Chapter Tests of FR of
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FR Test 7: Ind AS 12 & 115

Maximum Marks: 25
Time Allowed: 45 minutes

Q 1 PQR Ltd., a manufacturing company, prepares consolidated financial statements to 31st March each year. During the year ended 31st March, 2022, the following events affected the tax position of the group:

- QPR Ltd., a wholly owned subsidiary of PQR Ltd., incurred a loss adjusted for tax purposes of Rs. 50,00,000. QPR Ltd. is unable to utilise this loss against previous tax liabilities. Income-tax Act does not allow QPR Ltd. to transfer the tax loss to other group companies. However, it allows QPR Ltd. to carry the loss forward and utilise it against company's future taxable profits. The directors of PQR Ltd. have convincing evidence that QPR Ltd. will make taxable profits of Rs.20,00,000 in the foreseeable future.

- During the year ended 31st March, 2022, PQR Ltd. capitalised development costs which satisfied the criteria as per Ind AS 38 'Intangible Assets'. The total amount capitalised was Rs. 21,00,000. The development project began to generate economic benefits for PQR Ltd. from 1st January, 2022. The directors of PQR Ltd. estimated that the project would generate economic benefits for three years from that date. The development expenditure was deductible 50% against taxable profits for the year ended 31st March, 2022 and balance 50% in the year ended 31st March, 2023.

- On 1st April, 2021, PQR Ltd. borrowed Rs. 50,00,000. The cost to PQR Ltd. of arranging the borrowing was Rs. 20,000 and this cost qualified for a tax deduction on 1st April 2021. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31st March 2024 will be Rs. 66,55,000. This equates to an effective annual interest rate of 10%. As per the Income-tax Act, a further tax deduction of Rs. 16,55,000 will be claimable when the loan is repaid on 31st March, 2023.

Explain and show how each of these events would affect the deferred tax assets / liabilities in the consolidated balance sheet of PQR Ltd. group at 31st March, 2022 as per Ind AS. The rate of corporate income tax is 30%.

(9 Marks)

Q 2 An entity enters into a contract with a customer on 1st April, 2021 for the sale of a machine and spare parts. The manufacturing lead time for the machine and spare parts is two years. Upon completion of manufacturing, the entity demonstrates that the machine and spare parts meet the agreed-upon specifications in the contract. The promises to transfer the machine and spare parts are distinct and result in two performance obligations that each will be satisfied at a point in time.

On 31st March, 2023, the customer pays for the machine and spare parts, but only takes physical possession of the machine. Although the customer inspects and accepts the spare parts, the customer requests that the spare parts be stored at the entity's warehouse because of its close proximity to the customer's factory. The customer has legal title to the spare parts and the parts can be identified as belonging to the customer.

Furthermore, the entity stores the spare parts in a separate section of its warehouse and the parts are ready for immediate shipment at the customer's request. The entity expects to hold the spare parts for two to four years and the entity does not have the ability to use the spare parts or direct them to another customer.

How will the Company recognise revenue for sale of machine and spare parts? Is there any other performance obligation attached to this sale of goods?

(8 Marks)

Q 3 A's Ltd. profit before tax according to Ind AS for Year 2021-2022 is Rs.5,00,000 and taxable profit for year 2021-2022 is Rs.4,50,000. The difference between these amounts arose as follows:

During the year, it acquired a machine for Rs.6,00,000. Depreciation in accounts is Rs.60,000 and in tax is Rs.1,50,000. Further, expenses of Rs.40,000 were incurred in cash and hence disallowed for tax purposes.

You are required to prepare necessary entries as at 31st March 2022, taking current and deferred tax into account. The tax rate is 25%. Also prepare the tax reconciliation in absolute numbers as well as the tax rate reconciliation.

(8 Marks)

Question Paper set by CA. Ashish Lalaji

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