MOCK TEST PAPER

FINAL COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

Time Allowed – 3 Hours **Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory.

Case Scenario 1

U Ltd. is engaged in mining and many other industries and prepares its financial statements following Indian Accounting Standards and follows April-March as their financial year. During the year 20X2-20X3, the company has faced some issues and for their solution seeks your professional advice.

(i) U Ltd. and F Ltd. are partners of a joint operation engaged in the business of mining precious metals. The entity uses a jointly owned drilling plant in its operations. During the year ended 31st March 20X3, an inspection was conducted by the government authorities in the mining fields. The inspection authorities concluded that adequate safety measures were not followed by the entity. As a consequence, a case was filed and a penalty of ₹ 50 crores has been demanded from U Ltd.

The legal counsel of the company has assessed the demand and opined that appeals may not be useful, and the appeal orders will be unfavourable to the joint arrangement. Out of ₹ 50 crores (to be paid by U Ltd.), ₹ 30 crore will be reimbursed by F Ltd. later, as per the terms of the Joint Operation Agreement. At the year end, actual reimbursement was not received from F Ltd.

(ii) On 1st April 20X2, U Ltd. leased a machine from D Ltd. on a three-year lease. The expected future economic life of the machine on 1st April 20X2 was eight years. If the machine breaks down, then under the terms of the lease, D Ltd. would be required to repair the machine or provide a replacement.

D Ltd. agreed to allow U Ltd. to use the machine for the first six months of the lease without the payment of any rental as an incentive to U Ltd. to sign the lease agreement. After this initial period, lease rentals of ₹ 2,10,000 were payable six-monthly in arrears, the first payment falling due on 31st March 20X3.

(iii) U Ltd. has issued 10,00,000, 9% cumulative preference shares. The Company has arrears of ₹ 15 crores of preference dividend as on 31st March 20X3, it includes current year arrears of ₹ 1.75 crores. The Company did not declare any dividend for equity shareholders as well as for preference shareholders.

Further U Ltd. has also issued certain optionally convertible debentures, which are outstanding as at the year end.

(iv) On 1st January 20X3, U Ltd. acquired 30% of the shares of T Ltd. The investment was accounted for as an associate in U Ltd.'s consolidated financial statements. Both U Ltd. and T Ltd. have an accounting year end of 31st March 20X3. U Ltd. has no other investments in associates.

Net profit for the year in T Ltd.'s income statement for the year ended 31st March 20X3 was ₹ 0.23 crores. It declared and paid dividend of ₹ 0.1 crore on 1st March 20X3. No other dividends were paid in the year.

(v) On 1st January, 20X3, U Ltd. also acquired a 60% stake in S Ltd. The cash consideration payable was ₹ 1 crore to be paid immediately, and ₹ 1.21 crores after two years. The fair value of net assets of S Ltd. at acquisition date was ₹ 3 crores. U Ltd. has calculated that its cost of capital is 10%. Non-controlling interest is measured at the proportionate share of identifiable net assets.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 5 in line with relevant Ind AS:

1. With respect to a joint operation engaged in the business of mining precious metals, how will the liability be disclosed in the books of U Ltd.?

   (a) Provision for ₹ 20 crores and a contingent liability for ₹ 30 crores

   (b) Contingent liability for ₹ 50 crores

   (c) Provision for ₹ 30 crores and a contingent liability for ₹ 20 crores

   (d) Provision for ₹ 50 crores.

2. Calculate the current liability of leased machine from D Ltd. to be shown in the balance sheet as at 31st March 20X3.

   (a) ₹ 70,000

   (b) ₹ 1,40,000

   (c) ₹ 3,50,000

   (d) ₹ 4,20,000

3. What is the amount of preference dividend to be reduced from profit or loss for the year for calculating Basic Earnings Per Share?

   (a) ₹ 15 crores

   (b) ₹ 1.75 crores

   (c) ₹ 13.25 crores

   (d) Nothing, as no dividend has been declared by the entity.

4. What amount will be shown as an inflow in respect of earnings from the associate in the statement of cash flows of U Ltd. for the year ended 31st March 20X3?

   (a) ₹ 0.020 crores

   (b) ₹ 0.026 crores

   (c) ₹ 0.030 crores

   (d) ₹ 0.046 crores

5. Calculate the amount of goodwill / gain on bargain purchase arising upon acquisition of S Ltd.

   (a) ₹ 1 crore gain on bargain purchase

   (b) ₹ 80 lakhs gain on bargain purchase

   (c) ₹ 20 lakhs goodwill

   (d) ₹ 41 lakhs goodwill **(5 x 2 = 10 Marks)**

Case Scenario II

G Ltd. is a multi-national company and prepares and presents its financial statements following Indian Accounting Standards as its securities are listed on National Stock Exchange. G Ltd. has a number of business segments.

(i) H Ltd. is one of the recently acquired Indian subsidiary of G Ltd. It has to adopt Ind AS for the first time as at 31st March, 20X4, with 1st April, 20X2 as the date of transition. As at 31st March, 20X2, the value of raw material inventories was incorrectly reported due to an error. The amounts are significant.

(ii) G Ltd. is also engaged in software development. It enters into a contract with a customer to transfer a software license, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. G Ltd. sells the license, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

(iii) G Ltd. sells a 20% interest in a wholly owned subsidiary K Ltd. to outside investors for ₹ 100 lakh in cash. The carrying value of K Ltd.'s net assets is ₹ 300 lakh, including goodwill of ₹ 65 lakh from the subsidiary's initial acquisition.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 6 to 8 in line with relevant Ind AS:

6. With respect to H Ltd. state whether the error should be reported in the Ind AS financial statements and how to rectify it.

   (a) H Ltd. shall report the impact of the error as a correction to Statement of Profit and Loss for the comparative period i.e., the year ended 31st March, 20X3.

   (b) The correction shall be reflected in a reconciliation as at the end of the first Ind AS reporting period i.e., as at 31st March, 20X3.

   (c) The impact of the correction is significant and it shall be amortized on a rational and systematic basis in the first two periods of Ind AS reporting i.e., years ended 31st March, 20X3 and 31st March, 20X4.

   (d) The first Ind AS financial statements shall distinguish the correction of errors from changes in accounting policies and reported as part of the reconciliations as at 1st April, 20X2.

7. How many performance obligations G Ltd. has, with respect to the contract with the customer to transfer software license?

   (a) 4 performance obligations

   (b) 3 performance obligations

   (c) 2 performance obligations

   (d) 1 performance obligation

8. What is the amount of gain on sale of interest in subsidiary K Ltd.?

   (a) ₹ 100 lakhs

   (b) ₹ 60 lakhs

(c) ₹ 53 lakhs

(d) ₹ 40 lakhs

(3 x 2 = 6 Marks)

Case Scenario III

A Ltd. is a diversified business group operating in multiple business segments across different parts of the world. It maintains its books of accounts and publishes its annual consolidated financial statements under Indian Accounting Standards.

The central finance team has been working on closing the books of accounts and generating consolidated financial statements for the year ended 31st March 20X3. You are the Finance Controller and your assistants want your views on following transactions for finalization of financial statements:

(i) B Ltd., one of the subsidiaries of A Ltd., reported net income of ₹ 25 lakhs, which equals the company's comprehensive income. The company has no outstanding debt. Following is the information from the comprehensive balance sheet (₹ in lakhs) related to cash flows:

Extract of Balance Sheet	31.03.20X2	31.03.20X3
Equity share capital	100	100
Further issue of equity shares	100	140
Retained earnings	100	115
Total shareholders' equity	300	357

(ii) A Limited also operates in the travel industry and incurs costs unevenly through the financial year. Advertising costs of ₹ 40 lakhs were incurred on 1st July 20X2, and staff bonuses are paid at year-end based on sales. Staff bonuses are expected to be around ₹ 400 lakhs for the year; of that a sum of ₹ 60 lakhs would relate to the period ending 30th September 20X2.

(iii) An item of equipment X was acquired by A Ltd. on 1st April 20X1 for ₹ 1,00,000 having an estimated useful life of 10 years, with a residual value of zero. The asset is depreciated on a straight-line basis. The asset was revalued to ₹ 1,04,000 on 31st March 20X3.

(iv) A Ltd. has spent ₹ 15,00,000 in developing a new product during the year ended 31st March, 20X3. The development costs incurred were recognised as an intangible asset as per Ind AS 38. For the purposes of computing the taxable income, these expenses are allowable in full in the year of incurring the expenses. At the year end, the Company recognised an impairment loss of ₹ 75,000 against the intangible asset.

(v) The company has issued preference shares that are redeemable at the option of the holder. Three months before the end of the year, it was probable that the holders would require redemption.

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

9. What cashflow should B Ltd. report, as financing activity in the statement of cash flows?

   (a) Issuance of equity shares ₹ 240 million; dividends paid ₹ 10 million

   (b) Issuance of equity shares ₹ 100 million; dividends paid ₹ 10 million

   (c) Issuance of equity shares ₹ 140 million; dividends paid ₹ 10 million

   (d) Issuance of equity shares ₹ 40 million; dividends paid ₹ 10 million

10. With respect to point (ii), what costs should be included in the entity's financial report for the quarter ended 30th September 20X3?

    (a) Advertising costs ₹ 40 lacs; staff bonuses ₹ 100 lacs

    (b) Advertising costs ₹ 10 lacs; staff bonuses ₹ 100 lacs

    (c) Advertising costs ₹ 10 lacs: staff bonuses ₹ 60 lacs

    (d) Advertising costs ₹ 40 lacs; staff bonuses ₹ 60 lacs

11. What will be the annual depreciation charge on equipment X for years 3 to 10 and the amount of the revaluation surplus that can be transferred to retained earnings annually?

    (a) Annual depreciation charge will be ₹ 10,000 and an annual transfer of ₹ 3,000 can be made from revaluation surplus to retained earnings.

    (b) Annual depreciation charge will be ₹ 10,000, however, annual transfer from revaluation surplus to retained earnings is not permitted.

    (c) Annual depreciation charge will be ₹ 13,000 and an annual transfer of ₹ 3,000 may be made from revaluation surplus to retained earnings.

    (d) Annual depreciation charge will be ₹ 13,000, however, annual transfer from revaluation surplus to retained earnings is not permitted.

12. With respect to point (iii), What is the tax base of the intangible asset?

    (a) ₹ 15,00,000

    (b) ₹ 75,000

    (c) ₹ 14,25,000

    (d) ₹ 0

13. Which one of the following is the appropriate classification for the annual payment of ₹ 12,000 to preference shareholders at year-end?

    (a) Dividend ₹ 12,000

    (b) Interest expense ₹ 12,000

    (c) Dividend ₹ 3,000, interest expense ₹ 9,000

    (d) Dividend ₹ 9,000, interest expense ₹ 3,000 **(5 x 2 = 10 Marks)**

14. On 1st April 20X1, J Ltd. subscribed for 40 million ₹ 1 loan notes in C Ltd. The loan notes were issued at 90 paise and were redeemable at ₹ 1.20 on 31st March 20X6. Interest is payable on 31st March in arrears at 4% of par value. This represents an effective annual rate of return for J Ltd. of 9.9%.

    J Ltd.'s intention is to hold the loan notes until redemption. Until 31st October, 20X2 C Ltd. was a successful company with a good reputation for settling all its liabilities on their due dates. However, due to an event which occurred on 31st October 20X2, three of C Ltd.'s major customers became insolvent and this caused liquidity problems for C Ltd. During November 20X2, C Ltd. entered into negotiations with all its creditors, including J Ltd.

    J Ltd. agreed to forego the interest payments due on 31st March 20X2 and 20X3, with the payments from 31st March 20X4 onwards resuming as normal.

    What would be the initial measurement of financial instruments as subscription of loan notes in C Ltd.?

(a) ₹ 40 million

(b) ₹ 37.782 million

(c) ₹ 38.4 million

(d) ₹ 36 million **(2 Marks)**

15. ABC Ltd., a manufacturing entity, wants to forecast its financial performance based on various scenarios to comply with Ind AS guidelines. It took aid of Artificial Intelligence (AI), which can assist the company in generating accurate financial forecasts by analysing historical data, market trends, and relevant external factors. By leveraging machine learning algorithms, the company can si mulate different scenarios, such as changes in market demand, input costs, or regulatory requirements.

    How will AI help the management of the company?

    (a) With the help of AI, the company can make informed decisions,

    (b) With the help of AI, the company can assess potential risks

    (c) With the help of AI, the company can develop robust financial strategies in accordance with Ind AS principles.

    (d) All of the above **(2 Marks)**

PART – II DESCRIPTIVE QUESTIONS

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

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

Working notes should form part of the answers.

Maximum Marks – 70 Marks

1. On 1st April 20X1, J Ltd. acquired a new subsidiary, B Ltd., purchasing all 150 million shares of B Ltd. The terms of the sale agreement included the exchange of four shares in J Ltd. for every three shares acquired in B Ltd. On 1st April 20X1, the market value of a share in J Ltd. was ` 10 and the market value of a share in B Ltd. ₹ 12.00.

   The terms of the share purchase included the issue of one additional share in J Ltd. for every five acquired in B Ltd. if the profits of B Ltd. for the two years ending 31st March 20X2 exceeded the target figure. Current estimates are that it is 80% probable that the management of B Ltd. will achieve this target.

   Legal and professional fees associated with the acquisition of B Ltd. shares were ₹ 12,00,000, including ₹ 2,00,000 relating to the cost of issuing shares. The senior management of J Ltd. estimate that the cost of their time that can be fairly allocated to the acquisition is ₹ 2,00,000. This figure of ₹ 2,00,000 is not included in the legal and professional fees of ₹ 12,00,000 mentioned above.

   The individual Balance Sheet of B Ltd. at 1st April 20X1 comprised net assets that had a fair value at that date of ₹ 1,200 million. Additionally, J Ltd. considered B Ltd. possessed certain intangible assets that were not recognized in its individual Balance Sheet:

   - Customer relationships – reliable estimate of value ₹ 100 million. This value has been derived from the sale of customer databases in the past.

- An in process research and development project that had not been recognised by B Ltd. since the necessary conditions laid down in Ind AS for capitalisation were only just satisfied at 31st March 20X2. However, the fair value of the whole project (including the research phase) is estimated at ₹ 50 million.
- Employee expertise – estimated value of Director employees of B Ltd. is ₹ 80 million.
- The market value of a share in J Ltd. on 31st March 20X2 was ₹ 11.

Compute the goodwill on consolidation of B Ltd. that will appear in the consolidated balance sheet of J Ltd. at 31st March 20X2 with necessary explanation of adjustments therein. **(14 Marks)**

2. (a) Company A, an Indian company whose functional currency is ₹, enters into a contract to purchase machinery from an unrelated local supplier, company B. The functional currency of company B is also ₹. However, the contract is denominated in USD, since the machinery is sourced by company B from a US based supplier. Payment is due to company B on delivery of the machinery.

Key terms of the contract:

Contractual features	**Details**
Contract/order date	9th September 20X1
Delivery/payment date	31st December 20X1
Purchase price	USD 1,000,000
USD/₹ Forward rate on 9th September, 20X1 for 31st December, 20X1 maturity	67.8
USD/₹ Spot rate on 9th September, 20X1	66.4
USD/₹ Forward rates for 31st December, on:	
30th September	67.5
31st December (spot rate)	67.0

Company A is required to analyse if the contract for purchase of machinery (a capital asset) from company B contains an embedded derivative and whether this should be separately accounted for on the basis of the guidance in Ind AS 109. Also give necessary journal entries for accounting the same. **(10 Marks)**

(b) In December 20X1 an entity entered into a loan agreement with a bank. The loan is repayable in three equal annual instalments starting from December 20X5. One of the loan covenants is that an amount equivalent to the loan amount should be contributed by promoters by 24th March, 20X2, failing which the loan becomes payable on demand. As on 24th March, 20X2, the entity has not been able to get the promoter's contribution. On 25th March, 20X2, the entity approached the bank and obtained a grace period upto 30th June, 20X2 to get the promoter's contribution.

The bank cannot demand immediate repayment during the grace period. The annual reporting period of the entity ends on 31st March.

(i) As on 31st March, 20X2, how should the entity classify the loan?

(ii) Assume that in anticipation that it may not be able to get the promoter's contribution by due date, in February 20X2, the entity approached the bank and got the compliance date

extended upto 30th June, 20X2 for getting promoter's contribution. In this case will the loan classification as on 31st March, 20X2 be different from (a) above? **(4 Marks)**

3. (a) LT Ltd. is in the process of constructing a building. The construction process is expected to take about 18 months from 1st January 20X1 to 30th June 20X2. The building meets the definition of a qualifying asset. LT Ltd. incurs the following expenditure for the construction:

1st January, 20X1	₹ 5 crores
30th June, 20X1	₹ 20 crores
31st March, 20X2	₹ 20 crores
30th June, 20X2	₹ 5 crores

On 1st July 20X1, LT Ltd. issued 10% Redeemable Debentures of ₹ 50 crores. The proceeds from the debentures form part of the company's general borrowings, which it uses to finance the construction of the qualifying asset, ie, the building. LT Ltd. had no borrowings (general or specific) before 1st July 20X1 and did not incur any borrowing costs before that date. LT Ltd. incurred ₹ 25 crores of construction costs before obtaining general borrowings on 1st July 20X1 (pre-borrowing expenditure) and ₹ 25 crores after obtaining the general borrowings (post-borrowing expenditure).

For each of the financial years ended 31st March 20X1, 20X2 and 20X3, calculate the borrowing cost that LT Ltd. is permitted to capitalize as a part of the building cost. (**8 Marks)**

(b) An Indian entity, whose functional currency is rupees, purchases USD dominated bond at its fair value of USD 1,000. The bond carries stated interest @ 4.7% p.a. on its face value. The said interest is received at the year end. The bond has maturity period of 5 years and is redeemable at its face value of USD 1,250. The fair value of the bond at the end of year 1 is USD 1,060. The exchange rate on the date of transaction and at the end of year 1 are USD 1 = ₹ 40 and USD 1 = ₹ 45, respectively. The weighted average exchange rate for the year is 1 USD = ₹ 42.

The entity has determined that it is holding the bond as part of an investment portfolio whose objective is met both by holding the asset to collect contractual cash flows and selling the asset. The purchased USD bond is to be classified under the FVTOCI category.

The bond results in effective interest rate (EIR) of 10% p.a.

Calculate gain or loss to be recognised in Profit & Loss and Other Comprehensive Income for year 1. Also pass journal entry to recognise gain or loss on above. (Round off the figures to nearest rupees) **(6 Marks)**

4. (a) AJ Ltd is engaged in the business of trading of chemicals having a net worth of ₹ 150 crores. The company's profitability is good and hence the company has introduced various benefits for its employees to keep them motivated and to ensure that they stay with the organization. The company is an associate of RJ Ltd which is listed on Bombay Stock Exchange in India.

The company initially did not have any HR function but over the last 2 years, the management set up that function and now HR department takes care of all the benefits related to the employees and how they can be structured in a manner beneficial to both the employees and the objectives of the company.

One of the employee benefits involves a lump sum payment to employee on termination of service and that is equal to 1 per cent of final salary for each year of service. Consider the salary in year 1 is ₹ 10,000 and is assumed to increase at 7 per cent (compound) each year.

Taking a discount rate at 10 per cent per year, you are required to compute

(i) benefits attributed (year on year) and

(ii) the obligation in respect of this benefit (year on year)

For an employee who is expected to leave at the end of year 5

Following assumptions may be taken to solve this:

- There are no changes in actuarial assumptions.
- No additional adjustments are needed to reflect the probability that the employee may leave the entity at an earlier or later date. **(6 Marks)**

(b) P Ltd. granted 400 stock appreciation rights (SAR) each to 75 employees on 1st April 20X1 with a fair value ₹ 200. The terms of the award require the employee to provide service for four years in order to earn the award. The fair value of each SAR at each reporting date is as follows:

31st March 20X2 ₹ 210

31st March 20X3 ₹ 220

31st March 20X4 ₹ 215

31st March 20X5 ₹ 218

What would be the difference if at the end of the second year of service (i.e. at 31st March 20X3), P Ltd. modifies the terms of the award to require only three years of service? **(8 Marks)**

5. (a) ABC Limited supplies plastic buckets to wholesaler customers. As per the contract entered into between ABC Limited and a customer for the financial year 20X1-20X2, the price per plastic bucket will decrease retrospectively as sales volume increases within the stipulated time of one year.

The price applicable for the entire sale will be based on sales volume bracket during the year.

Price per unit (INR)	Sales volume
90	0 - 10,000 units
80	10,001 - 35,000 units
70	35,001 units & above

All transactions are made in cash.

(i) Suggest how revenue is to be recognised in the books of accounts of ABC Limited as per expected value method, considering a probability of 15%, 75% and 10% for sales volumes of 9,000 units, 28,000 units and 36,000 units respectively. For workings, assume that ABC Limited achieved the same number of units of sales to the customer during the year as initially estimated under expected value method for the financial year 20X1-20X2.

(ii) You are required to pass Journal entries in the books of ABC Limited if the revenue is accounted for as per expected value method for financial year 20X1-20X2. **(5 Marks)**

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

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

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

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

(c) **Either**

How can one enhance the usefulness of financial information by applying four enhancing qualitative characteristics? **(4 Marks)**

(c) **Or**

Which entities are required to prepare their financial statements mandatorily on the basis of Indian Accounting Standards (Ind AS)? **(4 Marks)**

6. (a) Sunshine Ltd., a listed company in the cosmetics industry, has debt covenants attached to some of its borrowings which are included in Financial Liabilities in the Balance Sheet. These covenants mandate the company to repay the debt in full if Sunshine Ltd. fails to maintain a liquidity ratio and operating margin above the specified limit.

The directors alongwith the CFO of the Company who is a chartered accountant are considering entering into a fresh five-year leasing arrangement but are concerned about the negative impact any potential lease obligations may have on the above-mentioned covenants. Accordingly, the directors and CFO propose that the lease agreement be drafted in such a way that it is a series of six ten-month leases rather than a single five-year lease in order to utilize the short-term lease exemption available under Ind AS 116, Leases. This would then enable accounting for the leases in their legal form. The directors believe that this treatment will meet the requirements of the debt covenant, though such treatment may be contrary to the accounting standards.

Required:

Discuss the ethical and accounting implications of the above issue from the perspective of CFO.

(5 Marks)

(b) X Pharmaceutical Ltd. seeks your opinion in respect of following accounting transactions:

1. Acquired a 4 year license to manufacture a specialised drug at a cost of ₹ 1,00,00,000 at the start of the year. Production commenced immediately.

2. Also purchased another company at the start of year. As part of that acquisition, X Pharmacy Ltd. acquired a brand with a fair value of ₹ 3,00,00,000 based on sales revenue. The life of the brand is estimated at 15 years.

3. Spent ₹ 1,00,00,000 on an advertising campaign during the first six months. Subsequent sales have shown a significant improvement and it is expected this will continue for 3 years.

4. It has commenced developing a new drug 'Drug-A'. The project cost would be ₹ 10,00,00,000. Clinical trial proved successful and such drug is expected to generate revenue over the next 5 years.

   Cost incurred (accumulated) till 31st March, 20X1 is ₹ 5,00,00,000.

   Balance cost incurred during the financial year 20X1-20X2 is ₹ 5,00,00,000.

5. It has also commenced developing another drug 'Drug B'. It has incurred ₹ 50,00,000 towards research expenses till 31st March, 20X2. The technological feasibility has not yet been established.

Advise how the above transactions will be accounted for in the books of account of X Pharmaceutical Ltd. **(5 Marks)**

(c) You are a senior consultant of your firm and are in process of determining the valuation of KK Ltd. You have determined the valuation of the company by two approaches i.e. Market Approach and Income approach and selected the highest as the final value. However, based upon the discussion with your partner you have been requested to assign equal weights to both the approaches and determine a fair value of shares of KK Ltd. The details of the KK Ltd. are as follows:

Particulars	**₹ in crore**
Valuation as per Market Approach	5268.2
Valuation as per Income Approach	3235.2
Debt obligation as on Measurement date	1465.9
Surplus cash & cash equivalent	106.14
Fair value of surplus assets and Liabilities	312.4
Number of shares of KK Ltd.	8,52,84,223 shares

Determine the Equity value of KK Ltd. as on the measurement date on the basis of above details.

(4 Marks)