3.7 Provide reconciliation from the opening balance to the closing balance for Plan assets and Defined benefit obligation. Also show how much amount should be recognized in the statement of profit and loss, other comprehensive income and balance sheet ?

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3.8 Explain how will the Company account for the above loan notes in the financial statements for the year ended 31st March 2021 ?

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Present Value Rates are :

Year End	1	2	3	4
@ 8%	0.93	0.86	0.79	0.73
@10%	0.91	0.83	0.75	0.68

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Case Study Question : 4

Delicious Ltd. is manufacturing and selling 'Prepared Foods' and 'Packed snacks'. It domiciled in India with its registered office situated at Shivajinagar, Pune and its manufacturing facility near Pune. The Company has been incorporated under the provisions of Indian Companies Act and its equity shares are listed on the Bombay Stock Exchange Limited and the National Stock Exchange Limited.

On 1st April 2021, Delicious Ltd. entered into a contract to purchase goods from Best Ltd. and agreed that the contract will be settled by issuing equity instruments of Delicious Ltd. Delicious Ltd. received the goods on 30th July 2021. The share based payment transaction was measured based on the fair value of the equity instruments as on 1st April 2021.

Delicious Ltd. has entered into a contract with Dena Ltd. Dena Ltd. will supply Delicious Ltd., with a range of services. The payment for those services will be in cash and based upon the price of Delicious Ltd.'s ordinary shares on completion of the contract.

Delicious Ltd. has identified the following business components.

Segment	Revenue (₹)		Profit (₹)	Assets (₹)
	Internal	External		
A	1,00,000	1,00,000	1,25,000	12,50,000
B	NIL	48,50,000	10,00,000	22,50,000
C	25,000	1,25,000	1,00,000	2,00,000
D	20,50,000	4,00,000	2,75,000	3,00,000
Total for the entity	22,50,000	54,00,000	15,00,000	45,00,000

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Delicious Ltd. identified some assets and liabilities as disposal group and plans to sell that group of assets and liabilities on 1st June, 2021. On 31st July, 2021, the Board of Directors approves and becomes committed to the plan to sell the manufacturing unit by entering into a firm purchase commitment with Royal Ltd. However, since the manufacturing unit is regulated, the approval from the regulator is needed for sale. The approval from the regulator is customary and highly probable to be received by 30th November, 2021 and the sale is expected to be completed by 31st March, 2022. Delicious follows December year end. The assets and liabilities attributable to this manufacturing unit are as under :

(Amount in ₹)

Particulars	Carrying value as on 31 st Dec 2020	Carrying value as on 31 st July, 2021
Goodwill	300	300
Plant and Machinery	500	450
Building	1,000	925
Debtors	425	525
Inventory	350	200
Creditors	(150)	(125)
Loans	(1,000)	(925)
	1,425	1,350

The fair value of the manufacturing unit as on 31st December, 2020 is ₹ 1,000 and as 31st July, 2021 is ₹ 925. The cost to sell is 50 on both these dates. The disposal groups are not sold at the period end i.e., 31st December, 2021. The fair value as on 31st December, 2021 is lower than the carrying value of the disposal group as on that date.

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Also, Delicious Ltd. re-valued the packing plant from ₹ 1 crore to ₹ 1.5 crore and created a deferred tax liability of ₹ 5 lakhs. But the accountant didn't record this in the accounts.

Delicious Ltd. imported a cooler plant for ₹ 75,00,000 on 15th July 2021 and was expected to reach the premises on 15th Nov. 2021. Due to some uncontrollable events the machinery was delivered on 20th Dec 2021. Due freight charges were paid. While this was happening, Delicious Ltd. was informed from the bank that it was being charged interest on the loan it had taken to fund the cost of the plant.

From the following particulars, the company wants to find out the net defined benefit liability. (₹ In lakhs)

Particulars	Defined benefit obligation		Plan Assets	
	31 st Dec 2021	31 st Dec 2020	31 st Dec 2021	31 st Dec 2020
Balance at the beginning of the year	63.25	47.08	21.80	14.65
Current service cost	5.84	4.97	-	-
Interest cost	4.27	3.56	-	-
Changes in demographic assumptions	0.62	1.86	-	-
Changes in financial assumptions	3.58	1.93	-	-
Experience variance	(2.49)	4.46	-	-
Benefits paid	--	(0.61)	--	(0.61)
Investment income	-	-	1.47	1.12
Employers contribution	-	-	8.00	7.00
Return on plan assets	-	-	2.12	(0.35)

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(25)

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Marks

2×5

=10

Multiple Choice Questions :

4.1 What is the measurement date in the agreement between Delicious Ltd. and Best Ltd. ?

- (A) 1st April, 2021
- (B) 30th April, 2021
- (C) 30th July, 2021
- (D) 1st July, 2021

4.2 Which out of the following is the correct accounting treatment for the deferred tax liability?

- (A) Debit statement of profit and loss by ₹ 5 lakhs
- (B) Debit packing plant by ₹ 5 lakhs
- (C) Debit other comprehensive income (revaluation reserve) by ₹ 5 lakhs.
- (D) Debit deferred tax assets by ₹ 5 lakhs

4.3 In case of cooler plant, what is the proper treatment of freight and interest expense ?

- (A) Both expenses should be capitalized
- (B) Freight charges should be capitalized and interest cannot be capitalized.
- (C) Interest may be capitalized and freight should be expensed
- (D) Both expenses should be expensed.

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(26)

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- 4.4 The company shall recognize the impairment loss for any or subsequent write down of the asset to
- (A) Nominal value
 - (B) Carrying amount
 - (C) Carrying amount less cost to sell
 - (D) Fair value less cost to sell.
- 4.5 In accordance with IFRS 2 -Share-based payment, what type of share-based payment transaction with Dena Ltd. represents ?
- (A) Equity-settled share-based payment transaction
 - (B) Asset-settled share-based payment transaction
 - (C) Liability-settled share-based payment transaction
 - (D) Cash-settled share-based payment transaction
- 4.6 Which of the segments would be reportable as per the criteria prescribed in IFRS 8 ? 4
- 4.7 (i) Assess whether the manufacturing unit can be classified as held for sale and reasons there for. If yes, then at which date ? 3
- (ii) The measurement of the manufacturing unit as on the date of classification as held for sale. 3
- 4.8 Find out the net defined benefit liability and calculate the expense to be Recognized in Profit and Loss account. 5

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(27)

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Marks

Case Study Question : 5

Nuogen Ltd. is a company which generates electricity and heat, and supplies electricity and natural gas. Nuogen Ltd. has diversified generating facilities, including renewable energy sources, natural gas and coal, pumped storage power stations and nuclear power stations.

On 1st April 2019, Nuogen Ltd. had granted 1,20,000 share options to its employees with the vesting condition being a service condition as follows:

Vesting date : 31st March 2020 - 80,000 share options (1-year vesting period since grant date)

Vesting date : 31st March 2023- 40,000 share options (4-year vesting period since Grant date)

Each option can be converted into one equity share of Nuogen Ltd. The fair value of the options on grant date, i.e., on 1st April 2019 was ₹ 20.

However, the equity shares will be allotted to employees against the share options only after the employees complete 5 years of service from the initial grant date of the share options, i.e., on 31st March 2024. Nuogen Ltd. is required to prepare financial statements in IFRS for the financial year ending 31st March 2022. The transition date for IFRS being 1st April 2020.

Nuogen Ltd. got loan from BOA Bank, that carry fixed interest rate @ 10% per annum for a 5 year term and 12% per annum for a 3 year term. Additionally, the bank charges processing fees @1% of the principal amount borrowed. Nuogen Ltd. borrowed 10 lacs for a term of 5 years and 8 lacs for a term of 3 years.

Nuogen Ltd. had a machinery S with carrying amount of ₹ 10 lacs and a balance in revaluation reserve of ₹ 2.5 Lacs. The Company sold that machinery for 20 million.

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P.T.O.

(28)

DWF

Marks

Nuogen Ltd. also has an asset AS which cost ₹ 2,00,000. On 31st March 2017 the carrying value was ₹ 1,80,000 and the asset was revalued to ₹ 2,20,000. No adjustment is made for tax purpose. Cumulative depreciation for tax purpose is ₹ 30,000 and rate is 30%.

Nuogen Ltd. has a nuclear power plant and a related decommissioning liability. The nuclear power plant started operating on 1st April, 2019. The plant has a useful life of 40 years. Its initial cost was ₹ 2,40,000. This included an amount for decommissioning costs of ₹ 20,000, which represented ₹ 1,40,800 in estimated cash flows payable in 40 years discounted at a risk adjusted rate of 5 per cent. The entity's financial year ends on 31st March. A market-based discounted cash flow valuation of ₹ 2,30,000 is obtained at 31st March, 2022. This valuation is after deduction of an allowance of ₹ 23,200 for decommissioning costs, which represents no change to the original estimate, after the unwinding of three years' discount. On 31st March, 2023, the entity estimates that, as a result of technological advances, the present value of the decommissioning liability has decreased by ₹ 10,000. The entity decides that a full valuation of the asset is needed at 31st March, 2023, in order to ensure that the carrying amount does not differ materially from fair value. The asset is now valued at ₹ 2,14,000, which is net of an allowance for the reduced decommissioning obligation.

Nuogen Ltd. enters into a ten-year lease contract with a XYZ Ltd. to use an equipment. The contract includes maintenance services (as provided by lessor). XYZ Ltd. obtains its own insurance for the equipment. Annual payments are ₹ 10,000 (₹ 1,000 relate to maintenance services and ₹ 500 to insurance costs).

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(29)

DWF

Marks

Nuogen Ltd. is able to determine that similar maintenance services and insurance costs are offered by third parties for ₹ 2,000 and ₹ 500 a year, respectively. Nuogen Ltd. is unable find an observable stand-alone rental amount for a similar equipment because none leased without related maintenance services provided by the lessor.

Nuogen Ltd. also has taken on lease a factory building at a rental of ₹ 1,20,000 a year. There are 5 years remaining on the lease. The market rent is ₹ 50,000 a year. Nuogen Ltd. no longer occupies the factory building and it is not used in the business. A sublease (non-cancellable) on the factory building has been arranged at a rent of ₹ 50,000 a year for the remaining 5 years on the lease.

Multiple Choice Questions :

5.1 On sale of machinery S, the balance amount in the revaluation reserve is

2×5
=10

- (A) Transferred to the asset account
- (B) Transferred directly to retained earnings
- (C) Transferred to profit and loss
- (D) Retained in revaluation reserve account itself.

5.2 Inception of lease is

- (A) Date of lease agreement.
- (B) Date of commitment by the parties to the principal provisions of the lease
- (C) (A) or (B), whichever is earlier.
- (D) Date of preparing the financial statement

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(30)

DWF

Marks

5.3 How much should be allocated as lease component for XYZ Ltd.?

- (A) ₹ 10,000
- (B) ₹ 9,500
- (C) ₹ 8,000
- (D) ₹ 7,500

5.4 Determine the provision amount that is to be provided for the factory building which is sub leased ?

- (A) ₹ 3,50,000
- (B) ₹ 70,000
- (C) ₹ 6,00,000
- (D) ₹ 2,50,000

5.5 What are the deferred tax implications of the transaction in case of asset AS ?

- (A) Deferred tax asset of ₹ 15,000
- (B) Deferred tax liability of ₹ 15,000
- (C) No deferred tax implications
- (D) Deferred tax asset of ₹ 20,000

5.6 How the share based payment should be reflected in the books of Nuogen Ltd. as on 31st March 2022, assuming that no entry has been passed in the books of Nuogen Ltd. on grant date, i.e. 1st April 2020 ?

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- 5.7 Compute the fair value upon initial recognition of the loan in books of Nuogen Ltd. and how will loan processing fee be accounted ? 3
- 5.8 How the entity will account for the changes in decommissioning liability if it adopts revaluation model ? 8

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