Mock Test Paper - Series II: August, 2025

Date of Paper: 4th August, 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 1

ABC Ltd is a diversified company engaged in multiple lines of business and operates through several subsidiaries and associates. The Group has prepared its consolidated financial statements for the year ended 31st March 2024 in accordance with the Indian Accounting Standards. During the preparation of these financial statements, the management identified certain accounting issues and errors relating to prior periods, along with revenue recognition implications under Ind AS.

(i) ABC Ltd. has an investment property with an original cost of ` 1,00,000 which it inadvertently omitted to depreciate in previous financial statements. The property was acquired on 1st April, 20X1. The property has a useful life of 10 years and is depreciated using straight line method. Estimated residual value at the end of 10 year is Nil.

(ii) While preparing the annual financial statements for the year ended 31st March, 20X4, ABC Ltd. discovers that a provision for constructive obligation for payment of bonus to selected employees in corporate office (material in amount) which was required to be recognised in the annual financial statements for the year ended 31st March, 20X2 was not recognised due to oversight of facts. The bonus was paid during the financial year ended 31st March, 20X3 and was recognised as an expense in the annual financial statements for the said year.

(iii) ABC Ltd. sells gym memberships for ` 7,500 per year to 100 customers, with an option to renew at a discount in 2nd and 3rd year at ` 6,000 per year. Entity estimates an annual attrition rate of 50% each year.

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

1. How should the omission of depreciation of investment property be corrected in the financial statements for the year ended 31st March, 20X4, assuming the impact of the same is considered material?

   (a) The error shall be corrected by restating the figures prospectively for financial year 20X2-20X3.

   (b) The error shall be corrected by retrospectively restating the figures for financial year 20X2-20X3 but without presenting a third balance sheet as at 1st April, 20X2 which is the beginning of the earliest period presented in the financial statements.

   (c) The error shall be corrected by retrospectively restating the figures for financial year 20X2-20X3 and also by presenting a third balance sheet as at 1st April, 20X2 which is the beginning of the earliest period presented in the financial statements.

   (d) There is no error, its only omission of the adjustment, hence should be ignored.

2. With respect to point (ii) above, how should ABC Ltd. treat the situation in its financial statements for the financial year 20X3–20X4?

   (a) No adjustment is required as the expense has already been recognised in FY 20X2–20X3.

   (b) Recognise the provision in FY 20X3–20X4 as a current year expense.

   (c) Present a third balance sheet as at the beginning of the preceding period (i.e., as at 1st April, 20X2) wherein it should recognise the provision for bonus and restate the retained earnings.

   (d) Disclose the omission in the notes to accounts without any retrospective adjustment.

3. Amount of revenue per membership to be recognized in the first year and the amount of contract liability per membership against the option given to the customer for renewing the membership at discount would be

(a) Revenue can be recognized at ` 7,500 per membership with no contract liability

(b) Revenue can be recognized at ` 6,857 approx. per membership and remaining ` 643 per membership should be recorded as contract liability

(c) Revenue can be recognized at ` 7,50,000 approx. per membership with no contract liability

(d) Revenue can be recognized at ` 6,85,700 approx. per membership and remaining ` 64,300 per membership should be recorded as contract liability

(3 x 2 = 6 Marks)

Case Scenario 2

MS Ltd., a diversified organisation with several subsidiaries and business lines, has prepared its financial statements for the year ended 31st March in accordance with the Indian Accounting Standards. During the preparation, the management of MS Ltd. are facing following issues:

(i) MS Ltd. has acquired a heavy machinery at a cost of ` 1,00,00,000 (with no breakdown of the component parts). The estimated useful life is 10 years. At the end of the sixth year, one of the major components, the turbine requires replacement, as further maintenance is uneconomical. The remainder of the machine is perfect and is expected to last for the next four years. The cost of a new turbine is ` 45,00,000. The discount rate assumed is 5%.

(ii) The rate of income tax applicable to MS Ltd. is 20%. The following information relates to transactions, assets and liabilities of MS Ltd during the year ended 31st March 20X6:

1. MS Ltd. has a 40% shareholding in L Ltd. MS Ltd purchased this shareholding for ` 45 Cr. The shareholding gives MS Ltd significant influence over L Ltd but not control and therefore MS Ltd. accounts for its interest in L Ltd using the equity method. The equity method carrying value of MS Ltd.'s investment in L Ltd was ` 70 Cr on 31st March 20X5 and ` 75 Cr on 31st March 20X6. In the tax jurisdiction in which MS Ltd operates, profits recognised under the equity method are taxed if and when they are distributed as a dividend or the relevant investment is disposed of.

2. MS Ltd. measures its head office building using the revaluation model. The building is revalued every year on 31st March. On 31st March 20X5, carrying

value of the building (after revaluation) was ` 40 Cr and its tax base was ` 22 Cr. During the year ended 31st March 20X6, MS Ltd. charged depreciation in its statement of profit or loss of ` 2 Cr and claimed a tax deduction for tax depreciation of ` 1.25 Cr. On 31st March 20X6, the building was revalued to ` 45 Cr. In the tax jurisdiction in which MS Ltd. operates, revaluation of property, plant and equipment does not affect taxable income at the time of revaluation.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 4 to 8 in line with relevant Ind AS:

4. The approximate cost of turbine at year 1 would be

   (a) ` 45,00,000

   (b) ` 33,57,900

   (c) ` 13,43,160

   (d) Nil

5. The current carrying amount of the turbine at the end of 6th year would be

   (a) ` 45,00,000

   (b) ` 33,57,900

   (c) ` 13,43,160

   (d) Nil

6. The revised carrying amount of machine after replacement of new turbine would be

   (a) ` 71,56,840

   (b) ` 45,00,000

   (c) ` 40,00,000

   (d) ` 60,00,000

7. The total deferred tax liability of MS Ltd. at 31st March 20X6 would be

   (a) Nil

   (b) ` 6 Crore

   (c) ` 4.85 Crore

(d) ` 10.85 Crore

8. The charge to other comprehensive income relating to deferred tax for the year ended 31st March 20X6 would be

(a) ` 1.4 Cr

(b) ` 3.45 Cr

(c) ` 0.15 Cr

(d) ` 4.85 Cr

(5 x 2 = 10 Marks)

Case Scenario 3

XYZ Ltd. prepares its financial statements as per Ind AS. The management requires your assistance in following cases:

(i) XYZ Ltd. originates 2,000 bullet loans with a total gross carrying amount of ` 5,00,000. XYZ Ltd. segments its portfolio into borrower groups (Groups X and Y) on the basis of shared credit risk characteristics at initial recognition. Group X comprises 1,000 loans with a gross carrying amount per client of ` 200, for a total gross carrying amount of ` 2,00,000. Group Y comprises 1,000 loans with a gross carrying amount per client of ` 300, for a total gross carrying amount of ` 3,00,000. There are no transaction costs, and the loan contracts include no options, premiums or discounts, points paid, or other fees.

Additional information

Group	Historic per annum average defaults	Present value of observed loss assumed
X	4	` 600
Y	2	` 450

(ii) XYZ Ltd. has invested in 40% share capital of N Ltd. and hence N Ltd. is an associate of XYZ Ltd. During the year, N Ltd. sold inventory to XYZ Ltd. for a value of ` 10,00,000. This included profit of 10% on the transaction price i.e. profit of ` 1,00,000. Out the above inventory, XYZ Ltd. sold inventory of ` 6,00,000 to outside customers. Hence, the inventory of ` 4,00,000 purchased from N Ltd. is still lying with XYZ Ltd.

(iii) XYZ Ltd. has also invested in 40% share capital of A Ltd. and hence A Ltd. is also an associate of XYZ Ltd. XYZ Ltd. sold the inventory to A Ltd. for a value of ` 10,00,000.

This included profit of 10% on the transaction price i.e. profit of ` 1,00,000. Out the above inventory, A Ltd. sold inventory of ` 6,00,000 to outside customers. Hence, the inventory of ` 4,00,000 purchased from XYZ Ltd. is still lying with A Ltd.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 9 to 13 in line with relevant Ind AS:

9. Calculate the loss rate of Group X

   (a) 0.15%

   (b) 0.3%

   (c) 0.45%

   (d) Nil

10. Calculate loss rate of Group Y

    (a) 0.15%

    (b) 0.3%

    (c) 0.45%

    (d) Nil

11. The unrealised profit to be eliminated on sale of inventory would be .

    (a) ` 4,00,000

    (b) ` 6,00,000

    (c) ` 16,000

    (d) ` 40,000

12. In case of N Ltd. sold inventory to XYZ Ltd., the net profit of XYZ Ltd. from the Associate N Ltd. following equity method would be

    (a) ` 4,00,000

    (b) ` 3,84,000

    (c) ` 3,60,000

    (d) ` 40,000

13. In case of XYZ Ltd. sold inventory to A Ltd., the unrealised profit of XYZ Ltd. would be reversed by debiting

(a) Sales A/c by ` 160,000

(b) Cost of material consumed A/c by ` 160,000

(c) Investment in A Ltd. by ` 160,000

(d) Not required to reverse the unrealised profit in this case

(5 x 2 = 10 Marks)

14. Which of the following is an example of an item that may need to be recognised on the transition date under Ind AS?

(a) Redeemable preference shares previously shown as equity

(b) Customer-related intangible assets arising from a restated business combination

(c) Discounting of long-term provisions

(d) Deferred tax based only on timing differences **(2 Marks)**

15. Which of the following correctly identifies circumstances under which a Chartered Accountant may or must disclose confidential information?

(a) Disclosure is always prohibited unless a court orders it.

(b) Disclosure is allowed only with client permission, regardless of legal or regulatory demands.

(c) Disclosure may be required or appropriate when mandated by law, permitted by law with client authorization, or when there is a professional duty or right to disclose not prohibited by law.

(d) Disclosure is never appropriate under any circumstances unless it benefits the client directly. **(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. DEF Ltd. acquired 100% ordinary shares of ` 100 each of XYZ Ltd. on 1st October 20X1. On 31st March, 20X2 the summarised Balance Sheets of the two companies were as given below:

	DEF Ltd.	XYZ Ltd.
Assets		
Property Plant Equipment		
Land & Buildings	15,00,000	18,00,000
Plant & Machinery	24,00,000	13,50,000
Investment in XYZ Ltd.	34,00,000	-
Inventory	12,00,000	3,64,000
Financial Assets		
Trade Receivable	5,98,000	4,00,000
Cash	1,45,000	80,000
Total	**92,43,000**	**39,94,000**
Equity & Liabilities		
Equity Capital (Shares of ` 100 each fully paid)	50,00,000	20,00,000
Other Equity		
Other reserves	24,00,000	10,00,000
Retained Earnings	5,72,000	8,20,000
Financial Liabilities		
Bank Overdraft	8,00,000	-
Trade Payable	4,71,000	1,74,000
Total	**92,43,000**	**39,94,000**

The retained earnings of XYZ Ltd. showed a credit balance of ` 3,00,000 on 1st April 20X1 out of which a dividend of 10% was paid on 1st November; DEF Ltd. has recognised the dividend received to profit or loss account; Fair Value of P&M as on

1st October 20X1 was ` 20,00,000. The rate of depreciation on plant & machinery is 10%.

Following are the increases on comparison of Fair value as per respective Ind AS with Book value as on 1st October 20X1 which are to be considered while consolidating the Balance Sheets:

Liabilities	Amount	Assets	Amount
Trade Payables	1,00,000	Land & Buildings	10,00,000
		Inventories	1,50,000

Notes:

I. It may be assumed that the inventory is still unsold on balance sheet date and the Trade Payables are also not yet settled.

II. Also assume that the Other Reserves of both the companies as on 31st March 20X2 are the same as was on 1st April 20X1.

III. All fair value adjustments have not yet started impacting consolidated post-acquisition profits.

Prepare consolidated Balance Sheet as at 31st March, 20X2. **(14 Marks)**

2. (a) ABC Company issued 10,000 compulsory cumulative convertible preference shares (CCCPS) as on 1 April 20X1 @ ` 150 each. The rate of dividend is 10% payable every year. The preference shares are convertible into 5,000 equity shares of the company at the end of 5th year from the date of allotment. When the CCCPS are issued, the prevailing market interest rate for similar debt without conversion options is 15% per annum. Transaction cost on the date of issuance is 2% of the value of the proceeds.

Date of Allotment	1st April 20X1
Date of Conversion	1st April 20X6
Number of Preference Shares	10,000
Face Value of Preference Shares	150
Total Proceeds	15,00,000
Rate of dividend	10%
Market Rate for Similar Instrument	15%
Transaction Cost	30,000

Face value of equity share after conversion	10
Number of equity shares to be issued	5,000
Effective interest rate	15.86%

You are required to compute the liability and equity component and pass journal entries for entire term of arrangement i.e. from the issue of preference shares till their conversion into equity shares keeping in view the provisions of relevant Ind AS. **(10 Marks)**

(b) An entity has taken a loan facility from a bank that is to be repaid within a period of 9 months from the end of the reporting period. Prior to the end of the reporting period, the entity and the bank enter into an arrangement, whereby the existing outstanding loan will, unconditionally, roll into the new facility which expires after a period of 5 years.

(a) How should such loan be classified in the balance sheet of the entity?

(b) Will the answer be different if the new facility is agreed upon after the end of the reporting period?

(c) Will the answer to (a) be different if the existing facility is from one bank and the new facility is from another bank?

(d) Will the answer to (a) be different if the new facility is not yet tied up with the existing bank, but the entity has the potential to refinance the obligation? **(4 Marks)**

3. (a) On 1st January, 20X2, the directors of Johansen Ltd. decided to terminate production at one of the company's divisions. This decision was publicly announced on 31st January, 20X2. The activities of the division were gradually reduced from 1st April, 20X2 and closure is expected to be complete by 30th September, 20X2.

At 31st January, 20X2, the directors prepared the following estimates of the financial implications of the closure:

(i) Redundancy costs were initially estimated at ` 2 million. Further expenditure of ` 8,00,000 will be necessary to retrain employees who will be affected by the closure but remained with Johansen Ltd. in different divisions. This retraining will begin in early July 20X2. Latest estimates are that redundancy costs will be ` 1.9 million, with retraining costs of ` 8,50,000.

(ii) Plant and equipment having an expected carrying value at 31st March, 20X2 of ` 8 million will have a recoverable amount ` 1.5 million. These estimates remain valid.

(iii) The division is under contract to supply goods to a customer for the next three years at a pre-determined price. It will be necessary to pay compensation of ` 6,00,000 to this customer. The compensation actually paid, on 31st May, 20X2, was ` 5,50,000.

(iv) The division will make operating losses of ` 3,00,000 per month in the first three months of 20X2-20X3 and ` 2,00,000 per month in the next three months of 20X2-20X3. This estimate proved accurate for April, 20X2 and May, 20X2.

(v) The division operates from a leasehold premises. The lease is a non-cancellable operating lease with an unexpired term of five years from 31st March, 20X2. The annual lease rentals (payable on 31st March in arrears) are ` 1.5 million. The landlord is not prepared to discuss an early termination payment.

Following the closure of the division it is estimated that Johansen Ltd. would be able to sub-let the property from 1st October, 20X2.

Johansen Ltd. could expect to receive a rental of ` 3,00,000 for the six-month period from 1st October, 20X2 to 31st March, 20X3 and then annual rentals of ` 5,00,000 for each period ending 31st March, 20X4 to 31st March, 20X7. All rentals will be received in arrears.

Any discounting calculations should be performed using a discount rate of 5% per annum. You are given the following data for discounting at 5% per annum:

Present value of ` 1 received at the end of year 1	= ` 0.95
Present value of ` 1 received at the end of year 1–2 inclusive	= ` 1.86
Present value of ` 1 received at the end of year 1–3 inclusive	= ` 2.72
Present value of ` 1 received at the end of year 1–4 inclusive	= ` 3.54
Present value of ` 1 received at the end of year 1–5 inclusive	= ` 4.32

Compute the amounts that will be included in the Statement of Profit and Loss for the year ended 31st March, 20X2 in respect of the decision to close the division of Johansen Ltd. **(8 Marks)**

(b) Global Limited, an Indian company acquired on 30th September, 20X1, 70% of the share capital of Mark Limited, an entity registered as company in Germany. The functional currency of Global Limited is Rupees and its financial year end is 31st March, 20X2.

(i) The fair value of the net assets of Mark Limited was 23 million EURO and the purchase consideration paid is 17.5 million EURO on 30th September, 20X1.

The exchange rates as at 30th September, 20X1 was ` 82 / EURO and at 31st March, 20X2 was ` 84 / EURO.

Determine the value at which the goodwill has to be recognised in the financial statements of Global Limited as on 31st March, 20X2, when NCI is valued at proportionate share of fair value of net assets of Mark Limited.

(ii) Mark Limited sold goods costing 2.4 million EURO to Global Limited for 4.2 million EURO during the year ended 31st March, 20X2. The exchange rate on the date of purchase by Global Limited was ` 83 / EURO and on 31st March, 20X2 was ` 84 / EURO. The entire goods purchased from Mark Limited are unsold as on 31st March, 20X2.

Determine the unrealised profit to be eliminated in the preparation of consolidated financial statements. **(6 Marks)**

4. (a) Ankita Holding Inc. grants 100 shares to each of its 500 employees on 1st January, 20X1. The employees should remain in service during the vesting period. The shares will vest at the end of the

First year if the company's earnings increase by 12%;

Second year if the company's earnings increase by more than 20% over the two-year period;

Third year if the entity's earnings increase by more than 22% over the three-year period.

The fair value per share at the grant date is ` 122. In 20X1, earnings increased by 10%, and 29 employees left the organisation. The company expects that the shares will vest at the end of the year 20X2. The company also expects that additional 31 employees will leave the organisation in the year 20X2 and that 440 employees will receive their shares at the end of the year 20X2. At the end of 20X2, company's earnings increased by 18%. Therefore, the shares did not vest. Only 29 employees left the organization during 20X2. Company believes that additional 23 employees will leave in 20X3 and earnings will further increase so that the performance target will be achieved in 20X3. At the end of the year 20X3, only 21 employees have left the organization. Assume that the company's earnings increased to desired level and the performance target has been met.

Determine the expense for each year and pass appropriate journal entries?

(8 Marks)

(b) (i) Sun Ltd. acquired a software from Earth Ltd. in exchange for a telecommunication license. The telecommunication license is carried at ` 5,00,000 in the books of Sun Ltd. The Software is carried at ` 10,000 in the books of the Earth Ltd. which is not the fair value.

Pass journal entries in the following situations in the books of Sun Ltd. and Earth Ltd.:

1) Fair value of software is ` 5,20,000 and fair value of telecommunication license is ` 5,00,000.

2) Fair value of software is not measurable. However, similar telecommunication license is transacted by another company at ` 4,90,000.

3) Neither fair value of software nor telecommunication license could be reliably measured.

(ii) Alpha Ltd. on 1st April, 20X1, borrowed ` 30,00,000 @ 9% to finance the construction of two qualifying assets. Construction started on 1st April, 20X1. The loan facility was availed on 1st April, 20X1 and was utilized as follows with remaining funds invested temporarily at 7%:

	Factory Building	**Office Building**
1st April, 20X1	5,00,000	10,00,000
1st October, 20X1	5,00,000	10,00,000

Calculate the cost of the asset and the borrowing cost to be capitalized.

(6 Marks)

5. (a) ST Limited enters into a contract with a customer to sell an asset. Control of the asset will transfer to the customer in two years (i.e. the performance obligation will be satisfied at a point in time). The contract includes two alternative payment options:

(1) Payment of ` 5,000 in two years when the customer obtains control of the asset or

(2) Payment of ` 4,000 when the contract is signed. The customer elects to pay ` 4,000 when the contract is signed.

ST Limited concludes that the contract contains a significant financing component because of the length of time between when the customer pays for the asset and when the entity transfers the asset to the customer, as well as the prevailing interest rates in the market.

The interest rate implicit in the transaction is 11.8 per cent, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the entity determines that, the rate that should be used in adjusting the promised consideration is 6%, which is the entity's incremental borrowing rate.

Pass journal entries showing how the entity would account for the significant financing component. **(5 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? **(5 Marks)**

(c) ABC Ltd. buys goods from an overseas supplier. It has recently taken delivery of 1,000 units of component X. The quoted price of component X was ` 1,200 per unit but ABC Ltd. has negotiated a trade discount of 5% due to the size of the order.

The supplier offers an early settlement discount of 2% for payment within 30 days and ABC Ltd. intends to achieve this.

Import duties (basic custom duties) of ` 60 per unit must be paid before the goods are released through custom. Once the goods are released through customs, ABC Ltd. must pay a delivery cost of ` 5,000 to have the components taken to its warehouse.

Calculate the cost of inventory. **(4 Marks)**

6. (a) **Either**

Entity Y and Entity Z execute a 12-year lease of a railcar with the following terms on 1st January, 20X1:

- The lease commencement date is 1st February 20X1.
- Entity Y must pay Entity Z the first monthly rental payment of ` 10,000 upon execution of the lease.
- Entity Z will pay Entity Y ` 50,000 cash incentive to enter into the lease payable upon lease execution.

Entity Y incurred ` 1,000 of initial direct costs, which are payable on 1st February 20X1. Entity Y calculated the initial lease liability as the present value of the lease payments discounted using its incremental borrowing rate because the rate implicit in the lease could not be readily determined; the initial lease liability is ` 8,50,000.

How would Lessee Company measure and record this lease? **(4 Marks)**

Or

Company X has identified one of its division (disposal group) to be sold to a prospective buyer and the Board has approved the plan to sell the division on 30th September, 20X1. The sale is expected to complete after one year but it still qualifies to be held for sale under Appendix B of Ind AS 105. Costs to sell the division is estimated to be ` 10 crores (to be incurred in March, 20X3). The fair value of the division is ` 400 crores (on 30th September, 20X1 and 31st March, 20X2) and carrying value is ` 500 crores.

How shall such a division (disposal group) be measured under Ind AS 105 on following reporting dates:

A. 30th September, 20X1

B. 31st March, 20X2

Consider the discounting factor @ 10% for 1 year to 0.909 and for 1.5 years to be 0.867. **(4 Marks)**

(b) What are proactive measures to mitigate cybersecurity risks? **(5 Marks)**

(c) Mercury Ltd. has sold goods to Mars Ltd. at a consideration of ` 10 lakhs, the receipt of which receivable in three equal installments of ` 3,33,333 over a two-year period (receipts on 1st April, 20X1, 31st March, 20X2 and 31st March, 20X3).

The company is offering a discount of 5 % (i.e. ` 50,000) if payment is made in full at the time of sale. The sale agreement reflects an implicit interest rate of 5.36% p.a.

The total consideration to be received from such sale is at ` 10 Lakhs and hence, the management has recognised the revenue from sale of goods for ` 10 lakhs.

Analyse whether the above accounting treatment made by the accountant is in compliance of the Ind AS. If not, advise the correct treatment along with working for the same. **(5 Marks)**

Mock Test Paper - Series II: August, 2025

Date of Paper: 4th August, 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) : The error shall be corrected by retrospectively restating the figures for financial year 20X2-20X3 and also by presenting a third balance sheet as at 1st April, 20X2 which is the beginning of the earliest period presented in the financial statements.

2. Option (c): Present a third balance sheet as at the beginning of the preceding period (i.e., as at 1st April, 20X2) wherein it should recognise the provision for bonus and restate the retained earnings.

3. Option (b) : Revenue can be recognized at ` 6,857 approx. per membership and remaining ` 643 per membership should be recorded as contract liability.

4. Option (b) : ` 33,57,900

5. Option (c) : ` 13,43,160

6. Option (a) : ` 71,56,840

7. Option (d) : ` 10.85 Cr

8. Option (a) : ` 1.4 Cr

9. Option (b) : 0.3%

10. Option (a) : 0.15%

11. Option (c) : ` 16,000

12. Option (b) : ` 3,84,000

13. Option (a) : Sales A/c by ` 160,000

14. Option (b) : Customer-related intangible assets arising from a restated business combination

15. Option (c) : Disclosure may be required or appropriate when mandated by law, permitted by law with client authorization, or when there is a professional duty or right to disclose not prohibited by law.

ANSWERS OF PART – II : DESCRIPTIVE QUESTIONS

1. Consolidated Balance Sheet of DEF Ltd. and its subsidiary, XYZ Ltd.

as at 31st March, 20X2

Particulars	Note No.	`
I. Assets		
(1) Non-current assets		
(i) Property Plant & Equipment	1	86,00,000
(2) Current Assets		
(i) Inventories	2	17,14,000
(ii) Financial Assets		
(a) Trade Receivables	3	9,98,000
(b) Cash & Cash equivalents	4	2,25,000
Total Assets		**1,15,37,000**
II. Equity and Liabilities		
(1) Equity		
(i) Equity Share Capital	5	50,00,000
(ii) Other Equity	6	49,92,000
(2) Current Liabilities		
(i) Financial Liabilities		
(a) Trade Payables	7	7,45,000
(b) Short term borrowings	8	8,00,000
Total Equity & Liabilities		**1,15,37,000**

Notes to Accounts

			`
1.	**Property Plant & Equipment**		
	Land & Building	43,00,000	
	Plant & Machinery	43,00,000	86,00,000
2.	**Inventories**		
	DEF Ltd.	12,00,000	
	XYZ Ltd.	5,14,000	17,14,000
3.	**Trade Receivables**		
	DEF Ltd.	5,98,000	

	XYZ Ltd.	4,00,000	9,98,000
4.	**Cash & Cash equivalents**		
	DEF Ltd.	1,45,000	
	XYZ Ltd.	80,000	2,25,000
7.	**Trade payable**		
	DEF Ltd.	4,71,000	
	XYZ Ltd.	2,74,000	7,45,000
8.	**Shorter-term borrowings**		
	Bank overdraft		8,00,000

Statement of Changes in Equity:

1. Equity share Capital

Balance at the beginning of the reporting period	Changes in Equity share capital during the year	Balance at the end of the reporting period
50,00,000	0	50,00,000

2. Other Equity

	Share application money pending allotment	Equity component of compound financial instrument	Reserves & Surplus			Total
			Capital reserve	Retained Earnings	Other Reserves	
Balance at the beginning				0	24,00,000	24,00,000
Total comprehensive income for the year			0	5,72,000		5,72,000
Dividends			0	(2,00,000)		(2,00,000)
Total comprehensive income attributable to parent			0	3,35,000		3,35,000
Gain on Bargain purchase			18,85,000			18,85,000
Balance at the end of reporting period			18,85,000	7,07,000	24,00,000	49,92,000

It is assumed that there exists no clear evidence for classifying the acquisition of the subsidiary as a bargain purchase and, hence, the bargain purchase gain has been recognized directly in capital reserve. If, however, there exists such a clear evidence, the bargain purchase gain would be recognized in other comprehensive income and then accumulated in capital reserve. In both the cases, closing balance of capital reserve will be ` 18,85,000.

Working Notes:

1. **Adjustments of Fair Value**

   The Plant & Machinery of XYZ Ltd. would stand in the books at ` 14,25,000 on 1st October, 20X1, considering only six months' depreciation on ` 15,00,000 total depreciation being ` 1,50,000. The value put on the assets being ` 20,00,000 there is an appreciation to the extent of ` 5,75,000.

2. **Acquisition date profits of XYZ Ltd.** `

Reserves on 1.4.20X1	10,00,000
Profit & Loss Account Balance on 1.4.20X1	3,00,000
Profit for 20X2: Total ` 8,20,000 less ` 1,00,000 (3,00,000 – 2,00,000) i.e. ` 7,20,000; for 6 months i.e. up to 1.10.20X1	3,60,000
Total Appreciation including machinery appreciation (10,00,000 1,50,000 + 5,75,000 – 1,00,000)	16,25,000
Share of DEF Ltd.	32,85,000

3. **Post-acquisition profits of XYZ Ltd.** `

Profit after 1.10.20X1 [8,20,000-1,00,000]x 6/12	3,60,000
Less: 10% depreciation on ` 20,00,000 for 6 months less depreciation already charged for 2nd half of 20X1-20X2 on ` 15,00,000 (1,00,000-75,000)	(25,000)
Share of DEF Ltd.	3,35,000

4. **Consolidated total comprehensive income** `

DEF Ltd.	
Retained earnings on 31.3.20X2	5,72,000
Less: Retained earnings as on 1.4.20X1	(0)
Profits for the year 20X1-20X2	5,72,000

Less: Elimination of intra-group dividend	(2,00,000)
Adjusted profit for the year	
XYZ Ltd.	3,72,000
Adjusted profit attributable to DEF Ltd. (W.N.3)	3,35,000
Consolidated profit or loss for the year	7,07,000

5. No Non-controlling Interest as 100% shares of XYZ Ltd. are held by DEF Ltd.

6. Gain on Bargain Purchase `

Amount paid for		34,00,000
20,000 shares Par value of shares	20,00,000	
DEF Ltd.'s share in acquisition date profits of XYZ Ltd.	32,85,000	(52,85,000)
Gain on Bargain Purchase		18,85,000

7. Value of Plant & Machinery `

DEF Ltd.		24,00,000
XYZ Ltd.	13,50,000	
Add: Appreciation on 1.10. 20X1	5,75,000	
	19,25,000	
Add: Depreciation for 2nd half charged on pre-revalued value	75,000	
Less: Depreciation on ` 20,00,000 for 6 months	(1,00,000)	19,00,000
		43,00,000

8. Consolidated retained earnings `

	DEF Ltd.	XYZ Ltd.	Total
As given	5,72,000	8,20,000	13,92,000
Consolidation Adjustments:			
(i) Elimination of pre-acquisition element [3,00,000 + 3,60,000]	0	(6,60,000)	(6,60,000)
(ii) Elimination of intra-group dividend	(2,00,000)	2,00,000	0
(iii) Impact of fair value adjustments	0	(25,000)	(25,000)
Adjusted retained earnings consolidated	3,72,000	3,35,000	7,07,000

Assumptions:

1. Investment in XYZ Ltd is carried at cost in the separate financial statements of DEF Ltd.

2. Appreciation of ` 10 lakhs in land & buildings is entirely attributable to land element only.

3. Depreciation on plant and machinery is on WDV method.

4. Acquisition-date fair value adjustment to inventories of XYZ Ltd. existing at the balance sheet date does not result in need for any write-down.

2. (a) This is a compound financial instrument with two components – liability representing present value of future cash outflows and balance represents equity component.

a. Computation of Liability & Equity Component

Date	Particulars	Cash Flow	Discount Factor	Net present Value
01-Apr-20X1		0	1	0.00
31-Mar-20X2	Dividend	150,000	0.869565	130,434.75
31-Mar-20X3	Dividend	150,000	0.756144	113,421.6
31-Mar-20X4	Dividend	150,000	0.657516	98,627.4
31-Mar-20X5	Dividend	150,000	0.571753	85,762.95
31-Mar-20X6	Dividend	150,000	0.497177	74,576.55
Total Liability Component				502,823.25
Total Proceeds				1,500,000.00
Total Equity Component (Bal fig)				997,176.75

b. Allocation of transaction costs

Particulars	Amount	Allocation	Net Amount
Liability Component	502,823	10,056	492,767
Equity Component	997,177	19,944	977,233
Total Proceeds	1,500,000	30,000	1,470,000

c. Accounting for liability at amortised cost:

- Initial accounting = Present value of cash outflows less transaction costs
- Subsequent accounting = At amortised cost, ie, initial fair value adjusted for interest and repayments of the liability.

	Opening Financial Liability A	Interest B	Cash Flow C	Closing Financial Liability A+B-C
01-Apr-20X1	492,767	-	-	4,92,767
31-Mar-20X2	492,767	78,153	150,000	4,20,920
31-Mar-20X3	420,920	66,758	150,000	3,37,678
31-Mar-20X4	337,678	53,556	150,000	2,41,234
31-Mar-20X5	241,234	38,260	150,000	1,29,494
31-Mar-20X6	129,494	20,506	150,000	-

d. Journal Entries to be recorded for entire term of arrangement are as follows:

Date	Particulars	Debit	Credit
01-Apr-20X1	Bank A/c Dr.	1,470,000	
	To Preference Shares Liability A/c		492,767
	To Equity Component of Preference shares A/c		977,233
	(Being compulsorily convertible preference shares issued. The same are divided into equity component and liability component as per the calculation)		
31-Mar-20X2	Preference shares Liability A/c Dr.	150,000	
	To Bank A/c		150,000
	(Being Dividend at the coupon rate of 10% paid to the shareholders)		
31-Mar-20X2	Finance cost A/c Dr.	78,153	
	To Preference Shares Liability A/c		78,153
	(Being interest as per EIR method recorded)		
31-Mar-20X3	Preference shares Liability A/c Dr.	150,000	
	To Bank A/c		150,000
	(Being Dividend at the coupon rate of 10% paid to the shareholders)		
31-Mar-20X3	Finance cost A/c Dr.	66,758	
	To Preference Shares Liability A/c		66,758
	(Being interest as per EIR method recorded)		
31-Mar-20X4	Preference shares Liability A/c Dr.	150,000	

	To Bank A/c (Being Dividend at the coupon rate of 10% paid to the shareholders)		150,000
31-Mar-20X4	Finance cost A/c Dr. To Preference Shares Liability A/c (Being interest as per EIR method recorded)	53,556	53,556
31-Mar-20X5	Preference shares Liability A/c Dr. To Bank A/c (Being Dividend at the coupon rate of 10% paid to the shareholders)	150,000	150,000
31-Mar-20X5	Finance cost A/c Dr. To Preference Shares Liability A/c (Being interest as per EIR method recorded)	38,260	38,260
31-Mar-20X6	Preference shares Liability A/c Dr. To Bank A/c (Being Dividend at the coupon rate of 10% paid to the shareholders)	150,000	150,000
31-Mar-20X6	Finance cost A/c Dr. To Preference Shares Liability A/c (Being interest as per EIR method recorded)	20,506	20,506
31-Mar-20X6	Equity Component of Preference shares A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being Preference shares converted in equity shares and remaining equity component is recognised as securities premium)	977,233	50,000 927,233

(b) (a) The loan is not due for payment at the end of the reporting period. The entity and the bank have agreed for the said roll over prior to the end of the reporting period for a period of 5 years. Since the entity has an unconditional right to defer the settlement of the liability for at least twelve months after the reporting period, the loan should be classified as non-current.

(b) Yes, the answer will be different if the arrangement for roll over is agreed upon after the end of the reporting period, since assessment is required to be made based on terms of the existing loan facility. As at the end of the reporting period, the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Hence the loan is to be classified as current.

(c) Yes, loan facility arranged with new bank cannot be treated as refinancing, as the loan with the earlier bank would have to be settled which may coincide with loan facility arranged with a new bank. In this case, loan has to be repaid within a period of 9 months from the end of the reporting period, therefore, it will be classified as current liability.

(d) Yes, the answer will be different and the loan should be classified as current. This is because, as per paragraph 73 of Ind AS 1, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

3. (a) As per *Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets'*, closure of a division is a restructuring exercise. Ind AS 37 states that a constructive obligation to proceed with the restructuring arises when at the reporting date the entity has:

– Commenced activities connected with the restructuring; or

– Made a public announcement of the main features of the restructuring to those affected by it. In this case a public announcement has been made and so a provision will be necessary at 31st March, 20X2.

This will result in the following charges to the Statement of Profit and Loss:

(i) Estimate of redundancy costs of ` 1.9 million is the best estimate of the expenditure at the date the financial statements are authorized for issue. Changes in estimates after the reporting date are taken into account for this purpose as an adjusting event after the reporting date. No charge is necessary for the retraining costs as these are not incurred in 20X1-20X2 and cannot form part of a restructuring provision as they are related to the ongoing activities of the entity.

(ii) Impairment of plant and equipment of ` 6.5 million is although not strictly part of the restructuring provision the decision to restructure before the year-end means that related assets need to be reviewed for impairment. In this case the recoverable amount of the plant and equipment is only ` 1.5 million. As per Ind AS 36 'Impairment of Assets', property, plant and equipment should be written down to this amount, resulting in a charge of ` 6.5 million to the income statement.

(iii) For compensation for breach of contract of ` 0.55 million, same principle applies here as applied to the redundancy costs.

(iv) No charge is recognized in 20X1-20X2 with respect to future operating losses of 20X2-20X3. Future operating losses relate to future events and provisions are made only for the consequences of past events.

(iv) Ind AS 37 states that an onerous contract is one for which the expected cost of fulfilling the contract exceeds the benefits expected from the contract. Provision is made for the lower of the expected net cost of fulfilling the contract and the cost of early termination (not available in this case).

The net cost of fulfilling the contract is ` 4.51 million [` 1.5 million x 4.32 – ` 0.3 million x 0.95 – ` 0.5 million x (4.32 – 0.95)].

(b) (i) Para 47 of Ind AS 21 requires that goodwill arose on business combination shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs 39 and 42. In this case the amount of goodwill in EURO will be as follows:

Net identifiable asset	Dr.	23 million	
Goodwill (bal. fig.)	Dr.	1.4 million	
To Bank			17.5 million
To NCI (23 x 30%)			6.9 million

Thus, goodwill on reporting date would be 1.4 million EURO x ` 84 = ` 117.6 million

(ii)

Particulars	EURO in million
Sale price of Inventory	4.20
Unrealised Profit [a]	1.80

Exchange rate as on date of purchase of Inventory [b] ` 83 / Euro

Unrealized profit to be eliminated [a x b] ` 149.40 million

As per para 39 of Ind AS 21 "income and expenses for each statement of profit and loss presented (ie including comparatives) shall be translated at exchange rates at the dates of the transactions".

In the given case, purchase of inventory is an expense item shown in the statement profit and loss. Hence, the exchange rate on the date of purchase of inventory is taken for calculation of unrealized profit which is to be eliminated while preparation of financial statements.

4. (a) Since the earnings of the entity is non-market related, hence it will not be considered in fair value calculation of the shares given. However, the same will be considered while calculating number of shares to be vested.

Workings:

	20X1	**20X2**	**20X3**
Total employees	500	500	500
Employees left (Actual)	(29)	(58)	(79)
Employees expected to leave in the next year	(31)	(23)	-
Year end – No of employees	440	419	421
Shares per employee	100	100	100
Fair value of share at grant date	122	122	122
Vesting period	1/2	2/3	3/3
Expenses-20X1 (Note 1)	26,84,000		
Expenses-20X2 (Note 2)		7,23,867	
Expenses-20X3 (Note 3)			17,28,333

Note 1:

Expense for 20X1 = Number of employees x Shares per employee x Fair value of share x Proportionate vesting period

= 440 x 100 x 122 x ½ = 26,84,000

Note 2:

Expense for 20X2 = (Number of employees x Shares per employee x Fair value of share x Proportionate vesting period) – Expense recognized in year 20X1

= (419 x 100 x 122 x 2/3) – 26,84,000 = 7,23,867

Note 3:

Expense for 20X3 = (No of employees x Shares per employee x Fair value of share x Proportionate vesting period) – Expense recognized in year 20X1 and 20X2

= (421 x 100 x 122 x 3/3) – (26,84,000 + 7,23,867) = 17,28,333.

Journal Entries

31st December, 20X1		
Employee benefits expenses (transfer to P/L) Dr. To Share-based payment reserve (equity) (Equity settled shared-based payment expected vesting amount)	26,84,000	26,84,000
31st December, 20X2		
Employee benefits expenses (transfer to P/L) Dr. To Share-based payment reserve (equity) (Equity settled shared based payment expected vesting amount)	7,23,867	7,23,867
31st December, 20X3		
Employee benefits expenses (transfer to P/L) Dr. To Share-based payment reserve (equity) (Equity settled shared-based payment expected vesting amount)	17,28,333	17,28,333
Share-based payment reserve (equity) Dr. To Share Capital / Securities Premium (Share capital Issued)	51,36,200	51,36,200

(b) (i)

		` in '000
Situation	**Sun Ltd.**	**Earth Ltd.**
1	Software Dr. 500 To Telecommunication license 500 To Profit on Exchange Nil	Telecommunication license Dr. 520 To Software 10 To Profit on Exchange 510
2	Software Dr. 490	Telecommunication license Dr. 490

	Loss on Exchange Dr. 10 To Telecommunication license 500 **Note:** The company may first recognize Impairment loss and then record an entry. The effect is the same as impairment loss will also be charged to Income Statement.	To Software 10 To Profit on Exchange 480
3	Software Dr. 500 To Telecommunication license 500	Telecommunication license Dr. 10 To Software 10

(ii)

Particulars	Factory Building	Office Building
Borrowing Costs	(10,00,000 x 9%) 90,000	(20,00,000 x 9%) 1,80,000
Less: Investment Income	(5,00,000 x 7% x 6/12) (17,500)	(10,00,000x7% x 6/12) (35,000)
	72,500	1,45,000
Cost of the asset:		
Expenditure incurred	10,00,000	20,00,000
Borrowing Costs	72,500	1,45,000
Total	**10,72,500**	**21,45,000**

5. (a) **Journal Entries showing accounting for the significant financing component:**

(i) Recognize a contract liability for the ` 4,000 payment received at contract inception:

Cash To Contract liability	Dr.	` 4,000	 ` 4,000

(ii) During the two years from contract inception until the transfer of the asset, the entity adjusts the promised amount of consideration and accretes the contract liability by recognizing interest on ` 4,000 at 6% for two years:

Interest expense To Contract liability * ` 494 = ` 4,000 contract liability × (6% interest per year for two years).	Dr.	` 494*	 ` 494

(iii) Recognize revenue for the transfer of the asset:

Contract liability	Dr.	` 4,494	
To Revenue			` 4,494

(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.	320
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

(c)

	`
Purchase price (1,000 x 1,200 x 95%)	11,40,000
Import duties (1,000 x 60)	60,000
Delivery cost	5,000
Cost of inventory	12,05,000

Note: The intention to take settlement discount is irrelevant.

6. (a) Either

Entity Y would calculate the right-of-use asset as follows: `

Initial measurement of lease liability	8,50,000
Lease payments made to Entity Z at or before the commencement date	10,000
Lease incentives received from Entity Z	(50,000)
Initial direct cost	1,000
Initial measurement of right-of-use asset	**8,11,000**

Or

Paragraph 15 of Ind AS 105 states that an entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

Further, paragraph 17 of Ind AS 105 states that when the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in profit or loss as a financing cost.

Company X has identified a disposal group and is committed to sell the same. The sale is expected to be completed after a period of one year hence, it will measure the costs to sell such disposal group at present value as per paragraph 17 of Ind AS 105.

A. On 30th September, 20X1

The disposal group will be measured at fair value less costs to sell which will be as follows:

Fair value:	` 400.00 crores	
PV of costs to sell:	(` 8.67 crores)	(` 10 crores x 0.867)
Total:	` 391.33 crores	

B. On 31st March, 20X1

The disposal group will be measured at fair value less costs to sell which will be as follows:

Fair value:	` 400.00 crores	
PV of costs to sell:	(` 9.09 crores)	(10 x 0.909)
Total:	` 390.91 crores	

The increase in costs to sell the division by ` 0.42 crore (` 9.09 crores – ` 8.67 crores) will be recognised in profit and loss as financing cost in accordance with paragraph 17 of Ind AS 105.

(b) In view of the cybersecurity attacks and threats, it is important to taking proactive measures to mitigate cybersecurity risks as listed below:

i. **Password management:** Strong passwords are critical for protecting sensitive financial data. Accounting professionals should ensure that all passwords are complex and changed regularly.

ii. **Encryption:** Encryption can be used to protect sensitive data during transmission and storage. The IT Team of an organization should ensure that all sensitive data is encrypted using appropriate methods.

iii. **Access control:** Access control is critical for preventing unauthorized access to financial data. Accounting professionals should ensure that access to sensitive data is limited to authorized personnel and that appropriate access controls are in place. The access controls should be continuously reviewed and updated based on any changes in the management or employee structure.

iv. **Network security:** Network security is critical for protecting financial data from cyberattacks. It should be ensured that firewalls and other security measures are in place to prevent unauthorized access to the network.

v. **Employee training:** Employee training is critical for ensuring that all staff members are aware of the importance of cybersecurity and understand how to protect sensitive financial data.

vi. **Data backup:** Regular data backups are critical for ensuring that financial data is not lost in the event of a cyberattack. Accounting professionals should ensure that data backups are performed regularly and that backups are stored securely.

vii. **Incident response planning:** Accounting professionals should have a clear incident response plan in place in the event of a cyberattack. This plan should include procedures for detecting, containing and mitigating the impact of a cyberattack.

(c) The revenue from sale of goods shall be recognised at the fair value of the consideration received or receivable. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest where the receipt is deferred beyond normal credit terms. The difference between the fair value and the nominal amount of consideration is recognised as interest revenue.

The fair value of consideration (cash price equivalent) of the sale of goods is calculated as follows: `

Year	Consideration (Installment)	Present value factor	Present value of consideration
Time of sale	3,33,333	-	3,33,333

End of 1st year	3,33,333	0.949	3,16,333
End of 2nd year	<u>3,33,334</u>	0.901	<u>3,00,334</u>
	<u>10,00,000</u>		**<u>9,50,000</u>**

The Company that agrees for deferring the cash inflow from sale of goods will recognise the revenue from sale of goods and finance income as follows:

Initial recognition of sale of goods		₹	₹
Cash	Dr.	3,33,333	
Trade Receivable	Dr.	6,16,667	
To Sale			9,50,000
Recognition of interest expense and receipt of second installment			
Cash	Dr.	3,33,333	
To Interest Income			33,053
To Trade Receivable			3,00,280
Recognition of interest expense and payment of final installment			
Cash	Dr.	3,33,334	
To Interest Income (Balancing figure)			16,947
To Trade Receivable			3,16,387