

Mock Test Paper - Series I: March, 2025

Date of Paper: 10<sup>th</sup> March, 2025

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

**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**

M Ltd. is engaged in production and agricultural activities. It also runs a chain of gyms. M Ltd. prepares its financial statements following Indian Accounting Standards and follows April-March as its financial year. During the year 20X1-20X2, the company has faced following issues and for their solution seeks your professional advice:

- (i) Fixed production overheads for the financial year is ₹ 10,000. Normal expected production for the year, after considering planned maintenance, normal breakdown and also considering the future demand of the product is 2,000 MT. It is considered that there are no quarterly / seasonal variations. Therefore, the normal expected production for each quarter is 500 MT and the fixed production overheads for the quarter are ₹ 2,500.

Actual production achieved	Quantity (In MT)
First quarter	400
Second quarter	600
Third quarter	500
Fourth quarter	400
<b>Total</b>	<b>1,900</b>

There are no quarterly / seasonal variation.

- (ii) On 1<sup>st</sup> April, 20X1, M Ltd. sells gym memberships for ₹ 7,500 per member for 1<sup>st</sup> year to 100 customers, with an option to renew at a discount in 2<sup>nd</sup> and 3<sup>rd</sup> year at ₹ 6,000 per year. M Ltd. estimates an annual attrition rate of 50% each year.
- (iii) On 1<sup>st</sup> November, 20X1, M Ltd. purchased 100 goats of special breed from a market for ₹ 10,00,000 with a transaction cost of 2%. Goats fair value decreased from ₹ 10,00,000 to ₹ 9,00,000 as on 31<sup>st</sup> March, 20X2.

**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. As per Ind AS 34 read with Ind AS 2, what will be the amount of fixed production overhead allocated to actual production and the amount of expenses to be debited/credited to profit and loss account by the end of first quarter?
  - (a) ₹ 2,000 capitalised to the cost of inventory; ₹ 500 debited to profit and loss account
  - (b) ₹ 2,500 capitalised to the cost of inventory; No amount is debited/credited to profit and loss account
  - (c) Nothing is capitalised to the cost of inventory; ₹ 2,500 debited to profit and loss account
  - (d) ₹ 500 capitalised to the cost of inventory; ₹ 2,000 debited to profit and loss account
2. As per Ind AS 34 read with Ind AS 2, what will be the amount of fixed production overhead allocated to actual production and the amount of expenses to be debited/credited to profit and loss account by the end of second quarter?
  - (a) ₹ 5,000 capitalised to the cost of inventory; No amount is debited/credited to profit and loss account
  - (b) ₹ 5,000 capitalised to the cost of inventory; ₹ 500 credited to profit and loss account
  - (c) ₹ 5,000 capitalised to the cost of inventory; ₹ 500 debited to profit and loss account
  - (d) ₹ 3,000 capitalised to the cost of inventory; ₹ 500 credited to profit and loss account
3. What is the amount of revenue to be recognized per membership in the first year and the amount of contract liability per membership against the option given to the customer for renewing the membership at discount?

- (a) ₹ 7,500; Nil  
 (b) ₹ 6,500; ₹ 1,000  
 (c) ₹ 6,857; ₹ 643  
 (d) ₹ 7,500; ₹ 12,000
4. What is the amount of the biological asset recognised on the date of purchase?
- (a) ₹ 10,00,000  
 (b) ₹ 9,00,000  
 (c) ₹ 10,20,000  
 (d) ₹ 9,80,000
5. What is the amount of gain or loss recognised on fair valuation of biological asset as on financial year ended 31<sup>st</sup> March, 20X2?
- (a) ₹ 1,00,000  
 (b) ₹ 18,000  
 (c) ₹ 1,20,000  
 (d) ₹ 98,000

(5 x 2 = 10 Marks)

**Case Scenario II**

P 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. P Ltd. has a number of business segments and requires guidance on following matters.

(i)

Particulars		Kg.	₹
Opening Inventory:	Finished Goods	1,000	25,000
	Raw Materials	1,100	11,000
Purchases		10,000	1,00,000
Labour			76,500
Overheads (Fixed)			75,000
Sales		10,000	2,80,000
Closing Inventory:	Raw Materials	900	
	Finished Goods	1200	

The expected production for the year was 15,000 kg of the finished product. Due to fall in market demand the sales price for the finished goods was ₹ 20 per kg and the replacement cost for the raw material was ₹ 9.50 per kg on the closing day. Calculate the closing inventory as on that date.

- (ii) P Ltd has made a security deposit whose details are described below. The market interest rate for a deposit for similar period is 12% per annum.

Particulars	Details
Date of Security Deposit (Starting Date)	1-Apr-20X1
Date of Security Deposit (Finishing Date)	31-Mar-20X6
Description	Lease
Total Lease Period	5 years
Discount rate	12.00%
Security deposit	10,00,000
Present value factor at the 5 <sup>th</sup> year	0.567427

**Analyze the transactions mentioned above and choose the most appropriate option in the below questions 6 to 10 in line with relevant Ind AS:**

6. What is the total cost of production during the year?
  - (a) ₹ 2,62,500
  - (b) ₹ 2,51,500
  - (c) ₹ 2,53,500
  - (d) ₹ 2,29,500
7. What is the value of closing inventory of finished goods at the end of the year?
  - (a) ₹ 27,000
  - (b) ₹ 29,823
  - (c) ₹ 24,000
  - (d) ₹ 32,550
8. What is the value of closing inventory of raw materials at the end of the year?
  - (a) ₹ 8,550
  - (b) ₹ 9,000
  - (c) ₹ 18,000

- (d) ₹ 32,550
9. Security deposit will be initially recognized at
- (a) ₹ 10,00,000
- (b) ₹ 5,67,427
- (c) ₹ 4,32,573
- (d) Nil
10. Prepaid lease payment will be initially recognized at
- (a) ₹ 10,00,000
- (b) ₹ 5,67,427
- (c) ₹ 4,32,573
- (d) Nil
- (5 x 2 = 10 Marks)**

### **Case Scenario III**

ABC Ltd. acquires XYZ Ltd. in a business combination on 15<sup>th</sup> January, 20X1. Few days before the date of acquisition, one of XYZ Ltd.'s customers had claimed that certain amounts were due by XYZ Ltd. under penalty clauses for completion delays included in the contract.

ABC Ltd. evaluates the dispute based on the information available at the date of acquisition and concludes that XYZ Ltd. was responsible for at least some of the delays in completing the contract. Based on the evaluation, ABC Ltd. recognises ₹ 1 crore towards this liability which is its best estimate of the fair value of the liability to the customer based on the information available at the date of acquisition.

In October, 20X1 (within the measurement period), the customer presents additional information as per which ABC Ltd. concludes the fair value of liability on the date of acquisition to be ₹ 2 crore.

ABC Ltd. continues to receive and evaluate information related to the claim after October, 20X1. Its evaluation doesn't change till February, 20X2 (i.e. after the measurement period), when it concludes that the fair value of the liability for the claim at the date of acquisition is ₹ 1.9 crore. ABC Ltd. determines that the amount that would be recognised with respect to the claim under Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets as at February, 20X2 is ₹ 2.2 crore.

**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. At what amount the contingent liability in relation to customer claim should be included in the consolidated balance sheet as on 31<sup>st</sup> March, 20X1, on accounting of acquisition of XYZ Ltd.?
- ₹ 1 crore
  - ₹ 2 crores
  - ₹ 1.90 crores
  - ₹ 2.20 crores
12. At what amount the contingent liability be valued after making the adjustment for measurement period and in what account the adjustment is to be made with the difference in the value to previous valuation?
- ₹ 1 crore; adjustment to retained earnings by ₹ 1 crore
  - ₹ 2 crores; adjustment to goodwill account by ₹ 1 crore
  - ₹ 1.90 crores; adjustment to goodwill account by ₹ 0.9 crore
  - ₹ 2.20 crores; adjustment to retained earnings by ₹ 1.20 crore
13. At what amount the contingent liability be valued in the consolidated balance sheet as on 31<sup>st</sup> March, 20X2, and in what account the adjustment is to be made with the difference in the value to previous valuation?
- ₹ 1 crore; adjustment to goodwill by ₹ 1 crore
  - ₹ 2 crores; adjustment to retained earnings by ₹ 1 crore
  - ₹ 1.90 crores; crediting retained earnings by ₹ 0.1 crore
  - ₹ 2.20 crores; debiting retained earnings by ₹ 0.20 crore **(3 x 2 = 6 Marks)**
14. 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 1<sup>st</sup> April, 20X1, 31<sup>st</sup> March, 20X2 and 31<sup>st</sup> 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.
- The revenue from sale of goods on 1<sup>st</sup> April, 20X1 will be recognized at-
- ₹ 10,00,000

(b) ₹ 3,33,333

(c) ₹ 9,50,000

(d) ₹ 6,16,667

(2 Marks)

15. \_\_\_\_\_ and \_\_\_\_\_ are technologies that enable computers to learn and perform tasks without being explicitly programmed to do so. They are having a significant impact on the accounting profession, enabling accounting professionals to automate routine tasks, improve decision-making processes, and reduce errors.

(a) Artificial Intelligence (AI) and Machine Learning (ML)

(b) Blockchain

(c) Enterprise Resource Planning (ERP)

(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. and B Ltd. are companies registered under the Companies Act, 2013. A Ltd. is an Ind AS compliant entity and follows year ended March as its financial reporting period.

On 1<sup>st</sup> April 20X1, they entered into an agreement to jointly engage in the hospitality business. For this purpose, they formed a partnership firm with the name of M/s. Star Hotel ("the Firm"). Under the relevant laws, the partners and the Firm are not considered as separate legal entities.

To regulate the operations of the Firm, A Ltd. and B Ltd. entered into a partnership deed whose relevant terms and conditions are as follows:

- A Ltd. and B Ltd. shall be the partners of the Firm.
- Consent of both partners shall be required for taking decisions on any matter which may affect the returns of the business.

- The Firm shall operate a three-storied hotel as follows:

Floor	Rights and obligations relating to the floor
Ground floor (Ground floor will comprise of reception, lobby, restaurant, laundry division, and general administration office)	Both partners shall jointly and equally own the legal and beneficial ownership of the ground floor including all of its assets and related liabilities. All the costs relating to the operation of the ground floor shall be jointly and equally shared by both the partners.
First floor (First floor will comprise of Indian themed rooms for customers)	A Ltd. shall have legal and beneficial ownership of the first floor including all of its assets and related liabilities. The net profit for the period attributable to the renting of rooms of first floor shall accrue solely to the account of A Ltd..
Second floor (Second floor will comprise of Italian themed rooms for customers)	B Ltd. shall have legal and beneficial ownership of the second floor including all of its assets and related liabilities. The net profit for the period attributable to the renting of rooms of second floor shall accrue solely to the account of B Ltd..
Third floor (Third floor will comprise of a banquet hall)	Both the partners shall jointly and equally own legal and beneficial ownership of the third floor including all of its assets and related liabilities. The net profit for the period attributable to the renting of the banquet hall shall accrue equally to the account of both the partners.

During the first year of operation of the hotel, A Ltd. many time doubted and objected to the manner in which the guests were preferentially convinced by the reception desk to occupy the Italian-themed rooms of the second floor.

To avoid the repetitive disputes, on 1<sup>st</sup> April 20X2, A Ltd. and B Ltd. converted the partnership firm into a company named Star Hotel Pvt. Ltd. ("the Company"). Under the relevant laws, the shareholders and the Company are considered as separate legal entities.

To regulate the operations of the Company, A Ltd. and B Ltd. entered into a shareholders' agreement with the following relevant terms and conditions:



- i. A Ltd. and B Ltd. shall transfer their individual rights regarding the respective floors of the hotel in favour of the Company such that the Company becomes the legal and beneficial owner thereof.
- ii. The Company shall assume all the liabilities of A Ltd. and B Ltd. in relation to the hotel business.
- iii. In consideration of transfer of rights and obligations by A Ltd. and B Ltd. in favour of the Company, A Ltd. and B Ltd. shall receive equity shares of the Company in equal proportion.
- iv. Each equity share shall entitle the holder thereof one vote in the general meetings of the Company.
- v. The Company's Board shall consist of 6 directors. All the matters in relation to the operations of the Company, except certain reserved matters, shall be decided by the Board by a vote of simple majority. In case of equality of votes in respect of any matter other than the reserved matters, the chairman shall have a casting vote.
- vi. Following are the Reserved Matters in respect of which decisions shall be taken only by unanimous consent of all the directors:
  - a. Approval of the operating plan for each financial year;
  - b. Capital expenditure exceeding ₹ 20 crore in a year;
  - c. Entering into borrowing arrangements for an amount which is equal to or more than 30% of the Company's net worth; and
  - d. Any matter which may affect the returns of the business.
- vii. A Ltd. and B Ltd. shall have the right to nominate 3 directors each in the Board. A Ltd. and B Ltd. shall have the right to replace the directors being nominated by them respectively with any other directors of their choice. The chairman of the Board shall be nominated by A Ltd.
- viii. The profits of the business may be distributed by the Company to the shareholders in the form of dividends which shall be approved by a simple majority of votes in a general meeting of the Company.
- ix. Shareholders shall be entitled to dividends in the proportion of the share capital held by them.

- x. Upon liquidation of the Company, its net assets, after repayment of all of its liabilities, shall be distributed to the shareholders in the proportion of share capital held by them.
- xi. During the period 1<sup>st</sup> April, 20X2 to 31<sup>st</sup> March, 20X7, A Ltd. shall have the right to sell all the equity shares held in the Company to B Ltd. at a price which is 10% more than the fair value determined by an independent valuer. If such right is exercised by A Ltd., B Ltd. shall be under obligation to purchase the shares in accordance with this clause.

### Required

How should the arrangement with B Ltd. be classified and recognised in the financial statements of A Ltd. for the year ended 31<sup>st</sup> March, 20X2? Explain the basis of your conclusion.

Additionally, describe the changes, if any, to the classification and recognition in the consolidated financial statements of A Ltd. for the year ended 31<sup>st</sup> March, 20X3.

**(14 Marks)**

2. (a) ABC Ltd. issues 4% 1,00,000 OCPS at a face value of ₹ 100 per share on 1<sup>st</sup> April, 20X1 and these are redeemable after 5 years, ie, on 31<sup>st</sup> March, 20X6. Dividend is non- cumulative. Each preference shares entitles the holders to 10 equity shares and the preference shares are optionally convertible by the holder at any time until maturity.

### Required

How will the preference shares be classified at initial recognition assuming that a comparable instrument carries a market interest rate of 7%? Provide journal entries for year 1.

Will this classification be changed subsequently in case there is a likelihood that OCPS will be encashed at the end of the maturity period? **(10 Marks)**

- (b) ABC Inc., incorporated in a foreign country has a net worth of ₹ 700 crores. It has two Indian subsidiaries X Ltd. whose net worth as on 31<sup>st</sup> March 2014 is ₹ 600 crores and Y Ltd. whose net worth is ₹ 150 crores. Whether X Ltd. and Y Ltd. would be required to follow Ind AS from the accounting period commencing on or after 1<sup>st</sup> April 2016 on the basis of their own net worth or on the basis of the net worth of ABC Inc.? **(4 Marks)**
3. (a) X Ltd. has taken a plant on lease from Y Ltd. for 5 years to use in its manufacturing process for which it has to pay annual rentals in arrears of USD

10,000 every year. On the commencement date, exchange rate was USD = ₹ 68. The average rate for Year 1 was ₹ 69 and at the end of year 1, the exchange rate was ₹ 70. The incremental borrowing rate of X Ltd. on commencement of the lease for a USD borrowing was 5% p.a.

How will entity X measure the right of use (ROU) asset and lease liability initially and at the end of Year 1? **(8 Marks)**

- (b) Infotech Global Ltd. has a functional currency of USD and needs to translate its financial statements into the functional and presentation currency of Infotech Inc. (L\$).

The following balances appear in the books of Infotech Global Ltd. at the year-end prior to translation:

	USD	L\$
Property, plant and equipment	50,000	
Receivables	<u>9,35,000</u>	
<b>Total assets</b>	<b><u>9,85,000</u></b>	
Issued capital	50,000	30,055
Opening retained earnings	28,000	15,274
Profit & Loss A/c (Profit for the year)	20,000	
Accounts payable	8,40,000	
Accrued liabilities	<u>47,000</u>	
<b>Total equity and liabilities</b>	<b><u>9,85,000</u></b>	

Translate the above balances of Infotech Global Ltd. into L\$ ready for consolidation by Infotech Inc. (Share capital and opening retained earnings have been pre-populated.)

Prepare a working of the cumulative balance of the foreign currency translation reserve.

**Additional information:**

Relevant exchange rates are:

Rate at beginning of the year L\$ 1 = USD 1.22

Average rate for the year L\$ 1 = USD 1.175

Rate at end of the year L\$ 1 = USD 1.13

**(6 Marks)**

4. (a) To reward its employees, the Company had launched a scheme effective 1<sup>st</sup> April, 20X1, in which the employees will be granted equity shares of the Company at below market price subject to certain conditions. Following details are provided:

- (i) As per the scheme, each employee has an option to purchase 100 equity shares of the Company at ₹ 30 per share if the employee does not leave the Company for 3 years from the date of launch of the scheme i.e. 31<sup>st</sup> March 20X4.
- (ii) Once 3 years completed by an employee, he/she can exercise the option within 1 year i.e. by 31<sup>st</sup> March 20X5.
- (iii) The closing share price on stock exchange as at 1<sup>st</sup> April, 20X1 is ₹ 62 per share with face value of ₹ 10 per share. The Company had appointed a registered valuer who derived the price of option at ₹ 50 using the Black Scholes model of option pricing.
- (iv) There are a total of 300 employees eligible for the scheme. As at 31<sup>st</sup> March, 20X2, 10 employees left the Company and further 14 employees are expected to leave over the next 2 years. During the year 20X2-20X3, a multi-national company entered into the retail industry which is hiring experienced workforce and therefore a high attrition is observed in the retail industry. 110 employees left the Company during the year ended 31<sup>st</sup> March, 20X3 and further 54 employees are expected to leave in the next one year. As at 31<sup>st</sup> March, 20X4; only 160 employees are remaining with the Company out of 300.
- (v) Only 150 employees exercise the option to purchase the equity share during the year ended 31<sup>st</sup> March 20X5.

Provide necessary accounting entries during the life of share based payment scheme to account the scheme implemented by the Company. Provide working notes.

**(8 Marks)**

- (b) On 1<sup>st</sup> April, 20X1, A Ltd. contracted for the construction of a building for ₹ 22,00,000. The land under the building is regarded as a separate asset and is not part of the qualifying assets. The building was completed at the end of March, 20X2, and during the period the following payments were made to the contractor:

Payment date	Amount (₹ '000)
1 <sup>st</sup> April, 20X1	200

30 <sup>th</sup> June, 20X1	600
31 <sup>st</sup> December, 20X1	1,200
31 <sup>st</sup> March, 20X2	<u>200</u>
Total	<u>2,200</u>

A Ltd.'s borrowings at its year end of 31<sup>st</sup> March, 20X2 were as follows:

- a. 10%, 4-year note with simple interest payable annually, which relates specifically to the project; debt outstanding on 31<sup>st</sup> March, 20X2 amounted to ₹ 7,00,000. Interest of ₹ 65,000 was incurred on these borrowings during the year, and interest income of ₹ 20,000 was earned on these funds while they were held in anticipation of payments.
- b. 12.5% 10-year note with simple interest payable annually; debt outstanding at 1<sup>st</sup> April, 20X1 amounted to ₹ 1,000,000 and remained unchanged during the year; and
- c. 10% 10-year note with simple interest payable annually; debt outstanding at 1<sup>st</sup> April, 20X1 amounted to ₹ 1,500,000 and remained unchanged during the year.

Determine the amount of the borrowing costs which can be capitalized at the year end as per relevant Ind AS. **(6 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 1<sup>st</sup> April 20X1 and to service this machine on 30<sup>th</sup> September 20X1 and 1<sup>st</sup> 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 1<sup>st</sup> 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 1<sup>st</sup> 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:

- (i) Segregate the components of the transaction that A Ltd. shall apply to the revenue recognition criteria separately as per Ind AS 115;
- (ii) Calculate the amount of revenue which A Ltd. must allocate to each component of the transaction; and
- (iii) Prepare journal entries to record the information set out above in the books of accounts of A Ltd. for the years ended 31<sup>st</sup> March 20X2 and 31<sup>st</sup> March 20X3. **(10 Marks)**

(b) **Either**

A post-employment medical plan reimburses 10 percent of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50 per cent of those costs if the employee leaves after twenty or more years of service.

Determine how will the benefit be attributed to the years of service. **(4 Marks)**

**Or**

XYZ Limited (the 'Company') is into the manufacturing of tractor parts and mainly supplying components to the Original Equipment Manufacturers (OEMs). The Company does not have any subsidiary, joint venture or associate company. During the preparation of financial statements for the year ended 31<sup>st</sup> March, 20X1, the accounts department is not sure about the treatment / presentation of below mentioned matters. Accounts department approached you to advice on the following matters.

S. No.	Matters
(i)	There are qualifications in the audit report of the Company with reference to two Ind AS.
(ii)	Is it mandatory to add the word "standalone" before each of the components of financial statements?
(iii)	The Company is Indian Company and preparing and presenting its financial statements in ₹. Is it necessary to write in the financial statements that the financial statements have been presented in ₹.
(iv)	The Company had sales transactions with 10 related party parties during previous year. However, during current year, there are no

	transactions with 4 related parties out of aforesaid 10 related parties. Hence, Company is of the view that it need not disclose sales transactions with these 4 parties in related party disclosures because with these parties there are no transactions during current year.
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Evaluate the above matters with respect to preparation and presentation of a general-purpose financial statement. **(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) Mathur India Private Limited has to present its first financials under Ind AS for the year ended 31<sup>st</sup> March, 20X3. The transition date is 1<sup>st</sup> April, 20X1.

The following adjustments were made upon transition to Ind AS:

- (i) The Company opted to fair value its land as on the date on transition.  
The fair value of the land as on 1<sup>st</sup> April, 20X1 was ₹ 10 crores. The carrying amount as on 1<sup>st</sup> April, 20X1 under the existing GAAP was ₹ 4.5 crores.
- (ii) The Company has recognised a provision for proposed dividend of ₹ 60 lacs and related dividend distribution tax of ₹ 18 lacs during the year ended 31<sup>st</sup> March, 20X1. It was written back as on opening balance sheet date.

- (iii) The Company fair values its investments in equity shares on the date of transition. The increase on account of fair valuation of shares is ₹ 75 lacs.
- (iv) The Company has an Equity Share Capital of ₹ 80 crores and Redeemable Preference Share Capital of ₹ 25 crores.
- (v) The reserves and surplus as on 1<sup>st</sup> April, 20X1 before transition to Ind AS was ₹ 95 crores representing ₹ 40 crores of general reserve and ₹ 5 crores of capital reserve acquired out of business combination and balance is surplus in the Retained Earnings.
- (vi) The company identified that the preference shares were in nature of financial liabilities.

What is the balance of total equity (Equity and other equity) as on 1<sup>st</sup> April, 20X1 after transition to Ind AS? Show reconciliation between total equity as per AS (Accounting Standards) and as per Ind AS to be presented in the opening balance sheet as on 1<sup>st</sup> April, 20X1. Ignore deferred tax impact. **(5 Marks)**

- (c) ABC Ltd. acquired 5% equity shares of XYZ Ltd. for ₹ 10 crores in the year 20X1-20X2. The company is in process of preparing the financial statements for the year 20X2-20X3 and is assessing the fair value at subsequent measurement of the investment made in XYZ Ltd. Based on the observable input, ABC Ltd. identified a similar nature of transaction in which PQR Ltd. acquired 20% equity shares in XYZ Ltd. for ₹ 60 crores. The price of such transaction was determined on the basis of Comparable Companies Method (CCM)- Enterprise Value (EV) / EBITDA which was 8. For the current year, the EBITDA of XYZ Ltd. is ₹ 40 crores. At the time of acquisition, the valuation was determined after considering 5% of liquidity discount and 5% of non-controlling stake discount. What will be the fair value of ABC Ltd.'s investment in XYZ Ltd. as on the balance sheet date? **(4 Marks)**



**Mock Test Paper - Series I: March, 2025**

**Date of Paper: 10<sup>th</sup> March, 2025**

**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 (a):** ₹ 2,000 capitalised to the cost of inventory; ₹ 500 debited to profit and loss account
2. **Option (b):** ₹ 5,000 capitalised to the cost of inventory; ₹ 500 credited to profit and loss account
3. **Option (c) :** ₹ 6,857; ₹ 643
4. **Option (d):** ₹ 9,80,000
5. **Option (d) :** ₹ 98,000
6. **Option (d) :** ₹ 2,29,500
7. **Option (c) :** ₹ 24,000
8. **Option (a) :** ₹ 8,550
9. **Option (b) :** ₹ 5,67,427
10. **Option (c) :** ₹ 4,32,573
11. **Option (a) :** ₹ 1 crore
12. **Option (b) :** ₹ 2 crores
13. **Option (d) :** ₹ 2.20 crores; debiting retained earnings by ₹ 0.20 crore
14. **Option (c) :** ₹ 9,50,000
15. **Option (a) :** Artificial Intelligence (AI) and Machine Learning (ML)

**ANSWERS OF PART – II : DESCRIPTIVE QUESTIONS**

1. As per the terms and conditions of the partnership deed, the consent of both the partners shall be required for taking decisions on any matter which may affect the returns of the business. Here, both the partners have joint control over the business of the partnership firm as defined under Ind AS 111. Therefore, we can conclude that the arrangement between A Ltd. and B Ltd. is a joint arrangement under Ind AS 111.

**Classification of the joint arrangement for the year ended 31<sup>st</sup> March, 20X2**

Para B15 of Ind AS 111 states that the classification of joint arrangements requires the parties to assess their rights and obligations arising from the arrangement. When making that assessment, an entity shall consider the following:

- (a) the structure of the joint arrangement.
- (b) when the joint arrangement is structured through a separate vehicle:
  - (i) the legal form of the separate vehicle;
  - (ii) the terms of the contractual arrangement; and
  - (iii) when relevant, other facts and circumstances.

Para B24 states that the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle is sufficient to conclude that the arrangement is a joint operation only if the parties conduct the joint arrangement in a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (ie the assets and liabilities held in the separate vehicle are the parties' assets and liabilities).

As per para 15 of Ind AS 111, a joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

Accordingly, the joint arrangement is carried out through a separate vehicle M/s. Star Hotel whose legal form does not confer separation between the parties and the separate vehicle (ie the assets and liabilities held in vehicle M/s. Star Hotel are the parties' assets and liabilities ie of A Ltd. and B Ltd.). This is reinforced by the terms agreed by the parties in their contractual arrangement, which state that A Ltd. and B Ltd. have rights to the assets, and obligations for the liabilities relating to the arrangement that is conducted through vehicle M/s. Star Hotel. [As per para B25 and B28 of Ind AS 111].

Hence, here the joint arrangement is a joint operation.

**Recognition in the financial statements of A Ltd. for the year ended 31<sup>st</sup> March, 20X2**

A Ltd. in its financial statements for the year ended 31<sup>st</sup> March, 20X2 will recognise its share of the assets and its share of any liabilities resulting from the arrangement (eg- accounts payable to third parties) on the basis of its agreed participation share. It will

also recognise its share of the revenue and expenses resulting from the hospitality services provided through M/s Star Hotel.

First floor that is controlled by A Ltd. shall be accounted for by A Ltd. in its financial statements.

For the two floors (Ground Floor and Third Floor) that are jointly controlled by A Ltd. and B Ltd., as per the contractual arrangement, both A Ltd. and B Ltd. will jointly and equally own the legal and beneficial ownership of assets and related liabilities. Thus, A Ltd. will recognise its 50% share of the revenue and expenses resulting from these floors.

With respect to second floor, A Ltd. should not account for any items of assets and liabilities, revenue and expenses in its financial statements.

The assets, liabilities, revenue and expenses should be recognised on a line-by-line basis based on nature and classification of the respective items and according to the principles of recognition and measurement prescribed under the respective Ind AS applicable to such items.

### **Reclassification of the joint arrangement for the year ended 31<sup>st</sup> March, 20X3**

As per para B23 of Ind AS 111, the joint arrangement is carried out through a separate vehicle whose legal form causes the separate vehicle to be considered in its own right (ie the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).

Since the terms of the contractual arrangement in the formation of company Star Hotel Pvt. Ltd. does not specify the parties have rights to the assets, or obligations for the liabilities, relating to the arrangement. Instead, the terms of the contractual arrangement establish that the parties have rights to the net assets of Star Hotel Pvt. Ltd.

The legal form of the company confers separation between the shareholders and the company. Further, as per the shareholders' agreement, the individual assets and liabilities of the business are legally beneficial to the company rather than the shareholders. Upon liquidation of the company, its net assets, after repayment of all its liabilities, shall be distributed to the shareholders in the proportion of share capital held by them. It implies that the shareholders have rights to the assets of the company. This is a key characteristic of a joint venture.

The terms and conditions of the shareholders' agreement do not modify or reverse the rights and obligations conferred by the legal form of the company.

Therefore, on the basis of the description of terms and conditions of the shareholders' agreement, there are no other facts and circumstances that indicate that the parties have rights to substantially all the economic benefits of the assets relating to the arrangement, and that the parties have an obligation for the liabilities relating to the arrangement.

Hence, the joint arrangement shall be reclassified from a joint operation to a joint venture in the financial statements of A Ltd. for the financial year ended 31<sup>st</sup> March, 20X3.

**Recognition in the consolidated financial statements of A Ltd. for the year ended 31<sup>st</sup> March, 20X3**

As per Para 24 of Ind AS 111, a joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with Ind AS 28 'Investments in Associates and Joint Ventures' unless the entity is exempted from applying the equity method as specified in that standard.

Accordingly, A Ltd. shall recognise its right to the net assets of Star Hotel Pvt. Ltd. as investment and account for it using the equity method assuming that the right to sell the shares to B Ltd. is not substantive and will not have any implication on the assessment as it will not alter the joint arrangement.

**Note:** Right to sell 50% shares by A Ltd. has been ignored, since the right to exercise the option rest with A Ltd. and not B Ltd. Hence, B Ltd. is under obligation to buy but do not have potential voting rights.

2. (a) The OCPS is redeemable at the end of the 5<sup>th</sup> year. Hence, the preference share contains a liability component. Further the dividend payable on the preference shares is non-cumulative. The holder may also be able to convert the preference shares at his option any time until maturity.

Paragraph AG 37 of Ind AS 32, *Financial Instruments: Presentation* states that non-cumulative dividends paid at the discretion of the issuer entity is part of equity element.

Paragraph 29 of Ind AS 32, *Financial Instruments: Presentation*, requires separate recognition of components of a financial instrument that (a) creates a financial liability of the entity; and (b) grants an option to the holder of the instrument to convert it into fixed number of equity instruments of the entity.

From the above paragraphs it is clear that OCPS issued by ABC Ltd. has a financial liability component as well as an equity component, making it a compound financial instrument.

As per paragraph 32, in case of compound financial instruments, the issuer first determines the carrying amount of the financial liability component by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity represented by (a) non-cumulative dividend feature and (b) option to convert the preference shares for fixed number of pre-determined ordinary shares is then determined by deducting the fair value of the financial liability component from the fair value of the compound financial instrument as a whole.

**Measurement and recognition (Calculations have been done at full scale):**

At 7% market rate of interest, the fair value of the financial liability component of the OCPS is ₹ 71,29,862  $[100,000 \text{ OCPS} \times ₹ 100 \times (1 / (1+7\%))^5]$

The fair value of the equity component is (residual value) ₹ 28,70,138  $[₹ 1,00,00,000 - ₹ 71,29,862]$

**Journal Entries**

1 <sup>st</sup> April, 20X1	<b>On Initial recognition</b> Bank Dr. 1,00,00,000 To OCPS (Financial liability) 71,29,862 To OCPS (Equity) 28,70,138 (Being OCPS issued and recognised)	₹	₹
31 <sup>st</sup> March, 20X2	<b><u>Interest expense – unwinding of discount</u></b> Interest expense @ 7% Dr. 4,99,090 (Refer W.N.) To OCPS (Financial liability) 4,99,090 (Being interest recorded as per EIR)		
	<b>Interest entry will be passed every year till conversion option is not exercised</b> <b>Whenever the option is exercised by the holder to convert to equity shares</b> OCPS (Financial liability) Dr. To OCPS (Equity)		Balance on date of exercise of the option

As per paragraph 30, in case of a convertible financial instrument, the classification of the liability and equity components is not revised as a result of change in the likelihood that a conversion option will be exercised.

In other words, the amount attributable to equity component on initial recognition shall remain in equity and will not be reclassified even if the OCPS are ultimately redeemed in cash by the issuer.

31 <sup>st</sup> March, 20X6	<b>If redeemed in cash on maturity</b>	₹	₹
	OCPS (financial liability) Dr. (Refer W.N.)	1,00,00,000	
	To Bank (Being OCPS redeemed on maturity)		1,00,00,000

**Working Note:**

**Calculation of the amortised cost of the financial liability (at full scale):**

Year	Opening Balance (₹)	Interest @ 7%	Repayment	Closing Balance (₹)
1	71,29,862	4,99,090	-	76,28,952
2	76,28,952	5,34,027		81,62,979
3	81,62,979	5,71,409		87,34,388
4	87,34,388	6,11,407		93,45,795
5	93,45,795	6,54,206	10,00,000	-

- (b) As per Rule 4(1)(ii)(a) of the Companies (Indian Accounting Standards) Rules, 2015, X Ltd. having net worth of ₹ 600 crores at the end of the financial year 2015-2016, would be required to prepare its financial statements for the accounting periods commencing from 1<sup>st</sup> April, 2016, as per the Companies (Indian Accounting Standards) Rules, 2015. While Y Ltd. having net worth of ₹ 150 crores in the year 2015-2016, would be required to prepare its financial statements as per the Companies (Accounting Standards) Rules, 2006.

Since, the foreign company ABC Inc., is not a company incorporated under the Companies Act, 2013 or the earlier Companies Act, 1956, it is not required to prepare its financial statements as per the Companies (Indian Accounting Standards) Rules, 2015. As the foreign company is not required to prepare financial statements based on Ind AS, the net worth of foreign company

ABC Inc. would not be the basis for deciding whether Indian Subsidiary X Ltd. and Y Ltd. are required to prepare financial statements based on Ind AS.

3. (a) On initial measurement, X Ltd. will measure the lease liability and ROU asset as under:

Year	Lease Payments (USD)	Present Value factor @ 5%	Present Value of Lease Payment	Conversion rate (spot rate)	INR value
1	10,000	0.952	9,520	68	6,47,360
2	10,000	0.907	9,070	68	6,16,760
3	10,000	0.864	8,640	68	5,87,520
4	10,000	0.823	8,230	68	5,59,640
5	10,000	0.784	<u>7,840</u>	68	<u>5,33,120</u>
<b>Total</b>			<b><u>43,300</u></b>		<b><u>29,44,400</u></b>

As per Ind AS 21 *The Effects of Changes in Foreign Exchange Rates*, monetary assets and liabilities are restated at each reporting date at the closing rate and the difference due to foreign exchange movement is recognised in profit and loss whereas non-monetary assets and liabilities carried measured in terms of historical cost in foreign currency are not restated.

Accordingly, the ROU asset in the given case being a non-monetary asset measured in terms of historical cost in foreign currency will not be restated but the lease liability being a monetary liability will be restated at each reporting date with the resultant difference being taken to profit and loss.

At the end of Year 1, the lease liability will be measured in terms of USD as under:

Lease Liability:

Year	Initial Value (USD) (a)	Lease Payment (b)	Interest @ 5% (c) = (a x 5%)	Closing Value (USD) (d = a + c - b)
1	43,300	10,000	2,165	35,465

Interest at the rate of 5% will be accounted for in profit and loss at average rate of ₹ 69 (i.e., USD 2,165 x 69) = ₹ 1,49,385.

Particulars		Dr. (₹)	Cr. (₹)
Interest Expense	Dr.	1,49,385	
To Lease liability			1,49,385

Lease payment would be accounted for at the reporting date exchange rate, i.e. ₹ 70 at the end of year 1

Particulars		Dr. (₹)	Cr. (₹)
Lease liability	Dr.	7,00,000	
To Cash			7,00,000

As per the guidance above under Ind AS 21, the lease liability will be restated using the reporting date exchange rate i.e., ₹ 70 at the end of Year 1. Accordingly, the lease liability will be measured at ₹ 24,82,550 (35,465 x ₹ 70) with the corresponding impact due to exchange rate movement of ₹ 88,765 (24,82,550 – (29,44,400 + 1,49,385 – 700,000)) taken to profit and loss.

At the end of year 1, the ROU asset will be measured as under:

Year	Opening Balance (₹)	Depreciation (₹)	Closing Balance (₹)
1	29,44,400	5,88,880	23,55,520

(b) Translation of the balances for the purpose of consolidation

	USD	Rate	L\$
Property, plant and equipment	50,000	1.13	44,248
Receivables	<u>9,35,000</u>	1.13	<u>8,27,434</u>
<b>Total assets</b>	<b><u>9,85,000</u></b>		<b><u>8,71,682</u></b>
Issued capital	50,000	—	30,055
Opening retained earnings	28,000	—	15,274
Profit for the year	20,000	1.175	17,021
Accounts payable	8,40,000	1.13	7,43,363
Accrued liabilities	<u>47,000</u>	1.13	<u>41,593</u>
<b>Total equity and liabilities USD</b>	<b><u>9,85,000</u></b>		<b><u>8,47,306</u></b>
<b>Foreign Currency Translation Reserve (Refer WN-1)</b>			<b><u>24,376</u></b>
<b>Total equity and liabilities L\$</b>			<b><u>8,71,682</u></b>



**Working Note:****1. Cumulative balance of the FCTR**

Particulars	Actual translated amount in L\$	Amount (Refer WN-2)	Difference
	A	B	B-A
Issued capital	30,055	44,248	14,193
Opening retained earnings	15,274	24,779	9,505
Profit for the year	<u>17,021</u>	<u>17,699</u>	<u>678</u>
	<u>62,350</u>	<u>86,726</u>	<u>24,376</u>

**2. Translated amount if the same conversion rate is applied to following items as applied on other items**

			Translated amount
Issued capital	50,000	1.13	44,248
Opening retained earnings	28,000	1.13	24,779
Profit for the year	<u>20,000</u>	<u>1.13</u>	<u>17,699</u>
	<u>98,000</u>		<u>86,726</u>

**4. (a)****Journal Entries**

<b>31<sup>st</sup> March, 20X2</b>			₹
Employee benefits expenses	Dr.	4,60,000	
To Share based payment reserve (equity)			4,60,000
(Being expenses to the extent of 1/3 of expected vested equity instruments value recognized)			
Profit and Loss Account	Dr.	4,60,000	
To Employee benefits expenses			4,60,000
(Being expenses transferred to Profit and Loss Account)			
<b>31<sup>st</sup> March, 20X3</b>			
Share based payment reserve (equity)	Dr.	40,000	
To Employee benefits expenses			40,000
(2/3 of expected vested equity instruments value)			

Employee benefits expenses Dr.	40,000	
To Profit and Loss Account (Being expenses transferred to Profit and Loss Account)		40,000
<b>31<sup>st</sup> March, 20X4</b>		
Employee benefits expenses Dr.	3,80,000	
To Share based payment reserve (equity) (Final vested equity instruments value)		3,80,000
Profit and Loss Account Dr.	3,80,000	
To Employee benefits expenses (Being expenses transferred to Profit and Loss Account)		3,80,000
<b>31<sup>st</sup> March, 20X5</b>		
Share based payment reserve (equity) Dr.	8,00,000	
Bank Account (150 x 100 x 30) Dr.	4,50,000	
To Share Capital [150 x 100 x 10]		1,50,000
To Securities Premium [150 x 100 x (50+20)]		10,50,000
To Retained Earnings (10 x 100 x 50) (Being 150 options exercised and 10 options lapsed)		50,000

**Calculation of employee benefits expenses**

Year ended 31 <sup>st</sup> March	Calculation	Expense for Period	Cumulative expense
		₹	₹
20X2	(300 – 10 - 14) employees x 100 shares x ₹ 50 x 1/3 years	4,60,000	4,60,000
20X3	[(300 – 10 - 110 - 54) employees x 100 shares x ₹ 50 x 2/3 years] - 4,60,000]	(40,000)	4,20,000
20X4	[(160 employees x 100 shares x ₹ 50) - 4,20,000]	3,80,000	8,00,000

- (b) As per Ind AS 23, when an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity should determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs

incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

The amount of borrowing costs eligible for capitalization, in cases where the funds are borrowed generally, should be determined based on the capitalisation rate and expenditure incurred in obtaining a qualifying asset. The costs incurred should first be allocated to the specific borrowings.

#### Analysis of expenditure:

Date	Expenditure (₹ '000)	Amount allocated in general borrowings (₹ '000)	Weighted for period outstanding (₹ '000)
1 <sup>st</sup> April, 20X1	200	0	0
30 <sup>th</sup> June, 20X1	600	100*	$100 \times 9/12 = 75$
31 <sup>st</sup> Dec., 20X1	1,200	1,200	$1,200 \times 3/12 = 300$
31 <sup>st</sup> March, 20X2	<u>200</u>	200	$200 \times 0/12 = \underline{0}$
Total	<u>2,200</u>		<u>375</u>

\*Specific borrowings of ₹ 7,00,000 fully utilized on 1<sup>st</sup> April & on 30<sup>th</sup> June to the extent of ₹ 5,00,000 hence remaining expenditure of ₹ 1,00,000 allocated to general borrowings.

The capitalisation rate relating to general borrowings should be the weighted average of the borrowing costs applicable to the entity's borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

$$\text{Capitalisation rate} = \frac{(10,00,000 \times 12.5\%) + (15,00,000 \times 10\%)}{10,00,000 + 15,00,000} = 11\%$$

Borrowing cost to be capitalized:	Amount (₹)
On specific loan	65,000
On General borrowing (3,75,000 x 11%)	<u>41,250</u>
Total	1,06,250
Less: interest income on specific borrowings	<u>(20,000)</u>
Amount eligible for capitalization	<u>86,250</u>
Therefore, the borrowing costs to be capitalized are ₹ 86,250.	

5. (a) (i) As per para 27 of Ind AS 115, a good or service that is promised to a customer is distinct if both of the following criteria are met:

- (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to them. A readily available resource is a good or service that is sold separately (by the entity or another entity) or that the customer has already obtained from the entity or from other transactions or events; and
- (b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

Factors that indicate that two or more promises to transfer goods or services to a customer are separately identifiable include, but are not limited to, the following:

- (a) significant integration services are not provided (i.e. the entity is not using the goods or services as inputs to produce or deliver the combined output called for in the contract)
- (b) the goods or services does not significantly modify or customize other promised goods or services in the contract.
- (c) the goods or services are not highly inter-dependent or highly interrelated with other promised goods or services in the contract

Accordingly, on 1<sup>st</sup> April, 20X1, entity A entered into a single transaction with three identifiable separate components:

1. Sale of a good (i.e. engineering machine);
2. Rendering of services (i.e. engineering machine maintenance services on 30<sup>th</sup> September, 20X1 and 1<sup>st</sup> April, 20X2); and
3. Providing finance (i.e. sale of engineering machine and rendering of services on extended period credit).

(ii) **Calculation and allocation of revenue to each component of the transaction**

<i>Date</i>	<i>Opening balance</i>	<i>Finance income</i>	<i>Goods</i>	<i>Services</i>	<i>Payment received</i>	<i>Closing balance</i>
1 <sup>st</sup> April, 20X1	–	–	2,51,927	–	–	2,51,927
30 <sup>th</sup> September,	2,51,927	12,596 (Note 1)	–	45,000	–	3,09,523

20X1						
31 <sup>st</sup> March 20X2	3,09,523	15,477 (Note 2)	–	–	–	3,25,000
1 <sup>st</sup> April, 20X2	3,25,000	–	–	75,000	(4,00,000)	

**Notes:**

- Calculation of finance income as on 30<sup>th</sup> September, 20X1  

$$= 5\% \times 2,51,927 = ₹ 12,596$$
- Calculation of finance income as on 31<sup>st</sup> March, 20X2  

$$= 5\% \times 3,09,523 = ₹ 15,477$$

(iii)

**Journal Entries**

Date	Particulars	Dr. (₹)	Cr. (₹)
1 <sup>st</sup> April, 20X1	Mr. Anik Dr. To Revenue - sale of goods (Profit or loss A/c) (Being revenue recognised from the sale of the machine on credit)	2,51,927	2,51,927
	Cost of goods sold (Profit or loss) Dr. To Inventories (Being cost of goods sold recognised)	1,60,000	1,60,000
30 <sup>th</sup> September 20X1	Mr. Anik Dr. To Finance Income (Profit or loss) (Being finance income recognised)	12,596	12,596
	Mr. Anik Dr. To Revenue- rendering of services (Profit or loss) (Being revenue from the rendering of maintenance services recognised)	45,000	45,000
	Cost of services (Profit or loss) Dr. To Cash/Bank or payables (Being the cost of performing maintenance services recognised)	30,000	30,000
31 <sup>st</sup> March 20X2	Mr. Anik Dr. To Finance Income (Profit or loss) (Being finance income recognised)	15,477	15,477
1 <sup>st</sup> April, 20X2	Mr. Anik Dr. To Revenue - rendering of services	75,000	75,000

	(Profit or loss) (Being revenue from the rendering of maintenance services recognised)		
	Cost of services (Profit or loss) Dr. To Cash/Bank or payables (Being the cost of performing maintenance services recognised)	50,000	50,000
	Cash/Bank Dr. To Mr. Anik (Being the receipt of cash from the customer recognised)	4,00,000	4,00,000

(b)

**Either**

1. Service in later years will lead to a materially higher level of benefit than in earlier year. So, for employees expected to leave after 20 or more years, the entity should attribute benefit on a straight-line basis under Para 71. Service beyond 20 years will lead to no material amount of further benefits. So, the benefit attributed to each of the first 20 years will be 2.5% of the Present Value of the Expected Medical Costs ( $50\% \div 20$  years).
2. For employees expected to leave between 10 and 20 years, the benefit attributed to each of the first 10 years is 1% ( $10\% \div 10$  years) of the Present Value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the tenth year and the estimated date of leaving.
3. For employees expected to leave within ten years, no benefit is attributed.
4. The Current Service Cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits.

**Or**

- (i) Yes, an entity whose financial statements comply with Ind AS shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with Ind AS unless they comply with all the requirements of Ind AS. (Refer Para 16 of Ind AS 1)
- (ii) No, but need to disclose in the financial statement that these are

individual financial statements of the Company. (Refer Para 51(b) of Ind AS 1)

- (iii) Yes, Para 51(d) of Ind AS 1 inter alia states that an entity shall display the presentation currency, as defined in Ind AS 21 prominently, and repeat it when necessary for the information presented to be understandable.
- (iv) No, as per Para 38 of Ind AS 1, except when Ind AS permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.

**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 depreciation 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) Computation of balance total equity as on 1<sup>st</sup> April, 20X1 after transition to Ind AS**

			₹ in crore
Share capital- Equity share Capital			80
Other Equity			
General Reserve		40	
Capital Reserve		5	
Retained Earnings (95-5-40)	50		
Add: Increase in value of land (10-4.5)	5.5		
Add: De recognition of proposed dividend (0.6 + 0.18)	0.78		
Add: Increase in value of Investment	<u>0.75</u>	<u>57.03</u>	<u>102.03</u>
<b>Balance total equity as on 1<sup>st</sup> April, 20X1 after transition to Ind AS</b>			<u><b>182.03</b></u>

**Reconciliation between Total Equity as per AS and Ind AS to be presented in the opening balance sheet as on 1<sup>st</sup> April, 20X1**

		₹ in crore
Equity share capital		80
Redeemable Preference share capital		<u>25</u>



Reserves and Surplus		105
Total Equity as per AS		<u>95</u>
		200
<b>Adjustment due to reclassification</b>		
Preference share capital classified as financial liability		(25)
<b>Adjustment due to derecognition</b>		
Proposed Dividend not considered as liability as on 1 <sup>st</sup> April 20X1		0.78
<b>Adjustment due to remeasurement</b>		
Increase in the value of Land due to remeasurement at fair value	5.5	
Increase in the value of investment due to remeasurement at fair value	<u>0.75</u>	<u>6.25</u>
<b>Equity as on 1<sup>st</sup> April, 20X1 after transition to Ind AS</b>		<u>182.03</u>

(c) **Determination of Enterprise Value of XYZ Ltd.**

Particulars	₹ in crore
EBITDA as on the measurement date	40
EV/EBITDA multiple as on the date of valuation	8
Enterprise value of XYZ Ltd.	320

**Determination of subsequent measurement of XYZ Ltd.**

Particulars	₹ in crore
Enterprise Value of XYZ Ltd.	<u>320</u>
ABC Ltd.'s share based on percentage of holding (5% of 320)	16
Less: Liquidity discount & Non-controlling stake discount (5%+5%=10%)	<u>(1.6)</u>
Fair value of ABC Ltd.'s investment in XYZ Ltd.	<u>14.4</u>