Roll No. ....

Final New Syllabus
Paper - 6 E
Global Financial Reporting Standards
NOV 2018

Total No. of Case Study Questions – 3 Total No. of Printed Pages – 32

Time Allowed – 4 Hours Maximum Marks – 100

KRMN

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.

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.

Marks

Question No – 1

1.1 ENG Ltd. prepares consolidated financial statements to 31st March each year. During the year ended 31st March, 2018, the following events (i) to (v) affected the tax position of the group. In each event, identify the carrying amount and the tax base by selecting the appropriate option. **5×2 =10**

(i) L Ltd., a wholly owned subsidiary of ENG Ltd., incurred a loss adjusted for tax purposes of ₹ 30 lakhs. L Ltd. is unable to utilise this loss against previous tax liabilities and local tax legislation does not allow L Ltd. to transfer the tax loss to other group companies. Local legislation however, allows L Ltd. to carry the loss forward and utilise it against its own future taxable profits. The directors of ENG Ltd. do not consider that L Ltd. will make taxable profit in the foreseeable future.

(A) Carrying amount is ₹ 30 Lakhs and tax base is ₹ 30 Lakhs.

(B) Carrying amount is Nil and tax base is ₹ 30 Lakhs.

(C) Carrying amount is Nil and tax base is Nil.

(D) Carrying amount is ₹ 30 Lakhs and tax base is Nil.

Marks

(ii) Just before 31st March, 2018, ENG Ltd. committed itself to closing a division after the year end, making several employees redundant. Therefore, ENG Ltd. recognised a provision for closure costs of ₹ 20 lakhs in its Balance Sheet as at 31st March, 2018. Local tax legislation allows tax deductions for closure costs only when the closure takes place. In the year ended 31st March, 2019, ENG Ltd. expects to make taxable profits which are well more than ₹ 20 lakhs. On 31st March, 2018, ENG Ltd. had taxable temporary differences from other sources which were greater than ₹ 20 lakhs.

(A) Carrying amount is ₹ 20 Lakhs and tax base is Nil.

(B) Carrying amount is Nil and tax base is Nil.

(C) Carrying amount and tax base are ₹ 20 Lakhs.

(D) Carrying amount is Nil and tax base is ₹ 20 Lakhs.

(iii) During the year ended 31st March, 2018, ENG Ltd. capitalised development costs which satisfy the criteria of Ind AS 38. The total amount capitalized was ₹ 16 lakhs. The development project began to generate economic benefits for ENG Ltd. from 1st January, 2018. The directors of ENG Ltd. estimated that the project would generate economic benefits for 5 years from that date. The development expenditure was fully deductible against taxable profits for the year ended 31st March, 2018.

(A) Carrying amount is ₹ 16 Lakhs and tax base is Nil.

(B) Carrying amounts is ₹ 15.20 Lakhs and tax base is ₹ 16 Lakhs.

(C) Carrying amount is ₹ 15.20 Lakhs and tax base is Nil.

(D) Carrying amount and tax base are ₹ 16 Lakhs.

(iv) On 1st April, 2017, the total goodwill arising on consolidation in ENG Ltd.'s consolidated Balance Sheet was ₹ 40 Lakhs. On 31st March, 2018, the directors reviewed the goodwill for impairment and concluded that the goodwill was impaired by ₹ 6,00,000. There was no tax deduction available for any group company because of this impairment charge as at 31st March, 2018.

Marks

(A) Carrying amount is ₹ 6,00,000 and tax base is Nil.

(B) Carrying amount is Nil and tax base is ₹ 6,00,000.

(C) Carrying amount is Nil and tax base is Nil.

(D) Carrying amount is ₹ 40 Lakhs and tax base is Nil.

(v) On 1st April, 2017, ENG Ltd. borrowed ₹ 1 Crore. The cost to ENG Ltd. for arranging the borrowing was ₹ 2,00,000 and this cost qualified for a tax deduction on 1st April, 2017. The loan was for 3 years. No interest was payable on the loan but the amount repayable on 31st March, 2020 will be ₹ 1,03,04,380. This equates to an effective annual interest rate of 10%. Under the tax laws, a further tax deduction of ₹ 3,04,380 can be claimed when the loan is repaid on 31st March, 2020.

(A) Carrying amount is ₹ 1.078 Crores and tax base is ₹ 1 Crore.

(B) Carrying amount is ₹ 1 Crore and tax base is Nil.

(C) Carrying amount is ₹ 1.078 Crores and tax base is Nil.

(D) Carrying amount and tax base both are ₹ 1 Crore.

1.2 On 1st April, 2016, K Ltd. made an interest free loan to an employee of ₹ 8,00,000. The loan is due for repayment on 31st March, 2018 and K Ltd. is confident that the employee will repay the loan. K Ltd. normally requires an annual rate of return of 10% on loans. What amount of loan is to be shown as on 31st March, 2017 ? **2**

(A) ₹ 8,00,000 (B) ₹ 1,38,843

(C) ₹ 6,61,157 (D) ₹ 7,27,273

1.3 On 1st April, 2016, K Ltd. gave a 3-year loan of ₹ 100 lakhs to entity X. The market rate of return is 10% per annum. On 31st March, 2019, K Ltd. will receive a fixed number of shares in entity X in full settlement of the loan. Entity X paid the interest due of ₹ 8,00,000 on 31st March, 2017. Entity X has no liquidity problems. Following payment of interest, the fair value of this loan asset at 31st March, 2017 was estimated to be ₹ 105 lakhs. As on 31st March, 2017, the loan will stand at what amount ? **2**

(A) ₹ 100 lakhs (B) ₹ 105 lakhs

(C) ₹ 82,64,463 (D) ₹ 90,90,909

Marks

1.4 On 1st April, 2016, K Ltd. purchased an equity investment in entity Y for ₹ 120 lakhs. The investment did not give K Ltd. control or significant influence over entity Y but the investment is seen as long term. K Ltd. plans to hold the investment till 31st March, 2019. On 31st March, 2017, the fair value of K Ltd.'s investment in entity Y was estimated to be ₹ 130 lakhs. Market rate of interest is 10%. What will be investment amount outstanding as on 31st March, 2017 ? 2

(A) ₹ 130 lakhs
(B) ₹ 120 lakhs
(C) ₹ 99,17,355
(D) ₹ 1,09,09,091

1.5 Entity A has its head office in India but operates an oil refinery in Saudi Arabia. All of the entity's income is denominated and settled in USD. The oil price is subject to the worldwide supply and demand, and crude oil is routinely traded in USD around the world. Around 40% of the entity's cash costs of imports are paid in USD. The remaining costs of 40% are paid in riyals and the balance costs are incurred in INR. What is the functional currency of Entity A ? 2

(A) Riyal
(B) INR
(C) USD
(D) Choice between INR and USD

1.6 Management of Entity A decided to terminate 250 staff members within the next year. However, the costs of termination will arise over a longer period and are expected to be ₹ 200 lakhs, payable as ₹ 80 lakhs in 1 year's time and ₹ 120 lakhs in 2 years' time. The market yield for high-quality corporate bonds of both the years is 5.5%. What is the provision amount required to be done by Management ? 2

(A) ₹ 2,00,00,000
(B) ₹ 75,82,938
(C) ₹ 1,07,81,429
(D) ₹ 1,83,64,360

Marks

1.7 KK Ltd. is an unlisted public company registered under the Companies Act, 2013. The Company has adopted the Ind AS w.e.f. 1st April, 2017 with a transition date of 1st April, 2016. The Company is in process of preparing the interim financial statements for the period ended 30th June, 2018 as per Ind AS for its internal reporting purposes. The Company has approached you with specific queries and has requested you to provide your views along with reasoning and specific references to Ind AS.

(a) On 1st April, 2018, KK Ltd. has acquired 80% of the equity interest in CK Ltd., a private entity in exchange for cash of ₹ 150 crores. Because the former owners of CK Ltd. needed to dispose off their investment in CK Ltd. by a specified date, they did not have sufficient time to identify other potential buyers. Additional information with respect to the said acquisition are as follows : **8**

- The identifiable assets are measured at ₹ 250 crores and the liabilities assumed at ₹ 50 crores.
- The Company has also engaged an independent consultant, who has determined that the fair value of the 20% of Non-Controlling Interest in CK Ltd. is ₹ 42 crores.

The Company has requested you to suggest the accounting treatment of the above acquisition made as per Ind AS. Whether the Company has any other option other than the fair valuation of the non-controlling interest ? If yes, what will be the impact of the same under the Ind AS 103 ? Further the Company has also requested you to explain the differences in the accounting under corresponding IFRS for the aforementioned transaction.

Marks

(b) KK Ltd. has granted an interest free loan of ₹ 10,00,000 to its wholly owned Indian Subsidiary YK Ltd. There is no transaction cost attached to the said loan. The Company has not finalised any terms and conditions including the applicable interest rates on such loans. The Board of Directors of the Company are evaluating various options and has requested your firm to provide your views under Ind AS in following situations : 10

(i) The Loan given by the KK Ltd. to its wholly owned subsidiary YK Ltd. is interest free and such loan is repayable on demand.

(ii) The said Loan is interest free and will be repayable after 3 years from the date of granting such loan. The current market rate of interest for similar loan is 10%. Considering the same the fair value of the loan at initial recognition is ₹ 8,10,150.

(iii) The said loan is interest free and will be repaid as and when the YK Ltd. has funds to repay the Loan amount.

Based on the same, KK Ltd. has requested you to suggest the accounting treatment of the above loan in the stand-alone financial statements of KK Ltd. and YK Ltd. and also in the consolidated financial statements of the group. Consider interest for only one year for the above loan.

Further the Company is also planning to grant interest free loan from YK Ltd. to KK Ltd. in the subsequent period. What will be the accounting treatment of the same under applicable Ind AS ?

(c) KK Ltd. has developed model to measure the expected credit loss based on the lifetime expected credit loss model. Accordingly, the Company has estimated the following provision matrix : 4

	Current	1-30 days past due	31-60 days past due	61-90 days past due	More than 90 days past due
Default Rate	0.3%	1.6%	3.6%	6.6%	10.6%

The Company has a portfolio of trade receivables of ₹ 6 crores as on 30th June, 2018 and operates in only one geographical region. The customer base of the Company consists of large number of small clients and trade receivables are categorised by common risk characteristics that are representative of the customer's abilities to pay all amounts due as per the contractual terms.

The trade receivables do not have significant financing component. The above provision matrix is based on its historically observed default rate over the expected life of the trade receivables and is adjusted for forward looking estimate.

The Company has asked you to suggest whether the above system of making the provision for the expected credit loss is in accordance with the applicable Ind AS ? If yes, please determine the expected credit loss for the Trade receivables outstanding as on 30th June, 2018 which are as follows :

	Current	1-30 days past due	31-60 days past due	61-90 days past due	More than 90 days past due
% of Trade receivables	50%	25%	13%	8%	4%

(d) As part of its business expansion strategy, KK Ltd. is in process of setting up a pharma intermediates business which is at very initial stage. For this purpose, the Company has acquired on 1st April, 2018, 100 % shares of ABR Ltd. that manufactures pharma intermediates. The purchase consideration for the same was by way of a share exchange valued at ₹ 35 crores. The fair value of ABR Ltd.'s net assets was ₹ 15 crores, but does not include : 4

(i) A patent owned by ABR Ltd. for an established successful intermediate drug that has a remaining life of 8 years. A consultant has estimated the value of this patent to be ₹ 10 crores. However, the outcome of clinical trials for the same are awaited. If the trials are successful, the value of the drug would fetch the estimated ₹ 15 crores.

Marks

(ii) The Company has developed and patented a new drug which has been approved for clinical use. The cost of developing the drug was ₹ 12 crores. Based on early assessment of its sales success, the valuer has estimated its market value at ₹ 20 crores.

(iii) The Company's manufacturing facilities have received a favourable inspection by a government department. As a result of this, the Company has been granted an exclusive five-year license to manufacture and distribute a new vaccine. Although the license has no direct cost to the Company, its directors believe that obtaining the license is a valuable asset which assures guaranteed sales and the value for the same is estimated at ₹ 10 crores.

The Company has requested you to suggest the accounting treatment of the above transaction under applicable Ind AS.

(e) KK Ltd. had, taken loan from State Bank of India, the details of which are as follows : 4

(i) Amount of Loan - ₹ 1,000 crores

(ii) Date of Loan - 1st January, 2010

(iii) Terms of Payment :

- Interest - No interest for the first two years of the loan tenure;
- Rate of Interest - 8% p.a. for next 3 years, 9% p.a. thereafter till the date of repayment

(iv) Interest is payable at the end of each year.

(v) Repayment - Principal Repayment on 1st January, 2018.

The Company has requested you to suggest the suitable accounting entries for the 6 months ended 30th September, 2018 in the books of account along with the supporting working in compliance with applicable Ind AS.

Marks

Question No – 2

2.1 MS Ltd. follows Ind AS for its financial reporting. The Chief Operating Decision Maker ("CODM") of the Company reviews all of its segment assets and liabilities based on their fair values. The recently joined finance manager of the Company has sought your advice on the preparation of the financial statements of the Company. **2**

You are required to select the correct answer from the below-mentioned options :

(A) In the operating segment disclosures, the assets and liabilities should be disclosed at the amounts reported in the Balance Sheet. A disclosure should be given in the financial statements that the CODM reviews these amounts based on their fair values.

(B) In the operating segment disclosures, the assets and liabilities should be disclosed at the amounts reported in the Balance Sheet. Since review by CODM is an internal affair of the Company, no additional disclosure is required to be given in the financial statements.

(C) In the operating segment disclosures, the assets and liabilities should be disclosed at the fair values being reviewed by the CODM. The Company should also present a reconciliation between the amounts disclosed under the operating segment disclosures and the amounts reported in the Balance Sheet.

(D) In the operating segment disclosures, the assets and liabilities should be disclosed at the fair values being reviewed by the CODM. The Company should provide a note in the financial statements that the amounts disclosed under operating segment disclosures are at fair value, whereas the amounts reported under the Balance Sheet are measured depending on their nature and classification. A quantitative reconciliation in this regard is not required to be presented.

Marks

2.2 PQR Ltd. measures its land using the revaluation model under Ind AS. Because of revaluation gains, temporary differences have arisen on which deferred tax liability is required to be recognized. You are required to determine in which section of the financial statements the debit effect of deferred tax liability should be given. Select the correct answer from the below-mentioned options. 2

(A) Profit or loss
(B) Other comprehensive income
(C) Property, plant and equipment
(D) General reserve

2.3 Twinkle Ltd. is an entity engaged in trading of textiles. It purchased a building with the objective of earning rentals and capital appreciation. Since its parent, Cozy Ltd., required a building for its sales office, Twinkle Ltd. rented the building to Cozy Ltd. on market terms. Twinkle Ltd. classified the lease as an operating lease. Select the appropriate response from the below-mentioned options : 2

(A) The building should be recognised as Property, plant and equipment in the standalone Balance Sheet of Twinkle Ltd. as well as consolidated Balance Sheet of Cozy Ltd.

(B) The building should be recognised as an investment property in the standalone Balance Sheet of Twinkle Ltd. as well as consolidated Balance Sheet of Cozy Ltd.

(C) The building should be recognised as property, plant and equipment in the standalone Balance Sheet of Twinkle Ltd.; Cozy Ltd. should recognise the building in its consolidated Balance Sheet as an investment property.

(D) The building should be recognised as an investment property in the standalone Balance Sheet of Twinkle Ltd.; Cozy Ltd. should recognise the building in its consolidated Balance Sheet as Property, plant and equipment.

Marks

2.4 Which of the following statements regarding the reclassification of financial instruments is CORRECT ? 2

(A) Reclassification of financial assets and financial liabilities is required when the entity changes its business model for managing those financial assets and financial liabilities.

(B) Reclassification of financial assets is required when the entity changes its business model for managing the financial assets. Financial liabilities are not permitted to be reclassified.

(C) Reclassification of financial assets and financial liabilities is permitted when there is a change in the contractual cash flow characteristics of the financial assets and financial liabilities.

(D) Reclassification of financial assets and financial liabilities is permitted when terms of the contract are substantially modified. Determination of whether or not such modification is substantial requires exercise of significant judgement.

2.5 When a financial instrument is reclassified, the effect of such reclassification should be recognised by the entity. Select the correct answer from the below-mentioned options in respect of accounting of such reclassification : 2

(A) Accounting of the reclassification should be done retrospectively.

(B) Accounting of the reclassification should be done prospectively from the date on which entity decides to reclassify the instrument.

(C) Accounting of such reclassification should be done with effect from the first day of the reporting period following the reclassification.

(D) Accounting of the reclassification should be done prospectively only if it is impracticable to account for the change retrospectively.

Marks

2.6 Which of the following is the correct methodology to separate the liability and the equity component of a compound financial instrument (in the financial statements of the issuer) ? 2

(A) Calculate the value of equity and liability components based on their respective fair values on initial recognition. Any residual amount should be recognised in profit or loss immediately.

(B) Calculate the value of equity and liability components based on their respective fair values on initial recognition. Any residual amount should be recognised directly in other comprehensive income.

(C) Calculate the fair value of the liability component on initial recognition, and allocate the residual value to the equity component.

(D) Calculate the fair value of the equity component on initial recognition, and allocate the residual value to the liability component.

2.7 Which of the following factors are relevant in determining 'value in use' of a non-current asset for the purpose of recognising impairment loss ? Select all the options which are applicable. 2

(A) Expected future cash flows from the asset

(B) Future depreciation charge on the asset

(C) Potential appreciation in the value of the asset

(D) Carrying value of the asset

2.8. Efficient Ltd. is engaged in the business of transportation. Owing to the nature of the business, their requirements of short-term funds fluctuates significantly every month. Therefore, to effectively manage the requirements of cash, instead of obtaining a term loan, Efficient Ltd. relies mainly on bank overdrafts which are payable on demand. 2

Following table shows the month wise balance of their current account with the bank.

Month	Debit / Credit balance	Balance (₹ in crores)
October, 2017	Debit	2.0
November, 2017	Credit	4.0
December, 2017	Debit	2.0
January, 2018	Debit	1.5
February, 2018	Credit	4.5
March, 2018	Credit	3.7

Marks

For the purpose of Ind AS financial statements of Efficient Ltd. for the year ended 31st March, 2018, its management has requested you to help them in appropriate classification of the bank over drafts. You are required to select the correct answer from the below-mentioned options :

(A) Bank overdrafts should be shown under current financial liabilities in the financial statements; Ind AS do not allow presentation of bank overdrafts as component of cash and cash equivalents in the statement of cash flows.

(B) Bank overdrafts should be shown under current financial liabilities in the financial statements; in the statement of cash flows, bank overdrafts should be presented as a component of cash and cash equivalents.

(C) Bank overdrafts must always be netted with cash and cash equivalents in the Balance Sheet; in the statement of cash flows, bank overdrafts should be presented as a component of cash and cash equivalents.

(D) Bank overdrafts must always be netted with cash and cash equivalents in the Balance Sheet; Ind AS does not allow presentation of bank overdrafts as component of cash and cash equivalents in the statement of cash flows.

2.9 MR Ltd. prepares its financial statements under IFRS as well as US GAAP. For the purpose of its financial reporting for the year ended 31st March, 2018, it has following two questions for which it seeks your advice :

(i) During the year ended 31st March, 2018, MR Ltd. entered into an agreement with the promoters of XYZ Ltd. to acquire 18% equity stake in XYZ Ltd. As per the agreement, MR Ltd. has an option to purchase additional 5% equity stake in XYZ Ltd. from the promoters. As on 31st March 2018, the right of MR Ltd. to purchase additional 5% equity interest is exercisable. The equity shareholders are entitled to vote in the general meetings of XYZ Ltd. in proportion of the equity stake held by them. **2**

Marks

Should the additional 5% equity interest be considered by MR Ltd. in the assessment of whether it has significant influence on XYZ Ltd. as on 31st March, 2018 ? Select the correct answer from the below-mentioned options :

(A) Under US GAAP as well as IFRS, the additional 5% equity interest should be considered in the evaluation.

(B) Under US GAAP as well as IFRS, the additional 5% equity interest should not be considered in the evaluation.

(C) Under US GAAP, the additional 5% equity interest should not be considered in the evaluation; under IFRS, the additional 5% equity interest should be considered in the evaluation.

(D) Under US GAAP, the additional 5% equity interest should be considered in the evaluation; under IFRS, the additional 5% equity interest should not be considered in the evaluation.

(ii) On 1st January, 2018, MR Ltd. classified one of its associates, ABC Ltd., as held for sale. Prior to such classification, the associate was accounted using equity method in US GAAP as well as IFRS. Following information is provided to you in relation to investment in ABC Ltd. : 2

Particulars	**₹ in lakhs**
Carrying value of investment as per equity method of accounting as on 1st January, 2018	48
Carrying value of investment as per equity method of accounting as on 31st March, 2018	53
Fair value of investment as on 1st January, 2018	87
Fair value of investment as on 31st March, 2018	95
Estimated cost to sell the investment as on 1st January, 2018	2
Estimated cost to sell the investment as on 31st March, 2018	3

At what amount should the investment in ABC Ltd. be measured as on 31st March, 2018? Select the correct answer from the below-mentioned options:

(A) Under US GAAP, at ₹ 53 lakhs; under IFRS, at ₹ 48 lakhs.

(B) Under US GAAP, at ₹ 95 lakhs; under IFRS, at ₹ 48 lakhs.

(C) Under US GAAP, at ₹ 53 lakhs; under IFRS, at ₹ 95 lakhs.

(D) Under US GAAP, at ₹ 93 lakhs; under IFRS, at ₹ 95 lakhs.

Marks

2.10 Wellbeing Ltd. and Life-Science Ltd. are Ind AS compliant entities engaged in the manufacturing and sale of various pharmaceutical products including eye care products. On 31st March, 2018, Wellbeing Ltd. acquired certain assets and/or liabilities of Life-Science Ltd.'s eye care division. **9**

Assets and liabilities of eye care division of Life-Science Ltd. as on the acquisition date are as follows :

Particulars	Carrying value in the books of Life-Science Ltd. as per Ind AS (₹ in crores)	Fair value (₹ in crores)
Assets :		
Patents	12.0	18.0
Manufacturing facility	8.0	24.0
Administrative office building	5.0	20.0
Liabilities :		
Employee benefits payable to scientists directly engaged in manufacturing	0.9	0.9
Employee benefits payable to administrative employees not engaged in manufacturing	0.5	0.5
Net assets	23.6	60.6

Additional information :

- Patents are key inputs in the production process. Patents, when combined with other relevant assets of the eye care division, are capable of producing the finished goods (that is, medicines of eye care division).
- Administrative office building is used for accommodating employees and infrastructure required for payroll processing, accounting, and other administrative tasks not directly related to the production of medicines.
- Wellbeing Ltd. and Life-Science Ltd. are not related parties under Ind AS.

In each of the three scenarios as mentioned below, you are required to prepare the necessary journal entries for the acquisition, along with a brief reasoning. Ignore taxation.

Marks

Scenario 1 : Wellbeing Ltd. has acquired the following items from Life-Science Ltd. for a cash consideration of ₹ 42 crores :

- Patents
- Manufacturing facility
- Scientists
- Employee benefits payable to scientists
- All the strategic and operational processes which are required for the production and sale of medicines.

Scenario 2 : Wellbeing Ltd. has acquired the following items from Life-Science Ltd. for a cash consideration of ₹ 62 crores :

- Patents
- Manufacturing facility
- Administrative office building
- Scientists
- Administrative Employees
- Employee benefits payable to scientists
- Employee benefits payable to administrative employees
- All strategic and operational processes which are required for the production and sale of medicines.

Scenario 3 : Wellbeing Ltd. has acquired only the patents for a cash consideration of ₹ 17 crores.

2.11 H Ltd. acquired equity shares of S Ltd., a listed company, in two tranches as mentioned in the below table : **15**

Date	Equity stake purchased	Remarks
1st November, 2016	15%	The shares were purchased based on the quoted price on the stock exchange on the relevant dates.
1st January, 2017	45%	

Marks

Both the above-mentioned companies have INR as their functional currency. Consequently, H Ltd. acquired control over S Ltd. on 1st January, 2017. Following is the Balance Sheet of S Ltd. as on that date :

Particulars	Carrying value (₹ in crores)	Fair value (₹ in crores)
ASSETS :		
Non-current assets		
(a) Property, plant and equipment	40.0	90.0
(b) Intangible assets	20.0	30.0
(c) Financial assets		
- Investments	100.0	350.0
Current assets		
(a) Inventories	20.0	20.0
(b) Financial assets		
- Trade receivables	20.0	20.0
- Cash held in functional currency	4.0	4.0
(c) Other current assets		
Non-current asset held for sale	4.0	4.5
TOTAL ASSETS	**208**	
EQUITY AND LIABILITIES :		
Equity		
(a) Share capital (face value: ₹100)	12.0	50.4
(b) Other equity	141.0	Not applicable
Non-current liabilities		
(a) Financial liabilities		
- Borrowings	20.0	20.0
Current liabilities		
(a) Financial liabilities		
- Trade payables	28.0	28.0
(b) Provision for warranties	3.0	3.0
(c) Current tax liabilities	4.0	4.0
TOTAL EQUITY AND LIABILITIES	**208.0**	

Marks

Other information :

Property, plant and equipment in the above Balance Sheet include leasehold motor vehicles having carrying value of ₹ 1 crore and fair value of ₹ 1.2 crores. The date of inception of the lease was 1st April, 2010. On the inception of the lease, S Ltd. had correctly classified the lease as a finance lease. However, if facts and circumstances as on 1st April, 2017 are considered, the lease would be classified as an operating lease.

Following is the statement of contingent liabilities of S Ltd. as on 1st January, 2017 :

Particulars	Fair value (₹ in crores)	Remarks
Law suit filed by a customer for a claim of ₹ 2 crores	0.5	It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim. Any amount which would be paid in respect of law suit will be tax deductible.
Income tax demand of ₹ 7 crores raised by tax authorities; S Ltd. has challenged the demand in the court.	2.0	It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim.

In relation to the above-mentioned contingent liabilities, S Ltd. has given an indemnification undertaking to H Ltd. up to a maximum of ₹ 1 crore.

₹ 1 crore represents the acquisition date fair value of the indemnification undertaking.

Any amount which would be received in respect of the above undertaking shall not be taxable.

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The tax bases of the assets and liabilities of S Ltd. is equal to their respective carrying values being recognised in its Balance Sheet.

Carrying value of non-current asset held for sale of ₹ 4 crores represents its fair value less cost to sell in accordance with the relevant Ind AS.

In consideration of the additional stake purchased by H Ltd. on 1st January, 2017, it has issued to the selling shareholders of S Ltd. 1 equity share of H Ltd. for every 2 shares held in S Ltd. Fair value of equity shares of H Ltd. as on 1st January, 2017 is ₹ 10,000 per share.

On 1st January, 2017, H Ltd. has paid ₹ 50 crores in cash to the selling shareholders of S Ltd. Additionally, on 31st March, 2019, H Ltd. will pay ₹ 30 crores to the selling shareholders of S Ltd. if return on equity of S Ltd. for the year ended 31st March, 2019 is more than 25% per annum. H Ltd. has estimated the fair value of this obligation as on 1st January, 2017 and 31st March, 2017 as ₹ 22 crores and ₹ 23 crores respectively. The change in fair value of the obligation is attributable to the change in facts and circumstances after the acquisition date.

Quoted price of equity shares of S Ltd. as on various dates is as follows :

As on 1st November, 2016	₹ 350 per share
As on 1st January, 2017	₹ 395 per share
As on 31st March, 2017	₹ 420 per share

On 31st May, 2017, H Ltd. learned that certain customer relationships existing as on 1st January, 2017, which met the recognition criteria of an intangible asset as on that date, were not considered during the accounting

Marks

of business combination for the year ended 31st March, 2017. The fair value of such customer relationships as on 1st January, 2017 was ₹ 3.5 crores (assume that there are no temporary differences associated with customer relations; consequently, there is no impact of income taxes on customer relations).

On 31st May, 2017 itself, H Ltd. further learned that due to additional customer relationships being developed during the period 1st January, 2017 to 31st March, 2017, the fair value of such customer relationships has increased to ₹ 4 crores as on 31st March, 2017.

On 31st December, 2017, H Ltd. has established that it has obtained all the information necessary for the accounting of the business combination and that more information is not obtainable.

H Ltd. and S Ltd. are not related parties and follow Ind AS for financial reporting. Income tax rate applicable is 30%.

You are required to provide your detailed responses to the following, along with reasoning and computation notes :

(a) What should be the goodwill or bargain purchase gain to be recognised by H Ltd. in its financial statements for the year ended 31st March, 2017. For this purpose, measure non-controlling interest using proportionate share of the fair value of the identifiable net assets of S Ltd.

Marks

(b) Will the amount of non-controlling interest, goodwill, or bargain purchase gain so recognised in (a) above change subsequent to 31st March, 2017 ? If yes, provide relevant journal entries.

(c) What should be the accounting treatment of the contingent consideration as on 31st March, 2017 ?

2.12 Angel Ltd. has adopted Ind AS with a transition date of 1st April, 2017. Prior to Ind AS adoption, it followed Accounting Standards notified under Companies (Accounting Standards) Rules, 2006 (hereinafter referred to as "IGAAP"). **6**

It has made investments in equity shares of Pharma Ltd., a listed company engaged in the business of pharmaceuticals. The shareholding pattern of Pharma Ltd. is given below :

Shareholders (refer footnote 1)	Percentage shareholding as on 1st April, 2017
Angel Ltd.	21%
Little Angel Ltd. (refer footnote 2)	24%
Wealth Master Mutual Fund (refer footnote 3)	3%
Individual public shareholders (refer footnote 4)	52%

Footnotes :

(1) None of the shareholders have entered into any shareholders' agreement.

(2) Little Angel Ltd. is a subsidiary of Angel Ltd. (under Ind AS) in which Angel Ltd. holds 51% voting power.

(3) Wealth Master Mutual Fund is not related party of either Little Angel Ltd. or Pharma Ltd.

(4) Individual public shareholders represent 17,455 individuals. None of the individual shareholders hold more than 1% of voting power in Pharma Ltd.

Marks

All commercial decisions of Pharma Ltd. are taken by its directors who are appointed by a simple majority vote of the shareholders in the annual general meetings ("AGM"). The following table shows the voting pattern of past AGMs of Pharma Ltd. :

Shareholders	AGM for the financial year :		
	2013-14	2014-15	2015-16
Angel Ltd.	Attended and voted in favour of all the resolutions	Attended and voted in favour of all the resolutions	Attended and voted in favour of all the resolutions
Little Angel Ltd.	Attended and voted as per directions of Angel Ltd.	Attended and voted as per directions of Angel Ltd.	Attended and voted as per directions of Angel Ltd.
Wealth Master Mutual Fund	Attended and voted in favour of all the resolutions except for the reappointment of the retiring directors	Attended and voted in favour of all the resolutions except for the reappointment of the retiring directors	Attended and voted in favour of all the resolutions except for the reappointment of the retiring directors
Individuals	7% of the individual shareholders attended the AGM. All the individual Shareholders voted in favour of all the resolutions, except that 50% of the individual Shareholders voted against the resolution to appoint the retiring directors.	8% of the individual Shareholders attended the AGM. All the individual Shareholders voted in favour of all the resolutions, except that 50% of the individual share holders voted against the resolution to appoint the retiring directors.	6% of the individual shareholders attended the AGM. All the individual Share holders voted in favour of all the resolutions, except that 50% of the individual Share holders voted against the resolution to appoint the retiring directors.

Marks

Pharma Ltd. has obtained substantial long term borrowings from a bank. The loan is payable in 20 years from 1st April, 2017. As per the terms of the borrowing, following actions by Pharma Ltd. will require prior approval of the bank :

- Payment of dividends to the shareholders in cash or kind;
- Buyback of its own equity shares;
- Issue of bonus equity shares;
- Amalgamation of Pharma Ltd. with any other entity; and
- Obtaining additional loans from any entity.

Recently, the Board of Directors of Pharma Ltd. proposed a dividend of ₹ 5 per share. However, when the CFO of Pharma Ltd. approached the bank for obtaining their approval, the bank rejected the proposal citing concerns over the short-term cash liquidity of Pharma Ltd. Having learned about the developments, the Directors of Angel Ltd. along with the Directors of Little Angel Ltd. approached the bank with a request to re-consider its decision. The Directors of Angel Ltd. and Little Angel Ltd. urged the bank to approve a reduced dividend of at least ₹ 2 per share. However, the bank categorically refused to approve any payout of dividend.

Under IGAAP, Angel Ltd. has classified Pharma Ltd. as its associate. As the CFO of Angel Ltd., you are required to comment on the correct classification of Pharma Ltd. on transition to Ind AS.

Question No – 3

3.1 Which of the following can be classified as a Biological Assets as per the applicable Ind AS ? 2

(A) Hides (B) Harvested grapes

(C) Processed Coffee beans (D) Lambs

Marks

3.2 For the purpose of inducing industries to set up businesses in rural areas, the U.P State Government has launched a scheme, wherein any industrial company who sets up a new plant in specified rural areas of U.P., with certain more specified terms, would be eligible to receive the benefit of deferring sales tax payment to the Government for 10 years. Consequently, an entity eligible for this scheme would be entitled to collect sales tax from its customers; but, need not deposit the collected amount to the UP Government for the next 10 years, but needs to deposit the 1st year sales tax in the 11th year, 2nd year sales tax in the 12th year and so on. There is also no interest liability that would accrue to an entity for deferring this payment for 10 years. Under which Ind AS does this arrangement get covered ? 2

(A) Ind AS 16 (B) Ind AS 109

(C) Ind AS 20 (D) None of the above

3.3 Company X provides gas supply to its customers through gas cylinders and gas pipelines. The government has directed Company X to reduce the gas pipeline charges and fix the price for next 5 years. This will cost ₹ 10 lakhs and Company X cannot reduce its cost of supply. How will Company account this under Ind AS ? 2

(A) Create a provision of ₹ 10 lakhs.

(B) No provision is required.

(C) No provision is required as it an onerous contract.

(D) Disclose as contingent liability.

3.4 A company has spare parts, which it terms as 'insurance spares', which are required to be used along with the main equipment. How will the same be accounted under Ind AS ? 2

(A) Under Ind AS 2 (B) Under Ind AS 38

(C) Under Ind AS 16 (D) Will be expensed off in the books.

Marks

3.5 A share broking company is dealing in sale/purchase of shares on its own account and is holding inventory of shares purchased during the year for trading. How will the same be accounted as per Ind AS in the books of the company ? 2

(A) At Fair value through Profit and Loss

(B) At Fair value through Other Comprehensive Income

(C) At Cost

(D) At Cost or Net Realizable Value whichever is less

3.6 Which of the following activities cannot be classified as an 'Operating activities' for a company engaged in investment activities ? 2

(A) Interest received on loans and advances

(B) Dividends paid on preference shares

(C) Penal interest received from customers for late payments

(D) Interest paid on deposits and other borrowings

3.7 In which of the following obligations is a 'provision' necessary ? 2

(A) Amount payable for future salary increments

(B) Financial guarantee given by the parent to lenders for loan taken by its subsidiary

(C) Warranty obligation

(D) Interest paid on borrowings

3.8 XYZ Ltd. has recently purchased a 'Hussain' painting to display in their client reception area, with a hope that it will lead to more contracts and that the painting will appreciate. The cost of the painting in the books will be accounted as per which Ind AS ? 2

(A) Ind AS 16

(B) Ind AS 40

(C) Ind AS 2

(D) Cost to be charged to Statement of Profit and Loss.

Marks

3.9 On 31st March, 2018, the inventories of D Ltd. included a consignment of components which D Ltd. had been supplying to a number of different customers for some years. The cost of the consignment was ₹ 100 lakhs and based on retail price at 31st March, 2018, the expected selling price of the consignment would be ₹ 120 lakhs. On 15th May, 2018, a competitor completed the development of an alternative component which seems likely to make D Ltd.'s consignment obsolete. The directors of D Ltd. estimate that the consignment (currently unsold) will now fetch only ₹ 75 lakhs. Based on this, the inventories to be valued as on 31st March, 2018 will be : 2

(A) ₹ 100 lakhs

(B) ₹ 120 lakhs

(C) ₹ 75 lakhs

(D) ₹ 120 lakhs less costs to sell

3.10 An entity issues a non-redeemable bond with 'call' option, where the fixed dividend of 5% can be deferred at the issuer's option. There is an economic compulsion for the issuer to pay dividend. What is the classification of the bond as per Ind AS ? 2

(A) It is a Compound instrument.

(B) It is a financial liability.

(C) It is equity.

(D) It is neither of the above.

3.11 XYZ Pvt. Ltd. is a company registered under the Companies Act, 2013 following Accounting Standards notified under Companies (Accounting Standards) Rules, 2006. The Company has decided to voluntary adopt Ind AS w.e.f 1st April, 2018 with a transition date of 1st April, 2017. 10

The Company has one Wholly Owned Subsidiary and one Joint Venture which are into manufacturing of automobile spare parts.

The consolidated financial statements of the Company under Indian GAAP are as under :

Marks

Consolidated Financial Statements **(₹ in Lakhs)**

Particulars	31.03.2018	31.03.2017
Shareholder's Funds		
Share Capital	7,953	7,953
Reserves & Surplus	16,547	16,597
Non-Current Liabilities		
Long Term Borrowings	1,000	1,000
Long Term Provisions	1,101	691
Other Long-Term Liabilities	5,202	5,904
Current Liabilities		
Trade Payables	9,905	8,455
Short Term Provisions	500	475
Total	**42,208**	**41,075**
Non-Current Assets		
Property Plant & Equipment	21,488	22,288
Goodwill on Consolidation	1,507	1,507
Investment Property	5,245	5,245
Long Term Loans & Advances	6,350	6,350
Current Assets		
Trade Receivables	4,801	1,818
Investments	1,263	3,763
Other Current Assets	1,554	104
Total	**42,208**	**41,075**

P.T.O.

Marks

Additional information :

(a) The Reserves & Surplus of the Company consists of the following :

(₹ in Lakhs)

Particulars	31.03.2018	31.03.2017
General Reserve	3,200	3,200
Surplus in Statement of Profit & Loss	13,347	13,397

(b) The long term borrowing of the Company represents Loan from Central Bank of India, the outstanding balance of such loan as on 31.03.2018 is ₹ 1,000 Lakhs. The other terms and condition of the loan is as follows :

- Date of Loan - 1st April, 2011
- No interest payment upto 31st March, 2013,
- Rate of Interest - 8% from 1st April, 2013 till 31st March, 2016 and 9% thereafter
- Interest is payable at the end of each year
- Repayment - bullet repayment on 31st March, 2019.

(c) The short-term provision for the year ended 31st March, 2017 *interalia* includes interim dividend of ₹ 295 crores declared on 25th March, 2017 and paid to the shareholders on 10th April, 2017. The same was ratified by the shareholders in its Annual General Meeting held on 15th September, 2017.

(d) The Property, Plant & Equipment interalia includes following :

Particulars	31.03.2018	31.03.2017
Buildings (₹ In lakhs)	5,797	6,100

- The Company has decided to adopt the Fair value as deemed cost as on the date on transition. The fair value of the building on date of transition is ₹ 6,350 lakhs. The cost of the building includes pre-operative expenses capitalised in the building ₹ 150 lakhs. These costs were indirect overheads and were not directly attributable to bring the building to its current condition.

Marks

(e) The Company has entered into a joint arrangement by acquiring 50% of the equity shares of ABC Pvt. Ltd. Presently, the same has been accounted as per the proportionate consolidated method. The proportionate share of assets and liabilities of ABC Pvt. Ltd. included in the consolidated financial statement of XYZ Pvt. Ltd. is as under :

Particulars	**₹ in Lakhs**
Property, Plant & Equipment	1,200
Long Term Loans & Advances	405
Trade Receivables	280
Other Current Assets	50
Trade Payables	75
Short Term Provisions	35

The Investment is in the nature of Joint Venture as per Ind AS-111.

The Company has approached you to advice and suggest the accounting adjustments which are required to be made in the opening Balance Sheet as on 1st April, 2017.

3.12 PQR Ltd. is preparing the opening consolidated financial statements of the group under Ind-AS and has approached you to suggest the possible deferred tax impact on the following transactions/events : **6**

(i) On 1st April, 2015, PQR Ltd. acquired 100% shares of ABC Ltd. for ₹ 4,373 crores. By March 31, 2017, ABC Ltd. has made profit of ₹ 5 crores, which remained undistributed. Based on tax legislation in India, the tax base of the investment in XYZ Ltd. is its original cost. Assume dividend distribution tax rate applicable is 15%.

Marl

(ii) On 15th March, 2017, ABC Ltd. sells to PQR Ltd. inventory with a cost of ₹ 120 crores giving rise to taxable profit of ₹ 20 crores in the books of ABC Ltd. The inventory is lying in the books of PQR Ltd. as on 31st March 2017. The corporate income tax applicable to PQR Ltd. is 30%, while that of ABC Ltd. is 34%.

(iii) PQR Ltd. acquired 50% of shares KKR Ltd. on 1st January, 2017 for ₹ 1,000 crores. By 31st March, 2017, KKR Ltd. has made profit of ₹ 50 crores (Share of PQR) which remain undistributed. Based on the tax legislation in India, the tax base of the investment in KKR Ltd. is its original cost. Assume the dividend distribution tax rate applicable is 15%.

3.13 KK Ltd. runs a departmental store which awards 10 points for every purchase of ₹ 500 which can be discounted by the customers for further shopping with the same merchant. Unutilised points will lapse on expiry of two years from the date of credit. Value of each point is ₹ 0.50. During the accounting period 2017, the entity awarded 10,000,000 points to various customers of which 18,00,000 points remained undiscounted. The management expects only 80% will be discounted in future of which normally 60-70% are redeemed during the next year. During 2018, 70% of the outstanding points were discounted. **8**

The Company has approached your firm with the following queries and has asked you to suggest the accounting treatment under the applicable Ind AS :

Marks

(a) How should the recognition be done for the sale of goods worth ₹ 10,00,000 on a particular day ?

(b) How should the redemption transaction be recorded ? The Company has requested you to present the sale of goods and redemption as independent transaction. Total sales of the entity is ₹ 5,000 lakhs.

(c) How much of the deferred revenue should be recognised at the year-end (2017) because of the estimation that only 80% of the outstanding points will be redeemed ?

(d) In the next year 2018, 60% of the outstanding points were discounted. Balance 40% of the outstanding points of 2017 still remained outstanding. How much of the deferred revenue should the merchant recognize ?

3.14 CK Ltd. prepares the financial statement under Ind AS for the quarter year ended 30th June, 2018. During the 3 months ended 30th June, 2018 following events occurred : **6**

On 1st April, 2018, the Company has decided to sell one of its divisions as a going concern following a recent change in its geographical focus. The proposed sale would involve the buyer acquiring the non-monetary assets (including goodwill) of the division, with the Company collecting any outstanding trade receivables relating to the division and settling any current liabilities.

On 1st April, 2018, the carrying amount of the assets of the division were as follows :

- Purchased Goodwill - ₹ 60,000
- Property, Plant & Equipment (average remaining estimated useful life two years) ₹ 20,00,000
- Inventories ₹ 10,00,000

From 1st April, 2018, the Company has started to actively market the division and has received number of serious enquiries. On 1st April, 2018, the directors estimated that they would receive ₹ 32,00,000 from the sale of the division. Since 1st April, 2018, market condition has improved and as on 1st August, 2018 the Company received and accepted a firm offer to purchase the division for ₹ 33,00,000.

The sale is expected to be completed on 30th September, 2018 and ₹ 33,00,000 can be assumed to be a reasonable estimate of the value of the division as on 30th June, 2018. During the period from 1st April to 30th June inventories of the division costing ₹ 8,00,000 were sold for ₹ 12,00,000. At 30th June, 2018, the total cost of the inventories of the division was ₹ 9,00,000. All of these inventories have an estimated net realisable value that is in excess of their cost.

The Company has approached you to suggest how the proposed sale will be reported in the interim financial statements for the quarter ended 30th June, 2018 giving relevant explanations.
