Final New Syllabus
Paper - 6 E
Roll No. .................... Global Financial Reporting Standards

DEC 2021

Total No. of Questions – 5 Total No. of Printed Pages – 24

Time Allowed – 4 Hours Maximum Marks – 100

# ALM

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

**The Questions paper comprise five case study questions. The candidates are required to answer any four case study questions out of five.**

Answers in respect of Multiple Choice Questions are to be marked on the OMR answer sheet as given on the cover page of the descriptive answer book.

Answer to other questions to be written on the descriptive answer book.

Answer to MCQs, if written inside the descriptive answer book will not be evaluated.

Candidates should answer the Case Study Questions as selected by them in totality i.e., MCQ as well as descriptive Question of the same Case Study Question.

Candidates are not permitted to answer MCQs of one Case Study Question and the descriptive questions of another Case Study Question and vice-versa.

Candidates may use calculator.

**Marks**

**Case Study – 1**

Innovative Harmony Limited (IHL or the Company) is a listed entity that prepares its financial statements as per IFRS. 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 month of July 2020, the Company stumbled upon the opportunity to serve families looking for 'staycations' or short stay vacations away from their homes during the lockdowns due to COVID-19 pandemic. Quite swiftly, IHL identified and purchased 15 fully-furnished residential cottages along the Sahyadri hills. The Company also purchased from the same vendor, a shopping complex (containing 20 shops and two cafeterias) in the vicinity. At the time of purchase, all shops and all of the cottages were already fully booked (leased out). The fair value of the consideration paid for the shopping complex is almost equal to the aggregate fair value of the 15 cottages purchased.

The shopping complex and the cottages consist of and include land, building, property improvements, furnishings, the lease contracts. Additionally, the shopping complex includes contracts for outsourced cleaning, security and building maintenance. None of the employees or any other assets or any processes or other activities are transferred. The floor area of each of the cottages is the same, but the interiors are based on different themes. However, the profile of the lessees (tenants) is similar i.e., young families with children. The risk associated with operating the cottages on an aggregated manner is similar to that of the real estate market of the individual cottages and is not significantly different. The processes performed through the contracts for outsourced cleaning, security and building maintenance are ancillary or minor within the context of all the processes required to create outputs. Any of these services can be easily replaced.

During the financial year 2020-21, 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.

In October 2020, IHL also acquired 75 % of Very Relevant Limited by paying cash consideration of PC 0.80 million. The fair value of non-controlling interest on the date of acquisition is PC 0.20 million. The value of Very Relevant Limited's identifiable net assets as per IFRS 3 is PC 1.10 million.

IHL, Super Express Limited and Very Relevant Limited are engaged in different lines of business. These companies are using the following cost formulas for their valuation in accordance with IAS 2 inventories.

| **Name of the Company** | **Cost formula used** |
|---|---|
| Innovative Harmony Limited | Weighted average cost |
| Super Express Limited | FIFO |
| Very Relevant Limited | FIFO |

IHL has issued 1,000,000 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 upto 31 March 2020. However, while preparing draft financial statements for the year ended 31 March 2021, management discovers that these assets and liabilities cannot be netted off as per the applicable guidance under IFRS. Therefore, management intends to gross up the comparative amounts for the prior period in order to present the correct amount of debtors and creditors.

**Marks**

**Questions :**

1.1 With respect to acquisition of Super Express Limited, what is the amount of goodwill, if non-controlling interest is measured at fair value ? **2**

(A) PC 1.63 million

(B) PC 0.65 million

(C) PC 0.35 million

(D) PC 2.63 million

1.2 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 ? **2**

(A) PC 1.63 million

(B) PC 0.65 million

(C) PC 0.35 million

(D) PC 2.63 million

1.3 Calculate the basic EPS and diluted EPS of IHL for the financial year ended 31st March, 2021. **2**

(A) Basic EPS is PC 6.01 per share and diluted EPS is PC 5.88 per share

(B) Basic 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

Marks

1.4 Which of the following statements is incorrect if the Company needs to achieve an effective cash flow hedge in the books of account ? 2

(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

1.5 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 $31^{st}$ March, 2021 ? 2

(A) This is considered to be correction of an error under IAS 8 and the Company would need to present a third statement of financial position at as $1^{st}$ April, 2019

(B) This is not an error under IAS 8 but the reclassifications must be disclosed in the notes to accounts in the financial statements as at $31^{st}$ March, 2021

(C) This a change in accounting policy under IAS 8 with retrospective change to be presented from 1 April 2020

(D) This is considered to be correction of an error under IAS 8 and IHL would need to present a third statement of financial position at as $1^{st}$ April, 2020.

1.6 Analyse whether IHL has acquired a business with respect to acquisition of cottages and shopping complex. Present your arguments whether IHL could elect to apply the business concentration test. 6

1.7 Explain with appropriate references whether IHL is required to value the inventories of Super Express Limited and Very Relevant Limited using the weighted average cost formula in preparing its consolidated financial statements. 5

1.8 With respect to acquisition of Very Relevant Limited, determine the value of gain on bargain purchases as per : 4

(a) Fair value method

(b) Proportionate share method

**Marks**

**Case Study – 2**

Sigma Limited is engaged in manufacture of cold beverages. The promoters of the Company are very optimistic about this business and have expanded the sale of beverages across India, Africa and Europe. The Board of Directors of the Company has also decided to get the Company listed on one of the European stock exchanges. Additionally, the management is in talks with the companies in the Middle East in order to acquire a controlling stake. The Company is already preparing its financial statements under IFRS.

Sigma Limited has two major plants - one in Bikaner, India and the other outside of Berlin. In 2015, the property prices had fallen significantly and the Company had purchased land adjoining the Berlin plant. Management has been debating on the use of the land i.e., whether to build an additional plant or to lease it out, but has not yet decided as yet. The purchase price of the land was EUR 250,000 as at April 1, 2015. The real estate market is flourishing in Europe and the fair value of the land was EUR 600,000 as on 31 March 2020. The EUR:INR exchange rate was 1: 75 as on 1st April, 2015 and 1:95 as on 31st March, 2020. The Company believes that the cost approach would be most appropriate so that frequent re-measurement of the property value is not required.

The Bikaner plant has Machinery Alpha, which is used for the purpose of bottling. The life of this machine is 10 years. The sealing of bottle caps is done by Machinery Beta. Machinery Alpha, can individually have an output and can also be sold independently in the open market. However, Machinery Beta, cannot be sold in isolation and without clubbing with Machinery Alpha. Sigma Limited considers this group of assets as a Cash Generating Unit (CGU) and an inventory amounting to ₹ 2 lakhs is also allocated to this CGU. Earlier, the Company had completed an acquisition and the goodwill resulting from the acquisition amounted to ₹ 100 lakhs. Out of this goodwill, ₹ 15 lakhs has been allocated to the CGU.

Machinery Alpha was purchased on 1st April, 2015 for ₹ 90 lakhs and residual value is ₹ 5 lakhs. Machinery Beta was purchased on 1st April, 2016 for ₹ 50 lakhs with no residual value. The life of the Machinery Beta is 10 years. The inventory has been recognised and valued in accordance with the respective accounting standards. The recoverable value of Cash Generating Unit is ₹ 81 lakhs as at March 31, 2019.

The Company has estimated the following cash flows as at March 31, 2019 in the next 5 years pertaining to Machinery Alpha. The incremental borrowing rate of the Company is 10%.

| Year | Cash Flows (₹) |
|---|---|
| 1 | 15,00,000 |
| 2 | 10,00,000 |
| 3 | 10,00,000 |
| 4 | 15,00,000 |
| 5 | 10,00,000 (excluding RV) |
| **Total** | **60,00,000** |

Professional valuers have estimated that the current market value of Machinery Alpha is ₹ 60 lakhs. There is a need to dismantle the machinery before delivering it to buyer. Dismantling costs of ₹ 5 lakhs would need to be paid by the Company. Specialised packaging cost would be ₹ 2 lakhs and legal fees to be incurred will be ₹ 2 lakhs. The recoverable value of Machinery Alpha is ₹ 48 lakh as at March 31, 2020.

**Additional information :**

The Company purchased a machine "Hi-Tech" for packaging purposes but the management has changed its intention of use of this machine and decided to rent out the machinery. The life of this machinery is 8 years. The Company has changed the method of depreciation on this machinery from SLM to WDV method in the 3rd year of acquisition. The accountant is unsure about the accounting treatment arising from this change.

At a recent meeting, the Board of Directors has discussed legal cases which two customers A and B have filed against the Company in respect of the supply of products which were allegedly faulty which the Company supplied in the last three months of the financial year. The management has estimated that if the actions succeed, the Company is likely to have to pay out ₹ 20 lakhs in damages to customer A and ₹ 18 Lakh in damages to customer B. The legal advisers of the Company have reliably estimated that there is a 60% chance that customer A's claim will be successful and a 75% chance that customer B's claim will not be successful. For such claims, the Company has insurance in place to cover against claims. It is highly probable that any claims of customer which were successful would be covered under this policy. Therefore, the management believes that if any liability will arise then the claim will be recovered from the insurance company.

On 1st April, 2018, the Company had granted its CEO an option to take 900 shares or cash amount equivalent to 750 shares. The minimum service requirement is 2 years. There is a condition to hold the shares for a period of three years if shares are opted. The CEO exercises his cash option as on 31 March 2020.

| Particulars | ₹ per share |
|---|---|
| Fair value of share alternative (with restrictions) | 210 |
| Grant date fair value on 1st April, 2018 | 211 |
| Fair value as on 31st March, 2019 | 220 |
| Fair value as on 31st March, 2020 | 232 |

Marks

**Questions :**

2.1 For the purpose of recognition, measurement and presentation, what is the appropriate classification of land adjoining the Berlin plant ? **2**

(A) The land will be classified as Property, Plant and Equipment

(B) The land will be classified as Investment Property

(C) The land will be classified as Long term Investments

(D) The classification will depend on the use and intention of the management

2.2 How should the Company reflect in its financial statements the legal claims pursued by Customer A and Customer B ? **2**

(A) Provision for legal claims amounting to ₹ 38 lakhs needs to be recognised in financial statements

(B) Provision for legal claims amounting to ₹ 20 lakhs needs to be recognised in financial statements

(C) Provision for legal claims amounting to ₹ 38 lakhs needs to be disclosed in the financial statements

(D) Provision for legal claims amounting to ₹ 20 lakhs needs to be recognised and ₹ 18 lakhs needs to be disclosed in the financial statements

2.3 What will be the classification of the "Hi-tech" machinery acquired by Sigma Limited ? **2**

(A) This will be classified as Property, plant and equipment

(B) This will be classified as Investment Property

(C) This will be classified as Long term Investments

(D) The classification will depend on the use and intention of the management

Marks

2.4 The change in depreciation method from Straight-line to written down value method on "Hi-Tech" in the 3rd year will be treated as : **2**

(A) Retrospectively, as a change in accounting policy

(B) Prospectively, as a change in accounting estimate

(C) Retrospectively, as correction of an error

(D) Prospectively, as correction of an error

2.5 With respect to the option granted to its CEO, the ESOP expense recognised in the Company's profit and loss for each year was : **2**

(A) ₹ 97,875 for the year ended 31st March, 2019 and ₹ 106,875 for the year ended 31st March, 2020.

(B) ₹ 102,375 for the year ended 31st March, 2019 and ₹ 106,875 for the year ended 31st March, 2020.

(C) ₹ 94,500 for the year ended 31st March, 2019 and ₹ 79,125 for the year ended 31st March, 2020.

(D) ₹ 79,125 for the year ended 31st March, 2019 and ₹ 94,500 for the year ended 31st March, 2020

2.6 The CFO has asked you to explain the concept of Cash Generating Unit and compute the following with all the relevant working notes : **10**

(A) Impairment loss on CGU for the year ending March 31, 2019

(B) Carrying value of each asset of CGU post impairment charge for the year ending March 31, 2019 and March 31, 2020.

2.7 You are required to draft a note for the accounting treatment for provision for legal claims in case of Customer A and Customer B with relevant principles from IFRS. For future reference, the CFO has also asked you to clarify how provisions are treated differently from contingent liabilities. **5**

**Case Study – 3**

H Limited is engaged in trading of kitchenware products, with distributorship of various branded products. The Company has a strong dealership network and has decided to take warehouses on lease basis. While exploring the options for leased premises, the management found certain properties in Northern and Western India that were available on distress sale. For these locations, the management analyses that the best option was to buy the property instead of obtaining it on a lease.

Accordingly, H Limited purchased a warehouse in Northern India for ₹ 50 lakhs as on June 1, 2017. Further, the Company incurs stamp duty charges of ₹ 5 lakhs and court fees for ₹ 2 lakhs on registration of title of the property in the name of the Company. H Limited had to incur major renovation expenses of ₹ 20 lakhs to ensure that the warehouse is ready for use i.e., storage of high quality branded kitchenware. The renovation expenses were met by obtaining a bank loan as on June 1, 2017 at a fixed interest rate of 12% per annum. The warehouse is ready for intended use as on April 1, 2018. The useful life of the renovated property is estimated to be 10 years.

H Limited also purchased a property in Western India for ₹ 70 lakhs as at July 1, 2017. The Company paid a consultancy fees of ₹ 2 lakhs to a real estate expert for an opinion on whether the property can be acquired or not. Further, the Company incurred stamp duty charges of ₹ 7 lakhs and court fees for ₹ 3 lakhs on registration of title of the property in the name of the Company. The useful life of the renovated property is estimated to 10 years.

For the other locations, H Limited entered in to lease agreement for 4 years as at April 1, 2017 on the following terms:

- Eastern India warehouse: Annual lease rent of ₹ 10 lakhs payable at the end of every year
- Southern India warehouse: Annual lease rent of ₹ 15 lakhs payable at the beginning of every year

Marks

The Company had applied Ind AS 17 for leases in the past. The financial controller of H Limited has ascertained that the transition date to the new leases standard IFRS 16 will be 1 April 2018. However, due to the complexity of the new standard, she has sought assistance to determine its implications on the financial statements of the Company.

The Credit rating of H Limited rated by the credit agency is AA+. The Company is in discussion with a bank for a term loan for 4 years and 5 years and the bank has offered an interest rate of 10% and 12% respectively for the said term. As per the risk matrix, the bank charges such rates for borrowers with a credit rating of AA+. If the credit rating of the borrower is lower than AA+ then bank increases the interest rate by 100 basis points.

Although H Limited primarily trades in kitchenware, the Company has now decided to make a low-key entry into manufacturing, by launching a niche silicone product that seems to have become popular with home bakers. The development expenditure incurred during FY 2019-20 totalled ₹ 350,000, of which ₹ 175,000 was incurred prior to 31 October 2019, the date on which it became clear that the silicone product was technically viable. The new product will be launched shortly and the recoverable amount is estimated at ₹ 140,000.

On 05th April, 2020, a fire broke out in H Limited's godown in Eastern India. The godown had been under lockdown due to the onset of COVID-19 pandemic and there were no staff present. The neighbouring villagers informed the Fire brigade almost three hours later by which time most of the inventory had been destroyed. The inventory was estimated at ₹ 20 lakhs.The financial statements as at and for the year ended March 31, 2020 are authorized for issue on 30th April, 2020.

**Questions :**

3.1 What is the depreciation charge of Northern India warehouse for FY 2017-18 and FY 2018-19 to be debited to Statement of Profit and Loss ? **2**

(A) The depreciation charge for both years FY 2017-18 and FY 2018-19 is ₹ 5,70,000

Marks

(B) The depreciation charge for FY 2017-18 is ₹ 4,75,000 and for FY 2018-19 is ₹ 5,70,000

(C) The depreciation charge for FY 2017-18 is Nil and for FY 2018-19 is ₹ 7,90,000

(D) The depreciation charge for FY 2017-18 is ₹6,58,333 and for FY 2018-19 is ₹ 7,90,000

3.2 What is the depreciation charge of Western India warehouse for FY 2017-18 and FY 2018-19 to be debited to Statement of Profit and loss ? 2

(A) The depreciation charge for FY 2017-18 is ₹ 6,00,000 and for FY 2018-19 is ₹ 7,90,000

(B) The depreciation charge for FY 2017-18 is 6,00,000 and for FY 2018-19 is ₹ 8,00,000

(C) The depreciation charge for FY 2017-18 and for FY 2018-19 is ₹ 8,20,000

(D) The depreciation charge for FY 2017-18 is ₹ 6,15,000 and for FY 2018-19 is ₹ 8,20,000

3.3 What is the discount rate relevant for application of new leases standard for the two warehouse properties taken on lease ? 2

(A) The interest rate of 10% is taken as a discount rate

(B) The interest rate of 11% is taken as a discount rate

(C) The interest rate of 13% is taken as a discount rate

(D) The interest rate of 12% is taken as a discount rate

3.4 In its financial statements for the year ended 31st March, 2020, how should H Limited recognise the development expenditure in relation to the silicone product ? 2

(A) Recognise the expenditure of ₹ 175,000 in the profit and loss account

(B) Recognise the expenditure of ₹ 140,000 in the profit and loss account

(C) Recognise an intangible asset of ₹ 175,000

(D) Recognise an intangible asset of ₹ 140,000

Marks

3.5 In its financial statements for the year ended 31st March, 2020, how should H Limited reflect the loss of inventory due to fire in the godown ? 2

(A) Credit inventory by ₹ 20 lakhs and debit loss of inventory in the Statement of Profit and Loss

(B) Disclose the loss of inventory in the notes to accounts

(C) Credit inventory by ₹ 20 lakhs and debit loss of inventory in the Statement of Profit and Loss, with additional disclosures in the notes to accounts

(D) Disclose of the loss of inventory as a footnote on the face of the Balance sheet.

3.6 In regard to the warehouse property taken on lease for Eastern and Southern India :

(A) Calculate the transition impact under the full retrospective approach at the date of transition and the comparative year. (2018-19) 4

(B) Pass journal entries at the date of transition and the comparative year using the full retrospective approach. (2018-19) 4

(C) Show the deferred tax impact on transition assuming tax rate of 20%. 3

3.7 For all warehouses used by H Limited, summarise the impact on specific P&L line items (excluding deferred tax) for the year ended 31st March. 2020. 4

**Case Study – 4**

S Limited is engaged in the manufacturing of customised heavy-duty equipment and allied products. The Company is already listed on the London Stock Exchange (LSE) and plans to expand into automotive industry, with a particular focus on electric vehicles. To fund the expansion, the CFO and his team are evaluating several financing options. After detailed discussions with the Board of Directors, S Limited decides to issue bonds with a conversion option in order to maintain its debt-equity ratio.

Accordingly on 1st April, 2020, the Company issued 20,000 convertible bonds at par. The bonds are redeemable five years later at a par value of INR 700 per bond, which is the nominal value. The bonds pay interest annually in advance at an interest rate of 6%. At the option of the holder, each bond can be converted at the maturity date into 40 shares of INR 1 each. The market rate for five years bond with no right of conversion is 10%.

Out of above proceeds, on 1st April, 2020 the Company acquired a land in Mewat, a backward area in the state of Haryana, to set up a manufacturing plant for electric vehicles. S Limited paid INR 50,00,000 for the land and INR 5,00,000 for stamp duty and legal fees. The Architect fees and site preparation fees were INR 3,50,000 and INR 2,00,000 respectively. On 1st June, 2020, Company started constructing the plant and incurs the below-mentioned costs for the year ended 31st March, 2021. In the opinion of the management, the construction will take at least 2 years to be completed.

| | |
|---|---|
| Material costs | INR 15,00,000 |
| Direct Labour costs | INR 5,00,000 |
| General Overheads | INR 2,00,000 |

In order to be environment friendly, the Company establishes solar panels worth INR 10,00,000 to supply solar electricity to its manufacturing plant. The solar panels have a useful life of 10 years. The government promotes and encourages industries to use sustainable and renewable energy by giving subsidies to such companies. Accordingly, S Limited received a government subsidy of INR 4,00,000 upon installing the solar panels. S Limited has organized an inauguration ceremony on the opening of its manufacturing plant. The Company has invited various ministers, government officials and industrialists. The total cost of INR 6,00,000 was incurred on inauguration ceremony.

Balance proceeds were used to acquire a building in Gurgaon for business purposes, however it has been recently determined that the building could be converted into a shopping mall. The building's market value would be higher if converted into shopping mall.

Marks

As part of staff welfare measures, the Company has contracted to lend to its employees sums of money at 6% per annum rate of interest. The loan amount is to be repaid in five equal instalments along with interest. The Company had lent ₹ 800,000 to its employees on 1st April, 2020. The market rate of interest is 10% per annum for comparable loans.

On 1st April, 2020, S Limited enters into a contract with Corp Limited to construct heavy-duty equipment for a promised consideration of INR 20,00,000 with a bonus of INR 2,50,000 if the equipment is completed within 24 months. At the inception of the contract, S Limited correctly accounts for the promised bundle of goods and services as a single performance obligation in accordance with IFRS 15. At the inception of the contract, the Company expects the costs to be INR 11,00,000 and concludes that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will occur. Completion of the heavy-duty equipment is highly susceptible to factors outside of the Company's influence, mainly due to difficulties with the supply of components.

At 31st March, 2021, S Limited has satisfied 65% of its performance obligation on the basis of costs incurred to date and concludes that the variable consideration is still constrained in accordance with IFRS 15. However, on 4 June 2021, the contract is modified with the result that the fixed consideration and expected costs increase by INR 1,50,000 and INR 80,000 respectively. The time allowable for achieving the bonus is extended by six months with the result that S Limited concludes that it is highly probable that the bonus will be achieved and that the contract still remains a single performance obligation.

**Questions :**

4.1 How should S Limited account for 20,000 convertible bonds issued at par as on 1st April, 2020 ? 2

(A) The value of liability portion of convertible bonds as on 1st April, 2020 will be INR 1,40,00,000 and Equity portion will be NIL.

Marks

(B) The value of liability portion of convertible bonds as on 1st April, 2020 will be INR 1,18,77,159 and Equity portion will be INR 21,22,841.

(C) The value of liability portion of convertible bonds as on 1st April, 2020 will be INR 1,30,64,875 and Equity portion will be INR 9,35,125.

(D) The value of liability portion of convertible bonds as on 1st April, 2020 will be INR 1,48,40,000 and Equity portion will be NIL.

4.2 What is the interest expense to be booked by S Limited on convertible bonds in year 4 ? 2

(A) INR 14,33,091

(B) INR 13,49,091

(C) INR 14,60,895

(D) INR 8,40,000

4.3 What will be the carrying amount of the Mewat plant as on 31st March, 2021 ? 2

(A) INR 80,50,000

(B) INR 92,72,448

(C) INR 94,72,488

(D) INR 92,72,488

4.4 The Mewat plant could not have been set up without the support of the ministers and government officials. The CFO of S Limited is of the view that cost incurred for the inauguration of the plant should be capitalised as part of its cost. What is your view ? 2

(A) The CFO is incorrect, the cost incurred in inauguration of manufacturing plant should be charged to Statement of Profit and Loss.

(B) The CFO is correct, the cost incurred in inauguration of manufacturing plant should be capitalised as cost of plant.

Marks

(C) The CFO is correct, however the cost incurred in inauguration of manufacturing plant should be accounted separately by setting up a deferred expenditure account.

(D) The CFO is incorrect, the cost of inauguration may be capitalised or charged to Statement of Profit and Loss applied consistently as an accounting policy choice.

4.5 How should S Limited account for the government subsidy received on purchase of solar panels ? 2

(A) By deducting from the cost of Solar panels; Cost of solar panels will be INR 6,00,000 and depreciation will be charged on INR 6,00,000 for 10 years

(B) By setting up a deferred income of INR 4,00,000; it will be amortized to P&L over a period of 10 years

(C) By recognizing an income of INR 4,00,000 immediately on receipt of subsidy

(D) Either (A) or (B)

4.6 The CFO of S Limited is unclear whether the fair value of building purchased in Gurgaon should be determined based on the market value under its current use or the building's potential market value if it was converted into a mall. The CFO has sought your opinion in determining the fair value of building. 2

4.7 How should S Limited account for the loans given to staff ? Prepare the tabular computations necessary for initial recognition. Also determine the interest income to be recognised in each year as per the effective interest rate method. 4

4.8 The CFO of S Limited wants your opinion on the accounting treatment of contract with Corp Limited in light of IFRS 15. (for the year 2020-21 and 2021-22) 9

Marks

**Case Study – 5**

PQR Ltd. is a Company incorporated in India is following IFRS for preparation of its financial statements. The management of the Company is in the process of finalising its accounts for the year ended 31st March, 2019. The following is a summary of the draft Statement of Profit and Loss for the year ended 31st March 2019 :

**Summarised Statement of Profit and Loss for the year ended 31st March, 2019**

₹ In lakhs

| Particulars | 2018-19 | 2017-18 |
|---|---|---|
| Revenue from operations | 294 | 212 |
| Other income | 45 | 34 |
| **Total Revenue** | **339** | **246** |
| Expenses | | |
| Cost of materials consumed | 91 | 67 |
| Employee benefits | 63 | 64 |
| Finance costs | 11 | 13 |
| Depreciation and amortisation | 38 | 37 |
| **Total expenses** | **203** | **181** |
| **Profit/(loss) before taxes** | **136** | **65** |
| Tax expenses | 38 | 18 |
| **Profit/(loss) after taxes** | **98** | **47** |
| Other comprehensive income | 25 | 20 |
| **Total comprehensive income** | **123** | **67** |

In the process of finalisation, the following issues were discussed between the auditors and management:

(a) The company had appointed ABC Pvt. Ltd. for carrying out job work on certain intermediate products. The amount invoiced by ABC Pvt.

Ltd. for such work during the year was ₹ 350 lakhs. To carry out the said job work, PQR Ltd has let out its premises to ABC Pvt. Ltd. for the whole year for which rentals of ₹ 5 lakhs per month were agreed to be charged. The management contends that since the job work is carried out by ABC Pvt. Ltd. in the premises let out by the company itself, the disclosure of job work charges in the statement of profit and loss account can be on net basis :

(b) Details of Equity Share Capital (all shares are on pari-passu basis) of the company and its movement during the year is as under:

(i) Opening balance: 10 lakh shares @ ₹ 10 each;

(ii) 50,000 shares issued and allotted on 1st October 2018 @ ₹ 25 each;

(iii) 75,000 shares issued and allotted on 1st February 2019 @ ₹ 35 each - the same are only paid up to the extent of 50% and the remaining amount is due on 1st May 2019.

(c) During FY 2018-19, PQR Ltd. has issued following financial instruments :

(i) Perpetual bonds (i.e., a bond that does not have a maturity date that pays 5% interest each year.

(ii) Mandatorily redeemable preference shares with a fixed redemption amount (i.e., a share that will be redeemed by the entity at a future date).

(iii) Preference Shares redeemable at the option of the holder for a fixed amount of cash.

(iv) Written call option that allows the holder to purchase a fixed number of ordinary shares from the company for a fixed amount of cash.

(d) Legal cases have been filed against the Company for following alleged infringements of law :

(i) Unauthorized use of a trademark where the amount of claim is ₹ 80 lakhs.

(ii) Non-payment of termination pay and gratuity to 50 employees who were terminated without giving any reason where the employees union is claiming ₹ 30 lakhs.

(iii) Unlawful environmental damage for dumping waste in the river near its factory; environmentalists are claiming unspecified damages as clean-up costs.

The legal counsel of the company is of the opinion that the legal cases are not tenable in law and has communicated this assessment of the three lawsuits.

Lawsuit 1: The chances of the company having to pay ₹ 80 lakhs is remote;

Lawsuit 2: It is probable that the company would have to pay the terminated employees, but the best estimate of the amount that would be payable if the plaintiff succeeds against the entity is ₹ 20 lakhs;

Lawsuit 3: There is no current law that would compel the entity to pay for such damages. There may be a case for constructive obligation, but the amount of damages cannot be estimated with any reliability.

(e) PQR Ltd has made investment in a subsidiary, B Ltd, with the view to dispose of this investment within six months. The investment in the subsidiary has been classified as held for sale;

Marks

(f) PQR Ltd had carried out impairment testing for its financial and non-financial assets while finalising accounts for the year ended 31st March, 2018. During the year ended 31st March 2019, the management believes that there is a case for reversal of such impairment losses as provided for; in previous years.

(g) Copper is one of the main raw material of PQR Ltd whose price is highly fluctuating. In order to hedge price fluctuations in the price of copper, PQR Ltd has entered into derivative contracts. The company does not want to classify the said derivatives as a cash flow hedge and instead wants to classify the same as fair value hedge.

As an expert on IFRS you are requested to give your opinion on the following:

**Part A (select any 1 out of A, B, C or D)**

5.1 Regarding the contention of the management in (a) above, the correct treatment as per the applicable IFRS would be : 2

(A) Disclose Job work charges of ₹ 350 lakhs and rent income of ₹ 60 lakhs separately;

(B) Disclose Job work charges of ₹ 290 lakhs along with necessary disclosure in notes to accounts;

(C) Disclose Job work charges of ₹ 290 lakhs with no additional disclosure in notes to accounts;

(D) Disclose Job work charges of ₹ 290 lakhs along with necessary disclosure in Directors' Report.

Marks

5.2 While preparing standalone financial statements, investment in B Ltd is to be initially measured by PQR Ltd at: 2

(A) Cost;

(B) Fair Value less costs to sell;

(C) Option available between Cost or Fair Value;

(D) Net Realisable value.

5.3 In Consolidated financial statements of PQR Ltd, Non-controlling Interest should be presented: 2

(A) Within long-term liabilities;

(B) In between long-term liabilities and current liabilities;

(C) Within the parent shareholders' equity;

(D) Within equity but separate from the parent shareholders' equity.

5.4 Accounting treatment as per the applicable IFRS to be followed for copper derivatives is as under: 2

(A) The hedging instrument is measured at fair value, and the hedged item is measured at fair value with respect to the hedged risk. Changes in fair value are recognized in profit or loss;

(B) The hedging instrument is measured at fair value, and the hedged item is measured at fair value with respect to the hedged risk. Changes in fair value are recognized directly in equity to the extent the hedge is effective;

(C) The hedging instrument is measured at fair value with changes in fair value recognized directly in equity to the extent the hedge is effective. The accounting for the hedged item is not adjusted;

(D) The hedging instrument is accounted for in accordance with the accounting requirements for the hedged item (i.e., at fair value, cost or amortized cost, as applicable), if the hedge is effective.

**Marks**

5.5 As mentioned in para (f) above, which of the following impairment losses can never be reversed as per the applicable IFRS ? **2**

(A) Loss on property, plant, and equipment;

(B) Loss on goodwill;

(C) Loss on a business segment;

(D) Loss on inventory.

**Part – B Answer the following :**

5.6 Based on draft Statement of Profit and Loss and details as per para (b) above, calculate the Basic and Diluted Earnings per share. Ignore information in other paras for the same. **5**

5.7 You are required to state classification and presentation of financial instruments stated in (c) above, in the standalone financial statements of PQR Ltd. **5**

5.8 You are requested to give your views on requirement of necessary provisions to be made and disclosures in respect of contingent liabilities for matters stated in (d) above in the books of PQR Ltd. **5**