

PART – II

1. A Limited and B Limited are engaged in the manufacture of pharmaceuticals. 14
 On 1st June, 2024, A Limited acquired 15% of equity shares of B Limited. On
 1st October, 2024, A Limited obtains control of B Limited when it acquires a
 further 55% of B Limited's shares, thereby resulting into a total holding of 70%.
 The fair value of the shares of B Limited was ₹ 40 per share as on that date.
 Prior to the acquisition of additional 55% stake by A Limited on 1st October,
 2024, the Balance Sheets of the two companies stood as under :

(₹/lakhs)

Particulars	A Ltd.	B Ltd.
Assets		
Non-Current Assets		
Property, Plant and Equipment	600	400
Investments (6,00,000 Shares of B Ltd. acquired on 1 st June, 2024)	210	—
Current Assets		
Inventories	500	150
Financial Assets		
Trade Receivables	450	300
Cash and cash equivalents	400	100
Other Current Assets	200	230
Non-current assets held for sale	—	250
Total	2,360	1,430

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Equity and Liabilities		
Equity		
Share Capital – Equity Shares of ₹ 100/- each	500	–
Share Capital – Equity Shares of ₹ 10/- each	–	400
Other Equity	810	225
Non- Current Liabilities		
Financial Liabilities		
Long Term Borrowings	250	200
Long Term Provisions	50	70
Deferred Tax Liability	40	–
Current Liabilities		
Financial Liabilities		
Short Term Borrowings	400	285
Trade Payables	310	250
Total	2,360	1,430

In consideration of the additional stake acquired by A Limited on 1st October, 2024, it agreed to pay to each selling shareholder of B Limited a sum of ₹ 15 per share in cash and issue 1 Equity Share of ₹ 100 each of A Limited in lieu of 8 Equity Shares of ₹ 10 each held by the selling shareholder in B Limited. The fair value of the shares of A Limited as on 1st October, 2024 is ₹ 160 per Share.

In addition to the above :

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- (a) A Limited agreed to pay an additional payment as consideration that is higher of ₹ 35 lakhs and 25% of any excess profit in the first year, after acquisition over its profits in the preceding one year made by B Limited. This additional amount would be due after 2 years. B Limited has earned ₹ 10 lakhs profit in the preceding year and expects to earn another ₹ 20 lakhs.
- (b) A Limited also agreed to pay one of the promoter shareholders of B Limited a payment of ₹ 15 lakhs provided he stays with the company for two years after acquisition.
- (c) A Limited had a certain equity settled share-based payment award (Original award) which was replaced by the new award issued by B Limited. As per the original terms, the vesting period was 4 years and as of the acquisition date, the employees of B Limited have already served 2 years of service. As per the replaced award, the vesting period is reduced to one year (one year from the acquisition date). The fair value of the award on the acquisition date was as under :
- (i) Original Award : ₹ 5 lakhs
 - (ii) Replacement Award : ₹ 8 lakhs
- (d) The fair value exercise resulted in the following :
- (i) The fair value of Property, Plant and Equipment and Inventory of B Limited as on 1st October, 2024 was ₹ 480 lakhs and ₹ 170 lakhs respectively.

- (ii) The carrying value of Non-Current Asset held for sale of ₹ 250 lakhs of B Limited represents its fair value less cost to sell in accordance with the relevant Ind AS.
- (iii) B Limited has developed and patented a new drug for Parkinson disease which has been approved for clinical use. The cost of developing the drug was ₹ 140 lakhs. Based on early assessment of its sales success, the valuer has estimated its market value at ₹ 200 lakhs.
- (iv) B Limited had a law suit for infringement of Trade mark pending with a competitor who had made a claim of ₹ 50 lakhs. B Limited has disclosed the same as a Contingent Liability as it is not probable that the amount would be payable. Management reliably estimated the fair value of the liability to be ₹ 10 lakhs. Any sum which would be paid in respect of the law suit would be tax deductible.
- (e) The cost of capital of A Limited is 10%. The appropriate discount factor for ₹ 1 @ 10% payable at the end of 1st year is 0.91 and 2nd year is 0.83.
- (f) The applicable tax rate for both the entities is 30%.

Unless stated otherwise, all items have a fair value and tax base equal to their carrying amounts at the acquisition date. A Limited chooses to measure the Non-Controlling Interest in B Limited as per Proportionate Share of identifiable net assets method.

You are required to prepare the opening Consolidated Balance Sheet of A Limited as on 1st October, 2024 as per the applicable Ind AS. Working Notes should form part of your answer.

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2. (a) On 1st April, 2023, Mera Limited raised a term loan of ₹ 5,00,00,000 10 from Tera Finance Limited, a Non-Banking Finance Company on the following terms and conditions :

- Rate of Interest : 11% per annum payable annually on accrual basis.
- Repayment : The term loan would be repaid in five annual instalments of ₹ 1,00,00,000 each commencing from 31st March, 2024.

Mera Limited also incurred, upfront, a sum of ₹ 5,90,000 being loan processing charges.

The effective rate of interest on loan was 11.50% per annum.

Due to liquidity constraints, Mera Limited was unable to honour its obligation of repayment of the loan instalment which fell due on 31st March, 2025. Accordingly, it approached the lender on 31st March, 2025. Both the parties agreed to restructure the outstanding term loan on the following terms :

- Rate of Interest : The revised rate of interest on the outstanding loan would be 15% per annum payable annually on accrual basis.
- Repayment : The loan would be repaid in eight annual instalments of ₹ 50,00,000 each commencing from 31st March, 2026.

No further cost is incurred by Mera Limited towards restructuring of the loan.

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*extinguishment
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You are required to record the necessary journal entries in the books of Mera Limited from 1st April, 2023 to 31st March, 2026 after giving effect to the changes in the terms of the loan.

The following present values of ₹ 1 are provided :

Interest Rate	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
11%	0.901	0.812	0.731	0.659	0.593	0.535	0.482	0.434
11.5%	0.897	0.804	0.721	0.647	0.580	0.520	0.467	0.419
15%	0.870	0.756	0.658	0.572	0.497	0.432	0.376	0.327

(b) Hero Ltd. reported a profit before tax of ₹ 8 lakhs for the third quarter ending 31st December 2024. On enquiry, you observe the following :

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- (i) Dividend income of ₹ 8 lakhs received during the quarter has been recognized to the extent of ₹ 2 lakhs only.
- (ii) 60% of sales promotion expenses of ₹ 30 lakhs incurred in the third quarter has been deferred to the fourth quarter as the sales in fourth quarter are expected to be high.
- (iii) ₹ 4 lakhs extraordinary gain received in third quarter was allocated equally to the third and fourth quarter.
- (iv) Cumulative loss of ₹ 30 lakhs resulting from change in method of inventory valuation was recognized in the third quarter. Out of this loss, ₹ 10 lakhs relate to previous quarters.
- (v) Sale of investment in the first quarter resulted in a gain of ₹ 40 lakhs. The company had apportioned this equally to the four quarters.

You are required to discuss the treatment of the above observations and ascertain the adjusted profit /loss before tax for the third quarter.

3. (a) Tiny Ltd. deals in trading of cars across India. It became 100% subsidiary of Any Ltd. on 1st April, 2022 at a purchase consideration of ₹ 64 crores. At the time of acquisition, the fair value of the net identifiable assets of Tiny Ltd. was ₹ 51 crores and goodwill was ₹ 13 crores.

The useful life of Tiny Ltd.'s assets as on 1st April, 2022 was estimated to be 15 years with no residual value. Any Ltd. follows straight line depreciation method.

On 31st March 2024, the government issued new guidelines due to which Tiny Ltd. had to close few of its showrooms. As a result, Tiny Ltd.'s revenue was estimated to reduce by 30%. This adverse change in marketplace and regulatory conditions indicated impairment. As a result, Any Ltd. had to estimate the recoverable amount of goodwill and net assets of Tiny Ltd. on 31st March 2024. No independent cash inflows can be identified to any individual assets. So, the entire operation of Tiny Ltd. was treated as a CGU. Due to the regulatory entangle it was not possible to determine the selling price of Tiny Ltd. as a CGU. Its value in use was estimated by the management at ₹ 35 crores.

Recently, on 31st March, 2025, the government withdrew the guidelines issued on 31st March, 2024. The management expects a favourable change in net cash flows. The recoverable amount of Tiny Ltd.'s net asset is re-estimated. The value in use is expected to be ₹ 52 crores and fair value less cost to disposal is expected to be ₹ 48 crores.

You are required to :

- (i) Calculate the impairment loss, if any, as on 31st March 2024.

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(ii) Also advise the accounting treatment for reversal of impairment loss and the subsequent depreciation thereon.

(b) Following information is given to you in respect of A Ltd. and B Ltd. :

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Particulars	A Ltd.	B Ltd.
	Amount (₹)	Amount (₹)
Income/(loss) from continuing operations	5,04,000	(3,60,000)
Income/(loss) from discontinued operations	(8,40,000)	6,51,840
Net income/(loss)	(3,36,000)	2,91,840
Weighted average number of shares outstanding	1,60,000	1,92,000
Incremental common share outstanding relating to stock options	32,000	51,200

From the above information, you are required to calculate the following :

- (i) Basic and Diluted EPS of A Ltd. and
- (ii) Diluted EPS of B Ltd.

4. (a) Chimney Ltd. purchased a machinery on 1-4-2019 for ₹ 18,00,000. The machinery has no residual value. It was reflected in its books at ₹ 14,40,000 on 1-4-2021. The Company charges depreciation on straight line method.

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The Company had estimated an upward revaluation of 8% on 1-4-2021 to arrive at the fair value of the asset. Chimney Ltd. availed the option given by Ind AS of transferring some of the surplus, as the asset is used by the enterprise.

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On 1-4-2023, the machinery was revalued downward by 10% and the company also re-estimated the machinery's remaining life to be 8 years.

On 31-3-2025 the machinery was sold for ₹ 8,98,780.

You are required to prepare machinery account in the books of Chimney Ltd. over its useful life to record the above transactions.

- (b) National Ltd. granted 1,000 stock appreciation rights (SAR) each to its 160 employees on 1st April, 2021 with a fair value of ₹ 100 each. The terms of the award require the employees to provide service for four years to earn the award. The SARs are expected to be settled in cash and it is expected that 100% of the employees will exercise the options. The fair value of each SAR at each reporting date is as follows :

On 31st March, 2022 ₹ 120

On 31st March, 2023 ₹ 130

On 31st March, 2024 ₹ 135

On 31st March, 2025 ₹ 140

(i) You are required to pass necessary journal entries across all the years for recognition of the expenses.

(ii) Would your answer be different, if at the end of the second year of service i.e. at 31st March, 2023, National Ltd. modifies the terms of the award to require only three years of total service instead of four years to earn the award. The SARs are expected to be settled in cash and it is expected that 100% of the employees will exercise the options. Pass revised journal entries.

5. (a) HaSo Ltd. deals in manufacture of computer hardware and development of software applications. Discuss the revenue recognition of HaSo Ltd. as per Ind AS 115 in the following cases : 5

(i) Mr. Grahak purchases a software application license from HaSo Ltd. for ₹ 2,00,000. Under the agreement, HaSo Ltd. will provide updates or upgrades on a when-and-if-available basis. Mr. Grahak can choose whether to install them or not. HaSo Ltd. will undertake no other activities that will change the functionality of the software application license.

(ii) HaSo Ltd. licenses the right to operate its exclusive store in Madurai to Franchisee Ltd. The store will bear HaSo Ltd. trade name and brand logo. Franchisee Ltd. will have the right to sell HaSo Ltd.'s products for next 5 years from the date of agreement. Franchisee Ltd. pays an all inclusive up-front fixed fee on signing of the agreement. The franchise agreement requires HaSo Ltd. to maintain the brand through product improvements, marketing campaigns etc.

(b) Tiger Gems Ltd. and Mammoth Minerals Ltd. are engaged in extraction of coal and minerals from coal-fields, which they own and operate independently of each other. 5

In May 2024, Tiger Gems Ltd. and Mammoth Minerals Ltd. jointly acquired an underground 'Luminuos' Coal mine in the ratio of 55:45. Both the companies agreed to share services and costs. Decisions relating to 'Luminuos' Coal mine requires unanimous agreement of both the parties. No separate entity is incorporated.

The extraction of coal and minerals from Coal mine is done through huge machines. These machines can extract only upto 95%. The remaining coal is irrecoverable and remains in the Coal mine until the mine is decommissioned. As per the laws in force, the Coal mine should be decommissioned at the end of its useful life.

- (i) Discuss whether the joint arrangement between Tiger Gems Ltd. and Mammoth Minerals Ltd. is a Joint Operation or Joint Venture.
- (ii) Discuss the accounting for the unextracted coal and mineral as per Ind AS 16 and Ind AS 37 with respect to aforesaid 'Luminuos' Coal mine.

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Assume operating cycle to be of twelve months. Classify the following deposits given by an entity in automobile industry during the year ended 31st March, 2025 either as current asset or non-current asset. Give reasons.

- (i) Electricity deposit paid to permanently enhance the power load of the factory.

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- (ii) Tender deposit. Tender is likely to be opened & awarded to the lowest bidder within next six months.
- (iii) GST demand deposited with the department against which the entity has filed an appeal before the appellate authorities. Appeal is likely to be heard after 30th June, 2026.
- (iv) Earnest money deposit on award of a long term job contract to be completed by 31st May, 2026. Earnest money is returnable only on completion of the job work.

OR

- (c) Discuss the limitations of general purpose financial reporting. 4
6. (a) Discuss any five key impacts of Blockchain on Financial Reporting. 5
- (b) In a manufacturing process of Milky Way Ltd., one by-product 'Universe' emerges besides two main products Galaxy 1 and Galaxy 2, apart from scrap. Details of cost of production process are hereunder :

Item	Unit	Amount (₹)	Output (Units)	Closing Stock as on 31 st March, 2025
Raw Material	14,500	1,50,000	Galaxy 1 : 5,000	Galaxy 1 : 100
Wages		90,000	Galaxy 2 : 4,000	Galaxy 2 : 250
Fixed Overhead		65,000	Universe : 2,000	
Variable Overhead		50,000		

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Average market price of Galaxy 1 and Galaxy 2 is ₹ 60 per unit and ₹ 50 per unit respectively, by-product is sold @ ₹ 20 per unit. There is a profit of ₹ 5,000 on sale of by-product after incurring separate processing charges of ₹ 8,000 and packing charges of ₹ 2,000. ₹ 5,000 was realized from sale of scrap.

Calculate the value of closing stock of Galaxy 1 and Galaxy 2 as on 31st March, 2025.

- (c) Investors Ltd. is in the process of acquisition of shares of Glue Ltd. as part of business reorganization plan. The projected free cash flows of Glue Ltd. for the next 5 years are as follows :

(₹ in lakhs)

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Cash flows	420	418	272	606	777
Terminal value					8,919

The weighted average cost of capital of Glue Ltd. is 12%. The total debt as on measurement date is ₹ 3,294 lakhs and the surplus cash and cash equivalents is ₹ 240 lakhs. The total number of shares of Glue Ltd. as on the measurement date is ₹ 20 lakhs.

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You are required to determine the value per share of Glue Ltd. as per Income Approach as enunciated in Ind AS 113, Fair Value Measurement.

Compute value per share upto 2 decimal points.

Present value factor of ₹ 1 at 12% is as under :

Year 1	Year 2	Year 3	Year 4	Year 5
0.8929	0.7972	0.7118	0.6355	0.5674

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