NOV 2020

Roll No. .... **Final New Syllabus**

Paper - 6 E

Global Financial Reporting Standards

Total No. of Case Study Questions – 5 Total No. of Printed Pages – 23

Time Allowed – 4 Hours Maximum Marks – 100

ENY

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

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

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

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

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

Candidates may use calculator.

Marks

Case Study 1

Fresh Vegetables Limited (FVL) was incorporated on 2nd April 2014 under the provisions of Companies Act, 2013 to carry on the wholesale trading business in vegetables. As per the audited accounts of the financial year as at and for the year ended 31st March 2020 approved in its annual general meeting held on 31st August 2020 its net worth, for the first time since incorporation, exceeded ₹ 250.00 crores. The financial statements since inception till financial year ended 31st March 2019 were prepared in accordance with Companies (Accounting Standards) Rules 2006 (AS). It has been advised that henceforth it should prepare its financial statements in accordance with Companies (Indian Accounting Standards) Rules, 2015 (Ind AS).

Marks

The following additional information is provided by the Company:

– FVL has in the financial year 2015 – 16 entered into a 60:40 partnership with Logistics Limited and incorporated a partnership firm 'Vegetable Logistics Associates' (VLA) to carry on the logistics business of vegetables from farm to market;

– FVL also has an associate company Social Welfare Limited (SWL) that was incorporated in July 2018 as a charitable organization and registered under section 8 of the Companies Act, 2013. Social Welfare Limited has been the associate company of FVL since its incorporation;

– During the current financial year 2020-21, FVL has decided to purchase vegetables from Vegetable Farms Limited (VFL) also. VFL has agreed to grant incentives to FVL on one of the following two bases:
  - A 10% prompt settlement discount on all purchases of vegetables settled within 30 days of purchase; or
  - Rebates based on the volume of merchandising purchased or sold.

– On 1st April 2020, FVL received a loan of ₹ 3.00 million from the Government. The loan is at 2% interest and is repayable in 5 years. The prevailing market interest rate is 10%.

The Finance & Accounts department of FVL under took an internal Ind AS diagnostic & impact. It came up with the following observations / queries:

– FVL has decided to opt for exemption under paragraph D7AA of Ind AS 101, First – time adoption of Indian Accounting Standards and also elected the cost model under Ind AS 16, Property, Plant and Equipment for subsequent measurement. It has balance outstanding in the 'Revaluation Reserve' created as per AS;

Marks

– FVL had acquired Hybrid Tomatoes Limited (HTL) as per the scheme of amalgamation sanctioned under the provisions of the Companies Act, 2013. The amalgamation was effective from 1st April, 2015 and was accounted for in the financial year 2015-16 under Indian GAAP. As per the Scheme, the entire undertaking of HTL including all its assets, liabilities and reserves and surplus stood transferred in FVL. As a result, FVL has taken over assets /liabilities including certain financial instruments. Under Ind AS, FVL has opted for option under paragraph C1 of Ind AS 101, First-time Adoption of Indian Accounting Standards, not to apply Ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind AS);

– On 1st January 2019, FVL has classified a group of assets as 'Assets held for sale' in accordance with AS 10, Property, Plant and Equipment and stated it at lower of their net book value and net realisable value under previous GAAP. FVL has presented these assets separately from other fixed assets in the previous GAAP financial statements for the year ended 31st March 2019 and did not provide depreciation subsequently on the same. On transition to Ind AS, these assets could not fulfill the criteria for classifying as held for sale in accordance with Ind AS 105, Non-current Assets held for Sale and Discontinued Operations.

You are an Ind AS Consultant. The Company has sought your advise on the following:

Select the correct option for Q. 1.1 – Q. 1.5

1.1. What is the date of transition to Ind AS ? 2

(A) 1st April, 2019

(B) 31st March, 2019

(C) 1st April, 2020

(D) 31st March, 2020

Marks

1.2. How should FVL recognize prompt settlement discount ? 2

(A) Deduct from the cost of vegetables;

(B) Present it as other operating revenue;

(C) Present it as other income;

(D) Defer it over usage.

1.3. How should FVL recognize rebate based on volume of vegetables purchased ? 2

(A) Deduct from the cost of vegetables;

(B) Present it as other operating revenue;

(C) Present it as other income;

(D) Reduction from finance cost.

1.4. FVL should recognize on the date of initial measurement government loan at: 2

(A) ₹ 3,000,000

(B) ₹ 2,090,211

(C) ₹ 2,299,232

(D) ₹ 2,940,000

1.5. FVL should recognize the following amount as interest expense on the government loan in its fourth year at: 2

(A) ₹ 240,000

(B) ₹ 300,000

(C) ₹ 258,347

(D) ₹ 60,000

Marks

1.6. Examine the applicability of Ind AS on VLA & SWL. **3**

1.7. FVL wants to assess its functional currency. The Company wants clarity on the date from which functional currency should be assessed. Should the assessment be from the date of transition to Ind AS or retrospectively as per paragraph 10 of Ind AS 101, First – time adoption of Indian Accounting Standards ? **3**

1.8. What will be the accounting treatment of the balance outstanding in the "Revaluation Reserve" created as per previous GAAP ? Will there be any impact on declaration of dividend ? What will be the treatment of deferred tax on this transition revaluation reserve ? **3**

1.9. Whether FVL would be required to apply Ind AS 109, Financial Instruments retrospectively (i.e. from the date of origination of the financial instrument by HTL) to such financial instruments acquired as part of the business combination ? **3**

1.10. Should assets held for sales needs to be reclassified to 'Property, plant and equipment'. Whether deemed cost exemption under paragraph D7AA of Ind AS 101 will be available for these assets ? **3**

Case Study 2

Medicines India Limited (MIL) incorporated under the Indian Companies Act, 1956 is a pharmaceutical company. It has its manufacturing plant at Pune in Maharashtra. Besides domestic sales, it also exports the medicines to various countries. Its net worth exceeded ₹ 1,000 crores as per the audited accounts for the year ended 31st March 2014 & has remained above that since then. When preparing and finalizing the financial statements as at and for the year ended 31st March 2020, the following issues required attention:

MIL during the year ended 31st March 2020 had invested in a 12 year bond with a face value of ₹ 6,00,000 by paying ₹ 2,31,500. The effective rate of interest is 10%. MIL is recognizing proportionate interest income in its statement of profit and loss over the period of bond. MIL is not in the business of dealing in securities.

– MIL has a legal claim for damages filed by its customer of ₹ 2.50 million. There is a 40% chance that the entity will win the case and no cost will be involved. However, there is a 60% chance that decision will not be in the favour of the entity and it will have to pay for the damages.

– MIL entered into a contract to supply 10,00,000 million strips of a particular medicine for ₹ 2 million. An increase in the cost of inputs has resulted into an increase in the cost of sales to ₹ 2.5 million. The penalty for non-performance of the contract is expected to be ₹ 0.25 million.

– The Finance & Accounts department had drawn the following calendar for finalization, approval & submission of financial statements for the year ended 31st March 2020:

Completion of preparation of financial statements	28th May, 2020
Review & recommendation for approval by the Audit Committee	15th June, 2020
Review & approval for issue by the Board of Directors	19th June, 2020
Available to shareholders	1st July, 2020
Annual General Meeting	15th September, 2020
Filing with regulatory authority	6th October, 2020

The calendar was duly adhered.

– As a part of its sales promotion activities, MIL distributes office utility articles along with its product catalogues to medical practitioners to familiarize & encourage them to prescribe medicines manufactured by it. No conditions are attached with the items distributed.

– MIL had in the earlier years developed, adopted & applied one of its accounting policies by considering a pronouncement of an overseas national standard – setting body in due accordance with Ind AS. The aforesaid body had made an amendment in that pronouncement effective 1st April, 2019.

Marks

– While preparing the annual financial statements for the year ended 31st March 2020, MIL discovered that a provision for constructive obligation for payment of bonus to selected employees in corporate office (material in amount) which was required to be recognised in the annual financial statements for the year ended 31st March, 2018 was not recognised due to oversight of facts. The bonus was paid during the financial year ended 31st March, 2019 and was recognised as an expense in the annual financial statements for the said year.

– During the year under consideration MIL had to pay interest and penalties under the Income – Tax Act, 1961 in respect of one of its earlier financial year.

Had you been the CFO of the Company, how would you have addressed the following:

Select the correct option for Q. 2.1 – Q. 2.5

2.1. With respect to investment in bonds, interest income during the currency of the bond, in the cash flow statement will be treated as: **2**

(A) Financing activity

(B) Investing activity

(C) Either a or b with disclosure

(D) Non – Cash item

2.2. How the maturity proceeds of bonds will be treated in the cash flow statement ? **2**

(A) Investing activity

(B) Financing activity

(C) Operating activity

(D) Any of the above with disclosure

Marks

2.3. With respect to legal claim for damages filed by its customer, MIL should recognize a provision of: **2**

(A) Nil

(B) ₹ 2.5 million

(C) ₹ 1.5 million

(D) ₹ 1 million

2.4. The contract to supply 10,00,000 strips requires a provision of: **2**

(A) Nil

(B) ₹ 0.25 million

(C) ₹ 0.50 million

(D) ₹ 0.125 million

2.5. What is the date of approval for issue of the financial statements ? **2**

(A) 15th June, 2020

(B) 19th June, 2020

(C) 1st July, 2020

(D) 15th September, 2020

2.6. Whether the distribution of office utility articles to medical practitioners is covered by Ind AS 115, Revenue from Contracts with Customers ? If not, how should the same be accounted by MIL ? Give reasons. **4**

2.7. Is it permissible for MIL to change the accounting policy based on a pronouncement of an overseas national standard – setting body due to a subsequent amendment in that pronouncement ? **3**

2.8. Whether the situation relating to constructive obligation for payment of bonus is an error requiring retrospective restatement of comparatives considering the amount is material ? Discuss. **3**

Marks

2.9. How should MIL account for the interest and penalties related to income taxes, in accordance with the principles of Ind AS ? Is there any conflict between the treatment as per Ind AS vis-a-vis IFRS ? 5

Case Study 3

Sun Enterprise Limited (SEL), whose functional currency FC is engaged in the business of manufacturing various items from metals. It prepares its financial statements as per IFRS.

– It is considering raising funds for the expansion of its production capacity. However, its debt – equity ratio is under pressure. It has the following options before it:

  - SEL issues 6% cumulative, non – redeemable preference shares (6% CNRPS) with discretionary dividends that are subject to availability of distributable reserves. The directors of SEL can decide at each period end whether and the extent to which a dividend will be paid on the preference share. The terms of the preference shares provide that if no dividend is paid on the preference shares, then no dividend is paid on SEL ordinary shares;

  - SEL issues 6% discretionary non – cumulative, non – redeemable preference shares (6% NCNRPS) that are subject to availability of distributable reserves. The directors of SEL can decide at each period end whether and the extent to which a dividend will be paid on the preference shares. The payment of dividends on SEL ordinary shares is also discretionary. The terms of the preference shares provide that if dividend is to be paid on SEL's ordinary shares, then a dividend must be paid on the preference shares;

- SEL issues 6% non – redeemable, fixed cumulative mandatory dividend preference shares (6% NRCMP). If earnings are not sufficient in any given year, such dividends will be paid in future years. Additional dividends may be declared but only if dividends of the same amount are declared on the other classes of shares.

- SEL issues 2000 convertible bonds with a 3 year term at a face value of FC 1,000 per bond resulting into a total proceed of FC 2.0 million. Interest is payable annually @ 6.00 % per annum. Each bond is convertible, at the holder's discretion, at any time upto maturity into 250 shares. When the bonds are issued, the market interest rate for similar debt instrument without the conversion option is 9.00% per annum;

- SEL issues a 2 year mandatorily convertible instruments for FC 1.0 million. The instrument requires SEL to make cash coupon payments of FC 50,000 each at the end of year 1 and year 2. At the end of year 2, the instrument will mandatorily convert into 5,000 ordinary shares.

- SEL has applied for a term loan from a bank for business purposes. As per the loan agreement, the loan required a personal guarantee of one of the directors of SEL to be executed. In case of default by SEL, the director will be required to compensate for the loss that bank incurs. Mr. Pure Joy, one of the director had given guarantee to the bank pursuant to which the loan was sanctioned to SEL. SEL does not pay premium or fees to its director for providing this financial guarantee.

- SEL (parent company) has issued a comfort letter to its subsidiary company, Complete Surety Limited (CSL). CSL was able to obtain funds from the banker on the basis of comfort letter issued by SEL.

Marks

– SEL has given certain interest free refundable security deposits.

– SEL has issued compulsorily convertible debentures at 14.5 % coupon rate which will be converted at the end of 10 years. The unsecured loan market rate of interest is 14.5% (Assuming this rate can be considered as the appropriate market rate for the given purpose). It may be noted that the coupon rate on debentures is same as that of the market rate of interest although coupon rate on instruments with conversion feature is generally lower than market rate of interest on unsecured loans.

– SEL shall be declaring dividend on a financial instrument (which has been classified as a liability in accordance with IAS 32, Financial Instruments: Presentation), after the end of the reporting period.

You are the Chief Financial Officer of SEL. You have to resolve the following issues:

Select the correct option for Q. 3.1 – Q. 3.5

3.1. Whether 6% CNRPS can be classified as: 2

(A) Equity in its entirety;

(B) Liability in its entirety;

(C) Either of the above with disclosure;

(D) Compound Financial Instruments.

3.2. Whether 6% NCNRPS can be classified as: 2

(A) Equity in its entirety;

(B) Liability in its entirety;

(C) Either of the above with disclosure;

(D) Compound Financial Instrument.

Marks

3.3. Whether 6% NRCMP can be classified as: 2

(A) Compound financial instrument;

(B) Equity in its entirety;

(C) Liability in its entirety;

(D) Either (B) or (C) at the discretion of SEL

3.4. If SEL issues 2000 convertible bonds of FC 1,000 per bond, assuming no transaction costs, on initial recognition: 2

(A) There is no equity component;

(B) The equity component is FC 151,878

(C) The equity component is FC 200,000

(D) None of the above.

3.5. If SEL issues the 2 year mandatorily convertible instruments for FC 1.0 million, assuming no transaction costs and market interest rate for similar debt instrument without conversion option is 8% per annum, on initial recognition: 2

(A) There is no equity component;

(B) There is no liability component

(C) The equity component is FC 910,837

(D) The equity component is FC 687,435.

3.6. Whether SEL is required to account for the financial guarantee received from its director ? Will there be any disclosures under IAS 24 ? 4

3.7. Whether the comfort letter will be accounted for as a financial guarantee contract in accordance with IFRS 9, Financial Instruments ? 2

Marks

3.8. Whether Interest free refundable security deposits given by an entity are required to be discounted as per the principles of IFRS ? If yes, at what rate should these be discounted ? 3

3.9. How the financial liability (debt portion) would be computed with respect to compulsorily convertible debentures of coupon rate 14.5% that will be converted at the end of 10 years. (It can be assumed that the equity conversion option requires the company to deliver a fixed number of its own shares for a fixed amount of another financial asset indicating that it meets the 'fixed for fixed' criterion under IAS 32). 3

3.10. Whether SEL is required to accrue such dividends in the financial statements for the year even if it is declared after the end of the reporting period ? 3

Case Study 4

Buildings & Co. Limited with a financial year end of 31st March, entered into a contract with its customer, Radar Company Limited, to build a manufacturing facility. Buildings & Co. Limited determines that the contract contains one performance obligation satisfied over time. Construction is scheduled to be completed by the end of the 36th month for an agreed upon price of INR 25 crores. Buildings & Co. Limited has the opportunity to earn a performance bonus for early completion as follows:

- 15% bonus of the contract price if completed by the 30th months (25% likelihood).
- 10% bonus of the contract price if completed by the 32nd months (40% likelihood).
- 5% bonus of the contract price if completed by the 34th months (15% likelihood).

Marks

In addition to the potential performance bonus for early completion, Buildings & Co. Limited is entitled to a quality bonus of INR 2 crores if a health and safety inspector assigns the facility a gold star rating as defined by Radar Company Limited in terms of the contract. Buildings & Co. Limited concludes that it is 60% likely that it will receive the quality bonus.

Buildings & Co. Limited has prepared interim financial statements for the third quarter ended December 31, 2019 for the purposes of submission to banks. The interim financial statements show a net profit of INR 20 crores for the third quarter ended December 31, 2019. Following adjustments have been made while computing the net profit:

- Bad debts of INR 1 crores were incurred during the quarter ended December 31, 2019. 50% of the bad debt have been deferred to next quarter.
- Additional depreciation of INR 45,00,000 resulting from change in the method of depreciation.
- INR 5 crores expenditure on account of administrative expenses pertaining to the third quarter December 31, 2019 is deferred on the argument that the fourth quarter will have more sales; therefore, fourth quarter should be debited by higher expenditure. The expenditures are uniform all throughout the quarters.

While preparing the annual financial statements for the year ended 31 March 2019, Buildings & Co. Limited charged certain expenses as finance cost (assume the expenses to be material on overall level). While preparing the annual financial statements for the year ended 31 March 2020, management discovered that these expenses should have been classified as other expenses instead of finance costs. The error occurred because the management inadvertently misinterpreted certain facts. The management restated the comparative amount for the prior period presented i.e. for the year ended 31 March 2019.

On 15 November 2019, Buildings & Co. Limited acquired Concrete Mixers Private Limited for a purchase consideration of INR 10 crores. Concrete Mixers Private Limited is in the process of setting up a plant to make ready mix concrete and expects the plant to become operational by 30 April 2020. Other than the plant in construction, there are no other operations in the Concrete Mixers Private Limited.

Buildings & Co. Limited has taken a loan of USD 15,00,000 as on 1 April 2019 taken for construction of its fabrication plant at an interest rate of 6% per annum payable on annual basis. On 1 April 2019, the exchange rate between the currencies i.e. USD vs. Rupees was INR 72 per USD. The exchange rate on the reporting date i.e. 31 March 2020 is INR 76 per USD. The corresponding amount could have been borrowed by Buildings & Co. Limited from and Indian bank in INR at an interest rate of 11% per annum as on 1 April 2019.

Buildings & Co. Limited entered into a 10-year lease for 6,000 square meter of office space. The annual lease payments are INR 60,000 payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Buildings & Co. Limited's incremental borrowing rate at the commencement date is 8% p.a. At the beginning of 6th year, Buildings & Co. Limited and lessor agree to amend the original lease to reduce the space to only 3000 square meters of the original space starting from the end of the first quarter of year 6. The annual fixed lease payments (from year 6 to year 10) are INR 35,000. Buildings & Co. Limited's incremental borrowing rate at the beginning of year 6 is 6% p.a.

Besides construction activity, Buildings & Co. Limited is also engaged in the trading of Copper. On 1 April 2019, it had 100 kg of copper costing ₹ 70 per kg – totalling INR 7000. The Company has a scheduled delivery of these 100 kgs of copper to its customer on 30 September 2019 at the rate of USD100 on that date. To protect itself from decline in currency exchange rate (USD to Rs), the entity

Marks

hedges its position by entering into currency futures contract for equivalent currency units at INR 76/USD. The future contract mature on 30 September 2019. The management performed an assessment of hedge effectiveness and concluded that the hedging relationship qualifies for cash flow hedge accounting. The entity determines and documents that changes in fair value of the currency futures contract will be highly effective in offsetting variability in cash flow of currency exchange. On 30 September 2019, the entity closes out its currency futures contract. On the same day, it also sells its inventory of copper at USD 100 when the spot rate is INR 72/USD.

Buildings & Co. Limited holds 40% of total equity shares of Highway Limited, an associate company. The value of investments in Highway Limited on March 31, 2019 is INR 4 crores in the consolidated financial statements of Buildings & Co. Limited. During the year ended March 31, 2020, Buildings & Co. Limited sold goods worth INR 3,50,000 to Highway Limited. The cost of goods sold is INR 3,00,000. Out of these, goods costing INR 1,00,000 to Highway Limited were in the closing stock of Highway Limited. During the period March 31, 2020 the profit and loss statement of Highway Limited showed a loss of INR 2 crore. During the year ended March 31, 2020 Highway Limited declared a dividend of INR 80,00,000 to its equity shareholders.

You have to resolve the following issues:
Select the correct option for Q. 4.1 – Q. 4.5

4.1. Determine the amount of variable consideration Building & Co. Limited should recognize in its contract with Radar Company Limited to build a manufacturing facility. **2**

(A) INR 2.13 crores

(B) INR 4.13 crores

(C) INR 2 crores

(D) INR 3.94 crores

Marks

4.2. The CFO of the Company has requested you to review the interim financial statements of the third quarter ended December 31, 2019 to ascertain the correct net profit to be presented to the Board of Directors. What is the correct amount of profit to be reported in the interim financial statements ? **2**

(A) INR 14.75 crores

(B) INR 18.25 crores

(C) INR 14.84 crores

(D) INR 14.50 crores

4.3. Would the error of classifying certain other expenses instead of finance costs in the comparative amounts (31 March 2019) be considered to be correction of an error ? Would the entity need to present a third balance sheet in its financial statements for the year ended 31 March 2020 ? **2**

(A) Reclassifications of previous year numbers is permissible in case of both balance sheet and statement of profit and loss and is not considered as an error.

(B) Reclassifications of previous year numbers shall be considered as an error and in case of an error it is mandatory to present a third balance sheet at the beginning of the period.

(C) Reclassifications of previous year numbers shall be considered as an error and since the retrospective restatement in statement of profit and loss has no impact on the information in balance sheet at the beginning of the preceding year i.e. 1 April 2018, the entity is not required to present the third balance sheet.

(D) Reclassifications of previous year numbers is permissible in case of only statement of profit and loss and is not considered as an error.

Marks

4.4. The CFO of the Company has requested you to evaluate whether the acquisition of Concrete Mixers Private Limited will be covered in Ind AS 103 Business combination or whether the under-construction plant should be accounted for as an asset acquisition ? What factors will you consider in your evaluation ? **2**

(A) Whether Concrete Mixers Private Limited has begun planned principal activities or is pursuing a plan to produce outputs.

(B) Will be able to obtain access to customers that will purchase the outputs.

(C) Whether Concrete Mixers Private Limited has employees, intellectual property and other inputs and processes that could be applied to those inputs.

(D) All of the above.

4.5. In case of the foreign currency borrowing obtained by Buildings & Co. Limited, what is the amount of borrowing cost eligible for capitalization for the construction of the fabrication plant. (assume eligibility conditions related to capitalization of borrowing cost are met) ? **2**

(A) INR 1,18,80,000

(B) INR 68,40,000

(C) INR 1,25,40,000

(D) INR 1,28,40,000

4.6. The CFO of the Company has requested your suggestion on how to account for the modification in the lease of office space ? Prepare the detailed working for the modification. **6**

Marks

4.7. You are required to prepare detailed working and pass necessary journal entries for the sale of copper and the corresponding hedge instrument taken by the company. Please prepare the journal entries as on the initial date (i.e 1 April 2019), first quarter end reporting (i.e. 30 June 2019) and date of sale of copper and settlement of forward contract (i.e. 30 September 2019). Assume the exchange rates as follows and yield @ 6% per annum. **5**

Date	Future price for 30 September 2019 delivery INR / USD
01 April 2019	76
30 June 2019	74
30 September 2019	71

4.8. What is the value of investment in Highway Limited as on March 31, 2020 in the consolidated financial statements of Buildings & Co. Limited, if equity method is adopted for valuing the investments in associates ? **4**

Case Study 5

New Age Technology Limited is an IT infrastructure Company which provides customize IT solutions to its customers.

During the current year ended 31 March 2020, New Age Technology Limited has made investment in two entities namely ERP Solutions Limited engaged in the business of ERP solutions development and Cloud Equipments Limited engaged in the business of computer hardware related trading activities. New Age Technology Limited holds 45% of equity share capital of ERP solutions Limited and 60% of equity share capital of Cloud Equipments Limited.

The net aggregate value of identifiable assets and liabilities, as measured in accordance with Ind AS 103 for ERP solutions Limited and Cloud Equipments Limited is determined as INR 45 lakhs and INR 30 lakhs respectively.

Marks

During the year New Age Technology Limited issued additional shares on 31 March, 2020. Cost associated with the issue of equity were INR 50,00,000 and recorded directly in equity. Under Indian tax laws, deduction can be claimed over five year period from the date of share issue. Assuming a tax rate of 30%.

New Age Technology Limited acquired copyrights for certain patented software on 1 April 2018 for INR 50,00,000. The software would assist the Company to develop an entire new range of IT solutions to its customers. Management basis its internal assessment, determined the useful life of the acquired software to be 10 years from the date of purchase. Further management performed a fair value assessment of the acquired software and determined it to be INR 48,00,000 as at 31 March, 2019 and INR 43,00,000 as at 31 March, 2020.

New Age Technology Limited is engaging with several investors to invest funds into the Company. As part of the negotiations several instruments are being considered depending on the yield each instrument would provide to the investor.

New Age Technology Limited enters into a barter transaction to exchange its existing server for new high-end laptop with its vendor, Sunshine Limited. The server has a fair value of INR 2,00,000 and a carrying amount of INR 1,75,000. Whereas, the high-end laptop has a fair value of INR 2,50,000 and carrying amount of INR 2,10,000 in the books of Sunshine Limited.

The Company has taken a particular application software of a supplier namely, Crystal Systems Limited, which is available on a cloud infrastructure managed and controlled by the Crystal Systems Limited. The Company contracts to pay a fee of INR 5,00,000 per month in exchange for a right to receive access to the Crystal Systems Limited's application software for 2 years. The Company accesses the software on need basis over the internet. The contract does not convey any rights to New Age Technology Limited over the tangible assets of the Crystal Systems Limited.

New Age Technology Limited has entered into following Share Based payment transactions:

Marks

(i) On 1 April 2019, New Age Technology Limited decided to grant share options to its employees. The scheme was approved by the employees on 30 June 2019. New Age Technology Limited determined the fair value of the share options to be the value of the equity shares on 1 April, 2019.

(ii) On 1 April 2019, New Age Technology Limited entered into a contract to purchase IT equipment from Bombay Software Limited and agreed that the contract will be settled by issuing equity instruments of New Age Technology Limited. New Age Technology Limited received the IT equipment on 30 July 2019. The share-based payment transaction was measured based on the fair value of the equity instruments as on 1 April 2019.

(iii) On 1 April 2019, New Age Technology Limited decided to grant the share options to its employees. The scheme was approved by the employees on 30 June 2019. The issue of the share options was however subject to the same being approved by the shareholders in a general meeting. The scheme was approved in the general meeting held on 30 September 2019. The fair value of the equity instruments for measuring the share-based payment transaction was taken on 30 September, 2019.

You have to resolve the following issues:

Select the correct option for Q. 5.1 – Q. 5.5

5.1. The Chief Accountant of New Age Technology Limited wants to evaluate which of the investee entity of the Company will be eligible for consolidation. As per the requirements of Ind AS 110, which of the following is not a condition to determine whether an investor controls an investee ? 2

(A) Investor has right to participate in the operating and financial decisions of the investee.

(B) Investor has Power over the investee that gives him current ability to direct relevant activities.

(C) Investor has exposure, or rights, to variable returns from its involvement with the investee.

(D) Investor has ability to use its power over the investee to affect the amount of the investor's returns.

Marks

5.2. What would be the amount of Deferred Tax Asset or Liability that the Company should recognize as on 31 March, 2020 on the cost incurred on the issue of equity shares during the year ? **2**

(A) No DTA or DTL should be recognized

(B) DTA of INR 15,00,000

(C) DTL of INR 15,00,000

(D) DTA of INR 50,00,000

5.3. What would be carrying amount of the acquired software in the books of accounts of New Age Technology Limited as at 31 March 2020 ? **2**

(A) INR 43,00,000

(B) INR 45,00,000

(C) INR 40,00,000

(D) INR48,00,000

5.4. New Age Technology Limited has taken loan from a bank which as debt to equity ratio as one of its financial covenants. Any new fund raise could have a direct implication on the covenants of existing loans. Therefore, the CFO wants to understand which amongst the following instruments is an equity instrument as per Ind AS 32 Financial Instruments: Presentation ? **2**

(A) Non-redeemable preference shares with payment of dividend at market rates.

(B) Preference shares redeemable at the option of the issuer with payment of dividend at the discretion of the issuer.

(C) Preference shares redeemable at the option of the holder with payment of dividend at the discretion of the issuer.

(D) Preference shares redeemable at the option of the holder with payment of dividend at market rates.

Marks

5.5. At what value should New Age Technology Limited record the high-end laptop purchased in exchange of its existing server in its books of accounts ? 2

(A) INR 2,00,000

(B) INR 1,75,000

(C) INR 2,50,000

(D) INR 2,10,000

5.6. The Chief Accountant of the Company wants to understand what possible options are available to the Company in order to account for the Non-controlling interest (NCI) in the acquisition of Cloud Equipments Limited. Assist him in making the journal along with amounts of resultant goodwill under the option available. 5

5.7. The Chief Accountant of New Age Technology Limited has sought your advice, whether the IT should account for this transaction for use of software with Crystal Systems Limited in terms of Ind AS 116 leases for an intangible asset in terms of Ind AS 38 Intangible assets. Help him to understand your assessment. 4

5.8. Identify the grant date and measurement date in all the 3 cases of Share based payment transactions entered into by New Age Technology Limited, supported by appropriate rationale for the determination ? 6