Chapter Tests of FR of
CA Ashish Lalaji
9825856155

FR Test 1 Solution

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

Q 1

(a) As per Ind AS 23, when an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity should determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

The amount of borrowing costs eligible for capitalization, in cases where the funds are borrowed generally, should be determined based on the expenditure incurred in obtaining a qualifying asset. The costs incurred should first be allocated to the specific borrowings.

Determination of Annualised Weighted Average Rate of Borrowing:

(Figures in '000s)

Date	Particulars	Amount	Time Weight	Interest	Weighted Product
01.04.11	12.5% Loan	1,000	12/12	125	1,000
01.04.11	10% Loan	1,500	12/12	150	1,500
				275	2,500

Capitalisation Rate for General Borrowings = 275 / 2,500 = 11%

Determination of Borrowing Costs Capitalised:

(Figures in '000s)

Date	Expenditure	Type of Borrowing	Working	Activity Period	Borrowing Cost Capitalised
01.04.11	200	Specific	Given		
					45
30.06.11	500	Specific	Given		(65 – 20)
30.06.11	100	General	100 X 11% X	9 / 12	8.25
31.12.11	1,200	General	1,200 X 11% X	3 / 12	33
31.03.12	200	General	200 X 11% X	0 / 12	---
					86.25

Solution prepared by CA. Ashish Lalaji

(b) The annual depreciation charges prior to the change in useful life were

Buildings	Rs. 1,50,00,000/15 =	Rs. 10,00,000
Plant and machinery	Rs. 1,00,00,000/10 =	Rs. 10,00,000
Furniture and fixtures	Rs. 35,00,000/7 =	Rs. 5,00,000
Total =		Rs. 25,00,000 (A)

The revised annual depreciation for the year ending 31st March, 2024, would be

Buildings	[Rs.1,50,00,000 – (Rs. 10,00,000 × 3)] / 10	Rs. 12,00,000
Plant and machinery	[Rs. 1,00,00,000 – (Rs. 10,00,000 × 3)] / 7	Rs. 10,00,000
Furniture and fixtures	[Rs. 35,00,000 – (Rs. 5,00,000 × 3)] / 5	Rs. 4,00,000
Total		Rs. 26,00,000 (B)

The impact on Statement of Profit and Loss for the year ending 31st March, 2024
= Rs. 26,00,000 – Rs. 25,00,000 = Rs. 1,00,000

This is a change in accounting estimate which is adjusted prospectively in the period in which the estimate is amended and, if relevant, to future periods if they are also affected. Accordingly, from 2024-2025 onward, excess of Rs. 1,00,000 will be charged in the Statement of Profit and Loss every year till the time there is any further revision.

Q 2

(a) Value in use of the machinery as on March 31, 2020 can be calculated as follows:

Financial year	Estimated cash flows	Present value factor @ 10%	Present value
2020-2021	15	0.9091	13.64
2021-2022	30	0.8264	24.79
2022-2023	40	0.7513	30.05
2023-2024	10	0.6830	6.83
			75.31

The recoverable amount of the machinery is Rs. 75.31 crores (higher of value in use of Rs. 75.31 crores and fair value *less* costs to sell of Rs. 70 crores). Carrying amount of the machinery is Rs. 80 crores (after providing for one year depreciation @ Rs. 20 crores). Therefore, the impairment loss of Rs. 4.69 crores should be provided in the books.

(b) The treatment in Mercury's financials as at 31 March 2018 will be as follows:

1. Marketing and advertising campaign: no intangible asset will be recognised, because it is not possible to identify future economic benefits that are attributable only due to this campaign. All of the expenditure should be expensed in the statement of profit and loss.

2. New product: development expenditure appearing in the balance sheet will be valued at Rs. 1.5 lakh. The expenditure prior to the date on which the product becomes technically feasible is recognised in the statement of profit and loss.

3. Training programme: no asset will be recognised, because there is no control of the company over the staff and when staff leaves the benefits of the training, whatever they may be, also departs.

Q 3

Measurement of Original Lease Liability:

Year	Lease Payments	PVF (6%)	PV
1 – 10	1,00,000	7.360	7,36,000
			7,36,000

Amortised Cost Schedule up to date of modification (beginning of 6th year):

Year	At beginning	Finance Charges @ 6%	Total Dues	Lease Payments	At the end
1	7,36,000	44,160	7,80,160	1,00,000	6,80,760
2	6,80,760	40,810	7,20,970	1,00,000	6,20,970
3	6,20,970	37,258	6,58,228	1,00,000	5,58,228
4	5,58,228	33,494	5,91,722	1,00,000	4,91,722
5	4,91,722	29,503	5,21,225	1,00,000	4,21,225
6	4,21,225				

Measurement of Modified lease liability (beginning 6th year & onwards):

Year	Lease Payments	PVF (7%)	PV
1 – 5	95,000	4.1	3,89,500

Adjustment to ROU Asset and Lease Liability:

Modified lease liability	4,21,225
Original lease liability on date of modification	3,89,500
Adjustment	31,725

Solution prepared by CA. Ashish Lalaji

PINNACLE ACADEMY
simplifying your success