Mock Test Paper - Series I: July, 2025

Date of Paper: 21st July, 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

ABC Ltd. manufactures and sells healthcare products, and food and grocery products.

(i) Three products namely A, B & C are manufactured. Product A is classified as healthcare product and product B & C are classified as food and grocery products. Products B & C are similar products. Discrete financial information is available for each manufacturing locations and for the selling activity of each product. There are two-line managers responsible for manufacturing activities of products A, B & C. Manager X manages product A and Manager B manages products B & C. The operating results of health care products (product A) and food and grocery products (products B & C) are regularly reviewed by the CODM.

(ii) ABC Ltd provides you the following information:

Raw material stock holding period	: 3 months
Work-in-progress holding period	: 1 month
Finished goods holding period	: 5 months
Debtors collection period	: 5 months

The trade payables of the Company are paid in 12.5 months.

(iii) ABC Ltd. owns 30% of the share capital of XYZ Ltd. and has the ability to exercise significant influence over it.

XYZ Ltd. holds the following investments:

a. 70% of the share capital of its subsidiary, PQR Ltd.; and

b. 30% of the share capital of LMN Ltd., with the ability to exercise significant influence.

ABC Ltd. transacts with PQR Ltd. and LMN Ltd.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 4 in line with relevant Ind AS:

1. What is the operating cycle of ABC Ltd.?

    (a) 9 months

    (b) 14 months

    (c) 26.5 months

    (d) 4 months

2. What would be the classification of trade payables in the balance sheet of ABC Ltd.?

    (a) Current liability

    (b) Non-current liability

    (c) Would not appear in the balance sheet

    (d) Would be disclosed in the Notes to Accounts only

3. How many operating segments does ABC Ltd. have?

    (a) One operating segment i.e. Healthcare segment

    (b) One operating segment i.e Food and Grocery Segment

    (c) Two operating segments i.e 'healthcare segment and 'food and grocery segment'

    (d) Three operating segments i.e 'healthcare segment, 'food segment' and 'grocery segment'

4. State which of the following statement is **NOT** correct as per Ind AS 24 with respect to ABC Ltd.'s transactions between PQR Ltd. and LMN Ltd.?

   (a) ABC Ltd. should disclose its transactions with PQR Ltd. in its separate financial statements. PQR Ltd. is a related party of ABC Ltd., because PQR Ltd. is the subsidiary of ABC Ltd.'s associate, XYZ Ltd.

   (b) ABC Ltd. is not required to disclose its transactions with LMN Ltd. in its financial statements. LMN Ltd. is not a related party of ABC Ltd., because ABC Ltd. has no ability to exercise control or significant influence over LMN Ltd.

   (c) PQR Ltd. is required to disclose its transactions with ABC Ltd. in its financial statements, because ABC Ltd. is a related party but LMN Ltd. is not required to disclose transactions with ABC Ltd., because they are not related parties.

   (d) ABC Ltd. should not disclose its transactions with PQR Ltd. in its separate financial statements. PQR Ltd. is not a related party of ABC Ltd., because PQR Ltd. is the subsidiary of ABC Ltd.'s associate, XYZ Ltd. **(4 x 2 = 8 Marks)**

Case Scenario 2

B Ltd. is engaged in many business including manufacturing and fitness clubs and sports gymnasium. It prepares its financial statements following Indian Accounting. During the year, the company has faced some issues and for their solution seeks your professional advice.

(i) A gymnasium enters into a contract with a new member to provide access to its gym for a 12-month period at ₹ 4,500 per month. The member can cancel his or her membership without penalty after three months.

(ii) The following information is gathered from B Ltd.:

- Full capacity is 10,000 labour hours in a year.
- Normal capacity is 7,500 labour hours in a year.
- Actual labour hours for current period are 6,500 hours.
- Total fixed production overhead is ₹ 1,500.
- Total variable production overhead is ₹ 2,600.
- Total opening inventory is 2,500 units.
- Total units produced in a year are 6,500 units.
- Total units sold in a year are 6,700 units.

- The cost of inventories is assigned by using FIFO cost formula.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 5 to 8 in line with relevant Ind AS:

5. What is the contract term of the contract entered by the gymnasium and a new member?

   (a) 3 months

   (b) 12 months

   (c) 9 months

   (d) There is no contract

6. The amount of fixed production overhead allocated to units produced during the year would be

   (a) ₹ 1,800

   (b) ₹ 1,640

   (c) ₹ 1,500

   (d) ₹ 1,300

7. What is the total fixed and variable production overhead recognized as part of cost of closing inventory of the year?

   (a) ₹ 1,380

   (b) ₹ 2,740

   (c) ₹ 1,500

   (d) ₹ 2,420

8. What amount will be recognized as an expense in the profit and loss account?

   (a) ₹ 1,380

   (b) ₹ 2,740

   (c) ₹ 1,500

   (d) ₹ 2,420 **(4 x 2 = 8 Marks)**

Case Scenario 3

Z Ltd. is a multi-national company and prepares and presents its financial statements following Indian Accounting Standards.

(i) Z Ltd. makes sale of goods to customers on credit of 45 days. The customers are entitled to earn a cash discount @ 2% per annum if payment is made before 45 days and an interest @ 10% per annum is charged for any payments made after 45 days.

(ii) Z Ltd. makes sale of goods to customers on credit. Goods are carried in large containers for delivery to the dealers' destinations. All dealers are required to deposit a fixed amount of ₹ 10,000 as security for the containers, which is returned only when the contract with Company terminates. The deposits carry 8% per annum which is payable only when the contract terminates.

If the containers are returned by the dealers in broken condition or any damage caused, then appropriate adjustments shall be made from the deposits at the time of settlement.

(iii) Z Ltd. has following three types of interests in an associate:

- Equity shares: 25% of the equity shares to which equity method of accounting is applied
- Preference shares: Non-cumulative preference shares that form part of net investment in the associate. Such preference shares are measured at fair value as per Ind AS 109.
- Long-term loan: The loan carrying interest of 10% p.a. The interest income is received at the end of each year. The long-term loan is accounted as per amortised cost as per Ind AS 109. This loan also forms part of net investment in the associate.

At the start of year 1, the carrying value of each of the above interests is as follows:

- Equity shares – ₹ 10,00,000
- Preference shares – ₹ 5,00,000
- Long-term loan – ₹ 3,00,000

Following table summarises the changes in the fair value of preference shares as per Ind AS 109, impairment loss on long-term loan as per Ind AS 109 and entity's share in profit/loss of associate for year 1: ₹

End of Year	Increase / (Decrease) in fair value of preference shares as per Ind AS 109	Impairment loss / (reversal) on long-term loan as per Ind AS 109	Entity's share in profit / (loss) of associate
1	(50,000)	(50,000)	(16,00,000)

Throughout year 1 to 5, there has been no objective evidence of impairment in the net investment in the associate. The entity does not have any legal or constructive obligation to share the losses of the associate beyond its interest in the associate.

Based on above, determine the closing balance of each of the above interests at the end of each 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 classification of such trade receivables in the books of Z Ltd.?

   (a) Non-current, non-financial asset

   (b) Non-current, financial asset

   (c) Current financial asset

   (d) Current non-financial asset

10. What will be the classification of such deposits in the books of dealers?

    (a) Non-current, non-financial asset

    (b) Non-current, financial asset

    (c) Current financial asset

    (d) Current non-financial asset

11. The closing balance of equity share interest in an associate at the end of year 1 will be

    (a) ₹ 10,00,000

    (b) (₹ 6,00,000)

    (c) ₹ 2,00,000

    (d) Nil

12. The closing balance of preference share interest in an associate at the end of year 1 will be

    (a) ₹ 5,00,000

    (b) ₹ 4,50,000

    (c) Nil

    (d) (₹ 50,000)

13. The closing balance of long-term loan interests in an associate at the end of year 1 will be

(a) ₹ 3,00,000

(b) ₹ 2,50,000

(c) Nil

(d) ₹ 1,00,000 **(5 x 2 = 10 Marks)**

14. A first-time adopter of Ind AS shall apply the requirements in Ind AS 109, Financial Instruments and Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance -

(a) Retrospectively to government loans existing at the date of transition to Ind AS and shall recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant.

(b) Prospectively to government loans existing at the date of transition to Ind AS and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant.

(c) Prospectively to government loans existing at the date of transition to Ind AS and shall recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant.

(d) Retrospectively to government loans existing at the date of transition to Ind AS and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant. **(2 Marks)**

15. According to the principle of Integrity under the Code of Ethics, a Chartered Accountant shall not knowingly be associated with information if the accountant believes that the information:

(a) Is incomplete but immaterial to the user's decision-making process

(b) Contains a materially false or misleading statement

(c) Has been approved by a senior and hence requires no verification

(d) Is based on assumptions made in good faith, even if unverified **(2 Marks)**

PART – II DESCRIPTIVE QUESTIONS

Question No.1 is compulsory. Candidates are required to answer any four questions from the remaining five questions.

Working notes should form part of the answers.

Maximum Marks – 70 Marks

1. The Accountant Mr. Ramesh Kanna of 'H' Limited submitted to you the following Standalone Balance Sheet extracts as at 31st March 20X2: **Amount in ₹**

	H Ltd.		S Ltd.		A Ltd.	
Assets						
Non-current assets						
(a) Property, Plant and Equipment	5,50,000		4,80,000		2,50,000	
(b) Financial Assets						
Investments:				4,80,000		2,50,000
14,000 shares in S Ltd.	5,60,000					
4,000 shares in A Ltd.	1,00,000	12,10,000				
Current assets						
(a) Inventory	4,85,000		3,82,500		2,45,500	
(b) Financial Assets						
Cash and cash equivalents	89,000		98,000		1,77,000	
Trade receivables	3,95,000	9,69,000	3,05,000	7,85,500	1,78,500	6,01,000
Total Assets		**21,79,000**		**12,65,500**		**8,51,000**

Equity & Liabilities	₹	₹	₹	₹	₹	₹
Shareholder's Equity						
(a) Equity Share Capital (₹ 10 per share)	5,00,000		2,00,000		1,00,000	
(b) Other Equity						
Retained earnings	9,00,000	14,00,000	7,50,000	9,50,000	4,24,000	5,24,000
Non-current liabilities						
(a) Financial Liabilities						
Borrowing–Term Loans		4,00,000		1,50,000		1,00,000

Current liabilities						
(a) Financial Liabilities						
Trade payables		3,79,000		1,65,500		2,27,000
Total Equity and Liabilities		**21,79,000**		**12,65,500**		**8,51,000**

The following additional information is made available in respect of these companies:

(i) H Limited purchased the shares in S Limited on 31st October 20X1 when retrained earnings of S Limited was ₹ 500,000 and the shares in A Limited were acquired on 30th June 20X1 when its retained earnings stood at ₹ 1,75,000.

(ii) Inventory of A Limited as on 31st March, 20X2 include inventory valued at ₹ 60,000 which had been purchased from H Limited, on 1st January, 20X2 at cost plus 20%.

(iii) Trade payable of H Limited includes ₹ 25,000 payable to A Limited, the amount receivable being recorded in the receivables of A Limited.

(iv) Goodwill in respect of the acquisition of S Limited has been fully impaired. The recoverable amount of the investment in A Limited exceeds its' carrying value at 31st March 20X2. Non-controlling interest is valued at the proportionate share of the identifiable net assets.

(v) 10% dividends we declared by both H Limited and S Limited whereas A Limited declared 15% dividend for the year 20X1-20X2.

(vi) On 31st March, 20X2, S Limited made a bonus issue of one equity share for every two shares held by the shareholders of S Limited.

(vii) Dividends were declared but were not accounted for by all these companies in the books before the year end. Similarly, the bonus issued by S Limited was not reflected in the balance sheet as on 31st March, 20X2.

You are required to take note of the above available information and draw the consolidated Balance Sheet of H Limited as at 31st March 20X2. Notes to accounts are not required. **(14 Marks)**

2. (a) (i) A Ltd has made a security deposit whose details are described below. Make necessary journal entries for accounting of the deposit in the first year and last year. Assume market interest rate for a deposit for similar period to be 12% per annum.

Particulars	Details
Date of Security Deposit (Starting Date)	1-Apr-20X1
Date of Security Deposit (Finishing Date)	31-Mar-20X6

Description	Lease
Total Lease Period	5 years
Discount rate	12.00%
Security deposit	10,00,000
Present value factor at the 5th year	0.567427

(5 Marks)

(ii) On 1 January 20X0, XYZ Ltd. issues 10-year bonds for ₹ 10,00,000, bearing interest at 10% (payable annually on 31st December each year). The bonds are redeemable on 31 December 20X9 for ₹ 10,00,000. No costs or fees are incurred. The effective interest rate is therefore 10%. On 1 January 20X5 (i.e. after 5 years) XYZ Ltd. and the bondholders agree to a modification in accordance with which:

- the term is extended to 31 December 20Y1;
- interest payments are reduced to 5% p.a.;
- the bonds are redeemable on 31 December 20Y1 for ₹ 15,00,000; and
- legal and other fees of ₹ 1,00,000 are incurred.

XYZ Ltd. determines that the market interest rate on 1 January 20X5 for borrowings on similar terms is 11%.

The repayment schedule for the original debt till the date of renegotiation is as below:

Date / year ended	**Opening balance**	**Interest accrual**	**Cash flows**	**Closing balance**
1 January 20X0	10,00,000	1,00,000	(100,000)	10,00,000
31 December 20X0	10,00,000	1,00,000	(1,00,000)	10,00,000
31 December 20X1	10,00,000	1,00,000	(1,00,000)	10,00,000
31 December 20X2	10,00,000	1,00,000	(1,00,000)	10,00,000
31 December 20X3	10,00,000	1,00,000	(1,00,000)	10,00,000
31 December 20X4	10,00,000	1,00,000	(1,00,000)	10,00,000

Required

Determine the gain or loss on modification of the terms of bonds.

Year	Discount factor @ 10%	Discount factor @ 11%
1	0.909091	0.900901
2	0.826446	0.811622
3	0.751315	0.731191
4	0.683013	0.658731
5	0.620921	0.593451
6	0.564474	0.534641
7	0.513158	0.481658
Annuity	4.868419	4.712196

(5 Marks)

(b) Company A is the parent company of a group. Company A is an unlisted company having net worth of 60 crores as on 31st March 20X1. Following are the other companies of the group.

Name of the company	Relationship	Net worth as on 31st March 20X1
Company B (Unlisted)	Subsidiary of Company A	₹ 600 Crore
Company C (Unlisted)	Subsidiary of Company B	₹ 150 Crore

Whether Ind AS be applicable to companies A, B and C? **(4 Marks)**

3. (a) Besides manufacturing plants, A Ltd. has various other assets, not used for operational activities, e.g., freehold land, townships in different locations, excess of office space rented to ABC, etc. Also, A Ltd. has some land, which are kept vacant as per the government regulations which require that a specified area around the plant should be kept vacant.

The details of these assets are as under:

Property	Details
A Ltd.'s office building (registered office)	A Ltd.'s registered office in Delhi, is a 15 storey building, of which only 3 floors are occupied by A Ltd., whereas remaining floors are given on rent to other companies. These agreements are usually for a period of 3 years. According to A Ltd., such excess office space will continue to be let out on lease to external parties and have no plans to occupy it, at least in near future.

Flats in Township located in location 1	As regards township in Location 1, there are approximately 2,000 flats in the said township. It was built primarily for A Ltd.'s employees, hence, approximately 80% of the flats are allotted to employees and remaining flats are either kept vacant or given on rent to other external parties. A lease agreement is signed between A Ltd. and an individual party for every 12 months being 1st April to 31st March. The lease entered is a cancellable lease (cancellable at the option of any of the parties). Also, besides monthly rent, additional charges are levied by A Ltd. on account of electricity, water, cable connection, etc. According to A Ltd., there is no intention of selling such excess flats or allotting it to its employees.
Flats in township located in location 2	There are 1,000 flats in location 2 township, of which: • 400 flats are given to employees for their own accommodation. • 350 flats are given on rent to Central Government and State Government for accommodation of their employees. Average lease period being 12 months with cancellable clause in lease agreements. • 250 flats are kept vacant.
Hostel located in location 1	60 rooms in the hostel have been let out to G Ltd., to give accommodation to their personnel. Lease agreement is prepared for every 11 months and renewed thereafter. Besides the monthly rent amount, some charges are levied towards water, electricity and other amenities, e.g., cable connection, etc.
Land in location 1	In 20X4, A Ltd. purchased a plot of land on the outskirts of a major city. The area has mainly low-cost public housing and very limited public transport facilities. The government has plans to develop the area as an industrial park in 5 years' time and the land is expected to greatly appreciate in value if the government proceeds with the plan. A Ltd. has not decided what to do with the property.

Land in location 1	A portion of land has been leased out to C Ltd. for its manufacturing operations. Land has been given on lease on a lease rental of ₹ 10 lacs p.a. with a lease term of 25 years.
Land in location 2	A portion of the land has been given on rent to D Ltd. which has constructed a petrol pump on such land. It has been leased for a period of 40 years and renewed for a further period of 40 years.

Determine the classification of properties which are not held for operational purposes, with suitable reasoning in the financial statements of A Ltd. **(8 Marks)**

(b) The directors of H Ltd. wish to recognise a material deferred tax asset in relation to ₹ 250 Cr of unused trading losses which have accumulated as at 31st March 20X1. H Ltd. has budgeted profits for ₹ 80 Cr for the year ended 31st March 20X2. The directors have forecast that profits will grow by 20% each year thereafter.

However, the market is currently depressed and sales orders are at a lower level for the first quarter of 20X2 than they were for the same period in any of the previous five years. On extrapolating the sales order book, it is noted that the improvement in trading results may occur after the next couple of years to come at the position of breakeven and the budgeted profits shared by the directors of H Ltd. do not appear to be in line with the sales order book. H Ltd. operates under a tax jurisdiction which allows for trading losses to be only carried forward for a maximum of two years.

Analyse whether a deferred tax asset can be recognized in the financial statements of H Ltd. for the year ended 31st March 20X1? **(6 Marks)**

4. (a) A Ltd. purchased an asset of ₹ 100 lakh on 1st April, 20X0. It has useful life of 4 years with no residual value. Recoverable amount of the asset is as follows:

As on	Recoverable amount
31st March, 20X1	₹ 60 lakh
31st March, 20X2	₹ 40 lakh
31st March, 20X3	₹ 28 lakh

Calculate the amount of impairment loss or its reversal, if any, on 31st March, 20X1, 31st March, 20X2 and 31st March, 20X3. **(6 Marks)**

(b) Company X purchased 100 goats at an auction for ₹ 1,00,000 on 30th September 20X1. Subsequent transportation costs were ₹ 1,000 that is similar to the cost X would have to incur to sell the goat at the auction. Additionally, there would be a 2% selling fee on the market price of the goat to be incurred by the seller.

On 31st March 20X2, the market value of the goat in the most relevant market increases to ₹ 1,10,000. Transportation costs of ₹ 1,000 would have to be incurred by the seller to get the goat to the relevant market. An auctioneer's fee of 2% on the market price of the goat would be payable by the seller.

On 1st June 20X2, X sold 18 goats for ₹ 20,000 and incurred transportation charges of ₹ 150. In addition, there was a 2% auctioneer's fee on the market price of the goat paid by the seller.

On 15th September 20X2, the fair value of the remaining goat was ₹ 82,820. 42 goats were slaughtered on that day, with a total slaughter cost of ₹ 4,200. The total market price of the carcasses on that day was ₹ 48,300, and the expected transportation cost to sell the carcasses is ₹ 420. No other costs are expected.

On 30th September 20X2, the market price of the remaining 40 goat was ₹ 44,800. The expected transportation cost is ₹ 400. Also, there would be a 2% auctioneer's fee on the market price of the goat payable by the seller.

Pass Journal entries for the initial and subsequent measurement for all above transactions. Interim reporting periods are of 30th September and 31 March and the company determines the fair values on these dates for reporting. **(8 Marks)**

5. (a) An entity enters into a contract with a customer for two intellectual property licences (Licences A and B), which the entity determines to represent two performance obligations each satisfied at a point in time. The stand-alone selling prices of Licences A and B are ₹ 16,00,000 and ₹ 20,00,000, respectively. The entity transfers Licence B at inception of the contract and transfers Licence A one month later.

Case A—Variable consideration allocated entirely to one performance obligation

The price stated in the contract for Licence A is a fixed amount of ₹ 16,00,000 and for Licence B the consideration is three per cent of the customer's future sales of products that use Licence B. For purposes of allocation, the entity estimates its sales-based royalties (ie the variable consideration) to be ₹ 20,00,000. Allocate the transaction price.

Case B — Variable consideration allocated on the basis of stand-alone selling prices

The price stated in the contract for Licence A is a fixed amount of ₹ 6,00,000 and for Licence B the consideration is five per cent of the customer's future sales of products that use Licence B. The entity's estimate of the sales-based royalties (ie the variable consideration) is ₹ 30,00,000. Here, Licence A is transferred 3 months later. The royalty due from the customer's first month of sale is ₹ 4,00,000.

Allocate the transaction price and determine the revenue to be recognized for each licence and the contract liability, if any. **(8 Marks)**

(b) ABC Ltd., a public limited company, is in the business of exploration and production of oil and gas and other hydrocarbon related activities outside India. It operates overseas projects directly and/or through subsidiaries, by participation in various joint arrangements and investment in associates. The company was following Accounting Standards as notified under the Companies (Accounting Standards) Rules until 31^{st} March, 20X1. However, it has adopted Indian Accounting Standards (Ind AS) with effect from 1^{st} April, 20X1.

The goodwill recognised in accordance with AS 21 and AS 27 was due to corporate structure and the line-by-line consolidation of subsidiaries' / proportionate consolidation of jointly controlled entities' financial statements which was prepared on historical costs convention. ABC Ltd. has not taken into consideration the valuation of underlying oil and gas reserves for which excess amount (i.e. goodwill calculated as per the relevant AS requirements) has been paid by the company at the time of acquisition. The company further considered that in oil and gas companies, the goodwill generated on acquisition of mineral rights either through jointly controlled entities or subsidiaries, inherently derives its value from the underlying mineral rights and, accordingly, value of such goodwill depletes as the underlying mineral resources are extracted.

Therefore, taking a prudent approach and considering the above substance, the company amortised the goodwill in respect of its subsidiaries / jointly controlled assets over the life of the underlying mineral rights using Unit of Production method. This allowed the company to utilise the value of goodwill over the life of mineral rights and completely charging off the goodwill over the life of the reserves.

For financial year 20X0-20X1, the company has availed transition exemption under Ind AS 101 and has not applied the principles of Ind AS 103.

ABC Ltd. considering the substance over form of the goodwill to be in the nature of 'acquisition costs' intends to continue amortisation of the goodwill recognised under AS in respect of its subsidiaries / joint ventures (jointly controlled entities under AS) over the life of the underlying mineral rights using Unit of Production method, under Ind AS also post transition date.

Comment on appropriateness of the accounting treatment, under Ind AS, for amortisation of the goodwill by the company and state whether the accounting treatment in respect of amortisation of goodwill is correct or not. **(6 Marks)**

6. (a) Astra Ltd. is a listed entity which operates in the defence and fibre optics sector. It supplies fibre optic cables and racks in the domestic country. This activity is only a trading activity for Astra Ltd. as it procures goods from pre-approved suppliers, and after inspection, sells the goods to IT companies. The sale contract requires Astra Ltd. to deliver these goods to the IT companies' locations (i.e., delivery on site). Payment terms are 30 days after the invoice date to Astra Ltd.

Ms. Suparna Dasgupta, a chartered accountant, has recently joined Astra Ltd. as the Head of the Finance Department.

The Chief Operating Officer (also the executive director) of Astra Ltd. is Ms. Padmaja Srinivasan, a mechanical engineer with an MBA from Harvard University, who rose through the ranks through her excellent skills in project management, marketing, and customer management. Her remuneration includes a bonus computed as a percentage of turnover achieved during the year, and an additional incentive for achieving an EBITDA in excess of 15% of turnover.

Astra Ltd. has sold fibre optic cables amounting to ₹ 2 crores (invoice dated 31st March 20X2) to Ethernet Bullet Ltd., a company providing high-speed internet connectivity services through fibre optic cables as well as dedicated leased lines. The service unit of Ethernet Bullet Ltd. is located next to the factory of Astra Ltd. Though the goods were not moved to Ethernet Bullet Ltd.'s service unit, Astra Ltd. recognized the sale for the year, based on the contention that the service unit is adjacent, and hence the transfer can happen within a few minutes.

The annual results are due for board approval, for the year ending 31st March, and require the sign-off of Ms. Suparna Dasgupta.

Ms. Suparna Dasgupta has been given a 40% increment on joining Astra Ltd., which enables her to comfortably pay off her housing loan mortgage every month. Additionally, she is also given perquisites in the form of business class travel, an exclusive chauffeur-driven car and stock options of the company. Accordingly, she has stated that she cannot afford to lose this job as the salary and perquisites are among the best in the country.

Ms. Padmaja Srinivasan has communicated to Ms. Suparna Dasgupta that many more benefits will accrue if she agrees to present the numbers without any modifications. She has also said that the company would not hesitate to replace Ms. Suparna Dasgupta should she disagree with the contentions above.

Required:

Discuss the potential conflicts which are arising in the above scenario and the ethical principles that would guide Ms. Suparna Dasgupta in responding to the situation. **(5 Marks)**

(b) **Either**

An entity has 100 employees, who are each entitled to five working days of paid sick leaves for each year. Unused sick leave may be carried forward for one calendar year. Sick leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (LIFO basis).

At 31st March, 20X1, the average unused entitlement is two days per employee. The entity expects, on the basis of experience that is expected to continue, that 92 employees will take no more than five days of paid sick leaves in 20X1-20X2 and that the remaining eight employees will take an average of six and a half days each.

The entity expects that it will pay an additional twelve days of sick pay as a result of the unused entitlement that has accumulated at 31st March, 20X1 (one and a half days each, for eight employees).

Comment whether the entity would require to recognize any liability in respect of leaves. **(4 Marks)**

Or

Entity XYZ entered into a contract to supply 1000 television sets for ₹ 2 million. An increase in the cost of inputs has resulted into an increase in the cost of sales to ₹ 2.5 million. The penalty for non- performance of the contract is expected to be ₹ 0.25 million.

Evaluate whether the contract is onerous and also determine the amount of provision to be made in this regard. **(4 Marks)**

(c) Find out the cash from operations by indirect method from the following information:

Operating statement of ABC Ltd. for the year ended 31.3.20X2

Particulars		**₹**
Sales		5,00,000.00
Less:	Cost of goods sold	3,50,000.00
	Administration & Selling Overheads	55,000.00
	Depreciation	7,000.00
	Interest Paid	3,000.00
	Loss on sale of asset	2,000.00
Profit before tax		83,000.00
	Tax	(30,000.00)
Profit After tax		**53,000.00**

Balance Sheet as on 31st March

	20X2	**20X1**
Assets		
Non-current Assets		
Property, Plant and Equipment	75,000.00	65,000.00
Investment	12,000.00	10,000.00
Current Assets		
Inventories	12,000.00	13,000.00
Trade receivables	10,000.00	7,000.00
Cash and cash equivalents	6,000.00	5,000.00
Total	**1,15,000.00**	**1,00,000.00**
Equity and Liabilities		
Shareholders' Funds	60,000.00	50,000.00
Non-current Liabilities	33,000.00	35,000.00
Current Liabilities		
Trade Payables	12,000.00	8,000.00
Payables for Expenses	10,000.00	7,000.00
Total	**1,15,000.00**	**1,00,000.00**

(5 Marks)