simplifying your success

Chapter Tests of FR of
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FR Test 1: Assets Ind AS

Maximum Marks: 30 **Time Allowed: 1 hour**

All questions are compulsory

Q 1

(a) On 1st April, 2011, entity A contracted for the construction of a building for Rs. 22,00,000. The land under the building is regarded as a separate asset and is not part of the qualifying assets. The building was completed at the end of March, 2012, and during the period the following payments were made to the contractor:

Payment date	Amount (Rs. '000)
1st April, 2011	200
30th June, 2011	600
31st December, 2011	1,200
31st March, 2012	200
Total	2,200

Entity A's borrowings at its year end of 31st March, 2012 were as follows:

i. 10%, 4-year note with simple interest payable annually, which relates specifically to the project; debt outstanding on 31st March, 2012 amounted to Rs. 7,00,000. Interest of Rs. 65,000 was incurred on these borrowings during the year, and interest income of Rs. 20,000 was earned on these funds while they were held in anticipation of payments.

ii. 12.5% 10-year note with simple interest payable annually; debt outstanding at 1st April, 2011 amounted to Rs. 1,000,000 and remained unchanged during the year; and

iii. 10% 10-year note with simple interest payable annually; debt outstanding at 1st April, 2011 amounted to Rs. 1,500,000 and remained unchanged during the year.

What amount of the borrowing costs can be capitalized at year end as per relevant Ind AS?

(8 Marks)

(b) A Ltd. purchased some Property, Plant and Equipment on 1st April, 2021, and estimated their useful lives for the purpose of financial statements prepared on the basis of Ind AS: Following were the original cost, and useful life of the various components of property, plant, and equipment assessed on 1st April, 2021:

Property, Plant and Equipment	Original Cost	Estimated useful life
Buildings	Rs. 15,000,000	15 years
Plant and machinery	Rs. 10,000,000	10 years
Furniture and fixtures	Rs. 3,500,000	7 years

A Ltd. uses the straight-line method of depreciation. On 1st April, 2024, the entity reviewed the following useful lives of the property, plant, and equipment through an external valuation expert:

Buildings	10 years
Plant and machinery	7 years
Furniture and fixtures	5 years

There were no salvage values for the three components of the property, plant, and equipment either initially or at the time the useful lives were revised. Compute the impact of revaluation of useful life on the Statement of Profit and Loss for the year ending 31st March, 2024.

(4 Marks)

Q 2

(a) A Ltd. purchased a machinery of Rs. 100 crores on April 1, 2019. The machinery has a useful life of 5 years. It has nil residual value. A Ltd. adopts straight line method of depreciation for depreciating the machinery. Following information has been provided as on March 31, 2020:

Financial year	**Estimated future cash flows (Rs. in crores)**
2020-2021	15
2021-2022	30
2022-2023	40
2023-2024	10

Discount rate applicable : 10%
Fair value less costs to sell as on March 31, 2020: Rs. 70 crores
Calculate the impairment loss, if any. **(4 Marks)**

(b) Mercury Ltd is preparing its accounts for the year ended 31 March 2018 and is unsure about how to treat the following items.

1. The company completed a grand marketing and advertising campaign costing Rs. 4.8 Lakh. The finance director had authorised this campaign on the basis that it would create Rs. 8 lakh of additional profits over the next three years.

2. A new product was developed during the year. The expenditure totalled Rs. 3 lakh of which Rs. 1.5 lakh was incurred prior to 30 September 2017, the date on which it became clear that the product was technically viable. The new product will be launched in the next four months.

3. Staff participated in a training programme which cost the company Rs. 5 lakh. The training organisation had made a presentation to the directors of the company outlining that incremental profits to the business over the next twelve months would be Rs. 7 lakh.

What amounts should appear as intangible assets in accordance with Ind AS 38 in Mercury's balance sheet as on 31 March 2018?

(6 Marks)

Q 3 Lessee enters into a 10-year lease for 5,000 square metres of office space. At the beginning of Year 6, Lessee and Lessor agree to amend the original lease for the remaining five years to reduce the lease payments from Rs. 1,00,000 per year to Rs. 95,000 per year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 6% p.a. Lessee's incremental borrowing rate at the beginning of Year 6 is 7% p.a. The annual lease payments are payable at the end of each year.

How should the said modification be accounted for under Ind AS 116?

(8 Marks)