

MODEL TEST PAPER 1
FINAL COURSE GROUP - I
PAPER – 1: FINANCIAL REPORTING

Time Allowed – 3 Hours

Maximum Marks – 100

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

PART I – Case Scenario based MCQs (30 Marks)

All MCQs are compulsory.

Case Scenario 1

Mr. Deepak Goel, a chartered accountant with 10 years of experience was earlier working with a big Indian practicing firm having clientele of IND AS and auditing assurance. Recently he left his job and started his own consultancy firm. He has received certain Ind AS based projects wherein his opinion and guidance on applicability of Ind AS has been sought for on following issues:

1. Narayan Ltd. requires to calculate the tax expense for each quarter, assuming that there is no difference between the estimated taxable income and the estimated accounting income:

	₹
Estimated Gross Annual Income (inclusive of Estimated Capital Gains of ₹ 8,00,000)	33,00,000
Estimated Income of Quarter I	7,00,000
Quarter II	8,00,000
Quarter III	12,00,000
(including estimated Capital Gain of ₹ 8,00,000)	
Quarter IV	6,00,000

Tax Rates:

On Capital Gains	12%
On Other Income: First ₹ 5,00,000	30%
Balance Income	40%

2. C Ltd. is a construction company. It enters into a contract with Customer E to build an asset. Depending on when the asset is completed, C will receive either ₹ 1,10,000 or ₹ 1,30,000.

Outcome	Consideration (₹)	Probability
Project completes on time	1,30,000	90%
Project is delayed	1,10,000	10%

3. In the financial year 20X1-20X2, X Ltd. incurred the following expenditure in acquiring property consisting of 6 identical houses each with separate legal title including the land on which it is built.

The expenditure incurred on various dates is given below:

On 1st April, 20X1 - Purchase cost of the property ₹ 1,80,00,000.

On 1st April, 20X1 – Non-refundable transfer taxes ₹ 20,00,000 (not included in the purchase cost).

On 2nd April, 20X1- Legal cost related to property acquisition ₹ 5,00,000.

On 6th April, 20X1- Advertisement campaign to attract tenants ₹ 3,00,000.

On 8th April, 20X1 - Opening ceremony function for starting business ₹ 1,50,000.

Throughout 20X1-20X2, incurred ₹ 1,00,000 towards day-to-day repair maintenance and other administrative expenses.

X Limited uses one of the six houses for office and accommodation of its few staffs. The other five houses are rented to various independent third parties.

How will X Limited account for all the above-mentioned expenses in the books of account?

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 6 in line with relevant Ind AS:

1. What will be the weighted average annual income tax rate for Narayan Ltd.
 - (a) 29%
 - (b) 38%
 - (c) 30%
 - (d) 40%
2. What will be the tax expense for quarter III and quarter IV?
 - (a) ₹ 2,66,000; ₹ 3,04,000
 - (b) ₹ 3,04,000; ₹ 2,48,000
 - (c) ₹ 2,48,000; ₹ 2,28,000
 - (d) ₹ 2,28,000; ₹ 10,46,000
3. What will be the transaction price for C Ltd.?
 - (a) ₹ 1,10,000
 - (b) ₹ 1,20,000
 - (c) ₹ 1,17,000
 - (d) ₹ 1,30,000
4. What will be the total cost of the property to X Ltd.?
 - (a) ₹ 2,05,00,000
 - (b) ₹ 2,09,50,000
 - (c) ₹ 1,85,00,000
 - (d) ₹ 1,89,50,000
5. What will be the cost of the investment property to be reflected in the balance sheet of X Ltd.?
 - (a) ₹ 2,05,00,000

- (b) ₹ 2,09,50,000
- (c) ₹ 1,70,83,333
- (d) ₹ 34,16,667
6. What will be the cost of the owner-occupied property to be reflected in the balance sheet of X Ltd.?
- (a) ₹ 2,05,00,000
- (b) ₹ 2,09,50,000
- (c) ₹ 1,70,83,333
- (d) ₹ 34,16,667

Case Scenario 2

G Ltd. (herein after referred as 'the Company') is currently engaged in different business segments and is also looking to expand its operations overseas. The Company is also exploring investment from an overseas investor to carry out the expansion plan. The functional currency of G Ltd. is Rupees. The Company is required to submit its financial statements for the year ended 31st March, 20X2 as per Ind AS.

On 30th September, 20X1, the Company acquired 70% of the share capital of M Ltd., an entity registered as company in Germany. The fair value of the net assets of M Ltd. was 23 million EURO and the purchase consideration paid was 17.5 million EURO on 30th September, 20X1. The exchange rates as at 30th September, 20X1 was ₹ 82 / EURO and at 31st March, 20X2 was ₹ 84 / EURO. NCI is valued at proportionate share of fair value of net assets of M Limited.

G Ltd has made an interest free security deposit against a lease of 5 years redeemable at the end of the lease term, when market interest rate for a deposit for similar period was 12% per annum. Following are the details of the deposit made by G Ltd.:

Particulars	Details
Date of Security Deposit (Starting Date)	1 st April, 20X1

Date of Security Deposit (Finishing Date)	31 st March, 20X6
Discount rate	12.00%
Security deposit	10,00,000
Present value factor at the end of 5 th year	0.567427

The accountant of the company is facing challenge in the accounting treatment of the above issues.

Therefore, analyse the transactions mentioned above and choose the most appropriate option in the below questions 7 to 10 in line with relevant Ind AS:

7. What will be the value of goodwill on acquisition of M Ltd., in Euro, as on 30th September, 20X1?
 - (a) 5.5 million EURO
 - (b) 2 million EURO
 - (c) 1.4 million EURO
 - (d) Nil
8. What will be the value of goodwill to be recognised in the financial statements of G Ltd. as on 31st March, 20X2?
 - (a) ₹ 117.6 million
 - (b) ₹ 114.8 million
 - (c) ₹ 451 million
 - (d) ₹ 462 million
9. What will be the initial amount of prepaid lease payment in the lease contract to be recognised by G Ltd.?
 - (a) ₹ 5,67,427
 - (b) ₹ 4,32,573
 - (c) ₹ 10,00,000
 - (d) Nil
10. What will be the amount of interest income on security deposit to be recognised in the financial statements of G Ltd. as on 31st March, 20X2?
 - (a) ₹ 1,20,000

- (b) ₹ 68,091
- (c) ₹ 51,909
- (d) Nil

Case Scenario 3

X Ltd. is a listed entity in India and prepares consolidated financial statements as per the requirements of Ind AS. X Ltd. has a wholly owned subsidiary A Ltd. which is an unlisted entity with a net worth of ₹ 280 crore. A Ltd. is not in the process of listing any of its instruments in public market. A Ltd. has two wholly owned subsidiaries B Ltd. and C Ltd.

Analyse the transactions mentioned above and choose the most appropriate option in the below questions 11 to 13 in line with relevant Ind AS:

11. State which of the following is true for A Ltd. as per the requirements of Ind AS 110?
 - (a) Since A Ltd. is an unlisted entity, it is mandatory for it to prepare Consolidated Financial Statements (CFS)
 - (b) Even if X Ltd. does not object to A Ltd. for not preparing CFS, A Ltd. has to mandatory prepare CFS
 - (c) Even if A Ltd. is an unlisted entity and X Ltd. objects A Ltd. for not preparing CFS, A Ltd. is not required to prepare CFS
 - (d) Since A Ltd. is not a listed entity and if X Ltd. does not object to A Ltd. for not preparing CFS, A Ltd. will not be required to prepare CFS.
12. Assume the same facts as given in the scenario for wholly owned subsidiaries A Ltd., X Ltd. is a foreign entity and is listed in stock exchange of a foreign country and it prepares its financial statements as per the generally accepted accounting principles (GAAP) applicable to that country. Now state which of the following is true for A Ltd. as per the requirements of Ind AS 110?
 - (a) Since A Ltd. is an unlisted entity, preparation of CFS is not mandatory to it
 - (b) Since X Ltd. is not preparing CFS under Ind AS, A Ltd. is mandatorily required to prepare CFS under Ind AS

- (c) Even if X Ltd. does not object to A Ltd. for not preparing CFS, A Ltd. is not required to mandatory prepare CFS
 - (d) Even if A Ltd. is an unlisted entity and X Ltd. objects A Ltd. for not preparing CFS, A Ltd. is not required to prepare CFS
13. Assume the same facts as given in the scenario except that 100% of the investment in A Ltd. is held by Mr. X (an individual) instead of X Ltd. Now state which of the following is true for A Ltd. as per the requirements of Ind AS 110?
- (a) A Ltd. is not required to prepare CFS as it is an unlisted entity
 - (b) Even if Mr. X is an individual, A Ltd. is not mandatorily required to prepare CFS under Ind AS
 - (c) A Ltd. will prepare consolidated financial statements under AS and not Ind AS
 - (d) Even if A Ltd. is an unlisted entity, it is mandatorily required to prepare CFS

Case Scenario 4

Deepak started a new company S Pvt. Ltd. with T Ltd. wherein investment of 55% is done by T Ltd. and rest by Deepak. Voting powers are to be given as per the proportionate share of capital contribution. The new company S Pvt. Ltd. formed was the subsidiary of T Ltd. with two directors, and Deepak eventually becomes one of the directors of company. The company, S Pvt. Ltd. was incorporated on 1st April 20X1. The financials of T Ltd. are prepared as per Ind AS. However, S Pvt. Ltd. is preparing its financial statements as per Accounting Standards.

Further, Deepak has started using accounting software and other tools to automate manual processes in S Pvt. Ltd. He is evidencing major change in accounting due to automation of the accounting process. However, at the same time, he also realised that automation comes with its own set of potential drawbacks and challenges.

Analyse the transactions mentioned above and choose the most appropriate option in the below questions 14 and 15 in line with relevant Ind AS:

14. Which of the following statements is true with respect to preparation of financial statements?

- (a) S Pvt. Ltd. has to mandatorily prepare its financial statements as per Ind AS
 - (b) S Pvt. Ltd. is not at all required to prepare its financial statements as per Ind AS
 - (c) S Pvt. Ltd. has to prepare its financial statements both as per AS and Ind AS
 - (d) T Ltd. has to prepare its financial statements as per AS.
15. State which of the following is the challenge of the automation process:
- (a) Software can automatically categorize transactions into the appropriate accounts
 - (b) Optical character recognition (OCR) or barcode recognition technology, is automating the entry of data from source documents such as receipts and invoices.
 - (c) Automation process enables accountants to focus on higher-level tasks such as analysis and planning instead of routine manual entry
 - (d) Automation requires ongoing training and education to keep up with the latest technology

PART – II DESCRIPTIVE QUESTIONS

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

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

Working notes should form part of the answers.

Maximum Marks – 70 Marks

1. Flywing Airways Ltd is a company which manufactures aircraft parts and engines and sells them to large multinational companies like Boeing and Airbus Industries.

On 1st April 20X1, 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 ₹'000
Costs of the basic materials (list price ₹12.5 million less a 20% trade discount)	10,000
Recoverable goods and services taxes incurred not included in the purchase cost	1,000
Employment costs of the construction staff for the three months to 30 th June 20X1	1,200
Other overheads directly related to the construction	900
Payments to external advisors relating to the construction	500
Expected dismantling and restoration costs	2,000

Additional Information

The construction staff was engaged in the production line, which took two months to make ready for use and was brought into use on 31st May 20X1.

The other overheads were incurred in the two-months period ended on 31st May 20X1. They included an abnormal cost of ₹3,00,000 caused by a major electrical fault.

The production line is expected to have a useful economic life of eight years. At the end of that time Flywing Airways Ltd is legally required to dismantle the plant in a specified manner and restore its location to an acceptable standard. The amount of ₹ 2 million mentioned above is the amount that is expected to be incurred at the end of the useful life of the production line. The appropriate rate to use in any discounting calculations is 5%. The present value of ₹ 1 payable in eight years at a discount rate of 5% is approximately Re.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 million.

The Company computes its depreciation charge on a monthly basis.

No impairment of the plant had occurred by 31st March 20X2.

Analyze the accounting implications of costs related to production line to be recognized in the balance sheet and profit and loss for the year ended 31st March, 20X2. **(14 Marks)**

2. Summarized Balance Sheets of PN Ltd. and SR Ltd. as on 31st March 20X2 were given as below: (Amount in ₹)

Particulars	PN Ltd.	SR Ltd.
Assets		
Land & building	4,68,000	5,61,600
Plant & Machinery	7,48,800	4,21,200
Investment in SR Ltd.	12,48,000	-
Inventories	3,74,400	1,13,600
Trade Receivables	1,86,500	1,24,800
Cash & Cash equivalents	45,200	24,900
Total Assets	30,70,900	12,46,100
Equity & Liabilities		
Equity Share Capital (Shares of ₹ 100 each fully paid)	15,60,000	6,24,000
Other Reserves	9,36,000	3,12,000
Retained Earnings	1,78,400	2,55,800
Trade Payables	1,46,900	34,300
Short-term borrowings	2,49,600	20,000
Total Equity & Liabilities	30,70,900	12,46,100

- (i) PN Ltd. acquired 70% equity shares of ₹ 100 each of SR Ltd. on 1st October 20X1.
- (ii) The Retained Earnings of SR Ltd. showed a credit balance of ₹ 93,600 on 1st April 20X1 out of which a dividend of 12% was paid on 15th December 20X1.
- (iii) PN Ltd. has credited the dividend received to its Retained Earnings.

- (iv) Fair value of Plant & Machinery of SR Ltd. as on 1st October 20X1 was ₹ 6,24,000. The rate of depreciation on Plant & Machinery was 10% p.a.
- (v) Following are the increases on comparison of Fair Value as per respective Ind AS with book value as on 1st October 20X1 of SR Ltd. which are to be considered while consolidating the Balance Sheets:
 - (a) Land & Buildings ₹ 3,12,000
 - (b) Inventories ₹ 46,800
 - (c) Trade Payables ₹ 31,200
- (vi) The inventory is still unsold on Balance Sheet date and the Trade Payables are not yet settled.
- (vii) Other Reserves as on 31st March 20X2 are the same as was on 1st April 20X1.
- (viii) The business activities of both the company are not seasonal in nature and therefore, it can be assumed that profits are earned evenly throughout the year.

Prepare the Consolidated Balance Sheet as on 31st March 20X2 of the group of entities PN Ltd. and SR Ltd. **(14 Marks)**

3. (a) Blueberry Ltd entered into the following transactions during the year ended 31st March, 20X2:
 - (i) Entered into a speculative interest rate option costing ₹ 10,000 on 1st April, 20X0 to borrow ₹ 6,000,000 from Exon Bank commencing 30th June, 20X2 for 6 months at 4%.
The value of the option at 31st March, 20X2 was ₹15,250.
 - (ii) Purchased 6% debentures in Fox Ltd on 1st April, 20X1 (their issue date) for ₹ 150,000 as an investment. Blueberry Ltd. intends to hold the debentures, until their redemption at a premium, in 5 years' time. The effective rate of interest of the bond is 8%.

- (iii) Purchased 50,000 shares in Cox Ltd on 1st October, 20X2 for ₹ 3.50 each as an investment. The share price on 31st March, 20X2 was ₹ 3.75.

Show the accounting treatment and relevant extracts from the financial statements for the year ended 31st March, 20X2 of transactions related to financial instruments. Blueberry Ltd. designates financial assets at fair value through Profit or loss only when this is unavoidable. **(10 Marks)**

- (b) The entity has an identifiable asset ASSOTA with a carrying amount of ₹ 10,00,000. Its recoverable amount is ₹ 6,50,000. The tax base of ASSOTA is ₹ 8,00,000 and the tax rate is 30%. Impairment losses are not tax deductible. Entity expects to continue to earn profits in future.

For the identifiable asset ASSOTA, what would be the impact on the deferred tax asset/ liability at the end of the period?

(4 Marks)

4. (a) KK Ltd. runs a departmental store which awards 10 points for every purchase of ₹ 500 which can be discounted by the customers for further shopping with the same merchant. Unutilised points will lapse on expiry of two years from the date of credit. Value of each point is ₹ 0.50. During the accounting period 20X1-20X2, the entity awarded 1,00,00,000 points to various customers of which 18,00,000 points remained undiscounted. The management expects only 80% will be discounted in future of which normally 60-70% are redeemed during the next year.

The Company has approached your firm with the following queries and has asked you to suggest Journal Entries under the applicable Ind AS for these award points:

(a)	How should the recognition be done for the sale of goods worth ₹ 10,00,000 on a particular day?
(b)	How should the redemption transaction be recorded in the year 20X1-20X2? The Company has requested you to

	present the sale of goods and redemption as an independent transaction. Total sales of the entity is ₹ 5,000 lakhs.
(c)	How much of the deferred revenue should be recognized at the year-end (20X1-20X2) because of the estimation that only 80% of the outstanding points will be redeemed?
(d)	In the next year 20X2-20X3, 60% of the outstanding points were discounted. Balance 40% of the outstanding points of 20X1-20X2 still remained outstanding. How much of the deferred revenue should the merchant recognize in the year 20X2-20X3 and what will be the amount of balance deferred revenue?
(e)	How much revenue will the merchant recognized in the year 20X3-20X4, if 3,00,000 points are redeemed in the year 20X3-20X4?

(9 Marks)

(b)

Either

Mr. Atul is an independent director of a company X Ltd. He plays a vital role in the management of X Ltd. and contributes to major decision making process of the organisation. X Ltd. pays sitting fee of ₹ 2,00,000 to him for every Board of Directors' (BOD) meeting he attends. Throughout the year, X Ltd. had 5 such meetings which was attended by Mr. Atul.

Similarly, a non-executive director, Mr. Naveen also attended 5 BOD meetings and charged ₹ 1,50,000 per meeting. The Accountant of X Ltd. believes that they being not the employees of the organisation, their fee should not be disclosed as per related party transaction.

Examine whether the sitting fee paid to independent director and non-executive director is required to be disclosed in the financial statements prepared as per Ind AS?

(5 Marks)

Or

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

- (i) A Ltd. received one acre of land to setup a plant in backward area (fair value of land ₹ 12 lakh and acquired value by Government is ₹ 8 lakhs).
 - (ii) B Ltd. received an amount of loan for setting up a plant at concessional rate of interest from the Government.
 - (iii) D Ltd. received an amount of ₹ 25 lakh for immediate start-up of a business without any condition.
 - (iv) S Ltd. received ₹ 10 lakh for purchase of machinery costing ₹ 80 lakh. Useful life of machinery is 10 years. Depreciation on this machinery is to be charged on straight line basis.
 - (v) Government gives a grant of ₹ 25 lakh to U Limited for research and development of medicine for breast cancer, even though similar medicines are available in the market but are expensive. The company is to ensure by developing a manufacturing process over a period of two years so that the cost comes down at least to 50%. **(5 Marks)**
5. (a) An entity issues 2,000 convertible bonds at the beginning of Year 1. The bonds have a three-year term and are issued at par with a face value of ₹ 1,000 per bond, giving total proceeds of ₹ 20,00,000. Interest is payable annually in arrears at a nominal annual interest rate of 6%. Each bond is convertible at any time up to maturity into 250 ordinary shares. The entity has given an option to settle the principal amount of the convertible bonds in ordinary shares or in cash.

When the bonds are issued, the prevailing market interest rate for similar debt without a conversion option is 9%. At the issue date, the market price of one ordinary share is ₹ 3. Income tax is ignored.

Calculate basic and diluted EPS when

Profit attributable to ordinary equity holders of the parent entity Year 1	₹ 10,00,000
Ordinary shares outstanding	12,00,000
Convertible bonds outstanding	2,000

(4 Marks)

- (b) Entity A acquired a subsidiary, entity B, during the year. Summarised information from the consolidated statement of profit and loss and balance sheet is provided, together with some supplementary information.

Consolidated statement of profit and loss	Amount (₹)
Revenue	3,80,000
Cost of sales	<u>(2,20,000)</u>
Gross profit	1,60,000
Depreciation	(30,000)
Other operating expenses	(56,000)
Interest cost	<u>(4,000)</u>
Profit before taxation	70,000
Taxation	<u>(15,000)</u>
Profit after taxation	<u>55,000</u>

Consolidated balance sheet	20X2	20X1
	Amount (₹)	Amount (₹)
Assets		
Cash and cash equivalents	8,000	5,000
Trade receivables	54,000	50,000
Inventories	30,000	35,000
Property, plant and equipment	1,60,000	80,000
Goodwill	<u>18,000</u>	<u>—</u>
Total assets	<u>2,70,000</u>	<u>1,70,000</u>
Liabilities		
Trade payables	68,000	60,000
Income tax payable	12,000	11,000

Long term debt	<u>1,00,000</u>	<u>64,000</u>
Total liabilities	<u>1,80,000</u>	<u>1,35,000</u>
Shareholders' equity	<u>90,000</u>	<u>35,000</u>
Total liabilities and shareholders'	<u>2,70,000</u>	<u>1,70,000</u>

Other information

All of the shares of entity B were acquired for ₹ 74,000 in cash. The fair values of assets acquired, and liabilities assumed were:

Particulars	Amount (₹)
Inventories	4,000
Trade receivables	8,000
Cash	2,000
Property, plant and equipment	1,10,000
Trade payables	(32,000)
Long term debt	(36,000)
Goodwill	<u>18,000</u>
Cash consideration paid	<u>74,000</u>

Prepare statement of cash flows of Entity A. **(10 Marks)**

6. (a) Astra Ltd. is a listed entity which operates in the defence and fibre optics sector. It supplies fibre optic cables and racks in the domestic country. This activity is only a trading activity for Astra Ltd. as it procures goods from pre-approved suppliers, and after inspection, sells the goods to IT companies. The sale contract requires Astra Ltd. to deliver these goods to the IT companies' locations (i.e., delivery on site). Payment terms are 30 days after the invoice date to Astra Ltd.

Ms. Suparna Dasgupta, a chartered accountant, has recently joined Astra Ltd. as the Head of the Finance Department.

The Chief Operating Officer (also the executive director) of Astra Ltd. is Ms. Padmaja Srinivasan, a mechanical engineer with an MBA from Harvard University, who rose through the ranks through

her excellent skills in project management, marketing, and customer management. Her remuneration includes a bonus computed as a percentage of turnover achieved during the year, and an additional incentive for achieving an EBITDA in excess of 15% of turnover.

Astra Ltd. has sold fibre optic cables amounting to ₹ 2 crores (invoice dated 31st March 20X2) to Ethernet Bullet Ltd., a company providing high-speed internet connectivity services through fibre optic cables as well as dedicated leased lines. The service unit of Ethernet Bullet Ltd. is located next to the factory of Astra Ltd. Though the goods were not moved to Ethernet Bullet Ltd.'s service unit, Astra Ltd. recognized the sale for the year, based on the contention that the service unit is adjacent, and hence the transfer can happen within a few minutes.

The annual results are due for board approval, for the year ending 31st March, and require the sign-off of Ms. Suparna Dasgupta.

Ms. Suparna Dasgupta has been given a 40% increment on joining Astra Ltd., which enables her to comfortably pay off her housing loan mortgage every month. Additionally, she is also given perquisites in the form of business class travel, an exclusive chauffeur-driven car and stock options of the company. Accordingly, she has stated that she cannot afford to lose this job as the salary and perquisites are among the best in the country.

Ms. Padmaja Srinivasan has communicated to Ms. Suparna Dasgupta that many more benefits will accrue if she agrees to present the numbers without any modifications. She has also said that the company would not hesitate to replace Ms. Suparna Dasgupta should she disagree with the contentions above.

Required:

Discuss the potential conflicts which are arising in the above scenario and the ethical principles that would guide Ms. Suparna Dasgupta in responding to the situation. **(9 Marks)**

- (b) On 1st April 20X1, Nuogen Ltd. had granted 1,20,000 share options to its employees with the vesting condition being a service condition as follows:

- Vesting date : 31st March 20X2 - 80,000 share options (1-year vesting period since grant date)
- Vesting date : 31st March 20X5 - 40,000 share options (4-year vesting period since grant date)

Each option can be converted into one equity share of Nuogen Ltd. The fair value of the options on grant date, i.e., on 1st April 20X1 was ₹ 20.

Nuogen Ltd. is required to prepare financial statements in Ind AS for the financial year ending 31st March 20X4. The transition date for Ind AS being 1st April 20X2.

The entity has disclosed publicly the fair value of both these equity instruments as determined at the measurement date, as defined in Ind AS 102.

The previous applicable GAAP for the entity was IGAAP (AS) and therein, the entity had not adopted intrinsic method of valuation.

The share options have not been yet exercised by the employees of Nuogen Ltd.

How the share-based payment should be reflected in, the books of Nuogen Ltd. as on 31st March 20X4, assuming that the entity has erred by not passing any entry for the aforementioned transactions in the books of Nuogen Ltd. on grant date, i.e. 1st April 20X1?

(5 Marks)

MODEL TEST PAPER 2
FINAL COURSE: GROUP – I
PAPER – 1: FINANCIAL REPORTING

Time Allowed – 3 Hours

Maximum Marks – 100

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

PART I – Case Scenario based MCQs (30 Marks)

All MCQs are compulsory.

Case Scenario 1

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

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

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

- (ii) U Ltd. issued on 1st April 20X2, 10% (interest paid annually and having maturity period of 4 years) bonds with a face value of ₹ 2,00,000 at a discount of 10% to finance a qualifying asset which is ready for intended use at the end of year 2. The company amortizes discount using Effective Interest Rate (EIR) method by applying 13.39% p.a. of EIR.

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

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

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

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

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

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

1. With respect to a joint operation engaged in the business of mining precious metals, how will the liability be disclosed in the books of U Ltd.?
 - (a) Provision for ₹ 20 crores and a contingent liability for ₹ 30 crores
 - (b) Contingent liability for ₹ 50 crores
 - (c) Provision for ₹ 30 crores and a contingent liability for ₹ 20 crores
 - (d) Provision for ₹ 50 crores.
2. Compute the amount of borrowing costs to be capitalized related to qualifying assets.
 - (a) ₹ 48,753
 - (b) ₹ 24,651

- (c) ₹ 24,102
 - (d) Nil
3. What is the amount of preference dividend to be reduced from profit or loss for the year for calculating Basic Earnings Per Share?
- (a) ₹ 15 crores
 - (b) ₹ 1.75 crores
 - (c) ₹ 13.25 crores
 - (d) Nothing, as no dividend has been declared by the entity.
4. What amount will be shown as an inflow in respect of earnings from the associate in the statement of cash flows of U Ltd. for the year ended 31st March 20X3?
- (a) ₹ 0.020 crores
 - (b) ₹ 0.026 crores
 - (c) ₹ 0.030 crores
 - (d) ₹ 0.046 crores
5. Calculate the amount of goodwill / gain on bargain purchase arising upon acquisition of S Ltd.
- (a) ₹ 1 crore gain on bargain purchase
 - (b) ₹ 80 lakhs gain on bargain purchase
 - (c) ₹ 20 lakhs goodwill
 - (d) ₹ 41 lakhs goodwill

(5 x 2 = 10 Marks)

Case Scenario II

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

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

- (ii) G Ltd. is also engaged in software development. It enters into a contract with a customer to transfer a software license, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. G Ltd. sells the license, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.
- (iii) G Ltd. sells a 20% interest in a wholly owned subsidiary K Ltd. to outside investors for ₹ 100 lakh in cash. The carrying value of K Ltd.'s net assets is ₹ 300 lakh, including goodwill of ₹ 65 lakh from the subsidiary's initial acquisition.

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

- 6. With respect to H Ltd. state whether the error should be reported in the Ind AS financial statements and how to rectify it.
 - (a) H Ltd. shall report the impact of the error as a correction to Statement of Profit and Loss for the comparative period i.e., the year ended 31st March, 20X3.
 - (b) The correction shall be reflected in a reconciliation as at the end of the first Ind AS reporting period i.e., as at 31st March, 20X3.
 - (c) The impact of the correction is significant and it shall be amortized on a rational and systematic basis in the first two periods of Ind AS reporting i.e., years ended 31st March, 20X3 and 31st March, 20X4.
 - (d) The first Ind AS financial statements shall distinguish the correction of errors from changes in accounting policies and reported as part of the reconciliations as at 1st April, 20X2.
- 7. How many performance obligations G Ltd. has, with respect to the contract with the customer to transfer software license?
 - (a) 4 performance obligations
 - (b) 3 performance obligations

- (c) 2 performance obligations
 (d) 1 performance obligation
8. What is the amount of gain on sale of interest in subsidiary K Ltd.?
- (a) ₹ 100 lakhs
 (b) ₹ 60 lakhs
 (c) ₹ 53 lakhs
 (d) ₹ 40 lakhs
- (3 x 2 = 6 Marks)**

Case Scenario III

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

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

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

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

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

- (iii) An item of equipment X was acquired by A Ltd. on 1st April 20X1 for ₹ 1,00,000 having an estimated useful life of 10 years, with a residual value of zero. The asset is depreciated on a straight-line basis. The asset was revalued to ₹ 1,04,000 on 31st March 20X3.
- (iv) A Ltd. has spent ₹ 15,00,000 in developing a new product during the year ended 31st March, 20X3. The development costs incurred were recognised as an intangible asset as per Ind AS 38. For the purposes of computing the taxable income, these expenses are allowable in full in the year of incurring the expenses. At the year end, the Company recognised an impairment loss of ₹ 75,000 against the intangible asset.
- (v) The company has issued preference shares that are redeemable at the option of the holder. Three months before the end of the year, it was probable that the holders would require redemption.

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

- 9. What cashflow should B Ltd. report, as financing activity in the statement of cash flows?
 - (a) Issuance of equity shares ₹ 240 million; dividends paid ₹ 10 million
 - (b) Issuance of equity shares ₹ 100 million; dividends paid ₹ 10 million
 - (c) Issuance of equity shares ₹ 140 million; dividends paid ₹ 10 million
 - (d) Issuance of equity shares ₹ 40 million; dividends paid ₹ 10 million
- 10. With respect to point (ii), what costs should be included in the entity's financial report for the quarter ended 30th September 20X3?
 - (a) Advertising costs ₹ 40 lacs; staff bonuses ₹ 100 lacs
 - (b) Advertising costs ₹ 10 lacs; staff bonuses ₹ 100 lacs
 - (c) Advertising costs ₹ 10 lacs; staff bonuses ₹ 60 lacs
 - (d) Advertising costs ₹ 40 lacs; staff bonuses ₹ 60 lacs

11. What will be the annual depreciation charge on equipment X for years 3 to 10 and the amount of the revaluation surplus that can be transferred to retained earnings annually?
- (a) Annual depreciation charge will be ₹ 10,000 and an annual transfer of ₹ 3,000 can be made from revaluation surplus to retained earnings.
 - (b) Annual depreciation charge will be ₹ 10,000, however, annual transfer from revaluation surplus to retained earnings is not permitted.
 - (c) Annual depreciation charge will be ₹ 13,000 and an annual transfer of ₹ 3,000 may be made from revaluation surplus to retained earnings.
 - (d) Annual depreciation charge will be ₹ 13,000, however, annual transfer from revaluation surplus to retained earnings is not permitted.
12. With respect to point (iii), What is the tax base of the intangible asset?
- (a) ₹ 15,00,000
 - (b) ₹ 75,000
 - (c) ₹ 14,25,000
 - (d) ₹ Nil
13. Which one of the following is the appropriate classification for the annual payment of ₹ 12,000 to preference shareholders at year-end?
- (a) Dividend ₹ 12,000
 - (b) Interest expense ₹ 12,000
 - (c) Dividend ₹ 3,000, interest expense ₹ 9,000
 - (d) Dividend ₹ 9,000, interest expense ₹ 3,000 **(5 x 2 = 10 Marks)**
14. On 1st April 20X1, J Ltd. subscribed for 40 million ₹ 1 loan notes in C Ltd. The loan notes were issued at 90 paise and were redeemable at ₹ 1.20 on 31st March 20X6. Interest is payable on 31st March in arrears at 4% of par value. This represents an effective annual rate of return for J Ltd. of 9.9%.

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

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

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

- (a) ₹ 40 million
 - (b) ₹ 37.782 million
 - (c) ₹ 38.4 million
 - (d) ₹ 36 million
- (2 Marks)**

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

How will AI help the management of the company?

- (a) With the help of AI, the company can make informed decisions,
 - (b) With the help of AI, the company can assess potential risks
 - (c) With the help of AI, the company can develop robust financial strategies in accordance with Ind AS principles.
 - (d) All of the above
- (2 Marks)**

PART – II DESCRIPTIVE QUESTIONS

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

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

Working notes should form part of the answers.

Maximum Marks – 70 Marks

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

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

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

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

- Customer relationships – reliable estimate of value ₹ 100 million. This value has been derived from the sale of customer databases in the past.
- An in process research and development project that had not been recognised by B Ltd. since the necessary conditions laid down in Ind AS for capitalisation were only just satisfied at 31st March 20X2. However, the fair value of the whole project (including the research phase) is estimated at ₹ 50 million.

- Employee expertise – estimated value of Director employees of B Ltd. is ₹ 80 million.
- The market value of a share in J Ltd. on 31st March 20X2 was ₹ 11.

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

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

Key terms of the contract:

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

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

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

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

- (i) As on 31st March, 20X2, how should the entity classify the loan?
- (ii) Assume that in anticipation that it may not be able to get the promoter's contribution by due date, in February 20X2, the entity approached the bank and got the compliance date extended upto 30th June, 20X2 for getting promoter's contribution. In this case will the loan classification as on 31st March, 20X2 be different from (a) above? **(4 Marks)**
3. (a) LT Ltd. is in the process of constructing a building. The construction process is expected to take about 18 months from 1st January 20X1 to 30th June 20X2. The building meets the definition of a qualifying asset. LT Ltd. incurs the following expenditure for the construction:

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

On 1st July 20X1, LT Ltd. issued 10% Redeemable Debentures of ₹ 50 crores. The proceeds from the debentures form part of the company's general borrowings, which it uses to finance the construction of the qualifying asset, ie, the building. LT Ltd. had no borrowings (general or specific) before 1st July 20X1 and did not

incur any borrowing costs before that date. LT Ltd. incurred ₹ 25 crores of construction costs before obtaining general borrowings on 1st July 20X1 (pre-borrowing expenditure) and ₹ 25 crores after obtaining the general borrowings (post-borrowing expenditure).

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

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

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

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

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

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

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

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

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

- (i) benefits attributed (year on year) and
- (ii) the obligation in respect of this benefit (year on year)

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

Following assumptions may be taken to solve this:

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

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

31 st March 20X2	₹ 210
31 st March 20X3	₹ 220
31 st March 20X4	₹ 215
31 st March 20X5	₹ 218

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

(8 Marks)

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

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

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

All transactions are made in cash.

- (i) Suggest how revenue is to be recognised in the books of accounts of ABC Limited as per expected value method, considering a probability of 15%, 75% and 10% for sales volumes of 9,000 units, 28,000 units and 36,000 units respectively. For workings, assume that ABC Limited achieved the same number of units of sales to the customer during the year as initially estimated under expected value method for the financial year 20X1-20X2.
 - (ii) You are required to pass Journal entries in the books of ABC Limited if the revenue is accounted for as per expected value method for financial year 20X1-20X2. **(5 Marks)**
- (b) Mercury Ltd. has sold goods to Mars Ltd. at a consideration of ₹ 10 lakhs, the receipt of which receivable in three equal installments of ₹ 3,33,333 over a two year period (receipts on 1st April, 20X1, 31st March, 20X2 and 31st March, 20X3).
- The company is offering a discount of 5 % (i.e. ₹ 50,000) if payment is made in full at the time of sale. The sale agreement reflects an implicit interest rate of 5.36% p.a.
- The total consideration to be received from such sale is at ₹ 10 Lakhs and hence, the management has recognised the revenue from sale of goods for ₹ 10 lakhs.
- Analyse whether the above accounting treatment made by the accountant is in compliance of the Ind AS. If not, advise the correct treatment along with working for the same. **(5 Marks)**
- (c) **Either**
- How can one enhance the usefulness of financial information by applying four enhancing qualitative characteristics? **(4 Marks)**

(c)

Or

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

(4 Marks)

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

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

Required:

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

(5 Marks)

- (b) X Pharmaceutical Ltd. seeks your opinion in respect of following accounting transactions:
1. Acquired a 4 year license to manufacture a specialised drug at a cost of ₹ 1,00,00,000 at the start of the year. Production commenced immediately.
 2. Also purchased another company at the start of year. As part of that acquisition, X Pharmacy Ltd. acquired a brand with a fair value of ₹ 3,00,00,000 based on sales revenue. The life of the brand is estimated at 15 years.
 3. Spent ₹ 1,00,00,000 on an advertising campaign during the first six months. Subsequent sales have shown a significant improvement and it is expected this will continue for 3 years.

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

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

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

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

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

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

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

Determine the Equity value of KK Ltd. as on the measurement date on the basis of above details. **(4 Marks)**

MODEL TEST PAPER 3
FINAL COURSE: GROUP – I
PAPER – 1: FINANCIAL REPORTING

Time Allowed – 3 Hours

Maximum Marks – 100

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

PART I – Case Scenario based MCQs (30 Marks)

All MCQs are compulsory.

Case Scenario 1

ABC 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 financial statements under Indian Accounting Standards. The finance team has been working on closing the books of accounts and generating financial statements for the year ended 31st March 20X3 and are facing issues in the following transactions while finalization of financial statements:

- (i) One of the businesses of ABC Ltd. is of manufacturing sugar and chemicals. The Company has taken a term loan for ₹ 5 crores from State Bank to buy certain plant and machinery during the year ended 31 March 20X2. 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. If these loan covenants fall below this level, then the bank has a right to recall the entire loan.

The loan outstanding as on 31 March, 20X3 was ₹ 4.25 crores. The current ratio of ABC Ltd. was 1 : 1 and debt equity ratio was 0.5 : 2. State Bank sent a notice on 5 April 20X3 demanding repayment of loan, on account of breach of terms of the loan agreement. The financials were signed on 10 May, 20X3.

On receiving the notice, the CFO of ABC Ltd. negotiated with the bank and ensured to rectify the breach. As a result, on 25 April, 20X3, the

Bank has agreed not to recall the loan and allowed the Company to achieve the contracted current and debt-equity ratio by 20X5.

- (ii) ABC Ltd. has inventory of raw material Y of 10,000 units as at 31 March, 20X4 with a carrying amount of ₹ 100 each. The current market value of that raw material is ₹ 95 each. ABC Ltd. will use the raw material to manufacture a component for a customer. The conversion cost for making the finished goods would be ₹ 130 each. ABC Ltd. estimates costs to completion and sale of ₹ 50 each and a selling price for the component is estimated to be ₹ 290 each.
- (iii) ABC Ltd. sold a machinery Z for ₹ 900 thousand to a new customer. To get into long term relationship with the customer, the terms of sale also include after sales service to be provided for next three years free of cost. The company also sells the sales service contract separately where the customer buys it after the initial warranty period at ₹ 100 thousand.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 4 in line with relevant Ind AS:

- 1. How the long-term loan from State Bank has to be classified in the financials for the year ended 31 March 20X3 in case ABC Ltd. has not negotiated with the bank for rectification of breach?
 - (a) Other current liabilities
 - (b) Current financial liability
 - (c) Non-current financial liability
 - (d) Other non-current liability
- 2. After negotiation with State Bank, how the long-term loan has to be classified in the financials for the year ended 31 March 20X3?
 - (a) Other current liabilities
 - (b) Current financial liability
 - (c) Non-current financial liability
 - (d) Other non-current liability
- 3. At what value the raw material Y be measured in the books of ABC Ltd. as per applicable Ind AS?

- (a) ₹ 950 thousand.
 - (b) ₹ 1,100 thousand.
 - (c) ₹ 1,000 thousand.
 - (d) ₹ 1,600 thousand.
4. How should the revenue be recognised in the books of account for the sale of machinery Z?
- (a) ₹ 900 thousand is to be recognised as revenue in the year of sale.
 - (b) ₹ 900 thousand is to be recognised at the end of three years after sale.
 - (c) ₹ 900 thousand is to be recognised in the year of sale and ₹ 100 thousand to be spread over next three years.
 - (d) ₹ 810 thousand is to be recognised in the year of sale and ₹ 90 thousand to be spread over next three years.

(4 MCQs x 2 Marks = 8 Marks)

Case Scenario 2

DEF Ltd. is a globally diversified business conglomerate with operations spanning across various business sectors worldwide. The company adheres to Indian Accounting Standards for maintaining its financial records and annually releases its financial statements. As the finance team progresses towards finalizing the financial statements for the fiscal year ending on 31 March 20X3, the team is stuck up in the accounting of the following transactions:

- (i) On 1 June 20X2, DEF Ltd. decided to dispose of the business and current and non-current assets of one of its divisions related to specialty chemicals business which it had acquired several years ago. This disposal does not involve DEF Ltd. withdrawing from a particular market sector. The carrying values on 1 June 20X2 of the assets to be disposed of were as follows:

Particulars	₹ in Million
Goodwill	10.0
Property, Plant and Equipment	20.0
Patents and trademarks	8.0

Inventories	15.0
Trade Receivables	10.0

None of the assets of the business had suffered impairment as at 1 June 20X2. At that date the inventories and trade receivables of the business were already stated at no more than their recoverable amounts.

DEF Ltd. offered the business for sale at a price of ₹ 46.5 million, which was considered to be reasonably achievable. DEF Ltd. estimated that the direct costs of selling the business would be ₹ 5,00,000. These estimates have not changed since 1 June 20X2 and DEF Ltd. estimates that the business will be sold by 31 March 20X3 at the latest.

- (ii) The government provided DEF Ltd. with a grant of ₹ 21 million to assist it in the development of the factory.

This grant was provided in two parts:

- (1) ₹ 6 million of the grant was a payment by the government as an inducement to DEF Ltd. to begin developing the factory. No conditions were attached to this part of the grant.
- (2) ₹ 15 million of the grant related to the construction of the factory at a cost of ₹ 60 million. The land was leased so the whole of the ₹ 60 million is depreciable over the estimated 40 year useful life of the factory.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 5 to 8 in line with relevant Ind AS:

5. Compute the value of Specialty chemical division's Goodwill at the date of classification after re-measurement.
 - (a) ₹ 7.3 million
 - (b) ₹ 10 Million
 - (c) ₹ Nil
 - (d) ₹ 8 million
6. Calculate the closing balance of Specialty chemical division's asset – Property, Plant and Equipment at the period end.
 - (a) ₹ 21 million

- (b) ₹ 17.36 million
 - (c) ₹ 6 million
 - (d) ₹ 15 million
7. What amount of grant out of ₹ 15 million with respect to construction of factory be transferred to profit and loss account in the year 20X3-20X4?
- (a) ₹ 15 million
 - (b) ₹ 0.375 million
 - (c) ₹ 1.5 million
 - (d) ₹ 0.125 million
8. What would be the treatment of grant of ₹ 6 million received from the government as an inducement to DEF Ltd. to begin developing the factory?
- (a) Grant relating to an inducement to begin developing the factory can be recognized immediately in the Statement of Profit or Loss.
 - (b) 0.15 million amount is to be credited each year in the income statement over 40 year period.
 - (c) 1.2 million amount is to be credited each year in the income statement over 40 year period.
 - (d) Net off the grant received against the cost of the asset and depreciate the net figure over its useful economic life.

(4 MCQs x 2 Marks = 8 Marks)

Case Scenario 3

HIJ Ltd. is a globally diversified business conglomerate with operations spanning multiple business segments across various regions worldwide. For maintaining its financial records, the company follows Indian Accounting Standards. As the finance team diligently finalizes the books of accounts and prepares the financial statements for the financial year ending on 31 March 20X2, it requires insights and accounting suggestions on the following transactions:

- (i) On 1 October 20X1, HIJ Ltd. subscribed for 40 million ₹ 1 loan notes in Z Ltd. The loan notes were issued at 90 paise and were redeemable at

₹ 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 HIJ Ltd. of 9.9%. HIJ Ltd.'s intention is to hold the loan notes until redemption.

- (ii) On 1st April 20X1, HIJ Ltd. commenced joint construction of a property with G Ltd. For this purpose, an agreement has been entered into that provides for joint operation and ownership of the property. All the ongoing expenditure, comprising maintenance plus borrowing costs, is to be shared equally. The construction was completed on 30th September 20X1 and utilisation of the property started on 1st January 20X2 at which time the estimated useful life of the same was estimated to be 20 years.

Total cost of the construction of the property was ₹ 40 crores. Besides internal accruals, the cost was partly funded by way of loan of ₹ 10 crores taken on 1st January 20X1. The loan carries interest at an annual rate of 10% with interest payable at the end of year on 31st December each year. The company has spent ₹ 4,00,000 on the maintenance of such property.

The company has recorded the entire amount paid as investment in Joint Venture in the books of accounts. Suggest the suitable accounting treatment of the above transaction as per applicable Ind AS.

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

9. What would be the initial measurement of financial instruments as subscription of loan notes in Z Ltd.?
- (a) ₹ 40 million
 - (b) ₹ 37.782 million
 - (c) ₹ 38.4 million
 - (d) ₹ 36 million
10. What would be the closing balance of financial instruments (as subscription of loan notes in Z Ltd.) as on 31 March 20X2?

- (a) ₹ 37.6 million
 - (b) ₹ 34.218 million
 - (c) ₹ 37.782 million
 - (d) ₹ 36.182 million
11. With respect to point (ii), what is the nature of the agreement?
- (a) Agreement is in the nature of Joint venture
 - (b) Agreement is in the nature of Joint Operations
 - (c) Agreement is in the nature of Holding subsidiary relationship
 - (d) Agreement is in the nature of Associates
12. What will the initial cost of PPE appearing in the books of HIJ Ltd.?
- (a) ₹ 40,50,00,000
 - (b) ₹ 40,00,00,000
 - (c) ₹ 20,25,00,000
 - (d) ₹ 20,00,00,000
13. Calculate the depreciation charge for the year ended 31 March 20X2 to be charged by G Ltd. in its books?
- (a) ₹ 50,62,500
 - (b) ₹ 1,01,25,000
 - (c) ₹ 1,00,00,000
 - (d) ₹ 50,00,000
- (5 MCQs x 2 Marks = 10 Marks)**
14. F Ltd. is a first-time adopter of Ind AS. The date of transition is 1st April, 20X1. On 1st April, 20X0, it obtained a 7 year US \$1,00,000 loan. It has been exercising the option provided in paras 46/46A of AS 11 and has been amortising the exchange differences in respect of this loan over the balance period of such loan. On the date of transition, the company intends to continue the same accounting policy with regard to amortisation of exchange differences.

State which of the following true with respect to the above transaction:

- (a) F Ltd. can continue following the existing accounting policy of amortising the exchange differences in respect of loan over the balance period of such long-term liability routed through statement of profit and loss for the period
- (b) F Ltd. can continue following the existing accounting policy of amortising the exchange differences in respect of loan over the balance period of such long-term liability routed through OCI
- (c) F Ltd. can continue following the existing accounting policy of amortising the exchange differences in respect of loan over the balance period of such long-term liability routed either through statement of profit and loss or OCI as per the choice of the entity.
- (d) F Ltd. cannot continue following the existing accounting policy.

(2 Marks)

15. X Ltd., a large multinational corporation, needs to prepare its financial statements according to Ind AS. The company has a vast amount of financial data stored in the system in various formats, including spreadsheets, PDFs, and scanned documents. Manually extracting and analysing this data is time consuming and error prone. By implementing AI-driven optical character recognition (OCR) technology, the company automates the data extraction process from diverse sources and converts it into structured formats.

Which of the following problems will not be avoided by implementing AI?

- (a) Manually extraction of data will lead to delay in the process.
- (b) Analysing the data manually might be error prone
- (c) Scanned documents of several years will acquire unnecessary office space.
- (d) All of the above

(2 Marks)

PART – II DESCRIPTIVE QUESTIONS

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

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

Working notes should form part of the answers.

Maximum Marks – 70 Marks

1. A Ltd. (Seller-lessee) sells a building to B Ltd. (Buyer-lessor) for cash of ₹ 60,00,000. Immediately before the transaction, the building is carried at a cost of ₹ 30,00,000. At the same time, A Ltd. enters into a contract with B Ltd. for the right to use the building for 20 years, with annual payments of ₹ 4,00,000 payable at the end of each year.

The terms and conditions of the transaction are such that the transfer of the building by A Ltd. satisfies the requirements for determining when a performance obligation is satisfied in Ind AS 115 'Revenue from Contracts with Customers'.

The fair value of the building at the date of sale is ₹ 54,00,000. Initial direct costs, if any, are to be ignored. The interest rate implicit in the lease is 12% p.a., which is readily determinable by A Ltd.

B Ltd. classifies the lease of the building as an operating lease.

How should the said transaction be accounted by A Ltd. and B Ltd.?

(14 Marks)

2. (a) D Limited has a policy of providing subsidized loans to its employees for their personal purposes. Mr. Y, an employee of the Company, took a loan of ₹ 12.00 lakhs on the following terms:
- Interest rate 4% per annum
 - Loan disbursement date: 1st April, 20X1
 - The principal amount of the loan shall be recovered in 4 equal annual installments commencing from 31st March, 20X2
 - The accumulated interest computed on reducing balance at simple interest is collected in 3 equal annual installments after collection of the principal amount

- Mr. Y must remain in service till the principal and interest are paid
- The market rate of a comparable loan to Mr. Y is 9% per annum

The present value of ₹ 1 at 9% per annum at the end of respective years is as follows:

Year ending 31 st March	20X2	20X3	20X4	20X5	20X6	20X7	20X8
Present Value	0.9174	0.8417	0.7722	0.7084	0.6499	0.5963	0.5470

Under the assumption that no probable future economic benefits except the return of loan has been guaranteed by the employee, you are required to provide the journal entries at the time of initial recognition of loan on 1st April, 20X1 and as at 31st March, 20X2

(10 Marks)

- (b) An entity's accounting year ends is 31st December, but its tax year end is 31st March. The entity publishes an interim financial report for each quarter of the year ended 31st December, 20X1. The entity's profit before tax is steady at ₹ 50,000 each quarter, and the estimated effective tax rate is 25% for the year ended 31st March, 20X1 and 30% for the year ended 31st March, 20X2.

How the related tax charge would be calculated for the year 20X1 and its quarters.

(4 Marks)

3. (a) B Ltd. prepares consolidated financial statements upto 31st March each year. On 1st July 20X1, B Ltd. acquired 75% of the equity shares of K Ltd. and gained control of K Ltd. the issued shares of K Ltd. is 60,00,000 equity shares. Details of the purchase consideration are as follows:
- On 1st July, 20X1, B Ltd. issued two shares for every three shares acquired in K Ltd. On 1st July, 20X1, the market value of an equity share in B Ltd. was ₹ 6.50 and the market value of an equity share in K Ltd. was ₹ 6.

- On 30th June, 20X2, B Ltd. will make a cash payment of ₹ 35,75,000 to the former shareholders of K Ltd. who sold their shares to B Ltd. on 1st July, 20X1. On 1st July, 20X1, B Ltd. would have to pay interest at an annual rate of 10% on borrowings.
- On 30th June, 20X3, B Ltd. may make a cash payment of ₹ 1,50,00,000 to the former shareholders of K Ltd. who sold their shares to B Ltd. on 1st July, 20X1. This payment is contingent upon the revenues of B Ltd. growing by 15% over the two-year period from 1st July, 20X1 to 30th June, 20X3. On 1st July, 20X1, the fair value of this contingent consideration was ₹ 1,25,00,000. On 31st March, 20X2, the fair value of the contingent consideration was ₹ 1,10,00,000.

On 1st July, 20X1, the carrying values of the identifiable net assets of K Ltd. in the books of that company was ₹ 3,00,00,000. On 1st July, 20X1, the fair values of these net assets was ₹ 3,50,00,000. The rate of deferred tax to apply to temporary differences is 20%.

During the nine months ended on 31st March, 20X2, K Ltd. had a poorer than expected operating performance. Therefore, on 31st March, 20X2 it was necessary for B Ltd. to recognise an impairment of the goodwill arising on acquisition of K Ltd., amounting to 10% of its total computed value.

Compute the impairment of goodwill in the consolidated financial statements of B Ltd. under both the methods permitted by Ind AS 103 for the initial computation of the non-controlling interest in K Ltd. at the acquisition date. **(8 Marks)**

- (b) An entity has a contract to purchase one million units of gas at 23p per unit, giving a contract price of ₹ 2,30,000. The current market price for a similar contract is 16p per unit, giving a price of ₹ 1,60,000. All of the gas purchased by the entity is used to generate electricity using dedicated assets.

Determine in the following situations whether the contract is onerous and provision is to be made when:

- (i) The electricity is sold at a profit. The electricity is sold to a wide range of customers.

- (ii) The electricity is sold at a loss, and the entity makes an overall operating loss. The electricity is sold to a wide range of customers.
- (iii) The entity sells the gas under contract, which it no longer needs, to a third party for 18p per unit (5p below cost). The entity determines that it would have to pay ₹ 55,000 to exit the purchase contract. **(6 Marks)**
4. (a) On 1st April 20X1, Investor Ltd. acquires 35% interest in XYZ Ltd. thereby exercising significant influence over XYZ Ltd. Investor Ltd. has paid total consideration of ₹ 47,50,000 for acquisition of its interest in XYZ Ltd. At the date of acquisition, the book value of XYZ Ltd.'s net assets was ₹ 90,00,000 and their fair value was ₹ 1,10,00,000. Investor Ltd. has determined that the difference of ₹ 20,00,000 pertains to an item of property, plant and equipment (PPE) which has remaining useful life of 10 years.
- During the year, XYZ Ltd. made a profit of ₹ 9,00,000. XYZ Ltd. paid a dividend of ₹ 10,00,000 on 31st March, 20X2. XYZ Ltd. also holds a long-term investment in equity securities. Under Ind AS, investment is classified as at FVTOCI in accordance with Ind AS 109 and XYZ Ltd. recognized an increase in value of investment by ₹ 2,00,000 in OCI during the year. Ignore deferred tax implications, if any.
- Calculate the closing balance of Investor Ltd.'s investment in XYZ Ltd. as at 31st March, 20X2 as per the relevant Ind AS. **(5 Marks)**
- (b) Following are the facts given for X Ltd.:
- | | |
|---|-----------------|
| - Income from continuing operations: | ₹ 90,00,000 |
| - Loss from discontinued operations: | (₹ 1,08,00,000) |
| - Net loss: | (₹ 18,00,000) |
| - Weighted average Number of shares outstanding | 10,00,000 |
| - Incremental common shares outstanding relating to stock options | 2,00,000 |
- (a) You are required to calculate the basic and diluted EPS for Company XY from the above information.

- (b) Assume, if in above case, Loss from continued operations is ₹ 30,00,000 and income from discontinued operations is ₹ 1,08,00,000 calculate the diluted EPS. **(9 Marks)**
5. (a) A Ltd. is a company which is in the business of manufacturing engineering machines and providing after sales services. The company entered into a contract with Mr. Anik to supply and install a machine, namely 'model pi' on 1st April 20X1 and to service this machine on 30th September 20X1 and 1st April 20X2. The cost of manufacturing the machine to A Ltd. was ₹ 1,60,000.
- It is possible for a customer to purchase both the machine 'model pi' and the maintenance services separately. Mr. Anik is contractually obliged to pay A Ltd ₹ 4,00,000 on 1st April, 20X2.
- The prevailing rate for one-year credit granted to trade customers in the industry is 5 percent per six-month period.
- As per the experience, the servicing of the machine 'model pi' sold to Mr. Anik is expected to cost A Ltd. ₹ 30,000 to perform the first service and ₹ 50,000 to perform the second service. Assume actual costs equal expected costs. When A Ltd. provides machine services to customers in a separate transaction it earns a margin of 50% on cost. On 1st April, 20X1, the cash selling price of the machine 'model pi' sold to Mr. Anik is ₹ 2,51,927.
- The promised supply of machine 'model pi' and maintenance service obligations are satisfactorily carried out in time by the company.
- You are required to:
- Segregate the components of the transaction that A Ltd. shall apply to the revenue recognition criteria separately as per Ind AS 115;
 - Calculate the amount of revenue which A Ltd. must allocate to each component of the transaction; and
 - Prepare journal entries to record the information set out above in the books of accounts of A Ltd. for the years ended 31st March 20X2 and 31st March 20X3. **(9 Marks)**
- (b) X Ltd. is a first-time adopter of Ind AS. The date of transition is 1st April, 20X1. It has given 300 stock options to its employees.

Out of these, 100 options have vested on 30th November, 20X0 and the remaining 200 will vest on 30th November, 20X1.

What are the options available to X Ltd. at the date of transition?

(5 Marks)

6. (a) As at 31 March 20X4, M Ltd. had a plan to dispose off its 75% subsidiary D Ltd. This plan had been approved by the board and was reported in the media as well as to the Stock Exchange where M Ltd. was listed. It is expected that J Ltd., the non-controlling shareholder in Di Ltd. holding 25% stake, will acquire the 75% equity interest as well. The sale is expected to be completed by October 20X4. D Ltd. is expected to have substantial trading losses in the period up to the sale. Mr. X, a chartered accountant, who is an employee in the finance department of M Ltd., wishes to show D Ltd. as held for sale in the financial statements and to create a restructuring provision to include the expected costs of disposal and future trading losses. However, the Chief Operating Officer (COO) does not wish D Ltd. to be categorized as held for sale nor to provide for the expected losses. The COO is concerned as to how this may affect the sales and would surely result in bonus targets not being met. He has argued that as the management, it is his duty to secure a high sales price to maximize the return for shareholders of M Ltd. He has also hinted that Mr. X's job could be at stake if such a provision were to be made in the financial statements. The expected costs from the sale are as follows:

Future Trading Losses:	₹ 50 crores
Various legal costs of sale	₹ 3.75 crores
Redundancy costs for D Ltd.'s employees	₹ 10 crores
Impairment losses on Property, Plant and Equipment	₹ 17.50 crores

Required:

- (i) Discuss the accounting treatment which M Ltd. should adopt to address the issue above for the financial statements.
- (ii) Discuss the ethical issues which may arise in the above scenario, including any actions which M Ltd. and Mr. X should take.

(5 Marks)

(b) P Ltd., a manufacturing company, prepares consolidated financial statements to 31st March each year. During the year ended 31st March, 20X2, the following events affected the tax position of the group:

- Q Ltd., a wholly owned subsidiary of P Ltd., incurred a loss adjusted for tax purposes of ₹ 10,00,000. Q Ltd. is unable to utilise this loss against previous tax liabilities. Income-tax Act does not allow Q Ltd. to transfer the tax loss to other group companies. However, it allows Q Ltd. to carry the loss forward and utilise it against company's future taxable profits. The directors of P Ltd. do not consider that Q Ltd. will make taxable profits in the foreseeable future.
- During the year ended 31st March, 20X2, P Ltd. capitalised development costs which satisfied the criteria as per Ind AS 38 'Intangible Assets'. The total amount capitalised was ₹ 20,00,000. The development project began to generate economic benefits for P Ltd. from 1st January, 20X2. The directors of P Ltd. estimated that the project would generate economic benefits for five years from that date. The development expenditure was fully deductible against taxable profits for the year ended 31st March, 20X2.
- On 1st April, 20X1, P Ltd. borrowed ₹ 1,00,00,000. The cost to P Ltd. of arranging the borrowing was ₹ 2,00,000 and this cost qualified for a tax deduction on 1st April 20X1. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31st March 20X4 will be ₹ 1,30,43,800. This equates to an effective annual interest rate of 10%. As per the Income-tax Act, a further tax deduction of ₹ 30,43,800 will be claimable when the loan is repaid on 31st March, 20X4.

Explain and show how each of these events would affect the deferred tax assets / liabilities in the consolidated balance sheet of P Ltd. group at 31st March, 20X2 as per Ind AS. The rate of corporate income tax is 30%. **(5 Marks)**

(c)

Either

Entity ABC acquired a building for its administrative purposes and presented the same as property, plant and equipment (PPE) in the financial year 20X1-20X2. During the financial year 20X2-20X3, it relocated the office to a new building and leased the said building to a third party. Following the change in the usage of the building, Entity ABC reclassified it from PPE to investment property in the financial year 20X2-20X3. Should Entity ABC account for the change as a change in accounting policy? **(4 Marks)**

Or

The AGM of ABC Ltd for the year ended 31st March, 20X2 was held on 10th July, 20X2 and Board Meeting has been conducted on 15th May, 20X2. Meanwhile, the company had to disclose certain financial information pertaining to the year ended 31st March, 20X2 to SEBI as per SEBI regulations on 20th April, 20X2. Since, certain financial information pertaining to the year ended 31st March, 20X2 is submitted to SEBI before approval of financial statements by the Board, the management is suggesting that 20th April 20X2 shall be considered as 'after the reporting period'. Whether the management view is correct in accordance with the guidance given in Ind AS 10? **(4 Marks)**

MODEL TEST PAPER 4
FINAL COURSE: GROUP – I
PAPER – 1: FINANCIAL REPORTING

Time Allowed – 3 Hours

Maximum Marks – 100

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

PART I – Case Scenario based MCQs (30 Marks)

All MCQs are compulsory.

Case Scenario 1

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 financial statements under Indian Accounting Standards. The finance team has been working on closing the books of accounts and generating financial statements for the year ended 31st March 20X2 and are facing issues in the following transactions while finalization of financial statements:

- (i) A Ltd. owns 250 ordinary shares in X Ltd., an unquoted company. X Ltd. has a total share capital of 5,000 shares with nominal value of ₹ 10. X Ltd.'s after-tax maintainable profits are estimated at ₹ 70,000 per year. An appropriate price/earnings ratio determined from published industry data is 15 (before lack of marketability adjustment). A Ltd.'s management estimates that the discount for the lack of marketability of X Ltd.'s shares and restrictions on their transfer is 20%. A Ltd. values its holding in X Ltd.'s shares based on earnings.
- (ii) A Ltd. has a telecom segment. It entered into an agreement with B Ltd. which is engaged in generation and supply of power. The agreement provided that A Ltd. will provide 1,00,000 minutes of talk time to employees of B Ltd. in exchange for getting power equivalent to 20,000 units. A Ltd. normally charges ₹ 0.50 per minute and B Ltd. charges ₹ 2.5 per unit.

- (iii) A Ltd. began construction of a new building at an estimated cost of ₹ 7 lakh on 1st April, 20X1. To finance construction of the building it obtained a specific loan of ₹ 2 lakh from a financial institution at an interest rate of 9% per annum.

The company's other outstanding loans were:

Amount	Rate of Interest per annum
₹ 7,00,000	12%
₹ 9,00,000	11%

The expenditure incurred on the construction was:

April, 20X1	₹ 1,50,000
August, 20X1	₹ 2,00,000
October, 20X1	₹ 3,50,000
January, 20X2	₹ 1,00,000

The construction of building was completed by 31st January, 20X2.

The construction of building started on 1st April, 20X1 and all the expenditures on construction of building had been incurred at the beginning of the respective month.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 6 in line with relevant Ind AS:

- What is the value of a share of X Ltd.?
 - ₹ 8,40,000
 - ₹ 10,50,000
 - ₹ 8,00,000
 - ₹ 10,00,000
- What is the fair value of A Ltd.'s investment in X Ltd.'s shares?
 - ₹ 50,000
 - ₹ 42,000
 - ₹ 10,50,000
 - ₹ 10,00,000

3. By what amount the revenue be measured and recognised by A Ltd. in case of telecom segment?
- (a) ₹ 10,000
 - (b) ₹ 2,50,000
 - (c) ₹ 2,00,000
 - (d) ₹ 50,000
4. What will be the capitalization rate for computation of borrowing cost on the building based on general borrowings?
- (a) 9%
 - (b) 11%
 - (c) 11.4375%
 - (d) 12%
5. What will be the total amount of borrowing cost on specific borrowing?
- (a) ₹ 11,250
 - (b) ₹ 13,500
 - (c) ₹ 15,000
 - (d) ₹ 37,875
6. What will be the total amount of borrowing cost on general borrowing?
- (a) ₹ 22,875
 - (b) ₹ 15,000
 - (c) ₹ 37,875
 - (d) ₹ 13,500
- (6 MCQs x 2 Marks each = 12 Marks)**

Case Scenario 2

D Ltd. is a globally diversified business conglomerate with operations spanning across various business sectors worldwide. The company adheres to Indian Accounting Standards for maintaining its financial records and annually releases its financial statements. As the finance team progresses towards finalizing the financial statements for the fiscal year ending on 31st March 20X2, the team is stuck up in the accounting of the following transactions:

- (i) D Ltd., for its dairy business, purchased cattle at an auction on 30th June 20X1

Purchase price at 30 th June 20X1	₹ 1,00,000
Costs of transporting the cattle back to the entity's farm	₹ 1,000
Sales price of the cattle at 31 st March, 20X2	₹ 1,10,000

The company would have to incur similar transportation costs if it were to sell the cattle at auction, in addition to an auctioneer's fee of 2% of sales price. The auctioneer charges 2% of the selling price, from both, the buyer as well as the seller.

- (ii) D Ltd. has certain financial instruments:

- Irredeemable preference shares with face value of ₹ 10 each and premium of ₹ 90. These shares carry dividend @ 8% per annum, however dividend is paid only when D Ltd declares dividend on equity shares.
- Borrowings from Z Ltd. for ₹ 10,00,000 with settlement against issue of a certain number of equity shares of D Ltd. whose value equals ₹ 10,00,000. Fair value per share (to determine total number of equity shares to be issued) be determined based on the market price of the shares of D Ltd. at a future date, upon settlement of the contract.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 7 to 10 in line with relevant Ind AS:

7. What will be the gain/(loss) on initial recognition of biological asset i.e. cattle at the time of purchase on 30th June 20X1?
 - (a) Gain on initial recognition of biological asset ₹ 9,800
 - (b) Loss on initial recognition of biological asset ₹ 9,800
 - (c) Gain on initial recognition of biological asset ₹ 6,000
 - (d) Loss on initial recognition of biological asset ₹ 6,000
8. What will be the gain/(loss) on remeasurement of biological asset i.e. cattle at the time of sale on 31st March 20X2?

- (a) Gain on remeasurement of biological asset ₹ 9,800
 - (b) Loss on remeasurement of biological asset ₹ 9,800
 - (c) Gain on remeasurement of biological asset ₹ 6,000
 - (d) Loss on remeasurement of biological asset ₹ 6,000
9. Irredeemable preference shares would be accounted for in the books of D Ltd. as
- (a) Financial Asset
 - (b) Financial Liability
 - (c) Equity
 - (d) Will not be accounted for in the books
10. Borrowings from Z Ltd. for ₹ 10,00,000 with settlement against issue of a certain number of equity shares of D Ltd. would be accounted for in the books of D Ltd. as
- (a) Financial Asset
 - (b) Financial Liability
 - (c) Equity
 - (d) Will not be accounted for in the books

(4 MCQs x 2 Marks each = 8 Marks)

Case Scenario 3

H Ltd. is a globally diversified business conglomerate with operations spanning multiple business segments across various regions worldwide. For maintaining its financial records, the company follows Indian Accounting Standards. As the finance team diligently finalizes the books of accounts and prepares the financial statements for the financial year ending on 31st March 20X2, it requires insights and accounting suggestions on the following transactions:

- (i) H Ltd. holds 12% of the voting shares in Z Ltd. Z Ltd.'s board comprises of eight members and two of these members are appointed by H Ltd. casting significant influence. Each board member has one vote at the meeting.

- (ii) H Ltd. holds 10% of the voting power of G Ltd. The balance 90% voting power is held by nine other investors each holding 10%.

The decisions about the relevant activities (except decision about taking borrowings) of G Ltd. are taken by the members holding majority of the voting power. The decisions about taking borrowings are required to be taken by unanimous consent of all the investors. Further, decisions about taking borrowing are not the decisions that most significantly affect the returns of G Ltd.

- (iii) H Ltd. is also engaged in the business of pharmaceuticals. It has invested in the share capital of Y Ltd. and is holding 15% of Y Ltd.'s total voting power.

Y Ltd. is engaged in the business of producing packing materials for pharmaceutical entities. One of the incentives for H Ltd. to invest in Y Ltd. was the fact that Y Ltd. is engaged in the business of producing packing materials which is also useful for H Ltd. Since last many years, almost 90% of the output of Y Ltd. is procured by H Ltd.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 11 to 13 in line with relevant Ind AS:

11. What is the relationship of Z Ltd. with H Ltd.?
- (a) Z Ltd. is a subsidiary of H Ltd.
 - (b) Z Ltd. is an associate of H Ltd.
 - (c) Z Ltd. is in joint arrangement with H Ltd.
 - (d) H Ltd. has invested in Z Ltd. with no further relationship as subsidiary, associate or joint arrangement.
12. What is the relationship of G Ltd. with H Ltd.?
- (a) G Ltd. is a subsidiary of H Ltd.
 - (b) G Ltd. is an associate of H Ltd.
 - (c) G Ltd. is in joint arrangement with H Ltd.
 - (d) H Ltd. has invested in G Ltd. with no further relationship as subsidiary, associate or joint arrangement.
13. What is the relationship of Y Ltd. with H Ltd.?

- (a) Y Ltd. is a subsidiary of H Ltd.
- (b) Y Ltd. is an associate of H Ltd.
- (c) Y Ltd. is in joint arrangement with H Ltd.
- (d) H Ltd. has invested in Y Ltd. with no further relationship as subsidiary, associate or joint arrangement.

(3 MCQs x 2 Marks each = 6 Marks)

14. With respect to the best practices applicable to all companies, which of the following statements is incorrect?

- (a) Comply with the standards and regulations but also ensure that financial statements are an effective part of wider communication with stakeholders.
- (b) Disclose complete information in the financial to avoid any further cross questioning in the mind of the users.
- (c) Reduce generic disclosures and focus on company specific disclosures that explain how the company applies the policies.
- (d) Do not disclose assumptions and bases, so that users are not misled.

(2 Marks)

15. Which of the following proactive measures do not mitigate cybersecurity risks?

- (a) Ensure that all passwords are simple and are not changed regularly.
- (b) Include procedures for detecting, containing, and mitigating the impact of a cyberattack
- (c) Ensure that firewalls and other security measures are in place to prevent unauthorized access to the network.
- (d) Ensure that data backups are performed regularly and that backups are stored securely

(2 Marks)

PART – II DESCRIPTIVE QUESTIONS

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

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

Working notes should form part of the answers.

Maximum Marks – 70 Marks

1. On 31st December, 20X1, Entity A issues 2.5 shares in exchange for each ordinary share of Entity B. All of Entity B's shareholders exchange their shares in Entity B. Therefore, Entity A issues 150 ordinary shares in exchange for all 60 ordinary shares of Entity B.

The fair value of each ordinary share of Entity B at 31st December, 20X1 is ₹ 40. The quoted market price of Entity A's ordinary shares at that date is ₹ 16.

The fair values of Entity A's identifiable assets and liabilities at 31st December, 20X1 are the same as their carrying amounts, except that the fair value of Entity A's non-current assets at 31st December, 20X1 is ₹ 1,500.

The balance sheets of Entity A and Entity B immediately before the business combination are:

	Entity A (legal parent, accounting acquiree)	Entity B (legal subsidiary, accounting acquirer)
Current assets	500	700
Non-current assets	<u>1,300</u>	<u>3,000</u>
Total assets	<u>1,800</u>	<u>3,700</u>
Current liabilities	300	600
Non-current liabilities	<u>400</u>	<u>1,100</u>
Total liabilities	<u>700</u>	<u>1,700</u>
Shareholders' equity		
Retained earnings	800	1,400
Issued equity		
100 ordinary shares	300	
60 ordinary shares		600

Total shareholders' equity	<u>1,100</u>	<u>2,000</u>
Total liabilities and shareholders' equity	<u>1,800</u>	<u>3,700</u>

Assume that Entity B's earnings for the annual period ended 31st March, 20X1 were ₹ 600 and that the consolidated earnings for the annual period ended 31st March, 20X2 were ₹ 800. Assume also that there was no change in the number of ordinary shares issued by Entity B during the annual period ended 31st March, 20X1 and during the period from 1st January, 20X1 to the date of the reverse acquisition on 31st December, 20X1.

Calculate the fair value of the consideration transferred measure goodwill and prepare consolidated balance sheet as on 31st December, 20X1. **(14 Marks)**

2. (a) XYZ Ltd. is a company incorporated in India. It provides ₹ 10,00,000 interest free loan to its wholly owned Indian subsidiary, ABC Ltd. There are no transaction costs.

State how the loan be accounted for, in the separate financial statements of XYZ Ltd., individual financial statements of ABC Ltd. and consolidated financial statements of the group when the loan is repayable after 3 years. The current market rate of interest for similar loan is 10% p.a. for both holding and subsidiary. **(10 Marks)**

- (b) **Either**

One of the directors of Buildwell Ltd., Mr. Ben Jones has informed Central Finance team that on 1st January 20X3, his spouse acquired a controlling interest in one of Buildwell Ltd.'s major suppliers, Candour Ltd. Mr. Jones seemed to think that this would have implications on the financial statements of Buildwell Ltd. Buildwell Ltd. has been purchasing goods from Candour Ltd. ₹ 1.5 million per month of the year ended 31st March 20X3. As per the financial statements of Buildwell Ltd., this is a significant amount. While checking all the purchase transactions it was found that all the purchases from Candour Ltd. were made at normal market rates.

How the effect of acquisition of controlling interest in Candour Ltd. by Mr. Ben Jones is to be reflected in the financial statements for the year ending 31st March 20X3? **(4 Marks)**

Or

An entity uses the weighted average cost formula to assign costs to inventories and cost of goods sold for financial reporting purposes, but the reports provided to the chief operating decision maker use the First-In, First-Out (FIFO) method for evaluating the performance of segment operations.

State the cost formula to be used for Ind AS 108 disclosure purposes. **(4 Marks)**

3. (a) One of the subsidiaries of B Ltd. submitted to Central Finance its Summarized Statement of Profit and Loss and Balance Sheet.

Summarized Statement of Profit and Loss for the year ended 31st March 20X3

Particulars	Amount (₹)
Net sales	2,52,00,000
Less: Cash cost of sales	(1,92,00,000)
Depreciation	(6,00,000)
Salaries & wages	(24,00,000)
Operating expenses	(14,00,000)
Provision for taxation	<u>(8,80,000)</u>
Net Operating Profit	7,20,000
Non-recurring income – profit on sale of equipment	<u>1,20,000</u>
	8,40,000
Retained earnings and profit brought forward	<u>15,18,000</u>
	23,58,000
Dividends declared and paid during the year	<u>(7,20,000)</u>
Profit & loss balance as on 31 st March 20X3	<u>16,38,000</u>

Summarized Balance Sheet

Assets	31 March 20X2	31 March 20X3
Non-current Assets		
Property, Plant and Equipment:		
Land	4,80,000	9,60,000
Buildings and Equipment	36,00,000	57,60,000

Current Assets		
Cash	6,00,000	7,20,000
Inventories	16,80,000	18,60,000
Trade Receivables	26,40,000	9,60,000
Advances	78,000	90,000
Total Assets	90,78,000	1,03,50,000
Liabilities & Equity		
Share capital	36,00,000	44,40,000
Surplus in profit & loss	15,18,000	16,38,000
Current liability		
Trade Payables	24,00,000	23,40,000
Outstanding expenses	2,40,000	4,80,000
Income tax payable	1,20,000	1,32,000
Accumulated depreciation on buildings and equipment	12,00,000	13,20,000
Total	90,78,000	1,03,50,000

The original cost of equipment sold during the year 20X2-20X3 was ₹ 7,20,000.

Work out a Statement of cash flows (as per indirect method) for the year ended 31st March 20X3. **(8 Marks)**

- (b) SA Pvt Ltd is engaged in the business of retail having 100 retail outlets across Northern and Southern India. The company's head office is located at Chennai.

SA Pvt Ltd is a subsidiary of SAG Ltd. SAG Ltd is listed on the National Stock Exchange in India.

Following information is available for SA Pvt Ltd:

Plan Assets

At 1st April, 20X1, the fair value of plan assets was ₹ 10,000.

Contribution to the plan assets done on 31st March, 20X2 – ₹ 3,000

Amount paid on 31st March, 20X2 – ₹ 300

At 31st March, 20X2, the fair value of plan assets was ₹ 14,700

Actual return on plan assets – ₹ 2,000

Defined Benefit Obligation

At 1st April, 20X1, present value of the defined benefit obligation was ₹ 12,000.

At 31st March, 20X2, present value of the defined benefit obligation was ₹ 15,500.

Actuarial losses on the obligation for the year ended 31st March, 20X2 were ₹ 100.

Current Service Cost – ₹ 2,500

Benefit paid – ₹ 300

Discount rate used to calculate defined benefit liability - 10%.

Suggest the amount that would be taken to other comprehensive income (with workings). Also compute net interest on the net defined benefit liability (asset). **(6 Marks)**

4. (a) PQR Ltd., a manufacturing company, prepares consolidated financial statements to 31st March each year. During the year ended 31st March, 20X2, the following events affected the tax position of the group:
- i QPR Ltd., a wholly owned subsidiary of PQR Ltd., incurred a loss adjusted for tax purposes of ₹ 30,00,000. QPR Ltd. is unable to utilise this loss against previous tax liabilities. Income-tax Act does not allow QPR Ltd. to transfer the tax loss to other group companies. However, it allows QPR Ltd. to carry the loss forward and utilise it against company's future taxable profits. The directors of PQR Ltd. do not consider that QPR Ltd. will make taxable profits in the foreseeable future.
 - ii During the year ended 31st March, 20X2, PQR Ltd. capitalised development costs which satisfied the criteria as per Ind AS 38 'Intangible Assets'. The total amount capitalised was ₹ 16,00,000. The development project began to generate economic benefits for PQR Ltd. from 1st January, 20X2. The directors of PQR Ltd. estimated that the project would generate economic benefits for five years from that date. The development expenditure was fully deductible against taxable profits for the year ended 31st March, 20X2.

- iii On 1st April, 20X1, PQR Ltd. borrowed ₹ 1,00,00,000. The cost to PQR Ltd. of arranging the borrowing was ₹ 2,00,000 and this cost qualified for a tax deduction on 1st April 20X1. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31st March 20X4 will be ₹ 1,30,43,800. This equates to an effective annual interest rate of 10%. As per the Income-tax Act, a further tax deduction of ₹ 30,43,800 will be claimable when the loan is repaid on 31st March, 20X4.

Explain and show how each of these events would affect the deferred tax assets / liabilities in the consolidated balance sheet of PQR Ltd. group at 31st March, 20X2 as per Ind AS. The rate of corporate income tax is 30%. **(8 Marks)**

- (b) An entity enters into a contract with a customer on 1st April, 20X1 for the sale of a machine and spare parts. The manufacturing lead time for the machine and spare parts is two years.

Upon completion of manufacturing, the entity demonstrates that the machine and spare parts meet the agreed-upon specifications in the contract. The promises to transfer the machine and spare parts are distinct and result in two performance obligations that each will be satisfied at a point in time. On 31st March, 20X3, the customer pays for the machine and spare parts, but only takes physical possession of the machine. Although the customer inspects and accepts the spare parts, the customer requests that the spare parts be stored at the entity's warehouse because of its close proximity to the customer's factory. The customer has legal title to the spare parts and the parts can be identified as belonging to the customer. Furthermore, the entity stores the spare parts in a separate section of its warehouse and the parts are ready for immediate shipment at the customer's request. The entity expects to hold the spare parts for two to four years and the entity does not have the ability to use the spare parts or direct them to another customer.

How will the Company recognize revenue for sale of machine and spare parts? Is there any other performance obligation attached to this sale of goods? **(6 Marks)**

5. (a) ABC Ltd is a government company and is a first-time adopter of Ind AS. As per the previous GAAP, the contributions received by ABC Ltd. from the government (which holds 100% shareholding in ABC Ltd.) which is in the nature of promoters' contribution have been recognised in capital reserve and treated as part of shareholders' funds in accordance with the provisions of AS 12, Accounting for Government Grants.

State whether the accounting treatment of the grants in the nature of promoters' contribution as per AS 12 is also permitted under Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance. If not, then what will be the accounting treatment of such grants recognised in capital reserve as per previous GAAP on the date of transition to Ind AS. **(4 Marks)**

- (b) Feel Fresh Limited (the Company) is into manufacturing and retailing of FMCG products listed on stock exchanges in India. One of its products is bathing soap which the Company sells under the brand name 'Feel Fresh'. The Company does not have its own manufacturing facilities for soap and therefore it enters into arrangements with a third party to procure the soaps. The Company entered into a long-term purchase contract of 10 years with M/s. Radhey. Following are the relevant terms of the contract with M/s. Radhey.

- (i) M/s. Radhey has to purchase a machine costing ₹ 10,00,000 from the supplier as specified by the Company. The machine will be customized to produce the soaps as designed by the Company. This machine cannot be used by M/s. Radhey to produce the soaps for buyer other than the Company due to the design specifications. The machine has a useful life of 10 years and the straight line method of depreciation is best suited considering the use of the machine.
- (ii) The Company will pay ₹ 4.75 per soap for the first year of contract. This is calculated based on the budgeted annual purchase of 7,00,000 soaps as follows:

Particulars	Per soap price
Variable cost of manufacturing	4.00

Cost of machine (₹ 1,74,015/7,00,000 soaps)	0.25
M/s. Radhey's margin	<u>0.50</u>
Per soap cost to the Company	<u>4.75</u>

In case the Company purchases more than 7,00,000 (i.e. budgeted number of soaps) soaps in the first year then the cost of the machine (i.e. 0.25 per soap) will not be paid for soaps procured in excess of 7,00,000 units. However, in case Company procures less than budgeted number of soaps, then the Company will pay the differential unabsorbed cost of the machine, at the end of the year. For example, if the Company purchases only 6,00,000 soaps in first year then the differential amount of ₹ 24,015 ($1,74,015 - (6,00,000 \times 0.25)$) will be paid by the Company to M/s. Radhey at the end of the year. Variable cost will be actualized at the end of the year.

- (iii) The cost per soap will be calculated for each year in advance based on the budgeted number of soaps to be produced each year. An amount of ₹ 1,74,015 shall be considered each year for the cost of machine for year 1 to year 8 while calculating the cost per soap. Any differential under absorbed amount shall be paid by the Company to M/s. Radhey at the end of that year. A charge of ₹ 1,74,015 per annum for the machine is derived using borrowing cost of 8% p.a. For year 9 and year 10, only variable cost and margins will be paid.
- (iv) M/s. Radhey does not have any right to terminate the contract but the Company has the right to terminate the contract at the end of each year. However, if the Company terminates the contract, it has to compensate M/s. Radhey for any unabsorbed cost of Machine. For example, if the Company terminates the contract at the end of second year then it has to pay ₹ 10,44,090 (i.e. $1,74,015 \text{ per year} \times 6 \text{ remaining years}$). If it terminates the contract after the 8th year then the Company does not have to pay the compensation since the cost of the machine would have been absorbed.

- (v) In the first year, the Company purchases 5,50,000 soaps at ₹ 4.75 per soap.

Analyze the contract of the Company with M/s. Radhey and provide necessary accounting entries for first year in accordance with Ind AS with working notes. Assume all cash flows occur at the end of the year. **(10 Marks)**

6. (a) Venus Ltd. is a multinational entity that owns three properties. All three properties were purchased on 1st April, 20X1. The details of purchase price and market values of the properties are given as follows:

Particulars	Property 1 Factory	Property 2 Factory	Property 3 Let-Out
Purchase price	15,000	10,000	12,000
Market value 31.03.20X2	16,000	11,000	13,500
Life	10 Years	10 Years	10 Years
Subsequent Measurement	Cost Model	Revaluation Model	Revaluation Model

Property 1 and 2 are used by Venus Ltd. as factory building whilst property 3 is let-out to a non-related party at a market rent. The management presents all three properties in balance sheet as 'property, plant and equipment'.

The Company does not depreciate any of the properties on the basis that the fair values are exceeding their carrying amount and recognise the difference between purchase price and fair value in Statement of Profit and Loss.

Analyse whether the accounting policies adopted by the Venus Ltd. in relation to these properties is in accordance with Ind AS. If not, advise the correct treatment alongwith working for the same.

(9 Marks)

- (b) Infostar Ltd. is a listed company engaged in the provision of IT services in India. The directors are paid a bonus based on the profits achieved by the company during the year as per the bonus table given below:

Profit Range	Bonus to Directors
NIL < Profit < ₹ 1 crore	NIL
₹ 1 crore < Profit < ₹ 5 crores	2% of Net Profit
₹ 5 crores < Profit < ₹ 10 crores	4% of Net Profit
₹ 10 crores < Profit < ₹ 20 crores	6% of Net Profit
₹ 20 crores < Profit < ₹ 30 crores	8% of Net Profit
Profit > ₹ 30 crores	10% of Net Profit

The draft Statement of Profit and Loss for the year ended 31 March 20X2 currently shows a profit of ₹ 2 crores.

Issue:

The employees of Infostar Ltd. have historically been paid an individual-performance-based discretionary incentive for the last 15 years. Based on the past trends and performance, the bonus amount for the year 20X1-20X2 would be ₹ 3 crores. In view of the possibility of the directors not receiving the bonus on account of the company's poor performance, Infostar Ltd.'s Chief Financial Officer (CFO), who is a chartered accountant, has suggested that the discretionary incentive usually payable to the employees could be avoided in the current year, which would result in the company reporting profits. As a part of its annual report, Infostar Ltd. reports employee satisfaction scores, staff attrition rates, gender equality and employee absenteeism rates as non-financial performance measures. The CFO has also told the directors over mail that no stakeholder reads the non-financial information anyway, and thus his aforesaid suggestion of not paying the discretionary incentive would not impact the company greatly.

Discuss the ethical and accounting implications of the above issues, referring to the relevant Ind AS wherever appropriate from perspective of CA. Sushil Bhupathy. **(5 Marks)**

MODEL TEST PAPER 5
FINAL COURSE: GROUP – I
PAPER – 1: FINANCIAL REPORTING

Time Allowed – 3 Hours

Maximum Marks – 100

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

PART I – Case Scenario based MCQs (30 Marks)

All MCQs are compulsory.

Case Scenario 1

ABC Ltd. maintains its accounts and prepares its annual financial statements in accordance with Indian Accounting Standards (Ind AS). It is a diversified global business group with operations spanning multiple sectors. The finance team while working on finalizing the books for the year ending 31st March, 20X3, encountered challenges with the following transactions:

- (i) ABC Ltd. manufactures automobile parts. It has shown a net profit of ₹ 20,00,000 for the third quarter of 20X2-20X3.

Following adjustments are made while computing the net profit:

- (1) Bad debts of ₹ 1,00,000 incurred during the quarter. 50% of the bad debts have been deferred to the next quarter.
 - (2) ₹ 5,00,000 expenditure on account of administrative expenses pertaining to the third quarter is deferred on the argument that the fourth quarter will have more sales; therefore, fourth quarter should be debited by higher expenditure. The expenditures are uniform throughout all quarters.
- (ii) ABC Ltd. enters into a contract to build a power plant for a customer. The entity will be responsible for the overall management of the project including services to be provided like engineering, site clearance, foundation, procurement, construction of the structure, piping and wiring, installation of equipment and finishing.

- (iii) In financial year 20X1-20X2, ABC Ltd. incurred the following expenditure in acquiring property consisting of 6 identical houses each with separate legal title including the land on which it is built.

The expenditure incurred on various dates is given below:

- On 1st April, 20X2 - Purchase cost of the property ₹ 1,80,00,000
- On 1st April, 20X2 – Non-refundable transfer taxes ₹ 20,00,000 (not included in the purchase cost)
- On 2nd April, 20X2- Legal cost related to property acquisition ₹ 5,00,000
- On 6th April, 20X2- Advertisement campaign to attract tenants ₹ 3,00,000
- On 8th April, 20X2- Opening ceremony function for starting business ₹ 1,50,000

Throughout 20X2-20X3, incurred ₹ 1,00,000 towards day-to-day repair maintenance and other administrative expenses.

ABC Ltd. uses one of the six houses for office and accommodation of its few staffs. The other five houses are rented to various independent third parties.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 6 in line with relevant Ind AS:

1. What will be the treatment of bad debts incurred during the third quarter?

The treatment of bad debts is not correct as the expenses incurred during an interim reporting period should be recognised in the same period. Accordingly, ₹ 50,000 should be deducted from ₹ 20,00,000.

- (a) Bad debts expenses incurred during third quarter should be recognised in the same quarter. Accordingly, ₹ 50,000 should be deducted from ₹ 20,00,000.
- (b) Bad debts expenses incurred during third quarter should be recognised equally in the third and fourth quarter. Accordingly, the treatment done in the books is correct and no further adjustment in this regard is required.

- (c) Bad debts expenses incurred during third quarter should be recognised at the end of the financial year in the last quarter. Accordingly, ₹ 50,000 already deducted should be added back from ₹ 20,00,000.
 - (d) No bad debt accounted in the interim financial statements in any of the quarter.
2. The correct net profits to be shown in Interim Financial Report of the third quarter shall be
- (a) ₹ 15,00,000
 - (b) ₹ 20,00,000
 - (c) ₹ 19,50,000
 - (d) ₹ 14,50,000
3. How many performance obligations does the entity have?
- (a) Three performance obligations
 - (b) Two performance obligations
 - (c) A single performance obligation
 - (d) More than three performance obligations
4. What is the cost of the entire property?
- (a) ₹ 1,80,00,000
 - (b) ₹ 2,05,00,000
 - (c) ₹ 2,06,00,000
 - (d) ₹ 1,85,00,000
5. What is the cost of the investment property?
- (a) ₹ 1,70,83,333
 - (b) ₹ 2,05,00,000
 - (c) ₹ 34,16,667
 - (d) ₹ 1,80,00,000
6. What is the cost of the owner-occupied property?
- (a) ₹ 1,70,83,333

(b) ₹ 2,05,00,000

(c) ₹ 34,16,667

(d) ₹ 1,80,00,000

(6 x 2 Marks = 12 Marks)

Case Scenario 2

DEF Ltd. is a diversified business group operating in multiple business segments across different parts of the world with multiple subsidiaries. It maintains its books of accounts and publishes its annual financial statements under Indian Accounting Standards. The finance team has been working on closing the books of accounts and generating financial statements for the year ended 31st March 20X1 and are facing issues in the following transactions while finalization of financial statements:

(i)

Profit attributable to ordinary equity holders of the parent entity for year 20X1	₹ 1,200,000
Weighted average number of ordinary shares outstanding during year 20X1	500,000 shares
Average market price of one ordinary share during year 20X1	₹ 20.00
Weighted average number of shares under option during year 20X1	100,000 shares
Exercise price for shares under option during year 20X1	₹ 15.00

(ii) DEF Ltd. enters into a contract to buy 100 tonnes of cocoa beans at 1,000 per tonne for delivery in 12 months. On the settlement date, the market price for cocoa beans is 1,500 per tonne. The contract cannot be settled net in cash and is entered for delivery of cocoa beans in line with DEF Ltd.'s expected purchase/ usage requirements.

(iii) DEF Ltd. invests in compulsorily convertible preference shares (CCPS) issued by its subsidiary B Ltd. at ₹ 1,000 each (₹ 10 face value + ₹ 990 premium). Under the terms of the instrument, each CCPS is compulsorily convertible into one equity share of B Ltd at the end of 5 years. Such CCPS carry dividend @ 12% per annum, payable only when declared at the discretion of B Ltd.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 7 to 10 in line with relevant Ind AS:

7. Based on the facts given in scenario (i), what will be basic EPS of the entity?
 - (a) 2.29
 - (b) 2.40
 - (c) 2.00
 - (d) 1.77
8. Based on the facts given in scenario (i), what will be diluted EPS of the entity?
 - (a) 2.29
 - (b) 2.40
 - (c) 2.00
 - (d) 1.77
9. What is the nature of the contract entered into for cocoa beans?
 - (a) Cash contract
 - (b) Non-executory and derivative contract
 - (c) Derivative contract
 - (d) Executory and non-derivative contract
10. What is the nature of the financial instrument mentioned in point (iii)?
 - (a) Financial Asset
 - (b) Financial Liability
 - (c) Equity
 - (d) Not a financial instrument

(4 x 2 Marks = 8 Marks)

Case Scenario 3

PQR Ltd. is required to adopt Ind AS from 1st April, 20X1, with comparatives for one year, i.e., for 20X0-20X1. On 1st April, 20X1, PQR Ltd. acquired 30% of the voting ordinary shares of XYZ Ltd. for ₹ 8,000 crore. PQR Ltd. accounts

its investment in XYZ Ltd. using equity method as prescribed under Ind AS 28. At 31st March, 20X2, PQR Ltd. recognised its share of the net asset changes of XYZ Ltd. using equity accounting as follows:

	(₹ in crore)
Share of profit or loss	700
Share of exchange difference in OCI	100
Share of revaluation reserve of PPE in OCI	50

The carrying amount of the investment in the associate on 31st March, 20X2 was therefore ₹ 8,850 crore (8,000 + 700 + 100 + 50).

On 1st April, 20X2, PQR Ltd. acquired the remaining 70% of XYZ Ltd. for cash ₹ 25,000 crore. The following additional information is relevant at that date:

	(₹ in crore)
Fair value of the 30% interest already owned	9,000
Fair value of XYZ's identifiable net assets	30,000

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 11 to 15 in line with relevant Ind AS:

11. What is the fair value of the total consideration transferred by PQR Ltd. to XYZ Ltd.?
 - (a) ₹ 34,000 crores
 - (b) ₹ 33,850 crores
 - (c) ₹ 33,000 crores
 - (d) ₹ 25,000 crores
12. What is the amount of goodwill in the said business combination?
 - (a) ₹ 3,000 crores
 - (b) ₹ 4,000 crores
 - (c) ₹ 2,150 crores
 - (d) ₹ 3,850 crores
13. What is the gain on previously held interest in XYZ Ltd. recognised in profit or loss?

- (a) ₹ 150 crores
 (b) ₹ 100 crores
 (c) ₹ 250 crores
 (d) Nil
14. What is the transition date for PQR Ltd. for adopting Ind AS?
 (a) 1st April, 20X0
 (b) 1st April, 20X1
 (c) 1st April, 20X2
 (d) 1st April, 20X3
15. PQR Ltd. present its comparatives financial statements for the year-
 (a) 20X1-20X2
 (b) 20X2-20X3
 (c) 20X0-20X3
 (d) 20X0-20X1
- (5 x 2 Marks = 10 Marks)**

PART – II DESCRIPTIVE QUESTIONS

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

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

Working notes should form part of the answers.

Maximum Marks – 70 Marks

1. DEF Ltd. acquired 100% ordinary shares of ₹ 100 each of XYZ Ltd. on 1st October 20X1. On 31st March, 20X2 the summarised Balance Sheets of the two companies were as given below:

	DEF Ltd.	XYZ Ltd.
Assets		
Property Plant Equipment		
Land & Buildings	15,00,000	18,00,000
Plant & Machinery	24,00,000	13,50,000

Investment in XYZ Ltd.	34,00,000	-
Inventory	12,00,000	3,64,000
Financial Assets		
Trade Receivable	5,98,000	4,00,000
Cash	<u>1,45,000</u>	<u>80,000</u>
Total	<u>92,43,000</u>	<u>39,94,000</u>
Equity & Liabilities		
Equity Capital (Shares of ₹ 100 each fully paid)	50,00,000	20,00,000
Other Equity		
Other reserves	24,00,000	10,00,000
Retained Earnings	5,72,000	8,20,000
Financial Liabilities		
Bank Overdraft	8,00,000	-
Trade Payable	<u>4,71,000</u>	<u>1,74,000</u>
Total	<u>92,43,000</u>	<u>39,94,000</u>

The retained earnings of XYZ Ltd. showed a credit balance of ₹ 3,00,000 on 1st April 20X1 out of which a dividend of 10% was paid on 1st November; DEF Ltd. has recognised the dividend received to profit or loss account; Fair Value of P&M as on 1st October 20X1 was ₹ 20,00,000. The rate of depreciation on plant & machinery is 10%.

Following are the increases on comparison of fair value as per respective Ind AS with book value as on 1st October 20X1 which are to be considered while consolidating the Balance Sheets.

Liabilities	Amount	Assets	Amount
Trade Payables	1,00,000	Land & Buildings	10,00,000
		Inventories	1,50,000

Notes:

- a) It may be assumed that the inventory is still unsold on balance sheet date and the Trade Payables are also not yet settled.

- b) Also assume that the Other Reserves of both the companies as on 31st March 20X2 are the same as was on 1st April 20X1.
- c) All fair value adjustments have not yet started impacting consolidated post-acquisition profits.

Prepare Consolidated Balance Sheet as at 31st March, 20X2.

(14 Marks)

2. (a) Wheel Co. Limited borrowed ₹ 500,000,000 from a bank on 1 January 20X1. The original terms of the loan were as follows:
- Interest rate: 11%
 - Repayment of principal in 5 equal instalments
 - Payment of interest annually on accrual basis
 - Upfront processing fee: ₹ 5,870,096

Effective interest rate on loan: 11.50%

On 31 December 20X2, Wheel Co. Limited approached the bank citing liquidity issues in meeting the cash flows required for immediate instalments and re-negotiated the terms of the loan with banks as follows:

- Interest rate 15%
- Repayment of outstanding principal in 10 equal instalments starting 31 December 20X3
- Payment of interest on an annual basis

Record journal entries in the books of Wheel Co. Limited till 31 December 20X3, after giving effect of the changes in the terms of the loan on 31 December 20X2

(10 Marks)

- (b) An entity manufactures passenger vehicles. The time between purchasing of underlying raw materials to manufacture the passenger vehicles and the date the entity completes the production and delivers to its customers is 11 months. Customers settle the dues after a period of 8 months from the date of sale.
- (i) Will the inventory and the trade receivables be current in nature?

- (ii) Assuming that the production time was say 15 months and the time lag between the date of sale and collection from customers is 13 months, will the answer be different?

(4 Marks)

3. (a) On 1st September, 20X1, entity X plans to sell a group of assets and liabilities, which is classified as a disposal group. On 31st October, 20X1, the Board of Directors approves and becomes committed to the plan to sell the manufacturing unit by entering into a firm purchase commitment with entity Y. However, since the manufacturing unit is regulated, the approval from the regulator is needed for sale. The approval from the regulator is customary and highly probable to be received by 30th February, 20X2 and the sale is expected to be completed by 30th June, 20X2.

The assets and liabilities attributable to this manufacturing unit are as under:

(Amount in ₹)

Particulars	Carrying value as on 31 st March, 20X1	Carrying value as on 31 st October, 20X1
Goodwill	500	500
Plant and Machinery	1,000	900
Building	2,000	1,850
Debtors	850	1,050
Inventory	700	400
Creditors	(300)	(250)
Loans	<u>(2,000)</u>	<u>(1,850)</u>
	<u>2,750</u>	<u>2,600</u>

The fair value of the manufacturing unit as on 31st March, 20X1 is ₹ 2,000 and as on 31st October, 20X1 is ₹ 1,850. The cost to sell is ₹ 100 on both these dates. The disposal group is not sold at the period end i.e., 31st March, 20X2. The fair value as on 31st March, 20X2 is lower than the carrying value of the disposal group as on that date.

1. Assess whether the manufacturing unit can be classified as held for sale and reasons there for. If yes, then at which date?
 2. Measure the manufacturing unit on the date of classification as held for sale.
 3. Measure the manufacturing unit at the end of the financial year. **(8 Marks)**
- (b) On 30th January, 20X1, A Ltd. purchased a machinery for \$ 5,000 from USA supplier on credit basis. A Ltd.'s functional currency is Rupees. The exchange rate on the date of transaction is 1 \$ = ₹ 60. The fair value of the machinery determined on 31st March, 20X1 is \$ 5,500. The exchange rate on 31st March, 20X1 is 1\$ = ₹ 65. The payment to overseas supplier done on 31st March 20X2 and the exchange rate on 31st March 20X2 is 1\$ = ₹ 67. The fair value of the machinery remains unchanged for the year ended on 31st March 20X2. Tax rate is 30%. A Ltd. follows revaluation method in respect of Plant & Machinery.
- Pass the Journal entries for the year ended on 31st March 20X1 and year 20X2 according to Ind AS 21. **(6 Marks)**
4. (a) A Ltd. purchased some Property, Plant and Equipment on 1st April, 20X1, and estimated their useful lives for the purpose of financial statements prepared on the basis of Ind AS. Following were the original cost, and useful life of the various components of property, plant, and equipment assessed on 1st April, 20X1:

Property, Plant and Equipment	Original Cost	Estimated useful life
Buildings	₹ 15,000,000	15 years
Plant and machinery	₹ 10,000,000	10 years
Furniture and fixtures	₹ 3,500,000	7 years

A Ltd. uses the straight-line method of depreciation. On 1st April, 20X4, the entity reviewed the following useful lives of the property, plant, and equipment through an external valuation expert:

Buildings	10 years
Plant and machinery	7 years
Furniture and fixtures	5 years

There were no salvage values for the three components of the property, plant, and equipment either initially or at the time the useful lives were revised.

Examine the impact of revaluation of useful life on the Statement of Profit and Loss for the year ending 31st March, 20X5. **(6 Marks)**

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

31 st March 20X2	₹ 210
31 st March 20X3	₹ 220
31 st March 20X4	₹ 215
31 st March 20X5	₹ 218

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

5. (a) AST Limited enters into a contract with a customer to build a manufacturing facility. The entity determines that the contract contains one performance obligation satisfied over time.

Construction is scheduled to be completed by the end of the 36th month for an agreed-upon price of ₹ 25 crore.

The entity has the opportunity to earn a performance bonus for early completion as follows:

- 15 percent bonus of the contract price if completed by the 30th month (25% likelihood)
- 10 percent bonus if completed by the 32nd month (40% likelihood)
- 5 percent bonus if completed by the 34th month (15% likelihood)

In addition to the potential performance bonus for early completion, AST Limited is entitled to a quality bonus of ₹ 2 crore if a health and safety inspector assigns the facility a gold star rating

as defined by the agency in the terms of the contract. AST Limited concludes that it is 60% likely that it will receive the quality bonus.

Determine the transaction price. **(6 Marks)**

- (b) Mumbai Challengers Ltd., a listed entity, is a sports organization owning several cricket and hockey teams. The issues below pertain to the reporting period ending 31 March 20X2.

Mumbai Challengers Ltd. acquires and sells players' registrations on a regular basis. For a player to play for its team, Mumbai Challengers Ltd. must purchase registrations for that player. These player registrations are contractual obligations between the player and the company. The costs of acquiring player registrations include transfer fees, league levy fees, and player agents' fees incurred by the club.

At the end of each season, which happens to also be the reporting period end for Mumbai Challengers Ltd., the club reviews its contracts with the players and makes decisions as to whether they wish to sell/transfer any players' registrations. The company actively markets these registrations by circulating with other clubs a list of players' registrations and their estimated selling price. Players' registrations are also sold during the season, often with performance conditions attached. In some cases, it becomes clear that a player will not play for the club again because of, for example, a player sustaining a career threatening injury or being permanently removed from the playing squad for any other reason. The playing registrations of certain players were sold after the year end, for total proceeds, net of associated costs, of ₹ 175 crores. These registrations had a net book value of ₹ 49 crores.

Mumbai Challengers Ltd. seeks your advice on the treatment of the acquisition, extension, review and sale of players' registrations in the circumstances outlined above. **(4 Marks)**

- (c) Explain the five fundamental principles of ethics for Chartered Accountants. **(4 Marks)**
6. (a) (i) Entity A owns 250 ordinary shares in company XYZ, an unquoted company. Company XYZ has a total share capital of 5,000 shares with nominal value of ₹ 10. Entity XYZ's after-tax maintainable profits are estimated at ₹ 70,000 per

year. An appropriate price/earnings ratio determined from published industry data is 15 (before lack of marketability adjustment). Entity A's management estimates that the discount for the lack of marketability of company XYZ's shares and restrictions on their transfer is 20%. Entity A values its holding in company XYZ's shares based on earnings. Determine the fair value of Entity A's investment in XYZ's shares.

- (ii) Based on the facts given in the aforementioned part (i), assume that, Entity A estimates the fair value of the shares it owns in company XYZ using a net asset valuation technique. The fair value of company XYZ's net assets including those recognised in its balance sheet and those that are not recognised is ₹ 8,50,000. Determine the fair value of Entity A's investment in XYZ's shares.

(5 Marks)

(b)

Either

Following is a snapshot of audited balance sheet of company A as on 31st March 2014. Company A's equity shares are listed on Bombay Stock Exchange since 2010.

Liabilities	₹ in crores	Assets	₹ in crores
Equity Share Capital	160	Fixed Assets	455
Securities Premium	200	Investments	200
General Reserve	150	Current Assets	50
Revaluation Reserve	40	Miscellaneous Expenditure not written off	80
Profit and Loss A/c	75		
Liabilities	<u>160</u>		<u> </u>
Total	<u>785</u>	Total	<u>785</u>

As per roadmap, which Phase company A fall into? Will your answer change if Company A is an unlisted company? **(5 Marks)**

Or

As at 31st March 20X2, Natasha Ltd. carried trade receivables of ₹ 280 crores in its balance sheet. At that date, Natasha Ltd. entered into a factoring agreement with Samantha Ltd., a financial institution, according to which it transferred the trade receivables in exchange for an immediate cash payment of ₹ 250 crores. As per the factoring agreement, any shortfall between the amount collected and ₹ 250 crores will be reimbursed by Natasha Ltd. to Samantha Ltd. Once the trade receivables have been collected, any amounts above ₹ 250 crores, less interest on this amount, will be repaid to Natasha Ltd. The directors of Natasha Ltd. are of the opinion that the trade receivables should be derecognized.

You are required to explain the appropriate accounting treatment of this transaction in the financial statements for the year ending 31st March 20X2, and also evaluate this transaction in the context of the Conceptual Framework. **(5 Marks)**

- (c) Under new legislation, an entity is required to fit smoke filters to its factories by 30th September, 20X1. The entity has not fitted the smoke filters. It is assumed that a reliable estimate can be made of any outflows expected.

Determine whether any provision is required to be made by the entity on

- (a) At 31st March, 20X1, the end of the reporting period
- (b) At 31st March, 20X2, the end of the reporting period

(4 Marks)

MODEL TEST PAPER 6
FINAL COURSE GROUP - I
PAPER – 1: FINANCIAL REPORTING

Time Allowed – 3 Hours

Maximum Marks – 100

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

PART I – Case Scenario based MCQs (30 Marks)

All MCQs are compulsory.

Case Study 1

Tara 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 20X3-20X4, the Company has faced some issues and for their solution seeks your professional advice.

- (i) Tara Ltd. and Zara Ltd. are partners of a joint operation engaged in the business of mining precious metals. The entity uses a jointly owned drilling plant in its operations. During the year ended 31st March, 20X4, 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 ₹ 100 crores has been demanded from Tara Ltd. on 1st September, 20X3.

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. As per the terms of the joint operations agreement, out of ₹ 100 crores (to be paid by Tara Ltd.), ₹ 60 crores will be reimbursed by Zara Ltd. to Tara Ltd. within three months from the date of any demand made in respect of joint operations by any

government authorities. However, till the year end, actual reimbursement was not received from Zara Ltd.

- (ii) Tara Ltd. issued on 1st April 20X2, 10% (interest paid annually and having maturity period of 4 years) bonds with a face value of ₹ 2,00,000 at a discount of 10% to finance a qualifying asset which is ready for intended use at the end of year 2. The company amortizes discount using Effective Interest Rate (EIR) method by applying 13.39% p.a. of EIR.
- (iii) Tara Ltd. has invested in debentures whose interest rate is floating in nature and as per terms of the instrument, interest will be reset every month. As per terms, rate of interest is MIBOR plus 2%. It has invested in the debentures to take the advantage of leverage of interest.
- (iv) On 1st January, 2024, Tara Ltd. took a contract for installation of new elevator at a factory of its customer. The entity estimates the following with respect to the contract:

Particulars	Amount (₹)
Transaction price	30,00,000
Expected costs:	
(a) Elevators	10,00,000
(b) Other costs	12,00,000
Total	22,00,000

It purchased the elevator and delivered the same to the site six months before it is required for installation. The entity uses an input method based on cost to measure progress towards completion. Tara Ltd. has incurred actual other costs of ₹ 3,00,000 by 31st March, 2024.

- (v) Tara Ltd. has classified its business in 5 operating segments namely A, B, C, D and E. The profit/(loss) of respective segments for the year ended 31st March, 2024, are as follow:

Segment Profit/ (Loss)	(₹ in lakhs)
A	1,280
B	2,624
C	(280)

D	315
E	<u>(2,620)</u>
Total	<u>1,319</u>

On the basis of the information provided above, you are required to choose the most appropriate answer to the below-mentioned questions 1 to 5 in line with the relevant Ind AS:

- With respect to a joint operation engaged in the business of mining precious metals, how will the liability be disclosed in the books of Tara Ltd.?
 - Provision for ₹ 40 crores and a contingent liability for ₹ 60 crores.
 - Contingent Liability for ₹ 100 crores.
 - Provision for ₹ 60 crores and a contingent liability for ₹ 40 crores.
 - Provision for ₹ 100 crores.
- Classify the financial asset and determine the subsequent measurement for the aforesaid debenture instrument?
 - Financial asset measured at amortised cost
 - Financial asset measured at FVOCI without recycling
 - Financial asset measured at FVTPL
 - Financial asset measured at FVOCI with recycling
- Which of the following option will be considered as Reportable Segments for Tara Ltd.?
 - A, B, D and E
 - A, B and E
 - A and E
 - B and E
- Compute the amount of borrowing costs to be capitalized related to qualifying assets.
 - ₹ 48,753
 - ₹ 24,651

- (c) ₹ 24,102
 - (d) ₹ Nil
5. What is the amount of revenue to be recognized by Tara Ltd. for elevator contract during the financial year 20X3-20X4?
- (a) ₹ 8,00,000
 - (b) ₹ Nil
 - (c) ₹ 15,00,000
 - (d) ₹ 18,00,000
- (5 x 2 = 10 Marks)**

You are required to choose the most appropriate answer to the below mentioned questions (6 to 8) in line with the relevant Ind AS:

6. When should the government grant be recognized by an entity according to Ind AS 20?
- (a) As soon as the grant is offered by the government
 - (b) Once the entity fulfills the conditions attached to the grant
 - (c) When there is reasonable assurance that the entity will comply with the conditions and receive the grants
 - (d) After entity has received the grants
- (2 Marks)**
7. What is the stance of a Chartered Accountant regarding conflicts of interest?
- (a) Conflicts of interest should not compromise professional or business judgement
 - (b) Conflicts of interest are acceptable if managed properly
 - (c) Conflicts of interest are unavoidable and should be accepted
 - (d) Conflicts of interest should be disclosed but can still compromise judgement
- (2 Marks)**
8. Following statements are given to you in context of Ind AS 101 'First Time Adoption of Ind AS':
- (i) An entity shall not make estimates in accordance with Ind AS at the date of transition to Ind AS that were not required at that date under previous GAAP.

- (ii) In particular, estimates at the date of transition to Ind AS of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date.
- (iii) An entity may need to make estimates in accordance with Ind AS at the date of transition in Ind AS that were not required at that date under previous GAAP.
- (iv) To achieve consistency with Ind AS 10, estimates in accordance with Ind AS shall reflect conditions that existed at the date of transition to Ind AS.

Which of the above statements are true in context of Ind AS 101?

- (a) Only (i), (ii) and (iii) are true
- (b) Only (i) and (ii) are true
- (c) Only (ii), (iii) and (iv) are true
- (d) Only (iii) and (iv) are true

(2 Marks)

Case Study 2

Planet Ltd. is a multinational company engaged into the business of manufacturing of various products of different segments. One of the segments is the manufacturing of agricultural equipment. The company raised a term loan for ₹ 1 crore from a Nationalized Indian Bank to purchase certain plant and machinery for agricultural segment during the year ended 31st March, 20X3. The loan is repayable over a period of 5 years. The terms and conditions of the loan agreement is that the company should maintain a current ratio of 1.5:1 and debt-equity ratio of 1:2. If these covenants fall below this level, then the bank has a right to recall the entire loan.

The unpaid loan as on 31st March, 20X4 was ₹ 85 lakhs. The current ratio of Planet Ltd. was 0.9:1 and debt-equity ratio was 0.65:2. The bank has sent a notice on 7th April, 20X4 demanding repayment of loan, on account of breach of terms of the loan agreement. The financials of the company were approved and signed on 15th May, 20X4.

After receiving the notice, the Chief Finance Officer of the company contacted the bank and ensured to rectify the breach. Consequently, on 28th May, 20X4, the Bank agreed not to recall the loan and allowed the company to achieve the contracted current and debt equity ratio by the year ending on 31st March, 20X5

Planet Ltd. has recently acquired shares in Bean Ltd. and Camel Ltd. and prepared draft consolidated financial statements in accordance with Ind AS for the year ended on 31st March, 2024. It is the group's policy to value its non-controlling interests at fair value. The fair value of the non-controlling interest in Bean Ltd. on the date of acquisition was measured at ₹ 1,430 lakhs. The following information is relevant regarding the acquisition of shares in Bean Ltd. and Camel Ltd.:

Date of acquisition	Holding acquired %	Retained earnings at acquisition date ₹ (in lakhs)	Purchase consideration ₹ (in lakhs)
Bean Ltd - 1.4.20X3	85	5,400	10,200
Camel Ltd - 1.4.20X3	40	6,240	5,760

In the draft Consolidated Financial Statements prepared on 31st March, 2024 the financials relating to Bean Ltd. and Camel Ltd. appeared as follows:

	Bean Ltd. (₹ in lakhs)	Camel Ltd. (₹ in lakhs)
Issued ordinary shares of ₹ 10 each	3,600	4,000
Retained earnings	7,200	7,400

Bean Ltd. and Camel Ltd. have not issued any share capital since the acquisition of shareholding by Planet Ltd. The fair value of the net assets of Bean Ltd. and Camel Ltd. were the same as their carrying amounts at the date of acquisition. Planet Ltd. has significant influence over Camel Ltd. An impairment loss of ₹ 204 lakhs have been identified in respect of goodwill arising on the acquisition of Bean Ltd. for the year ended on 31st March, 2024. The recoverable amount of net assets of Camel Ltd. has been deemed to be ₹ 11,760 lakhs as on 31st March, 2024.

On 1st January, 2024, Planet Ltd. sold inventory costing ₹ 45 lakhs to Camel Ltd. for ₹ 63 lakhs. The inventory was still unsold by Camel Ltd. at 31st March, 2024. This inventory was sold by Camel Ltd. to third party on 8th April, 2024.

Planet Ltd. has constructed a shopping mall earlier. The company renovated a portion of mall by constructing a food court, spa and gaming zone. The food court and gaming zone are expected to result in a significant increase in sales for the shops and outlets of the mall.

On the basis of the information provided above, you are required to choose the most appropriate answer to the below-mentioned questions 9 to 12 in line with the relevant Ind AS:

9. After negotiation with the Nationalized Bank, how long-term loan has to be classified in financials for the year ended on 31st March, 2024?
 - (a) Non-current financial liability
 - (b) Other non-current liability
 - (c) Current financial liability
 - (d) Other current liability
10. What will be the impairment loss from investment in associate for the year ending 31st March, 2024?
 - (a) ₹ 1,440 lakhs
 - (b) ₹ 1,432.80 lakhs
 - (c) ₹ 1,055.20 lakhs
 - (d) ₹ 1,512.80 lakhs
11. What will be the amount of Goodwill as on 31st March, 2024, arising from the acquisition of Bean Ltd.?
 - (a) ₹ 2,530 lakhs
 - (b) ₹ 2,630 lakhs
 - (c) ₹ 2,426 lakhs
 - (d) ₹ 2,326 lakhs
12. What should be the accounting treatment for the cost incurred for the renovation?
 - (a) Expenses incurred for food court and gaming should be capitalized
 - (b) Expenses incurred for food court, spa and gaming should be capitalized
 - (c) Expenses incurred for food court and gaming zone should be charged to statement of profit and loss
 - (d) Expenses incurred for food court, spa and gaming zone should be charged to statement of profit and loss **(4 x 2 = 8 Marks)**

Case Study 3

Nikhil Pvt. Ltd. acquired 100% of Pranav Pvt. Ltd. on 1st January, 20X3. The fair value of the purchase consideration was ₹ 20 crores consisting of ordinary shares of ₹ 100 each of Nikhil Pvt. Ltd. The fair value of the net assets acquired was ₹ 15 crores. At the time of the acquisition, the value of the ordinary shares of Nikhil Pvt. Ltd. and the net assets of Pranav Pvt. Ltd. were only provisionally determined.

On 30th November, 20X3, it was finally determined that the fair value of Nikhil Pvt. Ltd.'s shares was ₹ 22 crores and the fair value of net assets of Pranav Pvt. Ltd. was ₹ 16 crores.

However, the directors of Nikhil Pvt. Ltd. have seen the fair value of the company's shares decline since 1st January, 20X3, and wanted to adopt the fair value of the shares as of 1st February, 20X4, which will result in the fair value of consideration at being value date ₹ 18 crores.

In addition to the above Purchase Consideration, the acquisition agreement states that an additional ₹ 4 crores will be paid if Pranav Pvt. Ltd. achieves a turnover of ₹ 160 crores in the next two years. On the date of acquisition, the fair value of the said consideration was ₹ 3 crores. In February 2024, due to decline in performance of Pranav Pvt. Ltd., it is determined that it is unlikely that it would meet budgeted turnover of ₹ 160 crores.

On the basis of the information provided above, you are required to choose the most appropriate answer to the below mentioned questions 13 to 15 in line with the relevant Ind AS:

13. The Net Assets Value will be-
 - (a) ₹ 15 crores
 - (b) ₹ 16 crores
 - (c) ₹ 20 crores
 - (d) ₹ 19 crores
14. The value of Purchase Consideration will be-
 - (a) ₹ 18 crores
 - (b) ₹ 20 crores
 - (c) ₹ 22 crores
 - (d) ₹ 25 crores

15. How should Nikhil Pvt. Ltd. treat the contingent consideration linked to achieving sales?
- Nikhil Pvt. Ltd. should not recognize the consideration as it is unlikely that it would be paid.
 - Nikhil Pvt. Ltd. should disclose the consideration as it is contingent liability in its financial statements which will be met only upon Pranav Pvt. Ltd. earning a turnover of ₹ 160 crores.
 - Nikhil Pvt. Ltd. should recognise the fair value of the consideration as part of the business combination, thus increasing goodwill and re-measure it at the end of each reporting period. The impact of change in fair value is recognised in the statement of profit and loss.
 - There is no specific treatment prescribed under Ind AS. Nikhil Pvt. Ltd. should decide the appropriate accounting treatment based on the facts and circumstances of the case. **(3 x 2 = 6 Marks)**

PART-II Descriptive Questions

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

Working notes should form part of the answer.

Maximum Marks – 70 Marks

1. The balance sheets of H Ltd. and S Ltd. as on 31st March, 2024 were as follows:

Particulars	H Ltd.	S Ltd.
	₹ in Lakhs	
Assets:		
Non-Current Assets		
Property, plant and equipment	14,800	6,000
Financial Assets: Investment		
Investment in S Ltd.	5,800	
1,000 Debentures in S Ltd.	1,500	
Current Assets		
Inventories	2,600	2,000
Financial Assets		

Trade receivables (due from S Ltd. ₹ 160 lakh)	4,000	3,000
Dividend receivable	320	-
Cash and cash equivalent	<u>500</u>	<u>2,000</u>
Total	<u>29,520</u>	<u>13,000</u>
Equity and Liabilities		
Equity		
Equity Share Capital (₹ 10 per share)	10,000	4000
Other Equity (Retained Earnings)	16,320	5,000
Non-current Liabilities		
13% Debenture of ₹ 100 each		3,000
Current Liabilities		
Financial Liabilities:		
Trade Payables (due to H Ltd. ₹ 120 lakh)	1,700	600
Dividend Payable		400
Other Liabilities	<u>1,500</u>	
Total	<u>29,520</u>	<u>13,000</u>

Additional Information:

- (i) On 1st April, 20X3, S Ltd. had 400 lakh shares of ₹ 10 each and ₹ 3,000 lakh in its Retained Earnings in Other Equity. H Ltd. acquired 80% share of S Ltd. on 1st April, 20X3 at a consideration of ₹ 5,800 lakh in cash.
- (ii) The following changes in book value of identifiable net assets of S Ltd. as on 1st April, 20X3 are to be considered for arriving the fair value of identifiable net assets and to record the changes in their fair value on the said date. These changes in fair values are to be considered while drawing consolidated Financial Statement of the Group.

Assets	Book value	Fair value
PPE	₹ 2,500 lakhs	₹ 2,800 lakhs
Inventory	₹ 500 lakhs	₹ 200 lakhs

The rate of depreciation on PPE is 10% p.a.

- (iii) NCI was to be measured at fair value based on purchase consideration.
- (iv) Goodwill was impaired by ₹ 100 lakh.
- (v) H Ltd. sold goods costing ₹ 200 lakh, to S Ltd. on credit at a profit of 20% on sales. 50% of the goods were still lying unsold.
- (vi) S Ltd. issued a cheque of ₹ 40 lakh in favour of H Ltd. as a part payment of the goods purchased from it in March, 2024. The cheque is yet to be received by H Ltd.
- (vii) Dividend payable represents the dividend declared out of pre-acquisition profit. H Ltd. credited its share of dividend from S Ltd. to its profits.

Prepare the Consolidated Balance Sheet of the Group as at 31st March, 2024. **(14 Marks)**

2. (a) On 1st January, 20X3, Joe & Co Ltd., an Indian company which prepares its financial statements on a quarterly basis has entered into a written put option for USD (\$) 40,000 with Box Ltd. to be settled in future on 31st December, 20X3 for a rate equal to ₹ 78 per USD at the option of Box Ltd. Joe & Co. Ltd. did not receive any amount upon entering into the contract.

For the purpose of accounting, use the following information representing marked to market fair value of put option contract at each reporting date.

As at 31 st March, 20X3	- ₹ (50,000)
As at 30 th June, 20X3	- ₹ (30,000)
As at 30 th September, 20X3	- ₹ NIL
Spot rate of USD on 31 st December, 20X3	- ₹ 76 per USD.

Evaluate and explain whether the above option meets the definition of derivatives as laid down in Ind AS 109 and record the entries for each quarter ended till the date of actual purchase of USD.

(10 Marks)

- (b) Spicer Ltd., a listed company, prepares interim financial reports at the end of each quarter.

The following information is provided:

- You are required to calculate the amount of Tax Expenses to be reported for each quarter of the financial year 20X3-20X4.

3. (a) Anand Ltd. owns a Building X which is specifically used for the purpose of earning rentals. The Company has not been using the Building X or any of its facilities for its own use for a long time. The company is also exploring the opportunities to sell the building if it gets the reasonable amount in consideration.

Building X was initially purchased at the cost of ₹ 120 crores. At that time, the useful life of the building was estimated to be 10 years; out of which 5 years have been expired as on 1st April, 20X3: The company follows straight line method for depreciation.

Further, during the year 20X3-20X4, the company earned/incurred the following, directly relating to Building X and Building Y:

Rental income from Building Y	= ₹ 5 crores
Sales promotion expenses	= ₹ 0.50 crores
Fees and Taxes	= ₹ 0.10 crores
Ground Rent	= ₹ 0.25 crores
Repairs and Maintenance	= ₹ 0.15 crores
Legal and Professional	= ₹ 0.20 crores
Commission and Brokerage	= ₹ 0.10 crores

The company does not have any restrictions and contractual obligations against Property X and Y. For complying with the requirements of Ind AS, the management sought an independent report from the specialists so as to ascertain the fair value of buildings X and Y. The independent valuer has valued the fair value of property as per the valuation model recommended by international valuation standards committee. Fair value has been computed by the method by streamlining present value of future cash flows namely, discounted cash flow method.

The estimated rent per month per square feet for the period is expected to be in range of ₹ 50 to ₹ 60. And it is further expected to grow at the rate of 10 percent per annum for each of 3 years. The weightage discount rate used is 12% to 13%.

Assume that the fair value of properties based on discounted cash flow method is measured at ₹ 105 crores. The treatment of fair value of properties is to be given in the financials as per the requirements of Indian Accounting Standards

You are required to:

- (i) Show how the Building X and Building Y would be treated in the Balance Sheet of Anand Ltd. and how the income generated and expenses incurred on this building be presented in Profit and Loss Account.
- (ii) Provide detailed disclosures and computations in line with relevant Ind AS. (Treat it as if you are preparing a separate note or schedule of the given assets in the Balance Sheet.)

(8 Marks)

- (b) Mahadev Ltd. has a block of assets with a written down value of ₹ 5,00,000 on 1st April, 20X2 for tax purposes. The book value of the assets for accounting purposes is also ₹ 5,00,000. Depreciation is charged on written down value @ 20% p.a. for both accounting and tax purposes. Of the entire block, assets costing ₹ 50,000 on 1st April, 20X2 were sold for ₹ 1,00,000 on 31st March, 20X4. You are required to compute the deferred tax asset/liability assuming tax rate of 35%. **(6 Marks)**

4. (a) On 1st April, 20X0, Peacock Ltd. started its manufacturing operations by installing a machine in the rented premises. The estimated life of the machine is 4 years. As per the terms of the rent agreement, Peacock Ltd. has a present obligation to dismantle the machine and restore the premises into its original shape. The company estimates to incur ₹ 6,00,000 at the end of 4th year to restore the premises into the original shape. The borrowing rate applicable to the company is 8%.

(Note: PV Factor for 4th year discounted @ 8% = 0.735)

You are required to:

- (i) Advise the accounting treatment of the above; and
- (ii) Pass necessary journal entries across all four years.

(6 Marks)

- (b) Greater Ltd., in order to reward its employees launched a scheme effective from 1st April, 20X1, in which employees will be granted equity shares of the company at a price less than the market price subject to satisfaction of certain conditions. Following details are provided to you:

- (a) According to scheme, each employee has an option to purchase 250 equity shares of the company at ₹ 45 per share provided that the employee does not leave the company for 3 years from the date of launch of the scheme i.e. up to 31st March, 2024.
- (b) Once 3 years are completed by an employee, the employee can exercise the option within 1 year i. e. by 31st March, 2025.
- (c) The closing share price on stock exchange as at 1st April, 20X1 is ₹ 91 per share with face value of ₹ 10 per share. A

registered valuer has been appointed by the company who derived the price of option at ₹ 75 using Black Scholes model of option pricing.

- (d) There are 750 employees eligible for the scheme. As at 31st March, 20X2, 25 employees left the company and further 35 employees are expected to leave over the next 2 years. During the year 20X2-20X3, a foreign based company entered into the market and started hiring experienced employees and therefore retention of existing employees has been problematic and a high attrition rate is observed in the market. 275 employees left the company during the year ended 31st March, 20X3 and further 135 employees are expected to leave in the next one year. As at 31st March, 20X4, only 400 employees remained with the company out of 750 employees.
- (e) Out of it only 375 employees exercised the option to purchase the equity shares during the year ended 31st March, 2024.

You are required to provide necessary accounting entries during the life of share-based payment scheme to account the scheme implemented by the company. **(8 Marks)**

- 5. (a) Big Deal Ltd. is a marketing company having its departmental stores in 'A' class city of India. The company sells diversified products. For the purpose of increasing sales and attract customers, the company during the financial year 20X3-20X4, has adopted the following policy:
 - (i) For every purchase of ₹ 400 the customer is awarded with 6 points.
 - (ii) Each point is redeemable on any future purchases of company's same departmental store situated in any of 'A' class city within 3 years i.e. up to 31st March, 2026
 - (iii) Value of each award point is ₹ 0.60

During the financial year 20X3-20X4, the Big Deal Ltd:

- (i) Assessed that the sales of the company during the year 20X3-20X4 is ₹ 150 lakhs.
- (ii) Awarded 2,25,000 points to various customers during the year.

- (iii) Estimated that out of the awarded points, 54,000 points will remain unredeemed as at 31st March, 20X4 which shall be eligible for redemption till 31st March, 20X6 and;
- (iv) Expects only 75% points will be redeemed in the future.

As an accountant of the company, you are required to suggest accounting treatment (Consolidated Journal Entries) in the following case:

How should the sales and redemption transactions be recognized and recorded as independent transactions in the FY 20X3-20X4 as per Ind AS 115? **(5 Marks)**

- (b) Z Ltd. having net worth of ₹ 25 crores has opted voluntarily to adopt Ind AS from 1st April, 20X2 in accordance with the Companies (Indian Accounting Standard) Rules 2015.

Mr. A, the senior manager, of Z Ltd. has identified following issues which need specific attention of CFO so that opening Ind AS balance sheet as on the date of transition can be prepared:

- (i) As part of Property, Plant and Equipment, Company has elected to measure land at its fair value and want to use this fair value as deemed cost on the date of transition. The land was acquired for a consideration of ₹ 5,00,000. However, the fair value of land as on the date of transition was ₹ 6,00,000.
- (ii) Company had taken a loan from another entity. The loan carries an interest rate of 7% and it had incurred certain transaction costs while obtaining the same. It was carried at cost on its initial recognition. The principal amount is to be repaid in equal instalments over the period of loan. Interest is also payable at each year end. The fair value of loan as on the date of transition is ₹ 2,80,000 as against the carrying amount of loan which at present equals ₹ 3,00,000,

Management wants to know the impact of Ind AS in the financial statements of company for its general understanding. Prepare Ind AS Impact Analysis Report (Extract) for Z Ltd. for presentation to the management wherein you are required to discuss the corresponding differences between Earlier IGAAP (AS) and Ind AS against each identified issue and its impact there upon for preparation of transition date balance sheet.

Also pass journal entry for each of the issues mentioned above. **(5 Marks)**

- (c) Define the concept of 'Offsetting'. In offsetting permitted under the following circumstances:
- (a) Whether profit on sale of an asset against loss on sale of another asset can be offset?
 - (b) Expenses incurred by a holding company on behalf of subsidiary, which is reimbursed by the subsidiary - whether in the separate books of the holding company, the expenditure and related reimbursement of expenses can be offset?
 - (c) When services are rendered in a transaction with an entity and services are received from the same entity in two different arrangements, can the receivable and payable be offset?

Or

Explain how enhancing qualitative characteristics can improve the usefulness of financial information. **(4 Marks)**

6. (a) An entity provides broadband services to its customers along with voice call service. Customer buys modem from the entity. However, customer can also get the connection from the entity and modem from any other vendor. The installation activity requires Ltd. effort and the cost involved is almost insignificant. It has various plans where it provides either broadband services or voice call services or both.

Comment on how to identify whether the performance obligations under the contract are distinct by using an automated process?

(5 Marks)

- (b) Creative Ltd. performed a revaluation of all of its plant and machinery at the beginning of 1st April, 2024. The following information relates to one of its Machinery:

	Amount in ₹
Gross carrying amount	4,00,000
Accumulated depreciation (straight-line method)	1,60,000
Net carrying amount	2,40,000
Fair Value	3,00,000

The useful life of the machinery is 10 years, and the company uses Straight line method of depreciation. The revaluation was performed at the end of 4 years.

You are required to advise how the company should account for revaluation of plant and machinery and depreciation subsequent to revaluation. Also pass journal entries in relation to the above.

(5 Marks)

- (c) You are required to analyse the following cases and advise whether they are related with prior period errors or change in accounting estimate
- (a) As per the judgement of the court an arrear of salaries and wages relating to previous year amounting to ₹ 15,00,000 will be paid in the current year. At the end of the previous year, the management of the company was of the opinion that arrears of salaries and wages would not be required to be paid and accordingly no provision was made at the end of previous year.
 - (b) Expenses of ₹ 1,50,000 of the previous year which were omitted from books of accounts of the previous year due to an oversight.
 - (c) The amount of provision for doubtful debts as at the end of the previous year was ₹ 10,00,000 of which debts of ₹ 6,00,000 were realized during the current year.
 - (d) Company had taken a Group Insurance policy. During the previous year due to a mistake of Insurance Company the company paid less premium, which insurance company is demanding to pay now.

(4 Marks)