

Mock Test Paper - Series I: September, 2024

Date of Paper: 9th September, 2024

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 1

A Ltd. is a diversified business group operating in multiple business segments across different parts of the world. It maintains its books of accounts and publishes its annual financial statements under Indian Accounting Standards. The finance team has been working on closing the books of accounts and generating financial statements for the year ended 31st March 20X2 and are facing issues in the following transactions while finalization of financial statements:

- (i) A Ltd. owns 250 ordinary shares in X Ltd., an unquoted company. X Ltd. has a total share capital of 5,000 shares with nominal value of ₹ 10. X Ltd.'s after-tax maintainable profits are estimated at ₹ 70,000 per year. An appropriate price/earnings ratio determined from published industry data is 15 (before lack of marketability adjustment). A Ltd.'s management estimates that the discount for the lack of marketability of X Ltd.'s shares and restrictions on their transfer is 20%. A Ltd. values its holding in X Ltd.'s shares based on earnings.
- (ii) A Ltd. has a telecom segment. It entered into an agreement with B Ltd. which is engaged in generation and supply of power. The agreement provided that A Ltd. will provide 1,00,000 minutes of talk time to employees of B Ltd. in exchange for getting power equivalent to 20,000 units. A Ltd. normally charges ₹ 0.50 per minute and B Ltd. charges ₹ 2.5 per unit.
- (iii) A 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.

The construction of building started on 1st April, 20X1 and all the expenditures on construction of building had been incurred at the beginning of the respective month.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 6 in line with relevant Ind AS:

1. What is the value of a share of X Ltd.?
 - (a) ₹ 8,40,000
 - (b) ₹ 10,50,000
 - (c) ₹ 8,00,000
 - (d) ₹ 10,00,000
2. What is the fair value of A Ltd.'s investment in X Ltd.'s shares?
 - (a) ₹ 50,000
 - (b) ₹ 42,000
 - (c) ₹ 10,50,000
 - (d) ₹ 10,00,000
3. By what amount the revenue be measured and recognised by A Ltd. in case of telecom segment?
 - (a) ₹ 10,000
 - (b) ₹ 2,50,000
 - (c) ₹ 2,00,000
 - (d) ₹ 50,000
4. What will be the capitalization rate for computation of borrowing cost on the building based on general borrowings?
 - (a) 9%
 - (b) 11%
 - (c) 11.4375%
 - (d) 12%
5. What will be the total amount of borrowing cost on specific borrowing?
 - (a) ₹ 11,250

- (b) ₹ 13,500
 (c) ₹ 15,000
 (d) ₹ 37,875
6. What will be the total amount of borrowing cost on general borrowing?
- (a) ₹ 22,875
 (b) ₹ 15,000
 (c) ₹ 37,875
 (d) ₹ 13,500

(6 MCQs x 2 Marks each = 12 Marks)

Case Scenario 2

D Ltd. is a globally diversified business conglomerate with operations spanning across various business sectors worldwide. The company adheres to Indian Accounting Standards for maintaining its financial records and annually releases its financial statements. As the finance team progresses towards finalizing the financial statements for the fiscal year ending on 31st March 20X2, the team is stuck up in the accounting of the following transactions:

- (i) D Ltd., for its dairy business, purchased cattle at an auction on 30th June 20X1

Purchase price at 30 th June 20X1	₹ 1,00,000
Costs of transporting the cattle back to the entity's farm	₹ 1,000
Sales price of the cattle at 31 st March, 20X2	₹ 1,10,000

The company would have to incur similar transportation costs if it were to sell the cattle at auction, in addition to an auctioneer's fee of 2% of sales price. The auctioneer charges 2% of the selling price, from both, the buyer as well as the seller.

- (ii) D Ltd. has certain financial instruments:
- Irredeemable preference shares with face value of ₹ 10 each and premium of ₹ 90. These shares carry dividend @ 8% per annum, however dividend is paid only when D Ltd declares dividend on equity shares.
 - Borrowings from Z Ltd. for ₹ 10,00,000 with settlement against issue of a certain number of equity shares of D Ltd. whose value equals ₹ 10,00,000. Fair value per share (to determine total number of equity shares to be issued) be determined based on the market price of the shares of D Ltd. at a future date, upon settlement of the contract.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 7 to 10 in line with relevant Ind AS:

7. What will be the gain/(loss) on initial recognition of biological asset i.e. cattle at the time of purchase on 30th June 20X1?
 - (a) Gain on initial recognition of biological asset ₹ 9,800
 - (b) Loss on initial recognition of biological asset ₹ 9,800
 - (c) Gain on initial recognition of biological asset ₹ 6,000
 - (d) Loss on initial recognition of biological asset ₹ 6,000
8. What will be the gain/(loss) on remeasurement of biological asset i.e. cattle at the time of sale on 31st March 20X2?
 - (a) Gain on remeasurement of biological asset ₹ 9,800
 - (b) Loss on remeasurement of biological asset ₹ 9,800
 - (c) Gain on remeasurement of biological asset ₹ 6,000
 - (d) Loss on remeasurement of biological asset ₹ 6,000
9. Irredeemable preference shares would be accounted for in the books of D Ltd. as
 - (a) Financial Asset
 - (b) Financial Liability
 - (c) Equity
 - (d) Will not be accounted for in the books
10. Borrowings from Z Ltd. for ₹ 10,00,000 with settlement against issue of a certain number of equity shares of D Ltd. would be accounted for in the books of D Ltd. as
 - (a) Financial Asset
 - (b) Financial Liability
 - (c) Equity
 - (d) Will not be accounted for in the books

(4 MCQs x 2 Marks each = 8 Marks)

Case Scenario 3

H Ltd. is a globally diversified business conglomerate with operations spanning multiple business segments across various regions worldwide. For maintaining its financial records, the company follows Indian Accounting Standards. As the finance team diligently finalizes the books of accounts and prepares the financial statements for the financial year ending on 31st March 20X2, it requires insights and accounting suggestions on the following transactions:

- (i) H Ltd. holds 12% of the voting shares in Z Ltd. Z Ltd.'s board comprises of eight members and two of these members are appointed by H Ltd. casting significant influence. Each board member has one vote at the meeting.

- (ii) H Ltd. holds 10% of the voting power of G Ltd. The balance 90% voting power is held by nine other investors each holding 10%.

The decisions about the relevant activities (except decision about taking borrowings) of G Ltd. are taken by the members holding majority of the voting power. The decisions about taking borrowings are required to be taken by unanimous consent of all the investors. Further, decisions about taking borrowing are not the decisions that most significantly affect the returns of G Ltd.

- (iii) H Ltd. is also engaged in the business of pharmaceuticals. It has invested in the share capital of Y Ltd. and is holding 15% of Y Ltd.'s total voting power.

Y Ltd. is engaged in the business of producing packing materials for pharmaceutical entities. One of the incentives for H Ltd. to invest in Y Ltd. was the fact that Y Ltd. is engaged in the business of producing packing materials which is also useful for H Ltd. Since last many years, almost 90% of the output of Y Ltd. is procured by H Ltd.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 11 to 13 in line with relevant Ind AS:

11. What is the relationship of Z Ltd. with H Ltd.?
- (a) Z Ltd. is a subsidiary of H Ltd.
 - (b) Z Ltd. is an associate of H Ltd.
 - (c) Z Ltd. is in joint arrangement with H Ltd.
 - (d) H Ltd. has invested in Z Ltd. with no further relationship as subsidiary, associate or joint arrangement.
12. What is the relationship of G Ltd. with H Ltd.?
- (a) G Ltd. is a subsidiary of H Ltd.
 - (b) G Ltd. is an associate of H Ltd.
 - (c) G Ltd. is in joint arrangement with H Ltd.
 - (d) H Ltd. has invested in G Ltd. with no further relationship as subsidiary, associate or joint arrangement.
13. What is the relationship of Y Ltd. with H Ltd.?
- (a) Y Ltd. is a subsidiary of H Ltd.
 - (b) Y Ltd. is an associate of H Ltd.
 - (c) Y Ltd. is in joint arrangement with H Ltd.
 - (d) H Ltd. has invested in Y Ltd. with no further relationship as subsidiary, associate or joint arrangement.

(3 MCQs x 2 Marks each = 6 Marks)

14. With respect to the best practices applicable to all companies, which of the following statements is incorrect?
- (a) Comply with the standards and regulations but also ensure that financial statements are an effective part of wider communication with stakeholders.
 - (b) Disclose complete information in the financial to avoid any further cross questioning in the mind of the users.
 - (c) Reduce generic disclosures and focus on company specific disclosures that explain how the company applies the policies.
 - (d) Do not disclose assumptions and bases, so that users are not misled.
- (2 Marks)**
15. Which of the following proactive measures do not mitigate cybersecurity risks?
- (a) Ensure that all passwords are simple and are not changed regularly.
 - (b) Include procedures for detecting, containing, and mitigating the impact of a cyberattack
 - (c) Ensure that firewalls and other security measures are in place to prevent unauthorized access to the network.
 - (d) Ensure that data backups are performed regularly and that backups are stored securely
- (2 Marks)**

PART – II DESCRIPTIVE QUESTIONS

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

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the answers.

Maximum Marks – 70 Marks

1. On 31st December, 20X1, Entity A issues 2.5 shares in exchange for each ordinary share of Entity B. All of Entity B's shareholders exchange their shares in Entity B. Therefore, Entity A issues 150 ordinary shares in exchange for all 60 ordinary shares of Entity B.
- The fair value of each ordinary share of Entity B at 31st December, 20X1 is ₹ 40. The quoted market price of Entity A's ordinary shares at that date is ₹ 16.
- The fair values of Entity A's identifiable assets and liabilities at 31st December, 20X1 are the same as their carrying amounts, except that the fair value of Entity A's non- current assets at 31st December, 20X1 is ₹ 1,500.

The balance sheets of Entity A and Entity B immediately before the business combination are:

	Entity A (legal parent, accounting acquiree)	Entity B (legal subsidiary, accounting acquirer)
Current assets	500	700
Non-current assets	<u>1,300</u>	<u>3,000</u>
Total assets	<u>1,800</u>	<u>3,700</u>
Current liabilities	300	600
Non-current liabilities	<u>400</u>	<u>1,100</u>
Total liabilities	<u>700</u>	<u>1,700</u>
Shareholders' equity		
Retained earnings	800	1,400
Issued equity		
100 ordinary shares	300	
60 ordinary shares		600
Total shareholders' equity	<u>1,100</u>	<u>2,000</u>
Total liabilities and shareholders' equity	<u>1,800</u>	<u>3,700</u>

Assume that Entity B's earnings for the annual period ended 31st March, 20X1 were ₹ 600 and that the consolidated earnings for the annual period ended 31st March, 20X2 were ₹ 800. Assume also that there was no change in the number of ordinary shares issued by Entity B during the annual period ended 31st March, 20X1 and during the period from 1st January, 20X1 to the date of the reverse acquisition on 31st December, 20X1.

Calculate the fair value of the consideration transferred measure goodwill and prepare consolidated balance sheet as on 31st December, 20X1.

(14 Marks)

2. (a) XYZ Ltd. is a company incorporated in India. It provides ₹ 10,00,000 interest free loan to its wholly owned Indian subsidiary, ABC Ltd. There are no transaction costs.

State how the loan be accounted for, in the separate financial statements of XYZ Ltd., individual financial statements of ABC Ltd. and consolidated financial statements of the group when the loan is repayable after 3 years. The current market rate of interest for similar loan is 10% p.a. for both holding and subsidiary.

(10 Marks)

(b)

Either

One of the directors of Buildwell Ltd., Mr. Ben Jones has informed Central Finance team that on 1st January 20X3, his spouse acquired a controlling interest in one of Buildwell Ltd.'s major suppliers, Candour Ltd. Mr. Jones seemed to think that this would have implications on the financial statements of Buildwell Ltd. Buildwell Ltd. has been purchasing goods from Candour Ltd. ₹ 1.5 million per month of the year ended 31st March 20X3. As per the financial statements of Buildwell Ltd., this is a significant amount. While checking all the purchase transactions it was found that all the purchases from Candour Ltd. were made at normal market rates.

How the effect of acquisition of controlling interest in Candour Ltd. by Mr. Ben Jones is to be reflected in the financial statements for the year ending 31st March 20X3? **(4 Marks)**

Or

An entity uses the weighted average cost formula to assign costs to inventories and cost of goods sold for financial reporting purposes, but the reports provided to the chief operating decision maker use the First-In, First-Out (FIFO) method for evaluating the performance of segment operations.

State the cost formula to be used for Ind AS 108 disclosure purposes.

(4 Marks)

3. (a) One of the subsidiaries of B Ltd. submitted to Central Finance its Summarized Statement of Profit and Loss and Balance Sheet.

Summarized Statement of Profit and Loss for the year ended 31st March 20X3

Particulars	Amount (₹)
Net sales	2,52,00,000
Less: Cash cost of sales	(1,92,00,000)
Depreciation	(6,00,000)
Salaries & wages	(24,00,000)
Operating expenses	(14,00,000)
Provision for taxation	<u>(8,80,000)</u>
Net Operating Profit	7,20,000
Non-recurring income – profit on sale of equipment	<u>1,20,000</u>
	8,40,000
Retained earnings and profit brought forward	<u>15,18,000</u>
	23,58,000
Dividends declared and paid during the year	<u>(7,20,000)</u>
Profit & loss balance as on 31 st March 20X3	<u>16,38,000</u>

Summarized Balance Sheet

Assets	31 March 20X2	31 March 20X3
Non-current Assets		
Property, Plant and Equipment:		
Land	4,80,000	9,60,000
Buildings and Equipment	36,00,000	57,60,000
Current Assets		
Cash	6,00,000	7,20,000
Inventories	16,80,000	18,60,000
Trade Receivables	26,40,000	9,60,000
Advances	78,000	90,000
Total Assets	90,78,000	1,03,50,000
Liabilities & Equity		
Share capital	36,00,000	44,40,000
Surplus in profit & loss	15,18,000	16,38,000
Current liability		
Trade Payables	24,00,000	23,40,000
Outstanding expenses	2,40,000	4,80,000
Income tax payable	1,20,000	1,32,000
Accumulated depreciation on buildings and equipment	12,00,000	13,20,000
Total	90,78,000	1,03,50,000

The original cost of equipment sold during the year 20X2-20X3 was ₹ 7,20,000.

Work out a Statement of cash flows (as per indirect method) for the year ended 31st March 20X3. **(8 Marks)**

- (b) SA Pvt Ltd is engaged in the business of retail having 100 retail outlets across Northern and Southern India. The company's head office is located at Chennai.

SA Pvt Ltd is a subsidiary of SAG Ltd. SAG Ltd is listed on the National Stock Exchange in India.

Following information is available for SA Pvt Ltd:

Plan Assets

At 1st April, 20X1, the fair value of plan assets was ₹ 10,000.

Contribution to the plan assets done on 31st March, 20X2 – ₹ 3,000

Amount paid on 31st March, 20X2 – ₹ 300

At 31st March, 20X2, the fair value of plan assets was ₹ 14,700

Actual return on plan assets – ₹ 2,000

Defined Benefit Obligation

At 1st April, 20X1, present value of the defined benefit obligation was ₹ 12,000.

At 31st March, 20X2, present value of the defined benefit obligation was ₹ 15,500.

Actuarial losses on the obligation for the year ended 31st March, 20X2 were ₹ 100.

Current Service Cost – ₹ 2,500

Benefit paid – ₹ 300

Discount rate used to calculate defined benefit liability - 10%.

Suggest the amount that would be taken to other comprehensive income (with workings). Also compute net interest on the net defined benefit liability (asset). **(6 Marks)**

4. (a) PQR Ltd., a manufacturing company, prepares consolidated financial statements to 31st March each year. During the year ended 31st March, 20X2, the following events affected the tax position of the group:
- i QPR Ltd., a wholly owned subsidiary of PQR Ltd., incurred a loss adjusted for tax purposes of ₹ 30,00,000. 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. do not consider that QPR Ltd. will make taxable profits in the foreseeable future.
 - ii During the year ended 31st March, 20X2, PQR Ltd. capitalised development costs which satisfied the criteria as per Ind AS 38 'Intangible Assets'. The total amount capitalised was ₹ 16,00,000. The development project began to generate economic benefits for PQR Ltd. from 1st January, 20X2. The directors of PQR Ltd. estimated that the project would generate economic benefits for five years from that date. The development expenditure was fully deductible against taxable profits for the year ended 31st March, 20X2.
 - iii On 1st April, 20X1, PQR Ltd. borrowed ₹ 1,00,00,000. The cost to PQR Ltd. of arranging the borrowing was ₹ 2,00,000 and this cost qualified for a tax deduction on 1st April 20X1. The loan was for a three-year period. No interest was payable on the loan but the

amount repayable on 31st March 20X4 will be ₹ 1,30,43,800. This equates to an effective annual interest rate of 10%. As per the Income-tax Act, a further tax deduction of ₹ 30,43,800 will be claimable when the loan is repaid on 31st March, 20X4.

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, 20X2 as per Ind AS. The rate of corporate income tax is 30%. **(8 Marks)**

- (b) 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? **(6 Marks)**

5. (a) ABC Ltd is a government company and is a first-time adopter of Ind AS. As per the previous GAAP, the contributions received by ABC Ltd. from the government (which holds 100% shareholding in ABC Ltd.) which is in the nature of promoters' contribution have been recognised in capital reserve and treated as part of shareholders' funds in accordance with the provisions of AS 12, Accounting for Government Grants.

State whether the accounting treatment of the grants in the nature of promoters' contribution as per AS 12 is also permitted under Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance. If not, then what will be the accounting treatment of such grants recognised in capital reserve as per previous GAAP on the date of transition to Ind AS. **(4 Marks)**

- (b) Feel Fresh Limited (the Company) is into manufacturing and retailing of FMCG products listed on stock exchanges in India. One of its products is bathing soap which the Company sells under the brand

name 'Feel Fresh'. The Company does not have its own manufacturing facilities for soap and therefore it enters into arrangements with a third party to procure the soaps. The Company entered into a long-term purchase contract of 10 years with M/s. Radhey. Following are the relevant terms of the contract with M/s. Radhey.

- (i) M/s. Radhey has to purchase a machine costing ₹ 10,00,000 from the supplier as specified by the Company. The machine will be customized to produce the soaps as designed by the Company. This machine cannot be used by M/s. Radhey to produce the soaps for buyer other than the Company due to the design specifications. The machine has a useful life of 10 years and the straight line method of depreciation is best suited considering the use of the machine.
- (ii) The Company will pay ₹ 4.75 per soap for the first year of contract. This is calculated based on the budgeted annual purchase of 7,00,000 soaps as follows:

Particulars	Per soap price
Variable cost of manufacturing	4.00
Cost of machine (₹ 1,74,015/7,00,000 soaps)	0.25
M/s. Radhey's margin	<u>0.50</u>
Per soap cost to the Company	<u>4.75</u>

In case the Company purchases more than 7,00,000 (i.e. budgeted number of soaps) soaps in the first year then the cost of the machine (i.e. 0.25 per soap) will not be paid for soaps procured in excess of 7,00,000 units. However, in case Company procures less than budgeted number of soaps, then the Company will pay the differential unabsorbed cost of the machine, at the end of the year. For example, if the Company purchases only 6,00,000 soaps in first year then the differential amount of ₹ 24,015 (1,74,015 - (6,00,000 x 0.25)) will be paid by the Company to M/s. Radhey at the end of the year. Variable cost will be actualized at the end of the year.

- (iii) The cost per soap will be calculated for each year in advance based on the budgeted number of soaps to be produced each year. An amount of ₹ 1,74,015 shall be considered each year for the cost of machine for year 1 to year 8 while calculating the cost per soap. Any differential under absorbed amount shall be paid by the Company to M/s. Radhey at the end of that year. A charge of ₹ 1,74,015 per annum for the machine is derived using borrowing cost of 8% p.a. For year 9 and year 10, only variable cost and margins will be paid.
- (iv) M/s. Radhey does not have any right to terminate the contract but the Company has the right to terminate the contract at the end of

each year. However, if the Company terminates the contract, it has to compensate M/s. Radhey for any unabsorbed cost of Machine. For example, if the Company terminates the contract at the end of second year then it has to pay ₹ 10,44,090 (i.e. 1,74,015 per year x 6 remaining years). If it terminates the contract after the 8th year then the Company does not have to pay the compensation since the cost of the machine would have been absorbed.

- (v) In the first year, the Company purchases 5,50,000 soaps at ₹ 4.75 per soap.

Analyze the contract of the Company with M/s. Radhey and provide necessary accounting entries for first year in accordance with Ind AS with working notes. Assume all cash flows occur at the end of the year.

(10 Marks)

6. (a) Venus Ltd. is a multinational entity that owns three properties. All three properties were purchased on 1st April, 20X1. The details of purchase price and market values of the properties are given as follows:

Particulars	Property 1	Property 2	Property 3
	Factory	Factory	Let-Out
Purchase price	15,000	10,000	12,000
Market value 31.03.20X2	16,000	11,000	13,500
Life	10 Years	10 Years	10 Years
Subsequent Measurement	Cost Model	Revaluation Model	Revaluation Model

Property 1 and 2 are used by Venus Ltd. as factory building whilst property 3 is let-out to a non-related party at a market rent. The management presents all three properties in balance sheet as 'property, plant and equipment'.

The Company does not depreciate any of the properties on the basis that the fair values are exceeding their carrying amount and recognise the difference between purchase price and fair value in Statement of Profit and Loss.

Analyse whether the accounting policies adopted by the Venus Ltd. in relation to these properties is in accordance with Ind AS. If not, advise the correct treatment alongwith working for the same. **(9 Marks)**

- (b) Infostar Ltd. is a listed company engaged in the provision of IT services in India. The directors are paid a bonus based on the profits achieved by the company during the year as per the bonus table given below:

Profit Range

NIL < Profit < ₹ 1 crore

₹ 1 crore < Profit < ₹ 5 crores

Bonus to Directors

NIL

2% of Net Profit

₹ 5 crores < Profit < ₹ 10 crores	4% of Net Profit
₹ 10 crores < Profit < ₹ 20 crores	6% of Net Profit
₹ 20 crores < Profit < ₹ 30 crores	8% of Net Profit
Profit > ₹ 30 crores	10% of Net Profit

The draft Statement of Profit and Loss for the year ended 31 March 20X2 currently shows a profit of ₹ 2 crores.

Issue:

The employees of Infostar Ltd. have historically been paid an individual-performance-based discretionary incentive for the last 15 years. Based on the past trends and performance, the bonus amount for the year 20X1-20X2 would be ₹ 3 crores. In view of the possibility of the directors not receiving the bonus on account of the company's poor performance, Infostar Ltd.'s Chief Financial Officer (CFO), who is a chartered accountant, has suggested that the discretionary incentive usually payable to the employees could be avoided in the current year, which would result in the company reporting profits. As a part of its annual report, Infostar Ltd. reports employee satisfaction scores, staff attrition rates, gender equality and employee absenteeism rates as non-financial performance measures. The CFO has also told the directors over mail that no stakeholder reads the non-financial information anyway, and thus his aforesaid suggestion of not paying the discretionary incentive would not impact the company greatly.

Discuss the ethical and accounting implications of the above issues, referring to the relevant Ind AS wherever appropriate from perspective of CA. Sushil Bhupathy. **(5 Marks)**

Mock Test Paper - Series I: September, 2024

Date of Paper: 9th September, 2024

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 (a) : ₹ 8,40,000
2. Option (b) : ₹ 42,000
3. Option (d) : ₹ 50,000
4. Option (c) : 11.4375%
5. Option (c) : ₹ 15,000
6. Option (a) : ₹ 22,875
7. Option (d) : Loss on initial recognition of biological asset ₹ 6,000
8. Option (a) : Gain on remeasurement of biological asset ₹ 9,800
9. Option (c) : Equity
10. Option (b) : Financial Liability
11. Option (b) : Z Ltd. is an associate of H Ltd.
12. Option (b) : G Ltd. is an associate of H Ltd.
13. Option (b) : Y Ltd. is an associate of H Ltd.
14. Option (d) : Do not disclose assumptions and bases, so that users are not misled.
15. Option (a) : Ensure that all passwords are simple and are not changed regularly.

ANSWERS OF PART – II DESCRIPTIVE QUESTIONS

1. Identifying the acquirer

As a result of Entity A issuing 150 ordinary shares, Entity B's shareholders own 60 per cent of the issued shares of the combined entity (i.e., 150 of the 250 total issued shares). The remaining 40 per cent are owned by Entity A's shareholders. Thus, the transaction is determined to be a reverse acquisition in which Entity B is identified as the accounting acquirer while Entity A is the legal acquirer.

Calculating the fair value of the consideration transferred

If the business combination had taken the form of Entity B issuing additional ordinary shares to Entity A's shareholders in exchange for their ordinary shares in Entity A, Entity B would have had to issue 40 shares for the ratio of ownership interest in the combined entity to be the same. Entity B's shareholders would then own 60 of the 100 issued shares of Entity B — 60 per cent of the combined entity. As a result, the fair value of the consideration effectively transferred by Entity B and the group's interest in Entity A is ₹ 1,600 (40 shares with a fair value per share of ₹ 40).

The fair value of the consideration effectively transferred should be based on the most reliable measure. Here, the quoted market price of Entity A's shares provides a more reliable basis for measuring the consideration effectively transferred than the estimated fair value of the shares in Entity B, and the consideration is measured using the market price of Entity A's 100 shares with a fair value per share of ₹ 16.

Measuring goodwill

Goodwill is measured as the excess of the fair value of the consideration effectively transferred (the group's interest in Entity A) over the net amount of Entity A's recognised identifiable assets and liabilities, as follows:

	₹	₹
Consideration effectively transferred		1,600
Net recognised values of Entity A's identifiable assets and liabilities		
Current assets	500	
Non-current assets	1,500	
Current liabilities	(300)	
Non-current liabilities	<u>(400)</u>	<u>(1,300)</u>
Goodwill		<u>300</u>

Consolidated balance sheet at 31st December, 20X1

The consolidated balance sheet immediately after the business combination is:

	₹
Non-current assets [3,000 + 1,500]	4,500
Goodwill	300
Current assets [700 + 500]	<u>1,200</u>
Total assets	<u>6,000</u>
Shareholders' equity	
Issued equity 250 ordinary shares [600 + 1,600]	2,200
Retained earnings	<u>1,400</u>

Total shareholders' equity	<u>3,600</u>
Non-current liabilities [1,100 + 400]	1,500
Current liabilities [600 + 300]	<u>900</u>
Total liabilities	<u>2,400</u>
Total liabilities and shareholders' equity	<u>6,000</u>

The amount recognised as issued equity interests in the consolidated financial statements (₹ 2,200) is determined by adding the issued equity of the legal subsidiary immediately before the business combination (600) and the fair value of the consideration effectively transferred (₹ 1,600). However, the equity structure appearing in the consolidated financial statements (i.e., the number and type of equity interests issued) must reflect the equity structure of the legal parent, including the equity interests issued by the legal parent to affect the combination.

2. (a) Ind AS 109 requires that financial assets and liabilities are recognized on initial recognition at its fair value, as adjusted for the transaction cost. In accordance with Ind AS 113 Fair Value Measurement, the fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Both parent and subsidiary recognize financial asset and liability, respectively, at fair value on initial recognition. The difference between the loan amount and its fair value is treated as an equity contribution to the subsidiary. This represents a further investment by the parent in the subsidiary.

Accounting in the books of XYZ Ltd (Parent)

Particulars	Amount	Amount
On the date of loan		
Loan to ABC Ltd (Subsidiary) Dr.	7,51,315	
Deemed Investment (Capital Contribution) in ABC Ltd. Dr.	2,48,685	
To Bank		10,00,000
(Being the loan is given to ABC Ltd and recognised at fair value)		
Accrual of Interest income		
Loan to ABC Ltd Dr.	75,131	
To Interest income		75,131
(Being interest income accrued) – Year 1		
Loan to ABC Ltd Dr.	82,645	
To Interest income		82,645
(Being interest income accrued) – Year 2		
Loan to ABC Ltd Dr.	90,909	

To Interest income (Being interest income accrued) – Year 3		90,909
On repayment of loan		
Bank Dr. To Loan to ABC Ltd (Subsidiary)	10,00,000	10,00,000

Accounting in the books of ABC Ltd (Subsidiary)

Particulars	Amount	Amount
On the date of loan		
Bank Dr. To Loan from XYZ Ltd (Payable)	10,00,000	751,315
To Equity (Deemed Capital Contribution from XYZ Ltd)		2,48,685
(Being the loan taken from XYZ Ltd. and recognised at Fair value)		
Accrual of Interest		
Interest expense Dr. To Loan from XYZ Ltd (Payable)	75,131	75,131
(Being interest expense recognised)–Year 1		
Interest expense Dr. To Loan from XYZ Ltd (Payable)	82,645	82,645
(Being interest expense recognised)–Year 2		
Interest expense Dr. To Loan from XYZ Ltd (Payable)	90,909	90,909
(Being interest expense recognised)–Year 3		
On repayment of loan		
Loan from XYZ Ltd (Payable) Dr. To Bank	10,00,000	10,00,000

Working Notes:

1	Computation of Present value of loan	
	Rate	10%
	Amount of Loan	10,00,000
	Year	3
	Present Value	7,51,315
2	Computation of interest for Year I	

	Present Value	7,51,315
	Rate	10%
	Period of interest - for 1 year	1
	Closing value at the end of year 1	8,26,446
	Interest for 1 st year	75,131
3	Computation of interest for Year 2	
	Value of loan as at the beginning of Year 2	8,26,446
	Rate	10%
	Period of interest - for 2 nd year	1
	Closing value at the end of year 2	9,09,091
	Interest for 2 nd year	82,645
4	Computation of interest for Year 3	
	Value of loan as at the beginning of Year 3	9,09,091
	Rate	10%
	Period of interest - for 3 rd year	1
	Closing value at the end of year 3	10,00,000
	Interest for 3 rd year	90,909

(b)

Either

In accordance with Ind AS 24 'Related Party Disclosures', effective 1st January 20X3, Candour Ltd. would be regarded as a related party of Buildwell Ltd. This is because Candour Ltd. is controlled by the close family member of one of Buildwell Ltd.'s key management personnel. This means that from 1st January 20X3, the purchases from Candour Ltd. would be regarded as related party transactions.

As per the provisions of para 18 of Ind AS 24, transactions with related parties need to be disclosed in the notes to the financial statements, together with the nature of the relationship. It is irrelevant whether or not these transactions are at normal market rates. As per para 23 of the standard, disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

The disclosure is required to state that Candour Ltd., controlled by the spouse of a director, supplied goods to the value of ₹ 4.5 million (3 x ₹ 1.5 million) in the current accounting period.

Or

The entity should use First-in-first-out (FIFO) method for its Ind AS 108 disclosures, even though it uses the weighted average

cost formula for measuring inventories for inclusion in its financial statements. Where chief operating decision maker uses only one measure of segment asset, same measure should be used to report segment information. Accordingly, in the given case, the method used in preparing the financial information for the chief operating decision maker should be used for reporting under Ind AS 108.

However, reconciliation between the segment results and results as per financial statements needs to be given by the entity in its segment report.

**3. (a) Statement of Cash Flows for the year ended 31st March 20X3
(Indirect method)**

Particulars	₹	₹
Cash flow from operating activities:		
Net Profit before taxes and extraordinary items (7,20,000+8,80,000)	16,00,000	
Add: Depreciation	6,00,000	
Operating profit before working capital changes	22,00,000	
Increase in inventories	(1,80,000)	
Decrease in trade receivables	16,80,000	
Advances	(12,000)	
Decrease in trade payables	(60,000)	
Increase in outstanding expenses	2,40,000	
Cash generated from operations	38,68,000	
Less: Income tax paid (Refer W.N.4)	(8,68,000)	
Net cash from operations		30,00,000
Cash from investing activities:		
Purchase of land	(4,80,000)	
Purchase of building & equipment (Refer W.N.2)	(28,80,000)	
Sale of equipment (Refer W.N.3)	3,60,000	
Net cash used for investment activities		(30,00,000)
Cash flows from financing activities:		
Issue of share capital	8,40,000	
Dividends paid	(7,20,000)	
Net cash from financing activities:		1,20,000

Net increase in cash and cash equivalents		1,20,000
Cash and cash equivalents at the beginning		6,00,000
Cash and cash equivalents at the end		7,20,000

Working Notes:

1. Building & Equipment Account

Particulars	₹	Particulars	₹
To Balance b/d	36,00,000	By Sale of assets	7,20,000
To Cash/bank (purchases)(bal.fig)	<u>28,80,000</u>	By Balance c/d	<u>57,60,000</u>
	<u>64,80,000</u>		<u>64,80,000</u>

2. Building & Equipment Accumulated Depreciation Account

Particulars	₹	Particulars	₹
To Sale of asset (acc. depreciation)	4,80,000	By Balance b/d	12,00,000
To Balance c/d	<u>13,20,000</u>	By Profit & Loss A/c (provisional)	6,00,000
	<u>18,00,000</u>		<u>18,00,000</u>

3. Computation of sale price of Equipment

Particulars	₹
Original cost	7,20,000
Less Accumulated Depreciation	<u>(4,80,000)</u>
Net cost	2,40,000
Profit on sale of assets	<u>1,20,000</u>
Sale proceeds from sale of assets	<u>3,60,000</u>

4. Provision for tax Account

Particulars	₹	Particulars	₹
To Bank A/c	8,68,000	By Balance b/d	1,20,000
To Balance c/d	<u>1,32,000</u>	By Profit & Loss A/c (provisional)	<u>8,80,000</u>
	<u>10,00,000</u>		<u>10,00,000</u>

- (b) As per Ind AS 19, net remeasurement of ₹ 900 would be recognized in other comprehensive income.

Computation of Net remeasurement

= Remeasurement – Actuarial loss

= ₹ 1000 (Refer WN - 1) – ₹ 100 (Given in the question) = ₹ 900.

Computation of net interest expense

Particulars	₹
Defined benefit liability as at 1 st April 20X1 (A) (Given in the question)	12,000
Fair value of plan asset as at 1 st April 20X1 (B) (Given in the question)	<u>(10,000)</u>
Net defined benefit liability (A - B)	<u>2,000</u>
Net interest expense (as it is net liability) (Refer note given below)	200

Note: Net interest expense would be computed on net defined benefit liability using discount rate of 10% given in the question-

= Net defined benefit liability x Discount rate

= 2,000 x 10%

= ₹ 200.

Working Note:**Computation of amount of remeasurement**

Particulars	₹
Actual return on plan asset for the year ended 31 st March 20X2 (Given in the question) (C)	2,000
Less: Interest income on ₹ 10,000 held for 12 months at 10% (D)	<u>(1,000)</u>
Remeasurement (E = C - D)	<u>1,000</u>

4. (a) Impact on consolidated balance sheet of PQR Ltd. group at 31st March, 20X2
- The tax loss creates a potential deferred tax asset for the PQR Ltd. group since its carrying value is nil and its tax base is ₹ 30,00,000. However, no deferred tax asset can be recognised because there is no prospect of being able to reduce tax liabilities in the foreseeable future as no taxable profits are anticipated.
 - The development costs have a carrying value of ₹ 15,20,000 (₹ 16,00,000 – (₹ 16,00,000 x 1/5 x 3/12)). The tax base of the development costs is nil since the relevant tax deduction has already been claimed. The deferred tax liability will be ₹ 4,56,000 (₹ 15,20,000 x 30%). All deferred tax liabilities are shown as non-current.

- iii The carrying value of the loan at 31st March, 20X2 is ₹ 1,07,80,000 (₹ 1,00,00,000 – ₹ 200,000 + (₹ 98,00,000 x 10%)). The tax base of the loan is 1,00,00,000. This creates a deductible temporary difference of ₹ 7,80,000 and a potential deferred tax asset of ₹ 2,34,000 (₹ 7,80,000 x 30%).
- (b) In the facts provided above, the entity has made sale of two goods – machine and spare 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.

5. (a) Paragraph 2 of Ind AS 20, "Accounting for Government Grants and Disclosure of Government Assistance" inter alia states that the Standard does not deal with government participation in the ownership of the entity.

Since ABC Ltd. is a Government company, it implies that government has 100% shareholding in the entity. Accordingly, the entity needs to determine whether the payment is provided as a shareholder contribution or as a government. Equity contributions will be recorded in equity while grants will be shown in the Statement of Profit and Loss.

Where it is concluded that the contributions are in the nature of government grant, the entity shall apply the principles of Ind AS 20 retrospectively as specified in Ind AS 101 'First Time Adoption of Ind AS'. Ind AS 20 requires all grants to be recognised as income on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Unlike AS 12, Ind AS 20 requires the grant to be classified as either a capital or an income grant and does not permit recognition of government grants in the nature of promoter's contribution directly to shareholders' funds.

Where it is concluded that the contributions are in the nature of shareholder contributions and are recognised in capital reserve under previous GAAP, the provisions of paragraph 10 of Ind AS 101 would be applied which states that except in certain cases, an entity shall in its opening Ind AS Balance Sheet:

- (a) recognise all assets and liabilities whose recognition is required by Ind AS;
- (b) not recognise items as assets or liabilities if Ind AS do not permit such recognition;
- (c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind AS; and
- (d) apply Ind AS in measuring all recognised assets and liabilities.

Accordingly, as per the above requirements of paragraph 10(c) in the given case, contributions recognised in the Capital Reserve should be transferred to appropriate category under 'Other Equity' at the date of transition to Ind AS.

- (b) **Identification of the contract (by applying para 9 of Ind AS 116)**

- (a) **Identified asset**

Feel Fresh Ltd. (a customer company) enters into a long term

purchase contract with M/s Radhey (a manufacturer) to purchase a particular type and quality of soaps for 10 year period.

Since for the purpose of the contract M/s Radhey has to buy a customized machine as per the directions of Feel Fresh Ltd. and also the machine cannot be used for any other type of soap, the machine is an identified asset.

(b) Right to obtain substantially all of the economic benefits from use of the asset throughout the period of use

Since the machine cannot be used for manufacture of soap for any other buyer, Feel Fresh Ltd. will obtain substantially all the economic benefits from the use of the asset throughout the period of use.

(c) Right to direct the use

Feel Fresh Ltd. controls the use of machine and directs the terms and conditions of the contract with respect to recovery of fixed expenses related to machine.

Hence the contract contains a lease.

Lease term

The lease term shall be 10 years assuming reasonable certainty. Though the lessee is not contractually bound till 10th year, i.e., the lessee can refuse to make payment anytime without lessor's permission but, it is assumed that the lessee is reasonably certain that it will not exercise this option to terminate.

Identification of lease payment

Lease payments are defined as payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the following:

- (a) fixed payments (including in-substance fixed payments), **less** any lease incentives
- (b) variable lease payments that depend on an index or a rate
- (c) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- (d) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease

Here in-substance fixed payments in the given lease contract are ₹ 1,74,015 p.a. The present value of lease payment which would be recovered in 8 years @ 8% would be ₹ 10,00,000 (approx.)

Variable lease payments that do not depend on an index or rate and are not, in substance, fixed are not included as lease payments. Instead, they are recognised in profit or loss in the period in which the event that triggers the payment occurs (unless they are included in the carrying amount of another asset in accordance with other Ind AS).

Hence, lease liability will be recognized by ₹ 10,00,000 in the books of

Feel Fresh Ltd. Since there are no payments made to lessor before commencement date less lease incentives received from lessor or initial direct costs incurred by lessee or estimate of costs for restoration / dismantling of underlying asset, the right of use asset is equal to lease liability.

Journal Entries
On initial recognition

ROU Asset	Dr.	10,00,000	
To Lease Liability			10,00,000
<i>To initially recognise the Lease Liability and the corresponding ROU Asset</i>			

At the end of the first year

Interest Expense	Dr.	80,000	
To Lease Liability			80,000
<i>To record interest expense and accrete the lease liability using the effective interest method ($\text{₹ } 10,00,000 \times 8\%$)</i>			
Depreciation Expense ($10,00,000 / 10$ years)	Dr.	1,00,000	
To ROU Asset			1,00,000
<i>To record depreciation on ROU using the straight-line method ($\text{₹ } 10,00,000 / 10$ years)</i>			
Lease Liability	Dr.	1,74,015	
To Bank / M/s. Radhey			1,74,015
<i>To record lease payment</i>			
Cost of soap	Dr.	24,75,000	
To Bank / M/s. Radhey $\{5,50,000 \times (4 + 0.5)\}$			24,75,000
<i>To record variable expenses paid as cost of the goods purchased</i>			

6. (a) The above issue needs to be examined in the umbrella of the provisions given in Ind AS 1 '*Presentation of Financial Statements*', Ind AS 16 '*Property, Plant and Equipment*' in relation to property '1' and '2' and Ind AS 40 '*Investment Property*' in relation to property '3'.

Venus Ltd. shall apply the same accounting policy (i.e. either revaluation or cost model) to entire class of property being property '1' and '2'. It also required to depreciate these properties irrespective of that, their fair value exceeds the carrying amount. The revaluation gain shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.

There is no alternative of revaluation model in respect to property '3'

being classified as Investment Property and only cost model is permitted for subsequent measurement. However, Venus Ltd. is required to disclose the fair value of the property in the Notes to Accounts. Also the property '3' shall be presented as separate line item as Investment Property.

Therefore, as per the provisions of Ind AS 1, Ind AS 16 and Ind AS 40, the presentation of these three properties in the balance sheet is as follows:

Case 1: Venus Ltd. has applied the Cost Model to an entire class of property, plant and equipment.

Balance Sheet (extracts) as at 31st March, 20X2 ₹

Assets	
Non-Current Assets	
Property, Plant and Equipment	
Property '1' 13,500	
Property '2' <u>9,000</u>	22,500
Investment Properties	
Property '3'	10,800

Case 2: Venus Ltd. has applied the Revaluation Model to an entire class of property, plant and equipment.

Balance Sheet (extracts) as at 31st March, 20X2 ₹

Assets	
Non-Current Assets	
Property, Plant and Equipment	
Property '1' 16,000	
Property '2' <u>11,000</u>	27,000
Investment Properties	
Property '3'	10,800
Equity and Liabilities	
Other Equity	
Revaluation Reserve	
Property '1' [16,000 – (15,000 – 1,500)] 2,500	
Property '2' [11,000 – (10,000 – 1,000)] <u>2,000</u>	4,500

The revaluation reserve should be routed through Other Comprehensive Income (subsequently not reclassified to Profit and Loss) in Statement of Profit and Loss and shown in a separate column under Statement of Changes in Equity.

(b) Ethical Considerations

Long-term success of any organization strongly depends on the fair

treatment of employees, which in turn is based on the ethical behaviour of the management as well as how the same is perceived by the stakeholders. In the given case, the CFO has suggested not paying the discretionary bonus, which the directors are considering as it will enable the company to record profits of ₹ 2 crores, thereby ensuring a bonus pay out to the directors. This suggestion is not illegal at all as the bonus is discretionary rather than statutory/contractual. In other words, the company has no legal obligation to pay the bonus to the employees. However, the reason behind non-payment of the bonus is what gives rise to ethical considerations. The suggestion by the CFO will have the aforesaid impact of reducing expenses and improving profits.

On a moral ground, the suggestion is likely to have negative consequences for the company. The employees would be dissatisfied that the bonus has been withdrawn, and further, when they would see the directors withdrawing bonuses out of the profits arising on a saving in bonus costs, it would have a negative impact on employee morale, which would result in low employee satisfaction scores and poor retention rates, which are reported as non-financial information in the financial statements. Companies are also under increasing pressure to reduce the wage gap between the management and its employees. By not paying a bonus, this metric will be adversely affected.

The CFO's statement that the above action will not negatively impact the company as the non-financial reporting indicators are not widely read by the users is misleading. The non-financial information is becoming increasingly important to the users of financial statements as they care about companies' treatment of their employees and view it as being important in the long-term success of the company.

A chartered accountant has a responsibility to exercise due diligence and clearly consider both financial and non-financial information while discharging his professional duty. It would be unethical for a chartered accountant to guide the management on matters which may result into any kind of disadvantage (it includes even non-financial matters) to the stakeholders.

Further, a distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. A chartered accountant's responsibility is not exclusively to satisfy the needs of an individual client or employing organization. Therefore, the Code contains requirements and application material to enable chartered accountants to meet their responsibility to act in the public interest. Hence, it is essential for a chartered accountant to uphold the professional standards and act in accordance with the ethical principles by ensuring transparency and accuracy in financial reporting