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MODEL TEST PAPERS

Sample Notes

Curated By:-

CA, CPA
Vinod Kumar Agarwal

(AIR 2 - CA Foundation, AIR 4 - CA Inter, AIR 24 - CA Final)

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ABOUT

CA VINOD KUMAR AGARWAL

(AIR-2nd, 4th & 24th IN FOUNDATION, INTER & FINAL RESPECTIVELY)

SUMMARY

Founder Member of A.S. Foundation, India's Leading Academy for C.A. Course, CA Vinod Kumar Agarwal is a fellow member of ICAI and a past member of the Board of Studies, ICAI. With a teaching experience of twenty years, he has guided more than 1,00,000 students and is ranked as one of the best teachers for Accounts and Financial Management at Intermediate level and Financial Reporting and SFM at Final Level.

He has authored books on Accounts, Advanced Auditing for CA Final, Auditing for Intermediate, Accounting Standards, Ind AS, Costing and Financial Management, and his books have sold more than 2,00,000 copies.

PUBLICATIONS AND ACHIEVEMENTS

- A merit holder in all the three levels of exams conducted by ICAI (2nd rank, 4th rank, and 24th rank in CA Foundation, CA Intermediate an CA Final respectively).
- Scored 99 marks in Accountancy in CA Foundation.
- Authored books on Accounts, Advanced Auditing for CA Final, Auditing for Intermediate, Accounting Standards, Ind AS, Costing and Financial Management.
- Complied a book "No Truth, Only Interpretations", a book on motivation, inspiration and guidance.
- Compiled a book, "Mind Candy", a book on motivation.
- Compiled a book, "Sweet Voice", a book on inspirational quotes.
- Working experience with India's top firms Firms like M/s. S.B. Billimoria and A.F. Ferguson (both member firm of Deloitte).
- Published article in the Students Newsletter of ICAI on "Valuation of Equity Shares" and "Stock Market Index".
- Presented a paper on "Corporate Governance and Role of Auditor" in National Students Conference held in Goa.

EDUCATION

- Passed the Certified Public Accountant (CPA) (USA) exam in 2007.
- Post-graduation from Pune University with First Class.
- Graduation from B.M.C.C, Pune with distinction.
- Passed the Diploma in Business Finance Conducted by ICFAI, Hyderabad.
- Passed the Derivative Module test conducted by National Stock Exchange.
- Also appeared for UPSC exam and cleared Mains twice.

TEACHING EXPERIENCE

- Teaches Accounts, Advanced Accountancy, Financial management and Economics for Finance at CA Intermediate Level and Financial Reporting and Advanced Financial Management (AFM) at CA Final level.
- Pioneer of creating and distributing video tutorials in pen drives/google drive among students.
- Produced All India Toppers (1st Rank) in CPT examination and final examination apart from more than 250 all India merit- holders.
- More than 30000 Facebook subscribers, more than 42000 YouTube subscribers.
- Sold more than 40000 video lectures in pen-drive and google-drive mode.
- In 2019, launched a brand VKNOW, to become a national brand for digital learning.

TEACHING APPROACH

- Simple and effective way of teaching through concept building, class-room practice, home-exercise, and power-point presentation.
- A large variety of problems are solved in the class to meet the examination requirements.
- Notes are updated frequently covering amendments and exam problems.

CA FINAL - FINANCIAL REPORTING

MODEL TEST PAPER 1- QUESTION PAPER

The question paper comprises two parts, Part I and Part II.

Part I comprises Case Scenario based Multiple Choice Questions (MCQs)

Part II comprises questions which require descriptive type answers.

Time Allowed – 3 Hours **Maximum Marks – 100**

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory

CASE STUDY - 1

- XYZ Ltd is an Indian listed company which is exploring possibilities of listing its securities at an overseas stock exchange. The financial reporting requirements related to such listing include submission of financial statements as per Ind AS and therefore XYZ Ltd prepares financial statements in accordance with Ind AS up to 31 March each year. XYZ Ltd has recently acquired shares in ABC Ltd and PQR Ltd, and prepares consolidated financial statements in accordance with Ind AS. Draft Balance Sheet for each company are provided in Appendix 1.
- You are a Chartered Accountant (CA) and have recently been appointed as financial controller of XYZ Ltd.
- Your predecessor prepared some briefing notes (see below) regarding the preparation of the consolidated financial statements of the XYZ Ltd Group for the year ended 31 March 20X4. Please note that it is the group's policy to value its non-controlling interests at fair value. The fair value of the non-controlling interest in ABC Ltd at the 1 April 20X3 was Rs. 95.4 million.
- The reinstated costs of expenditure on the development of new products are included within inventories as 'development inventories'. The costs do not meet the criteria in Ind AS 38 'Intangible Assets' for classification as intangibles and it is most unlikely that the net cash inflows from these products will be in excess of the development costs. In the current year, ABC Ltd has included Rs. 18 million of which Rs. 6 million relates to expenditure on a product written off in periods prior to 1 April 20X1. Commercial sales of this product had commenced during the year ended 31 March 20X4.
- On speaking to the assistant accountant, you ascertain that XYZ Ltd purchased 4% debentures of Y Limited on 1 April 20X2 (their issue date) for Rs. 1.2 million. The term of the debenture issue was four years and the redemption value is Rs. 1.56 million. The effective rate of interest on the debentures is 10% and the relevant Ind AS conditions are satisfied for the investment to be held at amortised cost. However, at the end of February 20X4, Y Limited was declared bankrupt. All interest had been paid until that date. On 31 March 20X4, the liquidator announced that no further interest would be paid and only 80% of the maturity value would be repaid, on the original repayment date. The figure, rounded to the nearest million, included for this financial instrument in the draft Balance Sheet (Appendix 1) amounted to Rs. 1,351,200. Having discussed the accounting treatment with assistant accountant, you are still unsure as to how the latter figure was arrived at and whether it needed to be adjusted.

Briefing notes :

1. The following information is relevant regarding the acquisition of shares in ABC Ltd and PQR Ltd:

Date of acquisition	Holding acquired%	Retained earnings at acquisition date Rs. million	Purchase consideration Rs. million
ABC Ltd: 1 April 20X3	80	270	480
PQR Ltd: 1 April 20X3	30	468	432

ABC Ltd and PQR Ltd have not issued any share capital since the acquisition of shareholdings by XYZ Ltd. The fair value of the net assets of ABC Ltd and PQR Ltd were the same as their carrying amounts at the date of acquisitions. XYZ Ltd has significant influence over PQR Ltd. An impairment loss of Rs. 9.6 million has been identified in respect of goodwill arising on the acquisition of ABC Ltd for the year ended 31 March 20X4. The recoverable amount of net assets of PQR Ltd has been deemed to be Rs. 1176 million at 31 March 20X4.

2. XYZ Ltd has contracted to purchase a specialised item of machinery from a company based in America for $24 million on the following terms:

Non-refundable payment on signing of contract (1 January 20X4)	60%
Payment on delivery and installation (5 April 20X4)	40%

The following exchange rates are relevant:

	Rs. to Dollar
1 January 20X4	67
31 March 20X4	65

5 April 20X4 66

The deposit is included in trade receivables at the exchange rate on 1 January 20X4. For this type of machinery, a full year's charge for depreciation is made in the year of acquisition using the straight line method over five years.

3. On 1 February 20X4, XYZ Ltd sold inventory costing Rs. 30 million to PQR Ltd for Rs. 42 million. At 31 March 20X4, the inventory was still held by PQR Ltd. On April 20X4, the inventory was sold to a third party for Rs. 50.4 million.

APPENDIX 1

Draft Balance Sheet for XYZ Ltd, ABC Ltd and PQR Ltd as at 31 March 20X4

	XYZ Ltd	ABC Ltd	PQR Ltd
	Rs. million	**Rs. million**	**Rs. million**
ASSETS			
Non-current assets			
Property, plant and equipment	4,080	360	540
Intangible assets	720	-	-
Investment in ABC Ltd (at cost)	480	-	-
Investment in PQR Ltd	432	-	-
Financial assets	1.2		
	5,713.20	**360**	**540**
Current assets			
Inventories	1,920	180	270
Trade receivables	1,440	108	144
Cash	1,200	72	36
	4,560	360	450
Total Assets	**10,273.20**	**720**	**990**
EQUITY and LIABILITES			
Issued capital Rs. 1 ordinary shares	3,600	180	360
Other reserves	720	-	-
Retained earnings	961.2	360	540
Total equity	**5,281.20**	**540**	**900**
Non-current liabilities	1,680	-	-
Current liabilities	3,312	180	90
	4,992	180	90
Total Equity and Liabilities	10,273.20	720	990

Multiple Choice Questions:

1. What will be the amount of Goodwill as on 31 March 20X4, arising from the acquisition of ABC Ltd.?
   (A) Rs. 115.8 Million (B) Rs. 125.4 Million (C) Rs. 295.8 Million (D) Rs. 20.4 Million **2 Marks**
2. With what amount should retained earnings of ABC Ltd be debited on account of development inventories on 31 March 20X4?
   (A) Rs. 18 Million (B) Rs. 6 Million (C) Nil (D) Rs. 12 Million **2 Marks**
3. What will be the impairment loss from investment in associate for the year ending 31 March 20X4?
   (A) Rs. 79.2 Million (B) Rs. 100.8 Million (C) Rs. 97.2 Million (D) Rs. 75.6 Million **2 Marks**
4. At what amount should exchange loss/gain be recognized as on 31 March 20X4 on account of deposit given for purchase of specialized item of machinery from company based in America?
   (A) Rs. 28.8 Million exchange loss (B) Nil
   (C) Rs. 19.2 Million exchange loss (D) Rs. 28.8 Millionexchange gain **2 Marks**
5. What will be the amount of impairment loss from 4% Debentures for the year ending 31 March 20X4?
   (A) Rs. 0.32 Million (B) Rs. 0.103 Million (C) Rs. 0.53 Million (D) Rs. 0.17 Million **2 Marks**

CASE STUDY - 2

- BC Ltd is a listed entity. On 10 April 20X3, it announced various employee incentive schemes, setting out the names of the employees, the objective of the scheme and a deadline by which individual agreements will be executed. To avoid hardships / misunderstanding among the beneficiaries of the scheme, the terms were customized to each individual employee depending on the type of department they were attached with. The details of the schemes were as below:

Name of Employee	Details of the scheme
A	A is the head of technical department. The department deals with projects on business process and cost re-engineering, which are executed to achieve annual targets on reduction in turnaround time (TAT) and cost savings - with A spearheading these activities. The Board of Directors of BC Ltd approved a resolution for the ESOP to A on 15 April 20X3, obtained shareholder resolution at the AGM on 18 April 20X3 when the fair value of the shares was Rs. 1520 per share. The terms of the agreement were later finalized in consultation with the CEO and the agreement was drafted and signed by A in the presence of the CEO on 20 April 20X3. The agreement provided for issue of 50,000 shares every quarter end, subject to achieving a quarterly 5% cost savings (duly certified by internal auditor) compared to previous quarter. The shares were issued at a price of Rs. 950 per share and the value of the option was calculated using the binomial option model as Rs 300 per share, based on the underlying fair value of Rs. 1520 per share. A is required to exercise the option within September 20X4 and is required to be in employment till that date. As at 31 March 20X4, A was successful in achieving the 5% target only for the last quarter ending 31 March 20X4. Share based payment expense of Rs. 150 lacs was recognized based on the above terms.
C	C is the head of Corporate Branding and Development. On 15 April 20X3, vide a signed agreement, he was provided with a scheme which entails payment of cash at the rate of Rs. 2.50 lacs for every 1 % increase in share price of the entity. As an alternative, C can also choose to be issued equivalent number of shares at the rate of Rs. 900 per share when the fair value of the shares (taking in to account the terms and conditions of the offer) was Rs. 1508 per share. The option was valued at Rs. 324 per share which is equivalent to the fair value of the cash alternative on 15 April 20X3. During the year the share prices rose by 5%.

- During the previous year ending 31 March 20X3, BC Ltd had acquired controlling stake in GD Ltd that included assuming the related employee obligations arising in both present and future reporting periods.
- On 1 November 20X3, BC Ltd also entered into an agreement with an advisor (a separate corporate entity) for provision of advisory services over a period of 1 year in connection with an IPO and share buybacks to be done in November 20X4. The advisor is entitled to issue tax invoices every quarter, based on number of hours billed. However, the agreement provides for issue of equivalent number of equity shares of the parent of BC Ltd in India at the fair value on the date of the agreement. The number of shares to be issued is, however, determined and agreed between the parties every quarter until final settlement (which is only 30 October 20X4). During the year up to 31 March 20X4 a total of Rs. 69 lacs were billed by the advisor. The shares are required to be brought on-market and issued. Tax deduction is allowed only on final settlement on 30 October 20X4.
- As part of the Employee Share Purchase Plan (ESPP), the following employee were eligible (on the below given terms and conditions):

Employee	Terms and Conditions
M	M is eligible to a zero-interest rate loan of Rs. 96 lacs corresponding to 11,000 shares. M can avail the loan any time during the period of 1 year from the date of agreement that was signed on 1 June 20X3, subject to being in employment for the said term. As required by the terms, M makes an upfront payment of a commitment fee of Rs. 1.65 lacs. The loan will be provided under a separate agreement. It is not possible to obtain fair valuation for this loan commitment due to non-availability of reliable information. However, it has been ascertained that M is looking for a career outside the organization and as such management is not likely to keep the loan offer open to M.

Multiple Choice Questions:

1. What is the grant date for the ESOP arrangement with A?

   (A) 10 April 20X3 (B) 18 April 20X3 (C) 15 April 20X3 (D) 20 April 20X3 **2 Marks**

2. Total amount recognized in equity under the ESOP arrangement with C will be:

   (A) Nil (B) Rs. 12.50 lacs

   (C) Determined by the split accounting method (D) Determined when more information is given **2 Marks**

3. In the consolidated financial statements of the group, the arrangement with the advisor gives rise to:

   (A) Equity-settled share based payment (B) Cash-settled share based payment

   (C) Hybrid arrangement (D) None of the above **2 Marks**

4. In the case of employee M, the loan commitment fee should be

   (A) Recognised as an adjustment to the effective interest rate

   (B) Recognised immediately in profit or loss account

   (C) Recognised straight-lined over the commitment window

   (D) Recognized as revenue as and when the performance obligation is satisfied. **2 Marks**

5. 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. **2 Marks**

CASE STUDY - 3

- Srikrishna Chemical Industries Ltd. is a listed company with a turnover of Rs. 1,008 crore for the financial year 20X1-20X2. The company has been reporting the following segments in its annual report:
  - Agriculture
  - Paint and adhesives
  - Automobile
  - Food & Beverages
- Each segment has a business head supported by multiple teams and team members. For the year ended 31st March 20X2, the agriculture segment reported a revenue of Rs. 405 crore which has been traditionally a strong business of the company. Paint and Adhesives segment clocked a revenue of Rs. 284 crore which has grown by almost 10% over the previous year. Whereas the automobile segment recorded a de-growth of 5% over previous year to bring in Rs. 221 crore in revenues.
- The segment-wise profits (PBT) reported are as under:

Agriculture	18%
Paint & Adhesives	15%
Automobile	14%
Food & Beverages	9%

- During the board meeting, the business head of Food & Beverages (hereinafter referred as F&B), Mr. Arnab made the following statement:
- "We were almost certain of crossing the hundred crore mark this year but due to some accounting requirements we couldn't close on a revenue of around two crores. On the margins front, yes it's below our company average, in fact way below, but we believe, the company has made right moves in the right direction and the margins are likely to improve in another couple of quarters."
- Each segment related interest expenses is identified and reported separately by the company's accounts team. However, it was observed during the audit that interest income has been deducted from interest expense since interest income is a very insignificant as compared to interest expense for each of the operating segments.
- The following data is available in respect of interest income and interest expenses:

Segment	Interest income	Interest expense	Net expenses reported (rounded off to nearest lacs)
Paint & Adhesives	Rs. 76,000	Rs. 13 Lacs	Rs. 12.0 Lacs
Automobile	Rs. 89,000	Rs. 15 Lacs	Rs. 14.0 Lacs
Food & Beverages	Rs. 57,000	Rs. 18 Lacs	Rs. 17.5 Lacs
Agriculture	Rs. 83,000	Rs. 14 Lacs	Rs. 13.0 Lacs

October 20X2

- In the middle of October, 20X2 the segment results of F&B were reviewed. F&B has crossed a quarterly revenue number of Rs. 50 crore for the quarter ended 30th September 20X2 and the PBT has quickly gone up to 19% from 9%. The business head of F&B, Mr. Arnab, stated
- "We're proud to inform the board that on 23rd September 20X2, the company has incorporated another company, Anvitas Technologies Pvt. Ltd. entirely under the supervision of F&B segment. 51% of the shares are held by RK one of the brightest employees of the division who's now entirely focusing on scientific way of reducing the harmful effect of wheat in human consumption. He has already filed a patent for the new solution developed by him. The company will have significant influence in the decision-making and once the product is commercially launched, the manufacturing rights will be entirely with our company."
- The company invested Rs. 500,000 including the cost of incorporation of company (shared) wherein the cost of shares was Rs. 490,000 (49,000 shares of Rs.10 each). For the year ended 31st March 20X3, Anvitas Technologies Pvt. Ltd. (the investee company) had a revenue of Rs. 10 lacs on which it made a net profit of Rs. 3 Lacs. The patent was granted to RK who received the final approval on 19th March 20X3.
- In April 20X3, a VC fund has approached Anvitas Technologies Pvt. Ltd offering an investment of Rs. 10 crore for a 20% stake already valuing the investee company at Rs. 50 crore. Since RK is having the controlling interest in the investee company, instead of issuing new shares, Arnab is willing to dilute the stake of the company by transferring the shares to the VC firm for Rs. 2 crores, thus enabling the new company to retain Rs. 8 crore for scaling of business.
- The negotiations and discussions went on and finally, the company has decided to dilute 20% stake by transfer of shares in the name of the VC firm.
- Since the paperwork is going on, the deal was closed on 1st May 20X3. The company has already received the money on 30th April 20X3. The cost incurred for the transfer of shares and overall deal closure was Rs. 250,000. Even after the stake sale, Arnab will continue to be a director in Anvitas Technologies Pvt. Ltd.
- The VC firm will not have any director representative in Anvitas Technologies Pvt. Ltd and it will not have any say in the day-to-day operations of the company. Quarterly results of the company shall be reviewed by the VC firm either in the board meeting (if invited by the Board) or outside the board meeting as per the comfort level of Anvitas Technologies Pvt. Ltd. The term sheet signed between Anvitas Technologies Pvt. Ltd and the VC firm talk about 30% ROI to the investor every year for a period of 3 years.

Multiple Choice Questions:

1. Looks like the revenue from F&B does not make it a reportable segment as per the thresholds mentioned in IFRS 8. However, the management has still classified F&B as an operating segment and disclosed relevant information. This could be perhaps because:
   (i) F&B Segment assets are 10% or more of the combined assets of all operating segments.
   (ii) Absolute amount of reported profit of F&B is 10% or more of the combined reported profit of all operating segments.
   (iii) Management believes that information about the segment would be useful to users of financial statements.
   Which of the following is true?
   (A) Statement I only (B) Statement I & II (C) Statement I & III (D) Statement II & III **2 Marks**
2. Is there any deviation from the principles of IFRS 8 in respect of interest income and interest expense? If yes, what is the amount of interest income to be restated in the segment reporting?
   (A) No. Not required. (B) Yes. Rs. 305,000 (C) Yes. Rs. 300,000 (D) Yes. Not quantifiable. **2 Marks**
3. Since Srikrishna Chemical Industries Ltd. has diluted its stake in the investee company it will stop following equity method of accounting from April 20X3 onwards for the investment done in Anvitas Technologies Pvt. Ltd.
   (i) The above statement is true.
   (ii) The above statement is false.
   (iii) The above statement is partially true.
   (iv) The above statement is not applicable since equity method is not applicable.
   Which of the following is false?

(A) Statement I only | (B) Statement II only
(C) Statement III only | (D) All statements except Statement III. **2 Marks**

4. The VC firm that has invested in Anvitas Technologies Pvt. Ltd, can treat the investment as investment in associate since it holds 20% of the share capital of the company.
   (i) The above statement is true.
   (ii) Shareholding alone cannot be presumed as significant influence.

   (iii) The above statement is false.

   Which of the following is true?
   (A) Statement I only | (B) Statement II only
   (C) Statement III & II | (D) Statement I & II **2 Marks**

5. The F&B business of the company has undergone huge changes in the recent past. After the deal with VC firm, the journey can be summarised as follows:
   (A) Reported Segment - Reportable Segment - Associate
   (B) Reported Segment - Reportable Segment - Associate & Reportable Segment
   (C) Reported Segment - Reportable Segment
   (D) Reportable Segment - Associate & Reportable Segment. **2 Marks**

PART II – Descriptive Questions **(70 MARKS)**

1.

(a) A Ltd. purchased 60% shares of B. Ltd. paying Rs 1050 million. No. of issued capital of B Ltd. is 1 million.

Fair value of identifiable assets of B Ltd. is Rs 1280 million and that of liabilities is Rs 100 million.

As on the date of acquisition, market price per share of B Ltd. Is Rs 1550. Find out goodwill, by both methods prescribed under Ind AS 103. **5 Marks**

(b) An Entity issued 100 shares each to its 1,000 employees subject to service condition of next 2 years. Grant date fair value of the shares is INR 195 each. There is an expectation that employee will reman in service at the tate 97% at end of 1st year. However at the end of 2nd year the expected employee to remain in services becomes 91%. Calculate expense for year 1 & 2? (Apply Ind AS 102) **4 Marks**

(c) On 1 April 20X1, the fair value of the assets of XYZ Ltd's defined benefit plan were valued at ` 20,40,000 and the **present** value of the defined obligation was ` 21,25,000. On 31st March, 20X2 the plan received contributions from XYZ Ltd amounting to ` 4,25,000 and paid out benefits of ` 2,55,000. The current service cost for the financial year ending 31 March 20X2 is ` 5,10,000. An interest rate of 5% is to be applied to the plan assets and obligations. The fair value of the plan's assets at 31 March 20X2 was ` 23,80,000, and the present value of the defined benefit obligation was ` 27,20,000. Provide a reconciliation from the opening balance to the closing balance for Plan assets and Defined benefit obligation. Also show how much amount should be recognised in the statement of profit and loss, other comprehensive income and balance sheet? **5 Marks**

2.

(a) On 31 December 20X1, an entity noticed that one of its items of plant and machinery is often left idle. On this date, the asset had a carrying amount of Rs 500,000 and a fair value of Rs 325,000. The estimated costs required to dispose of the asset are Rs 25,000.

If the asset is not sold, the entity estimates that it would generate cash inflows of Rs 200,000 in each of the next two years. The discount rate that reflects the risks specific to this asset is 10%.

Required:

1. Discuss the accounting treatment of the above in the financial statements for the year ended 31 December 20X1.
2. How would the answer to part (a) be different if there was a balance of Rs 10,000 in other components of equity relating to the prior revaluation of this specific asset? **8 Marks**

(b) Candiwala Associates Limited (CA Ltd.) and its subsidiaries have provided you a list of the properties they own:

1. Land held by CA Ltd for future sale after some 5 years
2. A vacant building owned by CA Ltd and to be leased out under an operating lease
3. Property held as a wing of real estate business
4. Property held by CA Ltd as a Warehouse for store goods.
5. A hotel owned by CA Ltd. and appointed an external party Lucky Firm for providing hotel management services. CA Ltd is not responsible for the hotel services as will be undertaken by Lucky firm.
6. Land, Building, Furniture fittings provided on rental basis.

7. S1 a subsidiary of CA Ltd lets out a property to S2 again a subsidiary of CA Ltd under operating lease basis.
8. 50% Property is let out on rentals and 50% is used for services relating to consultancy. Also the property cannot be separated.

Required : Advise CA Ltd. and its subsidiaries as to which of the above-mentioned properties would qualify under Ind AS 40 as investment properties. If they do not qualify thus, how should they be treated under Ind AS?

6 Marks

3.

(a) A defined benefit plan has the following characteristics for the year 2019 :

	Rs 000
Fair value of plan assets — 1 January 2019	21,000
Fair value of plan assets — 31 December 2019	22,380
Defined benefit obligation - 1 January 2019 (based on actuarial valuation)	22,500
Defined benefit obligation - 31 December 2019 (based on actuarial valuation)	26,115
Contributions for the period	1,575
Benefits paid during the year	1,500
Current service costs	800

The discount rate used is 6%.

Prepare extracts of Balance Sheet and statement of profit or loss and other comprehensive income after accounting for the defined benefit obligation. (IND AS 19) **6 Marks**

(b) An entity recognises a liability of Rs 100 for gratuity and leave encashment expenses by creating a provision for gratuity and leave encashment. For tax purposes, any amount with regard to gratuity and leave encashment will not be deductible until the entity pays the same. The tax rate is 25%.What is the tax base of liability?

(Apply Ind AS 12) **4 Marks**

(c) Sham Ltd, is being sued for anti-competitive behavior. This is denied by Sham Ltd, and only a contingent liability was shown in the financial statements on 31 December 20X8.

On 14 January the court awards $70 million as damages against Sham Ltd The date for the approval of the financial statements by the management for the issue to the Supervisory Board is March 9, 20X9.

Required:

Determine whether the event has occurred before or after the reporting period and give the accounting entries and the disclosures. (Apply Ind AS 10) **4 Marks**

4. P Ltd acquired 70% of S Ltd three years ago, when S retained earnings were Rs 430,000.

The Financial Statements of each company for the year ended 31 March 2017 are as follows:

Balance Sheet as at 31 March 2017

	P Ltd (Rs 000)	**S Ltd (Rs 000)**
Non-current assets		
Property, plant and equipment	900	400
Investment in S at cost	700	-
Current assets	300	600
	1,900	**1,000**
Share capital (Rs 1)	200	150
Share premium	50	-
Retained earnings	1,350	700
	1,600	**850**
Non-current liabilities	100	90
Current liabilities	200	60
	1,900	**1,000**
Statements of profit or loss for the year ended 31 March 2017		
	P - Rs 000	**S - Rs 000**

Revenue	1,000	260
Cost of sales	(750)	(80)
Gross profit	250	180
Operating expenses	(60)	(35)
Profit from operations	190	145
Financial Costs	(25)	(15)
Investment income	20	-
Profit before tax	180	130
Tax	(100)	(30)
Profit for the year	85	100

You are provided with the following additional information:

(i) S had plant in its Balance Sheet at the date of acquisition with a carrying amount of Rs 100,000 but a fair value of Rs 120,000. The plant had a remaining life of 10 years at acquisition. Depreciation is charged to cost of sales.

(ii) The P group values the non-controlling interests at fair value. The fair value of the noncontrolling interests at the date of acquisition was Rs 250,000 Goodwill has been impaired by a total of 30% of its value at the reporting date, of which one third related to the current year.

(iii) At the start of the year P transferred a machine to S for Rs 15,000. The asset had a remaining useful economic life of 3 years at the date of transfer. It had a carrying amount of Rs 12,000 in the books of P at the date of transfer.

(iv) During the year S sold some goods to P for Rs 60,000 at a mark-up of 20%. 40% of the goods remained unsold at the year- end. At the year-end, S books showed a receivables balance of Rs 6,000 as being due from P. This disagreed with the payables balance of Rs 1,000 in P books due to P having sent a cheque to S shortly before the year end which S had not yet received.

(v) S paid a dividend of 20,000 on 1 March 2017.

Required :

Prepare the consolidated Balance Sheet and consolidated statement of profit or loss for the year ended 31 March 2017. **14 Marks**

5. An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of ` 30,00,000. Immediately before the transaction, the building is carried at a cost of ` 15,00,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for 20 years, with annual payments of ` 2,00,000 payable at the end of each year.

The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements for determining when a performance obligation is satisfied in Ind AS 115 Revenue from Contracts with Customers.

The fair value of the building at the date of sale is ` 27,00,000. Initial direct costs, if any, are to be ignored. The interest rate implicit in the lease is 12% p.a., which is readily determinable by Seller-lessee.

Buyer-lessor classifies the lease of the building as an operating lease.

How should the said transaction be accounted by the Seller-lessee and the Buyer-lessor? **14 Marks**

6.

(a) E Ltd. is required to first time adopt Indian Accounting Standards (Ind AS) from April 1, 2016. The management of E Ltd. has prepared its financial statements in accordance with Ind AS and an explicit and unreserved statement of compliance with Ind AS has been given. However, the there is a disagreement on application of one Ind AS. Can such financial statements of E Ltd. be treated as first Ind AS financial statements? (Apply Ind AS 101) **4 Marks**

(b) X Ltd. acquired Y Ltd. by transfer of its retail division (fair value of which is Rs 360 million) and 10,00,000 equity shares to the previous owners of Y Ltd. Market price of equity share of X Ltd. (par value Rs10 each) as on the date of acquisition was Rs 350 per share. It was decided to pay the purchase consideration to the liquidator of Y Ltd.

Assets and liabilities of retail segment of X Ltd. (Amount in Rs Million)

	Carrying Amount	Acquisition date Fair value
Equipment	120	130
Inventories	120	150

Receivables	110	110
Trade payables	30	30
As on the acquisition date assets and liabilities of Y Ltd. were as follows		
(Amount in Rs million)		
	Carrying amount	**Acquisition date fair value**
Land and Building	30	50
Plant and machinery	500	600
Equipment	20	10
Inventories	100	80
Receivables	100	80
Cash and Cash Equivalents	10	10
Total Assets	760	830
Loans	100	100
Trade Payables	30	30
Total Liabilities	130	130
Net Assets	630	700

Find out purchase consideration and goodwill on business combination. Show accounting entry of acquirer for business combination. (Apply Ind AS 103) **6 Marks**

(c) YaberGmbh is a German entity which makes machine tools. It has a subsidiary in Singapore called Shape Inc to which it sells some of its finished goods. Shape Inc is the authorised dealer of YaberGmbh for the whole of South-East Asia and engages in no other in no other activity of its own.

Required :Determine the functional currency of shape Inc. (Apply Ind AS 21) **4 Marks**

ANSWERS OF PART I - Case Scenario based MCQs

ANSWERS TO THE CASE STUDY - 1

1. Option (A) : Rs. 115.8 Million

Reason :Goodwill- ABC Ltd

	Rs. Million	**Rs. Million**
Consideration transferred		480
Non-controlling interests		95.4
FV of identifiable assets acquired and liabilities assumed		
Share capital	180	
Retained earnings	270	(450)
		125.4
Less: Impairment loss		(9.6)
Goodwill		115.8

2. Option (B) : Rs. 6 Million

Reason :Development inventories

The development costs do not meet the recognition criteria set out in Ind AS 38 'Intangible Assets' and, therefore, they cannot be treated as inventory because they were previously written off as incurred. They were reinstated after acquisition, so must be written off ABC Ltd.'s post-acquisition reserves.

		Rs. million	Rs. million
Retained earnings (ABC Ltd)	Dr.	6	
To Inventories (Consolidated Balance Sheet)			6

3. Option (C) : Rs. 97.2 Million

Reason :Investment in associate

	Rs. million
Cost	432
Share of post-acquisition profits [(540- 468) x 30%]	21.6
Unrealised profit on inventories (Refer Note below)	(3.6)
Impairment loss (SPLOCI/retained earnings) (balancing figure)	(97.2)
Recoverable amount - 30% x Rs. 1,176 million (per question)	352.8

Note:

Unrealised profit on intra-group trading with associate (PQR Ltd)

	Rs. million
Inventories selling price	42
Cost	(30)
Profit	12

Ind AS 28 requires that XYZ Ltd.'s share of this profit must be eliminated.

XYZ Ltd.'s share is 30% x Rs. 12 million = Rs. 3.6 million

		Rs. million	Rs. million
SPLOCI (retained earnings) XYZ Ltd	Dr.	3.6	
To Investment in associate			3.6

The unrealised profit is eliminated from retained earnings in books of seller (XYZ Ltd) and from inventories in the books of the holder (PQR Ltd) - i.e. investment in associate.

4. Option (B) : Nil

Reason :Foreign currency contract

The payment to the supplier is a non-refundable advance and thus, does not meet the requirement of foreign currency monetary item. Hence, no exchange gain/ loss is required to be recognised on 31 March 20X4.

5. Option (A) : Rs. 0.32 Million

Reason : 4% Debentures

	Rs.
Initial cost	12,00,000
Finance income @ 10%	1,20,000
Cash inflow @ 4%	(48,000)
At 31 March 20X3	12,72,000
Finance income @ 10%	1,27,200
Cash Inflow @ 4%	(48,000)
At 31 march 20X4	13,51,200

After the impairment, the debentures are stated at their recoverable amount (using the original effective interest rate of 10%):

80% x Rs. 1.56 million x 0.826 = Rs. 1,030,848

An impairment loss of Rs. 320,352 (Rs. 1,351,200 - Rs. 1,030,848) should be recorded as follows:

		Rs. Million	Rs. million
SPLOCI (retained earnings)	Dr.	0.32	
To Financial asset			0.32

ANSWERS TO THE CASE STUDY - 2

1. **Option (D) 20 April 20X3 -**

   Reason : As per definition of 'grant date' given in Ind AS 102, the grant date is:

   The date at which the entity and another party (including an employee) agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date the entity confers on the counterparty the right to cash, other assets, or equity instruments of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.

   The grant date is when both parties agree to a share-based payment arrangement. The word 'agree' is used in its usual sense, which means that there must be both an offer and acceptance of that offer. Hence, the date at which one party makes an offer to another party is not grant date. The date of grant is when that other party accepts the offer. Here acceptance by the party is later to approval by the shareholders resolution. Hence grant date will be the later date.

2. **Option (A) Nil**

   Reason:

   As per Ind AS 102, the entity shall first measure the fair value of the debt component, and then measure the fair value of the equity component - taking into account that the counterparty must forfeit the right to receive cash in order to receive the equity instrument. The fair value of the compound financial instrument is the sum of the fair values of the two components.

   However, share-based payment transactions in which the counterparty has the choice of settlement are often structured so that the fair value of one settlement alternative is the same as the other. For example, the counterparty might have the choice of receiving share options or cash-settled share appreciation rights. In such cases, the fair value of the equity component is zero, and hence the fair value of the compound financial instrument is the same as the fair value of the debt component. Conversely, if the fair values of the settlement alternatives differ, the fair value of the equity component usually will be greater than zero, in which case the fair value of the compound financial instrument will be greater than the fair value of the debt component.

3. **Option (A) Equity-settled share-based payment**

   Reason: As per Ind AS 102, the entity receiving the goods or services shall measure the goods or services received as an equity-settled share-based payment transaction when:

   (a) the awards granted are its own equity instruments, or

   (b) the entity has no obligation to settle the share-based payment transaction.

   The entity shall subsequently remeasure such an equity-settled share-based payment transaction only for changes in non-market vesting conditions. In all other circumstances, the entity receiving the goods or services shall measure the goods or services received as a cash-settled share-based payment transaction.

4. **Option (D)Recognized as revenue as and when the performance obligation is satisfied**

   Reason: As per Ind AS 102, fees that are not an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with Ind AS 115 include:

   (a) fees charged for servicing a loan;

   (b) commitment fees to originate a loan when the loan commitment is not measured in accordance with Ind AS 109 and it is unlikely that a specific lending arrangement will be entered into; and

   (c) loan syndication fees received by an entity that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants).

5, **Option (C) Goodwill**

   Reason: As per Ind AS 12, temporary differences may arise in a business combination. In accordance with Ind AS 103, an entity recognises any resulting deferred tax assets (to the extent that they meet the recognition criteria) or deferred tax liabilities as identifiable assets and liabilities at the acquisition date. Consequently, those deferred tax assets and deferred tax liabilities affect the amount of goodwill or the bargain purchase gain the entity recognises. However, in accordance with Ind AS 103, an entity does not recognise deferred tax liabilities arising from the initial recognition of goodwill.

ANSWERS TO THE CASE STUDY - 3

1. Option (C) - Statement I & III

Reason:

As per Ind AS 108 the thresholds for considering a particular segment as an operating segment that needs to be reported.

Based on the numbers given in the case study, both the revenue and profit thresholds fail for F&B segment. So it means that either the assets threshold must be true or that the management belief holds good to consider it an operating segment.

2. Option (B) : Yes. Rs. 305,000

Reason:

Ind AS 108 clearly mentions that an entity shall report interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interestand the chief operating decision maker relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources to be allocated to the segment.

By adding the amount of interest income, the figure comes to Rs. 305,000.

3. Option (B) - Statement II only

Reason:

Ind AS 28 states that an entity shall apply Ind AS 105 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. Any retained portion of an investment in an associate or a JV that has not been classified as held for sale shall be accounted for using the equity method until the disposal of the portion that is held for sale takes place. Even after the partial disposal, if the remaining portion of investment qualifies as a significant influence, the equity method of accounting shall be continued.

4. Option (C) - Statement III & II

Reason:

Ind AS 28 defines associate as an entity over which the investor has significant influence. And significant influence means the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

Further, para 5 says:

If an entity holds, directly or indirectly, 20% or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case.

Para 6 goes on to explain significant influence in more details like:

(a) Representation on the board of directors of the investee;
(b) Participation in policy-making processes, including participation in decisions about dividends;
(c) Material transactions between the entity and the investee;
(d) Interchange of managerial personnel; or
(e) Provision of essential technical information

Based on the facts of the case, it appears that the VC firm is purely an investment partner of Anvitas Technologies Pvt. Ltd and has no influence on operational or strategic decisions of the investee company.

5. Option (B) - Reported Segment - Reportable Segment - Associate & Reportable Segment

Reason:

In the beginning of the case F&B was reported as an operating segment since management wanted to know about this segment even though it did not meet the threshold criteria and hence was a reported segment.

Then it went on to become a reportable segment by virtue of threshold criteria for revenue and profit.

Since a new company was floated from within the segment (with segment employee) and investment from the segment, it also became an associate.

Even after dilution of investment, it remained an associate and also the business is going as per the agreement with Anvitas Technologies Pvt. Ltd. So it has remained a reportable segment.

ANSWERS OF PART II - DESCRIPTIVE QUESTIONS

1. (a)

	Amount in Rs Million
(a) (i) Fair value of consideration paid	1050
(ii) Fair value of non-controlling interest (40% X 1 millionX Rs 1550)	620
	1670
(b) Fair value of identified assets	1280
Minus fair value of liabilities	100
Fair value of Net Assets	1180
Goodwill [(a) -(b)]	490

When goodwill is measured taking non-controlling interest at fair value, it is often termed as full goodwill.

On the other hand, it is possible to measure non-controlling at the proportionate value of net assets.

	Amount in Million
(a) (i) Fair value of consideration paid	1050
(ii) Proportionate value of non-controlling interest	472
(40% X 1180)	1522
(b) Fair value of identified assets	1280
Minus fair value of liabilities	100
Fair value of Net Assets	1180
Goodwill [(a) -(b)]	342

When non-controlling interest is measured at proportionate share of net asset, the goodwill is popularly termed as partial goodwill

(b)

Year end	**% Vest**	**Expense (current period)**
FIRST	97%	100 x 1,000 x 195 x 97% x 1/2 = 94,57,500
SECOND	91%	100 x 1,000 x 195 x 91% x 2/2 = 94,57,500 = 82,87,500

(c) Reconciliation of Plan assets and Defined benefit obligation

	Plan Assets `	**Defined benefit Obligation `**
Fair value/present value as at 1st April 20X1	20,40,000	21,25,000
Interest @ 5%	1,02,000	1,06,250
Current service cost		5,10,000
Contributions received	4,25,000	-
Benefits paid	(2,55,000)	(2,55,000)
Return on gain (assets) (balancing figure)	68,000	-
Actuarial Loss (balancing figure)	-	2,33,750
Closing balance as at March 31,20X2	23,80,000	27,20,000

In the Statement of Profit and loss, the following will be recognised:

	`
Current service cost	5,10,000
Net interest on net defined liability (` 1,06,250 – ` 1,02,000)	4,250
Defined benefit re-measurements recognised in Other Comprehensive Income:	
	`
Loss on defined benefit obligation	(2,33,750)

Gain on plan assets	68,000
	(1,65,750)
In the Balance sheet, the following will be recognised :	
	`
Net defined liability (` 27,20,000 – ` 23,80,000)	3,40,000

2.(a)

(a) The value in use is calculated as the present value of the asset's future cash inflows and outflows.

	Rs 000
Cash flow Year 1 (200 x 0.909)	182
Cash flow Year 2 (200 x 0.826)	165
	347

The recoverable amount is the higher of the fair value less costs to sell of Rs 300,000 (Rs 325,000 - Rs 25,000) and the value in use of Rs 347,000.

The carrying amount of the asset of Rs 500,000 exceeds the recoverable amount of Rs 347,000. Therefore, the asset is impaired and must be written down by Rs 153,000 (Rs 500,000 - Rs 347,000). This impairment loss would be charged to the statement of profit or loss.

Dr Profit or loss	Rs 153,000
Cr PPE?	Rs 153,000

(b) The asset must still be written down by Rs 153,000. However, Rs 10,000 of this would be recognised in other comprehensive income and the remaining Rs 143,000 (Rs 153,000 - Rs 10,000) would be charged to profit or loss.

Dr Profit or loss	Rs 143,000
Dr Other comprehensive income	Rs 10,000
Cr PPE	Rs 153,000

(b) [a] Ind AS-40 ; [b] Ind AS 40 ; [c] Ind AS-2 inventories ; [d] Ind AS-16 ; [e] Ind AS-40. The hotel servies are not provided by CA Ltd. If CA LTd was actively involved in hotel services then it would be classified under Ind AS-16 ; [f] Land, Building covered by Ind AS-40, but Furniture covered by Ind AS-16 [g] For S1: Ind AS-40 ; For S2: Asset is not recorded ; For the Group CFS purpose: the property is classified as owner occupied hence Ind AS-16 ; [h] As significant property is used for own business it is not covered by Ind AS-40.

3.

Plan assets	**Rs 000**
Fair value of plan assets — 1 January 2019	21,000
Return on plan assets (6% of 21,000)	1,260
Contributions for the period	1,575
Benefits paid during the year	(1,500)
Expected fair value of plan assets - 31 December 2019	**22,335**
Fair value of plan assets - 31 December 2019	22,380
Remeasurements recognised in OCI in respect of plan assets	45
Defined benefit obligation - 1 January 2019 (based on actuarial valuation)	**000**
Defined benefit obligation - 1 January 2019 (based on actuarial valuation)	22,500
Interest cost (6% of 22,500)	1 ,350
Current service costs	800
Benefits paid during the year	(1 ,500)
Expected obligations on 31 December 2019	**23,150**
Defined benefit obligation - 31 December 2019 (based on actuarial valuation)	26,115
Remeasurement recognised in OCI in respect of defined benefit obligation	**2,965**

Plan assets	Rs 000
Statement of Profit and Los and OCI extracts	**Rs000**
Finance costs [Net interest cost (1,260 - 1 ,350)]	90
Employee Benefits Expenses- Current service cost	800
Other comprehensive income	
Remeasurement loss on net obligations (2965 – 45)	2,920
Balance Sheet(extracts)	**Rs 000**
Equity and liability	
Other components of equity – Remeasurement on DBO	2,920
Non-current liabilities	
Net defined benefit obligation (26,115 – 22,380)	3,735

(b) The tax base of the liability is nil (carrying amount of Rs 100, less the amount that will be deductible for tax purposes in respect of that liability in future periods). In settling the liability for its carrying amount, the entity will reduce its future taxable profit by an amount of Rs 100 and, consequently, reduce its future tax payments by Rs 25 (100 at 25%). The difference between the carrying amount of Rs100 and the tax base of nil is a deductible temporary difference of Rs 100.

(c) This is an event occurring after the end of reporting period but before approval of the financial statements for issue. This event affects the valuation of company's liabilities. Hence this is an adjusting event. Sham Ltd must create a provision for $70 million in the financial statements for 20X8, to replace the contingent liability.

Accounting entry

Dr	Legal cost account	$70m
Cr	Provision account	$70m

Being creation of a provision on account of court order dated 14 January 20X9

Disclosure

The company had a contingent liability of $70 million on 31 December 20X8, in respect of the court case. The court order was passed on 14 January 20X9, according to which a liability of $70 million became payable. Since this happening related back to the reporting date, i.e. 31 December 20X8, the company provided for the liability, of $70 million rather than treating it as a contingent liability in its financial statements.

4.

Consolidated Balance Sheet of P Ltd. as on 31.03.2017 (Rs. '000)

S.N	Particulars	Rs.	Rs.
A.	**ASSETS**		
1.	Non-Current Assets :		
	(a) PPE (900+400+20-6-3+1)	1,312	
	(b) Intangible Assets : Goodwill (WN 2)	245	1,557
2.	Current Assets :		
	(i) Cash & cash Equivalent		
	Remittance in Transit	5	
	(ii) Other Current Assets (300+600-4-6)	890	895
	TOTAL		**2,452**
B.	**EQUITY AND LIABILITIES**		
1.	Equity		

S.N	Particulars	Rs.	Rs.
	(a) Share Capital	200	
	(b) Other Equity	1506.20	1706.20
	(c) NCI		296.8
2.	Non-Current Liabilities		190
3.	Current Liabilities		259
	TOTAL B		**2,452**

Consolidated Statement of Profit & loss for the year ended 31.03.2017

S.N	Particulars	(Rs.1000)
a.	**Income**	
	Revenue from sales (1000+260-60)	1,200
	Investment Income [(20-3 – (20x70%)]	3
	Total a	**1,203**
b.	**Expenses**	
	Cost of sales [750+80+2-1-60+4]	775
	Operating Expenses [60+35]	95
	Finance Cost (25+15)	40
	Goodwill Impairment [105x13]	35
	Total b	**945**
c.	Profit Before Tax	258
d.	Tax [100+30]	130
e.	Profit Before Tax (c-d)	128
f.	Share of profit attributable to	
i.	Non-controlling Interest	18
ii.	Parent's Share	110
	Total c	**128**

Consolidated Statement of changes in equity :

Particulars	Share Capital	Securities Premium	Retained Earning	Non-Controlling Interest	Total
Opening Balance	200	50	1,350	-	1,600
Add : Fair Value of NCI on the date of acquisition	-	-	-	250	250
Add : post-acquisition profit (WN 3)	-	-	182.70	78.30	261
Less: Goodwill Impairment	-	-	(73.5)	(31.5)	(105)
Less : Unrealized profit on PPE	-	-	(3)	-	(3)
Total	**200**	**50**	**1,456.2**	**296.8**	**2,003**

Working Note 3 : Statement showing analysis of profit of S Ltd. **(Rs. `000)**

Particulars	Pre-Acquisition	Post-Acquisition
Retained Earnings (700-430)	430	270
Increase in Fair value of :		
PPE	20	
Less : Unrealised Profit on inventory		(4)
Less : Depreciation on increased value for 3 years [(20/10)x3]		(6)
Add : Reversal of depreciation		1
Total	450	261
P Ltd. (Rs.1700 x 75%)	-	182.70
NCI (Rs.1700 x 25%)	-	78.30

Working Note 2 : Calculation of Goodwill **(Rs. `000)**

S.N.	Particulars	Rs.
a.	Consideration paid	700
b.	Add : Fair Value of NCI on date of acquisition	250
c.	Total (a+b)	950
d.	Fair Value of identifiable Net Assets	
	Share capital	150
	Pre-acquisition profit (WN 1)	450
	Total d.	**600**
e.	Goodwill (c-d)	350
f.	Less : Goodwill Impairment (30% x 350)	(105)
g.	**Goodwill on the date of consolidation**	**245**

WN 3 : Calculation of NCI's share in the current years profit **(Rs. `000)**

S.N	Particulars	(Rs.'000)
a.	PAT as reported	100
b.	Less : Additional Depreciation on Revaluation of PPE	(2)
c.	Less : Unrealized profit on stock (Upstream)	(4)
d.	Add : Reversal of additional depreciation	1
e.	Adjusted PAT	95
f.	Goodwill Impairment (if based on Fair Value)	(35)
g	Readjusted PAT (e- f)	60
h.	NCI's Share 30%	18

Note : Dividend paid by subsidiary can alternatively be added back in post-acquisition profit & reduced in statement of changes in equity the respective portion in parent & NCI from retained & NCI column.

5.

- Considering facts of the case, Seller-lessee and buyer-lessor account for the transaction as a sale and leaseback.

  Firstly, since the consideration for the sale of the building is not at fair value, Seller-lessee and Buyer - lessor make adjustments to measure the sale proceeds at fair value. Thus, the amount of the excess sale price of ` 3,00,000 (as calculated below) is recognised as additional financing provided by Buyer-lessor to Seller-lessee.

Sale Price:	30,00,000
Less: Fair Value (at the date of sale):	(27,00,000)
Additional financing provided by Buyer-lessor to Seller-lessee	**3,00,000**

- Next step would be to calculate the present value of the annual payments which amounts to ` 14,94,000 (calculated considering 20 payments of ` 2,00,000 each, discounted at 12% p.a.) of which ` 3,00,000 relates to the additional financing (as calculated above) and balance ` 11,94,000 relates to the lease — corresponding to 20 annual payments of ` 40,164 and ` 1,59,836, respectively (refer calculations below).

Proportion of annual lease payments:

Present value of lease payments (as calculated above)	(A)	14,94,000
Additional financing provided (as calculated above)	(B)	3,00,000
Relating to the Additional financing provided	(C) = (E x B / A)	40,160
Relating to the Lease	(D) = (E – C)	1,59,840
Annual payments (at the end of each year)	(E)	2,00,000

Seller-Lessee:

- At the commencement date, Seller-lessee measures the ROU asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right-of-use retained by Seller-lessee, calculated as follows:

Carrying Amount	(A)	15,00,000
Fair Value (at the date of sale)	(B)	27,00,000
Discounted lease payments for the 20-year ROU asset	(C)	11,94,000
ROU Asset	**[(A / B) x C]**	**6,63,333**

- Seller-lessee recognises only the amount of the gain that relates to the rights transferred to Buyer-lessor, calculated as follows:

Fair Value (at the date of sale)	(A)	27,00,000
Carrying Amount	(B)	15,00,000
Discounted lease payments for the 20-year ROU asset	(C)	11,94,000
Gain on sale of building	**(D) = (A - B)**	**12,00,000**
Relating to the right to use the building retained by Seller-lessee	(E) = [(D / A) x C]	5,30,667
Relating to the rights transferred to Buyer-lessor	(D - E)	6,69,333

At the commencement date, Seller-lessee accounts for the transaction, as follows:

Cash	**Dr.**	30,00,000	
ROU Asset	**Dr.**	6,63,333	
To Building			15,00,000
To Financial Liability			14,94,000
To Gain on rights transferred			6,69,333

Buyer-Lessor:

At the commencement date, Buyer-lessor accounts for the transaction, as follows:

Building	**Dr.**	27,00,000	
Financial Asset (20 payments of ` 40,160 discounted @ 12% p.a.) (approx.)	**Dr.**	3,00,000	
To Cash			30,00,000

- After the commencement date, Buyer-lessor accounts for the lease by treating ` 1,59,840 of the annual payments of ` 2,00,000 as lease payments. The remaining ` 40,160 of annual payments received from Seller-lessee are accounted for as:
  (a) payments received to settle the financial asset of ` 3,00,000 AND
  (b) interest revenue.

6.

(a) Ind AS 101 defines first Ind AS financial statements as "The first annual financial statements in which an entity adopts Indian Accounting Standards (Ind AS), by an explicit and unreserved statement of compliance with Ind AS." In accordance with the above definition, if an explicit and unreserved statement of compliance with Ind AS has been given in the financial statements, even if the auditor's report contains a qualification because of disagreement on application of Indian Accounting Standard(s), it would be considered that E Ltd. has done the first time adoption of Ind AS.

In such a case, exemptions given under Ind AS 101 cannot be availed again. If, however, the unreserved statement of compliance with Ind AS is not given in the financial statements, such financial statements would not be considered to be first Ind AS financial statements.

(b) **Rs. In million**

Purchase consideration :	
Fair value of assets and liabilities transferred	350.00
Fair value of equity shares issued	350.00
Total	**710.00**
Fair value assets acquired net of fair value of	
Liabilities assumed	700.00
Goodwill	**10.00**

Accounting Entries **(Amount in Rs million)**

		Dr.	Cr.
Land & Building A/c	Dr.	50.00	
Plant & Machinery A/c	Dr.	600.00	
Equipment A/c	Dr.	10.00	
Inventories A/c	Dr.	80.00	
Receivables A/c	Dr.	80.00	
Cash & Cash Equivalents A/c	Dr.	10.00	
Goodwill A/c	Dr.	10.00	
Loan A/c	Cr.		100.00
Trade Payables A/c	Cr.		30.00
Liquidator of Y Ltd. A/c	Cr.		710.00
Trade Payables A/c	Dr.	30.00	
Liquidator of Y Ltd. A/c	Dr.	360.00	
Equipment A/c	Cr.		120.00
Inventories A/c	Cr.		120.00
Receivables A/c	Cr.		110.00
Profit on Transfer A/c	Cr.		40.00
Liquidator of Y Ltd. A/c	Dr.	350.00	
Equity Share Capital A/c	Cr.		10.00
Share Premium A/c	Cr.		340.00

(c) In this case Shape Inc only resells the goods manufactured by YaberGmbh throughout South-East Asia. It does not do any value addition nor does it engage in any other independent activity of its own.

Hence Shape Inc (the foreign operation of YaberGmbh) is just an extension of YaberGmbh. So the functional currency of Shape Inc is:

- the € (the functional currency of YaberGmbh assuming that the other factors also indicate that the € is the functional currency of YaberGmbh) and;
- not the Singapore $ (the national currency of the country in which Shape Inc operates).

CA FINAL - FINANCIAL REPORTING

MODEL TEST PAPER 2- QUESTION PAPER

The question paper comprises two parts, Part I and Part II.

Part I comprises Case Scenario based Multiple Choice Questions (MCQs)

Part II comprises questions which require descriptive type answers.

Time Allowed – 3 Hours **Maximum Marks – 100**

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory

CASE STUDY - 1

- Jackson 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 31 March 20X4, the Chief Financial Officer of the company identified a few transactions and asked for your assistance to show proper treatment.
- On 1 December 20X3, Jackson 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 Jackson Ltd with a grant of Rs. 30 million to assist it in the development of the factory.
- This grant was provided in three parts:
  - (i) Rs. 6 million of the grant was a payment by the government as an inducement to Jackson Ltd to begin developing the factory. No conditions were attached to this part of the grant.
  - (ii) Rs. 15 million of the grant related to the construction of the factory at a cost of Rs. 60 million. The land was leased so the whole of the Rs. 60 million is depreciable over the estimated 40 year useful life of the factory.
  - (iii) The remaining Rs. 9 million 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 1 December 20X3, 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.
- Further, on 1 January 20X4, Jackson Ltd acquired 30% of the shares of Tintin Ltd. The investment was accounted for as an associate in Jackson Ltd's consolidated financial statements. Both Jackson Ltd. and Tintin Ltd. have an accounting year end of 31 March 20X4. Jackson Ltd has no other investments in associates.
- Net profit for the year in Tintin's income statement for the year ended 31 March 20X4 was Rs. 0.23 million. It declared and paid dividend of Rs. 0.1 million on 1 March 20X4. No other dividends were paid in the year.

Multiple Choice Questions:

1. What would be the treatment for grant of Rs. 15 million related to the construction of the factory at a cost of Rs. 60 million? **2 Marks**
   (A) Rs. 15 million 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 Rs. 60 million. Thereafter the deferred credit would be released to the income statement at the end of 40th year.
   (D) Either(b) or (c).
2. What would be the treatment of grant of Rs. 6 million received from the government as an inducement to Jackson Ltd to begin developing the factory? **2 Marks**
   (A) Grant relating to an inducement to begin developing the factory can be recognized immediately in the Statement of Profit or Loss.
   (B) 0.15 million amount is to be credited each year in the income statement over 40 year period.
   (C) 1.2 million 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.
3. What would be the treatment for grant of Rs. 9 million which was received with a condition to keep at least 200 employees working at the factory?
   (A) Rs. 0.6 million would be recognized in the income statement for the current period ending 31 March, 20X4.

(B) Rs. 1.8 million would be recognized in the income statement for the current period ending 31 March, 20X4.

(C) Rs. 9 million would be recognized in the income statement for the period when at least 200 workers are employed in factory.

(D) Rs. 0.225 million amount is to be credited each year in the income statement over 40 year period. **2 Marks**

4. How will the possibility of refund of government grant with respect to Rs. 9 million be recognised in the books of Jackson Ltd.? **2 Marks**

   (A) Current liability. (B) Provision. (C) Contingent liability. (D) Nothing is required.

5. What amount will be shown as an inflow in respect of earnings from the associate in the statement of cash flows of Jackson Limited for the year ended 31 March 20X4?

   (A) Rs. 0.020 million. (B) Rs. 0.026 million. (C) Rs. 0.030 million. (D) Rs. 0.046 million. **2 Marks**

CASE STUDY - 2

- Mr. H is a Chartered Accountant and is working in GHI & Co., Chartered Accountants as a Manager. GHI & Co. has recently been approached by A Ltd. for providing advice on certain accounting matters (discussed below). A Ltd. is an automotive supplier having a registered office in New Delhi and is listed on the Bombay Stock Exchange (BSE).
- Following are the brief facts about the transactions entered into by the company for which an accounting advice is sought by the CFO of A Ltd. from GHI & Co., Chartered Accountants:

  [a] A Ltd. has a machinery costing Rs. 15,00,000 having a useful life 10 years. Estimated cost of major overhaul planned after 3 years is Rs. 2,00,000.

  [b] A Ltd. received a subsidy of Rs. 15,00,000 from the Government in north-east India in return for setting up approved industrial activities in those states. One of the key condition of the subsidy is that A Ltd. needs to employ the locals staying in those states for a period of 5 years.

  [c] A Ltd. offers 400 shares to each of its 1000 staff if they stay with them for 3 years. The fair value of the shares on the date of offer was Rs. 50. At the end of year 1, 20 employees left and the entity estimates that 25% will left at the end of the vesting period.

  During the second year, a further 20 employees left and the entity further revises its estimate of total departures over the vesting period from 25% to 28%. During the third year, a further 20 employees leave the entity.

  [d] As on 1 April 20X1, A Ltd. has opening shares of 10,00,000. On 31 May, A Ltd. issued 2,00,000 shares. On 30 November, A Ltd. made a bonus issue of 1 for every 3 shares held. On 28 February 20X2, A Ltd. issued another 2,50,000 shares.

  [e] A Ltd. has agreed in a directors' meeting to sell a building and has tentatively started looking for a buyer for the building. The price of the building has been fixed at Rs. 4 crores and a surveyor has valued the building based on market prices at Rs. 3.6 crores. A Ltd. will continue to use the building until another building has been found with equivalent facilities, and in a suitable location for the office staff, who will not be relocated until the new building has been found.

Multiple Choice Questions:

1. Considering the principles of Ind AS, determine the accounting for machinery (referred to in (a) above) held by A Ltd.?

   (A) Machinery of Rs. 15,00,000 should be depreciated over a period of 10 years.

   (B) Machinery of Rs. 13,00,000 should be depreciated over a period of 10 years; major overhaul cost of Rs. 2,00,000 should be depreciated over a period of 3 years.

   (C) Machinery of Rs. 15,00,000 should be depreciated over a period of 10 years and cost of major overhaul of Rs. 2,00,000 should be recognised at the end of third year.

   (D) Machinery of Rs. 13,00,000 should be depreciated over a period of 10 years; major overhaul cost of Rs. 2,00,000 should be recognised at the end of third year. **2 Marks**

2. How should A Ltd. account for the subsidy received from the Government for setting up approved industrial activities in north-east states?

   (A) Subsidy received should be recognised on the date of receipt.

   (B) Subsidy received should be recognised at the end of year 5, i.e., when the condition relating to employment is met.

   (C) Subsidy received should be recognised over the period of 5 years, i.e., Rs. 3,00,000 per annum.

   (D) Subsidy received should be recognised on the date of notification issued by the Government in this regard.

   2 Marks

3. Determine the amounts to be recognised in the statement of profit and loss in relation to share based payments?

(A) Expense in year 1 = Rs. 50,00,000; expense in year 2 = Rs. 50,00,000 and expense in year 3 = Rs. 50,00,000

(B) Expense in year 1 = Rs. 62,66,667; expense in year 2 = Rs. 62,66,667 and expense in year 3 = Rs. 62,66,667

(C) Expense in year 1 = Rs. 50,00,000; expense in year 2 = Rs. 46,00,000 and expense in year 3 = Rs. 92,00,000

(D) Expense in year 1 = Rs. 63,33,333; expense in year 2 = Rs. 64,00,000 and expense in year 3 = Rs. 60,66,667

2 Marks

4. Considering the facts in (d) above, determine the number of shares which would be used in the calculation of basic EPS under Ind AS?

(A) 14,50,000 (B) 15,76,389 (C) 18,50,000 (D) 13,20,834 **2 Marks**

5. How A Ltd. should classify the building referred to in (e) above?

(A) Property, plant and equipment (B) Inventory

(C) Investment property (D) Asset held for sale **2 Marks**

CASE STUDY - 3

- Sai Caterers Pvt. Ltd., is a Panvel based company in the business of corporate catering since 2005. The Directors of the company are thinking about setting up a Dairy Unit to fulfil the company's need for fresh milk in its daily service to the clients. They thought Karjat, a place between Mumbai and Pune, is the best place for the project site since it has ample of water resources and green feed around.
- For its 100+ corporate clients, the company estimates that on an average they need around 2500 litres of milk every day. Currently, the milk is being procured from multiple sources and the average cost per litre works out to be Rs. 38.89
- As a finance consultant, you're invited to the Board Meeting of the company where the final decision is to be taken by the Board of Directors. You witness the following during the board meeting: (text marked in italics)

DIRECTOR -1

- "Well, we need to know the economics of cows better before we get into this completely."

  Director -2 :"A cow gives milk for 6 months during the year so based on our need, we to have double the no. of cows to meet the annual sourcing need."

  Director -1 : "Double the number? How does that help?"

DIRECTOR -2

- "We need to procure half the number who's ready for milking and half the number which will be ready over the next 6 months. Each cow can reproduce at least once 14-18 months depending on the milk production level from the date of calving. Normally, there is dry-run of 60 days before calving. For commercial purpose, let's consider that each cow will have a milking period of 8 months or about 5000 litres per cow per annum. So, based on that we'll do the working with the help of our finance consultant."

DIRECTOR-1

- "Alright. Sounds good. If the number of cows increase and the milk produced is more than what we require in business, we might sell the same at market rates"

FINANCE CONSULTANT (YOU)

- "Well, I've a different take on that. Instead of mass-marketing at the market rates, you may consider premium pricing direct-to-home delivery. The advantage you have is, over the last 10 years, you have got good connections with CXOs of many clients. Everybody needs fresh milk. A normal packet milk that is available in mass-market is at least 7 days before it reaches the consumer. We can assure same-day delivery and the premium price can be about Rs. 90 per litre"

DIRECTOR -1

"Fantastic"

DIRECTOR- 2

"Excellent idea! Let me think about the brand."

- The meeting goes and it ends with the following two major decisions:
  1. The company will borrow 50% of Capex for setting-up in-house dairy unit and complete the project by 1st Feb 2018.
  2. Based on milk production levels being more than the captive consumption, the company shall launch "Godhan" a premium milk brand to market it to upper middle class market.

- You come back from the meeting to your office and think through the next steps. In the next week you have gone to the office of the client and have worked out the additional details:
- A milking cow costs about Rs. 60k. On an average a cow produces about 20 litres of milk per day, however, a cow can produce milk only for 8 months in a year. The management has decided to buy 200 cows to avoid initial hiccups in procurement target.

The set-up costs are as follows:

	Rs. in lacs
Land	150
Civil structure (useful life 15 years)	65
Milking equipment and other tools (useful life 7 years)	50

Case status as on 31st March 2018 – Project implemented and in-house procurement plan is working.

- Depreciation on project assets was provided for 2 months as 31st March 2018
- As on 31st March 2019, the no. of cows has gone down to 195 and there are 90 calves of which 54 are female. Each male calve has a market value of Rs. 8,000 and a female calve can fetch Rs. 6,000 with no cost to sell as buyers would come over to the site to buy the calves. 5 cows which died while calving were buried.

The supply of milk during the year was as follows:

Period	Actual production	Requirement for Internal usage
Quarter 1	2,27,505	2,27,500
Quarter 2	2,41,040	2,39,200
Quarter 3	2,42,880	2,39,200
Quarter 4	2,39,400	2,34,000

- The milk required for catering business was transferred by the milk procurement unit @ Rs. 35 per litre for accounting purposes.
- As per the company's plan, 'Godhan' was launched in June, 2018. Surplus of 1st quarter was supplied to the Directors at free of cost. However, from Q2 of Financial Year 2018-2019, 95% of the surplus milk was sold at the premium price.
- Direct expenses of Godhan related marketing and manpower was Rs.15 per litre. The remaining 5% of surplus milk was distributed to directors for free.

Multiple Choice Questions:

1. What is the carrying amount of Property, plant and Equipment of milk procurement project (rounded off to nearest lacs) as on 31st March 2018?
   (A) Rs. 385 Lacs (B) Rs. 384 Lacs (C) Rs. 383 Lacs (D) Rs. 382 Lacs **2 Marks**
2. Assuming that the value of land was appreciated by 10% during fair value exercise, what is the carrying amount of Project PPE (rounded off to nearest lacs) as on 31st March 2019?
   (A) Rs. 390 Lacs (approx.) (B) Rs. 391 Lacs (approx.)
   (C) Rs. 392 Lacs (approx.) (D) Rs. 393 Lacs (approx.) **2 Marks**
3. What is sales value of milk sold under the brand "Godhan"?
   (A) Rs. 9.54 Lacs (B) Rs. 9.34 Lacs (C) Rs. 9.44 Lacs (D) Can't be determined **2 Marks**
4. If there's any unsold stock of milk packets under the brand "Godhan", its valuation shall be done as per:
   (A) Ind AS 2 'Inventories' (B) Ind AS 41 'Agriculture'
   (C) Ind AS 16 'Property, Plant and Equipment' (D) Ind AS 108 'Operating Segment' **2 Marks**
5. The carrying amount of cattle feed as on 31st March 2019 would be:
   (A) Cost or NRV whichever is lower (B) Fair value less costs to sell
   (C) Cost (D) Only fair value **2 Marks**

PART II – Descriptive Questions

1.(a) X Ltd. has identified the following business components.

Segment	Revenue (`)		Profit (`)	Assets (`)
	External	Internal		
Pharma	97,00,000	Nil	20,00,000	55,00,000
FMCG	Nil	4,00,000	2,50,000	25,00,000

Ayurveda	3,00,000	Nil	2,00,000	4,00,000
Others	8,00,000	41,00,000	5,50,000	6,00,000
Total for the entity	1,08,00,000	45,00,000	30,00,000	90,00,000

Which of the segments would be reportable as per the criteria prescribed in Ind AS108? **5 Marks**

(b) Mercury Ltd is preparing its accounts for the year ended 31 March 20X2 and is unsure about how to treat the following items.

1. The company completed a grand marketing and advertising campaign costing `4.8 Lakh. The finance director had authorised this campaign on the basis that it would create `8 lakh of additional profits over the next three years.
2. A new product was developed during the year. The expenditure totalled `3 lakh of which `1.5 lakh was incurred prior to 30 September 20X1, the date on which it became clear that the product was technically viable. The new product will be launched in the next four months and its recoverable amount is estimated at `1.4 lakh.
3. Staff participated in a training programme which cost the company `5 lakh. The training organisation had made a presentation to the directors of the company outlining that incremental profits to the business over the next twelve months would be `7 lakh.

What amounts should appear as intangible assets in accordance with Ind AS 38 in Mercury's balance sheet as on 31 March 20X2? **5 Marks**

(c) During 2004-05, Enterprise A gives a guarantee of certain borrowings of Enterprise B, whose financial condition at that time is sound. During 2005-06, the financial condition of Enterprise B deteriorates and at 30 September 2005 Enterprise B goes into liquidation. Advise disclosure. As per Ind AS-37 **4 Marks**

2.(a) X Ltd. acquired 5% equity shares of Y Ltd, as unlisted company for Rs.100 lakhs. It was assessing the fair value at subsequent measurement (at the end of the reporting period). It observed a recent transaction of a listed companv (L Ltd) shares in which Z Ltd. acquired 60% of equity shares of L Ltd @ Rs. 500 as against pre-announcement price of Rs. 430. This results in an EV/EBITDA multiple of cornpam peers of Y Ltd of 8. As on the reporting date EBITDA of Y Ltd is Rs. 4 crore. Assuming that there is long-term loan of Y Ltd is Rs. 5 crores.

How should X Ltd measure the fair value as on the reporting date? **4 Marks**

(b) X Limited owns a building which is used to earn rentals. The building has a carrying amount of `50,00,000. X Limited recently replaced interior walls of the building and the cost of new interior walls is `5,00,000. The original walls have a carrying amount of `1,00,000. How X Limited should account for the above costs? **4 Marks**

(c) ABC Ltd. has three cash-generating units: A, B and C, the carrying amounts of which as on March 31, 20X1 are as follows:

Cash-generating units	Carrying amount	(`in crores) Remaining useful life
A	500	10
B	750	20
C	1,100	20

ABC Ltd. also has two corporate assets having a remaining useful life of 20 years.

(` in crores)

Corporate asset	Carrying amount	Remarks
X	600	The carrying amount of X can be allocated on a reasonable basis (i.e., pro rata basis) to the individual cash-generating units.
Y	200	The carrying amount of Y cannot be allocated on a reasonable basis to the individual cash- generating units.

Recoverable amount as on March 31, 20X1 is as follows:

Cash-generating units	Recoverable amount (`in crores)
A	600
B	900
C	1,400
ABC Ltd.	3,200

Calculate the impairment loss, if any. Ignore decimals. **6 Marks**

3.(a) On 1 October 2014 Hawaii purchased 8 million of Texas's 12 million equity shares. The acquisition was financed as follows:

A cash payment of $2.00 per share; $1.20 per share being payable on 1 October 2014 and $0.80 being payable on 30 September 2015. Any discounting calculations should be performed using a cost of capital of 8% per annum.

A share exchange of 1 equity share in Hawaii for every 2 shares acquired in Texas. The market value of a Texas share was $3.90 on 1 October 2014. The market values of a Hawaii share were $4 on 1 October 2014 and $4.20 on 31 March 2015.

A further share issue by Hawaii on 30 September 2015 of 1 share for every 8 shares acquired in Texas provided the profits after tax of Texas exceeded a given figure. Estimates indicate that this share issue is likely to be made. The fair value of this contingent consideration on 1 October 2014 was $4 million; this has increased to $4.2 million at 31 March 2015.

Hawaii incurred acquisition costs of $600,000. $350,000 of these costs were external due diligence costs, $100,000 were Hawaii's best estimate of management time spent in negotiating the acquisition, and $150,000 were costs incurred in connection with the issue of Hawaii's shares,

The directors of Hawaii carried out a fair value exercise on 1 October 2014 and the following matters emerged:

The net assets of Texas that were recognised in Texas' s own financial statements were $30 million based on their carrying amounts in the individual financial statements of Texas.

On 1 October 2014 the carrying amount of Texas's freehold property was $15 million. The property had been purchased on 1 October 2004 for $17.5 million and the buildings element of the property (allocated cost $10 million) was being depreciated over its estimated useful economic life of 40 years. On 1 October 2014 the market value of the property was $22 million, of which $12 million related to the buildings element. The original estimate of the useful economic life of the buildings is still considered valid,

On 1 October 2014 Texas was engaged in contracts with three different customers under which it supplied each customer for a five-year-period from 1 October 2014. The directors of Hawaii believe that this creates an intangible asset with a fair value of $7.5 million. In addition the directors of Hawaii believe that the fair value of the assembled workforce of Texas creates an intangible asset with a fair value of $15 million. The average remaining working life of the employees of Texas at 1 October 2014 is 15 years. Neither of these intangible assets has been recognised in the individual financial statements of Texas.

At 1 October 2014 Texas was engaged in a legal dispute with a customer. The directors of Texas consider that the case can be successfully defended and have made no provision for legal costs in its financial statements. The directors of Hawaii estimated that the fair value of the claim at 1 October 2014 was $600,000. Events since 1 October 2014 have reduced this estimate to $500,000 by 31 March 2015 (these events do not affect the fair value of the claim at 1 October 2014).

Due to the acquisition of Texas the directors of Hawaii intend to reorganise the group, starting in June 2016. The estimated cost of this reorganisation is $20 million.

In the year ended 31 March 2015 Texas reported a post-tax profit of $6 million (accruing evenly over the period) and paid a dividend of $1.5 million on 31 December 2014 out of post-acquisition profits. The retained earnings of Hawaii at 31 March 2015 were $18 million. This figure includes the dividend received from Texas but does not include any other adjustments to its own earnings that are required as a result of the acquisition of Texas, The acquisition costs of $600,000 referred to above have been charged to retained earnings by Hawaii. Hawaii has no subsidiaries other than Texas and no associates or joint venture entities.

The non-controlling interest in Texas was valued at $17.5 million on acquisition by Hawaii.

REQUIRED :

Compute the goodwill on acquisition of Texas as initially measured at 1 October 2014. **14 Marks**

4.(a) A.S. Ltd. took a loan of USD 20,000 at 6% p.a. on 1st April, for a specific capital expansion project. The interest was payable annually. The exchange rate at the date of the loan was 1 USD = Rs. 45.00. However, the Company could have taken a corresponding Rupee Loan from Banks at 12% p.a. on that date. At the end of the year, the exchange rate was 1 USD = Rs. 48.00. How will you treat the Borrowing Costs and exchange differences in the above case?

Analyse the impact of the following changes independently. What would be the accounting treatment if the Rupee Loan were to carry interest at 14% p.a.? What will be the treatment if the exchange rate at the end of the year were 1 USD = Rs. 46.00? **8 Marks**

(b) Entity P Limited has a controlling interest in subsidiaries SA Limited and SB Limited and SC Limited. SC Limited is a subsidiary of SB Limited. P Limited also has significant influence over associates A1 Limited and A2 Limited. Subsidiary SC Limited has significant influence over associate A3 Limited

Required : Examine related party relationships of various entities. **6 Marks**

5.(a) AX Ltd. and BX Ltd. amalgamated on and from 1st January 20X2. A new Company ABX Ltd. was formed to take over the businesses of the existing companies.

Summarized Balance Sheet as on 31-12-20X2INR in '000

Assets	Note No.	AX Ltd	BX Ltd
Non-current assets			
Property, Plant and Equipment		8,500	7,500
Financial assets			
Investments		1,050	550
Current assets			
Inventory		1,250	2,750
Trade receivable		1,800	4,000
Cash and Cash equivalent		450	400
		13,050	**15,200**
EQUITY AND LIABILITIES			
Equity			
Equity share capital (of face value of INR 10 each)		6,000	7,000
Other equity		3,050	2,700
Liabilities			
Non-current liabilities			
Financial liabilities			
Borrowings		3,000	4,000
Current liabilities			
Trade payable		1,000	1,500
		13,050	**15,200**

ABX Ltd. issued requisite number of shares to discharge the claims of the equity shareholders of the transferor companies.

Prepare a note showing purchase consideration and discharge thereof and draft the Balance Sheet of ABX Ltd:

Assuming BX ltd is a larger entity and their management will take the control of the entity.

The fair value of net assets of AX and BX limited are as follows :

Assets	AX Ltd ('000)	BX Ltd ('000)
Fixed assets	9,500	1,000
Inventory	1300	2900
Fair value of the business	11,000	14,000

Pass Journal Entries in the books of ABX Ltd. **14 Marks**

6.(a) P Ltd. granted 400 stock appreciation rights (SAR) each to 75 employees on 1st April 2017 with a fair value ` 200. The terms of the award require the employee to provide service for four years in order to earn the award. The fair value of each SAR at each reporting date is as follows:

31st March 2018 ` 210

31st March 2019 ` 220

31st March 2020 ` 215

31st March 2021 ` 218

What would be the difference if at the end of the second year of service (i.e. at 31st March 2019), P Ltd. modifies the terms of the award to require only three years of service. Answer on the basis of relevant Ind AS. **5 Marks**

OR

Entity L enters into a lease for 10 years, with a single lease payment payable at the beginning of each year. The initial lease payment is ` 100,000. Lease payments will increase by the rate of LIBOR each year. At the date of commencement of the lease, LIBOR is 2 per cent.

Assume that the interest rate implicit in the lease is 5 per cent. How lease liability is initially measured?

5 Marks

(b) Entity X is a technology company and regularly Sells Software S, Hardware H and Accessory A. The standalone selling prices are available for these items as stated below:

Software S - Rs 50,000; Hardware H - Rs 1,00,000 and Accessory A - Rs 20,000. Since the demand for Hardware H and Accessory A is low, Entity A sells H and A together at Rs 1,00,000. Entity A enters into a contract with a certain customer to sell all three items for a consideration of Rs 1,50,000.

What will be the accounting treatment for the discount of Rs 20,000 considering the three items are three different performance obligations being satisfied at different points in time. **5 Marks**

(c) Calculate tax base and taxable temporary difference from the followings:

(a) Inventorv at the Balance Sheet has a carrying amount of Rs. 1000. The inventory will be deductible for the tax purposes when sold.

(b) Land was acquired for Rs.1000 at the beginning of the financial year. It is revalued to Rs. 1500 at the Balance Sheet date. The cost of the land at the Balance Sheet date for the tax purposes is Rs. 1100 due to Indexation of cost for tax purposes.

(c) Foreign currencv debtor has a carrving amount of Rs. 1150 after recognizing an exchange gain of Rs. 50 in profit or loss. The original amount of Rs. 1100 was included in taxable profit. Exchange gains are table onlv when realized.

(d) Development expenditure has a carrving amount of Rs.1000 that was claimed as a deduction when paid. For accounting purposes the development expenditure is amortized over 5 wears. **4 Marks**

ANSWERS TO THE CASE STUDY - 1

1. Option (D)

Reason:

Ind AS 20 allows two treatment:

The first way is to deduct the grant amount in calculating the carrying amount of the asset and depreciate the net figure over its useful economic life.

The second way is to show the grant as a deferred credit and leave the initial carrying value of the property at Rs. 60 million.

The deferred credit would be released to the income statement over the same 40 year period as the asset is depreciated .

2. Option (A) Grant relating to an inducement to begin developing the factory can be recognized immediately in the Statement of Profit or Loss

Reason:

Accounting for government grants is dealt with by Ind AS 20 ‘ Accounting for Government Grants and Disclosure of Government Assistance'. The basic principle of Ind AS 20 is that grants should be recognized as income over the periods necessary to match them with the related costs for which they are intended to compensate, on a systematic basis. That part of the grant relating to an inducement to begin developing the factory (Rs. 6 million) was received without any conditions and so can be recognized immediately in the Statement of Profit or Loss.

3. Option (A) Rs. 0.6 million would be recognized in the income statement for the current period ending 31 March, 20X4

Reason:

The basic recognition principle for the Rs. 9 million employment grant would be similar to grant for building. This means that Rs. 0.60 million (Rs. 9 million x 1/5 x 4/12) would be recognized in the income statement for the current period, with the balance of Rs. 8.40 million (Rs. 9 million - Rs. 0.60 million) shown as deferred income. Rs. 1.80 million (Rs. 9 million x 1/5) would be shown under current liabilities, with the balance of Rs. 6.60 million (Rs. 8.40 million - Rs. 1.80 million) under non-current liabilities.

4. Option (C) contingent liability

Reason:

The issue of possible repayment depends on how likely, or otherwise, it is that repayment will occur. If, as seems to be the case here, repayment is possible, but unlikely, then the possibility of repayment would be disclosed as a contingent liability.

5. **Option (C) Rs. 0.03 million**

Reason:

As per Ind AS 7, when accounting for an investment in an associate, a joint venture or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

Accordingly,

Dividend paid by Associate Tintin Ltd	=	Rs. 0.10 million
Jackson's share of dividend 30% x Rs. 0.10 million	=	Rs. 0.030 million

This is the amount that should appear in the statement of cash flows of Jackson Ltd. as this is the share of Jackson Ltd.'s dividend from the Associate Tintin Ltd.

ANSWERS TO THE CASE STUDY - 2

1. **Option (B):** Machinery of Rs. 13,00,000 should be depreciated over a period of 10 years; major overhaul cost of Rs. 2,00,000 should be depreciated over a period of 3 years.

Reason

Cost of each significant item of property, plant and equipment having different useful life should be recognised and depreciated separately.

2. **Option (C):** Subsidy received should be recognised over the period of 5 years, i.e., Rs. 3,00,000 per annum.

Reason:

The income related grant should be matched with the costs of meeting the grants over the balance period of employing the locals. So each year a portion of the grant received should be deferred over the balance portion of the 10 year condition attached to the grant.

3. **Option (C):** Expense in year 1 = Rs. 50,00,000; expense in year 2 = Rs. 46,00,000 and expense in year 3 = Rs. 92,00,000

Reason:

Fair value on grant date = 400 x 1,000 x 50 = Rs. 2,00,00,000 Cumulative charge

- Year 1- Rs. 2,00,00,000 x 75% x (1/3) = Rs. 50,00,000
- Year 2- Rs. 2,00,00,000 x 72% x (2/3) = Rs. 96,00,000
- Year 3- 940 x 50 x 400 = Rs. 1,88,00,000

Expense for the period

- Year 1 = Rs. 50,00,000
- Year 2 = Rs. 46,00,000 (Rs. 96,00,000 - Rs. 50,00,000)
- Year 3 = Rs. 92,00,000 (Rs. 1,88,00,000 - Rs. 96,00,000)

4. **Option (B): 15,76,389**

Reason:

1 April- 31 May	10,00,000 x 2/12 x 4/3	2,22,222
1 June- 30 November	12,00,000 x 6/12 x 4/3	8,00,000
1 December- 28 February	16,00,000 x 3/12	4,00,000
1 March - 31 March	18,50,000 x 1/12	1,54,167
		15,76,389

5. **Option (A): Property, plant and equipment**

Reason:

The building will not be classified as held-for-sale as it is not available for immediate sale because, until new premises have been found, the office staff will remain in the existing building. Also, the directors have only tentatively started looking for a buyer which may indicate that the entity is not committed to the sale. Additionally, the price being asked for the building is above the market price, and is not reasonable compared to that price. It is unlikely that the entity will sell the building for that price.

ANSWERS TO THE CASE STUDY - 3

1. **Option (C) :** Rs. 383Lacs

Reason: Carrying value as on 31st March 2018.

		Rs. in lacs
Cows		120
Land		150
Civil structure (useful life 15 years)	[65 – {(65 lacs / 15 year x 12 month) x 2 month}]	64.278
Milking equipment and other tools (useful life 7years)	[50-{(50 lacs / 7 year x 12 month) x 2 month}]	48.81

2. Option (A) : Rs. 390 Lacs(approx.)

Reason						
	Opening Balance 1.4.2018	Additions	Deletions	Fair value adjustments	Depreciation for12months	Closing balance
	Rs. in lacs	Rs. in lacs	Rs. in lacs	Rs. in lacs	Rs. in lacs	Rs. in lacs
Cows	120	(3.24 + 2.88) 6.12	(5 x0.60) 3.00	-	-	123.12
Land	150			15		165
Civil structure (useful life 15 years)	64.278				4.33	59.948
Milkingequipment andothertools(useful life 7 years)	48.81				7.14	41.67
						389.738

3. Option (B) : Rs. 9.34Lacs

Reason:						
Period	**Actual production**	**Target**	**Surplus**	**Directors**	**Sold**	**Sales value**
Q1	2,27,505	2,27,500	5	5	-	-
Q2	2,41,040	2,39,200	1,840	92	1,748	1,57,320
Q3	2,42,880	2,39,200	3,680	184	3,496	3,14,640
Q4	2,39,400	2,34,000	5,400	270	5,130	4,61,700
						9,33,660
Sales value is calculated @ Rs. 90 per litre.						

4. Option(a) :Ind AS 2'Inventories'

Reason: Ind AS 41 is applied to agricultural produce, which is the harvested produce of the entity's biological assets, at the point of harvest. Thereafter, Ind AS 2 Inventories or another applicable Standard is applied. Hence for unsold stock Ind AS 2 will beapplied.

5. Option (b) :Fair value less costs to sell

Reason: Since cattle feed is covered under Ind AS 41 'Agriculture', the valuation shall be fair value less costs tosell.

ANSWERS OF PART II - DESCRIPTIVE QUESTIONS

1.(a) Quantitative thresholds are calculated below:

Segments	Pharma	FMCG	Ayurveda	Others
% segment sales to total sales	63.40	2.61	1.96	32.03
% segment profit to total profits	66.67	8.33	6.67	18.33
% segment assets to total assets	61.11	27.78	4.44	6.67

Segment Pharma would separately reportable since they meet all three size criteria, though any one criteria is required. FMCG segment does not satisfy the revenue and profit test but does satisfy the asset test. So it would be separately reportable. Ayurveda segment does not meet any threshold. It may not be classified as reportable segment.

(b) The treatment in Mercury's financials as at 31 March 20X2 will be as follows:

1. **Marketing and advertising campaign:** no intangible asset will be recognised, because it is not possible to identify future economic benefits that are attributable only due to this campaign. All of the expenditure should be expensed in the statement of profit and loss.
2. **New product:** development expenditure appearing in the balance sheet will be valued at `1.5 lakh. The expenditure prior to the date on which the product becomes technically feasible is recognised in the statement of profit and loss.
3. **Training programme:** no asset will be recognised, because there is no control of the company over the staff and when staff leaves the benefits of the training, whatever they may be, also departs.

(c) (i) At 31 March 2005

- **Present obligation as a result of a past obligating event -** The obligating event is the giving of the guarantee, which gives rise to an obligation.
- **An outflow of resources embodying economic benefits in settlement -** No outflow of benefits is probable at 31 March 2005.
- **Conclusion -** No provision is recognised. The guarantee is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

(ii) At 31 March 2006

- **Present obligation as a result of a past obligating event** - The obligating event is the giving of the guarantee, which gives rise to a legal obligation.
- **An outflow of resources embodying economic benefits in settlement -** At 31 March 2006, it is probable that an **outflow** of resources embodying economic benefits will be required to settle the obligation.
- **Conclusion -**Provision is recognised.

2.

(a)		Amt. in Crores
Enterprise value of Y Ltd 4 crores X 8		32.00
Less: Long-term loan		5.00
	Equitv value	27.00
		Amt. in Crores
Fair value of 5 00 holding based on EV EBITDA multiple		1.350
Less: Non-controlling discount (70 500 i.e., 14%)		0.189
Fair value of 5% equity shares		1.161

(b) Under the recognition principle, an entity recognises in the carrying amount of an investment property the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and the carrying amount of those parts that are replaced is derecognised.

So, X Limited should add the cost of new walls and remove the carrying amount of old walls. The new carrying amount of the building = `50,00,000 + `5,00,000 – `1,00,000 = `54,00,000

(c) Allocation of corporate assets

The carrying amount of X is allocated to the carrying amount of each individual cash- generating unit. A weighted allocation basis is used because the estimated remaining useful life of A's cash-generating unit is 10 years, whereas the estimated remaining useful lives of B and C's cash-generating units are 20 years.

(`in crores)

Particulars	A	B	C	Total
Carrying amount	500	750	1,100	2,350
Useful life	10 years	20 years	20 years	—
Weight based on useful life	1	2	2	—
Carrying amount (after assigning weight)	500	1,500	2,200	4,200
Pro-rata allocation of X	12%	36%	52%	
Allocation of carrying amount of X	(500/4,200)	(1,500/4,200)	(2,200/4,200)	
Carrying amount (after allocation of X)	72	216	312	100%
	572	966	1,412	600

Calculation of impairment loss

Step I: Impairment losses for individual cash-generating units and its allocation

(a) Impairment loss of each cash-generating units

(`in crores)

Particulars	A	B	C
Carrying amount (after allocation of X)	572	966	1,412
Recoverable amount	600	900	1400
Impairment loss	-	66	12

(b) Allocation of the impairment loss

(`in crores)

Allocation to	B		C	
X	15	(66 x 216/966)	3	(12 x 312/1,412)
Other assets in cash generating Units	51	(66 x 750/ 966)	9	(12 x 1,100/ 1,412)
Impairment loss	66		12	

Step II: Impairment losses for the larger cash-generating unit, i.e., ABC Ltd. as a whole

(` in crores)

Particulars	A	B	C	X	Y	ABC Ltd.
Carrying amount	500	750	1,100	600	200	3,150
Impairment loss (Step I)	-	(51)	(9)	(18)	-	(78)
Carrying amount (after Step I)	500	699	1,091	582	200	3,072
Recoverable amount						3,200
Impairment loss for the 'larger' cash-generating unit						Nil

3. ⇨**Fair value of consideration given**

	$000	Explanation
Immediate cash payment	9,600	Actual amount paid.
Deferred cash payment	5,926	Present value of actual amount payable (8m x $0.80/1.08).
Share exchange	16,000	4m shares issued at market value of $4 each. Include at fair value on acquisition date.
Contingent consideration	4,000	Any change in fair value does not affect the original cost of investment.
Acquisition costs	Nil	Ind AS 103 requires any transaction costs related to the acquisition to be expensed immediately.
	35,526	

⇨**Fair value of net assets acquired**

	$000	Explanation
As per financial statements of Texas	30,000	
Adjustment for property	7,000	Market value exceeds carrying amount by 7,000.
Adjustment for customer relationships	7,500	An identifiable intangible asset with a measurable fair value.
Adjustment for workforce	Nil	Intangible Assets assembled workforce fails the "control test".
Adjustment for re-organisation	Nil	must treat as post-acquisition items.
Adjustment for contingency	Nil	Ind AS 103 only requires contingent liabilities that are a present obligation to be recognised.

	44,500	

⇨Step 3 : Compute the goodwill on acquisition

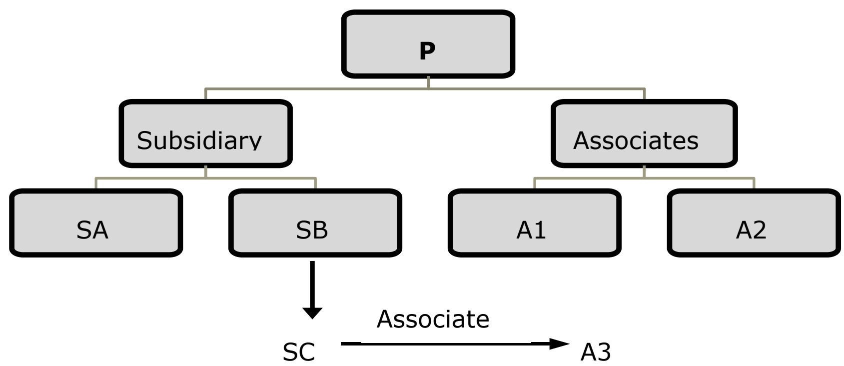
	$000
Fair value of consideration given (Step 1)	35,526
Add : Non-controlling interest	17,500
Less: Fair value of net assets acquired (Step 2)	(44,500)
Goodwill	8,526

4.

(a)

Particulars	Situation 1 Interest at 12%	Situation 2 Interest at 14%	Situation 3 1 USD = Rs. 46.00
Interest on Local Currency Borrowings.	$20,000 x Rs. 45 x 12% = Rs. 1,08,000	$20,000 x Rs. 45 x 14% = Rs. 1,26,000	$20,000 x Rs. 45 x 12%= Rs. 1,08,000
Interest on Foreign Currency Borrowings	$20,000 x 6% x Rs. 48 = Rs. 57,600	$20,000 x 6% x Rs. 48 = Rs. 57,600	$20,000 x 6% x Rs. 46 = Rs. 55,200
Interest Difference between Foreign & Local Currency Borrowings = (1) – (2)	Rs. 50,400	Rs. 68,400	Rs. 52,800
Exchange Difference in Principal repayable at the end of the year	$20,000 x (48 – 45) = Rs. 60,000	$20,000 x (48 – 45) = Rs. 60,000	$20,000 x (46 – 45) = Rs. 20,000
Further Amt to be treated as Borrowing Costs = (3) or (4), whichever is less.	Rs. 50,400	Rs. 60,000	Rs. 20,000
Exchange Difference to be taken to P&L Account = (4) – (5)	Rs. 9,600	Nil	Nil
Borrowing Costs under IND AS 23 = (2)+(5)	Rs. 1,08,000	Rs. 1,17,600	Rs. 75,200

(b)

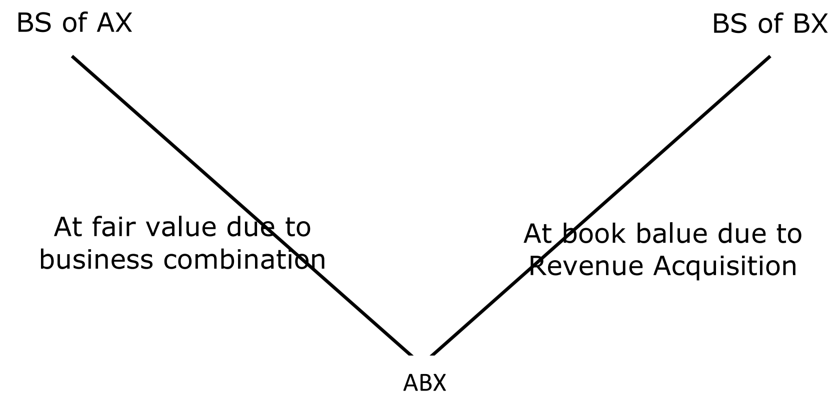


- For P Limited's separate financial statements, SA Limited, SB Limited, SC Limited, A1 Limited, A2 Limited and A3 Limited are all related parties.
- For SA Limited's financial statements, P Limited, SB Limited, SC Limited, A1 Limited, A2 Limited and A3 Limited are all related parties.
- For SB Limited's financial statements, P Limited, SA Limited, SC Limited, A1 Limited, A2 Limited and A3 Limited are all related parties.
- For SC Limited's financial statements, P Limited, SA Limited, SB Limited, A1 Limited, A2 Limited and A3 Limited are all related parties.
- For the financial statements of associates A1 Limited, A2 Limited and A3 Limited; P Limited, SA Limited, SB Limited and SC Limited are related parties.

A1 Limited, A2 Limited and A3 Limited are also related to each other.

For P Limited's consolidated financial statements, A1 Limited, A2 Limited and A3 Limited are part of the Group.

5.(a)



Note :

In the given case, aithough ABX is issuing the shares, but BX Ltd will have control post-merger and is bigger in size which is a clear indicator that BX will be accounting acquirer.

Legal Acuirer - ABX Ltd

Accounting Acquirer - BX Ltd

Following accounting steps has to be followed :

1. For BX Ltd.
   (a) Assets, Laibilities and Reserves – record at book value
   (b) Shares issued will be recorded at book value.
2. For AX Ltd.
   (a) Assets and Liabilities will be recorded at book value.
   (b) Shares issued will be recorded at fair value of business which is 11,000.
   (c) Goodwill / gain on bargain purchase, If any, will be recorded.

Discharge of Purchase Consideration.

1. AX Ltd.

		Amount
A	Fair value of Business of AX Ltd.	11,000
B	Fair value per share of Accounting acquirer i.e. BX Ltd. $\frac{14000}{700}$	20
C	No. of shares to be issued $\left(\frac{A}{B}\right)$	550
D	∴ Purchase consideration = 550 equity shares of Rs 10 each issued at a premium of Rs. 10 each.	11,000

2. BX Ltd.

		Amount
A	700 Equity shares of Rs 10 each	7,000

Journal entries in the books of ABX Ltd.

Date	Particulars		Debit	Credit
1.	PPE A/c	Dr.	9,500	
	Investments A/c	Dr.	1,050	
	Inventory A/c	Dr.	1,300	
	Trade receivable A/c	Dr.	1,800	
	Cash and Cash Equivalent A/c	Dr.	450	
	Goodwill A/c (Bal. figure)	Dr.	900	
	To Trade Payable			1,000
	To Borrowings			3,000
	To Consideration Payable			11,000

Date	Particulars		Debit	Credit
	(Being Assets and Liabilities of AX Ltd Acquired)			
2.	Consideration Payable A/c	Dr.	11,000	
	To Share capital (550 x 10)			5,500
	To Securities Premium (550 x 10)			5,500
	(Purchase Consideration paid)			
3	PPE A/c	Dr	7,500	
	Investments A/c	Dr.	550	
	Inventory A/c	Dr.	2,750	
	Trade receivable A/c	Dr	4,000	
	Cash and Cash Equivalent A/c	Dr.	400	
	Goodwill A/c (Bal. figure)			
	To Trade Payable			1,500
	To Borrowings			4,000
	To Share Capital			7,000
	To Other Equity			2,700
	(Being BX company merged at Book values)			

Balance Sheet of ABX Ltd.

As on 01.01.2012

Sr. No	Particulars		Rs.	Rs.
A	**ASSETS**			
1	**Non – Current Assets**			
(a)	PPE	(9500 + 7500)	17,000	
(b)	Goodwill		900	
(c)	Financial Assets			
	• Investments	(1050 + 550)	1,600	19,500
2.	**Current Assets**			
(a)	Inventory	(1300+2750)	4,050	
(b)	Trade Receivables	(1800+4000)	5,800	
(c)	Cash and CashEquivalent	(450+400)	850	10,700
B	**EQUITY AND LIABILITIES**			
1.	**Equity**			
(a)	Share Capital (1250 shares of Rs. 10 each)	(5500+7000)		12,500
(b)	**Other Equity**			
(c)	• Securities Premium		5,500	
	• Other Equity		2,700	8,200
2	**Non – Current Liabilities**			
(a)	Financial Laibilities			
	• Borrowings	(3000+4000)		7,000
3	**Current Liabilities**			
(a)	Trade Payable	(1000+1500)		2,500
	TOTAL			30,200

6.(a) Journal entries in the books of P Ltd (without modification of service period of stock appreciation rights)

(` in lakhs)

Date	Particular		Debit	Credit
31.03.2018	Profit and Loss account To Liability against SARs (Being expenses liability for stock appreciation rights recognised)	Dr.	15.75	 15.75
31.03.2019	Profit and Loss account To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	Dr.	17.25	 17.25
31.03.2020	Profit and Loss account To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	Dr.	15.38	 15.38
31.03.2021	Profit and Loss account To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	Dr.	17.02	 17.02

Journal entries in the books of P Ltd

(with modification of service period of stock appreciation rights)(` in lakhs)

Date	Particular		Debit	Credit
31.03.2018	Profit and Loss account To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	Dr.	15.75	 15.75
31.03.2019	Profit and Loss account To Liability for SARs (Being expenses liability appreciation rights recognised)	Dr.	28.25	 28.25
31.03.2020	Profit and Loss account To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	Dr.	20.50	 20.50

Working Notes:

Calculation of expenses for issue of stock appreciation rights without modification of service period

For the year ended 31st March 2018

= ` 210 x 400 awards x 75 employees x 1 year /4 years of service

= ` 15,75,000

For the year ended 31st March 2019

= ` 220 x 400 awards x 75 employees x 2 years /4 years of service - ` 15,75,000 previous recognised

= ` 33,00,000 - ` 15,75,000 = ` 17,25,000

For the year ended 31st March 2019

= ` 215 x 400 awards x 75 employees x 3 years/4 years of service - ` 33,00,000 previously recognised

= ` 48,37,500 - ` 33,00,000 = ` 15,37,500

For the year ended 31st March, 2021

= ` 218 x 400 awards x 75 employees x 4 years / 4 years of service – ` 48,37,500 previously recognised

= ` 65,40,000 – ` 48,37,500 = ` 17,02,500

Calculation of expenses for issue of stock appreciation rights with modification of service period

For the year ended 31st March 2018

= ` 210 x 400 awards x 75 employees x 1 year / 4 years of service = ` 15,75,000

For the year ended 31st March 2019

= ` 220 x 400 awards x 75 employees x 2 years / 3 years of service - ` 15,75,000 previous recognised

= ` 44,00,000 - ` 15,75,000 = ` 28,25,000

For the year ended 31st March 2020

= ` 215 x 400 awards x 75 employees x 3 years/ 3 years of service - ` 44,00,000 previous recognised

= ` 64,50,000 - ` 44,00,000 = ` 20,50,000.

OR

In the given case, the lease payments depend on a rate (i.e., LIBOR) and hence is included in measuring lease liability, As per Ind AS 116, the lease payments should initially be measured using the rate (i.e. LIBOR) as at the commencement date. LIBOR at that date is 2 per cent; therefore, in measuring the lease liability, it is assumed that each year the payments will increase by 2 per cent, as follows

Year	Lease Payment	Discount factor @ 5%	PV of lease payments
1	1,00,000	1	100,000
2	1,02,000	0.952	97,102
3	1,04,040	0.907	94,364
4	1,06,121	0.864	91,689
5	1,08,243	0.823	89,084
6	1,10,408	0.784	86,560
7	1,12,616	0.746	84,012
8	1,14,869	0.711	81,672
9	1,17,166	0.677	79,321
10	1,19,509	0.645	77,083
			8,80,887

Therefore, the lease liability is initially measured at ` 8,80,887

(b) The contract includes a discount of Rs 20,000 on the overall transaction, which would be allocated proportionately to all three performance obligations when allocating the transaction price using the relative stand-alone selling price method, However, because the entity regularly sells Hardware H and Accessory A together for Rs 1,00,000 and Software S for Rs 50,000, it has evidence that the entire discount should be allocated to the promises to transfer Hardware H and Accessory A.

Further complication would arise if Hardware H and Accessory A are transferred over different point in time. The discount of Rs. 20,000 is allocated to Hardware H and Accessory A in the proporation of their standalone selling prices.

(c) (a) Calculation ot Tax base.

Carrying amount of asset (CAA) - Future taxable amount (FTA) + Future deductible amounts (FDA)

= Tax Base (TB) z Rs. 1000 - Rs.1000 - Rs.1000 = Rs. 1000

Taxable temporarx difference is Rs.1000 - Rs. 1000 = NIL

(b) Calculation ot Tax base:

Carrying amount asset (CAA) - Future taxable amount (FTA) + Future deductible amounts (FDA)

= Tax Base (TB)

Rs.1500 - Rs. 1500 + Rs.1100 = Rs.1100.

Taxable temporarx difference of Rs.400 [Rs.1500-1100]

(c) Calculation of tax base.

Carrying amount of asset (CAA) - Future taxable amount (FTA) + Future deductible amounts (FDA)

= Tax Base (TB)

Rs 1150 – Rs 50 + NIL – Rs 1100

Taxable temporarv difference of 50 1 150 -1 100]

(a) Calculation of tax base:

Carrying amount of asset (CAA) - Future taxable amount (FTA) + Future deductible amounts (FDA)

= Tax Base (TB)

Rs.1000 - Rs.1000 + NIL= Rs.NIL

A. S. Foundation's VKNOW Victory of Knowledge

CA VINOD KUMAR AGARWAL'S STUDENTS

FEEDBACK

Hello Sir,
After studying the first group of CA final in just four months, I passed in the first attempt and the feeling is amazing. Scored 53 in FR and 63 in SFM.. writing paper was so easy because I was familiar with every question and logic which was taught by you... Taking your class was my one of the best decision in my life..
Also I want to share that my financial condition is not good to purchase lectures of any faculty.. literally I decided to start with self study but You offered your lectures at very low price and it was golden opportunity for me..the tears of joy in my mother's eyes after hearing the result reminded me of you....
The amount of respect I have for you is not something I can put into words..
THANK YOU GURUJI...!

-Rushikesh Pokalekar

Hello, sir you are the best teacher. You are the best faculty for practical subject as well as theory subjects. I really enjoyed your class. Lots of questions like all past questions, RTP, MTP, study material question solved in classroom. It is very helpful for me because lot of practice is needed to tackle the exam. Sir, your theory subject Economics is very helpful for me because it solves practical approach in the classroom, lots of examples.
Thankyou so so so much sir.

- Payal Ramesh Mali

Hello, I am Rushikesh Shrihari Puri, studied the FM-ECO subject under the guidance of CA Vinod Kumar Agarwal sir. Sir won't speak much more about himself but his pervasive domain of knowledge regarding subject he teaches even Accounts can enlighten your brain with great thoughts & knowledge. Just last words to say, that please & a humble request to take real guidance under his roof of knowledge for becoming CA & human too. Yes, this institute is not on marketing basis, it is on the experience of student to student.
So, enjoy your CA inter journey as we all have enjoyed

- Rushikesh Shrihari Puri

Vinod sir teaches with utmost conceptual clarity which helped me retain concepts very easily, with logical explanation is at peaks which helps solve tricky question very easily. All RTP, MTP and past year questions were solved in class itself and sir teaches in a way that develops your thinking process which would eventually lead to solving of hard questions in very efficient and effective way.
Thankyou Vinod sir for everything.

-Sarthak Nalawade

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CA VINOD KUMAR AGARWAL'S STUDENTS

FEEDBACK

Sir,I have purchased your SFM class...and i have scored exemption in it! Just wanted to thank you for all the concept clarity and making the subject so easy...Your way of teaching was simply awesome because you have always given reason behind every concept...and hence we never have to mug up any concept. Thank u so much sir.
Regards,
Nishigandha R. Daulatkar

Hello sir Wanted to convey my thanks to you for your wonderful guidance in my SFM subject. Scored 72 marks I was not prepared for rest of the group so just jumped into SFM preparation and achieved exemption. It was just because of your wonderful conceptual clarity and guidance.
Regards,
Nishtha Chopra

Dear Sir,I am your virtual class student Mayuri Sutar. I have majorly done my CA Final classes with AS Foundation (FR, SFM, Audit and Costing) regular as well as revision classes.Your SFM revision lecture are really helping me to complete my syllabus in very short time.

Thnx for entire team for processing my order in a speedy way. Very happy to take classes from Vinod sir who has such a great heart in understanding the needs of students and providing classes at such affordable prices.I will repay my debt to Vinod sir by scoring Exemption in May 21 attempt and post the Mark sheet here itself...Once again thnx thnx thnx....a lot

Good morning,
I wrote only 2nd group in this May 2022 attempt and I cleared that group and I attended Risk Management class from Vinod sir and I got exemption in that and I got 60 marks in that subject.

-Sonia S

Hello sir you are really the best teacher forever for the chapter portfolio management even 1st standard student can understand the concepts thoroughly.thank you so much sir.
- Venkatalakshmi Lakshmi.

Respected Vinod Sir,
Sir your FR and SFM regular batch lectures really helped me in my interview . Received an internship offer from Tresvista for an Investment Research role . Thank you for all the classes.

Thanks & Regards, Joydeep Gorai

Hello.. I have taken FR and SFM class from Vinod Sir.
I scored 62 in FR and 64 in SFM.
My registration no. is [redacted]
I cleared CA in this attempt.
- Diganta Chowdhury

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CA VINOD KUMAR AGARWAL'S STUDENTS

FEEDBACK

Thank you so much VK sir,
Your teaching techniques helped me a lot to take 73 marks.

Regards,
Manjunath Doddamani

I scored 68 in SFM.. all thanks to you... From hating financial management in IPCC...to an exemption in CA final.. credits to you.

Thank you to Rakesh agrawal and VK sir.. I bought video lectures from A.S. Foundation. I got 59 marks in costing And 74 marks in FSCM. Thanks a lot

Regards,
Abarna J

Hello sir,Glad to share that I cleared CA final exam..Had cleared grp 2 in July attempt already..Scored exemption in FR & SFM..
Big big thanks to you !!
Thanks and regards,
CA Swapnil Kshirsagar

I took vinod sir's FR and SFM..scored exemption in both

Regards,
Shebin Sebastian

Sir today I cleared my CA final group 1 with exemption in all subjects I secured 63 in FR & 63 in SFM
Thanks a lot sir for your guidance :)

Please convey my message to Vinod Sir. Because of him I was able to pass when result is just 11%

I have done Vinod Sir's FR revision lecture's and able to score 55 Marks in FR. Thank you very much Vinod Sir. I cleared group 1

Regards,
Abhijit Mohan Lokhande

Hi Sir, I had secured exemptions in SFM(60) and FM(73) in previous attempts. SFM score helped me clear G1 this time.

Regards,
Kaushal

Sir, I cleared CA final in 1st attempt. Special thanks to VK Agarwal Sir for all his guidance and motivation 😊😊

Regards,
Siddhi Suman Parab

Hello sir I have taken CA final FR and SFM lectures from A.S Foundation. Now I have cleared both groups of CA Final

Regards,
Ashwani Kumar

I am very thankful to vinod sir. I cleared group 1 and scored 53 in SFM. Vinod sir's SFM class helps in clearing SFM.

Regards,
Ashutosh Kumar

I completed SFM revision it's good. Sir covered all concepts.
- Srinath Y.C

Dear Vinod Sir, Very well explained. In first 30 minutes sir has built the base with help of various examples.
-Milan Jeswani.

Hi sir. Good evening. I have taken SFM from you. I have cleared group-1.
I am very thankful to you sir.
I really loved the way you teach sir.
Regards
Sai Eshwar

I am also purchasing this sfm lectures and I have also done the FR from vinod sir by virtual classes ,it's really helpful and having easy understanding methods.

Ye sir hai jinke wajah se CA intermediate students ko bahut help milti hai. Aur to aur maine Vinod sir ke classes kiye hai. Inke jaise padhanewale kash hi koi ho sakate hai.
- Laxman Patil

Dear Vinod Sir, I've attended your FR and SFM regular classes. I liked it very much and I've recommended the same to my friends too. Many of my friends have already watched your class. Thank you so much sir.
Regards,
Anu

A. S. Foundation's
VKNOW
Victory of Knowledge

VK SIR STUDENT'S FEEDBACK

Vinod Kumar Agarwal sir-
- Teaches with 100% conceptual clarity,
- All of the queries are solved on emails within a day or two.
- Gives minimal homework,
- Almost all of the questions are solved in the class
- His lectures are effective
- The best thing is, in every chapter he teaches almost 60 questions whereas in ICAI material there are around 15 questions only
- Those questions includes ICAI material + Previous Exam questions + MTP RTP. So everything is covered
- He also, marks down the questions which seems to be important
- Although students of this generation tends more towards younger teachers maybe because they use humour, but the experience that VK sir has is exceptional!

-Saddab Idrisi

Hello Sir,
Bought your CA Inter Accounting Standards Group 2 book; I must say the book is so comprehensive that it covers everything in it.
I went through the lectures provided on YouTube, the way you covered the standards for examination purpose as well as for real life application was commendable.Thank you so much sir for all your efforts.

Regards,
Sakshi K

These is Unnat Chandak. I took CA Final FR classes from AS Foundation. Sir has taught us in very simple way and has covered all previous attempt paper questions in his book.His teaching techniques and practice questions helped me to get exemption in FR.

Respected Vinod Sir,
Good evening sir. Hope you are well . Sir I was from an engineering background enrolled in FR regular batch from Feb 2022 (online) . Sir, your teaching made me confident in FR.
Thank you for all the important lectures delivered by you. And books are very good for revision.
Will always be thankful to you for FR .

Thank & Regards
Name - Joydeep Gorai

Hi...i took risk management classes from Vinod sir...I cleared my 2nd grp of CA final.. scored good marks in Risk management...

Notes of risk management helped me a lot
-Supriya paygude

A. S. Foundation's VKNOW — Victory of Knowledge

CA VINOD KUMAR AGARWAL'S STUDENTS

FEEDBACK

Subject : CA Final SFM Face-to-Face Batch

In the era of online/pen-drive lectures, it was great to have an opportunity to attend SFM classes face to face by VK Agarwal sir.
The portion was covered extensively & main focus was given on conceptual understanding. Face to Face batch helped me in covering full potion efficiently. Sir has taught SFM in such a way that now it feels easy & it has given me confidence that I can score marks in it & get exemption as well.
The class has been engaging & sir's enthusiasm to teach us is infectious & makes us excited to study more & love the subject.
He has covered all types of questions in the class not just from ICAI material but also from other reference material.

- Meenal Malpote

SFM Revision Batch

The batch was awesome & I got maximum out of it, that I could. Almost every concept was explained with detailed explanation, followed by solving problems in the class. Didn't have to mug up any rule or concept because it was explained thoroughly. Practice booklet provided by you have lots of problems that a student can do after chapters are over. The material was updated perfectly having latest types of sums asked by ICAI, even the RTP, MTP and exam questions of may 2023 were covered.
This batch was great covering huge syllabus in just 30 days. Thnakyou sir.

-Champak Dixit

Face to face batches are the essence of learning and I have rediscovered the joy of studying after doing this SFM fully exam oriented face to face batch.
Sir has covered all concepts and has made us solve all varieties of questions in this short amount of time. Doing video lectures was taking very long & was not as fun as doing face to face lectures. I was lucky to find this batch and I'm amazed how quickly we were able to cover all of SFM, this has saved me a lot of precious time & has opened the doors for considering giving both groups.
The way sir has taught us, it made me understand and grasp all chapters. The notes given are concise & precise & easy for revision. I'm very confident in this subject now & I have also joined the FR Fully exam oriented face to face batch.
Sir has brought back my joy of learning. He is one of the rare faculties who is less interested in marketing & strives to help students in every way possible.

-Ajit Pawar

Hello Sir,
I am Abhay Singh From Chhindwara .
I want to express my heartfelt gratitude to you Sir, for providing free of cost class. I'm fortunate for receiving knowledge from the very experienced teacher V.K Agarwal Sir.
When I started your lecture it seemed very easy from me to understand the concept because you are providing indepth knowledge about every concept.
Alongwith it, you tell us about which topic is important for exam and also the question which is frequently asked in the exam .
And the Advanced Accounts Book is so precise that I am getting all MTP, RTP, previous year questions in a single book which helps me to get more practice of a variety of question in single compact book.
Thank you so much sir!

-Abhay Singh