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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-2^{nd}, 4^{th} & 24^{th} 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.

☞ CHAPTER - 8 : IND AS 37 : Provisions, Contingent Liabilities and Contingent Assets

1. When can a "provision" be recognized in accordance with Ind AS 37?

(a) When there is a legal obligation arising from a past (obligating) event, the probability of the outflow of resources is more than remote (but less than probable), and a reliable estimate can be made of the amount of the obligation.

(b) When there is a present obligation as a result of a past (obligating) event, the outflow of resources is probable, and a reliable estimate can be made of the amount of the obligation.

(c) When there is a possible obligation arising from a past event, the outflow of resources is probable, and an approximate amount can be set aside toward the obligation.

(d) When management decides that it is essential that a provision be made for unforeseen circumstances and keeping in mind this year the profits were enough but next year there may be losses. **Ans. (b)**

2. Amazon Inc. has been served a legal notice on December 15, 20X1, by the local environmental protection agency (EPA) to fit smoke detectors in its factory on or before June 30, 20X2 (before June 30 of the following year). The cost of fitting smoke detectors in its factory is estimated at $250,000. How should Amazon Inc. treat this in its financial statements for the year ended December 31, 20X1?

(a) Recognize a provision for $250,000 in the financial statements for the year ended December 31, 20X1.

(b) Recognize a provision for $125,000 in the financial statements for the year ended December 31, 20X1, because the other 50% of the estimated amount will be recognized next year in the financial statement for the year ended December 31, 20X2.

(c) Because Amazon Inc. can avoid the future expenditure by changing the method of operations and thus there is no present obligation for the future expenditure, no provision is required at December 31, 20X1, but as there is a possible obligation, this warrants disclosure in footnotes to the financial statements for the year ended December 31, 20X1.

(d) Ignore this for the purposes of the financial statements for the year ended December 31, 20X1, and neither disclose nor provide the estimated amount of $250,000. **Ans. (c)**

3. A competitor has sued an entity for unauthorized use of its patented technology. The amount that the entity may be required to pay to the competitor if the competitor succeeds in the lawsuit is determinable with reliability, and according to the legal counsel it is less than probable (but more than remote) that an outflow of the resources would be needed to meet the obligation. The entity that was sued should at yearend:

(a) Recognize a provision for this possible obligation.

(b) Make a disclosure of the possible obligation in footnotes to the financial statements.

(c) Make no provision or disclosure and wait until the lawsuit is finally decided and then expense the amount paid on settlement, if any.

(d) Set aside, as an appropriation, a contingency reserve, an amount based on the best estimate of the possible liability.

Ans. (b)

4. A factory owned by XYZ Inc. was destroyed by fire. XYZ Inc. lodged an insurance claim for the value of the factory building, plant, and an amount equal to one year's net profit. During the year there were a number of meetings with the representatives of the insurance company. Finally, before year-end, it was decided that XYZ Inc. would receive compensation for 90% of its claim. XYZ Inc. received a letter that the settlement check for that amount had been mailed, but it was not received before year-end. How should XYZ Inc. treat this in its financial statements?

(a) Disclose the contingent asset in the footnotes.

(b) Wait until next year when the settlement check is actually received and not recognize or disclose this receivable at all since at year-end it is a contingent asset.

(c) Because the settlement of the claim was conveyed by a letter from the insurance company that also stated that the settlement check was in the mail for 90% of the claim, record 90% of the claim as a receivable as it is virtually certain that the contingent asset will be received.

(d) Because the settlement of the claim was conveyed by a letter from the insurance company that also stated that the settlement check was in the mail for 90% of the claim, record 100% of the claim as a receivable at year-end as it is virtually certain that the contingent asset will be received, and adjust the 10% next year when the settlement check is actually received. **Ans. (c)**

5. As per Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets, where measurement uncertainty exists, which one of the following methods is NOT an appropriate valuation for a provision based on accounting standards?

(a) the mid-point of a range of equally likely outcomes of expenditure

(b) no provision should be recognised where measurement uncertainty exists

(c) the minimum amount expected to represent a best estimate, where the other option is omission

(d) the most likely amount expected to represent a best estimate, where there is a single obligation **Ans. (b)**

6. Which one of the following represents an appropriate discount rate for measuring a provision based on Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets?

(a) market yields on national government bonds

(b) market yields on high-quality corporate bonds

(c) pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability

(d) pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the entity

Ans. (c)

7. As at 31 March 20X1 (reporting date), ABC Ltd is involved in a legal dispute with one of its supplier in relation to the early termination of the exclusive licence agreement between the two companies. The supplier seeks damages of ' 50 crore. The directors of ABC believe that, they will be successful in defending this claim. ABCs lawyers have advised that there is 90% chances that the entity would not be made liable for this claim. In accordance with Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets, which one of the following is the most appropriate option for ABC while preparing its financial statements for 31 March 20X1?

(a) Neither recognition of provision nor disclosure of contingent liability is required

(b) Disclose information about the possible liability as a contingent liability

(c) Recognise a provision for the best estimate of the obligation to the supplier

(d) Recognise a contingent liability for the best estimate of the obligation to the supplier **Ans. (b)**

8. Which one of the following is a correct statement in relation to provisions and contingencies?

(a) An item of a contingent nature may be recognised, but not disclosed, in the body of the financial statements

(b) Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets applies to provisions to perform land rehabilitation activity

(c) Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets applies to contingent liabilities and contingent assets of insurers that result from insurance contracts

(d) A present obligation exists in all circumstances where a company may have some choice in whether or not to make a future sacrifice of economic benefits in settlement of an obligation **Ans. (b)**

9. On 1 July 20X2, a local statute was passed which necessitated Ayushman Ltd to undertake modifications to its motor vehicles to enable reduction of harmful emissions. The modifications should have been completed by 31 December 20X2 at an estimated cost to Ayushman Ltd of ₹ 3 million. In fact by 31 March 20X3 none of the vehicles had been modified although they continued to be used. It is quite likely that Ayushman Ltd will be fined ₹ 0.5 million per month for the illegal use of the vehicles. The directors of Ayushman Ltd intendto carry out the modifications during the year ended 31 March 20X4. They expect that a penalty will become payable very shortly as legal action has commenced against Ayushman Ltd.

What will be the amount of provision for fine for illegal use of vehicle, which Ayushman Ltd have to make as on 31 March, 20X3.

(a) ₹ 3 million (b) ₹ 0.5 million (c) ₹ 1.5 million (d) ₹ 6 million **Ans. (c)**

Reason: 0.5 million per month x 3 month = ₹ 1.5 million

10. During the year ended 31 March 20X3, Flywing Airways Ltd. provided consultancy services to a customer regarding the installation of a new production system related aircraft parts. The system has caused the customer considerable problems, so the customer has taken legal action against the Company on the loss of profits that has arisen as a result of the problems with the system. The customer has claimed damages to the tune of ₹ 1.6 million.

The legal department of Flying Airways Ltd. considers that there is a 25% chance the claim can be successfully defended. The legal department further stated that they are reasonably confident the Company is covered by insurance against these types of loss. The legal department planned to raise a claim as soon as the outcome of the case is confirmed. The accountant feels nothing needs to be provided for this claim as the Company is suitably covered against any possible losses.

What accounting treatment should be done in Flywing Airways Ltd.s books for the year ending 31 March 20X3, as the customer has taken legal action against the Company on the loss of profits that has arisen as a result of the problems with the system?

(a) Nothing needs to be provided for claim instituted by the customer as the Company is suitably covered against any possible losses.

(b) Provision of ₹ 1.6 million should be recognised with a corresponding charge to profit or loss.

(c) Provision of ₹ 0.4 million as per best possible outcome should be recognised with a corresponding charge to profit or loss.

(d) Contingent Liability would be disclosed in the 31 March 20X3 financial statements. Charge to profit or loss if any would be recognised in the period when the claim is settled. **Ans. (b)**

Reason: In accordance with Ind AS 37 the claim made by the customer needs to be recognised as a liability in the financial statements for the year ended 31 March 20X3.

The standard stipulates that a provision should be made when, at the reporting date:

- An entity has a present obligation a rising out of a past event.
- There is a probable out flow of economic benefits.
- Are liable estimate can be made of theout flow.

Since, all three of the above conditions are satisfied here, a provision is required to be made.

The provision should be measured at the amount the entity would rationally pay to settle the obligation at there porting date. Where there is a range of possible outcomes, the individual most likely outcome is of ten the most appropriate measure to use.

In this case, a provision of ₹1.6 million seems appropriate, with a corresponding charge to profit or loss. The insurance claim against our supplier is a contingent asset. Ind AS 37 states that contingent assets should not be recognised until their realizationis virtually certain, but should be disclosed where the irrealization is probable.

11. XYZ Ltd. offers a warranty on a number of its smaller sized supply only turbines. The turbines come with the warranty and is not sold separately anywhere. XYZ Ltd. has therefore made a provision of ₹ 5,10,000 for warranty claims. This represents 2% of total gross margin on this class of sales for the year ended 31 March 20X2. All turbines in this class are sold at a gross profit margin of 30%. In the past, 2% of these turbines have been validly returned during the warranty period. XYZ Ltd. provides a full refund on return of the faulty turbine, which is then scrapped. The warranty covers any problems that occur with the turbine in the first 6 months following sale, and sales have occurred evenly throughout the year. At what amount should warranty provision be increased in books of accounts on 31 March 20X2?

(a) ₹ 0.255 Million (b) ₹ 0.51 Million (c) ₹ 0.34 Million (d) ₹ 0.85 Million **Ans. (b)**

Reason: Warranty on supply only wind turbines

Warranty provisions are governed by Ind AS 37. The potential warranty claims meet the criteria to be recognised as a provision:

- A present obligation as a result of a past event.
- A probable outflow of economic benefits.
- It may be reliably measured.

Ind AS 37 requires large populations of events, such as warranties, to be measured at probability weighted value. The warranty covers problems arising in the first 6 months after purchase.

Warranty claim covers 2% of gross margin, whereas customers are refunded the full selling price. As the goods are scrapped it is assumed XYZ Ltd has no potential for re-imbursement from its supplier regarding the faulty goods. A calculation of warranty provision is set out below:

- 2% of annual gross margin is INR 5,10,000 therefore 100% of annual gross margin must be INR 2,55,00,000

	%age	**Annual sales**	**Product under warranty at 31/03/2018**	**Percentage expected to be returned**	**Warranty provision**
		INR m	INR m	INR m	INR m
Gross margin	30%	25.5			
Selling price	100%	85	42.5	2%	0.85

The warranty provision should therefore be increased by INR 0.34 m (INR 0.85 m- INR 0.51 m). As the provision is expected to be used in the next 6 months no discounting is required.

12. Johansen Ltd. agreed to forego the interest payments due on 30 September 20X2 and 20X3, with the payments from 30 September 20X4 onwards resuming as normal.

On 1 January 20X2, the directors of Johansen Ltd. decided to terminate production at one of the company's divisions. This decision was publicly announced on 31 January 20X2. The activities of the division were gradually reduced from 1 April 20X2 and closure is expected to be complete by 30 September 20X2.

At 31 January 20X2, the directors prepared the following estimates of the financial implications of the closure:

(i) Redundancy costs were initially estimated at ₹ 2 million. Further expenditure of ₹ 8,00,000 will be necessary to retrain employees who will be affected by the closure but remained with Johansen Ltd. in different divisions. This retraining will begin in early July 20X2. Latest estimates are that redundancy costs will be ₹ 1·9 million, with retraining costs of ₹ 8,50,000.

(ii) Plant and equipment having an expected carrying value at 31 March 20X2 of ₹ 8 million will have a recoverable amount ₹ 1·5 million. These estimates remain valid.

(iii) The division is under contract to supply goods to a customer for the next three years at a pre- determined price. It will be necessary to pay compensation of ₹ 6,00,000 to this customer. The compensation actually paid, on 31 May 20X2, was ₹ 5,50,000.

(iv) The division will make operating losses of ₹ 3,00,000 per month in the first three months of 20X2-20X3 and ₹ 2,00,000 per month in the next three months of 20X2-20X3. This estimate proved accurate for April 20X2 and May 20X2.

(v) The division operates from a leasehold premise. The lease is a non-cancellable operating lease with an unexpired term of five years from 31 March 20X2. The annual lease rentals (payable on 31 March in arrears) are ₹ 1·5 million. The landlord is not prepared to discuss an early termination payment.

Following the closure of the division it is estimated that Johansen Ltd. would be able to sub-let the property from 1 October 20X2.

Johansen Ltd. could expect to receive a rental of ₹ 3,00,000 for the six-month period from 1 October 20X2 to 31 March 20X3 and then annual rentals of ₹ 5,00,000 for each period ending 31 March 20X4 to 31 March 20X7 inclusive. All rentals will be received in arrears.

Any discounting calculations should be performed using a discount rate of 5% per annum. You are given the following data for discounting at 5% per annum:

Present value of ₹1 received at the end of year 1	= ₹ 0·95
Present value of ₹1 received at the end of year 1–2 inclusive	= ₹ 1·86
Present value of ₹1 received at the end of year 1–3 inclusive	= ₹ 2·72
Present value of ₹1 received at the end of year 1–4 inclusive	= ₹ 3·54
Present value of ₹1 received at the end of year 1–5 inclusive	= ₹ 4·32

How much provision should be made in the financial statements of 31 March 20X2 with respect to onerous contract - Leasehold Premises?

(a) ₹ 45,20,000 (b) ₹ 45,10,000 (c) ₹ 64,80,000 (d) ₹ 19,70,000 **Ans. (b)**

Reason: The net cost of fulfilling the contract is [(₹ 15,00,000 x 4'32) - (₹ 3,00,000 x 0'95 - ₹ 5,00,000 x (4.32 – 0.95))] = ₹ 45,10,000.

13. Mega Energy India Limited and Fuel Limited are partners of a joint operation engaged in the business of mining precious metals. The entity uses a jointly owned drilling plant in its operations.

During the year ended 31 March 20X4 an inspection was conducted by the government authorities in the mining fields. The inspection authorities concluded that adequate safety measures were not followed by the entity. As a consequence, a case was filed and a penalty of ₹ 50 crores have been demanded from Mega Energy India Limited.

The legal counsel of the company has assessed the demand and opined that appeals may not be useful, and the appeal orders will be unfavourable to the joint arrangement. Out of ₹ 50 crores (to be paid by Mega Energy India Limited), ₹ 30 crore will be reimbursed by Fuel Limited later, as per the terms of the Joint Operation Agreement. At the year end, actual reimbursement was not received from the Fuel Limited.

With respect to a joint operation engaged in the business of mining precious metals, how will the liability be disclosed in the books of Mega Energy India Limited?

(a) Provision for ₹ 20 crores and a contingent liability for ₹ 30 crores

(b) Contingent liability for ₹ 50 crores

(c) Provision for ₹ 30 crores and a contingent liability for ₹ 20 crores

(d) Provision for ₹ 50 crores. **Ans. (d)**

Reason : As per Ind AS 37, 'Provisions, Contingent Li abilities and Contingent Assets', when some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, there imbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

In the statement of profit or loss, the expense relating to a provision may be presented net of the amount recognised for are imbursement. In the given case since Mega Energy Limited will record provision by ₹ 50 crores in its books and ₹30 crores will be reimbursed by Super Power India Limited. Hence ₹ 50 crore will be recognised as provision and ₹ 30 crore is disclosed as a contingentasset, if it is virtually certain that reimbursement will be received if the entity settles the obligation.

14. A factory owned by Mega Energy India Limited was destroyed by fire. Mega Energy India Limited lodged an insurance claim for the value of the factory building, plant, and an amount equal to one years net profit. During the year there were a number of meetings with the representatives of the insurance company.

Finally, before the year-end, it was decided that Mega Energy India Limited would receive compensation for 90% of its claim. Mega Energy India Limited received a letter that the settlement cheque for that amount had been sent, but it was not received before the reporting date..

How should Mega Energy India Limited treat the insurance claim against loss of fire in its financial statements?

(a) Record 90% of the claim as a receivable as it is virtually certain that the contingent asset will be received.

(b) Do not make any adjustments in the financials and only disclose the contingent asset in the notes on accounts.

(c) Wait until next year when the settlement cheque is actually received and not recognize or disclose this receivable at all since at year-end it is a contingent asset.

(d) Record 100% of the claim as a receivable at year-end as it is virtually certain that the contingent asset will be received and adjust the 10% next year when the settlement check is actually received. **Ans. (a)**

Reason : As per para 35 of Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets', contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.If aninflow of an economic benefits has become probable, an entity discloses the contingent asset.

In the given case, the settlement of the claim was conveyed by a letter from the insurance company that also stated that the settlement check was sent for 90% of the claim. Mega Energy India Limited should record 90% of the claim as a receivableas it is virtually certain that the contingent asset will be received.

15. XYZ Ltd has a corporate office in Mumbai held under a lease. A specific requirement of the lease is that the asset is returned in good condition. The lease was signed on 31 March 20X2 and will last for four years. In order to meet the requirements of lease, the board of directors of XYZ Ltd have agreed to refurbish the office building in four years time at a cost of ₹ 42,50,000. This figure includes the renovation of the buildings exterior and is based on current price levels. Due to severe cold weather, XYZ Ltd will also have to spend ₹ 3,40,000 at the end of next year on renovating the building. The directors are of the opinion that this expenditure will reduce, by an equivalent amount, against the overall refurbishment costs payable at the end of the lease term. Relevant discount rate applicable in this case is 10%. No entries have been made for the above expenditure in the financial statements..

How much amount of provision should be recognized at 31 March 20X2 for the corporate office held on lease in Mumbai?

(a) ₹ 3,40,000 (b) ₹ 32,11,810 (c) ₹ 29,79,590 (d) ₹ 45,90,000 **Ans. (c)**

Reason : Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets states that a provision should be recognised only if there is a present obligation resulting from a past event. The termsof the lease contract mean that XYZ Ltd has an obligation to incur expenditure in order to return the buildings to the lessor in good condition. The past obligating event would appear tobe the signing of the lease. Thus, there is a strong case for recognising a provision for the expenditure.

Following is the computation of the expense to be recognised:

Payment	PVF @ 10%	Present value
Rs. 3,40,000	0.909	Rs. 3,09,060
-	0.826	-
-	0.751	-
Rs. 39,10,000	0.683	Rs. 26,70,530
Grand total		**Rs. 29,79,590**

16. During the year, Free Bird Limited delivered manufactured products to customer K. The products were faulty and on 1 October 20X3 customer K commenced legal action against the Company claiming damages in respect of losses due to the supply of faulty product. Upon investigating the matter, Free Bird Limited discovered that the products were faulty due to defective raw material procured from supplier F. Therefore, on 1 December 20X3, the Company commenced legal action against F claiming damages in respect of the supply of defective raw materials.

Free Bird Limited has estimated that it's probability of success of both legal actions, the action of K against Free Bird Limited and action of Free Bird Limited against F, is very high.

On 1 October 20X3, Free Bird Limited has estimated that the damages it would have to pay K would be ₹5 crore. This estimate was revised to ₹5.2 crore as on 31 March 20X4 and ₹5.25 crore as at 15 May 20X4. This case was eventually settled on 1 June 20X4, when the Company paid damages of ₹5.3 crore to K.

On 1 December 20X3, Free Bird Limited had estimated that it would receive damages of ₹3.5 crore from F. This estimate was revised to ₹3.6 crore as at 31 March 20X4 and ₹3.7 crore as on 15 May 20X4. This case was eventually settled on 1 June 20X4 when F paid ₹3.75 crore to Free Bird Limited. Free Bird Limited in its financial statements for the year ended 31 March 20X4, provided ₹3.6 crore. The financial statements were authorised by the Board of Directors on 26 April 20X4.

What is the entry to be passed in the books of account as on 31 March 20X4 with respect to legal action commenced by customer K on the company?

(a) Statement of Profit or Loss A/c	Dr. ₹5.2 crore	
To Current Liability A/c	₹5.2 crore	
(b) Statement of Profit or Loss A/c	Dr. ₹5.3 crore	
To Non-Current Liability A/c	₹5.3 crore	
(c) Statement of Profit or Loss A/c	Dr. ₹5.25 crore	
To Current Liability A/c	₹5.25 crore	
(d) Other Comprehensive Income A/c	Dr. ₹5.2 crore	
To Current Liability A/c	₹5.2 crore	**Ans. (a)**

Reason : Free Bird Limited is required to make provision for the claim from customer Kasper Ind AS 37 ' Provisions, Contingent Liabilities and Contingent Assets' since the claim is a present obligation as a result of delivery of faulty goods manufactured. Also, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations. Further, a reliable estimate of ₹ 5.2 crore can be made of the amount of the obligation while preparing the financial statements as on 31 March, 20X4.

17. During the year, Free Bird Limited delivered manufactured products to customer K. The products were faulty and on 1 October 20X3 customer K commenced legal action against the Company claiming damages in respect of losses due to the supply of faulty product. Upon investigating the matter, Free Bird Limited discovered that the products were faulty due to defective raw material procured from supplier F. Therefore, on 1 December 20X3, the Company commenced legal action against F claiming damages in respect of the supply of defective raw materials.

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What will the accounting treatment of the action of Free Bird Limited against supplier F as per applicable IND AS?

(a) Asset receivable shall be recognised for ₹3.75 crore

(b) Asset receivable shall be recognised for ₹3.70 crore

(c) Asset receivable shall be recognised for ₹3.60 crore

(d) It will be considered as contingent assed which will not be recognised in the books. **Ans. (d)**

Reason : As per para 31 of Ind AS 37,Free Bird Limited shall not recognise a contingent asset. Here the probability of success of legal action is very high but there is no concreteevidence which makes the inflow virtually certain. Hence, it will be considered as contingent asset only and shall not be recognized in the financial statements of 31 March, 20X4.

18. There was an incident on 1 November 2X17 at the main manufacturing plant that led to six personal injury compensation claims. If these claims are successful, it is likely that a further two staff who were also injured will make claims. XYZ Ltd.'s lawyers estimate that it is probable that the claims will succeed and that the estimated average cost of each pay will be ₹30 thousand.

General Manager (Accounts) has made a note in the file indicating that in order to avoid adverse publicity, the lawyers have recommended that XYZ Ltd settles the personal injury claims out of court as quickly as possible at their estimated amount for all eight employees injured. The personal injury claim is in advanced stages and XYZ Ltd's insurance company has agreed to refund the costs of the claim once the claims have been settled. An additional three employees have made claims for stress, rather than injury, arising from the accident. If these claims were to be successful, the lawyers have estimated that the likely pay-out would be around ₹12 thousand per employee. However, the lawyers have stated that they believe it would be very unlikely that these employees will win such a case.

With what amount should XYZ Ltd recognize the personal injury claim compensation as on 31 March 2X18?

(a) ₹240 thousand (b) ₹276 thousand (c) Nil (d) ₹216 thousand **Ans. (a)**

Reason : There should be a provision made for the personal injury claims amounting to 8 x ₹ 30 thousand = ₹ 240 thousand Legal claim

During the year an accident at one of the company's manufacturing plants caused a number of employees to suffer injury. This provision is to cover personal injury claims made by individuals concerned. This provision is based on lawyers' best estimate of the likely amount at which the claims can reasonably be settled. It is hoped that the claims will be settled in the next financial year. It is expected that the full amount of these claims will be reimbursed by the insurance company following their payment.

Contingent liability

Following the accident a number of employees have made claims for un due stress. Based on lawyers' advice the company does not believe these claims will be successful. If such case was to be successful, the estimated pay-out would be Rs 36 thosand.

19. Following issues have arisen in ABC Ltd. for which Mr. Goel is unsure how to account for:

(i) ABC Ltd. operates number of machines requiring a regular overhaul to pass safety inspection. Many of these overhauling are due within next 12 months.

(ii) ABC Ltd. has caused environmental damage during construction of new factory. There is no legislation requiring ABC Ltd. to repair the ground. ABC Ltd. has a welldocumented, strong environmental policy and record of honouring it.

Provision should be created for which of the following issues.

(a) i and ii both (b) i only (c) ii only (d) None of the above **Ans. (c)**

Reason: The overhaul does not represents a present obligation for ABC Ltd. as it has a choice whether to continue using the assets or not. While there is no legal obligation to repair the environmental damage caused, ABC Ltd. has constructive obligation due to its published environmental policies and record of honouring it.

20. Ajay has identified following potential liabilities as at 31 March 2017:

(i) The signing of a non-cancellable contract in March 2017 to supply goods in the following year on which due to a pricing error, a loss will be made.

(ii) The cost of reorganisation which was approved by the board in August 2016 but has not yet been implemented, communicated to interested parties or announced publicly.

(iii) An amount of deferred tax relating to the gain on the revaluation of a property during the current year. ABC Ltd has no intention of selling the property in the foreseeable future.

(iv) The balance on the warranty provision which relates to products for which there are no outstanding claims and whose warranties had expired by 31 March 2017

Which of the above should be recognized as liabilities as at 31 March 2017?

(a) (i) (ii) (iii) and (iv) (b) (i) and (ii) only (c) (i) and (iii) only (d) (iii) and (iv) only **Ans. (c)**

21. ABC Ltd. has a legal claim that is likely to be settled at the end of two years for an amount of Rs. 100 million. Discounting rate is 4.5%. Determine the amount of provision to be initially recognised.

(a) Rs. 100 million (b) Rs. 91.57 million

(c) Rs. 95.69 million (d) Rs. 95.5 million **Ans. (b)**

Reason : The provision should be initially recognised at Rs. 91.57 million which is the present value of Rs. 100 million discounted at 4.5% for two years.

☞CHAPTER - 13 : IND AS 38 : Intangible Assets

1. On January 2, 2015 NDA Corp. bought a trademark from Induga Corp. for Rs. 5,00,000. NDA retained an independent consultant, Who estimated the trademarks remaining life to be 20 years. Its unamortized cost on Induga accounting records was Rs. 3,80,000. NDA decided to amortize the trademark over the maximum period allowed. In NDAs December 31,2015 balance sheet, what amount should be reported as accumulated amortization?

(a) Rs. 7,600 (b) Rs. 9,500 (c) Rs. 25,000 (d) Rs. 50,000. **Ans. (c)**

Reason: As per Ind AS 38, Intangible assets should be measured initially at cost. Therefore, NDA company should amortize the trademark, at its cost of Rs. 5,00,000. The unamortized cost on the sellers books (Rs. 3,80,000) is irrelevant to the buyer. The trademark has a remaining useful life of 20 years. Therefore, for 2015 amortization expense and accumulated amortization is Rs. 25,000 (Rs 500,000 ÷ 20 Years.)

2. During 2015, NDA Corp, incurred costs to develop and produce a routine, low-risk computer software product, as follows

Completion of detailed program design	Rs. 13,000
Costs incurred for coding and testing to establish technological feasibility	Rs. 10,000
Other coding costs after establishment of technological feasibility	Rs. 24,000
Other testing costs after establishment of technological feasibility	Rs. 20,000
Cost of producing product masters for training materials	Rs. 15,000
Duplication of computer software and training materials form	
Product masters (1,000 units)	Rs. 25,000
Packaging product (500 units)	Rs. 9,000

In NDA Corp. December 31, 2015 balance sheet, what amount should be capitalized as software cost, subject to amortization ?

(a) Rs. 54,000 (b) Rs. 57,000 (c) Rs. 59,000 (d) Rs. 69,000. **Ans. (c)**

Reason : As per Ind AS-38, costs incurred in creating the computer software, should be charged to research and development expense when incurred until technological feasibility / asset recognition criteria have been established for the product. Technological feasibility / asset recognition criteria are established upon completion of detailed program design or working model. In this case Rs. 23,000 would be recorded as expense (Rs. 13,000 for completion of detailed program design and Rs. 10,000 for coding and testing to establish technological feasibility / asset recognition criteria.) Cost incurred from the point of technological feasibility / asset recognition criteria until the time when products costs are incurred are capitalized as software costs. In this situation, Rs. 59,000 is capitalized as software cost (Rs. 24,000 + Rs. 20,000 + Rs. 15,000.)

3. During 2015, NDA Corp, incurred costs to develop and produce a routine, low-risk computer software product, as follows

Completion of detailed program design	Rs. 13,000
Costs incurred for coding and testing to establish technological feasibility	Rs. 10,000
Other coding costs after establishment of technological feasibility	Rs. 24,000
Other testing costs after establishment of technological feasibility	Rs. 20,000
Cost of producing product masters for training materials Rs. 15,000	
Duplication of computer software and training materials form	
Product masters (1,000 units)	Rs. 25,000
Packaging product (500 units)	Rs. 9,000

In NDA Corp. December 31, 2015 balance sheet, what amount should be reported in inventory?

(a) 25,000 (b) 34,000 (c) 40,000 (d) 49,000. **Ans. (b)**

Reason: Product costs, which can be easily associated with the inventory items, are reported as inventory (in this case, Rs. 25,000 for duplication of computer software and training materials and Rs. 9,000 of packaging costs, for a total of Rs. 34,000.)

4. NDA Inc. has two patents that have allegedly been infringed by competitors. After investigation, legal counsel informed NDA that it had a weak case on patent A34 and a strong case in regard to patent B19. NDA incurred additional legal fees to stop infringement on B19. Both patents have a remaining legal life of 8 years. How should NDA account for these legal costs incurred relating to the two patents?

(a) Expense costs for A34 and capitalize costs for B19. (b) Expense costs for both A34 and B19.

(c) Capitalize costs for both A34 and B19. (d) Capitalize costs for A34 and expense costs for B19.

Ans. (b)

Reason: As per Ind AS-38 subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense when it is incurred. Most subsequent expenditures maintain the expected future economic benefits embodied in an existing intangible asset and so not meet the definition of an intangible asset and IND AS38 recognition criteria.

Because, NDA Inc, has a weak case on patent A34; the legal fees incurred in its defence should be expensed, rather than capitalized as an asset, As a result of this occurrence, NDA Inc. should also consider whether the patent would provide benefit to future periods. NDA Inc. has a strong case in regard to patent B19 but it is expenditures maintaining the expected future economic benefits embodied in an existing intangible asset and so not meet the definition of an intangible asset. Hence Answer (b) is correct.

5. On January 1, 2015, NDA Corp. incurred organization costs / preliminary expenses of Rs. 24,000. What portion of the organization costs will NDA Corp. defer to years subsequent to 2015?

(a) Rs. 23,400 (b) Rs. 19,200 (c) Rs. 4,800 (d) Rs. 0

Explaination: As per Ind AS-38, organization cost / preliminary expenses are those incurred in the formation of a corporation. Since uncertainty exists concerning the future benefit of these costs in future years, they are properly recorded as an expense in 2015. **Ans. (d)**

6. According to IND AS 38 –"Intangible assets", which one of the following criteria are relevant in determining the useful life of an intangible asset?

(a) The expected usage of the asset (b) The residual value of the asset

(c) Amortisation period (d) None of the above **Ans. (a)**

7. According to IND AS 38 - "Intangible assets", amortisation of an intangible asset with a finite useful life should commence when

(a) It is first recognised as an asset

(b) It is available for use

(c) The cost can be identified with reasonable certainty

(d) It is probable it will generate future economic benefits **Ans. (b)**

8. A newly set up dot-com entity has engaged you as its financial advisor. The entity has recently completed one of its highly publicized research and development projects and seeks your advice on the accuracy of the following statements made by one of its stakeholders. Which one is true?

(a) Costs incurred during the "research phase"can be capitalized.

(b) Costs incurred during the "development phase" can be capitalized if criteria such as technical feasibility of the project being established are met.

(c) Training costs of technicians used in research can be capitalized.

(d) Designing of jigs and tools qualify as research activities. **Ans. (b)**

9. Which item listed below does not qualify as an intangible asset?

(a) Computer software. (b) Registered patent.

(c) Copyrights that are protected. (d) Notebook computer. **Ans. (d)**

10. Which of the following items qualify as an intangible asset under IND AS 38?

(a) Advertising and promotion on the launch of a huge product.

(b) College tuition fees paid to employees who decide to enroll in an executive M.B.A. program at Harvard University while working with the company.

(c) Operating losses during the initial stages of the project.

(d) Legal costs paid to intellectual property lawyers to register a patent. **Ans. (d)**

11. Which of the following disclosures is not required by IND AS 38?

(a) Useful lives of the intangible assets.

(b) Reconciliation of carrying amount at the beginning and the end of the year.

(c) Contractual commitments for the acquisition of intangible assets.

(d) Fair value of similar intangible assets used by its competitors. **Ans. (d)**

12. With respect to valuation of goodwill and recognition of the same on acquisition of another entity. Ind AS 38 Intangibles assets establishes general principles for the recognition and measurement of intangible assets in the financial statements. The standard requires any entity to recognize the intangible assets in the financial statements if and only if: i) it is probable that the future economic benefits which are attributable to the asset will flow to the enterprise; and ii) the cost of the asset can be reliably measured Which of the following is NOT correct about the intangible assets?

(a) The above recognition criteria are applicable to both the costs incurred to acquire intangible assets and those generated internally

(b) Internally generated goodwill is prohibited to be recognized by the standard. Only acquired goodwill can be recognized as an intangible asset in the financial statements

(c) In case of brands, mastheads, publishing titles, and similar intangible assets can be recognized both when generated internally as well as acquired separately

(d) In case of research and development phase of an internally generated assets, standard permits capitalisation only in the development phase **Ans. (c)**

13. Amortisation of an intangible asset ceases__________.

(a) when the asset is derecognized

(b) when the asset is withdrawn from use

(c) at the earlier when the asset is classified as held for sale or when the asset is derecognized

(d) at the later of asset is classified as held for sale or derecognized **Ans. (c)**

14. AG Limited is developing a new production process. During 20X1-20X2, expenditure incurred was ₹ 11 lakhs of which ₹ 8 lakhs was incurred before 1st January, 20X2 and ₹ 3 lakhs was incurred between January and March 20X2. The company is able to demonstrate that on 1st January, 20X2, the production process met the criteria for recognition as an intangible asset. The recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be ₹ 2 lakhs as at 31st March, 20X2. What is the carrying value of intangible asset at the end of the year?

(a) ₹ 11 lakhs (b) ₹ 8 lakhs (c) ₹ 2 lakhs (d) ₹ 3 lakhs **Ans. (c)**

15. AG Limited has purchased a computer with various additional software. These are integral part of the computer. Which of the following are true in the context of Ind AS 38?

(a) Recognize Computer and software (b) Recognize tangible and

(c) Recognize computer and software (d) None of the above **Ans. (a)**

16. Which of the following is not covered within the scope of Ind AS 38?

(a) Intangible assets held-for-sale in the ordinary course of business

(b) Assets arising from employee benefits

(c) Noncurrent Intangible assets held for sale

(d) All of the above **Ans. (d)**

17. An intangible asset with a finite useful life should be amortised over

(a) Its expected useful life (b) A period determined by management

(c) Five years (d) No foreseeable limit **Ans. (a)**

18. Which of the following is required to be tested for impairment annually irrespective of the presence of indications of impairment or not?

(a) Intangible asset with an indefinite useful life (b) Intangible asset not yet available for use

(c) Goodwill acquired in a business combination (d) All of the above **Ans. (d)**

19. AG Ltd acquired copyrights for ₹ 7,50,000 on 1st April 20X1. The Management assessed the copyrights useful life at 25 years from the date of acquisition. The entity will consume the copyrights future economic benefits evenly over 25 years from the date of acquisition. The fair value of the copyright at 31st March, 20X3 is ₹ 7,00,000. The entity shall measure the carrying amount of the copyright on 31st March, 20X3 at

(a) ₹ 7,00,000 (b) ₹ 6,90,000 (c) ₹ 7,20,000 (d) ₹ 7,50,000 **Ans. (b)**

20. Blue Ocean Limited has created employee goodwill by recognizing its retirement benefit package. An independent management consultant estimated the value of the goodwill at ₹ 5 million. In addition, company recently purchased a patent that was developed by a competitor. The patent has an estimated useful life of five years.

Should Blue Ocean Limited report the goodwill with respect to retirement benefit package and patent purchased from its competitor, in its Statement of financial position?

Goodwill	Patent	
(a)	Yes	No
(b)	No	Yes
(c)	No	No
(d)	Yes	Yes

Ans. (b)

Reason: As per Ind AS 38 'Intangible Assets', internally generated goodwill shall not be recognised as an asset. In some cases, expenditure is incurred to generate future economic benefits, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Standard. Such expenditure is often described as contributing to internally generated goodwill. Internally generated goodwill is not recognised as an asset because it is not an identifiable resource (ie it is not separable nor does it arise from contractual or other legal rights) controlled by the entity that can be measured reliably at cost. The recognition of an item as an intangible assetrequires an entity to demonstrate that the item meets:

(a) the definition of an intangible asset and (b) the recognition criteria

This requirement applies to costsincurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it.Since patent meets this requirement, it should be presented in Balance Sheet accordingly.

21. A subsidiary of Blue ocean limited namely, Fantasy Ltd. produced a place of antivirus software and declared it as 'open' software. Anybody can download it for free from the internet and anyone can make changes to it. Fantasy Ltd. has spent ₹ 5 million in developing the software.

What should be the treatment of antivirus software produced by Fantasy Limited?

(a) The software will be treated as intangible asset and amortized over its useful life

(b) The software will be tested for impairment depending on its recoverable value in future

(c) The amount spent on the software will be capitalized under Ind AS 16

(d) The software cost would be charged to revenue. **Ans. (d)**

Reason : As per Ind AS 38 'Intangible Assets', an intangible asset shall be recognised if, and only if:

(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

(b) the cost of the asset can be measured reliably

The software cost would be charged to revenue as no future economic benefits will flow to the entity from it. Hence, it does not meet the criteria laid down under Ind AS 38 'Intangible Assets'.

22. The Company holds a trademark with a carrying value of ₹ 1.7 million, which it uses to produce consumer goods. It is expected that the products will continue to be in demand for the foreseeable future, and the trademark has an indefinite life. At 31 March 20X2, based on a report by an independent expert, it is estimated that the recoverable amount of the trademark is only ₹ 1.6 million.

What would be the carrying amount of trademark as at 31 March 20X2 which it has been using to produce consumer goods?

(a) ₹ 1.7 million (b) ₹ 1.6 million (c) ₹ 0.1 million (d) None of the above. **Ans. (b)**

Reason : In accordance with Ind AS 38 'Intangible assets', the value of the trademark will not be amortized since its useful life is indefinite. However, it will be tested for impairment annually. The recoverable amount is₹ 1.6 million (₹ 0.1 million less than the carrying value of ₹ 1.7 million). Therefore, there is an impairment loss of ₹0.1 million. This amount will be deducted from the carrying value and recognized in the statement of profit or lossas at 30th September 20X2.

23. A Ltd. is developing a new process. During 2X13, expenditure incurred was ₹ 10,00,000, of which ₹ 8,00,000 were incurred before 1st June 2X13 and ₹ 2,00,000 were incurred between 1st June 2X13 and 31st March 2X14. At 1st June 2X13, the process met the criteria for recognition as an intangible asset. The fair value of the know-how in the process is ₹ 5,00,000 on 31st March, 2X14.

What should be the accounting for expenditure incurred on developing new process by A Ltd. under Ind AS?

(a) Intangible asset of ₹ 5,00,000; expense of ₹5,00,000

(b) Intangible asset of ₹ 10,00,000; expense of Nil

(c) Intangible asset of ₹ 2,00,000; expense of ₹ 8,00,000

(d) Intangible asset of ₹ 5,00,000; expense of ₹ 8,00,000 **Ans. (c)**

Reason: Intangible asset of INR 2,00,000; expense of INR 8,00,000

Research expenditure	Expense as incurred
Development expenditure	▪ Expense if the recognition criteria for intangible assets are not met ▪ Capitalise once the recognition criteria are met ▪ Past expense cannot be capitalised

24, Makers Ltd. acquired the trademark for a product from ABC Ltd. 10 years back for ₹ 8,00,000. The trademark is expected to have an indefinite useful life. The carrying amount as on 1 April, 20X3 is ₹ 8,00,000. Now due to competition, the sales of the product have declined by 25%. The management has made assessment and has ascertained that the trademark will continue to have indefinite useful life. The recoverable amount is ascertained as ₹ 6,00,000.

In respect of the trademark with indefinite life, Makers Ltd. seeks your advice on the appropriate treatment from following:

(a) The entity can continue with the same carrying amount of ₹ 8,00,000.

(b) he entity can adopt amortisation for the amount of ₹ 6,00,000.

(c) The entity has to test the asset for impairment, as an external unfavourable event had occurred and reduce the carrying amount to ₹ 6,00,000.

(d) The entity is required to test the trademark for impairment every year and accordingly, the carrying amount will be reduced to ₹ 6,00,000. **Ans. (d)**

Reason : An intangible asset with an indefinite useful life should not be amortised. In accordance with Ind AS 36, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with the carrying amount

(a) annually ; and

(b) whenever there is an indication that the in tangible asset may be impaired.

Since in the given case, management has made assessment and has as certained that the trademark will continue to have indefinite useful life, so amortization is still not allowed on such intangible asset. However, impairment loss would arise as there coverable amount is less than the carrying amount.

25. 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 XYZs 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 ₹ 18,00,000, incurred during the year to 31 March 20X6, have been recognised as an intangible asset

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

(a) ₹ 18,00,000 (b) ₹ 15,00,000 (c) Nil (d) ₹ 12,00,000 **Ans. (b)**

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

26. XYZ Ltd acquired a trade mark at a cost of ₹ 68,00,000 on 1 April 20X1. At that date the patent had an estimated useful life of 20 years. In the draft financial statements at 31 March 20X2, the trade mark is shown at ₹ 88,40,000 as per the advise of a brand valuation firm. An increase in fair value has been recognized in other comprehensive income and carried as a revaluation surplus within equity.

The entity follows cost model.

At what amount, trademark should be valued on 31 March, 20X2?

(a) ₹ 88,40,000 (b) ₹ 68,00,000 (c) ₹ 64,60,000 (d) ₹ 83,98,000 **Ans. (c)**

Reason : Trademarks are intangible assets. Ind AS 38 Intangible Assetsrule about measurement subsequent to initial recognition is that an intangible asset can only be measured using the revaluation model if it is traded in the market where the items are homogeneous. Each trademark is by definition unique, so Ind AS 38 is explicit that trademarks should not be measured using the revaluationmodel.

The trademark should be measured at its cost of Rs. 68,00,000 and then amortized over twenty years. Rs. 3,40,000 should be recognized as an expense in the profit/loss for the current period and the asset measured at Rs. 64,60,000 in the Statement of Financial Position. The Rs. 20,40,000 increase in fair value should be reversed out of other comprehensive income and the revaluation surplus in respect of this asset should bezero.

27. BD Limited purchased a trademark during the year ended 31 March 20X3. BD Limited has incurred following cost in connection with the trademark:

S. No.	Particulars	Amount (₹)
1.	One-time trademark purchase price	8,50,000
2.	Non-refundable taxes	38,000
3.	Training sales personnel on use of the new trademark	45,000
4.	Research expenditures associated with the purchase of the new trademark	58,000
5.	Legal costs incurred to register the trademark	22,000
6.	Salaries of the administrative personnel	1,05,000

What is the value of trademark to be recognised in the books of BD Limited in accordance with Ind AS?

(a) ₹11,18,000 (b) ₹10,73,000 (c) ₹9,55,000 (d) ₹9,10,000 **Ans. (d)**

Reason:

Particulars	₹
One-time trademark purchase price	8,50,000
Non-refundable taxes	38,000
Legal costs incurred to register the trademark	22,000
Value of trademark to be recognised in the financials	9,10,000

28. BD Limited purchased a trademark during the year ended 31 March 20X3. BD Limited has incurred following cost in connection with the trademark:

S. No.	Particulars	Amount (₹)
1.	One-time trademark purchase price	8,50,000
2.	Non-refundable taxes	38,000
3.	Training sales personnel on use of the new trademark	45,000
4.	Research expenditures associated with the purchase of the new trademark	58,000
5.	Legal costs incurred to register the trademark	22,000
6.	Salaries of the administrative personnel	1,05,000

Out of the following disclosures given by BD Limited, which disclosure is not required under relevant Ind AS?

(a) Fair value of similar intangible assets used by its competitors.

(b) Reconciliation of carrying amount at the beginning and the end of the year.

(c) Contractual commitments for the acquisition of intangible assets.

(d) Useful lives of the intangible assets. **Ans. (a)**

Reason: As per Ind AS 38, Intangible Assets', an entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

(a) whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;

(b) the amortisation methods used for intangible assets with finite useful lives;

(c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;

(d) the line item(s) of the statement of comprehensive in come in which any amortisation of intangible assets is included;

(e) are conciliation of the carrying amount at the beginning and end of the period

Accordingly, in the given case, BD Limited is not required to disclose the fair value of similar intangible assets used by its competitors.

29. One of the senior engineers at XYZ Ltd has been working on a process to improve manufacturing efficiency and, consequently, reduce manufacturing costs. The senior engineer believes that the cost savings will exceed the project costs within twelve months of their implementation. Regulatory testing and health and safety approval was obtained on 1 June 2X17 and the project was finally completed on 10 April 2X18. Costs of ₹3,600 thousand, incurred uniformly during the year to 31 March 2X18, have been recognised as an intangible asset. An offer for the new technology of ₹1,680 thousand has been received and rejected by the company. Vivek Singhania believes that the project will be a major success and has the potential to save the company ₹2,400 thousand in perpetuity. The director of research at XYZ Ltd is not convinced about the long-term prospects of the new process and is of the opinion that competitorswill develop similar technology within five years. It is estimated that the present value of future cost savings will be ₹2,280 thousand over this period. After that, there is no certainty about its future.

What will be the carrying amount of intangible asset developed by senior engineers of XYZ Ltd on 31 March 2X18?

(a) ₹3,600 thousand (b) ₹3,000 thousand (c) ₹1,680 thousand (d) ₹2,280 thousand **Ans. (d)**

Reason: Ind AS 38 'Intangible Assets', requires an intangible asset to be recognised if, and only if, certain criteria are met.Regulatory approval on 1 June 2X17 was the last criterion to be met, the other criteria have been met as follows:

- Intention to complete the asset is apparentasit is a major project with full support from the board
- Finance is available as resources are focused on project
- Costs can be reliably measured
- Benefits expected to exceed costs

An amount of ₹ 3,000 thousand (₹ 3,600 thousand x 10/12) should be capitalised in the Statement of Financial Position representing the expenditure since 1 June 2X17.The expenditure prior to 1 June of ₹ 600 thousand (2/12 x ₹ 3,600 thousand) should be recognised as an expense, retrospective recognition as an asset is not allowed.

Ind AS 36 'Impairment of Assets', requires an intangible asset not yet available for use to be tested for impairment annually. A cash flow of ₹ 2,400 thousand in perpetuity would clearly have a present value in excess of ₹ 1,200 thousand and hence there would be no impairment. However, the research director is technically qualified so impairment tests should be based on her estimate of a five-year remaining life and a present value of the future cost savings of ₹ 2,280 thousand. This is greater than the offer received (fair less costs to sell) of ₹1,680 thousand and should be used as the recoverable amount. The carrying amount should be reduced to this amount and an impairment loss of ₹720

30. A Ltd. acquired a customer portfolio from XYZ Ltd. at a price of INR 13 lacs. There are no legal contracts with customers to protect the interest of A Ltd. However, exchange transactions for similar non-contractual customer relationships (other than as part of a business combination) exist in the market

How should customer portfolio acquired by A Ltd. should be recognised in its IND AS financial statements?

(a) A Ltd. should recognise it as an intangible asset.

(b) A Ltd. should recognise it as an expense.

(c) A Ltd. should recognise it as a goodwill.

(d) A Ltd. should recognise it as a separate tangible asset. **Ans. (a)**

Reason: A Ltd. should recognise the customer portfolio as an intangible asset considering the below guidance under para 16 of Ind AS 38. An entity may have a portfolio of customers or a market share and expect that, because of its efforts in building customer relationships and loyalty, the customers will continue to trade with the entity. However, in the absence of legal rights to protect, or other ways to control, the relationships with customers or the loyalty of the customers to the entity, the entity usually has insufficient control over the expected economic benefits from customer relationships and loyalty for such items (eg portfolio of customers, market shares, customer relationships and customer loyalty) to meet the definition of intangible assets. In the absence of legal rights to protect customer relationships, exchange transactions for the same or similar non-contractual customer relationships (other than as part of a business combination) provide evidence that the entity is nonetheless able to control the expected future economic benefits flowing from the customer relationships. Because such exchange transactions also provide evidence that the customer relationships are separable, those customer relationships meet the definition of an intangible asset.

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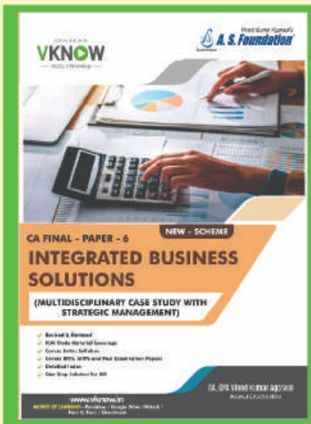

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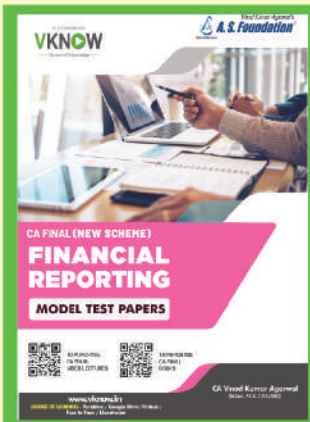

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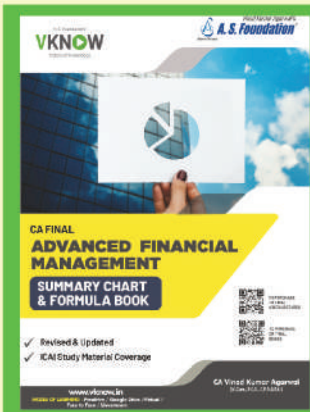

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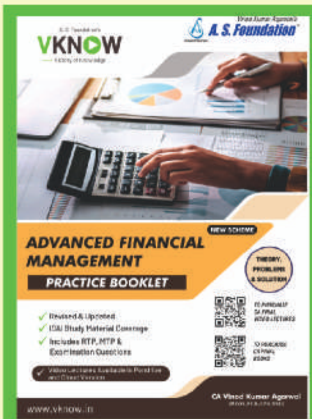

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CA VINOD KUMAR AGARWAL'S STUDENTS

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...
Thank you very much sir for providing us lectures for free.
Once again thank you.

-Harshita Golhani

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