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Case Scenario Based MCQs

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.

CASE STUDY - 1:

- Innovative Harmony Limited (IHL or the Company) is a listed entity that prepares its financial statements as per Ind AS. Its functional and presentation currency is PC. The draft financial statements for the year ended 31st March 2021 have been prepared and are under review by the management.
- During the financial year 2020-2021, the Company acquired 70% ordinary shares of Super Express Limited a private company for PC 9.75 million. The fair value of its identifiable net assets is PC 13.00 million. The fair value of the 30% of the ordinary shares owned by non-controlling shareholders is PC 4.88 million. Carrying amount of Super Express Limited's net assets is PC 12.00 million.
- IHL has issued 10,00,000 PC 1 ordinary shares and 1,000 PC 100 10% convertible bonds (issued at par) each convertible into 20 ordinary shares on demand, all of which have been in issue for the whole of the reporting period. IHL's share price is PC 5.00 per share and earnings after tax for the period are PC 6.00 million. The tax rate applicable to the entity is 22%.
- IHL plans to raise funds through External Commercial Borrowings for the purpose of future expansion. The borrowings would be USD-denominated with a floating interest rate payable on a quarterly basis. The tenor of such borrowings is expected to be 3 to 5 years. The lenders have recommended that the Company should also consider doing a 'back-to-back' Cross Currency Interest Rate Swap (CCIRS) on the same date, amount and tenor as the borrowings, which would ensure that the foreign currency and interest rate exposure is managed. The management wants to apply cash flow hedge accounting.
- IHL had presented certain material debtors and creditors on a net basis in its financial statements for periods up to 31st March, 2020. However, while preparing draft financial statements for the year ended 31st March, 2021, management discovers that these assets and liabilities cannot be netted off as per the applicable guidance under Ind AS. Therefore, management intends to gross up the comparative amounts for the prior period in order to present the correct amount of debtors and creditors.

Multiple Choice Questions:

1. With respect to acquisition of Super Express Limited, what is the amount of goodwill, if non-controlling interest is measured at fair value?
   (A) PC 1.63 million (B) PC 0.65 million (C) PC 0.35 million (D) PC 2.63 million. **2 Marks**
2. With respect to acquisition of Super Express Limited, what is the amount of goodwill if non-controlling interest is measured at proportionate share of net identifiable assets?
   (A) PC 1.63 million (B) PC 0.65 million (C) PC 0.35 million (D) PC 2.63 million. **2 Marks**
3. Calculate the basic EPS and diluted EPS of IHL for the financial year ended 31st March, 2021.
   (A) Basic EPS is PC 6.01 per share and diluted EPS is PC 5.88 per share
   (B) Bais EPS is PC 6.02 per share and diluted EPS is PC 5.89 per share
   (C) Basic EPS is PC 6.00 per share and diluted EPS is PC 5.89 per share
   (D) Basic EPS is PC 6.00 per share and diluted EPS is PC 6.02 per share. **2 Marks**
4. Which of the following statements is incorrect if the Company needs to achieve an effective cash flow hedge in the books of account?
   (A) The CCIRS must be fair valued at each period end
   (B) Cash flow hedge effectiveness testing must be performed at each period end
   (C) The CCIRS should not be separated from the ECB loan but accounted as a single instrument
   (D) ECB loans must be re-measured at each period end for foreign currency translation. **2 Marks**
5. What is the consequence of grossing up of material debtors and creditors in the comparative amounts presented in the financial statements for the year ended 31st March, 2021?
   (A) This is considered to be correction of an error under Ind AS 8 and the Company would need to present a third Balance Sheet as at 1st April, 2019
   (B) This is not an error under Ind AS 8 but the reclassifications must be disclosed in the notes to accounts in the financial statements as at 31st March, 2021
   (C) This is a change in accounting policy under Ind AS 8 with retrospective change to be presented from 1st April, 2020
   (D) This is considered to be correction of an error under Ind AS 8 and IHL would need to present a third Balance Sheet as at 1st April, 2020.
   2 Marks

ANSWERS TO THE CASE STUDY - 1

1. **Option (A):** 9.75 + 4.88 – 13 = PC 1.63 million
2. **Option (B):** 9.75 + 30% x 13 – 13 = PC 0.65 million
3. **Option (C):** Basic EPS =60,00,000 / 10,00,000 = PC 6.00 per share and diluted EPS = [60,00,000 + (1000 x100 x 10%)
   x 0.78] / (10,00,000 + 20,000) = PC 5.89 per share
4. **Option (C):** The CCIRS should not be separated from the ECB loan but accounted as a single instrument
5. **Option (A):** This is considered to be correction of an error under IAS 8 and the company would need to present a third Balance Sheet as at 1st April, 2019.

CASE STUDY - 2:

- 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 Million exchange 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**

ANSWERS TO THE CASE STUDY - 2

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

CASE STUDY - 3 :

- 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

ANSWERS TO THE CASE STUDY - 3

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.

CASE STUDY - 4 :

- Srikrishna Chemical Industries Ltd. is a listed company with a turnover of Rs. 1,008 crores 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 crores 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 crores 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 crores 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 crores for a 20% stake already valuing the investee company at Rs. 50 crores. 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 crores 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**

ANSWERS TO THE CASE STUDY - 4

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 interest and 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.

CASE STUDY - 5 :

- 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?

2 Marks

(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.

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? **2 Marks**

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

ANSWERS TO THE CASE STUDY - 5

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.

CASE STUDY - 6 :

- 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**

ANSWERS TO THE CASE STUDY - 6

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.

CASE STUDY - 7 :

- You are a Chartered Accountant (CA) employed as a financial accountant with XYZ Ltd. (XYZ), an Indian listed company that manufactures and distributes electronic components for the telecommunications sector. There are following unresolved issues which require your review:

1. (i) XYZ holds 100% of the ordinary shares of PQR, acquired several years ago. The strategy behind the acquisition was to develop new revenue streams, including the design of new microchips. PQR has performed well but one of its major assets, an item of equipment, suffered a significant and unexpected deterioration in performance. Management expect to be able to use the machine for a further four years after 31st March 20X6, but at a reduced level. The equipment will be scrapped after four years. The financial accountant for PQR has produced a set of cash-flow projections for the equipment for the next four years, ranging from optimistic to pessimistic. Rahul thought that the projections were too conservative and she intended to use the highest figures each year. These were as follows:

	Rs. ` 000
Year ended 31st March 20X7	276
Year ended 31st March 20X8	192
Year ended 31st March 20X9	120
Year ended 31st March 20Y0	114

- The above cash inflows should be assumed to occur on the last day of each financial year. The pre-tax discount rate is 9%. The machine could have been sold at 31st March 20X6 for Rs. 5,04,000, net of selling expenses. The machine had been re valued previously, and at 31st March 20X6 an amount of Rs. 36,000 was held in revaluation surplus in respect of the asset. The carrying value of the asset at 31st March 20X6 was Rs. 660,000. The Indian government has indicated that it may compensate the company for any loss in value of the assets up to its recoverable amount.

(ii) On 1 April 20X1, XYZ acquired a freehold manufacturing building. The land element in the purchase price was Rs. 6,72,000 and the building element Rs. 24,00,000. The useful life of the building was estimated at 20 years. Since 1 April 20X1 there has been no change in the value of land. At the 31st March 20X3, the building element was re valued to Rs. 27,00,000 and the remaining useful life was unchanged. On 31st March, 20X6, the open market value of the building was determined at Rs. 19,80,000. The remaining useful life again remained unchanged. No accounting entries have yet been made in respect of the freehold building for the year ended 31st March 20X6.

2. XYZ issued Rs. 4,80,000 4% redeemable preference shares on 1st April 20X5 at par. Interest is paid annually in arrears and the first payment of Rs. 19,200 was made on 31st March 20X6 and debited directly to retained earnings. The bonds are redeemable for a cash amount of Rs. 7,20,000 on 31st March 20X8. The effective rate of interest on the redeemable preference shares is 18% per annum. The proceeds of the issue have been recorded within equity as this reflects the legal nature of the shares and the board of directors intends to issue new equity shares over the next two years to build up cash resources to redeem the preference shares.

3. One of the senior engineers at XYZ has been working on a process to improve manufacturing efficiency and, consequently, reduce manufacturing costs. This is a major project and has the full support of XYZ's board of directors. The senior engineer believes that the cost reductions will exceed the project costs within twenty four months of their implementation. Regulatory testing and health and safety approval was obtained on 1 June 20X5. This removed uncertainties concerning the project, which was finally completed on 20 April 20X6. Costs of Rs. 18,00,000, incurred during the year to 31st March 20X6, have been recognised as an intangible asset. An offer of Rs. 7,80,000 for the new technology has been received and rejected by XYZ. Utkarsh believes that the project will be a major success and has the potential to save the company Rs. 12,00,000 in perpetuity. Director of research at XYZ, Neha, who is a qualified electronic engineer, is seriously concerned about the long term prospects of the new process and she is of the opinion that competitors will have developed new technology which will have replaced the new process within four years. She estimates that the present value of future cost savings will be Rs. 9,60,000 over this period. After that, she thinks that there is no certainty about its future.

Multiple Choice Questions:

1. What is the recoverable amount of the impaired machine of PQR as at March 31, 20X6?

(A) 5,04,000 (B) 5,07,600 (C) 5,88,230 (D) 6,60,000 **2 Marks**

2. What is the impairment loss of the building on 1st April 20X6?

(A) 2,70,000 (B) 3,15,000 (C) 3,24,000 (D) Nil **2 Marks**

3. By how much will the equity reduce due to preference shares?

(A) Nil (B) 480,000 (C) 67,180 (D) 547,200 **2 Marks**

4. How much intangible asset will be capitalised during the year 20X5-20X6?

(A) 1,800,000 (B) 1,500,000 (C) Nil (D) 1,200,000 **2 Marks**

ANSWERS TO THE CASE STUDY - 7

1. Option (C)

Reason

Impairment of the machine in PQR

The appropriate discount rate to use in calculating value in use is 9% pre-tax.

Year ended	Cash flow Rs.	Discount factor	Amount Rs.
31 March 20X7	2,76,000	0.9174	2,53,202
31 March 20X8	1,92,000	0.8417	1,61,606
31 March 20X9	1,20,000	0.7722	92,664
31 March 20Y0	1,14,000	0.7084	80,758
			5,88,230

2. Option (A)

Reason

Land is not depreciated as it has an indefinite life. Land should be shown in the statement of financial position at its original cost of Rs. 6,72,000. The building element was recognised at cost of Rs.24,00,000.

Carrying amount before the revaluation on 31st March 20X3 would have been Rs. 21,60,000 (Rs. 24,00,000 – two years depreciation Rs. 2,40,000). The buildings element should then be revalued upwards to Rs. 27,00,000 and the surplus over carrying amount of Rs. 5,40,000 recognised in other comprehensive income and credited to revaluation surplus.

Depreciation would now be Rs. 1,50,000 (Rs. 27,00,000/18). {Note: Management could elect to make an annual transfer of Rs. 30,000 from revaluation surplus to retained earnings through the statement of changes in equity} On the 31st March 20X6 the following balances should be included in the Statement of financial position.

	Rs.
Land	672,000
Rs. 27,00,000 – three years' depreciation at Rs. 150,000 per annum)	2,250,000

The buildings element open market value is now only Rs. 19,80,000 and an impairment loss of Rs. 2,70,000 should be recognised.

3. Option - (D)

Reason

The preference shares provide the holder with the right to receive a predetermined amount of annual dividend out of profits of the company, together with a fixed amount on redemption. Whilst the legal form is equity, the shares are in substance debt. The fixed level of dividend is interest and the redemption amount is the equivalent to the repayment of loan.

Under Ind AS 32 Financial Instruments: Presentation, these instruments should be classified as financial liabilities because there is a contractual obligation to deliver cash. The preference shares should be accounted for at amortised cost using the effective interest rate of 18%.

	1 April, 20X5	Interest @18%	Paid at 4%	31 March, 20X6
	Rs.	Rs.	Rs.	Rs.
20X5-20X6	480,000	86,400	(19,200)	547,200

An amount of Rs. 5,47,200 should be included in borrowings (non-current liabilities) and a finance charge of Rs. 86,400 included within profit or loss. Equity should be reduced by both the Rs. 480,000 proceeds of issue and the Rs. 67,200 i.e., total by5,47,200.

4. Option - (B)

Reason

An amount of Rs. 15,00,000 (Rs. 18,00,000 x 10/12) should be capitalised in the Balance Sheet representing the expenditure since 1 June. The expenditure incurred prior to 1 June (2/12 x Rs.18,00,000) should be recognised as an expense, retrospective recognition as an asset is not allowed.

CASE STUDY - 8 :

- 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**

ANSWERS TO THE CASE STUDY - 8

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
Milking equipment and other tools (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 be applied.

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 to sell.

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FEEDBACK

Hii, Want to share my result
I have taken classes from Vinod Kumar Agarwal sir,
I got 63 in SFM which is very tough paper in May 2023.
I would like to thank VK sir
Thank you soo much sir

-Nagasai Parasupakam

I want to express my heartfelt gratitude to sir for his valuable guidance due to which I successfully cleared my CA Final group 2.

Even though the risk management paper was tough still i am able to score exemption in the subject.

Thank you so much sir

-Mansi Mittal

Good evening sir
I'm Sagar Sainani one of your lucky student who cleared both groups of CA Inter in 1st attempt
I bought FM-ECO lectures from you which helped me to score 56 marks in the same.
I was able to score just because of your guidance and techniques which you thought in the class.
Your revision lectures also helped me to recall the concepts very quickly.
Thank you sir for your mentorship and the way you thought to study the subject.

-Sagar Sainani

Hello Sir, I'm Harshita Golhani from Chhindwara.
Sir, your lectures are very good and easy to understand. I am learning a lot from those lectures.
Sir, I liked your way of understanding and your book is also very good and helps in understanding the topic...
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Once again thank you.

-Harshita Golhani

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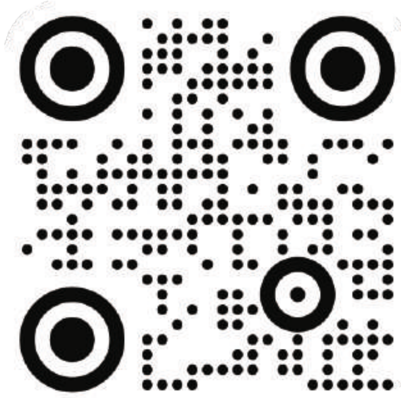

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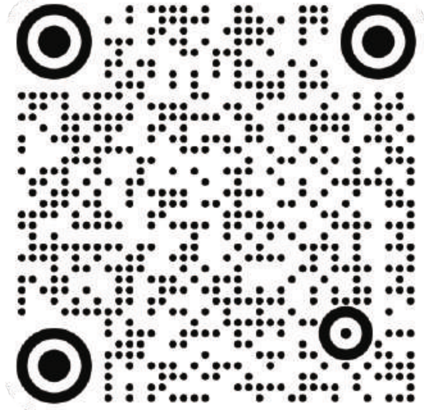

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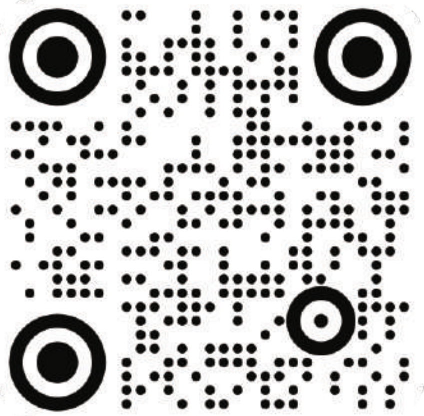

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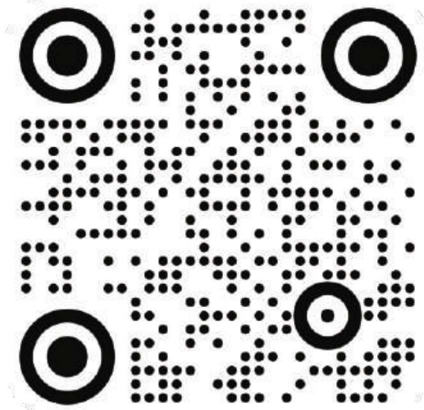

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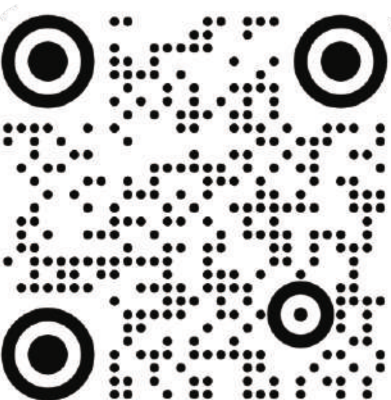

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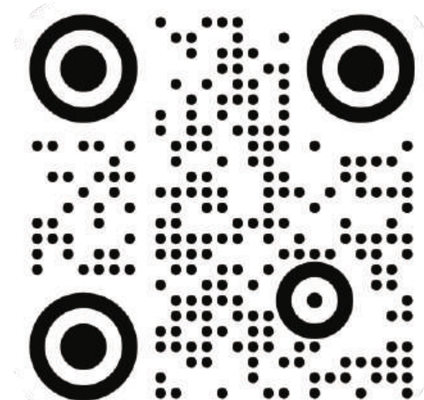

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