Test Series: April, 2022

MOCK TEST PAPER
FINAL COURSE : GROUP II
PAPER 6E: GLOBAL FINANCIAL REPORTING STANDARDS
ANSWERS

ANSWER TO CASE STUDY 1

I. Answer to Objective Type Questions

1. **Option (c) :** No accounting shall be done till it is paid
2. **Option (a) :** Shall be adjusted in effective interest rate of the underlying financial liability
3. **Option (c) :** No finance cost shall be capitalised
4. **Option (c) :** Yes, to the extent such deferred tax is reversing in the period on which profits shall be taxable
5. **Option (c) :** Disclosed as a contingent asset in the financial statements

II. Answer to Descriptive Questions

6. (i) **Working and accounting entries for Loan taken by the Company**

Date	Opening Balance	Loan cashflow	Closing balance	Interest payable	Cash flows	Interest	Ind AS balance	Unamortised upfront fee	DTL
	a	b	c	d=ax10%	e=b+d	f=g of pvs yr x 10.11%	g	h	i
1st April 20X1		20,00,000	20,00,000	-	19,95,500		19,95,500	4,500	
31st March 20X2	20,00,000	(5,00,000)	15,00,000	(2,00,000)	(7,00,000)	2,01,745	14,97,245	2,755	953
31st March 20X3	15,00,000	(5,00,000)	10,00,000	(1,50,000)	(6,50,000)	1,51,371	9,98,616	1,384	479
31st March 20X4	10,00,000	(5,00,000)	5,00,000	(1,00,000)	(6,00,000)	1,00,960	4,99,576	424	147
31st March 20X5	5,00,000	(5,00,000)	-	(50,000)	(5,50,000)	50,424	-	(0)	(0)

Journal Entries

		(₹)	(₹)
31 March 20X2			
Bank A/c	Dr.	20,00,000	
To Loan A/c			20,00,000
Loan A/c	Dr.	4,500	
To Bank A/c			4,500
Interest expense A/c	Dr.	2,00,000	
To Interest payable A/c			2,00,000
Processing fees A/c (2,01,745 – 2,00,000)	Dr.	1,745	

To Loan A/c			1,745
Tax expense A/c (Refer Table)	Dr.	953	
To Deferred tax liability A/c			953

(ii) Working and accounting entries for compulsorily convertible bonds issued by the Company

Year ended	Contractual interest amount	PV Factor	Present Value
	(₹)	(₹)	(₹)
31st March 20X2	3,00,000	0.89312	2,67,936
31st March 20X3	3,00,000	0.79743	2,39,229
31st March 20X4	3,00,000	0.71178	2,13,534
	9,00,000		**7,20,699**

Particulars	1st April, 20X1			31st March, 20X2
	Gross	Upfront fee	Net	INR
Liability	720,699	1,081	7,19,618	5,06,548
Equity	42,79,301	6,419	42,72,882	42,72,882
Total	**50,00,000**	**7,500**	**49,92,500**	**47,79,430**

Opening liability	Interest @ 12.08%	Payments	Closing liability
(₹)	(₹)	(₹)	(₹)
7,19,618	86,930	3,00,000	5,06,548
5,06,548	61,191	3,00,000	2,67,739
2,67,739	32,261	3,00,000	(0)
14,93,905	**1,80,382**	**9,00,000**	**7,74,287**

Deferred tax computation

Date	Accounting base	Tax base	Difference	DTA / (DTL) @ 34.608%	P&L credit/(charge)
1st April, 20X1	7,19,618	-	7,19,618	2,49,045	
31st March, 20X2	5,06,548	-	5,06,548	1,75,304	(73,741)
31st March, 20X3	2,67,739	-	2,67,739	92,659	(82,645)
31st March, 20X4	-	-	-	-	(92,659)

Journal Entries

		(₹)	(₹)
31st March, 20X2			
Bank A/c	Dr.	49,92,500	
To Equity component of compound financial instrument A/c			4,272,882
To Compulsorily convertible debentures Liability A/c			7,19,618

Interest expense A/c	Dr.	86,930	
To Compulsorily convertible debentures Liability A/c			86,930
Compulsorily convertible debentures Liability A/c	Dr.	3,00,000	
To Bank A/c			3,00,000
Equity component of compound financial instruments A/c	Dr.	(2,49,045)	
Tax expense A/c	Dr.	73,741	
To Deferred tax asset A/c			1,75,304

(iii) Working and accounting entries for Optionally convertible debentures (OCD) issued by the Company

Year ended	Cash outflow	PV Factor	Present Value	Opening liability	Interest @ 12%	Payments	Closing liability
	(₹)	(₹)	(₹)	(₹)	(₹)	(₹)	(₹)
31st March, 20X2	-	0.89312	-	7,97,430	95,692	-	8,93,122
31st March, 20X3	10,00,000	0.79743	7,97,430	8,93,122	1,06,878*	10,00,000	-
	10,00,000		**7,97,430**	**16,90,552**	**2,02,570**	**10,00,000**	

*Difference is due to approximation

Particulars	INR	Exchange rate	INR
Liability	7,97,430	1.00	7,97,430
Equity	2,02,570	1.00	2,02,570
Total	**10,00,000**		**10,00,000**

Deferred tax computation

Date	Accounting base	Tax base	Difference	DTA / (DTL) @ 34.608%	P&L credit / (charge)
1st April, 20X1	7,97,430	10,00,000	(2,02,570)	(70,105)	
31st March, 20X2	8,93,122	10,00,000	(1,06,878)	(36,988)	33,117
31st March, 20X3	-	-	-	-	36,988

Journal Entries

31 March 20X2		(₹)	(₹)
Bank A/c	Dr.	10,00,000	
To Optionally convertible debentures - Liability A/c			7,97,430
To Equity component of compound financial instruments A/c			2,02,570
Interest expense A/c	Dr.	95,692	
To Optionally convertible debentures - Liability A/c			95,692
Equity component of compound financial instruments A/c	Dr.	70,105	
Tax expense A/c			33,117
To Deferred tax liability A/c			36,988

7. Journal Entries for Property, Plant and Equipment

			(₹)	(₹)	Reference
1st July, 20X1	Advance to capital creditors	Dr.	10,02,60,000		W.N.1
	To Bank A/c			10,02,60,000	
1st February, 20X2	Plant & machinery A/c	Dr.	42,00,61,327		W.N.1
	To Advance to capital creditors			10,02,60,000	
	To Creditors A/c			31,98,01,327	
1st February, 20X2	Building A/c	Dr.	10,55,50,000		W.N.3
	To Creditors A/c			10,55,50,000	
1st February, 20X2	Creditors A/c	Dr.	10,55,50,000		W.N.3
	To Bank A/c			10,55,50,000	
31st March	Interest expense A/c	Dr.	63,96,027		W.N.4
	To Creditors A/c			63,96,027	
31st March	Depreciation A/c	Dr.	70,01,022		W.N.2
	To Plant & machinery A/c			70,01,022	
31st March	Depreciation A/c	Dr.	8,79,583		W.N.3
	To Building A/c			8,79,583	
31st March	Deferred tax asset A/c	Dr.	88,51,756		W.N.2
	To Deferred tax credit A/c - P&L			88,51,756	
	[Being deferred tax created on plant and machinery]				
31st March	Deferred tax expense A/c	Dr.	2,59,01,543		W.N.4
	To Deferred tax liability A/c			2,59,01,543	
	[Being deferred tax created on capital creditors]				
31st March	Deferred tax expense A/c	Dr.	24,35,250		W.N.3
	To Deferred tax liability A/c			24,35,250	
	[Being deferred tax created on buildings]				

Working Notes:

1. Computation of cost of machinery

Particulars	(₹)
Purchase price	50,00,00,000
Transportation charges	7,50,000

Erection and installation charges		5,50,000
Total amount payable	**[A]**	**50,13,00,000**
Advance paid (20% of A)	**[B]**	10,02,60,000
Balance payable		40,10,40,000
Payment period (years)		2
Present value of cash equivalent amount against amount payable to creditors (40,10,40,000 x 0.79743)	**[C]**	31,98,01,327
Fair value of machinery on date of erection	**[D = B + C]**	**42,00,61,327**
Inherent financing component	**[A] - [D]**	**8,12,38,673**

2. Computation of tax base and deferred tax adjustments for plant & machinery

Particulars	**31st March, 20X2**	
	Details	**(₹)**
Accounting base		
Capitalisation value		42,00,61,327
Ready to use	1st February, 20X2	
Year end	31st March, 20X2	
Depreciation till year end for 2 months		70,01,022
Carrying value in books		**41,30,60,305**
Tax base		
Capitalisation value		50,13,00,000
Ready to use		
Year end		
Depreciation till year end @ 25% for 2 months		6,26,62,500
Carrying value in tax		**43,86,37,500**
Timing difference		2,55,77,195
Deferred tax asset/ (liability)		**88,51,756**
Deferred tax expense/ (credit)		**(88,51,756)**

3. Computation of tax base and deferred tax adjustments for Building

Particulars	**31st March, 20X2**	
	Details	**(₹)**
Accounting base		
Capitalisation value		10,55,50,000
Ready to use	1st February, 20X2	
Year end	31st March, 20X2	
Depreciation till year end		8,79,583
Carrying value in books		**10,46,70,417**

Tax base		
Capitalisation value		10,55,50,000
Ready to use		
Year end		
Depreciation till year end @ 15% for 2 months		79,16,250
Carrying value in tax		**9,76,33,750**
Timing difference		70,36,667
Deferred tax asset/ (liability)		**(24,35,250)**
Deferred tax expense/ (credit)		**24,35,250**

4. Deferred tax computation for capital creditors

	31-Mar-18
Opening value	31,98,01,327
Interest expense for the period ended for 2 months	63,96,027
Accounting base	**32,61,97,354**
Tax base	**40,10,40,000**
Timing difference	7,48,42,646
Deferred tax asset/ (liability)	(2,59,01,543)
Deferred tax expense/ (credit)	2,59,01,543

ANSWER TO CASE STUDY 2

I Answers to Multiple Choice Questions

1. **Option (c)** : 0.55 cr
2. **Option (b) :** Nil
3. **Option (a)** : 0.50 cr
4. **Option (b) :** 0.40 cr
5. **Option (c)** : 1 January 2XX2

II. Answers to Descriptive Questions

6. **Memo**

To: The CEO, ABC

From:

Date:

"Dear Mr. X

You have requested us to provide detailed guidance on recognition of revenue arising from agreements entered in to with the Indian Government and various other NGOs in the financial year 2XX1-2XX2 by ABC Co.

IFRS 15 requires that revenue recognition should be done based on a five-step model as below:

a. Identifying contract with customer

b. Identifying performance obligations in the contract with customer

c. Determining the transaction price in the contract

d. Allocation of transaction price to the identified performance obligations in the contract; and

e. Recognising revenue as and when the performance obligations are satisfied

We have examined the contracts furnished by you in relation to the above mentioned Government and other NGO grants and also considered additional information provided by in connection with these grants. Here is our analysis and conclusion assuming that the entity expects to collect the full consideration from these contracts (IFRS 15 – paragraph 9).

Government Grants

(i) Project OR:

This is not a contract with customer since the Indian Government has not contracted with ABC Co for delivery of specific research services and hence not within the scope of IFRS 15. ABC Co has no performance obligation in the contract to produce a specific research output. This is also indicated from the condition that in the event of a breach by the designated researcher, ABC Co is not required to select another research staff and supervise/ train so as to ensure completion of the obligation in the contract. In fact it is the researcher who has the performance obligation with the Government under a separate research agreement. The obligation in the contract is satisfied by ABC Co by merely administering the amounts received from the Government.

However, the amounts received from Government (i.e. ₹ 50 lacs) under the contract are within the scope of IFRS 9 since ABC Co has a financial obligation to transfer the amounts to the researcher and if not transferred then they are required to be repaid to the Government. Hence, the amounts received from the Government should be initially recognised as a financial liability as per IFRS 9 and derecognised as and when transferred to the researcher.

(ii) Other Government grants

The other grants received from the Government in relation to conduct of research projects relate to a single performance obligation identified in each of the Government contracts. This is because the research activities conducted under each contract is relating to a single specified project objective and as such do not transfer more than one distinct good or service. The outputs from each research activity in these contracts are either related to each other or serving as an input service for the provision of the final research output in the contract. (Refer IFRS 15 – paragraph 29). The transfer of the related IP to Government is only incidental to the main obligation of transferring the research findings arising in relation to these projects. Hence, transfer of the related IP is not a separate performance obligation in these Government contracts.

The identified single performance obligations in the Government contracts are satisfied over time. This is because the Government receives and consumes the benefits of the research findings as and when they are transferred by ABC Co (refers IFRS 15 – paragraph 35(a)). ABC Co should recognise revenue only in relation to the transferred research findings. The input method is the appropriate method for recognising revenue since the amounts received from Government in equated instalments does not accurately reflect the value transferred to customer. Hence, revenue recognised should correspond to the efforts put in by ABC Co which is

represented by costs incurred till date. However, such costs should not include any amount incurred towards set up or administration which does not transfer any goods or service to the customer (IFRS 15.25).

Other NGO Contracts

Revenue recognition under these contracts depends on the terms and conditions in each contract and accordingly the amount recognised would vary depending on the type of the agreements entered in to by ABC Co. Given the circumstances, similar to the Government contracts, the contracts with other NGO contracts also have a single performance obligation applying the guidance in paragraph 29 of IFRS 15.

Type 1:

In type 1 agreements there is a single performance obligation of transferring a single IP at the end of the project term. During the tenure of the agreement, ABC Co is not required to transfer any research findings at a specified periodicity to the customer. Hence, the customer does not simultaneously receive and consume the benefits as they are provided. If however ABC Co has no alternative use of the developed IP either because of contractual restrictions regarding diverting the use of the IP to another customer or if there are practical limitations from diverting the IP to another customer due to significant economic losses (because of reworking required), then the single performance obligation of transferring the project IP is classified as satisfied over time. In the given cases although nothing is mentioned in the agreements with regard to restrictions, it has been given that the IP is highly customised and as such is expected to result in significant rework costs if ABC Co intends to divert the resulting IP to another customer. ABC Co is also entitled to an enforceable payment till date if the contract gets terminated for no default of its own. Thus, as per IFRS 15.35(c), we conclude that the single performance obligation in these contracts is satisfied over time. ABC Co has to recognise revenue based on input method as the amount reimbursed by customer based on invoice corresponds to the efforts taken (i.e. costs involved) rather than accurately reflecting the value of output transferred to the customer as required for the output method. In applying the input method, ABC should not include costs incurred towards set up or administration which does not transfer any goods or service to the customer.

Type 2

In Type 2 agreements, similar to the Government contracts ABC Co is required to periodically disseminate the research output (in a different medium). However, the project does not have a specified term and also does not specify the number of journals or newsletters or their periodicity. Hence it is impossible to measure the progress of satisfaction of the performance obligation in the contract. Since the performance obligation is not sufficiently specific it cannot be said that the contract is enforceable as to the rights of the customer which is one of the requirements of applying IFRS 15 (Refer paragraph 9 of the standard). This is also evidenced from the fact that the unspent amounts are not repayable to the other NGO any time. ABC may therefore recognise revenue on receipt of the amounts and recognise a liability if any amounts subsequently become payable in future reporting periods.

Type 3

In type 3 agreements the single performance obligation is satisfied over time since the agreement specifies the number of seminars and meetings to be conducted to disseminate the research finding with a specified project term. This creates enforceability of performance obligations in the contract. Further since the customer obtains the benefit from the dissemination of the research information as and when they are provided, paragraph 35(a) of IFRS 15 is satisfied. In our opinion, ABC Co can

recognise revenue based on output method since ABC Co has a right to invoice a specific amount to customer towards reimbursement of costs incurred; this would reflect the value of output transferred to customer. This amount can be considered as directly reflecting the value provided to customer.

XYZ NGO

The contract with XYZ NGO is not within the scope of IFRS 15 since XYZ NGO is not a customer who has contracted for receiving an output in exchange for a consideration to ABC Co. In fact ABC Co has a shared interest in the project because the resulting knowledge and goodwill from publicity benefits both the parties. As per paragraph 6 of IFRS 15, this is a collaboration arrangement under which both ABC Co and XYZ NGO have agreed to participate in a research activity and share the gains relating commercialisation of the resulting IP is being shared in equal proportion.

2. Disclosures under IFRS 15

Extract from the financial statements for the year ended XXXXX

Notes to the financial statements

Reference

Note 1: Summary of Significant Accounting Policies

x. Critical accounting estimates and judgements

Key judgements

Determination of the timing of satisfaction of performance obligations (IFRS 15.124-125)

Government research contracts:

The entity recognises revenue from Government research contracts on the basis of input method. This is because the amounts received from Government at various points in time do not represent accurately the value of output transferred to customer. Hence management believes that revenue should be recognised based on a measure of efforts taken till date in satisfying the performance obligation which is represented by costs incurred by the entity till date.

NGO research contracts – transfer of research findings

Typically, the research contracts with other NGOs require that the entity should invoice the amount of actual expenditure incurred in the reporting period which will be reimbursed only based on satisfactory reports and surveys involving stakeholders. The entity recognises revenue from such other NGO research contracts at the actual amount of invoice raised on the customer representing actual costs incurred in the period (i.e. input method).

NGO contracts – transfer of IP

Some contracts with other NGOs require the entity to transfer a specific IP at the end of the specified project term. The performance obligations in such contracts are regarded as satisfied at a point in time. The entity determines the point of transfer of control over the specified goods as the point of registration of the IP in the name of the customer since a legal title over the IP permits the customer to restrain any infringement of the IP without its consent and enables obtaining substantial economic benefits from the IP.

xx: Disclosures regarding revenue from contracts with customers

a. Disaggregated disclosure of revenue (IFRS 15.114)

Segments	Other NGO Contracts (₹ in lacs)	Government Contracts (₹ in lacs)	Total (₹ in lacs)
Major goods or service:			
Provision of research services			
• Transfer of IP	-	-	-
• Transfer of research findings	40.00	55.00	95.00
TOTAL	40.00	55.00	95.00
Timing of revenue recognition:			
Goods/services transferred at a point in time	-	-	-
Goods/services transferred over time	40.00	55.00	95.00
TOTAL	40.00	55.00	95.00

The entity determines the transaction price in contracts with customer as equal to the total amounts (excluding GST) receivable from the customer towards reimbursement of actual expenses incurred. In respect of Government contracts, the estimation of the amount of excess / unused funds that may become refundable any time is constrained due to uncertainty regarding future costs. As such the amount of revenue disclosed in the financial statements of 2XX1 is equal to the contracted price under the research contracts i.e. no adjustments have been made. (IFRS 15.126-126AA)

b. Movement in contract assets and contract liabilities (IFRS 15.116–118)

Particulars	**Contract Assets**	**Contract Liabilities**	**Receivables**
	(₹ in lacs)		
Opening balance			
Increase/decrease in estimates of progress measurement			
Increase/decrease in transaction prices			
Adjustments to variable consideration in the contracts			
Impairment of contract assets			
Amounts receivable on progress of performance obligation			40
Recognition of revenue from contract liabilities			
Amounts received in advance of performance obligation		20	
Closing balance			

1 No contract asset or contract liability arises on other NGO contracts since payment is almost immediate on receipt of invoice by customer for the completed portion of the performance obligation.

In respect of Government contracts, contract asset is recognised for research findings transferred to customer but for which payment is receivable only at the end of the financial year in which it is reclassified as receivable. Contract liability is recognised if the amounts received in a financial year are in excess of actual amounts spent in that financial year (such amounts being permitted for spending in the next year)

2 The entity received an amount of ₹ 60 lacs from Government contracts in 2XX1. Out of which ₹ 40 lacs have been recognised as revenue under input method to the extent of actual costs incurred and the balance of ₹ 20 lacs is recognised as contract liability since it relates to future performance obligation under the contract.

c. Movement in costs incurred to fulfil contracts (IFRS 15.128)

Particulars	₹ in lacs
Opening balance	-
Add: Capitalisation during the year	**50**
Less: Impairment during the year	-
Less: Amortisation during the year	-
Closing balance	**50**

These are costs incurred on account of to disputes on infringement over resulting IP, direct professional labour costs and direct materials incurred on satisfaction of performance obligation under NGO contracts involving transfer of IP at the end of the project term. These costs are recoverable from customer. As the related performance obligation is satisfied only at the end of the project term at a point in time, the asset is expensed 100% only in the terminal year of the project to correspond with the timing of transfer of goods to customer (IFRS 15.127)

d. Details regarding performance obligations (IFRS 15.119)

Particulars	**Other NGO contracts**	**Government Contracts**
Nature of goods or services involved	Transfer of research findings and IP to customer	Transfer of research findings
Satisfaction of performance obligations	In case of transfer of research findings, the performance obligation is satisfied when the entity publishes the required number of periodicals/ newsletters in the year as promised in the contract and duly accepted to the satisfaction of the customer. In the case of transfer of IP, the performance obligation is satisfied when the IP is registered in the name of the customer	In case of transfer of research findings, the performance obligation is satisfied when the research data representing a milestone in the agreement (duly corroborated with the milestone performance report submitted on specified dates and accepted to the satisfaction of Government) is being deposited in the designated repository of the Government

Particulars	Other NGO contracts	Government Contracts
Significant payment terms	In cases involving transfer of IP at the end of the project, the total actual amount of expenditure is reimbursed within 30 days of the completion of the project. In cases where there is a periodic transfer of research findings to customer, ABC is required to raise a monthly invoice for actual amounts spent which will be paid within 10 days of the date of invoice.	Total amounts payable by Government as per the schedules will be paid in equated instalment on completion of certain milestones per the schedule to its satisfaction within 10 days of the acceptance of the performance report.
Other obligations	Normal warranty obligation applies	These contracts contain a standard clause providing for refunding of any excess unused amount lying with ABC if the contract is terminated for any reason. ABC Co is also required to license the resulting IP on a non-exclusive basis to Government. Normal warranty obligation applies

Aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as at 31st December 2XX1: (IFRS 15.120-122)

Type of Obligation	2XX2	2XX3	2XX4	Total
	Rs (in lakhs)			
Government Contracts	60	65		125
Other NGO contracts				
• Transfer of IP		115		115
• Transfer of research findings	60			60
STUDY Total	120	180		300

Information to be provided by ABC Co to complete the disclosures

- Opening balance of contract assets, contract liabilities, receivables, capitalised costs (both to obtain and fulfil contracts) including details regarding nature of their movements in 2XX1.
- Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and
- Revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).

3. Computation of Lease liability:

Year Ending	Lease payments		PV @ 8.5%
31-Dec-2XX2	-	0.92	-

31-Dec-2XX3	-	0.85	-
31-Dec-2XX4	50,000	0.78	39,145.40
31-Dec-2XX5	50,000	0.72	36,078.71
31-Dec-2XX6	50,000	0.67	33,252.27
31-Dec-2XX7	50,000	0.61	30,647.25
31-Dec-2XX8	50,000	0.56	28,246.32
31-Dec-2XX9	50,000	0.52	26,033.47
31-Dec-2X10	50,000	0.48	23,993.98
31-Dec-2X11	50,000	0.44	22,114.27
31-Dec-2X12	50,000	0.41	20,381.82
31-Dec-2X13	50,000	0.38	18,785.08
	5,00,000		2,78,678.59
Lease liability as at 1 January 2XX2	**2,78,679**		
ROU Asset	**2,78,679**		

5. **Lease liability schedule:**

Year ending	Opening Balance	Interest expense	Lease payments	Closing balance
	a	b=ax8.5%	c	d=a+b-c
31-Dec-2XX2	2,78,678.59	23,687.68	-	3,02,366.27
31-Dec-2XX3	3,02,366.27	25,701.13	-	3,28,067.40
31-Dec-2XX4	3,28,067.40	27,885.73	50,000.00	3,05,953.13
31-Dec-2XX5	3,05,953.13	26,006.02	50,000.00	2,81,959.15
31-Dec-2XX6	2,81,959.15	23,966.53	50,000.00	2,55,925.68
31-Dec-2XX7	2,55,925.68	21,753.68	50,000.00	2,27,679.36
31-Dec-2XX8	2,27,679.36	19,352.75	50,000.00	1,97,032.10
31-Dec-2XX9	1,97,032.10	16,747.73	50,000.00	1,63,779.83
31-Dec-2X10	1,63,779.83	13,921.29	50,000.00	1,27,701.12
31-Dec-2X11	1,27,701.12	10,854.60	50,000.00	88,555.71
31-Dec-2X12	88,555.71	7,527.24	50,000.00	46,082.95
31-Dec-2X13	46,082.95	3,917.05	50,000.00	0.00

ROU Asset amortisation schedule:

Year	Opening balance	Amortisation	Closing balance
31-Dec-2XX2	2,78,678.59	23,223.22	2,55,455.37
31-Dec-2XX3	2,55,455.37	23,223.22	2,32,232.16
31-Dec-2XX4	2,32,232.16	23,223.22	2,09,008.94
31-Dec-2XX5	2,09,008.94	23,223.22	1,85,785.73
31-Dec-2XX6	1,85,785.73	23,223.22	1,62,562.51

31-Dec-2XX7	1,62,562.51	23,223.22	1,39,339.29
31-Dec-2XX8	1,39,339.29	23,223.22	1,16,116.08
31-Dec-2XX9	1,16,116.08	23,223.22	92,892.86
31-Dec-2X10	92,892.86	23,223.22	69,669.65
31-Dec-2X11	69,669.65	23,223.22	46,446.43
31-Dec-2X12	46,446.43	23,223.22	23,223.22
31-Dec-2X13	23,223.22	23,223.22	0.00

Journal Entries

Year 2XX2

At the commencement of the lease

01-Jan-2XX2	ROU asset	Dr.	2,78,678.59	
	To Lease liability			2,78,678.59
	(Being recognition of the lease liability and ROU asset at the commencement of the lease)			

For the year 2XX2

31-Dec-2XX2	Interest expenses	Dr.	23,687.68	
	To Lease liability			23,687.68
	(Being interest expenses for the year 2XX2)			
1 January-31 December 2XX2				
	Lease liability	Dr.	-	
	To Bank			-
	(Being lease payments made during 2XX2)			
31-Dec-2XX2	Depreciation expense	Dr.	23,223.22	
	To ROU asset			23,223.22
	(Being amortisation of the ROU asset over the lease term)			

If lease provides for an option to renew the term for another 12 years

- On 1st January 2XX2, management of ABC Co has to determine the lease term by assessing whether the entity is reasonably certain to exercise the option.
- If the option is reasonably certain of being exercised, then the non-cancellable period of the lease is determined to be 24 years.
- This will impact the calculated amount of lease liability and ROU asset at the commencement of the lease i.e. 1st January 2XX2.
- If the entity decides not to exercise the option at any time during the lease term, it has to recompute the lease liability using a revised discount rate.
- Any adjustment to lease liability has corresponding effect in the ROU asset.

ANSWER TO CASE STUDY 3

I. Answers to Multiple Choice Questions

1. **Option (c) :** ₹ 6,00,000
2. **Option (c) :** ₹ 20,00,000 goodwill
3. **Option (b):** It is an embedded derivative closely related to the loan.
4. **Option (c) :** Annual depreciation charge will be ₹ 13,000 and an annual transfer of ₹ 3,000 may be made from revaluation surplus to retained earnings.
5. **Option (d) :** ₹ Nil and Deferred Tax Liability

II. Answers to Descriptive Questions

6. Accounting treatment for

1. First Grant

The first grant for 'Clear River Project' involving research into effects of various chemicals waste from the industrial area in Madhya Pradesh, seems to be unconditional as no details regarding its refund has been mentioned in the question. Even though the research has not been started nor any major steps have been completed by Rainbow Limited to commence the research, the grant will be recognised immediately in profit or loss for the year ended 31 March, 20X5.

Alternatively, in case, the grant is conditional as to expenditure on research, the grant will be recognised over the years the expenditure is being incurred and recognised in the books of Rainbow Limited.

2. Second Grant

The second grant related to commercial development of a new equipment is a grant related to depreciable asset. As per the information given in the question, the equipment will be available for sale in the market from 1 April, 20X6. Hence, by that time, grant relates to the construction of an asset and should be initially recognised as deferred income.

The deferred income should be recognised as income on a systematic and rational basis over the asset's useful life.

The entity should recognise a liability on the statement of financial position for the years ending 31 March, 20X5 and 31 March, 20X6. Once the equipment starts being used in the manufacturing process, the deferred grant income of ₹ 1,00,000 should be recognised over the asset's useful life to compensate for depreciation costs.

Alternatively, as per IAS 20, Rainbow Limited would also be permitted to offset the deferred income of ₹ 1,00,000 against the cost of the equipment as on 1 April, 20X6.

3. For flood related compensation

Rainbow Limited will be able to submit an application form only after 31 May, 20X5 ie in the year 20X5-20X6. Although flood happened in September, 20X4 and loss was incurred due to flood related to the year 20X4-20X5, the entity should recognise the income from the government grant in the year when the application form related to it is submitted and approved by the government for compensation.

Since, in the year 20X4-20X5, the application form could not be submitted due to adoption of financials with respect to sales figure before flood occurred, Rainbow Limited could not recognise the grant income as it has not become receivable as on 31 March, 20X5.

7. Classification:

As per para 57 of IAS 40, an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. Since, the investment property is bifurcated for developing of units which will be sold in the ordinary course of business, the reclassification of investment property as inventory on 1 January, 20X5 is permissible under IAS 40.

Since, Rainbow Limited uses fair value model for recognition and measurement of investment property, para 59 of IAS 40 will be applicable. As per para 59 of IAS 40, for a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's deemed cost for subsequent accounting in accordance with IAS 2 shall be its fair value at the date of change in use. Hence, on reclassification on 1 January, 20X5, property will be measured at fair value ie ₹ 58 crore.

Measurement:

The additional costs of ₹ 12 crore for developing the units which were incurred up to and including 31 March, 20X5 would be added to the cost of inventory to give a closing cost of ₹ 70 crore (58 crore + 12 crore).

The total selling price of the units is expected to be ₹ 100 crore (10 units x ₹ 10 crore). Since the further costs to develop the units total ₹ 8 crore, the net realisable value of inventory (consisting of 10 units) would be ₹ 92 crore (₹ 100 crore - ₹ 8 crore). The inventory (consisting of 10 units) will be measured at a cost of ₹ 70 crore (cost ₹ 70 crore or NRV ₹ 92 crore whichever is less).

Disclosure: "During the year, the operating lease has been cancelled with respect to investment property. On the date of cancellation of the operating lease, the company has started the process of bifurcating the property into 10 identical units of equal size to sell in the ordinary course of business. Hence, Rainbow Limited has reclassified the property as inventory on the date of cancellation, which was measured on reclassification at fair value. Later, at the reporting date the inventory has been measured at cost or NRV whichever is less. The units are shown as inventory under current assets in the Statement of financial position."

8. Paragraph 27 of IFRS 2 requires the entity to recognise the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee.

If the repricing increases the fair value of the equity instruments granted, paragraph B43(a) of Appendix B requires the entity to include the incremental fair value granted (ie the difference between the fair value of the repriced equity instrument and that of the original equity instrument, both estimated as at the date of the modification) in the measurement of the amount recognised for services received as consideration for the equity instruments granted.

If the repricing occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the repricing date until the date when the repriced equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period.

Accordingly, the amounts recognised in years 1 and 2 are as follows:

Year	Calculation	Compensation expense for period	Cumulative compensation expense
		₹	₹
1	[1,850 employees × 1,000 options × ₹ 1.20] × $^1/_3$	7,40,000	7,40,000
2	(1,840 employees × 1,000 options × [(₹ 1.20 × $^2/_3$) + {(₹ 1.05 - 0.90) × 0.5/1.5}] – 7,40,000	8,24,000	15,64,000

ANSWER TO CASE STUDY 4

I. Answers to Multiple Choice Questions

1. **Option (c) :** ₹ 1,000 thousand
2. **Option (d)** : ₹ 810 thousand is to be recognised in the year of sale and ₹ 90 thousand to be spread over next three years.
3. **Option (d) :** The first IFRS financial statements shall distinguish the correction of errors from changes in accounting policies and reported as part of the reconciliations as at 1 April, 20X2.
4. **Option (c)** : Gamma should recognise an expense of ₹ 200 thousand immediately and cannot reverse the expense recognised even if the director goes to work for a competitor and loses the share options.
5. **Option (a) :** First, the Vendor-Specific Objective Evidence must be used, if available. If not, then Third Party Evidence is used. If neither prices are available, then the entity must make its best estimate of selling price.

II. Answers to Descriptive Questions

6. As per paragraph 4(a) of IFRS 10, an entity that is a parent shall present consolidated financial statements. This IFRS applies to all entities, except as follows:

   A parent need not present consolidated financial statements if it meets all the following conditions:

   (i) it is a wholly owned subsidiary or is a partially owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

   (ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

   (iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

   (iv) its ultimate or any intermediate parent produces financial statements that are available for public use and comply with IFRS, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this IFRS.

   In accordance with the above, it may be noted that as per paragraph 4(a)(i) above, a parent need not present consolidated financial statements if it is a:

- wholly owned subsidiary; or
- is a partially owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements.

Although GD Limited is a partly owned subsidiary of G Limited, it is the wholly owned subsidiary of Gamma Limited (and therefore satisfies the condition 4(a)(i) of IFRS 10 without regard to the relationship with its immediate owners, i.e. G Limited and D Limited). Thus, GD Limited being the wholly owned subsidiary fulfils the conditions as mentioned under paragraph 4(a)(i) and is not required to inform its other owner D Limited of its intention not to prepare the consolidated financial statements.

Thus, in accordance with the above, GD Limited may take the exemption given under paragraph 4(a) of IFRS 10 from presentation of consolidated financial statements.

In Alternative Scenario, where both G Limited and D Limited are owned by an individual Mr. X, then GD Limited is ultimately wholly in control of Mr. X (i.e., an individual) and hence it cannot be considered as a wholly owned subsidiary of an entity.

This is because IFRS 10 makes use of the term 'entity' and the word 'entity' includes a company as well as any other form of entity. Since, Mr. X is an 'individual' and not an 'entity', therefore, GD Limited cannot be considered as wholly owned subsidiary of an entity.

Therefore, in the given case, GD Limited is a partially owned subsidiary of another entity. Accordingly, to avail the exemption under paragraph 4(a), its other owner, D Limited should be informed about and do not object to GD Limited not presenting consolidated financial statements. Further, for the purpose of consolidation of G Limited and D Limited, GD Limited will be required to provide relevant financial information as per IFRS.

7. (i) Calculation of the liability and equity components on 6% Convertible debentures:

Present value of principal payable at the end of 4th year (1,80,000 thousand x 0.74)

= ₹ 1,33,200 thousand

Present value of interest payable annually for 4 years

= (1,80,000 thousand x 6% x 3.31) = ₹ 35,748 thousand

Total liability component = ₹ 1,68,948 thousand

Therefore, equity component = ₹ 1,80,000 thousand – ₹ 1,68,948 thousand

= ₹ 11,052 thousand

Calculation of finance cost and closing balance of 6% convertible debentures

₹ in 000

Year	Opening balance of loan	Finance cost @ 8%	Interest paid @ 6%	Closing balance of loan
	A	b = a x 8%	c	d = a + b - c
31.3.20X3	1,68,948	13,515.84	10,800	1,71,663.84
31.3.20X4	1,71,663.84	13,733.11	10,800	1,74,596.95

Finance cost of convertible debentures for the year ended 31.3.20X4 is ₹ 13,733.11 thousand and closing balance as on 31.3.20X4 is ₹ 1,74,596.95 thousand.

(ii) Calculation of Basic EPS **₹ in 000**

Profit for the year	39,000
Less: Dividend on preference shares (80,000 x 0.05)	(4,000)
	35,000

Weighted average number of shares = 2,00,000 + {50,000 x (9/12)}

= 2,37,500 thousand shares

Basic EPS = ₹ 35,000 thousand / 2,37,500 thousand shares

= ₹ 0.147 per share

Calculation of Diluted EPS **₹ in 000**

Profit for the year			39,000
Less:	Dividend on preference shares (80,000 x 0.05)		(4,000)
			35,000
Add:	Finance cost (as given in the above table)	13,733.11	
	Less: Tax @ 25%	(3,433.28)	10,299.83
			45,299.83

Weighted average number of shares = 2,00,000 + {50,000 x (9/12)} + 1,00,000

= 3,37,500 thousand shares

Diluted EPS = ₹ 45,299.83 thousand / 3,37,500 thousand shares

= ₹ 0.134 per share

8. 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.

Issue 1

In accordance with para 41, the reclassification of liabilities from non-current to current would be considered as correction of an error under IAS 8. Accordingly, in the financial statements for the year ended 31 March, 20X4, the comparative amounts as at 31 March 20X3 would be restated to reflect the correct classification.

IAS 1 requires an entity to present a third Statement of financial position 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 restatement has a material effect on the information in the Statement of financial position at the beginning of the preceding period. Accordingly, the entity should present a third Statement of financial position as at the beginning of the preceding period, i.e., as at 1 April, 20X2 in addition to the comparatives for the financial year 20X2-20X3.

Issue 2

In accordance with para 41, the reclassification of expenses from finance costs to other expenses would be considered as correction of an error under IAS 8. Accordingly, in the financial statements for the year ended 31 March, 20X4, the comparative amounts for the year ended 31 March, 20X3 would be restated to reflect the correct classification.

IAS 1 requires an entity to present a third Statement of financial position 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 restatement has a material effect on the information in the Statement of financial position at the beginning of the preceding period.

In the given case, the retrospective restatement of relevant items in statement of profit or loss has no effect on the information in the Statement of financial position at the beginning of the preceding period (1 April, 20X2). Therefore, the entity is not required to present a third Statement of financial position.

ANSWER TO CASE STUDY 5

I. Answers to Multiple Choice Questions

1. **Option (d) :** Provision for ₹ 50 crores
2. **Option (a) :** Record 90% of the claim as a receivable as it is virtually certain that the contingent asset will be received
3. **Option (b) :** ₹ 1.75 crore
4. **Option (c) :** At the start of the period or, if issued later, then the date of issue of the potential shares
5. **Option (d) :** Advertising costs ₹ 40 lacs; staff bonuses ₹ 60 lacs

II. Answers to the Descriptive Questions

6. **(a)** As per para 18 of IAS 24, 'Related Party Disclosures', if an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements.

However, as per para 25 of the standard, a reporting entity is exempt from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with:

(i) a government that has control or joint control of, or significant influence over, the reporting entity; and

(ii) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

According to the above paras, for Entity Mega Energy India Limited's financial statements, the exemption in paragraph 25 applies to:

(i) transactions with Uttar Pradesh State Government; and

(ii) transactions with Entities Super Power India Limited and Entities P, Q, A and B.

Similar exemptions are available to Entities Super Power India Limited, P, Q, A and B, with the transactions with UP State Government and other entities controlled directly or indirectly by UP State Government.

However, that exemption does not apply to transactions with Mr. KM. Hence, the transactions with Mr. KM needs to be disclosed under related party transactions.

(b) As per para 26 of the standard, if a reporting entity applies exemption of disclosing transactions with the government, it shall disclose the following about the transactions and related outstanding balances referred to in paragraph 25:

(a) the name of the government and the nature of its relationship with the reporting entity (i.e. control, joint control or significant influence);

(b) the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:

(i) the nature and amount of each individually significant transaction; and

(ii) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

Accordingly, in the given case, Mega Energy India Limited, Super Power India Limited, P Limited, Q Limited, A Limited and B Limited should make following disclosures:

(a) the name of the government – Uttar Pradesh State Government

(b) and the nature of its relationship – Subsidiary of Uttar Pradesh State Government.

7. Since the earnings of the entity is non-market related, hence it will not be considered in fair value calculation of the shares given. However, the same will be considered while calculating number of shares to be vested.

Determination of expenses for each year ended on:

		20X3	20X4
a	Total employees	300	300
b	Cumulative- Employees left (Actual)	(25)	(53)
c	Employees expected to leave in the next year	(35)	(-)
d	Year end – No. of employees (a-b-c)	240	247
e	Shares per employee	150	150
f	Fair value of share at grant date	325	325
g	Vesting period	1/2	2/2
h	Cumulative expenses (d x e x f x g)	58,50,000	1,20,41,250
i	Expenses to be recognised (h-h of previous year)		61,91,250

Journal Entries

31 March 20X3 ₹

Employee benefits expenses	Dr.	58,50,000	
To Share based payment reserve (equity)			58,50,000
(Equity settled shared based payment expected vesting amount)			
Profit and Loss A/c	Dr.	58,50,000	
To Employee benefits expenses			58,50,000
(Employee benefits expenses transferred to P&L A/c)			
31 March 20X4			
Employee benefits expenses	Dr.	61,91,250	

To Share based payment reserve (equity) (Equity settled shared based payment expected vesting amount)		61,91,250
Profit and Loss A/c Dr. To Employee benefits expenses (Employee benefits expenses transferred to P&L A/c)	61,91,250	 61,91,250
Share based payment reserve (equity) Dr. To Share Capital (150 x 247 x 100*) To Securities Premium A/c (Share capital Issued)	1,20,41,250	 37,05,000 83,36,250

*Assumed that each share was of ₹ 100 each.

8. Computation of balance total equity as on 1 April 20X2 after transition to IFRS

			₹ in crore
Share capital- Equity share Capital			80
Other Equity			
General Reserve		40	
Capital Reserve		5	
Retained Earnings (95 – 5 - 40)	50		
Add: Increase in value of land (10 - 4.5)	5.5		
Add: Derecognition of proposed dividend	0.78		
Add: Increase in value of Investment	0.75	57.03	102.03
Balance total equity as on 1 April 20X2 after transition to IFRS			182.03

Reconciliation between Total Equity as per existing GAAP and IFRS to be presented in the opening Statement of financial position as on 1 April 20X2

		₹ in crore
Equity share capital		80
Redeemable Preference share capital		25
		105
Reserves and Surplus		95
Total Equity as per existing GAAP		200
Adjustment due to reclassification		
Preference share capital classified as financial liability		(25)
Adjustment due to derecognition		
Proposed Dividend not considered as liability as on 1 April 20X2		0.78
Adjustment due to re-measurement		
Increase in the value of Land due to re-measurement at fair value	5.50	
Increase in the value of investment due to re-measurement at fair value	0.75	6.25
Equity as on 1 April, 20X2 after transition to IFRS		182.03