



14th September, 2014

(Code - IEC)

Total No. of Questions : 39

Total No. of printed pages : 12

Total Marks : 100

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 the correct answer for each of the following statements

- Q1.** The elements of financial statements which relate to financial position are:
- (a) Income and expenses
 - (b) Income, expenses and equity
 - (c) Assets, liabilities and equity
 - (d) Assets, liabilities, income and expenses
- Q2.** When an entity opts to present the income statement classifying expenses by function, which of the following is not required to be disclosed as “additional information”?
- (a) Depreciation expense.
 - (b) Employee benefits expense.
 - (c) Director’s remuneration.
 - (d) Amortization expense.
- Q3.** The fundamental qualitative characteristics of financial information are:
- (a) Relevance and faithful representation
 - (b) Relevance and comparability
 - (c) Faithful representation and comparability
 - (d) Verifiability and understandability
- Q4.** Which of the following is not a characteristic of an entity's cash equivalents, as defined by international standard IAS 7?
- (a) A short-term investment
 - (b) A highly liquid investment

- (c) An investment which is readily convertible into known amounts of cash
- (d) An investment which is subject to significant risk of changes in value

Q5. The primary users of general purpose financial reports are:

- (a) Investors and employees
- (b) Investors and lenders
- (c) Employees and lenders
- (d) Investors and customers

Q6. If the current cost measurement basis is used, assets are measured at:

- (a) Replacement cost
- (b) The amount paid to acquire them
- (c) The amount which could be obtained by selling them
- (d) Present value

Q7. Under the concept of physical capital maintenance:

- (a) profit is defined in terms of the increase in an entity's operating capability during an accounting period
- (b) profit is defined as excess of income over expenses
- (c) profit is defined as increase in economic benefits
- (d) profit is the difference in equity / net assets at the end of the year compared to that at the beginning of the year

Q8. When an undertaking presents both consolidated and separate financial statements, the disclosures required by IAS 33 required to be presented mandatorily:

- (a) For both sets of statements.
- (b) Only for the consolidated information.
- (c) Only for the separate financial statements
- (d) Either in consolidated or separate financial statements as elected by the entity

Q9. In selecting an accounting policy you should review:

- (a) The Standards only
- (b) The Interpretations only
- (c) The Framework only
- (d) Standards, Interpretations and Framework

Q10. Errors include:

- (i) Mathematical mistakes.
- (ii) Mistakes in applying accounting policies.
- (iii) Oversights or misinterpretations of facts.
- (iv) Fraud
- (v) Changes in provisions for bad debts.

Alternative Choices:

- (a) (i) – (ii)
- (b) (i) – (iii) + (v)
- (c) (i) – (iv)
- (d) (i) – (v)

Fill in the blanks

Q11. Key management personnel *are those persons having authority and responsibility* for _____:

- (a) planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.
- (b) subsidiaries activities and operations
- (c) Planning, directing and controlling the activities of the entity but excludes any director
- (d) planning, directing and controlling the activities of the entity, directly or indirectly, but including only executive director of the entity.

Q12. A change in accounting policy which does not result from the initial application of an international standard must normally be accounted for _____:

- (a) Retrospectively
- (b) Prospectively
- (c) Either retrospectively or prospectively
- (d) Prospectively unless it is impracticable to do so

Q13. Under IFRS 5, an entity is ‘committed to distribute’ the asset (or disposal group) to the owners i.e. the assets must be _____:

- (a) available for immediate distribution in their present condition and the distribution must be “highly probable”.
- (b) available for immediate distribution in their existing condition and the distribution must be “virtually certain”
- (c) available for immediate distribution in their existing condition and the distribution must be “reasonably certain”
- (d) available for immediate distribution in their present condition and the distribution must be “virtually certain”

- Q14.** As per Core Principle given in IAS 23, *Borrowing Costs*, an entity shall capitalise borrowing costs that are “directly attributable” to the _____ of a qualifying asset as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably:
- (a) acquisition, construction or production
 - (b) acquisition
 - (c) production
 - (d) construction
- Q15.** Under IAS17, *Leases*, A finance lease of an asset by a manufacturer or dealer lessor gives rise to two types of income i.e. _____:
- (a) profit or loss equivalent to the profit or loss resulting from an outright sale of the asset being leased, at normal selling prices (reflecting any applicable volume or trade discounts) and finance income over the lease term.
 - (b) profit or loss equivalent to the profit or loss resulting from an outright sale of the asset being leased, at normal selling prices (reflecting any applicable volume or trade discounts) and operating income over the lease term.
 - (c) profit or loss equivalent to the profit or loss resulting from a deferred sale of the asset being leased, at normal selling prices (reflecting any applicable volume or trade discounts) and finance income over the lease term.
 - (d) profit or loss equivalent to the profit or loss resulting from a deferred sale of the asset being leased, at normal selling prices (reflecting any applicable volume or trade discounts) and operating income over the lease term.
- Q16.** As per the core principle given in IFRS 8 ‘*Operating Segments*’ an entity shall disclose information to enable users of its financial statements to _____ of the business activities in which it engages and the economic environments in which it operates:
- (a) evaluate the nature and financial effects
 - (b) evaluate the nature and timing of financial effects
 - (c) evaluate the nature and amount of financial effects
 - (d) evaluate the nature, timing and amount of financial effects
- Q17.** Under IAS 12 *Income Taxes*, deferred tax assets arising from deductible temporary differences are recognized when _____:
- (a) there is a reasonable expectation of realisation
 - (b) it is probable that taxable profits will be available against which the deferred tax asset can be utilized
 - (c) the timing difference arises except when the carrying amount and tax base differs at initial recognition
 - (d) it is virtually certain that the timing difference will be realised

Q18. The enhancing qualitative characteristics of financial information include_____:

- (a) Relevance and faithful representation
- (b) Comparability and understandability
- (c) Relevance and timeliness
- (d) Understandability and faithful representation

Q19. Definition of government grants excludes _____:

- (a) Certain forms of government assistance which cannot reasonably have a value placed upon them
- (b) Certain forms of government assistance which can reasonably have a value placed upon them
- (c) Certain forms of government assistance which cannot accurately have a value placed upon them
- (d) Certain forms of government assistance which cannot have a value placed upon them

Q20. Short term compensated absences are a category of short term employee benefits. The two types of short term compensated absences are_____:

- (a) Accumulating and non-accumulating short term compensated absences
- (b) Non-accumulating short term compensated absence
- (c) Accumulating absence
- (d) Termination benefits

Calculate the correct amount in each of the following statement:

Q21. D Ltd. needs to make a provision for warranties in its Statement of Financial position for a total population of 1,00,000 items sold for which warrant period has still no expired. It is presumed that the time value of money is not material. The probability distribution of the alternative scenarios of claims made on the Company is as follows:

Scenario	Probability	Expected cost of repairing each defective unit	No of defective units expected
Optimistic	0.3	Rs. 20,000	35,000
Most likely	0.5	Rs. 25,000	36,000
Pessimistic	0.2	Rs. 30,000	29,000
Grand total			1,00,000

The amount of provision to be made in the books of account as of the reporting date as per IAS 37 is:

- (a) Rs. 75 lakhs
- (b) Rs. 80 lakhs
- (c) Rs. 83.40 lakhs

(d) None of the above

Q22. A Ltd. has a subsidiary B Ltd. Dividends receivable from B ltd have a carrying amount of 100. The dividends are not taxable. The tax rate in the economy is presumed to be 30%. The tax base of the dividend receivable is:

- (a) Rs. Nil
- (b) Rs. 100
- (c) Rs. 300
- (d) Rs. 150

Q23. P Ltd. is in the process of developing its intangible asset for which the research phase has been completed. P Ltd. has a centralized treasury department which borrows money centrally for the various business divisions of the Company. Since P Ltd. has not borrowed funds specifically for financing the development phase of the intangible asset, the Company is not sure of the borrowing costs eligible for capitalisation. The weighted average of the borrowing costs applicable to the borrowings of P Ltd. that are outstanding during the period is 11%. The weighted average of the borrowing costs incurred over the last 3 years was 10%. P Ltd. has till the reporting date incurred a total costs of Rs. 45 lakhs on the intangible asset's development phase. The amount of borrowing costs eligible for capitalisation as per IAS 23 assuming that the expenditure was incurred fully at the beginning of the accounting period is:

- (a) Rs. 4,95,000
- (b) Rs. Nil
- (c) Rs. 4.5 lakhs
- (d) None of the above

Q24. Calculate minimum lease payments for A Ltd. who took an asset on a 7 years lease from B Ltd. using the following information:

Payments over the lease term Rs. 2,500 per month

Contingent rent Rs. 20,000

Cost for services given by B Ltd. Rs. 40,000

Taxes to be reimbursed to B Ltd. Rs. 15,000

Residual value guaranteed by A Ltd. Rs. 5,000

Fair value of asset after 7 years Rs. 6,000

Also, A Ltd. has an option to purchase the asset after a period of 7 years at Rs. 2,000. It is reasonably certain that A Ltd. will exercise the option.

Alternative choices:-

- (a) Rs. 217,000
- (b) Rs. 210,000
- (c) Rs. 215,000
- (d) Rs. 212,000

Q25. A Ltd is involved in manufacturing process. It owns properties that are occupied in the manufacturing process. In addition, it had invested 3 years ago in an investment property primarily with the objective of capital appreciation. The cost of the investment property was Rs. 25,00,000. At the beginning of the current reporting year the fair value of the property has appreciated to Rs. 65,00,000. A Ltd follows the Cost model for accounting its investment property. The carrying amount of the investment property after considering depreciation for 3 years was Rs. 18.50 lakhs. During the year, there was news of a scam whereby the land on which the property stood was declared as tainted due to lack of proper title in favour of the builder from whom the property was purchased. As of the reporting date, A Ltd was informed by the builder that the matter was being contested in a Court of law. After the balance sheet date, there was a firm court order refuting the scam as malicious and baseless and thereby confirming the clean conveyance of the title in the land. However, due to the negative publicity, the fair values of the properties in that area have fallen to Rs. 23 lakhs. The impairment provision to be recognized in the books of account will be:

- (a) Rs. 2 lakhs
- (b) Rs. 1.5 lakhs
- (c) Rs. 42 lakhs
- (d) Nil

Q26. Reliable Finance leases Ltd. has renewed the lease of an asset taken on an operating lease as per the following lease payments schedule for a period of 5 years:-

Year 1:- Rs. 15,000

Year 2:- Rs. 20,000

Year 3:- Rs. 20,000

Year 4:- Rs. 25,000

Year 5:- Rs. 25,000

Further, Reliable Finance leases Ltd received an incentive of Rs. 5,000 in year 1 [not included in the above rentals schedule] as an incentive from the lessor for renewing the lease.

The amount of lease expense to be recognised in the Statement of Comprehensive income in year 1 is:-

- (a) Rs. 20,000
- (b) Rs. 15,000
- (c) Rs. 21,000
- (d) Rs. 14,000

Q27. B Ltd. has invested in certain bonds. The fair values of this bonds in different markets to which B Ltd. has an access is as follows:

- (a) Principal market Rs. 500
- (b) Highest and best use:- Rs. 600

- (c) Net present value of expected cash flows:- Rs. 550
- (d) Asset based valuation approach Rs. 450

The fair value to be considered as per IFRS 13 will be?

Q28. Q Ltd has decided to divest its foods division two years ago and has therefore classified the assets belonging to the foods divisions as held for sale. Management of Q Ltd had estimated the costs to sell at a nominal amount of Rs. 25 lakhs. The present value of the costs to sell as of the beginning of the year at 10% cost of capital was Rs. 20,66,116. The amount of interest costs to be recognized in the current year is:

- (a) Rs. 2,06,611
- (b) Rs. 5,00,000
- (c) Rs. 4,33,884
- (d) None of the above

Q29. Conglomerate Ltd is involved in several lines of business across different geographical areas. The Chief Operating Decision Maker (CODM) reviews the financial performance and allocates resources to the business divisions by reviewing certain internal reports. As per the aggregation criteria given in IFRS8, the entity shall disclose reportable segments as per the following aggregation criteria:

- (a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is **10 per cent or more of the combined revenue**, internal and external, of all operating segments; The absolute amount of its **reported profit or loss** is **10 per cent or more** of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; Its **assets are 10 per cent or more** of the combined assets of all operating segments.
- (b) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is **20 per cent or more of the combined revenue**, internal and external, of all operating segments; The absolute amount of its **reported profit or loss** is **20 per cent or more** of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; Its **assets are 20 per cent or more** of the combined assets of all operating segments.
- (c) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is **15 per cent or more of the combined revenue**, internal and external, of all operating segments; The absolute amount of its **reported profit or loss** is **15 per cent or more** of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; Its **assets are 15 per cent or more** of the combined assets of all operating segments.
- (d) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is **25 per cent or more of the combined revenue**, internal and external, of all operating segments; The absolute amount of its **reported profit or loss** is **25 per cent or more** of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that

did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; Its **assets are 25 per cent or more** of the combined assets of all operating segments

- Q30.** XYZ Limited has a cash-generating unit 'Plant A' as on April 1, 2012 having a carrying amount of Rs. 1,500 crores. Plant A was acquired under a business combination and goodwill of Rs. 250 crores was allocated to it. It is depreciated on straight line basis. Plant A has a useful life of 10 years with no residual value. On March 31, 2013, Plant A has a recoverable amount of Rs. 700 crores. Calculate the impairment loss on Plant A. Also, prescribe its allocation as per IAS 36.

Particulars	Goodwill [Rs. Crores]	Identifiable assets (Rs. Crores)	Total (Rs. Crores)
Historical costs	250	1,500	1,750
Depreciation 2012- 13	-	(150)	(150)
Carrying amount	250	1,350	1,600

The carrying amounts of the Goodwill and other identifiable assets after passing the impairment entry will be:-

- (a) Rs. Nil and Rs. 700
- (b) Rs. Nil and Rs. 1,350
- (c) Rs. Nil and Rs. 900
- (d) None of the above

PART – B
DESCRIPTIVE QUESTIONS

Answers should be given in 5-10 sentences

(7 Questions x 5 marks each = 35 marks)

- Q31.** What do you understand by the term “Embedded derivative”?
- Q32.** What do you understand by the terms “Unit of account” and “Unit of valuation” in the context of IFRS13 Fair value measurements and how do they differ? How should the entity determine the appropriate ‘unit of account’/‘unit of valuation’ when measuring fair value?
- Q33.** Explain the key difference between IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* and existing AS 5 (revised 1997), *Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies*.
- Q34.** ABC Limited has a functional currency which is the currency of an ‘Hyperinflationary’ economy as stated in IAS 29 *Financial reporting in hyperinflationary Economies*. Please advise the management of ABC Limited on the characteristics of the economic environment of a country which indicates that it is Hyperinflationary?
- Q35.** Explain the definition of Business as given in IFRS 3, *Business Combinations*?
- Q36.** Explain one key difference in the revenue recognition criteria given in the new IFRS 15 compared to the existing revenue recognition criteria given in IAS 18, *Revenue*?
- Q37.** How are gain and losses arising on initial recognition of a biological asset and agricultural produce measured as per IAS 41?

PART – C

CASE STUDY

(2 Questions x 10 marks each = 20 marks)

- Q38.** A Ltd. purchased the entire business of B Ltd. for a purchase consideration of Rs. 9,000 crores. The details and breakup of the net assets taken over on historical cost basis is provided below. A Ltd. accounted for the acquisition entry based on historical costs instead of the fair values approach as required by IFRS 3, *Business Combinations*.

Particulars	Historical cost in Rs Crores	Fair value at date of acquisition in Rs. Crores
Office buildings	8,000	8190
Factory buildings	1,000	1255
Vehicles	5	5
Plant and machinery	2995	3050
Tangible Assets of B ltd taken over	12,000	12,500
Liabilities of B Ltd taken over	7,500	7,700
Net assets taken over	4,500	4,800
Purchase consideration - Cash paid	9,000	

The contingent liabilities of B Ltd. included legal action initiated by one of the customers against it for defective products supplied by B Ltd. The contingent liabilities taken over during the acquisition of B Ltd was not recognised during acquisition accounting but merely disclosed in financial statements amounting to Rs.15 crores. The contingent liabilities of B Ltd. also include a possible obligation that arose from past events whose existence will be confirmed only by the occurrence / non-occurrence of future events amounting to Rs. 5 crores. This contingent liability pertains to the possibility that B Ltd may have to return a government grant received if the conditions attached to it are not fulfilled. Assume the tax rate applicable to the company to be 30%.

Requirement: In order to re-state the above business acquisition recorded in the books of account from Indian GAAP to IFRS, please advise the management of A Ltd. on the manner of restatement, relevant provisions of IFRSs and adjustment accounting entry to be passed.

Q39. Easy Finance Ltd. is a finance company. The management of Easy Finance Ltd. has engaged you as a consultant to advise on complex issues relating to classification of the fair value referential for financial assets, financial liabilities and derivatives. The issues for which you are required to provide advise are as follows:

- (a) For financial assets and liabilities and derivatives that have maturities longer than instruments for which market pricing information is available, how should the fair value measurement be categorized?
- (b) How should Easy Finance Ltd determine whether entity-derived inputs are corroborated by correlation to observable market data for the purpose of determining if they are Level 2 inputs?