MOCK TEST PAPER

FINAL COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

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

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

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory.

Case Scenario 1

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

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

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

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

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

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

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

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

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

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

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

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

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

   (b) Contingent liability for ₹ 50 crores

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

   (d) Provision for ₹ 50 crores.

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

   (a) ₹ 70,000

   (b) ₹ 1,40,000

   (c) ₹ 3,50,000

   (d) ₹ 4,20,000

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

   (a) ₹ 15 crores

   (b) ₹ 1.75 crores

   (c) ₹ 13.25 crores

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

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

   (a) ₹ 0.020 crores

   (b) ₹ 0.026 crores

   (c) ₹ 0.030 crores

   (d) ₹ 0.046 crores

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

   (a) ₹ 1 crore gain on bargain purchase

   (b) ₹ 80 lakhs gain on bargain purchase

   (c) ₹ 20 lakhs goodwill

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

Case Scenario II

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

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

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

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

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

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

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

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

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

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

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

   (a) 4 performance obligations

   (b) 3 performance obligations

   (c) 2 performance obligations

   (d) 1 performance obligation

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

   (a) ₹ 100 lakhs

   (b) ₹ 60 lakhs

(c) ₹ 53 lakhs

(d) ₹ 40 lakhs

(3 x 2 = 6 Marks)

Case Scenario III

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

    (a) ₹ 15,00,000

    (b) ₹ 75,000

    (c) ₹ 14,25,000

    (d) ₹ 0

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

    (a) Dividend ₹ 12,000

    (b) Interest expense ₹ 12,000

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

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

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

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

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

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

(a) ₹ 40 million

(b) ₹ 37.782 million

(c) ₹ 38.4 million

(d) ₹ 36 million **(2 Marks)**

15. ABC Ltd., a manufacturing entity, wants to forecast its financial performance based on various scenarios to comply with Ind AS guidelines. It took aid of Artificial Intelligence (AI), which can assist the company in generating accurate financial forecasts by analysing historical data, market trends, and relevant external factors. By leveraging machine learning algorithms, the company can 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	9th September 20X1
Delivery/payment date	31st December 20X1
Purchase price	USD 1,000,000
USD/₹ Forward rate on 9th September, 20X1 for 31st December, 20X1 maturity	67.8
USD/₹ Spot rate on 9th September, 20X1	66.4
USD/₹ Forward rates for 31st December, on:	
30th September	67.5
31st December (spot rate)	67.0

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

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

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

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

(ii) Assume that in anticipation that it may not be able to get the promoter's contribution by due date, in February 20X2, the entity approached the bank and got the compliance date extended upto 30th June, 20X2 for getting promoter's contribution. In this case will the loan classification as on 31st March, 20X2 be different from (a) above? **(4 Marks)**

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

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

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

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

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

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

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

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

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

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

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

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

(i) benefits attributed (year on year) and

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

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

Following assumptions may be taken to solve this:

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

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

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

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

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

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

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

All transactions are made in cash.

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

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

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

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

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

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

(c) **Either**

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

(c) **Or**

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

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

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

Required:

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

(5 Marks)

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

1. Acquired a 4 year license to manufacture a specialised drug at a cost of ₹ 1,00,00,000 at the start of the year. Production commenced immediately.
2. Also purchased another company at the start of year. As part of that acquisition, X Pharmacy Ltd. acquired a brand with a fair value of ₹ 3,00,00,000 based on sales revenue. The life of the brand is estimated at 15 years.
3. Spent ₹ 1,00,00,000 on an advertising campaign during the first six months. Subsequent sales have shown a significant improvement and it is expected this will continue for 3 years.
4. It has commenced developing a new drug 'Drug-A'. The project cost would be ₹ 10,00,00,000. Clinical trial proved successful and such drug is expected to generate revenue over the next 5 years.

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

   Balance cost incurred during the financial year 20X1-20X2 is ₹ 5,00,00,000.
5. It has also commenced developing another drug 'Drug B'. It has incurred ₹ 50,00,000 towards research expenses till 31st March, 20X2. The technological feasibility has not yet been established.

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

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

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

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

(4 Marks)

Mock Test Paper - Series I: March, 2024

Date of Paper: 4 March, 2024

Time of Paper: 2 P.M. to 5 P.M.

FINAL COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

ANSWER TO PART – I CASE SCENARIO BASED MCQS

1 **Option (d) Provision for ₹ 50 crores**

2. **Option (a) : ₹ 70,000**

3 **Option (b) ₹ 1.75 crores**

4. **Option (c) ₹ 0.03 crores**

5. **Option (c) ₹ 20,00,000 goodwill**

6. **Option (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. **Option (a) : 4 performance obligations**

8. **Option (d) : ₹ 40 lakhs**

9. **Option (d) Issuance of equity shares ₹ 40 lakhs; dividends paid ₹ 10 lakhs**

10. **Option (d) Advertising costs ₹ 40 lakhs; staff bonuses ₹ 60 lakhs**

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

12. **Option (d) : ₹ 0**

13. **Option (b) Interest expense ₹ 12,000**

14. **Option (d) ₹ 36 lakhs**

15. **Option (d) All of the above**

ANSWERS OF PART – II DESCRIPTIVE QUESTIONS

1. **Calculation of purchase consideration:**

Particulars	**₹ in million**
Market value of shares issued (150 million x 4/3 x ₹ 10)	2,000
Initial estimate of market value of shares to be issued (150 million x 1/5 x ₹ 10)	300
Total consideration	2,300

Contingent consideration is recognized in full if payment is probable.

As per para 53 of Ind AS 103, acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with Ind AS 32 and Ind AS 109.

Statement of fair value of identifiable net assets at the date of acquisition

Particulars	₹ in million
As per B Ltd.'s Balance Sheet	1,200
Fair value of customer relationships	100
Fair value of research and development project	50
Total net assets acquired	1,350

As per *Ind AS 38 'Intangible assets',* intangible assets can be recognized separately from goodwill provided they are identifiable, are under the control of the acquiring entity, and their fair value can be measured reliably.

Customer relationships that are similar in nature to those previously traded, pass these tests but employee expertise fail the 'control' test. Both the research and development phases of in process project can be capitalised provided their fair value can be measured reliably.

Statement of computation of goodwill

Particulars	₹ in million
Fair value of consideration given	2,300
Fair value of net assets acquired	(1,350)
Goodwill on acquisition	950

Paragraph 58 of Ind AS 103 provides guidance on the subsequent accounting for contingent consideration. In general, an equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Ind AS 32 describes an equity instrument as one that meets both of the following conditions:

- There is no contractual obligation to deliver cash or another financial asset to another party, or to exchange financial assets or financial liabilities with another party under potentially unfavourable conditions (for the issuer of the instrument).
- If the instrument will or may be settled in the issuer's own equity instruments, then it is:
    - a non-derivative that comprises an obligation for the issuer to deliver a fixed number of its own equity instruments; or
    - a derivative that will be settled only by the issuer exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

  In the given case, given that the acquirer has an obligation to issue fixed number of shares on fulfillment of the contingency, the contingent consideration will be classified as equity as per the requirements of Ind AS 32.

  As per paragraph 58 of Ind AS 103, contingent consideration classified as equity should not be re-measured and its subsequent settlement should be accounted for within equity.

2. **(a)** The USD contract for purchase of machinery entered into by company A includes an embedded foreign currency derivative due to the following reasons:

- The host contract is a purchase contract (non-financial in nature) that is not classified as, or measured at FVTPL.
- The embedded foreign currency feature (requirement to settle the contract by payment of USD at a future date) meets the definition of a stand-alone derivative – it is akin to a USD-₹ forward contract maturing on 31 December 20X1.

- USD is not the functional currency of either of the substantial parties to the contract (i.e., neither company A nor company B).
- Machinery is not routinely denominated in USD in commercial transactions around the world. In this context, an item or a commodity may be considered 'routinely denominated' in a particular currency only if such currency was used in a large majority of similar commercial transactions around the world. For example, transactions in crude oil are generally considered routinely denominated in USD. A transaction for acquiring machinery in this illustration would generally not qualify for this exemption.
- USD is not a commonly used currency for domestic commercial transactions in the economic environment in which either company A or B operate. This exemption generally applies when the business practice in a particular economic environment is to use a more stable or liquid foreign currency (such as the USD), rather than the local currency, for a majority of internal or cross-border transactions, or both. In the illustration above, companies A and B are companies operating in India and the purchase contract is an internal/domestic transaction. USD is not a commonly used currency for internal trade within this economic environment and therefore the contract would not qualify for this exemption.

Accordingly, company A is required to separate the embedded foreign currency derivative from the host purchase contract and recognise it separately as a derivative.

The separated embedded derivative is a forward contract entered into on 9th September 20X1, to exchange USD 10,00,000 for ₹ at the USD/₹ forward rate of 67.8 on 31st December 20X1. Since the forward exchange rate has been deemed to be the market rate on the date of the contract, the embedded forward contract has a fair value of zero on initial recognition.

Subsequently, company A is required to measure this forward contract at its fair value, with changes in fair value recognised in the statement of profit and loss. The following is the accounting treatment at quarter-end and on settlement:

Accounting treatment:

Date	**Particulars**	**Amount (₹)**	**Amount (₹)**
09-Sep-X1	***On initial recognition of the forward contract***		
	(No accounting entry recognised since initial fair value of the forward contract is considered to be nil)	Nil	Nil
30-Sep-X1	***Fair value change in forward contract***		
	Derivative asset (company B) Dr. [(67.8-67.5) x10,00,000]	3,00,000	
	To Profit or loss		3,00,000
31-Dec-X1	***Fair value change in forward contract***		
	Forward contract asset (company B) Dr. [{(67.8-67) x 10,00,000} - 3,00,000]	5,00,000	
	To Profit or loss		5,00,000
31-Dec-X1	***Recognition of machinery acquired and on settlement***		
	Property, plant and equipment Dr. (at forward rate)	6,78,00,000	
	To Forward contract asset (company B)		8,00,000
	To Creditor (company B) / Bank		6,70,00,000

(b) (i) Ind AS 1, inter alia, provides, "An entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment." In the present case, following the default, grace period within which an entity can rectify the breach is less than twelve months after the reporting period. Hence as on 31st March, 20X2, the loan will be classified as current.

(ii) Ind AS 1 deals with classification of liability as current or non-current in case of breach of a loan covenant and does not deal with the classification in case of expectation of breach. In this case, whether actual breach has taken place or not is to be assessed on 30th June, 20X2, i.e., after the reporting date. Consequently, in the absence of actual breach of the loan covenant as on 31st March, 20X2, the loan will retain its classification as non-current.

3. (a) Applying paragraph 17 of Ind AS 23 to the fact pattern, the entity would not begin capitalising borrowing costs until it incurs borrowing costs (i.e. from 1st July, 20X1)

In determining the expenditures on a qualifying asset to which an entity applies the capitalisation rate (paragraph 14 of Ind AS 23), the entity does not disregard expenditures on the qualifying asset incurred before the entity obtains the general borrowings. Once the entity incurs borrowing costs and therefore satisfies all three conditions in para 17 of Ind AS 23, it then applies paragraph 14 of Ind AS 23 to determine the expenditures on the qualifying asset to which it applies the capitalisation rate.

Calculation of borrowing cost for financial year 20X0-20X1

Expenditure		Capitalization Period (current year)	Weighted average Accumulated Expenditure
Date	Amount		
1st January 20X1	₹ 5 crore	0/3	Nil

Borrowing Costs eligible for capitalisation = NIL. LT Ltd. cannot capitalise borrowing costs before 1st July, 20X1 (the day it starts to incur borrowing costs).

Calculation of borrowing cost for financial year 20X1-20X2

Expenditure		Capitalization Period (current year)	Weighted average Accumulated Expenditure
Date	Amount		
1st January, 20X1	₹ 5 crore	9/12*	₹ 3.75 crore
30th June, 20X1	₹ 20 crore	9/12	₹ 15 crore
31st March, 20X2	₹ 20 crore	0/12	Nil
Total			₹ 18.75 crore

Borrowing Costs eligible for capitalisation = 18.75 cr. x 10% = ₹ 1.875 cr.

*LT Ltd. cannot capitalise borrowing costs before 1st July, 20X1 (the day it starts to incur borrowing costs). Accordingly, this calculation uses a capitalization period from 1st July, 20X1 to 31st March, 20X2 for this expenditure.

Calculation of borrowing cost for financial year 20X2-20X3

Expenditure		Capitalization Period (current year)	Weighted average Accumulated Expenditure
Date	Amount		
1st January, 20X1	₹ 5 crore	3/12	₹ 1.25 crore
30th June, 20X1	₹ 20 crore	3/12	₹ 5 crore
31st March, 20X2	₹ 20 crore	3/12	₹ 5 crore
30th June, 20X2	₹ 5 crore	0/12	Nil
Total			₹ 11.25 crore

Borrowing costs eligible for capitalisation = ₹ 11.25 cr. x 10% = ₹ 1.125 cr.

(b) **Computation of amounts to be recognized in the P&L and OCI:**

Particulars	*USD*	*Exchange rate*	₹
Cost of the bond	1,000	40	40,000
Interest accrued @ 10% p.a.	100	42	4,200
Interest received (USD 1,250 x 4.7%)	(59)	45	(2,655)
Amortized cost at year-end	1,041	45	46,845
Fair value at year end	1,060	45	47,700
Interest income to be recognized in P & L			4,200
Exchange gain on the principal amount [1,000 x (45-40)]			5,000
Exchange gain on interest accrual [100 x (45 - 42)]			300
Total exchange gain/loss to be recognized in P&L			5,300
Fair value gain to be recognized in OCI [45 x (1,060 - 1,041)]			855

Journal entry to recognize gain/loss

Bond (₹ 47,700 – ₹ 40,000)	Dr.	7,700	
Bank (Interest received)	Dr.	2,655	
To Interest Income (P & L)			4,200
To Exchange gain (P & L)			5,300
To OCI (fair value gain)			855

4. (a) (i) **Computation of benefit attributed to prior years and current year:**

Amount in ₹

Year	1	2	3	4	5
Benefit attributed to:					
- Prior years	-	131	262	393	524
- Current year (Refer W.N.1)	131	131	131	131	131
Total (i.e. current and prior years)	**131**	**262**	**393**	**524**	**655**

a. Computation of the obligation for an employee who is expected to leave at the end of year 5 (taking discount rate of 10% p.a.)

Amount in ₹

Year	1	2	3	4	5
Opening obligation (A)	-	89	196	324	475
Interest at 10% (B = A X 10%)	-	9	20	32	47
Current service cost (C) (Refer WN 2)	89	98	108	119	131
Closing obligation D = (A+B+C)	**89**	**196**	**324**	**475**	**653**

Figures have been rounded off in the above table.

Working Notes:

1. A lump sum benefit is payable on termination of service and equal to 1 per cent of final salary for each year of service. The salary in year 1 is ₹ 10,000 and is assumed to increase at 7% (compound) each year.

The year on year salary would be as follows: Amount in ₹

Year	**1**	**2**	**3**	**4**	**5**
Salary	10,000	10,700 (10,000 x 107%)	11,449 (10,700 x 107%)	12,250 (11,449 x 107%)	13,108 (12,250 x 107%)

Accordingly, for the purpose of above-mentioned employee benefit, 1% of final salary to be considered for each year of service would be ₹ 131.

2. Computation of current service cost: **Amount in ₹**

Year	**1**	**2**	**3**	**4**	**5**
1% salary at the end of year 5	-	-	-	-	131
PV factor at the end of each year to be considered at 10% p.a. **(E)**	0.683	0.751	0.826	0.909	1.000
PV at the end of each year	89 (131 x E)	98 (131 x E)	108 (131 x E)	119 (131 x E)	131 (131 x E)

Accordingly, for the purpose of above-mentioned employee benefit, 1% of final salary to be considered for each year of service would be ₹ 131.

(b) Journal entries in the books of P Ltd (without modification of service period of stock appreciation rights) **(₹ in lakhs)**

Date	Particulars	Debit	Credit
31.03.20X2	Profit and Loss account Dr. To Liability against SARs (Being expenses liability for stock appreciation rights recognised)	15.75	 15.75
31.03.20X3	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	17.25	 17.25

31.03.20X4	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	15.38	15.38
31.03.20X5	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	17.02	17.02

Journal entries in the books of P Ltd (with modification of service period of stock appreciation rights) **(₹ in lakhs)**

Date	Particulars	Debit	Credit
31.03.20X2	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	15.75	15.75
31.03.20X3	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	28.25	28.25
31.03.20X4	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	20.50	20.50

Working Notes:

Calculation of expenses for issue of stock appreciation rights without modification of service period

For the year ended 31st March 20X2

= ₹ 210 x 400 awards x 75 employees x 1 year /4 years of service

= ₹ 15,75,000

For the year ended 31st March 20X3

= ₹ 220 x 400 awards x 75 employees x 2 years /4 years of service - ₹ 15,75,000 previous recognised

= ₹ 33,00,000 - ₹ 15,75,000 = ₹ 17,25,000

For the year ended 31st March 20X4

=₹ 215 x 400 awards x 75 employees x 3 years/4 years of service - ₹ 33,00,000 previously recognised

=₹ 48,37,500 - ₹ 33,00,000 = ₹ 15,37,500

For the year ended 31st March, 20X5

= ₹ 218 x 400 awards x 75 employees x 4 years / 4 years of service – ₹ 48,37,500 previously recognised

= ₹ 65,40,000 – ₹ 48,37,500 = ₹ 17,02,500

Calculation of expenses for issue of stock appreciation rights with modification of service period

For the year ended 31st March 20X2

= ₹ 210 x 400 awards x 75 employees x 1 year / 4 years of service = ₹ 15,75,000

For the year ended 31st March 20X3

= ₹ 220 x 400 awards x 75 employees x 2 years / 3 years of service - ₹ 15,75,000 previous recognised

= ₹ 44,00,000 - ₹ 15,75,000 = ₹ 28,25,000

For the year ended 31st March 20X4

= ₹ 215 x 400 awards x 75 employees x 3 years/ 3 years of service - ₹ 44,00,000 previous recognised

= ₹ 64,50,000 - ₹ 44,00,000 = ₹ 20,50,000.

5. (a) (i) Determination of how revenue is to be recognised in the books of ABC Ltd. as per expected value method

Calculation of probability weighted sales volume

Sales volume (units)	Probability	Probability-weighted sales volume (units)
9,000	15%	1,350
28,000	75%	21,000
36,000	10%	3,600
		25,950

Calculation of probability weighted sales value

Sales volume (units)	Sales price per unit (₹)	Probability	Probability-weighted sales value (₹)
9,000	90	15%	1,21,500
28,000	80	75%	16,80,000
36,000	70	10%	2,52,000
			20,53,500

Average unit price = Probability weighted sales value/ Probability weighted sales volume

= 20,53,500 / 25,950 = ₹ 79.13 per unit

Revenue is recognised at ₹ 79.13 for each unit sold. First 10,000 units sold will be booked at ₹ 90 per unit and liability is accrued for the difference price of ₹ 10.87 per unit (₹ 90 – ₹ 79.13), which will be reversed upon subsequent sales of 15,950 units (as the question states that ABC Ltd. achieved the same number of units of sales to the customer during the year as initially estimated under the expected value method for the financial year 20X1-20X2). For, subsequent sale of 15,950 units, contract liability is accrued at ₹ 0.87 (80 – 79.13) per unit and revenue will be deferred.

(ii) Journal Entries in the books of ABC Ltd.

			₹	₹
1.	Bank A/c (25,950 x ₹ 80)	Dr.	20,76,000	
	To Revenue A/c (25,950 x ₹ 79.13)			20,53,424
	To Liability (25,950 x ₹ 0.87)			22,576
	(Revenue recognised on sale of 25,950 units)			
2.	Liability (1,08,700 – 86,124)	Dr.	22,576	
	To Revenue A/c [25,950 x (80-79.13)]			22,576
	(On reversal of liability at the end of the financial year 20X1-20X2 i.e. after completion of stipulated time)			

(b) The revenue from sale of goods shall be recognised at the fair value of the consideration received or receivable. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest where the receipt is deferred beyond normal credit terms. The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

The fair value of consideration (cash price equivalent) of the sale of goods is calculated as follows: ₹

Year	Consideration (Installment)	Present value factor	Present value of consideration
Time of sale	3,33,333	-	3,33,333
End of 1st year	3,33,333	0.949	3,16,333
End of 2nd year	3,33,334	0.901	3,00,334
	10,00,000		**9,50,000**

The Company that agrees for deferring the cash inflow from sale of goods will recognise the revenue from sale of goods and finance income as follows:

Initial recognition of sale of goods		₹	₹
Cash	Dr.	3,33,333	
Trade Receivable	Dr.	6,16,667	
To Sale			9,50,000
Recognition of interest expense and receipt of second installment			
Cash	Dr.	3,33,333	
To Interest Income			33,053
To Trade Receivable			3,00,280

Recognition of interest expense and payment of final installment			
Cash	Dr.	3,33,334	
To Interest Income (Balancing figure)			16,947
To Trade Receivable			3,16,387

Statement of Profit and Loss (extracts)

for the year ended 31st March, 20X2 and 31st March, 20X3 ₹

	As at 31st March, 20X2	As at 31st March, 20X3
Income		
Sale of Goods	9,50,000	-
Other Income (Finance income)	33,053	16,947

Balance Sheet (extracts) as at 31st March, 20X2 and 31st March, 20X3 ₹

	As at 31st March, 20X2	As at 31st March, 20X3
Assets		
Current Assets		
Financial Assets		
Trade Receivables	3,16,387	XXX

(c) **Either**

The usefulness of financial information can be enhanced by applying four enhancing qualitative characteristics as follows:

- *Comparability:* Users' decisions involve choosing between alternatives. Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date. Comparability refers to the use of the same methods for the same items, and uniformity implies that like things must look alike and different things must look different.
- *Verifiability:* Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Verification can be direct or indirect.
- *Timeliness:* Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.
- *Understandability:* Classifying, characterising and presenting information clearly and concisely makes it understandable. Some phenomena are inherently complex and cannot be made easy to understand. Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

(c) **Or**

Following entities are mandatorily required to prepare their financial statements based on Indian Accounting Standards

- All Listed Corporate Entities
- Unlisted Corporate Entities having net worth of rupees five hundred crore or more
- All holding, subsidiary, joint venture or associate companies of the above mentioned listed and unlisted corporate entities
- All NBFCs
- MF schemes

6. (a) Lease agreement substance presentation

Stakeholders make informed and accurate decisions based on the information presented in the financial statements and as such, ensuring the financial statements are reliable and of utmost importance. The directors of Sunshine Ltd. are ethically responsible to produce financial statements that comply with Ind AS and are transparent and free from material error. Lenders often attach covenants to the terms of the agreement in order to protect their interests in an entity. They would also be of crucial importance to potential debt and equity investors when assessing the risks and returns from any future investment in the entity.

The proposed action by Sunshine Ltd. appears to be a deliberate attempt to circumvent the terms of the covenants. The legal form would require treatment as a series of short-term leases which would be recorded in the profit or loss, without any right-of-use asset and lease liability being recognized as required by Ind AS 116, *Leases*. This would be a form of 'off-balance sheet finance' and would not report the true assets and obligations of Sunshine Ltd. As a result of this proposed action, the liquidity ratios would be adversely misrepresented. Further, the operating profit margins would also be adversely affected, as the expenses associated with the lease are likely to be higher than the deprecation charge if a leased asset was recognized, hence the proposal may actually be detrimental to the operating profit covenant.

Sunshine Ltd. is aware that the proposed treatment may be contrary to Ind AS. Such manipulation would be a clear breach of the fundamental principles of objectivity and integrity as outlined in the Code of Ethics. It is important for a chartered accountants to exercise professional behaviour and due care all the time. The proposals by Sunshine Ltd. are likely to mislead the stakeholders in the entity. This could discredit the profession by creating a lack of confidence within the profession. The directors of Sunshine Ltd. must be reminded of their ethical responsibilities and persuaded that the accounting treatment must fully comply with the Ind AS and principles outlined within the framework should they proceed with the financing agreement.

However, if the CFO fails to comply with his professional duties, he will be subject to professional misconduct under Clause 1 of Part II of Second Schedule of the Chartered Accountants Act, 1949. The Clause 1 states that a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he contravenes any of the provisions of this Act or the regulations made there under or any guidelines issued by the Council. As per the Guidelines issued by the Council, a member of the Institute who is an employee shall exercise due diligence and shall not be grossly negligent in the conduct of his duties.

(b) X Pharmaceutical Ltd. is advised as under:

1. It should recognize the drug license as an intangible asset because it is a separate external purchase, separately identifiable asset and considered successful in respect of feasibility and probable future cash inflows.

   The drug license should be recorded at ₹ 1,00,00,000.

2. It should recognize the brand as an intangible asset because it is purchased as part of acquisition and it is separately identifiable. The brand should be amortised over a period of 15 years.

   The brand will be recorded at ₹ 3,00,00,000.

3. The advertisement expenses of ₹ 1,00,00,000 should be expensed off.

4. The development cost incurred during the financial year 20X1-20X2 should be capitalised.

   Cost of intangible asset (Drug A) as on 31st March, 20X2

Opening cost	₹ 5,00,00,000
Development cost	₹ 5,00,00,000
Total cost	₹ 10,00,00,000

5. Research expenses of ₹ 50,00,000 incurred for developing 'Drug B' should be expensed off since technological feasibility has not yet established.

(c) Equity Valuation of KK Ltd.

Particulars	**Weights**	**(₹ in crore)**
As per Market Approach	50	5268.2
As per Income Approach	50	3235.2
Enterprise Valuation based on weights (5268.2 x 50%) + (3235.2 x 50%)		4,251.7
Less: Debt obligation as on measurement date		(1465.9)
Add: Surplus cash & cash equivalent		106.14
Add: Fair value of surplus assets and liabilities		312.40
Enterprise value of KK Ltd.		3204.33
No. of shares		85,284,223
Value per share		375.72