Mock Test Paper - Series II: April, 2025

Date of Paper: 3rd April, 2025

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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	630
Total	3,230
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	5
Total	3,230

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 x 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		4,00,00,000
Number of shares	4,00,000	
Shares to be issued 2:1	2,00,000	
Fair value ₹ per share		40
		₹ in lakhs
PC (2,00,000 x 70% x ₹ 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) x 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)			2.50
PC in lakhs (A+B+C)			87.43

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	-	(5)	(5)
Net assets (X)	625	470	(155)
Deferred Tax Asset on FV adjustment (155 x 30%) (Y)		46.50	155
Net assets (X+Y)		516.5	
Non-controlling interest (516.50 x 30%) rounded off		154.95	
Purchase consideration (PC)		87.43	
Capital Reserve (Net assets – NCI – PC)		274.12	

3. **Computation of consolidated amounts of Consolidated financial statements**

	Professional Ltd.	*Dynamic Ltd. (pre-acquisition)*	*PPA Allocation*	*Total*
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	400	230		630
Total	2,000	1,380	(150)	3230
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			5	5
Total	2,000	755	475	3230

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) x10,00,000]	3,00,000	
	To Profit or loss		3,00,000
31-Dec-X1	***Fair value change in forward contract***		
	Forward contract asset (company B) Dr. [{(67.8-67) x 10,00,000} - 3,00,000]	5,00,000	
	To Profit or loss		5,00,000

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

(b) (i) 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	105	
	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)	(105)	
	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)	60	
	4,130	
Less: Income Tax	(105)	
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)	200	
Cash outflow from Investing Activities		**(830)**
Cash flows from Financing Activities		
Dividend Paid	(450)	
Long term borrowings paid (5,000 – 2,000)	(3,000)	
Cash outflow from Financing Activities		**(3,450)**
Net Cash outflow from all the activities		**(255)**
Opening cash and cash equivalents (460 – 60)		**400**
Closing cash and cash equivalents (220 – 75)		**145**

(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	1,75,000
Revalued amount	19,25,000
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	(2,06,250)
Revalued amount	11,68,750
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)	(₹ 1,25,000)
Amount transferred to Profit and Loss Account	₹ 81,250

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 x 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 x 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	(20,000)	(38)*	(2,082)

5	31-Mar-20X2	Closing balance of outstanding equity shares	2,05,000		1,77,233

* 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	9,60,000
Impairment loss	5,40,000

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'*.

<u>Para 3 of Ind AS 10</u> '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: *₹ lakhs*

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