indaslab®

May 2017 - CA Final Exam

Solved Ind AS Questions

For Circulation

Question 1(a)

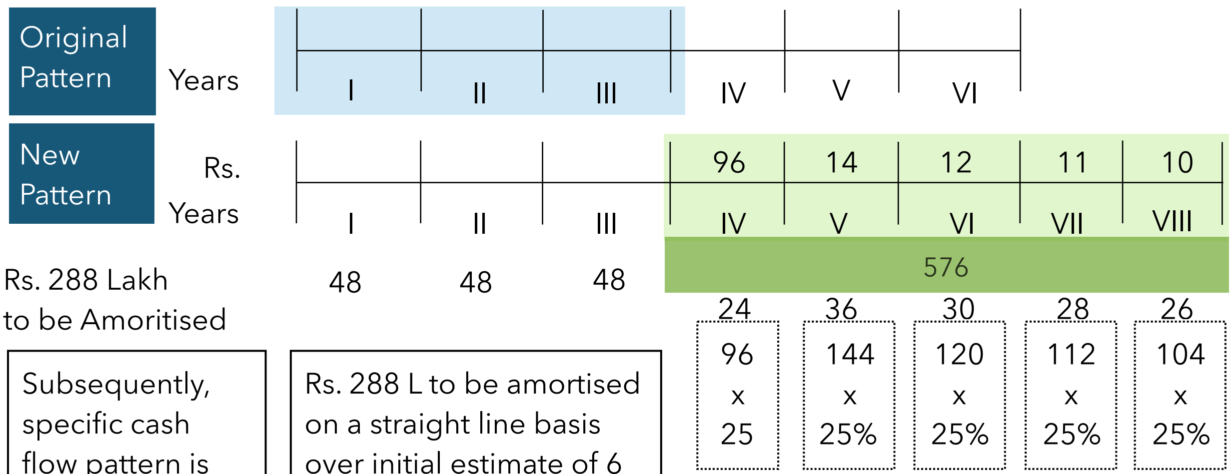
Desire Limited acquired a patent at a cost of Rs. 288 lakh for a period of six years and the product life cycle is also six years. The company capitalized the cost and started amortising at Rs. 48 lakh per annum. After three years, it was found that the product life-cycle may continue for another 5 years from then. The net cash flows from the product during these five years are expected to be Rs. 96 lakh, Rs. 144 lakh, Rs. 120 lakh, Rs. 112 lakh and Rs. 104 lakh respectively.
You are required to find out amortization cost of the patent for each of the years, as per Ind AS 38.

Answer - Q1(a) Intangible Assets + Prospective Change of Accounting Estimate

Standards Tested:
1. *Ind AS 38 : Intangible Assets*
2. *Ind AS 8 : Accounting Policies, Changes in Accounting Estimates and Errors*

Take-Away: Change in expected economic benefit from Intangible Asset results in change in rate of amortisation. It is a prospective change.

This case study deals in a Patent (Intangible Assets) with initial estimated life of 6 years and revised total estimated life of 8 years (ie. 3 + 5 years).
Para 97 to 99 of Ind AS 38 deals with Amortisation Period and Amortisation Method.
1. Initial Amortisation Period = 6 Years
2. Initial Amortisation Method = Straight Line Method (Reason - no other pattern is specifically stated by the question)



Subsequently, specific cash flow pattern is established and hence that shall be followed for amortisation of Intangible Asset.

Rs. 288 L to be amortised on a straight line basis over initial estimate of 6 years i.e. Rs. 48 L per

WDV at the end of 3rd year is Rs.288 L - (48 x 3) L = Rs. 144 L

Opening WDV of Rs.144 L shall be amortised over consumption pattern in the ratio of :
Cashflow of Year x (144/576) ie. CF x 25%

Para 32 of Ind AS 8 quotes examples of changes in accounting estimates.
Para 97 of Ind AS 38 quotes that 'The amortisation method used shall reflect pattern in which the asset's future economic benefits are expected to be consumed by the entity'.
Change in cash flow pattern requires integrated application of Para 32 of Ind AS 8 and Para 97 of Ind AS 38 that results in revised total useful life of 8 years and revised amortisation over cashflow pattern.

Question 1(b)

Zee Ltd. purchased raw material of 20,000 units at Rs. 10 per kilogram during the year 2016-17. They provide you with the following other information for the year ended 31st March, 2017:

Particulars	Units	Rs.
Opening inventory:		
Finished Goods	2,000	50,000
Raw Materials	2,200	22,000
Labour		1,53,000
Fixed overhead		1,50,000
Sales	20,000	5,60,000
Closing Inventory:		
Finished Goods	2,400	
Raw Materials	1,800	

The expected production of the finished product for the year was 30,000 units. Due to a fall in the market demand, the price of the finished goods in which the raw material is incorporated is, expected to be sold at Rs. 20 per unit. The replacement cost of raw material was Rs. 9.50 per unit on the closing day of the accounting period.

You are required to value the closing inventory as on 31st March, 2017 with reference to Ind

Answer - Q1(b) Inventory

Standards Tested:
1. Ind AS 2 : Inventories

Take-Away: RM Write Down is P/L item and not a cost of consumption. Hence, shall not be added to FG Valuation.

This case study deals in the valuation of Inventory. The key area tested is that raw material is to be valued at replacement cost if Expected Selling Price of FG is lower than Cost of Production of FG.

Note 1 - Raw Material

Particulars	Note	Units (A)	Rs. (B)	Calculated Rate (A/B)
Opening Inventory		2200	22000	Rs.10/ unit
Purchases		20000	200000	Rs.10/ unit
Closing Inventory	4	1800	18000	Hence, Rs.10/ unit
Hence, consumption		20400	204000	

Note 2 - Finished Goods

	Note	Units (A)	Rs. (B)	Calculated Price
Opening		2000	50000	
(+) Raw Material	1	20400	204000	
(+) Labour			153000	
(+) Fixed Overhead	3		102000	
Total		22400	509000	Rs.22.72/ Unit
Sales		20000		
Closing	4	2400	54536	(at Cost Price)

Note 3 - Fixed Overheads

Para 13 of Ind AS 2 states that the allocation of fixed production overheads to the costs of conversion is based on the *normal capacity* of the production facilities.

Total Fixed Overhead = Rs.150000

Normal Capacity = 30000 Units

Thus, FO Cost Allocation/ Unit = Rs.5

Thus, FO for year is

20400 units x Rs.5/ unit = Rs.102000

Note 4 - Valuation of Inventories under Ind AS 2

Finished Goods are to be valued lower of Cost (i.e. Rs.22.72) and Selling Price (i.e. Rs.20)

If Finished Goods are valued at lower than cost then Raw Materials to be valued at 'Replacement Price' (i.e. Rs.9.5)

Reference - Para 32 of Ind AS 2 - when decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value.

Inventory	Units (A)	Price/ Unit (B)	B/s Value (A x B)	Write Down in P/L
Finished Goods	2400	20	48000	2400 x (22.72 - 20) = 6528
Raw Materials	1800	9.5	17100	1800 x (10 - 9.5) = 900

Question 1(c)

A contract to build a bridge across a river is under execution by a firm of contractors. From the following details, indicate the relevant disclosure that has to be made by the firm in its accounts for the year ended 31st March, 2017, under the relevant Ind A.S.

Particulars	*Rs. In Lakhs*
Contract price	*2,000*
Work certified upto 31-03 -2017	*1,200*
Work pending certification	*480*
Estimated further costs to complete the contract	*520*
Amounts received from the contractee so far	*1,000*
Amounts still to be received	*500*

Answer - Q1 (c) Construction Contract

Standards Tested:
1. Ind AS 11 : Construction Contracts

Take-Away: Recognise losses immediately. Don't recognise revenue with respect to stage of completion.

This case study deals in the disclosures upon construction contract. Following are disclosure requirements under Para 39, 40, and 42 of Ind AS 11:

(a) the *amount* of contract revenue recognised as revenue in the period;
(b) the *methods* used to determine the *contract revenue* recognised in the period; and
(c) the *methods* used to determine the *stage of completion* of contracts in progress.
(d) the *aggregate amount* of costs incurred and recognised profits (less recognised losses) to date;
(e) the amount of *advances* received;
(f) the amount of *retentions*
(g) the gross amount due from customers for contract work *as an asset*; and
(h) the gross amount due to customers for contract work *as a liability*

We need to carry following calculations to reach numbers that will be used in disclosures.

According to paragraph 36 of Ind AS 11, when it is probable that total contract cost will exceed total contract revenue, the

Particulars	Rs. Lakhs
Total estimated cost of construction (1200 + 480 +520)	2200
Less: Total contract price	2000
Total forseeable loss to be recognised as expense	200

According to Para 22 of Ind AS 11 - When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognised as revenue and expenses respectively by reference to the *stage of completion* of the contract activity at the end of the reporting period.

Particulars	Rs. Lakhs
Work Certified upto 31st March 2017	1200
Work pending certification	480
Cost Incurred Till Date (a)	1680
Total Estimated Cost of Construction (b)	2200
Stage of Completion (i.e. % Completion) = a/b x 100	76.36%
However, we will not recognise revenue on % completion basis as we must recognise losses immediately on prudence basis. When costs incurred are Rs.1680 L, logically, we can recognise revenue of Rs.1480 L in order to account for loss of Rs.200 L.	
Total Contract Revenue	2000
~~*Revenue to be recognised (2000 x 76.36%)~~	~~1527.27~~
Revenue to be recognised (1680 - 200)	1480
Profit or Loss	
Loss	200
Contract Revenue (As Above)	1480
Hence, Contract Costs to be recognised in Profit or Loss	1680

**Practice Manual issued by ICAI calculates revenue by reference to stage of completion despite immediate recognition of losses. Ind AS Lab exercises better view of recognising revenue as difference between Costs and Losses recognised.*

Another calculation that is important is 'Amount Due To Customers'. Please buy our videos in order to achieve logical understanding of the concept. Nonetheless, we are offering our calculations below:

Amount Due To Customers	=	Costs Incurred till date	+	Profits/ (Losses) till date	-	Billing till date
Amount Due To Customers	=	1680	+	(200)	-	1500 (i.e. 1000 + 500)
	=	(20)	This is (-)ve figure as it is amount due 'To' customers. Had it been (+)ve figure, it would have been amount due 'From' customers.			

Disclosures as per Ind AS 11

Particulars (as of 31.03.2017)	Rs. Lakhs
Contract Revenue (for period)	1480
Contract Cost (for period)	1680
the aggregate amount of costs incurred and recognised profits (less recognised losses) to date (i.e. 1680 -200)	1480
Amount of Advance	Nil
Amount of Retention	Nil
Gross Amount Due To Customers (Liability)	20

Other Disclosures:

(a) the *methods* used to determine the *contract revenue* recognised in the period : *Revenue is recognised with reference to costs incurred till date and losses to be recognised immediately on prudence basis.*

(b) the *methods* used to determine the *stage of completion* of contracts in progress : Stage of completion is calculated by comparing total costs incurred till date (i.e. work certified and work pending certification) with total estimated cost of completion.

Question 1(d)

Mac Ltd. purchased goods on credit from Toy Ltd. for € 580 lakhs for export. The export order was cancelled. Mac Ltd. decided to sell the same goods in the local market with a price discount. Toy Ltd. was requested to offer a price discount of 10%. Toy Ltd. wants to adjust the sales figure to the extent of the discount requested by Mac Ltd. Discuss whether such a treatment in the books of Toy Ltd. is justified as per the provisions of the relevant Ind A.S.

Also, Toy Ltd. entered into a sale deed for its Land on 15"' March, 2016. But registration was done with the registrar on 20"' April, 2016. But before registration, is it possible to recognize the sale and the gain at the Balance Sheet date Rs. Give reasons in support of your answer.

Answer - Q1(d) Revenue & Events after reporting period

Standards Tested:	Take-Away: Subsequent Discounts are not a part of revenue but they result in provisions. Recognise revenue on substance.
1. Ind AS 18 : Revenue 2. Ind AS 10 : Events after reporting period	

This case study deals 2 sub cases.
Case I is with respect to Discount offered subsequent to sale out of uncertainty of collectibility.
Case II is with respect to Sale made before B/s Date but registered after B/s Date.
In Case I, a candidate is tested to differentiate discount on the date of sale and discount subsequent to sale. Discount on the date of sale is a part of revenue. However, discount post sale reflects uncertainty to collect that amount from customer. Such subsequent discount is not a part of revenue.

Case I - Subsequent Discount on Sale as a result of uncertainty at the customer end

Para , 18 Ind AS 18	Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. In some cases, this may not be probable until the consideration is received or until an uncertainty is removed. →	Revenue was recognised previously to the extent of Rs.580 L as it was certain that economic benefit will flow to entity.
	However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised. →	Subsequent uncertainty requires provision under Ind AS 37. Such discount cannot be adjusted against Revenue.

Case II - Sale of Land made before B/s Date but registered post B/s Date

In Case II, we apply substance over form in the revenue recognition. Sale deed was made on 15th March, 2016 but was registered on 20th April, 2016.

Para , 14 Ind AS 18	Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied: a. The entity has transferred to the buyer the significant risks and rewards of ownership of the goods; b. The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; c. The amount of revenue can be measured reliably; d. It is probable that the economic benefits associated with the transaction and e. The costs incurred or to be incurred in respect of the transaction can be measured reliably.

At the balance sheet date what was pending was merely a formality to register the deed. It is clear that the significant risks and rewards of ownership had passed before the balance sheet date. Hence, according to Ind AS 18, sales and gain should be recognised. Further the registration post the balance sheet date confirms the condition of sale at the balance sheet date as per Ind AS 10

Question 2

On 1st April, 2015, Vinyl Limited decided to purchase from Minal Limited its investments in two Ltd. companies i.e. Sind Ltd. and Hind Ltd. The purchase was of the entire shares of Sind Ltd. and 50% of the shares of Hind Ltd.

After acquisition by Vinyl Ltd., Hind Ltd. was to be run by Vinyl Ltd. and Minal Ltd. as a jointly controlled entity.

The terms of acquisition were as follows :

Sind Ltd. : The total consideration was based on Price Eamings Ratio of 10 applied to the reported profit of Rs. 1.80.000 of Sind Ltd. for the year 31st March, 2015. The consideration was settled by Vinyl Ltd. issuing 10% Debentures for Rs. 9.00.000 (at par) and the balance consideration was met by a new issue of Rs. 10 equity shares, based on its market value of Rs. 18 each.

Hind Ltd. : The market value of Hind Ltd. on 1" April, 2015 was mutually agreed as Rs. 90,00,000. Vinyl Ltd. settled the purchase price by issuing to Minal Ltd. Rs. 10 equity shares based on its market value of Rs. 18 each.

Vinyl Ltd. has not recorded in its books, the acquisition of the above investments or the payment of the consideration.

Particulars	Vinyl Ltd	Sind Ltd	Hind Ltd
Liabilities:			
Equity Share Capital (Rs.10 each)	20,00,000	15,00,000	17,00,000
General Reserve	48,60,000	23,58,150	15,23,760
I0%o Debentures	12,00,000	-	-
Trade Payables	4,26,860	3,48,620	6,45,390
Provision for taxes	5,98,300	8,36,210	5,23,200
Total	90,85,160	50,42,980	43,92,350
Assets:			
Fixed Assets	47,22,400	27,63,000	22,90,600
Plant & Machinery	28,39,860	13,61 ,200	13,72,880
Inventories	8,16,400	4,28,350	3,18,610
Trade Receivables	4,29,550	3,15,720	3,00,030
Cash & Bank Balance	2,76,950	1,74,710	1,10,230
Total	90,85,160	50,42,980	43,92,350

1. The current profits of Sind Ltd. and Hind Ltd. for the year ended 31st March, 2016 were Rs. 9,20,000 and Rs. 5,60,000 respectively. N0 dividends were paid by any of the companies during the year.
2. Hind Ltd., the jointly controlled entity, is to be accounted for using proportional consolidation, in accordance with Ind AS 28 "Interests in Joint Venture".
3. Goodwill in respect of the acquisition of Hind Ltd. has been impaired by Rs. 2,40,000 at 31st March, 2016. Gain on acquisition, if any. will be separately accounted.
4. The book values of the net assets of Sind Ltd. and Hind Ltd. on the date of acquisition were considered to be a reasonable approximation to their fair values.

You are asked to prepare the Consolidated Balance Sheet of Vinyl Ltd. and its subsidiary and joint ownership as at 31st March. 2016.

Standards Tested:
1. *Ind AS 111 : Joint Arrangements*
2. *Ind AS 110 : Consolidated Financial Statements*

This question deals with consolidation of Group Vinyl Ltd. with Subsidiary Sind Ltd. and Joint Operation Hind Ltd.

First Step - Shareholding Pattern of the Group

Vinyl Ltd.

100% → Sind Ltd.

50% → Hind Ltd.

Acquisition Date : 1st April, 2015
Reporting Date : 31st March, 2016
Post Acquisition Period : 1 Year

Second Step - Calculation of Goodwill/ Capital Reserve on Acquisition

2.1
We need to calculate equity as of the date of acquisition (as it approximates with FV of Net Assets acquired as of acquisition date). To do so, we will identify Reserves as of 1st April 2015

Particulars	Sind Ltd.	Hind Ltd.
General Reserve as on 31st March 2016	23,58,150	15,23,760
Less: Current profits (for the year ended 31st March 2016)	9,20,000	5,60,000
General Reserve as on 1st April 2015	14,38,150	9,63,760

2.2

Particulars	Sind Ltd.	Hind Ltd.
Total Consideration Paid		
Sind Ltd. - Rs.180,000 x 10	18,00,000	
Debentures (90000 Debentures of Rs.10 each)	9,00,000	
50000 Equity Shares of Rs.10 each at Rs. 18/ share	9,00,000	
Hind Ltd. (50% of Rs. 90,00,000)		45,00,000
250000 Equity Shares of Rs.10 each at Rs.18/ share		45,00,000

Group B/s
Add to Liability

Add to Equity: Share Capital - 5,00,000 & Securities Premium - 400000

Add to Equity: Share Capital - 25,00,000 & Securities Premium– 20,00,000

2.3

Now we can calculate Goodwill/ Capital Reserve as follows: (as of 1st April, 2015)

Particulars	Sind Ltd.	Hind Ltd.
Purchase Consideration (refer 2.2 above)	18,00,000	45,00,000
(-) FV of Net Assets As of Acquisition Date (50% in case of Hind Ltd)	29,38,150	13,31,880
Equity Share Capital of Acquiree Entity	15,00,000	17,00,000
Reserves as of Acquisition Date (refer 2.1 above)	14,38,150	9,63,760
Thus, Goodwill/ (Capital Reserves) as of 1st April, 2015	(11,38,150)	31,68,120

2.4

It is told to us that goodwill has been impaired. Thus, goodwill as of 31st March, 2016 is as follows:

Particulars	Sind Ltd.	Hind Ltd.
Goodwill/ (Capital Reserves) as of 1st April, 2015	(11,38,150)	31,68,120
(-) Impairment	NA	(2,40,000)
Goodwill/ (Capital Reserves) as of 31st March, 2016	(11,38,150)	29,28,120

Reduce Reserves

Show at Asset side

Show in Equity

Last Step: Prepare Consolidated B/s

Equity & Liabilities		Rs.	Assets		Rs.
Equity			Goodwill		29,28,120
Share Capital					
As of 1.04.2015 (Rs.10/ share)	20,00,000		Fixed Assets		
On Acquisition of Sind Ltd.	5,00,000		Vinyl Ltd.	47,22,400	
On Acquisition of Hind Ltd.	25,00,000	50,00,000	Sind Ltd.	27,63,000	
Securities Premium			Hind Ltd.	11,45,300	86,30,700
On Acquisition of Sind Ltd.	4,00,000				
On Acquisition of Hind Ltd.	20,00,000	24,00,000	Plant and Machinery		
General Reserve			Vinyl Ltd.	28,39,860	
Vinyl Ltd. (Post Acquisition)	48,60,000		Sind Ltd.	13,61,200	
Sind Ltd. (Post Acquisition)	9,20,000		Hind Ltd.	6,86,440	48,87,500
Hind Ltd.	2,80,000				
(-) Impairment of G/w	(2,40,000)	58,20,000	Inventories		
Capital Reserve		11,38,150	Vinyl Ltd.	8,16,400	
Debentures			Sind Ltd.	4,28,350	
Vinyl Ltd.	12,00,000		Hind Ltd.	1,59,305	14,04,055
On Acquisition of Sind Ltd.	9,00,000	21,00,000			
Trade Payables			Trade Receivables		
Vinyl Ltd.	4,26,860		Vinyl Ltd.	4,29,550	
Sind Ltd.	3,48,620		Sind Ltd.	3,15,720	
Hind Ltd.	3,22,695	10,98,175	Hind Ltd.	1,50,015	8,95,285
Provision for Taxes					
Vinyl Ltd.	5,98,300		Cash and Bank balance		
Sind Ltd.	8,36,210		Vinyl Ltd.	2,76,950	
Hind Ltd.	2,61,600	16,96,110	Sind Ltd.	1,74,710	
			Hind Ltd.	55,115	5,06,775
Total		1,92,52,435			1,92,52,435

Question 7 (d)

Explain Carve outs in Ind AS 103 from IFRS 3 along with reasons

Answer - Q7(d) Carve Outs in Ind AS 103 from IFRS 3 - Business Combinations

Carve Out:

Ind AS 103 requires the bargain purchase gain to be recognised in other comprehensive income and accumulated in equity as capital reserve, unless there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, in which case, it shall be recognised directly in equity as capital reserve.

Reason for Carve Out:

At present, since bargain purchase gain occurs at the time of acquiring a business, these are considered as capital reserve. Recognition of such gains in profit or loss would result into recognition of unrealised gains, which may get distributed in the form of dividends. Moreover, such a treatment may lead to structuring through acquisitions, which may not be in the interest of the stakeholders of the company.

About Your Faculty

CA. Parag V. Kulkarni
Founder & National Instructor at Ind AS Lab

Member of Institute of Chartered Accountants in England & Wales
Member of Institute of Chartered Accountants of India
First Person to complete CA from India, England and CPA from USA.
Diploma in IFR by ACCA (London) and IFRS Certified from ICAI

Taught more than 2000 Indian CAs in IFRS Certification Batch/ Intensive Course
Taught Professionals in India, Dubai, and Oman
Speaker of 3 Live IFRS Webcasts by ICAI
Co-ordinated 15 IFRS Webcasts for ICAI

Author on Book on Internal Audit (Presently used by ICSI for Dip. in Internal Audit Course)
Previously - Co-opted member on Young Members' Empowerment Committee of ICAI

Presently working on Ind AS Implementation of Phase I & Phase II Companies

Presently Parag runs Ind AS Lab® that built first ever Para by Para E-learning course on Ind AS. You can visit website to understand more details about the lab.

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Statement of Profit And Loss = 1. Profit or Loss (+) 2. Other Comprehensive Income

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