You are Praveen an Assistant Manager in Finance and Accounts department of ABC Group (hereby referred as ABC, ABC Ltd. or group) headed by Director- Finance Aditya Goel. You assist and report to Sumit Bansal, Manager of your department. You have joined the organisation just a month ago.

Sumit Bansal is on vacation for 15 days and financial statements of ABC Limited needs to be finalized within a week. Therefore, Mr. Goel needs your assistance in finalization of consolidated as well as separate financial statements of ABC Limited for the year ended 31st March 2017.

He provided you with the following relevant information:

1. On 1st April, 2016, ABC acquired 90 million shares in PQR Limited by means of share exchange which has been classified as ‘fair value through other comprehensive income’ in separate financial statements of ABC Limited. The terms of the business combination were as follows:
   - ABC Limited issued eight shares for every, nine shares acquired in PQR Limited. On 1st April, 2016, the market value of ABC Limited’s share was Rs.2.80 per share.
   - ABC Limited will make a further cash payment to the former shareholders of PQR Limited on 30th June 2019. This payment will be based on the adjusted profits of PQR Limited for the three-year period upto 31st March 2019. On 1st April 2016, the fair value of this additional payment was estimated at Rs.25 million. This estimate had increased to Rs. 28 million by 31st March 2017 due to changes in circumstances since the date of acquisition.

Investment in PQR Limited has not been recorded in the draft financial statements of ABC Limited presented at later part of the study.

It is the group policy to value the non-controlling interest in subsidiaries at the date of acquisition at fair value. The market value of an equity share in PQR Limited at 1 April 2016 can be used for this purpose. On 1 April 2016, the market value of a PQR Limited share was Rs.2.60 per share.
On 1st April 2016, the individual financial statements of PQR Limited showed the following reserves balances:

- Retained earnings Rs.86 million.
- Other components of equity Rs.2.4 million.

The directors of ABC Limited carried out a fair value exercise to measure the identifiable assets and liabilities of PQR Limited at 1 April 2016. The following matters emerged:

- Property having a carrying value of Rs.140 million (including depreciable assets Rs.80 million) had an estimated market value of Rs.160 million (including depreciable assets Rs. 92 million). The remaining estimated economic life of the depreciable assets at 1st April 2016 was 16 years.
- Plant and equipment having a carrying value of Rs.111 million had a market value of Rs.120 million. The estimated future economic life of the plant and equipment at 1st April 2016 was three years. PQR Limited has not disposed of any of this plant and equipment since 1st April 2016.
- Intangible assets with an estimated market value of Rs.8 million had not been recognised in the individual financial statements of PQR Limited. The estimated future economic lives of these intangible assets at 1st April 2016 was four years.

The fair value adjustments have not been reflected in the individual financial statements of PQR Limited. In the consolidated financial statements, the fair value adjustments will be regarded as temporary differences for the purposes of computing deferred tax. The rate of deferred tax to apply to temporary differences is 20%.

Impairment of the goodwill on acquisition of PQR Limited is not required since 1 April 2016.

**Below are the separate financial statements of ABC and PQR Limited as on 31st March 2017:**

<table>
<thead>
<tr>
<th></th>
<th>ABC Limited Rs.’000</th>
<th>PQR Limited Rs.’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>280,000</td>
<td>225,000</td>
</tr>
<tr>
<td>Investments</td>
<td>78,500</td>
<td>40,000</td>
</tr>
<tr>
<td></td>
<td>358,500</td>
<td>265,000</td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>85,000</td>
<td>56,000</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>70,000</td>
<td>42,000</td>
</tr>
<tr>
<td></td>
<td>2016</td>
<td>2015</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>---------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>14,000</td>
<td>11,000</td>
</tr>
<tr>
<td></td>
<td>169,000</td>
<td>109,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>527,500</td>
<td>374,000</td>
</tr>
</tbody>
</table>

EQUITY AND LIABILITIES

**Equity**

- **Share capital**
  - 2016: 160,000
  - 2015: 120,000

- **Retained earnings**
  - 2016: 211,396
  - 2015: 115,000

- **Other components of equity**
  - 2016: 5,604
  - 2015: 4,000

- **Total equity**
  - 2016: 377,000
  - 2015: 239,000

**Non-current liabilities:**

- **Provision**
  - 2016: 1,500
  - 2015: Nil

- **Long-term borrowings**
  - 2016: 60,000
  - 2015: 50,000

- **Deferred tax**
  - 2016: 22,000
  - 2015: 25,000

- **Total non-current liabilities**
  - 2016: 83,500
  - 2015: 75,000

**Current liabilities:**

- **Trade and other payables**
  - 2016: 45,000
  - 2015: 40,000

- **Short-term borrowings**
  - 2016: 22,000
  - 2015: 20,000

- **Total current liabilities**
  - 2016: 67,000
  - 2015: 60,000

- **Total equity and liabilities**
  - 2016: 527,500
  - 2015: 374,000

2. On 1<sup>st</sup> April 2016, ABC has raised a long term loan from European investors. The investors subscribed for 50 million Foreign currency (FC) loan notes at par. ABC Ltd. incurred incremental issue costs of FC 1 million. Interest of FC 4 million is payable annually on 31<sup>st</sup> March, starting from 31<sup>st</sup> March 2017. The loan is repayable in FC on 31<sup>st</sup> March 2022 at a premium and the effective annual interest rate implicit in the loan is 10%. The appropriate measurement basis for this loan is amortised cost. Relevant exchange rates are as follows:

- **1<sup>st</sup> April 2016** – FC 1 = Rs.1·40.
- **31<sup>st</sup> March 2017** – FC 1 = Rs.1·45.
- **Average rate for the year ended 31<sup>st</sup> March 2017** – FC 1 = Rs.1·42.

The functional currency of the group is Indian Rupee.
3. Trade receivables of ABC Ltd. include Rs. 2 million lent to a supplier on 1\textsuperscript{st} April 2016, in order to assist them with their expansion plans. The cost incurred to arrange the loan is Rs. 100,000. Mr. Goel opined to recognise Rs. 100,000 as a cost in the current year. However, he had not charged interest on this loan since the loan was given to help supplier’s short-term cash flow. The supplier was expected to repay Rs. 2.4 million on 31\textsuperscript{st} March 2018. Mr. Goel believe that no profit will accrue this year but there will be a nice bonus next year when the repayment will be received. The finance department informed him that the effective annual rate of interest on this loan is 6-9%. However, Mr. Goel did not find any relevance of this information as no interest is payable according to him.

Just before the year ending on 31\textsuperscript{st} March 2017, ABC Ltd. came to know that the supplier is facing poor economic conditions which has caused significant problems to him. In order to help him, ABC Ltd. agreed to reduce the amount repayable by him on 31\textsuperscript{st} March 2018 to Rs.2.2 million. Mr. Goel feels that still ABC Ltd. will report profit next year on it.

4. Mr. Goel also mentioned that during the year ended 31\textsuperscript{st} March 2017, ABC Ltd. provided consultancy services to a customer regarding the installation of a new production system. The system has caused the customer considerable problems, so the customer has taken legal action against ABC Ltd. for the loss that has arisen as a result of the problems with the system installation. The legal department of the group felt that there is 25% chance to successfully defend the claim. However, at the same time it also felt that 75% chance is that ABC Ltd. may require to pay damages of Rs.1.6 million. Mr. Goel believes that ABC Ltd. should not suffer any overall loss because the legal department informed that the company is covered by insurance against such types of losses. Mr. Goel feels that ABC Ltd. will make a claim immediately if the outcome of the case is against the company. According to him no provision shall be made for it because ABC Ltd. is covered by insurance. However, disclosure by way of a note shall be given for it.

5. ABC Ltd. provides consultancy advice to other firms as well. On 1\textsuperscript{st} October 2016, ABC Ltd. signed a contract to supply 50 days of consultancy advice to a customer over the two-year period ending on 30\textsuperscript{th} September 2018. The contract required ABC Ltd. to submit to six-monthly audits of the firm to ensure that the performance conditions in the contract had been adhered to in the immediately preceding six months. The first six-monthly audit was carried out shortly after 31\textsuperscript{st} March, 2017 wherein the firm confirmed that ABC Ltd. had satisfactorily supplied 15 days of consultancy in the six-month. The total contract price was Rs.1.5 million payable on 30\textsuperscript{th} September 2018 even though if the service of 50 days is rendered in the initial period of the service contract. ABC Ltd. has strong budgetary control systems in place and is able to accurately forecast the costs incurred in delivering the consultancy. An appropriate rate of interest to impute to this project would be 15% for the required period.

Besides above issues Praveen has some more doubts for which he requires your assistance.
I. **Objective Type Questions**

[Select the most appropriate answer from the options given for each question.  **(2 Marks each)**]

1. Property, plant and equipment (PPE) of ABC Ltd. includes factory and head office PPE among other PPE. Factory and head office PPE have the carrying value of Rs. 16,000 thousand and Rs. 22,000 thousand respectively as on 1st April 2016. The remaining useful lives of both the PPE are 10 years and 20 years respectively. Company carried out an impairment testing on 31 March 2017 and noted that recoverable amount of factory and head office PPE as on that date is Rs. 15,000 thousand and Rs. 20,000 thousand respectively.

At what amount factory and head office PPE shall be recorded on 31 March 2017?

(a) Factory- Rs. 15,000 thousand and Head office- Rs.20,900 thousand

(b) Factory- Rs. 15,000 thousand and Head office- Rs.20,000 thousand

(c) Factory- Rs. 14,400 thousand and Head office- Rs.20,000 thousand

(d) Factory- Rs. 14,400 thousand and Head office- Rs. 20,900 thousand

2. ABC Ltd. factored Rs. 2 million of its trade receivables to a bank during the year. The Bank paid Rs. 1.8 million to ABC Ltd. Bank charged ABC Ltd. Rs. 1 lac fee for this. All responsibility of receivables will be returned to ABC Ltd. if the debts are left unpaid after 6 months.

(i) Rs. 1.8 million shall be considered as loan and accounted for as financial liability

(ii) Rs. 1 lac fee should be deducted as transaction cost from financial liability

(iii) A loss of Rs. 2 lac should be recorded in the statement of profit and loss

(iv) The receivable should be derecognised from the statement of financial position

State which two of the above treatment represents the correct accounting treatment.

(a) (i) and (ii)

(b) (i) & (iii)

(c) (i) & (iv)

(d) All of the above

3. ABC Ltd. has uncertainty over two items of inventory on 31 March 2017.

**Item A** relates to raw material purchased for Rs. 5 lacs for a large profitable contract with supermarket. Since then, the purchase cost of these raw material has fallen to Rs. 4 lacs. **Item B** cost Rs. 2.5 lacs. It was damaged on 15 March 2017. After performing repairing work of Rs 30,000, it was sold for Rs. 2.6 lacs on 15 April 2017.
Determine the value at which items A & B shall be recorded on 31st March, 2017.

(a) Item A - Rs. 4 lac and Item B - Rs. 2.30 Lac
(b) Item A - Rs.5 lac and item B - Rs. 2.60 Lac
(c) Item A - Rs. 5 lac and Item B - Rs. 2.30 Lac
(d) Item A – Rs. 4 lac and Item B - Rs.2.60 Lac

4. ABC Ltd. uses first in first out method to measure its inventory for many years. On 1st April 2016, ABC Ltd. shifted to weighted average cost. This increased the inventory value at that date by Rs. 2 lacs. Which one of the following is NOT the correct accounting treatment for the financial statements for the year ended 31st March 2017?

(a) Increase only opening retained earnings in the statement of changes in equity by Rs. 2 lacs on 31st March, 2017.
(b) Increase inventory by Rs 2 lacs in the prior year comparative statement of financial position alongwith the opening retained earnings.
(c) Increase the cost of sales of the current year by Rs. 2 lacs.
(d) Reduce the profits in prior year comparative statement of profit and loss by Rs. 2 lacs.

5. ABC Ltd. has introduced a profit sharing plan from 1st April, 2016 for its employees who serve the company throughout the year. If no employees leave during the year, total profit sharing payments for the year will be 2% of profit. ABC Ltd. estimates that the employee turnover will be there and their profit share would be limited to 1.5%.

Determine the accounting treatment for this profit sharing plan.

(a) ABC Ltd. recognises a liability and an expense of 1.5% of profit.
(b) ABC Ltd. recognises a liability of 2% of profit.
(c) No liability will be recognised.
(d) Only expenses will be recognised on actual basis.

6. ABC Ltd. offered a customer interest free credit for two years on a sale of goods for Rs. 2 lacs that was made on 1st April 2016. ABC Ltd. has cost of capital of 8% and has recorded Rs. 2 lacs as revenue. How much should be reclassified from revenue into finance income for the year ended 31 March 2017?

(a) Rs. 13,717
(b) Rs. 14,815
(c) Rs. 16,000
(d) Rs. 28,532
7. On 1st March 2017, ABC Ltd. began construction to build an asset for a customer. ABC Ltd. has spent Rs. 10,000 so far and believes that the construction may cost total Rs. 8 lacs to complete. The total price of the construction contract is Rs. 1 million. ABC Ltd. uses an output method to measure progress, but as the contract has only just begun, Mr. Goel is unable to measure the progress made towards completion at 31st March 2017. How much revenue should ABC Ltd. recognize for the year ending 31st March 2017?

(a) Nil
(b) Rs. 10,000
(c) Rs. 12,500
(d) Rs. 16,700

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

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

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

Provision should be created for which of the following issues.

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

9. On 15th April 2017, the following events were noted by ABC Ltd.:

(i) A major customer went into liquidation and
(ii) Inventory was damaged in flood. This was sold at loss on 20th April 2017.

Which of the event should be considered as an adjusting event in the financial statements for the year ended 31st March 2017?

(a) Liquidation of the major customer
(b) Damaged inventory
(c) Neither of the event events are adjusting events
(d) Both the events are adjusting events

10. During the year, ABC Ltd. sold some items to PQR Ltd. The year end balances were reconciled with ABC Ltd. showing receivable of Rs. 8,000. This does not agree with payable recorded by PQR Ltd., with a difference being due to Rs. 1,000 cash in transit. Select the
correct options for adjustment of such inter-company transaction as on 31\(^{st}\) March, 2017 in the consolidated balance sheet.

(a) Deduct consolidated trade receivable and trade payable by Rs. 8,000.
(b) Deduct consolidated trade receivable and trade payable by Rs. 7,000
(c) Deduct consolidated trade receivable and trade payable by Rs. 1,000
(d) Deduct consolidated trade receivable by Rs. 8,000, consolidated trade payable by Rs. 7,000 and add consolidated cash & cash equivalent by Rs. 1,000.

II. Descriptive Questions

1. Compute the amount of ‘Goodwill’ and ‘Non-controlling interest’ to be shown in the Consolidated financial statements of ABC Limited as on 31\(^{st}\) March 2017 on acquisition of PQR Ltd. \(\text{(10 Marks)}\)

2. Advise the appropriate accounting treatment for the Foreign Currency loan to be made by ABC Ltd. in the books. \(\text{(5 Marks)}\)

3. Do you agree with Mr. Goel that in case of loan given to a supplier, no interest shall be shown in current year’s profit and loss. If not, suggest the correct accounting treatment with impact, if any on current year’s profit and loss. Also, do you think any adjustment is required in current year’s financial statements due to the financial problem being faced by the supplier? Also comment on the classification of such loan under the heading ‘trade receivables’. \(\text{(5 Marks)}\)

4. Do you agree with the views of Mr. Goel on the legal action taken by the customer and the treatment suggested by him? State your answer with reasons \(\text{(5 Marks)}\)

5. How much revenue should ABC Ltd. recognize for the year ended 31\(^{st}\) March 2017 for the contract entered with the firm for providing the consultancy service for 24 months? \(\text{(5 Marks)}\)

CASE STUDY 2

You are Prateek Chaddha, Finance Controller with ABC Limited (referred to as ‘Company’ or ‘ABC’ also) and reports to CFO of the Company Mr. Ram Kumar. As Mr. Ram Kumar is not available for upcoming board meeting of the Company, you would be required to present financial statements for the year ended 31 March 2017 to the board of directors. You are working with your team to finalize the separate as well as consolidated financial statements of ABC Limited. One of your team member Ajay, who has recently joined the Company, is having certain doubts in accounting of certain items while preparing the financial statements.

He shares the following information with you:

1. ABC Limited has 5 operating segments namely A, B, C, D and E. The profit/loss of respective segments for the year ended March 31, 2017 are as follows:
<table>
<thead>
<tr>
<th>Segment</th>
<th>Profit/(Loss) (Rs. in crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>780</td>
</tr>
<tr>
<td>B</td>
<td>1,500</td>
</tr>
<tr>
<td>C</td>
<td>(2,300)</td>
</tr>
<tr>
<td>D</td>
<td>(4,500)</td>
</tr>
<tr>
<td>E</td>
<td>6,000</td>
</tr>
<tr>
<td>Total</td>
<td>1,480</td>
</tr>
</tbody>
</table>

Ajay is not able to understand how quantitative thresholds are determined based on profitability criteria when certain segments report profits and certain segments report losses.

2. One of the business of ABC Ltd. is construction of commercial properties. Its current policy for determining the percentage of completion of its contracts is based on the proportion of cost incurred to date compared to the total expected cost of the contract.

One of ABC Ltd.’s contracts has an agreed price of Rs. 500 crores and estimated total costs of Rs. 400 crores. The cumulative progress of this contract is:

<table>
<thead>
<tr>
<th>Year ended</th>
<th>31st March 2016</th>
<th>31st March 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost incurred</td>
<td>160</td>
<td>290</td>
</tr>
<tr>
<td>Work certified and billed</td>
<td>150</td>
<td>320</td>
</tr>
<tr>
<td>Amount received against bills</td>
<td>140</td>
<td>300</td>
</tr>
</tbody>
</table>

ABC Ltd. prepared and published its financial statements for the year ended 31st March 2016. Relevant extracts are:

<table>
<thead>
<tr>
<th>Revenue [(80/200) x 250]</th>
<th>200</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of sales</td>
<td>(160)</td>
</tr>
<tr>
<td>Profit</td>
<td>40</td>
</tr>
</tbody>
</table>

**Balance Sheet (Extracts)**

<table>
<thead>
<tr>
<th>Current assets</th>
<th>Rs. in Crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount due from customers</td>
<td></td>
</tr>
<tr>
<td>Contract cost to date</td>
<td>160</td>
</tr>
<tr>
<td>Profit recognized</td>
<td>40</td>
</tr>
<tr>
<td>Profit recognized</td>
<td>200</td>
</tr>
<tr>
<td>Progress billing to date</td>
<td>(150)</td>
</tr>
<tr>
<td>--------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>Billing to be done</td>
<td>50</td>
</tr>
<tr>
<td>Contract asset (amount receivable) (150-140)</td>
<td>10</td>
</tr>
</tbody>
</table>

ABC Ltd. has received some adverse publicity in the financial press for taking its profit too early in the contract process, leading to disappointing profits in the later stages of contracts. Most of ABC Ltd. competitors take profit based on the percentage of completion as determined by the work certified compared to the contract price.

3. ABC Ltd. owns 25% of the voting rights in Y Ltd. and is entitled to appoint one director to the board, which consist of five members. The remaining 75% of the voting rights are held by two entities, each of which is entitled to appoint two directors.

A quorum of four directors and a majority of those present are required to make decisions. The other shareholders frequently call board meeting at the short notice and make decisions in the absence of ABC Ltd.’s representative. ABC Ltd. has requested financial information from Y Ltd., but this information has not been provided. ABC Ltd.’s representative has attended board meetings, but suggestions for items to be included on the agenda have been ignored and the other directors oppose any suggestions made by ABC Ltd.

4. On 1 April 2016, ABC Ltd. acquired 30% of the voting ordinary shares of XYZ Ltd. for Rs. 8,000 crores. ABC Ltd accounts its investment in XYZ Ltd., using equity method as prescribed under IAS 28, ‘Investments in Associates and Joint Ventures’. At 31 March 2017, ABC Ltd recognised its share of the net asset changes of XYZ Ltd. using equity accounting as follows:

<table>
<thead>
<tr>
<th>Share of profit or loss</th>
<th>700</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of exchange difference in OCI</td>
<td>100</td>
</tr>
<tr>
<td>Share of revaluation reserve of PPE in OCI</td>
<td>50</td>
</tr>
</tbody>
</table>

On 1 April 2017, ABC Ltd. acquired the remaining 70% of XYZ Ltd. for cash of Rs. 25,000 crores. The following additional information is relevant at that date

<table>
<thead>
<tr>
<th>Fair value of the 30% interest already owned</th>
<th>9,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of XYZ's identifiable net assets</td>
<td>30,000</td>
</tr>
</tbody>
</table>

Besides above issues, Ajay has some more doubts for which he requires your assistance.
I. **OBJECTIVE TYPE QUESTIONS**

Select the most appropriate answer from the options given for each question.  
(2 Mark each)

1. ABC Ltd. has a functional currency of INR. Suppose it elects a presentation currency of Euro. ABC Ltd. has made a borrowing in Japanese Yen (JPY) for 1 million JPY. The translation of JPY loan into INR resulted in exchange loss of 1,00,000 and translation from INR to Euro resulted in exchange loss of 50,000. The exchange differences will be dealt in:

(a) 1,00,000 will be debited in Profit and loss and 50,000 in Other comprehensive income  
(b) 1,50,000 will be debited in Profit and loss  
(c) 1,50,000 will be debited in Other comprehensive income  
(d) 50,000 will be debited in Profit and loss and 1,00,000 in Other comprehensive income

2. During the year the ABC Ltd sold a product for Rs. 350,000 to a customer and gives three year free servicing as an initiative to increase brand’s goodwill. The fair value of such servicing for three years would be Rs. 30,000. What amount of revenue should company recognise in the books of accounts at the time of sale assuming free service is a separate performance obligation and sale has been made at combined stand-alone selling price of both product and service?

(a) Rs. 350,000  
(b) Rs. 320,000  
(c) Rs. 380,000  
(d) None of the above

3. ABC Ltd. has invested in debt oriented mutual funds. The investment should be subsequently measured under IFRS 9 as:

(a) FVOCI  
(b) FVTPL  
(c) Amortise cost  
(d) Cost.

4. ABC Ltd. has taken a machine from Apex Ltd on lease of 1 year for a rent of Rs. 120,000 per annum. Further, there is a contingent rent of Rs. 60,000. Apex Ltd has guaranteed a residual value of Rs. 50,000 after a year. Calculate minimum lease payments as per IAS 17.

(a) Rs. 170,000  
(b) Rs. 120,000  
(c) Rs. 2,30,000  
(d) Rs. 1,80,000
5. ABC Ltd. has the following loan finance in place during the year:
   (i) Rs. 1 million of 6% loan finance
   (ii) Rs. 2 million of 8% loan finance
It constructed a new factory which cost Rs. 600,000 and this was funded out of the existing loan finance. The factory took 8 months to complete.
Determine the borrowing costs to be capitalised to the cost of factory.
   (a) Rs. 43,980
   (b) Rs. 29,320
   (c) Rs. 24,000
   (d) Rs. 32,000

6. Ajay has identified following potential liabilities as at 31 March 2017:
   (i) The signing of a non-cancellable contract in March 2017 to supply goods in the following year on which due to a pricing error, a loss will be made.
   (ii) The cost of reorganisation which was approved by the board in August 2016 but has not yet been implemented, communicated to interested parties or announced publicly.
   (iii) An amount of deferred tax relating to the gain on the revaluation of a property during the current year. ABC Ltd has no intention of selling the property in the foreseeable future.
   (iv) The balance on the warranty provision which relates to products for which there are no outstanding claims and whose warranties had expired by 31 March 2017.
Which of the above should be recognized as liabilities as at 31 March 2017?
   (a) (i) (ii) (iii) and (iv)
   (b) (i) and (ii) only
   (c) (i) and (iii) only
   (d) (iii) and (iv) only

7. ABC Ltd. has invested in an optionally convertible debenture with a coupon rate of 5%. How this instrument will be subsequently measured in the financial statements of ABC Ltd. under IFRS 9?
   (a) Amortised cost
   (b) FVOCI without recycling
   (c) FVTPL
   (d) FVOCI with recycling.
8. ABC Ltd. has issued preference shares in a jurisdiction where the law mandatorily requires to declare dividend every year @ 10%. How should ABC Ltd. classify the instrument in its financial statement assuming that the preference shares are redeemable?

(a) Equity
(b) Liability
(c) Hybrid instrument
(d) Compound instrument.

9. ABC Ltd. has borrowed a loan from a bank which has a prepayment penalty to compensate the bank for any pre-closure of the loan. State which of the following is correct with respect to the embedded derivative.

(a) The embedded derivative is closely related to the loan
(b) The embedded derivative is not closely related to the loan
(c) The embedded derivative is an insurance contract
(d) There is no embedded derivative.

10. Ajay wants to value some of its asset/liability at fair value. He has collected data from various sources like principal market, most advantageous market, foreign market and specified market participants. He could not understand which source should be referred first while measuring fair value of an asset/liability?

(a) Principal market
(b) Most advantageous market
(c) Foreign market
(d) Market participants specified

II. Descriptive Type Questions

1. Determine the reportable segments of ABC Ltd. (5 Marks)

2. (a) Assume that ABC Ltd. changes its method of determining the percentage of completion of contracts to that used by its competitors, as this would represent a change in an accounting estimate. Prepare equivalent extracts to the above for the year ended 31st March 2017. (6 Marks)

(b) Identify, whether the change made by ABC Ltd. with respect to recognition of revenue for the construction contract represents a change in accounting estimate or a change in accounting policy and why? (4 Marks)

3. Examine the relationship between ABC Ltd. and Y Ltd. Also examine the relationship between Y Ltd and other two entities? (5 Marks)

4. Pass the journal entry for business combination of ABC Ltd. and XYZ Ltd. on 1st April, 2017. (10 Marks)
CASE STUDY 3

You are Devansh, manager with XYZ Advisors LLP, a prestigious accounting and advisory firm. ABC Limited, a listed company has appointed your firm to assist in finalization of consolidated as well as separate financial statements of ABC Limited for the year ended 31 March 2017. ABC Limited prepares its consolidated as well as separate financial statements in accordance with 'International Financial Reporting Standards' (IFRS). The scope of work includes providing advice on key accounting issues. You have been assigned as in-charge for this project.

Finance controller Pankaj Garg of ABC Limited has shared following relevant information with you:

1. Company ABC Ltd. acquires PQR Ltd., which is engaged in software development business. PQR’s main operation was to build customised software for banking industry. Currently PQR Ltd. is engaged in researching and developing its first product and creating an active market for the software. PQR Ltd. has not generated any revenues and has no existing customers. PQR’s workforce is composed primarily of software engineers and programmers. PQR Ltd. has the intellectual property, software and fixed assets required to develop the customised software for banks.

2. ABC Ltd., purchases five investment properties that are fully rented to tenants. ABC Ltd., also takes over the contract with the property management company, which has unique knowledge related to investment properties in the area and makes all decisions, both of strategic nature and related to the daily operations of the property. Ancillary activities necessary to fulfil the obligations arising from these lease contracts are also in place, specifically activities related to maintaining the building and administering the tenants.

3. ABC is in the process of recording the acquisition of another subsidiary, MNO Limited, and has identified two items when reviewing the fair values of MNO’s assets.

   The first item relates to Rs. 1 million spent on a new research project. This amount has been correctly charged to profit or loss by MNO in accordance with IAS 38: Intangible Assets, but the directors of ABC have reliably assessed the fair value of this research to be Rs. 1.2 million.

   The second item relates to the customers of MNO. The directors of ABC believe MNO has a particularly strong list of reputable customers which could be ‘sold’ to other companies and have assessed the fair value of the customer list at Rs. 3 million.

4. ABC Ltd. acquired a subsidiary, B Ltd. during the year. Summarised information from the consolidated statement of profit and loss and balance sheet is provided, together with some supplementary information:

<table>
<thead>
<tr>
<th>Consolidated statement of profit and loss</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>3,80,000</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(2,20,000)</td>
</tr>
</tbody>
</table>
Gross profit | 1,60,000  
Depreciation | (30,000)  
Other operating expenses | (56,000)  
Interest cost | (4,000)  
Profit before taxation | 70,000  
Taxation | (15,000)  
Profit after taxation | 55,000  

Consolidated balance sheet for the year ended 31st March

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>8,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>54,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Inventories</td>
<td>30,000</td>
<td>35,000</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>1,60,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>18,000</td>
<td>—</td>
</tr>
<tr>
<td>Total assets</td>
<td>2,70,000</td>
<td>1,70,000</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>68,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Income tax payable</td>
<td>12,000</td>
<td>11,000</td>
</tr>
<tr>
<td>Long term debt</td>
<td>1,00,000</td>
<td>64,000</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>1,80,000</td>
<td>1,35,000</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>90,000</td>
<td>35,000</td>
</tr>
<tr>
<td>Total liabilities and shareholders’ equity</td>
<td>2,70,000</td>
<td>1,70,000</td>
</tr>
</tbody>
</table>

Other information:

All of the shares of B Ltd. were acquired for Rs. 74,000 in cash. The fair values of assets acquired and liabilities assumed were:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories</td>
<td>4,000</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>8,000</td>
</tr>
</tbody>
</table>
Cash | 2,000
--- | ---
Property, plant and equipment | 1,10,000
Trade payables | (32,000)
Long term debt | (36,000)
Goodwill | 18,000
Cash consideration paid | 74,000

5. ABC Ltd. entered into a 20-year operating lease for a property on 1 April 2004 which has a remaining life of 8 years on 1 April 2016. The rental payments are Rs. 2.3 million per annum.

Prior to 1 April 2016, ABC Ltd. obtained permission from the owner of the property to make some internal alterations to the property so that it can be used for a new manufacturing process which ABC Ltd. is undertaking. The cost of these alterations was Rs. 7 million and they were completed on 1 April 2016 (the time taken to complete the alterations can be taken as being negligible). A condition granting permission was that ABC Ltd. would restore the property to its original condition before giving back the property at the end of the lease. The estimated restoration cost on 1 April 2016, discounted at 8% per annum to its present value is Rs. 5 million.

I. Objective Type Questions
Select the most appropriate answer from the options given for each question. (2 Mark each)

1. ABC Ltd. purchased 10,000 shares on 1st April 2016, making the election to use the alternative treatment under IFRS 9 i.e. FVTOCI. The shares cost Rs. 3.50 each. Transaction costs associated with the purchase were Rs. 500. At 31st March 2017, the shares are trading at Rs. 4.50 each.

What is the gain to be recognised on these shares for the year ended 31st March 2017?

a. Rs. 10,000
b. Rs. 45,000
c. Rs. 9,500
d. Rs. 35,000

2. ABC Ltd. sells machines, and also offers installation and technical support services. The individual selling prices of each product are shown below.

<table>
<thead>
<tr>
<th>Sale price of goods</th>
<th>Rs. 75,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Installation</td>
<td>Rs. 25,000</td>
</tr>
<tr>
<td>A year’s service</td>
<td>Rs. 50,000</td>
</tr>
</tbody>
</table>
Company X bought a machine on 1st August 2016, and was charged a reduced price of Rs. 120,000.

ABC Ltd. offers discount only when customers purchase a full package.

How much should be recorded in revenue for the year ended 31st March 2017?

(a) Rs 80,000  
(b) Rs 106,667  
(c) Rs 120,000  
(d) Rs. 1,50,000

3. Which of the following items has correctly been included in ABC’s revenue for the year?

(a) Rs. 2 million in relation to a fee negotiated for an advertisement contract for R Ltd., one of ABC’s clients. However, ABC Ltd. acted as an agent during the deal and was entitled only 10% commission.

(b) Rs. 500,000 relating to a sale of specialised equipment on 31st March 2017. The full sales value was Rs. 700,000 but Rs. 200,000 relates to servicing that ABC Ltd. will provide over the next 2 years, so ABC Ltd. has not included that in revenue this year.

(c) Rs. 800,000 relating to a sale of some surplus land owned by ABC Ltd.

(d) Rs. 1 million in relation to a sale of goods to a new customer on 31st March 2017. Control passed to the customer on 31st March 2017. However, Rs. 1 million is payable on 31st March, 2019. Interest rate is 10%.

4. ABC Ltd. has only two items of inventory on hand at its reporting date.

**Item 1** – Materials costing Rs. 24,000 bought for processing and assembly for a customer under a ‘one off’ order which is expected to produce a high profit margin. Since buying this material, the cost price has fallen to Rs. 20,000 if the sample material is bought again.

**Item 2** – A machine constructed for another customer for a contracted price of Rs. 36,000. This has recently been completed at a cost of Rs. 33,600. It has now been discovered that, in order to meet certain health and safety regulations, modifications at an extra cost of Rs. 8,400 will be required. The customer has agreed to meet half the extra cost.

What should be the total value of these two items of inventory in the statement of financial position?

(a) Rs. 53,600  
(b) Rs. 51,800  
(c) Rs. 51,600  
(d) Rs. 55,800

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5. Using the requirements set out in IAS 10 ‘Events after the Reporting Period’, state which of the following events for occurred after 31st March, 2017 would be considered as an adjusting event. The financial statements were approved by the directors on 31 August 2017.

(a) A reorganisation of the enterprise, proposed by a director on 31st January 2017 and agreed by the Board on 10th July 2017.

(b) A strike by the workforce which started on 1st May 2017 and stopped all production for 10 weeks before being settled.

(c) Receipt of cash from a claim on an insurance policy for damage caused by a fire in a warehouse on 1st January 2017. The claim was made in January 2017 and the amount of the claim had not been recognised in the financial statements at 31st March 2017 as it was uncertain whether the claim will be honoured. The insurance enterprise settled the claim by paying Rs. 1.5 million on 1st June 2017.

(d) The enterprise had made large export sales to the USA during the year. The year-end receivables included Rs. 2 million for amounts outstanding that was due to be paid in US dollars between 1st April 2017 and 1st July 2017. By the time these amounts were received, the exchange rate had moved in favour.

6. ABC Ltd. has the following balances included on its trial balance at 31st March 2017:

<table>
<thead>
<tr>
<th>Description</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation</td>
<td>Rs. 4,000 Credit</td>
</tr>
<tr>
<td>Deferred Tax Liability</td>
<td>Rs. 12,000 Credit</td>
</tr>
</tbody>
</table>

The balance in the head ‘Taxation’ relates to an overprovision from 31 March 2016.

At 31st March 2017, the directors estimate that the provision necessary for taxation on current year profits is Rs. 15,000. The carrying amount of ABC Ltd.’s non-current assets exceeds the written-down value as per income tax by Rs. 30,000. The rate of tax is 30%.

What is the charge for taxation that will appear in the Statement of Profit or Loss for the year ending 31st March 2017?

(a) Rs. 23,000
(b) Rs. 28,000
(c) Rs. 8,000
(d) Rs. 12,000

7. ABC Ltd. is considering to control S Ltd. by acquiring its shares.

Which ONE of the following situations is unlikely to represent control over an investee S Ltd.?

(a) Owning 55% of total shares of S Ltd. and being able to elect 4 out of 7 directors in the board
(b) Owning 51% of total shares of S Ltd. but the constitution requires that decisions need the unanimous consent of all shareholders

(c) Having currently exercisable options which would take the shareholding of the company to 55%

(d) Owning 40% of the shares, but having the majority of voting rights within the company.

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

(a) Rs. 100 million
(b) Rs. 91.57 million
(c) Rs. 95.69 million
(d) Rs. 95.5 million

9. An impairment of goodwill in a subsidiary company will be accounted for by ABC Ltd. in which of the following ways?

(a) It will always be deducted in full from the parent company retained earnings

(b) It will be apportioned between the parent company and the non-controlling interest (NCI) when the NCI is valued at fair value

(c) It will never be apportioned between the parent company and the NCI

(d) It will be apportioned between the parent company and the NCI where the NCI is valued using the proportionate method

10. ABC Ltd. holds securities for dealing or trading purposes as they relate to the main revenue generating activity of the entity. In such a situation, cash flows arising from the purchase and sale of such securities are classified as

(a) Operating activities.

(b) Investing activities

(c) Financing activities

(d) Not shown in the statement of cash flows

II. Descriptive Questions

1. (i) Whether the acquisition of PQR Ltd. should be treated as a business and consequently accounted for as a business combination or whether acquisition should be accounted for as an asset acquisition? (5 Marks)

(ii) Whether the acquired set of investment properties constitutes a business or not? (5 Marks)
2. State whether the two items should be recognised in the consolidated statement of financial position of ABC Ltd on the acquisition of MNO. If yes, then state at which value the items will be recognised. (5 Marks)

3. Prepare statement of cash flows under the indirect method on acquisition of B Ltd. (10 Marks)

4. Explain how the lease, the alterations to the leased property and the restoration costs should be treated in the financial statements of ABC Ltd. (5 Marks)