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.?

(a) Mr. A is not a related party to X Ltd. even if it controls X Ltd.

(b) 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.

(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.

(d) 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.?

(a) X Ltd, and Z Ltd. are related party

(b) X Ltd. and Z Ltd. are not related party

(c) Mr. A is related party to Z Ltd.

(d) 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)	1st April, 20X1
Date of Security Deposit (Finishing Date)	31st March, 20X6
Discount rate	12.00%
Security deposit	10,00,000
Present value factor at the end of 5th 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	400	230
Total	2,000	1,380
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	250	300
Total	2,000	1,380

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	800	770
Total non-current assets	14,850	14,220
Current assets		
Financial assets		
Investments	2,300	2,500
Cash and cash equivalents	220	460
Other current assets	195	85
Total current assets	2,715	3,045
Total assets	17,565	17,265
EQUITY AND LIABILITIES		
Equity		
Equity share capital	300	300
Other equity	12,000	8,000
Total equity	12,300	8,300
Liabilities		
Non-current liabilities		
Financial liabilities		
Long-term borrowings	2,000	5,000
Other non-current liabilities	2,740	3,615
Total non-current liabilities	4,740	8,615
Current liabilities		
Financial liabilities		
Trade payables	150	90
Bank overdraft	75	60

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

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)**