Roll No. ....

Total No. of Case Study Questions – 5

Total No. of Printed Pages – 31

Time Allowed – 4 Hours

NOV 2023

Final New Syllabus
Paper - 6 E
Global Financial Reporting Standards

7/11/2023
06:06PM

Maximum Marks – 100

RFH

Answer to questions is 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) is to be marked on the OMR Answer Sheet as given on the Cover Page of the descriptive type 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.

CASE STUDY – 1

Pride Ltd is a manufacturing company which prepares its financial statements following IFRS. It has several businesses verticals across various countries. The company seeks your valuable guidance in respect of certain matters which could not be resolved by their finance team.

1. Joy Ltd, a subsidiary of Pride Ltd in Belgium, wishes to calculate tax base of its assets and liabilities as on 31st March 2023. The statement of financial position has been adjusted by current tax expense.

Summarised Statement of Financial Position as on 31st March 2023

ASSETS	EUR
Non - current Assets	
Property, Plant And Equipment	12,00,000
Intangible Assets:	
Product Development Costs	60,000
Investment In Subsidiary - Pall Ltd	4,40,000
Current Assets	
Trade Investments	2,08,000
Trade Receivables	6,26,000
Inventories	3,04,000
Cash And Cash Equivalents	1,80,000
TOTAL ASSETS	**30,18,000**

Marks

EQUITY & LIABILITIES	EUR
Equity	
Share Capital	12,00,000
Accumulated Profits	7,37,438
Revaluation Surplus	88,000
Long-term Liabilities	
Deferred Income - Government Grants	40,000
Liability For Product Warranty Costs	16,000
Deferred Tax Liability (From 2021-22)	22,162
Current Liabilities	
Trade Payables	7,64,000
Health Care Benefits For Employees	70,000
Current Tax Liability	80,400
TOTAL EQUITY & LIABILITIES	**30,18,000**

Notes :

(a) Depreciation expense for the year 2022-23 allowable in accordance with tax laws is 2,06,000 EUR. Accounting depreciation included in operating costs is 1,70,000 EUR. Cost of PPE is 16,00,000 EUR and Joy Ltd has deducted expenses of 4,16,000 EUR in its tax returns prior to the financial year 2022-23. Moreover, as on 31st March 2023, Joy Ltd for the first time revalued its property, plant and equipment to fair value of 12,00,000 EUR (revaluation surplus = 88,000 EUR).

(b) In 2019-20, Joy Ltd incurred product development costs of 1,00,000 EUR. These costs were recognized as an asset and being amortized over useful period of 10 years. For tax purposes, Joy Ltd deducted full product development costs in 2019-20.

Marks

(c) Trading investments were acquired in 2021-22 with cost of 2,30,000 EUR. These investments are classified at fair value through profit and loss and thus recognized at their fair value. Fair value adjustments are not tax deductible.

(d) Bad debt provision amounts to 1,30,000 EUR and relates to 2 debtors: debtor A 80,000 EUR (receivable originated in 2020-21 and 100% provision was recognized in 2021-22) and debtor B - 50,000 EUR (receivable originated in 2021-22 and 100% provision was recognized in 2022-23). Tax law allows deduction of 20% of provision for debtors overdue for more than 1 year, another 30% for debtors overdue for more than 2 years and remaining 50% for debtors overdue for more than 3 years.

(e) Joy Ltd accounts for inventory obsolescence provision. New provision created in 2022-23 was 10,800 EUR (total provision : 18,000 EUR). This provision is not tax deductible, as it is a general provision.

(f) Government grants are not taxable. Government grant received in 2022-23 is appearing in the statement of financial position.

(g) In 2022-23, Joy Ltd made a further provision for product warranty of 5,000 EUR. Such provisions for product warranty costs are not tax deductible until the claims are paid or settled. During the year 2022-23, warranty claims were paid/settled for 6,200 EUR.

(h) During the year 2022-23, Joy Ltd has introduced health care benefits for employees. The expenses are allowable as deduction in tax only when benefits are paid but in line with IAS 19, such liability is recognized in profit or loss when employees provide service.

Marks

2. Pride Ltd is having other subsidiary Happy Limited producing leather goods in Nagpur. In December 2022, it has been discovered that some leather goods that has been sold during January 2022 were incorrectly included in inventory as at 31.3.2022 at ₹ 65,000. The accounting records for financial year 2022-23 show sales of ₹ 10,40,000; cost of goods sold of ₹ 8,65,000 (including ₹ 65,000 for the error in opening inventory) and income taxes of ₹ 52,500.

For the financial year 2021-22 the following information is reported :

Sales	₹ 7,35,000;
Cost of Goods Sold	₹ (5,35,000) ;
PBT	₹ 2,00,000;
Income Taxes	₹ (60,000);
PAT	₹ 1,40,000.

In the year 2021-22 opening retained earnings were ₹ 2,00,000 and closing retained earnings were ₹ 3,40,000. Income-tax rate applicable to Happy Limited is 30%. It has ₹ 5,00,000 of share capital during the whole year and there is no other components of equity except retained earnings. Its shares are publicly traded and also follows IFRS as its accounts are consolidated with its parent.

Happy Limited has prepared its financial statements for the period ended on 31st March 2023. On 3rd April 2023, the company has declared dividend @ 10% before the authorization of financial statements.

3. On 1st April 2022, Pride Limited has acquired 30% of the ordinary shares of Famous Limited for ₹ 4,000 crores. Pride Limited accounts for its investment in Famous Limited using equity method as prescribed under IAS 28. On 31st March 2023, Pride Limited recognized its share of the net asset changes of Famous Limited using equity method accounting as follows:

Share of profit	₹ 350 crore
Share of exchange difference in OCI	₹ 50 crore
Share of revaluation reserve of PPE in OCI	₹ 25 crore

The carrying amount of the investment in the associate on 31st March 2023 is therefore ₹ 4,425 crore (4,000 + 350 + 50 + 25).

On 1st April 2023, Pride Limited acquired the remaining 70% of Famous Limited for cash of ₹ 12,500 crore. The following additional information is relevant at that date :

Fair Value of 30% interest in Famous Limited as on 1st April 2023	₹ 4,500 crore
Fair Value of Net Identifiable Assets of Famous Limited as on 1st April 2023	₹ 15,000 crore

4. Pride Ltd receives a tax-free ₹ 8 million grant from government to give impetus to employment generation. It has also been levied fine of ₹ 2 million for damage to environment, for illegally discharging chemicals into the river. The fine is not tax-deductible. The accounting profit of the company for the year 2022-23 is ₹ 972 million. The financial statements will reflect these items, but its tax computation will exclude them. The tax reconciliation will be made to reconcile the tax computation with the accounting profit as required by IAS 12. No deferred tax needs to be calculated for permanent differences. Both items are taken into Statement of Profit and Loss and other comprehensive income in full in the same period. The tax rate applicable is 30%.

5. The details of the transactions for item no. 105 in which the company deals for the month of March 2023 are given. The company follows first in first out method for valuation.

1.3.2023	Opening inventory	1,000 units @ ₹ 2.00 per unit
9.3.2023	Purchases	1,200 units @ ₹ 3.00 per unit
17.3.2023	Purchases	1,600 units @ ₹ 3.20 per unit
21.3.2023	Sales	2,500 units @ ₹ 4.25 per unit
27.3.2023	Purchases	700 units @ ₹ 3.50 per unit

Marks

6. Pride Limited also deals in spare parts. Fashion Limited deals in Chairs. Both the companies decided to enter into a transaction wherein Pride Limited will give spare parts costing ₹ 1,00,000 (Fair value ₹ 1,20,000) to Fashion Limited in exchange for chairs costing ₹ 97,000 (Fair value ₹ 1,18,000).

7. The Pride Ltd classified a PPE at Mumbai, accounted for under the revaluation model as a non-current asset held for sale on 31st March 2023. On 1st July 2023 it decided not to sell the asset, but to continue to use it.

8. Pride Ltd entered into an arrangement with Orchid Limited for sale of goods costing ₹ 4,00,000 at a profit of 20% on sales. The sale transaction took place on 28th February 2023. On the same day it also entered into repurchase agreement for same goods for ₹ 5,60,000 to be executed on 31st July 2023.

Multiple Choice Questions :

2×5 =10

1.1. On 31st March 2023, the value of closing stock of inventory of item no. 105 as per IAS 2 will be :

(A) ₹ 2,900 (B) ₹ 5,000

(C) ₹ 7,000 (D) ₹ 6,610

1.2. How much revenue should be recognized by Pride Limited in its books for exchange of spares for chairs with Fashion Ltd ?

(A) ₹ 1,20,000 (B) ₹ 1,18,000

(C) ₹ 1,00,000 (D) ₹ 97,000

Marks

1.3. In accordance with IFRS the asset at Mumbai should be measured on 1st July 2023 at

(A) The lower of its carrying amount and its recoverable amount.

(B) The higher of its carrying amount and its recoverable amount.

(C) The lower of its carrying amount on the basis that it had never been classified as held for sale and its recoverable amount.

(D) The higher of its carrying amount on the basis that it had never been classified as held for sale and its recoverable amount.

1.4. How much amount Pride Limited should charge as expense for the month of March 2023 in case of repurchase agreement entered into with Orchid Limited :

(A) ₹ 16,000 (B) ₹ 12,000

(C) ₹ 15,000 (D) ₹ 13,333

1.5. The current tax expense of Pride Limited based on information given in (4) above will be :

(A) ₹ 289.80 million (B) ₹ 289.20 million

(C) ₹ 291.60 million (D) ₹ 291.00 million

DESCRIPTIVE QUESTIONS :

1.6. Calculate temporary differences and deferred tax for Joy Ltd as on 31st March 2023 assuming the tax rate is 32%. 6

1.7. After considering the correction in the calculation of inventory, show the profit after tax for the year ended 31st March 2023 and the changes in the equity for Happy Limited. Also state the treatment of proposed dividend in the financial statements. 4

1.8. How should the business combination of Pride Ltd and Famous Ltd be accounted for ? 5

CASE STUDY – 2

M/s. PQR Limited is engaged in the business of manufacturing several products including food, groceries and health care products. They have a wide customer base both within India and abroad like France, Italy, Germany and UK. The company follows IFRS in preparation and presentation of its financial results. The Chief Financial Officer of the company Mr. VK is facing difficulty in addressing some of the issues which has arisen while finalizing the financial statements for the financial year 2022-23. You being their auditor, he seeks your indulgence in assisting him in solving the issues being faced by him.

1. The company has acquired a trademark relating to the introduction of a new health drink in India at cost of ₹ 85,00,000. Expenditure on promoting the new product is ₹ 1,00,000. Employee benefits relating to the testing of the proper functioning of the new process is ₹ 6,00,000.

2. The company also provides the following information :

Income from continuing operations	₹ 60,00,000
Loss from discontinued operations	₹ 72,00,000
Net Loss	₹ 12,00,000
Weighted average number of shares outstanding	20,00,000
Incremental common shares outstanding relating to stock options	4,00,000

3. PQR Limited has 5 operating segments namely A, B, C, D and E. The profit/ loss of respective segments for the year ended 31st March 2023 are as follows :

Segment	Profit/(Loss) (₹ In crore)
A	3,900
B	7,500
C	(11,500)
D	(22,500)
E	30,000
Total	7,400

Marks

4. The company has acquired 30% of shares of ABC Limited on 1st April 2021 and as per terms the consideration will be paid in 20,000 shares of PQR Limited. The company has also agreed to allot 5,000 additional shares if the profit of the acquired company meets the specified profit in 2021-22 and 2022-23.

5. The company has made sales of ₹ 60,00,000 to a customer SS LLP on 31st December 2022. The normal credit is of one month. However, some times, it goes upto 2 months. The company has expected to receive the payment by 28th February 2023. However, no payment has been received till 31st March 2023. On 15th April 2023, the sales department of the company became aware that the customer is passing through financial crisis and has major cash flow problems.

   The company has agreed to allow the customer to settle the debt by 31st March 2024, by which time the customer is confident that the cash flow problems will be resolved.

   The company expects that an annual interest of 9% (i.e. effective interest rate) can be received against any money lent out, yet it allowed the customer an interest free payment period.

6. Apart from the above business, M/s. PQR Limited is also engaged in Tourism business in India. The company has planned to construct a Holiday Resort (Qualifying Asset) at Shimla. The cost of the project has been met out of borrowed funds of ₹ 100 lakhs at the rate of 12% p.a.. ₹ 40 lakhs were disbursed on 1st April 2022 and the balance of ₹ 60 lakhs were disbursed on 1st June 2022. The site planning work has commenced on 1st June 2022, since the Chief engineer of the project was on medical leave. The company commenced physical construction on 1st July 2022 and the work of construction continued till 30th September 2022 and thereafter the construction activities have stopped due to landslide on the road which leads to construction site. The road blockages have been cleared by the government machinery by 31st December 2022. Construction activities have

resumed on 1st January 2023 and has completed on 28th February 2023. The date of opening has been scheduled for 1st March 2023, but unfortunately, the District Administration gave permission for opening on 16th March 2023, due to lack of safety measures like fire extinguishers which had not been installed by then.

7. The company has issued 1,00,000 preference shares having face value of ₹ 100 for ₹ 100 lakhs on 1st October, 2022 to ABC Limited and ZIM Limited.

The holders of the preference shares have the following alternate options:

- 10% optionally convertible cumulative preference shares, redeemable at par.
- 0% optionally convertible preference shares, redeemable at 80% premium.

The holders have dividend rights which allow for cumulative dividend to be paid @ 10% as and when the company declares the same. The Optional Convertible Cumulative Preference Shares (OCCPS) should be redeemed after 10 years from the date of subscription subject to the following :

- Compliance with ECB guidelines.
- All dividends in relation to the OCCPS have been paid on the maturity date.
- The redemption of the OCCPS occurs at a price equal to the face value of the OCCPS, or together with the premium payable in case of second option.

In case the OCCPS are not redeemed in compliance with the terms stated above, the holders shall have the right to exercise their option to convert the OCCPS into equity shares of the company in full. The parties will agree to the conversion ratio at the time of the OCCPS conversion.

Marks

8. The company, during the year, has received a claim of ₹ 50 lakhs from one of its customers for supply of defective goods on 1st January 2023 and the customer has taken legal action against the company. The company has also made a claim for loss of profit. The company has received legal advice from one of the reputed lawyers and has been advised that the chance of successfully defending the claim is only 25%. However, as the company has taken insurance against such claims, the company plans to raise claim on insurance company as soon as the outcome of the case is confirmed. The CFO of the company is of the view that there is no need to make any provision as the company has taken insurance cover.

Multiple Choice Questions : 2×5 =10

2.1. In respect of facts given, how should company treat the claim of ₹ 50 lakhs made by one of its customer for supply of defective goods while finalizing its financial statements for the year ending on 31st March 2023 ?

(A) As the company has taken insurance cover for claim of loss by customers, the company need not do anything in respect of such claims.

(B) Provision of ₹ 50 lakhs be made in the books of the company as it is present obligation that probably requires an outflow of resources.

(C) Provision of ₹ 12.50 lakhs as per best possible outcome should be recognized.

(D) Contingently liability would be disclosed and it will be charged to Statement of Profit and Loss only at the time claim is settled.

2.2. How much amount will be shown as 'trade receivable' from SS LLP in the books of the company ?

(A) ₹ 60.00 lakhs

(B) ₹ 55.05 lakhs

(C) ₹ 54.60 lakhs

(D) Nil

Marks

2.3. How much amount of borrowing cost, should be capitalized towards construction of the resort ?

(A) ₹ 6,00,000 (B) ₹ 4,80,000

(C) ₹ 5,35,000 (D) ₹ 4,50,000

2.4. For computing the earnings per share as on 31st March 2023, whether 5,000 additional shares would be included for computation of earnings per share ?

(A) Included in calculating both basic and diluted earnings per share.

(B) Included in diluted earnings per share calculation only.

(C) Included in basic earnings per share calculation only.

(D) Not at all includible.

2.5. What is the total cost that should be capitalized as an intangible non-current asset in respect of the new health drink ?

(A) ₹ 92,00,000 (B) ₹91,00,000

(C) ₹ 86,00,000 (D) ₹85,00,000

Descriptive Questions :

2.6. You are required to calculate the basic and diluted EPS of PQR Limited. 4

2.7. Based on the quantitative thresholds, find out which of the above segments A to E would be considered as reportable segments for the year ending 31st March 2023. 5

2.8. How would you classify the Optional Convertible Cumulative Preference Shares issued by the company ? Give your answer in detail giving the provisions of relevant IFRS/IAS. 6

CASE STUDY – 3

CD Limited is a private company, limited by shares incorporated in England and having business units in USA, India and Singapore. The registered office is at London. The branches are under the contractual arrangement with CD Limited. They are required to sell only those products which are imported from England to its customers and remit the proceeds to CD Limited.

With best-in-class manufacturing plants and facilities, CD Ltd delivers end-to-end solutions that support a drug through the entire clinical trial life cycle. It is also a leading producer of PVC-based Films and Aluminium Foils that are used mainly for packaging of solid dosage pharmaceutical products and other applications. This company also operates plants to produce needed chemicals. Its published policies include a commitment to making good any damage caused to the environment by its operations.

1. On 1st January 2023, JK (India), a branch of CD Limited purchased a machine for $ 4 lakhs. The currency of JK (India) is Indian Rupees. At that date the exchange rate was $1= ₹ 82. JK (India) is required to pay for this purchase on 30th June 2023. Indian Rupee has strengthened against the $ over three months after purchase and on 31st March 2023 the exchange rate was $1 = ₹ 79.

   CFO of JK (India) feels that these exchange fluctuations would not affect the financial statements because JK (India) has an asset and a liability denominated in rupees, which has been recognized initially at the same amount. He also feels that JK (India) depreciates this machine over four years so the future year-end amounts will not be the same.

Marks

2. CD Limited owns 80% of the net assets of subsidiary AR Limited. AR Limited's functional currency is Dinar. AR Limited was acquired on 31st December 2022 and its net assets fair value was Dinar 80,000. CD Ltd has recognized cost of investment amounting to USD 21,350 in its financial statements. The group's accounting policy for goodwill is to recognize it on a proportionate asset basis.

Exchange rates are as follows :

31st December 2022 USD 1= 6.5 Dinar

31st March 2023 USD 1 = 6.0 Dinar

3. Following is the extract of the financial statements of chemical division of XY Limited, which is one of the associate of CD Limited.

Asset/ (Liability)	Carrying amount as on 31st March, 2022 (In ₹ 000)
Attributed Goodwill	600
Intangible Assets	2,850
Financial Asset Measured At Fair Value Through Other Comprehensive Income	900
Property, Plant & Equipment	3,300
Deferred Tax Asset	750
Current Assets – Inventory, Receivables and Cash Balances	1,800
Current Liabilities	(2,550)
Non-Current Liabilities – Provisions	(900)
Total	**6,750**

On 15[th] September 2022, XY Limited decides to dispose off its chemical division. The company directed its division head to carry out all the necessary formalities for disposal of the unit. The Board of the Company further noted that the business meets the condition of disposal group classified as non-current asset held for sale on that date in accordance with IFRS. However, it does not meet the conditions to be classified as discontinued operations in accordance with that standard.

The disposal group is stated at the following amounts immediately prior to reclassification as held for sale.

Asset/ (Liability)	Carrying amount as on 15th September 2022 (In ₹ 000)
Attributed Goodwill	600
Intangible Assets	2,790
Financial Asset Measured At Fair Value Through Other Comprehensive Income	1,080
Property, Plant & Equipment	3,060
Deferred Tax Asset	750
Current Assets – Inventory, Receivables and Cash Balances	1,560
Current Liabilities	(2,610)
Non-Current Liabilities – Provisions	(750)
Total	**6,480**

XY Limited proposed to sell the disposal group at ₹ 57,00,000. It estimates that the costs to sell will be ₹ 2,10,000. This cost consists of professional fee to be paid to external lawyers and accountants.

 Marks

As on 31st March 2023, there has been no change in the plan to sell the disposal group and XY Limited still expects to sell it within one year of initial classification. Mr. Z, an accountant of XY Limited remeasured the following assets/liabilities in accordance with respective standards as on 31st March 2023 :

Available For Sale:	(In ₹ 000)
Financial Assets	1,230
Deferred Tax Assets	690
Current Assets - Inventory, Receivables And Cash Balances	1,200
Current Liabilities	2,700
Non-Current Liabilities – Provisions	750

The disposal group has not been doing well and its fair value less costs to sell has fallen to ₹ 49,50,000.

4. XY Limited has constructed a new cold storage building commencing on 1st September 2022, which continues till 31st December 2022. Directly attributable expenditure at the beginning of the month on this asset are ₹ 1,00,000 in September 2022 and ₹ 2,50,000 in each of the months of October to December 2022.

The entity has not taken any specific borrowings to finance the construction of the cold storage but has incurred finance costs on its general borrowings during the construction period. During the year, the entity has issued 7% debentures with a face value of ₹ 20 lakhs and has an overdraft of ₹ 5,00,000 which has increased to ₹ 7,50,000 on 1st December 2022. Interest has been paid on the overdraft at 15% till 30th September 2022, and thereafter the rate has increased to 16%.

Marks

5. During the year ended 31st March 2023, XY Limited has capitalized development costs which has satisfied the criteria as per IAS 38 'Intangible Assets'. The total amount capitalized was ₹ 20,00,000. The development project began to generate economic benefits for XY Limited from 1st January 2023. The directors of XY Limited estimated that the project would generate economic benefits for five years from that date. The development expenditure was fully deductible against taxable profits for the year ended 31st March 2023. The rate of corporate income tax is 30%.

6. The company CD Limited is willing to give autonomy to the US branch and is having a plan to change the terms of its operation. The US branch will be now profit-sharing with CD Limited for selling the products in US. Also, US branch can sell other products other than imported from England to its customers. The sales will be done in the US markets in US dollar and related expenses will also be done in its local currency viz. the US dollar. After retaining the share of profit, the balance of the sale proceeds will be remitted to CD Limited.

7. The company is having inventory of 1000 units of product X. The company has firm order of 800 units to be delivered in the month of April at ₹ 800 per unit. The market price of product X is ₹ 1,000 and cost to sell is negligible.

Multiple Choice Questions : **2×5 =10**

3.1. The goodwill to be recognized in the consolidated statement of financial position regarding the subsidiary AR Limited as at 31st March 2023 under IAS is (Ignore decimals) :

(A) USD 58,775 (B) USD 31,020

(C) USD 12,462 (D) USD 9,796

3.2. In terms of its published policy, in which one of the following scenarios, CD Limited will be required to make a provision for any damage caused to the environment ?

(A) On past experience if it is likely that a chemical spill which would result in environment damage, the company will have to pay fines and penalties that will occur in the next year.

(B) Recent research suggests there is a possibility that the company's actions may damage surrounding wildlife.

(C) The government has outlined plans for a new law requiring all environmental damage to be rectified.

(D) A chemical spill from one of the company's plants has caused harm to the surrounding area and wildlife.

3.3. The capitalization rate for computation of borrowing cost for the cold storage building in accordance with IFRS/IAS will be :

(A) 2.033% (B) 2.667%

(C) 2.976% (D) 2.99%

3.4. The net realizable value of product X in inventory will be :

(A) ₹ 8,40,000 (B) ₹ 10,00,000

(C) ₹ 8,00,000 (D) ₹ 9,60,000

3.5. The deferred tax liabilities in respect of intangible assets in the consolidated balance sheet of CD Limited group at 31^{st} March 2023 will be :

(A) ₹ 1,20,000 (B) ₹ 4,50,000

(C) ₹ 5,70,000 (D) ₹ 6,00,000

Marks

Descriptive Questions :

3.6. What would be the value of all assets/liabilities within the disposal group of XY Ltd as on the following dates in accordance with IFRS ? **6**

(a) 15th September 2022 and

(b) 31st March 2023

3.7. In the given scenario, can functional currency of US branch be different ? If so, what will be its functional currency ? **4**

3.8. How the machinery and its liability will be accounted for in the financial statements of JK (India) for the year ended 31st March 2023 as per IAS ? **5**

CASE STUDY – 4

B Limited is an Indian company having presence in number of countries. The company is motivated by the theme of G20 i.e. one earth, one family and one future. The company deals in number of products ranging from electronics, retail trade, and textile.

The CFO of the company is a good friend of yours and have high regards for your knowledge about IFRS and wants to engage you for finalization of financial statements of the company which are required to be IFRS compliant.

1. B Limited has valued its Stock held for distribution as free items on claim by customers (on offers) at zero. Customers have a right to claim the free item within 14 days from date of invoice. If the time limit of 14-day exceeds, the claim is foregone by the customer.

   Majority of the free items require online registration by the buyers for participation in the contest conducted by the respective brand which needs to be done by the buyers within 3 days from the date of invoice.

   Out of it a few items under this category were found damaged. The replacement cost of such items would be ₹ 2,50,000.

2. During the year, B Limited has sold \$ 1,02,00,000 of specialist products to an American company. Sales have taken place and have been recognized in the financial statements on 1st December 2022 when the exchange rate was \$ 1:85. B Ltd has provided 6 month interest-free credit to the buyer. At the reporting date of 31st March 2023, the exchange rate was \$ 1:86.

3. The financial statements of B Limited includes an investment in associate at ₹ 33,00,000 in its consolidated statement of financial position as at 31st March 2022. As at 31st March 2023, the investment in associate has increased to ₹ 33,75,000. B Limited's pre-tax share of profit in the associate has been ₹ 2,10,000 with a related tax charge of ₹ 90,000. The net amount has been included in the consolidated income statement for the year ended 31st March 2023. There has been no impairment to the investment in associate, or acquisitions or disposals of shares during the financial year.

4. During the year, B Limited has completed its first supply and maintenance contract. The turbines have been supplied and are operational on 31st January 2023. The contract was for ₹ 3,91,00,000 and its terms included a provision that B Limited will maintain the turbines for a period of five years from the initial date of operation.

If the turbines has been delivered on a supply and fit only contract they would have price of ₹ 3,40,00,000. The maintenance contract on a turbine of this size would normally be ₹ 17,00,000 per annum. B Limited has been paid in full for this contract and has included the full ₹ 3,91,00,000 as revenue in the draft accounts for 31st March 2023.

5. On 1st April 2022, B Limited purchased a land for ₹ 1,00,00,000 (including legal costs of ₹ 10,00,000) in order to construct a new factory. Construction work commenced on 1st May 2023.

B Limited incurred the following costs in connection with its construction :

Preparation and leveling of the land	₹ 3,00,000
Purchase of materials for the construction	₹ 60,80,000 in total
Employment costs of the construction workers	₹ 2,00,000 per month
Overhead costs incurred directly on the construction of the factory	₹ 1,00,000 per month
Ongoing overhead costs allocated to the construction project using B Limited's normal overhead allocation model	₹ 50,000 per month
Income received during the temporary use of the factory premises as a car park during the Construction period	₹ 50,000
Costs of relocating employees to work at the new factory	₹ 3,00,000
Costs of the opening ceremony on 31st January, 2023	₹ 1,50,000

The construction of the factory is completed on 30th November 2022 (which is considered as substantial period of time) and production has begun on 1st February 2023. 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 at the end of 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, B Limited 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 in 40 years' time (based on prices prevailing at that time) will be ₹ 20 million. 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 ₹ .046.

The construction of the factory has been partly financed by a loan of ₹ 17.5 million taken on 1st April 2022. The loan was at an annual rate of interest of 6%.

During the period 1st April, 2022 to 31st August 2022 (when the loan proceeds had been fully utilised to finance the construction), B Limited has received investment income of ₹ 1,00,000 on the temporary investment of the proceeds.

6. While preparing the annual financial statements for the year ended 31st March 2023, B Limited has discovered that a provision for constructive obligation for payment of bonus to selected employees in corporate office (material in amount) which was required to be recognised in the annual financial statements for the year ended 31st March 2022 has not been recognised due to oversight of facts.

   The bonus has been paid during the financial year ended 31st March 2023 and was recognised as an expense in the annual financial statements for the said year.

7. The company has surplus funds and for financial leverage made buy-back of its 1,00,000 shares during the financial year 2022-23. The company has allotted these shares long back at face value of ₹ 5 per share. The buy-back of these shares has been made at ₹ 40 per share and the company has cancelled these shares on receipt. The company has paid ₹ 5 lakhs to a consultant who has been appointed to complete the process of buy-back. The company also paid brokerage @ 0.04 i.e. 0.1 % of the purchase consideration. The company is having general reserve of ₹ 100 lakhs and there was no other reserves.

Marks

8. The company is also having a line of manufacturing at Noida to manufacture Rubber moulds for use in various industries. This has been identified by the company as a cash generating unit (CGU) for impairment review purposes. The following information is available for this CGU:

Goodwill ₹ 50,000; Plant and Machinery ₹ 6,00,000; Equipment (that has suffered physical damage) ₹ 24,000; Building ₹ 3,00,000; Total ₹ 9,74,000

The recoverable amount is estimated at ₹ 7,74,000. The fair value less costs to sell of Plant and Machinery as on 31st March 2023 is ₹ 5,50,000.

Multiple Choice Questions : **2×5 =10**

4.1. The replacement cost of goods that need to be given as free items to customers shall be treated as ____ as per the principles of IFRS.

(A) Provision of ₹ 2,50,000

(B) Contingent liability of ₹ 2,50,000

(C) Loss of inventory of ₹ 2,50,000

(D) Nothing to be done.

4.2. The revised carrying amount of manufacturing line at Noida will be :

(A) Goodwill – ₹ 50,000; Plant and Machinery – ₹ 5,50,000, Equipment – Nil, Building – ₹ 2,58,000

(B) Goodwill – ₹ 50,000; Plant and Machinery – ₹ 5,16,000, Equipment – 24,000, Building – ₹ 2,58,000

(C) Goodwill – Nil; Plant and Machinery – ₹ 5,50,000, Equipment – Nil, Building – ₹ 2,24,000

(D) Goodwill – Nil; Plant and Machinery – ₹ 5,16,000, Equipment – Nil, Building – ₹ 2,58,000

4.3. What is the amount of the cash flow related to investment in associate for inclusion in the consolidated Statement of cash flows for the year ended 31st March 2023 ?

(A) Cash inflow of ₹ 45,000 (B) Cash inflow of ₹ 1,20,000

(C) Cash outflow of ₹ 45,000 (D) Cash inflow of ₹ 2,10,000

4.4. What is the amount of exchange loss/gain to be recognized on 31st March 2023 in relation to Sale of special product to an American Company ?

(A) ₹ 10.2 Million exchange Gain (B) ₹ 6.12 Million exchange Gain

(C) Nil (D) ₹ 3.4 Million exchange Gain

4.5. How the total of contract revenue of ₹ 3,91,00,000 be allocated between maintenance contract and supply contract ?

(A) ₹ 3,91,00,000 only for maintenance and supply contract (no segregation required)

(B) Maintenance contract ₹ 78,20,000, Supply contract ₹ 3,12,80,000

(C) Maintenance contract ₹ 51,00,000, Supply contract ₹ 3,40,00,000

(D) Maintenance contract ₹ 85,00,000, Supply contract ₹ 3,06,00,000

Descriptive Questions :

4.6. Compute the carrying amount of the factory as at 31st March 2023 and depreciation on straight line basis for the year 31st March 2023. 5

4.7. Whether the situation relating to constructive obligation for payment of bonus is an error requiring retrospective restatement of comparatives considering the amount is material ? Discuss. 5

4.8. How would you account for the buy-back of shares by the company in accordance with the requirements of IFRS ? Please also provide the accounting entries. 5

Marks

CASE STUDY – 5

Mars Ltd is in the business of consumer products, engineering projects and services. The company prepares and presents its financial statements following IFRS/IAS. While finalizing the financials for the year 2022-23, the finance head of the company has identified various transactions for which he needs your support and guidance.

1. On 21st March 2023 Company has sold goods to J.S.K Limited on FOB basis but the goods have not reached the customer place. The delay is due to the heavy rainfall and landslide on way and it has taken longer than usual time to reach the destination. The goods reached the destination on 10th April 2023. In normal course the goods would have reached the location by 25th March 2023.

2. Mars Limited is executing project contract of PLM Limited. The contract value given in the contract is ₹ 1,00,00,000 and cost expected to be incurred is ₹ 80,00,000. As per the work completion report by the project manager 40% of the work is complete. However, PLM Limited has given work completion certificate for 35% of the work only by the year end. The advance given by PLM Limited is ₹ 45,00,000 i.e. 45% of the contract value.

3. On 31st January 2023 Mars Limited has received notice from Customs authority to pay the duty which was charged lower than the stipulated rate. The company is required to pay ₹ 60 lakhs against the said demand. However, the Company has taken time to pay the said amount in 6 monthly installments beginning February 2023 over a period of next six months.

4. On 28th February 2023 Mars Limited is willing to sell its 5 acre land for ₹ 20 crores and for this purpose agreed to incur the expenditure of ₹ 1 crore as commission to agent for sale of the land. The amount is payable to agent on receipt of money. As on 31st March 2023, the company has entered into agreement with the buyer who has paid ₹ 2 crores as advance. The sale will get completed by 30th June 2023.

5. The company has made provision for accrued expenses of ₹ 1,00,000 which will be allowed under the income-tax when paid by the company. The company has also made provision for penalty of ₹ 50,000 which will not be tax deductible. Rate of tax is 30%.

6. On October 10, 2023 Mars Limited has received the goods from the vendor and noticed quality issues on 31st October 2023. The company, on 31st March 2023, has estimated that it would receive damages of ₹ 25 lakhs from the vendor. The estimate was revised to ₹ 40 lakhs as at 25th May 2023 (i.e., the date the financial statements were authorized by the Board of Directors), but probably estimated that it would receive ₹ 30 lakhs. The claim eventually got settled on 1st June 2023 for ₹ 50 lakhs.

7. Following is the Statement of Financial Position of Mars Ltd :

₹ In Lakhs

Assets	Particulars	31/03/2023	31/03/2022
Non-Current Assets			
	Property, Plant and Equipment	450	410
	Intangible asset	90	90
	Other Financial Assets		
	Deferred Tax Asset (net)	45	45
	Other Non-current Asset	95	85
	Total Non-current Assets	**680**	**630**

Current Assets			
Financial Asset			
	Investments	100	60
	Inventories	800	700
	Debtors	580	600
	Cash & Cash Equivalents	300	300
	Other Current Assets	160	120
	Total Current Assets	**1940**	**1780**
	Total Assets	**2620**	**2410**
Equity and Liabilities			
Equity			
	Equity Share Capital	280	250
	Other Equity	980	820
	Total Equity	**1260**	**1070**
Liabilities			
Non-current			
	Long-term Borrowings	360	300
	Other Non-current liabilities	90	80
	Total Non-current Liabilities	**450**	**380**

Current Liabilities	Financial Liabilities		
	Trade Payable	455	450
	Bank Overdraft	410	420
	Other current liabilities	45	90
	Total Current Liabilities	**910**	**960**
	Total Liabilities	**1360**	**1340**
	Total Equity and Liabilities	**2620**	**2410**

Additional Information :

(a) Profit before tax for the year is ₹ 200 lakhs and provision for tax is ₹ 40 lakhs.

(b) PPE equipment purchased during the year ₹ 100 lakhs.

(c) Current liabilities include Capital creditors of ₹ 25 lakhs as at 31st March 2023 (Nil – 31/03/22)

(d) Long Term Borrowings raised during the year ₹ 120 lakhs.

8. The company received concessional loan of ₹ 10,00,000 from central government at the rate of 6% payable annually and is repayable after 5 years. The present market rate of interest is 12%. The said loan is received for finance of a plant being set-up by the company. The said plant is having useful life of 5 years and will be depreciated over a period of 5 years on straight line basis.

Present Value @ 12%

	1	2	3	4	5
PV @ 12%	0.8929	0.7972	0.7118	0.6355	0.5674

Marks

Multiple Choice Questions : 2×5 =10

5.1. Explain when will the revenue in respect of sales made to J.S.K. Limited be recognized in the books of accounts of Mars Limited :

(A) 21st March 2023 (B) 31st March 2023

(C) 10th April 2023 (D) 25th March 2023

5.2. How much will the revenue and the profit from the project contract be recognized in the books by Mars Limited ?

(A) Revenue ₹ 1,00,00,000 and profit ₹ 20,00,000

(B) Revenue ₹ 40,00,000 and profit ₹ 8,00,000

(C) Revenue ₹ 35,00,000 and profit ₹ 7,00,000

(D) Nil

5.3. What would be the amount of the agent commission payable as at March 31, 2023 in the books of Mars Limited ?

(A) 100 Lakhs (B) 20 Lakhs

(C) Nil (D) 10 Lakhs

5.4. How Mars Limited should treat the demand of customs in its books as on 31st March 2023 ?

(A) Recognise contingent Liability of ₹ 60,00,000

(B) Recognise liability of ₹ 60,00,000

(C) Recognise liability of ₹ 20,00,000

(D) Recognise liability of ₹ 30,00,000

5.5. The tax base of provisions of accrued expenses and penalty and its resulting deferred tax asset or deferred tax liability from facts given in (5) above will be :

(A) Tax base of liability ₹ 50,000 and DTA of ₹ 30,000

(B) Tax base of liability ₹ 1,50,000 and DTA of ₹ 30,000

(C) Tax base of liability ₹ 1,00,000 and DTA of ₹ 45,000

(D) Tax base of liability ₹ 50,000 and DTL of ₹ 30,000

Marks

DESCRIPTIVE QUESTIONS :

5.6. Explain how the company should treat the concessional loan received from the central government. Also state how it will be treated in the Statement of Profit and Loss. Also show the necessary journal entries. 5

5.7. Explain the treatment of the contingent asset in the statement of profit and loss account and disclosure in the financial statement as per below : 4

(1) At the year end date

(2) On signing of Board date

(3) On the date of final settlement

5.8. From the information given in (7) above, prepare Statement of Cash Flows following Indirect Method. 6