QUESTION NO 1 IS COMPULSORY. ANSWER ANY 4 OUT OF THE REMAINING QUESTIONS

TOTAL MARKS 40

COMPULSORY QUESTION NO 1 – 12 MARKS

REMAINING QUESTIONS 4 x 7 = 28 MARKS

TIME ALLOWED 75 MINUTES

QUESTION NO 1 - COMPULSORY

It has become increasingly common for entities to use share-based payment methods and the most common example is to grant employees share options as part of a remuneration package. These options often vest at the end of a specified period, and are subject to vesting conditions. IND AS 102 – Share-based Payment – has been issued to provide financial reporting guidance for entities which engage in this type of transaction.

Required:

(i) Explain how share options granted to employees with a future vesting date and subject to vesting conditions should be recognised and measured in the financial statements of the employing entity. Your explanation need only include the treatment of non-market based vesting conditions.

(ii) Explain what would be the changes to your answer if instead the entity granted share appreciation rights which are payable in cash to the employees at the end of the vesting period.

QUESTION NO 2

On 1 October 20X5, Delta granted 500 share appreciation rights to 20 senior executives. The rights are redeemable in cash on 30 September 20X9 provided the executives remain employed by Delta until at least 30 September 20X9.

On 1 October 20X5, Delta estimated that two of the 20 executives would leave in the period from 1 October 20X5 to 30 September 20X9 and this estimate remained unchanged at 31 March 20X6.

During the year ended 31 March 20X7, one executive left Delta and on that date Delta estimated that the other 19 executives would remain in employment until 30 September 20X9 and so be entitled to the share appreciation rights.

On 1 October 20X5, the fair value of a share appreciation right was estimated to be $6. The fair value of a right had increased to $6·20 by 31 March 20X6 and to $6·40 by 31 March 20X7. You can assume that this transaction was correctly accounted for by Delta in its financial statements for the year ended 31 March 20X6

Show the accounting for the year ended 31 March 20X7.

QUESTION NO 3

On 1 October 20X3, Hoy had INR 2·5 million of equity shares of 0.50 Rs each in issue.

No new shares were issued during the year ended 30 September 20X4, but on that date there were outstanding share options to purchase 2 million equity shares at INR 1·20 each.
The average market value of Hoy's equity shares during the year ended 30 September 20X4 was INR 3 per share.

Hoy's profit after tax for the year ended 30 September 20X4 was INR 1,550,000.

In accordance with IND AS 33 *Earnings per Share*, what is Hoy's diluted earnings per share for the year ended 30 September 20X4?

QUESTION NO 4

A Co has a year end of 31 December and operates a factory which makes computer chips for mobile phones.

It purchased a machine on 1 July 20X3 for INR 80,000 which had a useful life of ten years and is depreciated on the straight-line basis, time apportioned in the years of acquisition and disposal.
The machine was revalued to INR 81,000 on 1 July 20X4.

There was no change to its useful life at that date.

A fire at the factory on 1 October 20X6 damaged the machine leaving it with a lower operating capacity.

The accountant considers that A Co will need to recognise an impairment loss in relation to this damage.

The accountant has ascertained the following information at 1 October 20X6:

(1) The carrying amount of the machine is INR 60,750.

(2) An equivalent new machine would cost INR 90,000.

(3) The machine could be sold in its current condition for a gross amount of INR 45,000. Dismantling costs would amount to INR 2,000.

(4) In its current condition, the machine could operate for three more years which gives it a INR 38,685.

What is the total impairment loss associated with A Co's machine at 1 October 20X6?

QUESTION NO 5

Metric owns an item of plant which has a carrying amount of INR 248,000 as at 1 April 2014.

It is being depreciated at 12½% per annum on a reducing balance basis.

The plant is used to manufacture a specific product which has been suffering a slow decline in sales.

Metric has estimated that the plant will be retired from use on 31 March 2017.

The estimated net cash flows from the use of the plant and their present values are:

	Net cash flows	**Present values**
	INR	**INR**
Year to 31 March 2015	120,000	109,200
Year to 31 March 2016	80,000	66,400
Year to 31 March 2017	52,000	39,000
	252,000	214,600

On 1 April 2015, Metric had an alternative offer from a rival to purchase the plant for INR 200,000.

At what value should the plant appear in Metric's statement of financial position as at 31 March 2015?

QUESTION NO 6

On 1 October 20X1, Bash Co borrowed INR 6m for a term of one year, exclusively to finance the construction of a new piece of production equipment.
The interest rate on the loan is 6% and is payable on maturity of the loan.

The construction commenced on 1 November 20X1 but no construction took place between 1 December 20X1 to 31 January 20X2 due to employees taking industrial action.
The asset was available for use on 30 September 20X2 having a construction cost of INR 6m.

What is the carrying amount of the production equipment in Bash Co's statement of financial position as at 30 September 20X2? Choose from the options below.

A	INR	5,016,000
B	INR	6,270,000

C	INR	6,330,000
D	INR	6,360,000

Answers to Questions

1.

IND AS 102 – Share-based Payment – requires that the total estimated cost of granting share options to employees be recognised over the vesting period. The total estimated cost should be charged as a remuneration expense and credited to equity. The cumulative charge at the end of each period should be a proportion of the total estimated cost. The proportion should be based on the proportion of the total vesting period which has accrued at the reporting date. The incremental charge is a remuneration expense for any period and should be the difference between the cumulative charge at the end of the period and the cumulative charge at the start of the period. The charge should be based on the fair value of the option at the grant date. This continues to be the case throughout the vesting period – subsequent changes in the fair value of the option are not adjusted for. Where the vesting conditions are non-market conditions (i.e. not directly related to any change in the entity's share price), then the cumulative cost at each year end should be estimated based on the expected number of options which will vest at the vesting date.

(ii) If an entity grants cash-based share appreciation rights to employees rather than share options, then the basic principle of recognising the total estimated cost over the vesting period taking account of relevant vesting conditions is the same. However, since any ultimate payment will be made in cash, the credit entry to account for the remuneration expense is to liabilities rather than equity. Also, since any ultimate payment to the holders of share appreciation rights will normally be based on their fair value either at the vesting date or the payment date, subsequent changes in the fair value of the rights cannot be ignored. Measurement of the remuneration expense will be based on the fair value of the share appreciation rights at each reporting date.

2.

Granting of share appreciation rights to senior executives The expected fair value of the total liability at 31 March 20X7 will be INR 60,800 (500 x 19 x INR 6·40). The amount which will be shown as a liability in the statement of financial position at 31 March 20X7 will be the proportion based on the period elapsed since the rights were granted compared with the total vesting period. In this case that proportion is 18/48. Therefore the closing liability will be INR 22,800 (INR 60,800 x 18/48). This will be shown as a non-current liability. The liability which would have been recognised in the statement of financial position at 31 March 20X6 would have been INR 6,975 (500 x 18 x 6·20 x 6/48).

Delta would show a remuneration expense in profit or loss of INR 15,825 (INR22,800 – INR6,975) in respect of the share appreciation rights for the year ended 31 March 20X7.

3.

(1,550/(2,500 x 2 + 1,200)) = INR 0·25

4.

VIU is lower than FV (less costs to sell), so impairment is 60,750 – 43,000 = INR 17,750

5.

The lower of its carrying amount (INR217,000) and recoverable amount (INR214,600) at 31 March 2015.
Recoverable amount is the higher of value in use (INR214,600) and fair value less (any) costs of disposal (INR200,000)).
Carrying amount = INR217,000 (248,000 – (248,000 x 12·5%))
Value in use is based on present values = INR214,600

6.

B

	Rs'000
Production cost of PPE	6,000
Capitalisation of borrowing costs: INR6m x 6% x 9/12 =	270
Total cost capitalised (and carrying amount) at 30 September 20X2	6,270