

Mock Test Paper - Series II: April, 2025

Date of Paper: 3rd April, 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

A Ltd. is engaged in multi production/construction and service activities. A 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) A Ltd. produces aircrafts. The length of time between first purchasing raw materials to make the aircrafts and the date the company completes the production and delivery is 9 months. The company receives payment for the aircrafts 7 months after the delivery.
- (ii) A Ltd. provides advertising services to its customers. A Ltd. enters into a sub-contract with a multinational online video sharing company, F Ltd. Under the sub-contract, F Ltd. places all of A Ltd.'s customers' adverts.

A Ltd. notes the following:

- A Ltd. works directly with customers to understand their advertising needs before placing adverts.
- A Ltd. is responsible for ensuring that the advert meets the customer's needs after the advert is placed.
- A Ltd. directs F Ltd. over which advert to place and when to place it.

- A Ltd. does not bear inventory risk because there is no minimum purchase requirement with F Ltd.
- A Ltd. does not have discretion in setting the price because fees are charged based on F Ltd.'s scheduled rates.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 3 in line with relevant Ind AS:

1. What is the length of operating cycle for manufacturing an aircraft?
 - (a) 9 months
 - (b) 7 months
 - (c) 16 months
 - (d) 2 months
2. What would be the classification of Trade Receivables in the balance sheet whose amount will be realised in 15 months?
 - (a) Current
 - (b) Non-current
 - (c) As per the wish of A Ltd. either current or non-current
 - (d) Such Trade Receivables will not appear in the balance sheet
3. Which of the following statement is correct with respect to entering into sub-contract with F Ltd.?
 - (a) A Ltd. is an agent under this sub-contract
 - (b) A Ltd. is a principal under this sub-contract
 - (c) Ind AS 115 is not applicable to this scenario
 - (d) Arrangement between A Ltd. and F Ltd. whether principal or agent will not affect the amount of revenue to be recognised by A Ltd. **(3 x 2 = 6 Marks)**

Case Scenario 2

X Ltd. is engaged in the construction industry and prepares its financial statements up to 31st March each year.

- (i) On 1st April, 20X1, X Ltd. purchased a large property (consisting of land) for ₹ 2,00,00,000 and immediately began to lease the property to Y Ltd. on an operating lease. Annual rentals were ₹ 20,00,000. On 31st March, 20X5, the fair value of the

property was ₹ 2,60,00,000. Under the terms of the lease, Y Ltd. was able to cancel the lease by giving six months' notice in writing to X Ltd. Y Ltd. gave this notice on 31st March, 20X5 and vacated the property on 30th September, 20X5. On 30th September, 20X5, the fair value of the property was ₹ 2,90,00,000. On 1st October, 20X5, X Ltd. immediately began to convert the property into ten separate flats of equal size which X Ltd. intended to sell in the ordinary course of its business. X Ltd. spent a total of ₹ 60,00,000 on this conversion project between 30th September, 20X5 to 31st March, 20X6. The project was incomplete at 31st March, 20X6 and the directors of X Ltd. estimate that they need to spend a further ₹ 40,00,000 to complete the project, after which each flat could be sold for ₹ 50,00,000.

- (ii) Mr. A is a domestic partner of Ms. B. Mr. A has an investment in X Limited and Ms. B has an investment in Z Limited.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 4 to 8 in line with relevant Ind AS:

4. At what value the property be reclassified as on 30th September, 20X5?
 - (a) ₹ 2,90,00,000
 - (b) ₹ 2,60,00,000
 - (c) ₹ 3,50,00,000
 - (d) ₹ 2,00,00,000
5. What is the net realizable value of the property as on 31st March, 20X6?
 - (a) ₹ 5,00,00,000
 - (b) ₹ 4,60,00,000
 - (c) ₹ 2,60,00,000
 - (d) ₹ 3,00,00,000
6. At what value the property (all flats) be shown in the balance sheet as on 31st March, 20X6?
 - (a) ₹ 5,00,00,000
 - (b) ₹ 4,60,00,000
 - (c) ₹ 2,60,00,000
 - (d) ₹ 3,00,00,000

7. State which of the following statement is correct with respect to Mr. A's investment in X Ltd.?
- Mr. A is not a related party to X Ltd. even if it controls X Ltd.
 - Z Ltd. is related to X Ltd. if Mr. A controls or jointly controls X Ltd. even if Ms. B does not controls or jointly controls Z Ltd.
 - Z Ltd. is related to X Ltd. if Mr. A controls or jointly controls X Ltd. and Ms. B controls or jointly controls Z Ltd.
 - Mr. A is not a related party to X Ltd. but Ms. B is a related party to X Ltd.
8. State which of the following statement is correct if Mr. A and Ms. B only have significant influence over respective X Ltd. and Z Ltd.?
- X Ltd, and Z Ltd. are related party
 - X Ltd. and Z Ltd. are not related party
 - Mr. A is related party to Z Ltd.
 - Ms. B is related party to X Ltd.

(5 x 2 = 10 Marks)**Case Scenario 3**

G Ltd. is currently engaged in different business segments and is also looking to expand its operations overseas. G Ltd. is also exploring investment from an overseas investor to carry out the expansion plan.

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

Particulars	Details
Date of Security Deposit (Starting Date)	1 st April, 20X1
Date of Security Deposit (Finishing Date)	31 st March, 20X6
Discount rate	12.00%
Security deposit	10,00,000
Present value factor at the end of 5 th year	0.567427

- (ii) G Ltd. acquired 25% of the equity share capital of R Ltd. on the first day of the financial year for ₹ 1,25,000. As of that date, the carrying value of the net assets of R Ltd. was ₹ 3,00,000 and the fair value was ₹ 4,00,000. The excess of fair value over the carrying value was attributable to one of the buildings owned by R Ltd. having a remaining

useful life of 20 years. R Ltd. earned profit of ₹ 40,000 and other comprehensive income of ₹ 10,000 during the year.

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 will be the initial amount of prepaid lease payment in the lease contract to be recognised by G Ltd.?
 (a) ₹ 5,67,427
 (b) ₹ 4,32,573
 (c) ₹ 10,00,000
 (d) Nil
10. What will be the amount of interest income on security deposit to be recognised in the financial statements of G Ltd. as on 31st March, 20X2?
 (a) ₹ 1,20,000
 (b) ₹ 68,091
 (c) ₹ 51,909
 (d) Nil
11. Calculate the goodwill / capital reserve on the date of acquisition of R Ltd.?
 (a) Goodwill ₹ 25,000
 (b) Capital reserve ₹ 25,000
 (c) No goodwill or capital reserve
 (d) Goodwill ₹ 50,000
12. What will be G Ltd.'s share in the profit and other comprehensive income for the year?
 (a) ₹ 10,000; ₹ 8,750
 (b) ₹ 8,750; ₹ 1,250
 (c) ₹ 1,250; ₹ 2,500
 (d) ₹ 8,750; ₹ 2,500
13. What will be the closing balance of investment in R Ltd. at the end of the year in the books of G Ltd.?
 (a) ₹ 1,25,000

(b) ₹ 1,36,250

(c) ₹ 1,00,000

(d) ₹ 1,33,750

(5 x 2 = 10 Marks)

14. X Ltd. is a first-time adopter of Ind AS. The date of transition is 1st April, 20X1. It has given 200 stock options to its employees. Out of these, 75 options have vested on 30th November, 20X0 and the remaining 125 will vest on 30th November, 20X1.

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

(a) For 75 options that vested before the date of transition, X Ltd. has to apply Ind AS 102 and account for the same accordingly, provided it has disclosed publicly the fair value of those equity instruments, determined at the measurement date.

(b) For 75 options that vested before the date of transition, X Ltd. is not required to apply Ind AS 102 but need to disclose the information.

(c) For 125 options that will vest after the date of transition, X Ltd. will need to account for the same as per Ind AS 102.

(d) All of the above.

(2 Marks)

15. A Chartered Accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the accountant might consult with:

(a) Those charged with governance.

(b) The Institute of Chartered Accountants of India

(c) Legal counsel

(d) Any of the above

However, such consultation does not relieve the accountant from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

(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. The balance sheet of Professional Ltd. and Dynamic Ltd. as of 31st March, 20X2 is given below: ₹ in lakhs

Assets	Professional Ltd.	Dynamic Ltd.
Non-Current Assets:		
Property, plant and equipment	300	500
Investment	400	100
Current assets:		
Inventories	250	150
Financial assets		
Trade receivables	450	300
Cash and cash equivalents	200	100
Others	<u>400</u>	<u>230</u>
Total	<u>2,000</u>	<u>1,380</u>
Equity and Liabilities		
Equity		
Share capital- Equity shares of ₹ 100 each of Dynamic Ltd. and ₹ 10 each of Professional Ltd.	500	400
Other Equity	810	225
Non-Current liabilities:		
Financial liabilities		
Long term borrowings	250	200
Long term provisions	50	70
Deferred tax	40	35

Current Liabilities:		
Financial liabilities		
Short term borrowings	100	150
Trade payables	<u>250</u>	<u>300</u>
Total	<u>2,000</u>	<u>1,380</u>

Other information

1. Professional Ltd. acquired 70% shares of Dynamic Ltd. on 1st April, 20X2 by issuing its own shares in the ratio of 1 share of Professional Ltd. for every 2 shares of Dynamic Ltd. The fair value of the shares of Professional Ltd was ₹ 40 per share.
2. The fair value exercise resulted in the following: (all nos. in Lakh)
 - a. Fair value of PPE on 1st April, 20X2 was ₹ 350 lakhs.
 - b. Professional Ltd also agreed to pay an additional payment as consideration that is higher of ₹ 35 lakh and 25% of any excess profits in the first year, after acquisition, over its profits in the preceding 12 months made by Dynamic Ltd. This additional amount will be due after 2 years. Dynamic Ltd has earned ₹ 10 lakh profit in the preceding year and expects to earn another ₹ 20 Lakh.
 - c. In addition to the above, Professional Ltd also agreed to pay one of the founder shareholders a payment of ₹ 20 lakh provided he stays with the Company for two years after acquisition.
 - d. Dynamic Ltd had a certain equity settled share-based payment award (original award) which was replaced by the new awards issued by Professional Ltd. As per the original terms, the vesting period was 4 years and as of the acquisition date the employees of Dynamic Ltd have already served 2 years of service. As per the replaced awards the vesting period has been reduced to one year (one year from the acquisition date). The fair value of the award on the acquisition date was as follows:
 - i. Original award- ₹ 5 lakh
 - ii. Replacement award- ₹ 8 lakh.
 - e. Dynamic Ltd had a lawsuit pending with a customer who had made a claim of ₹ 50 lakh. Management reliably estimated the fair value of the liability to be ₹ 5 lakh.
3. The applicable tax rate for both entities is 30%.

You are required to prepare opening consolidated balance sheet of Professional Ltd as on 1st April, 20X2. Assume 10% discount rate. **(14 Marks)**

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

Key terms of the contract:

Contractual features	Details
Contract/order date	9 September 20X1
Delivery/payment date	31 December 20X1
Purchase price	USD 1,000,000
USD/₹ Forward rate on 9 September 20X1 for 31 December 20X1 maturity	67.8
USD/₹ Spot rate on 9 September 20X1	66.4
USD/₹ Forward rates for 31 December, on:	
30 September	67.5
31 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) Sports Team D enters into a three-year agreement to license its team name and logo to Apparel Maker M. The licence permits M to use the team name and logo on its products, including display products, and in its advertising or marketing materials.

- (i) Determine the nature of license in the above case.
- (ii) Modifying above facts that, Sports Team D has not played games in many years and the licensor is Brand Collector B, an entity that acquires IP (Intellectual Property) such as old team or brand names and logos from defunct entities or those in financial distress. B's business model is to license the IP or obtain settlements from entities that use the IP without permission, without undertaking any ongoing activities to promote or support the IP.

Would the answer be different in this situation? **(4 Marks)**

3. (a) Following is the balance sheet of Kuber Limited for the year ended 31 March, 20X2
(₹ in lacs)

	20X2	20X1
ASSETS		
Non-current assets		
Property, plant and equipment	13,000	12,500
Intangible assets	50	30
Other financial assets	145	170
Deferred Tax Asset (net)	855	750
Other non-current assets	<u>800</u>	<u>770</u>
Total non-current assets	<u>14,850</u>	<u>14,220</u>
Current assets		
Financial assets		
Investments	2,300	2,500
Cash and cash equivalents	220	460
Other current assets	<u>195</u>	<u>85</u>
Total current assets	<u>2,715</u>	<u>3,045</u>
Total assets	<u>17,565</u>	<u>17,265</u>
EQUITY AND LIABILITIES		
Equity		
Equity share capital	300	300
Other equity	<u>12,000</u>	<u>8,000</u>
Total equity	<u>12,300</u>	<u>8,300</u>
Liabilities		
Non-current liabilities		
Financial liabilities		
Long-term borrowings	2,000	5,000
Other non-current liabilities	<u>2,740</u>	<u>3,615</u>
Total non-current liabilities	<u>4,740</u>	<u>8,615</u>
Current liabilities		
Financial liabilities		
Trade payables	150	90
Bank overdraft	75	60

Other current liabilities	<u>300</u>	<u>200</u>
Total current liabilities	<u>525</u>	<u>350</u>
Total liabilities	<u>5,265</u>	<u>8,965</u>
Total equity and liabilities	<u>17,565</u>	<u>17,265</u>

Additional Information:

- (1) Profit after tax for the year ended March 31, 20X2 - ₹ 4,450 lacs
- (2) Interim dividend paid during the year - ₹ 450 lacs
- (3) Depreciation and amortisation charged in the statement of profit and loss during the current year are as under
 - (a) Property, Plant and Equipment - ₹ 500 lacs
 - (b) Intangible Assets - ₹ 20 lacs
- (4) During the year ended March 31, 20X2 two machineries were sold for ₹ 70 lacs. The carrying amount of these machineries as on March 31, 20X2 is ₹ 60 lacs.
- (5) Income taxes paid during the year ₹ 105 lacs
- (6) Other non-current / current assets and liabilities are related to operations of Kuber Ltd. and do not contain any element of financing and investing activities.

Using the above information of Kuber Limited, construct a statement of cash flows under indirect method. **(10 Marks)**

- (b) Heaven Ltd. had purchased a machinery on 1.4.2X01 for ₹ 30,00,000, which is reflected in its books at written down value of ₹ 17,50,000 on 1.4.2X06. The company has estimated an upward revaluation of 10% on 1.4.2X06 to arrive at the fair value of the asset. Heaven Ltd. availed the option given by Ind AS of transferring some of the surplus as the asset is used by an enterprise.

On 1.4.2X08, the machinery was revalued downward by 15% and the company also re-estimated the machinery's remaining life to be 8 years. On 31.3.2X10 the machinery was sold for ₹ 9,35,000. The company charges depreciation on straight line method.

Compute depreciation each after upward and downward revaluation. Also compute amount transferred from revaluation reserve till 1.4.20X8. **(4 Marks)**

4. (a) On 1st April 20X1, S Ltd. leased a machine over a 5 year period. The present value of lease liability is ₹ 120 Cr (discount rate of 8%) and is recognized as lease liability and corresponding Right of Use (RoU) Asset on the same date. The RoU Asset is depreciated under straight line method over the 5 years. The annual lease rentals are ₹ 30 Cr payable starting 31st March 20X2. The tax law permits tax deduction on the basis of payment of rent.

Assuming tax rate of 30%, you are required to explain the deferred tax consequences for the above transaction for the year ended 31st March 20X2.

(5 Marks)

- (b) Following is the data for company XYZ in respect of number of equity shares during the financial year 20X1-20X2. Find out the number of shares for the purpose of calculation of basic EPS as per Ind AS 33.

S. No.	Date	Particulars	No of shares
1	1-Apr-20X1	Opening balance of outstanding equity shares	100,000
2	15-Jun-20X1	Issue of equity shares	75,000
3	8-Nov-20X1	Conversion of convertible preference shares in Equity	50,000
4	22-Feb-20X2	Buy back of shares	(20,000)
5	31-Mar-20X2	Closing balance of outstanding equity shares	205,000

(5 Marks)

- (c) **Either**

X Solar Power Ltd., a power company, has a present obligation to dismantle its plant after 35 years of useful life. X Solar Power Ltd. cannot cancel this obligation or transfer to third party. X Solar Power Ltd. has estimated the total cost of dismantling at ₹ 50,00,000, the present value of which is ₹ 30,00,000. Based on the facts and circumstances, X Solar Power Ltd. considers the risk factor of 5% i.e., the risk that the actual outflows would be more from the expected present value.

State how should X Solar Power Ltd. account for the obligation. **(4 Marks)**

Or

Marine Transport Limited ordered 3 ships for its fleet on 1st April, 20X0. It pays a down payment of 25% of the contract value of each of the ship out of long-term borrowings from a scheduled bank. The delivery has to commence from the

financial year 20X7. On 1st March, 20X2, the ship builder informs that it has commenced production of one ship. There is no progress on other 2 ships. Marine Transport Limited prepares its financial statements on financial year basis.

Advise whether it is permissible for Marine Transport Limited to capitalise any borrowing costs for the financial year ended 31st March, 20X1 or 31st March, 20X2.

(4 Marks)

5. (a) One of the senior engineers at XYZ has been working on a process to improve manufacturing efficiency and, consequently, reduce manufacturing costs. This is a major project and has the full support of XYZ's board of directors. The senior engineer believes that the cost reductions will exceed the project costs within twenty-four months of their implementation. Regulatory testing and health and safety approval was obtained on 1st June 20X5. This removed uncertainties concerning the project, which was finally completed on 20th April 20X6. Costs of ₹ 18,00,000, incurred during the year till 31st March 20X6, have been recognized as an intangible asset. An offer of ₹ 7,80,000 for the new developed technology has been received by potential buyer but it has been rejected by XYZ. Utkarsh believes that the project will be a major success and has the potential to save the company ₹ 12,00,000 in perpetuity. Director of research at XYZ, Neha, who is a qualified electronic engineer, is seriously concerned about the long-term prospects of the new process and she is of the opinion that competitors would have developed new technology at some time which would require to replace the new process within four years. She estimates that the present value of future cost savings will be ₹ 9,60,000 over this period. After that, she thinks that there is no certainty about its future.

Advise the appropriate accounting treatment for the aforesaid issue for the year ended 31st March, 20X6.

(8 Marks)

- (b) The company has made sales of ₹ 60,00,000 to a customer SS LLP on 31st December 20X2. The normal credit is for one month. However, sometimes, it goes upto 2 months. The company expects to receive payment by 28th February 20X3. However, no payment has been received till 31st March 20X3. On 15th April 20X3, the sales department of the company became aware that the customer is passing through financial crisis and has major cash flow problems.

The company has agreed to allow the customer to settle the debt by 31st March 20X4, by which time the customer is confident that the cashflow problem will be resolved.

The company expects that an annual interest of 9% (i.e. effective interest rate) can be received against any money lent out, yet it allowed the customer an interest-free payment period.

Determine the amount to be shown as 'trade receivable' from SS LLP in the books of the company as on 31st March 20X3. **(6 Marks)**

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

Comment on how to identify whether the performance obligations under the contract is distinct by using an automated process? **(7 Marks)**

- (b) On 5th April, 20X2, fire damaged a consignment of inventory at one of the Jupiter's Ltd.'s warehouse. This inventory had been manufactured prior to 31st March, 20X2 costing ₹ 8 lakhs. The net realisable value of the inventory prior to the damage was estimated at ₹ 9.60 lakhs. Because of the damage caused to the consignment of inventory, the company was required to spend an additional amount of ₹ 2 lakhs on repairing and re-packaging of the inventory. The inventory was sold on 15th May, 20X2 for proceeds of ₹ 9 lakhs.

The accountant of Jupiter Ltd treats this event as an adjusting event and adjusted this event of causing the damage to the inventory in its financial statement and accordingly re-measures the inventories as follows: ₹ lakhs

Cost	8.00
Net realisable value (9.6 - 2)	7.60
Inventories (lower of cost and net realisable value)	7.60

Analyse whether the above accounting treatment made by the accountant in regard to financial year ending on 31.0.20X2 is in compliance of the Ind AS. If not, advise the correct treatment alongwith working for the same. **(7 Marks)**

Mock Test Paper - Series II: April, 2025

Date of Paper: 3rd April, 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 (c): 16 months
2. Option (a): Current
3. Option (b): A Ltd. is a principal under this sub-contract
4. Option (d): ₹ 2,00,00,000
5. Option (b): ₹ 4,60,00,000
6. Option (c): ₹ 2,60,00,000
7. Option (c): Z Ltd. is related to X Ltd. if Mr. A controls or jointly controls X Ltd. and Ms. B controls or jointly controls Z Ltd.
8. Option (b): X Ltd. and Z Ltd. are not related party
9. Option (b): ₹ 4,32,573
10. Option (b): ₹ 68,091
11. Option (a): Goodwill ₹ 25,000
12. Option (d): ₹ 8,750; ₹ 2,500
13. Option (b): ₹ 1,36,250
14. Option (d): All of the above
15. Option (d): Any of the above

ANSWERS OF PART – II : DESCRIPTIVE QUESTIONS

1. Consolidated Balance Sheet of Professional Ltd as on 1st April, 20X2

(₹ in Lakhs)

	Amount
Assets	
Non-Current Assets:	
Property, plant and equipment	650
Investment	500
Current assets:	
Inventories	400
Financial assets:	
Trade receivables	750
Cash and cash equivalents	300
Others	<u>630</u>
Total	<u>3,230</u>
Equity and Liabilities	
Equity	
Share capital- Equity shares of ₹ 10 each	514
Other Equity	1,128.62
NCI	154.95
Non-Current liabilities:	
Long term borrowings	450
Long term provisions (50+70+28.93)	148.93
Deferred tax	28.5
Current Liabilities:	
Short term borrowings	250
Trade payables	550
Provision for Lawsuit Damages	<u>5</u>
Total	<u>3,230</u>

Notes:

- a. As per Ind AS 103, the acquirer is required to record the assets and liabilities acquired at their respective fair value. Accordingly, the PPE of Dynamic Ltd. will be recorded at ₹ 350 lakhs.
- b. The value of replacement award is allocated between consideration transferred and post combination expense. The portion attributable to

purchase consideration is determined based on the fair value of the replacement award for the service rendered till the date of the acquisition. Accordingly, ₹ 2.5 lakhs ($5 \times 2/4$) is considered as a part of purchase consideration and is credited to Professional Ltd equity as this will be settled in its own equity. Since the fair value of the award on the acquisition date is ₹ 8 lakhs, the balance of ₹ 5.5 lakhs ($8 - 2.5$) will be recorded as employee expense in the books of Dynamic Ltd over the remaining life, which is 1 year in this scenario. (Para B59 of Ind AS 103)

- c. There is a difference between contingent consideration and deferred consideration. In the given case, ₹ 35 lakhs is the minimum payment to be paid after 2 years and accordingly will be considered as deferred consideration. The other element is if a company meet certain target then they will get 25% of that or ₹ 35 lakhs whichever is higher. In the given case, the minimum what is expected to be paid has been considered and the fair value of the contingent consideration has been considered as zero. The impact of time value on deferred consideration has been given @ 10%.
- d. The additional consideration of ₹ 20 lakhs to be paid to the founder shareholder is contingent to him/her continuing in employment and hence this will be considered as employee compensation and will be recorded as post combination expenses in the income statement of Dynamic Ltd.

Working Notes:

1. Computation for Purchase consideration

Particulars		Amount
Share capital of Dynamic Ltd		<u>4,00,00,000</u>
Number of shares	4,00,000	
Shares to be issued 2:1	2,00,000	
Fair value ₹ per share		<u>40</u>
		₹ in lakhs
PC ($2,00,000 \times 70\% \times ₹ 40$ per share) (A)		56.00
Deferred consideration after discounting ₹ 35 lakhs for 2 years @ 10% (B)		28.93
Replacement award Market based measure of the acquiree award (5) \times ratio of the portion of the vesting period completed (2) / greater of the total vesting		

period (3) or the original vesting period (4) of the acquiree award i.e. (5 x 2/4) (C)		<u>2.50</u>
PC in lakhs (A+B+C)		<u>87.43</u>

2. Allocation of Purchase price

Particulars	Book value (A)	Fair value (B)	FV adjustment (A-B)
Property, plant and equipment	500	350	(150)
Investment	100	100	-
Inventories	150	150	-
Financial assets:			-
Trade receivables	300	300	-
Cash and cash equivalents	100	100	-
Others	230	230	-
Less: Long term borrowings	(200)	(200)	-
Long term provisions	(70)	(70)	-
Deferred tax	(35)	(35)	-
Short term borrowings	(150)	(150)	-
Trade payables	(300)	(300)	-
Contingent liability	<u>-</u>	<u>(5)</u>	<u>(5)</u>
Net assets (X)	625	470	(155)
Deferred Tax Asset on FV adjustment (155 x 30%) (Y)		<u>46.50</u>	155
Net assets (X+Y)		516.5	
Non-controlling interest (516.50 x 30%) rounded off		154.95	
Purchase consideration (PC)		<u>87.43</u>	
Capital Reserve (Net assets – NCI – PC)		<u>274.12</u>	

3. Computation of consolidated amounts of Consolidated financial statements

	<i>Professional Ltd.</i>	<i>Dynamic Ltd. (pre-acquisition)</i>	<i>PPA Allocation</i>	<i>Total</i>
Assets				
Non-Current Assets:				
Property, plant and equipment	300	500	(150)	650
Investment	400	100		500
Current assets:				
Inventories	250	150		400
Financial assets:				
Trade receivables	450	300		750
Cash and cash equivalents	200	100		300
Others	<u>400</u>	<u>230</u>		<u>630</u>
Total	<u>2,000</u>	<u>1,380</u>	<u>(150)</u>	<u>3230</u>
Equity and Liabilities				
Equity				
Share capital- Equity shares of ₹ 10 each	500			
Shares allotted to Dynamic Ltd. (2,00,000 x 70% x ₹ 10 per share)			14	514
Other Equity	810			
Replacement award (W.N.1)			2.5	2.5
Security Premium (2,00,000 shares x 70% x ₹ 30) (W.N.1)			42	42
Capital Reserve (W.N.2)			274.12	274.12
Non-controlling interest (W.N.2)	0		154.95	154.95
Non-Current liabilities:				
Financial liabilities				
Long term borrowings	250	200		450
Long term provisions (W.N.1)	50	70	28.93	148.93

Deferred tax (W.N.2)	40	35	(46.5)	28.5
Current Liabilities:				
Financial liabilities				
Short term borrowings	100	150		250
Trade payable	250	300	0	550
Liability for lawsuit damages			<u>5</u>	<u>5</u>
Total	<u>2,000</u>	<u>755</u>	<u>475</u>	<u>3230</u>

2. (a) Based on the guidance above, 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 9 September 20X1, to exchange USD 10,00,000 for ₹ at the USD/₹ forward rate of 67.8 on 31 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) x 10,00,000] To Profit or loss	3,00,000	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] To Profit or loss	5,00,000	5,00,000

31-Dec-X1	Recognition of machinery acquired and on settlement		
	Property, plant and equipment (at forward rate)	Dr. 6,78,00,000	
	To Forward contract asset (company B)		8,00,000
	To Creditor (company B) / Bank		6,70,00,000

- (b) (i) The nature of D's promise in this contract is to provide M with the right to access the sports team's IP and, accordingly, revenue from the licence will be recognized over time. In reaching this conclusion, D considers all of the following facts:
- M reasonably expects D to continue to undertake activities that support and maintain the value of the team name and logo by continuing to play games and field a competitive team throughout the licence period. These activities significantly affect the IP's ability to provide benefit to M because the value of the team name and logo is substantially derived from, or dependent on, those ongoing activities.
 - The activities directly expose M to positive or negative effects (i.e. whether D plays games and fields a competitive team will have a direct effect on how successful M is in selling its products featuring the team's name and logo).
 - D's ongoing activities do not result in the transfer of a goods or a service to M as they occur (i.e. the team playing games does not transfer a goods or service to M).
- (ii) Based on B's customary business practices, Apparel Maker M probably does not reasonably expect B to undertake any activities to change the form of the IP or to support or maintain the IP. Therefore, B would probably conclude that the nature of its promise is to provide M with a right to use its IP as it exists at the point in time at which the licence is granted.

3. (a) **Statement of Cash Flows**

		₹ in lacs
Cash flows from Operating Activities		
Net Profit after Tax	4,450	
Add: Tax Paid	<u>105</u>	
	4,555	

Add: Depreciation & Amortisation (500 + 20)	520	
Less: Gain on Sale of Machine (70-60)	(10)	
Less: Increase in Deferred Tax Asset (855-750)	<u>(105)</u>	
	4,960	
Change in operating assets and liabilities		
Add: Decrease in financial asset (170 - 145)	25	
Less: Increase in other non-current asset (800 - 770)	(30)	
Less: Increase in other current asset (195 - 85)	(110)	
Less: Decrease in other non-current liabilities (3,615 – 2,740)	(875)	
Add: Increase in other current liabilities (300 - 200)	100	
Add: Increase in trade payables (150-90)	<u>60</u>	
	4,130	
Less: Income Tax	<u>(105)</u>	
Cash generated from Operating Activities		4,025
Cash flows from Investing Activities		
Sale of Machinery	70	
Purchase of Machinery [13,000 - (12,500 – 500 -60)]	(1,060)	
Purchase of Intangible Asset [50-(30-20)]	(40)	
Sale of Financial asset - Investment (2,500 – 2,300)	<u>200</u>	
Cash outflow from Investing Activities		(830)
Cash flows from Financing Activities		
Dividend Paid	(450)	
Long term borrowings paid (5,000 – 2,000)	<u>(3,000)</u>	
Cash outflow from Financing Activities		(3,450)
Net Cash outflow from all the activities		(255)
Opening cash and cash equivalents (460 – 60)		<u>400</u>
Closing cash and cash equivalents (220 – 75)		<u>145</u>

(b) 1. **Calculation of useful life of machinery on 1.4.2X01**

Depreciation charge in 5 years = (30,00,000 – 17,50,000) = ₹ 12,50,000

Depreciation per year as per Straight Line method = 12,50,000/5 years
= ₹ 2,50,000

Remaining useful life = ₹ 17,50,000 / ₹ 2,50,000 = 7 years

Total useful life = 5 years + 7 years = 12 years

2. Depreciation after upward revaluation as on 1.4.2X06	₹
Book value as on 1.4.2X06	17,50,000
Add: 10% upward revaluation	<u>1,75,000</u>
Revalued amount	<u>19,25,000</u>
Remaining useful life 7 years (Refer W.N.1)	
Depreciation on revalued amount = 19,25,000 / 7 years = ₹ 2,75,000 lakh	
3. Depreciation after downward revaluation as on 1.4.2X08	₹
Book value as on 1.4.2X08	13,75,000
Less: 15% Downward revaluation	<u>(2,06,250)</u>
Revalued amount	<u>11,68,750</u>
Revised useful life 8 years	
Depreciation on revalued amount = 11,68,750 / 8 years = ₹ 1,46,094	
4. Amount transferred from revaluation reserve	
Revaluation reserve on 1.4.2X06 (A)	₹ 1,75,000
Remaining useful life 7 years	
Amount transferred every year (1,75,000 / 7)	₹ 25,000
Amount transferred in 2 years (25,000 x 2) (B)	₹ 50,000
Balance of revaluation reserve on 1.4.2X08 (A-B)	₹ 1,25,000
5. Amount of downward revaluation to be charged to Profit and Loss Account	
Downward revaluation as on 1.4.2X08 (W.N.3)	₹ 2,06,250
Less: Adjusted from Revaluation reserve (W.N.4)	<u>(₹ 1,25,000)</u>
Amount transferred to Profit and Loss Account	<u>₹ 81,250</u>

4. (a) A temporary difference effectively arises between the value of the machine for accounting purposes and the amount of lease liability, since the rent payment is eligible for tax deduction.

Tax base of the machine is nil as the amount is not eligible for deduction for tax purposes.

Tax base of the lease liability is nil as it is measured at carrying amount less any future tax deductible amount

Recognition of deferred tax on 31st March 20X2:

Carrying amount in balance sheet

RoU Asset [120 Cr – 24 Cr (Depreciation)] ₹ 96.00 Dr

Lease Liability [120 Cr + 9.60 Cr (120 Cr x 8%) - 30 Cr] ₹ 99.60 Cr

Net Amount **₹ 3.60 Cr**

Tax Base ₹ 0.00 Cr

Temporary Difference (deductible) ₹ 3.60 Cr

Deferred Tax asset to be recognized (₹ 3.60 Cr x 30%) ₹ 1.08 Cr

- (b) The closing balance of the outstanding shares is 2,05,000 by a normal addition and subtraction. But as per weighted average concept, one need to find out for how many days each type of shares was actually held during the year.

The shares which were there on 1st April 20X1, were held for the whole year. Therefore, weighted average number of such shares will be given by the formula:

No of shares x no of days the shares were held during the year / 365

$$= 1,00,000 \times 365 / 365 = 1,00,000$$

But the shares which were issued on 15th June 20X1, were held for only 290 days. Therefore, the weighted average number of shares will be $75,000 \times 290 / 365 = 59,589$.

Following the above formula, the weighted average number of shares for calculation of EPS for the year 20X1-20X2 will be as follows:

Sr. No.	Date	Particulars	No of shares	No of days shares were outstanding	Weighted average no of shares
1	1-Apr-20X1	Opening balance of outstanding equity shares	1,00,000	365	1,00,000
2	15-Jun-20X1	Issue of equity shares	75,000	290	59,589
3	8-Nov-20X1	Conversion of convertible preference shares in Equity	50,000	144	19,726
4	22-Feb-20X2	Buy back of shares	<u>(20,000)</u>	(38)*	<u>(2,082)</u>

5	31-Mar-20X2	Closing balance of outstanding equity shares	<u>2,05,000</u>		<u>1,77,233</u>
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* These shares had already been considered in the shares issued. The same has been deducted assuming that the bought back shares have been extinguished immediately.

(c)

Either

The obligation should be measured at the present value of outflows i.e., ₹ 30,00,000. Further a risk adjustment of 5% i.e., ₹ 1,50,000 (₹ 30,00,000 x 5%) would be made.

So, the liability will be recognised at = ₹ 30,00,000 + ₹ 1,50,000 = ₹ 31,50,000.

Or

As per paragraph 5 of Ind AS 23, a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

As per paragraph 17 of Ind AS 23, an entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the entity first meets all of the following conditions:

- (a) It incurs expenditures for the asset.
- (b) It incurs borrowing costs.
- (c) It undertakes activities that are necessary to prepare the asset for its intended use or sale.

The ship is a qualifying asset as it takes substantial period of time for its construction. Thus, the related borrowing costs should be capitalised.

Marine Transport Limited borrows funds and incurs expenditures in the form of down payment on 1st April, 20X0. Thus, condition (a) and (b) are met. However, condition (c) is met only on 1st March, 20X2, and that too only with respect to one ship. Thus, there is no capitalisation of borrowing costs during the financial year ended 31st March, 20X1. Even during the financial year ended 31st March, 20X2, borrowing costs relating to the 'one' ship whose construction had commenced from 1st March, 20X2 will be capitalised from 1st March, 20X2 to 31st March, 20X2. All other borrowing costs are expensed.

5. (a) Ind AS 38 'Intangible Assets' requires an intangible asset to be recognized if, and only if, certain criteria are met. Regulatory approval on 1st June 20X5 was the last criterion to be met, the other criteria have been met as follows:

- Intention to complete the asset is apparent as it is a major project with full support from board
- Finance is available as resources are focused on project
- Costs can be reliably measured
- Benefits are expected to exceed costs – (in 2 years)

Since the project was completed on 20th April, 20X6, on 31st March, 20X6, the amount of ₹ 15,00,000 (₹ 18,00,000 x 10/12) should be capitalised in the balance sheet of year ending 20X5-20X6 representing expenditure since 1st June 20X5.

The expenditure incurred prior to 1st June 20X5 which is ₹ 3,00,000 (2/12 x ₹ 18,00,000) should be recognized as an expense, retrospective recognition of expense as an asset is not allowed.

Ind AS 36 'Impairment of assets' requires an intangible asset not yet available for use to be tested for impairment annually.

Cash flow of ₹ 12,00,000 in perpetuity would clearly have a present value in excess of ₹ 12,00,000 and hence there would be no impairment. However, the research director is technically qualified, so impairment tests should be based on her estimate of a four-year remaining life and so present value of the future cost savings of ₹ 9,60,000 should be considered in that case.

₹ 9,60,000 is greater than the offer received (fair value less costs to sell) of ₹ 7,80,000 and so ₹ 9,60,000 should be used as the recoverable amount.

So, the carrying amount should be consequently reduced to ₹ 9,60,000.

Calculation of Impairment loss of intangible asset under development:

Particulars	₹
Carrying amount	15,00,000
Less: Recoverable amount	<u>9,60,000</u>
Impairment loss	<u>5,40,000</u>

Impairment loss of ₹ 5,40,000 is to be recognised in the profit and loss for the year 20X5-20X6.

Necessary adjusting entry to correct books of account will be:

		₹	₹
Operating expenses- Development expenditure	Dr.	3,00,000	
Operating expenses–Impairment loss	Dr.	5,40,000	
To Intangible asset under development			8,40,000

- (b) Ind AS 10 'Events after the Reporting Date', classify an event as adjusting if it provides additional evidence of conditions existing at the reporting date. In this case the additional information relates to evidence of impairment of a financial asset since the customer had financial difficulties prior to 31st March 20X3.

Ind AS 109 'Financial Instruments' requires financial assets to be reviewed at each reporting date for evidence of impairment. Such evidence exists here because although the customer is expected to pay the amount due the payment date has been deferred. As per para B5.5.33 of Ind AS 109, for a financial asset that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial asset, an entity shall measure the expected credit losses as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate. Any adjustment is recognized in the profit or loss as an impairment gain or loss. Further, para B5.5.44 of Ind AS 109 provides that expected credit losses shall be discounted to the reporting date, not to the expected default or some other date, using the effective interest rate determined at initial recognition or an approximation thereof.

In such circumstances, Ind AS 109 requires that the financial asset be re-measured to the present value of the expected future receipt, discounted (in the case of a trade receivable) using effective interest rate. Therefore, in the financial statements for the year ended 31st March 20X3, asset should be measured at ₹ 55,04,587 (₹ 60,00,000 / 1.09) and an impairment loss of ₹ 4,95,413 (₹ 60,00,000 – ₹ 4,95,413) recognised in profit and loss.

In the year ended 31st March 20X4, interest income of ₹ 4,95,413 (₹ 55,04,587 x 9%) should be recognised in the profit and loss.

6. (a) To identify the performance obligations under the contract and determine if they are distinct, an automated process can be implemented using technology. The following steps can be taken:
- a. Analyze the clauses in the contract related to the services provided (broadband services, voice call services, modem sales).
 - b. Each clause should be codified using appropriate parameters or tags to capture the relevant information.
 - c. Assign Boolean values (0 or 1) to each parameter or tag in the codified clauses.
 - d. Use "0" to represent "No" and "1" to represent "Yes" for each parameter.
 - e. Define the criteria for evaluating the performance obligations based on the parameters and their Boolean values.
 - f. Consider factors such as the type of service involved, benefits derived by the customer, and promises made in the contract regarding the transfer of goods or services.
 - g. Develop an automated algorithm or script that evaluates the Boolean values of the parameters according to the defined criteria.
 - h. Calculate scores or weights for each parameter based on their significance in determining performance obligations.
 - i. Utilize the scores or weights assigned to the parameters to determine if the performance obligations are distinct.
 - j. If the total score exceeds a certain threshold, consider it a separate performance obligation.

The automated process should flag and identify these distinct performance obligations based on the evaluation results.

- (b) The above treatment needs to be examined in the light of the provisions given in Ind AS 10 '*Events after the Reporting Period*' and Ind AS 2 '*Inventories*'.

Para 3 of Ind AS 10 '*Events after the Reporting Period*' defines "Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified:

- (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and
- (b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

Further, paragraph 10 of Ind AS 10 states that:

“An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period”.

Further, paragraph 6 of Ind AS 2 defines:

“Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale”.

Further, paragraph 9 of Ind AS 2 states that:

“Inventories shall be measured at the lower of cost and net realisable value”.

Accountant of Jupiter Ltd. has re-measured the inventories after adjusting the event in its financial statement which is not correct and nor in accordance with provision of Ind AS 2 and Ind AS 10.

Accordingly, the event causing the damage to the inventory occurred after the reporting date and as per the principles laid down under Ind AS 10 ‘*Events After the Reporting Date*’ is a non-adjusting event as it does not affect conditions at the reporting date. Non-adjusting events are not recognised in the financial statements, but are disclosed where their effect is material.

Therefore, as per the provisions of Ind AS 2 and Ind AS 10, the consignment of inventories shall be recorded in the Balance Sheet at a value of ₹ 8 Lakhs calculated below:

Cost	8.00
Net realisable value	9.60
Inventories (lower of cost and net realisable value)	8.00

₹ lakhs