



FOR CA FINAL EXAM PREPARATION

CA Final 2021 Question Paper · Paper 6E Global Financial Reporting Standards

EXAM

CA Final

YEAR

2021

TYPE

Question Paper

SUBJECT

Paper 6E Global Financial Reporting Standards

DATE

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Roll No.

Final New Syllabus
Paper - 6 E

JUL 2021

Total No. of Questions – 5

Global Financial Reporting Standards

Total No. of Printed Pages – 24

Time Allowed – 4 Hours

Maximum Marks – 100

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Answers to questions are to be given only in English except in case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

The Question Paper comprises five case study questions. The candidates are required to answer any four case study questions out of five.

Answers in respect of Multiple Choice Questions are to be marked on the OMR answer sheet only.

Answer to other questions to be written in the descriptive type answer book.

Answer to MCQs, if written in the descriptive type answer book will not be evaluated.

Please ensure to answer the MCQs relevant to questions as attempted in the descriptive answer book. Candidates may use calculator.

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Case Study-1

GG Ltd., a listed company, prepares its first IFRS financial statements for the year ending 31st December, 2020. The date of transition is 1st January 2019. The functional & presentation currency is CU. The financial statements as at and for the year ended 31st December, 2020 contain an explicit and unreserved statement of compliance with IFRS. Previously it was using US GAAP as base.

It has already published its first interim results of quarter 1, quarter 2 and quarter 3 of 2020 in accordance with IAS 34 and IFRS 1. The interim financial report included the reconciliations both of total comprehensive income and of equity that are required by IFRS 1.

Since issuing the interim financial report, its management has concluded that one of accounting policy choices applied at the interim should be changed for the full year.

GG Ltd. has elected to apply its business combinations exemptions, but to restate all business combinations occurring after 1st February, 2015.

It undertook a step acquisition of Super Champ Inc. It acquired:

- 18% interest on 31st March, 2013;
- 17% interest on 31st March, 2015; and
- 29% interest on 15th November, 2015, which was the final step in the acquisition.

GG Ltd. also operates oil exploration and production facilities. There is a significant decommissioning obligation in connection with several oil wells, but it's previous GAAP did not require the obligation to be recognized.

On 1st January 2017, GG Ltd. issued 10,000 6% convertible debentures of face value of CU 100 per debenture at par. The debentures are redeemable at a premium of 10% on 31st December 2020 or these may be converted into ordinary shares at the option of the holder. The interest rate for equivalent debentures without conversion rights would have been 11%. The premium payable on

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redemption was recognized under previous GAAP on straight line basis. Interest is paid annually. Premium is payable on redemption. Under the old GAAP, the instrument was not required to be split between equity & debt component. It was carried entirely as a debt instrument. The present value of CU 1 receivable at the end of each year based on discount rate of 6% and 11% can be taken as under :

End of year	6%	11%
1	0.9434	0.9001
2	0.8900	0.8116
3	0.8396	0.7312
4	0.7921	0.6587

GG Ltd. has four assets, each in a different class under property, plant & equipment.

Asset 1 and 2 are revalued under previous GAAP. Assets 3 and 4 are not. Under previous GAAP, at 31st December 2018, immediately prior to the entity's date of transition to IFRS, its balance sheet (extract) is as follows:

	Asset 1	Asset 2	Asset 3	Asset 4	Total
	Valuation	Valuation	Cost	Cost	
	CU	CU	CU	CU	CU
Cost or revaluation	5,000	2,000	4,000	4,500	15,500
Accumulated depreciation	(1,000)	(500)	(2,000)	(1,700)	(5,200)
Net book value	4,000	1,500	2,000	2,800	10,300
Revaluation surplus	2,500	500	-	-	3,000

On adoption of IFRS, its management decides that, under IFRS, it will :

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- Continue to revalue asset 1. The fair value of asset 1 at the date of transition is not materially different from its carrying value under previous GAAP;
- Use the previous valuation of asset 2 as deemed cost, and adopt a policy of cost less depreciation under IFRS;
- Adopt a policy of revaluation for asset 3. The fair value of asset 3 at the entity's date of transition is CU 5000;
- Continue to use a policy of cost less depreciation for asset 4.

All depreciation methods are already in accordance with those required by IAS 16.

You are the IFRS consultant to GG Ltd. Advise on the following :

- 1.1. The carrying value of 6% convertible debentures on the date of transition as per old GAAP : 2

- (A) CU 1,000,000
- (B) CU 1,100,000
- (C) CU 1,050,000
- (D) CU 1,040,000

- 1.2. The (approx.) equity component of 6% convertible debentures on initial recognition as per IFRS is : 2

- (A) CU 89,300
- (B) CU NIL
- (C) CU 50,000
- (D) CU 90,001

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- 1.3. The (approx.) debt component of 6% convertible debentures on initial recognition as per IFRS is: **2**
- (A) CU 1,000,000
- (B) CU 910,700
- (C) CU 1,050,000
- (D) CU 658,700
- 1.4. The (approx.) debt component of 6% convertible debentures on the date of transition as per IFRS is : **2**
- (A) CU 995,743
- (B) CU 959,473
- (C) CU 995,473
- (D) CU 959,743
- 1.5. The (approx.) effective interest rate amount on 6% convertible debentures in the calendar year 2020 as per IFRS is : **2**
- (A) CU 141,947
- (B) CU 141,497
- (C) CU 114,497
- (D) CU 114,947
- 1.6. How should GG Ltd. deal with the change in accounting policy under IFRS framework ? **4**
- 1.7. Should Super Champ Inc. be restated as per IFRS 3 ? **3**
- 1.8. Discuss the treatment under IFRS of :
- a. Decommissioning obligations for GG Ltd. ? **4**
- b. Valuation of assets 1, 2, 3 & 4, being part of property, plant & equipment ? **4**

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Case Study-2

M Limited is into the manufacturing and trading of numerous products & services. It prepares its financial statements as per IFRS with presentation and reporting currency being FC. The financial year ends on 31st March 2021.

During the financial year on 30th June 2020, the entity purchased 100 beef cattle at an auction for FC 100,000. Subsequent transportation costs were FC 10,000. The entity would have to incur the same transportation costs if it had sold its cattle in this auction. In addition, there would be 2% auctioneer's fee on the market price of the cattle payable by the seller. The entity also incurred FC 500 on medical & veterinary expenses.

On 31st March 2021, the market value of the cattle in the most relevant market increases to FC 110,000. Transportation costs of FC 9,000 would have to be incurred by the seller to get the cattle to the relevant market. An auctioneer's fee of 2% on the market price of the cattle would be payable by the seller.

The Company during the year had installed a solar power plant. It has a present obligation to dismantle the plant after 35 years of useful life. The Company cannot cancel this obligation or transfer to third party. It has estimated the total cost of dismantling at FC 500,000, the present value of which is ₹ 300,000. Based on the facts and circumstances, the company considers the risk factor of 7.50% ie the risk that the actual outflows would be more from the expected present value.

M Limited was awarded on 1st April 2018, being the commencement financial year 2018-19 a 'New Jobs' government grant of FC 30,000 receivable over three years (FC 20,000 in year 1 and FC 7,500 in year 2 and FC 2,500 in year 3), contingent on creating 10 new jobs and maintaining them for three years. The employees are recruited at a total cost of FC 15,000 and the wage bill for the first year is FC 100,000, rising by FC 5,000 in each of the subsequent years. The grant is set up as deferred income.

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M Limited had constructed another factory few years ago with the assistance of yet another government grant, 'Innovative Product'. The grant is non - repayable and, following the construction of the factory, cannot be clawed back by the government. There are no further conditions attached to the grant that the Company is required to satisfy. The grant received has been treated as deferred income and is being credited to the income statement over the same period as the factory is being depreciated. Following an adverse change in the demand of the product the factory manufactures, during the year at the reporting date, the directors have concluded that the factory's carrying value is no longer recoverable in full and that a write down for impairment is required. The write down is more than covered by the amortized deferred income balance related to the grant.

M Limited had entered into a contract during Financial 2020-21 to supply 90,000 CCTV consoles to a retailer. The contract contains specific instructions from the retailer about where the consoles should be delivered. The Company should deliver the consoles in calendar year 2021 at a date to be specified by the retailer. The retailer expects to have sufficient shelf space at the time of delivery.

As at 31st March 2021, M Limited has inventory of 115,000 CCTV consoles, including the 90,000 relating to the contract with the retailer. The 90,000 consoles are stored with the other 25,000 consoles, which are all interchangeable products. However, M Ltd. will not deplete its inventory below 100,000 units.

On 1st April 2020, M Limited enters into two leases of retail space A & retail space B. With respect to both the leases :

- The non-cancellable lease term is 7 years;
- The annual lease payment is FC 10,000 in the first year, with a 5% increase in every following year; and
- FC. 10,000 reflects the market rent at the commencement date;
- M Limited has the option to extend the lease term for another five - year period. At the commencement date, it concludes that it is reasonably certain to exercise the extension option.

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However,

- With respect to lease of retail space A : The revised rent for the extension period will be agreed by the lessor and the lessee at the date when the option is exercised, based on the market rent at that time. The revised rent will, however, be no more than 105% of the rent at the end of the preceding period;
- With respect to lease of retail space B : The revised rent for the extension period will also be agreed by the lessor and the lessee at the date when the option is exercised, based on the market rent at that time. There is, however, a cap and a floor such that the revised rent cannot be below 85% or higher than 115% of the rent at the end of the preceding period.

M Limited had announced in March 2021 that 100 employees would have their employment terminated in May 2021 as part of a restructuring project that the entity is demonstrably committed to carry out.

The Company has given these 100 employees an option to have their pensions settled by a lump sum payment of FC 75,000 per employee, payable at the date of termination in May 2021. Of these 90 employees made an irrevocable decision to accept the payment in March 2021. The Company expects that the remaining 10 employees will not accept the offer. The Company has a pension liability towards the 90 employees of FC 6,300,000 at 31st March 2021, prior to considering the lump sum settlement offer. The plan is wholly unfunded.

You are the General Manager, Finance & Accounts. You are asked to respond to the following :

- 2.1. With respect to purchase of beef cattle, determine the cost at the time of initial recognition :

2

- (A) FC 112,000
- (B) FC 112,500
- (C) FC 88,000
- (D) FC 88,500

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- 2.2. The subsequent measurement of beef cattle as on the reporting date 31st March, 2021 is : 2
- (A) FC 110,000
(B) FC 98,800
(C) FC 101,000
(D) FC 121,200
- 2.3. The Company should at the time of initial recognition measure its dismantling obligation liability of the solar power plant at : 2
- (A) FC 300,000
(B) FC 322,500
(C) FC 337,500
(D) FC 277,500
- 2.4. The balance in deferred income of 'New Jobs' government grant as on 31st March 2019 was : 2
- (A) FC 9,545 Cr.
(B) FC 20,455 Cr.
(C) FC 455 Dr.
(D) FC 20,000 Cr.
- 2.5. During the year ended 31st March 2021, with respect to 'New Jobs' government grant, the Company would be recognizing an income of : 2
- (A) FC 2,500
(B) FC 7,500
(C) FC 10,000
(D) FC 10,476

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|--|----------|
| 2.6. Discuss, in the context of IFRS framework and IAS 20, the impairment of the factory for which 'Innovative Product' government grant, has been received. Would your answer be different, if there are further conditions attached to grant beyond construction of factory. | 3 |
| 2.7. Should M Limited recognize the revenue for 90,000 CCTV consoles as per IFRS ? Prepare a working note, which can be shared with audit committee. | 3 |
| 2.8. Discuss the computation of lease liability at the time of initial measurement of lease of retail space A & retail space B as per IFRS 16. | 6 |
| 2.9. Discuss the treatment and amount of expense that M Limited should charge in its statement of financial statements as per IAS 19, Employee Benefits. | 3 |

Case Study-3

P Ltd, a listed company is preparing its financial statements as per IFRS for the quarter ending September 2020 for the purpose of submission to its head office based in UK. The financial year of the company is April to March. Income tax rate applicable to the Company is 25%. Method of depreciation used by the Company is straight line method. The board meeting for approval of financial statements was held on November 10, 2020. An error in the accounting software was detected on October 31, 2020 which resulted in under reporting of income by ₹ 2 crores for the quarter ending September 2020.

The Company has imported leather from Australia worth ₹ 4,00,000. It paid ₹ 8,000 as import duties and ₹ 2,000 as import taxes (subsequently recoverable from the taxing authorities). Company has taken a loan for this purpose on which it has paid interest of ₹ 4,000. Also, the company has incurred ₹ 12,000 for transportation from Australia and ₹ 10,000 as port handling charges for loading the materials. Selling expenses were ₹ 18,000 and administrative overheads amounted to ₹ 14,000. This material is lying in inventory.

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The Company acquired the business of N Ltd., which carried in its books certain assets classified as held for sale at an amount of ₹ 211,300. The fair value of these items is ₹ 377,000 and costs to sell were estimated at ₹ 18,000. The tax base of these items stood at ₹ 2,99,000.

Company purchased a large equipment for ₹ 55 lacs on April 1, 2019. The useful life of the equipment is 5 years and the residual value is estimated to be ₹ 5 lacs. On March 31, 2020 a test of impairment was conducted with the information for fair value less costs to sell to be ₹ 41 lacs, whereas the value in use was ₹ 36 lacs.

Company purchased another special equipment on April 1, 2017. Some evidence is available from internal reporting that indicates that the economic performance of this equipment is, or will be, worse than expected as on March 31, 2021. If the Company chooses to proceed with the disposal of the equipment it would have to incur certain legal cost for ₹ 2,000, finance cost of ₹ 800, cost of removing the equipment would be ₹ 20,000, certain termination benefits will have to be paid for ₹ 1,000, transaction cost ₹ 500 and resultant income tax expense would be for ₹ 1,500.

P Ltd. has a foreign subsidiary named G Limited. The functional currency of P Ltd. is INR and G Limited is USD. Both the entities follow financial year ended 31 March as accounting year, G Ltd. uses US GAAP for reporting. The presentation currency for P Ltd's separate as well as consolidated financial statements is INR. G Limited has given a loan to P Ltd. (denominated in INR) some years back that stand at ₹ 140 million as at March 31, 2020. The loan is the net investment of P Ltd. in the foreign operation i.e. G Limited. The exchange rate as on March 31, 2020 and March 31, 2021 were USD 1 = ₹ 70 and ₹ 80 respectively. However, the average exchange rate for financial year 2020-21 was ₹ 74. The loan liability outstanding in the books of G Limited as on March 31, 2020 is USD 2 million (USD 140 million divided by INR 70).

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In January 2021, P Ltd. contracts with a US supplier (with the USD as its functional currency) to purchase an item of machinery it intends to use in its business. The machine will be delivered at the start of July 2021 and the contracted price, payable on delivery, is USD 1,000. P Ltd. has no appetite to take on foreign currency exchange risk in relation to INR/USD exchange rates and so contracts with a bank to purchase USD 1,000 at the start of July in exchange for ₹ 60,000 (six-month forward exchange rate is USD 1: INR 60). In other words, P Ltd. has effectively fixed the price it will pay for the machine (in INR terms) at ₹ 60,000. If the fair value of the forward contract at the end of March 2021 (P Ltd's year-end) is ₹ 3,000 positive to P Ltd, on delivery is ₹ 5,000 positive to P Ltd. (spot exchange rate is USD 1: INR 65). P Ltd. has chosen to treat all hedges of foreign currency risk associated with firm commitments as fair value hedges.

The Company issued share-based option to one of its CFO which can be exercised either in cash or equity and it has following features:

- Option 1 has 74,000 options which are cash settled shares with a service condition of 3 years.
- Option 2 has 90,000 options which are equity settled shares with a service condition of 3 years and a restriction to sell for 2 years.

Following is the summary of Fair Values

Fair Value	INR
Equity price with restriction of sale for 2 years	115
Fair value as on grant date	135
Fair value as on 31 March 2020	138
Fair value as on 31 March 2021	140
Fair value as on 31 March 2022	147

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Questions :

2×5=10

- 3.1. What will be the treatment of the error identified in the accounting software on the results for the quarter ending September 2020 ? 2
- (A) Rectification of error in the period in which the error was detected
 (B) Rectification of error in the period in which the error pertained to
 (C) Disclosure of error in the quarterly financial statements because those are unaudited
 (D) No affect in quarterly financial statements because those are unaudited
- 3.2. What will be the cost of inventories for the material imported from Australia as per IFRS? 2
- (A) INR 4,30,000
 (B) INR 4,34,000
 (C) INR 4,48,000
 (D) INR 4,36,000
- 3.3. What would be the deferred tax impact on the transaction for acquisition of N Ltd. in the books of accounts of P Ltd. under IFRS ? 2
- (A) DTL ₹ 15,000
 (B) DTL ₹ 21,925
 (C) DTA ₹ 26,425
 (D) DTA ₹ 15,000
- 3.4. Compute the impairment loss to be recognized in case of large equipment for the year ended March 31, 2020 and the depreciation charge for the year ending March 31, 2021 ? 2
- (A) Impairment loss is ₹ 4 lacs and depreciation is ₹ 8 lacs
 (B) Impairment loss is ₹ 5 lacs and depreciation is ₹ 10 lacs
 (C) Impairment loss is ₹ 4 lacs and depreciation is ₹ 9 lacs
 (D) Impairment loss is ₹ 5 lacs and depreciation is ₹ 9 lacs

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- 3.5. Please advise the CFO regarding disposal cost to be taken for impairment testing of special equipment. 2
- (A) ₹ 23,500
- (B) ₹ 22,500
- (C) ₹ 24,800
- (D) ₹ 25,800
- 3.6. What would be the treatment of exchange rate difference in the separate financial statements of P Ltd. and G Limited and the consolidated financial statements of P Ltd. for the financial year 2020-21 as per IFRS ? 4
- 3.7. In case of P Ltd's purchase of machinery from the US supplier and the purchase of forward contract to settle the liability, assuming the hedge is perfectly effective and meets all the requirements for hedge accounting, pass the journal entries to record this hedging relationship. 5
- 3.8. Pass the Journal entries under IFRS framework for the share based payment plan of P Limited for the year ended 31 March 2020, 2021 and 2022. 6

Case Study-4

A Limited ("the Company") is in the business of manufacturing of customized modern engineering equipment and heavy machinery. It prepares accounts as per IFRS. The finance controller of the Company is in need of your help and wants to know the accounting treatment and related disclosures for certain transactions undertaken by the Company. You have been provided with the following information :

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The Company provides various employee benefits like bonus, gratuity and provident fund which had been agreed by the Company with employees as part of employment contract. Besides this, although not agreed as part of employment contract, the Company had a practice to bear the entire cost of medical expenses of employees after their retirement if an employee works at least for 5 years with the Company. The retired employees of the Company do not have any legal claim to take this benefit. However, the past practice of the Company had generated a valid expectation among the employees that the Company will continue such practice of bearing medical cost after retirement.

To meet the future cash outflow arising on account of such medical expenses, the Company contributes a fixed amount each year into a fund which is managed by an insurance Company. This fund is utilized to pay the medical expenses of retired employees as and when it arises. The Company reviews the balance of amount accumulated in the fund in each three years and make additional contribution if needed based on expected payment of medical expenses.

The Company has implemented a share-based employee payment scheme (ESPS) with effect from 01 April 2020 when the market price of the Company is ₹ 75 per equity share. As per the scheme, each employee of the Company is granted an option to buy an equity share of the Company at a price of ₹ 60 per share if the employee remains in employment with the Company for a continuous period of 3 years and the market price of the Company's equity share achieves at least ₹ 100 per share or more at the end of 3 years i.e. by 31 March 2023. Once the options are vested, the employee can exercise the option within one year from vesting date i.e. by 31 March 2024.

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The Company has granted such options to 200 employees as at 01 April 2020 with 100 options to each employee. At the end of the financial year 2020-21 (by 31 March 2021), 10 employees had already left the Company. However, the Company does not expect to leave any more employees till 31 March 2023. The Company determined the fair value of each option at ₹ 23 using the Black Scholes model of option pricing, as at grant date.

Due to slowdown in economic activities on account of pandemic, there is a steep fall in the share price of the Company and current market price of the Company's share falls to ₹ 25 per share. The management of the Company considers that the share price will be unable to recover for next 3 years and therefore the ESPS will not be attractive for employees. Hence the management cancels all the options as at 31 March 2021.

During the year ended 31 March 2021, the Company had acquired a business from M/s. P Ltd. at a purchase consideration of ₹ 25 lacs. The Company had recorded assets at its fair value as against their carrying value as follows :

(Amount in ₹)

Particulars	Fair value recorded by the Company	Carrying value in the books of P Ltd.
Plant & equipment	9,00,000	5,00,000
Land	18,00,000	(at cost) 2,00,000
Liabilities	6,00,000	6,00,000
Contingent Liability (Disclosure)	—	1,00,000

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For the purpose of Income tax calculation, the Company is eligible to take depreciation on plant & equipment to the extent the carrying value of plant & equipment in the books of acquiree. No depreciation will be allowed on land, however, an indexed cost of acquisition will be deducted from sale proceeds of the land while calculating capital gains on sale of land in the year of sale. Tax base of liabilities assumed in business combination is the same as its book value. The Company is eligible for equal deduction in 5 years for Goodwill while calculating taxable profit of the Company. The land acquired in business combination is vacant land and the Company has planned to monetize the land by selling the same by next financial year. The indexation for FY 2020-21 is 301 and indexation of the year in which land is purchased is 105. Income tax is payable on the capital gain at the rate of 20% however 30% tax rate is applicable in case of business profits.

- The Company grants 30 paid leaves to each of its employee in a year. However, if an employee does not utilize all 30 leaves then the unutilized leaves will be accumulated and carried forward to next years which can be utilized anytime. However one can accumulated maximum 30 leaves. The Company recognizes the liability towards paid leave using actuarial valuation based on the projected unit credit method.
- During the year ended 31 March 2021, the Company had sold certain machinery for ₹ 5,00,000 to M/s. S Limited in ordinary course of business. One of the Key managerial personnel of the Company has a significant influence over S Limited.
- After amendment in corporate tax rates in July 2019, the Company has option to pay income tax either at the rate of 30% on taxable income after availing certain deductions or at the rate of 25% without taking benefits of certain deductions on taxable income. In earlier year, the Company had paid Minimum Alternate Tax (MAT) at the rate of 18% on book profit. Since the

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Company has a credit on account of MAT therefore the Company will pay tax using tax rate of 30% for financial year ended 31 March 2021 and utilize the MAT credit. However from next financial year onwards, the Company is planning to pay the income tax at the rate of 25%.

Questions :

- 4.1. While recognizing the expenses for paid leave, how should the Company recognize re-measurement of liability comprising the actuarial gain/loss ? 2
- (A) in the statement of profit or loss;
- (B) in other comprehensive income as item to be reclassified to profit or loss;
- (C) in other comprehensive income as item not to be reclassified to profit or loss;
- (D) directly in equity;
- 4.2. While accounting for a defined benefit obligation, there is net interest to be recognized in profit or loss. Based on the prevailing accounting practices, which of the following statement is true ? 2
- (A) Net interest cost shall be recognized as 'employee benefit expenses' in the statement of profit or loss.
- (B) Net interest cost shall be recognized as 'finance cost' in the statement of profit or loss.
- (C) Net interest cost shall be recognized as 'other expenses' in the statement of profit or loss.
- (D) The Company has an accounting policy choice of recognizing net interest cost either in 'employee benefit expenses' or 'finance cost'.

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- 4.3. What is the disclosure requirement under IFRS regarding M/s. S Limited while preparing financial statements of the Company for the year ended 31 March 2021 ? 2
- (A) The Company shall classify M/s. S Limited as 'associate' and the details of transaction shall be disclosed in related party clubbed with transactions with other associates;
- (B) The Company shall classify M/s. S Limited as 'associate' and the details of transaction shall be disclosed in separately in related party disclosure;
- (C) M/s. S is not a related party in accordance with Ind AS 24 therefore no disclosure required in related party;
- (D) The Company shall classify M/s. S Limited as 'associate' however transaction is not required to be disclosed since the transaction is concluded in ordinary course of business.
- 4.4. Which of the following rate shall be used for calculation of deferred tax asset/ (liability) as at 31 March 2021 ? 2
- (A) 30%
- (B) 25%
- (C) 27.5% (average of 30% & 25%)
- (D) 18% (MAT rate)
- 4.5. On Acquisition of P Ltd., how much goodwill should be accounted for by the company as per IFRS ? (before adjustment of deferred tax) 2
- (A) ₹ 400,000
- (B) ₹ 1,600,000
- (C) ₹ 300,000
- (D) ₹ 500,000

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- 4.6. Using the information provided, you are required to analyse whether the Company shall have to recognise any liability towards medical expenses of its retired employees? Draft an accounting policy explaining the accounting treatment and highlight disclosures required in annual financial statements. 6
- 4.7. Calculate the amount of expenses under the ESPS scheme to be charged in the statement of profit or loss in relation to for the year ended 31 March 2021 along with the relevant provisions under IFRS. 5
- 4.8. Calculate the amount of deferred tax asset/ (liability) to be recognized while accounting for business combination. Also calculate the amount of Goodwill to be recognized after deferred tax adjustment as per IFRS. 4

Case Study-5

XYZ Ltd offers a six-month warranty on its small to medium sized equipment, which can be put to use by the customer with no installation support. The warranty comes with the equipment and the customer cannot purchase it separately. These equipment are typically sold at a gross margin of 40%. XYZ Ltd has made a provision of ₹ 30,000 during the year ended 31 March 2021, which is approximately 1% of its gross margin on the sale of these equipment. Based on past experience, it is expected that 1% of equipment sold have been returned as faulty within the warranty period. Faulty equipment returned to XYZ Ltd during the warranty period are scrapped and the sale value is fully refunded to the customer.

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- During 2020-21, XYZ Ltd completed a large contract to supply a customized equipment for one customer for a total consideration of ₹ 5,00,000 received fully in cash. As a special arrangement and in order to procure the customer's order, XYZ Ltd agreed to maintain the equipment for three years from the date of installation. Had there been no maintenance requirement, the sale would have been for an amount of ₹ 4,85,500. If maintenance alone was required, it would have cost the customer ₹ 12,500 per annum.
- XYZ Ltd is a keen proponent of 'Make in India'. The company acquired an asset from a local manufacturer at a cost of ₹ 300,000. This carrying amount was after an impairment write down of ₹ 60,000 and cumulative depreciation of ₹ 100,000. Depreciation rate for accounting and tax laws is equal. Impairment loss is not deductible for tax purposes. Tax rate applicable to XYZ is 30%.
- XYZ Ltd has a subsidiary company PQR Ltd, which is carrying a business of supplying cabs for hire. Passengers would hail their cabs typically using an app on a smartphone, or from airports, railway stations etc. During the Covid-19 pandemic, PQR Ltd operations came to a complete standstill during the months of April to June 2020. Although their services resumed in July 2020, the capacity utilized was only 20-30% until December, 2020, by when the utilization reached almost 60%. All cabs are fully owned by PQR Ltd. and depreciated using the Straight-Line Method (SLM) over a period of three years.

Given the decreased revenue in FY 2020-21, management of PQR Ltd is keen to identify ways to reduce the overall impact on profit and loss. A consultant has suggested that they could explore changing the basis of depreciation from SLM to hours-in-use but not entirely sure if this is permitted. Annual depreciation charge for FY 2020-21 would be ₹ 25 lacs using SLM and ₹ 7 lacs using new method. This difference is significant for PQR Ltd's financial statements.

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- In order to attract customers to use their cabs, PQR Ltd. produces a music application (app) that can be downloaded by customers. The app is free for all customers. PQR Ltd incurred a cost, of ₹ 200,000 to develop the app in-house.
- XYZ Ltd has another subsidiary T Ltd that operates cabs for long hire between various cities. On account of the Covid-19 pandemic, there have been several restrictions on movement and the government authorities have cancelled all cab permits to travel between cities. Accordingly, T Ltd is unable to operate from 1 April 2021.

XYZ prepares its financial statements under IFRS framework. As CFO, you are supposed to take some decisions. Please answer following questions.

Questions :

- 5.1. What is the deferred tax on asset to be recognised as per IFRS for the asset bought from the local manufacturer ? 2
- (A) Deferred tax asset ₹ 18,000
- (B) Deferred tax liability ₹ 18,000
- (C) Deferred tax asset ₹ 30,000
- (D) Deferred tax liability ₹ 30,000
- 5.2. How should PQR Ltd. account for the cost of the in-house app production ? 2
- (A) The cost of developing the app is charged to profit and loss.
- (B) The app is a component of the cab, and cost of ₹ 200,000 is capitalized in accordance with Ind AS 16
- (C) The app is an intangible asset, the cost of ₹ 200,000 must be capitalized and amortised over its useful life
- (D) The app is an intangible asset with indefinite useful life, the cost of ₹ 200,000 must be capitalized and tested for impairment every year

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5.3. How should the cancellation of permits be reflected in the financial statements of T Ltd as at 31 March 2021 ? **2**

- (A) Make adequate disclosures about the cancelled permits in the notes to accounts;
- (B) Disclose in the notes that the company will be unable to operate from 1 April 2021;
- (C) Disclose in the Director's report that the company will be unable to operate from 1 April 2021;
- (D) Prepare the financial statements after considering and giving impact of going concern assumption.

5.4. XYZ Ltd has been valuing inventory on a First-in-first-out basis but in line with methods used by industry peers, the company has decided to move to weighted average method. What is your advice with regard to the disclosure of the change under IFRS ? **2**

- (A) Reasons for change in accounting policy must be disclosed and comparative information for prior period must be restated.
- (B) Reasons for change must be disclosed, the amount of adjustments must be presented but comparative information for prior period must not be restated.
- (C) Reasons for change need not be disclosed, the amount of adjustments must be presented and comparative information for prior period must be restated.
- (D) Reasons for change must be disclosed, the amount of adjustments must be presented and comparative information for prior period must be restated.

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- 5.5. As part of future expansion plans, some board members of PQR Ltd. are keen to understand how toll roads within the city are operated and how accounting is done under IFRS. Which of the following statements is correct ? **2**
- (A) The operator shall recognize an intangible asset to the extent that it receives a right (a licence) to charge users of the toll road
- (B) The operator shall recognize a financial asset to the extent that it receives a right (a licence) to charge users of the toll road
- (C) The operator shall recognize an intangible asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from the grantor
- (D) The operator shall recognize an intangible asset to the extent that it has an unconditional contractual right to receive cash from the users of the toll road.
- 5.6. Assuming that sales occurred evenly during the year, how should XYZ Ltd. evaluate whether any additional warranty provision is required on equipment sold in the past as at 31 March 2021? Had the warranty period been 2 years instead of six months, what additional criteria would XYZ Ltd. need to consider ? **5**
- 5.7. Explain the requirements of IFRS in relation to the XYZ Ltd's supply of customized contract and the maintenance that has been agreed to be provided to the customer. Calculate the amounts to be recognized in the financial statements as at 31 March 2021. **5**
- 5.8. What are the considerations in determining whether a change in depreciation methodology is appropriate, and how should this change be accounted for ? Given the risk of charging lower depreciation per annum and the possibility that the asset will be depreciated over a period longer than it would otherwise be (under SLM basis), what other safeguards do you suggest, in order to ensure compliance with relevant standards in IFRS and its framework ? **5**

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