FINAL EXAM
PAPER-1
FINANCIAL REPORTING

CAM2

0 5 JAN 2026

Roll No. ....

Total No. of Questions – **6**

Total No. of Printed Pages – **16**

Maximum Marks – **70**

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to MCQs in Part I are to be marked on the OMR answer sheet as given on the cover page of descriptive answer book only. Answers to questions in Part II are to be written in the same descriptive answer book. Answers to MCQs, if written inside the descriptive answer book will not be evaluated.
6. OMR answer sheet given on the cover page of descriptive answer book will be in English only for all candidates, including for Hindi medium candidates.
7. **The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive answer book.**
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit the descriptive answer book with OMR cover page to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the descriptive answer book.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators or having / using mobile phone or smart watch or any other electronic gadget will be expelled from the examination and will also be liable for further punitive action.

PART – II

70 Marks

1. Question paper comprises **6** questions. Answer Question No. **1** which is compulsory and any **4** out of the remaining **5** questions.
2. Working notes should form part of the answer.
3. Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.

PART – II

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. **14**

To the selling shareholders, A Limited :

- paid initial cash consideration of ₹ 20.00 lakhs;
- issued fresh 400,000 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 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.

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 : **10**

- 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.

(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. **4**

(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.

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 : **8**

- 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.

(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 : 6

- 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.

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. **6**

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 31st 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.

(b) MedCol Limited during the financial year 2024-25, received the following grants from the State Government for its newly established Medical Centre in a backward area : 8

- 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.

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. **5**

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).

(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: **5**

(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 investments 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.

EITHER

(c) 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

OR

(c) 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.

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 2024-25, before submitting the same for audit, you identify the following issues : 5

Issue 1 : Channel Stuffing and Premature Revenue Recognition

- Products worth ₹ 18 crores were shipped to distributors on March 30, 2025, but there were no confirmed purchase orders.
- These transactions have been recorded as revenue for Q4.
- 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 Q4 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 FY 2024-25, 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.

(b) Crystal People Limited has a total headcount of around 1,000 employees during the financial year 2024-25. 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. 5

The company has been earning profits consistently since 2010 and in the financial year 2024-25, 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 2024-25.

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 ?

(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. **4**

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 **X**;
- 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.
