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PAPER – 6E: GLOBAL FINANCIAL REPORTING STANDARDS

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

Case Study: 1

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

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

Summarised Statement of Financial Position as on 31st March 2023

	EUR
ASSETS	
Non-current Assets	
Property, Plant and Equipment	12,00,000
Intangible Assets:	
Product Development Costs	60,000
Investment In Subsidiary - Pall Ltd.	4,40,000
Current Assets	
Trade Investments	2,08,000
Trade Receivables	6,26,000
Inventories	3,04,000
Cash and Cash Equivalents	<u>1,80,000</u>
TOTAL ASSETS	<u>30,18,000</u>
EQUITY & LIABILITIES	
Equity	
Share Capital	12,00,000
Accumulated Profits	7,37,438

Revaluation Surplus	88,000
Long-term Liabilities	
Deferred Income - Government Grants	40,000
Liability For Product Warranty Costs	16,000
Deferred Tax Liability (From 2021-2022)	22,162
Current Liabilities	
Trade Payables	7,64,000
Health Care Benefits For Employees	70,000
Current Tax Liability	<u>80,400</u>
TOTAL EQUITY & LIABILITIES	<u>30,18,000</u>

Notes:

- (a) Depreciation expense for the year 2022-2023 allowable in accordance with tax laws is 2,06,000 EUR. Accounting depreciation included in operating costs is 1,70,000 EUR. Cost of PPE is 16,00,000 EUR and Joy Ltd. has deducted expenses of 4,16,000 EUR in its tax returns prior to the financial year 2022-2023. Moreover, as on 31st March 2023, Joy Ltd. for the first time revalued its property, plant and equipment to fair value of 12,00,000 EUR (revaluation surplus = 88,000 EUR).
- (b) In 2019-2020, Joy Ltd. incurred product development costs of 1,00,000 EUR. These costs were recognized as an asset and being amortized over useful period of 10 years. For tax purposes, Joy Ltd. deducted full product development costs in 2019-2020.
- (c) Trading investments were acquired in 2021-2022 with cost of 2,30,000 EUR. These investments are classified at fair value through profit and loss and thus recognized at their fair value. Fair value adjustments are not tax deductible.
- (d) Bad debt provision amounts to 1,30,000 EUR and relates to 2 debtors:
- Debtor A 80,000 EUR (receivable originated in 2020-2021 and 100% provision was recognized in 2021-2022) and
 - Debtor B - 50,000 EUR (receivable originated in 2021-2022 and 100% provision was recognized in 2022-2023).

Tax law allows deduction of 20% of provision for debtors overdue for more than 1 year, another 30% for debtors overdue for more than 2 years and remaining 50% for debtors overdue for more than 3 years.

- (e) *Joy Ltd. accounts for inventory obsolescence provision. New provision created in 2022-2023 was 10,800 EUR (total provision: 18,000 EUR). This provision is not tax deductible, as it is a general provision.*
- (f) *Government grants are not taxable. Government grant received in 2022-2023 is appearing in the statement of financial position.*
- (g) *In 2022-2023, Joy Ltd. made a further provision for product warranty of 5,000 EUR. Such provisions for product warranty costs are not tax deductible until the claims are paid or settled. During the year 2022-2023, warranty claims were paid/settled for 6,200 EUR.*
- (h) *During the year 2022-2023, Joy Ltd. has introduced health care benefits for employees. The expenses are allowable as deduction in tax only when benefits are paid but in line with IAS 19, such liability is recognized in profit or loss when employees provide service.*
2. *Pride Ltd. is having other subsidiary Happy Ltd. producing leather goods in Nagpur. In December 2022, it has been discovered that some leather goods that has been sold during January 2022 were incorrectly included in inventory as at 31.3.2022 at ₹ 65,000. The accounting records for financial year 2022-2023 show sales of ₹ 10,40,000; cost of goods sold of ₹ 8,65,000 (including ₹ 65,000 for the error in opening inventory) and income taxes of ₹ 52,500.*

For the financial year 2021-2022 the following information is reported:

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

In the year 2021-2022 opening retained earnings were ₹ 2,00,000 and closing retained earnings were ₹ 3,40,000. Income-tax rate applicable to Happy Ltd. is 30%. It has ₹ 5,00,000 of share capital during the whole year and there is no other components of

equity except retained earnings. Its shares are publicly traded and also follows IFRS as its accounts are consolidated with its parent.

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

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

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

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

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

Fair Value of 30% interest in Famous Ltd. as on 1st April 2023 ₹ 4,500 crore

Fair Value of Net Identifiable Assets of Famous Ltd.
as on 1st April 2023 ₹ 15,000 crore

4. Pride Ltd. receives a tax-free ₹ 8 million grant from government to give impetus to employment generation. It has also been levied fine of ₹ 2 million for damage to environment, for illegally discharging chemicals into the river. The fine is not tax-deductible. The accounting profit of the company for the year 2022-2023 is ₹ 972 million. The financial statements will reflect these items, but its tax computation will exclude them. The tax reconciliation will be made to reconcile the tax computation with the accounting profit as required by IAS 12. No deferred tax needs to be calculated for permanent differences. Both items are taken into Statement of Profit or Loss and other comprehensive income in full in the same period. The tax rate applicable is 30%.
5. The details of the transactions for item no. 105 in which the company deals for the month of March 2023 are given. The company follows first in first out method for valuation.
- | | | |
|----------|-------------------|-------------------------------|
| 1.3.2023 | Opening inventory | 1,000 units @ ₹ 2.00 per unit |
| 9.3.2023 | Purchases | 1,200 units @ ₹ 3.00 per unit |

17.3.2023	Purchases	1,600 units @ ₹ 3.20 per unit
21.3.2023	Sales	2,500 units @ ₹ 4.25 per unit
27.3.2023	Purchases	700 units @ ₹ 3.50 per unit

6. *Pride Ltd. also deals in spare parts. Fashion Ltd. deals in Chairs. Both the companies decided to enter into a transaction wherein Pride Ltd. will give spare parts costing ₹ 1,00,000 (Fair value ₹ 1,20,000) to Fashion Ltd. in exchange for chairs costing ₹ 97,000 (Fair value ₹ 1,18,000).*
7. *Pride Ltd. classified a PPE at Mumbai, accounted for under the revaluation model as a non-current asset held for sale on 31st March 2023. On 1st July 2023, it decided not to sell the asset, but to continue to use it.*
8. *Pride Ltd. entered into an arrangement with Orchid Ltd. for sale of goods costing ₹ 4,00,000 at a profit of 20% on sales. The sale transaction took place on 28th February 2023. On the same day it also entered into repurchase agreement for same goods for ₹ 5,60,000 to be executed on 31st July 2023.*

Multiple Choice Questions:

- 1.1 *On 31st March 2023, the value of closing stock of inventory of item no. 105 as per IAS 2 will be:*
 - (A) ₹ 2,900
 - (B) ₹ 5,000
 - (C) ₹ 7,000
 - (D) ₹ 6,610
- 1.2 *How much revenue should be recognized by Pride Ltd. in its books for exchange of spares for chairs with Fashion Ltd.?*
 - (A) ₹ 1,20,000
 - (B) ₹ 1,18,000
 - (C) ₹ 1,00,000
 - (D) ₹ 97,000
- 1.3 *In accordance with IFRS, the asset at Mumbai should be measured on 1st July 2023 at*
 - (A) *The lower of its carrying amount and its recoverable amount.*
 - (B) *The higher of its carrying amount and its recoverable amount.*

- (C) The lower of its carrying amount on the basis that it had never been classified as held for sale and its recoverable amount.
- (D) The higher of its carrying amount on the basis that it had never been classified as held for sale and its recoverable amount.
- 1.4 How much amount Pride Ltd. should charge as expense for the month of March 2023 in case of repurchase agreement entered into with Orchid Ltd.:
- (A) ₹ 16,000
- (B) ₹ 12,000
- (C) ₹ 15,000
- (D) ₹ 13,333
- 1.5 The current tax expense of Pride Ltd. based on information given in (4) above will be:
- (A) ₹ 289.80 million
- (B) ₹ 289.20 million
- (C) ₹ 291.60 million
- (D) ₹ 291.00 million

(2 x 5 = 10 Marks)

Descriptive Questions:

- 1.6 Calculate temporary differences and deferred tax for Joy Ltd. as on 31st March 2023 assuming the tax rate is 32%. **(6 Marks)**
- 1.7 After considering the correction in the calculation of inventory, show the profit after tax for the year ended 31st March 2023 and the changes in the equity for Happy Ltd. Also state the treatment of proposed dividend in the financial statements. **(4 Marks)**
- 1.8 How should the business combination of Pride Ltd. and Famous Ltd. be accounted for? **(5 Marks)**

ANSWER TO CASE STUDY - 1

- 1.1 Option (D) : ₹ 6,610
- 1.2 Option (B) : ₹ 1,18,000
- 1.3 Option (C) : The lower of its carrying amount on the basis that it had never been classified as held for sale and its recoverable amount

1.4 Option (B) : ₹ 12,000

1.5 Option (A) : ₹ 289.80 million

1.6 Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 2023

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Property Plant & Equipment (W.N.1)	12,00,000	9,78,000	2,22,000	Taxable	(71,040)
Product Development Costs	60,000	0	60,000	Taxable	(19,200)
Trading investments	208,000	2,30,000	(22,000)	Deductible	7,040
Trade receivables (W.N.2)	6,26,000	7,06,000	(80,000)	Deductible	25,600
Inventories	3,04,000	3,22,000	(18,000)	Deductible	5,760
Deferred income – Government grants	(40,000)	0	(40,000)	Excluded	0
Liability for product warranty costs	(16,000)	0	(16,000)	Deductible	5,120
Health care benefits for employees	(70,000)	0	(70,000)	Deductible	<u>22,400</u>
Deferred tax asset – total					65,920
Deferred tax liability – total					<u>(90,240)</u>
Net Deferred Tax Liability					<u>(24,320)</u>

Working Notes:

1. Property, Plant & Equipment as per tax records

	₹
Cost of Property, Plant and Equipment	16,00,000

Less: Current year depreciation - as per tax records	(2,06,000)
Less: Previous year depreciation - as per tax records	<u>(4,16,000)</u>
Tax base	<u>9,78,000</u>

2. Trade receivables – Provision for doubtful debts:

		₹
Calculation of value of Receivables as per tax records		
Carrying amount		6,26,000
Add back: Bad debt provision		<u>1,30,000</u>
	A	7,56,000
Debtor A – 80,000 EUR from 2020-2021		
>1 year – 20% deducted in 2021-2022	16,000	
>2 years – 30% deducted in 2022-2023	<u>24,000</u>	
Already deducted for tax	40,000	
Debtor B-50,000 EUR from 2022		
>1 year – 20% deducted in 2023	<u>10,000</u>	
Total deducted for tax purposes	B	<u>(50,000)</u>
Tax base of trade receivables:	A-B	<u>7,06,000</u>

1.7

Happy Ltd.

Extract from the Statement of profit or loss

	2022-2023 ₹	(Restated) 2021-2022 ₹
Sales	10,40,000	7,35,000
Cost of goods sold	<u>(8,00,000)</u>	<u>(6,00,000)</u>
Profit before income taxes	2,40,000	1,35,000
Income taxes	<u>(72,000)</u>	<u>(40,500)</u>
Profit	<u>1,68,000</u>	<u>94,500</u>

Happy Ltd.

Statement of Changes in Equity

	Share capital	Retained earnings	Total
Balance at 31 st March, 2021	5,00,000	2,00,000	7,00,000
Profit for the year ended 31 st March, 2022 as restated		<u>94,500</u>	<u>94,500</u>
Balance at 31 st March, 2022	5,00,000	2,94,500	7,94,500
Profit for the year ended 31 st March, 2023		<u>1,68,000</u>	<u>1,68,000</u>
Balance at 31 st March, 2023	<u>5,00,000</u>	<u>4,62,500</u>	<u>9,62,500</u>

Treatment of Proposed Dividend

Proposed dividend is not an adjusting event under IAS 10. Only appropriate disclosures are required in the Notes to Financial Statements. Hence, Happy Ltd. must disclose the amount of dividends proposed or declared before the financial statements were authorized for issue but not recognised as a distribution to owners during the period, and the related amount per share.

Disclosure in the Notes to Financial Statements of Happy Ltd.

The dividend of 10% has been declared on 3rd April, 2023 on share capital of ₹ 5,00,000 for the year ended on 31st March, 2023. Re. 1 per share has been proposed and declared on 50,000 shares i.e. ₹ 50,000 in total will be distributed by the company as dividend.

Note: it is assumed that the nominal value of a share is ₹ 10 each.

1.8 Acquisition date for accounting of business combination

The date on which the acquirer obtains control of the acquiree i.e. acquisition date is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree. In the given case, the acquisition date is 1st April, 2023 i.e. when Pride Ltd. acquired 100% holding of Famous Ltd.

Computation of gain on previously held interest

An entity shall discontinue the use of equity method from the date when its investment ceases to be an associate or a joint venture. If the investment in an associate becomes an investment in a subsidiary, the entity shall account for its investment in accordance with IFRS 3 and IFRS 10.

IFRS 3 provides that in a business combination achieved in stages, the acquirer is required to remeasure the previously held equity interest at its acquisition date fair value and recognise any gain or loss in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in the other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed off directly the previously held equity interest.

Journal entry on 1st April, 2023

1. Net Identifiable Assets	Dr.	₹ 15,000 crore
Goodwill (W.N.1)	Dr.	₹ 2,000 crore
Foreign currency translation reserve	Dr.	₹ 50 crore
PPE revaluation reserve	Dr.	₹ 25 crore
To Cash		₹ 12,500 crore
To Investment in Associate - Famous Ltd.		₹ 4,425 crore
To Retained Earnings (W.N.2)		₹ 25 crore
To Gain on previously held interest recognised in profit and loss (W.N.3)		₹ 125 crore

Working Notes:

1. Computation of goodwill

For 70% share	₹ 12,500 crore
For 30% share	<u>₹ 4,500 crore</u>
Total amount of purchase consideration	₹ 17,000 crore
Less: Fair value of net identifiable assets	<u>(₹ 15,000 crore)</u>
Goodwill	<u>₹ 2,000 crore</u>

2. The credit to retained earnings represents the reversal of the unrealised gain of ₹ 25 crore in OCI related to the revaluation of PPE. In accordance with IAS 16, this amount is not reclassified to profit or loss.

3. The gain on previously held equity interest in Famous Ltd. is calculated as follows:

Fair value of 30% interest as on 1 st April, 2023	₹ 4,500 crore
Carrying value of 30% investment as on 31 st March, 2023	(₹ 4,425 crore)
Gain on previously held interest	₹ 75 crore
Unrealised gain previously recognised in OCI	<u>₹ 50 crore</u>
Total gain recognised in Profit and loss	<u>₹ 125 crore</u>

CASE STUDY - 2

PQR Ltd. is engaged in the business of manufacturing several products including food, groceries and health care products. They have a wide customer base both within India and abroad like France, Italy, Germany and UK. The company follows IFRS in preparation and presentation of its financial results. The Chief Financial Officer of the company Mr. VK is facing difficulty in addressing some of the issues which has arisen while finalizing the financial statements for the financial year 2022-2023. You being their auditor, he seeks your indulgence in assisting him in solving the issues being faced by him.

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

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

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

Segment	Profit/(Loss) (₹ in crore)
A	3,900

B	7,500
C	(11,500)
D	(22,500)
E	<u>30,000</u>
Total	<u>7,400</u>

4. The company has acquired 30% of shares of ABC Ltd. on 1st April 2021 and as per the terms, the consideration will be paid in 20,000 shares of PQR Ltd. The company has also agreed to allot 5,000 additional shares if the profit of the acquired company meets the specified profit in 2021-2022 and 2022-2023.
5. The company has made sales of ₹ 60,00,000 to a customer SS LLP on 31st December 2022. The normal credit is for one month. However, sometimes, it goes upto 2 months. The company has expected to receive the payment by 28th February 2023. However, no payment has been received till 31st March 2023. On 15th April 2023, the sales department of the company became aware that the customer is passing through financial crisis and has major cash flow problems.

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

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

6. Apart from the above business, PQR Ltd. is also engaged in Tourism business in India. The company has planned to construct a Holiday Resort (Qualifying Asset) at Shimla. The cost of the project has been met out of borrowed funds of ₹ 100 lakhs at the rate of 12% p.a. ₹ 40 lakhs were disbursed on 1st April 2022 and the balance of ₹ 60 lakhs were disbursed on 1st June 2022. The site planning work has commenced on 1st June 2022, since the Chief engineer of the project was on medical leave. The company commenced physical construction on 1st July 2022 and the work of construction continued till 30th September 2022 and thereafter the construction activities have stopped due to landslide on the road which leads to construction site. The road blockages have been cleared by the government machinery by 31st December 2022. Construction activities have resumed on 1st January 2023 and has completed on 28th February 2023. The date of opening has been scheduled for 1st March 2023, but unfortunately, the District Administration gave permission for opening on 16th March 2023, due to lack of safety measures like fire extinguishers which had not been installed by then.

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

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

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

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

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

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

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

Multiple Choice Questions:

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

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

- (B) Provision of ₹ 50 lakhs be made in the books of the company as it is present obligation that probably requires an outflow of resources.
- (C) Provision of ₹ 12.50 lakhs as per best possible outcome should be recognized.
- (D) Contingent liability would be disclosed and it will be charged to Statement of Profit or Loss only at the time claim is settled.
- 2.2 How much amount will be shown as 'trade receivable' from SS LLP in the books of the company?
- (A) ₹ 60.00 lakhs
- (B) ₹ 55.05 lakhs
- (C) ₹ 54.60 lakhs
- (D) Nil
- 2.3 How much amount of borrowing cost, should be capitalized* towards construction of the resort?
- (A) ₹ 6,00,000
- (B) ₹ 4,80,000
- (C) ₹ 5,35,000
- (D) ₹ 4,50,000
- 2.4 For computing the earnings per share as on 31st March 2023, whether 5,000 additional shares would be included for computation of earnings per share?
- (A) Included in calculating both basic and diluted earnings per share.
- (B) Included in diluted earnings per share calculation only.
- (C) Included in basic earnings per share calculation only.
- (D) Not at all includible.
- 2.5 What is the total cost that should be capitalized as an intangible non-current asset in respect of the new health drink?
- (A) ₹ 92,00,000

* PS: Assuming that landslide is not common in Shimla and delay in approval from District Administration Office is minor administrative work leftover.

(B) ₹ 91,00,000

(C) ₹ 86,00,000

(D) ₹ 85,00,000

(2 x 5 = 10 Marks)

Descriptive Questions:

2.6 You are required to calculate the basic and diluted EPS of PQR Ltd. (4 Marks)

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

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

(6 Marks)

ANSWER TO CASE STUDY - 2

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

2.2 Option (B) : ₹ 55.05 lakhs

2.3 Option (A) : ₹ 6,00,000

2.4 Option (D) : Not at all includible

2.5 Option (B) : ₹ 91,00,000

2.6 Calculation of Basic Earnings per Share

Basic EPS = Profit for the year / Weighted average number of shares outstanding

Basic EPS (Continued Operations) = Profit from continued operations / Weighted average number of shares outstanding

$$= ₹ 60,00,000 / 20,00,000 = ₹ 3.00$$

Basic Loss per share (Discontinued operations) = Loss from discontinued operations / Weighted average number of shares outstanding

$$= ₹ (72,00,000) / 20,00,000 = (₹ 3.60)$$

Overall Basic Loss per share

$$= (₹ 12,00,000) / 20,00,000 = ₹ (0.60)$$

Calculation of Diluted EPS

Diluted EPS = Profit for the year / Adjusted weighted average number of shares outstanding

EPS (Continued Operations) = Profit from continued operations / Adjusted Weighted average number of shares outstanding

$$= ₹ 60,00,000 / 24,00,000 = ₹ 2.50$$

Loss per share (Discontinued operations) = Loss from discontinued operations / Adjusted weighted average number of shares outstanding

$$= ₹ (72,00,000) / 24,00,000 = (₹ 3.00)$$

Overall Diluted Loss per share = ₹ (12,00,000) / 24,00,000 = ₹ (0.50)

- 2.7** With regard to quantitative thresholds to determine reportable segment, paragraph 13(b) of IFRS 8 states that the absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.”

Accordingly, the segment profit / loss of respective segment will be compared with the greater of the following:

- (i) All segments in profit, i.e., A, B and E – Total profit ₹ 41,400 crores.
- (ii) All segments in loss, i.e., C and D – Total loss ₹ 34,000 crores.

Greater of the above – ₹ 41,400 crores.

Based on the above, reportable segments will be determined as follows:

Segment	Profit/(Loss) (₹ in crore)	As absolute % of ₹ 41,400 crore	Reportable segment
A	3,900	9%	No
B	7,500	18%	Yes
C	(11,500)	28%	Yes
D	(22,500)	54%	Yes
E	<u>30,000</u>	72%	Yes
Total	<u>7,400</u>		

Hence B, C, D, E are reportable segments.

2.8 IAS 32 states that an issuer of a financial instrument must determine the classification of the financial instrument as either a financial asset / financial liability or an equity. The classification should be determined as per the substance of the contractual arrangement and based on the definition of financial liability, financial asset and equity.

In accordance with IAS 32, the following criteria constitute a financial liability-

(a) It should contain a contractual obligation

- to deliver cash or another financial asset to another entity; or
- to exchange financial assets/liabilities with another entity under potentially unfavourable conditions.

or

(b) A contract that will or maybe settled in the entity's own equity instruments and is

- a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments or;
- a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

In accordance with IAS 32, any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities can be termed as equity. An instrument is an equity instrument if, and only if, both the conditions below are met:

(a) The instrument includes no contractual obligation to

- to deliver cash or another financial asset to another entity; or
- to exchange financial assets/liabilities with another entity under potentially unfavourable conditions.

(b) If the instrument will or may be settled in the issuer's own equity instrument, it is

- a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments or;
- a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of their own equity shares.

The first step is to evaluate whether the OCCPS issued meets the criteria for equity

Technical guidance	Analysis	Conclusion
No contractual obligation to deliver cash or another financial asset to another entity	The company as per the terms of the OCCPS issued, has to provide cumulative dividend at the rate of 10%, both in case of redemption and conversion as well. Hence, the company has an obligation to provide either cash or another financial asset, and the company does not have the right to indefinitely defer such payments.	Condition not met
No contractual obligation to exchange financial assets / liabilities with another entity under potentially unfavourable conditions	There is no such clause in the terms of the OCCPS which would trigger such condition.	Not applicable

Since the first condition itself for classification for equity is not met, the same should not be classified as equity.

Analysis for classification as a financial liability

Technical guidance	Analysis	Conclusion
There exists a contractual obligation to deliver cash or another financial asset to another entity	The company as per the terms of the OCCPS issued, has to provide cumulative dividend at the rate of 10%, both in case of redemption and conversion as well. The company cannot defer the payment indefinitely as they have to pay either in cash on redemption or convert the obligation into equity shares after a period of 10 years.	Condition met

To exchange financial assets / liabilities with another entity under potentially unfavourable conditions	There is no such clause in the terms of the OCCPS which would trigger such condition.	Not applicable
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Hence since the basic condition is met, the same can be classified as a financial liability.

The shareholders have the option that, in case, the company is unable to redeem the preference shares in cash, they can exercise their right to get the preference shares converted into equity shares at a conversion ratio which shall be agreed at the time of conversion. In the current case, the company has the first right to redeem the preference shares. In case the company is unable to redeem the same in accordance with the conditions of the term sheet, the preference shareholders may then exercise their option to have their preference shares converted into equity shares.

Hence, effectively the option is with the company to determine the outcome.

Analysis for whether the embedded option in the instrument qualifies for accounting as a derivative:

Technical guidance	Analysis	Conclusion
No or little initial investment	There has been no investment made in order to gain such option.	Condition met
Settled at a future date	The settlement of the same shall take place when the preference shares should mature at the end of the 10-year period.	Condition met
Fair value changes in response to changes in one or more underlying variables	The value of the option is completely dependent on the OCCPS. If the OCCPS are redeemed, the value of the option becomes 0 and vice versa.	Condition met

Hence the option does satisfy the criteria for derivatives. However, as per IFRS 9, instruments with a non-financial underlying variable that is specific to a party to the contract are not derivatives. In the current case, the option is completely dependent on the ability of the company to redeem the preference shares. Hence, the same should not be accounted for separately as the same is closely linked to the contract.

CASE STUDY - 3

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

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

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

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

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

Exchange rates are as follows:

31st December 2022 USD 1 = 6.5 Dinar

31st March 2023 USD 1 = 6.0 Dinar

3. *Following is the extract of the financial statements of chemical division of XY Ltd., which is one of the associates of CD Ltd.*

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

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

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

Asset/ (Liability)	Carrying amount as on 15th September 2022 (In ₹ 000)
<i>Attributed Goodwill</i>	600
<i>Intangible Assets</i>	2,790
<i>Financial Asset measured at Fair Value Through Other Comprehensive Income</i>	1,080
<i>Property, Plant & Equipment</i>	3,060
<i>Deferred Tax Asset</i>	750

Current Assets - Inventory, Receivables and Cash Balances	1,560
Current Liabilities	(2,610)
Non-Current Liabilities - Provisions	<u>(750)</u>
Total	<u>6,480</u>

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

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

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

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

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

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

5. *During the year ended 31st March 2023, XY Ltd. has capitalized development costs which has satisfied the criteria as per IAS 38 'Intangible Assets'. The total amount capitalized was ₹ 20,00,000. The development project began to generate economic benefits for XY Ltd. from 1st January 2023. The directors of XY Ltd. estimated that the project would generate economic benefits for five years from that date. The development expenditure was fully deductible against taxable profits for the year ended 31st March 2023. The rate of corporate income tax is 30%.*
6. *The company CD Ltd. is willing to give autonomy to the US branch and is having a plan to change the terms of its operation. The US branch will be now profit-sharing with CD Ltd. for selling the products in US. Also, US branch can sell other products other than imported from England to its customers. The sales will be done in the US markets in US dollar and related expenses will also be done in its local currency viz. the US dollar. After retaining the share of profit, the balance of the sale proceeds will be remitted to CD Ltd.*
7. *The company has an inventory of 1000 units of product X. The company has firm order of 800 units to be delivered in the month of April at ₹ 800 per unit. The market price of product X is ₹ 1,000 and the cost to sell is negligible.*

Multiple Choice Questions:

- 3.1 *The goodwill to be recognized in the consolidated statement of financial position regarding the subsidiary AR Ltd. as at 31st March 2023 under IAS is (Ignore decimals):*
 - (A) USD 58,775
 - (B) USD 31,020
 - (C) USD 12,462
 - (D) USD 9,796
- 3.2 *In terms of its published policy, in which one of the following scenarios, CD Ltd. will be required to make a provision for any damage caused to the environment?*
 - (A) *On past experience if it is likely that a chemical spill which would result in environment damage, the company will have to pay fines and penalties that will occur in the next year.*
 - (B) *Recent research suggests there is a possibility that the company's actions may damage surrounding wildlife.*

- (C) The government has outlined plans for a new law requiring all environmental damage to be rectified.
- (D) A chemical spill from one of the company's plants has caused harm to the surrounding area and wildlife.
- 3.3 The capitalization rate for computation of borrowing cost for the cold storage building in accordance with IFRS / IAS will be:
- (A) 2.033%
- (B) 2.667%
- (C) 2.976%
- (D) 2.99%
- 3.4 The net realizable value of product X in inventory will be:
- (A) ₹ 8,40,000
- (B) ₹ 10,00,000
- (C) ₹ 8,00,000
- (D) ₹ 9,60,000
- 3.5 The deferred tax liabilities in respect of intangible assets in the consolidated balance sheet of CD Ltd. group at 31st March 2043 will be:
- (A) ₹ 1,20,000
- (B) ₹ 4,50,000
- (C) ₹ 5,70,000
- (D) ₹ 6,00,000

(2 x 5 = 10 Marks)

Descriptive Questions:

- 3.6 What would be the value of all assets / liabilities within the disposal group of XY Ltd. as on the following dates in accordance with IFRS?
- (a) 15th September 2022 and
- (b) 31st March 2023
- (6 Marks)**
- 3.7 In the given scenario, can functional currency of US branch be different? If so, what will be its functional currency?
- (4 Marks)**

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

ANSWER TO CASE STUDY - 3

- 3.1 Option (C) : USD 12,462
- 3.2 Option (D) : A chemical spill from one of the company's plants has caused harm to the surrounding area and wildlife
- 3.3 Option (C) : 2.976%
- 3.4 Option (A) : ₹ 8,40,000
- 3.5 Option (C) : ₹ 5,70,000
- 3.6 (a) **As at 15th September, 2022**

The disposal group should be measured at ₹ 54,90,000 (57,00,000 – 2,10,000). The impairment write down of ₹ 9,90,000 (₹ 64,80,000 – ₹ 54,90,000) should be recorded within profit from continuing operations.

The impairment of ₹ 9,90,000 should be allocated to the carrying values of the appropriate non-current assets. The impairment loss is allocated first to goodwill and then pro rata to the other assets of the disposal group within IFRS 5 measurement scope. The following assets are not in the measurement scope of the standard - financial asset measured at other comprehensive income, the deferred tax asset or the current assets. In addition, the impairment allocation can only be made against assets and is not allocated to liabilities. Accordingly, after writing off goodwill of ₹ 6,00,000, left over impairment loss of ₹ 3,90,000 (9,90,000 – 6,00,000) will be distributed proportionately to Intangible assets and PPE in the ratio of 2790 : 3060.

(₹ in 000)

Asset/ (liability)	Carrying value as at 15 th September, 2022	Impairment	Revised carrying value as per IFRS 5
Attributed goodwill	600	(600)	-
Intangible assets	2,790	(186)	2,604

Financial asset measured at fair value through other comprehensive income	1,080	-	1,080
Property, plant & equipment	3,060	(204)	2,856
Deferred tax asset	750	-	750
Current assets – inventory, receivables and cash balances	1,560	-	1,560
Current liabilities	(2,610)	-	(2,610)
Non-current liabilities – provisions	<u>(750)</u>	<u>-</u>	<u>(750)</u>
Total	<u>6,480</u>	<u>(990)</u>	<u>5,490</u>

(b) As on 31st March, 2023

All of the assets and liabilities, outside the scope of measurement under IFRS 5, are remeasured in accordance with the relevant standards.

Asset/ (liability)	Carrying amount as on 15 th September, 2022	Change in value to 31 st March 2023	Impairment	Revised carrying value as per IFRS 5
Attributed goodwill	-	-	-	-
Intangible assets	2,604	-	(86)	2,518
Financial asset measured at fair value through other comprehensive income	1,080	150	-	1,230
Property, plant & equipment	2,856	-	(94)	2,762
Deferred tax asset	750	(60)	-	690
Current assets – inventory,				

receivables and cash balances	1,560	(360)	-	1,200
Current liabilities	(2,610)	(90)	-	(2,700)
Non-current liabilities	-			
provisions	<u>(750)</u>	<u>-</u>	<u>-</u>	<u>(750)</u>
Total	<u>5,490</u>	<u>(360)</u>	<u>(180)</u>	<u>4,950</u>

- 3.7** As per IAS 21, when the activities of a foreign operation are carried out with a sufficient degree of autonomy, then the functional currency of the foreign operation cannot be said to be the same as that of the reporting entity. For example, the foreign operation generates incomes, incurs expenses, accumulates cash and other monetary items etc. substantially in its local currency.

In the given case, the US branch is under no restriction to sell the imported products, incurs its own expenses locally, retains its share of profits out of the sales proceeds and remits the balance proceeds to CD Ltd. The US branch can be said to independently carry on its foreign operations with sufficient degree of autonomy. Therefore, the functional currency of the US branch cannot be said to be the same as that of CD Ltd. Hence, the functional currency of the foreign operation will be US \$.

- 3.8** As per IAS 21 'The Effects of Changes in Foreign Exchange Rates' the asset and liability would initially be recognised at the rate of exchange in force at the transaction date i.e. 1st January, 2023. Therefore, the amount initially recognised would be ₹ 3,28,00,000 (\$ 4,00,000 x ₹ 82).

The liability is a monetary item, so it is retranslated using the rate of exchange in force at 31st March, 2023. This makes the closing liability of ₹ 3,16,00,000 (\$ 4,00,000 x ₹ 79).

The gain on re-translation of ₹ 12,00,000 (₹ 3,28,00,000 – ₹ 3,16,00,000) is recognised in the Statement of profit and loss.

The machine is a non-monetary asset carried at historical cost. Therefore, it continues to be translated using the rate of ₹ 82 to \$ 1.

Depreciation of ₹ 20,50,000 (₹ 3,28,00,000 x $\frac{1}{4}$ x 3/12) would be charged to profit or loss for the year ended 31st March, 2023.

The closing balance in property, plant and equipment would be ₹ 3,07,50,000 (₹ 3,28,00,000 – ₹ 20,50,000). This would be shown as a non-current asset in the statement of financial position.

CASE STUDY - 4

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

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

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

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

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

- 2. During the year, B Ltd. has sold \$ 1,02,00,000 of specialist products to an American company. Sales have taken place and have been recognized in the financial statements on 1st December 2022 when the exchange rate was \$ 1:85. B Ltd. has provided 6 month interest-free credit to the buyer. At the reporting date of 31st March 2023, the exchange rate was \$ 1:86.*
- 3. The financial statements of B Ltd. include an investment in associate at ₹ 33,00,000 in its consolidated statement of financial position as at 31st March 2022. As at 31st March 2023, the investment in associate has increased to ₹ 33,75,000. B Ltd.'s pre-tax share of profit in the associate has been ₹ 2,10,000 with a related tax charge of ₹ 90,000. The net amount has been included in the consolidated income statement for the year ended 31st March 2023. There has been no impairment to the investment in associate, or acquisitions or disposals of shares during the financial year.*
- 4. During the year, B Ltd. completed its first supply and maintenance contract. The turbines have been supplied and are operational on 31st January 2023. The contract was for*

₹ 3,91,00,000 and its terms included a provision that B Ltd. will maintain the turbines for a period of five years from the initial date of operation.

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

5. On 15th April 2022, B Ltd. purchased land for ₹ 1,00,00,000 (including legal costs of ₹ 10,00,000) in order to construct a new factory. Construction work commenced on 1st May 2023*.

B Ltd. incurred the following costs in connection with its construction:

Preparation and leveling of the land	₹ 3,00,000
Purchase of materials for the construction	₹ 60,80,000 in total
Employment costs of the construction workers	₹ 2,00,000 per month
Overhead costs incurred directly on the construction of the factory	₹ 1,00,000 per month
Ongoing overhead costs allocated to the construction project using B 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	₹ 3,00,000
Costs of the opening ceremony on 31 st January, 2023	₹ 1,50,000

The construction of the factory is completed on 30th November 2022 (which is considered as substantial period of time) and production has begun on 1st February 2023. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it is estimated that the roof will need to be replaced at the end of 20 years after the date of completion and that the cost of replacing the roof at current prices would be 30% of the total cost of the building.

At the end of the 40-year period, B 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

* PS: Read '1st May 2023' as '1st May 2022'.

₹ 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 ₹ 0.046.

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

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

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

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

7. The company has surplus funds and for financial leverage made buy-back of its 1,00,000 shares during the financial year 2022-2023. The company has allotted these shares long back at face value of ₹ 5 per share. The buy-back of these shares has been made at ₹ 40 per share and the company has cancelled these shares on receipt. The company has paid ₹ 5 lakhs to a consultant who has been appointed to complete the process of buy-back. The company also paid brokerage @ 0.04 i.e. 0.1% of the purchase consideration. The company is having general reserve of ₹ 100 lakhs and there was no other reserves.
8. The company is also having a line of manufacturing at Noida to manufacture Rubber moulds for use in various industries. This has been identified by the company as a cash generating unit (CGU) for impairment review purposes. The following information is available for this CGU:

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

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

Multiple Choice Questions:

- 4.1 The replacement cost of goods that need to be given as free items to customers shall be treated as per the principles of IFRS.
- (A) Provision of ₹ 2,50,000
 - (B) Contingent liability of ₹ 2,50,000
 - (C) Loss of inventory of ₹ 2,50,000
 - (D) Nothing to be done.
- 4.2 The revised carrying amount of manufacturing line at Noida will be:
- (A) Goodwill - ₹ 50,000, Plant and Machinery- ₹ 5,50,000, Equipment Nil, Building ₹ 2,58,000
 - (B) Goodwill - ₹ 50,000, Plant and Machinery ₹ 5,16,000, Equipment - 24,000, Building - ₹ 2,58,000
 - (C) Goodwill – Nil, Plant and Machinery - ₹ 5,50,000, Equipment - Nil, Building - ₹ 2,24,000
 - (D) Goodwill – Nil, Plant and Machinery - ₹ 5,16,000, Equipment - Nil, Building - ₹ 2,58,000
- 4.3 What is the amount of the cash flow related to investment in associate for inclusion in the consolidated Statement of cash flows for the year ended 31st March 2023?
- (A) Cash inflow of ₹ 45,000
 - (B) Cash inflow of ₹ 1,20,000
 - (C) Cash outflow of ₹ 45,000
 - (D) Cash inflow of ₹ 2,10,000
- 4.4 What is the amount of exchange loss/gain to be recognized on 31st March 2023 in relation to sale of special product to an American Company?
- (A) ₹ 10.2 million exchange Gain
 - (B) ₹ 6.12 million exchange Gain
 - (C) Nil
 - (D) ₹ 3.4 million exchange Gain

- 4.5 How, the total of contract revenue of ₹ 3,91,00,000 be allocated between maintenance contract and supply contract?
- (A) ₹ 3,91,00,000 only for maintenance and supply contract (no segregation required)
- (B) Maintenance contract ₹ 78,20,000, Supply contract ₹ 3,12,80,000
- (C) Maintenance contract ₹ 51,00,000, Supply contract ₹ 3,40,00,000
- (D) Maintenance contract ₹ 85,00,000, Supply contract ₹ 3,06,00,000

(2 x 5 = 10 Marks)

Descriptive Questions:

- 4.6 Compute the carrying amount of the factory as at 31st March 2023 and depreciation on straight line basis for the year 31st March 2023. (5 Marks)
- 4.7 Whether the situation relating to constructive obligation for payment of bonus is an error requiring retrospective restatement of comparatives considering the amount is material? Discuss. (5 Marks)
- 4.8 How would you account for the buy-back of shares by the company in accordance with the requirements of IFRS? Please also provide the accounting entries. (5 Marks)

ANSWER TO CASE STUDY - 4

- 4.1 Option (A) : Provision of ₹ 2,50,000
- 4.2 Option (C) : Goodwill -Nil; Plant and Machinery – ₹ 5,50,000; Equipment – Nil, Building – ₹ 2,24,000
- 4.3 Option (A) : Cash inflow ₹ 45,000
- 4.4 Option (A) : ₹ 10.2 million exchange gain
- 4.5 Option (B) : Maintenance contract ₹ 78,20,000, Supply contract ₹ 3,12,80,000
- 4.6 **Computation of the cost of the factory**

Particulars	₹ in lakh
Purchase of land - both the purchase of land and the associated legal costs are direct costs of constructing the factory	100.00
Preparation and levelling - A direct cost of constructing the factory	3.00
Cost of materials - A direct cost of constructing the factory	60.80

Employment costs of construction workers - A direct cost of constructing the factory for a seven-month period	14.00
Direct overhead costs - A direct cost of constructing the factory for a seven-month period	7.00
Allocated overhead costs - Not a direct cost of construction	Nil
Income from use as a car park - Not essential to the construction so recognised directly in profit or loss	Nil
Finance costs - Capitalize the interest cost incurred in a seven-month period (purchase of land would not trigger off capitalization since land is not a qualifying asset. In fact, the construction started from 1 st May 2022) (Refer W.N.)	5.325
Demolition cost recognised as a provision - Where an obligation must recognize as part of the initial cost (200 x 0.046)	<u>9.20</u>
Total	<u>199.325</u>

Note: Cost of relocating employees and cost of opening ceremony are not directly attributable costs to construct a factory. Hence, both the costs have not been capitalised.

Computation of depreciation for the year ending 31st March, 2023

Particulars	₹ in lakh
Total depreciable amount (199.325 – 100 cost of land)	<u>99.325</u>
Note: All of the net finance cost of (5.325) has been allocated to the depreciable amount – as above	
Depreciation of roof : $99.325 \times 30\% \times 1/20 \times 4/12$	0.497
Depreciation of remainder : $99.325 \times 70\% \times 1/40 \times 4/12$	<u>0.579</u>
Total depreciation	<u>1.076</u>

Computation of carrying amount of factory as at 31st March, 2023

Particulars	₹ in lakh
Cost of factory	199.325
Less: Depreciation for the year 2022-2023	<u>(1.076)</u>
Carrying amount of factory as at 31 st March, 2023	<u>198.249</u>

Working Note:**Computation of amount of Borrowing Cost to be capitalised**

	₹ in lakh
Loan amount	<u>175.00</u>
Interest from May to November (175 lakhs x 6% x 7/12)	6.125
Less: Income from Investment May to August (1 lakh x 4/5)	<u>(0.80)</u>
Borrowing Cost to be capitalised for 7 months from May to November	<u>5.325</u>

- 4.7 As per paragraph 41 of IAS 8, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with IFRS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

As per paragraph 40A of IAS 1, an entity shall present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements if, inter alia, it makes a retrospective restatement of items in its financial statements and the retrospective restatement has a material effect on the information in the balance sheet at the beginning of the preceding period.

In the given case, expenses for the year ended 31st March, 2022 and liabilities as at 31st March, 2022 were understated because of non-recognition of bonus expense and related provision. Expenses for the year ended 31st March, 2023, on the other hand, were overstated to the same extent because of recognition of the aforesaid bonus as expense for the year. Since the error pertains to the previous year and current year and does not affect the balance sheet at the beginning of the preceding period, the entity would rectify the said error by restating the comparatives amounts in the statement of profit or loss for the year ended 31st March, 2022 and correction in the current year financial statements i.e. 2022-2023.

The entity does not require to restate and present a third balance sheet as at the beginning of the preceding period (i.e., as at 1st April, 2021).

4.8 If an entity buy-back or reacquires its own equity instruments:

- Consideration paid for those instruments ('treasury shares') shall be deducted from equity. An entity's own equity instruments are not recognised as a financial asset regardless of the reason for which they are reacquired.
- Consideration received shall be recognised directly in equity.
- No gain or loss shall be recognised in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments.

In the consolidated financial statements, consideration for treasury shares acquired and held by other members of the consolidated group, is deducted from equity.

For transaction cost on equity instruments para 35 of IAS 32 states that distributions to holders of an equity instrument shall be recognised by the entity directly in equity.

Transaction costs of an equity transaction shall be accounted for as a deduction from equity.

Journal Entries

For cancellation of equity shares on buy-back

Equity share capital (1,00,000 x ₹ 5)	Dr.	5,00,000
General reserve (1,00,000 x ₹ 35)	Dr.	35,00,000
To Bank		40,00,000

For consultation fee and brokerage

General reserve (5,00,000 + 40,000)	Dr.	5,40,000
To Bank		5,40,000

Note: Section 69(1) of the Companies Act, 2013 states that where a company purchases its own shares out of the free reserves or securities premium account, a sum equal to the nominal value of shares so purchased shall be transferred to the Capital Redemption Reserve Account and details of such account shall be disclosed in the Balance Sheet.

CASE STUDY - 5

Mars Ltd. is in the business of consumer products, engineering projects and services. The company prepares and presents its financial statements following IFRS/IAS. While finalizing the financials for the year 2022-2023, the finance head of the company has identified various transactions for which he needs your support and guidance.

1. *On 21st March 2023, Company has sold goods to J.S.K Ltd. on FOB basis but the goods have not reached the customer place. The delay is due to the heavy rainfall and landslide on way and it has taken longer than usual time to reach the destination. The goods reached the destination on 10th April 2023. In normal course the goods would have reached the location by 25th March 2023.*
2. *Mars Ltd. is executing project contract of PLM Ltd. The contract value given in the contract is ₹ 1,00,00,000 and cost expected to be incurred is ₹ 80,00,000. As per the work completion report by the project manager 40% of the work is complete. However, PLM Ltd. has given work completion certificate for 35% of the work only by the year end. The advance given by PLM Ltd. is ₹ 45,00,000 i.e. 45% of the contract value.*
3. *On 31st January 2023, Mars Ltd. has received notice from Customs authority to pay the duty which was charged lower than the stipulated rate. The company is required to pay ₹ 60 lakhs against the said demand. However, the Company has taken time to pay the said amount in 6 monthly installments beginning February 2023 over a period of next six months.*
4. *On 28th February 2023, Mars Ltd. is willing to sell its 5 acre land for ₹ 20 crores and for this purpose agreed to incur the expenditure of ₹ 1 crore as commission to agent for sale of the land. The amount is payable to agent on receipt of money. As on 31st March 2023, the company has entered into agreement with the buyer who has paid ₹ 2 crores as advance. The sale will get completed by 30th June 2023.*
5. *The company has made provision for accrued expenses of ₹ 1,00,000 which will be allowed under the income-tax when paid by the company. The company has also made provision for penalty of ₹ 50,000 which will not be tax deductible. Rate of tax is 30%.*
6. *On 10th October, 2023, Mars Ltd. has received the goods from the vendor and noticed quality issues on 31st October 2023. The company, on 31st March 2023, has estimated that it would receive damages of ₹ 25 lakhs from the vendor. The estimate was revised to ₹ 40 lakhs as at 25th May 2023 (i.e., the date the financial statements were authorized*

by the Board of Directors), but probably estimated that it would receive ₹ 30 lakhs. The claim eventually got settled on 1st June 2023 for ₹ 50 lakhs.

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

Particulars	31.3.2023	31.3.2022
Assets		
Non-Current Assets		
Property, Plant and Equipment	450	410
Intangible asset	90	90
Other Financial Assets		
Deferred Tax Asset (net)	45	45
Other Non-current Asset	<u>95</u>	<u>85</u>
Total Non-current Assets	<u>680</u>	<u>630</u>
Current Assets		
Inventories	800	700
Financial Asset		
Investments	100	60
Debtors	580	600
Cash & Cash Equivalents	300	300
Other Current Assets	<u>160</u>	<u>120</u>
Total Current Assets	<u>1,940</u>	<u>1,780</u>
Total Assets	<u>2,620</u>	<u>2,410</u>
Equity and Liabilities		
Equity		
Equity Share Capital	280	250
Other Equity	<u>980</u>	<u>820</u>
Total Equity	<u>1,260</u>	<u>1,070</u>
Liabilities		
Non-current		
Long-term Borrowings	360	300

Other Non-current liabilities	<u>90</u>	<u>80</u>
Total Non-current Liabilities	<u>450</u>	<u>380</u>
Current Liabilities		
Financial Liabilities		
Trade Payable	455	450
Bank Overdraft	410	420
Other current liabilities	<u>45</u>	<u>90</u>
Total Current Liabilities	<u>910</u>	<u>960</u>
Total Liabilities	<u>1,360</u>	<u>1,340</u>
Total Equity and Liabilities	<u>2,620</u>	<u>2,410</u>

Additional Information:

- (a) Profit before tax for the year is ₹ 200 lakhs and provision for tax is ₹ 40 lakhs.
- (b) PPE equipment purchased during the year ₹ 100 lakhs.
- (c) Current liabilities include Capital creditors of ₹ 25 lakhs as at 31st March 2023 (Nil – 31.3.2022)
- (d) Long-term Borrowings raised during the year ₹ 120 lakhs.
8. The company received a concessional loan of ₹ 10,00,000 from central government at the rate of 6% payable annually and is repayable after 5 years. The present market rate of interest is 12%. The said loan is received for finance of a plant being set-up by the company. The said plant is having useful life of 5 years and will be depreciated over a period of 5 years on straight line basis.

Present Value @ 12%

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

Multiple Choice Questions:

- 5.1 When will the revenue in respect of sales made to J.S.K. Ltd. be recognized in the books of accounts of Mars Ltd.:
- (A) 21st March 2023
- (B) 31st March 2023

- (C) 10th April 2023
(D) 25th March 2023
- 5.2 How much will the revenue and the profit from the project contract be recognized in the books by Mars Ltd.?
- (A) Revenue ₹ 1,00,00,000 and profit ₹ 20,00,000
(B) Revenue ₹ 40,00,000 and profit ₹ 8,00,000
(C) Revenue ₹ 35,00,000 and profit ₹ 7,00,000
(D) Nil
- 5.3 What would be the amount of the agent commission payable as at 31st March, 2023 in the books of Mars Ltd.?
- (A) 100 Lakhs
(B) 20 Lakhs
(C) Nil
(D) 10 Lakhs
- 5.4 How Mars Ltd. should treat the demand of customs in its books as on 31st March 2023?
- (A) Recognise contingent liability of ₹ 60,00,000
(B) Recognise liability of ₹ 60,00,000
(C) Recognise liability of ₹ 20,00,000
(D) Recognise liability of ₹ 30,00,000
- 5.5. The tax base of provisions of accrued expenses and penalty and its resulting deferred tax asset or deferred tax liability from facts given in (5) above will be:
- (A) Tax base of liability ₹ 50,000 and DTA of ₹ 30,000
(B) Tax base of liability ₹ 1,50,000 and DTA of ₹ 30,000
(C) Tax base of liability ₹ 1,00,000 and DTA of ₹ 45,000
(D) Tax base of liability ₹ 50,000 and DTL of ₹ 30,000 **(2 x 5 = 10 Marks)**

Descriptive Questions:

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

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

(1) At the year end date

(2) On signing of Board date

(3) On the date of final settlement

(4 Marks)

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

(6 Marks)

ANSWER TO CASE STUDY - 5

5.1 Option (A) : 21st March, 2023

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

5.3 Option (B) : ₹ 10 Lakhs

5.4 Option : No correct option

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

5.6 As per para 10A of IAS 20, the benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with IFRS 9. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20.

As per paragraphs 24 to 27 of IAS 20, Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset. Two methods of presentation in financial statements of grants (or the appropriate portions of grants) related to assets are regarded as acceptable alternatives. One method recognises the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset. The other method deducts the grant in calculating the carrying amount of the asset. The grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

Accordingly, computation of present value of the loan will be as follows:

Particulars	₹	Discounting factor @ 12%	Present value taking 12% as the discount rate (₹)
Interest @ 6% for Year 1 on loan amount of ₹ 10,00,000	60,000	0.8929	53,574
Interest @ 6% for Year 2 on loan amount of ₹ 10,00,000	60,000	0.7972	47,832
Interest @ 6% for Year 3 on loan amount of ₹ 10,00,000	60,000	0.7118	42,708
Interest @ 6% for Year 4 on loan amount of ₹ 10,00,000	60,000	0.6355	38,130
Interest @ 6% for Year 5 on loan amount of ₹ 10,00,000	60,000	0.5674	34,044
Loan	10,00,000	0.5674	<u>5,67,400</u>
Present value of loan at the beginning of Year 1			<u>7,83,688</u>

Note:
Alternatively, one may calculate the present value of the loan as follows:
12% Annuity of interest @ 6% on loan amount of ₹ 10,00,000 = $10,00,000 \times 6\% \times (0.8929 + 0.7972 + 0.7118 + 0.6355 + 0.5674) = ₹ 2,16,288$
Present value of Loan payable at the end of 5 th year = $10,00,000 \times 0.5674 = ₹ 5,67,400$
Total value of the loan to be recognised initially = $₹ 2,16,288 + ₹ 5,67,400 = ₹ 7,83,688$

Amortisation table

Year	Opening Balance	Interest calculated @ 12%	Cash outflow @ 6% on ₹ 10,00,000	Closing Balance
(a)	(b)	(c) = (b) x 12%	(d)	(e) = (b) + (c) - (d)
1	7,83,688	94,043	60,000	8,17,731

2	8,17,731	98,128	60,000	8,55,859
3	8,55,859	1,02,703	60,000	8,98,562
4	8,98,562	1,07,827	60,000	9,46,389
5	9,46,389	1,13,611*	10,60,000	-

*Difference of ₹ 44 (₹ 1,13,611 – 1,13,567) is due to approximation.

The company will recognise ₹ 2,16,312 (₹ 10,00,000 – ₹ 7,83,688) as the government grant and will make the following entry on receipt of loan:

Bank Account	Dr.	10,00,000	
To Deferred Grant Income			2,16,312
To Loan Account			7,83,688

₹ 2,16,312 is to be recognised in profit or loss on a systematic basis over the periods in which the company recognised as expenses the related costs for which the grant is intended to compensate.

Since the loan is taken for setting up the plant i.e. a depreciable asset, ₹ 2,16,312 will be recognised in profit or loss on the same basis as depreciation as follows:

Depreciation A/c (10,00,000 / 5 years)	Dr.	₹ 2,00,000	
To Plant A/c			₹ 2,00,000
Deferred Grant Income (2,16,312 / 5)	Dr.	₹ 43,262	
To Profit or Loss A/c			₹ 43,262

Net impact on Profit and Loss A/c would be (2,00,000 – 43,262) = ₹ 1,56,738

Alternatively, the amount of government grant can be deducted from the cost of the asset and depreciation will be charged on net depreciable amount. Net impact on profit loss will be same in both the methods.

The journal entry in such a case would be

Depreciation A/c [10,00,000 – 2,16,312) / 5 years]	Dr.	₹ 1,56,738	
To Plant A/c			₹ 1,56,738

5.7 As per IAS 37, an entity should not recognise a contingent asset. Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate. A contingent asset should be disclosed, where an inflow of economic benefits is probable. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

Treatment of Contingent asset on following dates:

(1) At the year-end date

Since the inflow of contingent asset is not probable, neither any contingent asset will be recognised nor any disclosure for the same will be made.

(2) On signing of Board date

Mars Ltd. is probable of receiving the claim of ₹ 30 lakhs. Therefore, though the company will not recognise the contingent asset, yet it should disclose a brief description of the nature of the contingent assets at the end of the reporting period (since the probability was confirmed before the authorization of the financial statements) and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in the standard.

(3) On the date of final settlement

The asset is not contingent and its recognition is appropriate. Damages for the claim received will be recognised in the profit or loss and disclosure in the notes to the financial statements should be made that the contingent asset has been realized.

5.8 ***When 'bank overdraft' is considered to be an integral part of the entity's cash management.***

Statement of Cash Flows for the year ended 31st March, 2023

	(₹ in lakhs)	(₹ in lakhs)
Cash flows from operating activities		
Profit before taxation	200	
Adjustments for non-cash items:		

Depreciation [410 - (450 - 100)]	<u>60</u>	
	260	
Increase in inventories (800 - 700)	(100)	
Decrease in trade receivables (600 - 580)	20	
Increase in other non-current assets (95 - 85)	(10)	
Increase in other current assets (160 - 120)	(40)	
Increase in non-current liabilities (90 - 80)	10	
Decrease in trade payables (455 - 25 - 450)	(20)	
Other current liabilities (Refer Note 1) [(90 + 40) - 45]	<u>(85)</u>	
<i>Net cash generated from operating activities</i>		35
Cash flows from investing activities		
Cash paid to purchase PPE Equipment (100-25)	(75)	
Cash paid to acquire investment (100-60)	<u>(40)</u>	
<i>Net cash outflow from investing activities</i>		(115)
Cash flows from financing activities		
Raising of equity share capital (280 - 250)	30	
Long-term borrowings raised during the year	120	
Long-term borrowing repaid during the year [(300 + 120) - 360]	<u>(60)</u>	
<i>Net cash outflow from financing activities</i>		<u>90</u>
Increase in cash and cash equivalents during the year		10
Cash and cash equivalents at the beginning of the year (420-300)		<u>(120)</u>
Cash and cash equivalents at the end of the year (410-300)		<u>(110)</u>

Note: 'Other current liabilities' is assumed to consist of provision for taxation.

Alternatively, when 'bank overdraft' is not considered to be an integral part of the entity's cash management. In such a case, bank overdraft will appear under financing activities as follows:

Statement of Cash Flows for the year ended 31st March, 2023

	(₹ in lakhs)	(₹ in lakhs)
Cash flows from operating activities		
Profit before taxation	200	
Adjustments for non-cash items:		
Depreciation [410 - (450 - 100)]	<u>60</u>	
	260	
Increase in inventories (800-700)	(100)	
Decrease in trade receivables (600-580)	20	
Increase in other non-current assets (95-85)	(10)	
Increase in other current assets (160-120)	(40)	
Increase in non-current liabilities (90-80)	10	
Decrease in trade payables (455 - 25 - 450)	(20)	
Other current liabilities (Refer Note 1) [(90 + 40) - 45]	<u>(85)</u>	
<i>Net cash generated from operating activities</i>		35
Cash flows from investing activities		
Cash paid to purchase PPE Equipment (100-25)	(75)	
Cash paid to acquire investment (100-60)	<u>(40)</u>	
<i>Net cash outflow from investing activities</i>		(115)
Cash flows from financing activities		
Raising of equity share capital (280-250)	30	
Long-term borrowings raised during the year	120	
Repayment of short-term borrowings (Bank overdraft)	(10)	
Long-term borrowing repaid during the year [(300 + 120) - 360]	<u>(60)</u>	
<i>Net cash outflow from financing activities</i>		<u>80</u>
Increase in cash and cash equivalents during the year		-
Cash and cash equivalents at the beginning of the year		<u>300</u>
Cash and cash equivalents at the end of the year		<u>300</u>

Note: 'Other current liabilities' is assumed to consist of provision for taxation.