Mock Test Paper - Series II: December, 2025

Date of Paper: 4th December, 2025

Time of Paper: 2 P.M. to 5 P.M.

FINAL COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

Time Allowed – 3 Hours **Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory.

Case Scenario

Case Scenario 1

Z Ltd. is engaged in manufacturing of Automobiles with its registered office in Pune and is listed on the Bombay Stock Exchange. It also owns a chain of retail stores across 20 different locations in the twin cities of Pune and Kolhapur.

Following are the brief facts about the transaction entered into by the company for which accounting advice is sought by the CFO of Z Ltd. from you:

Z Limited owns two vehicles on 1st July, 20X1 and a local statute was passed which necessitated Z Ltd. to undertake modifications to its vehicles to enable reduction of harmful emissions. The modifications should have been completed by 31st December, 20X1 at an estimated cost to Z Ltd. of ₹ 20 lakhs. Actually, by 31st March, 20X2, none of the vehicles had been modified although they continued to be used. It is quite likely that Z Ltd. will have to pay a penalty of ₹ 2 lakhs per month for the illegal usage of the vehicles. The directors of Z Ltd. intend to carry out the modifications only at the end of March, 20X3, due to paucity of funds. They expect that penalty will become payable very shortly as legal action has been initiated against Z Ltd.

On 1st April, 20X1, Z Ltd. issued 1,00,000 Loan Notes of ₹ 5 each at par. The loan notes entitle the holders for an interest payment of 8% p.a., payable annually in arrears. The loan notes are repayable at par on 31st March, 20X5. As an alternative to repayment, the holders can elect to convert the notes into equity shares in A Ltd. On 1st April, 20X1, investors in non-convertible notes expect an annual return of 10%.

You are given the following discount factors:

Discount Rate	Present Value of ₹ 1 payable	
	At end of year 4	Cumulative at end of years 1-4
8%	73.50 paise	₹ 3.31
10%	68.30 paise	₹ 3.17

On 1st April, 20X1, Z Ltd. had two equity investments that it designated as "fair value through other comprehensive income" in accordance with Ind AS 109:

Name	Original Cost	Fair Value 31.3.20X1	Fair Value 31.3.20X2
	(₹ in 000)	(₹ in 000)	(₹ in 000)
K Ltd.	30,000	37,500	NA
H Ltd.	27,500	35,000	38,500

On 28th February, 20X2, Z Ltd. disposed off its investment in K Ltd. for ₹ 50,000 and shown a profit on sale as part of investment income. Apart from recording the receipt of dividend income, no other entries have been made in the financial statements for the year ended 31st March, 20X2 regarding the investment in H Ltd. Both investments had been correctly treated in the financial statements for the year ended 31st March, 20X1.

Analyze the transactions mentioned above and choose the most appropriate option in the below mentioned questions 1 to 3 in line with the relevant Ind AS:

1. What will be the amount of provision of penalty for illegal use of automobiles, which Z Ltd. have to make as on 31st March, 20X2?

   (A) ₹ 12,00,000

   (B) ₹ 30,00,000

   (C) ₹ 6,00,000

   (D) ₹ 60,00,000 **(2 Marks)**

2. Calculate the amount, which should be shown in "other comprehensive income" for the period ending 31st March, 20X2 on account of equity investment made by Z Ltd.

   (A) Gain of ₹ 16,000

   (B) Gain of ₹ 12,500

   (C) Gain of ₹ 20,000

   (D) Gain of ₹ 23,500 **(2 Marks)**

3. What will be the finance cost of convertible loan notes issued by Z Ltd., for the period ending 31st March, 20X2?

(A) ₹ 34,150

(B) ₹ 40,000

(C) ₹ 46,830

(D) ₹ 50,000 **(2 Marks)**

Case Scenario 2

C Ltd. is preparing its financial statements for the year ended 31 March 20X4. The Board is scheduled to approve the financial statements on 30th May 20X4.

On 1st April, 20X3, C Ltd. issued 1,00,000 ₹ 10 bonds for ₹ 10,00,000. On 1st April, each year interest at the fixed rate of 8% per year is payable on outstanding capital amount of the bonds (i.e. the first payment will be made on 1st April, 20X4). On 1st April each year (i.e. from 1st April, 20X4), C Ltd. has a contractual obligation to redeem 10,000 of the bonds at ₹ 10 per bond. In its balance sheet at 31st March, 20X4, how should this be presented in the financial statements?

C Ltd. sells a piece of machinery to the customer for ₹ 2 million, payable in 90 days. C Ltd. is aware at contract inception that the customer might not pay the full contract price. C Ltd. estimates that the customer will pay atleast ₹ 1.75 million, which is sufficient to cover C Ltd.'s cost of sales i.e. ₹ 1.5 million and which C Ltd. is willing to accept because it wants to grow its presence in this market. C Ltd. has granted similar price concessions in comparable contracts. C Ltd. concludes that it is highly probable that it will collect ₹ 1.75 million and such amount is not constrained under the variable consideration guidance.

On 15th April, 20X4, the company discovers a significant fraud that actually occurred during the financial years 20X1–20X2. The fraud involved overstatement of revenue by manipulating sales invoices during those earlier years.

C Ltd. has recognised goodwill worth ₹ 80,00,000 in the past for a business combination. During the current year, it has impaired the goodwill by ₹ 16,00,000 and the carrying amount of goodwill is ₹ 64,00,000. Amortisation or impairment of goodwill is not deductible as per the tax regulations applicable in the jurisdiction, where C Ltd. files its tax returns. Applicable tax rate is 30%.

Analyze the transactions mentioned above and choose the most appropriate option in the below mentioned questions 4 to 7 in line with the relevant Ind AS:

4. State which of the following statement is correct with respect to the bonds issued by C Ltd. as on 31st March, 20X4.

   (A) ₹ 80,000 accrued interest and ₹ 1,00,000 current portion of the non-current bond would be presented as current liabilities while ₹ 9,00,000 would be presented as a non-current liability.

   (B) Entire ₹ 10,00,000 would be presented as a non-current liability.

   (C) Entire ₹ 10,00,000 would be presented as a current liability.

   (D) ₹ 80,000 accrued interest and ₹ 1,00,000 current portion of the non-current bond would be presented as non-current liabilities while ₹ 9,00,000 would be presented as a current liability. **(2 Marks)**

5. What is the transaction price in the arrangement to sell a piece of machinery to the customer?

   (A) ₹ 2 million

   (B) ₹ 1.75 million

   (C) ₹ 1.50 million

   (D) ₹ 0.25 million **(2 Marks)**

6. State which of the following statement is correct with respect to the fraud related to 20X1-20X2 discovered after the end of the reporting period but before the date of approval of financial statements for 20X3-20X4?

   (A) The discovery of fraud is a non-adjusting event as it was discovered after the reporting period. Hence, no adjustment to be done in the year 20X3-20X4 or previous years.

   (B) The discovery of fraud is an adjusting event as the fraud took place before the end of the reporting period, which has been confirmed after the end of the reporting period but before the approval of financial statements. Hence, to be adjusted in the year 20X3-20X4 with retrospective restatement.

   (C) The discovery of fraud is an adjusting event as the fraud took place before the end of the reporting period, which has been confirmed after the end of the reporting period but before the approval of financial statements. Hence, to be adjusted in the year 20X3-20X4 without retrospective restatement.

(D) The discovery of fraud is a non-adjusting event as it was discovered after the reporting period. Hence, no adjustment to be done in the year 20X3-20X4 but previous years financial statements will be reinstated. **(2 Marks)**

7. What is the amount of deferred tax to be recognised by C Ltd. on goodwill?

(A) Deferred tax liability of ₹ 4,80,000

(B) Deferred tax liability of ₹ 24,00,000

(C) Deferred tax asset of ₹ 4,80,000

(D) No Deferred tax asset/liability **(2 Marks)**

Case Scenario 3

ABC Ltd. acquired an asset 3 years ago at a cost of ₹ 5 million. The depreciation method adopted for the asset was 10 percent reducing balance method.

At the end of Year 3, ABC Ltd. estimates that the remaining useful life of the asset is 8 years and determines to adopt straight–line method from that date so as to reflect the revised estimated pattern of recovery of economic benefits.

Later ABC Ltd. acquires PQR Ltd. for a consideration of ₹ 1 crore. Four years ago, ABC Ltd. had granted a ten-year license allowing PQR Ltd. to operate in Europe. The cost of the license was ₹ 2,50,000. The contract allows either party to terminate the franchise at a cost of the unexpired initial fee plus 20%. At the date of acquisition, the settlement amount is ₹ 1,80,000 [(₹ 2,50,000 x 6/10) + 20%].

ABC Ltd. has acquired PQR Ltd., because it sees high potential in the European market and wishes to exploit it. ABC Ltd. calculates that under current economic conditions and at current prices it could grant a six-year franchise for a price of ₹ 4,50,000.

The Accountant of ABC Ltd. has the following information in his possession for the purpose of calculating EPS-Diluted EPS, for the financial year 20X1-20X2:

Particulars	Amount
Net profit attributable to ordinary shareholders	₹ 12,00,000
Weighted average number of equity shares	1,50,000
6% convertible debentures of ₹10,00,000 each	1,000
Convertible into	20 shares
Dividend arrears (Cumulative preference shareholders)	₹ 10,000
Tax rate	25%

Analyze the transactions mentioned above and choose the most appropriate option in the below mentioned questions 8 to 13 in line with the relevant Ind AS:

8. Calculate the depreciation charge for Year 3 in accordance with Ind AS 16.

   (A) ₹ 5,00,000

   (B) ₹ 4,50,000

   (C) ₹ 4,05,000

   (D) ₹ 4,55,625 **(2 Marks)**

9. Calculate the depreciation charge for Year 4 in accordance with Ind AS 16.

   (A) ₹ 5,00,000

   (B) ₹ 4,50,000

   (C) ₹ 4,05,000

   (D) ₹ 4,55,625 **(2 Marks)**

10. At what value the license would be recognised by ABC Ltd. as part of the business combination?

    (A) The license is recognised at ₹ 2,50,000, at the original cost price

    (B) The license is recognised at ₹ 2,00,000, the difference of fair value at market rates of a license based on the remaining contractual life and the original cost price.

    (C) The license is recognised at ₹ 7,00,000, the sum of fair value at market rates of a license based on the remaining contractual life and the original cost price.

    (D) The license is recognised at ₹ 4,50,000, the fair value at market rates of a license based on the remaining contractual life. **(2 Marks)**

11. What would be the gain or loss on settlement of the license contract?

    (A) ₹ 3,00,000

    (B) ₹ 1,80,000

    (C) ₹ 2,50,000

    (D) ₹ 4,50,000 **(2 Marks)**

12. What would be the amount of purchase consideration to be considered for acquisition of PQR Ltd.

    (A) ₹ 1 crore

(B) 98.20 lakhs

(C) 95.50 lakhs

(D) 97.50 lakhs **(2 Marks)**

13. What should be the amount to be added to the numerator for calculating diluted Earnings per Share?

    (A) ₹ 60,000

    (B) ₹ 45,000

    (C) ₹ 50,000

    (D) ₹ 70,000 **(2 Marks)**

14. Grapes Ltd. is one of the recently acquired subsidiaries of Apple Ltd. during 20X3-20X4. Grapes Ltd. has to adopt Ind AS for the first time as at 31st March, 20X3, with 1st April, 20X1 as the date of transition. As at 31st March, 20X1 the value of raw material inventories was incorrectly reported due to an error. The amounts are significant.

    With respect to Grapes Ltd., choose any one of the following, which will be suitable to make the financial statement as per the provisions of relevant Ind AS.

    (A) Grapes Ltd. shall report the impact of the error as a correction to Statement of Profit or Loss for the comparative period i.e., for the year ended 31st March, 20X2.

    (B) The correction shall be reflected in reconciliation as at the end of the first Ind AS reporting period i.e., as at 31st March, 20X2.

    (C) The impact of the correction is significant and it shall be amortized on a rational and systematic basis in the first two period of Ind AS reporting i.e., years ended 31st March, 20X2 and 31st March, 20X3.

    (D) The first Ind AS Financial Statements shall distinguish the correction of errors from changes in accounting policies and reported as part of the reconciliation as at 1st April, 20X1. **(2 Marks)**

15. Artificial Intelligence (AI) and Machine Learning (ML) are technologies that enable computers to learn and perform tasks without being explicitly programmed to do so. They are having a significant impact on the accounting profession. The accountant of the company argued that the following are the benefits of AI and ML when used in accounting, but the management did not concur with his view.

The benefits listed out by the accountant are:

i. Automated Data Entry

ii. Data Privacy

iii. Fraud Detection

iv. Financial Forecasting

Identify which of the above benefits is/are not available to the company:

(A) ii and iii

(B) Only i

(C) ii and iv

(D) Only ii **(2 Marks)**

Part II – Descriptive Questions

Question No.1 is compulsory. Candidates are required to answer any four questions from the remaining five questions.

Working notes should form part of the answers.

Maximum Marks – 70 Marks

1. Bulldozer Ltd. is engaged in the business of manufacturing of heavy bulldozers, which are mainly used to dismantle the buildings and concrete structures. The company is willing to enter into the business of manufacturing of excavators for the purpose of digging the plain land. For this purpose, the company acquires 25% stake in HD Excavators Ltd. for ₹ 8,00,000 on 1st October, 20X1 and further 35% stake on 1st February, 20X2 for ₹ 12,25,000.

Following is the summarized Balance Sheet of HD Excavators Ltd. as at 1st February, 20X2:

	Carrying Value (₹)	**Fair Value (₹)**
ASSETS		
Property, Plant and Equipment	15,50,000	22,50,000
Investment in Bonds	12,00,000	15,00,000
Trade Receivables	1,50,000	1,50,000
	29,00,000	

EQUITY AND LIABILITIES		
Share Capital	3,00,000	
Reserves	16,50,000	
Trade Payables	9,50,000	
	29,00,000	

HD Excavators Ltd. sells the small excavators under the brand name 'Mini Shaktiman' which has a fair value of ₹ 4,50,000 as at 1st February, 20X2. This is a self-generated brand, therefore, HD Excavators Ltd. has not recognised the brand in its books of accounts.

Following is the summarized separate Balance Sheet of Bulldozer Ltd. as at 1st February, 20X2:

	₹
ASSETS	
Property, Plant and Equipment	40,50,000
Investment in HD Excavators Ltd.	20,25,000
Trade Receivables	2,40,000
Cash and Bank balances	15,60,000
	78,75,000
EQUITY AND LIABILITIES	
Share Capital	15,00,000
Reserves	35,25,000
Short-term Loan	12,00,000
Trade Payables	9,00,000
Other Current Liabilities	7,50,000
	78,75,000

In relation to the acquisition of HD Excavators Ltd., you are required to:

(i) Pass the necessary journal entries in the books of Bulldozer Ltd. to give effect of business combination in accordance with Ind AS 103 as at acquisition date of 1st February, 20X2. NCI is measured by the entity at fair value. Provide working notes and ignore tax implications; and

(ii) Prepare a Consolidated Balance Sheet of Bulldozer Ltd. as at 1st February, 20X2. **(14 Marks)**

2. (a) Vidhi Bank agreed on 15th April, 20X1 to sell USD ($) 60,000 to Satvik Limited in the future date (i.e.) on 31st March, 20X2 for a rate equal to ₹ 82.40 per $. Vidhi Bank did not receive any amount upon entering into the agreement. Satvik Ltd. prepares its financial statements on quarterly basis.

Additional Information:

Forward rates and Spot rates:

Forward rates as on	**Forward rates (1 $ = ₹) (for 31st March, 20X2 maturity)**	**SPOT rates (1 $ = ₹)**
15th April, 20X1	82.40	82.00
30th June, 20X1	82.10	82.40
30th Sept, 20X1	82.15	82.25
31st December, 20X1	82.50	82.20.
31st March, 20X2	82.00	82.05

Using the definition of derivative included in Ind AS 109 and following the principles of recognition and measurement as laid down in Ind AS 109, you are required to-

(i) Analyse with reason whether the agreement to sell USD by Vidhi Bank contains a derivative.

(ii) Pass the journal entries in the books of Satvik Limited for each quarter ended for financial year 20X1-20X2 till the date of actual purchase of USD.

(10 Marks)

(b) ABC Ltd. acquired 5% equity shares of XYZ Ltd. for ₹ 10 crores in the year 20X1-20X2. The company is in process of preparing the financial statements for the year 20X2-20X3 and is assessing the fair value at subsequent measurement of the investment made in XYZ Ltd. Based on the observable input, ABC Ltd. identified a similar nature of transaction in which PQR Ltd. acquired 20% equity shares in XYZ Ltd. for ₹ 60 crores. The price of such transaction was determined on the basis of Comparable Companies Method (CCM)- Enterprise Value (EV) / EBITDA which was 8. For the current year, the EBITDA of XYZ Ltd. is ₹ 40 crores. At the time of acquisition, the valuation was determined after considering 5% of liquidity discount and 5% of non-controlling stake discount. What will be the fair value of ABC Ltd.'s investment in XYZ Ltd. as on the balance sheet date?

(4 Marks)

3. (a) **Either**

K Ltd. began construction of a new building at an estimated cost of ₹ 7 lakh on 1st April, 20X1. To finance construction of the building it obtained a specific loan of ₹ 2 lakh from a financial institution at an interest rate of 9% per annum.

The company's other outstanding loans were:

Amount	**Rate of Interest per annum**
₹ 7,00,000	12%
₹ 9,00,000	11%

The expenditure incurred on the construction was:

April, 20X1	₹ 1,50,000
August, 20X1	₹ 2,00,000
October, 20X1	₹ 3,50,000
January, 20X2	₹ 1,00,000

The construction of building was completed by 31st January, 20X2.

Following the provisions of Ind AS 23 'Borrowing Costs', calculate the amount of interest to be capitalized and pass necessary journal entry for capitalizing the cost and borrowing cost in respect of the building as on 31st January, 20X2. **(8 Marks)**

Or

RKA Private Ltd is an old company established in 19XX. The company started with a very small capital base and today it is one of the leading companies in India in its industry. The company has an annual turnover of ₹ 11,000 crores and planning to get listed in the next year.

The company has a large employee base. The company provided a defined benefit plan to its employees. Following is the information relating to the balances of the fund's assets and liabilities as at 1st April, 20X1 and 31st March, 20X2.

₹ in lakhs

Particulars	**1st April, 20X1**	**31st March, 20X2**
Present value of benefit obligation	1,400	1,580
Fair value of plan assets	1,140	1,275

For the financial year ended 31st March, 20X2, service cost was ₹ 55 lakhs. The company made a contribution of an amount of ₹ 111 lakhs to the plan. No benefits were paid during the year.

Consider a discount rate of 8%.

You are required to -

(i) Compute the balance(s) of the company to be included its balance sheet as on 31st March, 20X2 and amounts to be recognized in the statement of profit and loss and other comprehensive income for the year ended 31st March, 20X2.

(ii) Provide the journal entries in respect of amount(s) to be recognized.

(8 Marks)

(b) Lotus Limited was incorporated in India and its functional currency is INR (₹). It owns 80% interest in foreign entity, namely, Jasmine Limited, which is functioning in Washington DC with its functional currency as USD ($). Lotus Limited sells its entire investments in Jasmine Limited for ₹ 52,00,000. The following information is provided to you by the Accountant of Lotus Limited for your perusal and advice:

(₹ in 000)

Particulars	**Net Assets**	**Foreign currency translation reserve gain**
Lotus Limited share (80%)	4,800	1,080
NCI Portion (20%)	1,200	270
Total of Jasmine Limited	**6,000**	**1,350**

The Accountant of Lotus Limited seeks your help in accounting the cumulative translation adjustment (CTA) on disposal of its foreign subsidiary, namely Jasmine Limited with detailed explanation for such accounting treatment.

(6 Marks)

4. (a) X Ltd. is engaged in the construction industry and prepares its financial statements up to 31st March each year. On 1st April, 20X1, X Ltd. purchased a large property (consisting of land) for ₹ 2,00,00,000 and immediately began to lease the property to Y Ltd. on an operating lease. Annual rentals were ₹ 20,00,000. On 31st March, 20X5, the fair value of the property was ₹ 2,60,00,000. Under the terms of the lease, Y Ltd. was able to cancel the lease by giving six months' notice in writing to X Ltd. Y Ltd. gave this notice on 31st March, 20X5 and vacated the property on

30th September, 20X5. On 30th September, 20X5, the fair value of the property was ₹ 2,90,00,000. On 1st October, 20X5, X Ltd. immediately began to convert the property into ten separate flats of equal size which X Ltd. intended to sell in the ordinary course of its business. X Ltd. spent a total of ₹ 60,00,000 on this conversion project between 30th September, 20X5 to 31st March, 20X6. The project was incomplete at 31st March, 20X6 and the directors of X Ltd. estimate that they need to spend a further ₹ 40,00,000 to complete the project, after which each flat could be sold for ₹ 50,00,000.

Examine and show how the three events would be reported in the financial statements of X Ltd. for the year ended 31st March, 20X6 as per Ind AS. **(8 Marks)**

(b) XYZ Ltd. has eight segments namely A, B, C, D, E, F, G and H. The information regarding respective segments for the year ended 31st March, 20X1 is as follows:

Segments	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**
External sales	0	255	15	10	15	50	25	35
Inter-segment sales	100	60	30	5	—	—	—	—
Total	**100**	**315**	**45**	**15**	**15**	**50**	**25**	**35**
Segment result Profit/(Loss)	5	(90)	15	(5)	8	(5)	5	7
Segment assets	15	47	5	11	3	5	5	9

Identify which of the above segments out of A to H would be considered as reportable segments of XYZ Ltd. for the year ending 31st March, 20X1?

(6 Marks)

5. (a) An entity enters into a contract with a customer on 1st April, 20X1 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, 20X3, 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 recognize revenue for sale of machine and spare parts? Is there any other performance obligation attached to this sale of goods? **(5 Marks)**

(b) GG Ltd., a listed company, prepares its first Ind AS financial statements for the year ending 31st March, 20X3. The date of transition is 1st April, 20X1. The functional and presentation currency is Rupee. The financial statements as at and for the year ended 31st March, 20X3 contain an explicit and unreserved statement of compliance with Ind AS. Previously it was using Indian GAAP (AS) as base.

It has already published its first interim results of quarter 1, quarter 2 and quarter 3 of 20X2- 20X3 in accordance with Ind AS 34 and Ind AS 101. The interim financial report included the reconciliations both of total comprehensive income and of equity that are required by Ind AS 101.

Since issuing the interim financial report, its management has concluded that one of accounting policy choices applied at the interim should be changed for the full year.

How should GG Ltd. deal with the change in accounting policy under Ind AS framework? **(4 Marks)**

(c) Ayush Ltd. is engaged in manufacturing of Solar Panels. Due to current changes in Government policies regarding solar energy, directors expect a huge demand for solar panels. Ayush Ltd.'s directors feel that their current production plant needs up-gradation to increase the production capacity to meet the up-coming huge demand.

The Company needs a significant amount of capital to upgrade the production plant. The current lending policies of the banks require prospective borrowers to demonstrate strong projected cash flows. However, Ayush Ltd.'s current projected statement of cash flow does not satisfy the bank's criteria for lending.

The directors of Ayush Ltd. have told the lending bank that the company is in an excellent financial position and cash flow projections will meet the bank criteria for lending.

Ayush Ltd.'s draft financial statements include an amount of ₹ 2 crore, which was given as loan to one of its directors. The said loan has no specific repayment terms, but the same loan is repayable on demand.

Directors of Ayush Ltd. forced CA Suraj, an employee of the company, to submit the projected statements of cash flows after including director's loan of ₹ 2 crore under the head 'Cash and Cash Equivalent' instead of showing it as loan under financial asset, as the said loan is repayable on demand. By presenting director's loan in such a way, the cash flow projections will meet the bank's criteria of lending.

Required

(i) Discuss the ethical and accounting implications of the above presentation from the perspective of CA Suraj; and

(ii) Also, discuss the ethical principles which would guide how the Chartered Accountant should respond to the situation. **(5 Marks)**

6. (a) Fixed production overheads for the financial year is ₹ 10,000. Normal expected production for the year, after considering planned maintenance and normal breakdown, also considering the future demand of the product is 2,000 MT. It is considered that there are no quarterly / seasonal variations. Therefore, the normal expected production for each quarter is 500 MT and the fixed production overheads for the quarter are ₹ 2,500.

Actual production achieved	Quantity (In MT)
First quarter	400
Second quarter	600
Third quarter	500
Fourth quarter	400
Total	**1,900**

Presuming that there are no quarterly / seasonal variation, calculate the allocation of fixed production overheads for all the four quarters as per Ind AS 34 read with Ind AS 2. Will the quarterly results affect the annual results?

(5 Marks)

(b)

Particulars		Kg.	₹
Opening Inventory:	Finished Goods	1,000	25,000
	Raw Materials	1,100	11,000
Purchases		10,000	1,00,000
Labour			76,500
Overheads (Fixed)			75,000
Sales		10,000	2,80,000
Closing Inventory:	Raw Materials	900	
	Finished Goods	1200	

The expected production for the year was 15,000 kg of the finished product. Due to fall in market demand the sales price for the finished goods was ₹ 20 per kg and the replacement cost for the raw material was ₹ 9.50 per kg on the closing day. Calculate the closing inventory as on that date. **(5 Marks)**

(c) ABC Ltd. has received the following grants from the Government of Delhi for its newly started pharmaceutical business:

- ₹ 20 lakhs received for immediate start-up of business without any further condition.
- ₹ 50 lakhs received for research and development of drugs required for the treatment of cardiovascular diseases with following conditions:
  - that drugs should be available to the public at 20% cheaper from current market price; and
  - the drugs should be in accordance with quality prescribed by the World Health Organisation [WHO].
- Two acres of land (fair Value: ₹ 10 Lakhs) received for set up of plant.
- ₹ 2 lakhs received for purchase of machinery of ₹ 10 lakhs. Useful life of machinery is 5 years. Depreciation on this machinery is to be charged on straight-line basis.

Recommend how should ABC Ltd. recognise the government grants in its books of accounts. **(4 Marks)**

Mock Test Paper - Series II: December, 2025

Date of Paper: 4th December, 2025

Time of Paper: 2 P.M. to 5 P.M.

FINAL COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

ANSWER TO PART – I CASE SCENARIO BASED MCQS

1. **Option (C)** ₹ 6,00,000
2. **Option (A)** Gain of ₹ 16,000
3. **Option (C)** ₹ 46,830
4. **Option (A)** ₹ 80,000 accrued interest and ₹ 1,00,000 current portion of the non-current bond would be presented as current liabilities while ₹ 9,00,000 would be presented as a non-current liability.
5. **Option (B)** ₹ 1.75 million
6. **Option (B)** The discovery of fraud is an adjusting event as the fraud took place before the end of the reporting period, which has been confirmed after the end of the reporting period but before the approval of financial statements. Hence, to be adjusted in the year 20X3-20X4 with retrospective restatement.
7. **Option (D)** No Deferred tax asset/liability
8. **Option (C)** ₹ 4,05,000
9. **Option (D)** ₹ 4,55,625
10. **Option (D)** The license is recognised at ₹ 4,50,000, the fair value at market rates of a license based on the remaining contractual life.
11. **Option (B)** ₹ 1,80,000
12. **Option (B)** 98.20 lakhs
13. **Option (B)** ₹ 45,000
14. **Option (D)** The first Ind AS Financial Statements shall distinguish the correction of errors from changes in accounting policies and reported as part of the reconciliation as at 1st April, 20X1.
15. **Option (D)** Only ii

Answers of Part – II : Descriptive Questions

1. (i) Journal Entries

		₹	₹
Property Plant and Equipment	Dr.	22,50,000	
Investment in bonds	Dr.	15,00,000	
Trade receivables	Dr.	1,50,000	
Brand value	Dr.	4,50,000	
Goodwill (balancing figure)	Dr.	1,00,000	
To Investment in HD excavators Limited			20,25,000
To Profit and loss account			75,000
To Trade payables			9,50,000
To Non-controlling interest			14,00,000
Being assets and liabilities acquired at fair value and previous investment considered at fair value on the acquisition date			

Consolidated Balance Sheet of Bulldozer Limited and its subsidiary HD Excavators Limited as at 1st February 20X2

	Notes	Amount ₹
ASSETS		
Non-current assets		
(a) Property Plant and Equipment	1	63,00,000
(b) Goodwill		1,00,000
(c) Other Intangible Assets	2	4,50,000
(d) Financial Assets		
(i) Investment in bonds		15,00,000
Current assets		
(a) Financial assets		
(i) Trade receivables	3	3,90,000
(ii) Cash and cash equivalents	4	15,60,000
Total		1,03,00,000

EQUITY AND LIABILITIES		
Equity		
Equity share capital		15,00,000
Other equity	5	36,00,000
Non-controlling interest		14,00,000
Current liabilities		
(a) Financial liabilities		
(i) Borrowings	6	12,00,000
(ii) Trade payables	7	18,50,000
(b) Other current liabilities	8	7,50,000
Total		1,03,00,000

Notes to Accounts

S.N.		₹	₹
1	**Property Plant and Equipment**		
	Bulldozer Limited	40,50,000	
	HD Excavators Limited	22,50,000	63,00,000
2	**Other Intangible Assets**		
	Brand value of HD excavators limited		4,50,000
3	**Trade receivables**		
	Bulldozer Limited	2,40,000	
	HD Excavators Limited	1,50,000	3,90,000
4	**Cash and cash equivalents**		
	Bulldozer Limited		15,60,000
5	**Other equity - Reserves**		
	Bulldozer Limited	35,25,000	
	Add: Gain on Investment in HD Excavators Limited	75,000	36,00,000
6	**Borrowings**		
	Short term loans of Bulldozer Limited		12,00,000

7	**Trade payables**		
	Bulldozer Limited	9,00,000	
	HD Excavators Limited	9,50,000	18,50,000
8	**Other current liabilities**		
	Bulldozer Limited		7,50,000

Working Notes

1. Calculation of gain or loss on fair value of shares on the acquisition date 1st February 20X2

	₹
35% shares purchased on 1st February 20X2 fair value	12,25,000
25% shares purchased on 1st October 20X1 at ₹ 8,00,000	
Fair value is equal to [(12,25,000 / 35%) x 25%]	8,75,000
Total consideration at fair value on acquisition date	21,00,000
Less: Cost of investment (8,00,000 + 12,25,000)	(20,25,000)
Gain recognised to profit or loss / OCI as appropriate	75,000

2. Measurement of non-controlling interest on fair value basis

Share of NCI (100 - 25 – 35)	40%
Taking fair value of shares on 1st February 20X2 as a base [(21,00,000/60%) x 40%] or [(12,25,000 x 40%) / 35%]	14,00,000

2. (a) On evaluation of the contract in question, on the basis of definition of derivative, contract for purchase of USD ($) 60,000 from Vidhi Bank contains a derivative.

The reason being -

1) The value of the contract, purchase of USD at fixed price, changes in response to the change in foreign exchange rate;

2) the contract requires zero initial investment;

3) The contract is settled at a future date that is 31st March 20X2.

Journal entries in the books of Satvik Limited

Date	Particulars	₹	₹
15.4.20X1	No entry recognised since initial fair value of the forward contract is zero	Nil	Nil

30.6.20X1	Profit and loss account Dr. To Derivative financial liability account (Being mark to market loss on forward contract recorded)	18,000	 18,000
30.9.20X1	Derivative financial liability account Dr. To Profit and loss account (Being partial reversal of mark to market loss on forward contract recorded)	3,000	 3,000
31.12.20X1	Derivative financial liability account Dr. Derivative financial asset account Dr. To Profit and loss account (Being profit on mark to market of forward contract booked as derivative financial asset and reversal of derivative financial liability recorded)	15,000 6,000	 21,000
31.3.20X2	Cash (USD account) account Dr. Profit and loss account Dr. To Cash account (USD 60,000 x 82) To Derivative financial asset account (Being loss on settlement of forward contract recorded on actual purchase of USD)	49,23,000 3,000	 49,20,000 6,000

Working Notes:

Sr. No.	Date	Working
1.	30.6.20X1	(82.40 – 82.10) x 60,000 = 18,000
2.	30.9.20X1	(82.15 – 82.10) x 60,000 = 3,000
3.	31.12.20X1	(82.50 – 82.15) x 60,000 = 21,000
4.	31.3.20X2	Cash (USD a/c) 60,000 x 82.05 = 49,23,000

(b) Determination of Enterprise Value of XYZ Ltd.

Particulars	₹ in crore
EBITDA as on the measurement date	40
EV/EBITDA multiple as on the date of valuation	8
Enterprise value of XYZ Ltd.	320

Determination of subsequent measurement of XYZ Ltd.

Particulars	₹ in crore
Enterprise Value of XYZ Ltd.	<u>320</u>
ABC Ltd.'s share based on percentage of holding (5% of 320)	16

Less: Liquidity discount & Non-controlling stake discount (5% + 5% = 10%)	(1.6)
Fair value of ABC Ltd.'s investment in XYZ Ltd.	14.4

3. (a) **Either**

(i) Calculation of capitalization rate on borrowings other than specific borrowings

Amount of loan (₹)	Rate of interest	Amount of interest (₹)
7,00,000	12%	84,000
9,00,000	11%	99,000
16,00,000		1,83,000
Weighted average rate of interest (1,83,000/ 16,00,000) x 100		11.4375%

(ii) Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses

Date of incurrence of expenditure	Amount spent	Financed through	Calculation	₹
1st April, 20X1	1,50,000	Specific borrowing	1,50,000 x 9% x 10/12	11,250
1st August, 20X1	2,00,000	Specific borrowing	50,000 x 9% x 10/12	3,750
		General borrowing	1,50,000x11.4375% x 6/12	8,578.125
1st October, 20X1	3,50,000	General borrowing	3,50,000x11.4375% x 4/12	13,343.75
1st January, 20X2	1,00,000	General borrowing	1,00,000x11.4375% x 1/12	953.125
				37,875

Note: Since construction of building started on 1st April, 20X1, it is presumed that all the later expenditures on construction of building had been incurred at the beginning of the respective month.

(iii) Total expenses to be capitalized for building

	₹
Cost of building ₹ (1,50,000+2,00,000+3,50,000+1,00,000)	8,00,000
Add: Amount of interest to be capitalized	37,875
	8,37,875

(iv) Journal Entry

Date	Particulars	₹	₹
31.1.20X2	Building account Dr.	8,37,875	
	To Bank account		8,00,0000
	To Interest payable (borrowing cost)		37,875
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)		

Note: In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.20X2.

Alternatively, following journal entry may be passed if interest is paid on the date of capitalization:

Date	Particulars	₹	₹
31.1.20X2	Building account Dr.	8,37,875	
	To Bank account		8,37,875
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)		

Or

Extract of the Balance Sheet of RKA Private Ltd. as at 31st March, 20X2

₹ in lakhs

Closing net defined liability (1,580 – 1,275) lakhs	305

Extract of the Statement of Profit or Loss of RKA Private Ltd for the year ended 31st March, 20X2

Particulars	₹ in lakhs
Service cost	55
Net interest *(Refer W.N.1)*	21
Profit or loss	76
Other comprehensive income:	
Remeasurements *(Refer W.N.2)*	80
Total	**156**

Journal Entries in the books of RKA Private Ltd

Particulars		₹ in lakhs	₹ in lakhs
Profit & Loss	Dr.	76	
Other comprehensive income	Dr.	80	
To Cash (Contribution)			111
To Net defined benefit liability *(Refer WN 3)*			45

Working Notes:

1. **Computation of Net interest taken to the Statement of Profit or Loss**

   = Discount rate x Opening net defined benefit liability

   = 8% x (1,400 – 1,140) lakhs

   = 8% x 260 lakhs = 21 lakhs (Rounded off to nearest lakhs)

2. **Computation of Remeasurements**

Defined Benefit Obligation Account

Particulars	₹ in lakhs	Particulars	₹ in lakhs
To Balance c/d (given) (closing balance)	1,580	By Balance b/d (given) (opening balance)	1,400
		By Current Service Cost (given)	55
		By Interest on Opening Liability (1,400 x 8%)	112
		By Actuarial loss **(bal. fig.)**	13
	1,580		**1,580**

Plan Assets Account

Particulars	₹ in lakhs	Particulars	₹ in lakhs
To Balance b/d (given) (opening balance)	1,140	By Balance c/d (given) (closing balance)	1,275
To Bank Account (contribution for the year)	111		
To Surplus/Actual Return (bal. figure)	24		
	1,275		**1,275**

Net interest on opening balance of plan asset = ₹ 91 lakhs (i.e. ₹ 1,140 lakhs x 8%) (Rounded off to nearest lakhs)

Hence, there is a decrease in plan assets due to remeasurement for which computation is as follows:

Actual Return – Net interest on opening plan asset = ₹ 24 lakhs – ₹ 91 lakhs

= ₹ 67 lakhs.

Net remeasurement would be computed as follows:

Actuarial loss on liability + Loss on return = ₹ 13 lakhs + ₹ 67 lakhs

= ₹ 80 lakhs

Computation of increase/ decrease in net defined benefit liability:

Particulars	₹ in lakhs
Opening net liability (₹ 1,400 lakhs – ₹ 1,140 lakhs)	260
Closing net liability (₹ 1,580 lakhs – ₹ 1,275 lakhs)	305
Increase in liability	**45**

(b) As per paragraph 48 and 48B of Ind AS 21 on the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation recognised in other comprehensive income and accumulated in the separate component of equity, shall be reclassified from equity to profit and loss (as a reclassification adjustment) when the gain or loss on disposal is recognised (see Ind AS 1, Presentation of Financial Statements).

Further, the standard states that on disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that for an operation that have been attributed to the non-controlling interest shall be derecognised but shall not be reclassified to profit and loss.

Where the subsidiary is partially owned (that is, where a non-controlling interest exists) and the parent has sold its entire interest, the amount of the cumulative translation adjustment (CTA) that has been allocated to the non-controlling interest derecognised, but it is not transferred to profit and loss. De-recognition of the non-controlling interest (that includes the non-controlling interest share of the CTA will form part of the journal entry to recognise the gain or loss on disposal of the subsidiary.

In Lotus Limited consolidated financial statements, the following amounts (₹ in thousands) have been recognised in relation to its investments in Jasmine Limited:

— net assets of ₹ 6,000 and associated non-controlling interest of ₹ 1,200;

— foreign exchange gains of ₹ 1,350 were recognised in other comprehensive income of which ₹ 270 were attributable to non-controlling interests;

— ₹ 1,080 of foreign exchange gains have been accumulated in a separate component of equity relating to Lotus Limited's 80% share in Jasmine Limited.

Lotus limited sells its 80% interest in Jasmine Limited for ₹ 5,200 thousand and records the following amounts: ₹ in 000

Cash /bank account	Dr.	5,200	
Non-controlling interest	Dr.	1,200	
Foreign Currency Translation Reserves (OCI)	Dr.	1,080	
To Net Assets			6,000
To Profit on disposal (1,080 + (5,200-4,800)			1,480

It can be seen that ₹ 1,080 of the foreign currency gains previously recognised in OCI i.e. the amount attributed to Lotus Limited is reclassified to profit and loss (profit on disposal) and adjusted from OCI. However, ₹ 270 of such gains attributed to the non-controlling interest is not reclassified to profit and loss and is recognised as a part of the NCI balance.

4. **(a)** From 1st April, 20X1, the property would be regarded as an investment property since it is being held for its investment potential rather than being owner occupied or developed for sale.

The property would be measured under the cost model. This means it will be measured at ₹ 2,00,00,000 at each year end.

On 30th September, 20X5, the property ceases to be an investment property. X Ltd. begins to develop it for sale as flats.

As per para 59 of Ind AS 40, transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes. Hence, the carrying value of the reclassified property will be ₹ 2,00,00,000.

Since the lease of the property is an operating lease, rental income of ₹ 10,00,000 (₹ 20,00,000 x 6/12) would be recognized in P/L for the year ended 31st March, 20X6.

The additional costs of ₹ 60,00,000 for developing the flats which were incurred up to and including 31st March, 20X6 would be added to the 'cost' of inventory to give a closing cost of ₹ 2,60,00,000.

The total selling price of the flats is expected to be ₹ 5,00,00,000 (10 x ₹ 50,00,000). Since the further costs to develop the flats total ₹ 40,00,000, their net realisable value is ₹ 4,60,00,000 (₹ 5,00,00,000 – ₹ 40,00,000), so the flats will be measured at a cost of ₹ 2,60,00,000.

The flats will be shown in inventory as a current asset.

(b) An entity has eight segments and the relevant information is as follows:

Criterial 1: Segment revenue is 10% or more of total external + intersegment sales

Segments	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Total sales	100	315	45	15	15	50	25	35	600
% to total sales	16.7	52.5	7.5	2.5	2.5	8.3	4.2	5.8	
Reportable segments	**A**	**B**	-	-	-	-	-	-	

Criteria 2: 10% or more of segment result

Consider segment profit and loss separately in absolute terms

Segments	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Profit	5	-	15	-	8	-	5	7	40
Segments loss	-	90	-	5	-	5	-	-	100

Since segment loss is greater, we select 100 as evaluating the segment percentage

Segments	A	B	C	D	E	F	G	H	Total
% to segment loss	5	90	15	5	8	5	5	7	
Reportable segments	**-**	**B**	**C**	-	-	-	-	-	

Criteria 2: 10% or more of segment assets

Segments	A	B	C	D	E	F	G	H	Total
Assets	15	47	5	11	3	5	5	9	100
%	15	47	5	11	3	5	5	9	100
Reportable segments	**A**	**B**	**-**	**D**	**-**	**-**	**-**	**-**	

Based on the above 3 Criteria, the Reportable Segments are A, B, C & D

However, 75% test for external sales should also be checked.

Reportable Segments	A	B	C	D	TOTAL
External sales	0	255	15	10	280
Total entity's sales (external)					**405**
% of reportable segments external sales to entity's sales					**69.14%**
Required percentage					**75%**

Hence, in the above scenario, additional operating segments need to be identified as reportable segments, till the 75% test is satisfied, even if those segments do not satisfy the quantitative threshold limits.

5. **(a)** In the facts provided above, the entity has made sale of two goods – machine and space parts, whose control is transferred at a point in time. Additionally, company agrees to hold the spare parts for the customer for a period of 2-4 years, which is a separate performance obligation. Therefore, total transaction price shall be divided amongst 3 performance obligations –

(i) Sale of machinery

(ii) Sale of spare parts

(iii) Custodial services for storing spare parts.

Recognition of revenue for each of the three performance obligations shall occur as follows:

- Sale of machinery: Machine has been sold to the customer and physical possession as well as legal title passed to the customer on 31st March, 20X3. Accordingly, revenue for sale of machinery shall be recognized on 31st March, 20X3.

- Sale of spare parts: The customer has made payment for the spare parts and legal title has been passed to specifically identified goods, but such spares continue to be physically held by the entity. In this regard, the company shall evaluate if revenue can be recognized on bill-and-hold basis if all below criteria are met:

(a)	the reason for the bill-and-hold arrangement must be substantive (for example, the customer has requested the arrangement);	The customer has specifically requested for entity to store goods in their warehouse, owing to close proximity to customer's factory.
(b)	the product must be identified separately as belonging to the customer;	The spare parts have been specifically identified and inspected by the customer.
(c)	the product currently must be ready for physical transfer to the customer; and	The spares are identified and segregated, therefore, ready for delivery.
(d)	the entity cannot have the ability to use the product or to direct it to another customer	Spares have been segregated and cannot be redirected to any other customer.

Therefore, all conditions of bill-and-hold are met and hence, company can recognize revenue for sale of spare parts on 31st March, 20X3.

- Custodial services: Such services shall be given for a period of 2 to 4 years from 31st March, 20X3. Where services are given uniformly and customer receives & consumes benefits simultaneously, revenue for such service shall be recognized on a straight-line basis over a period of time.

(b) The first annual Ind AS financial statements are prepared in accordance with the specific requirements of Ind AS 101. Subject to certain specified exemptions and exceptions, paragraph 7 of Ind AS 101 requires the entity to use the same accounting policies in its opening Ind AS balance sheet and throughout all periods presented. This override Ind AS 8's requirements for disclosures about changes in accounting policies do not apply in an entity's first Ind AS financial statements.

GG Ltd. should include an explanation of the change in policy that it has made since the interim financial report, in the notes to the annual financial statements, in accordance with paragraph 27A of Ind AS 101. The disclosure note is likely to include information, similar to what Ind AS 8 would otherwise require, to help users of the financial statements to understand the changes that have been made. The entity should also ensure that the reconciliations of total comprehensive income and of equity, presented in the first Ind AS financial statements in accordance with paragraph 24 of Ind AS 101 are updated from those included in the interim financial report to reflect the amended accounting policy.

(c) Ethical and accounting implications:

As per Ind AS 7 Statement of Cash Flows, cash equivalents are short-term, highly liquid instruments readily convertible to cash and subject to insignificant risk of change in value. Loan given to director has no fixed repayment schedule and likelihood of defaulting is not known. Thus, the classification as a 'cash and cash equivalent' is inappropriate. Instead, loan to director should be shown as a financial asset under Ind AS 109 Financial Instrument.

Due to the pressure from directors, CA Suraj knowingly disclosed incorrect information to the bank in projected cash flow statement, thereby compromising the fundamental principles of objectivity, integrity and professional competence.

- By reporting favourable cash flow projections to bank, objectivity is compromised.
- Integrity is also compromised as by not acting in a straightforward and honest manner, incorrect information is knowingly disclosed.
- The principle of competence requires CA Suraj to prepare the cash flow projection to the best of his professional judgment which would not be the case if the cash flow projection showed a more positive position than what is actually anticipated.

By submitting incorrect projected cash flow statement, CA Suraj would be subject to professional misconduct under clause -1 of Part II of Second schedule of the Chartered Accountants Act 1949.

The clause-1 states that a member of the institute whether in practice or not, shall be deemed to be guilty of professional misconduct, if he contravenes any of the provisions of this Act or regulations made thereunder or any guidelines issued by the council.

Guidance to appropriate action

- As a professional, CA Suraj is responsible for presenting the truth and not to indulge in creative accounting owing to force.
- CA Suraj should put the interest of the Company and professional ethics first and must insist that the projected cash flow statement to the bank should be an honest reflection of the company's current financial position. He must prevent deliberate misrepresentation to the said bank.
- CA Suraj should not allow any undue influence and force from the directors to override his professional judgement or integrity.
- By not providing incorrect projected cash flow statement and by adhering to ethical principles, CA Suraj will maintain his professional integrity and contribute to the trust and reliability placed in the work expected from him.
- As per the guidelines issued by the council of the Institute, a member of the institute who is an employee shall exercise due diligence and shall not be grossly negligent in conduct of his duties.

6. **(a)** If it is considered that there is no quarterly / seasonal variation, therefore normal expected production for each quarter is 500 MT and fixed production overheads for the quarter are ₹ 2,500.

Fixed production overhead to be allocated per unit of production in every quarter will be ₹ 5 per MT (Fixed overheads / Normal production).

Quarters	**Allocations**
First Quarter	➢ Actual fixed production overheads = ₹ 2,500 ➢ Fixed production overheads based on the allocation rate of ₹ 5 per unit allocated to actual production = ₹ 5 x 400 = ₹ 2,000 ➢ Unallocated fixed production overheads to be charged as expense as per Ind AS 2 and consequently as per Ind AS 34 = ₹ 500
Second Quarter	➢ Actual fixed production overheads on year-to-date basis = ₹ 5,000

	➢ Fixed production overheads to be absorbed on year-to-date basis = 1,000 x ₹ 5 = ₹ 5,000 ➢ Earlier, ₹ 500 was not allocated to production in the 1st quarter. To give effect to the entire ₹ 5,000 to be allocated in the second quarter, as per Ind AS 34, ₹ 500 are reversed by way of a credit to the statement of profit and loss of the 2nd quarter.
Third Quarter	➢ Actual production overheads on year-to-date basis = ₹ 7,500 ➢ Fixed production overheads to be allocated on year-to-date basis = 1,500 x 5 = ₹ 7,500 ➢ There is no under or over recovery of allocated overheads. Hence, no further action is required.
Fourth Quarter	➢ Actual fixed production overheads on year-to-date basis = ₹ 10,000 ➢ Fixed production overheads to be allocated on year-to-date basis 1,900 x 5 = ₹ 9,500 ➢ ₹ 500, i.e., [₹ 2,500 – (₹ 5 x 400)] unallocated fixed production overheads in the 4th quarter, are to be expensed off as per the principles of Ind AS 2 and Ind AS 34 by way of a charge to the statement of profit and loss. ➢ Unallocated productions overheads for the year ₹ 500 (i.e ₹ 10,000 – ₹ 9,500) are expensed in the Statement of profit and loss as per Ind AS 2.

The cumulative result of all the quarters would also result in unallocated overheads of ₹ 500, thus, meeting the requirements of Ind AS 34 that the quarterly results should not affect the measurement of the annual results.

(b) Calculation of cost for closing inventory

Particulars	**₹**
Cost of Purchase (10,200 x 10)	1,02,000
Direct Labour	76,500
Fixed Overhead $\frac{75,000 \times 10,200}{15,000}$	51,000

Cost of Production	2,29,500
Cost of closing inventory per unit (2,29,500/10,200)	₹ 22.50
Net Realisable Value per unit	₹ 20.00

Since net realisable value is less than cost, closing inventory will be valued at ₹ 20.

As NRV of the finished goods is less than its cost, relevant raw materials will be valued at replacement cost i.e. ₹ 9.50.

Therefore, value of closing inventory: Finished Goods (1,200x20)	₹ 24,000
Raw Materials (900 x 9.50)	₹ 8,550
	₹ 32,550

(c) ABC Ltd. should recognise the grants in the following manner:

- ₹ 20 lakhs have been received for immediate start-up of business. This should be recognised in Statement of Profit and Loss immediately as there are no further conditions attached to the grant.
- ₹ 50 lakhs should be recognised in profit or loss on a systematic basis over the periods which the entity recognises as expense the related costs for which the grants are intended to compensate provided that there is reasonable assurance that ABC Ltd. will comply with the conditions attached to the grant.
- Land should be recognised at fair value of ₹ 10 lakhs and government grant should be presented in the balance sheet by setting up the grant as deferred income. Alternatively, deduct the amount of grant from the cost of the asset. In the given case, the land is granted at no cost. It will be presented in the books at nominal value.
- ₹ 2 lakhs should be recognised as deferred income and will be transferred to profit and loss over the useful life of the asset. In this case, ₹ 40,000 [₹ 2 lakhs/5] should be credited to profit and loss each year over a period of 5 years. Alternatively, ₹ 2,00,000 will be deducted from the cost of the asset and depreciation will be charged at reduced amount of ₹ 8,00,000 (₹ 10,00,000 – ₹ 2,00,000) every year.