I. **Answers to Multiple Choice Questions (MCQs)**

1. Option (c) : Factory - Rs. 14,400 thousand and Head office- Rs. 20,000 thousand

   **Hints**
   
   - **Dep on factory PPE** = Rs. 1,600 thousand,
     - WDV as on 31st March 2017 = Rs. 14,400 thousand
     - Recoverable amount = Rs. 15,000 thousand
     - Carrying amount = Lower of recoverable amount and WDV
       = Rs. 14,400 thousand
   
   - **Dep on Head office PPE** = Rs. 1,100 thousand,
     - WDV as on 31 March 2017 = Rs. 20,900 thousand
     - Recoverable amount = Rs. 20,000 thousand
     - Carrying amount = Lower of recoverable amount and WDV
       = Rs. 20,000 thousand

2. Option (a) : (i) and (ii)

3. Option (c) : Item A- Rs. 5 lac and Item B- Rs. 2.30 Lac

   **Hints**
   
   - Item A should be recognised at cost, which is Rs 5 lacs. Replacement cost is irrelevant for item A. This is because material was purchased for a profitable order, the net realisable value will be any way higher than the cost so no write- down is required. Item B should be recognized at Rs. 2.30 Lac being the net realisable value (Rs.2.60 Lac - Rs. 0.30 Lac) i.e. lower from cost Rs. 2.5 lac.
4. Option (b) : Increase inventory by Rs 2 lacs in the prior year comparative statement of financial position alongwith the opening retained earnings.

Hints
The adjustment should be made retrospectively i.e. the prior year comparative financial statements are adjusted, alongside the opening retained earnings. The adjustment will increase the closing inventory of previous year. This will increase assets in previous year and also increase profits as higher amount would have been deducted from cost of sales.

5. Option (a) : ABC Ltd. recognises a liability and an expense of 1.5% of profit

6. Option (a) : Rs. 13,717

Hints
The sale should initially be discounted to present value using ABC Ltd.'s cost of capital. Rs. 2 lacs discounted at 8% for two years gives an initial present value of Rs. 171,468. This should be built up by 8% a year. Therefore, the amount to be recorded as finance income in 2016-17 is Rs. 13,717 (Rs. 171,468 x 8%)

7. Option (b) : Rs. 10,000

Hints
As a progress towards completion cannot reliably be measured, ABC Ltd. should recognize revenue to the level of recoverable cost. As ABC Ltd. has spent Rs. 10,000 to date this should be recorded in both Revenue and cost of sale.

8. Option (c) : ii only

Hints
The overhaul does not represents a present obligation for ABC Ltd. as it has a choice whether to continue using the assets or not. While there is no legal obligation to repair the environmental damage caused, ABC Ltd. has constructive obligation due to its published environmental policies and record of honouring it.
9. Option (a) : Liquidation of the major customer

Hints
While the inventory sold at the loss, this is only because of damage which arose after the year end. The event causing this damage did not exist at the reporting date. Thus, this event is a non-adjusting event. However, liquidation of a customer, has to be adjusted as the receivables were in the balance sheet on 31st March 2017.

10. Option (d) : Deduct consolidated trade receivable by Rs. 8,000 consolidated trade payable by Rs. 7,000 & add consolidated cash & cash equivalent by Rs. 1,000.

Hints
Consolidated trade receivable shall be reduced by Rs. 8,000 (being inter-company balance in books of ABC) and consolidated trade payable shall be reduced by Rs. 7,000 (being inter-company balance in books of PQR). Balance Rs. 1,000 shall be added to consolidated cash and cash equivalents (being balance of cash in transit).

II. Answers to Descriptive Questions

1. Computation of goodwill on consolidation

<table>
<thead>
<tr>
<th>(a) Goodwill on consolidation</th>
<th>Rs. in '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of investment:</td>
<td></td>
</tr>
<tr>
<td>Share exchange (90 million x 8/9 x Rs.2·80)</td>
<td>2,24,000</td>
</tr>
<tr>
<td>Contingent consideration</td>
<td>25,000</td>
</tr>
<tr>
<td>Fair value of non-controlling interest at date of acquisition (30 million x Rs.2·60)</td>
<td>78,000</td>
</tr>
<tr>
<td></td>
<td>3,27,000</td>
</tr>
<tr>
<td>Net assets at 1 April 2016 (Refer W.N.)</td>
<td>(2,38,000)</td>
</tr>
<tr>
<td>Goodwill</td>
<td>89,000</td>
</tr>
</tbody>
</table>
### (b) Non-controlling interest in PQR Limited

<table>
<thead>
<tr>
<th></th>
<th>Rs. in '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value at date of acquisition</td>
<td>78,000</td>
</tr>
<tr>
<td>25% of post-acquisition increase in net assets ([(2,64,000 - 2,38,000 \times 25%)] (Refer W.N))</td>
<td><strong>6,500</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84,500</strong></td>
</tr>
</tbody>
</table>

### Working Note – Net assets – PQR Limited

<table>
<thead>
<tr>
<th></th>
<th>1 April, 2016</th>
<th>31 March, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rs. in '000</strong></td>
<td><strong>Rs. in '000</strong></td>
<td><strong>Rs. in '000</strong></td>
</tr>
<tr>
<td>Share capital</td>
<td>120,000</td>
<td>120,000</td>
</tr>
<tr>
<td>Other components of equity</td>
<td>2,400</td>
<td>4,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>86,000</td>
<td>115,000</td>
</tr>
<tr>
<td>Property adjustment</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Extra depreciation ([(92,000 - 80,000)/16])</td>
<td></td>
<td>(750)</td>
</tr>
<tr>
<td>Plant and equipment adjustment</td>
<td>9,000</td>
<td>9,000</td>
</tr>
<tr>
<td>Extra depreciation ([(120,000 - 111,000)/3])</td>
<td></td>
<td>(3,000)</td>
</tr>
<tr>
<td>Intangible asset adjustment</td>
<td>8,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Extra amortisation ((8,000/4))</td>
<td></td>
<td>(2,000)</td>
</tr>
<tr>
<td>Deferred tax on fair value adjustments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>((20,000+9,000+8,000) \times 20%)</td>
<td>(7,400)</td>
<td></td>
</tr>
<tr>
<td>((20,000+9,000+8,000)-(750+3,000+2,000) \times 20%)</td>
<td></td>
<td>(6,250)</td>
</tr>
<tr>
<td>Net assets for the consolidation</td>
<td>2,38,000</td>
<td>2,64,000</td>
</tr>
</tbody>
</table>
2. The initial measurement of the loan in FC is FC 49 million (FC 50 million – FC 1 million).

The finance cost in FC is FC 4·9 million (FC 49 million x 10%).

The closing balance of the loan in FC is FC 49·9 million (FC 49 million + FC 4·9 million – FC 4 million).

IAS 21 – The Effect of Changes in Foreign Exchange Rates – states that foreign currency transactions are initially recorded at the rate of exchange in force when the transaction was first recognised.

Therefore, the loan would initially be recorded at Rs.68·6 million (FC 49 million x 1·40).

The finance cost would be recorded at an average rate for the period since it accrues over a period of time.

The finance cost would be Rs.6·958 million (FC 4·9 million x 1·42).

The actual payment of interest would be recorded at Rs.5·8 million (FC 4 million x 1.45).

The loan balance is a monetary item so it is translated at the rate of exchange at the reporting date.

So the closing loan balance is Rs.72·355 million (FC 49·9 million x 1·45).

The exchange differences that are created by this treatment are recognised in profit or loss.

In this case, the exchange difference is ((Rs.68·6 million + Rs.6·958 million – Rs.5·8 million) – Rs.72·355 million) = Rs.2·597 million.

This exchange loss is taken to profit or loss.

3. The loan to the supplier would be regarded as a financial asset. IFRS 9 provides that financial assets are normally measured at fair value.

Where the financial asset is one where the only expected future cash inflows are the receipts of principal and interest and the investor intends to collect these inflows rather than dispose of the asset to a third party, then IFRS 9 allows the asset to be measured at amortised cost using the effective interest method.

Assuming that this method is adopted, the cost of issuing the loan (i.e. transaction cost) is included in its initial carrying value rather than being taken to profit or loss.
as an immediate expense. This makes the initial carrying value Rs. 21,00,000 (20,00,000 + Rs. 1,00,000).

Under the effective interest method, part of the finance income is recognised in the current period rather than all in the following period when repayment is due. The income recognised in the current period is Rs. 144,900 (Rs. 21,00,000 x 6·9%).

In the absence of information regarding the financial difficulties of the customer, the financial asset at 31 March 2017 would have been Rs. 2,244,900 (Rs. 21,00,000 + Rs. 144,900).

The information regarding financial difficulty of the customer is objective evidence that the financial asset has suffered impairment at 31 March 2017.

The asset is re-measured at the present value of the revised estimated future cash inflows, using the original effective interest rate.

Under the revised estimates the closing carrying amount of the asset would be Rs. 2,057,998 (Rs. 22,00,000/1·069).

The reduction in carrying value of Rs. 186,902 (Rs. 2,244,900 – Rs. 2,057,998) would be charged to profit or loss in the current period as an impairment of a financial asset.

Therefore, the net charge to profit or loss in respect of the current period i.e. would be Rs. 42,002 (Rs. 186,902 – Rs. 144,900).

4. It is necessary to consider the two parts of the issue separately.

The claim made by the customer needs to be recognised as a liability in the financial statements for the year ended 31 March 2017.

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – states that a provision should be made when, at the reporting date:

– An entity has a present obligation arising out of a past event.
– There is a probable outflow of economic benefits.
– A reliable estimate can be made of the outflow.

All three of those conditions are satisfied here, and so a provision is appropriate.

The provision should be measured at the amount the entity would rationally pay to settle the obligation at the reporting date.
Where there is a range of possible outcomes, the individual most likely outcome is often the most appropriate measure to use.

In this case a provision of Rs.1.6 million seems appropriate, with a corresponding charge to profit or loss.

The insurance claim against our customer (to whom consultancy is provided) is a contingent asset.

IAS 37 states that contingent assets should not be recognised until their realisation is virtually certain, but should be disclosed where their realisation is probable.

Accordingly, the contingent asset would be disclosed in 2016-2017 financial statements. Any credit to profit or loss arises when the claim is settled.

5. ABC can recognise revenue from this contract on 31st March 2017. This is because the contract price and costs are known, the customer has a good payment record, and stage of completion of the project can be determined.

Where material, the revenue should be measured at its present value.

In this case the present value of revenue for the project is Rs. 1,304,348 (Rs. 1,500,000 (1.15)).

The amount of revenue that can be recognised in the current period is Rs. 391,304 (Rs. 1,304,348 x 15/50).

The amount of Rs. 391,304 shall appear as a trade receivable at 31st March 2017.

Note:
1. IFRS are principles based standards. Different possible views may be taken by the user based on the emphasis laid to particular facts and evidences. Therefore, alternate answers may be possible for the above questions, depending upon the view taken.

2. Hints for MCQs are given only for understanding of the answer.