PAPER – 1 : FINANCIAL REPORTING

Part I - Multiple Choice Questions

Case Scenario - I

You are auditing Fortunate Limited for the financial year ended 31st March 2025. Fortunate Limited prepares its financial statements on Companies (Indian Accounting Standards) Rules, 2015 (Ind AS). The following information is made available to you:

(i) On 1st April 2024, Fortunate Limited had issued a 2 year mandatorily convertible (single) bond of ₹ 20,00,000. There are no transaction costs. The terms require Fortunate Limited to make interest payment of ₹ 1,00,000 each at the end of the financial year 2024-2025 and 2025-2026. The bond will mandatorily convert into 10,000 ordinary shares on 31st March 2026.

(ii) On 1st October 2024, Fortunate Limited had issued 5 years, 9% per annum Optionally Convertible Debentures (OCD) for ₹ 4,00,00,000. The OCDs are convertible into ordinary shares of Fortunate Limited, at the option of the holder, at the end of the tenure of 5 years in the ratio of 1:1 i.e. each OCD will be converted to one ordinary share. Interest is paid annually on 30th September, each year. The market rate for issuance of OCDs without a conversion option is 12% per annum.

(iii) Fortunate Limited had issued ₹ 2,00,000, 5% per annum loan bonds on 1st April 2023. The issue cost amounted to ₹ 8,000. These bonds are redeemable at a premium. Hence, the effective rate of interest is 8% per annum on bonds.

On the basis of information provided above, you are required to choose the most appropriate answer to the below mentioned questions 1 to 3 in line with relevant Ind AS:

1. *If the market interest rate for similar bond without conversion option is 9% per annum on initial recognition, then in the bond:*

   (A) There is no liability component.

   (B) There is no equity component.

(C) *The equity component is ₹ 18,24,090.*

(D) *The liability component is ₹ 18,24,090.* **(2 Marks)**

2. *With respect to Optionally Convertible Debentures, the finance cost to be charged to Statement of Profit and Loss for the year ended on 31st March 2025 is:*

(A) *₹ 36.00 lakhs*

(B) *₹ 18.00 lakhs*

(C) *₹ 42.80 lakhs*

(D) *₹ 21.40 lakhs* **(2 Marks)**

3. *With respect to loan bonds of ₹ 2,00,000, the finance cost to be charged to Statement of Profit and Loss for the year ended on 31st March 2025 is:*

(A) *₹ 16,480*

(B) *₹ 15,789*

(C) *₹ 15,360*

(D) *₹ 16,000* **(2 Marks)**

Case Scenario - II

You have recently qualified as a Chartered Accountant and being recruited by Star Limited. You are being interviewed by the CFO of the Company. You are provided with the following situations:

(i) *Star Limited acts as a mediator between a lessee and a lessor wherein lessee has taken a commercial property on lease from the lessor. As per the lease agreement, the rent will be paid by the lessee to Star Limited. Star Limited will then pay the rent to the lessor.*

(ii) *Star Limited had, on 1st April 2024, purchased a machine for ₹ 110.00 lakhs. The useful life of the machinery is 10 years and the residual value is estimated to be ₹ 10.00 lakhs. The machine is depreciated on straight line method. On 31st March 2025, a test for impairment was conducted. With respect to the aforesaid machine, the fair value less costs to sell is ₹ 82.00 lakhs and value in use is ₹ 72,00 lakhs.*

(iii) *Star Limited had incurred following expenditure for the development of its first and only software product, customized to Indian environment, which is* *to be offered to its Indian customers. The development commenced on 1st April 2024 and ended on 31st December 2024 when the software was ready for sale. However, the first sale of the product was made on 1st April 2025. The following information is made available to you:*

Particulars	***Amount (₹ in lakhs)***
Purchase price of imported software	*1,800.00*
Direct employee costs of software engineers for full financial year 2024-2025	*3,600.00*
Testing costs paid to retainers	*5,400.00*
Other costs directly related to customization (which includes an abnormal cost of ₹ 15.00 lakhs in respect of repairing the damage as a result of a security breach)	*1,350.00*
Professional fees paid for external software developers	*660.00*
Cost of training provided to sales staff	*585.00*
Cost of marketing & promotion	*4,680.00*
Administrative and general overheads	*2,475.00*

(iv) Star Ltd. has certain cases pending before various forums under different laws. The following table is a summary of such pending cases:

Particulars	***No. of case***	***Outcome***	***Probability***	***Estimated damages per case***
Filed by employees	*28*	*Lose*	*60%*	*₹ 2.00 lakhs*
Filed by customers	*12*	*Lose*	*70%*	*₹ 1.00 lakhs*
Filed by vendors	*2*	*Lose*	*50%*	*Extremely difficult to make reliable estimate*
Filed against vendor	*1*	*Win*	*90%*	

On the basis of information provided above, you are required to choose the most appropriate answer to the below mentioned questions 4 to 7 in line with relevant Ind AS:

4. *In respect of the lease, choose the most appropriate option in preparation of the Statement of Cash Flows (as per Ind AS 7) of Star Limited:*

   (A) There is no guidance available in Ind AS;

   (B) Offsetting in cash flow is not permitted by Ind AS 1;

   (C) As per Ind AS 7, the transaction may be reported on net basis;

   (D) As per Ind AS 7, the transaction must be reported on net basis.

(2 Marks)

5. *With respect to machine purchased on 1st April 2024, determine impairment loss (as per Ind AS 36) to be recognized in financial year 2024-2025 and depreciation (as per Ind AS 16) in the financial year 2025-2026 (assuming revised residual value of ₹ 1.00 lakh);*

   (A) Impairment loss of ₹ 8.00 lakhs and depreciation of ₹ 10.00 lakhs

   (B) Impairment loss of ₹ 18.00 lakhs and depreciation of ₹ 9.00 lakhs

   (C) Impairment loss of ₹ 8.00 lakhs and depreciation of ₹ 9.00 lakhs

   (D) Impairment loss of ₹ 18.00 lakhs and depreciation of ₹ 10.00 lakhs.

(2 Marks)

6. *The total cost as per Ind AS 38 of the software developed by the Company is:*

   (A) ₹ 7,080.00 lakhs

   (B) ₹ 13,380.00 lakhs

   (C) ₹ 11,895.00 lakhs

   (D) ₹ 12,480.00 lakhs ***(2 Marks)***

7. *As per Ind AS 37, the Company should recognize a provision in its financial statement with respect to pending legal matters aggregating to:*

   (A) ₹ 68.00 lakhs

   (B) ₹ 44.20 lakhs

   (C) ₹ 42.00 lakhs

   (D) ₹ Nil ***(2 Marks)***

Case Scenario - III

The following information of H Limited which regularly prepares its financial statements on Ind AS, is made available to you!

(i) The share capital of H Limited since its incorporation is ₹ 1.00 lakh divided into 10,000 ordinary shares of ₹ 10 each. The Company, on 1st June 2024, issued 3,600 compulsorily convertible debentures (CCD) of ₹ 10 each. At the end of 18 months, CCDs will be converted into ordinary shares in the ratio of 1 ordinary share for 6 CCDs.

(ii) H Limited, on 1st April 2024, acquired 40% of the ordinary share capital of C Limited at a cash consideration of ₹ 1,95,000 when the carrying value of the net assets of C Limited was ₹ 3,00,000 and the fair value was 4,00,000. The excess of fair value over the carrying value was attributable to one of the buildings owned by C Limited having a remaining useful life of 10 years with Nil residual value. C Limited, after taxes, earned profit of ₹ 80,000 and other comprehensive income of ₹ 20,000 during the financial year 2024-2025.

(iii) H Limited is also required to publish quarterly information. Some of the expenses are however incurred on an uneven basis. For the financial year 2024-2025,

- *the entire advertising costs of ₹ 30.00 lakhs, in one bullet payment was incurred on 1st August 2024;*
- *Bonus to sales staff paid at the year end, was budgeted to be ₹ 40.00 lakhs for the entire year out of which ₹ 8.00 lakhs relate to the quarter ending 30th September 2024.*

On the basis of information provided above, you are required to choose the most appropriate answer to the below mentioned questions 8 to 12 in line with relevant Ind AS:

8. *Choose the most appropriate option for calculation of earnings per share of H Limited for the year ended 31st March, 2025:*

   (A) 10,500 shares shall be used as denominator for calculation of both basic and diluted earnings per share.

   (B) 10,000 shares shall be used as denominator for calculation of basic earnings per share. However, 10,500 shares shall be used as denominator for calculation of diluted earnings per share.

(C) 10,600 shares shall be used as denominator for calculation of both basic and diluted earnings per share.

(D) 10,000 shares shall be used as denominator for calculation of basic earnings per share. However, 10,600 shares shall be used as denominator for calculation of diluted earnings per share. ***(2 Marks)***

9. *The amount of the goodwill to be recorded as part of carrying amount of investment by H Limited on acquisition of C Limited on 1st April 2024 as per fair value method is*

   (A) ₹ 1.00 lakhs

   (B) ₹ 1.05 lakhs

   (C) ₹ 1.95 lakhs

   (D) ₹ 0.35 lakhs ***(2 Marks)***

10. *The share of H Limited in the profit and other comprehensive income of C Limited for the financial year 2024-2025 is:*

   (A) ₹ 28,000 & ₹ 8,000 respectively

   (B) ₹ 32,000 & ₹ 8,000 respectively

   (C) ₹ 8,000 & ₹ 28,000 respectively

   (D) ₹ 8,000 & ₹ 32,000 respectively ***(2 Marks)***

11. *The amount of H Limited's closing balance of investment in C Limited at the end of the financial year 2024-2025 is:*

   (A) ₹ 1.95 lakhs

   (B) ₹ 1.55 lakhs

   (C) ₹ 2.31 lakhs

   (D) ₹ 2.35 lakhs ***(2 Marks)***

12. *The costs that should have been included in the interim financial results of H Limited for quarter ended 30th September 2024 are:*

   (A) Advertising costs ₹ 30 lakhs, staff bonuses ₹ 10 lakhs

   (B) Advertising costs ₹ 15 lakhs; staff bonuses ₹ 10 lakhs

(C) Advertising costs ₹ 7.5 lakhs; staff bonuses ₹ 8 lakhs

(D) Advertising costs ₹ 30 lakhs; staff bonuses ₹ 8 lakhs ***(2 Marks)***

13. *A Ltd. and B Ltd. are engaged in the manufacturing of homogeneous plastic bottles.*

A Ltd. operates in the northern, eastern, and central regions of India. B Ltd. operates in the western and southern regions. To fulfill the demand across India, the companies have a non-monetary exchange arrangement where:

- *A Ltd. supplies bottles to B Ltd. for B Ltd.'s customers in the north, east, and central regions.*
- *B Ltd. supplies bottles to A Ltd. for A Ltd.'s customers in the west and south.*
- *This arrangement is solely to facilitate regional customer orders, and the products are homogeneous.*
- *During the year 2024-2025, for exactly same quantities:*
  - *Fair value of bottles supplied by A Ltd.: ₹ 5,00,000*
  - *Fair value of bottles supplied by B Ltd.: ₹ 5,20,000*

How should A Ltd. and B Ltd. recognize revenue for the exchange for the year 2024-2025 as per Ind AS 115?

(A) A Ltd. should recognize a revenue of ₹ 5,20,000 and B Ltd. should recognize a revenue of ₹ 5,00,000, based on the fair value of bottles received, as this represents the value of the goods acquired for customer delivery.

(B) A Ltd. should recognize a revenue of ₹ 5,00,000 and B Ltd. should recognize a revenue of ₹ 5,20,000, based on the fair value of bottles transferred, as they satisfy performance obligations through the exchange.

(C) No revenue should be recognized by either A Ltd. or B Ltd. for the exchange, despite the fair values being ₹ 5,00,000 and ₹ 5,20,000 respectively, because Ind AS 115 explicitly excludes such non-monetary exchanges between entities in the same line of business conducted to facilitate customer sales.

(D) B Ltd. should recognize a revenue of ₹ 20,000 for the excess fair value received (₹ 5,20,000 - ₹ 5,00,000), since the exchange is not at par and reflects an arm's length transaction. **(2 Marks)**

14. X Ltd. as the reporting entity has net investment in foreign operations in its two foreign subsidiaries, B Ltd. and C Ltd. Loans made between group entities are permanent in nature (that is, settlement is neither planned nor likely to occur), X Ltd., with sterling (£) as its functional currency, is preparing its financial statements for the financial year ending on 31st March 2025. It has a loan receivable of US$ 1 million from its subsidiary C Ltd. that has been outstanding for some time. The parent notified the subsidiary at the beginning of the financial year that no repayment of the amount will be requested for the foreseeable future. The relevant exchange rates are as follows:

Date	**Exchange (£1 = US$)**
31st March 2024	1.45
31st March 2025	1.82

Determine the foreign exchange loss to be recognized in Parent X Ltd.'s standalone financial statements at 31st March 2025 with respect to loan receivable from subsidiary C Ltd.?

(A) £ 140,204

(B) £ 370,000

(C) £ 689,655

(D) £ 549,451 **(2 Marks)**

15. You, a Chartered Accountant, have been approached by two partners of a firm who are in the process of dissolving their partnership. Both partners wish to engage you to assist with the financial aspects of the dissolution.

Which statement out of the following statements best describes the ethical concern in this situation under the Code of Ethics of the Institute of Chartered Accountants of India?

(A) There is no ethical issue as long as both partners pay equal fees for the service.

(B) *You must refuse the engagement from both the parties, as assisting both parties is strictly prohibited under all circumstances.*

(C) *This situation creates a potential conflict of interest, and you may proceed only if informed consent is obtained from both parties and appropriate safeguards are applied.*

(D) *You can act for both parties freely, as they are no longer in a business relationship.* ***(2 Marks)***

Answer Key

MCQ No.	Correct Option
1.	(C)
2.	(D)
3.	(B)
4.	(C)
5.	(B)
6.	(C)
7.	(A) and (C)
8.	(A)
9.	(D)
10.	(A)
11.	(C)
12.	(D)
13.	(C)
14.	(A)
15.	(C)

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 answer.

Question 1

On 1st April 2024, A Limited acquired 80% of the equity share capital of S Limited. On the said date, the share capital and other equity (represented entirely by retained earnings) of S Limited were ₹ 10.00 lakhs and ₹ 2.50 lakhs respectively.

To the selling shareholders, A Limited:

- *paid initial cash consideration of ₹ 20.00 lakhs;*
- *issued fresh 4,00,000 equity shares of a nominal value of ₹ 1 per share at current market price of ₹ 2 per share;*
- *agreed to pay a further ₹ 6.00 lakhs after 3 years i.e. on 31st March 2027.*

A Limited's cost of capital is 10% per annum. The appropriate discount factor for ₹ 1 @ 10% per annum receivable at the end of:

- *1st year is 0.91;*
- *2nd year is 0.83;*
- *3rd year is 0.75.*

Both A Limited and S Limited prepare their financial statements as per the Companies (Indian Accounting Standards) Rules, 2015.

The Balance Sheet of A Limited and S Limited as at 31st March 2025 is as under:

		(All amounts in ₹ in lakhs)
Particulars	***A Limited***	***S Limited***
ASSETS		
Non-current assets		
- *Property, plant and equipment*	*60.00*	*30.00*
- *Financial assets*		
• *Investment (in S Limited at cost)*	*20.00*	-

Current assets		
- *Inventories*	*7.00*	*12.00*
- *Financial assets*		
• *Trade receivables*	*4.50*	*10.00*
• *Cash and cash equivalents*	*2.00*	*4.00*
Total Assets	***93.50***	***56.00***
EQUITY AND LIABILITIES		
EQUITY		
Equity share capital (₹ 1 per share)	*40.00*	*10.00*
Other equity		
- *Retained earning*	*15.00*	*6.00*
LIABILITIES		
Non-current liabilities		
- *Financial liabilities*		
• *Borrowings*	*25.00*	*25.00*
Current liabilities		
- *Financial liabilities*		
• *Trade payables*	*13.50*	*15.00*
Total Equity and Liabilities	***93.50***	***56.00***

The following additional information is provided:

- *Since its incorporation, S Limited has been selling some of its products under the brand name 'BLISS'. At the acquisition date, A Limited valued this brand at ₹ 8.00 lakhs with a remaining life of 10 years with NIL residual value. A Limited amortizes its intangible assets on straight line method. The brand is not recognized in S Limited's Balance Sheet;*
- *As at 31st March 2025, goodwill recognized on consolidation is to be impaired by 25%;*
- *A Limited Group measures the non-controlling interest at fair value;*
- *Equity shares of S Limited were quoted at ₹ 4 per share on the date of acquisition;*

- *Immediately after acquisition i.e. on 1st April 2024, A Limited (which also sells capital equipment) sold a capital equipment costing ₹ 4.00 lakhs to S Limited at ₹ 5.00 lakhs. This capital equipment is recorded as Property, Plant and Equipment by S Limited. The useful life of the equipment on the date of transfer was 10 years with NIL residual value. The equipment is depreciated on straight line method.*
- *A Limited is yet to record issuance of shares and deferred consideration in its books of account.*

You are required to prepare Consolidated Balance Sheet of A Limited as at 31st March 2025. Workings should form part of your answer. ***(14 Marks)***

Answer

Consolidated Balance Sheet of A Ltd. and its subsidiary, S Ltd. as at 31st March 2025

Particulars	**Note No.**	**₹ in lakhs**
I. Assets		
(1) Non-Current Assets		
(i) Property Plant & Equipment	1	89.10
(ii) Goodwill (W.N.3)		15.00
(ii) Intangible Asset - Brand	1	7.20
(2) Current Assets		
(i) Inventories	1	19.00
(ii) Financial Assets		
(a) Trade Receivables	1	14.50
(b) Cash & Cash Equivalents	1	6.00
Total Assets		**150.80**
II. Equity and Liabilities		
(1) Equity		
(i) Equity Share Capital	2	44.00
(ii) Other Equity	3	15.79
(2) Non-Controlling Interest (W.N.5)		7.56

(3) Non-Current Liabilities		
(i) Financial Liabilities		
(a) Borrowings	1	50.00
(b) Other – Contingent Consideration	1	4.95
(4) Current Liabilities		
(i) Financial Liabilities		
(a) Trade Payables	1	28.50
Total Equity & Liabilities		**150.80**

Note: It is assumed that depreciation on capital equipment has already been accounted for by S Ltd. for the year 2024-2025 based on its purchase price.

Notes to Accounts

1. Assets and Liabilities **₹ in lakhs**

Particulars	A Ltd.	S Ltd.	Adjustments	Total
Property, Plant and Equipment	60.00	30.00	-1.00+0.10	89.10
Intangible Assets (Brand)	-	-	+8.00-0.80	7.20
Investments	20.00	-	- 20.00	-
Inventories	7.00	12.00		19.00
Trade Receivables	4.50	10.00		14.50
Cash and Cash Equivalents	2.00	4.00		6.00
Borrowings	25.00	25.00		50.00
Other Non-current financial liability (Deferred consideration) (W.N.7)	4.95	-		4.95
Trade Payables	13.50	15.00		28.50

2. Equity Share Capital

	₹ in lakhs
44 lakhs equity shares of ₹ 1 each, fully paid	44.00
– (Out of which 4 lakh equity shares of ₹ 1 each, fully paid issued for consideration other than cash)	
	44.00

3. Consolidated Other Equity

	₹ in lakhs
Retained Earnings (W.N.6)	11.79
Securities Premium (4,00,000 shares x ₹ 1)	4.00
	15.79

Working Notes:

1. Calculation of purchase consideration at the acquisition date i.e. 1st April 2024

	₹ in lakhs
Payment made by A Ltd. to S Ltd.	
Cash	20.00
Equity shares (4,00,000 shares x ₹ 2.00)	8.00
Present value of deferred consideration (₹ 6,00,000 x 0.75)	4.50
Total consideration	32.50

2. Calculation of net assets i.e. net worth at the acquisition date i.e. 1st April, 2024

	₹ in lakhs
Share capital of S Ltd.	10.00
Retained Earnings of S Ltd.	2.50
Fair value increase due to identifiable asset - Brand	8.00
Net worth on acquisition date	20.50

3. Calculation of Goodwill at the acquisition date (1st April 2024) and 31st March 2025

	₹ in lakhs
Purchase consideration (W.N.1)	32.50
Non-controlling interest at fair value (10,00,000 x 20% x 4)	8.00
	40.50
Less: Net worth (W.N.2)	(20.50)
Goodwill as on 1st April 2024	20.00

Less: Impairment @ 25%	(5.00)
Goodwill as on 31st March 2025	15.00

4. Calculation of Property, Plant and Equipment as on 31st March 2025

		₹ in lakhs
A Ltd.		60.00
S Ltd.	30.00	
Less: Elimination of gain on mutual transaction (5.00 – 4.00)	(1.00)	
	29.00	
Add: Excess depreciation on gain on mutual transaction [(5.00 – 4.00)/10 years]	0.10	29.10
		89.10

5. Calculation of post-acquisition gain (after adjustment of impairment on goodwill) and value of NCI as on 31st March 2025 **₹ in lakhs**

		NCI (20%)	A Ltd. (80%)
Acquisition date balance (10,00,000 shares x 20% x ₹ 4)		8.00	
Closing balance of Retained Earnings	6.00		
Less: Pre-acquisition balance	(2.50)		
Post-acquisition Retained Earnings before adjustments	3.50		
Less: Amortisation of Brand (8/10 years)	(0.80)		
Add: Excess depreciation on PPE (1.00 x 1/10) (W.N.4)	0.10		
Post-acq. Retained Earnings after adjustments	2.80	0.56	2.24
Less: Impairment on Goodwill (20 x 25%) in 20:80		(1.00)	(4.00)
		7.56	(1.76)

6. Consolidated Retained Earnings as on 31st March 2025

	₹ in lakhs
A Ltd.	15.00
Less: A Ltd.'s share of post-acquisition loss in S Ltd. (W.N.5)	(1.76)

Less: Finance cost on deferred consideration (W.N.7)	(0.45)
Less: Gain on sale of capital equipment (5.00 – 4.00)	(1.00)
Retained Earnings as on 31st March 2025	11.79

7. Calculation of value of deferred consideration as on 31st March 2025

	₹ in lakhs
Value of deferred consideration as on 1st April 2024 (W.N.1)	4.50
Add: Finance cost for the year 2024-2025 (4.50 x 10%)	0.45
Deferred consideration as on 31st March 2025	4.95

Question 2

(a) Zebra Limited is considering to grant an interest free loan of ₹ 25,00,000 to its wholly owned Indian subsidiary company, Camel Limited. No transaction cost is attached with this loan. With respect to other terms and conditions, the following alternate options are being considered:

- *Option 1: The loan is interest free and is repayable on demand;*
- *Option 2: The loan is interest free and is repayable in a single bullet payment after 4 years from the date of granting of such loan. The current market rate of interest for similar loan is 12% per annum.*
- *Option 3: The said loan is interest free and will be repaid as and when Camel Limited has funds to repay the loan amount.*

You are required to suggest as per applicable Ind AS, under each of the options, the accounting treatment of the above loan:

- *in the standalone financial statements of Zebra Limited and Camel Limited; and*
- *in the consolidated financial statements of Zebra Limited.*

Also give journal entries under option 2.

Also suggest the accounting treatment as per applicable Ind AS, if in future periods, Camel Limited grants an interest free loan to Zebra Limited.

(10 Marks)

(b) *Alpha Tech Limited, an Indian listed company, has availed on 1st July 2024, a short-term loan facility of ₹ 50.00 crore from XYZ Bank Limited repayable on 30th June 2025. Alpha Tech Limited prepares its financial statements as at 31st March of each year. On 15th March 2025, Alpha Tech and XYZ Bank Limited enter into a formal, unconditional agreement to roll over the outstanding loan into a new long-term facility of ₹ 50.00 crore repayable on 30th June 2030.*

(i) *Discuss the classification of the aforesaid loan in the Balance Sheet of Alpha Tech Limited as at 31st March 2025.*

(ii) *Will your answer to (i) change if the new arrangement of Alpha Tech Limited with XYZ Bank Limited was signed after 31st March 2025, but before the financial statements of Alpha Tech Limited were approved for issue?*

(iii) *Will your answer to (i) change if the original loan from XYZ Bank Limited is paid on the due date i.e. 30th June 2025 out of the funds released on the same date by ABC Bank Limited under a new 5-year facility by ABC Bank Limited? The agreement with ABC Bank Limited is signed on 31st March 2025.*

(iv) *Will your answer to (i) change if Alpha Tech Limited is yet to sign any new agreement with any of the banks but has the intention and potential to refinance the loan and continue discussions with banks as of 31st March 2025?*

Justify your response with reference to the relevant provisions of Ind AS 1.

(4 Marks)

Answer

(a) Ind AS 109 requires that a 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, 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.

Using the guidance, the interest-free loan will be accounted for as below in various scenarios:

Option 1: Since the loan is repayable on demand, it has fair value equal to cash consideration given i.e. ₹ 25,00,000. The parent and subsidiary recognize financial asset and liability, respectively, at the amount of loan given. Going forward, no interest is accrued on the loan. Upon repayment, both the parent and the subsidiary reverse the entries made at origination.

Option 2: The loan is repayable in single bullet payment after 4 years. 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 Zebra Ltd. (Parent)

Particulars		Dr. (₹)	Cr. (₹)
On the date of loan			
Loan to Camel Ltd. (Subsidiary) (25,00,000 x 0.636)	Dr.	15,90,000	
Deemed Investment (Capital Contribution) in Camel Ltd.	Dr.	9,10,000	
To Bank			25,00,000
(Being the loan given to Camel Ltd. and recognised at fair value)			
Accrual of Interest income			
Loan to Camel Ltd.	Dr.	1,90,800	
To Interest income (Profit and Loss Account)			1,90,800
(Being interest income accrued) – Year 1			
Loan to Camel Ltd.	Dr.	2,13,696	
To Interest income (Profit and Loss Account)			2,13,696
(Being interest income accrued) – Year 2			
Loan to Camel Ltd.	Dr.	2,39,340	
To Interest income (Profit and Loss Account)			2,39,340
(Being interest income accrued) – Year 3			
Loan to Camel Ltd.	Dr.	2,66,164	
To Interest income (Profit and Loss Account)			2,66,164
(Being interest income accrued) – Year 4			

On repayment of loan		
Bank Dr.	25,00,000	
To Loan to Camel Ltd. (Subsidiary)		25,00,000

Accounting in the books of Camel Ltd. (Subsidiary)

Particulars	Amount	Amount
On the date of loan		
Bank Dr.	25,00,000	
To Loan from Zebra Ltd. (Parent)		15,90,000
To Equity (Deemed Capital Contribution from Zebra Ltd.)		9,10,000
(Being the loan given to Camel Ltd. and recognised at fair value)		
Accrual of Interest		
Interest expense (Profit and Loss Account) Dr.	1,90,800	
To Loan from Zebra Ltd.		1,90,800
(Being interest expense recognised) – Year 1		
Interest expense (Profit and Loss Account) Dr.	2,13,696	
To Loan from Zebra Ltd.		2,13,696
(Being interest expense recognised) – Year 2		
Interest expense (Profit and Loss Account) Dr.	2,39,340	
To Loan from Zebra Ltd.		2,39,340
(Being interest expense recognised) – Year 3		
Interest expense (Profit and Loss Account) Dr.	2,66,164	
To Loan from Zebra Ltd.		2,66,164
(Being interest expense recognised) – Year 4		
On repayment of loan		
Loan from Zebra Ltd. (Payable) Dr.	25,00,000	
To Bank		25,00,000

Working Notes:

1.	**Computation of Present value of loan**	
	Rate	12%

	Amount of Loan	25,00,000
	Year of Loan	4
	Present Value (25,00,000 x 0.636)	15,90,000
2.	**Computation of interest for Year 1**	
	Present Value at the beginning of the year	15,90,000
	Rate	12%
	Interest for 1st year	1,90,800
	Closing value at the end of year 1	17,80,800
3.	**Computation of interest for Year 2**	
	Present Value at the beginning of the year	17,80,800
	Rate	12%
	Interest for 2nd year	2,13,696
	Closing value at the end of year 2	19,94,496
4.	**Computation of interest for Year 3**	
	Present Value at the beginning of the year	19,94,496
	Rate	12%
	Interest for 3rd year	2,39,340
	Closing value at the end of year 3	22,33,836
5.	**Computation of interest for Year 4**	
	Present Value at the beginning of the year	22,33,836
	Rate	12%
	Interest for 4th year	2,66,164*
	Closing value at the end of year 4	25,00,000

*Difference of ₹ 1,896 (i.e. 2,68,060 - 2,66,164) is due to approximation.

Option 3: The loan will be repaid as and when Camel Ltd. has funds to repay the loan amount.

Generally, a loan, which is repayable when funds are available, can't be stated to be repayable on demand. Rather, the entities need to estimate repayment date and determine its measurement accordingly. If the loan is expected to be repaid in four years, its measurement will be the same as in option 2.

In the Consolidated Financial Statements (CFS), the loan and interest income/expense will get knocked-off as intra-group transaction in all three scenarios. Hence the above accounting will not have any impact in the CFS.

In case, Camel Limited grants interest free loan to Zebra Limited, i.e. the loan is given by the subsidiary to the parent company, the difference between fair value of the loan on initial recognition and its nominal value will be treated as dividend distribution by subsidiary and dividend income by the parent.

(b) (i) The loan taken by Alpha Tech Limited is not due for payment at the end of the reporting period. The entity and the bank have agreed for the roll-over of the outstanding loan 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.

(ii) 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.

(iii) 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 three months from the end of the reporting period, therefore, it will be classified as current liability.

(iv) 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. Therefore, it has to classify the loan obligation as current.

Question 3

(a) Kagaz Limited, Chennai purchased a modern offset manufacturing machine from a supplier at Mumbai for ₹ 20.00 lakhs being Maximum Retail Price (MRP) on the following terms and conditions:

- *The supplier would buy-back the existing machine of Kagaz Limited. The carrying value of the existing machine is ₹ 6.60 lakhs.*
- *The supplier would give a special discount of 5%;*
- *A cash payment of ₹ 15 lakhs would be made by Kagaz Limited to the supplier;*
- *Kagaz Limited will purchase from local market all accessories required to operate the machine at ₹ 3.00 lakhs (inclusive of all taxes);*
- *The supplier will, however, deliver free of cost certain heavy-duty cables etc., having MRP of ₹ 2.00 lakhs, required to install and operate the machine;*
- *Transit insurance will be borne by Kagaz Limited @ 3% of MRP of the machine only;*
- *Freight and other incidentals of ₹ 1.00 lakh is borne by Kagaz Limited.*

Compute as per applicable Ind AS :

- *the cost of the new machine for Kagaz Limited;*
- *the profit (loss) incurred by Kagaz Limited on the buy-back arrangement.*

Also pass necessary journal entries in the books of Kagaz Limited. Ignore any impact of GST. ***(8 Marks)***

(b) The financial statements of R Limited are prepared as on 31st March of every year. The applicable rate of income tax is 35%. The following information of R Limited is for the financial year ended 31st March, 2025:

- *Situation 1: R Limited holds 35% equity shares in J Limited which was acquired prior to 1st April 2023 for ₹ 40.00 crores. The shareholding gives R Limited a significant influence over J Limited but not control. Hence R Limited recognizes its interest in J Limited as per the equity method. As per the equity method, the carrying value of R Limited's investment in J Limited was ₹ 70.00 crores as on 31st March 2024 and ₹ 80.00 crores as on 31st March 2025. In the income tax jurisdiction in which R Limited* *operates, profits recognized under the equity method are taxed if and when they are distributed as a dividend or the relevant investment is disposed off by the investor.*

- *Situation 2: R Limited measures its Corporate Office Building by applying the revaluation method. The building is revalued every year. On 31st March, 2024, carrying value of the building (after revaluation) was ₹ 50.00 crores and its tax base was ₹ 30.00 crores. During the year ended 31st March 2025, R Limited charged depreciation of ₹ 2.50 crores in its statement of profit and loss but claimed a tax deduction for tax depreciation of ₹ 1.80 crores. On 31st March 2025, the building was revalued to ₹ 60.00 crores. In the tax jurisdiction in which R Limited operates, revaluation of property, plant and equipment does not affect taxable income at the time of revaluation.*
- *On the basis of the above information, you are required, for both the situations of R Limited, to compute as per applicable Ind AS as at for the financial year ended 31st March 2025:*
  - *the deferred tax asset / liability;*
  - *the charge or credit relating to deferred tax to statement of profit and loss and other comprehensive income.* ***(6 Marks)***

Answer

(a) (i) Computation of cost of new machine

	₹ in lakhs
MRP of Machine	20.00
Less: Special discount @ 5% of MRP	(1.00)
	19.00
Add: MRP of cables	2.00
Add: Accessories	3.00
Add: Transit Insurance Cost (3% of ₹ 20 lakh)	0.60
Add: Freight and other incidental amount	1.00
	25.60

(ii) Computation of Profit /Loss incurred on buy-back arrangement

	₹ in lakhs
Discounted price of new machine (20.00 – 1.00)	19.00
Add: Fair value of heavy – duty cables	2.00
Fair value of the machine acquired	21.00
Less: Cash portion thereof	(15.00)
Total fair market value of new machine after deduction of cash consideration	6.00
Less: Book value thereof	(6.60)
Loss on Buy back	(0.60)

(iii) Journal Entries

	₹ in lakhs	*₹ in lakhs*
New Machine A/c Dr.	19.60	
To Cash A/c		19.60
(Being the expenses incurred for purchase of New Machine – cash payment ₹ 15.00 lakh + accessory ₹ 3.00 lakh + transit insurance ₹ 0.60 lakh + freight ₹ 1.00 lakh)		
New Machine A/c Dr.	6.00	
Loss on buy back of old machine A/c Dr.	0.60	
To Old Machine A/c		6.60
(Being the transfer of fair market value of ₹ 4.00 lakhs of old machine to new machine under buy-back scheme and recognition of loss on buy back)		

Note: It is assumed that the cash payment of ₹ 15.00 lakhs is the full and final payment to the supplier for the new machine.

(b) (A) Deferred Tax Liability as at 31st March, 2025

Situation 1: Investment in J Ltd:

Carrying Amount = ₹ 80.00 Cr

Tax base = ₹ 40.00 Cr (Purchase cost)

Temporary Difference = ₹ 40.00 Cr

Since carrying amount is higher than the tax base, the temporary difference is recognized as a taxable temporary difference. Using the tax rate of 35%, a deferred tax liability of ₹ 14.00 Cr is recognized:

Situation 2: Corporate office building

Carrying Amount = ₹ 60 Cr (Revalued amount on 31st March, 2025)

Tax base = ₹ 28.20 Cr (30.00 Cr – 1.80 Cr)

Temporary Difference = ₹ 31.80 Cr

Since carrying amount is higher than the tax base, the temporary difference is recognized as a taxable temporary difference. Using the tax rate of 35%, a deferred tax liability of ₹ 11.13 Cr is created.

Total Deferred Tax Liability = ₹ 14.00 Cr + ₹ 11.13 Cr = ₹ 25.13 Cr

(B) Charge to Statement of Profit and Loss for the year ended 31st March 2025:

Situation 1 : Investment in J Ltd.

Particulars	Carrying amount	Tax Base	Temporary Difference
Opening Balance (1st April, 2024)	₹ 70 Cr	₹ 40 Cr	₹ 30 Cr
Closing Balance (31st March, 2025)	₹ 80 Cr	₹ 40 Cr	₹ 40 Cr
Net Change			₹ 10 Cr
Increase in Deferred Tax Liability (35% tax rate) charged to Profit and Loss Account			₹ 3.50 Cr

Considering the increase in the value of investment, the increase in deferred tax liability would be charged to Profit or loss account as under:

Tax expense (Statement of Profit and Loss) Dr ₹ 3.50 Cr

To Deferred Tax Liability ₹ 3.50 Cr

(Being increase in deferred tax liability recognized)

Situation 2: Corporate Office Building:

The deferred tax liability at 31st March 2024 is ₹ 7.00 Cr (35% x {₹ 50 Cr – ₹ 30 Cr}).

At 31st March 2025, prior to revaluation, the carrying amount of the property is ₹ 47.50 Cr (50 Cr. – 2.50 Cr) and its tax base is ₹ 28.20 Cr (₹ 30 Cr – ₹ 1.80 Cr). The deferred tax liability at this point is ₹ 6.755 Cr (35% x {₹ 47.50 Cr – ₹ 28.20 Cr}).

The reduction in this liability is ₹ 0.245 Cr (₹ 7.00 Cr – ₹ 6.755 Cr). This would be credited to income tax expense in arriving at profit or loss.

Post revaluation, the carrying value of the building becomes ₹ 60.00 Cr and the tax base stays the same. Therefore, the new deferred tax liability is ₹ 11.13 Cr (35% x (₹ 60 Cr – ₹ 28.20 Cr)). The increase in the deferred tax liability of ₹ 4.375 Cr (₹ 11.13 Cr – ₹ 6.755 Cr) is charged to other comprehensive income on account of defer tax on revaluation gain.

Questions 4

(a) U Limited had purchased a production plant for ₹ 9.00 lakhs on 1st April, 2022. The useful life of the plant is 9 years and is depreciated on straight line method with Nil residual value. On 1st April 2024, U Limited temporarily stops using the production plant as demand had declined. However, the plant is maintained in a workable condition and it will be used in future when demand picks up.

The accountant of U Limited decided to treat the plant as held for sale until the demand picks up and accordingly measures the plant at lower of carrying amount and fair value less cost to sell.

Accountant has also stopped charging the depreciation for the rest of the period considering the plant as held for sale. The fair value less cost to sell on 1st April 2024 and 31 March 2025 was ₹ 6.00 lakhs and ₹ 5.00 lakhs respectively.

The accountant undertook the following working:

Carrying amount on initial classification as held for sale

		(All amounts in ₹)
Purchase price of Plant	9,00,000	
Less: Accumulated depreciation (9,00,000/9 years) × 2 years	(2,00,000)	
Carrying value as on 1st April 2024		7,00,000
Fair value less cost to sell as on 1st April 2024		6,00,000
The value will be lower of the above two		6,00,000

Balance Sheet extract as on 31st March, 2025

Assets	₹
Assets classified as held for sale	5,00,000

Discuss the above accounting treatment of the accountant as per Ind AS 105 and/or Ind AS 16. In case you are not in agreement with the accountant, suggest the correct treatment. Give necessary workings.

(6 Marks)

(b) MedCol Limited during the financial year 2024-2025, received the following grants from the State Government for its newly established Medical Centre in a backward area:

- *Grant 1: ₹ 20.00 lakhs for providing free treatment to the BPL (Below Poverty Line) residents of the area for first 5 years;*
- *Grant 2: 40% subsidy to partially fund the purchase of a radiology machinery costing ₹ 15.00 lakhs. Useful life of machinery is 6 years. Depreciation on this machinery is to be charged on straight-line basis. Assume Nil residual value.*

- *Grant 3: Two acres of land, free of cost, to set up the hospital. The fair value of the land is estimated to be ₹ 15.00 lakhs per acre.*
- *Grant 4: ₹ 50.00 lakhs to open the medical centre in backward area. No condition is attached for the incentive other than the stipulation that medical centre should be in a backward area.*

How should MedCol Limited recognize the government grants in its books of accounts as per applicable Ind AS. ***(8 Marks)***

Answer

(a) As per para 6 of Ind AS 105, an entity shall classify a non-current asset as held for sale if its carrying amount is recovered principally through a sale transaction rather than through continuing use. Further, paras 7 and 8 of Ind AS 105 *inter alia* states that the asset must be available for immediate sale in its present condition and its sale must be highly probable i.e. the management must be committed to a plan to sell the asset and the sale should be expected to be completed within one year from the date of classification.

Moreover, para 55 of Ind AS 16 states that depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Going by the guidance given above, since the management has temporarily stopped the production due to decline in demand and had no intention to sell the asset within one year, the classification of the asset as held for sale by the accountant of U Ltd. is not correct. Also, U Ltd. shall not stop charging depreciation or treat the plant as held for sale because its carrying amount will be recovered principally through continuing use to the end of their economic life.

The working of the same for presenting in the balance sheet is given as below:

Calculation of carrying amount as on 31st March, 2025	₹
Purchase Price of Production Plant	9,00,000
Less: Accumulated depreciation (9,00,000/ 9 years) x 3 years	(3,00,000)
	6,00,000
Less: Impairment loss (Refer W.N.)	(1,00,000)
Fair value less cost to sell the Production Plant as on 31st March, 2025	5,00,000

Balance Sheet (extracts) as on 31st March 2025

Assets	**₹**
Non-Current Assets	
Property, Plant and Equipment	5,00,000

Working Note:

Computation of Impairment Loss

Fair value less cost to sell the Plant = ₹ 5,00,000

Value in Use = Nil (since plant has temporarily not been used for manufacturing due to decline in demand)

Recoverable amount = Higher of fair value less cost to sell and value in use i.e. ₹ 5,00,000

Impairment loss = Carrying amount – Recoverable amount

Impairment loss = ₹ 6,00,000 - ₹ 5,00,000

= ₹ 1,00,000

(b) Following is the accounting treatment of various State Government Grants received by MedCol Limited during the financial year 2024-2025 for its newly established Medical Centre in the backward area:

Grant 1: Government grants shall be recognised in profit or loss 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.

In the given case, the grant would be recognised as a liability (deferred income) and presented in the balance sheet as a split between current and non-current amounts.

₹ 20.00 lakhs would be recognized as income over 5-year period on straight line basis. Accordingly, MedCol Limited will recognise ₹ 4.00 lakhs to the Statement of Profit and Loss every year.

Assuming that the Grant was received at the beginning of the year, ₹ 4 lakhs [20 lakhs x (1 year/5 years)] of the grant value forming part of the deferred grant liability would be considered as current and be recognised in the statement of profit and loss for the year ended 31st March 2025. The balance amount of ₹ 16 lakhs will be split into current and non-current and shown in the balance sheet as ₹ 4 lakhs current deferred grant liability and ₹ 12 lakhs as non-current deferred grant liability.

Grant 2: MedCol Limited will set up ₹ 6.00 lakhs as deferred income and will credit ₹ 1 lakhs equally to its statement of profit and loss over next 6 years. The cost of the machinery would appear in the books as ₹ 15.00 lakhs and depreciation of ₹ 2.50 lakhs (₹ 15.00 lakhs / 6 years) will be charged to Statement of Profit and Loss every year. Net impact on Statement of Profit and Loss every year would be ₹ 1.50 lakhs expense (₹ 2.50 lakhs - ₹ 1.00 lakhs) every year.

Alternatively, MedCol Limited will deduct ₹ 6.00 lakhs from the cost of radiology machinery of ₹ 15.00 lakhs. In such a situation, the cost of the machinery would appear in the books initially at ₹ 9.00 lakhs (₹ 15.00 lakhs – ₹ 6.00 lakhs) and depreciation of ₹ 1.50 lakhs (₹ 9.00 lakhs / 6 years) will be charged to Statement of Profit and Loss every year.

Net impact on the Statement of Profit and Loss every year, in both the cases, would be same.

Grant 3: In case a government grant is in the form of a transfer of a non-monetary asset, such as land, then the same will be accounted for at its fair value both as grant and asset. Accordingly, land and grant will be recorded in the books at ₹ 30 lakhs (i.e. ₹ 15 lakhs x 2 acres).

Alternatively, entity may record both asset and grant at a nominal amount.

Grant 4: No condition is attached with the grant received except that the Medical Centre to be opened in the backward area. Since MedCol Limited has opened the Medical Centre in the backward area in the year 2024-2025, the entire grant of ₹ 50.00 lakhs should be recognised immediately in the statement of profit and loss in the year 2024-2025.

Questions 5

(a) Grant Limited enters into a contract with a customer to sell a machinery. The machinery is transferred to the customer when the contract is signed. The price as per the contract is ₹ 10.00 lakhs plus contractual rate of interest at

8% per annum, payable in 5 annual equal instalments of ₹ 2,50,438 each. No down payment is envisaged for the sale.

Grant Limited avails loan @ 10% per annum from its banker for similar back-to-back transactions. Statutory Auditors of the Company had advised Grant Limited to recognize the transaction price of the machinery after discounting instalment payments @ 10% per annum and observes that the 8% contractual rate of interest is significantly lower than the 10% interest rate at which company avails loan from its bankers to fund such transactions.

(i) Determine the transaction price of the machinery if the company accepts the suggestion of the Statutory Auditors of the Company.

(ii) Should Grant Limited accept the offer of the customer where the customer wants to cancel the contract for payment in instalments and offers a cash price of ₹ 9.65 lakhs.

(Present value of inflow of equated amount stream of annual instalments for 5 years discounted at 10% rate of interest is 3.79 times of the yearly equated instalment amount) (Your response should be as per applicable Ind AS).

(5 Marks)

(b) Moose Limited has decided to present its first financials under Ind AS for the year ended 31st March 2025. The date of transition of Moose Limited to Ind AS is 1st April 2023. The following adjustments were made by Moose Limited upon transition to Ind AS:

(i) The Company opted to fair value its land as on the date on transition. The fair value of the land as on 1st April 2023 was ₹ 12.00 crores. The carrying amount of the said land as on 1st April, 2023 under the existing GAAP was ₹ 6.00 crores.

(ii) The Company had recognised a provision for proposed dividend of ₹ 40.00 lakhs and related dividend distribution tax of ₹ 12.00 lakhs for the year ended 31st March, 2023. It was written back as on transition opening balance sheet date.

(iii) The Company decided to show its investment in equity shares at fair value on the date of transition. The increase on account of fair valuation of shares is ₹ 50.00 lakhs.

(iv) The Company has an Equity Share Capital of ₹ 100.00 crores and Redeemable Preference Share Capital of ₹ 25.00 crores.

(v) The reserves and surplus as on 1st April 2023 before transition to Ind AS was ₹ 110.00 crores representing ₹ 60.00 crores of General Reserve and ₹ 10.00 crores of Capital Reserve created because of a business combination and balance is surplus in the Retained Earnings.

(vi) The company identified that the preference shares were in nature of financial liabilities.

Compute the balance of Total Equity (Equity share capital and other equity) as on 1st April 2023 after transition to Ind AS. Show reconciliation between total equity as per AS (Accounting Standards) and as per Ind AS to be presented in the opening balance sheet as on 1st April 2023. Ignore impact of deferred tax. ***(5 Marks)***

(c) ***EITHER***

In view of the increasing inflow of foreign capital and the resultant complexities in financial instruments and transactions, critically examine the necessity for the introduction of Indian Accounting Standards (Ind AS) in place of the erstwhile Accounting Standards (AS). ***(4 Marks)***

OR

Discuss the key relevant provisions of the Companies Act, 2013 with reference to Ind AS and the matters to be included in the Report of the Board of Directors and the Report of the Statutory Auditors of the company in respect of the compliance of Indian Accounting Standards as notified by the Central Government under Section 133 of the Companies Act, 2013.

(4 Marks)

Answer

(a) (i) Determination of transaction price of the machinery

Although the contract price is stated as ₹ 10,00,000, the payment is deferred over 5 years with no down payment and carries contractual interest rate of 8%. Hence, the contract contains a significant financing component.

However, the contractual interest rate of 8% is significantly lower than the market rate of 10% at which Grant Limited borrows for similar transactions. As per para 61 of Ind AS 115, the transaction price must be adjusted for the time value of money using the market rate of interest that is 10%.

Accordingly, the transaction price would be = ₹ 2,50,438 x 3.79

= ₹ 9,49,160.

This amount will be recognised as revenue at contract inception and the difference of the sale proceeds of ₹ 10,00,000 and the transaction price of ₹ 9,49,160 i.e. ₹ 50,800 will be recognised as interest income over the five-year period.

(ii) **Analysis of the customer's offer of cash price of ₹ 9,65,000 instead of payment machinery in five annual instalments.**

Although the present value of the instalment payments is ₹ 9,49,160, the customer has offered a higher cash price of ₹ 9,65,000. Acceptance of the cash price is commercially beneficial as it not only exceeds the discounted transaction price but also avoids the complexities of a significant financing component, reduces credit and collection risks and strengthens cash flows and liquidity.

Therefore, Grant Limited should accept the customer's offer of the cash price of ₹ 9,65,000 which is higher than the discounted transaction price of ₹ 9,49,160. It is consistent with Ind AS 115 and is also financially and commercially advantageous.

(b) Computation of Balance of Total Equity as on 1st April, 2023 after transition to Ind AS

			₹ in crore
Share capital-Equity share Capital			100.00
Other Equity			
General Reserve		60.00	
Capital Reserve		10.00	
Retained Earnings (110.00 – 60.00 – 10.00)	40.00		
Add: Increase in value of land (12.00 – 6.00)	6.00		
Add: Derecognition of proposed dividend (0.40 + 0.12)	0.52		

Add: Increase in value of Investment	0.50	47.02	117.02
Balance total equity as on 1st April 2023 after transition to Ind AS			217.02

Reconciliation between Total Equity as per AS and Ind AS to be presented in the Opening Balance Sheet as on 1st April 2023

		₹ in crore
Equity share capital		100.00
Redeemable Preference share capital		25.00
		125.00
Reserves and Surplus		110.00
Total Equity as per AS		235.00
Adjustment due to reclassification		
Preference share capital classified as financial liability		(25.00)
Adjustment due to derecognition		
Proposed Dividend not considered as liability as on 1st April 2023		0.52
Adjustment due to remeasurement		
Increase in the value of land due to remeasurement at fair value	6.00	
Increase in the value of investment due to remeasurement at fair value	0.50	6.50
Equity as on 1st April, 2023 after transition to Ind AS		217.02

(c) **Either**

The increasing inflow of foreign capital and the resulting complexities in financial transactions necessitated the introduction of Indian Accounting Standards (Ind AS) to replace the earlier Accounting Standards (AS) due to the following reasons:

1. **Complex Financial Instruments:** AS lacks explicit guidance on accounting for complex capital-raising instruments such as optionally

or compulsorily convertible shares and debentures, leading to inconsistent treatment across entities.

2. **Derivative Instruments and Embedded Features:** The proliferation of derivative instruments embedded in foreign currency bonds, equity instruments and commodity derivatives require comprehensive accounting principles which are inadequately addressed under AS.

3. **Group Restructuring and Business Combinations:** Activities such as mergers, acquisitions, demergers and slump sales are increasingly common but lack a uniform accounting framework, creating discrepancies in recognition and measurement.

4. **Emerging Business Models and Revenue Arrangements:** The rise of innovative digital economy business models introduce complex revenue recognition issues that are not explicitly covered in AS, leading to divergent practices.

5. **Stock-based Compensation:** Diverse and innovative remuneration models, especially for senior management and executives, demand detailed standards which AS do not comprehensively provide.

6. **Complex Tax Provisions:** The determination of current and deferred tax was complicated by changing tax laws and business structures, requiring enhanced guidance beyond the limited scope of AS.

7. **Shareholder Returns and Investments in Kind:** Varied modes of providing returns to shareholders and investments during group reorganizations lacked clear accounting principles under AS.

8. **Need for Enhanced Disclosures:** The limited disclosure requirements under AS in areas such as revenue, related party transactions, segment reporting and business combinations were insufficient for providing investors with a complete understanding of business risks and performance.

9. **Alignment with Global Standards:** To attract foreign investment and ensure comparability with international financial reporting, adoption of Ind AS aligned with IFRS became essential.

Ind AS was introduced to address the above complexities and to provide a comprehensive, consistent and transparent accounting framework that improves the quality of financial reporting and enables investors to make informed decisions.

(c) **Or**

Following are the some of the key relevant provisions of the Companies Act 2013, which gives reference to Ind AS:

1. Section 2(2) states that accounting standards means the standards of accounting or any addendum thereto for companies or class of companies referred to in Section 133.
2. Section 133 states the Central Government may prescribe the standards of accounting or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority. Under the power given to the Central Government under section 133, it notified the Companies (Indian Accounting Standards) Rules, 2015.
3. Section 129 suggests the financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the accounting standards notified under section 133 and shall be in the form or forms as may be provided for different class or classes of companies in Schedule III.
4. Section 134(5)(a), a statement that the applicable accounting standards had been followed with proper explanation relating to material departures shall be given in the Director Responsibility Statement to be issued under section 134(3)(c) in the Director's report to be published in Annual General Meeting.
5. Section 143, auditor has to opine whether the financial statements comply with the accounting standards.

Questions 6

(a) You, a Chartered Accountant, have recently been appointed as the new Chief Financial Officer (CFO) at Digitization Solutions Limited, a listed company in the hardware distribution sector. While reviewing the financial statements for the financial year 2024-2025, before submitting the same for audit, you identify the following issues:

Issue 1: *Channel Stuffing and Premature Revenue Recognition*

- *Products worth ₹ 18 crores were shipped to distributors on 30th March, 2025, but there were no confirmed purchase orders.*
- *These transactions have been recorded as revenue for Quarter 4.*
- *Distributors were offered extended credit terms of 180 days and a "right of return" for unsold goods within 60 days.*

Issue 2: *Deferred Recognition of Marketing Expense*

- *A ₹ 4.5 crore marketing campaign conducted during Quarter 4 was capitalised as "deferred revenue expenditure" instead of being expensed, with the intent of inflating profits.*

Issue 3: *Understatement of Warranty Provisions*

- *Historically, the company incurs warranty claims equal to 4% of sales, but for financial year 2024-2025, management has only provisioned 1.5%, citing the need to "smooth earnings".*

The management of the company is under pressure to meet quarterly earnings targets due to the risk of a credit rating downgrade and to meet the expectations of institutional investors.

Discuss and analyze the implications of accepting these treatments, with reference to the ICAI Code of Ethics. ***(5 Marks)***

(b) Crystal People Limited has a total headcount of around 1,000 employees during the financial year 2024-2025. As per the company's leave policy, employees are entitled to 35 days of privilege leave (PL), 15 days of sick leave (SL) and 10 days of casual leave (CL) each year. Out of the total PL and SL, only 10 days of PL and 5 days of SL can be carried forward to the next year. Based on past trends, it has been observed that 200 employees are likely to take 5 days of PL and 2 days of SL, while the remaining 800 employees are expected to avail 10 days of PL and 5 days of SL during the year.

The company has been earning profits consistently since 2010 and in the financial year 2024-2025, decided to distribute profits to its employees at the rate of 4% of annual profits. However, due to employee turnover, the expected payout is estimated to be around 3.5% of the annual profits. The company has earned a profit of ₹ 5,000 crores during the year.

Additionally, Crystal People Limited has a post-employment benefit plan which is classified as a defined contribution plan, with contributions amounting to ₹ 250 crores due within 12 months from the end of the accounting period. Out of this, the company has already paid ₹ 50 crores during the financial year 2024-2025.

Based on the above information, as per applicable Ind AS, what would be the appropriate accounting treatment of short-term compensated absences, the profit-sharing plan and the defined contribution plan in the books of Crystal People Limited? ***(5 Marks)***

(c) You are in the process of determining the valuation of K Limited. You have decided to adopt two valuation approaches, namely the Market Approach and the Income Approach.

Under the Market Approach, the Enterprise Value (EV) of the company is to be computed using the EV/EBITDA multiple. Under the Income Approach, the EV has already been determined based on the company's projected cash flows.

Historically, the higher of the two valuations was selected as the final value. However, based on discussions with your partner, you have now been requested to assign equal weights to both the approaches and determine a fair value of the shares of K Limited.

The relevant details of K Limited are as follows:

- *EBITDA (Trailing 12 Months): ₹ 620.00 crore;*
- *EV/EBITDA multiple: 8.5;*
- *Enterprise Value as per Income Approach: ₹ 4,701.10 crore;*
- *Debt obligation as on the measurement date: ₹ 1,465.90 crore;*
- *Surplus cash and cash equivalents: ₹ 106.14 crore;*
- *Fair value of surplus assets and liabilities: ₹ 312.40 crore;*
- *The number of shares outstanding: ₹ 8,52,00,000.*

You are required to compute the fair value per share of K Limited based on the above inputs and consider 5% liquidity discount and a 5% discount for non-controlling interest, in order to arrive at the final fair value per share from an investor's perspective. ***(4 Marks)***

Answer

(a) Issue 1: Channel Stuffing and Premature Revenue Recognition

In the given case, the entity has stuffed its goods with the distributors without confirm purchase orders. This implies that the control of the goods might have not transferred to the distributors. Further, since the entity has offered the distributors with extended credit terms of 180 days and a right of return for unsold goods within 60 days, the recognition of revenue shall be deferred or not be recognized for the products expected to be returned.

Issue 2: Deferred Recognition of Marketing Expense

Marketing expenditure does not meet the definition of an asset and must be expensed under Ind AS 38. Capitalising it as "deferred revenue expenditure" to inflate profits is manipulation of earnings.

Issue 3: Understatement of Warranty Provisions

Warranty obligation represents the additional cost that the seller may have to incur to rectify the defects in the products, if any. This is in the nature of provision as there is an uncertainty associated with the amount and timing of the liability. A provision is recognised to the best estimate of the costs of making good the products sold under warranty before the end of the reporting period.

As per para 25 of Ind AS 37, the use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability, especially in the case of provisions. Therefore, make an estimate of the obligation that is sufficiently reliable to use in recognising a provision. In the given case, historical evidence supports a 4% provision, yet only 1.5% is recognised. This violates Ind AS 37. "Smoothing earnings" as cited by the entity is not a valid accounting rationale.

Ethical Issues

Accepting these treatments, which are not in compliance with the applicable Ind AS would result in material misstatements in financial statements. Chartered Accountants are required to comply with the fundamental principles laid down in the ICAI Code of Ethics. This includes acting with integrity. The integrity of CFO would be compromised in case he accounts for the transaction as sale and not as an asset in case of issue 1 and inflating of profits in case of issues 2 and 3. This effectively amounts to 'window dressing', which is not honest as it does not present the actual performance and position of Digital Solutions Ltd.

Accountants must also act with objectivity, which means they must not allow bias, conflict or undue influence of others to override professional or business judgments. The pressure to meet quarterly earnings targets due to the risk of a credit rating downgrade and to meet the expectations of institutional investors or intent to inflate profit or need to smooth earnings and account for in accordance with the situation is clearly a conflict of interest and non-compliance with the principles of professional behaviour.

Implications as per ICAI Code of Ethics

In case of non-compliance with the provisions of Ind AS, the CFO would be subject to professional misconduct under Clause 1 of Part II of Second Schedule of the Chartered Accountants Act, 1949. Clause 1 states that a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he contravenes any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council. As per the Guidelines issued by the Council, a member of the Institute who is an employee shall exercise due diligence and shall not be grossly negligent in the conduct of his duties.

(b) (i) Crystal People Limited will recognise a liability in its books to the extent of 5 days of PL for 200 employees and 10 days of PL for remaining 800 employees and 2 days of SL for 200 employees and 5 days of SL for remaining 800 employees in its books as an unused entitlement that has accumulated in 2024-2025 as short-term compensated absences.

Alternatively, it may be assumed that number of leaves carried forward in the next year will be availed in entirety. In such a case, Crystal People Limited will recognise a liability in its books to the extent of 10 days of PL for 200 employees and 10 days of PL for remaining 800 employees and 5 days of SL for 200 employees and 5 days of SL for remaining 800 employees in its books as an unused entitlement that has accumulated in 2024-2025 as short-term compensated absences.

(ii) In terms of the profit-sharing plan, although the company had initially planned to distribute 4% of its ₹ 5,000 crore profit, due to expected employee turnover, the actual payout is estimated to be 3.5%, amounting to ₹ 175 crores. Since there is a clear obligation and the payout can be reliably estimated, this amount should be recognized as an employee benefit expense in the profit and loss account for the year, with a corresponding provision shown under current liabilities.

(iii) When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service. Under Ind AS 19, the amount of ₹ 200 crores will be recognised as a liability (accrued expense), after deducting any contribution already paid (₹ 250 crores - ₹ 50 crores) and an expense in the statement of profit and loss.

(c) Determination of Enterprise Value of K Ltd. (from Market Approach)

Particulars	
EBITDA as on the measurement date	₹ 620 crore
EV/EBITDA multiple as on the date of valuation	8.5
Enterprise value of K Ltd. (₹ 620 crore x 8.5)	₹ 5,270 crore

Fair value per share of K Ltd.

Particulars	**Weights**	**₹ in crore**
As per Market Approach	50	5,270.00
As per Income Approach	50	4,701.10
Enterprise Valuation based on weights [(5,270 x 50%) + (4,701.10 x 50%)]		4,985.55
Less: Debt obligation as on measurement date		(1,465.90)
Add: Surplus cash & cash equivalent		106.14
Add: Fair value of surplus assets and liabilities		312.40
		3,938.19
Less: Liquidity discount & Non-controlling stake discount (5%+5%=10%)		(393.82)
Enterprise value of K Ltd.		3,544.37

No. of shares	8,52,00,000
Fair value per share (₹ 3,544.37 crores / 8.52 crores shares)	₹ 416.01