EDITION - 1
(Revised)

CA FINAL

FINANCIAL REPORTING

MCQ BOOKLET

CA Aakash Kandoi

CA, Dip. IFRS (ACCA, UK), CFA Level 3 Candidate

For all revisions, updates and notes - Join My Telegram Channel:

CA Aakash Kandoi - https://t.me/aakashkandoi_FR

@AAKASHKANDOI_FR

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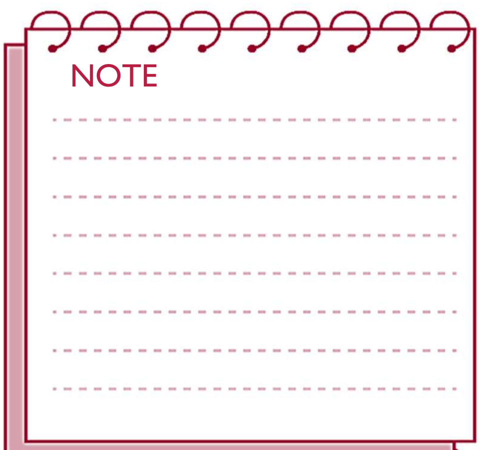
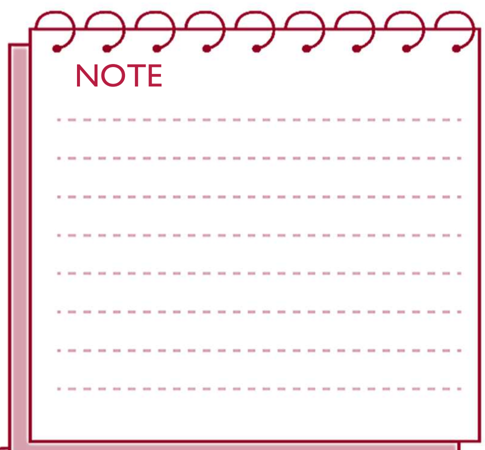
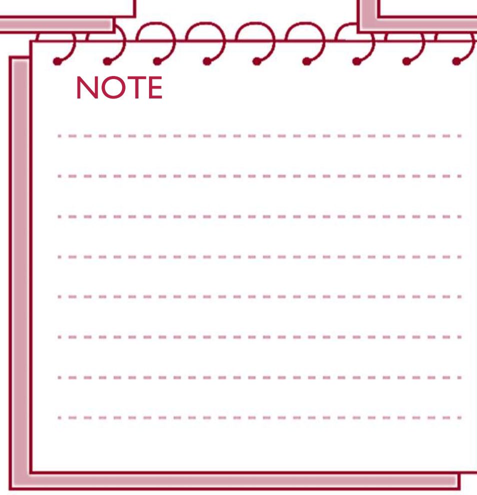
Note: No need to refer Corrigendum Sheet issued by Me if you are referring this PDF.







Analysis of Financial Statements

ICAI MCQs

Question - 1 : Jatin purchases investment properties and funds this by issuing bonds in the market. The liability in respect of the bonds is designated to be measured at fair value through profit or loss. The bonds had an overall fair value decline of Rs 50 crores in the year, out of which Rs 5 crores relates to decrease in Jatin's credit worthiness. Which of the following is the correct accounting treatment?

A : Rs 50 crores should be recorded in P&L

B : Rs 50 crores should be recorded in OCI

C : Rs 5 crores should be recorded in OCI and Rs 45 crores in P&L

D : Rs 45 crores should be recorded in OCI and Rs 5 crores in P&L

Question – 2 : A Ltd is a public sector entity under the Ministry of Defense and is in the business of construction of warships. The contracts are awarded on fixed price basis except certain variable components, such as, foreign exchange variation and cost of spares etc. The payment for fixed price part is on the basis of completion of milestones. The payment for variable component is based on actual cost to the shipyard. The payment terms for the fixed price portion of the contract are generally spread over 10-12 milestones starting with initial payment of 10% on signing of the contract. As the gestation period of the contracts for shipbuilding is longer, it so happens that during initial period when funds are made available, at times, become temporary surplus funds, which are deployed in short-term fixed deposits. However, in the later part of the execution of the contract, the cost incurred on the project exceeds the stage payments received on the vessel leading to a negative cash flow.
Further, the last stage payment of the project is deferred till one year after the delivery of the vessel. Thus, the interest earned initially on the temporary surplus compensates to a certain extent for the period of deficit cash flow, especially at the later part of the execution of the project. A Ltd wants to check the presentation requirement of interest earned on deposits made out of temporary surplus as per AS?

A : To be presented as Other income

B : To be presented as Other operating revenue

C : Option to present either as Other income or Other operating revenue

D : To be netted off from costs

Question - 3 : An asset had a carrying value of Rs.10,00,000 as on 1st April 20X1. It was revalued at Rs. 11,00,000 as on 31st March 20X2 by crediting the increase of Rs. 1,00,000 to revaluation surplus. Later it was sold for Rs. 12,50,000 on 30 June 20X2. The amount to be taken to retained earnings would be :

A : Rs. 2,50,000

B : Rs. 1,00,000

C : Rs. 1,50,000

D : Rs. 1,25,000

Answer Key : 1 : C 2 : A 3 : B

Introduction to General Purpose Financial Statements as per IND AS

ICAI MCQs

Question - 1 : A Ltd is following IND AS for the first time for the year ended 31st March, 20X4. What all period balance sheet to be covered in its first IND AS financial statements?

A : 1st April 20X2

B : 31st March 20X3

C : 31st March 20X4

D : All of the above

Question - 2 : Company XYZ Pvt Ltd was having its net worth of ₹ 230 Crores as on 31st March 2020. It made a profit of ₹ 30 Crores in FY 20-21 and made a loss of ₹ 15 crores in FY 21-22. From which date it is required to apply IND AS?

A : Accounting periods beginning on or after 1st April 2020

B : Accounting periods beginning on or after 1st April 2021

C : Accounting periods beginning on or after 1st April 2022

D : It is not required to comply with IND AS as its Net worth as on 31st March 2022 is below Rs.250 Cr.

Question - 3 : For preparing IND AS based financial statements with transition date 1st April, 20X5, what all guidance needs to be referred by A Ltd.?

A : IND AS 1

B : Division II of Schedule III to the Companies Act, 2013

C : Guidance Note on preparation and presentation of IND AS based financial statements issued by ICAI

D : All of the above

Question - 4 : IND AS 103 contains additional guidance on common control transaction which is not there in IFRS 3. How this can be termed?

A : Carve in

B : Carve out

C : Exception

D : None of the above

Question - 5 : Which one of the following is the benefit of implementation of Indian Accounting Standards (IND AS) in India?

A : Increase in net profitability

B : Minimised disclosure requirements

C : Access to domestic capital market

D : Global harmonization helps grow FII and FDI interests

Question - 6 : Country X has taken approach of implementing Global Accounting Standards in its country with some significant changes in line with their national economic policies. This would be termed as ____________

A : Adoption of Global Accounting Standards

B : Convergence with Global Accounting standards

C : Adoption of Global Accounting standards with limitations

D : None of the above

Question - 7 : Company ABC Insurance Pvt Ltd is engaged in the business of insurance and is having a net worth of Rs. 1,000 crores as on 31st March 2017. From which financial year it is required to apply IND AS?

A : FY 2016-17

B : FY 2017-18

C : FY 2018-19

D : Yet not required to apply IND AS

Answer Key : 1 : D 2 : B 3 : D 4 : A 5 : D 6 : B 7 : D

Conceptual Framework for Financial Reporting Under IND AS

ICAI MCQs

Question - 1 : Which of the following statements is false with respect to CONTROL.? An entity controls an economic resource if:

A: It has the present ability to direct the use of the economic resource

B : It obtains the economic benefits that may flow from it

C : If one party controls an economic resource, other party may also control that resource

D : Control of an economic resource usually arises from an ability to enforce legal rights

Question - 2 : Which of the following is not the limitation of 'General Purpose Financial Reporting'?

A : It cannot provide all of the information that existing and potential investors need

B : The users of reports need to consider pertinent information from other sources

C : Information given in financial statements help to estimate the value of the reporting entity

D : Reports are not primarily directed to other parties, such as regulators and lenders etc.

Question - 3 : Which of the following is true with respect to the cost constraint on useful financial information?

A : Cost is a pervasive constraint on the information that can be provided by financial reporting

B : IASB considers costs and benefits in individual reporting entities only

C : For application of cost constraint, no assessment of benefits of reporting is done

D : Users do not incur any costs in reporting and analysing financial information

Question - 4 : Which of the following statements is false for Consolidated and unconsolidated financial statements ?

A : Consolidated financial statements provide information of both the parent and its subsidiaries as a single reporting entity

B : Unconsolidated financial statements are designed to provide parents information and not about those of its subsidiaries

C : Consolidated financial statements are designed to provide separate information of any particular subsidiary

D : A parent may require / choose, to prepare unconsolidated financial statements in addition to consolidated financial statements

Question - 5 : The usefulness of financial information is enhanced if it is:

A : Comparable, verifiable, perfect and understandable

B : Comparable, verifiable, timely and objective

C : Effective, verifiable, timely and understandable

D : Comparable, verifiable, timely and understandable

Question - 6 : Which of the following definitions is incorrect?

A : An Asset is a present economic resource controlled by the entity as a result of past events

B : A Liability is a past obligation of the entity to transfer an economic resource as a result of present events

C : An Equity is the residual interest in the assets of the entity after deducting all its liabilities

D : Income is the increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims

Question - 7 : Which of the following statements is false with respect to Reporting Period?

A : Financial statements are prepared for a specified period of time

B : It helps users of financial statements to identify and assess changes and trends

C : Financial statements provide comparative information for at least one preceding reporting period

D : Financial statements should not provide comparative information for more than one preceding reporting periods

Question - 8 : Which of the following statements are true with respect to The Reporting Entity?

A : A reporting entity has to be a single entity only and it cannot comprise more than one entity

B : A reporting entity is an entity that is required, or chooses, to prepare financial statements

C : If a reporting entity is the parent alone, the reporting entity0s financial statements are referred to as consolidated financial statement

D : If two or more entities are all linked by a parent-subsidiary relationship, they are referred to as combined financial statements

Question - 9 : Which of the following statements is false with respect to Going concern assumptions?

A : There is fundamental assumption that the reporting entity is a going concern

B : Reporting entity will continue in operation for the foreseeable future

C : There is no need to describe the basis used in financial statements, if the entity has the intention of liquidation

D : In case of liquidation, financial statements may have to be prepared on a different basis

Question - 10 : To be a perfectly faithful representation, a depiction would not have the following characteristic -

A : Complete

B : Unintentional error is allowed

C : Neutral

D : Free from error

Answer Key : 1 : C 2 : C 3 : A 4 : C 5 : D 6 : B 7 : D 8 : B 9 : C 10 : B

IND AS : 1 Presentation of Financial Statements

SEC – A : ICAI MCQs

Question -1: An entity shall present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements if ____

A : It applies an accounting policy retrospectively

B : If there is change in accounting estimates

C : Correction of previous year error

D : Both (a) and (c) above

Question - 2 : Application of IND AS 1 is important for -

A . Preparation of general-purpose 'manor) statements

B : Presentation of general-purpose financial statements

C . Preparation and presentation of general-purpose financial statements

D : Preparation, presentation and disclosure in the general-purpose financial statements

Question - 3 : An entity Mru Ltd presents an analysis of expenses recognised in the profit or loss using a classification based on the nature of expenses method. Which of the following is not the classification using the nature of expense?

A: Employee benefits expense

B : Selling and distribution expenses

C : Amortisation expense

D : Depreciation expense

Question - 4 : An inappropriate accounting policy of the entity cannot be rectified by the following ways:

A : Disclosure of the accounting policies used

B : By notes

C : Explanatory material

D : All of the above

Question - 5 : As per IND AS 1, the amount in the other comprehensive income will -

A : Not be reclassified subsequently to profit or loss

B : Be reclassified subsequently to profit or loss when specific conditions are met

C : Both (a) and (b)

D : Directly recognised in equity always

Question - 6 : An entity whose financial statements comply with IND AS shall make an __________ statement of such compliance in the notes

A : Explicit and reserved

B : Implicit and unreserved

C : Explicit and unreserved

D : Implicit and reserved

Question - 7 : IND AS 1 applies to all entities except :

A : Those that present consolidated financial statements

B : Those present separate financial statements

C : Both of the above

D : None of the above

Question - 8 : Which of the following information of the entity is not mandatory to be displayed prominently, and is to be repeated when necessary for the information presented to be understandable ?

A : Name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period

B : Whether the financial statements cover the individual entity or a group of entities

C : Equity pattern showing the Names of major shareholdings in the entity

D : Level of rounding used in presenting amounts in the financial statements

Answer Key : 1 : A 2 : C 3 : B 4 : D 5 : C 6 : C 7 : D 8 : C

SEC – B : ADDITIONAL PRACTICE MCQs

Question - 1 : Ind-AS1 applies to the following financial statements :-

(i) Condensed interim financial statements prepared in accordance with Ind-AS 34 Interim Financial Reporting

(ii) General purpose financial statements in accordance with IND AS

(ii) Consolidated financial statements and separate financial statements

(iv) Prepared by not-for-profit entities in the public / private sector

Choose the most appropriate :-

A : Only (i), (ii) & (iii) are true

B : Only (i), (iii) & (iv) are true

C : All are true

D : Only (ii), (iii) & (iv) are true

Question - 2 : Ind-AS 1 requires that an entity prepares its financial statements except for cash flow information using accrual basis of accounting –

A. Accrual
B. Cash
C. Hybrid
D. None of the above

Question – 3 : SK Ltd. has a long-term loan arrangement containing a debt covenant .The specific requirements in the debt covenant have is that it has to be met as at 31 March every year. The loan is due for more than 12 months. SK Ltd. breaches the debt covenant at or before the period end. As a result, the loan becomes payable on demand . How should the loan be classified at year end for which Abrar Ltd. has breached the debt covenant?

A : Current liability only if the lender demands payment as a consequence of breach.

B : Non-current liability even if the lender demands payments as a consequence of breach.

C : Current liability even if the lender agreed after reporting date and before authorisation of financial statements for issue, not to demand payment as a consequence.

D : Non-current liability if the lender agreed after reporting date and before authorisation of financial statements for issue, not to demand payment as a consequence.

Question – 4 : Maxi-mini Ltd is engaged in the business of manufacturing sugar and chemicals. The Company has taken a term loan for a term of 5 crores from SBI to buy certain plant and machinery during the year ended March 31, 2018 .The loan is repayable over a period of 5 years. The terms and conditions of the loan agreement requires the company to maintain a current ratio of 1.33:1 and debt-equity ratio of 1: 2 at all times during the year. If these loan covenants fall below this level, then the bank has a right to recall the entire loan. The Loan outstanding as on March 31, 2019 was 4.25 crores .

The current ratio of Maxi-mini Ltd was 1:1 and debt equity ratio was 05:2. SBI has sent a notice on April 5, 2019 demanding repayment of loan on account of breach of terms of the loan agreement. The financials were signed on May 10, 2019.

On receiving the notice, the CFO of Maxi-mini Ltd negotiated with the bank and ensured to rectify the breach. As a result on April 25, 2019 the Bank has agreed not to recall the loan and allowed the Company to achieve the contracted current and debt - equity ratio by 2021. In that case. how the long-term has to be classified in the financials for the year ended March 31. 2019?

A : Other current liabilities

B : Current financial liability

C : Other non-current liability

D : Non – current financial liability

Answer Key : 1 : D 2 : A 3 : D 4 : D

IND AS 2: Inventories

SEC – A : ICAI MCQs

Question -1 : Which of the following inventory would be measured at lower of cost and net realisable value?

A : Sand

B : Barite

C : Plastic

D : Limestone

Question 2 : A Ltd shipped inventory on consignment to B Ltd. How should the consigned inventory to be treated assuming the inventory is unsold by B Ltd.?

A : To be measured as Inventory in A Ltd book

B : To be measured as Inventory in B Ltd book

C : To be recognized as revenue in A Lid

D : To be recognized as liability in B Ltd

Question 3 : Mru Ltd has been valuing inventory on a first-in-first-out basis but in line with methods used by industry peers, the company has decided to move to weighted average method. What is your advice with regard to the disclosure of the change under IND AS?

A : Reasons for change in accounting policy must be disclosed and comparative information for prior period must be restated

B : Reasons for change must be disclosed, the amount of adjustments must be presented but comparative information for prior period must not be restated

C : Reasons for change need not be disclosed, the amount of adjustments must be presented and comparative information for prior period must be restated

D : Reasons for change must .be disclosed, the amount of adjustments must be presented and comparative information for prior period must be restated.

Question 4 : At the end of an accounting period, the cost of a company's inventory is Rs. 4,50,000. This includes damaged items with a cost of Rs. 25,000 which are expected to be sold for only Rs. 10,000 (less selling expenses of 5%). All other items of inventory have a net realisable value which exceeds cost. As per IND AS 2, the amount at which the company's inventory should be recognized at the end of the period is:

A : Rs. 4.25.000

B : Rs. 4.50.000

C : Rs. 4,34,500

D : Rs. 4.35,000

Question - 5 : P Ltd. has a plant with the normal capacity to produce 5,00,000 units of a product per annum and the expected fixed overhead is "15,00,000. However, actual production is 3,75,000 units. Amount of fixed overhead to be included in the cost of inventory would be -

A : Rs. 15,00,000

B : Rs. 11,25,000

C : Rs. 3,75,000

D : Nil

Question 6 : Normal Annual Capacity of the Plant X is 1,000 Units. During the year ended 31st March 20X2, the company is able to produce only 700 units (due to sudden strike of union labour). During the current year, company have incurred Rs. 21,000 of fixed over heads. Inventory Quantity as at 31.3.20X2 is 200 Units.

Determine the amount of fixed overheads allocation that needs to be done on the inventory lying in hand as at 31.3.20X2 as per IND AS 2?

A : Rs. 6,000

B : Rs. 10,000

C : Rs. 4,200

D : Rs. 21,000

Question 7 : Hari Limited is a manufacturer of Carton Boxes. The cost of the stock as on 31.12.20X1 was Rs. 50 per box. The accountant noted that the subsequent sale was made on 31.1.20X2 at Rs. 40 per box. The accountant also noted that there were subsequent expenses for some rectification on the entire physical stock that was available as at year end at the rate of Rs. 15 per box to saleable condition. The company seeks your opinion as to the amount of net realisable value and written down loss for the closing stock as per IND AS 2.

A : Rs. 25 and Rs. 10

B : Rs. 25 and Rs. 25

C : Rs. 40 and Rs. 15

D : Rs. 50 and Rs. 0

Question 8 : Aakash Private Ltd has appointed you as an auditor for financial year 20X1-20X2. They are into trading of cake mix. The cake mix is bought in boxes. Whether these boxes will fall within the meaning of inventory, as per IND AS 2, and how will they be valued?

A : Yes. Since, they are used in the process of production for sale. I hey will be valued at lower of cost or NRV.

B : No. They will not qualify as inventory and will be valued at NRV.

C : No. They will not qualify as inventory and will be valued at lower of cost or NRV.

D : Yes. Since, they are used in the process of production for sale. They will be valued at NRV.

Question - 9 : W Limited, a company manufactures and sells towels and bedsheets using cotton, yarn, dyes and chemicals. W limited also sells cotton and intermediator product yarn occasionally in exceptional cases. Which of the following items are to be classified as inventories in books of accounts of W limited:

A : Cotton, yarn, towel, bedsheets, dyes and Chemicals

B : Towel and Bedsheets only

C : Cotton. Yarn. Dyes and Chemicals only

D : None of the above

Question - 10 : BB Ltd. purchases cars from several countries and sells them to Asian countries. BB Ltd. incurred many expenses during the period on such cars from their purchase to sale. Which of the following cost is allowed for inclusion in the cost of inventory?

A : Rs. 20.00.000 as Salaries of accounting department

B : Rs. 15,00,000 of Sales commission paid to sales agents

C : Rs. 30.00.000 as after sales warranty costs

D : Rs. 10,00,000 as Insurance of purchases

Answer Key : 1 : C 2 : A 3 : D 4 : C 5 : B 6 : C 7 : B 8 : B 9 : A 10 : D

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : Which of the following costs of conversion cannot be included in cost of inventory?

- **A. Cost of direct labour.**
- **B. Factory rent and utilities.**
- **C. Salaries of sales staff (sales department shares the building with factory supervisor).**
- **D. Factory overheads based on normal capacity.**

A : Only D

B : Only C

C : Both B & C

D : Both B & D

Question – 2 : The cost of inventory should not include

- A. **Purchase price.**
- B. **Import duties and other taxes.**
- C. **Abnormal amounts of wasted materials.**
- D. **Administrative overhead.**
- E. **Fixed and variable production overhead.**
- F. **Selling costs.**

A : Choices C, D, and F.

B : Choices C , D and E

C : Choices D and F

D : Choices D and E

Question – 3 : Below is certain information relating to inventory held by X Ltd.:-

- **Purchase cost per unit Rs. 200**
- **Estimated selling price Rs. 260**
- **Cost to sell Rs. 20**
- **Cost of conversion Rs. 10**

What would be the value of inventory?

A : Rs. 210

B : Rs. 230

C : Rs. 260

D : Rs. 240

Question – 4 : S is a manufacturer of carton boxes. The cost of the stock as of 31st December 2009 was Rs. 50 per box. During the statutory audit, the auditors noted that the subsequent sale was made on 12th January 2010 at Rs. 40 per box. Auditors also noted that there were subsequent expenses for some rectification on the entire physical stock that was available as at year end, at the rate of Rs. 15 per box for saleable condition. What is the amount of net realisable value and written-down loss for the closing stock under Ind-AS 2?

A : Rs. 25 and Rs. 25

B : Rs. 35 and Rs. 15

C : Rs. 40 and Rs. 15

D : Rs. 50 and Rs. 0

Question – 5 : Under Ind-AS 2 Inventories, the specified identification cost formula method is used for inventory valuation in the following circumstances:-

(i) **the cost of inventories of items that are not ordinarily interchangeable**

(ii) **goods or services produced and segregated for specific projects**

(iii) **when there are large numbers of items of inventory that are ordinarily interchangeable**

(iv) **used for determining the cost of inventories other than those measured under the FIFO or weighted average method**

A : Only (ii) & (iii) are true

B : Only (i) & (iii) are true

C : Only (iii) & (iv) are true

D : Only (i) & (ii) are true

Question – 6 : Under Ind-AS 2 Inventories, the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be -

A : Assigned by using a customized cost formula

B : Assigned by using the first-in, first-out (FIFO)

C : Assigned by using the weighted average method

D : Assigned by using specific identification of their individual costs

Question - 7 : A company determined the following values for its inventory as of the end of its fiscal year:

Particulars	Rs.
Historical cost	1,00,000
Current replacement cost	70,000
Net realisable value	90,000
Fair value	95,000

What amount should the company report as inventory on its balance sheet?

A : Rs. 1,00,000

B : Rs. 70,000

C : Rs 90,000

D : Rs. 95,000

Question – 8 : Apple Ltd valued its inventory at a cost of $1,90,000 on 31 March 20x9. It includes goods costing $30,000 which were damaged due to a minor fire that occurred in the factory. It is estimated that after making repairs to these goods they can be sold for $10,000. What is the net realisable value of inventory.

A : $1,70,000

B : $ 1,60,000

C : $ 1,90,000

D : $ 2,00,000

Question – 9 : X Limited has recently diversified its operation to include purchases and sale of residential apartments. It has made some significant purchases of properties with a plan to resell them.

Whether the above said properties should be classified by X Limited as:

A : Property, Plant and Equipment under Ind-AS 16

B : Inventory under Ind-AS 2

C : Investment property under Ind-AS 40

D : None of the above

Question – 10 : X Limited in order to promote its products incurred major advertising expenses and also incurred transportation costs in moving some of its products from one retail store to another retail store. Which of the following expenses should be included as cost of inventory as per the requirements of Ind-AS2 Inventories:

(1) **Advertising Expenses**

(2) **Transportation cost**

(3) **Rent of the store**

A : 1 & 3

B : 2 & 3

C : 1 & 2

D : None of the above

Question – 11 : Below is the certain information relating to inventory held by X Limited :-

- **Purchase cost per unit Rs. 100**
- **Estimated selling price Rs. 130 Cost to sell Rs. 10**
- **Cost of conversion Rs. 5**

What should be the value of inventory as per the requirements of Ind-AS Inventories ?

A : Rs.115

B : Rs. 130

C : Rs. 120

D : Rs. 105

Answer Key : 1 : C 2 : A 3 : A 4 : A 5 : D 6 : D 7 : C 8 : A 9 : B 10 : D 11 : D

IND AS 7 : Statement of Cash Flows

SEC – A : ICAI MCQs

Question - 1 : Cash flows from operations will increase due to:

A : Increase in current assets

B : Decrease in current liabilities

C : Neither of two

D : Both (a) and (6) above

Question - 2 : Cash flow is based upon:

A : Accrual basis of accounting

B : Cash basis of accounting

C : Hybrid basis of accounting

D : None of the above

Question - 3 : An entity shall report -

A : Separately major classes of net cash receipts or net cash payments as the case may be arising from investing and financing activities

B : Separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities

C : Collectively major classes of net cash receipts or net cash payments as the case may be arising from investing and Financing activities

D : Collectively major classes of gross cash receipts and gross cash payments arising from investing and financing activities

Question - 4 : Under IND AS 7 -Statement of Cash Flows, cash flows arising from the following operating, investing or financing activities may be reported on a net basis:

A : Cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity

B : Entity has a legally enforceable right to set off the recognised amounts

C : Entity intents to either settle the net cash outflows on a net basis or to realise the cash inflows and settle the liabilities simultaneously

D : None of the above

Question - 5 : An entity AK Ltd has bank balance in foreign currency aggregating to USD 100 (equivalent to Rs. 4,500) at the beginning of the year. Presuming no other transaction taking place, the entity reported a profit before tax of ₹ 100 on account of exchange gain on the bank balance in foreign currency at the end of the year. What would be the closing cash and cash equivalents as per the balance sheet?

A : Rs. 4,700

B : Rs. 4,500

C : Rs. 3,500

D : Rs. 5,200

Question - 6 : During the financial year 20X1-20X2, ABC Limited have paid various taxes reproduced the below mentioned records for your perusal:

- Capital gain tax of Rs. 2 crore on sale of office premises at a sale consideration of Rs. 100 crore.

- Income Tax of Rs. 3 crore on Business profits amounting Rs. 30 crore (assume entire business profit as cash profit).

- Dividend Distribution Tax of Rs. 1 crore on payment of dividend amounting Rs. 10 crore to its shareholders.

- Income tax Refund of Rs. 2 crore (Refund on taxes paid in earlier periods for business profits) Calculate cashflow from investing activities.

A : Rs. 29 crores

B : Rs. 32 crores

C : Rs. 98 crores

D : (Rs. 11 crore)

Question - 7 : Which of the following is not a characteristic of an entity's cash equivalents, as defined by IND AS 7?

A : A short-term investment

B : A highly liquid investment

C : An investment which is readily convertible into known amounts of cash

D : An investment which is subject to significant risk of changes in value

Question - 8 : As per IND AS 7, for non-financial entities in the statement of cashflows, interest paid and interest and dividend received is classified as -

A : Cash flows from financing activities and operating activities respectively

B : Cash flows from investing activities and operating activities respectively

C : Cash flows from financing activity and investing activity respectively

D : There is an option to present both as cash flows from operating activities

Question - 9 : Which of the following is incorrect?

A : Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preference shares acquired within a short period of their maturity and with a specified redemption date

B : Bank borrowings are generally considered to be investing activities

C : Where bank overdrafts which are repayable on demand form an integral part of an entity's cash management, bank overdrafts are included as a component of cash and cash equivalents.

D : None of the above

Question - 10 : Under indirect cash flow method –

A : Profit or loss is adjusted for the effects of transactions of a cash nature, any deferrals or accruals of past or future operating cash receipts or payments

B : Statement of changes in net assets/equity is adjusted for the effects of transactions of a cash nature, any deferrals or accruals of past or future operating cash receipts or payments

C : Profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating Cash receipts or payments

D : Statement of changes in net assets/equity is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments

Answer Key : 1 : C 2 : B 3 : B 4 : A 5 : B 6 : C 7 : D 8 : C 9 : B 10 : C

SEC – B : ADDITIONAL PRACTICE MCQs

Question - 1 : How should an unrealised gain on foreign currency translation is presented in a statement of cash flows?

A : As an inflow in the "financing activities" section of the statement of cash flows because it arises from a foreign currency translation.

B : It should be ignored for the purposes of the statement of cash flows as it is an unrealised gain.

C : It should be ignored for the purposes of the statement of cash flows as it is an unrealised gain but it should be disclosed in the footnotes to the financial statements by way of abundant precaution.

D : As the starting point for the cash flow would be the Profit before tax / profit after tax and foreign currency translation being non-cash item, no adjustment is required in the section of the statement of cash flows.

Question - 2 : In the case of non-financial entities, interest paid and interest and dividend received is classified as follows in the Cash flow statement in accordance with Ind-AS 7:

(i) "cash flows from financing activities and operating activities respectively"
(ii) "Cash flows from investing activities and operating activities respectively"
(iii) "Cash flows from financing activity and investing activity respectively"
(iv) "There is an option to present both as cash flows from operating activities"

Choose the most appropriate :-

A : Only (i) is true

B : (ii) and (iv) are true

C : only (iv) is true

D : only (iii) is true

Question – 3 : An entity purchases a building and the seller accepts payment partly in equity shares and partly in debentures of the entity. This transaction should be treated in the cash flow statement as -

A : The purchase of the building should be investing cash outflow and the issuance of shares and the debentures financing cash outflows.

B : The purchase of the building should be investing cash outflow and the issuance of debentures financing cash outflows while the issuance of shares investing cash outflow.

C : This does not belong in a cash flow statement and should be disclosed only in the notes to the financial statements.

D : Ignore the transaction totally since it is a noncash transaction. No mention is required in either the cash flow statement or anywhere else in the financial statements.

Answer Key : 1 : D 2 : D 3 : C

CASE SCENARIO 1

Following is the Balance Sheet of XY Limited, one of the subsidiary of BD Limited for the year ended 31st March 20X3

(Rs. In lacs)

BALANCE SHEET	20X3	20X2
ASSETS		
Non-Current Assets		
Property , Plant & Equipment	13,000	12,500
Intangible Assets	50	30
Other Financial assets	145	170
Deferred Tax Asset (net)	855	750
Other Non-Current Assets	800	770
Total Non-Current Assets	14,850	14,220
Current Assets		
Financial assets		
Investments	2,300	2,500
Cash and cash equivalents	220	460
Other current assets	195	85
Total Current assets	2,715	3,045
Total Assets	17,565	17,265
EQUITY AND LIABILITIES		
Equity		
Equity Share Capital	300	300
Other Equity	12,000	8,000
Total equity	12,300	8,300
Liabilities		
Non – Current Liabilities		
Long term borrowings	2,000	5,000
Other non-current liabilities	2,740	3,615
Total non-current liabilities	4,740	8,615
Current liabilities		
Financial liabilities		
Trade payables	150	90
Bank overdraft	75	60
Other current liabilities	300	200
Total Equity & Liabilities	17,565	17,265

Additional Information:

(1) Profit after tax for the year ended 31 March 20X3- 4,450 lacs

(2) Interim Dividend paid during the year - 450 lacs

(3) Depreciation and amortisation charged in the statement of profit and loss during the current year are as under-

(a) Property, Plant and Equipment - 500 lacs

(b) Intangible Assets- 20 lacs

(4) During the year ended 31st March 20X3 two machineries were sold for 70 lacs. The carrying amount of these machineries as on 31st March 20X3 is 60 lacs.

(5) Income taxes paid during the year 105 lacs.

(6) Other non-current/current assets / liabilities are related to business operations of XY Limited.

(Note: Bracket here in the questions denotes outflow)

Question – 1 : In the given scenario, what will be the treatment of 'other non-current liabilities' while preparing the statement of cash flows?

A : Change in the balance of 'other non-current liabilities' will be adjusted for arriving at cash generated from financing activities

B : Change in the balance of 'other non-current liabilities' will be adjusted for arriving at cash generated from investing activities

C : Change in the balance of 'other non-current liabilities' will be adjusted for arriving at cash generated from operating activities

D : Change in the balance of 'other non-current liabilities' will not be adjusted in the statement of cash flows.

Question – 2 : Where will the change in the financial asset 'Investment' be reflected in the Statement of Cashflows?

A : Operating Activities

B : Investing Activities

C : Financing Activities

D : Will not be reflected anywhere in the Statement of Cashflows

Question – 3 : In the given scenario, what will be the treatment of 'Deferred Tax Asset' while preparing the statement of cashflows?

A : Change in the balance of 'Deferred Tax Asset' will be adjusted for arriving at cash generated from operating activities

B : Change in the balance of 'Deferred Tax Asset' will be adjusted for arriving at cash generated from investing activities

C : Change in the balance of 'Deferred Tax Asset' will be adjusted for arriving at cash generated from financing activities

D : Change in the balance of 'Deferred Tax Asset' will not be adjusted in the statement of cash flows.

Question – 4 : What is the final amount of machinery purchased during the year, to be reflected in the Statement of cashflows?

A : Rs. 500 lacs

B : Rs. 1,000 lacs

C : Rs. 1,060 lacs

D : Rs. 560 lacs

Question – 5 : What is the opening cash and cash equivalents, in the given scenario, for the purpose of Statement of Cashflows?

A : Rs. 460 lacs

B : Rs. 400 lacs

C : Rs. 60 lacs

D : Rs. 520 lacs

Question – 6 : What is the closing cash and cash equivalents, in the given scenario, for the purpose of Statement of Cashflows?
A : Rs. 75 lacs

B : Rs. 295 lacs

C : Rs. 220 lacs

D : Rs. 145 lacs

Question – 7 : What is the net generated cash flow from operating activities?
A : Rs. 4,025 lacs

B : Rs. (830) lacs

C : Rs. (3,450) lacs

D : Rs. (255) lacs

Question – 8 : What is the net cash inflow/outflow from investing activities?
A : Rs. 4,025 lacs

B : Rs. (830) lacs

C : Rs. (3,450) lacs

D : Rs. (255) lacs

Question – 9 : What is the net cash inflow/outflow from financing activities?
A : Rs. 4,025 lacs

B : Rs. (830) lacs

C : Rs. (3,450) lacs

D : Rs. (255) lacs

Question – 10 : What is the net cash inflow/outflow from all activities?
A : Rs. 4,025 lacs

B : Rs. (830) lacs

C : Rs. (3,450) lacs

D : Rs. (255) lacs

Answer Key / Description :

1 : C

2 : B

3 : A

4 : C

5 : B 460-60 = 400 lacs

6 : D 220-75-145 lacs

7 : A Refer Soln given with MCQ 10 of the scenario

8 : B Refer Soln given with MCQ 10 of the scenario

9 : C Refer Soln given with MCQ 10 of the scenario

10 : D Refer Table

Statement of Cash Flows

	Rs. In lacs	Rs. In lacs
Cash flows from Operating Activities		
Net Profit after Tax	4,450.00	
Add: Tax Paid	105.00	
	4,555.00	
Add: Depreciation & Amortisation (500+20)	520.00	
Less: Gain on Sale of Machine (70-60)	(10.00)	
Less: Increase in Deferred Tax Asset (855-750)	(105.00)	
	4,960.00	
Change in operating assets and liabilities		
Add: Decrease in financial asset (170-145)	25.00	
Less: Increase in other non-current asset (800- 770)	(30.00)	
Less: Increase in other current asset (195-85)	(110.00)	
Less: Decrease in other non-current liabilities (3,615 - 2,740)	(875.00)	
Add: Increase in other current liabilities (300-200)	100.00	
Add: Increase in trade payables (150-90)	60.00	
	4,130.00	
Less: Income Tax	(105.00)	
Cash generated from Operating Activities		4,025.00
Cash flows from Investing Activities		
Sale of Machinery	70.00	
Purchase of Machinery [13,000-(12,500 - 500- 60)]	(1,060.00)	
Purchase of Intangible Asset [50-(30-20)]	(40.00)	
Sale of Financial asset - Investment (2,500 - 2,300)	200.00	
Cash outflow from Investing Activities		(830.00)
Cash flows from Financing Activities		
Dividend Paid	(450.00)	
Long term borrowings paid (5,000 - 2,000)	(3,000.00)	
Cash outflow from Financing Activities		(3,450.00)
Net Cash outflow from all the activities		(255.00)
Opening cash and cash equivalents (460 - 60)		400.00
Closing Cash and Cash Equivalents (220-75)		145.00

IND AS 8: Accounting Policies, Changes in Accounting Estimates and Errors,

SEC – A : ICAI MCQs

Question – 1 : A company Mru Ltd made some changes in accounting policies and accounted for them in financial year 20X1-20X2. Due to changes in accounting policies, retrospective adjustment has tax effect related to previous years along with effect on the transaction. How will this be accounted for and disclosed?

A : In accordance with IND AS 8
B : In accordance with IND AS 12
C : Tax effect in accordance with IND AS 12 and transaction effect in accordance with IND AS 8
D : Entity has the choice between options (a) and (b)

Question – 2 : Which of the following shall be considered as a change in accounting policy?

A : The application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and
B : The application of a new accounting policy for transactions, other events or conditions that occurred previously or material
C : Both of the above
D : None of the above

Question – 3 : The selection and application of accounting policies for similar transactions, other events and conditions shall be:
A : Consistent always
B : Consistent unless an IND AS specifically requires or permits categorisation of items for which different policies may be appropriate
C : Consistent only if IND AS specifically requires or permits categorisation of items for which different policies are not appropriate
D : Consistent unless the policy is not favourable to the entity

Question – 4 : Which of the following is treated as a change in the accounting policies in accordance with IND AS 8, Accounting Policies, Changes in Accounting Estimates and Errors?

A : Change in composition of reportable segments
B : Changes in functional currency
C : Change in classification of financial assets
D : Changes in measurement method of Inventory

Question – 5 : According to IND AS 8, when a change in accounting policy is applied retrospectively, the entity shall adjust:

(i) Opening balance of each affected component of equity for the earliest prior period presented.
(ii) Other comparative amounts disclosed for earliest prior period presented.
(iii) Other comparative amounts disclosed for each prior period presented.
(iv) Opening balance of each affected component of equity for each prior period presented.
State which of the above statements are correct -

A : (i) and (ii)
B : (i) and (iii)
C : (ii) and (iv)

D : (iii) and (iv)

Question - 6 : According to IND AS 8, prior period errors shall be corrected:

A : Prospectively
B : Retrospectively
C : Entity has a choice to correct prospectively or retrospectively
D : Prospectively and disclosure are required

Question – 7 : In some cases, it is difficult to distinguish between a change of estimate and a change in accounting policy. How should the entity treat the same?

A : Entire change as a change in accounting policy
B : Entire change as a change in accounting estimate with appropriate disclosure
C : Apportion, on a reasonable basis, between the change in estimate and the change in accounting policy and treat accordingly. Consistency should be there in all the future periods
D : Ignore the transaction

Question – 8 : Some new standards and amendments have been issued in the month of March 20X2, but it was effective from 1st April 20X2. In accordance with IND AS 8, what is the provision in this regard when the entity has not applied a new IND AS that has been issued but is not yet effective?

A : Treated as change in accounting policy in the subsequent year
B : Only disclosure of the facts is required
C : Disclose both this fact and any known or reasonably estimable information relevant to assessing the possible impact that application of the new IND AS will have on the entity s financial statements in the period of initial application
D : Disclose both this fact and any known or reasonably estimable information relevant to assessing the possible impact that application of the new IND AS will have on the entity s financial statements

Question – 9 : Which of the following items are examples of changes in accounting estimates?

(i) A loss allowance for expected credit losses, applying IND AS 109, Financial Instruments;
(ii) The net realisable value of an item of inventory, applying IND AS 2 Inventories;
(iii) The depreciation expense for an item of property, plant and equipment, applying IND AS 16; and
(iv) A provision for warranty obligations, applying IND AS 37, Provisions, Contingent Liabilities and Contingent Assets

A : (i), (ii), (iii)
B : (i), (ii), (iv)
C : (i), (ii), (iii), (iv)
D : (ii), (iii)

Question – 10 : Applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied is considered as -

A : Correction of error
B : Retrospective application
C : Retrospective restatement
D : Prospective application

Answer Key : 1 : C 2 : B 3 : B 4 : D 5 : B 6 : B 7 : B 8 : C 9 : C 10 : B

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : Which of the following are changes in accounting estimates and changes in accounting policy under IND AS 8:-

(i) An entity changes the method of measuring its inventory from First in First Out [FIFO] basis to Weighted Average cost basis.

(ii) An entity reverses provision for doubtful debts during the financial year as the related debt is collected.

(iii) An entity changes the method of depreciation from straight line method to weighted average method.

(iv) An entity has classified an investment property, an owner-occupied property previously classified as part of property, plant and equipment where it was measured after initial recognition on a revaluation model. IND AS 40 on investment property permits only cost model. The entity now measures this investment property at cost.

Choose the most appropriate :-

A : (i) and (iv) are changes in accounting policy, (ii) and (iii) are changes in accounting estimate.

B : (ii) and (iii) are changes in accounting policy, (i) and (iv) are changes in accounting estimate.

C : (ii) and (iii) are changes in accounting estimate whereas (i) is a change in accounting policy and (iv) is not a change in accounting policy.

D : (i), (ii), (iii) and (iv) are changes in accounting policy.

Question – 2 : Changes in accounting estimate should be applied :

A : Prospectively

B : Retrospectively

C : All of the above

D : None of the above

Question – 3 : Are the following statements in relation to a change in accounting estimate true +/ false, according to Ind-AS 8 ?

(i) Changes in accounting estimates are accounted for retrospectively.

(ii) Changes in accounting estimates result from new information or new developments.

Choose the most appropriate answer –

Options	Statement (1)	Statement (2)
A	False	False
B	False	True
C	True	False
D	True	True

Question – 4 : While finalizing the financials for the year ended December 31, 2013, it was observed that the insurance premium expenses amounting to Rs. 45 lakhs were incorrectly charged to Profit or

loss account in the financials for the year ended December 31, 2012 instead of recognizing the same as Prepaid expenses as at December 31, 2012 and charging them off as expenses in the year ended December 31, 2013. As per Ind-AS 8 Accounting Policies, Changes in Accounting Estimates and Errors, this error will be handled as follows in the financials for the year ended December 31, 2013 :-

A : Restating the comparative amounts for the prior period presented in which the error occurred. Therefore, prepaid expenses will be recognised as at 31st December, 2012 and opening balance of reserves as at 1.1.2013 will be restated and expenditure of Rs. 45 lakhs will be accounted in the year ended December 31, 2013.

B : Restating the amounts for the current period in which the error was detected. Accordingly, the insurance premium of Rs. 45 lakhs will be charged to Profit or loss account in the year ended December 31, 2013.

C : Suitable disclosure will be made in the accounts for the year ended December 31, 2013 to the effect that the insurance premium would have been higher by Rs. 45 lakhs had the error not occurred.

D : None of the above

Question – 5 : When it is difficult to distinguish between a change of estimate and a change in accounting policy, then an entity should __________

A : Treat the entire change as a change in estimate with appropriate disclosure.

B : Apportion, on a reasonable basis, the relative amounts of change in estimate and the change in accounting policy and treat each one accordingly.

C : Treat the entire change as a change in accounting policy.

D : Since this change is a mixture of two types of changes, it is best if it is ignored in the year of the change; the entity should then wait for the following year to see how the change develops and then treat it accordingly.

Question – 6 : A change in accounting policy which does not result from the initial application of an international standard must normally be accounted for:

A : Retrospectively

B : Prospectively

C : Either retrospectively or prospectively

D : Prospectively unless it is impracticable to do so

Question – 7 : State True or False for the following and also give reasons where possible –

(i) Change in accounting policy does not include change of method of valuation of inventory from FIFO to weighted-average. ________________

(ii) An entity can rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material. __________________

(iii) Change in accounting policy does not include change in useful life from 10 years to 7 years. _________

Answer Key : 1 : C 2 : A 3 : B 4 : A 5 : A 6 : A 7 (i) : False (ii) : False (iii) : True

IND AS 10: Events after the Reporting Period

SEC – A : ICAI MCQs

Question – 1 : On 15th January, 20X2, Alpha Ltd. filed a suit against Beta Ltd. for recovery of Rs.10 lakhs. On 15th April, 20X2, the court case confirms that Beta Ltd. will have to pay the amount to Alpha Ltd. The financial statements are approved by the Board on 20th May, 20X2. What will be the treatment of Rs. 10 lakhs in the financial statements of Beta Ltd. on the reporting date i.e. 31st March, 20X2 as per IND AS 10?

A : Disclose it as a contingent liability
B : Recognise liability for Rs.10 lakhs
C : Recognise provision for Rs.10 lakhs
D : No treatment

Question – 2 : A company SK Ltd took a long-term loan from bank. Before the end of the reporting date there is a breach in the terms which are material for this loan. The amount stands payable on demand by the company to bank. After the reporting date but before approval of the financial statements for issue, company entered into an agreement with the bank, pursuant to which the loan is not payable on demand. This loan will be treated as:

A : Adjusting event
B : Non-adjusting event
C : Principal amount is non-adjusting event and interest portion is adjusting event
D : The company has the choice to treat it either adjusting event or non-adjusting event

Question – 3 : Event after the reporting period are those events that occur between the end of the reporting period and the date

A : When the financial statements are approved by the Board of Directors
B : Of Annual General Meeting
C : Of signing of the financial statements by the auditors
D : Of finalization of the financial statements by the management after final discussion with auditors

Question – 4 : The financial statements of Star Ltd. for financial year 20X1-20X2 were approved by the Board for issue on 24th May, 20X2. The management discovered a major fraud and decided to reopen the books of account. The financial statements were subsequently approved by the Board of Directors on 31st May, 20X2. What is the date of approval for issue as per IND AS 10 in the given case?

A : 24th May, 20X2
B : 31st May, 20X2
C : Either (a) or (b)
D : Neither (a) nor (b)

Question – 5 : The management of a company decided and announced a plan to discontinue the operations and liquidate the company after the reporting date. According to IND AS 10 Events after the reporting period the company shall:

A : Prepare its financial statements on a going concern basis
B : Not prepare its financial statements on a going concern basis
C : Prepare the financial statement on a going concern basis with disclosures as per IND AS 1
D : Prepare the financial statement on a going concern basis with no disclosures requirement

Question - 6 : On 15th April, 20X2, a major earthquake disrupted the entire operations of a reputed company. The Company suffered huge loss due to the damage caused to its factories and other business premises. The Company's insurance policy does not cover the risk of loss arising from natural disasters. The Company does not have sufficient internal funds or the availability of external finance to rebuild the infrastructure necessary for it to resume its business operations. The Board of the company is also not sure about the future of the company. The Company has prepared the financial statements for the year ending 31st March, 20X2 which is approved in the board meeting dated 20th April, 20X2.

How this event impacts the financial statement of the company?

A : Adjustment in financials are required
B : Disclosure is required
C : Nothing is required
D : On the discretion of the management

Question - 7: What is the date of approval for issue of the financial statements prepared for the reporting period from 1st April, 20X1 to 31st March, 20X2, in a situation where following dates are available?

A : Completion of preparation of financial statements 15th April, 20X2
B : Board reviews and approves for issue 25th April, 20X2
C : Available to shareholders 16th May, 20X2
D : Filed with regulatory authority 30th May, 20X2

Question - 8: Mru Ltd having issued share capital of Rs.15,00,000 shares decided to offer two options for dividend per share-

Option (i) 10 Bottles of perfume (Fair Market Value (FMV) per bottle= Rs.75)

Option (ii) Dividend payment of Rs.700 The probability of shareholders selecting non-cash vis-vis cash option is estimated at 60:40.

Calculate the amount at which dividend shall be initially recognised. Later on, if on date of settlement the FMV of bottle is Rs.90 and accordingly, the ratio for non-cash vis-vis cash option becomes 80:20, then how much amount shall be debited to equity?

A : 1,05,00,00,000 ; 24,00,00,000
B : 1,12,50,00,000 ; 16,50,00,000
C : 1,09,50,00,000 ; 19,50,00,000
D : 1,35,00,00,000 ; Nil

Question - 9: The objective of IND AS 10 is to prescribe:

A : The disclosures that an entity should give about the date when the financial statements were approved for issue
B : The disclosures about events after the reporting period
C : None of the above
D : Both (a) and (b)

Question - 10 : According to IND AS 10, when management of an entity is required to issue its financial statements to a supervisory board for issue, the financial statements are said to be approved when:

A : Shareholders approve the financial statements
B : Filed with the regulatory authorities
C : Approved by the supervisory Board

D : Management approve the financial statements for issue to the supervisory Board

Answer Key : 1 : C 2 : A 3 : A 4 : B 5 : B 6 : A 7 : B 8 : C 9 : D 10 : D

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : Best Ltd is a company which buys agricultural produce from wholesale suppliers for retail to the general public. It is preparing its financial statements for the year ending 30 September 2014 and is considering its closing inventory. In addition to Ind-AS 2 Inventories, which of the following IND AS may be relevant to determining the figure to be included in its financial statements for closing inventories?

A : Ind-AS 10 Events After the Reporting Period

B : Ind-AS 115 Revenue from Contracts with Customers

C : Ind-AS 16 Property, Plant and Equipment

D : Ind-AS 41 Agriculture

Question – 2 : Excellent Ltd. built a new factory building during 2009 at a cost of Rs. 20 million. At December 31, 2013, the net book value of the building was Rs. 19 million. Subsequent to year-end, on March 15, 2014, the building was destroyed by fire and the claim against the insurance company proved futile because the cause of the fire was negligence on the part of the caretaker of the building. If the date of authorization of the financial statements for the year ended December 31, 2013, was March 31, 2014, Excellent Ltd. should

A : Write off the net book value to its scrap value because the insurance claim would not fetch any compensation.

B : Make a provision for one-half of the net book value of the building.

C : Make a provision for three-fourths of the net book value of the building based on prudence.

D : Disclose this non-adjusting event in the footnotes.

Question – 3 : Ind-AS 10 Events after the reporting period categorizes events into adjusting and non-adjusting. The discovery or fraud or error after the reporting date that shows that the financial statements were incorrect needs to be –

A : Adjusted in the financial statements
B : Disclosed as it is a non-adjusting event
C : Quantified and disclosed in the notes to the account
D : Quantified and disclosed in the Notes to the accounts as well as Director's report.

Question - 4 : Ram Ltd is in the process of preparing its financial statements for 20X6. On 15 January 20X7, it receives information that one of its major customers, Sham Enterprises, has gone bankrupt. The financial statements showed $32.5m as receivable from Sham Enterprises. Does this information help confirm a figure in the accounts at the end of the reporting period? Is this an event which will require adjustment?

A : True

B : False

C : Can't say

C : None of the above

Question – 5 : On 1 October 20X1, Jerry Ltd. subscribed for 40 million. Rs.1 loan note in Cat Ltd. The loan notes were issued at 90 paise and were redeemable at Rs. 1.20 on 30 September 20X6. Interest is payable on 30 September in arrears at 4% of par value. This represents an effective annual rate of return for Jerry Ltd. of 9.9%. Jerry Ltd. intends to hold the loan notes until redemption. Until 30 April 20X2 Cat Ltd. was a successful company with a good reputation for settling all its liabilities at their due dates.

However, due to an event which occurred on 30 April 20X2, three of Cat Ltd's major customers became insolvent and this caused liquidity problems for Cat Ltd. During May 20X2 Cat Ltd entered into negotiations with all its creditors, including Jerry Ltd. Jerry Ltd. agreed to forego the interest payments due on 30 September 20X2 and 20X3. with the Payments from 30 September 20X4 onwards resuming as normal. What Is the nature of event which occurred on 30 April 20X2, wherein three of Cat Ltd's major customers became Insolvent and thus causing liquidity problems for Cat Ltd.?

A : Non adjusting event

B : Adjusting event

C : Prior period error

D : None of the above

Answer Key : 1 : A 2 : D 3 : A 4 : A 5 : A

IND AS 12: Income Taxes

SEC – A : ICAI MCQs

Question – 1 : During the year ended 31 March 20X1, Zee Ltd has acquired 60% shares of Global. In accordance with IND AS 103 Business Combinations, goodwill arising on acquisition of subsidiary amounted to INR 20 lakh. The tax rate applicable for Zee Ltd is 30% The deferred tax liability relating to goodwill will be:

A : INR 6,00,000

B : INR 36,000

C : INR 3,60,000

D : Zero

Question – 2 : Star Ltd expects that it will earn a minimum of Rs 250 lakh per year for the anticipatable future and will be subject to 30% tax. A liability for Rs 50 lakh in respect of accrued product warranty costs has been recognised by Star Ltd. For tax purposes, the product warranty costs will be deductible when the enterprise claims or incurs the costs. In accordance with IND AS 12 Income Taxes, which of the following Star Ltd should recognise as a deferred tax asset / liability?

A : A deferred tax asset of Rs 15 lakh

B : A deferred tax liability of Rs 15 lakh

C : A deferred tax liability of Rs 35 lakh

D : Neither a deferred tax asset or liability

Question – 3 : Entity A has calculated taxable temporary differences of Rs. 50,00,000 and deductible temporary differences of Rs. 20,00,000 on separate items. The tax rate of the current year is 35%. However, tax rate in the previous year is 30% and it is expected that in future the tax rate would be 40%. What basis should be used for measurement of deferred tax assets and liabilities?

A : 30%

B :35%

C : 40%

D : 5%

Question – 4 : To calculate the tax base of a liability for employee benefits, which one of the following formulas would be used?

A : Carrying amount + Future assessable amounts

B : Carrying amount ? Future non-assessable amounts of revenue

C : Carrying amount + Future deductible amounts ? Future assessable amounts

D : Carrying amount ? Future deductible amounts + Future assessable amounts

Answer Key : 1 : D 2 : A 3 : B 4 : D

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : A deductible temporary difference generates a

A : Deferred tax Liability.

B : Deferred tax Asset.

C : Either 1 or 2

D : Current tax liability

Question – 2 : A company's estimate of its current tax liability for the year to 31 December 2012 differed from the actual tax liability by Rs. 10,000. This resulted in a credit balance of Rs. 10,000 being shown in the company's trial balance as at 31 December 2013. The current tax liability for the year to 31 December 2013 is estimated to be Rs. 340,000. The current tax expense which should be shown in the statement of profit or loss for the year to 31 December 2013 is:

A : Rs. 10,000

B : Rs. 340,000

C : Rs. 350,000

D : Rs. 330,000

Question – 3 : A trade receivable has a carrying amount of Rs. 100. The related revenue has already been included in taxable profit (loss). The tax base of the trade receivable is

A : Rs. 100 calculated as the carrying amount

B : Rs. 100 calculated as the carrying amount less the amount that will be deductible in future i.e. Rs. Nil.

C : Rs. 100 being amount deductible in future

D : exempt from tax in future

Question – 4 : The cost of a depreciable fixed asset is Rs. 150,000. Tax depreciation claimed as a deduction up to the reporting date is Rs. 90,000. In the financial books, the tax depreciation claimed is Rs. 50,000. Tax rate is 40%. The amount to be recognised in the financial statements for deferred tax is

A : Deferred tax liability of Rs. 16,000

B : Deferred tax asset of Rs. 16,000

C : Deferred tax liability of Rs. 40,000

D : none of the above

Question – 5 : Warranty amount provided in the books of account is Rs. 100,000. The taxation law does not permit the deduction until the company does not pay actual claims. Tax rate applicable to the company is 40%. The amount to be recognized in the financial statements for deferred tax is

A : Deferred tax liability of Rs. 16,000

B : Deferred tax asset of Rs. 40,000

C : Deferred tax liability of Rs. 40,000

D : None of the above

Question – 6 : A Ltd. has been following the cost model for measuring its Property, plant and equipment. In the current year it decided to change to the Revaluation model. As a result of the revaluation exercise it restated the carrying value of the entire class of property, plant and equipment from Rs. 16 crores to Rs. 20 crores. However, for tax purposes, depreciation will not be admissible on the appreciated gross block but only on the original gross block of the PPE. Assuming a corporate tax rate of 30%, the entity should recognise:-

A : Rs. 1.2 crores deferred tax asset

B : Rs. 1.2 crores deferred tax liability

C : None of the above

D : Rs. 6 crores deferred tax liability

Question – 7 : 'Interest received in advance' recognized in the financial statements of ABC Ltd is Rs. 10,00,000 which is taxed on cash basis but accounted for on accrual basis. The tax base of an interest received in advance is -

A : Rs. 10,00,000

B : Rs. Nil

C : Rs. 7 lakhs [i.e. Rs. 10 lakhs minus 30% tax rate]

D : Rs. 3 lakhs [i.e. Rs. 10 lakhs x 30% tax rate]

Question – 8 : Under Ind-AS 12 Income taxes, deferred tax assets arising from deductible temporary differences are recognized when .

A : There is a reasonable expectation of realisation

B : It is probable that taxable profit will be available against which the deferred tax asset can be utilized

C : The timing difference arises except when the carrying amount and tax base differs at initial recognition

D : It is virtually certain that the timing difference will be realised

Question – 9 : The current liabilities of an entity include fines and penalties for environmental damage. The fines and penalties are stated at CU10 million. The fines and penalties are not deductible for tax purposes. What is the tax base of the fines and penalties?

A : CU10 million

B : CU3 million

C : CU13 million

D : Zero

Question – 10 : A loan receivable has a carrying amounted of Rs. 100. The repayment of the loan will not have any tax consequences. What is the tax base of the loan receivable?

A : The tax base of the loan is of Rs. 100

B : The tax base of the loan is of Rs. Nil

C : Since repayment of the loan has no tax consequences, as per Ind-AS12 we should not calculate the tax base

D : None of the above

Question – 11 : The cost of an asset is Rs. 10,00,000. For the 1st year, the accounting depreciation is Rs. 1,60,000 and tax depreciation is Rs. 2,50,000. The entity plans to use the asset. The tax rate for capital gains if the entity sells the asset is 15%. The tax rate for business profits is 25%. The deferred tax implications are:-

A : Recognize deferred tax liabilities of Rs. 22,500

B : Recognize deferred tax assets of Rs. 22,500

C : Recognize deferred tax liabilities of Rs. 13,500

D : Recognize deferred tax assets of Rs. 13,500

Question – 12 : A Ltd. has a subsidiary B Ltd. Dividends receivable from B ltd have a carrying amount of Rs. 100. The dividends are not taxable. The tax rate in the economy is presumed to be 30%. The tax base of the dividend receivable is:

A : Rs. Nil

B : Rs. 100

C : Rs. 300

D : Rs. 150

Question – 13 : State True or False for the following and also give reasons where possible

- **(i) Ind-AS 12 prohibits the deferral method i.e. income statement method and requires another liability method which is sometimes known as the balance sheet liability method.** _________
- **(ii) Deferred tax assets and liabilities are not classified as current assets or current liabilities. They are to be disclosed separately under the head of Non-Current.** __________
- **(iii) "When a liability's carrying amount is greater than its tax base, a deductible temporary difference arises." Is this statement true or False?** _________

Answer Key : 1 : B 2 : D 3 : B 4 : A 5 : B 6 : B 7 : B 8 : B 9 : A 10 : A
11 : A 12 : B 13 : (i) True (ii) True (iii) True

CASE SCENARIO - 01

Joy Ltd. Wishes to calculate tax base of its assets and defer tax as 31st March 20X5. The balance sheet has been adjusted by current tax expense. The extracts of the Assets part of the Balance Sheet as on 31st March 20X5 is as follows:

ASSETS	`
Non-current Assets	
Property, Plant and Equipment	**12,00,000**
Intangible Assets :	
Product Development Costs	**60,000**
Investment in Subsidiary Pall Ltd.	**4,40,000**
Current Assets	
Trade Investments	**2,08,000**
Trade Receivables	**6,26,000**
Inventories	**3,04,000**
Cash and Cash Equivalents	**1,80,000**
TOTAL ASSETS	**30,18,000**

Notes:

a) Depreciation expense for the year 20X4-20X5 allowable in accordance with tax laws in Rs. 2,06,000. Accounting depreciation included in operating costs is Rs. 1,70,000. The cost of PPE is Rs. 16,00,000 and Joy Ltd. Has deducted expenses of Rs. 4,16,000 in its tax returns prior to the financial year 20X4-20X5. Moreover, as on 31st March 20X5, Joy Ltd. For the first time revalued its property, plant and Equipment to fair value of Rs. 12,00,000 (revaluation surplus = Rs. 88,000).

b) In 20X1-20X2, Joy Ltd. Incurred product development costs of Rs. 1,00,000. These costs were recognized as an asset and being amortized over a useful period of 10 years. For tax purposes, Joy Ltd deducted full product development costs in 20X1-20X2.

c) Trade investments were acquired in 20X3-20X4 with cost of Rs. 2,30,000. These investments are classified at fair value through profit and loss and thus recognized at their fair value Fair Value adjustments are not tax deductible,

Assuming the tax rate of 32% for the year 20X4-20X5.

Question - 1 : With respect to point (a), determine the tax base of property, plant and equipment for the year 20X4-20X5.

A : Rs. 12,00,000

B : Rs. 9,78,000

C : Rs.13,94,000

D : Rs. 11,84,000

Question - 2 : With respect to point (a), determine defer tax on property, plant and equipment for the year 20X4-20X5.

A : DTL Rs. 71,040

B : DTA Rs 71,040

C : DTL Rs. 28,160

D : DTA Rs. 28,160

Question - 3 : With respect to point (b), determine tax base of Product Development Cost for the year 20X4-20X5.

A : Rs. 60,000

B : Rs. 1,00,000

C : Rs.40,000

D : Nil

Question - 4 : With respect to point (b), determine defer tax on Product Development Cost for the year 20X4-20X5.

A : DTL Rs. 32,000

B : DTA Rs. 32,000

C : DTL Rs. 19,200

D : DTA Rs. 19,200

Question - 5 : With respect to point (c), determine tax base of Trade Investment for the year 20X4-20X5.

A : Rs. 2,30,000

B : Rs. 2,08,000

C : Rs.22,000

D : Nil

Question – 6 : With respect to point (c), determine defer tax on Trade Investment for the year 20X4-20X5.

A : DTL Rs. 66,560

B : DTA Rs. 66,560

C : DTL Rs.7,000

D : DTA Rs. 7,040

Question - 7 : Determine the net defer tax asset / liability of Joy Ltd. For the year 20X4-20X5.

A : DTL Rs. 83,200

B : DTA Rs. 83,200

C : DTL Rs. 97,280

D : DTA Rs. 44,800

Answer Key / Description :

1 : B

Property Plant & Equipment as per tax records

	Rs.
Cost of PPE	**16,00,000**
Less: Current Tax Depreciation	**(2,06,000)**
Less: Previous year Tax Depreciation	**(4,16,000)**
Tax base	**9,78,000**

2 : A

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5.

Item	Carrying amount	Tax base	Temporary Difference	Taxable Deductible	DTA/(DTL) at 32%
Property Plant & Equipment	**12,00,000**	**9,78,000**	**2,22,000**	**Taxable**	**(71,040)**

3 : D

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable Deductible	DTA/(DTL) at 32%
Product Development Costs	**60,000**	**0**	**60,000**	**Taxable**	**(19,200)**

4 : C (Workings similar to MCQ-3)

5 : A

Calculation of temporary differences and deferred tax for Joy Ltd. As on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable Deductible	DTA/(DTL) at 32%
Trading Investments	**2,08,000**	**2,30,000**	**(22,000)**	**Deductible**	**7,040**

6 : D (Workings similar to MCQ-5)

7 : A

Calculation of temporary differences and deferred tax for Joy Ltd. As on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable Deductible	DTA/(DTL) at 32%
Product Development Costs	**60,000**	**0**	**60,000**	**Taxable**	**(19,200)**
Trading Investments	**2,08,000**	**2,30,000**	**(22,000)**	**Deductible**	**7,040**
Deferred tax asset – Total					**7,040**
Deferred tax liability – Total					**(90,240)**
Net Deferred Tax Liability					**(83,200)**

CASE SCENARIO - 02

Marvel Ltd. Wishes to calculate tax base of its liabilities and defer tax as on 31st March 20X5. The balance sheet has been adjusted by current tax expense. The extracts of equity and liabilities portion of the Balance Sheet as on 31st March 20X5 is as follows:

EQUITY & LIABILITIES	Rs.
Equity	
Share Capital	12,00,000
Accumulated Profits	7,37,438
Revaluation Surplus	88,000
Long term Liabilities	
Deferred Income – Government Grants	40,000
Liability for Product Warranty Costs	16,000
Deferred Tax Liability (From 20X3-20X4)	22,162
Current Liabilities	
Trade Payable	7,64,000
Health Care Benefits for Employees	70,000
Current Tax Liability	80,400
TOTAL EQUITY & LIABILITIES	30,18,000

Notes:

1. **Government grants are not taxable. Government grants received in 20X4-20X5 is appearing in the balance sheet.**
2. **In 20X4-20X5, Marvel Ltd made a further provision for product warranty of Rs. 5,000. Such provisions for product warranty costs are not tax deductible until the claims are paid or settled. During the year 20X4-20X5, warranty claims were paid / settled for Rs. 6,200.**
3. **During the year 20X4-20X5, Marvel Ltd introduced health case benefits for employees. The expenses are allowable as a deduction in tax only when benefits are paid but in line with IND AS 19, such liability is recognized in profit or loss when employees provide service.**

Assuming the tax rate of 32% for the year 20X4-20X5.

Question – 1 : With respect to point (a), determine tax base of Government grants for the year 20X4-20X5.

A : Rs. 0

B : Rs. 40,000

C : Rs. 12,800

D : Rs. 27,200

Question – 2 : With respect point (a), determine defer tax on Government grants for the year 20X4-20X5.

A : Nil

B : DTA Rs. 40,000

C : DTL Rs. 12,800

D : Deferred income – government grant will not be taxable

Question - 3 : With respect to point (b), determine the tax base of liability for product warranty costs for the year 20X4-20X5.

A : Rs. 0

B : Rs. 5,000

C : Rs. 16,000

D : Rs. 6,200

Question - 4 : With respect point (b), determine defer tax on liability for product warranty costs for the year 20X4-20X5.

A : Nil

B : DTA Rs. 5,120

C : DTL Rs. 5,120

D : Liability for product warranty cost will not be taxable

Question - 5 : With respect point (c), determine the temporary difference ,as per IND AS 12 , on account of health care benefits for employees for the year 20X4-20X5

A : Rs. 70,000

B : Rs. 80,400

C : Rs. 22,162

D : Nil

Question - 6 : With respect point (c), determine defer tax on Health care benefits for employee for the year 20X4-20X5.

A : Nil

B : DTL Rs. 22,400

C : DTA Rs. 22,400

D : Health care benefits for employees will not be taxable

Answer Key / Description :

1: A

Calculation of temporary differences and deferred tax for Marvel Ltd. as on 31' March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable} Deductible	DTA / (DTL) at 32%
Deferred income — Government grants	(40,000)	0	(40,000)	Excluded	0

2 : D

Calculation of temporary differences and deferred tax for Marvel Ltd, as on 31" March, 20X5

Item	Carrying amount	Tax *base*	Temporary Difference	Taxable/ Deductible	DTA /(DTL) at 32%
Deferred income – Government grants	(40,000)	0	(40,000)	Excluded	0

3 : A

Calculation of temporary differences and deferred fax for Marvel Ltd. as on 31st March, 20X5

Item	Carrying amount	*Tax base*	Temporary Difference	Tamable/ Deductible	DTA /(DTL) at 32%
Liability for product warranty costs	(16,000)	0	(16,000)	Deductible	5,120

4 : B

Calculation of temporary differences and deferred tax for Marvel Ltd. as on 31st March, 20X5

Item	Carrying amount	*Tax base*	Temporary Difference	Tamable/ Deductible	DTA /(DTL) at 32%
Liability for product warranty costs	(16,000)	0	(16,000)	Deductible	5,120

5 : A

Calculation of temporary differences and deferred tax for Marvel Ltd. as on 31' March, 20X5

Item	Carrying amount	*Tax base*	Temporary Difference	Tamable/ Deductible	DTA /(DTL) at 32%
Health care benefits: for employees	(70,000)	0	(70,000)	Deductible	22,400

6 C

Calculation of temporary differences and deferred tax for Marvel Ltd. as on 31st March, 20X5

Item	Carrying amount	*Tax base*	Temporary Difference	Tamable/ Deductible	DTA /(DTL) at 32%
Health care benefits for employees	(70,000)	0	(70,000)	Deductible	22,400

CASE SCENARIO - 03

Lal Ltd. Wishes to calculate tax base of its assets and defer tax as on 31st March 20X5. The balance sheet has been adjusted by current tax expense. The extracts of equity and liabilities portion of the Balance Sheet as on 31st March 20X5 is as follows:

EQUITY & LIABILITIES	Rs.
Non current Assets	
Plant , Property and Equipment	12,00,000
Intangible assets	
Product development costs	60,000
Investment in subsidiary- Pall. ltd	4,40,000
Current Assets	
Trade Investments	2,08,000
Trade Receivables	6,26,000
Inventories	3,04,000
Cash and cash equivalents	1,80,400
TOTAL ASSETS	30,18,000

Notes:

(a) Bad debt provision amounts to Rs. 1,30,000 and relates to 2 debtors :

a. **Debtor A Rs. 80,000 (receivable originated in 20X2-20X3 and 100% provision was recognised in 20X3-20X4) and**

b. **Debtor B Rs. 50,000 (receivable originated in 20X3-20X4 and 100% provision was recognised in 20X4-20X5)**

Tax law allows deduction of 20% of provision for debtors overdue for more than 1 year, another 30% for debtors overdue for more than 2 years and remaining 50% for debtors overdue for more than 3 years.

(b) Lal Ltd accounts for inventory obsolescence provision. The new provision created In 20X4-20X5 was Rs. 10,800 (total provision :Rs. 18,000), this provision is not tax deductible as it is a general provision.

Assuming the tax rate of 32% for the year 20X4-20X5.

Question – 1 : With respect to point (a), determine tax base of Trade Receivables for the year 20X4-20X5.

A : Rs. 7,16,000

B : Rs. 7,46,000

C : Rs. 7,56,000

D : Rs. 7,06,000

Question – 2 : With respect point (a), determine defer tax on Trade Receivables for the year 20X4-20X5.

A : DTA Rs. 28,800

B : DTL Rs. 41,600

C : DTA Rs. 25,600

D : DTA Rs. 41,600

Question - 3 : With respect to point (b), determine the tax base of Inventories for the year 20X4-20X5.

A : Rs. 3,04,000

B : Rs. 3,22,000

C : Rs. 3,14,800

D : Nil

Question - 4 : With respect point (b), determine defer tax on Inventories for the year 20X4-20X5.

A : DTA Rs. 5,760

B : DTA Rs. 3,456

C : Nil

D : DTA Rs. 18,000

Answer Key / Description :

1 : D

Trade receivables – Provision for doubtful debts:

		Rs.
Calculation of Cost for tax records		
Carrying amount		**6,26,000**
Add Back : Bad Debt provision		**1,30,000**
Cost		**7,56,000**
Debtor A – Rs.80,000 from 20x2-20x3		
>1 year – 20% deducted in 20x3-20x4	**16,000**	
>2year – 30% deducted in 20x4-20x5	**24,000**	
Already deducted for tax:	**40,000**	
Debtor B – Rs.50,000 from 20x4		
> 1 year -20% deducted in 20X5	**10,000**	
Total deducted for tax purposes (B)		**50,000**
Tax base of trade receivables: (A-B)		**7,06,000**

2 : C

Calculation of temporary differences and deferred tax for Lal Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable Deductible	DTA/(DTL) at 32%
Trade receivables	6,26,000	7,06,000	(80,000)	Deductible	25,600

3 : B

Calculation of temporary differences and deferred tax for Lal Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable Deductible	DTA/(DTL) at 32%
Inventories	3,04,000	3,22,000	(18,000)	Deductible	5,760

4 : A

Calculation of temporary differences and deferred tax for Lal Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable Deductible	DTA/(DTL) at 32%
Inventories	3,04,000	3,22,000	(18,000)	Deductible	5,760

IND AS 16: Property, Plant and Equipment

SEC – A : ICAI MCQs

Question -1 : When an asset is sold or disposed of, where is the gain or loss recognized?

A : Asset disposal account

B : Profit and loss

C : Revaluation reserve

D : Depreciation

Question 2 : Under IND AS 16, how often should the useful life of an asset be reviewed?

A : At least at each financial year end

B : Every six months

C : At managements discretion

D : Never

Question 3 : India Turnings Limited has adopted revaluation model, as per IND AS, since 1st April, 20X1 to measure its property, plant and equipment (PPE) and have revalued it as follows:

As on 1st April, 20X1, PPE has been revalued up by ₹ 3,00,000.

As on 31st March, 20X2 • PPE has been revalued down by₹ 3,60,000

As on 31st March, 20X3 A PPE has been revalued up by₹ 5,00,000

How will the increase in year 20X2-20X3 be recognized in the financials of India Turnings Limited?

A : Rs. 5,00,000 is credited to other comprehensive income

B : Rs. 60,000 is credited to profit and loss account and Rs. 4,40,000 is credited to other comprehensive income

C : Rs. 60,000 is credited to other comprehensive income And Rs. 4,40,000 is credited to profit and loss account

D : Rs. 5,00,000 is credited to profit and loss account

Question 4 : A Limited has stopped manufacturing operations in its plant for 3 months in the year ended 31st March, 20X1. How should A limited account for depreciation relating to the 3 months in which plant was idle under IND AS 16?

A : No depreciation should be charged for 3 months

B : Depreciation for 3 months in which plant was idle should be recognized in other comprehensive income

C : Depreciation for 3 months in which plant was idle should be recognized in retained earnings

D : Depreciation for 3 months in which plant was idle should be recognized in profit or loss

Question 5 : When it is ______ that future economic benefits associated with an asset will flow to the entity, and the cost of the asset can be ______ measured, it should be recognized as an asset.

A : Possible, reasonably

B : Possible, reliably

C : Probable, reliably

D : Probable, reasonably

Question - 6 : If one large asset has a number of individual components with different useful lives, how should this be depreciated?

A : Treat as one asset and depreciate in accordance with highest useful life of the component

B : Break down into different components and depreciate every component separately as per the useful life of that component

C : Expense it all

D : Treat as one asset, but disclose only in the notes to the financial statements

Question - 7 : Under IND AS 16, which two subsequent accounting treatments are allowed subsequently to initial recognition?

A : Cost model and present value model

B : Cost model and revaluation model

C : Fair value model and revaluation model

D : Fair value model and cost model

Question 8 : Which of these is an allowable cost of an asset for capitalisation under IND AS 16?

A : Professional fees

B : General overheads

C : Initial operating losses

D : Administration expenses

Question - 9 : Devam Ltd chooses to revalue property under IND AS 16. On 31st March 20X1, their head office building is valued at 30 lakh when it is recorded in the financial statements at historical cost of 25 lakh with 4.5 lakh of accumulated depreciation charged against it. Which of the following statements is true regarding the accounting treatment of the property?

A : A revaluation gain of 5 lakh should be recorded through other comprehensive income, grouped with other items that will not subsequently be reclassified to profit or loss

B : A revaluation gain of 5 lakh should be recorded through profit or loss

C : A revaluation gain of 9.5 lakh should be recorded through other comprehensive income, grouped with other items that will not subsequently be reclassified to profit or loss

D : A revaluation gain of 9.5 lakh should be recorded through other comprehensive income, grouped with other items that will subsequently be reclassified to profit or loss

Question – 10 : When the revaluation model is used for PPE the gain on revaluation should be treated as

A : Income in the Statement of profit and loss for the period

B : Gain from revaluation in the income statement

C : A revaluation surplus accounted in OCI

D : An extraordinary gain or loss in the income statement

Answer Key : 1 : B 2 : A 3 : B 4 : D 5 : C 6 : B 7 : B 8 : A 9 : C 10 : C

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : On January 1, 2010, Robust Ltd. purchased heavy-duty equipment for Rs. 400,000. On the date of installation, it was estimated that the machine has a useful life of ten years and a residual value of Rs. 40,000. Accordingly, the annual depreciation worked out to Rs. 36,000 = [(Rs. 400,000 – Rs. 40,000)/10].

On January 1, 2014, after four years of using the equipment, the company decided to review the useful life of the equipment and its residual value. Technical experts were consulted. According to them, the remaining useful life of the equipment at January 1, 2014, was seven years and its residual value was Rs. 46,000. The revised annual depreciation for the year 2014 and future years will be

A : Rs. 30,000.

B : Rs. 32,181.

C : Rs. 35,714.

D : Rs. 25,000.

Question – 2 : Airtime Co. acquired a passenger carrier airplane in 2010 having cost of the frame for CU 4,600,000 and its engine cost CU 600,000.

In 2011, the engine was replaced with a new engine costing CU 1,100,000. At the time of replacement, the accumulated depreciation to date for the frame was CU 1,750,000 and on the engine was CU 400,000. As per Ind-AS 16, the amount to be derecognised at the date of replacement will be –

A : CU NIL

B : CU 200,000

C : CU 600,000

D : CU 1,100,000

Question – 3 : Under Ind-AS 16, Property, Plant & Equipment, the useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the Options are:-

A : Useful life of an asset may be shorter than its economic life

B : Economic life of an asset may be shorter than its useful life

C : Economic life of the asset is a matter of judgment

D : Asset may be depreciated in a manner that reflects the future maintainable economic benefits

Question – 4 : Cost of property, plant and equipment (Ind-AS 16) is calculated as:

A : Purchase price net of any discounts + directly attributable costs – accumulated depreciation.

B : Purchase price + transport costs + installation cost.

C : Purchase price net of any discounts + directly attributable costs – accumulated depreciation – impairment loss.

D : Purchase price net of any discounts + directly attributable costs + the initial estimate of costs for dismantling and removing the asset and restoring the site.

Question – 5 : On January 1, year 1, an entity acquires for Rs. 100,000 a new piece of machinery with an estimated useful life of 10 years. The machine has a drum that must be replaced every five years and costs Rs. 20,000 to replace. Continued operation of the machine requires an inspection every four years after purchase; the inspection cost is Rs. 8,000. The company uses the straight-line method of depreciation. What is the depreciation expense for year 1?

A : Rs. 10,000

B : Rs. 10,800

C : Rs. 12,000

D : Rs. 13,200

Question – 6 : On 1 January 2014 an entity acquired a building for Rs. 95,000, including Rs. 5,000 non-refundable purchase taxes. The purchase agreement provided for payment (including payment of the purchase taxes) to be made in full on 31 December, 2014. Legal fees of Rs. 2,000 were incurred in acquiring the building and paid on 1 January, 2014. The building is occupied by the entity's administrative staff. An appropriate discount rate is 10 per cent per year. What is the initial cost of the building?

A : Rs. 102,000

B : Rs. 97,000

C : Rs. 88,364

D : Rs. 107,000

Question – 7 : Ind-AS 16 requires that revaluation surplus resulting from initial revaluation of property, plant, and equipment should be treated in one of the following ways

A : Credited to retained earnings as this is an unrealised gain.

B : Released to the income statement an amount equal to the difference between the depreciation calculated on historical cost vis-à-vis revalued amount.

C : Deducted from current assets and added to the property, plant, and equipment.

D : Debited to the class of property, plant, and equipment that is being revalued and credited to a reserve captioned "revaluation surplus," which is presented under "equity."

Question – 8 : Healthy Co. bought a private jet for the use of its top-ranking officials. The cost of the private jet is CU15 million and can be depreciated either using a composite useful life or useful lives of its major components. It is expected to be used over a period of 7 years. The engine of the jet has a useful life of 5 years. The private jet's tyres are replaced every 2 years. The private jet will be depreciated using the straight-line method over

A : 7 years composite useful life.

B : 5 years useful life of the engine, 2 years useful life of the tyres, and 7 years useful life applied to the balance cost of the jet.

C : 2 years useful life based on conservatism (the lowest useful life of all the parts of the jet).

D : 5 years useful life based on a simple average of the useful lives of all major components of the jet.

Question – 9 : An entity owns a building which originally costs $200,000. The property is depreciated over 50 years on a straight-line basis with no residual value. The entity follows revaluation model. At the start of year 2, the building was re-valued at $230,000. The amounts transferred from the revaluation surplus to retained earnings is __________

A : $ 694

B : $ 660

C : $ 600

D : $ 0

Question – 10 : An entity imported machinery to install in its new factory premises before year-end. However, due to circumstances beyond its control, the machinery was delayed by a few months but reached the factory premises before year- end. While this was happening, the entity learned from the bank that it was being charged interest on the loan it had taken to fund the cost of the plant. What is the proper treatment of freight and interest expense under IndAS 16 ?

A : Both expenses should be capitalised.

B : Interest may be capitalised but freight should be expensed.

C : Freight charges should be capitalised but interest cannot be capitalised under these circumstances.

D : Both expenses should be expensed.

Question – 11 : Items such as spare parts, stand by equipments and servicing equipments -

A : Are recognised in accordance with Ind-AS 16 when they meet the defined of PPE

B : Are not recognised in accordance with Ind-AS 16 but are classified as inventory as per Ind-AS 2

C : Are always classified as PPE in accordance with Ind-AS 16

D : Neither classified as PPE nor inventory but as classified as consumables and charged to Income statement

Question – 12 : Global Inc. owns a fleet of over 100 cars and 20 ships. It operates in a capital-intensive industry and thus has significant other property, plant, and equipment that it carries in its books. It decided to revalue its property, plant, and equipment. The company's accountant has suggested the

alternatives that follow. Which one of the options should Global Inc. select in order to be in line with the provisions of Ind-AS 16?

A : Revalue only one-half of each class of property, plant, and equipment, as that method is less cumbersome and easy compared to revaluing all assets together.

B : Revalue an entire class of property, plant, and equipment.

C : Revalue one ship at a time, as it is easier than revaluing all ships together.

D : Since assets are being revalued regularly, there is no need to depreciate.

Question – 13 : As per Ind-AS 16, Land and Buildings are separable assets and accounted for separately, even if they are acquired together.

A: True

B : False

C : Partially True

D : Partially False

Question – 14 : State True or False :-

(I) B Ltd. decided to decrease the residual value of its machinery at the end of the financial year and treated same as the "change in accounting policy".

______

(II) Your client follows revaluation model for its property alone and for rest of the assets it adopts cost model. Your client believes that such an accounting treatment is permitted in Ind-AS 16- Property, plant and equipment.

____

Answer Key : 1 : A 2 : B 3 : A 4 : D 5 : D 6 : C 7 : D 8 : B 9 : A 10 : C 11 : A 12 : B 13 : A 14 : (i) False (ii) : True

IND AS 19: Employee Benefits

SEC – A : ICAI MCQs

Question – 1 : While accounting for a defined benefit obligation, there is net interest to be recognized in profit or loss. Based on the prevailing accounting practices, which of the following statement is true?

A : Net interest cost shall be recognized as 'employee benefit expenses' in the statement of profit or loss

B : Net interest cost shall be recognized as 'finance cost' in the statement of profit or loss

C : Net interest cost shall be recognized as 'other expenses' in the statement of profit or loss

D :The Company has an accounting policy choice of recognizing net interest cost either in 'employee benefit expenses' or 'finance cost'

Question – 2 : How should we treat maternity or paternity leaves while accruing liability for compensated absences as per actuarial valuation?

A : Depends on accounting policy of the company

B : Should be included for actuarial valuation

C : Should not be included for actuarial valuation

D : Only maternity leaves should be included for actuarial valuation

Question – 3 : While recognizing the expenses for paid leave to employees which are carried forward to next year if unutilized. An employee can utilize such carry forward leaves anytime subject to maximum of 30 accumulated leaves. How should the Company recognize re- measurement of liability comprising the actuarial gain/loss?

A : In the statement of profit or loss

B : In other comprehensive income as item to be reclassified to profit or loss

C : In other comprehensive income as item not to be reclassified to profit or loss

D : Directly in equity

Question – 4 : From the following items, identify what must be classified as other long-term benefits under IND AS 19?

A : Paid maternity leave

B : Cash bonus payable in August 20X3 for results obtained up to 31st March, 20X3

C : Deferred compensation payable 20 months after the period in which it is earned

D : Lump sum retirement benefit of 10 lakh that vests after five years of service

Question - 5 : An entity has decided to improve its defined benefit pension scheme. The benefit payable will be determined by reference to 60 years of service rather than 80 years of service. As a result, the deemed benefit pension liability will increase by Rs 2 Crores. The average remaining service lives of its employees is 10 years. The Company wants to understand as to how should the increase in pension liability by Rs. 2 Crores be treated in the financial statements?

A : The past service cost should be charged against retained profit

B : The past service cost should be charged against profit or loss for the year

C : The past service cost should be spread over the remaining working lives of the employees

D : The past service cost should not be recognised

Answer Key : 1 : D 2 : C 3 : A 4 : C 5 : B

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : An entity has decided to improve its defined benefit pension scheme. The benefit payable will be determined by reference to 60 years service rather than 80 years service. As a result, the defined benefit pension liability will increase by Rs. 10 million. The average remaining service lives of the employees is ten years. How should the increase in the pension liability by Rs. 10 million be treated in the financial statements? (Based on the latest version of Ind-AS 19 as applicable from Jan 13.)

A : The past service cost should be charged against retained profit.

B : The past service cost should be charged against profit or loss for the year.

C : The past service cost should be spread over the remaining working lives of the employees.

D : The past service cost should not be recognized

Question – 2 : Short term compensated absences are a category of short-term employee benefits. The two types of short term compensated absences are

A : Accumulating and non-accumulating short term compensated absences

B : Non-accumulating short term compensated absence

C : Accumulating absence

D : Termination benefits

Question – 3 : Zed Ltd. operates a pension plan that provides a pension of 3% of final salary for each completed year of service. The benefit becomes vested after 5 years of service. On 1.1.2010, the entity improves the pension to 3.5% of final salary for each year of service starting from 1.1.2005. At the date of improvement, the present value of the additional benefit for service from 1.1.2005 to 1.1.2010 is as follows :-

Employees with more than 5 years of service at 1.1.2010	**200**
Employees with less than 5 years service at 1.1.2010 (avg period until vesting is 3 years)	**150**
Total	**350**

The amount to be charged to Profit and Loss account during the year ended 31.12.2010 is as follows

A : Rs. 250 [Rs. 200 (already vested) + Rs. 50 (i.e. Rs. 150 / 3 on a straight-line basis over 3 years from 1.1.2010)]

B : Rs. 350 being past service cost up to 31.12.2010

C : Rs. 200 already vested (Rs. 50 to be accounted on the vesting date on completion of 3 years).

D : Rs. 200 already vested.

Question – 4 : The fair value of plan assets at 31 December 2013 was Rs. 15,000. Fair value of plan assets on 01 January 2013 was Rs. 10,000. The value of contributions received during the year is Rs. 4,900. The value of benefit paid out during the year is Rs. 1,900. The expected return on plan assets during the year was Rs. 1,175. Calculate the actuarial gain or loss.

A : Actuarial loss of Rs. 825

B : Actuarial gain of Rs. 825

C : Neither Actuarial gain nor actuarial loss

D : None of the above

Question – 5 : A large corporate enterprise has 100 employees. The employees are each entitled to 5 working days of paid sick leave for each year. Such unused leave is carried forward for one calendar year. The leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (a LIFO basis). At 31st December 20X3, the average unused entitlement is 2 days per employee. The enterprise expects, based on past experience that is expected to continue, that 92 employees will take no more than 5 days of sick leave in 20X4 and that the remaining 8 employees will take an average of 6 ½ (six and a half days) each. One day leave is evaluated at Rs. 500

Calculate the Liability to be recognised as at 31st December 20X3

A : Rs. 6,000

B : Rs. 8,000

C : Rs. 20,000

D : Rs. 26,000

Question – 6 : Info Software Ltd. has reported a net profit after tax of 350 crores in the financial year 2013-14. According to its profit -sharing & bonus plan, it distributes and pays 2.5% as its portion of profit to its employees if they complete 1 year with the organisation. As per the terms of this profit sharing plan for retention of employees, it has an obligation to pay if the employees complete the specified period with the organisation. Info Software ltd estimated that due to turnover in the organisation, the estimated pay-out would be around 1.5%. Compute the liability and expense of the company under this plan in 2013-14.

A : Rs. 5.25 crores being 1.5% of Rs. 350 crores based on estimated liability

B : Rs. 8.75 crores being 2.5% of Rs. 350 crores based on principle of conservatism

C : Rs. 5.25 crores after discounting the liability to its present value

D : Rs. 8.75 crores after discounting the liability to its present value

Question – 7 : An entity contributes to an industrial pension plan that provides a pension arrangement for its employees. A large number of other employers also contribute to the pension plan, and the entity makes contributions in respect of each employee. These contributions are kept separate from corporate assets and are used together with any investment income to purchase annuities for retired employees. The only obligation of the entity is to pay the annual contributions. This pension scheme is

A : Multiemployer plan and a defined contribution scheme

B : Multiemployer plan and a defined benefit scheme

C : Defined contribution plan only

D : Defined benefit plan only

Question – 8 : An entity operates a pension plan that provides a pension of 2% of final salary for each year of service. The benefits become vested after five years of service. On 1 January, 20X5 the entity improves the pension to 2.5% of final salary for each year of service starting from 1 January, 20X1. At the date of the improvement, the present value of the additional benefits for service from 1 January, 20X1 to 1 January, 20X5 is as follows:

Particulars	Rs.
Employees with more than five years' service at 1/1/X5	**150**
Employees with less than five years' service at 1/1/X5 (average period until vesting: three years)	**120**
Grand total	**270**

As per the requirements of Ind-AS 19 Employee benefits, the accounting will be as follows:–

A : The entity recognises 150 lakhs immediately because those benefits are already vested. The entity recognises 120 lakhs on a straight line basis over three years from 1 January 20X5.

B : The entity recognises 270 lakhs immediately because it pertains to past service.

C : The entity recognises 150 lakhs immediately because those benefits are already vested. The balance 120 lakhs is also recognised fully but disclosed separately.

D : The entity has an option to recognize 270 lakhs on a straight line basis over a three years period from 1st January, 2015 until all the employees in the plan have fulfilled the vesting requirements.

Question – 9 : An entity on December 31, 2013, changes its defined benefit pension plan to a defined contribution plan. The entity agrees with the employees to pay them $9 million in total on the introduction of a defined contribution plan. The employees forfeit any pension entitlement for the defined benefit plan. The pension liability recognized in the statement of financial position at December 31, 2012, was $10 million. How should this curtailment be accounted for in the statement of financial position at December 31, 2013?

A : A settlement gain of $1 million should be shown.

B : The pension liability should be credited to reserves and a cash payment of $9 million should be shown in expense in the statement of comprehensive income.

C : The cash payment should go to reserves and the pension liability should be shown as a credit to the statement of comprehensive income.

D : A credit to reserves should be made of $1 million.

Answer Key : 1 : B 2 : A 3 : A 4 : B 5 : A 6 : A 7 : A 8 : A 9 : A

IND AS 20: Accounting for Government Grants and Disclosure of Government Assistance

SEC – A : ICAI MCQs

Question - 1: According to IND AS 20, which of the following is included in the definition of "government"?

A : Local and national bodies only

B : Government agencies only

C : International bodies only

D : Government, government agencies, and similar bodies whether local, national, or international

Question - 2: According to IND AS 20, when should government grants be recognized by an entity?

A : As soon as the grant is offered by the government

B : Once the entity fulfils the conditions attached to the grants

C : When there is reasonable assurance that the entity will comply with the conditions and receive the grants

D : After the entity has received the grants

Question - 3: Which IND AS provides guidance on accounting for government grants and disclosure of government assistance?

A : IND AS 115

B : IND AS 20

C : IND AS 38

D : IND AS 16

Question - 4: How is a grant recognized in profit or loss when it is set up as deferred income?

A : It is recognized as income in the year the grant is received

B : It is recognized in profit or loss on a systematic basis over the useful life of the asset

C : It is recognized as a reduction in depreciation expense over the life of the asset

D : It is recognized as a separate item in the other comprehensive income section

Answer Key : 1 : D 2 : C 3 : B 4 : B

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : Which of the following is not specifically excluded from the purview of Ind-AS 20?

A : Government participation in ownership of the entity.

B : Government grant covered by Ind-AS 41.

C : Government assistance provided in the form of tax benefits.

D : Forgivable loan from the government.

Question – 2 : If government grant is ________ an enterprise should recognise the government grant as income when, and only when, the conditions attaching to the government grant are met.

A : Conditional

B : Unconditional

C : Committed

D : Declared

Question – 3 : Government grant as defined in Ind-AS 20 Accounting for Government Grants & Disclosure of Government assistance should not be recognised unless there is reasonable assurance that the entity will comply with the conditions attached to them and

A : The grant is actually applied for by the entity

B : Reasonable assurance that grant will be received

C : The grant is actually received

D : The scheme of government grant is announced by the government

Question – 4 : For the purpose of Ind-AS 20 – "Accounting for Government Grants and Disclosure of Government Assistance", government assistance includes the provision of infrastructure in development areas or the imposition of trading constraints on competitors.

A: True

B : False

C : Partially True

D : Partially False

Answer Key : 1 : D 2 : A 3 : B 4 : B

IND AS 21: The Effects of changes in Foreign Exchange Rates

SEC – A : ICAI MCQs

Question - 1: Pursuant to IND AS 21, which factor will not be used in determining the entity's functional currency?

A : The currency that primarily influences the prices at which goods and services are sold

B : The currency in which the costs of the entity are mainly denominated

C : The currency which is used mostly for international trading in that industry

D : The currency in which funds from financing are generated

Question - 2 : Parent P owns 80% of the net assets of Subsidiary S. S's functional currency is Dinar. S was acquired on 30th September, 20X1 and its net assets fair value was Dinar 40,000. P has recognised a cost of investment amounting to CU 10,675 in its financial statements. The groups accounting policy for goodwill is to recognise it on a proportionate basis. Exchange rates are as follows: 30th September, 20X1 CU 1= 6.5 Dinar 31st December, 20X2 CU 1= 6.0 Dinar Calculate the goodwill to be recognised in the consolidated statement of balance sheet as at 31st December, 20X2 under IND AS 21

A : CU 3,207

B : CU 3,918

C : CU 5,342

D : CU 6,231

Question - 3 : XYZ Ltd prepares consolidated financial statements. During the financial year ended 31st March 20X2, XYZ disposed of an investment in a foreign operation. Up to the date of disposal, XYZ had to translate the financial statement of the foreign operation from another currency for inclusion in its consolidated financial statements. During prior reporting periods, Rs.14,000 of exchange difference gains net of tax (pre-tax exchange difference gains Rs.20,000) had been recognised in other comprehensive income in the consolidated financial statements of XYZ Ltd.
During the reporting period ending on 31st March, 20X2, Rs.3,500 exchange difference gain net of tax (pre-tax exchange difference gain Rs.5,000) up to the date of disposal of the foreign operation had been recognised in other comprehensive income. Which one of the following statements is correct in relation to the treatment of the disposal of the foreign operation in the consolidated statement of profit and loss and other comprehensive income of XYZ Ltd. for the year ended 31st March 20X2?

A : Other comprehensive income would include an exchange difference net of tax gain of Rs.3,500

B : Other comprehensive income would include a reclassification adjustment net of tax of Rs.14,000

C : Other comprehensive income would include a reclassification adjustment net of tax of Rs.17,500

D : No reclassification adjustment from other comprehensive income to profit or loss is necessary on disposal of the foreign operation

Question - 4 : Zed Ltd. imported an item of Property, plant and equipment i.e. machinery costing USD 100,000. The exchange rate as at the date of receipt of the Plant and Machinery in India was Rs.60 = 1 USD. However, at the time of remitting the payment to the foreign vendor [30 days after receipt of the Plant and machinery in India] the exchange rate was Rs.62 = 1 USD. Accordingly, ZED Ltd. passed a journal entry debiting Vendor account for Rs.60,00,000, debiting Exchange loss for Rs.2,00,000 and crediting bank account for Rs.62,00,000. At the first balance sheet date after the acquisition of the aforesaid Plant and Machinery, Zed Ltd. opted to use the Revaluation model. The accounting

treatment as per
IND AS 21 as regards the exchange loss of Rs.2,00,000 is as follows:

A : Rs. 2,00,000 being a realised exchange loss on a monetary item, it should be recognized in Profit or Loss account

B : Rs. 2,00,000 being an unrealised exchange loss on a monetary item, it should be recognised in Profit or Loss account

C : Rs. 2,00,000 being a realised loss on a non-monetary item, it should be recognised in Profit or Loss account

D : Rs. 2,00,000 being a realised loss on a non-monetary item, it should be recognised in Other Comprehensive Income as the asset is being accounted under the revaluation model

Question - 5: Casper Ltd is a New York based company engaged in the business of manufacturing mobile handsets. Casper's functional currency is the dollar. Casper purchased a machine on credit from a European supplier for E$6 million on 31 January 2018. At this date the exchange rate was E$2 = $1. Casper did not settle the dues until its reporting date i.e. 31 March 20X1. At this date the closing exchange rate was E$1.5= $1.
Casper follows cost model for measuring its non-current assets. Which one of the following statements is correct in accordance with IND AS 21- The Effects of Changes in Foreign Exchange Rates for the period ending 31 March 20X1?

A : Cost of machine $ 4 million, trade payable $ 3 million, exchange gain $ 1 million

B : Cost of machine $ 3.0 million, trade payable $ 4 million, exchange loss $ 1 million

C : Cost of machine $ 3.0 million, trade payable $ 4 million, exchange loss $ 1.2 million

D : Cost of machine $ 4 million, trade payable $ 4 million, no exchange loss

Question - 6: XYZ Ltd., during the financial year ended 31 March 20X2, disposed of an investment in a foreign operation. Up to the date of disposal, XYZ had to translate the financial statement of the foreign operation from another currency for inclusion in its consolidated financial statements. During prior reporting periods, Rs.14,000 of exchange difference gains net of tax (pre-tax exchange difference gains Rs. 20,000) had been recognised in OCI in the consolidated financial statements of XYZ Ltd. During the year 20X2 reporting period, Rs. 3,500 exchange difference gain net of tax (pre-tax exchange difference gain Rs.5,000) up to the date of disposal of the foreign operation had been recognised in OCI.
Which one of the following statements is correct in relation to the treatment of the disposal of the foreign operation in the consolidated statement of profit or loss and OCI of XYZ for the year ended 31 March 20X2?

A : OCI would include an exchange difference net of tax gain of Rs.3,500

B : OCI would include a reclassification adjustment net of tax of Rs.14,000

C : OCI would include a reclassification adjustment net of tax of Rs. 17,500

D : No reclassification adjustment from OCI to profit or loss is necessary on disposal of the foreign operation

Question - 7: In the context of IND AS 21, which of the following is not a monetary item?

A : Cash and bank balances

B : Fixed deposits

C : Shareholders equity

D : Accounts payable

Answer Key : 1 : C 2 : D 3 : C 4 : A 5 : B 6 : C 7 : C

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : An entity purchases plant from a foreign supplier for €3 million on January 31, 2014, when the exchange rate was €2 = $1. At the entity's year-end of March 31, 2014, the amount has not been paid. The closing exchange rate was €1.5 = $1. The entity's functional currency is the dollar. Which of the following statements is correct?

A : Cost of plant $2 million, exchange loss $0.5 million, trade payable $1.5 million.

B : Cost of plant $1.5 million, exchange loss $0.6 million, trade payable $2 million.

C : Cost of plant $1.5 million, exchange loss $0.5 million, trade payable $2 million.

D : Cost of plant $2 million, exchange loss $0.5 million, trade payable $2 million.

Question – 2 : As per Ind-AS 21 'The Effects of Changes in Foreign Exchange Rates' functional currency is the currency

a) of the primary economic environment in which the entity operates.

b) in which financial statements are presented

c) of the economy that determines the pricing of transactions, as opposed to the currency in which transactions are denominated

d) in which the consolidated financial statements are presented by the parent

A : Only a is true

B : Only a, b, d are true

C : All are true

D : Only a, c are true

Question – 3 : In the context of Ind-AS 21 The Effects of Changes in Foreign Exchange rates - Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency. Which of the following is not a monetary item.

A : Cash and bank balances

B : Fixed deposits

C : Shareholders' equity

D : Accounts payable

Question – 4 : Which of the following statements are true in the context of Ind-AS 21 The Effects of Changes in Foreign Exchange rates ?

A : Foreign currency is a currency other than the functional currency of the entity.

B : Foreign currency is a currency of a country other than the one in which the entity is domiciled

C : Foreign currency is a currency of a foreign country.

D : Foreign currency is a currency of a country other than the currency of the country whose functional currency has been adopted

Answer Key : 1 : C 2 : D 3 : C 4 : A

IND AS 23: Borrowing Costs

SEC – A : ICAI MCQs

Question - 1: In determining the borrowing costs to be capitalised, the amount of expenditure on a qualifying asset include only those expenditures that have resulted in

A : Payments of cash

B : Transfers of other assets

C : The assumption of interest-bearing liabilities

D : All of the above

Question - 2: Which of the following is not a qualifying asset?

A : Financial assets

B : Investment properties

C : Intangible plants

D : Bearer plants

Question - 3: When will the specific borrowings be considered as general borrowings?

A : When substantially all the activities necessary to prepare the qualifying asset (for which specific borrowings was taken) for its intended use or sale are complete

B : When activities necessary to prepare the qualifying asset (for which specific borrowings was taken) for its intended use or sale have been started

C : When substantially all the activities necessary to prepare the qualifying asset (for which specific borrowings was taken) for its intended use or sale are near to complete

D : Specific borrowing are never considered as general borrowings in any circumstances

Question - 4: In determining the borrowing costs to be capitalised, the amount of expenditure on a qualifying asset are not reduced by

A : Progress payments received

B : Grants received in connection with the asset

C : Income on temporary investment of specific borrowings

D : Both (a) and (b)

Question - 5: What will be the treatment of exchange difference resulting into unrealised gain while capitalising the borrowing cost on foreign currency borrowings taken for construction of a qualifying asset?

A : It would not be adjusted to interest even if there was an adjustment to interest in the previous year on account of unrealised exchange loss on settlement or translation of same borrowings

B : It would be adjusted to interest to the extent of an adjustment to interest in the previous year on account of unrealised exchange loss on settlement or translation of same borrowings

C : It will be adjusted to interest irrespective of the fact that whether there was an adjustment to interest in the previous year on account of unrealised exchange loss (on settlement or translation of same borrowings) or not

D : It will be adjusted to interest fully only if there was an adjustment to interest in the previous year on account of unrealised exchange loss on settlement or translation of same borrowings

Question - 6: Borrowing costs do not include

A : Interest expense calculated using the effective interest rate method as described in IND AS 109 Financial Instruments

B : Interest in respect of lease liabilities recognized in accordance with IND AS 116, Leases

C : Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs

D : Interest expenses on own finance resources or interest notional expenses

Question - 7: In case of specific borrowings, the borrowing cost is capitalized.

A : To the extent the borrowings are utilised for construction of the qualifying asset

B : To the extent of the expenditure incurred on construction of the qualifying asset

C : On total amount of specific borrowings from commencement date less income on temporary investment made out of such borrowings

D : On half of the specific borrowing amount

Question - 8: Which of the following would be considered as borrowing cost to be capitalised?

A : Interest on working capital

B : Interest on borrowings used for manufacturing inventories in large quantities on a repetitive basis

C : Interest on borrowings utilised to acquire biological assets measured at fair value

D : Dividend paid on redeemable preference shares used to fund the development of a qualifying asset

Question - 9: SK Labs are planning to expand their business and open two more branches in the vicinity of two new hospitals being built in the area. The enterprise is using funds from their general borrowings for this expansion project. The finance director of the company has briefly read about the capitalisation of the interest paid on the borrowings. He has sought your clarification on this matter if his entity can capitalise interest of 10% which is the highest interest rate of all the borrowings they have made during the year. Which of the following are correct about the capitalisation of interest on borrowings made by a company as per IND AS 23 Borrowing Costs?

A : Finance director is right, and he can use 10% as capitalisation rate for calculating the eligible borrowing costs to be capitalised on the qualifying asset

B : Capitalisation rate should be weighted average of all the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset

C : Interest paid on general borrowing have to be calculated in accordance with ICDS (Income Computation and Disclosure Standards) which is also required for calculation of current tax and deferred tax

D : Entity should use the lowest interest rate of all the borrowings outstanding during the period as capitalisation rate to calculate the eligible borrowing costs

Question - 10: The capitalisation rate is –

A : The weighted average of the borrowing costs applicable to all the general borrowings of the entity that are outstanding during the period

B : The weighted average of the borrowing costs applicable to all the general and specific borrowings of the entity that are outstanding during the period

C : The weighted average of the borrowing costs applicable to all the specific borrowings of the entity that are outstanding during the period

D : The weighted average of the borrowing costs applicable to those general borrowings of the entity only that are used during the period for construction of that particular qualifying asset

Answer Key : 1 : D 2 : A 3 : A 4 : C 5 : B 6 : D 7 : C 8 : D 9 : B 10 : A

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : Capitalisation of borrowing costs

A : Shall be suspended during temporary periods of delay.

B : May be suspended only during extended periods of delays in which active development is delayed.

C : Should never be suspended once capitalisation commences.

D : Shall be suspended only during extended periods of delays in which active development is delayed.

Question – 2 : According to Ind-AS 23 Borrowing costs, which one of the following statements about the capitalisation of borrowing costs as part of the cost of a qualifying asset is TRUE?

A : Capitalisation always continues until the asset is brought into use

B : Capitalisation always commences once the expenditure of the asset is incurred

C : Capitalisation always commences as soon as interest on relevant borrowings is being incurred

D : If the funds are borrowed generally, the capitalisation rate is based on the weighted average of the borrowing costs

Question – 3 : Capitalisation of borrowing cost should cease on the date on which the asset is

A : Actually put to use

B : Ready for its intended use

C : Date of purchase order

D : Asset is sold

Question – 5 : Find the cost of borrowings. You are building a bridge costing Rs. 200 million. Rs. 120 million is financed from a long-term loan costing 8%. The remaining Rs. 80 million comes

from a pool of loans. 35% of the pooled loans cost 10%. 65% of the pooled loans cost 12%. Using this information find the cost of borrowings for the first year.

A : Rs. 9.04 million

B : Rs. 18.64 million

C : Rs. 18 million

D : Rs. 9 million

Question – 4 : As per Core Principle given in Ind-AS 23, Borrowing Costs, an entity shall capitalize borrowing costs that are "directly attributable" to the of a qualifying asset as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably:

A : Acquisition, construction or production

B : Acquisition

C : Production

D : Construction

Question – 5 : P Ltd. is in the process of developing its intangible asset for which the research phase has been completed. P Ltd. has a centralized treasury department which borrows money centrally for the various business divisions of the Company. Since P Ltd. has not borrowed funds specifically for financing the development phase of the intangible asset, the Company is not sure of the borrowing costs eligible for capitalisation. The weighted average of the borrowing costs applicable to the borrowings of P Ltd. that are outstanding during the period is 11%. The weighted average of the borrowing costs incurred over the last 3 years was 10%. Till the reporting date, P Ltd. has incurred a total costs of Rs. 45 lakhs on the intangible asset's development phase. The amount of borrowing costs eligible for capitalisation as per Ind-AS 23 assuming that the expenditure was incurred fully at the beginning of the accounting period is:

A : Rs. 4,95,000

B : Rs. Nil

C : Rs. 4.5 lakhs

D : None of the above

Answer Key : 1 : D 2 : D 3 : B 4 : A 5 : A

IND AS 24: Related Party Disclosures

SEC – A : ICAI MCQs

Question - 1: Sunbeam Ltd has a 70% subsidiary Hexa Ltd and is a venturer in Texotech, a joint venture company. During the financial year to 31 March 2018, Sunbeam sold goods to both companies. Consolidated financial statements are prepared combining the financial statements of Sunbeam Ltd and Hexa Ltd. Under IND AS 24 Related Party Disclosures, in the separate financial statements of Sunbeam Ltd for the year ended 31 March 2018, disclosure is required of transactions with-

A : Neither Hexa Ltd nor Texotech Ltd.

B : Hexa Ltd only

C : Texotech Ltd. only

D : Both Hexa Ltd and Texotech Ltd.

Question - 2: Mr. K owns all of the issued share capital of entity L. He is also a member of the key management personnel of entity M which, in turn, owns all of the issued share capital of entity N. Which of the following is true about the related party relationships from the above structure?

A : K is not a related party of L & M

B : L & M are related parties

C : L & N are related parties

D : Both (b) & (c)

Question - 3: Era is a director of Titanic Ltd. She also owns 60% of Gracious Ltd and is a director of, but not a shareholder in, Fortuner Ltd. Era s husband is the sole shareholder in Kite Ltd. Era's daughter holds 6% of the shares in Bluebell Ltd. The only involvement she has in the company is to receive dividends. Which of the following companies would be classified under IND AS 24 Related Party Disclosures as related parties of Titanic Ltd?

A : Gracious Ltd and Kite Ltd

B : Gracious Ltd only

C : Bluebell Ltd and Fortuner Ltd

D : Kite Ltd, Gracious Ltd and Blubell Ltd

Answer Key : 1 : D 2 : D 3 : A

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : Ind-AS 24 requires disclosure of compensation of key management personnel. Which of the following would not be considered “compensation” for this purpose?

A : Short-term benefits.

B : Share-based payments.

C : Termination benefits.

D : Reimbursement of out-of-pocket expenses.

Question – 2 : White Inc. acquired 100% of shares of Green Inc. The Companies disclosed the following in their financial statements –

The amount to be reported under related party disclosures will be –

Particulars	White Inc. $	Green Inc. $
Salaries to staff/officers	**2,00,000**	**75,000**
Welfare expenses for staff/officers	**50,000**	**10,000**
Loans given to Officers	**1,00,000**	**50,000**
Intercompany sales	**1,40,000**	-

A : $ 125,000

B : $ 140,000

C : $ 250,000

D : $ 490,000

Question – 3 : State True or False for the following and also give reasons where possible

(i) Related party transactions subject to disclosure will include Defined Benefit Plans administered by an external independent entity operating within the group. _______

(ii) Relationships between a parent and its subsidiaries have to be disclosed irrespective of whether there have been transactions between them. ________

(iii) An entity that has a common director with the entity is not required to make minimum disclosures prescribed under Ind-AS 24. ________

(iv) The financial statements of MINTK Plc are being prepared. The Accounts chief, if of the view that he's allowed to aggregate related party disclosure for his company. His view is correct. ________

Answer Key : 1 : D 2 : B 3 : (i) True (ii) True (iii) True (iv)False

IND AS 33: Earnings Per Share

SEC – A : ICAI MCQs

Question – 1 : A Limited has the following options with regards to its own equity shares. Which of these should be included in the calculation of diluted earnings per share?

A : In the money purchased put options

B : In the money purchased call options

C : In the money written put options

D : Out of the money written put options

Question - 2 : Following information is available for A Ltd:

- **1 January - Shares in issue 1,000,000**
- **Profit for the year ended 31 March Rs. 2,000,000**
- **Average fair value during the period Rs.8**
- **Weighted Average number of shares under options during the year = 2,00,000**
- **shares Exercise price Rs.6**

Calculate Diluted earnings per shares (DEPS) for the year.

A : Rs. 2.50

B : Rs. 2.10

C : Rs. 1.74

D : Options would be anti-dilutive and hence DEPS would be Rs. 2

Answer Key : 1 : C 2 : C

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : ABC Ltd. is having Issued Share Capital of 4,000,000 shares on 01.01.2013. It issued further 2,000,000 shares for cash on 01.10.2013. Its weighted average number of shares will be –

A : 4,250,000 shares

B : 4,500,000 shares

C : 5,000,000 shares

D : 6,000,000 shares

Question – 2 : A company uses _______ as the control number, to establish whether potential shares are dilutive, or anti-dilutive

A : Profit from continuing operations.

B : Profit from discontinuing operations.

C : Both Profit from continuing and discontinuing operations

D : Judgement

Question – 3 : State True or False for the following and also give reasons where possible -

(i) If a bonus issue occurs between the year-end and the date that the financial statements are authorised, then EPS both for the current and the previous year are adjusted. ________

(ii) According to Ind-AS 33 – "Earnings per Share", an entity shall present basic and diluted earnings per share, even if the amounts are negative (i.e. a loss per share). ___________

Question – 4 : A company issues 10,000 6% convertible debentures having face value of ₹10 , each convertible into 10 equity shares. Interest expense for the year is ₹600,000, tax rate is 30%, and net profit for the year is ₹2,000,000. If the company has 100,000 shares outstanding in total , what is its diluted EPS?

A : ₹17.54

B : ₹18.42

C : ₹19.30

D : ₹20.00

Question – 5 : A company declares an interim dividend of ₹2 per share on its 100,000 outstanding shares and reports a net profit of ₹1,200,000. What is the impact on its basic EPS?

A : Decreases by ₹0.02

B : Decreases by ₹2.00

C : No impact

D : Increases by ₹0.02

Question – 6 : If a company with a net profit of ₹1,000,000 conducts a 2-for-1 share split and originally had 100,000 shares, what is the new basic EPS?

A : ₹5.00

B : ₹10.00

C : ₹7.50

D : None of the above

Question – 7 : A company reports a net profit of ₹2,000,000, has 200,000 shares, and 20,000 options with an exercise price of ₹10. The average market price of the shares is ₹20. What is the diluted EPS?

A : ₹9.52

B : ₹9.09

C : ₹10.00

D : ₹8.70

Question – 8 : A company with a net profit of ₹2,500,000 includes ₹500,000 attributable to non-controlling interests. It has 200,000 shares outstanding and 20,000 dilutive options. What is its diluted EPS?

A : ₹10.00

B : ₹9.09

C : ₹10.25

D : ₹9.75

Question – 9 : A company offers an Employee Stock Purchase Plan (ESPP) where employees can buy shares at an 85% discount. The company's net profit is ₹2,000,000, and there are 200,000 shares outstanding. Assuming the plan results in 10,000 new shares being issued, what is the impact on diluted EPS?

A : Decreases due to the issuance of new shares

B : No impact as the plan is considered an employee benefit

C : Increases as the plan is accretive

D : Cannot be determined without the discount rate

Answer Key : 1 : B 2 : A 3 : (i) True (ii) True 4 : B 5 : C 6 : A 7 : A 8 : B 9 : A

IND AS 34: Interim Financial Reporting

SEC – A : ICAI MCQs

Question - 1 : Which of the following events and transaction is not mandatorily required to disclose in Interim financial statements in accordance with IND AS 34?

A : The reversal of any provisions for the costs of restructuring

B : The assumptions used in the actuarial valuation of defined benefit plan

C : Acquisitions and disposals of items of property, plant and equipment

D : Litigation settlements

Question - 2 : An entity is not required to present basic and diluted earnings per share as the components of profit or loss for an interim period.

A: True

B : False

C : Partially True

D : Partially False

Question - 3 : Income tax expense should be accrued using the *best estimate of the weighted average annual income tax rate expected for the -

A : Interim period

B : Year to date period

C : Full financial year

D : Current period and comparative period

Question - 4 : IND AS 34 mandates the following in relation to interim financial reports -

A : Which entities should publish interim financial reports

B : How frequently it should publish

C : How soon it should publish after the end of interim period

D : None of the above

Question - 5 : According to IND AS 34, interim period is a financial reporting period -

A : Shorter than 12 months

B : Shorter than a full financial year

C : Of 3 months

D : Of 6 months

Question - 6 : Which of the following is not the minimum components of an interim financial report?

A : Condensed balance sheet

B : Condensed statement of changes in equity

C : Condensed statement of cash flows

D : Comparative information in respect of the preceding period

Question - 7 : An entity may reverse an impairment loss recognized in a previous interim period in respect of goodwill in the subsequent period.

A: True

B : False

C : Partially True

D : Partially False

Question - 8 : An entity prepares quarterly interim financial reports in accordance with AS 25. The entity is engaged in sale of mobile phones and normally 5% of customers claim on their warranty. The provision in the first quarter was calculated as 5% of sales to date, which was $10 million. However, in the second quarter, a fault was found and warranty claims were expected to be 10% for the whole of the year. Sales in the second quarter were $15 million. What would be the provision charged in the second quarter's interim financial statements?

A : $ 1 million.

B : $ 2 million

C : $ 1.25 million

D : $ 1.5 million

Question - 9 : If an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by this Standard.

A: True

B : False

C : Partially True

D : Partially False

Question - 10 : The standard defines Interim Financial Report as a financial report for an interim period that contains a set of financial statements.

A : Complete

B : Condensed

C : Financial statement similar to annual

D : Complete or condensed

Answer Key : 1 : B 2 : B 3 : C 4 : D 5 : B 6 : D 7 : B 8 : B 9 : A 10 : D

SEC – B : ADDITIONAL PRACTICE MCQs

Question - 1 : Entity G, is preparing its interim financial report for the six-month period ending 30th June 2007 in accordance with Ind-AS 34. Its financial accounting year ends on 31st December 2007.

Advise the right comparative balance sheet to choose from:

A : Balance sheet as at 30th June 2006

B : Balance sheet as at 30th September 2006

C: Balance sheet as at 31st December 2006 or

D : Balance sheet as at 31st March 2007

Answer Key : 1 : C

IND AS 36: Impairment of Assets

SEC – A : ICAI MCQs

Question – 1 : Smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets is known as

A : Cash-generating unit

B : Branch

C : Department

D : Operating Segment

Question – 2 : When an impairment loss occurs, the carrying amount of the asset should be reduced to its

A : Fair Value

B : Recoverable amount

C : Fair Value less cost to disposal

D : Value in use

Question – 3 : Which of the following is not an internal indication of impairment?

A : Economic performance of the asset is worse than expected

B : Physical damage of the asset

C : Decline in market value

D : Asset is part of a plans to discontinue or restructure the operation

Question - 4 : __________ is considered as recoverable amount when it is not possible to measure the fair value less costs of disposal for an asset.

A : Market value

B : Replacement value

C : Value in use

D : Carrying amount

Question – 5 : When a cash-generating unit has an impairment loss, the loss must be firstly applied to

A : Asset with obvious impairment

B : Goodwill

C : Other assets of CGU on a pro-rata basis

D : Based on management discretion

Question - 6 : Recoverable amount of an asset or cash generating unit is___________

A : Higher of Fair value less costs of disposal and Value in use

B : Lower of net realisable value and cost

C : Higher of fair value and value in use

D : Higher of market value less costs of disposal and value in use

Question – 7 : In case of estimation of cash flows for calculating value in use, future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. An entity translates the present value using the _______ at the date of the value in use calculation.

A : Closing rate

B : Spot exchange rate

C : Average rate

D : Incremental borrowing rate

Question – 8 : Which of the following is required to be tested for impairment annually irrespective of the presence of indications of impairment or not?

A : Intangible asset with an indefinite useful life

B : Intangible asset not yet available for use

C : Goodwill acquired in a business combination

D : All of the above

Question – 9 : In measuring value in use, cash flow projections should be based on the budgets/forecasts covering a maximum period of ________unless a longer period can be justified.

A : Three years

B : Five years

C : Ten years

D : Life of asset which is subject to impairment assessment

Question – 10 : Which of the following is not covered by IND AS 36, Impairment of Assets?

A : Deferred tax assets

B : Inventory

C : Financial assets

D : All of the above

Answer Key : 1 : A 2 : B 3 : C 4 : C 5 : B 6 : A 7 : B 8 : D 9 : B 10 : D

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : ABC Ltd. has a cash generating unit Plant A as on April 1, 2012 having a carrying amount of Rs. 1000 crores. Plant A was acquired under a business combination and goodwill of Rs. 200 crores

was allocated to it. It is depreciated on a straight-line basis. Plant A has a useful life of 10 years with Nil residual value. On March 31, 2013, Plant A has a recoverable amount of Rs. 600 crores. Therefore the impairment loss on Plant A is:-

A : Rs. 450 crores

B : Rs. 300 crores

C : Rs. 500 crores

D : None of the above

Question – 2 : If the recoverable amount of an asset is less than carrying amount, carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an

A : Operating loss

B : Revaluation loss

C : Impairment loss

D : Ignored

Question – 3 : An impairment loss that relates to an asset that has been revalued should be recognized in

A : Profit or loss A/c

B : Revaluation reserve that relates to the revalued asset

C : Opening retained profits

D : Any reserve in equity

Question – 4 : Jess & Tess Ltd holds a trademark with a carrying value of $1.7m, which it uses to produce consumer goods. It is expected that the products will continue to be in demand for the foreseeable future, and the trademark has an indefinite life. At 31 December 20X6, based on a report by an independent expert, it is estimated that the recoverable amount of the trademark is only $1.6m. What is the impairment loss?

A : $1.6 M

B : $ 0.1 M

C : $ 1.7 M

D : $ 0

Question – 5 : A Ltd. purchased an equipment on April 1, 2011 for Rs. 5 crores. It has a useful life of 10 years with no residual value. Due to some technological obsolescence its recoverable amount has reduced to Rs. 3 crores. The equipment forms part of a cash-generating unit, the carrying amount of which is Rs. 50 crores on March 31, 2012 against the recoverable amount of Rs. 60 crores. Assuming that the equipment does not generate independent cash flows, determine which of the following statement is correct?

A : Impairment of Rs. 2 crores should be recognised for the asset; however, no impairment should be recognised for the cash-generating unit.

B : Impairment of Rs. 1.5 crores should be recognised for the asset; however, no impairment should be recognised for the cash- generating unit.

C : No impairment should be recognised for both the asset as well as the cash-generating unit.

D : None of the above.

Question – 6 : An entity uses an item of Plant & Machinery in its LPG filling plant. The carrying amount of the LPG filling plant as at 31st March 2013 [the reporting date] was Rs. 15 crores. The fair value less costs to sell off the machine is Rs. 11 crores as of 31st March, 2013. The value in use of the machine as at 31st March, 2013 was Rs. 14 crores. Accordingly, an impairment loss of Rs. 1 crore was recognized as at 31st March, 2013. The carrying amount of the machinery as at 31st March, 2014 is Rs. 14.7 crores. The assets value in use as at 31st March, 2014 has increased to Rs. 15.5 crores simply because the present value of future cash inflows has increased as they became closer. However, the service potential of the asset has not increased. The amount of impairment loss of Rs. 1 crore recognized in the year ended 31st March, 2013 to be reversed as at 31st March, 2014 is:-

A : Rs. 0.8 Crores [i.e. Rs. 15.5 crores – Rs. 14.7 crores]

B : Rs. 0.5 Crores [i.e. Rs. 15.5 crores – Rs. 15 crores]

C : Rs. 1.5 Crores [i.e. Rs. 15.5 crores – Rs. 14 crores]

D : None of the above

Question – 7 : A Ltd. is involved in manufacturing process. It owns properties that are occupied in the manufacturing process. In addition, it had invested 3 years ago in an investment property primarily with the objective of capital appreciation. The cost of the investment property was Rs. 25,00,000. At the beginning of the current reporting year the fair value of the property has appreciated to Rs. 65,00,000. A ltd follows the Cost model for accounting its investment property. The carrying amount of the investment property after considering depreciation for 3 years was Rs.18.50 lakhs.

During the year, there was news of a scam whereby the land on which the property stood was declared as tainted due to lack of proper title in favor of the builder from whom the property was purchased. As of the reporting date, A ltd was informed by the builder that the matter was being contested in a Court of law. After the balance sheet date, there was a firm court order refuting the scam as malicious and baseless and thereby confirming the clean conveyance of the title in the land. However, due to the negative publicity, the fair values of the properties in that area have fallen to Rs. 23 lakhs. The impairment provision to be recognized in the books of account will be:

A : Rs. 2 lakhs

B : Rs. 1.5 lakhs

C : Rs. 42 lakhs

D : Nil

Question – 8 : XYZ Limited has a cash-generating unit 'Plant A' as on April 1, 2012 having a carrying amount of Rs. 1,500 crores. Plant A was acquired under a business combination and goodwill of Rs. 250 crores was allocated to it. It is depreciated on straight line basis. Plant A has a useful life of 10

years with no residual value. On March 31, 2013, Plant A has a recoverable amount of Rs. 700 crores. Calculate the impairment loss on Plant A. Also, prescribe its allocation as per Ind-AS 36.

Particulars	Goodwill [Rs. Crores]	Identifiable assets (Rs. Crores)	Total (Rs. Crores)
Historical costs	250	1,500	1,750
Depreciation 2012-13	-	(150)	(150)
Carrying amount	250	1,350	1,600

The carrying amounts of the Goodwill and other identifiable assets after passing the impairment entry will be:-

A : Rs. Nil and Rs. 700

B : Rs. Nil and Rs. 1,350

C : Rs. Nil and Rs. 900

D : None of the above

Answer Key : 1 : C 2 : C 3 : B 4 : B 5 : C 6 : D 7 : D 8 : A

IND AS 37: Provisions, Contingent Liabilities and Contingent Assets

SEC – A : ICAI MCQs

Question – 1 : Which one of the following is a correct statement in relation to provisions and contingencies?

A : An item of a contingent nature may be recognised, but not disclosed, in the body of the financial statements

B : IND AS 37 Provisions, Contingent Liabilities and Contingent Assets applies to provisions to perform land rehabilitation activity

C : IND AS 37 Provisions, Contingent Liabilities and Contingent Assets applies to contingent liabilities and contingent assets of insurers that result from insurance contracts

D : A present obligation exists in all circumstances where a company may have some choice in whether or not to make a future sacrifice of economic benefits in settlement of an obligation

Question – 2 : As at 31 March 20X1 (reporting date), ABC Ltd is involved in a legal dispute with one of its supplier in relation to the early termination of the exclusive license agreement between the two companies. The supplier seeks damages of Rs. 50 crore. The directors of ABC believe that, they will be successful in defending this claim. ABCs lawyers have advised that there is 90% chances that the entity would not be made liable for this claim. In accordance with IND AS 37 Provisions, Contingent Liabilities and Contingent Assets, which one of the following is the most appropriate option for ABC while preparing its financial statements for 31 March 20X1?

A : Neither recognition of provision nor disclosure of contingent liability is required

B : Disclose information about the possible liability as a contingent liability

C : Recognise a provision for the best estimate of the obligation to the supplier

D : Recognise a contingent liability for the best estimate of the obligation to the supplier

Question – 3 : Which one of the following represents an appropriate discount rate for measuring a provision based on IND AS 37 Provisions, Contingent Liabilities and Contingent Assets?

A : Market yields on national government bonds

B : Market yields on high-quality corporate bonds

C : Pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability

D : Pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the entity

Question – 4 : As per IND AS 37 Provisions, Contingent Liabilities and Contingent Assets, where measurement uncertainty exists, which one of the following methods is NOT an appropriate valuation for a provision based on accounting standards?

A : The mid-point of a range of equally likely outcomes of expenditure

B : No provision should be recognised where measurement uncertainty exists

C : The minimum amount expected to represent a best estimate, where the other option is omission

D : The most likely amount expected to represent a best estimate, where there is a single obligation

Answer Key : 1 : B 2 : B 3 : C 4 : B

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : XYZ Ltd. has been served a legal notice on December 15, 2013, by the local environmental protection agency (EPA) to fit smoke detectors in its factory on or before June 30, 2014 (before June 30 of the following year). The cost of fitting smoke detectors in its factory is estimated at Rs. 250,000. How should XYZ Ltd. treat this in its financial statements for the year ended December 31, 2013?

A : Recognize a provision for Rs. 250,000 in the financial statements for the year ended December 31, 2013.

B : Recognize a provision for Rs. 125,000 in the financial statements for the year ended December 31, 2013, because the other 50% of the estimated amount will be recognized next year in the financial statement for the year ended December 31, 2014.

C : Because XYZ Ltd. can avoid the future expenditure by changing the method of operations and thus there is no present obligation for the future expenditure, no provision is required at December 31, 2013, but as there is a possible obligation, this warrants disclosure in the footnotes to the financial statements for the year ended December 31, 2013.

D : Ignore this for the purposes of the financial statements for the year ended December 31, 2013, and neither disclose nor provide the estimated amount of Rs.250,000.

Question – 2 : During the year 2013, ABC Corp. was sued by a competitor for Rs. 15 million for infringement of a trademark. Based on the advice of the company's legal counsel, ABC Corp. accrued the sum of Rs. 10 million as a provision in its financial statements for the year ended December 31, 2013. Subsequent to the end of the reporting period, on February 15, 2014, the Supreme Court of the country decided in favor of the party alleging infringement of the trademark and ordered the defendant (ABC Corp.) to pay the aggrieved party a sum of Rs. 14 million. The financial statements were prepared by the company's management on January 31, 2014, and approved by the board on February 20, 2014. How much adjustment ABC Corp. should make in its financial statements for the year ended December 31, 2013?

A : Increase provision by Rs. 4 million

B : Decrease provision by Rs. 4 million

C : No adjustment required but to disclose in notes

D : No adjustment and no disclosure required

Question – 3 : Ind-AS 37 Provisions, Contingent Liabilities and Contingent Assets defines a restructuring as a programme that is planned and controlled by management, and materially changes either

(a) the scope of a business undertaken by an entity;

(b) the manner in which that business is conducted.

(c) business model used to carry out the business

(d) structure of the management oversight and corporate governance processes

A : Only a is true

B : Only a, b, d are true

C : Only c, d are true

D ; Only a, b are true

Question – 4 : _______________ assets are not recognised in the financial statements unless there is a virtual certainty in its receipt.

A : Contingent

B : Deferred Tax

C : Fixed

D : Variable

Question – 5 : A company recognised a provision for retirement bonus in total amount of Rs. 200,000 as of 31 December, 2013. The company expects to pay Rs. 10,000 in the year 2014, Rs. 15,000 in the year 2015 and the remaining Rs. 175,000 after 2016. Ignore the discounting and advise how this provision should be recognised in the statement of financial position.

A : Long-term liabilities: Rs. 175 000, medium-term liabilities: Rs. 15 000, short-term liabilities: Rs. 10 000.

B : Long-term liabilities: Rs. 175 000, short-term liabilities: Rs. 25 000.

C : Long-term liabilities: Rs. 190 000, short-term liabilities: Rs. 10 000.

D : Long-term liabilities: Rs. 200 000.

Question – 6 : Car Ltd manufactures and sells cars. There is a warranty period of 1 year after the date of sale of the cars. Based on a study of the past trends of warranty claims made on Car Ltd, the following results emerge:

Nature of defects	Costs of rectification	Probability of occurrence
Small defects	**Rs. 15,000**	**0.55**
Medium defects	**Rs. 10,000**	**0.35**
Major defects	**Rs. 12,000**	**0.10**

The company sold 12,000 cars during the year ended March 31, 2014. The amount of provision to be made for warranty claims is as follows:-

A : Rs. 15.54 lakhs

B : Rs. 15.54 crores

C : Rs. 15 crores

D : None of the above

Question – 7 : State True or False for the following and also give reasons where possible

(i) A contingent asset is disclosed, where an inflow of economic benefits is probable. __________

(ii) Provision for Gratuity is classified as a non-current liability as it may not be payable within 12 months after the end of the reporting period. _________

(iii) An accountant of your client has made a provision in respect of onerous contract towards cancellation of lease before the lease term. Is it correct? __________

(iv) According to Ind-AS 37, a provision is a liability of uncertain timing or amount. _______

Answer Key : 1 : C 2 : A 4 : D 5 : A 6 : C 7 : B 8 : (i) True (ii) False (iii) True (iv) True

IND AS 38: Intangible Assets

SEC – A : ICAI MCQs

Question - 1 : With respect to valuation of goodwill and recognition of the same on acquisition of another entity. IND AS 38, Intangible assets + establishes general principles for the recognition and measurement of intangible assets in the financial statements. The standard requires any entity to recognize the intangible assets in the financial statements if and only if:

- **i) it is probable that the future economic benefits which are attributable to the asset will flow to the enterprise; and**
- **ii) the cost of the asset can be reliably measured Which of the following is NOT correct about the intangible assets?**

A : The above recognition criteria are applicable to both the costs incurred to acquire intangible assets and those generated internally

B : Internally generated goodwill is prohibited to be recognized by the standard. Only acquired goodwill can be recognized as an intangible asset in the financial statements

C : In case of brands, mastheads, publishing titles, and similar intangible assets can be recognized both when generated internally as well as acquired separately

D : In case of research and development phase of an internally generated assets, standard permits capitalisation only in the development phase

Question - 2 : Amortisation of an intangible asset ceases

A : When the asset is derecognized

B : When the asset is withdrawn from use

C : At the earlier when the asset is classified as held for sale or when the asset is derecognized

D : At the later of asset is classified as held for sale or derecognized

Question - 3 : AG Limited is developing a new production process. During 20X1.20X2, expenditure incurred was Rs.11 lakhs of which Rs. 8 lakhs was incurred before 1st January, 20X2 and Rs. 3 lakhs was incurred between January and March 20X2. The company is able to demonstrate that on 1st January, 20X2, the production process met the criteria for recognition as an intangible asset. The recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be Rs. 2 lakhs as at 31st March, 20X2. What is the carrying value of intangible asset at the end of the year?

A : Rs. 11 lakhs

B : Rs. 8 lakhs

C : Rs. 2 lakhs

D : Rs. 3 lakhs

Question - 4 : AG Ltd acquired copyrights for Rs.7,50,000 on 1st April 20X1. The Management assessed the copyrights useful life at 25 years from the date of acquisition. The entity will consume the copyrights future economic benefits evenly over 25 years from the date of acquisition. The fair value of the copyright at 31st March, 20X3 is Rs. 7,00,000. The entity shall measure the carrying amount of the copyright on 31st March, 20X3 at –

A : Rs. 400,030

B : ₹ 6,90,000

C : ₹ 7.20.000

D : ₹ 7,50,000

Question - 5 : Which of the following is required to be tested for impairment annually irrespective of the presence of indications of impairment or not?

A : Intangible asset with an indefinite useful life

B : Intangible asset not yet available for use

C : Goodwill acquired in a business combination

D : All of the above

Question - 6 : BB Limited has purchased a computer with various additional software. These are integral part of the computer. Which of the following are true in the context of IND AS 38?

A : Recognize Computer and software as tangible asset

B : Recognize tangible and intangible separately

C : Recognize computer and software as intangible asset

D : None of the above

Question - 7 : A newly set up dot-com entity has recently completed one of its highly publicized research and development projects. It seeks your advice on the accuracy of the following statements made by one of its stakeholders. State which one is true?

A : Costs incurred during the research phase can be capitalized

B : Costs incurred during the development phase can be capitalized if criteria such as technical feasibility of the project being established are met

C : Training costs of technicians used in research can be capitalized

D : Designing of jigs and tools qualify as research activities

Question - 8 : Which of the following is not covered within the scope of IND AS 38?

A : Intangible assets held-for-sale in the ordinary course of business

B : Assets arising from employee benefits

C : Non current Intangible assets held for sale

D : All of the above

Question - 9 : An intangible asset with a finite useful life should be amortised over

A : Its expected useful life

B : A period determined by management

C : Five years

D : No foreseeable limit

Question - 10 : Which of the following items qualify as an intangible asset under IND AS 38?

A : Advertising and promotion on the launch of a huge product

B : Operating losses during the initial stages of the project

C : College tuition fees paid to employees who decide to enrol in an executive M.B.A. program at Harvard University while working with the company

D : Legal costs paid to intellectual property lawyers to register a patent

Answer Key : 1 : C 2 : C 3 : C 4 : B 5 : D 6 : A 7 : B 8 : D 9 : A 10 : D

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : ABC Co acquired a trademark relating to introduction of a new manufacturing process, the relevant costs for which were as under –

Cost of Trademark - $ 300,000
Expenditure for promoting new product - $ 5,000
Employee benefits of the staff testing the proper functioning of the process - $ 20,000

According to Ind-AS 38, Intangible Assets, the total cost of the intangible non- current asset will be-

A : $325,000

B : $320,000

C : $305,000

D : $300,000

Question – 2 : Q Ltd. is engaged in the publishing of magazines. They acquired 100% stake in R ltd a company in the same sector. Q Ltd. paid purchase consideration of Rs. 10 crores and fair value of net assets acquired is Rs. 8.5 crores. The above purchase consideration includes:-

- **Rs. 35 lakhs towards the skilled staff of R Ltd**
- **Rs. 50 lakhs towards payment of 'Non-Compete fees' so as to restrict RLTD to compete in the same line of business for next 5 yrs.**

The intangible assets recognized in the books of Q Ltd. [excluding Goodwill] will be :-

A : Rs. 65 lakhs

B : Rs. 85 lakhs

C : Rs. 50 lakhs

D : None of the above

Question – 3 : An entity that acquires an intangible asset may use the revaluation model for subsequent measurement only if -

A : The useful life of the intangible asset can be reliably determined.

B : An active market exists for the intangible asset.

C : The cost of the intangible asset can be measured reliably.

D : The intangible asset is a monetary asset.

Question – 4 : An entity purchases a trademark and incurs the following costs in connection with the trademark:

Particulars	Rs.
One-time trademark purchase price	**1,00,000**
Non-refundable VAT taxes	**5,000**
Training sales personnel on the use of the new trademark	**7,000**
Research expenditures associated with the purchase	**24,000**
Legal costs incurred to register the trademark	**10,500**
Salaries of the administrative personnel	**12,000**

Assuming that the trademark meets all of the applicable initial asset recognition criteria; at what amount the entity should recognize an asset?

A : Rs. 100,000

B : Rs. 115,500

C : Rs. 146,500

D : Rs. 158,500

Question – 5 : An intangible asset with an indefinite useful life should be tested for impairment and whenever indicators of impairment are present. (Ind-AS 38)

A : Annually

B : Semi-annually

C : Quarterly

D : Once if few years

Question – 6 : Initially self–generated goodwill does not fall within the Ind-AS 38 definition of an intangible asset because ________________

A : It is a monetary asset.

B : It is not identifiable resource.

C : It may not generate future economic benefits

D : None of the above

Question – 7 : The revaluation model in Ind-AS 38 does not allow -

A : The revaluation of intangible assets that have not previously been recognised as assets.

B : Initial recognition of intangible assets at amounts other than cost.

C : The fair value of the asset to be determined by reference to an active market.

D : Both (a) and (b)

Question – 8 : An entity is developing a new production process. During 20X5, expenditure incurred was CU 1,000, of which CU 900 was incurred before 1 December, 20X5 and CU 100 was incurred between 1 December, 20X5 and 31 December, 20X5. The entity is able to demonstrate that, at 1 December, 20X5, the production process met the criteria for recognition as an intangible asset. The recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be CU 500.-

A : At the end of 20X5 the production process is recognised as an intangible asset at a cost of CU 100

B : At the end of 20X5 the production process is recognised as an intangible asset at a cost of CU 1000

C : At the end of 20X5 the production process is recognised as an intangible asset at a cost of CU 500

D : At the end of 20X5 the production process is recognised as an intangible asset at a cost of CU 400

Answer Key : 1 : A 2 : C 3 : B 4 : B 5 : A 6 : B 7 : D 8 : A

IND AS 40: Investment Property

SEC – A : ICAI MCQs

Question - 1: At what value the reclassification or transfers between investment property and property, plant and equipment are made?

A : Transfers are made at the carrying amount of the property transferred

B : Transfers are made at the fair value of the property transferred

C : Transfers are made at the revalued amount of the property transferred

D : Transfers are made at the higher of fair value and carrying amount of the property transferred

Question - 2 : On 1st April 20X1, ABC Limited purchased a new head office building for Rs. 60 crore and on the same day leased out top 3 floors to its subsidiary on a long-term operating lease. The annual rent receivable was Rs. 2 crore starting from 31st March 20X2. On 1st April 20X1, the Directors of the Company estimated that the initial cost of the building should be allocated Rs.15 million to the top 3 floors, remainder of the building Rs. 20 million and land component Rs. 25 million. On 31st March 20X2, the property had a fair value of Rs. 64 million out of which 25% was attributable to the top 3 floors. The useful life of the building is 60 years. The carrying value of investment property in the separate/standalone financial statements of ABC Limited as at 31st March 20X2 is:

A : Rs.16 million

B : Rs.15 million

C : Rs.14.75 million

D : No investment property is recognized in the financial statements as the asset is leased out to a subsidiary

Question - 3: AG Limited has purchased a commercial building and let out the same to one of its subsidiaries. How it should be reflected in the consolidated financial statements?

A : Owner-occupied from the perspective of the group

B : Investment property measured at fair value

C : Investment property measured at cost

D : Eliminated as intercompany balance

Question - 4: Which of the following is an example of investment property?

A : Land held for construction of factory

B : Building rented out to employees as staff quarters

C : Lawn rented out to third parties for events / private functions

D : Parking lot attached to land on which the Company's factory is constructed

Question - 5 : Which of the following is not considered as a transfer from or to investment property?

A : Commencement of operating lease from undetermined use

B : Commencement of owner-occupation

C : Commencement of development with a view to sale

D : End of owner-occupation

Question - 6 : State which of the following statements is True.

A : An investment property may be a qualifying asset under IND AS 23 - Borrowing Costs

B : An entity is not required to capitalise the borrowing cost in respect of investment properties even if they are qualifying assets

C : Investment property can be measured at fair value at each reporting date on an asset-by-asset basis

D : Investment property measured at fair value is not depreciated or tested for impairment under IND AS 40

Question – 7 : AG India Limited uses portion of building for their administrative use and let out the remainder portion. Which is not the right approach for dealing with this situation while accounting in the books of the company in accordance with IND AS 40 ?

A : Account for the portion separately, if these portions can be sold separately .

B : An investment property, if portions could not be sold separately and insignificant portion can be held for administrative use .

C : As owner occupied property, if portions could not be sold separately and insignificant portion is rent out .

D : It will be treated as right-of-use asset depending upon the significance of self-usage and let out .

Question – 8 : Real Estate Limited have acquired an investment property within the meaning of IND AS 40 Investment Property. The company has details of costs and other related expenses, but it is not sure as to what would be the correct accounting treatment of the said items. Identify the correct statement.

A : Start-up costs are not to be capitalised to cost of the investment property except cases where they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by the management .

B : Operating losses incurred before the investment property achieves the planned level of occupancy are not to be capitalised to the cost of investment property .

C : Abnormal amounts of wasted materials, labour and other resources incurred in constructing or developing the property are not to be capitalised to the cost of investment property .

D : All of the above

Question – 9 : Which of the following is an example of Investment Property ?

A : Property held for sale in the ordinary course of sale or in the process of construction or development for such sale

B : Right of use asset related to property used for business purposes

C : Property leased to another entity for finance lease

D : Right of use asset related to building held by the entity and leased out under one or more operating leases

Question – 10 : Which of the following characteristics distinguish investment property from owner-occupied property ?

A : Property held for sale in the ordinary course of sale

B : Property held to earn rental or capital appreciation

C : Property classified as held for sale

D : Property held for use in the production or supply of goods or services or for administrative purposes

Answer Key : 1 : A 2 : C 3 : A 4 : C 5 : A 6 : A 7 : D 8 : D 9 : D 10 : B

IND AS 41: Agriculture

ICAI MCQs

Question - 1: Generally, biological assets relating to agricultural activity should be measured using

A : Historical cost

B : Cost less depreciation less impairment

C : Net realisable value

D : Fair value less cost to sell

Question - 2 : Fresho Vineyards Ltd owns a vineyard in the outskirts of Satara city in western Maharashtra. The grape vine plants and the grapes have a combined fair value of Rs. 10,00,000. The purchase cost of vine plants was Rs. 3,00,000 and the fair value of grapes on the plants is Rs. 2,40,000. The company uses the cost model to measure assets classified under IND AS 16 Property, Plant and Equipment. Which of the following options is the measurement of bearer plants and bearer fruits respectively?

A : Rs.3,00,000, Rs.2,40,000

B : Rs.7,60,000, Rs.2,40,000

C : Rs.3,00,000, Rs.7,00,000

D : Rs.5,55,555, Rs.4,44,445

Question - 3: Agricultural activity involves biological transformation and harvest of biological asset

A : For sale

B : For conversion into agricultural produce

C : Into additional biological assets

D : All of the above

Question - 4: Which of the following is the criteria for recognizing the biological asset in books according to IND AS 41?

A : Control the asset

B : Future economic benefit will flow

C : Fair value or cost can be measured reliably

D : All of the above

Question - 5 : Which of the following are considered as bearer plants and not to be accounted in accordance with IND AS 41?

A : Plants cultivated to be harvested as agricultural produce (for example trees grown for use as lumber)

B : Plants which gives fruits in a particular season for more than one year (for example mango tree)

C : Plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example trees that are cultivated both for their fruit and their lumber)

D : Annual crops (for example, maize and wheat)

Question - 6 : Which of the following is not dealt with by IND AS 41 Agriculture?

A : Biological assets

B : Agriculture produce at the point of harvest

C : Government grants related to biological assets

D : Agriculture produce after harvest

Question - 7: Gain/Loss arising from initial recognition of a biological asset and from a change in the value of biological assets should be recognised in

A : Statement of profit and loss for the period in which it arises

B : Recognised through statement of profit and loss as other comprehensive income item

C : Entered into a deferral account and amortised over the estimated useful life of the biological asset

D : Recognised on a revaluation reserve

Question - 8: Fair value less costs to sell at the point of harvest of Agricultural produce becomes or other IND AS

A : Cost

B : Market Value

C : Net realisable value

D : Fair value less cost to sell at that date when applying IND AS 2

Question - 9: Which of the following combination is false regarding the definition of a biological asset and agriculture produce in IND AS 41?

A : Agricultural land, Paddy

B : Bushes, Leaf

C : Pigs, Carcass

D : Vines, Grapes

Question - 10: A conditional government grant related to a biological asset measured at its fair value less costs to sell shall be recognised in profit or loss when and only when ______________

A : Grant becomes receivable

B : Conditions attaching to grant are met

C : Reasonable assurance that conditions will be met

D : Reasonable assurance that grant will be received

Answer Key : 1 : D 2 : A 3 : D 4 : D 5 : B 6 : D 7 : A 8 : A 9 : A 10 : B

IND AS 101: First-time Adoption of IND AS

SEC – A : ICAI MCQs

Question – 1 : Under IND AS 101, what is the treatment of items that are not permitted to be recognized as assets or liabilities under IND AS?

A : They should be recognized as assets or liabilities in the opening IND AS Balance Sheet

B : They should not be recognized as assets or liabilities in the opening IND AS Balance Sheet

C : They should be recognized as contingent assets or liabilities in the opening IND AS Balance Sheet

D : They should be recognized as deferred assets or liabilities in the opening IND AS Balance Sheet

Question – 2 : According to IND AS 101, when should the accounting under IND AS be applied?

A : Prospectively from the date of adoption

B : Retrospectively at the time of transition to IND AS

C : Selectively based on management's judgment

D : In accordance with Indian GAAP principles

Question – 3 : What is the purpose of IND AS 101?

A : To prescribe accounting principles for first-time adoption of IND AS

B : To provide exemptions from disclosure requirements in IND AS

C : To mandate retrospective application of IND AS in all areas

D : To lay down transition requirements from IND AS to Indian GAAP

Answer Key : 1 : B 2 : B 3 : A

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 :In case of understated business combinations before the transition date, which of the following statement relating to goodwill is appropriate as per Ind-AS 101?

A : Goodwill is tested for impairment as at the transition date.

B : Goodwill is adjusted against opening reserves.

C : Goodwill is adjusted for IND AS transition impact on the acquired business.

D : None of the above.

Question - : 2 ANC Inc. is a first-time adopter under Ind-AS 1. The most recent financial statements it presented under its previous GAAP were as of December 31, 2013. It has adopted IND AS for the first time and intends to present the first IND AS financial statements as of December 31, 2014. The opening IND AS statement of financial position should be prepared as of:

A : January 1, 2013.

B : January 1, 2011.

C : January 1, 2012.

D : January 1, 2014.

Answer Key : 1 : A 2 : A

IND AS 105: Non-Current Assets held for Sale and Discontinued Operations

SEC – A : ICAI MCQs

Question - 1: A disposal group is a group of assets

A : To be disposed in one single transaction

B : Falling in cash generating unit

C : Being part of discontinuing operation

D : Having no disposal cost

Question - 2 : SA Ltd. acquires a subsidiary RA Ltd. exclusively with a view of selling it. The subsidiary meets the criteria to be classified as held for sale. The subsidiary remains unsold at the end of close of the year. It will be valued at -

A : Lower of recoverable value or carrying value

B : Fair value less cost to sell

C : Present value of future cash flows

D : Lower of carrying amount and fair value less cost to sell

Question - 3 : Gain or loss on remeasurement of non-current asset classified as held for sale which does not meet the definition of discontinued operation should be included in.

A : Profit or loss from continuing operations in statement of profit and loss

B : Notes to the financial statements

C : Statement of changes in equity

D : Other comprehensive income

Question - 4: The results of discontinued operation should be disclosed under.

A : Single amount in the statement of profit and loss

B : Part of normal trading profit and loss in the statement of profit and loss

C : Notes to the financial statements

D : Statement of changes in equity

Question - 5: How to measure a non-current asset (or disposal group) that ceases to be classified as held for sale?

A : Lower of carrying amount which would have been had the asset not been classified as held for sale (adjusted for any depreciation, amortisation or revaluations, if any) and recoverable amount at the date of the subsequent decision not to sell or distribute

B : Lower of carrying amount on the date the asset ceased to be classified as held for sale and recoverable amount at the date of the subsequent decision not to sell or distribute

C : Lower of carrying amount and fair value less cost to disposal

D : Lower of carrying amount and the amount which would have been had the asset not been classified as held for sale

Question - 6 : How to present a non-current asset (or disposal group) classified as held for sale in the balance sheet?

A : Pooled with other current assets

B : Pooled with other non-current assets

C : Separately from other assets

D : Based on management intention

Question - 7: Shubham Ltd. bought 30% share in RA Ltd. with a view of selling that investment within six months. The investment has been classified as held for sale in accordance with IND AS 105. How should the investment be treated in the financial statement of the entity?

A : It should be accounted as per the equity method

B : The assets and liabilities should be presented separately from other assets in the balance sheet under IND AS 105

C : The investment should be dealt with under IND AS 29

D : Purchase accounting should be used for this investment

Question - 8: Which of the following is not a requirement to classify an asset (or disposal group) as held for sale?

A : Appropriate level of management has an intention to sell the asset

B : Active programme to locate a buyer have been initiated

C : Actively marketed for sale at a reasonable price

D : It is likely that significant changes to the plan will be made or that the plan will be withdrawn

Question - 9: As per IND AS 105, which of the following is not allowed as a cost to sell?

A : Finance cost

B : Auctioneers commission

C : Advertisement cost

D : Legal fee for drafting contract of sale

Question - 10: Non-current asset is classified as held for sale, if it is available for_________ sale and sale is ___________

A : Instant, most likely

B : Immediate, probable

C : Immediate, highly probable

D : Distant future, reasonably assured

Answer Key : 1 : A 2 : D 3 : A 4 : A 5 : A 6 : C 7 : B 8 : D 9 : A 10 : C

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : On 1 November 2013, a company which prepares financial statements to 31st March each year classified as a non-current asset as held for sale. The asset's carrying amount on 1 November 2013 is Rs. 40,000 and its fair value less costs to sell is Rs. 35,000. The asset is still held on 31 March 2014, when its fair value less costs to sell is Rs. 27,500. The impairment losses that should be recognised are:

A : 1/11/2013 Rs. nil; 31/3/2014 Rs. 12,500

B : 1/11/2013 Rs. 5,000; 31/3/2014 Rs. 12,500

C : 1/11/2013 Rs. 5,000; 31/3/2014 Rs. 7,500

D : 1/11/2013 Rs. nil; 31/3/2014 Rs. nil

Question – 2 : According to Ind-AS 105 which of the following is TRUE, for any gain or loss on the re-measurement of a non-current asset (or disposal group) classified as held for sale that does not meet the definition of a discontinued operation shall be included in

A : Available-for-sale Reserve

B : Other Comprehensive Income

C : Profit or loss from continuing operations

D : Revaluation Reserve

Question – 3 : ABC Ltd. can sell its products in the open market for Rs. 2,000 per unit. However, it has entered into an agreement with Y ltd to sell its products for Rs. 2,400 per unit. The cost to sell is Rs. 100 per unit. The fair value less costs to sell and net realisable value is:-

A : Fair value less costs to sell is Rs. 1900 and net realisable value is Rs. 2,300

B : Fair value less costs to sell is Rs. 2000 and net realisable value is Rs. 2,400

C : Fair value less costs to sell is Rs. 2100 and net realisable value is Rs. 2500

D : None of the above

Question – 4 : An entity has bought a 25% share in another entity with a view to selling that investment within six months. The investment has been classified as held for sale in accordance with Ind-AS 105. How should the investment be created in the final year accounts?

A : It should be equity accounted.

B : The assets and liabilities should be presented separately from other assets in the balance sheet under Ind-AS 105.

C : The investment should be dealt with under Ind-AS 29.

D : Purchase accounting should be used for this investment.

Question – 5 : One of the lines of business of Entity X is manufacturing glass products. It has a committed plan to sell this business on January 1, 2012. However, Entity X still needs to carry out marketing activity in relation to sale of this business. However, it is highly probable that the marketing activity will be carried out within a short span of time. In which of the following situations can the business as a disposal group be classified as held for sale in accordance with "Ind-AS 105 Non-current assets held for sale and

Discontinued operations" as on January 1, 2012?

A : If the marketing activity is carried out within 3 months i.e. by March 31, 2012.

B : If the marketing activity is carried out within 6 months i.e. by June 30, 2012.

C : If the marketing activity is carried out within 12 months i.e. by December 31, 2012.

D : None of the above as marketing activity should have been initiated before January 1, 2012.

Question – 7 : Under Ind-AS 105, an entity is 'committed to distribute' the asset (or disposal group) to the owners i.e. the assets must be :

A : Available for immediate distribution in their present condition and the distribution must be "highly probable".

B : Available for immediate distribution in their existing condition and the distribution must be "virtually certain"

C : Available for immediate distribution in their existing condition and the distribution must be "reasonably certain"

D : Available for immediate distribution in their present condition and the distribution must be "virtually certain"

Answer Key : 1 : C 2 : C 3 : A 4 : B 5 : D 7 : A

IND AS 108: Operating Segments

SEC – A : ICAI MCQs

Question – 1 : As per IND AS 108 Operating Segments, if a financial statement contains both the consolidated financial statements of a parent, as well as parent's separate financial statements, segment information is required:

A : Only in the consolidated financial statements

B : Only in the parent's separate financial statements

C : Both sets of financial statements

D : Either in the consolidated financial statement or in the parents separate financial statements

Question – 2 : Entity A and Entity B both manufacture and distribute furniture and electrical products used in residential and commercial units. Entity A is structured such that decisions are made and performance is evaluated on a regional basis (e.g., India, Asia Pacific), whereas Entity B makes decisions and evaluates performance on a product-line basis (e.g., furniture, electrical products). How should Entity A and Entity B report operating segments as per IND AS 108, Operating Segments?

A : Entity A and B should report similar operating segments

B : Entity A should report operating segments based on regions and Entity B should report operating segments based on product lines

C : Entity A and B have a choice to report operating segments based on regions or product lines

D : Entity A and B have a choice not to report any operating segment

Question – 3 : As per IND AS 108 Operating Segments, if a financial statement contains both the consolidated financial statements of a parent, as well as parent's separate financial statements, segment information is required:

A : Only in the consolidated financial statements

B : Only in the parent's separate financial statements

C : Both sets of financial statements

D : Either in the consolidated financial statement or in the parents separate financial statements

Answer Key : 1 : A 2 : B 3 : A

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : A company's total external revenue for an accounting period is Rs. 15m. There is no inter-segment revenue. The company's total assets are Rs. 43m. The total profit or all profit segments for the period is Rs. 2.6m and the total losses of all loss-making segments are Rs. 1.9m.

Operating segment X has external revenue of Rs. 1.3m, total assets of Rs. 3.7m and a loss of Rs. 220,000.

Which of the following statements is true?

A : Segment X is a reportable segment because it has revenue of Rs. 1.3m

B : Segment X is a reportable segment because it has assets of Rs. 3.7m

C : Segment X is a reportable segment because it has a loss of Rs. 220,000

D : Segment X is not a reportable segment

Question – 2 : _______________ Is defined in Ind-AS 108 as a component of entity which engages in business activity, its operating results are reviewed by CODM and for which discrete financial information is available.

A : Reportable segment

B : Business segment

C : Operating segment

D : Geographical segment

Question – 3 : Operating segments can be mapped in SAP by

A : Profit centers

B : Segments

C : Business area

D : All of them

Question – 4 : As a percentage of sales, profits or assets, a segment as defined in Ind-AS 108 Operating segments should be at least :

A : 7.5%

B : 10%

C : 12.5%

D : 20%

Answer Key : 1 : D 2 : C 3 : D 4 : B

IND AS 113: Fair Value Measurement

ICAI MCQs

Question - 1: A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

A : In the principal market or in the most advantageous market

B : In the principal market or in the primary market

C : In the primary market or in the secondary market

D : In the primary market or in the most advantageous market

Question - 2: The basic rule related to inputs to valuation techniques as per IND AS 113 are

A : Maximising the use of relevant observable and unobservable inputs

B : Minimising the use of relevant observable and unobservable inputs

C : Maximising the use of relevant observable inputs and minimising the use of unobservable inputs

D : Minimising the use of relevant observable inputs and maximising the use of unobservable inputs

Question - 3: As per IND AS 113, which of the followings is not a widely used valuation technique?

A : Net present value approach

B : Cost approach

C : Income approach

D : Market approach

Question - 4: The asset or liability measured at fair value shall be:

A : A stand-alone asset or liability

B : A group of assets, a group of liabilities or a group of assets and liabilities

C : Either of (a) and (b)

D : Neither of (a) and (b)

Question - 5: The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs is called____________________

A : Principal market

B : Most advantageous market

C : Primary market

D : Active market

Question - 6 : The highest and best use of a non-financial asset while measuring the fair value takes into account the use of the asset that is -

A : Physically possible

B: Legally permissible

C : Financially feasible

D: All of the above

Question - 7: The price paid to acquire the asset or received to assume the liability is called -

A : Transaction price (an entry price)

B : Transaction price (an exit price)

C : Settlement price (an entry price)

D : Settlement price (an exit price)

Question - 8: Characteristics of the asset or liability are considered if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include:

A : Condition of the asset

B : Location of the asset

C : Restrictions on the sale or use of the asset

D : All of the above

Question - 9: Revisions resulting from a change in the valuation technique or its application shall be accounted for as-

A : Change in accounting policy as per IND AS 8

B : Change in accounting estimate as per IND AS 8

C : Change in valuation technique is not permitted

D : Prior period error as per IND AS 8

Question – 10 : The measurement requirements of IND AS 113 applies to

A : Share based payment transactions within the scope of IFRS 2 Share? based Payment

B: Leasing transactions accounted for in accordance with IFRS 16 Leases

C: Assets for which recoverable amount is fair value less costs of disposals in accordance with IND AS 36

D : Measurements of net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets

Answer Key : 1 : A 2 : C 3 : A 4 : C 5 : B 6 : D 7 : A 8 : D 9 : B 10 : C

IND AS 115: Revenue from Contract with the Customers

SEC – A : ICAI MCQs

Question - 1: IND AS 115 applies to –

A : Lease contracts within the scope of IND AS 116 Leases

B : Financial instruments and other contractual rights or obligations within the scope of IND AS 109, IND AS 110, IND AS 111, IND AS 27 and IND AS 28

C : Non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers

D : Non-monetary exchanges between entities in different line of business to facilitate sales to customers or potential customers

Question – 2 : As per IND AS 115, an entity shall combine two or more contracts entered into at or near the same time with the same customer and account for the contracts as a single contract when

A : The contracts are negotiated as a package with a single commercial objective

B : The amount of consideration to be paid in one contract depends on the price or performance of the other contract

C : The goods or services promised in the contracts are a single performance obligation

D : All of the above

Question – 3 : Impairment loss as per IND AS 115 shall be recognised in-

A : Other Comprehensive Income

B : Profit or Loss

C : Contract Assets

D : Other Reserves

Question – 4 : Which of the following criteria is not correct in case of identification of contract with the customer to be accounted for under IND AS 115?

A : The parties to the contract have approved the contract in writing only

B : The entity can identify each party's rights regarding the goods or services to be transferred

C : The entity can identify the payment terms for the goods or services to be transferred

D : The contract has commercial substance

Question – 5 : An entity has entered into a contract with a customer which does not meet the criteria for identifying the contract and the entity has received consideration from the customer. In such a case the entity shall recognise the consideration as revenue only when

A : The entity has no remaining obligations to transfer goods or services to the customer and consideration promised by the customer has been received by the entity and is non-refundable

B : The contract has been terminated and the consideration received from the customer is non-refundable

C : The entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is refundable

D : Either (a) or (b)

Question - 6 : Where the penalty is inherent in determination of transaction price of a contract, it shall form part of

A : Fixed consideration

B : Variable consideration

C : Non-cash consideration

D : Not included in consideration

Question – 7 : An entity shall account for a contract modification as a separate contract when

A : The scope of the contract increases because of the addition of promised goods or services that are distinct

B : The price of the contract increases by an amount of consideration that reflects the entity s stand-alone selling prices of the additional promised goods or services

C : Either (a) or (b)

D : Both (a) or (b)

Question - 8 : _________ is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties

A : Transaction price

B : Market price

C : Ordinary price

D : Fair price

Question – 9 : Which of the following cost shall be recognises as an asset while obtaining a contract with a customer if the entity expects to recover those costs

A : Sales commission

B : General and administrative costs

C : Costs of wasted materials, labour or other resources

D : Costs that relate to past performance

Question – 10 : To determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity shall measure the non-cash consideration at-

A : Actual price

B : Transaction price

C : Fair value

D : Market price

Answer Key : 1 : D 2 : D 3 : B 4 : A 5 : D 6 : B 7 : D 8 : A 9 : A 10 : C

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : A construction company signed a contract to build a theatre over a period of two years, and with this contract also signed a maintenance contract for five years. Both the contracts are negotiated as a single package and are closely interrelated to each other. The two contracts should be

A :Combined and treated as a single contract.

B :Segmented and considered two separate contracts.

C :Recognized under the completed-contract method.

D :Treated differently—the building contract under the completed-contract method and maintenance contract under the percentage-of-completion method.

Question -2 : Revenue from an artistic performance is recognized when -

A : the tickets for the concert are sold

B : the tickets for the concert are printed for sales

C : the performance is over

D : the performance is announced

Answer Key : 1 : D 2 : A

CASE SCENARIO

A Ltd. is engaged in the business of manufacturing a number of products including moulds, dies and machinery. They have a wide customer base both within India and abroad.
Typically, a contract is entered into for sale of each product and consideration is received on the event of delivery of goods to the customer place. The cost of each mould is Rs. 400 and the selling price is Rs. 450. The terms of the contract entitle the customer to return any unused moulds within 30 days and receive a full refund. The Company estimates that the costs of recovering the mould will be immaterial and expects that the returned moulds can be resold at a profit. The company has sold a total of 10,000 moulds during the month ended 31st March, 20X4.
From past experience, A Ltd expects that 3% of the moulds will be returned during the current year.

Question - 1: The consideration received from the customer is

A : Variable

B : Fixed

C : Both variable and fixed

D : There is no consideration

Question – 2 : Upon transfer of control of the 10,000 moulds, the entity will recognise revenue for

A : 10,000 moulds

B : 300 moulds

C : 9,700 moulds

D : 10,300 moulds

Question – 3 : The entity recognises revenue of

A : Rs. 45,00,000

B : Rs. 43,65,000

C : Rs. 1,35,000

D : Rs. 1,20,000

Question – 4 : The entity recognises a refund liability of

A : Rs. 45,00,000

B : Rs. 43,65,000

C : Rs. 1,35,000

D : Rs. 1,20,000

Question – 5 : The entity recognises a return asset of

A : Rs. 45,00,000

B : Rs. 43,65,000

C : Rs. 1,35,000

D : Rs. 1,20,000

Question – 6 : The journal entry for the above would be

A :	Trade Receivables (Customer)	Dr.	45,00,000	
	To Revenue			45,00,000
B :	Return asset	Dr.	43,65,000	
	To Revenue			43,65,000
C :	Trade Receivables (Customer)	Dr.	1,35,000	
	To Return asset			1,35,000
D :	Trade Receivables (Customer)	Dr.	45,00,000	
	To Revenue			43,65,000
	To Refund liability			1,35,000

Answer Key / Description :

1 : A (Since the contract allows a customer to return the products, the consideration received from the customer is variable.)

2 : C (Upon transfer of control of the 10,000 moulds, the entity does not recognise revenue for the 300 moulds that it expects to be returned.)

3 : B (The entity recognises the Revenue of Rs. 43,65,000 (Rs. 450 x 9,700 moulds not expected to be returned)

4 : C (The entity recognises a refund liability of Rs. 1,35,000 (Rs. 450 refund x 300 moulds expected to be returned)

5 : D (The entity recognises a return asset of Rs. 1,20,000 (Rs. 400 x 300 moulds for its right to recover products from customers on settling the refund liability)

6 : D

IND AS 116: Leases

SEC – A : ICAI MCQs

Question – 1 : An entity is required to assess whether the contract is or contains, a lease at/on -

A : Commencement of lease term

B : Obtaining the possession of identified asset

C : Inception of contract

D : Beginning of the relevant annual year

Question – 2 : According to IND AS 116, initial measurement of the right of use asset does not include

A : Lease liability

B : Initial direct cost

C : Estimate of dismantling and restoration

D : Contingent rent

Question - 3 : A lessee is required to measure the right of use asset in the financial statements initially at -

A : Fair Value

B : Net Realizable Value

C : Cost

D : Present Value of Lease Payment

Question – 4 : In case of a contract that contains a lease component and one or more additional lease or non-lease component, lessee is required to allocate the contract consideration to each lease component on the basis of their relative:

A : Value in Use

B : Stand-Alone Price

C : Market Price

D : Cost

Question – 5 : Lease term includes the periods covered by an extension option if exercise of that option by the lessee is –

A : Remote

B : Highly Probable

C : Reasonably Certain

D : Virtually Certain

Question - 6 : SA Ltd. has taken a building on lease from RA Ltd. for 10 years to operate a restaurant.

As per the contract, SA Ltd. has decision-making right regarding all the operations and usage of the restaurant. However, as per the contract, RA Ltd. has a right to restrict SA Ltd. from selling any kind of non-vegetarian item in the restaurant. The restriction rights of RA Ltd. will become exercisable only after 6 years. Whether the contract contains a lease?

A : Contract contains a lease for 10 years as the rights of the lessor are protective in nature

B : Contract contains a lease for 6 years as the lessee has a right to control the use of the asset for a portion of period

C : Contract contains a lease for 4 years as the lessor has rights to control the use of the asset for a portion of period

D : None of the above

Question - 7 : According to IND AS 116, lease liability does not include __________

A : Present value of fixed payment

B : Guaranteed residual value

C : Unguaranteed residual value

D : Lease termination penalty

Question - 8 : According to IND AS 116, the right of use asset in the books of Lessee shall be depreciated over the

A : Lower of the lease term and the asset's useful life

B : Higher of the lease term and the asset's useful life

C : Entire lease term

D : Useful life of the asset

Question - 9 : The lease payments shall be discounted using the

A : Interest rate implicit in the lease or general borrowing rate

B : Weighted average cost of capital or interest rate implicit in the lease

C : Interest rate implicit in the lease or incremental borrowing rate

D : LIBOR or weighted average cost of capital

Question - 10 : An entity shall revise the lease term if there is a change in ______________

A : Non-cancellable period

B : Economic life of underlying asset

C : Secondary period

D : Useful life of the underlying asset

Answer Key : 1 : A 2 : D 3 : C 4 : B 5 : C 6 : B 7 : C 8 : A 9 : C 10 : A

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : Unguaranteed residual value of a leased asset is the amount by which the residual value of the asset exceeds its

A : Guaranteed residual value

B : Fair value

C : Gross investment

D : None of the above.

Question – 2 : Gross investment in the financial lease is Rs. 5 lakhs. Present value of minimum lease payments for the lessor is Rs. 3 lakhs. Present value of unguaranteed residual value accruing to the lessor at the implicit rate of lease is Rs. 1 lakh. Unearned finance income will be:

A : Rs. 2 lakhs

B : Rs. 1 lakh

C : Rs. 4 lakhs

D : None of the above

Question – 3 : A Ltd. has contracted to lease the asset for 5 years. A Ltd. also has an option to continue the lease for 3 more years. Therefore,

A : The lease term is 5 years.

B : The lease term is 8 years.

C : The lease term is 8 years only if it is reasonably certain that A Ltd. will exercise its option with or without making further payments for continuing lease.

D : The lease term is 8 years only if it is reasonably certain that A Ltd. will exercise its option after making further payments for continuing lease.

Question – 4 : State True or False for the following and also give reasons where possible –

(i) Inception of the lease is the date of initial recognition of the lease. ___________

(ii) Lease includes lease of land. _____________

(iii) The classification of a lease as either an operating or finance lease is based on the length of the lease. ___________

Answer Key : 1 : A 2 : B 3 : C 4 : (i) False (ii) True (iii) False

IND AS 102: Share Based Payment

SEC – A : ICAI MCQs

Question – 1 : Silver Jubilee Motors granted 2,000 share options to each of its three Branch Manager on 1 April 2017, subject to the Branch Managers being in employment till 31 March 2020. The options will vest on 31 March 2020 only if the company's share price reaches INR 14 per share at that time. The fair value of each option on 1 April 2017 is INR 10. The share price at 31 March 2018 is INR 8 and it is not anticipated that it will rise over the next two years. Further, it is anticipated on 31 March 2018 that only two Branch Managers will be in employment by 31 March 2020. Determine the value of share option to be recorded per IND AS 102 Share Based Payment in the Balance Sheet for the year ended 31 March 2018.

A : INR 20,000

B : INR 13,333

C : INR 10,667

D : INR 18,667

Question – 2 : In respect of an entity which is a first-time adopter of IND AS, IND AS 102 would not necessarily be required to be applied to which of the following equity instruments?

A : Equity instruments that vested before date of transition to IND AS

B : Equity instruments that vested after date of transition to IND AS

C : Equity instruments that vested on the date of transition to IND AS

D : All equity instruments that vested before, on and after date of transition to IND AS

Question – 3 : On 1 April 20X1, ABC Ltd acquired an item of plant for an agreed consideration of its own 1,000 shares. The plant was received on same date and the obligation to transfer shares was to be settled on 1 May 20X1. The fair value of the item of the plant was Rs. 10,000 on 1 April 20X1. ABC Ltd.'s share price was INR 8.00 on 1 April 20X1 and INR 9.00 on 31 March 20X2. In accordance with IND AS 102 Share-based Payment, ABC Ltd should:

A : Remeasure the equity to 9,000 on 31 March 20X2

B : Initially recognise the plant and equity at 8,000 on 1 April 20X1

C : Make no entry in relation to the transaction until 1 May 20X1

D : Initially recognise the plant and equity at 10,000 on 1 April 20X1

Answer Key : 1 : B 2 : A 3 : D

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : Company B grants 500 shares options each to 100 employees. The employees will be entitled to exercise these options if they stay for 3 years. The fair value of each option is estimated to be Rs. 15 on the date of grant. The fair values are Rs. 18, Rs. 25 and Rs. 30 at the end of year 1, year 2 and year 3. Assume it to be a Equity Settled Plan. The employee service cost to be debited to Profit or

Loss account at the end of year I is -

A : Rs. 750,000 [500 shares x 100 employees x Rs. 15]

B : Rs. 250,000 [500 shares x 100 employees x Rs. 15 = Rs. 750,000 / 3 years]

C :Rs. 300,000 [500 shares x 100 employees x Rs. 18 = Rs. 900,000 / 3 years]

D : None of the above

Question – 2 : ____________ date is the date on which the entity and the other party agree to the share-based payment arrangement and shares the principal terms and conditions.

A : Grant date

B : Inception date

C : Vesting date

D : Exercise date

Question – 3 : State True or False for the following and also give reasons where possible –

(i) Share-based payment relating to an acquisition of a subsidiary involving the issuance of shares does not come within the Scope of a "share-based" payment as covered under Ind-AS 102? __________

(ii) Ind-AS 102 Share based payments would not apply if Preference Shares, being an equity instrument, are issued to a supplier in exchange for goods supplied. ____________

(iii) Ind-AS 102 does not apply to share-based payment transactions other than for the acquisition of goods and services. ___________

(iv) The vesting period is a period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied as per Ind-AS 102? _____________

Question - 4 : ABC Limited grants share options to employees, estimated at 91% vesting in the first year and 89% in the second year. If the fair value of these options is ₹500,000, what is the expense recognized in the first year?

A : ₹151,667

B : ₹145,000

C : ₹113,333

D : ₹410,000

Question - 5 : If a company grants 100 shares to each of 500 employees with a fair value of ₹122 per share, and 29 employees leave in the first year, what is the expense recognized in that year?

A : ₹268,4000

B : ₹72,3867

C : ₹172,8333

D : ₹513,6200

Question - 6 : A parent company grants shares to the employees of its subsidiary. If the fair value of the shares on grant date is ₹5 per share for 30 shares granted to each of 100 employees, what is the total expense recognized by Company S?

A : ₹15,000

B : ₹11,250

C : ₹3,750

D : ₹5,000

Question - 7 : New Age Technology Limited granted share options to its employees on 1st April 20X1, which were approved by the employees on 30th June 20X1. If the company's shareholders approved these options on 30th September 20X1, what is the grant date for accounting purposes?

A : 1st April 20X1

B : 30th June 20X1

C : 30th September 20X1

D : Cannot be determined from the given information

Question – 8 : If Ryder, a public limited company, recognized a liability of ₹60 million for Share Appreciation Rights (SARs) based on a fair value per share of ₹6 at 31st March 20X3, which increased to ₹8 at 31st March 20X4, what should be the adjusted liability at 31st March 20X4?

A : ₹60 million

B : ₹80 million

C : ₹90 million

D : ₹100 million

Question - 9 : If the initial fair value per share of a Share Appreciation Right (SAR) granted by Ryder was ₹6, and it increased to ₹9 by the settlement date, how should the increase in fair value be accounted for in the financial statements?

A : Recognize the full increase in the year of settlement

B : Recognize the increase up to the reporting date and the rest in the next financial year

C : Recognize the increase proportionally over the vesting period

D : The increase should not be recognized as it is a non-adjusting event

Answer Key: 1 : B 2 : A 3 : (i) True (ii) False (iii) True (iv) True

4 : A 5 : A 6 : A 7 : C 8 : B 9 : B

IND AS 103: Business Combination and Corporate Restructuring

SEC – A : ICAI MCQs

Question – 1 : P Ltd acquires 95% of the issued share capital of S Ltd on 1 October 2017 by way of a share for share exchange. The profits before tax of P and S for the year ended 31 March 2018 are Rs 2,00,000 and Rs 1,50,000 respectively. How much profit before tax would be shown in the consolidated statement of profit or loss of P Ltd for the year ended 31 March 2018, in accordance with IND AS 103 'Business Combinations'?

A : Rs 271,250

B : Rs 275,000

C : Rs 342,500

D : Rs 350,000

Question – 2 : Entity C acquires Entity D as per the principles of IND AS 103 Business Combinations. Fair Value of identifiable assets is Rs. 10,00,000. Fair Value of Liability assumed is Rs. 6,00,000. Consideration paid for the acquisition of Entity D is Rs. 5,00,000 Goodwill on acquisition is deductible for tax purposes. You need to compute the Goodwill amount to be recognised the books of Acquirer i.e. Entity C at acquisition date? (Assume tax rate @30%)

A : Rs. 1,00,000

B : Rs. 1,30,000

C : Rs. 4,00,000

D : Rs. 70,000

Question – 3 : PQR Holdings Limited enters into a number of transactions each year. The accountant has requested your help to identify which of these must be accounted for as a business combination:

A : PQR Holdings Limited purchases 30% equity in TP Ltd, an unlisted company

B : PQR Holdings Limited purchases a 45% interest which gives it control over TR Ltd.

C : PQR Holdings Limited purchases one of many brand names and products of TQ Ltd.

D : PQR Holdings Limited purchases a 30% equity and invests in debentures of TS Ltd.

Answer Key : 1 : B 2 : A 3 : B

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : The ABC Company acquired 100% of The XYZ Company for a consideration transferred of CU112 million. At the acquisition date the carrying amount of XYS's net assets was CU100 million and their fair value was CU120million. How should the difference between the consideration transferred and the net assets acquired be presented in ABC's financial statements, according to Ind-AS 103 Business combinations?

A : Gain on bargain purchase of CU8 million deducted from other intangible assets

B : Gain on bargain purchase of CU8 million recognised in other comprehensive income

C : Goodwill of CU12 million as an intangible asset

D : Gain on bargain purchase of CU8 million recognised in profit or loss

Question – 2 : An entity acquires equipment and a patent in exchange for ₹1000 crore cash and land. The fair value of the land is ₹400 crore and its carrying value is ₹100 crore. The fair values of the equipment and patent are ₹500 crore and ₹1000 crore respectively. How should the transaction be accounted for?

A : Record a gain of ₹300 crore for the difference between the fair value and carrying value of the land.

B : Record a loss of ₹300 crore for the difference between the fair value and carrying value of the land.

C : Allocate ₹1400 crore to the equipment and ₹933 crore to the patent based on their relative fair values.

D : Allocate ₹933 crore to the equipment and ₹1400 crore to the patent based on their relative fair values.

Question - 3 : Company A, a pharmaceutical company, acquires Company B. Company A has been conducting in-house R&D and recently obtained IPR over certain drugs. Does Company A constitute a business in accordance with IND AS 103?

A : Yes, because it has earned significant revenue.

B : No, because it hasn't started commercial operations.

C : Yes, because it has inputs, processes, and the ability to produce outputs.

D : No, because it lacks customer contracts.

Question - 4 : Company P Ltd. acquires 40,000 out of 100,000 equity shares of Company X. It also purchases an option to acquire an additional 25,000 shares. Does Company P acquire control of Company X?

A : No, because the options are not exercisable immediately.

B : Yes, if exercised, these options would increase Company P's ownership to over 50%.

C : No, because other shareholders have potential voting rights.

D : Yes, only if the premium included in the exercise price is high.

Question - 5 : Veera Limited and Zeera Limited agree to join forces by setting up Meera Limited. Meera Limited issues 100 shares to Veera Limited's shareholders and 50 shares to Zeera Limited's shareholders. Who is the acquirer?

A : Veera Limited, as it receives the majority of the shares.

B : Zeera Limited, as it receives the lesser number of shares.

C : Meera Limited, as it is the newly formed entity.

D : Neither, as this is a merger of equals.

Question – 6 : Can a business combination be accounted for based on a signed non-binding letter of intent (LOI)?

A : Yes, if the LOI specifies the acquisition date.

B : No, because a non-binding LOI does not effectively transfer control.

C : Yes, if the LOI is expected to be completed within a specified time.

D : No, unless the LOI is accompanied by a deposit.

Question - 7 : ABC Ltd. acquires XYZ Ltd., with the agreement stating the acquisition is effective from 1st January. However, ABC Ltd. obtains control on 1st March. What is the acquisition date?

A : 1st January, as per the agreement.

B : 1st March, when control is obtained.

C : A date between 1st January and 1st March.

D : The date when the agreement was finalized.

Question - 8 : ABC Ltd. bids for XYZ Ltd. The contracts are subject to approval by the Competition Commission of India (CCI). Can the acquisition date be when ABC Ltd. and XYZ Ltd. agree on terms before CCI approval?

A : Yes, if the agreement specifies the acquisition date.

B : No, because the CCI approval is substantive.

C : Yes, if the CCI approval is expected to be a formality.

D : No, unless the CCI approval is received on the same day.

Question - 9 : ABC Ltd. acquires PQR Ltd. and agrees to indemnify against court cases up to ₹10 crore. If no liability is recognized due to unreliable measurement, how should the indemnification asset be accounted for?

A : Recognized at ₹10 crore

B : Not recognized

C : Recognized at fair value of potential claims

D : Recognized at the amount above ₹10 crore

Question - 10 : Vadapav Ltd. acquires Efficient Ltd. and determines the franchise agreement reflects current market terms. How should the franchise right be accounted?

A : As a financial asset

B : As an intangible asset

C : Not recognized

D : As an investment

Question - 11 : KK Ltd. acquires ABR Ltd. for ₹35 crores. ABR Ltd.'s net assets are ₹15 crores, including patents and licenses valued at ₹30 crores and ₹10 crores, respectively. What is the bargain purchase gain?

A :₹10 crores

B : ₹20 crores

C : ₹30 crores

D : ₹35 crores

Answer Key : 1 : B 2 : A 3 : C 4 : B 5 : A 6 : B 7 : B 8 : B 9 : B 10 : B 11 : B

Consolidated and Separate Financial Statements
(IND AS 110, IND AS 111, IND AS 27, IND AS 28, IND AS 112)

SEC – A : ICAI MCQs

Question – 1 : P owns a controlling investment of 70% of S. During the year, P sold goods to S for Rs 60,000 at cost plus 20%. At the year end, S still had half of the goods in their inventory. P's total inventory at the year-end was Rs 120,000, and S's total inventory was Rs 80,000. How much inventory should be recognised in Ps consolidated statement of financial position prepared in accordance with IND AS?

A : Rs 1,95,000

B : Rs 2,00,000

C : Rs 1,76,000

D : Rs 1,58,500

Question - 2 : On 1st March 20X2, Quixote Ltd acquired 30% of the shares of Tintin Ltd. The investment was accounted for as an associate in Quixotes consolidated financial statements. Both Quixote and Tintin have an accounting year ending at 31st October 20X2. Quixote Ltd has no other investments in associates. Net profit for the year in Tintines income statement for the year ended 31st October 20X2 was Rs. 2,30,000. It declared and paid dividend of Rs.100,000 on 1st July 20X2. No other dividends were paid in the year.
What amount will be shown as an inflow in respect of earnings from the associate in the consolidated cash flow statement of Alpha for the year ended 31st October 20X2?

A : Rs. 20,000

B : Rs. 26,000

C : Rs. 30,000

D : Rs. 46,000

Question – 3 : In consolidated financial statements of PQR Ltd., non-controlling interest should be presented:

A : Within long-term liabilities

B : In between long-term liabilities and current liabilities

C : Within the parent shareholders' equity

D : Within equity but separate from the parent shareholders' equity

Question - 4 : You are the finance manager of Vassar, a listed company which prepares consolidated financial statements as per AS. The newly appointed managing director who is not an accountant, reviewed the draft financial statements for the year ended 31 March 20X1 which were due to be published shortly. The managing director had a query out of the review regarding the exclusion of certain investment in subsidiaries from preparing consolidated financial statements.
Which of the following statements are correct about the exclusion of subsidiary from consolidation?

A : Vassar had acquired a subsidiary Aqua on 1 October 20X0. This acquisition was temporary in nature and that it had held exclusively with a view to its subsequent disposal in near future

B : There was another subsidiary acquired in the first quarter of the year, which had huge losses. Vassar believed that due to change in management and other synergies, it could turn around the losses into profits in few years. But, due to the losses in the current year, you had not consolidated this subsidiary

C : If there is an investment acquired without the intention of subsequent disposal in near future, but which was decided to dispose off subsequently, this investment can be excluded from consolidation

D : If the relevant investment was acquired with the intention of subsequent disposal in near future but could not be disposed off due to some valid reasons, it will later be included in the consolidation

Question – 5 : A Ltd. controls another entity B Ltd., owning 60% of its ordinary share capital. At the group's year end, 31st December 20X1, B Ltd. included Rs. 6,000 in its receivables in respect of goods supplied to A Ltd. However, the payables of A Ltd. included only Rs. 4,000 in respect of amounts due to B Ltd. The difference arose because, on 31st December 20X1, A Ltd. sent a cheque of Rs. 2,000, which was not received by B Ltd. until 3rd January 20X2. Which one of the following sets of consolidation adjustments to current assets and current liabilities is correct?

A : Deduct Rs. 6,000 from both consolidated receivables and consolidated payables

B : Deduct Rs. 3,600 from both consolidated receivables and consolidated payables

C : Deduct Rs. 6,000 from consolidated receivables and Rs. 4,000 from consolidated payables and include Rs. 2,000 as cash-in- transit

D : Deduct Rs. 6,000 from consolidated receivables and Rs. 4,000 from consolidated payables and include inventory in transit of Rs. 2,000

Answer Key : 1 : A 2 : C 3 : D 4 : A 5 : C

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : An entity has acquired a subsidiary on January 1, 2013. Goodwill of Rs. 2 million has arisen on the purchase of this subsidiary. The subsidiary has deductible temporary differences of Rs. 1 million and it is probable that future taxable profits are going to be available for the offset of this deductible temporary difference. The tax rate during 2013 is 30%. The deductible temporary difference has not been taken into account in calculating goodwill. What is the figure for goodwill that should be recognized in the consolidated statement of financial position of the parent?

A : Rs. 2,000,000

B : Rs. 1,700,000

C : Rs. 1,400,000

D : None of the above

Question – 2 : Are the following statements true +/ false, according to Ind-AS 110 Consolidated and separate financial statements?

I. **Consolidated financial statements must be prepared using uniform accounting policies.**

II. **The non-controlling interest in the net assets of subsidiaries may be shown by way of note to the consolidated statement of financial position.**

Statement (1) Statement (2)

A : False & False

B : False & True

C : True & False

D : True & True

Question – 3 : Under Ind-AS 110 – Consolidated Financial Statements, when an entity loses control of a subsidiary, it shall:-

a) **Recognize the fair value of the consideration received, if any, from the transaction, event or circumstance that resulted in the loss of control;**

b) **Derecognise the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;**

c) **Recognise if the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution;**

d) **derecognize any investment retained in the former subsidiary at its fair value at the date when control is lost**

A : All a, b, c, d are true

B : Only a, b and c are true

C : Only c and d are true

D : Only b, c and d are true

Question - 4 : Can AB Ltd. account for its investments in subsidiaries at cost and investments in associates as per Ind AS 109 in its separate financial statements?

A : Yes, but only for investments in subsidiaries

B : No, as it violates Ind AS 27

C : Yes, for both subsidiaries and associates

D : No, unless approved by a financial regulator

Question - 5 : What does Ind AS 27 permit regarding the accounting of investments in separate financial statements?

A : Only at cost for all categories of investments

B : At cost or in accordance with Ind AS 109, depending on the investment category

C : Only in accordance with Ind AS 109 for all investments

D : At fair value for all investments

Question - 6 : If a parent company, Parent Co, acquires a subsidiary, Sub Co, for $500,000, where Sub Co's fair value of identifiable net assets is $450,000, and Sub Co has a recognized contingent liability of $30,000, how should this contingent liability be treated in the consolidated financial statements?

A : Recognize the contingent liability at $30,000 in Parent Co's consolidated financial statements.

B : Do not recognize the contingent liability as it is not probable.

C : Recognize the contingent liability at its fair value.

D : Adjust the goodwill by the amount of the contingent liability.

Question - 7 : How is the determination of goodwill affected under IND AS 110 when an entity acquires 100% interest in another entity without any non-controlling interest?

A : Goodwill is determined by subtracting net assets from the total consideration

B : Goodwill calculation is not applicable in 100% acquisitions

C : Non-controlling interest is assumed at fair value for goodwill calculation

D : Goodwill is determined by the fair value of the acquired entity's net assets alone

Question - 8 : If a parent company sells goods to its subsidiary at a profit and the inventory is still on the subsidiary's balance sheet at the year-end, how should the consolidated financial statements be adjusted?

A : Increase in inventory value and profit

B : Decrease in inventory value and profit

C : No adjustment required

D : Increase in inventory value and decrease in profit

Question - 9 : When preparing consolidated financial statements, how should intercompany receivables and payables between the parent and a wholly owned subsidiary be treated?

A : Only the receivables should be eliminated

B : Only the payables should be eliminated

C : Both receivables and payables should be eliminated

D : Neither should be eliminated

Question - 10 : When a parent company and its subsidiary use different methods for valuing inventories, how should the inventories be valued in the consolidated financial statements?

A : Using the parent's method

B : Using the subsidiary's method

C : Using the weighted average of both methods

D : Revaluing the inventories to fair value

Question - 11 : A Limited ceases to be an investment entity and holds an 80% stake in B Limited. The carrying value of the investment is ₹400,000, and the fair value of non-controlling interest is ₹100,000. Calculate the value of goodwill and pass the journal entry.

A : Goodwill of ₹50,000; Dr. Net Identifiable Assets ₹450,000, Dr. Goodwill ₹50,000, Cr. Investment ₹400,000, Cr. Non-controlling interest ₹100,000

B : Goodwill of ₹100,000; Dr. Net Identifiable Assets ₹400,000, Dr. Goodwill ₹100,000, Cr. Investment ₹400,000, Cr. Non-controlling interest ₹100,000

C : Goodwill of ₹500,000; Dr. Net Identifiable Assets ₹450,000, Dr. Goodwill ₹500,000, Cr. Investment ₹400,000, Cr. Non-controlling interest ₹100,000

D : No goodwill; Dr. Net Identifiable Assets ₹500,000, Cr. Investment ₹400,000, Cr. Non-controlling interest ₹100,000

Question - 12 : Company P owns 75% of Company Q, which holds 40% in Company R. If R makes a profit of ₹200,000, how much of this profit reflects in P's consolidated statement of profit and loss?

A : ₹60,000

B : ₹75,000

C : ₹150,000

D : ₹30,000

Question - 13 : Ram Ltd. acquires 60% of Krishan Ltd. with a fair value adjustment of ₹200,000 for land and buildings. The carrying amount in Krishan Ltd. is ₹360,000. What is the consolidated amount for land and buildings?

A : ₹560,000

B : ₹360,000

C : ₹760,000

D : ₹200,000

Answer Key : 1 : B 2 : C 3 : B 4 : C 5 : B 6 : A 7 : A 8 : B 9 : C 10 : A 11 : A 12 : A 13 : A

CASE SCENARIO 01

All Limited holds 35% of total equity shares of M Limited, an associate company. The value of investments in M Limited on 31 March 20X3 is Rs. 3,00,00,000 in the consolidated financial statements of All Limited. All Limited sold goods worth Rs. 3,50,000 to M Limited. The cost of goods sold is Rs. 3,00,000. Out of these goods costing Rs. 1,00,000 to M Limited were in the closing stock of M Limited. M Limited declared a dividend of Rs. 75,00,000 to the equity shareholders of the Company. During the year ended 31 March 20X4 the statement of profit and loss of M Limited showed a profit of Rs. 1,50,00,000.

Question - 1: What is the share of All Limited in the post-acquisition loss of M Limited?

A : Rs. 1,50,00,000

B : Rs. 52,50,000

C : Rs. 75,00,000

D : Rs. 26,25,000

Question - 2: What is unrealised gain on inventory left unsold with M Limited?

A : Rs. 5,000

B : Rs. 16,667

C : Rs. 50,000

D : Rs. 5,833

Question - 3: What is the share of All Limited in the Dividend declared from M Limited?

A : Rs. 75,00,000

B : Rs. 50,00,000

C : Rs. 26,25,000

D : Rs. 52,50,000

Question - 4: What is the value of investment in M Limited as on 31st March 20X4 as per equity method in the consolidated financial statements of All Limited?

A : Rs. 3,26,25,000

B : Rs. 3,52,50,000

C : Rs. 3,52,45,000

D : Rs. 3,26,20,000

Question - 5: What is the approximate gross margin on goods sold by All Limited to M Limited?

A : 14.29%

B : 16.67%

C : 50%

D : 5%

Answer Key / Description :

1 : B (1,50,00,000 x 35% = 52,50,000)

2 : A [[(50,000/3,50,000) x 1,00,000) x 35%]

3 : C ((75,00,000 x 35%) = 26,25,000)

4 : D (3,00,00,000 + 52,50,000 - 5,000 - 26,25,000 = 3,26,20,000)

5 : A ((50,000 / 3,50,000) x 100)

CASE SCENARIO 02

On 1st April 20X1, A Limited acquired 80% of the share capital of S Limited. On acquisition date the share capital and reserves of S Ltd. stood at Rs. 5,00,000 and Rs. 1,25,000 respectively. A Limited paid initial cash consideration of Rs. 10,00,000. Additionally, A Limited issued 2,00,000 equity shares with a nominal value of Rs. 1 per share at current market value of Rs. 1.80 per share.
It was also agreed that A Limited would pay a further sum of Rs. 5,00,000 after three years. A Limited's cost of capital is 10%. The appropriate discount factor for Rs. 1 @ 10% receivable at the end of
1st year: 0.91
2nd year: 0.83
3rd year: 0.75
The shares and deferred consideration have not yet been recorded by A limited.

Below are the Balance Sheet of A Limited and S Limited as at 31 March, 20X3 :

	A Limited (Rs. 000)	S Limited (Rs. 000)
Non-current assets:		
Property, plant & equipment	5,500	1,500
Investment in S Limited at cost	1,000	-
Current assets:		
Inventory	550	100
Financial Assets		
Receivables	400	200
Cash	200	50
Total	7,650	1,850
Equity:		
Share capital	2,000	500
Retained earnings	1,400	300
	3,400	800
Non-current liabilities	3,000	400
Current liabilities	1,250	650
Total	7,650	1,850

Further information:

(i) On the date of acquisition the fair values of S Limited's plant exceeded its book value by Rs. 2,00,000. The plant had a remaining useful life of five years at this date;

(ii) The consolidated goodwill has been impaired by Rs. 2,58,000; and

(iii) The A Limited Group, values the non-controlling interest using the fair value method. At the date of acquisition, the fair value of the 20% non-controlling interest was Rs. 3,80,000.

Question – 1 : What will be amount of purchase consideration at the acquisition date i.e. 1st April, 20X1? (Rs. in `000s)

A : Rs.1,000

B : Rs.1,360

C : Rs.1,375

D : Rs.1,735

Question – 2 : Compute the amount of net assets / net worth at the acquisition date i.e. 1st April, 20X1. (Rs. in `000s)

A : Rs. 825

B : Rs. 625

C : Rs. 500

D ; Rs. 325

Question – 3 : What will be the amount of Goodwill at the acquisition date i.e. 1st April, 20X1? (Rs. in `000s)

A : Rs. 910

B : Rs. 2,115

C : Rs.1,290

D : Rs. 1,032

Question – 4 : What will be the amount of Goodwill on reporting date i.e. 31st March, 20X3? (Rs. in `000s)

A : Rs. 910

B : Rs. 2,115

C : Rs. 1,290

D : Rs. 1,032

Question – 5 : What will the net value of Property, Plant and Equipment (after all adjustment) as on 31st March 20X3 ? (Rs. in `000s)

A : 7,000

B : 7,120

C :6,880

D : 7,200

Question – 6 : Compute value of NCI as on 31st March 20X3. (Rs. in `000s)

A : Rs. 380

B : Rs. 399

C : Rs. 347.40

D : Rs. 328.40

Question – 7 : Compute Post-acquisition gain/(loss) of A Ltd. (after adjustment of impairment on goodwill) as on 31st March 20X3 (Rs. in `000s)

A : Nil

B : Loss Rs. 130.40

C : Gain Rs. 76

D : Loss Rs. 206.40

Question – 8 : Compute the finance cost for the year 20X1-20X2 and 20X2-20X3 to be recognised in the books for the respective years. (Rs. in `000s)

A : Rs. 37.50 and Rs. 41.25

B : Rs. 41.25 and Rs. 37.50

C : Rs. 45.375 and Rs. 37.50

D : Rs. 37.50 and Rs. 45.375

Question – 9 : Compute Consolidated Retained Earnings to be shown in the consolidated financial statements as on 31st March 20X3. (Rs. in `000s)

A : Rs. 1,400

B : Rs. 1,269.60

C : Rs. 1,321.25

D : Rs. 1,190.85

Question – 10 : What will be the value of deferred consideration as on 31st March 20X3? (Rs. in `000s)

A : Rs. 412.50

B : Rs. 416.25

C : Rs. 453.75

D : Rs. 375.00

Question – 11 : Compute current Liability to be shown in the consolidated balance sheet as on 31st March 20X3. (Rs. in `000s)

A : Rs. 2,353.75

B : Rs. 1,900

C : Rs. 1,250

D : Rs. 1,703.75

Question – 12 : What will be the total of consolidated balance sheet as on 31st March, 20X3? (Rs. in `000s)

A : Rs. 9,304.60

B : Rs. 9,652.00

C : Rs. 9,452.00

D : Rs. 9,000.00

Answer Key : 1 : D 2 : A 3 : C 4 : D 5 : B 6: C 7 : B 8 : A 9 : D 10 : C 11: A 12 : B

IND AS 111 – Joint Arrangements

ADDITIONAL PRACTICE MCQs

Question - 1 : Which type of joint arrangement requires the use of equity accounting?

A : Joint operation

B : Joint venture

C : Jointly controlled entities

D : All of the above

Question - 2 : In a joint operation, how should a party recognize its assets and liabilities?

A : Its share of joint assets and liabilities

B : Entire joint assets and liabilities

C : Only its own assets and liabilities

D : None of the above

Question - 3 : Which of the following is a feature of a joint venture?

A : Parties have rights to the assets and obligations for the liabilities

B : Parties have rights to the net assets

C : Separate legal entity is always required

D : Profits are shared based on activity

Question - 4 : Company A and Company B share control over a joint operation. Company A incurs expenses worth INR 500,000 and Company B incurs INR 700,000. If they have equal shares, how much expense should each report?

A : INR 500,000

B : INR 600,000

C : INR 700,000

D : INR 1,200,000

Question - 5 : In an arrangement, X Ltd. has 50% voting rights, Y Ltd. and Z Ltd. each have 25%. Decisions require 75% votes. This arrangement is:

A : A joint venture among all parties

B : Controlled by X Ltd.

C : Not a joint arrangement

D : A joint operation between X Ltd. and Y Ltd.

Question - 6 : ABC Ltd. is established by AB Ltd. and BC Ltd., each holding 50% voting power. AB Ltd. appoints 3 directors and BC Ltd. 2 directors. This arrangement is:

A : A joint operation

B : Controlled by AB Ltd.

C : A joint venture

D : Not a joint arrangement

Answer Key : 1 : B 2 : A 3 : B 4 : B 5 : C 6 : B

IND AS 28 – Investments in Associates & Joint Venture

ADDITIONAL PRACTICE MCQs

Question 1 : Under IND AS 28, how are dividends received from an associate accounted for?

A : Recognized as income

B : Deducted from the carrying amount of the investment

C : Added to the carrying amount of the investment

D : Recognized directly in equity

Question 2 : When using the equity method under IND AS 28, how are intercompany profits between an investor and its associate treated?

A : Fully recognized in the investor's financial statements

B : Eliminated in proportion to the investor's share in the associate

C : Eliminated in full

D : Recognized in other comprehensive income

Question 3 : According to IND AS 28, which of the following is not a factor in determining whether an investor has significant influence over an associate?

A : Representation on the board of directors

B : Participation in policy-making processes

C : Material transactions between the investor and investee

D : The size of the investee's office space

Answer Key : 1 : B 2 : B 3 : D

Accounting and Reporting of Financial Instruments
(IND AS 32,109,107)

SEC – A : ICAI MCQs

Question – 1 : A Ltd. has invested in debentures whose interest rate is floating in nature and as per the terms of the instrument interest will be reset every month. Terms of interest is 0.5 x (MIBOR +2%). Classify the financial asset and determine the subsequent measurement for the aforesaid instrument.

A : Financial asset measured at amortised cost

B : Financial asset measured at FVOCI without recycling

C : Financial asset measured at FVTPL

D : Financial asset measured at FVOCI with recycling

Question – 2 : From the below list of instruments held by Swan Limited as at 31.03.20X2, you need to identify the financial instrument which does not meet the contractual cash flow characteristics test as per the provisions of IND AS 109:

A : Variable rate instrument with a stated maturity date that permits the borrower to choose to pay three-month LIBOR for a three-month term or one- month LIBOR for a one-month term

B : A fixed term variable market interest rate bond where the variable market interest rate is capped

C : A financial instrument with an interest rate that is reset to a higher rate if the debtor misses a particular number of payments

D : A financial instrument with an interest rate that is reset to a higher rate if a specified equity index reaches a particular level

Question – 3 : New Age Technology Limited has taken loan from a bank which has debt to equity ratio as one of its financial covenants. Any new fund raise could have a direct implication on the covenants of existing loans. Therefore, the CFO wants to understand which amongst the following instruments is an equity instrument as per IND AS 32 Financial Instruments: Presentation?

A : Non-redeemable preference shares with payment of dividend at market rates

B : Preference shares redeemable at the option of the issuer with payment of dividend at the discretion of the issuer

C : Preference shares redeemable at the option of the holder with payment of dividend at the discretion of the issuer

D : Preference shares redeemable at the option of the holder with payment of dividend at market rates

Question – 4 : Which of the following categories of financial assets is NOT subject to impairment requirements of IND AS 109 "Financial Instruments"?

A : Equity instruments measured at fair value through profit or loss

B : Investment in debentures where (i) Contractual cash flows represent solely payment of principal and interest; and (ii) entity's business model is to hold financial assets in order to collect contractual cash flows

C : Lease receivables

D : Trade debtors

Question – 5 : Entity A has issued preference shares to the investors which has similar voting rights and dividend rights and will be converted into one is to one equity shares at the time of IPO. As per the terms of the agreement, if the IPO does not happen by the end of the 7th year, then the Company will have to buy back the shares from the investors. The Company is growing very fast and is confident of going through the IPO within 3 years itself. How will the company classify the above instrument in the financial statement?

A : Equity

B : Liability

C : Hybrid

D : Compound

Question - 6 : On 1 January 20X6, XYZ Ltd issues a new instrument with the following characteristics. Face value 100, issue price 90. Cumulative dividend payable at 5% per annum for 10 years. After 10 years, the dividend is payable at the discretion of the issuer. The holder of the note has the option to convert to ordinary shares of XYZ Ltd. after 10 years, and conversion will be 10 ordinary shares for each instrument. The holder can demand redemption for the face value at any time, with six months' notice up until the end of 10 years. After 10 years, redemption is at the discretion of the issuer. There is no fixed maturity date. How should the instrument be classified by XYZ Ltd. in the first 10 years in accordance with IND AS 32? Select which one of the following is correct.

A : As equity

B : As a liability

C : As either equity or liability

D : As a compound instrument

Answer Key : 1 : C 2 : D 3 : B 4 : A 5 : D 6 : B

SEC – B : ADDITIONAL PRACTICE MCQs

Question – 1 : Which of the following assets is not a financial asset?

A : Cash.

B : An equity instrument of another entity.

C : A contract that may or will be settled in the entity's own equity instrument and is not classified as an equity instrument of the entity.

D : Prepaid expenses.

Question – 2 : Under the business model test, a financial asset is measured at amortized cost if:

A : The asset is held within a business model whose objective is to hold assets to collect contractual cash flows.

B : The business model is to sell the financial asset for a profit from fluctuations in fair value.

C : The asset's cash flows represent solely payments of principal and interest.

D : The asset is managed on a fair value basis.

Question – 3 : A financial instrument consists of a debt host contract and an embedded call option on the entity's shares. How should the embedded derivative be treated?

A : Separated and accounted as a derivative

B : Not separated; treat the entire instrument as equity

C : Not separated; treat the entire instrument as debt

D : Separated and accounted as equity

Question – 4 : In the borrowing arrangement between Target Ltd. and Z Ltd., how is the contract for settlement in variable number of shares classified in Target Ltd.'s books?

A : As a financial asset.

B : As an equity instrument.

C : As a derivative instrument.

D : As a financial liability.

Question – 5 : If an entity buys government bonds to generate interest income but intends to sell them if a suitable business opportunity arises, does this meet the 'hold-to-collect & sell' business model test?

A : Yes, as it plans to sell the bonds

B : No, as it is generating interest income

C : Yes, as it meets both 'hold-to-collect' and 'sell' criteria

D : No, as the primary intention is not to sell

Question – 6 : How are security deposits refundable after the lease term classified in the lessee's books?

A : As a financial asset

B : As a financial liability

C : As an expense

D : As a non-financial asset

Question – 7 : For a loan portfolio of ₹500,000 with Group X comprising ₹200,000 at a loss rate of 0.3%, what is the loss allowance for Group X?

A :₹600

B : ₹300

C : ₹200

D : ₹500

Question – 8 : What is the nature of redeemable preference shares issued by A Ltd. with a mandatory dividend of 15% p.a.?

A : Equity instrument

B : Financial asset

C : Financial liability

D : Non-financial liability

Question – 9 : How is a perpetual loan with mandatory fixed interest of 8% p.a. classified?

A : Entirely as a financial liability

B : Entirely as equity

C : The principal as a financial liability and interest as equity

D : The principal as equity and interest as a financial liability

Question – 10 : A Ltd issues convertible bonds at 6% interest payable annually. If similar non-convertible bonds carry an 8% interest rate, what is the annual interest expense?

A : 6% of the bond value

B : 8% of the bond value

C : 7% of the bond value

D : Variable, based on the conversion rate

Question – 11 : Sam Co. Ltd. writes a put option. If the option is exercised at a loss of ₹40,000, how should it be accounted for?

A : Debit Derivative Financial Liability; Credit Profit and Loss

B : Credit Derivative Financial Liability; Debit Profit and Loss

C : Debit Cash; Credit Derivative Financial Liability

D : Credit Cash; Debit Derivative Financial Liability

Question – 12 : If the fair value of a derivative financial liability increases by ₹25,000, how should it be accounted for?

A : Debit Profit and Loss; Credit Derivative Financial Liability

B : Credit Profit and Loss; Debit Derivative Financial Liability

C : Debit Derivative Financial Liability; Credit Cash

D : Credit Derivative Financial Liability; Debit Cash

Question – 13 : If the market rate for a comparable loan is 12% while the company offers a loan at a lower rate, what is the fair value of the loan initially recognized?

A : Lower than the principal amount

B : Equal to the principal amount

C : Higher than the principal amount

D : Cannot be determined from the given information

Answer Key : 1 : D 2 : A 3 : A 4 : D 5 : C 6 : A 7 : A 8 : C 9 : A 10 : B 11 : B 12 : A 13 : A

Professional and Ethical duties of Accountants

ICAI MCQs

Question – 1 : Which principle emphasizes being straightforward and honest in professional and business relationships?

A : Integrity

B : Objectivity

C : Professional Competence and Due Care

D : Confidentiality

Question – 2 : What is the primary responsibility of a Chartered Accountant in relation to pressure to breach the fundamental principles?

A : Succumb to the pressure if it comes from a superior

B : Resist the pressure and report it to higher management

C : Apply pressure on others to ensure compliance with the principles

D : Evaluate the level of threat and take appropriate actions

Question – 3 : What should a Chartered Accountant do to comply with the principle of Professional Behavior?

A : Discredit the profession to raise awareness

B : Follow relevant laws and regulations

C : Promote personal interests over professional obligations

D : Engage in conduct that may compromise business relationships

Question – 4 : What is the stance of a Chartered Accountant regarding conflicts of interest?

A : Conflicts of interest are acceptable if managed properly

B : Conflicts of interest should be disclosed but can still compromise judgment

C : Conflicts of interest should not compromise professional or business judgment

D : Conflicts of interest are unavoidable and should be embraced

Question - 5 : Which principle is violated if a conflict of interest compromises professional or business judgment?

A : Integrity

B : Objectivity

C : Professional Competence and Due Care

D : Confidentiality

Answer Key : 1 : A 2 : D 3 : B 4 : C 5 : B

Technology and Accounting

ICAI MCQs

Question - 1: What is the purpose of employee training in mitigating cybersecurity risks?

A : To ensure that all staff members are aware of the importance of cybersecurity

B : To make employees responsible for creating strong passwords

C : To limit access to sensitive data to a few select individuals

D : To eliminate the need for data backups

Question - 2: Which of the following statements best describes cloud computing?

A : The use of physical servers located in a company's premises to store and process data

B : The delivery of computing services over the internet, allowing access to data and software from any device with an internet connection

C : The process of using local storage devices to store and manage data

D : The practice of relying on traditional client-server architecture for remote data access

Question - 3: How do ERP systems work?

A : By using different data structures for each department to ensure data security

B : By integrating multiple business systems from various vendors

C : By providing real-time data to help managers compare performance across different locations

D : By relying on manual data entry and validation processes

Question - 4: Which of the following best describes AI?

A : The simulation of human intelligence in machines, enabling them to perform tasks that would typically require human intervention

B : The process of programming computers to perform tasks without learning

C : The analysis of large amounts of data to make predictions about future trends

D : The automation of routine tasks in the accounting profession

Question - 5 : Which of the following is NOT a benefit of automation processes?

A : Streamlining data entry

B : Enhancing accuracy in accounting processes

C : Increasing the risk of human error

D : Saving time and resources

Question - 6 : Automation processes aid in compliance by:

A : Introducing inaccuracies in accounting practices

B : Generating financial statements that don't meet standards

C : Streamlining data entry from source documents

D : Increasing the risk of non-compliance and penalties

Answer Key : 1 : A 2 : B 3 : C 4 : A 5 : C 6 : C

Integrated Case Studies Involving Multiple IND AS
(Including RTPs & MTPs)

CASE SCENARIO – 01

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 31' 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 1s 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 3r March, 20X3 The development costs incurred were recognised as an intangible asset as per End AS 38. For the purposes of computing the taxable income, these expenses are allowable in full in the year of incurring the expenses. Al 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.

Question 1

What cashflow should it Ltd- report, as financing activity in the statement of cash flows?

A: Issuance at equity shares Rs. 240 laths; dividends paid Rs. 10 lakhs

B: Issuance at equity shares Rs. 100 lakhs; dividends pad Rs. l0 lakhs

C: Issuance of equity shares Rs. 140 lakhs; dividends paid Rs. 10 lakhs

D: Issuance of equity shares Rs. 40 lakhs; dividends paid Rs. 10 lakhs

Question 2

With respect to point ii), what costs should be included in the entity's financial report for the quarter ended 30' September 20X2?

A: Advertising costs 40 lakhs, staff bonuses Rs. 100 lakhs

B: Advertising costs 10 lakhs; staff bonuses Rs. 130 lakhs

C: Advertising costs Rs.10 lakhs: staff bonuses Rs. 60 lakhs

D. Advertising costs Rs. 40 lakhs; staff bonuses Rs. 60 lakhs

Question 3

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 Rs. 10,000 and an annual transfer of Rs. 3000 can be made from revaluation surplus to retained earnings.

B: Annual depreciation charge will be Rs. 10,000, however, annual transfer from revaluation surplus to retained earnings is not permitted.

C: Annual depreciation charge will be Rs. 13,000 and an annual transfer of Rs, 3,000 may be made from revaluation surplus to retained earnings.

D: Annual depreciation charge will be Rs. 13,000, however, annual transfer from revaluation surplus to retuned earnings is not permitted.

Question 4

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

A: Rs. 15,00,000

B: Rs. 75,000

C: 14,25,000

D: Nil

Question - 5

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

A: Dividend Rs. 12000

B: Interest expense Rs. 12,000

C: Dividend Rs. 3,000. interest expense Rs. 9,000

D: Dividend Rs. 9,000, interest expense Rs. 3,000

Answer Key / Description:

1: D

Description:

Issuance of equity shares including further issue of equity shares (240 - 200] = Rs. 40 lakhs.

Dividends paid worked out as under.

Particulars	**Rs. Lakhs**
Opening Retained Earnings	**100**
Add: Net Income	**25**
Less: Cash Dividend paid (Balancing Figure)	**(10)**
Closing Retained Earnings	**115**

2: D

As per para 39 of Ind AS 34 'Interim Financial Reporting', costs that are incurred unevenly during an entity's financial year shall be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

A bonus is anticipated for interim reporting purposes if and only if,

(a) The bonus is a legal obligation or past practice would make the bonus a constructive obligation for which the entity has no realistic alternative but to make the payments and

(b) a reliable estimate of the obligation can be made.

Accordingly, in the given case, while advertising costs cannot be deferred, bonus expenses are accrued relating to the period to which they relate.

3: C

The annual depreciation charge for years 3 to 10 will be Rs, 13,000 (i.e. 104,000/ 8). The amount that may be transferred from revaluation surplus to retained earnings in accordance with pare 41 of

Ind AS 16, will be the difference between the depreciation expense based on historic cost {i.e., Rs_ 10,000), and the depreciation expense based on the revalued amount Rs. 13,000). So, an annual transfer of Rs. 3,000 may be made from revaluation surplus to retained earnings as the asset is used by an entity.

4: D

As per para 7 of IND AS 12 'Income Taxes', the tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset.

In the given case, since the entire cost of intangible asset is fully allowed as expense for tax purposes, the tax base will be nil.

5: B

Under IND AS 32, the redeemable preference shares are classified as a liability from the date of issue because the holder has the right to demand redemption. Therefore, the instruments are a liability and the payment for the year is classified as interest. The probability of conversion makes no difference to the classification of the instruments.

CASE SCENARIO – 02

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 taint 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 Rs. 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 Rs. 50 crores (to be paid by U Ltd.), Rs. 30 crores 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 01 April 20X2, U Ltd. leased a machine from D Ltd. on a three year lease. The expected future economic life of the machine on 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 en incentive to U Ltd_ to sign the lease agreement. After this Initial period, lease rentals of R. 2,10,000 were payable six monthly in arrears, the first payment falling due on 31' March 20X3.

(iii) U Ltd. has issued 10,00,000, 9% cumulative preference shares. The Company has arrears of Rs. 15 crores of preference dividend as on 31" March 20X3, it includes current year arrears of Rs. 1.75 crapes. The Company did riot 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 January 20X3, LI 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. arid T Ltd. have an accounting year end of 31. March 20X3. U Ltd. has no other investments in associates.

Not profit for the year in T Ltd.'s income statement for the year ended 31" March 20X3 was Rs. 0023 crores. It declared and paid dividend of Rs. 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 Re. 1 crore to be paid immediately, and Rs. 1.21 crores after two years. The Fair value of net assets of S Ltd. at acquisition date was Rs. 3 crores. U Ltd. has calculated that its cost of capital is 10%. Non controlling interest is measured at the proportionate share of identifiable not assets.

Question – 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 Rs. 20 crores and a contingent liability for 30 crores

B : Contingent Liability for Rs. 50. crores

C : Provision For Rs. 30 crores and a contingent liability for Rs. 20 crores

D : Provision For Rs. 50 crores,

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

A : Rs. 70,000

B : Rs. 1,40,000

C : Rs. 3,50,000

D : Rs. 4,20,000

Question - 3 : What is the amount of preference dividend to be reduced From profit or loss for the year for calculating Bask Earnings Per Share?

A : Rs. 7.5 crores

B : Rs 1.75 crores

C : Rs. 13.25 crones

D : Nothing, as no dividend has been declared by the entity.

Question - 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 : Rs. 0.020 crores

B : Rs. 0.026 crores

C : Rs. 0.030 crores

D : Rs. 0.016 crores

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

A: Rs. 1 crore on Gain on bargain purchase

B: Rs. 80 lakhs gain on bargain purchase

C: Rs. 20 lakhs goodwill

D: Rs. 41 lakhs goodwill

Answer Key / Description :

1: D

As per para 53 of End AS 37, 'Provisions, Contingent Liabilities and Contingent Assets, when some or all of the expenditure required to settle a provision is expected to be reimbursed by another parry, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the Obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision. In the statement of profit arid loss, the expense relating to a provision may be presented net of the amount recognised fora reimbursement.

In the given case, U Ltd. will record provision by Rs. 50 crores in it books and Rs. 30 crores will be reimbursed by F Ltd. Hence Rs. 50 crore will be recognised as provision and Rs. 30 crore is disclosed as a contingent asset, if it is virtually certain that reimbursement will be received if the *entity* settles the obligation

2 : A

In accordance with the principles of Ind AS 116 'Leases: the lease of the machine is an operating lease because the risks and rewards of ownership of the machine remain with D Ltd, The lease is for only three years of the eight-year life and 0 Ltd is responsible for breakdowns, etc.

Therefore, U 1td will recognize lease rentals as an expense in the statement of profit or loss. Ind AS 116 stipulates that this should normally be done on a straight-line basis.

The total lease rentals payable over the whole lease term are Rs.10,50,000 (Rs- 2,10,000 x 5). Therefore, the charge For the current year is Rs. 3,50,000 {Rs. 10,50,044 x 1/3}.

The difference between the charge for the period (Rs, 3,50.000) and the rent actually paid (Rs. 2,10,000) will be shown as a liability in the balance sheet at 31st March 20X3. This amount will be Rs. 1,40,000.

Rs. 70, 000 (2 x Rs. 2,10, 000 - Rs. 3,50, 000) of this liability will be current and Rs. 70,000 non-current

3 : B

As per pars 14(b) of Ind AS 33 'Earnings per Share', the after-tax amount of preference dividends that is deducted from profit or loss is the after-tax amount of the preference dividends for cumulative preference shares required For, the period, whether or not the dividends have been declared. The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.

In the given case, the amount of preference dividends of Rs. *1.75* crore declared for the year ended 31st March 20X3 (i.e. the current period) is to be deducted from profit or loss for calculating EPS.

4 : C

As per para 57 of Ind AS 7, when accounting for an investment in an associate, a joint venture or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash Flows between itself and the investee, for example, to dividends and advances.

Accordingly,

Dividend paid by associate T Ltd.	= Rs, 0.110 crores
U Ltd.'s share of dividend 30% x Rs 0.10 lakhs	= Rs. 0.030 crores

This is the amount that should appear in the statement of cash Rows. of U Ltd. as this is the share of LP Ltd.'s dividend From the associate T Ltd

Answer Key / Description :

5: C

Total Consideration Paid

Cash	1cr
PV of Deferred Consideration (1.21 x 0.826)	1cr
	2 cr

NCI by Proportionate Share Method 3cr x 40% = 1.2 cr

Calculation of Goodwill		**(Rs. In Crore)**		
Net Identifiable Assets	Dr.	3		
Goodwill (B/F)		Dr.	0.20	
To Consideration Payable			2	
To Non Controlling Interest				1.20

CASE SCENARIO – 03

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 a' 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 Rs. 100 lakh in cash The carrying value of K Ltd.'s net assets is Rs. 300 lakh, including goodwill of Rs. 65 lakh from the subsidiary's initial acquisition_

Question - 1 : With respect to H Ltd. state whether the error should be reported in the Ind AS financial statements and Now to rectify it

A : H Ltd. shall report the impact of the error as a correction to Statement Profit and Loss for the comparative period i.e., the year ended 31st March, 2.3X3.

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, 20-X3 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,

Question - 2 : 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

Question - 3 : What is the amount of gain on sale of interest in subsidiary K Ltd.?

A : Rs. 100 lakhs

B : Rs. 60 lakhs

C : Rs. 63. lakhs

D : Rs. 40 lakhs

Answer Key / Description :

1 : D

Refer pare 26 of Ind AS 101 which states that if an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraph 24(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.

2 : A

The entity assesses the goods and services promised to the customer to determine which goods and services are distinct. The entity observes that the software is delivered before the other goods and services and remains functional without the updates and the technical support, Thus, the entity concludes that the customer can benefit from each of the goods and services either on their own or together with the other goods and services that are readily available.

The entity also considers the factors of Ind AS 115 and determines that the promise to transfer each goods and service to the customer is separately identifiable from each of the other promises. In particular, the entity observes that the installation service does not significantly modify or customise the software itself and, as such, the software and the installation service are separate outputs promised by the entity instead of inputs used *to* produce a combined output_

On the basis of this assessment, the entity identifies four performance obligations in the contract for the Following goods or services:

- The software license
- An installation service
- Software updates
- Technical support

3 : D

	Rs. in lakhs	
	Dr.	**Cr.**
Cash Dr.	**100**	
To Non-controlling interest (20% x 300 lakh)		**60**
To Other Equity (Gain on sale of interest in subsidiary)		**40**

As per pars B96 of Ind A5 110, where proportion of the equity of MCI changes, then group shall adjust controlling and non-controlling interest and any difference between amount by which NCI (Rs. 60 lakh) is adjusted arid Fair value of consideration received IRs. 100 lakh) to be attributed to parent in other equity ie. Rs. 40 lakh

RTPs / MTPs/ Past Exams

Case Scenario – 01 (RTP MAY 2024)

FA Ltd. is a company which manufactures aircraft parts and engines and sells them to large multinational companies like Boeing and Airbus Industries. Following are the details of some of the transactions entered into by the company:

i. **On 1st April 20X2, the company began the construction of a new production line in its aircraft parts manufacturing shed.**

Costs relating to the production line are as follows:

Details	Amount ₹ in lakhs
Costs of the basic materials (list price ₹ 12.5 lakhs less 20% trade discount)	10.00
Recoverable goods and services tax incurred but not included in the purchase cost	1.00
Employment costs of the construction staff for three months till 30th June 20X2	1.20
Other overheads directly related to the construction	0.90
Payments to external advisors relating to the construction	0.50
Expected dismantling and restoration costs	2.00

The production line took two months to make ready for use and was brought into use on 31st May 20X2.The other overheads were incurred during the two-month period ended on 31st May 20X2. They included an abnormal cost of ₹ 0.3 lakhs caused by a major electrical fault.

The production line is expected to have a useful economic life of eight years. After 8 years, FA Ltd. is legally required to dismantle the plant in a specified manner and restore its location to an acceptable standard.

The amount of ₹ 2 lakhs included in the cost estimates is the amount that is expected to be incurred at the end of the useful life of the production line. The appropriate discount rate is 5%. The present value of ₹ 1 payable in 8 years at a discount rate of 5% is approximately ₹ 0.68.

Four years after being brought into use, the production line will require a major overhaul to ensure that it generates economic benefits for the second half of its useful life. The estimated cost of the overhaul, at current prices, is ₹ 3 lakhs. No impairment of the plant had occurred by 31st March 20X3.

ii. **During the year ended 31st March 20X3, FA Ltd. provided consultancy services to a customer regarding the installation of a new production system related to aircraft parts. The system has caused the customer considerable problems, so the customer has taken legal action against the Company for the loss of profits that has arisen as a result of the problems with the system. The customer has claimed damages to the tune of ₹ 1.6 lakhs.**

The legal department of FA Ltd. considers that there is a 25% chance the claim can be successfully defended. The legal department further stated that they are reasonably confident the Company is covered by insurance against these types of loss. Th accountant feels nothing needs to be provided for this claim as the Company is suitably covered against any possible losses.

iii. **FA Ltd. has an associate company, Flynet Limited. Following are the information of Flynet Limited for the year ended 31st March 20X3:**

Particulars	₹ in lakhs

Net Income after taxes	**120**
Decrease in accounts receivables	**20**
Depreciation	**25**
Increase in inventory	**10**
Increase in accounts payable	**7**
Decrease in wages payable	**5**
Tax charge for the year (deferred tax liabilities)	**15**
Profit from sale of land	**2**

On the basis of the facts given above, chose the most appropriate answer to Questions 1 to 5 below based on the relevant Indian Accounting Standards (Ind AS).

1. Which of the following items need to be capitalized in determining the cost of Production Line?

A : Abnormal cost of ₹ 0.3 lakhs

B : Recoverable GST of ₹ 1 lakhs

C : Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 2 lakhs

D : Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 1.36 lakhs

2. Calculate the company's associate Flynet Ltd.'s cash flow from operations.

A : ₹ 158 lakhs

B : ₹ 170 lakhs

C : ₹ 174 lakhs

D : None of the above

3. What accounting treatment should be done in FA Ltd.'s books for the year ending 31st March 20X3, as the customer has taken legal action against the Company on the loss of profits that has arisen as a result of the problems with the system?

A : Nothing needs to be provided for claim instituted by the customer as the Company is suitably covered against any possible losses.

B : Provision of ₹ 1.6 lakhs should be recognised with a corresponding charge to profit or loss.

C : Provision of ₹ 0.4 lakhs as per best possible outcome should be recognised with a corresponding charge to profit or loss.

D : Contingent Liability would be disclosed in the 31st March 20X3 financial statements. Charge to profit or loss if any would be recognised in the period when the claim is settled.

4. Compute the total amount to be charged to the Statement of Profit and Loss with respect to Production Line for the year ending 31st March 20X3 and the balance of Provision for Dismantling Cost carried to Balance Sheet.

A : ₹ 1.70 lakhs; ₹ 1.36 lakhs

B : ₹ 1.42 lakhs; ₹ 1.70 lakhs

C : ₹ 1.76 lakhs; ₹ 1.42 lakhs

D : ₹ 1.42 lakhs; ₹ 1.76 lakhs

5. Compute the cost of the production Line to be capitalized initially on 31st May, 20X2.

(a) ₹ 13.26 lakhs

(b) ₹ 14.60 lakhs

(c) ₹ 13.96 lakhs

(d) ₹ 15.76 lakhs

Answer Key : 1 : D 2 : B 3 : B 4 : C 5 : A

1. **Option (d):** Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 1.36 lakhs

Reason: As per Ind AS 16, elements of cost of PPE includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

2. Option (b): ₹ 170 lakhs

Reason: Cash flow from operating activities – Indirect method

Particulars	**₹ in lakhs**
Net Income after taxes	120
Add /(Less) No- cash or non-operating item:	
Depreciation	25
Profit from sale of land	(2)
Tax charges for the year (deferred tax liabilities)	15
	158
Decrease in accounts receivables	20
Increase in inventory	(10)
Increase in accounts payable	7
Decrease in wages payable	(5)
Cash flow from operations	170

3. Option (b): Provision of ₹ 1.6 lakhs should be recognized with a corresponding charge to profit or loss.

Reason:

In accordance with Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets', the claim made by the customer needs to be recognised as a liability in the financial statements for the year ended 31st March 20X3.

The standard stipulates that a provision should be made when, at the reporting date:

– An entity has a present obligation arising out of a past event.

– There is a probable outflow of economic benefits.

– A reliable estimate can be made of the outflow.

Since, all three of the above conditions are satisfied here, a provision is required to be made.

The provision should be measured at the amount the entity would rationally pay to settle the obligation at the reporting date.

Where there is a range of possible outcomes, the individual most likely outcome is often the most appropriate measure to use.

In this case, a provision of ₹ 1.6 lakhs seems appropriate, with a corresponding charge to profit or loss.

4. Option (c): ₹ 1.76 lakhs; ₹ 1.42 lakhs

5. Option (a): ₹ 13.26 lakhs

Reason for 4 & 5:

Statement showing computation of cost of production line

Particulars	**₹ in lakhs**
Purchase cost	10.00
GST – recoverable goods and services tax not included	–
Employment costs during the period of getting the production line ready for use [(1.2/3 month) x 2 month]	0.80
Other overheads – abnormal costs of ₹ 0.3 lakhs has been excluded (0.90- 0.30)	0.60
Payment to external advisors – directly attributable cost	0.50
Dismantling costs – recognized at present value (2 lakhs x 0.68)	1.36
Total	13.26

Provision for dismantling cost carried to Balance Sheet

Particulars	**₹ in lakhs**
Non-current liabilities (₹2 lakhs x 0.68)	1.36
Add: Finance cost (1.36 x 5% x 10/12)	0.06
Net book value – carried to Balance Sheet	1.42

Extract of Statement of Profit and Loss

Particulars	**₹ in lakhs**
Depreciation (W.N.)	1.70
Finance cost (1.36 x 5% x 10/12)	0.06
Amounts carried to Statement of Profit & Loss	1.76

Working Note:

Calculation of depreciation charge

Particulars	**₹ in lakhs**
The asset is split into two depreciable components out of the total capitalization amount of 13.26 lakhs:	
• Depreciation for ₹3 lakhs with a useful economic life of four years (3 lakhs x ¼ x 10/12). (This is related to a major overhaul to ensure that it generates economic benefits for the second half of its useful life)	0.63
• Depreciation for ₹ 10.26 lakhs (13.26 – 3.00) with a useful economic life of eight years will be: ₹ 10.26 lakhs x 1/8 x 10/12	1.07
Total depreciation to be charged to Statement of Profit and Loss for the year ended 31st March 20X3	1.70

Case Scenario – 02 (RTP MAY 2024)

HS Limited (HSL) is a car manufacturing company. During the year, HSL has entered into many transactions, details of which are given below.

- **I.** **With the intention to expand, HSL has entered into a Share Purchase Agreement ("SPA") with the shareholders of FM Limited to purchase 30% stake in FM Limited as at 1st June 20X2 at a price of ₹ 30 per share.As per the terms of SPA, HSL has an option to purchase an additional 25% stake in FM Limited on or before 15th June 20X2 at a price of ₹ 30 per share. Similarly, the selling shareholder has an option to sell additional 25% stake in FM Limited on or before 15th June, 20X2 to HSL at a price of ₹ 30 per share. The decisions on relevant activities of FM Limited are made in Annual General Meeting / Extraordinary General Meeting (AGM / EGM). A resolution in AGM / EGM is passed when more than 50% votes are cast in favour of the resolution. An AGM / EGM can be called by giving atleast 21 days advance notice to all shareholders.**
- **II.** **During the year, HSL issued Compulsory Convertible Debentures ("CCDs") on a private placement basis for ₹ 100 lakh. Each CCD is convertible into 5 shares at the end of 4 years from the date of issue and an annual interest is payable at the rate of 6% p.a. At initial recognition, HSL recognized a liability component of compound instrument at ₹ 20,79,063. HSL also incurred expenses of ₹ 2,00,000 in connection with the issue of the instrument. Nature of expenses includes fees paid to legal advisors, registration and regulatory fees.**
- **III.** **HSL acquired a 40% stake in NM Limited as at 1st January, 20X2 for ₹ 8,00,000 and classified the investment in NM Limited as an associate. As at 1st January, 20X2, the carrying amount and fair value of plant & equipment of NM Limited is ₹ 3,00,000 and ₹ 5,00,000 respectively with remaining useful life of 5 years (i.e. 20 quarters). From 1st January, 20X2 to 31st March, 20X2, NM Limited generated a profit of ₹ 50,000.**
- **IV.** **While selling a car, HSL provides a trade discount of 1% on sale price which is mentioned on the invoice. HSL provides a credit period of 7 days to its customers, however if paid upfront then HSL gives an additional cash discount of 2%. HSL also provides a voucher worth ₹ 500 with a validity of 1 year which can be used at an apparel store.**

On the basis of the facts given above, chose the most appropriate answer to Questions 1 to 5 below based on the relevant Indian Accounting Standards (Ind AS).

1. At what amount HSL shall carry its investments in NM Limited in its consolidated financial statements as at 31st March, 20X2?

A : ₹ 8,00,000

B : ₹ 8,20,000

C : ₹ 8,16,000

D : ₹ 8,10,000

2. How should HSL account for the trade discount, cash discount and voucher given to customers on sale of a car?

A : Trade discount shall be reduced from the revenue however cash discount and value of voucher shall be charged as expenses.

B : Trade discount and cash discount both shall be reduced from the revenue however value of voucher shall be charged as expenses.

C : Trade discount, cash discount and value of voucher shall be charged as expenses.

D : Trade discount, cash discount and value of voucher shall be reduced from revenue.

3. What shall be the accounting treatment of directly attributable expenses of ₹ 2 lakh incurred in connection with the issue of Compulsory Convertible Debentures?

A : Entire ₹ 2,00,000 shall be recognized as expenses in the statement of profit and loss in the current year.

B : Entire ₹ 2,00,000 shall be reduced from equity in the current year.

C : A proportion of ₹ 1,58,419 shall be reduced from equity and Balance of ₹ 41,581 shall be recognized as interest cost over the period of 4 years using an effective interest method.

D : Entire ₹ 2,00,000 shall be recognized as interest cost over the period of 4 years using effective interest method.

4. With more acquisitions, at the end of the year, HSL has investments in 2 subsidiaries, 3 associates and 1 joint venture. Which of the following statements is correct in relation to accounting of these investments in separate financial statements?

A : HSL is required to measure all such investments at cost.

B : HSL has an option to account for the investments in associates and joint ventures using equity method of accounting and carry the investments in subsidiaries at cost.

C : HSL has an option for each investment to measure either at cost or in accordance with Ind AS 109.

D : HSL has an option to measure all such investments either at cost or in accordance with Ind AS 109. The option is available for each category of investments separately (i.e. subsidiaries, associates and joint venture).

5. With respect to the SPA entered by HSL, determine the date when HSL gained control over FM Limited

A : 1st June, 20X2.

B : 15th June, 20X2.

C : On the date of AGM/EGM

D : On the date when the resolution for AGM/EGM is issued.

Answer Key : 1 : C 2 : D 3 : C 4 : D 5 : A

1. Option (c): ₹ 8,16,000

Reason:

As per Ind AS 28, under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

Accordingly,

Cost of investment for 40% stake on acquisition date	₹ 8,00,000
Add: Share of post-acquisition profit and loss (50,000 x 40%)	₹ 20,000
Less: Share of post-acquisition loss due to additional depreciation [{(5,00,000 – 3,00,000)/20} x 40%]	(₹4,000)
	₹ 8,16,000

2. Option (d): Trade discount, cash discount and value of voucher shall be reduced from revenue

Reason

Discounts and vouchers are incentives given to customers. For Incentives, Ind AS 115, states that consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity's goods or services from the customer).

Consideration payable to a customer also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the customer). An entity shall account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue.

Therefore, cash incentives (payments given to the customer) would be considered as a reduction in the transaction price and in the measurement of revenue when the goods are delivered.

3. Option (c): A proportion of ₹ 1,58,419 shall be reduced from equity and balance of ₹ 41,581 shall be recognised as interest cover over the period of 4 years using effective interest method

Reason

Compulsory convertible debentures with annual interest payout is a compound financial instrument. As per the information given in the question the liability element to be initially recognised is ₹ 20,79,063. Hence the equity element would be ₹ 79,20,937 (1,00,00,000 – 20,79,063). Transaction cost of ₹ 2,00,000 will be apportioned in equity and liability component in the ratio of 79,20,937 : 20,79,063, which would be as follows:

Transaction cost attributable to equity = 2,00,000 x (79,20,937 / 1,00,00,000) = ₹ 1,58,419

Transaction cost attributable to liability = 2,00,000 x (20,79,063 / 1,00,00,000) = ₹ 41,581

4. Option (d): HSL has an option to measure all such investments either at cost or in accordance with Ind AS 109. The option is available for each category of investments separately (i.e. subsidiaries, associates and joint venture)

Reason

As per Ind AS 27, when an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either: (a) at cost, or (b) in accordance with Ind AS 109. The entity shall apply the same accounting for each category of investments.

In the present case, investment in subsidiaries, associates and joint ventures are considered to be different categories of investments. Further, Ind AS 27 requires accounting for the investment in subsidiaries, joint ventures and associates either at cost, or in accordance with Ind AS 109 for each category of Investment. Thus, an entity can carry its investments in subsidiaries at cost and its investments in associates or joint ventures as financial assets in accordance with Ind AS 109 in its separate financial statements.

5. Option (a): 1st June, 20X2

Reason

Ind AS 110 'Consolidated Financial Statements', states that an investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns.

As per the facts given in the question, HSL. has 15 days to exercise the option to purchase 25% additional stake in FM Ltd. which will give it majority voting rights of 55% (30% + 25%). This is a substantive potential voting rights which is currently exercisable.

Further, the decisions on relevant activities of FM Ltd. are made in AGM / EGM. An AGM / EGM can be called by giving at least 21 days advance notice. A resolution in AGM / EGM is passed when more than 50% votes are casted in favour of the resolution. Thus, the existing shareholders of FM Ltd. are unable to change the existing policies over the relevant activities before the exercise of option by HSL. HSL can exercise the option and get voting rights more than 50% at the date of AGM / EGM. Accordingly, the option contract gives HSL the current ability to direct the relevant activities even before the option contract is settled. Therefore, HSL controls FM Ltd. as at 1st June, 20X2.