PAPER – 1 : FINANCIAL REPORTING

PART – I: Multiple Choice Questions

Case Scenario - I

Aakash Ltd. is a manufacturing company and engaged in the manufacturing of home and industrial appliance products. The company has made considerable growth during last few years as demand of its products has increased substantially. Aakash Ltd. is a diversified group having manufacturing units in different cities of India and other countries.

Following information is available in respect of Aakash Ltd. for the year ended on 31st March, 2026:

(1) Aakash Ltd. has two Cash Generating Units viz., CGU '1' and CGU "2" with the carrying value of ₹ 80 lakhs and ₹ 120 lakhs respectively. It has a corporate office building having carrying value of ₹ 40 lakhs which is not included in the carrying value of CGU '1' and CGU '2'. The recoverable amount, based on Value in use is ₹ 72 lakhs for CGU '1' and ₹ 152 lakhs for CGU '2'.

(2) Aakash Ltd. is having a plot of land which is vacant and the use of this land is not yet determined. The land is situated in the prime area of the city where lot of commercial complexes are coming up without any legal restriction to convert the land into commercial land. Aakash Ltd. has not yet thought of constructing commercial complex on the land as it is not in its business objectives. Aakash Ltd. has let out this land for the purpose of parking lot for the commercial complexes around. The company has classified this property (land) as investment property.

(3) Aakash Ltd. acquired 90% stake in subsidiary Oil Ltd. a few years ago. Aakash Ltd. now sells its entire investment in Oil Ltd. for ₹ 2,000 lakhs. The net assets of Oil Ltd. are ₹ 1,500 lakhs and the NCI in Oil Ltd. is ₹ 200 lakhs. The cumulative exchange difference that has arisen during Aakash Ltd.'s ownership are gains of ₹ 300 lakhs, resulting in Aakash Ltd.'s foreign currency translation reserve in respect of Oil Ltd. having a credit balance of

₹ 270 lakhs, while the cumulative amount of exchange differences that have been attributable to NCI is ₹ 30 lakhs.

(4) In the financial year 2022-2023, Aakash Ltd. obtained a term loan of ₹ 25 Crores from DXE Bank. In May 2025, the company availed a fresh loan from BXE Bank to prepay the outstanding facility with DXE Bank. In this process, Aakash Ltd. paid ₹ 5,00,000 to DXE Bank to extinguish the old liability as prepayment charges. Additionally, it also paid 1% of the new loan amount to BXE Bank as origination/processing fees.

(5) On 1st October, 2025 Aakash Ltd. subscribes 1,000 convertible preference shares of Hawk Limited at ₹ 100 each.

- The preference shares are convertible in the ratio of 10: 1 i.e.10 equity shares for each convertible preference share held.
- On a fully diluted basis, Aakash Ltd. is entitled to 25% stake in Hawk Limited.
- The agreement stipulates that if Hawk Limited subsequently issues equity shares at a price lower than ₹ 10 per share, the conversion ratio will be adjusted to ensure Aakash Ltd. maintains a 25% stake in Hawk Limited on a fully diluted basis.

On the basis of information provided in the above case scenario, you are required to choose most appropriate answer to the below mentioned questions from 1 to 5.

1. *What is the correct treatment of impairment loss?*

   (A) ₹ 20 lakhs for CGU '1' and ₹ 40 lakhs for CGU '2'

   (B) ₹ 24 lakhs for CGU '2'

   (C) Assets in CGU '1'₹ 4 lakhs: Corporate Office Building ₹ 20 lakhs

   (D) Assets in CGU '1' ₹ 20 lakhs: Corporate Office Building ₹ 4 lakhs ***(2 Marks)***

2. *The CFO of Aakash Ltd. seeks your advice for the basis on which will the land be fair valued under Ind AS 113?*

   (A) Quoted Price

   (B) Cost Approach

   (C) Highest and Best use

   (D) Income Approach ***(2 Marks)***

3. *What is the amount of Aakash Ltd.'s gain on disposal of its investment in Oil Limited?*

   (A) ₹ 970 lakhs

   (B) ₹ 1,770 lakhs

   (C) ₹ 500 lakhs

   (D) ₹ 770 lakhs ***(2 Marks)***

4. *What will be the treatment of prepayment premium and processing fee of new loan in the financial statements of Aakash Ltd. as per Ind AS 109?*

   (A) Both Prepayment premium and processing fee of new loan would be considered as transaction cost in the nature of origination fees of the new loan and will be included while calculating effective interest rate as per Ind AS 109.

   (B) Prepayment premium shall be recognised as part of the gain or loss on extinguishment of the old loan and processing fee of new loan would be considered as transaction cost in the nature of origination fees of the new loan and will be included while calculating effective interest rate as per Ind AS 109.

   (C) Both Prepayment premium and processing fee of new loan would be recognised as part of the gain or loss on extinguishment of the old loan and required to be charged to the statement of profit and loss.

   (D) Prepayment premium would be considered as transaction cost in the nature of origination fees of the new loan and processing fees of new loan would be charged to profit and loss account. ***(2 Marks)***

5. *How will the convertible preference shares be classified in the financial statements of Hawk Limited?*

   (A) Financial Assets

   (B) Equity

   (C) Non-current Liability

   (D) Financial Liability ***(2 Marks)***

Case Scenario - II

Zest Ltd.is engaged in the manufacturing of Automobiles with its registered office in Pune and is listed on BSE Limited. It also owns a chain of retail stores across 20 different locations in the cities of Pune and Kolhapur. Following are the brief facts about the transactions entered into by Zest Ltd. for which accounting advice is sought by the CFO from you:

Zest Ltd. has recently made various acquisitions and details of each of them are as follows:

(1) Zest Ltd. acquired 45% stake in Sun Ltd. on 1st April, 2025 for ₹ 50,00,000. This leads to Zest Ltd. having significant influence on Sun Ltd. Since the date of acquisition till 31st March, 2026, Sun Ltd. has earned a profit of ₹ 16,00,000. Also, on 31st March, 2025, Sun Ltd. had revalued one of its property resulting in increase in the value of property by ₹ 8,00,000 and accounted for it in the revaluation reserve in the same financial year. Zest Ltd. has a policy to value its investment in joint ventures and associates based on equity method.

(2) Zest Ltd. acquired 40% shares in Large Ltd. on 1st April, 2025 for a consideration of ₹ 65,50,000 and balance of retained earnings on the same date was ₹ 52,40,000. It is the group's policy to re-measure its non-controlling interests at fair value and provide for impairment loss, if any, in the value of investment every year end. The retained earnings and issued share capital of Large Ltd. on 31st March, 2026 are ₹ 76,00,000 and ₹ 40,00,000 respectively.

Large Ltd. have not issued any share capital since the acquisition of shareholding by Zest Ltd. The fair value of the net assets of Large Ltd. was the same as their carrying amounts at the date of acquisition. The recoverable amount of net assets of Large Ltd. has been deemed to be ₹ 1,15,00,000 as on 31st March, 2026.

On 1st January, 2026, Zest Ltd. sold inventory costing ₹ 5,00,000 to Large Ltd. for ₹ 15,00,000. The inventory was still unsold by Large Ltd. at 31st March, 2026. This inventory was sold by Large Ltd. to third party on 8th April, 2026.

(3) On 1st April 2025, Zest Ltd. agreed with shareholder of Sour Ltd. to acquire 100% stake in Sour Ltd. for total consideration of ₹ 200 lakhs which includes the following:

(i) Zest Ltd. will reimburse shareholders of Sour Ltd. for the transaction cost of ₹ 4 lakhs.

(ii) Two of the shareholders of Sour Ltd. will work as the general managers, even after Sour Ltd. is acquired by Zest Ltd. This arrangement will work for a period of 2 years and for which quarterly salary of ₹ 40,000 is provided to each of these individuals.

(iii) Further Sour Ltd. had filed a legal case against Zest Ltd. in the past, which was not settled till the date of acquisition. Zest Ltd. agreed to settle the same for ₹ 2,00,000.

On the basis of information provided in the above case scenario, you are required to choose most appropriate answer to the below mentioned questions from 6 to 8.

6. What is the carrying value of Zest Ltd.'s investment in Sun Ltd. (associate) in its books of accounts as on 31st March, 2026?

(A) ₹ 10,80,000

(B) ₹ 23,75,000

(C) ₹ 57,20,000

(D) ₹ 60,80,000 ***(2 Marks)***

7. What will be the impairment loss from investment of Zest Ltd. in associate Large Ltd. for the year ending 31stMarch, 2026?

(A) ₹ 46,00,000

(B) ₹ 24,94,000

(C) ₹ 28,94,000

(D) ₹ 49,90,000 ***(2 Marks)***

8. Determine the amount of consideration for Business Combination for acquiring Sour Ltd.

(A) ₹ 192.40 lakhs

(B) ₹ 187.60 lakhs

(C) ₹ 200 lakhs

(D) ₹ 194 lakhs ***(2 Marks)***

Case Scenario - III

ABC Ltd. is a globally diversified business conglomerate with operations spanning across various business sectors worldwide. The company adheres to Indian Accounting Standards for maintaining its financial records and annually releases its financial statements. As the finance team progresses towards finalizing the financial statements for the fiscal year ending on 31st March, 2026, the team is stuck up in the accounting of the following transactions:

On 1st June, 2025, ABC Ltd. decided to dispose of the business including current and non-current assets of one of its divisions related to the Fertilizer business which it had acquired several years ago. This disposal does not involve ABC Ltd. withdrawing from a particular market sector. The carrying values on 1st June, 2025 of the assets to be disposed of were as follows:

Particulars	***₹ in Million***
Goodwill	*20.0*
Property, Plant and Equipment	*40.0*
Patents and trademarks	*16.0*
Inventories	*30.0*
Trade Receivables	*20.0*

None of the assets of the business had suffered impairment as at 1st June, 2025. At that date the inventories and trade receivables of the business were already stated at no more than their recoverable amounts.

ABC Ltd. offered the business for sale at a price of 93 million, which was considered to be reasonably achievable. ABC Ltd. estimated that the direct costs of selling the business would be ₹ 10,00,000. These estimates have not changed since 1st June, 2025 and ABC Ltd. estimates that the business will be sold by 31st March, 2026 at the latest.

On 30th April, 2026, the Company discovered that the closing inventory for 31st March, 2026 (the previous year) was overvalued by ₹ 10 Lakhs in its cement business due to a calculation error. The financials of the company was approved by competent authority on 15th April, 2026 for the financial year 2025-2026.

ABC Ltd. enters into an arrangement with a Customer during the year, for providing customized software. Based on its experience, ABC Ltd. determines that writing the software will take approximately 200 Hours in total and charges ₹ 300 per Man-hour. After incurring 100 hours of time, ABC Ltd. and the customer agreed to change in the specification of the Software and thereby increasing the estimated Man-hours by another 50 Hours to be charged at the rate of ₹ 200 per Man-hour by ABC Ltd.

On the basis of information provided in the above case scenario, you are required to choose most appropriate answer to the below mentioned questions from 9 to 12.

9. *Compute the value of Fertilizer division's Goodwill at the date of classification after re-measurement.*

   (A) ₹ 14.6 million

   (B) ₹ 20 million

   (C) ₹ Nil

   (D) ₹ 16 million **(2 Marks)**

10. *Calculate the closing balance of Fertilizer division's asset - Property, Plant and Equipment at the period end.*

    (A) ₹ 42 million

    (B) ₹ 34.72 million

    (C) ₹ 12 million

    (D) ₹ 30 million **(2 Marks)**

11. *How the Inventory valuation error discovered on 30th April, 2026 in respect of the cement unit should be corrected?*

    (A) Adjust the opening balance of retained earnings for the current year (April 1, 2026) and restate the comparative figures for the previous year.

    (B) Recognize the ₹ 10 Lakhs loss in the current year's Profit & Loss account as an "exceptional item."

    (C) Treat it as a change in accounting estimate and adjust the current year's profit.

    (D) No adjustment is needed since the amount is from a previous year and the books for that year are already closed. **(2 Marks)**

12. *What amount of Cumulative Catch Up Adjustment is required to be done in Revenue of ABC Ltd.?*

    (A) ₹ (2,000)

    (B) ₹ (28,000)

    (C) ₹ 30,000

    (D) ₹ 70,000 **(2 Marks)**

13. *Life line Limited has 10,00,000 Ordinary Shares of ₹ 1 each outstanding. The company has also issued 2,000, 10% Convertible Bonds of ₹ 100 each. Each bond is convertible into 20 Ordinary Shares on demand. For the current period, Life line Ltd. reported a Profit after Tax of ₹ 23,25,000. The applicable Income Tax rate is 25%. The average market price of the equity shares during the period was ₹ 5 per share.*

    Based on Ind AS 33 Earnings Per Share, calculate the Diluted Earnings Per Share for the period.

    (A) ₹ 2.325

    (B) ₹ 2.25

    (C) ₹ 2.50

    (D) ₹ 2.35 **(2 Marks)**

14. *XYZ Ltd. is a first-time adopter of Ind AS. The company prepares its opening Ind AS Balance Sheet as at 1st April, 2025. Under previous GAAP, the company had recognized a provision for a lawsuit of ₹ 10 Lakhs as at 31st March, 2025 based on the best estimate available at that time. On 15th April, 2026 (before the approval of financial statements), the lawsuit was settled for ₹ 15 Lakhs. This information was not available on the transition. date. How should this be reflected in the opening Ind AS Balance Sheet?*

    (A) Adjust the provision to ₹ 15 Lakhs in the opening Ind AS Balance Sheet.

    (B) Keep the provision at ₹ 10 Lakhs in the opening Ind AS Balance Sheet.

    (C) Adjust the difference of ₹ 5 Lakhs in Retained Earnings.

    (D) Reverse the provision and recognize the actual liability of ₹ 15 Lakhs.

    (2 Marks)

15. *Which of the following is not an example of circumstances that might make a self-interest threat when a chartered accountant -*

    (A) *Does not have a motive and opportunity to manipulate price-sensitive information in order to gain financially.*

    (B) *Holds a direct or indirect financial interest in the employing organization and the value of that financial interest might be directly affected by decisions made by the accountant.*

    (C) *Is eligible for a profit-related bonus and the value of that bonus might be directly affected by decisions made by the accountant.*

    (D) *Holds, directly or indirectly, deferred bonus shares rights or share options in the employing organization, the value of which might be affected by decisions made by the accountant.* ***(2 Marks)***

Answer Key

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

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

Panama Pharma Ltd. is a leading company engaged in the manufacturing of generic medicines. The company decided to acquire Bio Gen Research Ltd., a biotech firm specializing in viral vector technology to diversify its portfolio and enter the high-growth vaccine segment.

To achieve this, Panama Pharma Ltd. initially acquired a 30% stake in Bio Gen Research Ltd. for ₹ 15,00,000 on 1st July, 2025.

Subsequently, to gain control, Panama Pharma Ltd. acquired a further 40% stake on 1st January, 2026 for ₹ 24,00,000. On the date of acquiring control (1st January, 2026), the fair value of the previously held 30% equity interest was determined to be ₹ 17,50,000.

The summarized Balance Sheets of both the companies as at 1st January, 2026 were as follows:

	Note No.	**Bio Gen Research Ltd. ₹**	**Panama Pharma Ltd. ₹**
ASSETS:			
Non-current Assets			
Property, Plant and Equipment (Labs)		*18,00,000*	*60,00,000*
Financial Assets			
Investments in Bio Gen Research Limited		*-*	*39,00,000*
Investments in bonds		*10,00,000*	*-*
Current Assets			
Inventories		*5,00,000*	*15,00,000*
Financial Assets			
Trade Receivables		*4,00,000*	*8,50,000*

Cash and cash equivalent		2,00,000	12,50,000
Total		39,00,000	1,35,00,000
EQUITY AND LIABILITIES:			
Equity			
5,000 Equity share capital (of face value of ₹ 100 each)		5,00,000	50,00,000
Other Equity			
Other reserves		24,00,000	60,00,000
Non-current Liabilities			
Financial Liabilities			
Long term Borrowings		-	15,00,000
Current Liabilities			
Financial Liabilities			
Trade payables		10,00,000	10,00,000
Total		39,00,000	1,35,00,000

Additional Information:

(i) Bio Gen Research Ltd. has developed a proprietary vaccine formula known as 'Vax-Shield'. This is a self-generated intangible asset and has not been recognized in the books of Bio Gen Research Ltd. The fair value of 'Vax-Shield' as at 1st January, 2026, is assessed at ₹ 8,50,000,

(ii) The Trade Receivables of Panama Pharma Ltd. include ₹ 1,00,000 due from Bio Gen Research Ltd. for consultancy services provided in December 2025. Bio Gen Research Ltd. has recorded this amount in its Trade Payables.

(iii) During the year, Panama Pharma Ltd. sold goods to Bio Gen Research Ltd. for ₹ 2,00,000. The cost of these goods to Panama Pharma Ltd. was ₹ 1,50,000. As on 1st January, 2026, 40% of these goods remain in the Inventory of Bio Gen Research Ltd.

(iv) The fair value of the assets of Bio Gen Research Ltd. as on 1st January, 2026 was as follows:

Assets	**Fair Value (₹)**
Property, Plant and Equipment (Labs)	26,00,000
Investment in Bonds	11,50,000

(v) The NCI is to be measured at Fair Value. The Fair Value of NCI on the acquisition date - 1st January, 2026 is ₹ 16,00,000.

You are required to:

(i) Pass necessary journal entries in the books of Panama Pharma Ltd. to account for the business combination in accordance with Ind AS 103 as at 1st January, 2026,

(ii) Prepare the Consolidated Balance Sheet of Panama Pharma Ltd. and its subsidiary as at 1st January, 2026, incorporating all necessary adjustments for inter-company balances and unrealized profits. Also provide necessary working notes. Ignore tax implications. ***(14 Marks)***

Answer

(i) Journal entry as on 1st January 2026

Particulars		Dr. (₹)	Cr. (₹)
Property, Plant and Equipment	Dr.	26,00,000	
Intangible Assets	Dr.	8,50,000	
Investments in bonds	Dr.	11,50,000	
Inventories	Dr.	5,00,000	
Trade Receivables	Dr.	4,00,000	
Cash and Cash Equivalents	Dr.	2,00,000	
Goodwill (Balancing Figure)	Dr.	10,50,000	
To Trade Payables			10,00,000
To Purchase consideration			41,50,000
To Non-controlling Interest			16,00,000
(Being assets and liabilities acquired at fair value and goodwill computed on acquisition of assets and liabilities)			
Trade Payables A/c	Dr.	1,00,000	
To Trade Receivables			1,00,000
(Being mutual transaction adjusted)			

Investment in subsidiary Bio Gen Research Ltd	Dr.	2,50,000	
To Retained Earnings (Fair value gain on 30% stake of Bio Gen Research Ltd.)			2,50,000
(Being gain on fair value adjustment recognised)			
Other Equity (Retained Earnings)	Dr.	20,000	
To Inventories			20,000
(Being elimination of unrealised profit on inventories acquired)			

(ii) Consolidated Balance Sheet of Panama Pharma Ltd. and its subsidiary, Bio Gen Research Ltd. as at 1st January 2026

Particulars	Note No.	₹
I. Assets		
(1) Non-Current Assets		
(i) Property Plant & Equipment	1	86,00,000
(ii) Goodwill (W.N.3)		10,50,000
(iii) Intangible Asset (Vax-Shield)	1	8,50,000
(iv) Financial Asset		
(a) Investment in Bonds	1	11,50,000
(2) Current Assets		
(i) Inventories	1	19,80,000
(ii) Financial Assets		
(a) Trade Receivables	1	11,50,000
(b) Cash & Cash Equivalents	1	14,50,000
Total Assets		**1,62,30,000**

II. Equity and Liabilities		
(1) Equity		
(i) Equity Share Capital		50,00,000
(ii) Other Equity (W.N.4)		62,30,000
(2) Non-Controlling Interest		16,00,000
(3) Non-Current Liabilities		
(i) Financial Liabilities		
(a) Borrowings	1	15,00,000
(4) Current Liabilities		
(i) Financial Liabilities		
(a) Trade Payables	1	19,00,000
Total Equity & Liabilities		**1,62,30,000**

Notes to Accounts

1. Assets and Liabilities ₹

Particulars	Panama Pharma Ltd.	Bio Gen Research Ltd.	Adjustment	Total
Property, Plant and Equipment	60,00,000	18,00,000	8,00,000	86,00,000
Intangible Assets (Vax-Shield)	-	-	8,50,000	8,50,000
Investments in Bonds	-	10,00,000	1,50,000	11,50,000
Inventories	15,00,000	5,00,000	(20,000)	19,80,000
Trade Receivables	8,50,000	4,00,000	(1,00,000)	11,50,000
Cash and Cash Equivalents	12,50,000	2,00,000	-	14,50,000
Borrowings	15,00,000	-	-	15,00,000
Trade Payables	10,00,000	10,00,000	(1,00,000)	19,00,000

Working Notes:

1. Calculation of purchase consideration at the acquisition date i.e. 1st January 2026

	₹
Fair value of 40% stake acquired in Bio Gen Research Ltd.	24,00,000
Fair value of 30% stake acquired in Bio Gen Research Ltd.	17,50,000
	41,50,000

2. Calculation of fair value of net identifiable assets at the acquisition date i.e. 1st January 2026

	₹
Property, Plant and Equipment	26,00,000
Intangible Assets	8,50,000
Investments in Bonds	11,50,000
Inventories	5,00,000
Trade Receivables	4,00,000
Cash and Cash Equivalents	2,00,000
Fair value of Total Assets	57,00,000
Less: Trade Payables	(10,00,000)
Fair value of Net Identifiable Assets	**47,00,000**

3. Calculation of Goodwill at the acquisition date - 1st January, 2026

	₹
Purchase consideration (W.N.1)	41,50,000
Non-controlling Interest at fair value	16,00,000
	57,50,000
Less: Fair value of Net Identifiable Assets (W.N.2)	(47,00,000)
Goodwill	**10,50,000**

4. **Consolidated Retained Earnings as on 1st January 2026**

	₹
Panama Pharma Ltd.	60,00,000
Add: Gain on fair valuation of previously held 30% stake (17,50,000 – 15,00,000)	2,50,000
Less: Unrealised gain on sale of inventory [(1,50,000-1,00,000) x 40%]	(20,000)
Retained Earnings as on 1st January, 2026	**62,30,000**

Question 2

(a) *Power-tech Limited issued 50,000, 5-year, 6% convertible debentures on 1st April, 2023. The debentures have a face value of ₹ 100 each.*

The terms of the debentures are as follows:

(i) *Total Face Value: ₹ 50,00,000*

(ii) *Coupon Rate is 6% per annum which is payable annually on 31st March.*

(iii) *Conversion Option: At the maturity date (31st March, 2028), the debenture holder has the option to convert the debentures into 10 equity shares of Power-tech Limited per debenture.*

(iv) *Prepayment Option (Put Option): The debenture holder has the right to demand early repayment of the debentures at the end of the third year (i.e., on 31st March, 2026). The prepayment amount will be at a premium of 5% on the face value.*

(v) *Market Interest Rate: The effective market interest rate for a similar non-convertible debenture is 10% per annum.*

Required:

(i) *Analyse the nature of instrument and determine whether it contains a liability and an equity component as per Ind AS 32.*

(ii) *Compute the value of the liability component and the equity component on the date of issue (1st April, 2023) and pass necessary journal entry to record the issue of the debentures.*

(iii) Assume the debenture holders exercise the prepayment option on 31st March, 2026. Pass the necessary journal entry to record the de-recognition of the financial liability and the treatment of the equity component. Show your workings for any gain or loss.

(Present value of an annuity of ₹ 1 for three years @ 10% is 2.4869 and present value of ₹ 1 for 3 years @ 10% is 0.7513) ***(10 Marks)***

(b) Chill-Zone Ltd. is a listed entity manufacturing Air conditioners. The company prepares its financial statements on a quarterly basis. Mr. Das, the new Accounts Manager, is finalizing the quarterly Interim Financial Reports for the year 2025-2026.

During the year, the following three independent issues have arisen:

(i) Due to the summer season, the company earned ₹ 800 Lakhs in revenue in Quarter 1 (Apr-June), which constitutes 80% of its total expected annual revenue. The remaining ₹ 200 Lakhs turnover is expected evenly over the next three quarters. To show a consistent performance trend to investors, the CFO of the company wants to recognize revenue of only ₹ 250 Lakhs in Q1 and defer the balance to Q2, Q3, and Q4.

(ii) The company expects a total pre-tax profit of ₹ 1 Crore for the full year.

- *Quarter 1 Actual Profit: ₹ 40 Lakhs.*
- *Tax Slab: The tax rate is 25% on the first ₹ 50 Lakhs of annual profit and 40% on profit exceeding ₹ 50 Lakhs.*
- *Mr. Das has calculated the Quarter 1 tax expense as ₹ 10 Lakhs, treating Quarter 1 as a standalone period.*

(iii) Change in Estimate (The "Restatement" Error): In Quarter 1, the company estimated a warranty provision at 2% of sales. However, in Quarter 3, due to a defect in a batch of compressors, the warranty estimate was revised to 5% for the entire year's sales. Mr. Das intends to restate the financial statements of Quarter 1 and Quarter 2 to reflect this higher 5% rate, believing that the earlier reports are now "incorrect."

Required: As the Statutory Auditor, evaluate each of the proposals made by Mr. Das. Advise the correct accounting treatment for each issue in the Interim Financial Reports as per Ind AS 34. ***(4 Marks)***

Answer

(a) (i) Nature of instrument

As per Ind AS 32, a financial instrument is classified as a compound financial instrument when it contains both a financial liability component and an equity component.

In the given case, the convertible debentures contain:

(a) Liability component: The company has a contractual obligation to pay annual coupon interest @ 6% and repay debenture amount (with 5% premium if put option is exercised). Hence, it contains a financial liability.

(b) Equity component: The debenture holder has an option to convert each debenture into 10 equity shares. Since this is a fixed number of shares for a fixed amount, it satisfies the fixed-for-fixed criterion. Hence, it contains an equity component.

Thus, the instrument is a compound financial instrument.

(ii) Value of liability and equity component on initial recognition: Since debenture holders can exercise put option after 3 years, liability and equity component should be measured considering cash flows up to 31st March, 2026 ₹

Present value of interest payments (50,000 debentures x ₹ 100 x 6% x 2.4869)	7,46,070
Present value of redemption amount including 5% premium (₹ 50,00,000 x 105% x 0.7513)	39,44,325
Present value of liability component	46,90,395
Equity component (balancing figure)	3,09,605
Total proceeds	50,00,000

Journal Entry on 1st April, 2023

Particulars	Dr. (₹)	Cr. (₹)
Bank A/c Dr.	50,00,000	
To Debentures A/c (financial liability component)		46,90,395
To Debentures A/c (equity component)		3,09,605
(Being issue of 50,000 convertible debentures recorded)		

(iii) Derecognition on exercise of Put Option (31st March, 2026)

Year ended on 31st March	Opening balance	Finance cost @ 10%	Interest @ 6%	Closing balance
	a	b = a x 10%	c = 50,00,000 x 6%	d = a+b-c
2024	46,90,395	4,69,040	3,00,000	48,59,435
2025	48,59,435	4,85,944	3,00,000	50,45,379
2026	50,45,379	5,04,621*	3,00,000	52,50,000

The difference of ₹ 83 (5,04,621-5,04,538) is due to rounding off.

Treatment of Equity Component

As per Ind AS 32, equity component is not reclassified to profit or loss. It is transferred within equity (generally to retained earnings).

Journal Entry on 31st March, 2026

Particulars	Dr. (₹)	Cr. (₹)
Debentures A/c (financial liability component) Dr.	52,50,000	
Debentures A/c (equity component) Dr.	3,09,605	
To Bank A/c		52,50,000
To Retained Earnings (General Reserve) A/c		3,09,605
(Being debentures redeemed on exercise of put option and equity component transferred within equity)		

(b) (i) Recognition of Seasonal Revenue

As per Ind AS 34, revenues in interim periods should be recognized when they are earned. The standard does not permit anticipation or deferral of revenues unless such treatment is appropriate at the year-end under applicable Ind AS. Further, seasonal revenues should not be smoothed over interim periods. Hence, the proposal of CFO to recognize only ₹ 250 lakhs in Quarter 1 and defer the balance revenue to subsequent quarters to show a consistent performance trend to investors is not in accordance with Ind AS 34.

The company should recognize the entire revenue of ₹ 800 lakhs in Quarter 1.

(ii) Computation of Income Tax Expense

Mr. Das has computed tax expense for Quarter 1 as ₹ 10 lakhs by applying 25% on Quarter 1 profit, treating it as a standalone period.

As per Ind AS 34, income tax expense for an interim period should be calculated using the estimated average annual effective tax rate applied to the year-to-date profit.

Computation of AETR:

Estimated annual profit = ₹ 100 lakhs

Tax on first ₹ 50 lakhs @ 25%	₹ 12.5 lakhs
Tax on next ₹ 50 lakhs @ 40%	₹ 20 lakhs
Total tax =	₹ 32.5 lakhs

Average tax rate = [(₹ 32.5 lakhs / ₹ 100 lakhs) x 100] = 32.5%

Tax Expense for Quarter 1:

Profit of Quarter 1 = ₹ 40 lakhs

Tax = ₹ 40 lakhs × 32.5% = ₹ 13 lakhs

Based on the above computation, it is concluded that calculation of tax expense, by the Accounts Manager, Mr. Das, of ₹ 10 lakhs for Quarter 1 is incorrect. The company should recognize ₹ 13 lakhs as tax expense in Quarter 1.

(iii) Change in Estimate (The "Restatement" Error)

As per Ind AS 34 read with Ind AS 8, a change in estimate is not an error and should be accounted for prospectively. Interim financial reports are based on estimates available at the reporting date and revision of estimates does not render earlier reports to be incorrect. Hence, restatement of financial statements of Quarter 1 and Quarter 2 is not permitted.

Accordingly, the revised estimate of 5% should be applied prospectively from Quarter 3 onwards and recognise the catch-up (difference between 5% and 2% already booked) as an expense in

Quarter 3 itself. The impact of the change should be recognized in Quarter 3 and future periods, along with appropriate disclosure if material.

Question 3

(a) Electro Drive Ltd. is a manufacturer of specialized electric buses. The company sells these buses to transport agencies and also offers them on lease. On 1st April, 2022, Electro Drive Ltd. entered into a finance lease agreement with City Transport Corp. for a new model of electric bus.

The details of the arrangement are as follows:

(i) Lease Term is 4 years commencing on 1st April, 2022.

(ii) Annual Lease Rental is ₹ 18,06,560 payable annually in arrears on 31st March each year.

(iii) The bus cost Electro Drive Ltd. ₹ 45,00,000 to manufacture.

(iv) The fair value of the bus at the commencement of the lease is ₹ 60,00,000.

(v) Residual Value: The bus is expected to have a residual value of ₹ 4,00,000 at the end of the lease term. This residual value is unguaranteed by the lessee.

(vi) Electro Drive Ltd. incurred legal and documentation charges of ₹ 25,000 to negotiate and arrange the lease.

(vii) The interest rate implicit in the lease is 10%.

(viii) Present value factors at 10% for:

Year 1	*0.909*
Year 2	*0.826*
Year 3	*0.751*
Year 4	*0.683*

(ix) The present value of annuity of ₹ 1 for 4 years @ 10% is 3.170

You are required to account for this transaction in the books of Electro Drive Ltd. (Lessor) by calculating the Revenue, Cost of Sales and Selling Profit. Also, *provide the Lease Amortization Schedule for the entire lease period assuming that the lessor classifies the lease as a finance lease.* ***(10 Marks)***

(b) PQR Ltd. has identified 4 Operating Segments for which revenue data is given below:

	External Sales (₹)	***Internal Sales (₹)***	***Total (₹)***
Segment L	*52,00,000*	*3,00,000*	*55,00,000*
Segment M	*4,00,000*	*9,00,000*	*13,00,000*
Segment N	*17,00,000*	*2,00,000*	*19,00,000*
Segment O	*9,00,000*	*96,00,000*	*1,05,00,000*
Total Sales	*82,00,000*	*1,10,00,000*	*1,92,00,000*

Additional Information:

Segment N is a new business unit and Management expects this segment to make a significant contribution to External Revenue in coming years.

You are required to identify reportable segments under Ind AS 108.

(4 Marks)

Answer

(a) (i) Cost of sales = Cost to the lessor + Initial direct costs - Present value of the unguaranteed residual value

= ₹ 45,00,000 + ₹ 25,000 - ₹ 2,73,200 (i.e. ₹ 4,00,000 x 0.683)

= ₹ 42,51,800.

(ii) Revenue = Lower of

(a) Fair Value of assets i.e. ₹ 60,00,000; and

(b) Present value of the lease payments receivable

= 18,06,560 x 3.170 = ₹ 57,26,795 say ₹ 57,26,800

Revenue = ₹ 57,26,800

(iii) Selling Profit = Revenue - Cost of sale = ₹ 57,26,800 – ₹ 42,51,800

= ₹ 14,75,000

(iv) Net Investment in lease = Present value of the lease payments receivable + Present value of the unguaranteed residual value ₹ 57,26,800 + ₹ 2,73,200 = 60,00,000

(v) Amortisation Schedule

Year	Lease receivable at the beginning of year (₹) (a)	Lease payments (₹) (b)	Interest Income (10% per annum) (₹) (c)	Decrease In lease receivable (₹) (d)=(b)-(c)	Lease receivable at the end of year (₹) (e)=(a)-(d)
1	60,00,000	18,06,560	6,00,000	12,06,560	47,93,440
2	47,93,440	18,06,560	4,79,344	13,27,216	34,66,224
3	34,66,224	18,06,560	3,46,622	14,59,938	20,06,286
4	20,06,286	18,06,560	2,00,274*	16,06,286	4,00,000

*Difference of ₹ 355 (₹ 2,00,629- ₹ 2,00,274) is due to approximation.

(v) Accounting of lease transactions in the books of Electro Drive Ltd. (lessor)

Year		₹	₹
1.4.2022	Lease receivable A/c Dr.	60,00,000	
	Cost of sales A/c Dr.	42,51,800	
	To Inventory A/c		45,00,000
	To Revenue A/c		57,26,800
	To Creditors/Cash A/c		25,000
	(Recording of lease transaction at the inception)		
31.3.2023	Cash/Bank Dr.	18,06,560	
	To Lease receivable		12,06,560
	To Interest income		6,00,000
	(Being interest income accrued at the end of the year)		

31.3.2024	Cash/Bank Dr.	18,06,560	
	To Lease receivable		13,27,216
	To Interest income		4,79,344
	(Being interest income accrued at the end of the year)		
31.3.2025	Cash/Bank Dr.	18,06,560	
	To Lease receivable		14,59,938
	To Interest income		3,46,622
	(Being interest income accrued at the end of the year)		
31.3.2026	Cash/Bank Dr.	18,06,560	
	To Lease receivable		16,06,286
	To Interest income		2,00,274
	(Being interest income accrued at the end of the year)		
31.3.2026	Inventory Dr.	4,00,000	
	To Lease receivable		4,00,000
	(On return of leased electric bus by the lessee)		

(b) Threshold amount is ₹ 19,20,000 (₹ 1,92,00,000 × 10%).

Segment L exceeds the quantitative threshold (₹ 55,00,000 > ₹ 19,20,000) and hence reportable segment.

Segment O exceeds the quantitative threshold (₹ 1,05,00,000 > ₹ 19,20,000) and hence reportable segment.

Segment M & N do not meet the quantitative threshold amount and may not be classified as reportable segment.

However, the total external revenue generated by these two segments L & O represent only 74.39% [(₹ 61,00,000 / ₹ 82,00,000) x 100] of the entity's total external revenue. If the total external revenue reported by operating segments constitutes less than 75% of the entity total revenue, additional operating segments should be identified as reportable segments until at least 75% of the revenue is included in reportable segments.

In case of PQR Ltd., it is given that Segment N is a new business unit and management expect this segment to make a significant contribution to external revenue in coming years. In accordance with the requirement of Ind AS 108, PQR Ltd. designates this start-up segment N as a reportable segment, making the total external revenue attributable to reportable segments 95.12% [(₹ 78,00,000/ 82,00,000) x 100] of total entity revenues.

In this situation, Segments L, N and O will be reportable segments and Segment M will be shown as other segment.

Alternatively, Segment M can be considered as a reportable segment as well as it meets the definition of operating segment. If Segment M is considered as reportable segment:

External revenue reported = ₹ 52,00,000 + ₹ 4,00,000 + ₹ 9,00,000

= ₹ 65,00,000

% of Total External Revenue = ₹ 65,00,000 / ₹ 82,00,000 = 79.27%

Accordingly, Segments L, M and O will be reportable segments and Segment N will be shown as other segment.

Question 4

(a) *Saurabh Engineering Ltd. provides the retirement benefit facility to its employees and prepares its financial statements every year on 31st March based on Ind AS. Following information is available in respect of its employees benefit facility:* ***(₹ in lakhs)***

	31.3.2024	***31.3.2025***	***31.3.2026***
Current service cost	*250*	*280*	*310*
Benefits paid	*260*	*300*	*340*
Contributions paid	*160*	*180*	*200*
Present value of the obligation at 31st March	*2,430*	*2,826*	*3,200*
Fair value of plan assets at 31st March	*2,294*	*2,274*	*2,400*

Discount rate at the start of the year	*11%*	*10%*	*9%*
Expected return on plan assets	*13%*	*12%*	*11%*

The present value of the obligation and the fair value of the plan assets were both ₹ 2,000 lakhs at 1st April, 2023 and there were no actuarial gains or losses at this date. The average remaining lives of the employees was estimated to be 15 years.

In respect of each of the three years, you are required to:

(i) Calculate the actuarial gain/loss arising in each of the period.

(ii) Calculate how the gain or loss should be recognised and in which period.

(iii) Calculate the liability to be included in Balance Sheet at each year end.

(iv) Explain the composition of amount recognised in profit and loss.

(6 Marks)

(b) How will you recognize and present the grants received from the Government in the following cases as per Ind AS 20?

(i) A Ltd. received an amount of ₹ 40 lakh for immediate start-up of a business without any condition.

(ii) Government gives a grant of ₹ 30 lakh to B Limited for research and development of medicine for lung cancer, even though similar medicines are available in the market but are expensive. The company is to ensure by developing a manufacturing process over a period of two years so that the cost comes down at least to 50%.

(iii) C Ltd. received one acre of land free of cost to set-up a plant in backward area (fair value of land is ₹ 15 lakh and acquired value by Government is ₹ 5 Lakhs).

(iv) D Ltd. received an amount of loan for setting up a plant at concessional rate of interest from the Government.

(v) E Ltd. received ₹ 20 lakh of grant for purchase of machinery costing ₹ 90 lakh. Useful life of machinery is 10 years. Depreciation on this machinery is to be charged on straight line basis. ***(8 Marks)***

Answer

(a) (i) Calculation of Actuarial Gain / (Loss)

A. Actuarial Gain / (Loss) on Defined Benefit Obligation (₹ in lakhs)

Particulars	2023-2024	2024-2025	2025-2026
Opening obligation	2,000	2,430	2,826
Add: Interest cost	220	243	254.34
Add: Current service cost	250	280	310
Less: Benefits paid	(260)	(300)	(340)
Expected closing obligation	2,210	2,653	3,050.34
Actual closing obligation	(2,430)	(2,826)	(3,200)
Actuarial (loss)	**(220)**	**(173)**	**(149.66)**

B. Actuarial Gain / (Loss) on Plan Assets (₹ in lakhs)

Particulars	2023-2024	2024-2025	2025-2026
Opening plan assets	2,000.00	2,294.00	2,274.00
Add: Expected return	260.00	275.28	250.14
Add: Contributions	160.00	180.00	200.00
Less: Benefits paid	(260.00)	(300.00)	(340.00)
Expected closing assets	2,160.00	2,449.28	2,384.14
Actual closing assets	2,294.00	(2,274.00)	2,400.00
Actuarial gain/(loss)	**134.00**	**(175.28)**	**15.86**

C. Net Actuarial Gain / (Loss)

Year	Actuarial Gain / (Loss) on Defined Benefit Obligation	Actuarial Gain / (Loss) on Plan Assets	Amount (₹ in lakhs)
2023-2024	(220)	134.00	(86) Loss
2024-2025	(173)	(175.28)	(348.28) Loss
2025-2026	(149.66)	15.86	(133.80) Loss

(ii) Treatment of Actuarial Gain / Loss

As per Ind AS 19 'Employee Benefits', actuarial gain/loss (remeasurements) shall be recognised immediately in Other Comprehensive Income (OCI).

(iii) Amount of Liability to be recognised in Balance Sheet (₹ in lakhs)

Particulars	31.3.2024	31.3.2025	31.3.2026
Present value of obligation	2,430	2,826	3,200
Less: Fair value of plan assets	(2,294)	(2,274)	(2,400)
Net defined benefit liability	136	552	800

(iv) Amount recognised in Statement of Profit and Loss

1. **Current Service Cost** represents the increase in present value of the defined benefit obligation resulting from employee service in the current period. It is charged to Profit and Loss in the year in which the service is rendered.

2. **Net Interest Cost on Net Defined Benefit Liability / Asset-** This is the net financing cost which is calculated as difference of interest cost on defined benefit obligation and interest income on plan assets, computed using the discount rate at the beginning of the period.

Extract of Statement of Profit and loss and OCI (₹ in lakhs)

Particulars	2023-2024	2024-2025	2025-2026
Current service cost	250	280	310
Interest cost on obligation	220	243	254.34
Less: Interest income on plan assets	(260)	(275.28)	(250.14)
Net amount recognised in P&L	**210**	**247.72**	**314.20**
Other Comprehensive Income			
Net Actuarial Gain / (Loss)	**(86)**	**(348.28)**	**(133.80)**

(b) Entities should recognise the grants in the following manner:

- ₹ 40 lakhs have been received for immediate start-up of business. This should be recognised in Statement of Profit and Loss immediately as there are no further conditions attached to the grant.
- ₹ 30 lakhs should be recognised in profit or loss on a systematic basis over the two-year period, in which the entity recognises as expense the related costs for which the grants are intended to compensate, provided that there is reasonable assurance that B Ltd. will comply with the conditions attached to the grant.
- Land should be recognised at fair value of ₹ 15 lakhs and government grant should be presented in the balance sheet by setting up the grant as deferred income.

  Alternatively, deduct the amount of grant from the cost of the asset. In the given case, since the land is granted at no cost, it will be presented in the books at nominal value.
- The benefits of a government loan at a below market rate of interest is treated as a government grant. The loan shall be recognized and measured in accordance with Ind AS 109 "Financial Instruments". The benefit of the below market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with Ind AS 109 and the proceeds received. The benefit is accounted for in accordance with Ind AS 20. As per Ind AS 109, the loan should be initially measured at its fair value. The entity should recognise in profit or loss on a systematic basis over the periods in which the entity recognise as expense the related costs for which the grant is intended to compensate.
- ₹ 20 lakhs should be recognised as deferred income and will be transferred to profit and loss over the useful life of the asset. In this case, ₹ 2 lakhs [₹ 20 lakhs / 10 years] should be credited to profit and loss each year over a period of 10 years.

  Alternatively, ₹ 20 lakhs will be deducted from the cost of the asset and depreciation will be charged at reduced amount of ₹ 7 lakhs [(₹ 90 lakhs – ₹ 20 lakhs)/10 every year].

Question 5

(a) *PQR Ltd. enters into a contract with a customer on 1st April, 2023 for the sale of a machine and spare parts. The manufacturing lead time for the machine and spare parts is 3 years.*

On completion of manufacturing, PQR Ltd. demonstrates that the machine and spare parts meet the specifications agreed in the contract. The promises to transfer the machine and spare parts to the buyer are distinct and result in two performance obligations each of which will be satisfied at a point in time.

On 31st March 2026, the customer pays for the machine and spare parts, but only takes the physical possession of the machine. Although the customer inspects and accepts the spare parts, the customer requests that the spare parts be stored at PQR Ltd.'s warehouse because of its close proximity to the customer's factory.

The customer has legal title to the spare parts and the parts can be identified as belonging to the customer. PQR Ltd. stores the spare parts in a separate section of its warehouse and the parts are ready for immediate shipment at the customer's request. PQR Ltd. expects to hold the spare parts for one to three years and does not have the authority to use the spare parts or direct them to another customer.

Determine how the revenue will be recognized by PQR Ltd. for the different performance obligations as per Ind AS 115? ***(5 Marks)***

(b) *On 1st April, 2022, Gama Ltd. issued 1,00,000, 8% convertible, debentures of face value of ₹ 100 per debenture at par. The debentures are redeemable at a premium of 10% on 31st March, 2026 or these may be converted into ordinary shares at the option of the holder. The interest rate for equivalent debentures without conversion rights would have been 14%. The date of transition to Ind AS is 1st April, 2024.*

You are required to suggest how Gama Ltd. should account for this compound financial instrument on the date of transition?

The present value of ₹ 1 receivable at the end of each year based on discount rates of 8% and 14% can be taken as

End of Year	*8%*	*14%*
1	*0.9259*	*0.8772*
2	*0.8573*	*0.7695*
3	*0.7938*	*0.6750*
4	*0.7350*	*0.5921*

(5 Marks)

(c) List and explain the enhancing qualitative characteristics of financial information according to the Ind AS. ***(4 Marks)***

OR

(c) As a general principle, the entities should use the same measurement basis for initial recognition and subsequent measurement of an asset or a liability which creates two possible scenarios of 'at-market' transaction and 'off-market' transactions. Explain both scenarios of initial measurement of an asset or a liability. ***(4 Marks)***

Answer

(a) PQR Ltd. has made sale of two goods – machine and spare parts, whose control is transferred at a point in time. Additionally, company agrees to hold the spare parts for the customer for a period of one to three years, which is a separate performance obligation. Therefore, total transaction price shall be divided amongst three performance obligations –

(i) Sale of machinery

(ii) Sale of spare parts

(iii) Custodial services for storing spare parts.

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

(i) Sale of machinery: Machine has been sold to the customer and physical possession as well as legal title passed to the customer on 31st March 2026. Accordingly, revenue for sale of machinery shall be recognized on 31st March 2026.

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

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

Therefore, all conditions of bill-and-hold are met and hence, company can recognize revenue for sale of spare parts on 31st March 2026.

(iii) Custodial services: Such services shall be given for a period of one to three years from 31st March 2026. Where services are given uniformly and customer receives & consumes benefits simultaneously, revenue for such service shall be recognized on a straight-line basis over a period of time.

(b) The carrying amount of the debenture on the date of transition under previous GAAP, assuming that all interest accrued other than premium on redemption have been paid, will be ₹ 1,05,00,000 [(1,00,000 x 100) + (1,00,000 x 100 x 10/100 x 2/4)]. The premium payable on redemption is being recognised as borrowing costs as per para 4(b) of AS 16 i.e. under previous GAAP on straight-line basis.

As per para D18 of Ind AS 101, Ind AS 32, Financial Instruments: Presentation, requires an entity to split a compound financial instrument at inception into separate liability and equity components. However, in accordance with Ind AS 101, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to Ind AS.

In the present case, since the liability is outstanding on the date of transition, Sigma Ltd. will need to split the convertible debentures into debt and equity portion on the date of transition.

	(₹)
Interest payments p.a. on each debenture	8
Present Value (PV) of interest payment for years 1 to 4 (8 x 2.9138)	23.3104
PV of principal repayment (including premium) (110 x 0.5921)	65.1310
Total liability component per debenture	88.4414
Equity component per debenture (Balancing figure)	11.5586
Face value of debentures	100.0000
Total equity component for 1,00,000 debentures (1,00,000 x 11.5586)	11,55,860
Total debt amount (1,00,000 x 88.4414)	88,44,140

However, on the date of transition, unwinding of ₹ 88,44,140 will be done for two years as follows:

Year	Opening balance	Finance cost @ 14%	Interest paid	Closing balance
	₹	₹	₹	₹
1	88,44,140	12,38,180	8,00,000	92,82,320
2	92,82,320	12,99,525	8,00,000	97,81,845

Therefore, on transition date, Gama Ltd. shall –

a. Recognise the carrying amount of convertible debentures at ₹ 97,81,845;

b. Recognise equity component of compound financial instrument of ₹ 11,55,860;

c. Debit ₹ 4,37,705 to retained earnings being the difference between the previous GAAP amount of ₹ 1,05,00,000 and ₹ 97,81,845 and the equity component of compound financial instrument of ₹ 11,55,860; and

d. Derecognise the debenture liability in previous GAAP of ₹ 1,05,00,000.

(c) **Either**

List of Enhancing Qualitative Characteristics of Financial Information

The usefulness of financial information is enhanced if it carries following four characteristics:

- ***Comparability:*** Users' decisions involve choosing between alternatives. Consequently, information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date.

  For information to be comparable, like things must look alike and different things must look different.

- ***Verifiability:*** Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

  Verification can be direct or indirect. Direct verification means verifying an amount or other representation through direct observation. Indirect verification means checking the inputs to a model, formula or other technique and recalculating the outputs using the same methodology.

- ***Timeliness:*** Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is, the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.

- ***Understandability:*** Classifying, characterising and presenting information clearly and concisely makes it understandable. Some phenomena are inherently complex and cannot be made easy to understand. Excluding information about those phenomena from financial reports might make the information in those financial reports easier to understand. However, those reports would be incomplete and therefore possibly misleading. Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

(c) **Or**

As a general principle, the entities should use the same measurement basis for initial recognition and subsequent measurement of an asset or a liability which creates two possible scenarios of "at-market" transactions and "off-market" transactions.

Transactions on market terms (i.e. 'at-market' transactions')

Transactions using currency (i.e. cash):

At initial recognition, the cost of an asset acquired, or of a liability incurred is normally similar to its fair value at that date, unless transaction costs are significant. Therefore, whether historical cost or current value is used as a measurement basis subsequently, the same basis is also normally appropriate at initial recognition.

Exchange of asset or liability

When an entity acquires an asset, or incurs a liability, in exchange for transferring another asset or liability, the initial measure of the asset acquired, or the liability incurred, determines whether any income or expenses arise from the transaction which is recognised in statement of profit and loss as an income. The reverse will apply for a liability.

If the asset acquired is subsequently measured at cost, no income or expenses arise at initial recognition since the asset acquired is initially measured at cost which is the fair value of the asset transferred i.e. given up, unless income or expenses arise from the derecognition of the transferred asset or liability, or unless the asset is impaired or the liability is onerous.

Transactions not on market terms (i.e. 'off-market' transactions)

Assets may be acquired, or liabilities may be incurred, as a result of an event that is not a transaction on market terms. For example:

(a) the transaction price may be affected by relationships between the parties;

(b) an asset may be granted to the entity free of charge by a government or

(c) an asset may be donated to the entity by another party;

(d) a liability may be imposed by legislation or regulation; or

(e) a liability to pay compensation or a penalty may arise from an act of wrongdoing.

In such cases, measuring the asset acquired, or the liability incurred, at its historical cost may not provide a faithful representation of the entity's assets and liabilities and of any income or expenses arising from the transaction or other event. Hence, it may be appropriate to measure the asset acquired, or the liability incurred, at deemed cost. In some such cases, a current value of the asset or liability is used as a deemed cost on initial recognition and that deemed cost is then used as a starting point for subsequent measurement at historical cost. Any difference between that deemed cost and any consideration given or received would be recognised as income or expenses at initial recognition.

Question 6

(a) Define cloud computing and explain any four common applications of cloud computing. ***(5 Marks)***

(b) Real Estate Ltd. is a construction company and decided to construct a huge office building for its use since financial year 2022-2023. The construction of office building consists of five floors. It is expected that the full office building will be constructed over several years but floor I, floor II and floor III of the building will be operational as soon as they are completed. During the initial stage, the project was funded out of internal accruals. However, the company

decided to avail a term loan for the project from 1st April, 2025 and load the same to the project expenses.

Following are the details of the work done on different floors of the office building up to the financial year 2025-2026: ***(₹ in lakhs)***

	Floor I (₹)	**Floor II (₹)**	**Floor III (₹)**	**Floor IV (₹)**	**Floor V (₹)**
Cash expenditure	60	40	60	100	120
Building materials purchased	88	70	74	120	152
Total expenditure	148	110	134	220	272
Total expenditure on all phases					884
Loan taken @ 12% in the beginning of the year					900

After taking substantial period for construction, floor I, floor II and floor III have become operational, at the mid of the year i.e. on 30th September, 2025. The project was continuing for the rest of the floors.

You are required to find out the total amount to be capitalized and to be expensed during the financial year 2025-2026. ***(5 Marks)***

(c) *An asset is sold in two different active markets at different prices. An entity enters into transactions in both markets and can access the price in those markets for the asset at the measurement date.*

In Market C:

The price that would be received is ₹ 88, transaction costs in the market are ₹ 9 and the cost of transport of the asset are ₹ 6.

In Market D:

The price that would be received is ₹ 85, transaction costs in that market are ₹ 3 and the costs of transport of the asset are ₹ 6.

You are required to calculate:

(i) *The fair value of the asset, if market C is the principal market, and*

(ii) *The fair value of the asset, if none of the markets is principal market.*

(4 Marks)

Answer

(a) Cloud Computing: Cloud computing refers to the delivery of computing services over the internet. It allows accountants to access their data and software from any device with an internet connection.

With the advent of cloud computing, persons could access the systems from their respective locations, work remotely during the lockdown and ensure that the accounting process and reporting requirements did not suffer adversely.

Common Applications of Cloud Computing

1. **Cloud Storage**: Services like Dropbox, Google Drive, and Microsoft OneDrive offer cloud storage solutions that allow users to store and access their files and data from anywhere with an internet connection. Users can save documents, photos, videos, and other files in the cloud and synchronize them across multiple devices.

2. **Software as a Service (SaaS)**: SaaS platforms provide cloud-based software applications that users can access and utilize via the internet. Examples include Salesforce for customer relationship management (CRM), Slack for team collaboration, and QuickBooks Online for accounting and financial management.

3. **Infrastructure as a Service (IaaS)**: IaaS providers offer virtualized computing resources, including servers, storage, and networking infrastructure, on a pay-as-you-go basis. Examples include Amazon Web Services (AWS), Microsoft Azure, and Google Cloud Platform. These platforms allow businesses to scale their IT infrastructure based on demand without the need for physical hardware.

4. **Platform as a Service (PaaS)**: PaaS providers offer cloud-based platforms that enable developers to build, deploy, and manage applications without the complexity of infrastructure management. Examples include Microsoft Azure App Service, and Google App Engine.

5. **Cloud-based Communication and Collaboration**: Applications like Microsoft Teams, Google Workspace (formerly G Suite), and Zoom provide cloud-based communication and collaboration tools that

facilitate real-time messaging, video conferencing, file sharing, and project management.

6. **Cloud-based E-commerce**: Few platforms enable businesses to set up and manage online stores using cloud infrastructure. These platforms provide features like product catalogues, payment processing, inventory management, and customer analytics.

7. **Big Data Analytics**: Cloud computing enables organizations to process and analyze large volumes of data efficiently. Services like Amazon Redshift, Google BigQuery, and Microsoft Azure Data Lake Analytics provide scalable infrastructure for big data processing and analytics, empowering businesses to derive valuable insights from their data.

8. **Content Streaming Services:** Platforms like Netflix use cloud infrastructure to deliver video and media content globally.

(b) Table showing computation of interest expenses on floors on whose construction is completed and floors whose construction is in progress

(All figures are ₹ in lakhs)

Interest expense on loan ₹ 900 lakhs at 12%	108
Total cost of Floors I, II and III (148 + 110 + 134)	392
Total cost of Floors IV and V (220 + 272)	492
Total cost of all 5 floors till 2025-2026	884
Total loan	900
Interest on loan used for Floors I, II & III, based on proportionate Loan amount [(108/884) x 392]	47.89 (approx.)
Interest on loan used for Phases IV & V, based on proportionate Loan amount [(108/884) x 492]	60.11 (approx.)

Accounting treatment:

1. **For Floors I, II and III:** Since Floors I, II and III have become operational at mid of the year, half of the interest amount of ₹ 23.945 lakhs (i.e. 47.89/2) relating to Floors I, II and III should be capitalized (in the ratio of asset costs 148:110:134) and added to respective assets in Floors I, II and III and remaining half of the interest amount of ₹ 23.945 lakhs

(i.e. 47.89/2) relating to Floors I, II and III should be expensed off during the year.

2. **For Floors IV and V:** Interest of ₹ 60.11 lakhs relating to Floors IV and V should be held in Capital Work-in-Progress till assets construction work is completed and thereafter capitalized in the ratio of cost of assets. No part of this interest amount should be charged/expensed off during the year since the work on these phases has not been completed yet.

3. During the financial year 2025-26, the total interest to be capitalized will be ₹ 84.055 (23.945 + 60.11) and ₹ 23.945 lakhs will be expensed to statement of profit and loss.

(c) (i) If Market C is the principal market: If Market C is the principal market for the asset (i.e., the market with the greatest volume and level of activity for the asset), the fair value of the asset would be measured using the price that would be received in that market, after taking into account transport costs.

Fair Value will be

	₹
Price receivable	88
Less: Transportation cost	(6)
Fair value of the asset	82

(ii) If neither of the market is the principal market: If neither of the market is the principal market for the asset, the fair value of the asset would be measured using the price in the most advantageous market. The most advantageous market is the market that maximizes the amount that would be received to sell the asset, after taking into account transaction costs and transport costs (i.e., the net amount that would be received in the respective markets).

	Market C	**Market D**
	₹	₹
Price receivable	88	85
Less: Transaction cost	(9)	(3)

Less: Transportation cost	(6)	(6)
Fair value of the asset	73	76

Since the entity would maximize the net amount that would be received for the asset in Market D i.e. ₹ 76, the fair value of the asset would be measured using the price in Market D.

Fair value

	₹
Price receivable	85
Less: Transportation cost	(6)
Fair value of the asset	79