

CA FINAL
FINANCIAL REPORTING (FR)**MCQ CASE STUDIES (PART 2)**
(MULTIPLE INDAS IN ONE CASE STUDY)**Dear Students,**

Welcome to the comprehensive resource designed to enhance your understanding and proficiency in INDAS. This MCQ Case Study booklet contains Various Case Studies with multiple INDAS in each Case. Within its pages, you will find a collection of integrated case studies meticulously curated to encompass multiple Indian Accounting Standards relevant for CA Final FR Examinations. This booklet is a comprehensive compilation of Multiple Case studies considering various resources including ICAI Material along with addition of our own MCQs.

Acknowledgment:

I extend my heartfelt gratitude to the dedicated efforts of my team mates CA. Rythym Jain and Rahul Biradar (CA Finalist), whose commitment and expertise have been instrumental in the creation of this comprehensive case study booklet. Their passion for education and tireless collaboration have enriched this resource, ensuring its relevance and effectiveness for students like you.

Disclaimer:

While every effort has been made to ensure the accuracy and reliability of the content presented in this booklet, we acknowledge the possibility of inadvertent errors or omissions. We encourage readers to approach the material critically and notify us of any identified inaccuracies or areas for improvement. Your feedback is invaluable in our ongoing pursuit of excellence, and we welcome your contributions to enhancing the quality of this resource.

Best Wishes for Your learning endeavors !

Regards
CA. Jai Chawla
V'Smart Academy

CASE STUDY 22

IndAS 108, 16, 36, 105

Srikrishna Chemical Industries Ltd. is a listed company with a turnover of ₹ 1,008 crore for the financial year 20X1-20X2. The company has been reporting the following segments in its annual report:

- Agriculture
- Paint and adhesives
- Automobile
- Food & Beverages

Each segment has a business head supported by multiple teams and team members. For the year ended 31st March, 20X2, the agriculture segment reported a revenue of ₹ 405 crore which has been traditionally a strong business of the company. Paint and Adhesives segment clocked a revenue of ₹ 284 crore which has grown by almost 10% over the previous year. Whereas the automobile segment recorded a de-growth of 5% over previous year to bring in ₹ 221 crore in revenues.

The segment-wise profits (PBT) reported are as under:

Agriculture	18%
Paint & Adhesives	15%
Automobile	14%
Food & Beverages	9%

During the board meeting, the business head of Food & Beverages (hereinafter referred as F&B), Mr. Arnab made the following statement:

“We were almost certain of crossing the hundred crore mark this year but due to some accounting requirements we couldn't close on a revenue of around two crores. On the margins front, yes it's below our company average, in fact way below, but we believe, the company has made right moves in the right direction and the margins are likely to improve in another couple of quarters.”

Each segment related interest expenses are identified and reported separately by the company's accounts team. However, it was observed during the audit that interest income has been deducted from interest expense since interest income is a very insignificant as compared to interest expense for each of the operating segments.

The following data is available in respect of interest income and interest expenses:

Segment	Interest income	Interest expense	Net expenses reported (rounded off to nearest lacs)
Paint & Adhesives	₹ 76,000	₹ 13 Lacs	₹ 12.0 Lacs
Automobile	₹ 89,000	₹ 15 Lacs	₹ 14.0 Lacs
Food & Beverages	₹ 57,000	₹ 18 Lacs	₹ 17.5 Lacs
Agriculture	₹ 83,000	₹ 14 Lacs	₹ 13.0 Lacs

In August, 20X2, the company has imported a new machine which can simplify the operations of its 3 existing machines which are working in sync with each other. Since the business is growing, the company intends to further simplify the operations even if it means a capital commitment for the company. The new machine's base cost is USD 3.6 million. Further the cost of transit insurance, installation etc. till the time it is put to use in the company shall be ₹ 5 crore. The rate of USD to Rupee on the date of payment was ₹ 68.55 per USD.

Once installed, the machine is expected to produce 5 million litres of liquid chemical after which the machine will have to be scrapped at a residual value of ₹ 2 crore (net of cost of removal and disposal).

Your firm of CAs was involved in the financial analysis of this machine from NPV perspective and the decision was taken only after your green signal.

Since the actual production of liquid chemical varies based on the demand, the management has decided to provide for depreciation based on the actual quantity of production through the new machine. However, for the purpose of planning and projected financial statements to drive budgets across the company, the following figures are made available.

Year ending 31st March, 20X3 (actual) – 6 Lac litres Projected:

Financial year 20X3-20X4 – 9 lac litres

Financial year 20X4-20X5 – 10 lac litres

Financial year 20X5-20X6 – 12 lac litres

Financial year 20X6-20X7 – 13 lac litre

Due to the new machine being put to use, the old machines have been assessed by the auditor for impairment testing for the year ended 31st March, 20X3. The following observations were made:

- The 3 old machines are used occasionally (only 15 days since October, 20X2), so that they are in working condition.
- The carrying amount of those machines as on 31st March, 20X2 was ₹ 631.34 crore.
- The remaining useful life as on 30th September, 20X2 (as per management representation and confirmed by external engineer) was 6 years.
- The residual value at the end of 6 years would be ₹ 1 crore and the resale value as on 15th

April, 20X3 would be ₹ 500 crore (net of expenses for removal and sale).

- (e) The management intends to keep the machines for occasional use till 30th September, 20X3 and then look for options to sell or not to sell.
- (f) The annual depreciation of the machines based on original useful life was ₹ 81.26 crore.

October 20X2 :

In the middle of October, 20X2 the segment results of F&B were reviewed. F&B has crossed a quarterly revenue number of ₹ 50 crore for the quarter ended 30th September, 20X2 and the PBT has quickly gone up to 19% from 9%. The business head of F&B, Mr. Arnab, stated “We’re proud to inform the board that on 23rd September, 20X2, the company has incorporated another company, Anvitas Technologies Pvt. Ltd. entirely under the supervision of F&B segment. 51% of the shares are held by RK one of the brightest employees of the division who’s now entirely focusing on scientific way of reducing the harmful effect of wheat in human consumption. He has already filed a patent for the new solution developed by him. The company will have significant influence in the decision-making and once the product is commercially launched, the manufacturing rights will be entirely with our company.”

The company invested ₹ 500,000 including the cost of incorporation of company (shared) wherein the cost of shares was ₹ 490,000 (49,000 shares of ₹ 10 each). For the year ended 31st March, 20X3, Anvitas Technologies Pvt. Ltd. (the investee company) had a revenue of ₹ 10 lacs on which it made a net profit of ₹ 3 Lacs. The patent was granted to RK who received the final approval on 19th March 20X3.

In April, 20X3, a VC firm has approached Anvitas Technologies Pvt. Ltd offering an investment of ₹ 10 crore for a 20% stake already valuing the investee company at ₹ 50 crore. Since RK is having the controlling interest in the investee company, instead of issuing new shares, Arnab is willing to dilute the stake of the company by transferring the shares to the VC firm for ₹ 2 crores, thus enabling the new company to retain ₹ 8 crore for scaling of business.

The negotiations and discussions went on and finally, the company has decided to dilute 20% stake by transfer of shares in the name of the VC firm. Since the paperwork is going on, the deal was closed on 1st May, 20X3. The company has already received the money on 30th April, 20X3. The cost incurred for the transfer of shares and overall deal closure was ₹ 2,50,000. Even after the stake sale, Arnab will continue to be a director in Anvitas Technologies Pvt. Ltd.

The VC firm will not have any director representative in Anvitas Technologies Pvt. Ltd. and it will not have any say in the day-to-day operations of the company. Quarterly results of the company shall be reviewed by the VC firm either in the board meeting (if invited by the Board) or outside the board meeting as per the comfort level of Anvitas Technologies Pvt. Ltd. The term sheet signed between Anvitas Technologies Pvt. Ltd. and the VC firm talk about 30% ROI to the investor every year for a period of 3 years.

MCQs

Choose the best option from the given choices for each of the question below:

1. **Looks like the revenue from F&B does not make it a reportable segment as per the thresholds mentioned in INDAS8. However, the management has still classified F&B as an operating segment and disclosed relevant information. This could be perhaps because:**
 - I. **F&B Segment assets are 10% or more of the combined assets of all operating segments.**
 - II. **Absolute amount of reported profit of F&B is 10% or more of the combined reported profit of all operating segments.**
 - III. **Management believes that information about the segment would be useful to users of financial statements.**

Which of the following is true?

- (a) Statement I only
 - (b) Statement I & II
 - (c) Statement I & III
 - (d) Statement II & III
-
2. **Is there any deviation from the principles of INDAS 108 in respect of interest income and interest expense? If yes, what is the amount of interest income to be restated in the segment reporting?**
 - (a) No. Not required.
 - (b) Yes. ₹ 3,05,000
 - (c) Yes. ₹ 3,00,000
 - (d) Yes. Not quantifiable.

 3. **Since Srikrishna Chemical Industries Ltd. has diluted its stake in the investee company it will stop following equity method of accounting from April, 20X3 onwards for the investment done in Anvitas Technologies Pvt. Ltd.**

Whether this statement is true or false?

 - (a) The above statement is true
 - (b) The above statement is false
 - (c) The above statement is partially true
 - (d) The above statement is not applicable since equity method is not applicable.

4. **The VC firm that has invested in Anvitas Technologies Pvt. Ltd, can treat the investment as investment in associate since it holds 20% of the share capital of the**

company.

I. The above statement is true.

II. Shareholding alone cannot be presumed as significant influence.

III. The above statement is false. Which of the following is true?

- (a) Statement I only
- (b) Statement II only
- (c) Statement III & II
- (d) Statement I & II

5. How much depreciation will be charged on the new machine purchased for the year ended 20X3?

- (a) 3,32,13,600
- (b) 3,00,00,000
- (c) 4,98,20,000
- (d) 2,76,78,000

6. Compute the amount of impairment loss if any that would be charged on the old machines:

- (a) Nil
- (b) 41.57 Crore
- (c) 40 Crore
- (d) 49 Crore

7. Under which IndAS the old machines would be classified for the year ended 20X3

- (a) IndAS 105: Non Current Assets held for sale
- (b) IndAS 16: Property Plant and Equipment
- (c) IndAs 40: Investment Property
- (d) These machines will be de recognized

ANSWERS

1	2	3	4	5	6	7	1	2
c	b	b	c	a	b	b	c	b

CASE STUDY 23**IndAS 16, 20, 33, 102, 113, 109**

Mr. H is a Chartered Accountant and is working in GHI & Co., Chartered Accountants as a Manager. GHI & Co. has recently been approached by A Ltd. for providing advice on certain accounting matters (discussed below). A Ltd. is an automotive supplier having a registered office in New Delhi and is listed on the Bombay Stock Exchange (BSE). It is considering the possibilities of listing its securities at London Stock Exchange for which it needs to submit its financial statements prepared under INDAS.

Following are the brief facts about the transactions entered into by the company for which an accounting advice is sought by the CFO of A Ltd. from GHI & Co., Chartered Accountants:

- (a) A Ltd. has following items appearing in its books of accounts:
1. Tax liability of ₹ 12,00,000
 2. Non-refundable revenue received in advance amounting to ₹ 1,57,000
 3. Non-refundable advance received against sale of government securities
 4. Liability for damages under a lawsuit amounting to ₹ 50,00,000
 5. Financial guarantees given of ₹ 6,50,000
- (b) A Ltd. provides the following information:

Particulars	Market A	Market B	Market C
Annual volume	30,000	12,000	6,000
Transactions per month	30	12	10
Price	₹ 50	₹ 48	₹ 53
Transport cost	₹ 3	₹ 3	₹ 4
Quoted value	₹ 47	₹ 45	₹ 49
Transaction costs	₹ 1	₹ 2	₹ 1
Net proceeds	₹ 46	₹ 43	₹ 48

A Ltd. trades in market C.

- (c) A Ltd. has a machinery costing ₹ 15,00,000 having a useful life 10 years. Estimated cost of major overhaul planned after 3 years is ₹ 2,00,000.
- (d) A Ltd. received a subsidy of ₹ 15,00,000 from the Government in north-east India in return for setting up approved industrial activities in those states. One of the key conditions of the subsidy is that A Ltd. needs to employ the locals staying in those states for a period of 5 years.
- (e) A Ltd. offers 400 shares to each of its 1000 staff if they stay with them for 3 years. The fair value of the shares on the date of offer was ₹ 50. At the end of year 1, 20 employees left and the entity estimates that total 25% of the employees at the beginning of the grant of shares will left at the end of the vesting period. During the second year, a further

20 employees left and the entity further revises its estimate of total departures over the vesting period from 25% to 28%. During the third year, a further 20 employees leave the entity.

- (f) As on 1st April 20X1, A Ltd. has opening shares of 10,00,000. On 31st May, A Ltd. issued 2,00,000 shares. On 30th November, A Ltd. made a bonus issue of 1 for every 3 shares held. On 28th February 20X2, A Ltd. issued another 2,50,000 shares.
- (g) A Ltd. has agreed in a directors' meeting to sell a building and has tentatively started looking for a buyer for the building. The price of the building has been fixed at ₹ 4 crore and a surveyor has valued the building based on market prices at ₹ 3.6 crore. A Ltd. will continue to use the building until another building has been found with equivalent facilities, and in a suitable location for the office staff, who will not be relocated until the new building has been found.

MCQs

- 1. Considering the principles of INDAS, determine the accounting for machinery (referred to in (c) above held by A Ltd.?)**
 - (a) Machinery of ₹ 15,00,000 should be depreciated over a period of 10 years.
 - (b) Machinery of ₹ 13,00,000 should be depreciated over a period of 10 years; major overhaul cost of ₹ 2,00,000 should be depreciated over a period of 3 years.
 - (c) Machinery of ₹ 15,00,000 should be depreciated over a period of 10 years and cost of major overhaul of ₹ 2,00,000 should be recognised at the end of third year.
 - (d) Machinery of ₹ 13,00,000 should be depreciated over a period of 10 years; major overhaul cost of ₹ 2,00,000 should be recognised at the end of third year.
- 2. How should A Ltd. account for the subsidy received from the Government for setting up approved industrial activities in north-east states?**
 - (a) Subsidy received should be recognised on the date of receipt.
 - (b) Subsidy received should be recognised at the end of year 5, i.e., when the condition relating to employment is met.
 - (c) Subsidy received should be recognised over the period of 5 years, i.e., ₹ 3,00,000 per annum.
 - (d) Subsidy received should be recognised on the date of notification issued by the Government in this regard.
- 3. Determine the amounts to be recognised in the statement of profit and loss in relation to share based payments?**
 - (a) Expense in year 1 = ₹ 50,00,000; expense in year 2 = ₹ 50,00,000 and expense in year 3 = ₹ 50,00,000

- (b) Expense in year 1 = ₹ 62,66,667; expense in year 2 = ₹ 62,66,667 and expense in year 3 = ₹ 62,66,667
- (c) Expense in year 1 = ₹ 50,00,000; expense in year 2 = ₹ 46,00,000 and expense in year 3 = ₹ 92,00,000
- (d) Expense in year 1 = ₹ 63,33,333; expense in year 2 = ₹ 64,00,000 and expense in year 3 = ₹ 60,66,667

4. Considering the facts in (f) above, determine the weighted average number of shares which would be used in the calculation of basic EPS under INDAS?

- (a) 14,50,000 shares
- (b) 15,76,389 shares
- (c) 18,50,000 shares
- (d) 13,20,834 shares

5. How A Ltd. should classify the building referred to in (g) above?

- (a) Property, plant and equipment
- (b) Inventory
- (c) Investment property
- (d) Asset held for sale

6. Considering the information (a) above which items are financial liabilities:

- (a) All the items are financial liabilities
- (b) Only point 3 is a financial liability
- (c) Point 1 and 3 are financial liability
- (d) Point 3 and 5 are financial liability

7. Based on the information given in (b) identify Principal and most advantageous market and fair value in both the markets:

- (a) Principal Market is A and fair value is 49
Most advantageous market is C and fair value is 47
- (b) Principal Market is A and fair value is 47
Most advantageous market is C and fair value is 49
- (c) Principal Market is C and fair value is 49
Most advantageous market is A and fair value is 47
- (d) Principal Market is A and fair value is 47
Most advantageous market is B and fair value is 45

Answer :-

1	2	3	4	5	6	7
b	c	c	b	a	d	b

CASE STUDY 24

INDAS 109, 38

Skywalk Ltd. is a group established in Europe having diversified business interest. It maintains its records and financial statements under IndAS.

The Board of Directors of the company hired your firm of Chartered Accountants to assist in closure of Financial Statements under INDAS as at 31st December, 20X1. While commencing the exercise you find that there are certain transactions which need to be addressed considering the provisions of INDAS.

On 1st April, 20X1, Skywalk Ltd. commenced project developing a new production technique in one of its business entities that would significantly reduce wastage. A team of 50 staff were employed on the project and the total annual salary cost of this team was ₹ 2 million accruing evenly during the year.

Other direct costs of the design and testing of the new technique were ₹ 2,00,000 p.m from 1st April, 20X1 to 31st December, 20X1 and ₹ 1,00,000 p.m. in January, February and March, 20X2. By 30th June, 20X1 the team has developed an initial proposal and the technique was refined over the next six months, being subject to rigorous field testing. This testing was completed on 31st December, 20X1 and the new production technique was approved as being technically feasible and commercially viable from that date.

It was decided that the new production technique would be brought to practical use from 1st July, 20X2. On 31st December, 20X1, the directors estimated that the present value of the potential future cost savings the technique would generate were approximately ₹ 5 million.

On 1st October, 20X1, Skywalk Ltd. signed a contract to purchase a machine from a foreign supplier on 31st March, 20X2.

The purchase price of the machine, payable in cash on 31st March, 20X2, was USD 2 million. On 1st October, 20X1, Skywalk Ltd. entered into a forward contract to purchase USD 2 million on 31st March, 20X2 for ₹ 140.0 million. On 31st December, 20X1, a contract to buy USD 2 million on 31st March, 20X2 would have required a payment of ₹ 150.0 million. On 31st March, 20X2, the spot rate of exchange was ₹ 70 = USD 1. The forward contract was settled by the other party making a payment of ₹ 15 million to Skywalk Ltd. on that date.

Skywalk Ltd. estimated that the useful economic life of the machine was five years from 31st March, 20X2, with no residual value. Skywalk Ltd. uses hedge accounting whenever permitted by INDAS 109. The currency contract fully complies with the criteria and conditions for hedge accounting as set out in INDAS 109.

MCQ :

Being a firm of chartered accountants, you are required to answer the following questions based on provisions of relevant INDAS:

1. **Show the amount to be recognized in balance sheet at 31st December, 20X1 of property, plant and equipment for purchases of machine from foreign supplier.**
 - (a) ₹ 10 million
 - (b) ₹ 140 million
 - (c) ₹ 150 million
 - (d) Nil

2. **Calculate the gain on revaluation of the derivative for the year ended 31st December, 20X2.**
 - (a) ₹ 5 million
 - (b) ₹ 10 million
 - (c) ₹ 15 million
 - (d) ₹ 11.25 million

3. **Calculate the net carrying amount of property, plant and equipment (machine purchased from foreign supplier) as at 31st December, 20X2.**
 - (a) ₹ 119.00 million
 - (b) ₹ 127.50 million
 - (c) ₹ 106.25 million
 - (d) ₹ 121.25 million

4. **At which time the hedging instrument as derivative in this case is to be derecognized from books?**
 - (a) When the property, plant and equipment has been purchased
 - (b) When the forward contract is settled
 - (c) When the company starts charging depreciation to property, plant and equipment
 - (d) At the end of relevant financial year when the contract is entered.

5. **What are the characteristics of Derivatives?**
 - (1) Value changes in response to changes in specified underlying price / index
 - (2) Requires no or little net investment
 - (3) Settled at a future date
 - (a) Only 1 & 3 are correct
 - (b) Only 1 & 2 are correct
 - (c) Only 2 & 3 are correct

(d) All 1, 2 & 3 are correct

6. Which of the following is true about Research and Development expenses as per IndAS 38

- (a) Research and Development expenses are always charged to P&L
- (b) Research and Development expenses are always capitalized to the value of Intangible Assets
- (c) Research and Development expenses incurred till the date when technical feasibility is established are charged to P&L and amount incurred after that is capitalized
- (d) None of the above

Answer:-

1	2	3	4	5	6
d	a	c	c	d	c

CASE STUDY 25**INDAS 108, 23, 41**

M. Chinnaswamy & Brothers Ltd. is a company that is engaged in growing and maintaining coconut palms and selling the output in various forms. The company has a farmland having 2,00,000 coconut palms in the coastal area of Karnataka near Mangalore.

The company has adopted INDAS for the first time in financial year 20X3-20X4 including the standard of agriculture since the basic activities of the company are agricultural in nature.

The fair value of each coconut palm is derived based on the average realisable price of ₹ 30 per fruit. Each coconut palm grows 80 nuts per annum on an average basis. Each coconut palm can generate revenue for as long as 80 years and the current palms are only 20 year old. The management thinks that considering the risk factors in business the valuation of each palm can be considered at 5 times its annual revenue.

Although the company was primarily in agricultural activities until 20X1, it has taken major steps for forward integration to capture the higher pie of the value chain. Right from the coconut shells to the outer layer of the mature coconut which can be used to make coco pit – each item emanating from the palms and the nuts was carefully monitored and tracked by the company from 1st April, 20X2.

During financial year 20X4-20X5, the company also did impressive work in Coconut shells division which made various utility items like key chains, cutlery and toys from the shells which were previously sold as scrap at a very negligible price. From the shells alone the company earned a revenue of ₹ 2.16 crore during the year with a net margin of 19%.

The following business divisions of the company were visible from the segment reporting presented in the annual report of financial year 20X4-20X5:

Business Segment	Brief description	Segment revenue (₹ in crore)
Coconut Oil	Sold across South India under the brand name – CocoJar (as hair oil only)	11.31
Copra	Sold to APMC yards as part of Spices	10.06
Tender Coconut	Sold as tender coconut water and tender coconut ice cream at Corporate canteens and retail outlets under the brand name – Refresh!	5.03
Sweets & Cookies	Coconut-based sweets and cookies sold as packed-food items under the brand name – KaaiBella	10.07

The sweets and cookies business has been growing at times every month from November, 20X4 to April, 20X5. This propelled the thought process of the board and the company decided to divert more resources to this division with an investment of additional ₹ 10 crore (non-current assets) with immediate effect from 1st May, 20X5. The carrying amount of investment in PPE already made for this division as on 31st March, 20X5 was ₹ 5.16 crore. The segment related old liability as on 31st March, 20X6 was ₹ 2.13 crore. The fresh bank loan for the ₹ 10 crore investment was ₹ 7 crore of which ₹ 6.51 crore was outstanding as on 31st March, 20X6. The carrying amount of freshly acquired assets was ₹ 6.85 crore as on 31st March, 20X6.

Investment in Tender Coconut outlets and factory set for productions units was ₹ 6 crore with the carrying amount of ₹ 5.37 crore as on 31st March, 20X6 and segment related liability of ₹ 2.12 crore on the same date.

During August, 20X5, the Ooty Hotels Association (OHA) chairman and his team visited the corporate office of the company at Mangalore. The deal was to supply tender coconuts to Ooty Hotels at an agreed price throughout the year. The agreement came into effect from 1st September, 20X5 whereby the company shall reserve 15,000 coconut palms for OHA and will charge a concessional rate of ₹ 15 only per nut supplied to OHA. OHA will in turn supply the tender coconuts to each Ooty Hotel at the same price. OHA will also market the company's sweets and cookies through each member hotel of OHA. This contract price is applicable irrespective of the ownership of palm trees (it is not an entity-specific restriction). All tender coconuts of these 15,000 coconut palms were used by OHA irrespective of the agreement being effective from 1st September, 20X5.

The response for KaaiBella brand has been overwhelming for the company. Similarly, the shells business has also grown beyond estimates during financial year 20X5-20X6.

Keeping the growth in mind, the management has decided to build another farmland with 50,000 new coconut palms. The cost of the land purchased for the same is ₹ 50 crore and the cost of baby palms was ₹ 50 per piece. In addition, the company has to incur ₹ 5.5 lacs p.m. from the date of cultivation for the maintenance and nutrition of the palms for 10 years until they are fully grown and start yielding fruits. The land was purchased and put to use on 1st July, 20X5 and activity of planting the baby palms was complete within 5 days. Bank loan for this entire deal was negotiated as "Coconut Palm area" and not just a land. The project gestation period was shown as 10 years. Since no bank would wait for 10 years to start getting the EMIs the bank had agreed to start the repayment from year 3 onwards – from the existing financial resources of the company. Bank loan for this project was ₹ 40 crore at a rate of 10% p.a. Interest will start accumulating from day 1 and will be added to the principal amount every year for two years and the EMI will start from year 3 on the amount so accumulated.

The new coconut palm will be used exclusively for the captive consumption of the company.

For the financial year 20X5-20X6 the revenue numbers have changed significantly for the company due to forward integration and expansion plans over the last 5 years. The following information is available:

Keeping aside the 15,000 palms for OHA contract, the company utilised the remaining palms in the following manner –

Coconut Oil – 33%, Copra – 30%, Sweets & Cookies – 10%, Tender Coconut – 19.50%

Revenue from Coconut oil and Copra segments was ₹ 13.33 crore and ₹ 5.06 respectively.

The Sweets & Cookies segment sold 20.72 lacs kg items at an average price of ₹ 240 per kg. The tender coconut segment which is entirely run and managed by the company (no franchise) realised an average price of ₹ 40 per coconut.

The shells business had an average realisation of ₹ 30 per shell* in revenue. Coco pit produced from the outer layer of the shell was sold 20 lacs kg in quantity which fetched an average rate of ₹ 8 per kg. Coco pit is used in hydroponic farming and nurseries.

*Note: OHA did not commit to return the coconut shells to company since it's difficult to implement the return scheme, keeping watch on the same.

MCQ

Choose the best option from the given choices for each of the question or statement below:

- 1. Accounting treatment of coconut palms in the farm is covered in _____ and not in _____.**
 - (a) IAS 41 'Agriculture'; IAS 16 'Property Plant & Equipment'
 - (b) IAS 16 'Property Plant & Equipment'; IAS 41 'Agriculture'
 - (c) IAS 41 'Agriculture'; IAS 40 'Investment Properties'
 - (d) IAS 40 'Investment Properties'; IAS 41 'Agriculture'.

- 2. The contract between Ooty Hotels Association (OHA) and the company provides a clue for fair valuation of coconut palms. The valuation of 2 Lac coconut palms in the company's farm can be done at _____ for the quarter ended 30th September, 20X5.**
 - (a) ₹ 120 crore
 - (b) ₹ 222 crore
 - (c) ₹ 240 crore
 - (d) ₹ 231 crore

- 3. Which of the following statements is correct?**
 - I. Tender coconuts sold to OHA is an agricultural produce.**
 - II. Copra sold to wholesale dealers of spices is an agricultural produce.**

III. Ripe coconut with shells (outer layer peeled) sold to APMC yards is not an agricultural produce.

- (a) Statement I only
- (b) Statement II only
- (c) Statement I & II
- (d) Statement I & III

4. The interest cost in respect of loan taken for the cultivation of 50,000 new coconut palms must be capitalised since the bearer plants are expected to be put to use only after 2030.

Which of the following is correct?

- (a) The above statement is false. Since bearer plants are valued at fair value less costs to sell, interest can't be capitalised.
- (b) The above statement is false. Although bearer plants are a part of Property, Plant and Equipment, borrowing cost needs to be expensed for such plants.
- (c) The above statement is true. Borrowing cost must be capitalised as part of the cost of bearer plants.
- (d) The above statement is false. Bearer plants are carried at cost of purchase only.

5. Which of the following is not a reportable business segment, based on revenue criteria, for the company for financial year 20X5-20X6?

- (a) Coco shells
- (b) Coconut oil
- (c) Copra
- (d) Tender coconut

6. Compute the amount of borrowing cost that needs to be capitalized as part of the cost of bearer plants to be held as biological assets of the company pertaining to new 50,000 coconut palms for the year ended 31st March, 20X6.

- (a) Borrowing cost will not be capitalized to the cost to bearer plants
- (b) 3 Crore
- (c) 4 Crore
- (d) 2 Crore

7. Calculate the total amount of revenue earned by company:

- (a) 120 Crore
- (b) 127.5 Crore
- (c) 127.464 Crore

(d) 127 Crore

8. Based on the revenue criteria, identify the reportable segments

- (a) All the segments are reportable segments
- (b) Coconut oil, Sweets & Cookies, Tender Coconut and Coconut Shell are reportable segments
- (c) Coconut oil, Tender Coconut and Coconut Shell are reportable segments
- (d) Coconut oil, Sweets & Cookies, Copra, Tender Coconut and Coconut Shell are reportable segments

Answer:-

1	2	3	4	5	6	7	8
b	d	d	c	c	b	c	b

CASE STUDY 26

INDAS 109

You are the Financial Controller of Blueberry Ltd. Your assistant is preparing the first draft of the financial statements for the year ended 30th September, 20X3. He has a reasonable general accounting knowledge but is not familiar with the detailed requirements of all relevant INDAS. Your assistant requires your advice and has sent you a memorandum.

On 1st October, 20X2, Blueberry Ltd. lent ₹ 2 million to a customer in order to assist them with their expansion plans. The loan cost the company ₹ 1,00,000 to arrange. Your assistant is not clear whether we need to charge ₹ 1,00,000 as a cost in the current year. The directors agreed not to charge interest on this loan to help the customer's short-term cash flow but expected the customer to repay ₹ 2.4 million on 30th September, 20X4. This will mean the Company cannot take any profit this year but there will be a bonus next year when the payment is received. According to the finance department the effective annual rate of interest on this loan is 6.9%. Your assistant does not understand the relevance of this information as no interest is payable.

Just before the year end, we heard from the customer that the poor economic climate has caused them significant problems and in order to help them we agreed to reduce the amount repayable by them on 30th September, 20X4 to ₹ 2.2 million.

On 1st October, 20X2, Blueberry Ltd. acquired control of Armstrong Ltd., purchasing 60% of its issued ordinary share capital. Armstrong Ltd. is located where is no requirement to discount liabilities. No material fair value adjustments were identified at the date of acquisition of Armstrong Ltd., except in respect of a deferred liability to a supplier which will fall due on 1st October, 20X4. The amount payable on that date will be ₹ 3,00,000. The discount rate relevant to the liability is 8%.

Armstrong Ltd.'s profit for the period ended 30th September, 20X3 was ₹ 67,600 before taking into account any unwinding of the discount in respect of the liability referred to above.

Blueberry Ltd. entered into the following transactions during the year ended 30th September, 20X3:

- (a) Entered into a speculative interest rate option costing ₹ 10,000 on 1st October, 20X2 to borrow ₹ 60,00,000 from Exon Bank commencing 31st December, 20X3 for 6 months at 4%. The value of the option at 30th September, 20X3 was ₹ 15,250.
- (b) Purchased 6% debentures in Fox Ltd. on 1st October, 20X2 (their issue date) for ₹ 1,50,000 as an investment. Blueberry Ltd. intends to hold the debentures until their

redemption at a premium in 5 years' time. The effective rate of interest is 8%.

- (c) Purchased 50,000 shares in Cox Ltd. on 1st April, 20X3 for ₹ 3.50 each as an investment. The share price on 30th September, 20X3 was ₹ 3.75.

Blueberry Ltd. only designates financial assets as at fair value through Profit or loss where this is unavoidable.

MCQ

- 1. For financial assets classified as bonds, how are unrealized gains and losses reflected in shareholder's equity?**
 - (a) They are not recognized
 - (b) Shown as an adjustment in paid-in capital
 - (c) Recognized as amortized cost and measured through effective interest method
 - (d) None of the above.

- 2. What will be the impact of the options on the Statement of Profit & Loss of Blueberry Ltd. for the year ended 30th September, 20X5? Ignore deferred taxation.**
 - (a) Expense-₹ 4,95,000
 - (b) Gain- ₹ 99,000
 - (c) Loss- ₹ 99,000
 - (d) None of the above

- 3. How much expenses are to be recognized in the financial statements for the year ended 30th September, 20X3 on transactions related to financial instruments?**
 - (a) Loss- ₹ 15,250
 - (b) Gain- ₹ 5,250
 - (c) Loss- ₹ 17,250
 - (d) Gain- ₹ 17,250

- 4. With respect to Blueberry Ltd. acquisition of Armstrong Ltd., calculate the share of profit for the period attributable to equity shareholders of the parent, after taking into account any adjustment required in respect of the liability.**
 - (a) ₹ 28,140

- (b) ₹ 46,900
- (c) ₹ 18,760
- (d) ₹ 67,600

5. With respect to Blueberry Ltd. acquisition of Armstrong Ltd., calculate expense with respect to transaction, if any for the period ended 30th September, 20X3.

- (a) ₹ 22,200
- (b) ₹ 24,000
- (c) ₹ 20,700
- (d) Nil

6. At what amount the Financial Instruments will be shown in the Balance Sheet of Blueberry Ltd. on 30 September, 20X3

Option	Interest Options	Rate	6% Debentures in Fox Ltd	Shares in Cox Ltd
A	15250		153000	187500
B	10000		153000	175000
C	15250		150000	187500
D	5250		150000	175000

7. Calculate the amount at which loan given to customer will be shown in the Financial Statements on 30 September, 20X3

- (a) 20,00,000
- (b) 22,44,900
- (c) 20,57,998
- (d) 21,00,000

Answer :-

1	2	3	4	5	6	7
c	d	d	a	c	a	c

CASE STUDY 27**IndAS 37, 7, 105**

Medicines India Limited (MIL) incorporated under the Indian Companies Act, 1956 is a pharmaceutical company. It has its manufacturing plant at Pune in Maharashtra. Besides domestic sales, it also exports the medicines to various countries. Its net worth exceeded ₹ 1,000 crore as per the audited accounts for the year ended 31st March 20X1 & has remained above that since then. When preparing and finalizing the financial statements as at and for the year ended 31st March 20X7, the following issues required attention:

MIL during the year ended 31st March 20X7 had invested in a 12 year bond with a face value of ₹ 6,00,000 by paying ₹ 2,31,500. The effective rate of interest is 10%. MIL is recognizing proportionate interest income in its statement of profit and loss over the period of bond. MIL is not in the business of dealing in securities.

MIL has a legal claim for damages filed by its customer of ₹ 2.50 million. There is a 40% chance that the entity will win the case and no cost will be involved. However, there is a 60% chance that decision will not be in the favour of the entity, and it will have to pay for the damages.

MIL entered into a contract to supply 10,00,000 million strips of a particular medicine for ₹ 2 million. An increase in the cost of inputs has resulted into an increase in the cost of sales to ₹ 2.5 million. The penalty for non-performance of the contract is expected to be ₹ 0.25 million.

The Finance & Accounts department had drawn the following calendar for finalization, approval & submission of financial statements for the year ended 31st March 20X7:

Completion of preparation of financial statements	28th May, 20X7
Review & recommendation for approval by the Audit Committee	15th June, 20X7
Review & approval for issue by the Board of Directors	19th June, 20X7
Available to shareholders	1st July, 20X7
Annual General Meeting	15th September, 20X7
Filing with regulatory authority	6th October, 20X7

The calendar was duly adhered.

As a part of its sales promotion activities, MIL distributes office utility articles along with its product catalogues to medical practitioners to familiarize & encourage them to prescribe medicines manufactured by it. No conditions are attached with the items distributed.

While preparing the annual financial statements for the year ended 31st March 20X7, MIL 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, 20X5 was not recognised due to oversight of facts. The bonus was paid during the financial year ended 31st March, 20X6 and was recognised as an expense in the annual financial statements for the said year.

MCQ

Had you been the CFO of the Company, how would you have addressed the following:

- 1. With respect to investment in bonds, interest income during the currency of the bond, in the cash flow statement will be treated as:**
 - (a) Financing activity
 - (b) Investing activity
 - (c) Either a or b with disclosure
 - (d) Non-cash item.

- 2. How the maturity proceeds of bonds will be treated in the cash flow statement?**
 - (a) Investing activity
 - (b) Financing activity
 - (c) Operating activity
 - (d) Any of the above with disclosure.

- 3. With respect to legal claim for damages filed by its customer, MIL should recognize a provision of**
 - (a) Nil
 - (b) ₹ 2.5 million
 - (c) ₹ 1.5 million
 - (d) ₹ 1 million.

- 4. The contract to supply 10,00,000 strips requires a provision of**
 - (a) Nil
 - (b) ₹ 0.25 million
 - (c) ₹ 0.50 million
 - (d) ₹ 0.125 million.

- 5. What is the date of approval for issue of-the financial statements?**
 - (a) 15th June, 20X7
 - (b) 19th June, 20X7
 - (c) 1st July, 20X7
 - (d) 15th September, 20X7.

- 6. What will be the treatment of omission of constructive obligation of bonus payment in the Financial Statements of 20X6-X7:**

- I. Company will restate the comparative amounts (i.e., those for the year ended 31st March, 20X6) in the statement of profit and loss; and
 - II. Company will present a third balance sheet as at the beginning of the preceding period (i.e., as at 1st April, 20X5) wherein it should recognise the provision for bonus and restate the retained earnings.
 - III. The amount will be charged to P&L of 20X6-X7
 - (a) Only III
 - (b) I and II
 - (c) I, II and III
 - (d) I and III
7. What will be the treatment of office utilities distributed along with catalogues to medical practitioners:
- (a) It will be treated as an Intangible Asset under IndAS 38 as it will increase the future sales
 - (b) It will be accounted under IndAs 115 as it is a part of the contract
 - (c) Being the sales promotion expenses the amount will be charged to P&I
 - (d) None of these

Answer:-

1	2	3	4	5	6	7
d	a	b	b	b	b	c

CASE STUDY 7

Financial Instruments

Sun Enterprise Limited (SEL), whose functional currency is FC is engaged in the business of manufacturing various items from metals. It prepares its financial statements as per INDAS.

It is considering raising funds for the expansion of its production capacity. However, its debt-equity ratio is under pressure. It has the following options before it:

1. SEL issues 6% cumulative, non-redeemable preference shares (6% CNRPS) with discretionary dividends that are subject to availability of distributable reserves. The directors of SEL can decide at each period end whether and the extent to which a dividend will be paid on the preference share. The terms of the preference shares provide that if no dividend is paid on the preference shares, then no dividend is paid on SEL ordinary shares;
 2. SEL issues 6% discretionary non-cumulative, non-redeemable preference shares (6% NCMRPS) that are subject to availability of distributable reserves. The directors of SEL can decide at each period end whether and the extent to which a dividend will be paid on the preference shares. The payment of dividends on SEL ordinary shares is also discretionary. The terms of the preference shares provide that if dividend is to be paid on SEL's ordinary shares, then a dividend must be paid on the preference shares;
 3. SEL issues 6% non-redeemable, fixed cumulative mandatory dividend preference shares (6% NRCMP). If earnings are not sufficient in any given year, such dividends will be paid in future years. Additional dividends may be declared but only if dividends of the same amount are declared on the other classes of shares.
 4. SEL issues 2000 convertible bonds with a 3 year term at a face value of FC 1,000 per bond resulting into a total proceed of FC 2.0 million. Interest is payable annually @ 6.00% per annum. Each bond is convertible, at the holder's discretion, at any time upto maturity into 250 shares. When the bonds are issued, the market interest rate for similar debt instrument without the conversion option is 9% per annum;
 5. SEL issues a 2 year mandatorily convertible instruments for FC 1 million. The instrument requires SEL to make cash coupon payments of FC 50,000 each at the end of year 1 and year 2. At the end of year 2, the instrument will mandatorily convert into 5,000 ordinary shares.
- SEL has applied for a term loan from a bank for business purposes. As per the loan agreement, the loan required a personal guarantee of one of the directors of SEL to be executed. In case of default by SEL, the director will be required to compensate for the loss that bank incurs. Mr. Pure Joy, one of the directors had given guarantee to the bank pursuant to which the loan was sanctioned to SEL. SEL does not pay premium or fees to its director for providing this financial guarantee.

SEL (parent company) has issued a comfort letter to its subsidiary company, Complete Surety

Limited (CSL). CSL was able to obtain funds from the banker on the basis of comfort letter issued by SEL.

SEL has issued compulsorily convertible debentures at 14.5% of ₹ 10,00,000 coupon rate which will be converted at the end of 10 years. The unsecured loan market rate of interest is 16% (Assuming this rate can be considered as the appropriate market rate for the given purpose). It may be noted that the coupon rate on debentures is same as that of the market rate of interest although coupon rate on instruments with conversion feature is generally lower than market rate of interest on unsecured loans.

MCQ

You are the Chief Financial Officer of SEL. You have to resolve the following issues:

1. Whether 6% CNRPS can be classified as:

- (a) Equity in its entirety
- (b) Liability in its entirety
- (c) Either of the above with disclosure
- (d) Compound Financial Instruments.

2. Whether 6% NCNRPS can be classified as:

- (a) Equity in its entirety
- (b) Liability in its entirety
- (c) Either of the above with disclosure
- (d) Compound Financial Instrument.

3. Whether 6% NRCMP can be classified as:

- (a) Compound financial instrument
- (b) Equity in its entirety
- (c) Liability in its entirety
- (d) Either (B) or (C) at the discretion of SEL.

4. If SEL issues 2,000 convertible bonds of FC 1,000 per bond, assuming no transaction costs, on initial recognition:

- (a) There is no equity component
- (b) The equity component is FC 1,51,878
- (c) The equity component is FC 2,00,000
- (d) None of the above.

5. If SEL issues the 2 year mandatorily convertible instruments for FC 1.0 million, assuming no transaction costs and market interest rate for similar debt instrument

without conversion option is 8% per annum, on initial recognition:

- (a) There is no equity component
- (b) There is no liability component
- (c) The equity component is FC 9,10,837
- (d) The equity component is FC 6,87,435.

6. What will be the treatment of guarantee given by Mr. Pure Joy in the books of SEL:

- (a) The amount, terms of guarantee and other necessary disclosures will be made as per IndAS 24: Related Party
- (b) It will be treated as a Financial Liability in the books of SEL
- (c) No accounting treatment or disclosures will be made in the books of SEL
- (d) Both a and b

7. How the Letter of Comfort given for subsidiary will be accounted for in the books of SEL

- (a) It will be treated as a financial guarantee contract as per IndAS 109
- (b) SEL will be required to evaluate as to whether it is contractually obliged to make good the loss in case CSL fails to make the payment. If yes, then such comfort letter would be a financial guarantee contract and will be accounted for in accordance with IndAS 109.
- (c) No accounting treatment will be given in the books of SEL
- (d) None of these

8. What will be the treatment of 14.5% Compulsorily Convertible Debentures at the time of initial recognition:

- (a) Entire amount will be classified as equity
- (b) Entire amount will be classified as Financial Liability
- (c) Equity component= 2,99,182 and Financial Liability= 7,00,818
- (d) Equity component= 7,00,818 and Financial Liability= 2,99,182

Answer :-

1	2	3	4	5	6	7	8
a	a	a	b	c	a	b	c

CASE STUDY 29

IndAS 103, 115, 109, 28

High Speed Limited ("the Company") is a car manufacturing company. During the year, the Company has entered into many transactions, details of which are given below. Finance controller of High-Speed Limited requires your assistance in determining the accounting treatment of these transactions in accordance with INDAS.

'High Speed Limited' manufactures and sells cars. The Company wants to foray into the two-wheeler business and therefore it acquires 30% interest in 'Quick Bikes Limited' for ₹ 5,00,000 as at 1st November, 20X1 and an additional 25% stake as at 1st January, 20X2 for ₹ 5,00,000 at its fair value.

Following is the Balance Sheet of Quick Bikes Limited as at 1st January, 20X2:

Liabilities	Carrying Value	Fair Value	Assets	Carrying Value	Fair Value
Share capital	1,00,000		Plant and equipment	3,50,000	7,50,000
Reserves	5,50,000		Investment in bonds	4,00,000	5,00,000
Trade payables	1,50,000	1,50,000	Trade Receivables	50,000	50,000
Total	8,00,000		Total	8,00,000	

Quick Bikes Limited sells the motorcycles under the brand name 'Super Start' which has a fair value of ₹ 3,50,000 as at 1st January, 20X2. This is a self-generated brand therefore Quick Bikes Limited has not recognized the brand in its books of accounts.

While selling a car, the Company provides a written assurance to the customer that the car will function in the manner it is intended to function. However, if there is any breakdown in the car within 5 years due to manufacturing defect then the Company will replace the parts without any cost to the customer. The customer does not have the option to purchase the warranty separately. The Company has a past practice of providing routine maintenance services without any charge for 4 times over the period of 2 years from the date of purchase. Although the free maintenance services are not explicitly stated in the contract, however, the customer has a valid expectation that the Company will provide such services without any charge as advertised by the Company.

To expand further, the Company has entered into a Share Purchase Agreement ("SPA") with the shareholders of Fast Move Limited to purchase 30% stake in Fast Move Limited as at 1st June 20X2 at a price of ₹ 30 per share. As per the terms of SPA, the Company has an option to

purchase additional 25% stake in Fast Move Limited on or before 15th June 20X2 at a price of ₹ 30 per share. Similarly, the selling shareholder has an option to sell additional 25% stake in Fast Move Limited on or before 15th June, 20X2 to the Company at a price of ₹ 30 per share. The decisions on relevant activities of Fast Move Limited are made in Annual General Meeting / Extraordinary General Meeting (AGM / EGM). A resolution in AGM / EGM is passed when more than 50% votes are casted in favor of the resolution. An AGM / EGM can be called by giving atleast 21 days advance notice to all shareholders.

During the year, the Company had issued Compulsory Convertible Debentures ("CCDs") on a private placement basis for ₹ 100 lakh. Each CCD is convertible into 5 shares at the end of 4 years from the date of issue and an annual interest is payable at the rate of 6% p.a. At initial recognition, the Company has recognized a liability component of compound instrument at ₹ 20,79,063. The Company also incurred expenses of ₹ 2,00,000 in connection with the issue of the instrument. Nature of expenses includes fees paid to legal advisors, registration and regulatory fees.

The Company acquired a 40% stake in New Motors Limited as at 1st October, 20X2 for ₹ 8,00,000 and classified the investment in New Motors Limited as an associate. As at 1st October, 20X2, the carrying amount and fair value of plant & equipment of New Motors Limited is ₹ 3,00,000 and ₹ 5,00,000 respectively with remaining useful life of 5 years (i.e. 20 quarters). From 1st October, 20X2 to 31st December 20X2, New Motors Limited generated a profit of ₹ 50,000.

While selling a car, the Company provides a trade discount of 1% on sale price which is mentioned on the invoice. The Company provides a credit period of 7 days to its customers however if paid upfront then the Company gives an additional cash discount of 2%. The Company also provides a voucher worth ₹ 500 with validity of 1 year which can be used at an apparel store.

MCQ

1. At what amount the Company shall carry its investments in New Motors Limited in its consolidated financial statements as at 31st December 20X2?

- (a) ₹ 8,00,000
- (b) ₹ 8,20,000
- (c) ₹ 8,16,000
- (d) ₹ 8,10,000

2. How should the Company account for the trade discount, cash discount and voucher given to customers on sale of a car?

- (a) Trade discount shall be reduced from the revenue however cash discount and value of voucher shall be charged as expenses.

- (b) Trade discount and cash discount both shall be reduced from the revenue however value of voucher shall be charged as expenses.
- (c) Trade discount, cash discount and value of voucher shall be charged as expenses.
- (d) Trade discount, cash discount and value of voucher shall be reduced from revenue.

3. What shall be the accounting treatment of directly attributable expenses of ₹ 2 lakh incurred in connection with the issue of Compulsory Convertible Debentures?

- (a) Entire ₹ 2,00,000 shall be recognized as expenses in the statement of profit and loss in current year.
- (b) Entire ₹ 2,00,000 shall be reduced from equity in current year.
- (c) A proportion of ₹ 1,58,419 shall be reduced from equity and Balance of ₹ 41,581 shall be recognized as interest cost over the period of 4 years using effective interest method.
- (d) Entire ₹ 2,00,000 shall be recognized as interest cost over the period of 4 years using effective interest method.

4. With more acquisitions, at the end of the year, the Company has investments in 2 subsidiaries, 3 associates and 1 joint venture. Which of the following statements is correct in relation to accounting of these investments in separate financial statements?

- (a) The Company is required to measure all such investments at cost.
- (b) The Company has an option to account the investments in associates and joint ventures using fair value and carry the investments in subsidiaries at cost.
- (c) The Company has an option for each investment to measure either at cost or in accordance with INDAS 9.
- (d) The Company has an option to measure all such investments either at cost or in accordance with INDAS 109. The option is available for each category of investments separately (i.e. subsidiaries, associates and joint venture).

5. What should be the accounting treatment of contingent liabilities assumed in a business combination?

- (a) The acquirer shall recognize the contingent liabilities assumed in a business combination at its fair value if it is a present obligation that arises from the past events and its fair value can be measured reliably.
- (b) The acquirer shall recognize the contingent liabilities assumed in a business combination at gross amount involved.
- (c) Contingent liabilities assumed in a business combination shall not be recognized however shall be disclosed in notes to accounts.

- (d) Contingent liabilities assumed in a business combination shall not be recognized and not be disclosed in notes to accounts.

6. Calculate the value of Goodwill/ Gain from Bargain Purchase that High Speed Ltd. will recognize in its Consolidated Financial Statements on acquisition of Quick Bikes Ltd assuming that Non Controlling Interest is measured at fair value:

- (a) Goodwill of 2,75,000
 (b) Goodwill of 9,00,000
 (c) Goodwill of 5,00,000
 (d) Gain from Bargain Purchase of 5,00,000

7. Which of the following statement is true:

- (a) For assurance type warranty Provision is recognized as per IndAS 37
 (b) Service type warranty is considered as a separate Performance obligation and accounted for as per IndAS 115
 (c) Assurance type warranty is considered as a separate Performance obligation and accounted for as per IndAS 115
 (d) Both a and b

8. State whether High Speed Ltd has control over Fast Move Ltd on 1st June, 20X2:

- (a) No because High Speed Ltd holds only 30% share capital in Fast Move Ltd
 (b) Yes because the share purchase agreement gives High Speed Ltd. the option to get voting rights more than 50% at the date of AGM / EGM. Accordingly, the contract gives High Speed Ltd. the current ability to direct the relevant activities even before the option contract is settled. Therefore, High Speed Ltd. controls Fast Move Ltd. as at 1st June, 20X2.
 (c) No because the share purchase option is not exercisable and thus High Speed Ltd doesn't have any potential equity shares through which control can be exercised
 (d) Both a and c

Answer :-

1	2	3	4	5	6	7	8
c	d	c	d	a	c	d	b

Case Study 30

IndAs 16,23, 111

Leo Ltd. is a diversified group having multiple business interests in many countries. The group publishes its financial statements in IndAS.

During closure of books for the year ended 31 March 2X19, certain transactions were highlighted by the group finance team. The Finance Controller is confused on the treatment of these transactions under IndAS and needs your assistance.

On 1 April 2X18, Leo Ltd. began joint construction of a pipeline with another investor. Leo 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, was to be shared equally. The pipeline was completed and ready for use on 1 October 2X18, at which date its estimated useful economic life was 20 years.

The pipeline was first used on 1 January 2X19. The total cash cost of constructing the pipeline was ₹ 40 million. This cost was partly financed by a loan of ₹ 10 million taken out on 1 April 2X18. The loan carries interest at an annual rate of 10% with interest payable in arrears on 31 March each year. Between 1 January 2X19 and 31 March 2X19, it was necessary to spend ₹ 400,000 on maintenance costs.

On 1 April 2X18, Leo Ltd. purchased some land for ₹ 10 million (including legal costs of ₹ 1 million) in order to construct a new factory. Construction work commenced on 1 May 2X18. Leo Ltd. incurred the following costs in connection with its construction:

- Preparation and levelling of the land – ₹ 300,000.
- Purchase of materials for the construction – ₹ 6.08 million in total.
- Employment costs of the construction workers – ₹ 200,000 per month.
- Overhead costs incurred directly on the construction of the factory – ₹ 100,000 per month.
- Ongoing overhead costs allocated to the construction project using Leo Ltd.'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 – ₹ 300,000.
- Costs of the opening ceremony on 31 January 2X19 – ₹ 150,000.

The factory was completed on 30 November 2X18 (which is considered as substantial period of time) and production began on 1 February 2X19. 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, Leo 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 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 4.6 paise.

The construction of the factory was partly financed by a loan of ₹ 17.5 million taken out on 1 April 2X18. The loan was at an annual rate of interest of 6%.

During the period 1 April 2X18 to 31 August 2X18 (when the loan proceeds had been fully utilised to finance the construction). Leo Ltd. received investment income of ₹ 100,000 on the temporary investment of the proceeds.

On 1 April 2X18, Leo Ltd. raised loan finance from European investors. The investors subscribed for 50 million € 1 loan notes at par. Leo Ltd. incurred incremental issue costs of € 1 million. Interest of € 4 million is payable annually on 31 March, starting on 31 March 2X19. The loan is repayable in € after 10 years on 31 March 2X28 at a premium and the effective annual interest rate implicit in the loan is 10%. The appropriate measurement basis for this loan is amortized cost. Leo Ltd. uses INR (₹) as its functional currency.

Relevant exchange rates are as follows:

- 1 April 2X18 – € 1 = ₹ 82.00.
- 31 March 2X19 – € 1 = ₹ 85.00
- Average for year ended 31 March 2X19 – € 1 = ₹ 83.00

MCQ

1. Suppose the company has issued preference shares that are redeemable at the option of the holder. Three months before the end of the year, it was probable that the holders would require redemption. Which one of the following is the appropriate classification for the annual payment of ₹ 12,000 to preference shareholders at year-end?

- (a) Dividend ₹ 12,000
- (b) Interest expense ₹ 12,000
- (c) Dividend ₹ 3,000, interest expense ₹ 9,000
- (d) Dividend ₹ 9,000, interest expense ₹ 3,000

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

- (a) ₹ 20.0 million
- (b) ₹ 9.2 million
- (c) ₹ 0.92 million
- (d) ₹ 10.0 million

- 3. Pursuant to IndAS 21, any one of the following factors will not be used in determining the entity's functional currency:**
- (a) The currency that primarily influences the prices at which goods and services are sold
 - (b) The currency in which the costs of the entity are mainly denominated
 - (c) The currency which is used mostly for international trading in that industry
 - (d) The currency in which funds from financing are generated
- 4. Calculate the closing balance of loan finance at period end which the Leo limited has raised from European investors.**
- (a) ₹ 4,241.5 million
 - (b) ₹ 4,141.7 million
 - (c) ₹ 4,165.0 million
 - (d) ₹ 4,084.7 million
- 5. Calculate the exchange difference of loan finance from European investors to be recognized in profit or loss for the given period.**
- (a) Gain - ₹ 156.8 million
 - (b) Loss - ₹ 156.8 million
 - (c) Loss - ₹ 223.5 million
 - (d) Gain - ₹ 223.5 million
- 6. Compute the amount of cost of factory that would be capitalized in books as per IndAS 16:**
- (a) 19 million
 - (b) 19.9125 million
 - (c) 10.92 million
 - (d) 10 million
- 7. Calculate the amount of depreciation that would be charged on the roof component of building for the year ended 2X19:**
- (a) 0.04956 million
 - (b) Depreciation cannot be calculated separately for roof
 - (c) 0.49 million
 - (d) None of these
- 8. What is the amount of cost of pipeline on initial recognition and depreciation for 2X19 thereon that Leo Ltd will record in its books as per IndAS 111**

- (a) 40.5 million and 1 million respectively
- (b) Nil, as the Pipeline being a part of joint arrangement is not an asset of Leo Ltd
- (c) 20.25 million and 0.5 million
- (d) 20.25 million and 0.50625 million

Answer :-

1	2	3	4	5	6	7	8
b	c	c	a	b	b	a	d

Case Study 31**IndAS 102**

On 1 April 2X17 Leo Ltd. granted share options to 200 senior executives. The options will vest on 31st March 2X20 subject to the following conditions:

- Each executive will be entitled to 1,000 options if the cumulative profit in the three-year period from 1 April 2X17 to 31st March 2X20 exceeds ₹ 30 million. If the cumulative profit for this period is between ₹ 35 million and ₹ 40 million, then 1,500 options will vest. If the cumulative profit for the period exceeds ₹ 40 million, then 2,000 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 31st March 2X20 exceeds ₹ 5. Details of the fair value of the shares and share options at relevant dates are as follows:

Date	Fair value of Leo Ltd.'s each share	Fair value of each option
1 April 2X17	4	0.5
31 March 2X18	4.4	0.6
31 March 2X19	4.6	0.75

The estimate of the cumulative profit for the three-year period ending 31 March 2X20 was revised each year as follows:

Date	Expected profit for the three-year period (₹ million)
1 April 2X17	32
31 March 2X18	39
31 March 2X19	45

On 1 April 2X17, none of the relevant executives were expected to leave in the three-year period from 1 April 2X17 to 31 March 2X20 and none left in the year ended 31 March 2X18. However, 10 executives left unexpectedly on 31 December 2X18. None of the other executives are expected to leave before 31 March 2X20. Leo Ltd. correctly reflected this arrangement in its financial statements for the year ended 31 March 2X18.

Compute the amount that would form a part of Employees Benefit expenses for the year ended 31 March 2X19 in Scenario 8A

- (a) 1,26,667
- (b) 76,667**
- (c) 66,667
- (d) 56,667

Case Study 32

IndAS 36, 7, 116

Buildwell Ltd. is a diversified business group operating in multiple business segments across Europe, United States and Asia Pacific. It maintains its books of accounts and publishes its annual consolidated financial statements under IndAS.

On 1 April 20X2, Buildwell Ltd. had also leased a machine from Donovan Ltd. on a three-year lease. The expected future economic life of the machine on 1 April 20X2 was four years. If the machine breaks down, then under the terms of the lease, Donovan Ltd. would be required to repair the machine or provide a replacement.

Donovan Ltd. agreed to allow Buildwell Ltd. to use the machine for the first six months of the lease without the payment of any rental as an incentive to Buildwell Ltd. to sign the lease agreement. After this initial period, lease rentals of ₹ 210,000 were payable six-monthly in arrears, the first payment falling due on 31 March 20X3.

During the year Buildwell Ltd sold a machinery having cost of 20 million on which accumulated depreciation charged is 5 million. This machine was sold at a loss of 1 million.

On 1 June 20X2, Buildwell Ltd. decided to dispose of the business and current and non-current assets of one of its divisions related to Speciality chemicals business which it had acquired several years ago. This disposal does not involve Buildwell Ltd. withdrawing from a particular market sector. The carrying values on 1 June 20X2 of the assets to be disposed of were as follows:

Particulars	₹ in Million
Goodwill	10.0
Property, Plant and Equipment	20.0
Patents and trademarks	8.0
Inventories	15.0
Trade Receivables	10.0

None of the assets of the business had suffered impairment as at 1 June 20X2. At that date the inventories and trade receivables of the business were already stated at no more than their recoverable amounts.

Buildwell Ltd. offered the business for sale at a price of ₹ 46.5 million, which was considered to be reasonably achievable. Buildwell Ltd. estimated that the direct costs of selling the business would be ₹ 5,00,000. These estimates have not changed since 1 June 20X2 and Buildwell Ltd. estimates that the business will be sold by 31 March 20X3 at the latest.

MCQ

1. Calculate the current liability of leased machine from Donovan Ltd. to be shown in the statement of financial position as at 31 March 20X3.
 - (a) ₹ 70,000
 - (b) ₹ 1,40,000
 - (c) ₹ 3,50,000
 - (d) ₹ 4,20,000

2. Compute the value of Speciality chemical division's Goodwill at the date of classification after re-measurement.
 - (a) ₹ 7.3 million
 - (b) ₹ 10 Million
 - (c) ₹ Nil
 - (d) ₹ 8 million

3. Calculate the closing balance of Speciality chemical division's asset – Property, Plant and Equipment at the period end.
 - (a) ₹ 21 million
 - (b) ₹ 17.36 million
 - (c) ₹ 6 million
 - (d) ₹ 15 million

4. Suppose financial statements of Buildwell Ltd. included an investment in associate at ₹ 66,00,000 in its consolidated statement of financial position at 31 March 20X2. At 31 March 20X3, the investment in associate had increased to ₹ 67,50,000. Buildwell Ltd.'s pre-tax share of profit in the associate was ₹ 4,20,000, with a related tax charge of ₹ 1,80,000. The net amount was included in the consolidated income statement for the year ended 31 March 20X3.

There were no impairments to the investment in associate, or acquisitions or disposals of shares during the financial year.

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 31 March 20X3?

 - (a) Cash inflow of ₹ 90,000
 - (b) Cash inflow of ₹ 240,000
 - (c) Cash outflow of ₹ 90,000
 - (d) Cash inflow of ₹ 420,000

5. Buildwell Ltd.'s another subsidiary reported net income of ₹ 25 million, which

equals the company's comprehensive income. The company has no outstanding debt. Using the following information from the comprehensive statement of financial position (₹ in millions), what cashflow should the Buildwell Ltd.'s subsidiary report, as financing activity in the statement of cash flows?

Extract of Statement of Financial Position	31.03.20X2 (₹)	31.03.20X3 (₹)
Equity share capital	100	100
Further issue of equity shares	100	140
Retained earnings	100	115
Total shareholders' equity	300	357

- (a) Issuance of equity shares ₹ 240 million; dividends paid ₹ 10 million
- (b) Issuance of equity shares ₹ 100 million; dividends paid ₹ 10 million
- (c) Issuance of equity shares ₹ 140 million; dividends paid ₹ 10 million
- (d) Issuance of equity shares ₹ 40 million; dividends paid ₹ 10 million

6. Identify the nature of lease taken from Donovan Ltd.

- (a) Finance Lease
- (b) Operating Lease
- (c) None of these
- (d) Both a and b

7. What is the treatment of Machine sold in Cash Flow Statement of Buildwell Ltd.

- (a) An inflow of 14 million in operating activities
- (b) Loss of 1 million would be added to calculate Operating Profit in Operating Activities
- (c) Inflow of 14 million in Investing Activities
- (d) Both b and c

Answer :-

1	2	3	4	5	6	7
a	c	d	a	d	b	d

Case Study 33

IndAs 103, 21, 115

You are a Chartered Accountant. You are offered a two month assignment at XYZ Ltd., an Indian listed manufacturing company producing wind turbines. Your job is to assist with the preparation of the year end consolidated accounts.

XYZ Ltd. has grown substantially over the last number of years as the demand for renewable energy has grown. It primarily manufactures medium-sized turbines on a supply only basis. In the past year, however, XYZ Ltd. has expanded into the supply and maintenance of large-scale wind turbines used in wind farms. These contracts are generally much larger than the contracts XYZ Ltd. has dealt with to date.

XYZ Ltd. is exploring possibilities of listing its securities at an overseas stock exchange. The financial reporting requirements related to such listing include submission of financial statements as per IndAS.

XYZ Ltd. has owned shares in PQR Ltd. for many years, another Indian company manufacturing solar panels for installation on the roofs of residential properties.

Outstanding issues:

1. During the year, XYZ Ltd. purchased \$ 1,02,00,000 of specialist raw materials from an American company. Purchase took place and was recognized in the financial statements on 1 December 20X1 when the exchange rate was \$ 1 : ₹ 65. The supplier has provided XYZ Ltd. with 6 month interest-free credit. At the reporting date of 31 March 20X2, the exchange rate was \$ 1 : ₹ 66. As at 31 March 20X2, 60% of the materials purchased were still in inventory in XYZ Ltd.

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

3. During the year, XYZ Ltd. completed its first supply and maintain contract. The turbines were supplied and operational on 31 January 20X2. The contract was for ₹ 3,91,00,000 and its terms included a provision that XYZ Ltd. maintains the turbines for a period of five years from the initial date of operation.

If the turbines had been delivered on a supply and fit only contract they would have cost ₹ 3,40,00,000. The maintenance contract on a wind farm of this size would normally be ₹ 17,00,000 per annum. XYZ Ltd. has been paid in full for this contract and included the full ₹ 3,91,00,000 as revenue in the draft accounts for 31 March 20X2.

4. Given the strong growth expected by XYZ Ltd. management is concerned about the possibility of key employees leaving. With this in mind, XYZ Ltd. introduced a share option scheme on 1 April 20X0 for all employees at manager level and above. 500 employees were eligible for the scheme. Each employee is entitled to 300 options to purchase equity shares at ₹ 34 per share, the fair value of each option at 1 April 20X0 was ₹ 9.01. The options vest on 31 March 20X3 if the employees continue to work for XYZ Ltd. during the three-year period. At 31 March 20X1, 495 of the staff were still employed and 480 were expected to be employed at the vesting date. XYZ Ltd.'s share price on 31 March 20X1 was ₹ 35.7 and the fair value of each option was ₹ 9.18. By 31 March 20X2, 490 of the staff were still employed and 475 were expected to be employed at the vesting date. XYZ Ltd.'s share price on 31 March 20X2 was ₹ 37.4 and the fair value of each option was ₹ 9.35.

Appendix:

Investments in other companies

Investment in PQR Ltd.

XYZ Ltd. purchased 21.76 million ordinary shares in PQR Ltd. on 31 March 20XX for 50 million. The fair value of the net assets of POR Ltd. is 57.8 million.

MCQ

1. **What is the amount of exchange loss/gain to be recognized on 31 March 20X2 in relation to purchase of raw material from American Company?**
 - (a) ₹ 10.2 Million exchange loss
 - (b) ₹ 6.12 Million exchange loss
 - (c) Nil
 - (d) ₹ 3.4 Million exchange loss

2. **At what amount should warranty provision be increased in books of accounts on 31 March 20X2?**
 - (a) ₹ 0.255 Million
 - (b) ₹ 0.51 Million
 - (c) ₹ 0.34 Million
 - (d) ₹ 0.85 Million

3. **Out of contract revenue of ₹ 3,91,00,000 what should be segregation of 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

4. What is the amount of contract revenue that should be recognized on 31 March 20X2? Also state out of contract revenue of ₹ 3,91,00,000, what amount of deferred income should be recognized on 31 March 20X2?

- (a) ₹ 39.1 million; Current liability ₹ 703,448, Non-current liability ₹ 2,696,551
- (b) ₹ 35.7 million; Current liability ₹ 1,700,069, Non-current liability ₹ 6,516,931
- (c) ₹ 31.54 million; Current liability ₹ 1,564,000, Non-current liability ₹ 5,995,330
- (d) ₹ 30.883 million; No liability

5. What amount of annual charge on account of share option reserve should XYZ Ltd. had recognized on 31 March 20X1? What is the annual charge on account of share option reserve for the year ending 31 March 20X2?

- (a) ₹ 432,480; ₹ 423,470
- (b) ₹ 440,640; ₹ 447,610
- (c) ₹ 454,410; ₹ 432,480
- (d) ₹ 450,500; ₹ 440,640

6. Compute the value of goodwill/ Gain from Bargain Purchase recognised on acquisition of shares of PQR Ltd on 31 March 20XX:

- (a) Gain from Bargain Purchase of 3.76 million
- (b) Nil
- (c) Goodwill of 3 million
- (d) Goodwill of 3.76 million

Answer :-

1	2	3	4	5	6
a	c	b	c	a	d

Case Study 34

IndAS 115

ABC Telecom Inc. is an American corporation that outsources some of its product engineering work to XYZ Ltd. in India. Both the parties have a long-term business relationship with each other – probably since more than 15 years.

In those 15 years, there have been multiple changes in management of both the parties. ABC has undergone many changes in the ownership and leadership in the last decade or so. In the outsourcing industry, it's a customary practice to request the customers for rate increase due to inflation and other factors that are specific to the contract.

Off-late there have been many instances of dissatisfaction from the customer due to attrition rate. Attrition refers to number of people leaving a company or a team. Attrition in the team is one of the biggest problems for ABC due to process-related hassles like interview of the replacement candidates, access to the file-sharing system and a few other factors.

XYZ Ltd. has been pressured for delivery and also forced to cut down the bill rate thereby reducing the profit margins. XYZ has an Offshore Development Centre (ODC) of 500 FTEs (Full-time employees) and an onsite support of Ten FTEs who work at the ABC location in USA. ODC is a specific designated area within the company's premises. It requires special access to both employees and visitors who wish to enter into the ODC area. Even employees who are part of the same company but belong to team(s) other than the ODC can't enter the ODC area with their regular access card. Internet and other IT security is also special to the ODC through a dedicated leased-line which has a probability of 0.4% downtime.

Last contract with ABC, reviewed by both the parties, was almost 3 years ago. As a finance prime at XYZ Ltd., you have been asked by the Business Head to work closely with the Delivery Head and the legal team to look into the financial aspects of the contract.

Multiple scenarios were worked out and many rounds of discussion happened but there was no satisfactory response from both the parties towards the closure of negotiation. Finally, after 4 months of continuous follow-up, con-calls and the intervention of XYZ's CEO, the following key terms were agreed and accepted by both the parties: (simplified extracts)

1. The monthly bill rate per FTE shall stand revised to USD 4,400 from USD 4,200 earlier for standard billing hours of 1,920 per annum per ODC FTE.
2. Bill rate for Onsite FTEs shall stand revised to USD 11,000 per month from USD 10,500 earlier.
3. XYZ shall provide a buffer headcount of 10% (earlier 7%) of the total FTEs working in the ODC.

(Buffer headcount is usually kept as replacement for any absent FTEs or loss of working hours due to any reason. The Buffer headcount is also trained on the job for the eventuality of attrition in the project. Buffer headcount is not billed to the client but absorbed as direct

contract cost.)

4. Other terms and conditions of the contract shall remain the same except that the following new terms will be inserted through Annexure which shall form an integral part of the contract:
 - a. Performance Bonus will be payable to XYZ at the rate of 10% of the quarterly billing done if the average billed hours of the ODC exceed 520 hours per FTE per quarter and the attrition rate is below 5% during that quarter.
 - b. Attrition Penalty will be payable by XYZ as per the following table:

Attrition Rate during the quarter in the ODC	Attrition Penalty as a percentage of Quarterly billing done
6% to 8%	3.5%
8% to 10%	4.5%
10% to 12%	6.0%
More than 12%	10.0%

5. The process of the timesheet approval shall remain the same except that the Project Manager of ABC in USA shall have a final approval authority. (Earlier, ODC manager in XYZ used to aggregate and ratify the timesheet and get the same approved by the Onsite lead of XYZ in USA and the same was counter-approved by the Project Manager from ABC. Now the project manager is changed since last 2 years.)
6. Billing will continue to be done on a quarterly basis and the credit period shall remain as 45 days from the end of last calendar day of the quarter for which billing is done.
7. XYZ shall continue to invoice at standard bill hours on a quarterly basis even when the actual billable hours as per final timesheet are more or less than the standard hours per FTE per month unless the actual billable hours fall below 150 per month per FTE. In that case the billing shall be done on actual billable hours. Actual billable hours are also used for billing in the quarter when XYZ is eligible for performance bonus.
8. Performance Bonus, if any, shall be billed separately within 20 working days from the end of the quarter in which such bonus becomes payable as per the contract.
9. Penalty, if any, shall be deducted from the latest quarterly bill received by ABC after the end of the relevant quarter.
10. Both the parties to the contract shall endeavour to close the approval process of billable hours within 7 working days from the end of each quarter.
11. Work done by Buffer FTEs, if any, shall not be counted for billing.

Following is the timesheet and attrition data for four quarters since the renewed contract has come into force.

Period	Hours approved by XYZ	Hours approved by ABC	Attrition rate

Quarter 1 Financial Year 20X1-20X2	2,41,500	2,41,415	6.0%
Quarter 2 Financial Year 20X1-20X2	2,62,500	2,62,319	4.5%
Quarter 3 Financial Year 20X1-20X2	2,39,000	2,38,585	9.2%
Quarter 4 Financial Year 20X1-20X2	2,23,500	2,23,500	7.0%

Revenue from ABC accounts for more than 20% of the total revenue of XYZ Ltd. every year. However, ABC was not shown as a separate reportable segment until last audited annual financials of the company.

Since XYZ is a listed company on Bombay Stock Exchange as well as National Stock Exchange, the company has to publish quarterly financial information after the limited review of the auditors. The carrying amount of XYZ's ODC asset (for ABC) is ₹ 1,29,00,000 (after considering impact of contract with ABC during the year) as on 31 March 20X2.

As a finance prime your help is required by the head of R2R (Record to report) team during each of the quarter close before the financial information is submitted to the auditors for limited review.

MCQ

- The Head of R2R was not aware of this latest contract with ABC in so much of details. You have discussed with him the main points of the contract including the Performance Bonus and Attrition Penalty. The Consideration agreed by both the parties in this contract is _____**
 - Variable and requires allocation to distinct performance obligation
 - Variable but does not require specific allocation to distinct performance obligation
 - Composite consideration
 - Composite consideration with distinct performance obligations
- XYZ Ltd. has decided to make provision for attrition penalty at the beginning of each quarter instead of booking that amount as loss in the case of liability of pay penalty. Historically, ABC ODC has seen at attrition rate of 7%. If the same attrition percentage is used for provision of attrition penalty what will be the provision amount for Q1 FY 20X1-20X2? Assume standard billing hours of 1920 per annum per FTE in ODC**
 - USD 2,30,000
 - USD 2,31,000
 - USD 2,32,000

- (d) USD 2,33,000
3. **“Now that the contract has changed substantially and ABC accounts for about 20% of company’s revenue we may have to show this as a separate operating segment”, said the Head of R2R at XYZ Ltd. In view of the principles of INDAS, what is your view?**
- (a) Since there is only one such contract, separate reportable segment treatment is not called for.
- (b) Head of the R2R team is right. It needs to be reported as a separate segment.
- (c) Just a disclosure as special contract is required.
- (d) Provision for Attrition Penalty is required.
4. **The company is likely to get performance bonus for Quarter 2 Financial year 20X1-20X2. The final approval of timesheet has been received from ABC on 6th working day from the end of the quarter. Compute the amount of performance bonus that can be recognized as revenue before the financial information is passed on to the auditors for limited review.**
- (a) USD 7,21,377
- (b) USD 7,10,000
- (c) USD 7,30,000
- (d) USD 7,40,000
5. **What are the two factors that compelled the organisation to treat ABC contract as a separate reportable segment?**
- (a) Final approval process for timesheet and attrition
- (b) Performance bonus and attrition penalty
- (c) Threshold for segment recognition and total contract revenue
- (d) Standard hours mentioned in the contract.
6. **Calculate the amount of contract revenue that will be recognized by the ODC segment if 1 USD= Rs. 65**
- (a) 1,81,00,00,000
- (b) 1,81,07,88,265
- (c) 1,81,08,00,000
- (d) 1,72,49,88,265
7. **How much provision for Attrition penalty, if any will be recorded in Q4:**
- (a) 1,29,00,000

- (b) 1,39,00,000
- (c) 1,39,82,719
- (d) Nil

Answer :-

1	2	3	4	5	6	7
a	b	b	a	b	b	c

Case Study 35

IndAS 2,115,102,109,33,103

Your advisory client Gamma Limited is engaged in manufacturing and retail activities. The group holds investments in different entities as follows:

- ◆ Gamma Limited holds 100% investment in G Limited and D Limited;
- ◆ G Limited and D Limited hold 60% and 40% in GD Limited respectively.
- ◆ Delta Limited is a 100% subsidiary of GD Limited

Gamma Limited is in the process of preparation of the consolidated financial statements of the group for the year ending 31 March, 20X4 and the extract of the same is as follows:-

Particulars	Attributable to Gamma Limited	Non-Controlling Interest	Total (₹ in '000)
Profit for the year	39,000	3,000	42,000
Other Comprehensive Income	5,000	Nil	5,000
Total Comprehensive Income	44,000	3,000	47,000

The long-term finance of the company comprises of the following:

- (i) 2,00,000 thousand equity shares at the beginning of the year and the company has issued 50,000 thousand shares on 1 July, 20X3 at full market value.
- (ii) 80,000 thousand irredeemable preference shares. These shares were in issue for the whole of the year ended 31 March, 20X4. The dividend on these preference shares is discretionary.
- (iii) ₹ 1,80,000 thousand of 6% Convertible Debentures issued on 1 April, 20X2 and repayable on 31 March, 20X6 at par. Interest is payable annually. As an alternative to repayment at par, the holder on maturity can elect to exchange their Convertible Debentures for 1,00,000 thousand ordinary shares in the company. On 1 April, 20X2, the prevailing market interest rate for four-year Convertible Debentures which had no right of conversion was 8%. Using an annual discount rate of 8%, the present value of ₹ 1 payable in five years is 0.74 and the cumulative present value of ₹ 1 payable at the end of years one to five is 3.31.

In the year ended 31 March, 20X4, Gamma Limited declared an ordinary dividend of 0.10 paise per share and a dividend of 0.05 paise per share on the irredeemable preference shares.

While preparing the financial statements for the year ended 31 March, 20X4, Gamma Limited has observed two issues in the previous year INDAS financial statements (i.e. 31 March, 20X3) which are as follows:

Issue 1:

The company had presented certain material liabilities as non-current in its financial

statements for periods as on 31 March, 20X3. While preparing annual financial statements for the year ended 31 March, 20X4, management discovers that these liabilities should have been classified as current. The management intends to restate the comparative amounts for the prior period presented (i.e., as at 31 March, 20X3).

Issue 2:

The company had charged off certain expenses as finance costs in the year ended 31 March, 20X3. While preparing annual financial statements for the year ended 31 March, 20X4, it was discovered that these expenses should have been classified as other expenses instead of finance costs. The error occurred because the management inadvertently misinterpreted certain facts. The entity intends to restate the comparative amounts for the prior period presented in which the error occurred (i.e., year ended 31 March, 20X3).

Additional information:

Gamma Ltd. granted share options to one of its technical directors on the condition that he will not work with a competitor (i.e., non-compete clause) for a period of three years. The fair value of the award at the date of the grant is ₹ 200 thousand, including the effect of the non-compete clause. The share options have been vested immediately.

Gamma Ltd. has inventory of raw material Y of 10,000 units as at 31 March, 20X4 with a carrying amount of ₹ 100 each. The current market value of that raw material is ₹ 95 each. Gamma Ltd. will use the raw material to manufacture a component for a customer. The conversion cost for making the finished goods would be ₹ 130 each. Gamma Ltd. estimates costs to completion and sale of ₹ 50 each and a selling price for the component is estimated to be ₹ 290 each.

Gamma Limited sold a machinery Z for ₹ 900 thousand to a new customer. To get into long term relationship with the customer, the terms of sale also include after sales service to be provided for next three years free of cost. The company also sells the sales service contract separately where the customer buys it after the initial warranty period at ₹ 100 thousand.

Fresho Ltd. is one of the recently acquired subsidiary of Gamma Ltd. It has to adopt INDAS for the first time as at 31 March, 20X4, with 1 April, 20X2 as the date of transition. As at 31 March, 20X2, the value of raw material inventories was incorrectly reported due to an error. The amounts are significant.

MCQ

Answer the following questions based on the facts given in the case study above:

1. At what value the raw material Y be measured in the books of Gamma Ltd. as per applicable INDAS?

- (a) ₹ 950 thousand.
- (b) ₹ 1,100 thousand.
- (c) ₹ 1,000 thousand.

(d) ₹1,600 thousand.

2. How should the revenue be recognised in the books of account for the sale of machinery Z?

- (a) ₹ 900 thousand is to be recognised as revenue in the year of sale.
- (b) ₹ 900 thousand is to be recognised at the end of three years after sale.
- (c) ₹ 900 thousand is to be recognised in the year of sale and ₹ 100 thousand to be spread over next three years.
- (d) ₹ 810 thousand is to be recognised in the year of sale and ₹ 90 thousand to be spread over next three years.

3. With respect to Fresho Ltd. state whether the error should be reported in the INDAS financial statements and how to rectify it?

- (a) Fresho Ltd. shall report the impact of the error as a correction to Statement of Profit or Loss for the comparative period i.e., the year ended 31 March, 20X3.
- (b) The correction shall be reflected in a reconciliation as at the end of the first INDAS reporting period i.e., as at 31 March, 20X3.
- (c) The impact of the correction is significant and it shall be amortized on a rational and systematic basis in the first two periods of INDAS reporting i.e., years ended 31 March, 20X3 and 31 March, 20X4.
- (d) The first INDAS financial statements shall distinguish the correction of errors from changes in accounting policies and reported as part of the reconciliations as at 1 April, 20X2.

4. What is the correct accounting treatment under INDAS for the share options granted to Gamma Ltd.'s technical director?

- (a) Gamma Ltd. should recognise an expense of ₹ 200 thousand over the period of three years and cannot reverse the expense recognised even if the director goes to work for a competitor and loses the share options.
- (b) Gamma Ltd. should recognise an expense of ₹ 200 thousand over the period of three years and can reverse the expense recognised in case the director goes to work for a competitor and loses the share options.
- (c) Gamma Ltd, should recognise an expense of ₹ 200 thousand immediately and cannot reverse the expense recognised even if the director goes to work for competitor and loses the share options.
- (d) Gamma Ltd. should recognise an expense of ₹ 200 thousand immediately and can reverse the expense recognised in case the director goes to work for a competitor and loses the share options.

5. Calculate the Finance Cost that will be charged to Statement of Profit and Loss for the year ended 31.03.X4 and the Closing Balance of 6% Debentures A/c (Liability) as on 31.03.X5

- (a) Finance Cost= 13733.11 thousand and Closing Balance of 6% Debentures A/c (Liability) as on 31.03.X5= 1,77,764.706 thousand
- (b) Finance Cost= 13733.11 thousand and Closing Balance of 6% Debentures A/c (Liability) as on 31.03.X5= 1,74,596.95 thousand
- (c) Finance Cost= 10,800 thousand and Closing Balance of 6% Debentures A/c (Liability) as on 31.03.X5= 1,68,948 thousand
- (d) Finance Cost= 13733.11 thousand and Closing Balance of 6% Debentures A/c (Liability) as on 31.03.X5= 1,68,948 thousand

6. Calculate Basic and Diluted EPS of Gamma Ltd. for the year ended 31st March, 20X4 if tax rate applicable to Gamma Ltd and its subsidiaries is 30%:

- (a) Basic EPS= 0.147 per share and Diluted EPS= 0.147 per share
- (b) Basic EPS= 0.147 per share and Diluted EPS= 0.134 per share
- (c) Basic EPS= 0.147 per share and Diluted EPS= 0.132 per share
- (d) Basic EPS= 0.147 per share and Diluted EPS= 0.144 per share

7. Which of the following statement is true with respect to preparation of Consolidated Financial Statements:

- (a) Gamma Ltd, G Ltd and D Ltd all are required to prepare Consolidated Financial Statements
- (b) GD Ltd can claim the exemption from preparation of Consolidated Financial Statements as it is partly owned subsidiary of G Ltd and Wholly owned Subsidiary of Gamma Ltd
- (c) GD Ltd is required to prepare Consolidated Financial Statements as Delta Ltd is its subsidiary
- (d) Both a and c

Answer :-

1	2	3	4	5	6	7
c	d	d	c	a	c	b

Case Study 36

IndAS 102, 116,12

Feel Fresh Limited (the Company) is into manufacturing and retailing of FMCG products listed on stock exchanges in India. The Company and its one of subsidiary has entered into various transactions accounting of which needs to be analysed in detail from the perspective of INDAS implications. You being an INDAS expert, CFO of the Company have appointed you to analyse the transaction based on following details:

To reward its employees, the Company had launched a scheme effective 1st April, 20X1, in which the employees will be granted equity shares of the Company at below market price subject to certain conditions. Following details are provided:

As per the scheme, each employee has an option to purchase 100 equity shares of the Company at ₹ 30 per share if the employee does not leave the Company for 3 years from the date of launch of the scheme i.e. 31st March 20X4.

Once 3 years completed by an employee, he/she can exercise the option within 1 year i.e. by 31st March 20X5.

The closing share price on stock exchange as at 1st April, 20X1 is ₹ 62 per share with face value of ₹ 10 per share. The Company had appointed a registered valuer who derived the price of option at ₹ 50 using the Black Scholes model of option pricing.

There are a total of 300 employees eligible for the scheme. As at 31st March, 20X2, 10 employees left the Company and further 14 employees are expected to leave over the next 2 years. During the year 20X2-20X3, a multi-national company entered into the retail industry which is hiring experienced workforce and therefore a high attrition is observed in the retail industry. 110 employees left the Company during the year ended 31st March, 20X3 and further 54 employees are expected to leave in the next one year. As at 31st March, 20X4, only 160 employees remained with the Company out of 300 employees.

Out of it, only 150 employees exercise the option to purchase the equity share during the year ended 31st March 20X5.

The Company has entered into a lease agreement for its retail store as on 1st April, 20X2 for a period of 10 years. A lease rental of ₹ 56,000 per annum is payable in arrears. The Company recognized a lease liability of ₹ 3,51,613 at inception using an incremental borrowing rate of 9.5% p.a. as at 1st April 20X2. As per the terms of lease agreement the lease rental shall be adjusted every 2 years to give effect of inflation. Inflation cost index as notified by the Income tax department shall be used to derive the lease payments. Inflation cost index was 280 for financial year 20X2-20X3 and 301 for financial year 20X4-20X5. The current incremental borrowing rate is 8% p.a.

Vikash Retail Private Limited, a subsidiary of the Company had suffered heavy losses in previous periods. These losses are accumulated and eligible for setoff from future taxable

income while calculating tax liabilities for future periods. However, there is no convincing evidence available which convey that sufficient taxable profits will be available against which tax losses can be utilized.

The Company has also launched a share based payment plan under which it will grant Stock Appreciation Rights (SAR) to the employees of its subsidiary, Vikash Retail Private Limited. As per terms of the plan, the Company (i.e. parent) will pay an amount per SAR which is the difference between current stock price of the Company and stock price of the Company after 3 years. The amount will be paid by the Company directly to those employees of the subsidiary who completes 3 years from launch of the plan.

To ensure the availability of funds at the time of settlement of the scheme, the Company purchases its own shares from the open market. The Company will sell these shares in the market after 3 years when the Company will be required to pay cash to the employees of the subsidiary.

The Company has issued share capital of ₹ 1 crore divided into 10,00,000 equity shares of ₹ 10 each. As at 1st June, 20X3, the Company had issued 3,60,000 convertible warrants of ₹ 10 each. 6 warrants will be converted into 1 equity share of the Company at the end of 18 months from issue date. Warrants will not be redeemed.

MCQ

1. Which of the following statements correctly describe the accounting of lease arrangement for the retail store?

- (a) Increase in lease liability by ₹ 22,820 with corresponding debit to profit or loss.
- (b) Increase in lease liability by ₹ 22,820 with corresponding increase in right of use asset.
- (c) Increase in lease liability by ₹ 41,675 with corresponding debit to profit or loss.
- (d) Increase in lease liability by ₹ 41,675 with corresponding increase in right of use asset.

2. What shall be the right accounting of tax losses accumulated by Vikash Retail Private Limited in its separate financial statements?

- (a) The entity shall recognize the deferred tax asset on accumulated tax losses.
- (b) The entity shall not recognize the deferred tax asset on accumulated tax losses neither it shall disclose in financial statements.
- (c) The entity shall not recognize the deferred tax asset on accumulated tax losses however it shall disclose in financial statements the amount of accumulated tax losses and period by which it expires.
- (d) The entity shall recognize the deferred tax asset on accumulated losses and shall also provide the justification in financial statements for recognition of deferred tax

assets.

3. What shall be the accounting treatment of share appreciation rights given, in standalone financial statements of parent and subsidiary?

- (a) Parent and subsidiary both shall account it as equity settled share-based transaction with corresponding debit / credit in profit or loss.
- (b) Parent shall account it as cash settled share-based payment transaction with corresponding debit to investment in subsidiary. Subsidiary shall account it as equity settled share-based payment transaction with corresponding credit to equity.
- (c) Parent shall account it as equity settled share-based payment transaction with corresponding debit to investment in subsidiary. Subsidiary shall account it as cash settled share-based payment transaction with corresponding credit to equity.
- (d) Parent and subsidiary both shall account it as cash settled share-based transaction with corresponding debit/ credit in profit or loss.

4. Which of the following statements is correct for calculation of earnings per share of the Company for the year ended 31st March, 20X4?

- (a) 10,50,000 shares shall be used as denominator for calculation of both basic and diluted earnings per share.
- (b) 10,00,000 shares shall be used as denominator for calculation of basic earnings per share however 10,50,000 shares shall be used as denominator for calculation of diluted earnings per share.
- (c) 10,60,000 shares shall be used as denominator for calculation of both basic and diluted earnings per share.
- (d) 10,00,000 shares shall be used as denominator for calculation of basic earnings per share however 10,60,000 shares shall be used as denominator for calculation of diluted earnings per share.

5. How should the Company account for the amount invested in its own shares and profit earned or loss incurred on those shares while selling back in the market (to settle the SAR scheme)?

- (a) The Company shall recognize the amount invested as 'investment in equity shares' and measures it at fair value. The Company has an option to recognize the fair value gain/loss either in statement of profit and loss or in other comprehensive income.
- (b) The Company shall reduce the amount invested from equity. Any gain earned or loss incurred on those shares shall also be adjusted directly in equity.
- (c) Either (A) or (B) at the option of the Company.
- (d) The Company shall recognize the amount invested as 'investment in equity shares'.

Any gain earned or loss incurred on those shares shall be adjusted directly in equity.

6. Compute the employee benefit expenses that will be charged to Profit & Loss every year:

Option	20X2	20X3	20X4
A	4,60,000	(40,000)	3,80,000
B	4,60,000	4,20,000	8,00,000
C	4,60,000	40,000	3,80,000
D	4,00,000	60,000	3,00,000

Answer :-

1	2	3	4	5	6
b	c	b	a	b	a

Case Study 37

IndAs 111,20,109,19

A Limited and B Limited are companies registered under the respective acts of the country's legal and regulatory framework. A Limited is an INDAS compliant entity and follows year ended March as its financial reporting period.

On 1st April 20X1, they entered into an agreement to jointly engage in the hospitality business. For this purpose, they formed a partnership firm with the name of M/s. Star Hotel ("the Firm"). Under the relevant laws, the partners and the Firm are not considered as separate legal entities.

To regulate the operations of the Firm, A Limited and B Limited entered into a partnership deed whose relevant terms and conditions are as follows:

- A Limited and B Limited shall be the partners of the Firm.
- Consent of both partners shall be required for taking decisions on any matter which may affect the returns of the business.
- The Firm shall operate a three-storied hotel as follows:

Floor	Rights and obligations relating to the floor
Ground floor (Ground floor will comprise of reception, lobby, restaurant, laundry division, and general administration office)	Both partners shall jointly and equally own the legal and beneficial ownership of the ground floor including all of its assets and related liabilities. All the costs relating to the operation of the ground floor shall be jointly and equally shared by both the partners.
First floor (First floor will comprise of Indian themed rooms for customers)	A Limited shall have legal and beneficial ownership of the first floor including all of its assets and related liabilities. The net profit for the period attributable to the renting of rooms of first floor shall accrue solely to the account of A Limited.
Second floor (Second floor will comprise of Italian themed rooms for customers)	B Limited shall have legal and beneficial ownership of the second floor including all of its assets and related liabilities. The net profit for the period attributable to the renting of rooms of second floor shall accrue solely to the account of B Limited.
Third floor (Third floor will comprise of a banquet hall)	Both the partners shall jointly and equally own legal and beneficial ownership of the third floor including all of its assets and related liabilities. The net profit for the period attributable to the renting of the banquet hall shall accrue equally to the account of both the partners.

In order to meet the cleaning needs of its hospitality business, A Limited is also engaged in the manufacturing of certain specialized chemicals. During the manufacturing process, certain

wastewater is produced which is released by A Limited in the nearby river. In order to reduce pollution of the rivers, the state government has introduced a scheme with the following salient features:

- If a manufacturer installs certain pre-approved wastewater treatment plant, the government will provide an interest free loan equal to 50% of the cost of the plant;
- Such loan will be repayable to the government in 5 years from the date of disbursal;
- The manufacturer availing the benefit of this scheme must treat the wastewater of its factory using the specified plant before releasing it to the river. If this condition is violated, the entire loan shall become immediately repayable to the government along with a penalty of ₹ 10 lakh.

Cost of the wastewater treatment plant to be installed to avail the benefit of the scheme is ₹ 50 lakh. A Limited decided to utilise this scheme because, if it were to obtain the similar loan from a bank, it would be available at a market interest rate of 12% per annum. Accordingly, A Limited applied for and obtained the government loan of ₹ 25 lakh on 1st April, 20X1. A Limited purchased and installed the plant such that it became ready for use on the same date.

A Limited has an accounting policy of recognising government grant in relation to depreciable assets in the proportion of depreciation expense. It has determined that the plant will be depreciated over a period of 5 years using straight-line method. In the month of March 20X3, government officials conducted a surprise audit, and it was found that A Limited was not using the wastewater treatment plant as prescribed. Accordingly, on 31st March, 20X3, the government ordered A Limited to repay the entire loan along with penalty. A Limited repaid the loan with interest and penalty as per the order on 31st March 20X3.

During the year, A Limited bought control in C Limited. A Limited paid ₹ 10,00,000 in cash and issued 5,000 shares with face value of ₹ 10 each to the shareholders of C Limited; the market value of the shares is ₹ 12.5 each. A Limited incurred issue costs of ₹ 0.5 per share. It also paid ₹ 50,000 as professional fees to carry out the above transaction.

MCQ

1. What is the consideration transferred by A Limited to C Limited?

- (a) ₹ 10,50,000
- (b) ₹ 10,62,500
- (c) ₹ 11,02,500
- (d) ₹ 11,15,000

2. A Limited has the following options with regards to its own equity shares. Which of these should be included in the calculation of diluted earnings per share?

- (a) In the money purchased put options
- (b) In the money purchased call options

- (c) In the money written put options
- (d) Out of the money written put options

3. The following table contains different components of employee benefits cost, with four options indicating the section of the financial statements in which such component should be recognised. You are required to select the correct option.

	Option (A)	Option (B)	Option (C)	Option (D)
Current service cost	Other Comprehensive Income	Statement of profit or loss	Statement of profit or loss	Statement of profit or loss
Past service cost	Other comprehensive Income	Statement of profit or loss	Other comprehensive Income	Other comprehensive Income
Net interest	Other comprehensive Income	Statement of profit or loss	Statement of profit or loss	Other comprehensive Income
Remeasurements of the net defined benefit liability	Statement of profit or loss	Other comprehensive Income	Other comprehensive Income	Other comprehensive Income

4. From the following items, identify what must be classified as other long-term benefits under IndAS 19?

- (a) Paid maternity leave
- (b) Cash bonus payable in August 20X3 for results obtained up to 31st March, 20X3
- (c) Deferred compensation payable 20 months after the period in which it is earned
- (d) Lump sum retirement benefit of ₹ 10 lakh that vests after five years of service

5. What will be the closing balance of Loan A/c and Deferred Grant Income A/c on 31/03/X3

- (a) 15,87,600 and 8,66,000 respectively
- (b) 17,78,112 and 6,49,500 respectively
- (c) 15,87,600 and 6,49,500 respectively
- (d) 17,78,112 and 8,66,000 respectively

6. What will be the treatment of all the Floors of hotel as per IndAS 111 in the books of A Ltd

Option	Ground Floor	First Floor	Second Floor	Third Floor
A	A Ltd will recognize 50% of revenue and expenses as this	Accounted by A Ltd as it is controlled by A	Not accounted by A Ltd as this floor is entirely	A Ltd will recognize 50% of revenue and expenses as this

	floor is jointly controlled by A and B Ltd	Ltd.	controlled by B Ltd	floor is jointly controlled by A and B Ltd
B	Accounted by A Ltd as it is controlled by A Ltd.	A Ltd will recognize 50% of revenue and expenses	Not accounted by A Ltd as this floor is entirely controlled by B Ltd	Accounted by A Ltd as it is controlled by A Ltd.
C	Not accounted by A Ltd as this floor is entirely controlled by B Ltd	Accounted by A Ltd as it is controlled by A Ltd.	A Ltd will recognize 50% of revenue and expenses	Accounted by A Ltd as it is controlled by A Ltd.
D	A Ltd will recognize 50% of revenue and expenses as this floor is jointly controlled by A and B Ltd	A Ltd will recognize 50% of revenue and expenses	A Ltd will recognize 50% of revenue and expenses	A Ltd will recognize 50% of revenue and expenses

Answer :-

1	2	3	4	5	6
b	c	b	c	b	a

Case Study 38

IndAS 21

1. PQR Holdings Limited is an INDAS compliant conglomerate based in London and has Pound sterling ("GBP") as its functional and presentation currency. On 1st April, 20X1, PQR Holdings Limited incorporated PQR India Limited as its wholly owned subsidiary. PQR India will be engaged in trading of items purchased from PQR Holdings. The shares of PQR India, having a face value of ₹ 10 each amounting to total of ₹ 500 crore, were issued to PQR Holdings in GBP on 1st April, 20X1.

PQR India has adopted INDAS with effect from its incorporation. In accordance with principles of INDAS, management of PQR India has concluded that its functional currency is Indian Rupee ("INR").

2. VK Ltd. is another subsidiary of PQR Holdings Ltd. On 1st June 20X1, VK Ltd. determines that it has a highly probable forecasted purchase of plant and machinery costing USD 1,00,000 from AZ Inc, a US-based company. The purchase will take place on 30th April, 20X2. VK Ltd. has Indian Rupee as its functional currency, and AZ Inc has US dollar as its functional currency. On 1st June 20X1, VK Ltd. enters into a forward contract to purchase USD 60,000 to partially meet the forecast US dollar payment. The forward contract locks in the value of the US dollar amount at a rate of USD 1 = INR 74; the relevant information is as follows:

Date	USD-INR Spot rate	USD-INR Forward rate	Fair value of Forward (INR)
1st June, 20X1	72	74	0
30th June, 20X1	73	73.5	1,50,000
30th September, 20X1	75	75.5	1,80,000
31st December, 20X1	77	76.5	1,50,000
31st March, 20X2	76	75.5	1,20,000

Note: The fair value of the forward contract is provided by the banking counterparty. Any discounting impact may be ignored.

3. SS Limited (one of the subsidiaries of PQR Holdings Limited) has recognized goodwill worth ₹ 40,00,000 in the past for a business combination. During the current year, it has impaired the goodwill by ₹ 8,00,000 and therefore the carrying amount of goodwill is ₹ 32,00,000. Amortisation or impairment of goodwill is not deductible as per the tax regulations applicable in the jurisdiction where SS Limited files its tax returns. Applicable tax rate is 30%.
4. During the financial year ended 31st March, 20X2, PQR Holdings Limited decided to sell one of its manufacturing divisions. All the criteria indicating that the sale is highly probable

were met during the financial year ending 31st March, 20X2, except for the marketing, which began only on 10th April, 20X2.

MCQ

- 1. What is the amount of deferred tax to be recognised by SS Limited on goodwill?**
 - (a) Deferred tax liability of ₹ 9,60,000
 - (b) Deferred tax liability of ₹ 12,00,000
 - (c) Deferred tax asset of ₹ 12,00,000
 - (d) No deferred tax

- 2. PQR Holdings Limited is preparing its financial statements for the year ending 31st March, 20X2 and requires your guidance on the disclosures with respect to the sale of the manufacturing division. Accordingly, choose the incorrect statement from the following options:**
 - (a) Adjust the financial statements for the effect of discontinued operations
 - (b) Include a description of the manufacturing division in the notes
 - (c) Include the reportable segment in which the manufacturing division is presented as per IndAS 108 'Operating Segments' (if applicable) in the notes.
 - (d) Describe the facts and circumstances leading to the expected disposal and the expected manner and timing of that disposal in the notes.

- 3. PQR Holdings Limited enters into a number of transactions each year. The accountant has requested your help to identify which of these must be accounted for as a business combination:**
 - (a) PQR Holdings Limited purchases 30% equity in TP Ltd, an unlisted company.
 - (b) PQR Holdings Limited purchases a 45% interest which gives it control over TR Ltd.
 - (c) PQR Holdings Limited purchases one of many brand names and products of TQ Ltd.
 - (d) PQR Holdings Limited purchases a 30% equity and invests in debentures of TS Ltd.

- 4. Which of the following are typical features of a service concession arrangement? (select one or more)**
 - (i) The contract sets the initial prices to be levied by the operator.
 - (ii) Any price revisions over the period of the service contract are at the discretion of the operator.
 - (iii) The operator has to hand over the infrastructure to the grantor at the end of the arrangement.
 - (iv) The operator is not responsible for any management of the infrastructure or related services and therefore acts as an agent of the grantor.

Choose the correct option:

- (a) (i) and (iii)
- (b) (ii) and (iv)
- (c) (iii) and (iv)
- (d) (i) and (iv)

5. Which of the following categories of financial assets is NOT subject to impairment requirements of INDAS 109 "Financial Instruments"?

- (a) Equity instruments measured at fair value through profit or loss.
- (b) Investment in debentures where (i) Contractual cash flows represent solely payment of principal and interest; and (ii) entity's business model is to hold financial assets in order to collect contractual cash flows.
- (c) Lease receivables
- (d) Trade debtors

6. Identify the Monetary Items out of the following:

- i. Share Capital
- ii. Retained Earnings
- iii. Deferred taxes
- iv. Long term borrowings
- v. Taxes payable
- vi. Cash
- vii. Property, plant and equipment
- viii. Software
- ix. Trade receivables

Options:

- (a) I, ii, iv and vi
- (b) Iv,v, vi
- (c) Vi, vii, viii, ix
- (d) Iv, v, vi, ix

7. The finance manager of VK Ltd. designated the hedge on 1st June, 20X1, and the purchase transaction of plant and machinery occurred on 30th April, 20X2 as expected. Calculate the amount at which Property, Plant and equipment and the amount paid to creditors will be recorded in the books:

- (a) Property, Plant and equipment at 75,00,000 and the amount paid to creditors is 75,00,000
- (b) Property, Plant and equipment at 74,40,000 and the amount paid to creditors is

75,00,000

- (c) Property, Plant and equipment at 74,40,000 and the amount paid to creditors is 74,40,000
- (d) Property, Plant and equipment at 75,00,000 and the amount paid to creditors is 74,40,000

Answer :-

1	2	3	4	5	6	7
d	a	b	a	a	d	b

Case Study 39

IndAS 109, 7, 16

NM Limited is an INDAS compliant multinational company which is engaged in various businesses. CD Limited, a subsidiary of NM Limited, also follows INDAS for its financial reporting and is engaged in the business of consultation for civil engineering projects such as highways, buildings, etc. On 1st April 20X1, CD Limited won a contract to provide consultancy to the government in relation to a highway project. Following are the salient features of the contract:

- Total period for which CD Limited is required to provide consultancy is 2 years starting from 1st April 20X1.
- Total consultancy fees to be received by CD Limited during the contract period is ₹ 50 crore.
- On 1st April 20X1, NM Limited will be required to provide a performance guarantee to the government for an amount up to ₹ 50 crore. If the consultancy services provided by CD Limited is not satisfactory, the government can invoke the performance guarantee. If the guarantee is invoked, NM Limited will be required to indemnify the government for the loss suffered because of non-satisfactory performance by CD Limited.

To execute the project, on 1st April 20X1, CD Limited has availed a short-term loan of ₹ 30 crore from the bank with the following covenants:

- NM Limited shall provide a financial guarantee for an amount up to ₹ 30 crore.
- If CD Limited makes any default on repayment of the loan, NM Limited will be required to indemnify the bank up to an amount of ₹ 30 crore.

For providing the above-mentioned two guarantees, NM Limited has charged commission from CD Limited at the market rate of 1% of the guaranteed amount applicable to such guarantees. As per the revenue recognition policy of NM Limited, it has decided to recognise the guarantee commission income in profit or loss over a period of two years (term of the contract) starting from 1st April 20X1 using the straight-line method.

Based on the performance and credit history of CD Limited, the management of NM Limited has established that there is no need to recognise any impairment allowance. The CFO of NM Limited is of the opinion that both the guarantees given should not be recognised in the balance sheet of NM Limited. However, she believes that these guarantees should be disclosed as contingent liabilities in the notes to the financial statements.

Other information:

On 1st April 20X1, NM Ltd. issues a new instrument with the following characteristics.

- Face value 100, issue price 90.
- Cumulative dividend payable at 5% per annum for 10 years. After 10 years, the dividend is payable at the discretion of the issuer.

- The holder of the note has the option to convert to ordinary shares of NM Ltd. after 10 years, and conversion will be 10 ordinary shares for each instrument.
- The holder can demand redemption for the face value at any time, with six months' notice up until the end of 10 years. After 10 years, redemption is at the discretion of the issuer.
- There is no fixed maturity date.

S Limited is a subsidiary of H Limited which is an associate of T Ltd. T Ltd. is an associate of NM Limited. S Limited's functional and presentation currency is INR, while the functional currency of its parent is USD and its presentation currency is EUR. S Limited has a firm commitment to buy a commodity in EUR. It has entered into a forward contract to hedge the firm commitment against foreign exchange risk. It has to prepare its financial statements for the purpose of consolidation with its parent.

NM Limited is a huge machine manufacturer. It has to overhaul its machinery every 3 years. It has purchased machinery worth ₹ 50,00,000. It is estimated that the overhaul costs will be ₹ 5,00,000. It is expected that the machine has a useful life of 10 years.

MCQ

- 1. How should the instrument be classified by NM Ltd. in the first 10 years in accordance with IndAS 32? Select which one of the following is correct.**
 - (a) as equity
 - (b) as a liability
 - (c) as either equity or liability
 - (d) as a compound instrument

- 2. How can S Limited account for a hedge relationship for the purpose of preparing H Limited's consolidated financial statements?**
 - (a) Cash flow hedge
 - (b) Fair value hedge
 - (c) Option to designate under cash flow hedge or fair value hedge
 - (d) Net investment hedge

- 3. How should NM Limited initially recognise the purchase of its machinery?**
 - (a) Recognise the machine at its cost of ₹ 50,00,000 and depreciate over 10 years.
 - (b) Recognise two assets - the machine worth ₹ 45,00,000 to be depreciated over 10 years and costs related to overhaul of ₹ 5,00,000 to be depreciated over 3 years.
 - (c) Recognise two assets - the machine worth ₹ 50,00,000 to be depreciated over 10 years and costs related to overhaul of ₹ 5,00,000 to be depreciated over 3 years.
 - (d) Recognise an asset for ₹ 45,00,000 to be depreciated over 10 years and expense ₹ 5,00,000 immediately.

4. A company prepares segment information for its management reporting purposes. Under IndAS 108 'Operating Segments', the company can also use this segment information to determine the appropriate segments for financial reporting. Applying this approach, which of these are the company's reportable segments under IndAS 108?

- (a) Segments deemed significant by the management and are reviewed regularly by them
- (b) Segment whose information is presented by the company's industry peers
- (c) Each segment whose operating results are reviewed regularly by the Board of directors of the company to make decisions about resources to be allocated to the segment
- (d) Each segment whose operating results are reviewed regularly by the Managing Director who is the chief operating decision maker to make decisions about resources to be allocated to the segment.

5. Which of the following is incorrect in respect of a cash flow statement under INDAS?

- (a) The cash flow effects of disposals cannot be deducted from those of acquisitions.
- (b) Cash payment to the shareholders for buying back its shares is a financing activity.
- (c) An entity only includes the transactions between itself and the joint venture when preparing the consolidated cash flow statement.
- (d) Non-cash investing and financing transactions are to be disclosed as part of the cash flow statement.

6. Calculate the amount of commission income in relation to Financial guarantee that will be credited to Profit and Loss A/c of NM Ltd for the year ended 20X2

- (a) 80 lakhs
- (b) 30 lakhs
- (c) 55 lakhs
- (d) 25 lakhs

Answer :-

1	2	3	4	5	6
b	c	b	d	d	c

Case Study 40

IndAS 103,16,36,38,19,109

XYZ Ltd is an Indian listed company that manufactures and distributes top-of-the-range security equipment. XYZ Ltd is exploring possibilities of listing its securities at an overseas stock exchange. The financial reporting requirements related to such listing include submission of financial statements as per INDAS. Therefore, XYZ Ltd prepares consolidated financial statements in accordance with INDAS up to 31 March each year.

As a newly qualified Chartered Accountant, you commenced employment with XYZ Ltd three months ago. You understand that General Manager (Accounts), was working on the draft consolidated financial statements for the year ended 31 March 2X18. Vivek, Managing Director has given you a folder (appendix 1) containing extracts from the first draft of the consolidated financial statements for the year ended 31 March 2X18.

He asks you to provide explanation of accounting adjustments, together with any calculations required. Vivek further informs you that INDAS are making increasing use of fair values. However, the board of directors is anxious to use historic cost wherever possible to reduce the volatility within the financial statements. It was suggested by a director that the company make more use of a 'true and fair override' where appropriate. There is something similar in INDAS, and it is advised to make use of that in the preparation of the financial statements. Vivek hands you a folder marked 'outstanding issues'.

Outstanding Issues: (All figures are ₹ in thousand)

1. On 1 July 2X17, XYZ Ltd acquired 7,200 thousand shares of ABC Ltd out of 9,600 thousand issued ₹1 ordinary shares. The purchase consideration comprised:
 - ◆ An issue of four shares in XYZ Ltd for everyone share acquired in ABC Ltd. On 1 July 2X17, XYZ Ltd.'s market share price was ₹5.4.
 - ◆ A payment of ₹12,000 thousand in cash, deferred until 1 July 2X20. An appropriate discount rate is 8% per annum.

On 1 July 2X17, the carrying value of ABC Ltd.'s net assets amounted to ₹1,68,000 thousand. This was equivalent to the fair value of net assets acquired, except in respect of ABC Ltd.'s internet domain name. The domain was registered several years ago and is maintained by the payment of a small annual fee which is recognised in administrative expenses. However, in June 2X17 ABC Ltd was offered ₹4,800 thousand by a company in the United Kingdom for the domain name, an offer which was subsequently refused. The directors of ABC Ltd were of the opinion that the domain name has an indefinite useful life. XYZ Ltd prefers to measure NCI using the proportionate method wherever possible. The draft consolidated financial statements (appendix 1) include 28,800 thousand ₹1 ordinary shares recognised in ordinary share capital, with a corresponding figure of ₹28,800 thousand debit included in

intangible assets. ABC Ltd.'s profit for the year (attributable to ordinary shareholders) amounted to ₹ 9,600 thousand, which is yet to be accounted.

- In order to persuade a large retail bank to purchase a new security system, XYZ Ltd offered a deferred payment contract. The security system, with a selling price of ₹ 4,800 thousand, was delivered to the customer on 1 April 2X17. The bank paid 20% of the selling price on that particular date. The balance will become payable on 1 April 2X19. The applicable finance charge is 8% per annum. The draft consolidated statement of profit or loss and other comprehensive income includes ₹ 4,800 thousand in revenue with respect to this transaction.
- The following information is provided in respect to the defined benefit pension plan operated by XYZ Ltd for the year ended 31 March 2X18:

	₹'000
Fair value of planned assets at 1 April 2X17	5,400
Present value of obligation at 1 April 2X17	6,660
Current service costs	
Benefits paid	1,036
Contributions paid	738
Fair value of plan assets 31 March 2X18	7,884
Present value of obligation at 31 March 2X18	10,036

The yield on blue chip corporate bonds at 1 April 2X17 was 5% and all benefits and contributions were to be paid on 31 March 2X18. On 1 April 2X17, the pension plan was amended to provide additional benefits, effective from that date. The present value of the additional benefits on 1 April 2X17 amounted to ₹ 630 thousand.

- One of the senior engineers at XYZ Ltd has been working on a process to improve manufacturing efficiency and, consequently, reduce manufacturing costs. The senior engineer believes that the cost savings will exceed the project costs within twelve months of their implementation. Regulatory testing and health and safety approval was obtained on 1 June 2X17 and the project was finally completed on 10 April 2X18. Costs of ₹ 3,600 thousand, incurred uniformly during the year to 31 March 2X18, have been recognised as an intangible asset. An offer for the new technology of ₹ 1,680 thousand has been received and rejected by the company. Vivek Singhania believes that the project will be a major success and has the potential to save the company ₹ 2,400 thousand in perpetuity. The director of research at XYZ Ltd is not convinced about the long-term prospects of the new process and is of the opinion that competitors will develop similar technology within five years. It is estimated that the present value of future cost savings will be ₹ 2,280 thousand over this period. After that, there is no certainty about its future.
- On 1 April 2X17, XYZ issued 3% loan notes with a nominal value of ₹ 900 thousand. They were issued at a 5% discount and issue costs of ₹ 15.60 thousand were incurred. The loan

notes will be repayable at a premium of 10% after four years.

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

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

7. One of the machines was damaged due to negligence by a worker. Although damaged, the machine can still function at around 80% of original capacity, which is still in excess of the capacity of the attached conveyor belt. For this reason, the management has decided against repairing or replacing the grinder. The machine was depreciated to a net book value of ₹ 5,000 thousand at 31 March 2X18. There is no active market for the machine. The machine does not generate cash inflows that are independent of cash inflows from other assets or groups of assets. It has been written down by 20% of the net book value to ₹ 4,000 thousand. This reflects 20% reduction in operating capacity, with the impairment loss posted to other expenses.
8. On 1 April 2X13, XYZ Ltd. acquired a freehold manufacturing building. The land element in the purchase price was ₹ 5,600 thousand and the building element ₹ 20,000 thousand. The useful life of the building was estimated at 20 years. Since 1 April 2X13 there has been no change in the value of land. At the 31 March 2X15, the building element was revalued to ₹ 22,500 thousand and the remaining useful life was unchanged. On 31 March 2X18, the building was revalued at ₹ 16,500 thousand. The remaining useful life again remained unchanged. No accounting entries have yet been made in respect of the freehold building for the year ended 31 March 2X18.

MCQ

1. **What will be the carrying amount of intangible asset developed by senior engineers of XYZ Ltd on 31 March 2X18?**
- (a) ₹ 3,600 thousand
(b) ₹ 3,000 thousand

- (c) ₹ 1,680 thousand
(d) ₹ 2,280 thousand
- 2. At what amount finance cost should be recognized in relation to issue of loan notes and by what amount should 3% loan notes be recognized on 31 March 2X18??**
- (a) ₹ 64.757 thousand; ₹ 877.157 thousand
(b) ₹ 76.457 thousand; ₹ 888.857 thousand
(c) ₹ 60.856 thousand; ₹ 873.256 thousand
(d) ₹ 87.257 thousand; ₹ 899.657 thousand
- 3. With what amount should XYZ Ltd recognize the personal injury claim compensation as on 31 March 2X18?**
- (a) ₹ 240 thousand
(b) ₹ 276 thousand
(c) Nil
(d) ₹ 216 thousand
- 4. What should be the total revenue recognized for the security system sold to Bank?**
- (a) ₹ 4,800 thousand
(b) ₹ 4,513 thousand
(c) ₹ 960 thousand
(d) ₹ 4,250 thousand
- 5. With what amount should P&L Account and OCI be debited/credited on account of defined benefit pension plan?**
- (a) ₹ 1,224 thousand; ₹ (406 thousand)
(b) ₹ 360 thousand; ₹ (136 thousand)
(c) ₹ 594 thousand; ₹ (1,036 thousand)
(d) ₹ 1,494 thousand; ₹ 332 thousand
- 6. Calculate the value of Purchase Consideration and Goodwill/ Gain from Bargain Purchase on the acquisition of ABC Ltd:**
- (a) Purchase Consideration= 1,55,520 thousand and Goodwill= 35,445.987 thousand
(b) Purchase Consideration= 1,65,045.987 thousand and Goodwill= 35,445.987 thousand
(c) Purchase Consideration= 1,55,520 thousand and Goodwill= 25,920 thousand
(d) Purchase Consideration= 1,65,045.987 thousand and Gain from Bargain Purchase= 35,445.987 thousand

7. Comment whether the company has rightly recorded impairment loss on machine mentioned in point 7 or not:

- (a) Yes, the company has appropriately impaired the machine
- (b) Instead of charging impairment loss the reduction in value shall be considered as additional depreciation
- (c) No impairment loss should be charged as the machine still operates faster than the attached conveyor belt. Thus the impairment loss shall be reversed
- (d) None of these

8. What will be the entry for revaluation gain/loss that shall be charged on the Building for the year ended 31st March, 2X18 mentioned in Point 8:

		Amount in thousands
(a) Revaluation (OCI)	Dr	2250
To Building		2250
(b) Revaluation (OCI)	Dr	1000
To Building		1000
(c) Revaluation (P&L)	Dr	2250
To Building		2250
(d) Building	Dr	2250
To Revaluation (P&L)		2250

Answer :-

1	2	3	4	5	6	7	8
d	c	a	b	a	b	c	a

Case Study 41

IndAS 103, 36,16, 109

XYZ Ltd. is an Indian listed company which is exploring possibilities of listing its securities at an overseas stock exchange. The financial reporting requirements related to such listing include submission of financial statements as per INDAS and therefore XYZ Ltd. prepares financial statements in accordance with International Financial Reporting Standards (INDAS) up to 31st March each year. XYZ Ltd. has recently acquired shares in ABC Ltd. and PQR Ltd., and prepares consolidated financial statements in accordance with INDAS.

You are a Chartered Accountant and have recently been appointed as financial controller of XYZ Ltd.

Your predecessor prepared some briefing notes (see below) regarding the preparation of the consolidated financial statements of the XYZ Ltd. Group for the year ended 31st March, 20X4. Please note that it is the group's policy to value its non-controlling interests at fair value. The fair value of the non-controlling interest in ABC Ltd. at the 1st April, 20X3 was ₹ 95.4 million.

The reinstated costs of expenditure on the development of new products are included within inventories as 'development inventories'. The costs do not meet the criteria in IndAS 38 'Intangible Assets' for classification as intangibles and it is most unlikely that the net cash inflows from these products will be in excess of the development costs. In the current year, ABC Ltd. has included ₹ 18 million, out of which ₹ 6 million relates to expenditure on a product written off in periods prior to 1st April, 20X1. Commercial sales of this product had commenced during the year ended 31st March, 20X4.

On speaking to the assistant accountant, you ascertain that XYZ Ltd. purchased 4% debentures of Y Limited on 1st April, 20X2 (their issue date) for ₹ 1.2 million. The term of the debenture issue was four years and the redemption value is ₹ 1.56 million. The effective rate of interest on the debentures is 10% and the relevant INDAS conditions are satisfied for the investment to be held at amortised cost. However, at the end of February, 20X4, Y Limited was declared bankrupt. All interest had been paid until that date. On 31st March, 20X4, the liquidator announced that no further interest would be paid and only 80% of the maturity value would be repaid, on the original repayment date. The figure, rounded to the nearest million, included for this financial instrument in the draft statement of financial position amounted to ₹ 1.3512 million. Having discussed the accounting treatment with assistant accountant, you are still unsure as to how the latter figure was arrived at and whether it needed to be adjusted.

Briefing notes:

- The following information is relevant regarding the acquisition of shares in ABC Ltd. and PQR Ltd.:

Date of acquisition	Holding acquired	Retained earnings at acquisition date	Purchase consideration
---------------------	------------------	---------------------------------------	------------------------

	%	₹ million	₹ million
ABC Ltd.: 1st April, 20X3	80	270	480
PQR Ltd.: 1st April, 20X3	30	468	432

ABC Ltd. and PQR Ltd. have not issued any share capital since the acquisition of shareholdings by XYZ Ltd. The fair value of the net assets of ABC Ltd. and PQR Ltd. were the same as their carrying amounts at the date of acquisitions. XYZ Ltd. has significant influence over PQR Ltd. An impairment loss of ₹ 9.6 million has been identified in respect of goodwill arising on the acquisition of ABC Ltd. for the year ended 31st March, 20X4. The recoverable amount of net assets of PQR Ltd. has been deemed to be ₹ 1176 million at 31st March, 20X4.

- XYZ Ltd. sold some trade receivables, which arose during March, 20X4, to a factoring company on 31st March, 20X4. The trade receivables sold are unlikely to default in payment based on past experience, but they are long dated with payment not due until 1st November, 20X4. XYZ Ltd. has given the factor a guarantee that it will reimburse any amounts not received by the factor. XYZ Ltd. received ₹ 108 million from the factor, being 90% of the trade receivables sold. The trade receivables are not included in the statement of financial position of XYZ Ltd. and the balance of ₹ 10.8 million (10% of trade receivables factored) which has not been received by the factor has been written off against retained earnings.
- XYZ Ltd. has contracted to purchase a specialised item of machinery from a company based in America for \$ 24 million on the following terms:

Non-refundable payment on signing of contract (1st January, 20X4) 60% Payment on delivery and installation (5th April, 20X4) 40%. The following exchange rates are relevant:

	₹ to Dollar
1st January, 20X4	67
31st March, 20X4	65
5th April, 20X4	66

The deposit is included in trade receivables at the exchange rate on 1st January, 20X4. For this type of machinery, a full year's charge for depreciation is made in the year of acquisition using the straight-line method over five years.

- On 1st February, 20X4, XYZ Ltd. sold inventory costing ₹ 30 million to PQR Ltd. For ₹ 42 million. At 31st March, 20X4, the inventory was still held by PQR Ltd. On 10th April, 20X4, the inventory was sold to a third party for ₹ 50.4 million.
- The balance of Retained Earnings as on 31st March, 20X4 is as follows
 XYZ Ltd: 961.2 million
 ABC Ltd: 360 million
 PQR Ltd: 540 million

MCQ

- 1. What will be the amount of Goodwill as on 31st March, 20X4, arising from the acquisition of ABC Ltd.?**
 - (a) ₹ 115.8 Million
 - (b) ₹ 125.4 Million
 - (c) ₹ 295.8 Million
 - (d) ₹ 20.4 Million

- 2. With what amount should retained earnings of ABC Ltd. be debited on account of development inventories on 31st March, 20X4?**
 - (a) ₹ 18 Million
 - (b) ₹ 6 Million
 - (c) Nil
 - (d) ₹ 12 Million

- 3. What will be the impairment loss from investment in associate for the year ending 31st March, 20X4?**
 - (a) ₹ 79.2 Million
 - (b) ₹ 100.8 Million
 - (c) ₹ 97.2 Million
 - (d) ₹ 75.6 Million

- 4. At what amount should exchange loss/gain be recognized as on 31st March, 20X4 on account of deposit given for purchase of specialized item of machinery from company based in America?**
 - (a) ₹ 28.8 Million exchange loss
 - (b) Nil
 - (c) ₹ 19.2 Million exchange loss
 - (d) ₹ 28.8 Million exchange gain

- 5. What will be the amount of impairment loss from 4% Debentures for the year ending 31st March, 20X4?**
 - (a) ₹ 0.32 Million
 - (b) ₹ 0.103 Million
 - (c) ₹ 0.53 Million
 - (d) ₹ 0.17 Million

- 6. What will be the treatment of Debt Factoring agreement entered into by XYZ Ltd:**
- (a) XYZ Ltd. has correctly derecognized the Trade Receivables as the same were sold to Factoring company
 - (b) XYZ still bear the risk and rewards with regards to Trade Receivables so the Trade Receivables so XYZ Ltd should show Trade Receivables in its Financial Statements
 - (c) 10.8 million shall be re credited to Retained earnings
 - (d) Both b and c
- 7. Calculate the amount of Non-Controlling Interest (in ABC Ltd.) that will be shown in the Consolidated Financial Statements of XYZ Ltd group as at 31st March, 20X4**
- (a) 95.4 Million
 - (b) 110.28 Million
 - (c) 112.2 Million
 - (d) 93.48Million

Answer:-

1	2	3	4	5	6	7
a	b	c	b	a	d	b

Case Study 42

IndAs 24,102,37,33

Mega Energy India Limited is a diversified company dealing in various business and has many subsidiaries too. One of its main business was generation of energy through various resources. It is preparing its financial statements under INDAS for the year ended 31 March, 20X4. You are appointed as the INDAS consultant in Mega Energy India Limited. The Company had some queries in accounting of certain transactions that are required to be presented in the financials. As a consultant to the Company, advise the company on the following issues:

1. Uttar Pradesh State Government holds 60% shares in Mega Energy India Limited and 55% shares in Super Power India Limited. Mega Energy India Limited has two subsidiaries namely P Limited and Q Limited. Super Power India Limited has two subsidiaries namely A Limited and B Limited. Mr. KM is one of the key management personnel in Mega Energy India Limited.
2. Mega Energy India Limited grants 150 shares to each employee on 1 April 20X2. There were 300 employees as on that date. The shares will vest in the following manner:
 - (a) As on 31 March 20X3 if the profit for the year increases 15% more than the profit for the year ended 31 March 20X2 Or
 - (b) As on 31 March 20X4 if the Profit for the year ended 31 March 20X3 increases 10% more than the profit for the year ended 31 March 20X2.

The employees should remain in service during the vesting period.

The fair value per share as on the grant date is ₹ 325. The Profit for the year ended 31 March 20X3 increased by 12% as compared to the profit for the year ended 31 March 20X2.

During the year ended 31st March, 20X3, 25 employees left the organisation. Also, it was predicted that further 35 employees will leave in the following year. However, only 28 employees left during the year ended 31 March 20X4.

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

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

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

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

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

5. Mega Energy India Limited has issued 10,00,000, 9% cumulative preference shares. The Company has arrears of ₹ 15 crores of preference dividend as on 31 March 20X4, it includes current year arrears of ₹ 1.75 crores. The Company did not declare any dividend for equity shareholders as well as for preference shareholders.

Further Mega Energy India Limited has also issued certain optionally convertible debentures, which are outstanding as at the year end.

6. Mega Energy India Limited also operates in the travel industry and incurs costs unevenly through the financial year. Advertising costs of ₹ 40 lacs were incurred on 1 July 20X3, and staff bonuses are paid at year-end based on sales. Staff bonuses are expected to be around ₹ 400 lacs for the year; of that a sum of ₹ 60 lacs would relate to the period ending 30 September 20X3.

MCQ

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

- (a) Provision for ₹ 20 crores and a contingent liability for ₹ 30 crores
- (b) Contingent liability for ₹ 50 crores
- (c) Provision for ₹ 30 crores and a contingent liability for ₹ 20 crores
- (d) Provision for ₹ 50 crores.

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

- (a) Record 90% of the claim as a receivable as it is virtually certain that the contingent asset will be received.
- (b) Do not make any adjustments in the financials and only disclose the contingent asset in the notes on accounts.
- (c) Wait until next year when the settlement cheque is actually received and not recognize or disclose this receivable at all since at year-end it is a contingent asset.
- (d) Record 100% of the claim as a receivable at year-end as it is virtually certain that the contingent asset will be received and adjust the 10% next year when the settlement

check is actually received.

3. What is the amount of preference dividend to be reduced from profit or loss for the year for calculating basic Earnings Per Share?

- (a) ₹ 15 crores
- (b) ₹ 1.75 crores
- (c) ₹ 13.25 crores
- (d) Noting, as no dividend has been declared by the entity.

4. For the purposes of computation of weighted average number of shares (to arrive at diluted EPS) when should the dilutive potential shares (optionally convertible debentures) be deemed to have been converted into shares?

- (a) At the start of the period.
- (b) The date of issue of the potential shares
- (c) At the start of the period or, if issued later, then the date of issue of the potential shares
- (d) At the end of the period.

5. With respect to point 6, what costs should be included in the entity's financial report for the quarter ended 30 September 20X3?

- (a) Advertising costs ₹ 40 lacs; staff bonuses ₹ 100 lacs
- (b) Advertising costs ₹ 10 lacs; staff bonuses ₹ 100 lacs
- (c) Advertising costs ₹ 10 lacs; staff bonuses ₹ 60 lacs
- (d) Advertising costs ₹ 40 lacs; staff bonuses ₹ 60 lacs

6. Calculate the amount of employee benefit expenses that shall be recognized each year:

Option	20X3	20X4
A	58,50,000	1,20,41,250
B	1,20,41,250	Nil
C	58,50,000	61,91,250
D	Nil	1,20,41,250

7. Determine the entities to whom the exemption from IndAS 24: Related Party Transactions may apply (Point 1):

- (a) Transactions with UP government only
- (b) Transactions with Entities Super Power India Limited and Entities P, Q, A and B.
- (c) Transactions with Mr. KM
- (d) Both a and b

Answer :-

1	2	3	4	5	6	7
d	a	b	c	d	c	d

Case Study 43

IndAS 111,19, 116,37

You are a qualified Chartered Accountant at XYZ Ltd, an Indian listed company which is exploring possibilities of listing its securities at an overseas stock exchange. The financial reporting requirements related to such listing include submission of financial statements as per INDAS. Therefore, XYZ Ltd prepares its financial statements in accordance with INDAS upto 31 March each year. You report to Anuj, the Financial Controller of XYZ Ltd.

Anuj called you to enquire about the consolidated financial statements. The financials disclosed that on 1 July 20X1, XYZ Ltd acquired 800,000 ordinary shares in ABC Ltd on incorporation at par (₹ 1 per share). The remaining shares were subscribed for in equal proportions by two other companies: PQR Ltd and MNO Ltd. The issued share capital of ABC Ltd at date of acquisition of the shares was two million shares.

Anuj advised the Board of Directors of XYZ Ltd to go into an agreement with a goal that all key working and money related choices would require the consistent assent of each of the three parties. XYZ Ltd had not entered in any past contractual agreements of a comparable sort and, from past discussions, you realize that Anuj is exploring the possibility to apply proportionate consolidation. You need to guarantee that the accounting treatment embraced will be suitable in future years.

Anuj told you, “I noticed your draft statement of comprehensive income has not taken into account the acquisition of the shares in ABC Ltd, although, it looks to me as though it should be treated as an associate company. What do you think? The directors have requested an estimate of consolidated profit for the board meeting next week. Also, I will need some sort of explanation as to why you are making your adjustments: you and I both know that there is a lot of professional judgement involved in the application of some of the INDAS.”

Further, there are certain outstanding issues which require consideration while making final consolidated financials:

1. XYZ Ltd acquired a trade mark at a cost of ₹ 68,00,000 on 1 April 20X1. At that date the patent had an estimated useful life of 20 years. In the draft financial statements at 31 March 20X2, the trade mark is shown at ₹ 88,40,000 as per the advise of a brand valuation firm. An increase in fair value has been recognized in other comprehensive income and carried as a revaluation surplus within equity.
2. On 1 April 20X1, XYZ Ltd acquired 34,000 listed 4% ₹ 1 preference shares at their fair value (which was par value) in RST Ltd that are redeemable on 31 March 20X5. Transactions costs were negligible. The effective interest rate on preference shares is 6% and preference dividends are paid annually on 31 March each year. The market value of one preference share on 31 March 20X2 was ₹ 1.05. The board minute authorizing this investment recorded the decision to hold these preference shares until redemption and instructed cash flow

forecasts to be prepared on this basis. Furthermore, the investment has not been made with the intention of making short-term profit.

3. XYZ Ltd acquired a non-current asset on 1 April 20X1. This non-current asset is located in an industrial development area and cost ₹ 1,02,00,000. The asset is expected to last five years. An impairment review was carried out on 31 March 20X2 and the projected cash flows relating to this asset were as follows:

Year ended	31 March 20X3	31 March 20X4	31 March 20X5	31 March 20X6
Cash flows (₹)	9,52,000	15,13,000	17,00,000	18,70,000

XYZ Ltd uses a discount rate of 5% in relation to cash flows and the Indian government has indicated that it may pay compensation for any loss of value for the assets up to 20% of impairment loss, if any.

4. On 1 April 20X1, XYZ Ltd signed a six-year lease for one of its properties, the lessee agreeing to pay ₹ 2,04,000 per quarter in advance. XYZ Ltd had acquired the property for using it as its administrative office five years earlier for ₹ 34,00,000 (land element costing ₹ 3,40,000). The useful life of the building was estimated at 34 years. XYZ Ltd vacated the property on 1 April 20X1 and its fair value at that date was estimated at ₹ 64,60,000. At 31 March 20X2, the property's fair value was estimated at ₹ 61,20,000. XYZ Ltd had not leased out any properties in the past. XYZ Ltd. wants to follow the revaluation model for this property.
5. The revenue of XYZ Ltd. includes sales to EFG Ltd (subsidiary of XYZ Ltd with 80% shareholding) of ₹ 25,50,000, all invoiced at cost plus 25%. On 31 March 20X2, the inventory included ₹ 6,37,500 in respect of such goods.
6. XYZ Ltd has a corporate office in Mumbai held under a lease. A specific requirement of the lease is that the asset is returned in good condition. The lease was signed on 31 March 20X2 and will last for four years. In order to meet the requirements of lease, the board of directors of XYZ Ltd have agreed to refurbish the office building in four years time at a cost of ₹ 42,50,000. This figure includes the renovation of the building's exterior and is based on current price levels. Due to severe cold weather, XYZ Ltd will also have to spend ₹ 3,40,000 at the end of next year on renovating the building. The directors are of the opinion that this expenditure will reduce, by an equivalent amount, against the overall refurbishment costs payable at the end of the lease term. Relevant discount rate applicable in this case is 10%. No entries have been made for the above expenditure in the financial statements.
1. On 1 April 20X1, fair value of the assets of XYZ Ltd's defined benefit plan were valued at ₹ 20,40,000 and the present value of defined obligation was ₹ 21,25,000. On 31 March, the plan received contributions from XYZ Ltd amounting to ₹ 4,25,000 and paid out benefits of ₹ 2,55,000. The current service cost for the financial year ending 31 March 20X2 is ₹ 5,10,000. An interest rate of 5% is to be applied to the plan assets and obligations. The fair value of plan's assets at 31 March 20X2 was ₹ 23,80,000, and the present value of defined

benefit obligation was ₹ 27,20,000. No accounting entries have been made for the year ended 31 March 20X2.

Appendix 1:

Draft Consolidated Statement of Comprehensive Income for the year ended 31 March 20X2

The current draft consolidated statement of comprehensive income includes the dividends received from ABC Ltd during the year. No other amounts have been recognized in respect of ABC Ltd. A dividend of ₹ 4,25,000 was paid by ABC Ltd on 24 March 20X2.

MCQ

- 1. At what amount, trademark should be valued on 31 March, 20X2?**
 - (a) ₹ 88,40,000
 - (b) ₹ 68,00,000
 - (c) ₹ 64,60,000
 - (d) ₹ 83,98,000

- 2. What should be the carrying value of Non- current asset at 31 March, 20X2, which was acquired on 1 April, 20X1?**
 - (a) ₹ 81,60,000
 - (b) ₹ 52,86,405
 - (c) ₹ 1,50,00,000
 - (d) ₹ 1,02,00,000

- 3. How much amount of compensation receivable from Indian Government should be recognized on 31 March 20X2?**
 - (a) ₹ 5,75,000
 - (b) No provision
 - (c) ₹ 9,83,000
 - (d) ₹ 8,33,000

- 4. Which model can be used to calculate the carrying value of one of its property leased under six year lease agreement on 1 April 20X1?**
 - (a) Cost model only
 - (b) Fair value model only
 - (c) Either of the two
 - (d) Fair value model if cost is higher than fair value, else cost model

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

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

6. Calculate the net gain/loss that shall be recognized in Other Comprehensive Income as per IndAS 19:

- (a) 68,000
- (b) Nil
- (c) (1,65,750)
- (d) 5,10,000

7. Calculate the amount at which investment in Preference Shares shall be shown as on 31st March, 20X2:

- (a) 34,000
- (b) 34,680
- (c) 36,040
- (d) 32,640

8. Calculate the amount of unrealized profit, if any that shall be reversed from the consolidated Statement of Profit & Loss of the group:

- (a) Nil
- (b) 159375
- (c) 127500
- (d) 22,50,000

9. Which of the following statement is true with respect to the investment in shares of ABC Ltd:

- (a) ABC is an associate entity of XYZ Ltd as the investment is less than 50%
- (b) Since the entities entered into an agreement thus the entity should be classified as joint venture in accordance with IndAS 111
- (c) Investment in shares of ABC Ltd shall be valued as per FVTOCI method
- (d) Both a and c

Answer :-

1	2	3	4	5	6	7	8	9
c	b	b	c	c	c	b	c	b

Case Study 44

IndAS 109,36,38

You are a Chartered Accountant (CA) employed as a financial accountant with XYZ Ltd. (XYZ), an Indian listed company that manufactures and distributes electronic components for the telecommunications sector. XYZ Ltd is exploring possibilities of listing its securities at an overseas stock exchange, therefore, prepares consolidated financial statements up to 31 March each year under INDAS. He wants to pay a dividend this year i.e. for the year ended 31 March 20X6, but although we have cash in the bank, Rahul, finance director, claims the debit on the consolidated retained earnings prohibits this.

XYZ has formed a strategic partnership with MNO Ltd (MNO). MNO is a newly formed start-up company which has yet to prepare any financial statements. To show our commitment to this partnership we subscribed for 10,000 ₹ 1 ordinary shares in MNO for ₹ 1.20 each. Professional fees of ₹ 3,000 was incurred on this transaction. MNO has 1,00,000 shares in issue and no dividends have been paid during the year. Rahul has informed me that it will not be possible for us to obtain a reliable fair value for this investment until at least another twelve months. Utkarsh wants you to go ahead and prepare some revised figures for me to present at the board in two days' time.

ABC & co confirmed that Rahul works in an office that provides services to MNO and he has no involvement in the services provided. A legal fee of ₹ 25,000 was paid to ABC during the year ended 31 March 20X6. There are following unresolved issues which require your review:

Outstanding Issues

1. On 1 January 20X6, XYZ acquired 25,000 shares at ₹ 1 per share in JKL Ltd., a listed company that supplies raw materials for the manufacture of microchips. At 31 March 20X6, their market value had risen to ₹ 2 per share, and a gain has been recognised in the consolidated Draft Statement of Comprehensive Income (against operating expenses) for the increase in value. XYZ has made an irrevocable election at the commencement date of investment, to measure equity instruments at FVOCI.
2. (i) XYZ holds 100% of the ordinary shares of PQR, acquired several years ago. The strategy behind the acquisition was to develop new revenue streams, including the design of new microchips. PQR has performed well but one of its major assets, an item of equipment, suffered a significant and unexpected deterioration in performance. Management expect to be able to use the machine for a further four years after 31 March 20X6, but at a reduced level. The equipment will be scrapped after four years. The financial accountant for PQR has produced a set of cash-flow projections for the equipment for the next four years, ranging from optimistic to pessimistic. Rahul thought that the projections were too conservative and intended to use the highest figures each year. These were as follows:

	₹ '000
Year ended 31 March 20X7	276
Year ended 31 March 20X8	192
Year ended 31 March 20X9	120
Year ended 31 March 20Y0	114

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

- (ii) On 1 April 20X1, XYZ acquired a freehold manufacturing building. The land element in the purchase price was ₹ 6,72,000 and the building element ₹ 24,00,000. The useful life of the building was estimated at 20 years. Since 1 April 20X1 there has been no change in the value of land. At 31 March 20X3, the building element was re valued to ₹ 27,00,000 and the remaining useful life was unchanged. On 31 March, 20X6, the open market value of the building was determined at ₹ 19,80,000. The remaining useful life again remained unchanged. No accounting entries have yet been made in respect of the freehold building for the year ended 31 March 20X6.
3. XYZ issued ₹ 4,80,000 4% redeemable preference shares on 1 April 20X5 at par. Interest is paid annually in arrears and the first payment of ₹19,200 was made on 31 March 20X6 and debited directly to retained earnings. The bonds are redeemable for a cash amount of ₹ 7,20,000 on 31 March 20X8. The effective rate of interest on the redeemable preference shares is 18% per annum. The proceeds of the issue have been recorded within equity as this reflects the legal nature of the shares and the board of directors intends to issue new equity shares over the next two years to build up cash resources to redeem the preference shares. One of the senior engineers at XYZ has been working on a process to improve manufacturing efficiency and, consequently, reduce manufacturing costs. This is a major project and has the full support of XYZ's board of directors. The senior engineer believes that the cost reductions will exceed the project costs within twenty four months of their implementation. Regulatory testing and health and safety approval was obtained on 1 June 20X5. This removed uncertainties concerning the project, which was finally completed on 20 April 20X6. Costs of ₹ 18,00,000, incurred during the year to 31 March 20X6, have been recognised as an intangible asset. An offer of ₹ 7,80,000 for the new technology has been received and rejected by XYZ. Utkarsh believes that the project will be a major success and has the potential to save the company ₹ 12,00,000 in perpetuity. Director of research at XYZ, Neha, who is a qualified electronic engineer, is seriously concerned about the long term

prospects of the new process and she is of the opinion that competitors will have developed new technology which might have replaced the new process within four years. She estimates that the present value of future cost savings will be ₹ 9,60,000 over this period. After that, she thinks that there is no certainty about its future.

4. M Ltd, another 100% wholly owned subsidiary of XYZ, started speculative office property development in March 20X5. The cost of development to 31 March 20X6 was ₹ 27,60,000. A valuer inspected the property at 31 March 20X6 and valued it at ₹ 28,80,000 in its condition at that date. The directors intend to sell the property to a buyer outside the group, and so it has been classified as an investment property. The gain has been recognised in the profit before tax in the Draft Statement of Comprehensive Income. A post-it on the page Utkarsh gave you earlier, suggested that Rahul was considering that because the property development was speculative with no contract, the property should not be classified as an investment property.

MCQ

- 1. Calculate the total impairment loss in Profit or Loss of XYZ Ltd. for the year ending 31 March 20X6.**
 - (a) ₹ 5,75,892
 - (b) ₹ 35,892
 - (c) ₹ 5,40,000
 - (d) ₹ 5,88,108
- 2. What is the recoverable amount of impaired machine of PQR as at 31 March, 20X6?**
 - (a) ₹ 5,04,000
 - (b) ₹ 5,07,600
 - (c) ₹ 5,88,108
 - (d) ₹ 6,60,000
- 3. Calculate the impairment loss of building on 31 March, 20X6?**
 - (a) 2,70,000
 - (b) ₹ 3,15,000
 - (c) ₹ 3,24,000
 - (d) Nil
- 4. Calculate the closing balance of 4% redeemable preference shares as at 31 March 20X6.**
 - (a) Nil
 - (b) ₹ 4,80,000

- (c) ₹ 67,180
- (d) ₹ 5,47,200

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

- (a) ₹ 18,00,000
- (b) ₹ 15,00,000
- (c) Nil
- (d) ₹ 12,00,000

6. Choose the correct option with respect to Property sold by M Ltd(as mentioned in point 4):

- (a) The company has correctly classified the property in accordance with IndAS 41
- (b) The property should be treated as Property Plant or Equipment as per IndAS 16 as it doesn't meet the definition of Investment Property
- (c) The property should be treated as Inventory as M Ltd intends to sale it after completion and it should be measured at the Cost i.e. 27,60,000
- (d) The property should be treated as Inventory as M Ltd intends to sale it after completion and it should be measured at the NRV i.e. 28,80,000

7. State whether the company has correctly accounted for the gain on shares of JKL Ltd or not

- (a) Yes, the company has correctly recorded the gain against the operating expenses
- (b) No the gain should be recognized through Equity
- (c) As the company classified the shares under FVTOCI category so the gain should be recognized through Other Comprehensive Income
- (d) None of these

Answer :-

1	2	3	4	5	6	7
a	c	a	d	b	c	c

Case Study 45

IndAS 7,38,23,109

BD Limited is into various business whether its construction, manufacturing or trading of commodities. BD Limited and its one of the subsidiary have entered into various transactions accounting of which needs to be analysed in detail from the perspective of INDAS. You being an INDAS expert, CFO of the company have appointed you to analyse the transaction based on following details:

- BD Limited is engaged in the business of developing malls and leasing out them to its customers. The Company has ongoing project in Kerala. It had borrowed ₹ 75,00,00,000 from a Bank to meet the project expenses.

The construction of the qualifying assets was suspended for a period of 10 days on completion of each floor for the concrete to settle. Further there was a delay of two months due to extreme floods in Kerala during which the active development of the project was interrupted.

There was a further delay of 15 days in completion due to rectification of the faulty electric wirings which was discovered during final inspection.

The Mall consisted of five phases. BD Limited has substantially completed all the work with regard to Phase I, II and III on 5 March 20X3 and with regard to Phase IV and V on 20 March 20X3.

The Company has carried out minor modifications based on specifications of the Lessee and handed over the shops to Lessees of Phase I, II and III on 10 April 20X3 and to the lessees of Phase IV and V on 15 April 20X3

- BD Limited is also into manufacturing of passenger vehicles. The time between purchasing of underlying raw materials to manufacture the passenger vehicles and the date the entity completes the production and delivers to its customers is 11 months. Customers settle the dues after a period of 8 months from the date of sale.
- BD Limited purchased a trademark during the year ended 31 March 20X3. BD Limited has incurred following cost in connection with the trademark:

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

4. BD Limited issued 9% compulsorily convertible preference shares of ₹ 10,00,000 on 01 April 20X2 which are redeemable after 10 years, the effective rate of interest is 12%.
5. Following are the details from Statement of Financial Statements for the year ended 31st March, 20X3:
 - i. Property Plant & Equipment on:
31st March, 20X2= 12,500 lacs
31st March, 20X3= 13,000 lacs
 - ii. Depreciation charged in the statement of profit and loss during the current year is 500 lacs
 - iii. During the year ended 31 March 20X3 two machineries were sold for ₹ 70 lacs. The carrying amount of these machineries as on 31 March 20X3 is ₹ 60 lacs.

MCQ

1. **When should the capitalisation of borrowing cost of a mall in Kerala be suspended?**
 - (a) When there is a temporary delay for allowing the concrete to settle, which is a necessary part of getting the asset ready for its intended use or sale.
 - (b) During the extended period for rectifying faulty wires, in which active development is interrupted but substantial technical and administrative work has been carried out.
 - (c) When all the activities necessary to prepare the Mall for its intended lease to customers are complete.
 - (d) During the extended period in which active development is interrupted due to floods and substantial technical and administrative work has not been carried out.
2. **When shall BD Limited cease to capitalise the borrowing costs incurred with respect to the Mall?**
 - (a) On 20 March 20X3 for the entire mall
 - (b) On 15 April 20X3 for the entire mall
 - (c) On 5 March 20X3 for Phase I, II and III; 20 March 20X3 for Phase IV and V
 - (d) On 10 April 20X3 for Phase I, II and III; 15 April 20X3 for Phase IV and V.
3. **What is the Operating Cycle of manufacturing business of passenger vehicles business?**
 - (a) 11 months
 - (b) 12 months
 - (c) 19 months
 - (d) 8 months
4. **What is the value of trademark to be recognised in the books of BD Limited in**

accordance with INDAS?

- (a) ₹ 11,18,000
- (b) ₹ 10,73,000
- (c) ₹ 9,55,000
- (d) ₹ 9,10,000

5. Out of the following disclosures given by BD Limited, which disclosure is not required under relevant INDAS?

- (a) Fair value of similar intangible assets used by its competitors.
- (b) Reconciliation of carrying amount at the beginning and the end of the year.
- (c) Contractual commitments for the acquisition of intangible assets.
- (d) Useful lives of the intangible assets.

6. Calculate the amount of dividend on preference shares that will recorded in Statement of Profit & Loss and Cash Flow Statement for the year ended 31st March, 20X3:

- (a) Dividend recorded in Statement of Profit & Loss as Finance Cost= 90,000
Outflow shown in Operating Activities= 90,000
- (b) Dividend recorded in Statement of Profit & Loss as Finance Cost= 61,022
Outflow shown in Financing Activities= 90,000
- (c) Dividend recorded in Statement of Profit & Loss as Finance Cost= 61,022
Outflow shown in Financing Activities= 45,767
- (d) Dividend recorded in Statement of Profit & Loss as Finance Cost= 61,022
Outflow shown in Operating Activities= 90,000

7. Calculate the net cash inflow/ outflow from Investing Activities on the basis of information given in Point 5:

- (a) Cash inflow from Investing Activities is 70 lacs
- (b) Cash outflow from Investing Activities is 1060 lacs
- (c) Cash outflow from Investing Activities is 990 lacs
- (d) Cash outflow from Investing Activities is 1000 lacs

Answer :-

1	2	3	4	5	6	7
d	c	c	d	a	b	c

Case Study 46

IndAS 116,28,10,8,115

Buildings & Co. Limited with a financial year ending at 31st March, entered into a contract with its customer, Radar Company Limited, to build a manufacturing facility. Buildings & Co. Limited determines that the contract contains one performance obligation satisfied over time. Construction is scheduled to be completed by the end of the 36th month for an agreed upon price of ₹ 25 crore. Buildings & Co. Limited has the opportunity to earn a performance bonus for early completion as follows:

- 15% bonus of the contract price if contract is completed by 30th month (25% likelihood).
- 10% bonus of the contract price if contract is completed by 32nd month (40% likelihood).
- 5% bonus of the contract price if contract is completed by 34th month (15% likelihood).

In addition to the potential performance bonus for early completion, Buildings & Co. Limited is entitled to a quality bonus of ₹ 2 crore if a health and safety inspector assigns the facility a gold star rating as defined by Radar Company Limited in terms of the contract. Buildings & Co. Limited concludes that it is 60% likely that it will receive the quality bonus.

Buildings & Co. Limited has prepared interim financial statements for the third quarter ended 31st December, 20X2 for the purposes of submission to banks. The interim financial statements show a net profit of ₹ 20 crore for the third quarter ended 31st December, 20X2. Following adjustments have been made while computing the net profit:

- Bad debts of ₹ 1 crore were incurred during the quarter ended 31st December, 20X2. 50% of the bad debt have been deferred to next quarter.
- Additional depreciation of ₹ 45,00,000 resulting from change in the method of depreciation.
- ₹ 5 crore expenditure on account of administrative expenses pertaining to the third quarter 31st December, 20X2 is deferred on the argument that the fourth quarter will have more sales; therefore, fourth quarter should be debited by higher expenditure. The expenditures are uniform all throughout the quarters.

While preparing the annual financial statements for the year ended 31st March 20X2, Buildings & Co. Limited charged certain expenses as finance cost (assume the expenses to be material on overall level). While preparing the annual financial statements for the year ended 31st March 20X3, management discovered that these expenses should have been classified as other expenses instead of finance costs. The error occurred because the management inadvertently misinterpreted certain facts. The management restated the comparative amount for the prior period presented i.e. for the year ended 31st March, 20X2.

On 15th November, 20X2, Buildings & Co. Limited acquired Concrete Mixers Private Limited for a purchase consideration of ₹ 10 crore. Concrete Mixers Private Limited is in the process of setting up a plant to make ready mix-concrete and expects the plant to become operational by 30th April, 20X3. Other than the plant in construction, there are no other operations in the

Concrete Mixers Private Limited.

Buildings & Co. Limited has taken a loan of USD 15,00,000 as on 1st April 20X2 taken for construction of its fabrication plant at an interest rate of 6% per annum payable on annual basis. On 1st April, 20X2, the exchange rate between the currencies i.e. USD vs. Rupees was ₹ 72 per USD. The exchange rate on the reporting date i.e. 31st March, 20X3 is ₹ 76 per USD. The corresponding amount could have been borrowed by Buildings & Co. Limited from and Indian bank in Rupees at an interest rate of 11% per annum as on 1st April, 20X2.

Buildings & Co. Limited entered into a 10-year lease for 6,000 square meter of office space. The annual lease payments are ₹ 60,000 payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Buildings & Co. Limited's incremental borrowing rate at the commencement date is 8% p.a. At the beginning of 6th year, Buildings & Co. Limited and lessor agree to amend the original lease to reduce the space to only 3000 square meters of the original space starting from the end of the first quarter of year 6. The annual fixed lease payments (from year 6 to year 10) are ₹ 35,000. Buildings & Co. Limited's incremental borrowing rate at the beginning of year 6 is 6% p.a.

Buildings & Co. Limited holds 40% of total equity shares of Highway Limited, an associate company. The value of investments in Highway Limited on 31st March, 20X2 is ₹ 4 crore in the consolidated financial statements of Buildings & Co. Limited. During the year ended 31st March, 20X3, Buildings & Co. Limited sold goods worth ₹ 35,00,000 to Highway Limited. The cost of goods sold is ₹ 30,00,000. Out of these, goods costing ₹ 10,00,000 to Highway Limited were in the closing stock of Highway Limited. During the period 31st March, 20X3 the profit and loss statement of Highway Limited showed a loss of ₹ 2 crore. During the year ended 31st March, 20X3, Highway Limited declared a dividend of ₹ 80,00,000 to its equity shareholders.

MCQ

You have to resolve the following issues:

- Determine the amount of variable consideration Building & Co. Limited should recognize in its contract with Radar Company Limited to build a manufacturing facility.**
 - ₹ 2.13 crore
 - ₹ 4.125 crore
 - ₹ 2 crore
 - ₹ 3.94 crore.
- The CFO of the Company has requested you to review the interim financial statements of the third quarter ended 31st December, 20X2 to ascertain the correct net profit to be presented to the Board of Directors. What is the correct amount of profit to be reported in the interim financial statements?**

- (a) ₹ 14.75 crore
- (b) ₹ 18.25 crore
- (c) ₹ 14.84 crore
- (d) ₹ 14.50 crore.

3. Would the error of classifying certain other expenses instead of finance costs in the comparative amounts (31st March, 20X2) be considered to be correction of an error? Would the entity need to present a third balance sheet in its financial statements for the year ended 31st March, 20X3?

- (a) Reclassifications of previous year numbers is permissible in case of both balance sheet and statement of profit and loss and is not considered as an error.
- (b) Reclassifications of previous year numbers shall be considered as an error and in case of an error it is mandatory to present a third balance sheet at the beginning of the period.
- (c) Reclassifications of previous year numbers shall be considered as an error and since the retrospective restatement in statement of profit and loss has no impact on the information in balance sheet at the beginning of the preceding year i.e. 1st April, 20X1, the entity is not required to present the third balance sheet.
- (d) Reclassifications of previous year numbers is permissible in case of only statement of profit and loss and is not considered as an error.

4. The CFO of the Company has requested you to evaluate whether the acquisition of Concrete Mixers Private Limited will be covered in INDAS 103 'Business combinations' or whether the under-construction plant should be accounted for as an asset acquisition? What factors will you consider in your evaluation?

- (a) Whether Concrete Mixers Private Limited has begun planned principal activities or is pursuing a plan to produce outputs.
- (b) Will the entity be able to obtain access to customers that will purchase the outputs
- (c) Whether Concrete Mixers Private Limited has employees, intellectual property and other inputs and processes that could be applied to those inputs.
- (d) All of the above.

5. In case of the foreign currency borrowing obtained by Buildings & Co. Limited, what is the amount of borrowing cost eligible for capitalization for the construction of the fabrication plant (assume eligibility conditions related to capitalization of borrowing cost are met)?

- (a) ₹ 1,18,80,000
- (b) ₹ 68,40,000

- (c) ₹1,25,40,000
 (d) ₹1,28,40,000.

6. Calculate the amount of gain or loss that Building & Co Ltd will recognize in Statement Profit & loss on Lease modification in the beginning of Year 6

- (a) Nil
 (b) Loss of 19,127
 (c) Gain of 19,127
 (d) Gain of 27,642

7. Calculate the value of investment in Highway Limited as on 31st March, 20X3 in the consolidated financial statements of Buildings & Co. Limited, if equity method is adopted for valuing the investments in associates

- (a) 4 Crore
 (b) 2.866 Crore
 (c) 2.88 Crore
 (d) 3.663 Crore

Answer :-

1	2	3	4	5	6	7
b	d	c	d	a	c	b

Case Study 47

IndAS 110, 12, 38, 32, 103,102

New Age Technology Limited is an IT infrastructure Company which provides customize IT solutions to its customers.

During the current year ended 31st March, 20X3, New Age Technology Limited has made investment in two entities namely ERP Solutions Limited engaged in the business of ERP solutions development and Cloud Equipments Limited engaged in the business of computer hardware related trading activities. New Age Technology Limited holds 45% of equity share capital of ERP solutions Limited and 60% of equity share capital of Cloud Equipments Limited.

The net aggregate value of identifiable assets and liabilities, as measured in accordance with INDAS 103 for ERP solutions Limited and Cloud Equipments Limited is determined as ₹ 45 lakhs and ₹ 30 lakhs respectively. There has been paid cash consideration of ₹ 20 lakhs to Cloud Equipments Limited. The fair value of NCI on the date of acquisition in case of Cloud Equipments Limited is ₹ 14 lakhs.

New Age Technology Limited issued additional shares on 31st March, 20X3. Cost associated with the issue of equity were ₹ 50,00,000 and recorded directly in equity. Under Indian tax laws, deduction can be claimed over five year period from the date of share issue. Assuming a tax rate of 30%.

New Age Technology Limited acquired copyrights for certain patented software on 1st April, 20X1 for ₹ 50,00,000. The software would assist the Company to develop an entire new range of IT solutions to its customers. Management basis its internal assessment, determined the useful life of the acquired software to be 10 years from the date of purchase. Further management performed a fair value assessment of the acquired software based on the active market and determined it to be ₹ 48,00,000 as at 31st March, 20X2 and ₹ 43,00,000 as at 31st March, 20X3.

New Age Technology Limited is engaging with several investors to invest funds into the Company. As part of the negotiations several instruments are being considered depending on the yield each instrument would provide to the investor. New Age Technology Limited enters into a barter transaction to exchange its existing server for new high-end laptop with its vendor, Sunshine Limited. The server has a fair value of ₹ 2,00,000 and a carrying amount of ₹ 1,75,000. Whereas, the high-end laptop has a fair value of ₹ 2,50,000 and carrying amount of ₹ 2,10,000 in the books of Sunshine Limited.

New Age Technology Limited has entered into following Share Based payment transactions:

- (i) On 1st April, 20X2, New Age Technology Limited decided to grant share options to its employees. The scheme was approved by the employees on 30th June, 20X2. New Age Technology Limited determined the fair value of the share options to be the value of the equity shares on 1st April, 20X2.

- (ii) On 1st April, 20X2, New Age Technology Limited entered into a contract to purchase IT equipment from Bombay Software Limited and agreed that the contract will be settled by issuing equity instruments of New Age Technology Limited. New Age Technology Limited received the IT equipment on 30th July, 20X2. The share-based payment transaction was measured based on the fair value of the equity instruments as on 1st April, 20X2.
- (iii) On 1st April, 20X2, New Age Technology Limited decided to grant the share options to its employees. The scheme was approved by the employees on 30th June, 20X2. The issue of the share options was however subject to the same being approved by the shareholders in a general meeting. The scheme was approved in the general meeting held on 30th September, 20X2. The fair value of the equity instruments for measuring the share-based payment transaction was taken on 30th September, 20X2.

MCQ

You have to resolve the following issues:

- 1. The Chief Accountant of New Age Technology Limited wants to evaluate which of the investee entity of the Company will be eligible for consolidation. As per the requirements of INDAS 110, which of the following is not a condition to determine whether an investor controls an investee?**
 - (a) Investor has right to participate in the operating and financial decisions of the investee.
 - (b) Investor has Power over the investee that gives him current ability to direct relevant activities.
 - (c) Investor has exposure, or rights, to variable returns from its involvement with the investee.
 - (d) Investor has ability to use its power over the investee to affect the amount of the investor's returns.
- 2. What would be the amount of Deferred Tax Asset or Liability that the Company should recognize as on 31st March, 20X3 on the cost incurred on the issue of equity shares during the year?**
 - (a) No DTA or DTL should be recognized
 - (b) DTA of ₹ 15,00,000
 - (c) DTL of ₹ 15,00,000
 - (d) DTA of ₹ 50,00,000
- 3. What would be carrying amount of the acquired software in the books of accounts of New Age Technology Limited as at 31st March, 20X3?**

- (a) ₹ 43,00,000
- (b) ₹ 45,00,000
- (c) ₹ 40,00,000
- (d) ₹ 48,00,000

4. New Age Technology Limited has taken loan from a bank which as debt to equity ratio as one of its financial covenants. Any new fund raise could have a direct implication on the covenants of existing loans. Therefore, the CFO wants to understand which amongst the following instruments is an equity instrument as per IndAS 32 'Financial Instruments: Presentation'?

- (a) Non-redeemable preference shares with payment of dividend at market rates.
- (b) Preference shares redeemable at the option of the issuer with payment of dividend at the discretion of the issuer.
- (c) Preference shares redeemable at the option of the holder with payment of dividend at the discretion of the issuer.
- (d) Preference shares redeemable at the option of the holder with payment of dividend at market rates.

5. At what value should New Age Technology Limited record the high-end laptop purchased in exchange of its existing server in its books of accounts?

- (a) ₹ 2,00,000
- (b) ₹ 1,75,000
- (c) ₹ 2,50,000
- (d) ₹ 2,10,000

6. What will be value of Goodwill/ Gain from bargain purchase if New Age Technology Ltd decides to measure Non Controlling Interest at Proportionate share method

- (a) Goodwill of 4 Crores
- (b) Gain from bargain purchase of 4 Crores
- (c) Gain from bargain purchase of 2 Crores
- (d) Goodwill of 2 Crores

7. What will be the Measurement date for the three Share Based Payment transactions entered into by New Age Technology Ltd.

Option	Transaction i	Transaction ii	Transaction iii
A	30 June, 20X2	1 April, 20X2	30 September, 20X2
B	30 June, 20X2	30 July, 20X2	30 September, 20X2
C	1 April, 20X2	1 April, 20X2	1 April, 20X2

D	1 April, 20X2	30 July, 20X2	1 April, 20X2
---	---------------	---------------	---------------

Answer :-

1	2	3	4	5	6	7
a	b	a	b	a	a	b