

# CA FINAL FR

QUICK REVISION

Sample Notes

Curated By:-

CA, CPA

**Vinod Kumar Agarwal**

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



# ABOUT

## CA VINOD KUMAR AGARWAL

(AIR-2<sup>nd</sup>, 4<sup>th</sup> & 24<sup>th</sup> 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 and 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.
- Compiled 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 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.

## CHAPTER - 13

## IND AS 36 - IMPAIRMENT OF ASSETS

### 1. SCOPE

This Standard shall be applied in accounting for the impairment of all assets, other than:

1. Inventories: Ind AS 2
2. Deferred Tax Assets; Ind AS 12
3. Assets arising from Employee Benefits; Ind AS 19
4. Financial assets that are within the scope of Ind AS 109
5. Biological assets related to agricultural activity that are measured at fair value less costs to sell; Ind AS 41
6. Non-current assets (or disposal groups) classified as held for sale in accordance with Ind AS 105
7. Contract assets and assets arising from costs to obtain or fulfil a contract that are recognised in accordance with Ind AS 115, Revenue from Contracts with Customers;
  - These standards already have in-built impairment provisions.
  - Other assets like insurance contracts and mines are also not covered. Mine general assets like trucks, machine, tools are covered.

### 2. THIS STANDARD APPLIES TO FINANCIAL ASSETS CLASSIFIED AS:

**This Standard applies to financial assets classified as :**

1. Subsidiaries- as defined in Ind AS 110
2. Associates - as defined in Ind AS 28
3. Joint Ventures – as defined in Ind AS 111

For impairment of other assets, refer to Ind AS 109.

### 3. WHEN IS AN ASSET IMPAIRED

**An asset is said to be impaired only when the carrying amount of the asset exceeds the recoverable amount.** The test of impairment is carried out for all assets only when there are indications that there might be impairment.

Impairment Loss (IL) = Carrying Amt (CA) – Recoverable Amt (RA)

$$IL = CA - RA$$

IL cannot be negative.

**Carrying amount** is the amount at which an asset is recognized after deducting any accumulated depreciation (amortisation) and accumulated impairment losses there-on. Carrying amount will be calculated after applying revaluation, if any.

Cost	xxx
Less : accumulated depreciation (amortisation)	xxx
Less : Accumulated impairment loss	xxx

The **recoverable amount** of an asset or a cash-generating unit is the higher of

- (a) its fair value less costs to sell (FVLCTS) and
- (b) its value in use (VIU).

**Value in use (VIU)** is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

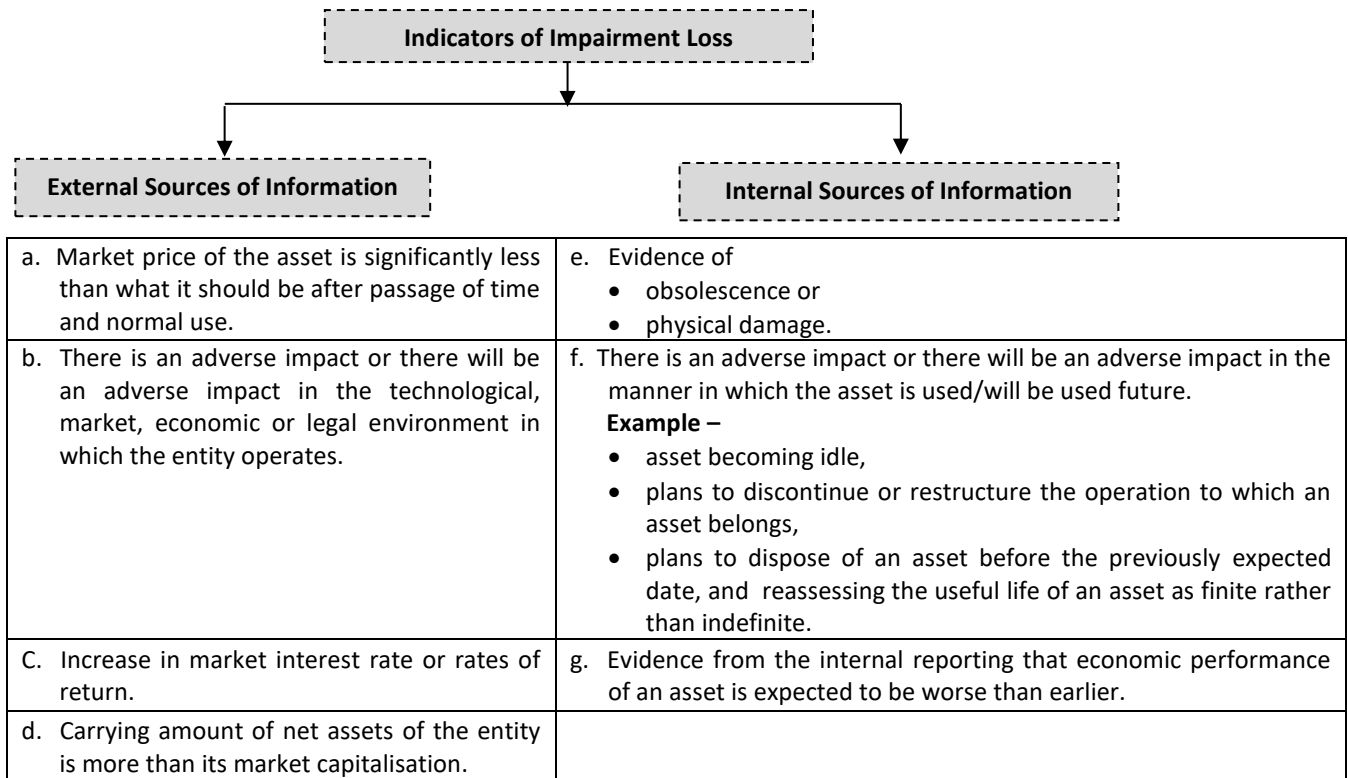
### 4. FOLLOWING ASSETS ARE TESTED FOR IMPAIRMENT ANNUALLY

**As an exception to this principle the following assets are tested for impairment annually regardless of the indications:**

- a) An intangible asset with **indefinite useful life (because it can not be amortised)**(Example – Stock-broker license) .
- b) An intangible asset **not yet available for use**, reason being an asset's ability to generate future economic benefits to recover its carrying amount is more uncertain before the asset is available for use than after an asset is available for use. An asset available but not put to use is different from asset not yet available for use.
- c) **Goodwill acquired in a business combination (because it can not be amortised).**

Entity should assess at the end of each reporting period whether there is any indication that an asset may be impaired.

**5. INDICATIONS OF IMPAIRMENT**



The above list is not exhaustive. The assets are tested for impairment if there are indications of impairment.

**Special indicators for investment in subsidiary, associate, joint venture at cost model.**

If entity received dividend from subsidiary, associate, joint venture, then testing should be done for impairment loss on investments.

Logic :

When we receive dividend from subsidiary, associate and joint venture, we credit it to profit & loss A/c.

Bank A/c.....Dr.  
To Profit A/c

As a special case, we need to check the impairment, as the subsidiary, associate & joint venture pays dividend. This is only in case the entity follows cost model.

If the company follow fair value model, then in any case, the investment has to revalued every reporting date.

**6. STEPS INVOLVED IN QUANTIFYING THE IMPAIRMENT ARE AS FOLLOWS.**

**1. Measuring the Carrying amount**

Carrying amount is the amount at which an asset is recognized after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.

**2. Measuring the Recoverable Amount**

The recoverable amount is **the higher of**

- fair value less cost to sell and
- value in use.

The fair value is the reflection of the market participants’ expectation of the discounted future economic benefits from the asset.

Value in use is entity specific, and reflects the ability of the entity to earn future economic benefits from the usage of the asset

As impairment is provided only when carrying amount is in excess of its recoverable amount, if any one component (fair value less cost to sell or value in use) of the recoverable amount is higher than the carrying amount, there is no need to compute the other component.

**7. FAIR VALUE LESS COSTS TO SELL**

The Fair value less costs to sell is usually arrived at as:

- The **price in a binding sale agreement** in an arm's length transaction.
- **Current bid price** if the asset is traded in an active market
- The **recent market transaction price of the similar assets** within the same industry if current bid prices are unavailable.
- The **amount based on the best information available to the entity** if neither of the above data are available.
- Cost of disposal, which is the direct consequence (incidental costs are not considered) of the disposal of the asset, should be deducted from the identified fair value.

## 8. VALUE IN USE

Value in use is the entity's expectation of recovering future economic benefits from the usage of the asset.

VIU = PV of (expected cash flow from use and Residual Value at the end)

Value in use has inherent risk relating to estimated amount of cash flow, timing of cash flows and other discount risks. Hence, entity should estimate them based on appropriate risk premiums.

### 9.1 How to estimate cash flows ?

#### a) Traditional Method

- Under this method, most of risk elements are adjusted in discount rate. Cash flow are based on most recent budget forecasts of entity.

#### b) Expected Value Method

- Most likely outcome of cash flow is estimated.
- Use of probability is required.
- If range is given for cash flow, use average of such range.
- If cash flows timing risks exists, then present value should be used to eliminate timing risk.

### 9.2 DISCOUNT RATE TO BE USED FOR CALCULATING PRESENT VALUE OF VALUE-IN-USE

- **Cash flow should be discounted using discount rate based on WACC (or entity's incremental borrowing rate or other market borrowing rates)**
  - a) **This discount rate should consider risk premium. The cash flows shall be discounted at a pre-tax discount rate.**
- **Traditional Method** – Risk Premium is high.
- **Expected Value Method** – Risk Premium is low
  - b) **If cash flows are in foreign currency –**
    - (i) Consider cash flow in foreign currency. Do not convert into functional currency.
    - (ii) WACC is also from the foreign market.
    - (iii) Then, calculate PV in foreign currency.
    - (iv) Convert this PV into functional currency using spot rate.

In this process it is possible that, in terms of foreign currency there may be impairment but not in terms of functional currency and vice-versa.
  - c) The entity may use different discount rate for different period, if the future periods risk factors affect the cash flow of the asset.

### 9.3 Factors to be considered while estimating cash-flows:

- Use most recent forecast of management given in budget of entity.
- Generally this should be for five years. But it can be considered for more than 5 years if justified. In exam, take period given in question. It can be more than 5 years.
- Cash flow are "cash inflows" less "cash outflows".
- **Cash inflows** are revenue generated from asset and cash outflows are expenses that should be incurred to generate cash flows.
- Do not take financing cost and tax in these cash flows. This is done to ensure similar comparison with carrying amount and FVLCTS. Also, these are not incremental cost.
- Cash outflows are day-to-day running expenses for the asset.
- **Do not consider future restructuring costs** in cash outflow and do not consider future restructuring gain in cash inflows, unless management is confirmed about future restructuring.
- Always use sustainable assumptions while calculating value-in-use. (e.g, logical, reasonable, etc.).
- Value-in-use should include terminal value or residual value or scrap value.

- While calculating impairment loss, we should always ignore recognised liabilities on assets, e.g., DROL.. Recognised liabilities means liabilities created on asset e.g., provision for decommissioning liability (DROL). But if fair value quoted is given after adjusting recognised liabilities, then value in use should also be calculated with effect of recognised liabilities and carrying amount should also be considered after deducting recognised liabilities.
- Impairment loss is always for assets.

## 9. RECOGNISING AND MEASURING IMPAIRMENT LOSS

### Individual Asset

An individual asset is impaired if its carrying amount exceeds its recoverable amount.

#### In case of non-revalued asset

An impairment of a non-revalued asset is recognized in profit or loss immediately. Subsequent depreciation or amortisation is provided based on the value after impairment provision.

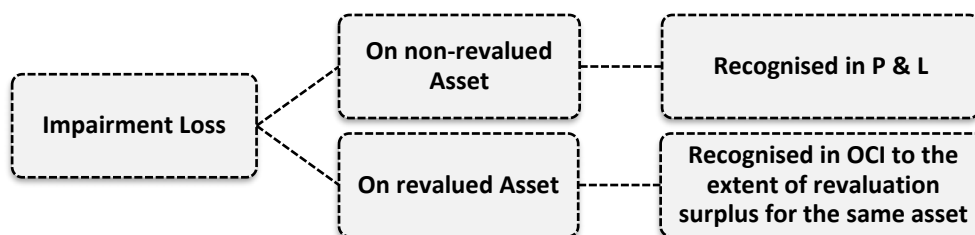
1	Impairment Loss A/c
	To Provision for Impairment Loss A/c
	(Being impairment loss on an asset recognised)
2	Statement of Profit & Loss A/c
	To Impairment Loss A/c
	(Being impairment loss transferred to statement of profit and loss)

#### In case of revalued asset

Revaluation reserve will be used to the extent available on the date of impairment. Sometimes, company follows policy of adjusting additional depreciation due to revaluation in revaluation reserve. In such a case, revaluation reserve to be used for impairment loss will be after reduction of additional depreciation.

Subsequent depreciation or amortisation is provided based on the value after impairment provision.

1	Impairment Loss A/c
	To Provision for Impairment Loss A/c
	(Being impairment loss on an asset recognised)
2	Revaluation Surplus (OCI) A/c
	Statement of Profit & Loss A/c
	To Impairment Loss A/c
	(Being impairment loss transferred to statement of profit and loss)



### TUTORIAL NOTES:

- Provision for impairment loss is just like advance accumulated depreciation. It may get reversed in future.
- IND AS 36 does not specify any fixed date for impairment loss. It can be any day of year (same each year).

### STEPS :

- Charge depreciation till the date of impairment
- Do revaluation if revaluation is required to be done.
- Then, test for impairment loss. Impairment loss will arise if carrying amount under step 2 is greater than recoverable amount.
- Provide impairment loss (IL = CA – RA)
- Provide depreciation on reduced carrying amount over remaining useful life. Depreciation charge will reduce.
- DTA / DTL calculation will change on date of impairment.

### Concepts on Calculations

- Calculation of RA needs VIU and FVLCTS. IND AS does not require calculation for both if –



- a) Value in use calculated is more than CA or
- b) Asset is not to be used and hence it does not have significant value in use.
- c) Where calculation of fair value is not possible or it is unreliable, do not calculate FVLCTS.

**B. How to calculate FVLCTS**

**STEP 1 :** Calculate FV of asset. (Give in IND AS 113)

**STEP 2 :** Identify cost to sell or disposal. These are incremental cost to be incurred on sale of asset. Example – Legal cost, stamp duty, commission, dismantling cost whose provision for decommissioning is not made, etc.

**NOTE –** Do not include finance cost or income tax in this value.

**10. WHAT IS THE IMPACT ON DEPRECIATION AFTER IMPAIRMENT LOSS HAS BEEN BOOKED?**

Subsequent depreciation or amortisation is provided based on the value after impairment provision.

**11. WHAT ABOUT THE TAX IMPACT DUE TO IMPAIRMENT LOSS?**

Any related deferred tax assets or liabilities are determined in accordance with Ind AS 12.

**12. CAN IMPAIRMENT LOSS BE GREATER THAN THE CARRYING AMOUNT OF THE ASSET?**

Yes. In such case, an entity shall recognize a liability if and only if that is required by another standard. (Ind AS 37)

**13. CASH GENERATING UNIT (CGU)**

Impairment loss should always be calculated on smallest unit of asset, for correct allocation of loss. But sometimes asset does not have ability to generate cash flow, the larger group of assets (which should be smallest group capable of generating independent cash flows) should be made and tested for impairment.

An individual asset's recoverable amount cannot be determined due to the following reasons:

- The asset's value in use cannot be estimated to be close to its fair value less costs to sell; and
- The asset does not generate cash inflows that are largely independent of those from other assets.

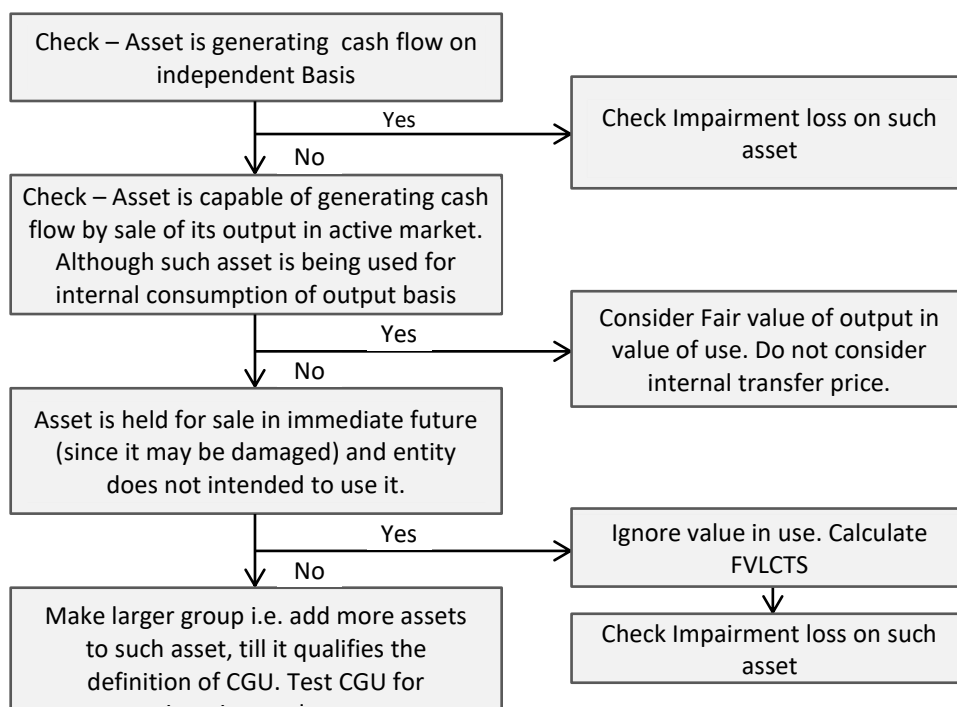
**A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.**

CGU is impaired only if the carrying amount of the CGU exceeds the recoverable amount of the CGU.

**NOTE –** If two or more assets can be interchanged for use, then such assets should be considered as single CGU.

**NOTE –** Best assumption and judgement should be applied for determination of CGU.

**FLOWCHART**



#### 14. SOME MORE EXAMPLES ON CGU

- A hotel has several restaurants, rooms, conference halls, health club and other facilities; since each of these facilities are not capable of generating revenues independently the entire hotel and not the individual facilities would be treated as a CGU.
- A huge multiplex has a bowling alley, theatres, hotel, shopping mall, etc; since each of these facilities are not capable of generating revenues independently the entire multiplex and not the individual units would be treated as a CGU.

#### 15. CARRYING AMOUNT OF CGU

The carrying amount of CGU shall include all and only those assets which are directly attributable or allocated to the CGU. Inclusion of other assets or exclusion of includible assets will fetch a different result as regards impairment of the CGU.

The carrying amount of CGU shall include liabilities only if the recoverable amount is determinable after considering the recognized liabilities.

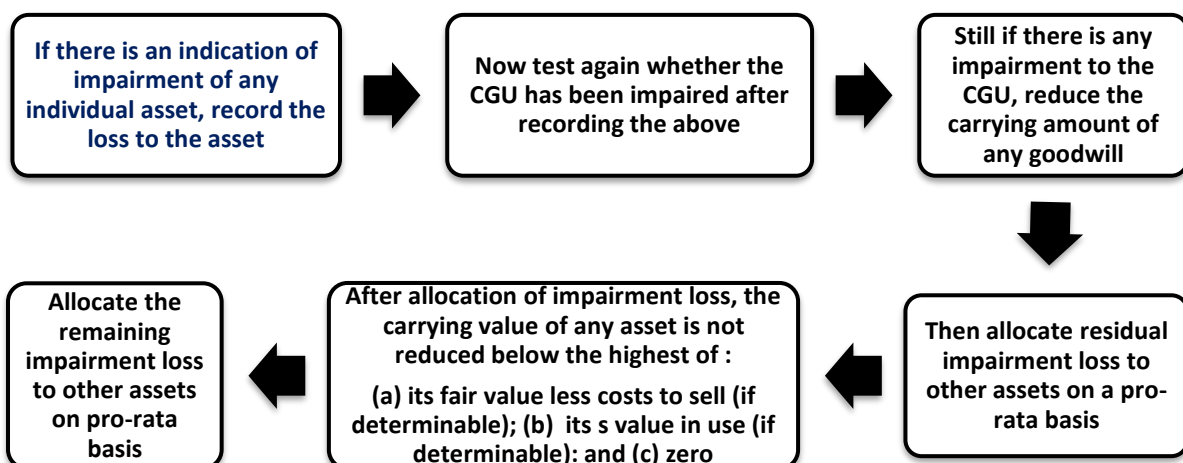
#### 16. RECOVERABLE AMOUNT OF CGU

Recoverable amount of CGU is the higher of fair value less costs to sell the CGU and its value in use.

- **Fair value** less costs to sell CGU is the net of fair value of all assets as considered to determine the carrying amount and the fair value of liabilities, less the cost to sell.
- **Value in use** of the CGU is the discounted cash flows of the CGU from the entity's perspective adjusted for all the associated risks, if not adjusted already in arriving the discount rate.

#### 17. ACCOUNTING TREATMENT AND CALCULATIONS

- CGU may include financial assets, deferred tax assets, inventory etc. These assets should be included after any reduction in values based on IND AS applicable on them.
- Corporate assets is asset which are used in administration and research are allocated to various CGUs in appropriate ratio. Generally such ratio is based on ratio of life of asset x carrying amount of asset
- Goodwill will be allocated to CGUs
- Impairment loss arising in CGU will be –
  - First allocated to goodwill in CGU. Then,
  - Balance to other assets in CGU which have not been tested for impairment loss earlier. Book value ratio is used for allocation.
- Journal entries remain same. Goodwill is impaired by reduction in value of asset.
- While allocating an impairment loss, an entity shall not reduce the carrying amount of an asset below the highest of:**
  - its fair value less costs to sell (if determinable);
  - its value in use (if determinable); and
  - zero.



#### 18. IMPAIRMENT OF GOODWILL

**Goodwill has to be tested for impairment annually irrespective of any indications for impairment.**



The goodwill acquired in a business combination is allocated to the cash generating units that is expected to benefit from the synergies of the combination.

Since goodwill cannot be segregated from other assets and cannot generate cash flows independently from other assets, the smallest cash generating unit to which the goodwill is allocated is tested for impairment.

If there are indications of impairment for assets other than goodwill in a CGU, then the CGU is tested for impairment for the assets indicative of impairment before testing the related goodwill for impairment.

**Note on split of CGU / Partial sale of CGU :**

**If CGU to which any goodwill has been allocated –**

- If CGU is partially sold, goodwill will also be partially derecognised.
- If CGU is split, then pro-rata goodwill is allocated to CGU formed on splitting.
- is reorganized, the goodwill shall also be reallocated to the CGUs based on relative value approach unless other methods are justifiable.

**19. CORPORATE ASSETS**

Corporate assets are assets other than goodwill that contribute to the future cash flows of both the cash-generating unit under review and other cash-generating units.

Examples – Head office building, Divisional buildings, EDP equipment, Research centre, etc.

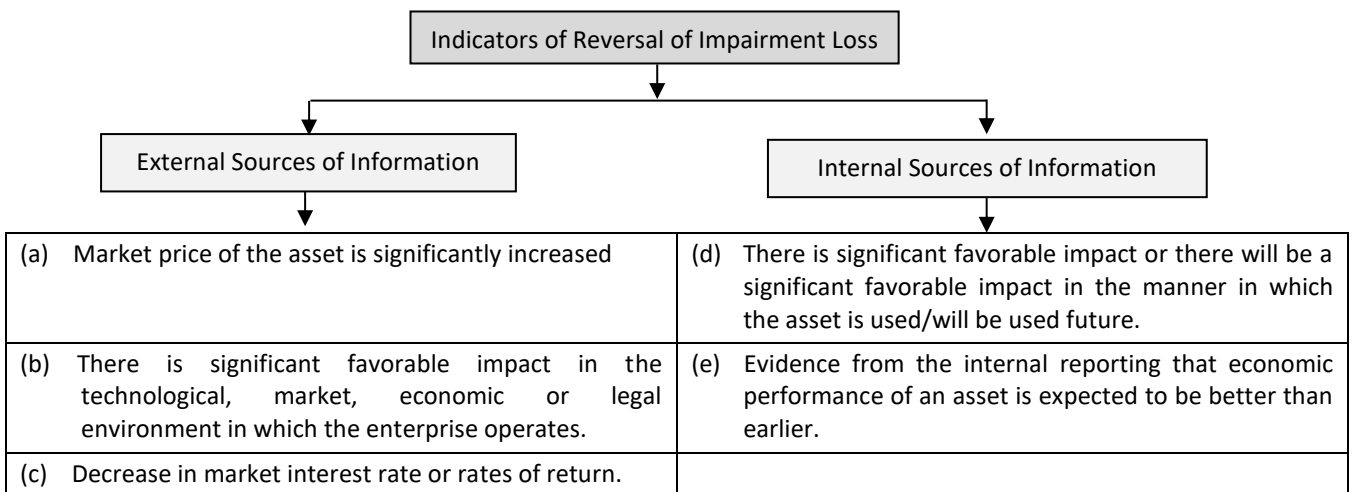
Corporate assets in general, indirectly assist the CGU in its cash generation and they do not generate cash flows independently. Therefore, when there is an indication that corporate assets may be impaired, the CGU to which the corporate assets relate shall be identified and tested for impairment.

If the corporate assets can be reasonably allocated to the CGU, then the carrying amount and the recoverable amount if the CGU is compared and impairment loss is provided if the former exceeds the later.

**20. APPLICATION OF IND AS 37**

Sometimes recoverable amount can be negative. (because fair value is zero but has cost to sell or value-in-use is negative). Then asset will be fully impaired. Additional impairment loss exceeding book value of asset is covered by IND AS 37 as provision.

**21. INDICATIONS OF REVERSAL OF IMPAIRMENT LOSS**



**22. REVERSAL OF IMPAIRMENT LOSS FOR AN INDIVIDUAL ASSET**

**Impairment is limited for reversal upto :**

- i) Recoverable amount
- ii) **carrying amount (net of amortization or depreciation) of the concerned individual asset had there been no impairment.**

**Journal Entries for reversal of impairment loss :**

Provision for Impairment loss A/c.....Dr.  
    To Profit & Loss A/c  
(Being impairment loss reversal)

- The reversal is recognized in profit or loss in case of an asset that is not revalued previously.
- In case of an asset previously revalued, the reversal is first used to recover the amount previously debited to profit or loss on providing the impairment loss, if any, and the remaining is treated as increase in revaluation surplus.
- Subsequent depreciation or amortisation is adjusted according to the revised amounts.
- Deferred Tax calculation will be effected.

### 23. REVERSAL OF IMPAIRMENT LOSS FOR CGU

**Reversal of impairment loss of CGU** - An impairment reversal shall be allocated to the assets other than goodwill of the CGU on pro rata basis in relation to the carrying amount of the assets.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset shall not be increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognized for the asset in prior periods.

**NOTE** : Impairment loss for goodwill cannot be reversed.

### 24. IMPAIRMENT LOSS FOR GOODWILL IN BUSINESS COMBINATION ALLOCATED TO NON-CONTROLLING INTEREST (NCI)

**Goodwill in consolidated financial statement can relate to**

- Non-Controlling Interest and Entity , or
- Only parent Entity

If NCI is calculated using fair value, then impairment on goodwill will be allocated to NCI and entity.

If NCI is calculated using proportionate share in net assets, then impairment loss will be allocated to entity only.

Following steps are applied :

- i) Gross up goodwill of CGU for share of NCI
- ii) Calculate impairment loss to goodwill
- iii) Allocate impairment loss to NCI and Entity
- iv) Consider in Accounting impairment loss of entity only.

### 25. INCREASE IN RECOVERABLE AMOUNT JUST BECAUSE OF PASSAGE OF TIME

An asset's value in use may become greater than the asset's carrying amount simply because the present value of future cash inflows increases as they become closer. However, the service potential of the asset has not increased. Therefore, an impairment loss is not reversed just because of the passage of time (sometimes called the 'unwinding' of the discount), even if the recoverable amount of the asset becomes higher than its carrying amount. (para 116 of Ind AS 36)

### 26. DISCLOSURES

**In the financial statements**

- The impairment losses and reversals recognized in profit or losses and other comprehensive income for each item. This disclosure shall also be given for each reportable segment for entities that report segment information.

**In the notes to accounts**

- With regard to CGU, the allocation of goodwill,
- indefinite useful life assets
- assumptions involved in estimating recoverable amount,
- methodology used to determine fair value less costs to sell.
- any goodwill or intangible with indefinite useful lives allocated to multiple CGU

#### QUESTION 1 :

Calculate expected cash flows in each of the following cases:

- (a) the estimated amount falls somewhere between Rs 50 and Rs 250, but no amount in the range is more likely than any other amount.
- (b) the estimated amount falls somewhere between Rs 50 and Rs 250, and the most likely amount is Rs 100. However, the probabilities attached to each amount are unknown.

(c) the estimated amount will be Rs 50 (10 per cent probability), Rs 250 (30 per cent probability), or Rs 100 (60 per cent probability).  
(Source: Study Material)

**SOLUTION 1 :**

- (a) the estimated expected cash flow is Rs 150  $[(50 + 250)/2]$ .
- (b) the estimated expected cash flow is Rs 133.33  $[(50 + 100 + 250)/3]$ .
- (c) the estimated expected cash flow is Rs 140  $[(50 \times 0.10) + (250 \times 0.30) + (100 \times 0.60)]$ .

\*\*\*\*\*

**QUESTION 2 :**

A Ltd. has a machine in USA following details are given

Year	Expected Cash Flow in USD	Exchange Rate (INR / USD)
1	1,000	71
2	1,200	75
3	1,500	80
4	1,600	82

- WACC rate in USA is 10%
- WACC Rate in India is 11%
- Exchange rate today is INR 70/USD.

Calculate Value-in-use today.

(Reference Book)

**SOLUTION 2 :**

Calculation of Value-in-use

Year	Cash Flow	PV @10%
1	1,000	909.09
2	1,200	991.74
3	1,500	1,126.97
4	1,600	1,092.82
	<b>Total</b>	<b>4,120.62</b>

∴ Value in use = 4,120.62 x 70  
= Rs. 2,88,443.40

**NOTES :** Do not convert cash flow into INR by using forward exchange rate given as it involves more uncertainty.

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**QUESTION 3 :**

A Ltd. constructed PPE for Rs. 10,00,000. It is obligated to remove this asset at the end of its useful life. Its present value of removal cost is Rs. 1,00,000. Cost of PPE will be Rs. 11,00,000 Life is 10 years.

At the end of year 1 :

Book value of PPE = Rs. 9,90,000

Book value of DROL = Rs. 1,05,000

Due to indication of impairment loss, entity obtained FVLCTS for asset for Rs. 9,50,000. Its value in use is Rs. 9,40,000.

Show impairment loss.

(Reference Book)

**SOLUTION 3 :**

Case 1 – Assume Fair Value is before considering DROL

Today	After 1 Year	10 Years
PPE = 10,00,000	PPE = 9,90,000	
PV of DROL = 1,00,000	DROL = 1,05,000	
Total Cost = 11,00,000	VIU = 9,40,000	
	FVLCTS = 9,50,000	
	RA = 9,50,000	
	IL = 40,000	

**STEP 1 : Recoverable Amount**

Higher of :	Rs.	Rs.
▪ VIU	9,40,000	
▪ FVLCTS	9,50,000	9,50,000

**STEP 2 : Impairment loss**

		Rs.
A	Carrying Amount	9,90,000
B	Recoverable Amount (step 1)	9,50,000
C	Impairment Loss (A- B)	40,000

**Case 2 - Assume FVLCTS and Value in Use is after considering DROL**

Price received for asset is with effect of DROL i.e. quoted price by buyer is after considering removal cost by buyer.

Fair value = 9,50,000 (After considering removal cost)

Value in use after of removal cost = 9,40,000 (assumed)

Recoverable Amount = 9,50,000

Carrying Amount = 9,90,000 – 1,05,000  
= 8,85,000

**NOTE** – These is no impairment loss.

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**QUESTION 4 :**

From the following details of an asset

- (i) Find out impairment loss
- (ii) Treatment of impairment loss
- (iii) Current year depreciation

Particulars of asset:	
Cost of asset	Rs.56 lakhs
Useful life period	10 Years
Salvage value	Nil
Current carrying value	Rs.27.30 lakhs
Useful life remaining	3 Years
Recoverable amount	Rs.12 lakhs
Upward revaluation done in last year	Rs.14 lakhs

(Source: Study Material)

**SOLUTION 4 :**

Impairment Loss and its treatment	Rs.
Current carrying amount (including revaluation amount of Rs.14 lakhs)	27,30,000
Less: Current recoverable amount	<u>12,00,000</u>
Impairment Loss	<u>15,30,000</u>
Impairment loss charged to revaluation reserve	14,00,000
Impairment loss charged to profit and loss account	1,30,000

In the given case, the carrying amount of the asset will be reduced to Rs.12,00,00 after impairment. The amount is required to depreciated over remaining useful life of 3 years (including current year). Therefore, the depreciation for the current year will be Rs.4,00,000.

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**QUESTION 5 :**

Mars Ltd. gives the following estimates of cash flows relating to property, plant and equipment on 31-03-20X4. The discount rate is 15%

Year	Cash Flow (INR Lakhs)
20X4-20X5	2,000

20X5-20X6	3,000
20X6-20X7	3,000
20X7-20X8	4,000
20X8-20X9	2,000
Residual Value at 31.03.20X9	500

Property, plant & equipment was purchased on 1.04.20X1 for ₹ 20,000 lakhs

Useful Life was 8 Years

Residual Value estimated at the end of 8 years ₹ 500 lakhs

Fair value less cost to disposal ₹ 10,000 lakhs

(Source: Study Material)

**SOLUTION 5 :**

**(a) Calculation of Carrying Amount on 31.03.20X4**

(INR lakhs)

Particular	Amount
Original Cost on 1.04.20X1	20,000
Less Depreciation $\frac{(20,000-500)}{8} \times 3$	7,313
Carrying Amount	12,687

**(b) Calculation of Value in Use**

Year	Cash Flows	P.V.	Amount
20X4-20X5	2,000	.869	1,738
20X5-20X6	3,000	.756	2,268
20X6-20X7	3,000	.658	1,974
20X7-20X8	4,000	.572	2,288
20X8-20X9 (including residual value)	2,500	.497	1242
		<b>Total</b>	<b>9,510</b>

**(c) Calculation of Recoverable Amount**

Particular	Amount
Value in Use	9,510
Fair value less costs of disposal	10,000
Recoverable Amount	10,000

**(d) Calculation of Impairment Loss**

$$\text{Impairment Loss} = \text{Carrying Amount} - \text{Recoverable Amount}$$

$$= 12,687 - 10,000 = 2,687$$

**(e) Calculation of Revised Carrying Amount**

Particular	Amount
Carrying Amount	12,687
Less: Impairment Loss	2,687
Revised Carrying Amount	10,000

**(f) Calculation of Revised Depreciation**

	Rs.
A Revised Carrying Amount	10,000
B Less : Residual Value	500
C Depreciable Amount (A-B)	9,500
D Remaining useful life (8 years -3 years)	5 years
E Revised Depreciation (C/D)	1,900

**(g) Balance Sheet (extract) AS on 31.3.20x4**

	Note No.	Rs.
A. Assets		
1. Non-Current Assets		
(a) PPE	1	10,000

**NOTES : PPE**

			Rs.
1.	PPE		
	▪ Cost	20,000	
	▪ Less : Accumulated Depreciation	(7,313)	
	▪ Less : Accumulated Impairment Loss	(2,687)	10,000

**(h) Statement of Profit & loss (extract) For the year ended 31.3.20x4**

	Rs.
Depreciation and Amortisation (2,438 +2687)	5,125

\*\*\*\*\*

**QUESTION 6 :**

*East Ltd. (East) owns a machine used in the manufacture of steering wheels, which are sold directly to major car manufacturers.*

- *The machine was purchased on 1<sup>st</sup> April, 20X1 at a cost of ` 500 000 through a vendor financing arrangement on which interest is being charged at the rate of 10 per cent per annum.*
- *During the year ended 31<sup>st</sup> March, 20X3, East sold 10 000 steering wheels at a selling price of ` 190 per wheel.*
- *The most recent financial budget approved by East's management, covering the period 1<sup>st</sup> April, 20X3 – 31<sup>st</sup> March, 20X8, including that the company expects to sell each steering wheel for ` 200 during 20X3-X4, the price rising in later years in line with a forecast inflation of 3 per cent per annum.*
- *During the year ended 31<sup>st</sup> March, 20X4, East expects to sell 10 000 steering wheels. The number is forecast to increase by 5 per cent each year until 31<sup>st</sup> March, 20X8.*
- *East estimates that each steering wheel costs ` 160 to manufacture, which includes ` 110 variable costs, ` 30 share of fixed overheads and ` 20 transport costs.*
- *Costs are expected to rise by 1 per cent during 20X4-X5, and then by 2 per cent per annum until 31<sup>st</sup> March, 20X8.*
- *During 20X5-X6, the machine will be subject to regular maintenance costing ` 50,000.*
- *In 20X3-X4, East expects to invest in new technology costing ` 100 000. This technology will reduce the variable costs of manufacturing each steering wheel from ` 110 to ` 100 and the share of fixed overheads from ` 30 to ` 15 (subject to the availability of technology, which is still under development).*
- *East is depreciating the machine using the straight line method over the machine's 10 year estimated useful life. The current estimate (based on similar assets that have reached the end of their useful lives) of the disposal proceeds from selling the machine is ` 80 000 net of disposal costs. East expects to dispose of the machine at the end of March, 20X8.*
- *East has determined a pre-tax discount rate of 8 per cent, which reflects the market's assessment of the time value of money and the risks associated with this asset.*

*Assume a tax rate of 30%. What is the value in use of the machine in accordance with Ind AS 36?*

*(Source: Study Material)*

**SOLUTION 6 :**

Calculation of the value in use of the machine owned by East Ltd. (East) includes the projected cash inflow (i.e. sales income) from the continued use of the machine and projected cash outflows that are necessarily incurred to generate those cash inflows (i.e cost of goods sold). Additionally, projected cash inflows include ` 80,000 from the disposal of the asset in March, 20X8. Cash outflows include routing capital expenditures of ` 50,000 in 20X5-X6

As per Ind AS 36, estimates of future cash flows shall not include:

- Cash inflows from receivables
- Cash outflows from payables
- Cash inflows or outflows expected to arise from future restructuring to which an entity is not yet committed
- Cash inflows or outflows expected to arise from improving or enhancing the asset's performance
- Cash inflows or outflows from financing activities
- Income tax receipts or payments.

Hence in this case, cash flows do not include financing interest (i.e. 10%), tax (i.e. 30%) and capital expenditures to which East has not yet committed (i.e. ` 100 000). They also do not include any savings in cash outflows from these capital expenditure, as required

by Ind AS 36.



The cash flows (inflows and outflows) are presented below in nominal terms. They include an increase of 3% per annum to the forecast price per unit (B), in line with forecast inflation. The cash flows are discounted by applying a discount rate (8%) that is also adjusted for inflation.

**Note:** Figures are calculated on full scale and then rounded off to the nearest absolute value.

Year ended	20X3-X4	20X4-X5	20X5-20X6	20X6-X7	20X7-X8	Value in use
Quantity (A)	10,000	10,500	11,025	11,576	12,155	
Price per unit(B)	₹ 200	₹ 206	₹ 212	₹ 219	₹ 225	
Estimated cash inflows (C=A x B)	₹ 20,00,000	₹ 21,63,000	₹ 23,37,300	₹ 25,35,144	₹ 27,34,875	
Misc. cash inflow disposal proceeds (D)					₹ 80,000	
Total estimated cash inflows (E=C+D)	₹ 20,00,000	₹ 21,63,000	₹ 23,37,300	₹ 25,35,144	₹ 28,14,875	
Cost per unit (F)	₹ 160	₹ 162	₹ 165	₹ 168	₹ 171	
Estimated cash outflows (G = A x F)	(₹ 16,00,000)	(₹ 17,01,000)	(₹ 18,19,125)	(₹ 19,44,768)	(₹ 20,78,505)	
Misc. cash outflow: maintenance costs (H)			(₹ 50,000)			
Total estimated cash outflows (I=G+H)	(₹ 16,00,000)	(₹ 17,01,000)	(₹ 18,69,125)	(₹ 19,44,768)	(₹ 20,78,505)	
Net cash flows (J=E-I)	₹ 4,00,000	₹ 4,62,000	₹ 4,68,175	₹ 5,90,376	₹ 7,36,370	
Discount factor 8% (K)	0.9259	0.8573	0.7938	0.7350	0.6806	
Discounted future cash flows (L=J x K)	₹ 3,70,360	₹ 3,96,073	₹ 3,71,637	₹ 4,33,926	₹ 5,01,173	₹ 20,73,169

\*\*\*\*\*

### QUESTION 7 :

XYZ Limited has three cash-generating units - X, Y and Z, the carrying amounts of which as on 31st March, 2018 are as follows:

Cash Generating Units	Carrying Amount in lakh)	Remaining useful life in years
X	800	20
Y	1000	10
Z	1200	20

XYZ Limited also has corporate assets having a remaining useful life of 20 years as given below:

Corporate Assets	Carrying amount in lakh)	Remarks
AU	800	The carrying amount of AU can be allocated on a reasonable basis to the individual cash generating units.
BU	400	The carrying amount of BU cannot be allocated on a reasonable basis to the individual cash-generating units.

Recoverable amounts as on 31st March, 2018 are as follows:

Cash-generating units	Recoverable amount in lakh)
X	1000
Y	1200
Z	1400
XYZ Limited	3900

Calculate the impairment loss if any of XYZ Ltd. Ignore decimals.

(November 2018) {10 Marks}

### SOLUTION 7 :

STEP 1 : Calculation of impairment loss

S. No.	Particulars	X	Y	Z
A	Carrying Amount	800	1,000	1,200
B	Add : AU Allocated (8:5:12)	256	160	384
C	Total (A+B)	1,056	1,160	1,584

D	Recoverable Amount	1,000	1,200	1,400
E	Impairment loss allocated to :	56	NIL	184
	(i) AU	$56 \times \frac{256}{1056} = 13.58$	NIL	$184 \times \frac{384}{1584} = 45$
	(ii) Others	42.42	NIL	139

**Working Note 1 :** Calculation of Ratio of Allocation

**NOTE –** reasonable basis is carrying amount of CGU weighted according to life. Hence,

CGU	Carrying Amount	Life	Weight
X	800	20	16,000
Y	1,000	10	10,000
Z	1,200	20	24,000

Therefore, the ratio will be 8:5:12

**STEP 2 :** Calculation of Impairment Loss – BU

S. No.	Particulars	Rs.	Rs.
A.	CGU X (800-42)	758	
B.	CGU Y (1000 -0)	1,000	
C.	CGU Z (1,200 – 139)	1,061	
D.	AU Asset (800-14-45)	741	3,560
E.	Add : BU Asset		400
F.	Total (A+B+C+D+E)		3,960
G.	Recoverable Amount of larger CGU		3,900
H.	Impairment loss allocated to BU (F-G)		60

**NOTE –** Impairment loss will not be allocated to other CGUs as they have already been impaired.

\*\*\*\*\*

**QUESTION 8 :**

**X Ltd. acquired plant on 1.4.2010.**

**Cost: Rs. 200 lakhs, useful life 20 years, residual value Rs. 20 lakhs. Depreciation policy: straight line method.**

**As on 31.3.2013, the company determined recoverable amount of the plant as Rs. 100 lakhs. Impairment loss was recognised.**

**As on 31.3.2016, based on positive information the entity reviewed recoverable amount and re-determined at Rs. 150 lakhs.**

**Find out impairment loss and reversal of impairment loss.**

**(Reference Book)**

**SOLUTION 8 :**

Annual straight line method depreciation on the plant:

$$= (200-20) / 20$$

$$= \text{Rs. 9 lakhs}$$

Accumulated depreciation for 2010-11, 2011-12 & 2012-13:

$$= 9 \times 3 \text{ years}$$

$$= \text{Rs. 27 lakhs}$$

Carrying amount of the plant on 31.3.2013

$$= 200 - 27$$

$$= \text{Rs. 173 lakhs}$$

Impairment loss as on 31.3.2013

$$= 173-100 = \text{Rs. 73 lakhs.}$$

This was charged to profit and loss.

Revised annual depreciation charge

$$= [(100-20)/17]$$

$$= \text{Rs. 4.706 lakhs}$$

Accumulated depreciation for 2013-14, 2014-15 & 2015-16

$$= \text{Rs. 4.706 lakhs} \times 3 = \text{Rs. 14.118 lakh}$$

Carrying amount of the plant on 31.3.2016

$$= 100-14.118$$

= Rs. 85.882 lakhs

**IMPAIRMENT REVERSAL**

- Recoverable amount = Rs. 150 lakhs
- Carrying amount of the plant if impairment loss was not charged on 31.3.2013  
= original cost minus accumulated depreciation @ Rs. 9 lakhs p.a.  
= 200 lakhs – Rs. 9 lakhs X 6  
= Rs. 146 lakhs
- By reversal of impairment the carrying amount of the asset should not exceed 150 or 146 whichever is lower.
- Therefore, reversal amount shall be restricted to 146 lakhs - Rs. 85.882  
= Rs. 60.118 lakhs

**ACCOUNTING ENTRIES (AMOUNT IN LAKHS)**

Provision for Impairment loss A/c	Dr.	60.118	
To Reversal of Impairment Loss A/c			60.118
Reversal of Impairment Loss A/c	Dr.	60.118	
To Profit and Loss A/c			60.118

\*\*\*\*\*

**QUESTION 9 :**

Parent acquires an 80% ownership interest in Subsidiary for ` 2,100 on April 1, 20X1. At that date, Subsidiary's net identifiable assets have a fair value of ` 1,500. Parent chooses to measure the non-controlling interests as the proportionate interest of Subsidiary's net identifiable assets. The assets of Subsidiary together are the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Because other cash-generating units of Parent are expected to benefit from the synergies of the combination, the goodwill of ` 500 related to those synergies has been allocated to other cash-generating units within Parent. On March 31, 20X2, Parent determines that the recoverable amount of cash-generating unit Subsidiary is ` 1,000. The carrying amount of the net assets of Subsidiary, excluding goodwill, is ` 1,350. Allocate the impairment loss on March 31, 20X2. (Source: Study Material)

**SOLUTION 9 :**

1.4.20X1		31.3.20x2
Consideration	= 2100	Carrying Amount = 1350 RA = 1000
% Holding	= 80%	
INA	= 1500	
NCI	= 300	
Goodwill	= 900	
Goodwill allocated to others	= 500	
Goodwill allocated to CGU of subsidiary	= 400	

**CASE 1 - Assume NCI of Rs. 300 was based on fair value**

**Calculation of Impairment loss on 31.3.20x2**

S. No.	Particulars	Rs.
A	Carrying Amount of Assets	1,350
B	Add : Goodwill (Full goodwill)	400
C.	Total	1,750
D.	Recoverable Amount	1,000
E.	Impairment Loss	750
F.	Allocated :	
	1) Goodwill	400
	2) Other Assets	350
G.	Impairment of goodwill will be Allocated to :	
	1) NCI (400 x 20%)	80
	2) Entity's CPL (400 x 80%)	320

**CASE 2 : Assume NCI of Rs. 300 is based on proportionate share in net assets**

S. No.	Particulars	Rs.
A	Carrying Amount of Assets	1,350
B	Goodwill (Partial goodwill)	400
C.	Goodwill Grossing up $\frac{400}{80\%}$	500
D.	Total (A + C)	1,850
E.	Recoverable Amount (always of full business)	1,000
F.	Impairment Loss (A – E)	850
G.	Allocated to Goodwill	500
H.	Allocated to Other Assets	350
I.	Impairment of goodwill will be Allocated to :	
	1) NCI (500 x 20%)	100
	2) Entity's CPL (500 x 80%)	400

**NOTE :**

NCI share of goodwill is not recorded in books, hence, ignored.

Only Rs.400 impairment loss of goodwill will be adjusted in consolidated profit & loss (CPL)

**CASE 3 : Assuming Recoverable amount is Rs. 1750 and NCI is based on proportionate share in net assets.**

S. No.	Particulars	Rs.
A	Carrying Amount of Assets	1,350
B	Goodwill Grossing up $\frac{400}{80\%}$	500
C.	Total (A+B)	1,850
D.	Recoverable Amount (B – C)	1,750
E.	Impairment Loss	100
F.	Allocated to Goodwill	100
G.	Allocated to Other Assets	NIL
H.	Impairment of goodwill will be Allocated to :	
	1) NCI (100 x 20%)	20
	2) Entity's CPL (100 x 80%)	80

**NOTE :** Only Rs. 80 Impairment loss of goodwill will be adjusted in CPL.

If grossing up of goodwill would not have done, there would have been no impairment loss.

Grossing up of goodwill is required only when NCI is based on proportionate share in net assets.

\*\*\*\*\*

**QUESTION 10 :**

*On 31 March 20X1, Vision Ltd acquired 80% of the equity shares of Mission Ltd for ` 190 million. The fair values of the net assets of Mission Ltd that were included in the consolidated statement of financial position of Vision Ltd at 31 March 20X1 were ` 200 million. It is the Group's policy to value the non-controlling interest in subsidiaries at the date of acquisition at its proportionate share of the fair value of the subsidiaries' identifiable net assets.*

*On 31 March 20X4, Vision Ltd carried out its annual review of the goodwill on consolidation of Mission Ltd and found evidence of impairment. No impairment had been evident when the reviews were carried out at 31 March 20X2 and 31 March 20X3. The review involved allocating the assets of Mission Ltd into three cash- generating units and computing the value in use of each unit. The carrying values of the individual units before any impairment adjustments are given below:*

	Unit A	Unit B	Unit C
	` in million	` in million	` in million
<b>Intangible assets</b>	30	10	-
<b>Property, Plant and Equipment</b>	80	50	60
<b>Current Assets</b>	60	30	40
<b>Total</b>	<u>170</u>	<u>90</u>	<u>100</u>
<b>Value in use of unit</b>	180	66	104

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

*The intangible assets of Mission Ltd have no ascertainable market value but all the current assets have a market value that is at least equal to their carrying value. The value in use of Mission Ltd as a single cash-generating unit on 31 March 20X4 is ₹ 350 million.*

**Discuss and compute the accounting treatment of impairment of goodwill as per Ind AS 36?**

**(May 2021 RTP)**

**SOLUTION 10 :**

The goodwill on consolidation of Mission Ltd that is recognized in the consolidated balance sheet of Vision Ltd is ₹ 30 million (₹ 190 million - 80% x ₹ 200 million). This can only be reviewed for impairment as part of the cash generating units to which it relates. Since here the goodwill cannot be meaningfully allocated to the units, the impairment review is in two parts.

Units A and C have values in use that are more than their carrying values. However, the value in use of Unit B is less than its carrying amount. This means that the assets of unit B are impaired by ₹ 24 million (₹ 90 million - ₹ 66 million). This impairment loss will be charged to the statement of profit and loss.

Assets of Unit B will be written down on a pro-rata basis as shown in the table below:

(₹ in million)

Asset	Impact on carrying value		
	Existing	Impairment	Revised
Intangible assets	10	(4)	6
Property, plant and equipment	50	(20)	30
Current assets	30	Nil*	30
Total	90	M	66

The current assets are not impaired because they are expected to realize at least their carrying value when disposed of.

Following this review, the three units plus the goodwill are reviewed together i.e. treating Mission Limited as single cash generating Unit. The impact of this is shown in the following table, given that the recoverable amount of the business as a whole is ₹ 350 million: (₹ in million)

Component	Impact of impairment review on carrying value		
	Existing	Impairment	Revised
Goodwill (see note below)	37.50	(23.50)	14.00
Unit A	170.00	Nil	170.00
Unit B (revised)	66.00	Nil	66.00
Unit C	<u>100.00</u>	<u>Nil</u>	<u>100.00</u>
Total	<u>373.50</u>	<u>(23.50)</u>	<u>350.00</u>

Note: As per Appendix C of Ind AS 36, given that the subsidiary is 80% owned the goodwill must first be grossed up to reflect a notional 100% investment. Therefore, the goodwill will be grossed up to ₹ 37.50 million (₹ 30 million x 100/80).

The impairment loss of ₹ 23.50 million is all allocated to goodwill, leaving the carrying values of the individual units of the business as shown in the table immediately above.

The table shows that the notional goodwill that relates to a 100% interest is written down by ₹ 23.50 million to ₹ 14.00 million. However, in the consolidated financial statements the goodwill that is recognized is based on an 80% interest so the loss that is actually recognized is ₹ 18.80 million (₹ 23.50 million x 80%) and the closing consolidated goodwill figure is ₹ 11.20 million (₹ 14.00 million x 80%) or (₹ 30 million - ₹ 18.80 million).

\*\*\*\*\*

**QUESTION 11 :**

On 1st April, 20X1, Sun Ltd. has acquired 100% shares of Earth Ltd. for ₹ 30 lakh. Sun Ltd. has 3 cash-generating units A, B and C with fair value of ₹ 12 lakh, ₹ 8 lakh and ₹ 4 lakh respectively. The company recognizes goodwill of ₹ 6 lakh that relates to CGU 'C' only.

During the financial year 20X2-20X3, the CFO of the company has a view that there is no requirement of any impairment testing for any CGU since their recoverable amount is comparatively higher than the carrying amount and believes there is no indicator of impairment.

Analyse whether the view adopted by the CFO of Sun Ltd. is in compliance with the Ind AS. If not, advise the correct treatment in accordance with relevant Ind AS.

**(April 2022 – MTP - 6 Marks)**

**SOLUTION 11 :**

Para 9 of Ind AS 36 'Impairment of Assets' states that an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

Further, paragraph 10(b) of Ind AS 36 states that irrespective of whether there is any indication of impairment, an entity shall also test goodwill acquired in a business combination for impairment annually.

Sun Ltd. has not tested any CGU on account of not having any indication of impairment is partially correct i.e. in respect of CGU A and B but not for CGU C. Hence, the treatment made by the Company is not in accordance with Ind AS 36.

Impairment testing in respect of CGU A and B are not required since there are no indications of impairment. However, Sun Ltd shall test CGU C irrespective of any indication of impairment annually as the goodwill acquired on business combination is fully allocated to CGU 'C'.

\*\*\*\*\*



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