



14th December 2014

Total No. of Questions : 39
Total Marks : 100

(Code - IEC)
Total No. of printed pages : 9
Time Allowed : 3 Hours

All the questions are compulsory. Question No. 1 to 30 carry 1.5 marks each, Question No. 31 to 37 carry 5 marks each and Questions 38 to 39 carry 10 marks each.

PART - A
OBJECTIVE TYPE QUESTIONS

(30 Questions x 1.5 marks each = 45 marks)

State whether each of the following statements is true or false (with reasons)

- Q1.** Contingent Liabilities are recognised in Consolidated Financial Statements but are not recognised in separate financial statements. Rather, in separate financial statements only disclosure of Contingent Liabilities is required.
- Q2.** If future benefits under a contract are expected to be less than the unavoidable costs under it, no provision is required for future excess costs.
- Q3.** Operating Lease is defined as lease of a short period of one year.
- Q4.** Qualifying Asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
- Q5.** Equity, Liability and Assets are components of Financial Statements.
- Q6.** Predictive Value and Confirming Value are two Fundamental Qualitative Characteristics of Financial Statements.
- Q7.** With regards to recognition and measurement of short term employee benefits, actuarial valuation is required in measuring these obligations resulting in recognition of actuarial loss or gain.
- Q8.** Government grants in the form of transfer of land and building are called as Non Monetary Grants.
- Q9.** Operating Segment's operating results are regularly reviewed by the entity's segment manager.
- Q10.** Selling Costs are not included as a product cost while valuing Inventories under IAS 2.

Fill in the blanks

Q11. The recognition criteria in IAS18 are applied _____

- a) separately to each transaction.
- b) in certain circumstances, it is necessary to apply the criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction.
- c) are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole.
- d) to a bunch of transactions with the same counterparty provided the risks and rewards of ownership are negotiated at the same time.

Alternatives

- 1) All are true
- 2) Only a is true
- 3) Only b is true
- 4) Only a, b and c are true

Q12. Under IFRIC 18, a transfer of an item of Property Plant & Equipment from the customer is an exchange for dissimilar goods or services. Consequently, the entity recognizes _____

- a) revenue in accordance with IAS 18 *Revenue*.
- b) A provision in accordance with IAS37
- c) A liability in accordance with IAS37
- d) Revenue as per IAS18 Revenue after the deferment conditions are no longer applicable

Q13. As per IFRIC 13 'Customer Loyalty Programmes', the accounting treatments in the IFRIC is applicable to _____.

- a) Award credits that can be redeemed for goods and services not supplied by the entity
- b) incentives provided at the entrance to the store
- c) incentives provided on the street (for example a price reduction on a particular product) rather than in connection with a sale
- d) a voucher attached to a product that can only be purchased as part of the sales transaction

Alternatives

- 1) Only a and d are true
- 2) Only a is true
- 3) Only d is true
- 4) Only b and c are true

Q14. Under IFRIC12 Service concession arrangements, if the operator is paid for the construction services partly by a financial asset and partly by an intangible asset it is necessary to account separately for

each component of the operator's consideration. The consideration received or receivable

- a) for both components shall be recognised initially at the fair value of the consideration received or receivable.
- b) for both components shall be recognised initially at the actual value of the consideration received or receivable.
- c) for both components shall be recognised initially at the agreement value of the consideration received or receivable.
- d) Shall be recognized separately at the agreement value of the relative fair values so as to split them and account at respective values.

Alternatives

- 1) Only a and d are true
- 2) Only a is true
- 3) Only d is true
- 4) Only b and c are true

Q15. As per IAS 19 Employee Benefits, in determining the present value of the defined benefit obligation, the discount rate used should be determined by reference to _____

- a) be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.
- b) be based on market expectations, during the reporting period, for the period over which the obligations are to be settled
- c) be based on economic outlook at the end of the reporting period
- d) be based on market expectations, as at the opening balance sheet date

Q16. As per IAS20 'Accounting for Government Grants and Disclosure of Government Assistance', the definition of government grants excludes certain forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity. Examples of such government assistance that cannot reasonably have a value placed upon them are _____

- a) free technical or marketing advice and the provision of guarantees.
- b) a government procurement policy that is responsible for a portion of the entity's sales.
- c) Land received from the government on a free of cost basis
- d) Tax free holiday for a period of 10 years.

Q17. As per IAS21 - The Effects of Changes in Foreign Exchange Rates, exchange differences resulting from a severe devaluation or depreciation of a currency against which there is no means of hedging are _____

- a) Recognised in Profit or loss account
- b) Statement of other comprehensive income
- c) Statement of changes in equity
- d) Capitalized in the carrying amount of related item of PPE

Q18. Which of the following is not required to be presented as minimum information on the face of the balance sheet, according to IAS 1 is _____

- a) Investment property.
- b) Investments accounted for under the equity method
- c) Biological assets.
- d) Contingent liability.

Q19. As per IAS23 Borrowing costs, qualifying assets _____

- a) Exclude financial assets and inventories manufactured or otherwise produced, over a short period of time
- b) Exclude assets that are ready for their intended use or sale when acquired
- c) Can include investment properties in certain circumstances
- d) Can include intangible assets in certain circumstances

Alternatives are:-

- 1) Only a) is true
- 2) Only c) and b) are true
- 3) Only b) and d) are true
- 4) All are true

Q20. As per 'IAS7 Cash flow statements' - the cash flows of a foreign subsidiary shall be translated:-

- a) at the exchange rates between the functional currency and the foreign currency at the dates of the cash flow
- b) at the exchange rates between the functional currency and the foreign currency at the dates of the transaction irrespective of the date of the cash flow
- c) at the exchange rates between the functional currency and the foreign currency at the reporting date
- d) at the exchange rates between the functional currency and the foreign currency at the year end when the cash flow statement is being drawn up.

Calculate the correct amount in each of the following statement:

Q21. A ltd received a government grant to meet the cost of erecting a manufacturing facility in a backward area amounting to Rs. 1 crore. The cost of installing the manufacturing the plant is Rs. 1.5 crores. As per the accounting option given in IAS20, A ltd deducted the cost of the plant by the related government grant and disclosed a net carrying amount before depreciation of Rs. 0.5 crores. The amount of deferred tax liability to be recognised, assuming a tax rate of 30% in the economy is:-

- a) Rs. 30 lakhs
- b) Rs. 15 lakhs
- c) Rs. Nil
- d) None of the above

Q22. Cements Ltd manufactures and sells cement. It had an inventory of 500 Tons as of the balance sheet date. The net realisable value of this inventory lying at Kolkatta is Rs. 15 crores. The fair value of this inventory based on the highest and best use was Rs. 17 crores. The principal market for cement manufactured by Cement Ltd is the National Capital region where the same inventory would have a fair value of Rs. 16 crores. The cost of manufacturing the inventory of 500 tons is Rs. 14.5 crores.

At which value will the inventory be carried in the financial statements using the valuation criteria given in IFRS:-

- a) Rs. 15 crores
- b) Rs. 17 crores
- c) Rs. 16 crores
- d) Rs. 14.5 crores

Q23. Power Ltd estimated the Asset retirement obligation for cleaning up the site in 2010 of Rs. 50 lakhs in respect of its hydro electric power plant near the Yamuna river. Rs. 50 lakhs represents the nominal amount expected to be incurred at the end of the 15 year life in 2024 (of the hydro electric power plant). The cost of capital of the company is 9.5% per annum. The carrying amount of the Asset Retirement obligation provision and the amount of interest cost to be charged to Statement of comprehensive income as per IAS37 in the current year (2013) is:-

- a) Rs. 16,82,676 and Rs. 145,986
- b) Rs. 50 lakhs and Rs. 4.75 lakhs
- c) Rs. 10 lakhs and Rs. 95,000
- d) None of the above

Q24. PQR Ltd has a foreign currency denominated loan of USD 1 million. The coupon rate of the loan on 1st January (being the date of taking the loan) was 5%. The exchange rate as of 1st January was Rs. 65 and that as of the reporting date i.e. 31st December was Rs. 62. The amount of interest cost to be recognized in the books of account for the year ended 31ST December is :-

- a) Rs. 31 lakhs
- b) Rs. 32.5 lakhs

- c) Rs. 30 lakhs
- d) None of the above

Q25. Zed ltd has taken a school on lease from the local municipal authority in Assam. The lease rentals to be paid to the local municipal authority for the land element is Rs. 500 per month and that attributable to the building element of the school is Rs. 150,000 per month. Therefore the total monthly lease rental is Rs. 150,500. The economic life of the building is 9 years. As per the terms of the lease agreement, the school has been taken on lease from the municipal authorities for a period of 8.5 years. The accounting treatment of this lease will be:-

- a) The land element and the building elements will be classified separately as an operating lease
- b) The land element and the building elements will be classified separately as a finance lease
- c) The land and building elements will be treated as a single unit for the purpose of lease classification and will be treated as a finance lease
- d) The land and building elements will be treated as a single unit for the purpose of lease classification and will be treated as an operating lease

Q26. The fair value less costs to sell of assets included in a disposal group has been determined at Rs. 3,500. Prior to the held for sale classification, but after regular impairment testing procedures, the carrying amount of the assets was determined at Rs. 7,500.

The following table illustrates the situation prior to and after recognition of the IFRS5 impairment loss:

Particulars of assets	Prior to IFRS5 write-down
Goodwill	1,500
Other intangible assets	1,000
Property, plant and equipment	2,000
Inventory	1,500
Trade receivables	1,500
Total	7,500

After IFRS write down the carrying amount of the goodwill, other intangible assets and Property, plant and equipments respectively will be:-

- a) Rs. Nil; Rs. 167 & Rs. 333 respectively
- b) Rs. 1333; Rs. 889; Rs. 1,778 respectively
- c) Rs. 166; Rs. 111; Rs. 222 respectively
- d) None of the above

Q27. Z ltd applies IFRS8 operating segments for reporting segment information. The CODM evaluates the performance of the following operating segments:-

- a) Foods division with a turnover of 15% of the total operating segments
- b) Beverages division with a turnover of 11% of the total operating segments
- c) Packaged drinking water division with a turnover of 25% of the total operating segments
- d) All other segments as a residual

In order to comply with IFRS8 operating segments, Z Ltd will have to :-

- a) Add more operating segments until at least 70% of Z Ltd's revenue is included in reportable segments
- b) Disclose the 4 broad segments as reviewed by the CODM
- c) Add more operating segments until at least 90% of Z Ltd's revenue is included in reportable segments
- d) Add more operating segments until at least 75% of Z Ltd's revenue is included in reportable segments

Q28. C Ltd revalued its Property Plant and equipment by 10% and passed an entry debiting Property Plant and equipments and credited Revaluation reserve in Statement of Other Comprehensive Income by Rs. 50 lakhs. In a subsequent year, due to huge fluctuation in fair values in the economy the valuer was engaged again and the revalued amount resulted in a net decrease by Rs. 15 lakhs. The revaluation decrease shall be accounted as :-

- a) A charge to Profit and loss account of Rs. 15 lakhs
- b) A charge to revaluation reserve in Statement of Other Comprehensive income of Rs. 15 lakhs
- c) A charge to Profit and loss account of Rs. 35 lakhs
- d) A charge to Revaluation reserve in Statement of Other Comprehensive income of Rs. 35 lakhs

Q29. P ltd is in the business of trading garments. It purchased a fresh consignment of garments last month. The following information has been provided in respect of this transaction:-

- 1) Purchase price (basic):- Rs. 35 lakhs
- 2) Trade discounts and volume rebates earned:- Rs. 1 lakh [not included above]
- 3) Cenvat credit availed on the purchase:- Rs. 2.5 lakhs [not included above]
- 4) Freight inwards:- Rs. 45,000.
- 5) Unloading costs at godown of P ltd:- Rs. 10,000
- 6) Costs of stock transfer from Godown to sales depot:- Rs. 5,000
- 7) Costs of placing order i.e. time costs of administrative staff involved in purchase department:- Rs. 45,000
- 8) The net realisable value of the inventories at the sales depot has been determined at Rs. 34,57,000

The above consignment is currently at the sales depot. The carrying amount of inventories computed in accordance with IAS2 Inventories at the sales depot will be:-

- a) Rs. 34,60,000
- b) Rs. 35,05,000
- c) Rs. 34,57,000
- d) None of the above

Q30. On April 1, 2012 an entity acquired a land for Rs. 5,00,000 including Rs.10,000 non-refundable purchase taxes. The purchase agreement provided for payment to be made in full on March 31, 2013. Legal fees of Rs. 3,000 were incurred in acquiring the land and paid on April 1, 2012. The land is held for capital appreciation. An appropriate discount rate is 10 per cent per annum.

The entity shall measure the initial cost of the land at:

- (a) Rs. 5,03,000
- (b) Rs. 5,13,000
- (c) Rs. 4,93,000
- (d) Rs. 4,57,545

PART – B
DESCRIPTIVE QUESTIONS

Answers should be given in 5-10 sentences

(7 Questions x 5 marks each = 35 marks)

Q31. IFRS13 states that the “The valuation technique(s) used should maximise the use of relevant observable inputs and minimise unobservable inputs”. Explain what do you understand by this statement?

Q32. What do you understand by the term “class of instruments that is subordinate to all other classes of instruments” as explained in IAS32?

Q33. Compute Goodwill/ Gain on Bargain Purchase

X Ltd. Acquires 75% shares of Y Ltd. For \$140 million. The identifiable assets are measured at \$250 million and the liabilities assumed are measured at \$50 million. The valuer calculated fair value of 25% NCI as \$42 million. Calculate Goodwill/ Gain on Bargain purchase assuming –

1. NCI is valued at Fair Value
2. NCI is valued at proportion of net assets.

Also write accounting entry in first case.

Q34. X Ltd. Leases asset on 1st Jan, 20X4

Terms of Lease –

- 1) Nonrefundable deposit of \$5800 at inception.
- 2) 6 Annual installments of \$16000 payable in arrears
- 3) FV of asset = \$80000 = PV (MLP)
- 4) Useful life 5 years
- 5) Lease agreement guaranteed to lessor – Asset can be sold at \$8000 at the end of the lease term.
- 6) Setting up cost at inception \$2000.
- 7) Rate implicit in the lease 10%

Prepare relevant Extracts from the Financial Statements for year ended 31st Dec, 20X4.

Q35. Explain the concept of “Chief Operating Decision maker” as given in IFRS8 Operating segments? Explain the significance of CODM from the financial reporting perspective as given in IFRS8.

Q36. Comment on whether the following items purchased by entity can be recognized as property, plant, and equipment:

- I. Small spares for \$ 5,000.
- II. Standby equipment expected to be used for 3 years.

- III. Machinery under the custody of a bank as security, which the bank has refused to release to the entity because the purchaser has not paid back a loan secured on it

Q37. Describe the provisions relating to “Unbundling” of deposit components of insurance contracts as stated in IFRS4?

PART – C

CASE STUDY

(2 Questions x 10 marks each = 20 marks)

Q 38: X Ltd is an entity that prepares consolidated financial statements to 30 September each year. Below is the detail of an event that occurred during the year ended 30 September 2014, followed by some questions concerning their treatment in the financial statements for the year. The financial statements are due to be authorised for issue on 25 December 2014.

On 31 July 2014, the directors decided to discontinue the business of one of X Ltd's wholly owned subsidiaries, Y Ltd. They decided to cease production on 31 October 2014, with a view to disposing of the property, plant and equipment soon after 30 November 2014, the date scheduled for the completion of the sale of all Y Ltd's inventory and the settlement of all liabilities due to its suppliers and employees. Any amounts still owing by Y Ltd's customers at 30 November 2014 would be collected by other group companies on Y Ltd's behalf. On 15 August 2014, the directors made a public announcement of their intentions and offered the employees of Y Ltd termination payments or alternative employment opportunities elsewhere in the group.

Financial details are as follows:

- On 31 July 2014, the directors estimated that termination payments to employees would total \$10 million and, although full details are not yet available, the costs of re-training employees who would remain employed by other group companies is expected total \$1 million. Actual termination costs paid out on 30 November 2014 were \$10.5 million and the latest estimate of total re-training costs is \$800,000.
- Y Ltd was leasing a property under an operating lease that expires on 31 December 2020. On 30 September 2014 the present value of the future lease rentals (using an appropriate discount rate) was \$4 million. On 30 November 2014 Y Ltd made a payment to the lessor of \$3.8 million in return for early termination of the lease. There were no rental payments made in October or November 2014.
- The loss after tax of Y Ltd for the year ended 30 September 2014 was \$12 million. Y Ltd made further operating losses totalling \$5 million for the two month period 1 October 2014 to 30 November 2014.
- At 30 September 2014, the property, plant and equipment of Y Ltd had a carrying amount of \$20 million (\$12 million for its owned property and \$8 million for its plant and equipment) and a recoverable amount of \$22 million (\$17 million for its owned property and \$5 million for its plant and equipment). The carrying amount of \$20 million is after deducting a full year's depreciation. A number of questions have arisen from the decision to discontinue.

Required:

- **Is any provision for closure costs necessary and if so for what amount?**
- **How should the decision to discontinue the business of Y Ltd be presented on the consolidated statement of comprehensive income?**

- **What is the correct carrying amount for the property, plant and equipment? Should it be presented as non-current assets held for sale given that we know it was sold after the year end?**

Q39: X Ltd is an entity that prepares consolidated financial statements to 30 September each year. Below is the detail of an event that occurred during the year ended 30 September 2014, followed by some questions concerning their treatment in the financial statements for the year. The financial statements are due to be authorised for issue on 25 December 2014.

On 1 July 2014, wholly-owned subsidiary, Z ltd., signed a contract to manufacture a machine for a customer for a fixed price of \$12 million. The customer paid a deposit of \$3 million on 1 July 2014 and the balance is payable upon completion and delivery of the machine. This is expected to take place on 31 December 2014.

Financial details are as follows:

- Z ltd. has purchased materials costing \$5 million for use on the contract. \$4 million of these materials had been used by the year end.
- The manufacture of the machine started on 1 August 2011 and was completed on 30 November 2014. During this period certain property, plant and equipment of Z ltd. was used exclusively in the manufacturing process. Annual depreciation on this property, plant and equipment is \$3 million.
- Z ltd. incurred direct labour costs and other production overheads totalling \$300,000 per month throughout the manufacturing period.
- General administrative overheads of \$150,000 per month were allocated to the contract using Z ltd.'s normal cost allocation model.
- Z ltd. determines the extent of completion of construction contracts by comparing the costs incurred on the contract to date with the total expected contract costs. There are two key questions that have arisen in relation to the above outlined contract.

Required:

- **How much revenue and profit on this contract should be reported in the statement of comprehensive income?**
- **How should the contract be reported in the statement of financial position?**