# Set 1

## Case Scenario 1 :

You are a Chartered Accountant and a Senior Consultant with a firm of Chartered Accountants, LMN & Co. (“LMN”). It is April 2017 and your organisation has been recently awarded an engagement to advise ABC Limited and its subsidiaries, associates and joint ventures, as the case may be (hereinafter together referred to as “ABC Group” or “ABCG” or “the Group”) on certain accounting matters.

ABC Limited has its registered office at New Delhi and is not listed on any stock exchange in India. It is exploring possibilities of listing its securities at stock exchange. The financial reporting requirements related to such listing include submission of financial statements as per Ind AS.

You are required to evaluate following information Using Ind AS.

(1) ABC Limited’s present equity shareholding structure is given below :

| Shareholder | Class A equity shares (of ₹ 100 each) | Class B equity shares (of ₹ 100 each) |
|---|---|---|
| AeBee | 90,000,000 | 85,000,000 |
| CeeDee | 10,000,000 | 15,000,000 |
| | **100,000,000** | **100,000,000** |

(2) CeeDee is a private equity investor that infused ₹ 1,000 crores in ABC Limited (Class A equity shares : ₹ 400 crores and Class B equity shares : ₹ 600 crores) on 31 March, 2011 at a valuation of ₹ 8,000 crores on a fully diluted basis. ABC Ltd. has entered into a shareholders’ agreement with shareholders as per which the terms of Class A and Class B equity shares are :

(a) Class A equity shareholders are entitled to dividend at the discretion of the Board of Directors.

(b) Class B equity shareholders are entitled to a fixed non-cumulative dividend of 10% subject to availability of profits in that year and distributable cash as on balance sheet date of relevant year. The profits of ABC Limited are to be determined as per the statutory financial statements of ABC Limited. Distributable cash is defined as free cash and cash equivalents available with the issuer.

(c) The projections of profits/losses and balance of ABC Limited for the 10 years subsequent to the private equity investment (as estimated on the date of such investment) are as below :

**₹ crores**

| Particulars | For the year ending 31st March | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Opening cash and Cash equivalents | 100 | 85 | 16 | 8 | 2 | 8 | 26 | 48 | 74 | 104 |
| Profit / (loss) as per IGAAP Financial statements | (20) | (75) | (15) | (13) | (2) | 10 | 13 | 18 | 23 | 25 |
| Depreciation as per IGAAP | 5 | 6 | 7 | 7 | 8 | 8 | 9 | 8 | 7 | 7 |
| Impact on profit/loss due to IFRS conversion | 8 | 10 | (4) | 5 | 7 | (12) | 6 | 1 | 0(-2) | |

(d) Each Class B equity share is convertible into one Class A equity share at the end of 10 years from the date of infustion of funds by CeeDee.

(e) Dividend of 13% is paid for similar instruments in the industry.

**Analyse above transaction and select most appropriate answer.**

**(1) What is the date of transition to IFRS ?**

(a) 1st April 2017

(b) 31st March, 2016

**(c) 1st April, 2015**

(d) None of the above

**(2) What will be the classification of Class A equity shares by ABC Limited ?**

(a) Class A equity shares will be classified as "Compound Financial Instrument".

(b) Class A equity shares will be classifed "Financial Liability".

(c) Class A equity shares will be classified as "Compound Financial Liability".

**(d) Class A equity shares will be classified as "Equity".**

**(3) What is the classification of Class B equity shares issued by ABC Limited ?**

(a) Class B equity shares will be classified as "Equity" only.

(b) Class B equity shares will be classified as "Financial Liability" only

(c) Class B equity shares will be classified as"Compound Financial Liability".

**(d) Class B equity shares will be classified as "Compound Financial Instrument".**

**(4) What will be the journal entry (including amounts thereof) to be passed in respect of initial recognition and measurement of Class A equity shares issued to CeeDee?**

| | | | | |
|---|---|---|---|---|
| **(a)** | **Bank** | **Dr.** | **₹ 400 crores** | |
| | **To Class A equity shares** | | | **₹ 400 crores** |
| (b) | Bank | Dr. | ₹ 1000 crores | |
| | To Class A equity shares | | | ₹ 1000 crores |
| (c) | CeeDee | Dr. | ₹ 400 crores | |
| | To Class A equity shares | | | ₹ 400 crores |
| (d) | CeeDee | Dr. | ₹ 1000 crores | |
| | To Class A equity shares | | | ₹ 1000 crores |

**(5) What will be the journal entries (including amounts thereof) to be passed in respect of initial recognition and measurement of Class B equity shares issued to CeeDee?**

| | | | | |
|---|---|---|---|---|
| (a) | Bank | Dr. | ₹ 600 crores | |
| | To Compound Financial Instrument | | | ₹ 600 crores |
| (b) | Bank | Dr. | ₹ 600 crores | |
| | To Financial Liability (Class B equity shares) | | | ₹ 600 crores |
| **(c)** | **Bank** | **Dr.** | **₹ 600 crores** | |
| | **To Equity component of Class B equity shares** | | | **₹ 568.8 crores** |
| | **To Liability component of Class B equity shares** | | | **s₹ 31.2 crores** |
| (d) | Bank | Dr. | ₹ 600 crores | |
| | To Class B equity shares | | | ₹ 600 crores |

## Case Scenario 2 :

Mr. H is a Chartered Accountant and is working in GHI & Co., Chartered Accountants as a Manager. GHI & Co. has recently been approached by A Ltd. for providing advice on certain accounting matters (discussed below). A Ltd. is in the business of manufacturing industrial chemicals. It has a registered office in New Delhi and is listed on the Bombay Stock Exchange (BSE).

(i) A Ltd. is developing a new proces. During 2017, expenditure incurred was INR 10,00,000, of which INR 8,00,000 were incurred before 1st June 2017 and INR 2,00,000 were incurred between 1st June, 2017 and 31st March 2018. At 1st June 2017, the process met the criteria for recognition as an intangible asset. The fair value of the know-how in the process is INR 5,00,000 on 31st March, 2018.

(ii) A Limited submits two bids to Chemical Limited for two contracts that are closely related and will be performed in a continuous sequence. One bid is for the patent of the chemical plant and the second bid is for the manufacture of same chemical. If successful, A Limited (or any other bidder) has to accept both the contracts or reject both the contracts. However, two different contracts should be signed even though they are negotiated as a single package.

(iii) A Ltd. has granted certain share option to one of its director on the condition that the director will not work with the competitor of the reporting entity (i.e. non-complete clause) for a period of at least three years. The fair value of the award at the date of grant, including the effect of the 'non-complete' clause, is INR 1,50,000.

(iv) A Ltd. has a long-term loan arrangement containing a debt covenant. The specific requirements in the debt covenant have to be met as at 31st March every year. The loan is due for more than 12 months. A Ltd. breaches the debt covenant at or before the period end. As a result, the loan becomes payable on demand.

(v) A Ltd. acquired 60% equity shares of S Ltd. for INR 60 lacs. At the date of acquisition, fair value of net assets of S Ltd. is INR 80 lacs and fair value of non-controlling interest is INR 45 lacs.

**Analyse above transaction and select most appropriate answer.**

**(1) What should be the accounting for expenditure incurred on developing new process by A Ltd. under Ind AS ?**

(a) Intangible asset of INR 5,00,000; expense of INR 5,00,000.

(b) Intangible asset of INR 10,00,000; expense of Nil

**(c) Intangible asset of INR 2,00,000; expense of INR 8,00,000.**

(d) Intangible asset of INR 5,00,000; expense of INR 8,00,000

**(2) Suppose A Ltd. is successful in winning the bid of Chemical Limited. Then in such a situation, as per Ind AS 115, both the contracts should be accounted by A Limited as :**

(a) Two different contracts.

**(b) Single Contract**

(c) Either (a) or (b) at the option of A Limited.

(d) Either (a) or (b) as directed by Chemical Limited

**(3) Which of the following accounting treatment is correct in relation to the share options given to one of the director of A Ltd. ?**

(a) A Ltd. should recognise an expense of INR 1,50,000 over the period of three years and cannot reverse the expense recognised even if the director goes to work for a competitor and loses the share options.

(b) A Ltd. should recognise an expense of INR 1,50,000 over the period of three years and can reverse the expense recognised in ase the director goes to work for a competitor and loses the share options.

**(c) A Ltd. should recognise an expense of INR 1,50,000 immediately and cannot reverse the expense recognised even if the director goes to work for a competitor and loses the share options.**

(d) A Ltd. should recognise an expense of INR 1,50,000 immediately and can reverse the expense recognised in case the director goes to work for a competitor and loses the share options.

**(4) How should the loan be classified at year end for which A Ltd. has breached the debt covenant ?**

(a) Current Liability only if the lender demands payment as a consequence of breach.

(b) Non-current liability even if the lender demands payments as a consequence of breach.

**(c) Current liability even if the lender agreed after reporting date and before authorisation of financial statements for issue, not to demand payment as a consequence.**

(d) Non-current liability if the lender agreed after reporting date and before authorisation of financial statements for issue, not to demand payment as a consequence.

**(5) Determine the amount of goodwill arising on acquisition of S Ltd. if non-controlling interest is measured using fair value method.**

**(a) INR 25 lacs** (b) INR 20 lacs

(c) INR 15 lacs (d) INR 12 lacs

## Case Scenario 3 :

Mr. H is a Chartered Accountant and is working in GHI & Co., Chartered Accountants as a Manager. GHI & Co. has recently been approached by A Ltd. for providing advice on certain accounting matters (discussed below). A Ltd. is in the business of manufacturing industrial chemicals. It has a registered office in New Delhi and is listed on the Bombay Stock Exchange (BSE).

(i) A Ltd. has 500 units of chemicals in stock at the balane sheet date, i.e., 31 March 2018. These units are currently valued at net realisable value since their cost of manufacturing is very high. A Ltd. has entered into an agreement with the Government on 1st February 2018 to sell 400 units at INR 10,000 each on 5th April, 2018. Remaining 100 units are expected to be sold in the following month when the price is expected to be at INR 9,600 each. The sale price of these chemicals as on 31st March 2018 is INR 9,000 per unit.

(ii) A Ltd. is installing a new machinery in its plant. The machinery was purchased from R Ltd. It has incurred these costs :

- Basic price (as per supplier's invoice plus taxes) - INR 20,00,000
- Initial delivery and handling costs - INR 4,00,000
- Cost of site preparation - INR 2,00,000
- Interest charges paid to supplier of plant for deferred credit - INR 50,000
- Present value of estimated dismantling costs to be incurred after 10 years - INR 1,00,000.
- Operating losses before commercial production - INR 2,00,000

(iii) An asset was acquired at a cost of INR 1,50,000. The carrying amount is INR 70,000 after an impairment write down of INR 30,000 and cumulative depreciation of INR 50,000. Depreciation rate for accounting and tax laws is equal. Impairment loss is not deductible to tax. Tax rate applicable to A Ltd. is 30%.

(iv) A Ltd. has taken an unsecured general purpose loan on 1st April, 2016. The loan was utilised to finance the construction of a new building (to be used as store) which meets the definition of a qualifying asset in IAS 23. Construction of the store building commenced on 1 May 2016 and it was completed and ready for use on 28 February 2018, but did not open for trading until 31 March 2018. During the year, A Ltd. suspended the construction of the new building for a two-month period during July, 2017 - August, 2017.

(v) The carrying amount of one of the cash-generating unit of A Ltd. is INR 10,00,000 and the recoverable amount is INR 9,00,000. The goodwill allocated to the cash-generating unit is INR 50,000. The other assets in the cash-generating unit comprise of the plant and machinery and technical know-how with carrying amounts of INR 5,00,000 and INR 4,50,000, respectively.

**Analyse above transaction and select most appropriate answer.**

**(1) What will be the value of inventory of 500 units of chemicals on 31 March 2018 ?**

(a) INR 45,00,000
**(b) INR 49,60,000**
(c) INR 49,00,000
(d) INR 50,00,000

**(2) At what amount the new machinery purchased from R Ltd. should be recognised ?**

(a) INR 20,00,000
(b) INR 29,50,000
(c) INR 27,50,000
**(d) INR 27,00,000**

**(3) What should be the deferred tax on asset ?**

**(a) Deferred tax asset of INR 9,000**
(b) Deferred tax liability of INR 9,000
(c) No deferred tax should be recognised
(d) More information required to assess deferred tax implications

**(4) In case of construction of new building, for how many months, the interest should be capitalised in accordance with the principles of Ind AS ?**

(a) 23 months (b) 22 months

(c) 21 months **(d) 20 months**

**(5) How should A Ltd. account for the impairment loss of one of its cash-generating**

(a) Impairment loss for the cash-generating unit of INR 1,00,000 should be allocated on a pro-rate basis among goodwill, plant and machinery and know-how on the basis of their carrying amount.

(b) Impairment loss for the cash-generating unit of INR 1,00,000 should be first allocated to goodwill (i.e., INR 50,000) and remaining to technical know-how (i.e., INR 50,000).

**(c) Impairment loss for the cash-generating unit of INR 1,00,000 should be first allocated to goodwill (i.e., INR 50,000) and balance impairment loss of INR 50,000 should be allocated on a pro-rata basis between the plant and machinery and technical know-how based on their carrying amounts, at INR 26,000 and INR 24,000, respectively.**

(d) A Ltd. has a free choice for determining the method of allocation of impairment loss of INR 1,00,000 to the assets in the cash-generating unit.