NOV 2022

Roll No. ....

Total No. of Case Study Questions – **5**

Total No. of Printed Pages – **23**

Time Allowed – **4** Hours

Maximum Marks – **100**

Final New Syllabus

Paper - 6 E

Global Financial Reporting Standards

FWD

14/11/2022 6:15 PM

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 who has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

The Question Paper comprises 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 (MCQs) are to be marked on the OMR Answer Sheet as given on the cover page of the answer book. Answer to MCQs, if written inside the descriptive type 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

LT Ltd is a multinational company engaged in the manufacture of chemicals. JK Ltd, a wholly owned subsidiary of LT Ltd, is a public utility entity engaged in distribution of electricity within a certain geographical area to the general public. LT Ltd has a manufacturing plant within the same geographical area and therefore purchases electricity from JK Ltd. The rates/tariffs are as fixed by the regulatory authority for generation and distribution of electricity.

LT Ltd acquired 60% of the equity shares of KR Ltd on 1 April 2021 when KR Ltd retained earnings were ₹ 4,00,000. During the year ended 31 March 2022, KR Ltd purchased goods from LT Ltd for ₹ 2,00,000. At 31 March 2022, half of these goods were still in the inventory of KR Ltd. LT Ltd applies a mark-up of 25% on cost to all of its sales. At 31 March 2022, the retained earnings of LT Ltd and KR Ltd were ₹ 7,50,000 and ₹ 5,40,000 respectively.

LT Ltd is in the process of constructing a building. The construction process is expected to take about 18 months from 1 January 2020 to 30 June 2021. The building meets the definition of a qualifying asset. LT Ltd incurs the following expenditure for the construction :

1 January 2020	₹ 5 crores
30 June 2020	₹ 20 crores
31 March 2021	₹ 20 crores
30 June 2021	₹ 5 crores

On 1 July 2020, LT Ltd issued 10% Redeemable Debentures of ₹ 50 crores. The proceeds from the debentures form part of the company's general borrowings, which it uses to finance the construction of the qualifying asset, ie, the building. LT Ltd had no borrowings (general or specific) before 1 July 2020 and did not incur any borrowing costs before that date. LT Ltd incurred ₹ 25 crores of construction costs before obtaining general borrowings on 1 July 2020 (pre-borrowing expenditure) and ₹ 25 crores after obtaining the general borrowings (post-borrowing expenditure).

LT Ltd's customer has filed a legal claim for damages to the extent of ₹ 15 lakhs. There is an 80% probability that the decision will not be in favour of LT Ltd and it will have to pay for the damages claimed. However, there is a 10% chance that LT Ltd will win the case and a 10% probability that an out-of-court settlement is reached. In both of these scenarios, no cost is expected to be incurred.

LT Ltd is planning to dispose off a collection of assets costing ₹ 2.5 crores. LT Ltd designates these assets as a disposal group. The carrying amount of these assets immediately before classification as held for sale was ₹ 2 crores. Upon being classified as held for sale, the assets were revalued to ₹ 1.8 crores. Estimates indicate that it would cost ₹ 10 lakhs to sell these assets.

On 1 January 2022, LT Ltd acquired a 60% stake in DR Ltd. The cash consideration was ₹ 10 lakhs payable immediately and ₹ 12.1 lakhs payable after two years. The fair value of net assets of DR Ltd at acquisition date was ₹ 30 lakhs. LT Ltd calculated its cost of capital to be 10%. Non-controlling interest is measured at the proportion of identifiable net assets.

LT Ltd sold a group of machinery with a written down value of ₹ 40 lakhs to SLB Ltd for ₹ 50 lakhs and the same set of machinery was leased back as an operating lease by SLB Ltd to LT Ltd.

MCQs :

1.1 Considering the transactions with KR Ltd, what would be the adjusted retained earnings in LT Ltd's consolidated statement of financial position as at 31 March 2022 ? 2

(A) ₹ 12,40,000

(B) ₹ 8,54,000

(C) ₹ 8,14,000

(D) ₹ 8,00,000

Marks

1.2 With respect to the legal claim for damages filed by its customer, what provision should LT Ltd recognize in its books of account ? 2

(A) ₹ 15 lakhs

(B) ₹ 9 lakhs

(C) ₹ 6 lakhs

(D) Nil

1.3 Which ONE of the following is not a related party of LT Ltd ? 2

(A) AR Ltd, where Mrs. R (wife of Mr. R) has significant influence and Mr. R has joint control over LT Ltd

(B) XY Ltd, whose Director Mr. Y having significant influence over XY Ltd, is also a Director of LT Ltd

(C) A Ltd, a subsidiary of LT Ltd

(D) Son of Managing Director of LT Ltd

1.4 What would be the carrying amount of the disposal group in the entity's accounts after its classification as held for sale ? 2

(A) ₹ 2.4 crores

(B) ₹ 1.9 crores

(C) ₹ 1.7 crores

(D) ₹ 1.8 crores

Marks

1.5 Calculate the amount of goodwill / gain on bargain purchase by DR Limited arising upon acquisition of DR Ltd. 2

(A) Gain on bargain purchase ₹ 10 lakhs

(B) Gain on bargain purchase ₹ 8 lakhs

(C) Goodwill ₹ 2.1 lakhs

(D) Goodwill ₹ 2 lakhs

Descriptive Questions

1.6 Discuss whether the transactions between LT Ltd and JK Ltd should be disclosed as per requirements of IAS 24 Related Party Disclosures, in the financial statements of JK Ltd. 4

1.7 In respect of the sale and leaseback of machinery with SLB Ltd, analyse the accounting treatment in the books of LT Ltd for each of the following scenarios : 6

Scenario 1 --Fair value is ₹ 50 lakhs and Sale price is ₹ 50 lakhs.

Scenario 2 --Fair value is ₹ 60 lakhs and Sale price is ₹ 50 lakhs.

Scenario 3 --Fair value is ₹ 45 lakhs and Sale price is ₹ 38 lakhs.

Scenario 4 --Fair value is ₹ 40 lakhs and Sale price is ₹ 50 lakhs.

Scenario 5 --Fair value is ₹ 46 lakhs and Sale price is ₹ 50 lakhs

Scenario 6 --Fair value is ₹ 35 lakhs and Sale price is ₹ 39 lakhs.

1.8 For each of the financial years ended 31 March 2020, 2021 and 2022, calculate the borrowing cost that LT Ltd is permitted to capitalize as a part of the building cost. 5

CASE STUDY : 2

On 1 January 2022, Globe Ltd enters into a contract with Ruby Ltd to provide asset management services for five years. The entity receives a management fee of two per cent per annum based on the client's assets under management at the end of each quarter. At 31 March, 2022, Ruby Ltd's assets under management are ₹ 100 crores. In addition, Globe Ltd receives a performance-based incentive fee of 20 per cent of the fund's return in excess of the return of an observable market index over the five-year period. Consequently, both the management fee and the performance fee in the contract are variable consideration.

Globe Ltd issues ₹ 1 crore convertible bonds, on 1 July 2021. The bonds have a life of eight years and a face value of ₹ 10 each, and they offer interest, payable at the end of each financial year, at a rate of 6 per cent per annum. The bonds are issued at their face value and each bond can be converted into one ordinary share in Globe Ltd at any time in the next eight years. Companies of a similar risk profile have recently issued debt with similar terms, without the option for conversion, at a rate of 8 per cent per annum.

On 1 April 2021, Globe Ltd incurred ₹ 2,000 selling costs to sell a good to Grey Ltd for ₹ 95,000. In general, Globe Ltd does not extend any credit to its customers. However, as a special case, the sale agreement with Grey Ltd provided that the customer would pay ₹ 95,000 selling price in full, on 31 March 2022. The prevailing rate for one-year credit granted to trade customers in the industry is 10% per year. This is the clearly determinable way of determining the imputed rate of interest.

On 1 July 2021, Globe Ltd sold a new computer system for ₹ 4,00,000, which also included after sales support for a period of 2 years from the date of supply of the computer system. Globe Ltd estimates the cost of the after-sales support at ₹ 60,000 and the fair value of such after-sales support is estimated to be ₹ 90,000.

On 31 March 2019, Globe Ltd acquired 30 per cent of the ordinary shares that carry voting rights of Earth Ltd for ₹ 1,00,000. In acquiring those shares Globe Ltd incurred transaction costs of ₹ 1,000. At 31 March 2020, 2021 and 2022, for Impairment of Assets, management assessed the fair values of its investment in Earth Ltd as ₹ 1,02,000, ₹ 1,10,000 and ₹ 90,000 respectively. Costs to sell are estimated at ₹ 4,000 throughout.

Globe Ltd acquired 30% of the voting shares of AB Ltd on April 1, 2017. The purchase consideration was ₹ 20 crores, and Globe Ltd has significant influence over AB Ltd. The retained earnings of AB Ltd were ₹ 5 crores at the date of acquisition. The retained earnings of AB Ltd at 31 March 2022 were ₹ 10 crores.

Globe Ltd has contracted to purchase a specialized item of machinery from an overseas supplier for USD 48 million on the following terms :

Non-refundable payment on signing of contract (1 January 2022)	60%
Payment on delivery and installation (5 April 2022)	40%
The following exchange rates are relevant :	₹ to USD
1 January 2022	78
31 March 2022	77
5 April 2022	79

Multiple Choice Questions :

2.1. What is the revenue to be recognised by Globe Ltd for the sale of good to Grey Ltd ? **2**

(A) ₹ 95,000

(B) ₹ 86,364

(C) ₹ 85,500

(D) ₹ 93,000

Marks

2.2. How much revenue should Globe Ltd recognize from the sale of new computer system for the financial year ended 31 March 2022 ? 2

(A) ₹ 3,10,000

(B) ₹ 4,00,000

(C) ₹ 3,55,000

(D) ₹ 3,40,000

2.3 Globe Ltd measures its investment in Earth Ltd as on 31 March 2020, 2021 and 2022 respectively at : 2

(A) ₹ 1,00,000, ₹ 1,00,000, ₹ 1,00,000

(B) ₹ 1,01,000, ₹ 1,01,000, ₹ 90,000

(C) ₹ 98,000, ₹ 1,06,000, ₹ 86,000

(D) ₹ 98,000, ₹ 1,01,000, ₹ 86,000

2.4 Calculate the carrying value of the investment in AB Ltd in the group financial statements at March 31, 2022. 2

(A) ₹ 20 crores

(B) ₹ 35 crores

(C) ₹ 21.50 crores

(D) ₹ 25 crores

2.5 What is the exchange loss/gain to be recognized as on 31 March 2022 on account of the USD deposit paid for specialized item of machinery from the overseas supplier ? 2

(A) ₹ 4.8 crores exchange gain

(B) ₹ 2.88 crores exchange gain

(C) ₹ 2.88 crores exchange loss

(D) No exchange gain or loss is to be recognised

Descriptive Questions

2.6 Analyse the revenue to be recognised for the year ended 31 March 2022 in relation to the contract with Ruby Ltd. 5

2.7 (i) Prepare the accounting entries for initial recognition of convertible bonds.

(ii) Calculate the interest expense across the eight years of the life of the bonds.

(iii) Prepare the accounting entries assuming that the holders of the bonds elect to convert the bonds to ordinary shares at the end of the third year (after receiving their interest payments). 4+3 +3

CASE STUDY : 3

On 1 April 2021, Bruce Ltd began joint construction of a pipeline with another investor. Bruce Ltd and the other investor have signed a contract that provides for joint operation and ownership of the pipeline. All of the ongoing expenditure, comprising maintenance plus borrowing costs, are shared equally. The pipeline was completed and ready for use on 1 October 2021, at which date its estimated useful economic life was 20 years.

The pipeline was first used on 1 January 2022. The total cash cost of constructing the pipeline was ₹ 8 crores. This cost was partly financed by a loan of ₹ 2 crores taken out on 1 April 2021. The loan carries interest at an annual rate of 10% with interest payable in arrears on 31 March each year. Between 1 January 2022 and 31 March 2022, it was necessary to spend ₹ 8,00,000 on maintenance costs.

On 1 April 2021, Bruce Ltd purchased some land for ₹ 2 crores (including legal costs of ₹ 20 lakhs) in order to construct a new factory that would produce electric vehicles. Construction work commenced on 1 May 2021. Bruce Ltd incurred the following costs in connection with its construction :

- Preparation and leveling of the land – ₹ 6,00,000.
- Purchase of materials for the construction – ₹ 1,21,60,000 in total.
- The following costs were incurred during the construction period :
  - Employment of construction workers – ₹ 4,00,000 per month.
  - Overhead costs incurred directly on the construction of the factory – ₹ 2,00,000 per month.
  - Ongoing overhead costs allocated to the construction project using Bruce Ltd's normal overhead allocation model – ₹ 1,00,000 per month.
- Income received during the temporary use of the factory premises as a car park during the construction period – ₹ 1,00,000.

The factory was completed on 30 November 2021 (which is considered as substantial period of time) and production began on 1 February 2022. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it is estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 30% of the total cost of the building.

At the end of the 40-year period, Bruce Ltd has a legally enforceable obligation to demolish the factory and restore the site to its original condition. The directors estimate that the cost of demolition at the end of 40 years' time (based on prices prevailing at that time) will be ₹ 4 crores. An annual risk adjusted discount rate which is appropriate to this project is 8%. The present value of Re.1 payable in 40 years' time at an annual discount rate of 8% is 4.6 paise.

The construction of the factory was partly financed by a loan of ₹ 3.5 crores taken out on 1 April 2021. The loan was at an annual rate of interest of 6%. During the period 1 April 2021 to 31 August 2021 (when the loan proceeds had been fully utilized to finance the construction) Bruce Ltd received investment income of ₹ 2,00,000 on the temporary investment of the proceeds.

Marks

On 1 April 2021, Bruce Ltd raised loan finance from European investors. The investors subscribed for € 100 million (€1 Loan Note) at par. Bruce Ltd incurred incremental issue costs of € 2 million. Interest of € 8 million is payable annually on 31 March, starting on 31 March 2022. The loan is repayable in € after 10 years on 31 March 2031 at a premium and the effective interest rate implicit in the loan is 10% per annum. The appropriate measurement basis for this loan is amortized cost.

Relevant exchange rates are as follows :

- 1 April 2021 – € 1 = ₹ 82
- 31 March 2022 – € 1 = ₹ 85
- Average for year ended 31 March 2022 – € 1 = ₹ 83

Bruce Ltd has a subsidiary, Gulf Ltd. Gulf Ltd has borrowed ₹ 10 crores through an inter-corporate deposit from Bruce Ltd for one year at an interest rate of 8% without any processing charges. Market rate of interest is 11% with an additional 1% towards processing charges.

On 1 April 2020 Bruce Ltd granted share options to 200 senior executives. The options will vest on 31st March 2023 subject to the following conditions :

- Each executive will be entitled to 2,000 options if the cumulative profit in the three-year period from 1 April 2020 to 31st March 2023 exceeds ₹ 6 crores. If the cumulative profit for this period is between ₹ 7 crores and ₹ 8 crores, then 3,000 options will vest. If the cumulative profit for the period exceeds ₹ 8 crores, then 4,000 options will vest.
- If an executive leaves during the three-year vesting period, then management would forfeit any rights of share options to those executives.
- Notwithstanding the above, no options will vest unless the share price at 31 March 2023 exceeds ₹ 5.

Details of the fair value of the shares and share options at relevant dates are as follows :

Date	Fair Value of Bruce Ltd's each share	Fair value of Bruce Ltd's each option
1 April 2020	₹ 4.00	₹ 0.50
31 March 2021	₹ 4.40	₹ 0.60
31 March 2022	₹ 4.60	₹ 0.75

The estimate of the cumulative profit for the three-year period ending 31 March 2023 was revised each year as follows :

Date	Expected profit for the three-year period
1 April 2020	₹ 6.4 crores
31 March 2021	₹ 7.8 crores
31 March 2022	₹ 9 crores

On 1 April 2020, none of the relevant executives were expected to leave in the three-year period from 1 April 2020 to 31 March 2023 and none left in the year ended 31 March 2021. However, 10 executives left unexpectedly on 31 December 2021. None of the other executives are expected to leave before 31 March 2023. Bruce Ltd correctly reflected this arrangement in its financial statements for the year ended 31 March 2021.

Bruce Ltd is exploring the possibility of issuing preference shares to raise funds in the future. These preference shares would be redeemable at the option of the holder and would carry a fixed dividend payout of ₹ 12,000 per annum. However, Bruce Ltd has decided to understand the accounting implications under IFRS before proceeding with the issuance.

Multiple Choice Questions :

3.1 Which one of the following is the appropriate classification for the annual payment of ₹ 12,000 on the proposed issuance of preference shares ? **2**

(A) Dividend ₹ 12,000

(B) Interest Expense ₹ 12,000

(C) Dividend ₹ 3,000, Interest Expenses ₹ 9,000

(D) Dividend ₹ 9,000, Interest Expenses ₹ 3,000

Marks

3.2 At the end of the 40-year period, Bruce Ltd has a legally enforceable obligation to demolish the factory and restore the site to its original condition. Cost of demolition recognised as a provision would be : **2**

(A) ₹ 4 crores

(B) ₹ 1.84 crores

(C) ₹ 18.4 lakhs

(D) ₹ 20 lakhs

3.3 In respect of the loan given to Gulf Ltd, what is the income to be recognized by Bruce Ltd in its standalone profit and loss account ? **2**

(A) ₹ 12,00,000 as interest income

(B) ₹ 12,00,000 as interest income and ₹ 4,00,000 as interest expense

(C) ₹ 7,00,000 as interest income and ₹ 1,00,000 as reimbursement of bank charges

(D) ₹ 11,00,000 as interest income and ₹ 3,00,000 as interest expense

3.4 Calculate the closing balance of loan finance as at 31 March 2022 which Bruce Ltd has raised from European investors. **2**

(A) ₹ 848.30 crores

(B) ₹ 829.54 crores

(C) ₹ 833.00 crores

(D) ₹ 816.94 crores

3.5 Calculate the exchange difference of loan finance from European investors to be recognized in profit or loss for the year ended 31 March 2022. **2**

(A) Gain – ₹ 31.36 crores

(B) Loss – ₹ 31.36 crores

(C) Loss – ₹ 44.70 crores

(D) Gain – ₹ 44.70 crores

Marks

Descriptive Questions

3.6 Analyse the treatment of the Joint Arrangement with respect to the pipeline and calculate the borrowing cost, cost of asset, its depreciation and charge to the Statement of Profit or Loss of Bruce Limited and the other investor for the year ending 31st March, 2022. 4

3.7 Compute in the books of Bruce Ltd : 6

(a) the cost of factory

(b) depreciation on SLM basis thereon for the year ended 31st March 2022

(c) its carrying amount as at 31st March 2022

3.8 Calculate the share based payment amounts to be included in the statement of financial position as at 31 March 2022 and statement of profit & loss for the year then ended. 5

CASE STUDY : 4

Wealth Ltd is engaged in a number of businesses including automobiles, infrastructure and construction. The VP Finance has identified five segments (denoted as A to E below, for ease of reference).

Segments	Sales		Total Sales	Profit	Assets
	Exports	Domestic			
A	60,00,000	-	60,00,000	5,00,000	1000,00,000
B	125,00,000	40,00,000	165,00,000	15,00,000	250,00,000
C	225,00,000	-	225,00,000	25,00,000	350,00,000
D	135,00,000	30,00,000	165,00,000	15,00,000	500,00,000
E	20,00,000	25,00,000	45,00,000	10,00,000	750,00,000
Total			6,60,00,000	70,00,000	28,50,00,000

Wealth Ltd has an identifiable asset QR with a carrying amount of ₹ 20,00,000. Its recoverable amount is ₹ 13,00,000. The tax base of QR is ₹ 16,00,000 and the tax rate is 30%. Impairment losses are not tax deductible. Wealth Ltd expects to continue to earn profits in future.

Marks

Wealth Ltd acquired the trademark for a product from Czar Ltd 10 years ago for ₹ 16,00,000. The trademark is expected to have an indefinite useful life. The carrying amount as on 1 April, 2021 is ₹ 16,00,000. Now due to competition, the sales of the product has declined by 25%. The management has made assessment and has ascertained that the trademark will continue to have indefinite useful life. However, the recoverable amount is ascertained to be ₹ 12,00,000.

Wealth Ltd is proposing to acquire Health Ltd which is currently following Indian GAAP (other than) the companies (Indian Accounting Standards) Rules 2015. Health Ltd does not have taxable income as per the applicable tax laws, but pays 'Minimum Alternate Tax' (MAT) based on its books profits. The tax paid under MAT can be carried forward for the next 10 years and as per Health Ltd's projections submitted to its bankers, it is in a position to get credit for the same by the end of eighth year. Health Ltd is recognizing the MAT credit as a current asset under Indian GAAP. The amount of MAT credit as on 31 March, 2021 is ₹ 20,00,00,000 and as on 31 March, 2022 is ₹ 15,00,00,000. Management is looking for clarity on how these would be impacted upon conversion of Health Ltd's financial statements to IFRS once the acquisition goes through.

Wealth Ltd has undertaken the following projects and follows percentage of completion method for its accounting purposes :

- Project 1 – Contract value ₹ 1 crore and profit margin 20% on sales. At the end of the year 1 Wealth Ltd has completed work and recognized revenue amounting to ₹ 50 lakhs while it has incurred a cost of ₹ 45 lakhs.
- Project 2 - Contract value is ₹ 60 lakhs with a margin of 25% on sales. Wealth Ltd has incurred expenditure of ₹ 4.5 lakhs which is yet to be certified by the client (as physical possession is not yet given). Management has also evaluated that the significant risks and rewards of the work done are yet to be transferred to the client.

Marks

Wealth Ltd has entered into lease agreement with a lessor for a period of 5 years at the annual lease rental of ₹ 8 lakhs. There is an option at the end of the said period that lease can be owned by lessee. Other factors to be noted are discount rate of 8% per annum and interest rate of 10% per annum. At the end of the year 3, Wealth Ltd exercised the option to purchase the land at value of ₹ 56 lakhs, whereas the market value on that date was ₹ 75 lakhs.

Wealth Ltd has an immaterial subsidiary Mercury Ltd. The accountant of Mercury Ltd has gathered the following data but needs assistance in preparing the statement of cash flows.

Particulars	**2022**	**2021**
	₹	₹
Cash	24,000	34,000
Accounts receivables	5,000	12,500
Prepaid insurance	15,000	17,000
Inventory	27,000	24,000
Fixed assets	3,16,000	2,70,000
Accumulated Depreciation	(45,000)	(30,000)
Total Assets	**3,42,000**	**3,27,500**
Accounts payable	15,000	14,000
Wages payable	7,000	9,000
Debentures	1,73,000	1,60,000
Equity shares	88,000	84,000
Retained earning	59,000	60,500
Total Liabilities and Equity	**3,42,000**	**3,27,500**
Sales	200,000	
COGS	(1,23,000)	
Other income	3,000	
Depreciation	(15,000)	
Insurance	(11,000)	
Auditors Expenses	(3,000)	
Wages	(50,000)	
Net Profit	**1,000**	

Marks

During 2022, Mercury Ltd declared and paid dividends of ₹ 2,500 and paid cash of ₹ 46,000 to acquire new fixed assets. Accounts payable was used only for inventory and no debt was required during the year.

Multiple Choice Questions :

4.1 Based on the quantitative threshold, which of the above segments A to E would be considered as reportable segments ? **2**

(A) Segment C

(B) Segments C, D and B

(C) Segments B, C, D and E

(D) All are reportable segments

4.2 For the identifiable asset QR, what would be the closing balance of deferred tax asset/liability at the end of the period ? **2**

(A) Deferred tax liability closing balance is ₹ 90,000

(B) Deferred tax asset closing balance is ₹ 2,10,000

(C) Deferred tax asset closing balance is ₹ 1,20,000

(D) Deferred tax asset closing balance is ₹ 90,000

4.3 In respect of the trademark with indefinite life, Wealth Ltd seeks your advice on the appropriate treatment from following : **2**

(A) Continue with the same carrying amount of ₹ 16,00,000

(B) Adopt amortization policy for the amount of ₹ 12,00,000

(C) Test the asset for impairment, as an external unfavorable event had occurred and reduce the carrying amount to ₹ 12,00,000

(D) Test for impairment every year and accordingly, the carrying amount will be reduced to ₹ 12,00,000

Marks

4.4 In relation to Health Ltd, how will the MAT credit be recognised upon conversion to IFRS ? **2**

(A) Current tax

(B) Deferred Tax Asset (DTA)

(C) Deferred Tax Liability (DTL)

(D) Will not be recognised at all

4.5 In relation to Health Ltd, what will be the Deferred Tax Asset / Deferred Tax Liability (DTA / DTL) impact on account of MAT in the books of Wealth Ltd for the year 2021-2022 ? **2**

(A) Increase in DTL by ₹ 5,00,000

(B) Increase in DTA by ₹ 15,00,00,000

(C) Increase in DTL by ₹ 15,00,00,000

(D) Increase in DTA by ₹ 5,00,00,000

Descriptive Questions

4.6 Calculate the unbilled revenue/contract assets for the projects undertaken by Wealth Ltd and determine the amount to be recognized in the financial statements. **5**

4.7 (i) Calculate the lease liability and right of use asset for the lease with the lessor. RoU is depreciation on SLM basis.

(ii) Provide the amounts reflecting in the balance sheet, profit and loss and statement of cash flows at the end of year 1.

(iii) What are the accounting entries if Wealth Ltd decides to purchase of the leased property at the end of year 3 ? **6**

4.8 Prepare the Statement of cash flows of Mercury Ltd using the indirect method. **4**

Marks

CASE STUDY : 5

Star Ltd is engaged in the business of providing solar and alternative energy. On 1 April 2021, Star Ltd received a loan for ₹ 25,00,000 from the government @ 10% per annum payable after 5 years in a bulleted payment. The prevailing market rate of interest is 20% per annum. Interest is payable regularly at the end of each year.

Star Ltd is in the process of amalgamation with Venus Ltd. The Company determines the valuation on the measurement date (31 March 2022) as per Market Approach and Income Approach and assign equal weight to both the approaches. The valuation and other details of Star Ltd are as follows.

Particulars	₹ in Crore
Valuation as per Market Approach	5,000
Valuation as per Income Approach	3,000
Debt obligation as on measurement date	1,200
Surplus cash and cash equivalents	120
Fair value of surplus assets and liabilities	300
Number of shares of Star Ltd	7,50,00,000 shares

Star Ltd is commencing a new construction project, which is to be financed by borrowings. The key dates are as follows :

- 16 June 2021 : Loan interest relating to the project starts to be incurred
- 3 July 2021 : Technical site planning commences
- 20 July 2021 : Expenditure on the projects started to be incurred
- 19 August 2021 : Construction work commences

Marks

Star Ltd purchased a deluxe property, depreciated on SLM basis, for ₹ 12,00,000 on 01 April 2019. The useful life of this property is 15 years. On 31 March 2021, Star Ltd classified the property as held for sale. The impairment testing provides the estimated recoverable amount of ₹ 9,40,000. The fair value less cost to sell on 31 March 2021 was ₹ 9,20,000. On 31 March 2022 management changes the plan, as this property no longer met the criteria of held for sale. The recoverable amount as at 31 March 2022 is estimated to be ₹ 10,00,000.

As on 1 April 2021, the Company's fair value of plan assets was ₹ 20,000 lakhs. Contribution to the plan assets done on 31 March 2022 was ₹ 6,000 lakhs. Amount paid out on 31 March 2022 was ₹ 600 lakhs. As on 31 March 2022, the fair value of plan assets was ₹ 29,400 lakhs and actual return on the plan assets was ₹ 4,000 lakhs.

As on 1 April 2021, present value of the defined benefit obligation was ₹ 24,000 lakhs. At 31 March 2022, present value of the defined benefit obligation was ₹ 31,000 lakhs. Actuarial losses on the obligation for the year ended 31 March 2022 were ₹ 200 lakhs. Current service cost was ₹ 5,000 lakhs. Benefit paid was ₹ 600 lakhs. Discount rate used to calculate defined benefit liability is 10% per annum.

Star Ltd has three cash generating units P, Q and R, the carrying amounts of which are as follows as on 31 March 2022 :

Cash generating units	Carrying amount (₹ in Crore)	Remaining useful life (years)
P	1,000	10
Q	1,500	20
R	2,200	20

Marks

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

		₹ in Crore
Corporate Assets	**Carrying Amount**	**Remarks**
A	1200	The carrying amount of A can be allocated on a reasonable basis (i.e pro-rata basis) to the individual cash generating units
B	400	The carrying amount of B cannot be allocated on a reasonable basis to the individual cash generating units.

Recoverable amount as on 31 March 2022 is as follows :

Cash Generating Units	Recoverable amount (₹ in Crore)
P	1,200
Q	1,800
R	2,800
Star Ltd	6,400

The Board of Directors of Star Ltd authorized the financial statements for the reporting period 2021-22 for issue on 16 July 2022. The management of Star Ltd discovered a major fraud and decided to reopen the books of account. The financial statements were subsequently authorized by the Board of Directors on 31 July 2022. Its annual general meeting for the reporting period was held on 13 August 2022.

Multiple Choice Questions :

5.1 Calculate the amount of government grant and fair valuation of loan received from the government. 2

(A) Government Grant – ₹ 25,00,000 and Fair Valuation of loan – ₹ NIL

(B) Government Grant – ₹ 7,47,600 and Fair Valuation – ₹ 17,52,400

(C) Government Grant – ₹ 6,25,893 and Fair Valuation – ₹ 18,74,107

(D) Government Grant – ₹ Nil and Fair Valuation – ₹ 25,00,000

Marks

5.2 Determine the equity value of one share of Star Ltd as on the measurement date using the valuation and other details of Star Ltd. 2

(A) ₹ 666.67

(B) ₹ 533.33

(C) ₹ 429.33

(D) ₹ 439.33

5.3 Identify the commencement date of new construction project. 2

(A) 16 June 2021

(B) 3 July 2021

(C) 20 July 2021

(D) 19 August 2021

5.4 Amongst the following, which one is not a fair valuation approach under IFRS ? 2

(A) Margin Approach

(B) Cost Approach

(C) Income Approach

(D) Market Approach

5.5 What is the date of authorization to be considered for the issue of financial statements by the Board of Directors ? 2

(A) 31 March 2022

(B) 16 July 2022

(C) 31 July 2022

(D) 13 August 2022

Marks

Descriptive Questions

5.6 Based on Star Ltd's employee benefit obligations described above, calculate the amount to be taken to other comprehensive income for re-measurement, with detailed workings. Also compute the net interest on net defined benefit liability/asset. 3

5.7 What is the value of the deluxe property as at end of 31 March 2021 and 31 March 2022 ? Discuss the accounting treatment and amount of impairment loss in the Statement of Profit & Loss for the year ended 31 March 2021 and 31 March 2022. 4

5.8 Calculate the impairment loss of all cash generating units (P, Q and R) and Star Ltd as a whole, if any. 8