FIRST EDITION

FINANCIAL REPORTING

MCQ & CASE SCENARIOS

ISSUED BY ICAI

BY CA PRATIK JAGATI

MAY 24 ATTEMPT

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INTRODUCTION TO GENERAL PURPOSE FINANCIAL STATEMENTS AS PER INDIAN ACCOUNTING STANDARD

Question - 1:
For preparing Ind AS based financial statements with transition date 1st April, 20X5, what all guidance needs to be referred by A Ltd.?
A) Ind AS 1
B) Division II of Schedule III to the Companies Act, 2013
C) Guidance Note on preparation and presentation of Ind AS based financial statements issued by ICAI
D) All of the above

Question - 2:
Ind AS 103 contains additional guidance on common control transaction which is not there in IFRS 3. How this can be termed?
A) Carve in
B) Carve out
C) Exception
D) None of the above

Question - 3:
Company XYZ Pvt Ltd was having its net worth of ₹230 Crores as on 31st March 2020. It made a profit of ₹30 Crores in FY 20-21 and made a loss of ₹15 crores in FY 21-22. From which date it is required to apply Ind AS?
A) Accounting periods beginning on or after 1st April 2020
B) Accounting periods beginning on or after 1st April 2021
C) Accounting periods beginning on or after 1st April 2022
D) It is not required to comply with Ind AS as its Net worth as on 31st March 2022 is below ₹250 Cr.

Question - 4:
Company ABC Insurance Pvt Ltd is engaged in the business of insurance and is having a net worth of₹100 crores as on 31st March 2017. From which financial year it is required to apply Ind AS?
A) FY 2016-17
B) FY 2017-18
C) FY 2018-19
D) Yet not required to apply Ind AS

Question - 5:
A Ltd is following Ind AS for the first time for the year ended 31st March, 20X4. What all period balance sheet to be covered in its first Ind AS financial statements?
A) 1st April 20X2
B) 31st March 20X3
C) 31st March 20X4
D) All of the above

Question - 6:
Country X has taken approach of implementing Global Accounting Standards in its country with some significant changes in line with their national economic policies. This would be termed as
A) Adoption of Global Accounting Standards

B) Convergence with Global accounting standards
C) Adoption of Global Accounting standards with limitations
D) None of the above

Question – 7:
Which one of the following is the benefit of implementation of Indian Accounting Standards (Ind AS) in
A) Increase in net profitability
B) Minimized disclosure requirements
C) Access to domestic capital market
D) Global harmonization helps grow FII and FDI interests

ANSWERS:

1: D)	2: A)	3: B)	4: D)	5: D)	6: B)	7: D)

CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING UNDER INDIAN ACCOUNTING STANDARDS (IND AS)

Question - 1:
Which of the following definitions is incorrect?
A) An Asset is a present economic resource controlled by the entity as a result of past events
B) A Liability is a past obligation of the entity to transfer an economic resource as a result of present events
C) An Equity is the residual interest in the assets of the entity after deducting all its liabilities
D) Income is the increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims

Question - 2:
Which of the following statements is FALSE for 'Consolidated and unconsolidated financial statements'?
A) Consolidated financial statements provide information of both the parent and its subsidiaries as a single reporting entity
B) Unconsolidated financial statements are designed to provide parent's information and not about those of its subsidiaries
C) Consolidated financial statements are designed to provide separate information of any particular subsidiary
D) A parent may require / choose, to prepare unconsolidated financial statements in addition to consolidated financial statements

Question - 3:
Which of the following statements are TRUE with respect to 'The Reporting Entity'?
A) A reporting entity has to be a single entity only and it cannot comprise more than one entity
B) A reporting entity is an entity that is required, or chooses, to prepare financial statements
C) If a reporting entity is the parent alone, the reporting entity's financial statements are referred to as 'consolidated financial statements'
D) If two or more entities are all linked by a parent subsidiary relationship, they are referred to as 'combined financial statements'

Question - 4:
Which of the following statements is FALSE with respect to 'CONTROL'? An entity controls an economic resource if:
A) It has the present ability to direct the use of the economic resource
B) It obtains the economic benefits that may flow from it
C) If one party controls an economic resource, other party may also control that resource
D) Control of an economic resource usually arises from an ability to enforce legal rights

Question - 5:
Which of the following is true with respect to the cost constraint on useful financial information?
A) Cost is a pervasive constraint on the information that can be provided by financial reporting
B) IASB considers costs and benefits in individual reporting entities only
C) For application of cost constraint, no assessment of benefits of reporting is done
D) Users do not incur any costs in reporting and analyzing financial information

Question - 6:
Which of the following statements is FALSE with respect to 'Reporting Period'?
A) Financial statements are prepared for a specified period of time
B) It helps users of financial statements to identify and assess changes and trends
C) Financial statements provide comparative information for at least one preceding reporting period
D) Financial statements should not provide comparative information for more than one preceding reporting periods

Question - 7:
The usefulness of financial information is enhanced if it is:
A) Comparable, verifiable, perfect and understandable
B) Comparable, verifiable, timely and objective
C) Effective, verifiable, timely and understandable
D) Comparable, verifiable, timely and understandable

ANSWERS:

1: C)	2: B)	3: B)	4: C)	5: A)	6: D)	7: D)

IND AS 1: PRESENTATION OF FINANCIALSTATEMENTS

Question - 1:
An entity shall present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements if:
A) It applies an accounting policy retrospectively
B) If there is change in accounting estimates
C) Correction of previous year error
D) Both (a) and (c) above

Question -2:
Which of the following information of the entity is not mandatory to be displayed prominently, and is to be repeated when necessary for the information presented to be understandable?
A) Name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period
B) Whether the financial statements cover the individual entity or a group of entities
C) Equity pattern showing the Names of major shareholdings in the entity
D) Level of rounding used in presenting amounts in the financial statements

ANSWERS:

1: A)	2: C)

IND AS 34: INTERIM FINANCIAL REPORTING

Question - 1:
According to Ind AS 34, interim period is a financial reporting period
A) Shorter than 12 months
B) Shorter than a full financial year
C) Of 3 months
D) Of 6 months

Question - 2:
Which of the following is not the minimum components of an interim financial report?
A) Condensed balance sheet
B) Condensed statement of changes in equity
C) Condensed statement of cash flows
D) Comparative information in respect of the preceding period

Question - 3:
Ind AS 34 mandates the following in relation to interim financial reports
A) Which entities should publish interim financial reports
B) How frequently it should publish
C) How soon it should publish after the end of interim period
D) None of the above

Question - 4:
Income tax expense should be accrued using the best estimate of the weighted average annual income tax rate expected for the ___________
A) Interim period
B) Year to date period
C) Full financial year
D) Current period and comparative period

Question - 5:
An entity may reverse an impairment loss recognized in a previous interim period in respect of goodwill in the subsequent period.

A) TRUE
B) FALSE
C) Partially True
D) Partially False

Question - 6:
An entity prepares quarterly interim financial reports in accordance with AS 25. The entity is engaged in sale of mobile phones and normally 5% of customers claim on their warranty. The provision in the first quarter was calculated as 5% of sales to date, which was ₹10 million. However, in the second quarter, a fault was found and warranty claims were expected to be 10% for the whole of the year. Sales in the second quarter were ₹15 million. What would be the provision charged in the second quarters interim financial statements?

A) ₹ 1 million
B) ₹ 2 million
C) ₹ 1.25 million
D) ₹ 1.5 million

ANSWERS:

1: B)	2: D)	3: D)	4: C)	5: B)	6: B)

IND AS 7: CASH FLOW STATEMENTS

Question - 1:
As per Ind AS 7, for non-financial entities in the statement of cash flows, interest paid and interest and dividend received is classified as

A) Cash flows from financing activities and operating activities respectively
B) Cash flows from investing activities and operating activities respectively
C) Cash flows from financing activity and investing activity respectively
D) There is an option to present both as cash flows from operating activities

Question - 2:
Under indirect cash flow method

A) Profit or loss is adjusted for the effects of transactions of a cash nature, any deferrals or accruals of past or future operating cash receipts or payments
B) Statement of changes in net assets/equity is adjusted for the effects of transactions of a cash nature, any deferrals or accruals of past or future operating cash receipts or payments
C) Profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments
D) Statement of changes in net assets/equity is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments

Question - 3:
Cash flow is based upon:

A) Accrual basis of accounting
B) Cash basis of accounting
C) Hybrid basis of accounting
D) None of the above

Question - 4:

Which of the following is incorrect?

A) Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preference shares acquired within a short period of their maturity and with a specified redemption date
B) Bank borrowings are generally considered to be investing activities
C) Where bank overdrafts which are repayable on demand form an integral part of an entity's cash management, bank overdrafts are included as a component of cash and cash equivalents.
D) None of the above

Question - 5:

Which of the following is not a characteristic of an entity's cash equivalents, as defined by Ind AS 7?

A) A short-term investment
B) A highly liquid investment
C) An investment which is readily convertible into known amounts of cash
D) An investment which is subject to significant risk of changes in value

Question - 6:

An entity shall report

A) Separately major classes of net cash receipts or net cash payments as the case may be arising from investing and financing activities
B) Separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities
C) Collectively major classes of net cash receipts or net cash payments as the case may be arising from investing and financing activities
D) Collectively major classes of gross cash receipts and gross cash payments arising from investing and financing activities

Question - 7:

Under Ind AS 7 'Statement of Cash flows', cash flows arising from the following operating, investing or financing activities may be reported on a net basis:

A) Cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity
A) Entity has a legally enforceable right to set off the recognized amounts
B) Entity intents to either settle the net cash outflows on a net basis or to realize the cash inflows and settle the liabilities
C) None of the above

Question -8:

An entity has bank balance in foreign currency aggregating to USD 100 (equivalent to ₹4,500) at the beginning of the year. Presuming no other transaction taking place, the entity reported a profit before tax of ₹100 on account of exchange gain on the bank balance in foreign currency at the end of the year. What would be the closing cash and cash equivalents as per the balance sheet?

A) ₹4,700
B) ₹4,500
C) ₹3,500
D) ₹5,200

ANSWERS:

1: C)	2: C)	3: B)	4: B)	5: D)	6: B)	7: A)	8: B)

IND AS – 8: ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERROS

Question - 1:
The selection and application of accounting policies for similar transactions, other events and conditions shall be:

A) Consistent always
B) Consistent unless an Ind AS specifically requires or permits categorization of items for which different policies may be appropriate
C) Consistent only if Ind AS specifically requires or permits categorization of items for which different policies are not appropriate
D) Consistent unless the policy is not favorable to the entity

Question - 2:
Which of the following shall be considered as a change in accounting policy?

A) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and
B) the application of a new accounting policy for transactions, other events or conditions that occurred previously or material
C) Both of the above
D) None of the above

Question - 3:
Applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied is considered as ___________

A) Correction of error
B) Retrospective application
C) Retrospective restatement
D) Prospective application

Question - 4:
Which of the following is treated as a change in the accounting policies in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors?

A) Change in composition of reportable segments
B) Changes in functional currency
C) Change in classification of financial assets
D) Changes in measurement method of Inventory

Question - 5:
According to Ind AS 8, when a change in accounting policy is applied retrospectively, the entity shall adjust:

(i) Opening balance of each affected component of equity for the earliest prior period presented.
(ii) Other comparative amounts disclosed for earliest prior period presented.
(iii) Other comparative amounts disclosed for each prior period presented.

(iv) Opening balance of each affected component of equity for each prior period presented.

State which of the above statements are correct.

A) (i) and (ii)
B) (i) and (iii)
C) (ii) and (iv)
D) (iii) and (iv)

ANSWERS:

1: B)	2: B)	3: B)	4: D)	5: B)

IND AS 10: EVENTS AFTER THE REPORTING PERIOD

Question - 1:

Event after the reporting period are those events that occur between the end of the reporting period and the date ....

A) When the financial statements are approved by the Board of Directors
B) Of Annual General Meeting
C) Of signing of the financial statements by the auditors
D) Of finalization of the financial statements by the management after final discussion with auditors

Question - 2:

The objective of Ind AS 10 is to prescribe:

A) The disclosures that an entity should give about the date when the financial statements were approved for issue
B) The disclosures about events after the reporting period
C) None of the above
D) Both (a) and (b)

Question - 3:

According to Ind AS 10, when management of an entity is required to issue its financial statements to a supervisory board for issue, the financial statements are said to be approved when:

A) Shareholders approve the financial statements
B) Filed with the regulatory authorities
C) Approved by the supervisory Board
D) Management approve the financial statements for issue to the supervisory Board

Question - 4:

What is the date of approval for issue of the financial statements prepared for the reporting period from 1st April, 20X1 to 31st March, 20X2, in a situation where following dates are available?

A) Completion of preparation of financial statements 15th April, 20X2
B) Board reviews and approves for issue 25th April, 20X2
C) Available to shareholders 16th May, 20X2
D) Filed with regulatory authority 30th May, 20X2

Question - 5:

On 15th January, 20X2, Alpha Ltd. filed a suit against Beta Ltd. for recovery of ₹ 10 lakhs. On 15th April, 20X2, the court case confirms that Beta Ltd. will have to pay the amount to Alpha Ltd. The financial statements are approved by the Board on 20th May, 20X2. What will be the treatment of ₹10 lakhs in the financial statements of Beta Ltd. on the reporting date i.e. 31st March, 20X2 as per Ind AS 10?

A) Disclose it as a contingent liability
B) Recognize as contingent liability for ₹ 10 lakhs
C) Recognize provision for ₹ 10 lakhs
D) No treatment

Question - 6:

The management of a company decided and announced a plan to discontinue the operations and liquidate the company after the reporting date. According to Ind AS 10 Events after the reporting period the company shall:

A) Prepare its financial statements on a going concern basis
B) Not prepare its financial statements on a going concern basis
C) Prepare the financial statement on a going concern basis with disclosures as per Ind AS 1
D) Prepare the financial statement on a going concern basis with no disclosures requirement

Question - 7:

The financial statements of Star Ltd. for financial year 20X1-20X2 were approved by the Board for issue on 24th May, 20X2. The management discovered a major fraud and decided to reopen the books of account. The financial statements were subsequently approved by the Board of Directors on 31st May, 20X2. What is the date of approval for issue as per Ind AS 10 in the given case?

A) 24th May, 20X2
B) 31st May, 20X2
C) Either (a) or (b)
D) Neither (a) nor (b)

Question - 8:

On 15th April, 20X2, a major earthquake disrupted the entire operations of a reputed company. The Company suffered huge loss due to the damage caused to its factories and other business premises. The Company's insurance policy does not cover the risk of loss arising from natural disasters. The Company does not have sufficient internal funds or the availability of external finance to rebuild the infrastructure necessary for it to resume its business operations. The Board of the company is also not sure about the future of the company. The Company has prepared the financial statements for the year ending 31st March, 20X2 which is approved in the board meeting dated 20th April, 20X2. How this event impact the financial statement of the company?

A) Adjustment in financials are required
B) Disclosure is required
C) Nothing is required
D) On the discretion of the management

Question - 9:

Moon Ltd having issued share capital of 15,00,000 shares decided to offer two options for dividend per share

Option (i)- 10 Bottles of perfume (Fair Market Value (FMV) per bottle= ₹ 75)

Option (ii)- Dividend payment of ₹ 700 The probability of shareholders selecting non-cash vis-vis cash option is estimated at 60:40.

Calculate the amount at which dividend shall be initially recognized. Later on, if on date of settlement the FMV of bottle is ₹ 90 and accordingly, the ratio for non-cash vie-vis cash option becomes 80:20, then how much additional amount shall be debited to equity?

A) ₹ 1,05,00,00,000; ₹ 24,00,00,000
B) ₹ 1,12,50,00,000, ₹ 16,50,00,000
C) ₹ 1,09,50,00,000, ₹ 19,50,00,000
D) ₹ 1,35,00,00,000, Nil

Question - 10:

A company XYZ took a long-term loan from bank. Before the end of the reporting date there is a breach in the terms which are material for this loan. The amount stands payable on demand by the company to bank. After the reporting date but before approval of the financial statements for issue, company entered into an agreement with the bank, pursuant to which the loan is not payable on demand. This loan will be treated as:

A) Adjusting event
B) Non-adjusting event
C) Principal amount is non-adjusting event and interest portion is adjusting event
D) The company has the choice to treat it either adjusting event or non-adjusting event

ANSWERS:

1: A)	2: D)	3: D)	4: B)	5: C)	6: B)	7: B)	8: A)	9: C)	10: A)

IND AS 113: FAIR VALUE MEASURMENT

Question - 1:

Revisions resulting from a change in the valuation technique or its application shall be accounted for as

A) Change in accounting policy as per Ind AS 8
B) Change in accounting estimate as per Ind AS 8
C) Change in valuation technique is not permitted
D) D)Prior period error as per Ind AS 8

Question - 2:

Characteristics of the asset or liability are considered if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include:

(A) condition of the asset
(B) location of the asset
(C) restrictions on the sale or use of the asset
(D) All of the above

Question - 3:
The price paid to acquire the asset or received to assume the liability is called
(A) transaction price (an entry price)
(B) transaction price (an exit price)
(C) Settlement price (an entry price)
(D) Settlement price (an exit price)

Question - 4:
The market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs is called ____________
(A) Principal market
(B) Most advantageous market
(C) Primary market
(D) Active market

Question - 5:
The asset or liability measured at fair value shall be:
(A) a standalone asset or liability
(B) a group of assets, a group of liabilities or a group of assets and liabilities
(C) Either of (a) and (b)
(D) Neither of (a) and (b)

Question - 6:
The measurement requirements of Ind AS 113 applies to
(A) share based payment transactions within the scope of IFRS 2 Share based Payment
(B) leasing transactions accounted for in accordance with IFRS 16 Leases
(C) Assets for which recoverable amount is fair value less costs of disposals in accordance with Ind AS 36
(D) measurements of net realizable value in IAS 2 Inventories or value in use in IAS

Question - 7:
As per Ind AS 113, which of the followings is not a widely used valuation technique?
(A) Net present value approach
(B) Cost approach
(C) Income approach
(D) Market approach

Question - 8:
The basic rule related to inputs to valuation techniques as per Ind AS 113 are
(A) maximizing the use of relevant observable and unobservable inputs
(B) minimizing the use of relevant observable and unobservable inputs
(C) maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs
(D) minimizing the use of relevant observable inputs and maximizing the use of unobservable inputs

Question - 9:
The highest and best use of a non-financial asset while measuring the fair value takes into account the use of the asset that is
(A) physically possible
(B) legally permissible
(C) financially feasible
(D) All of the above

Question - 10:
A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:
(A) in the principal market or in the most advantageous market
(B) in the principal market or in the primary market
(C) in the primary market or in the secondary market
(D) in the primary market or in the most advantageous market

Answer:

1: B)	2: D)	3: A)	4: B)	5: C)	6: C)	7:A)	8: C)	9: D)	10: A)

IND AS 115 : REVENUE FROM CONTRACT WITH THE CUSTOMERS

Question - 1:
Ind AS 115 applies to
(A) Lease contracts within the scope of Ind AS 116 Leases
(B) Financial instruments and other contractual rights or obligations within the scope of Ind AS 109, Ind AS 110, Ind AS 111, Ind AS 27 and Ind AS 28
(C) Non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers
(D) Non-monetary exchanges between entities in different line of business to facilitate sales to customers or potential customers

Question - 2:
As per Ind AS 115, an entity shall combine two or more contracts entered into at or near the same time with the same customer and account for the contracts as a single contract when
(A) the contracts are negotiated as a package with a single commercial objective
(B) the amount of consideration to be paid in one contract depends on the price or performance of the other contract
(C) the goods or services promised in the contracts are a single performance obligation
(D) All of the above

Question - 3:
An entity shall account for a contract modification as a separate contract when

(A) the scope of the contract increases because of the addition of promised goods or services that are distinct
(B) the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices of the additional promised goods or services
(C) Either (a) or (b)
(D) Both (a) or (b)

Question - 4:
Which of the following criteria is not correct in case of identification of contract with the customer to be accounted for under Ind AS 115?
(A) the parties to the contract have approved the contract in writing only
(B) the entity can identify each party's rights regarding the goods or services to be transferred
(C) the entity can identify the payment terms for the goods or services to be transferred
(D) the contract has commercial substance

Question - 5:
Where the penalty is inherent in determination of transaction price of a contract, it shall form part of
A) Fixed consideration
B) Variable consideration
C) Non-cash consideration
D) Not included in consideration

Question - 6:
__________is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties
(A) Transaction price
(B) Market price
(C) Ordinary price
(D) Fair price

ANSWERS:

1: D)	2: D)	3: D)	4: A)	5: B)	6 :A)

IND AS 2: INVENTORIES

Question - 1:
V Ltd. purchases cars from several countries and sells them to Asian countries. V Ltd. incurred many expenses during the period on such cars from their purchase to sale. Which of the following cost is allowed for inclusion in the cost of inventory?

A) ₹ 20,00,000 as Salaries of accounting department
B) ₹ 15,00,000 of Sales commission paid to sales agents
C) ₹ 30,00,000 as after sales warranty costs
D) ₹ 10,00,000 as Insurance of purchases

Question - 2:
Which of the following inventory would be measured at lower of cost and net realizable value?

(A) Sand
(B) Barite
(C) Plastic
(D) Limestone

Question - 3:
Vanessa Private Ltd has appointed you as an auditor for financial year 20X1-20X2. They are into trading of cake mix. The cake mix is bought in boxes. Whether these boxes will fall within the meaning of inventory, as per Ind AS 2, and how will they be valued?

A) Yes. Since, they are used in the process of production for sale. They will be valued at lower of cost or NRV.
B) No. They will not qualify as inventory and will be valued at NRV.
C) No. They will not qualify as inventory and will be valued at lower of cost or NRV.
D) Yes. Since, they are used in the process of production for sale. They will be valued at NRV.

Question - 4:
XYZ Ltd has been valuing inventory on a first-in-first-out basis but in line with methods used by industry peers, the company has decided to move to weighted average method. What is your advice with regard to the disclosure of the change under Ind AS?

A) Reasons for change in accounting policy must be disclosed and comparative information for prior period must be restated
B) Reasons for change must be disclosed, the amount of adjustments must be presented but comparative information for prior period must not be restated
C) Reasons for change need not be disclosed, the amount of adjustments must be presented and comparative information for prior period must be restated
D) Reasons for change must be disclosed, the amount of adjustments must be presented and comparative information for prior period must be restated.

Question - 5:
A Ltd shipped inventory on consignment to B Ltd. How should the consigned inventory to be treated assuming the inventory is unsold by B Ltd.?

A) To be measured as Inventory in A Ltd book
B) To be measured as Inventory in B Ltd book
C) To be recognized as revenue in A Ltd
D) To be recognized as liability in B Ltd

Question - 6:
P Ltd. has a plant with the normal capacity to produce 5,00,000 units of a product per annum and the expected fixed overhead is ₹ 15,00,000. However, actual production is 3,75,000 units. Amount of fixed overhead to be included in the cost of inventory would be

(A) ₹ 15,00,000
(B) ₹ 11,25,000
(C) ₹ 3,75,000
(D) Nil

Question - 7:

At the end of an accounting period, the cost of a company's inventory is ₹ 4,50,000. This includes damaged items with a cost of ₹ 25,000 which are expected to be sold for only ₹ 10,000 (less selling expenses of 5%). All other items of inventory have a net realizable value which exceeds cost. As per Ind AS 2, the amount at which the company's inventory should be recognized at the end of the period is:

(A) ₹ 4,25,000
(B) ₹ 4,50,000
(C) ₹ 4,34,500
(D) ₹ 4,35,000

Question - 8:

The management of a company decided and announced a plan to discontinue the operations and liquidate the company after the reporting date. According to Ind AS 10 Events after the reporting period the company shall:

A) Prepare its financial statements on a going concern basis
B) Not prepare its financial statements on a going concern basis
C) Prepare the financial statement on a going concern basis with disclosures as per Ind AS 1
D) Prepare the financial statement on a going concern basis with no disclosures requirement

Question - 9:

W Limited, a company manufactures and sells towels and bed sheets using cotton, yarn, dyes and chemicals. W limited also sells cotton and intermediator product yarn occasionally in exceptional cases. Which of the following items are to be classified as inventories in books of accounts of W limited:

A) Cotton, yarn, towel, bed sheets, dyes and Chemicals
B) Towel and Bed sheets only
C) Cotton, Yarn, Dyes and Chemicals only
D) None of the above

Question - 10:

Normal Annual Capacity of the Plant X is 1,000 Units. During the year ended 31st March 20X2, the company is able to produce only 700 units (due to sudden strike of union labour). During the current year, company have incurred ₹ 21,000 of fixed over heads. Inventory Quantity as at 31.3.20X2 is 200 Units. Determine the amount of fixed overheads allocation that needs to be done on the inventory lying in hand as at 31.3.20X2 as per Ind AS 2?

A) ₹ 6,000
B) ₹ 10,000
C) ₹ 4,200
D) ₹ 21,000

Question - 11:

Hari Limited is a manufacturer of Carton Boxes. The cost of the stock as on 31.12.20X1 was ₹ 50 per box. The accountant noted that the subsequent sale was made on 31.1.20X2 at ₹ 40 per box. The accountant also noted that there were subsequent expenses for some rectification on the entire physical stock that was available as at year end at the rate of ₹ 15 per box to saleable condition. The company seeks your opinion as to the amount of net realizable value and written down loss for the closing stock as per Ind AS 2.

A) ₹ 25 and ₹ 10
B) ₹ 25 and ₹ 25
C) ₹ 40 and ₹ 15
D) ₹ 50 and ₹ 0

ANSWER:

1: D)	2: C)	3: B)	4: D)	5: A)	6: B)	7: C)	8: B)	9: A)	10: C)	11: B)

IND AS 16 : PROPERTY, PLANT AND EQUIPMENT

Question - 1:
Which of these is an allowable cost of an asset for capitalization under Ind AS 16?
(A) Professional fees
(B) General overheads
(C) Initial operating losses
(D) Administration expenses

Question - 2:
When an asset is sold or disposed of, where is the gain or loss recognized?
(A) Asset disposal account
(B) Profit and loss
(C) Revaluation reserve
(D) Depreciation

Question - 3:
Under Ind AS 16, which two subsequent accounting treatments are allowed subsequently to initial recognition?
(A) Cost model and present value model
(B) Cost model and revaluation model
(C) Fair value model and revaluation model
(D) Fair value model and cost model

Question - 4:
A Limited has stopped manufacturing operations in its plant for 3 months in the year ended 31st March, 20X1. How should A limited account for depreciation relating to the 3 months in which plant was idle under Ind AS 16?
(A) No depreciation should be charged for 3 months
(B) Depreciation for 3 months in which plant was idle should be recognized in other comprehensive income
(C) Depreciation for 3 months in which plant was idle should be recognized in retained earnings
(D) Depreciation for 3 months in which plant was idle should be recognized in profit or loss

Question - 5:
Under Ind AS 16, how often should the useful life of an asset be reviewed?
(A) At least at each financial year end
(B) Every six months
(C) At management's discretion
(D) Never

Question - 6:
If one large asset has a number of individual components with different useful lives, how should this be depreciated?

(A) Treat as one asset and depreciate in accordance with highest useful life of the component
(B) Break down into different components and depreciate every component separately as per the useful life of that component
(C) Expense it all
(D) Treat as one asset, but disclose only in the notes to the financial statements

Question - 7:
When the revaluation model is used for PPE the gain on revaluation should be treated as
(A) Income in the Statement of profit and loss for the period
(B) Gain from revaluation in the income statement
(C) A revaluation surplus accounted in OCI
(D) An extraordinary gain or loss in the income statement

Question – 8:
When it is______that future economic benefits associated with an asset will flow to the entity, and the cost of the asset can be______measured, it should be recognized as an asset.
(A) Possible, reasonably
(B) Possible, reliably
(C) Probable, reliably
(D) Probable, reasonably

Question - 9:
Progress Ltd chooses to revalue property under Ind AS 16. On 31st March 20X1, their head office building is valued at ₹ 30 lakh when it is recorded in the financial statements at historical cost of ₹ 25 lakh with ₹ 4.5 lakh of accumulated depreciation charged against it. Which of the following statements is true regarding the accounting treatment of the property?
(A) A revaluation gain of ₹ 5 lakh should be recorded through other comprehensive income, grouped with other items that will not subsequently be reclassified to profit or loss
(B) A revaluation gain of ₹ 5 lakh should be recorded through profit or loss
(C) A revaluation gain of ₹ 9.5 lakh should be recorded through other comprehensive income, grouped with other items that will not subsequently be reclassified to profit or loss
(D) A revaluation gain of ₹ 9.5 lakh should be recorded through other comprehensive income, grouped with other items that will subsequently be reclassified to profit or loss

Question - 10:
India Turnings Limited has adopted revaluation model, as per Ind AS, since 1st April, 20X1 to measure its property, plant and equipment (PPE) and have revalued it as follows:
(i) As on 1st April, 20X1 � PPE has been revalued up by ₹ 3,00,000.
(ii) As on 31st March, 20X2 � PPE has been revalued down by ₹ 3,60,000
(iii) As on 31st March, 20X3 � PPE has been revalued up by ₹ 5,00,000
How will the increase in year 20X2-20X3 be recognized in the financials of India Turnings Limited?
(A) ₹ 5,00,000 is credited to other comprehensive income
(B) ₹ 60,000 is credited to profit and loss account and ₹ 4,40,000 is credited to other comprehensive income
(C) ₹ 60,000 is credited to other comprehensive income and ₹ 4,40,000 is credited to profit and loss account

(D) ₹ 5,00,000 is credited to profit and loss account Your Answer: ₹ 60,000 is credited to profit and loss account and ₹ 4,40,000 is credited to other comprehensive income

ANSWER:

1: A)	2: B)	3: B)	4: D)	5: A)	6: B)	7: C)	8: C)	9: C)	10: B)

IND AS 23 : BORROWING COSTS

Question - 1:

The capitalization rate is

(A) The weighted average of the borrowing costs applicable to all the general borrowings of the entity that are outstanding during the period

(B) The weighted average of the borrowing costs applicable to all the general and specific borrowings of the entity that are outstanding during the period

(C) The weighted average of the borrowing costs applicable to all the specific borrowings of the entity that are outstanding during the period

(D) The weighted average of the borrowing costs applicable to those general borrowings of the entity only that are used during the period for construction of that particular qualifying asset

Question - 2:

Borrowing costs do not include

(A) Interest expense calculated using the effective interest rate method as described in Ind AS 109 Financial Instruments

(B) Interest in respect of lease liabilities recognized in accordance with Ind AS 116, Leases

(C) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs

(D) Interest expenses on own finance resources or interest notional expenses

Question - 3:

Which of the following is not a qualifying asset?

(A) Financial assets

(B) Intangible plants

(C) Investment properties

(D) Bearer plants

Question - 4:

In case of specific borrowings, the borrowing cost is capitalized

(A) To the extent the borrowings are utilized for construction of the qualifying asset

(B) To the extent of the expenditure incurred on construction of the qualifying asset

(C) On total amount of specific borrowings from commencement date less income on temporary investment made out of such borrowings

(D) On half of the specific borrowing amount

Question - 5:

Which of the following would be considered as borrowing cost to be capitalized?

(A) Interest on working capital

(B) Interest on borrowings used for manufacturing inventories in large quantities on a repetitive basis

(C) Interest on borrowings utilized to acquire biological assets measured at fair value

(D) Dividend paid on redeemable preference shares used to fund the development of a qualifying asset

Question - 6:

When will the specific borrowings be considered as general borrowings?

A) When substantially all the activities necessary to prepare the qualifying asset (for which specific borrowings was taken) for its intended use or sale are complete

B) When activities necessary to prepare the qualifying asset (for which specific borrowings was taken) for its intended use or sale have been started

C) When substantially all the activities necessary to prepare the qualifying asset (for which specific borrowings was taken) for its intended use or sale are near to complete

D) Specific borrowing are never considered as general borrowings in any circumstances

Question - 7:

What will be the treatment of exchange difference resulting into unrealized gain while capitalizing the borrowing cost on foreign currency borrowings taken for construction of a qualifying asset?

A) It would not be adjusted to interest even if there was an adjustment to interest in the previous year on account of unrealized exchange loss on settlement or translation of same borrowings

B) It would be adjusted to interest to the extent of an adjustment to interest in the previous year on account of unrealized exchange loss on settlement or translation of same borrowings

C) It will be adjusted to interest irrespective of the fact that whether there was an adjustment to interest in the previous year on account of unrealized exchange loss (on settlement or translation of same borrowings) or not

D) It will be adjusted to interest fully only if there was an adjustment to interest in the previous year on account of unrealized exchange loss on settlement or translation of same borrowings

Question - 8:

In determining the borrowing costs to be capitalized, the amount of expenditure on a qualifying asset include only those expenditures that have resulted in

A) Payments of cash

B) Transfers of other assets

C) The assumption of interest-bearing liabilities

D) All of the above

Question - 9:

In determining the borrowing costs to be capitalized, the amount of expenditure on a qualifying asset are not reduced by

A) Progress payments received

B) Grants received in connection with the asset

C) Income on temporary investment of specific borrowings

D) Both (a) and (b)

Question - 10:
Adit Labs are planning to expand their business and open two more branches in the vicinity of two new hospitals being built in the area. The enterprise is using funds from their general borrowings for this expansion project. The finance director of the company has briefly read about the capitalization of the interest paid on the borrowings. He has sought your clarification on this matter if his entity can capitalize interest of 10% which is the highest interest rate of all the borrowings they have made during the year. Which of the following are correct about the capitalization of interest on borrowings made by a company as per Ind AS 23 Borrowing Costs?

A) Finance director is right, and he can use 10% as capitalization rate for calculating the eligible borrowing costs to be capitalized on the qualifying asset
B) Capitalization rate should be weighted average of all the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset
C) Interest paid on general borrowing have to be calculated in accordance with ICDS (Income Computation and Disclosure Standards) which is also required for calculation of current tax and deferred tax
D) Entity should use the lowest interest rate of all the borrowings outstanding during the period as capitalization rate to calculate the eligible borrowing costs

ANSWERS:

1: A)	2: D)	3: A)	4: C)	5: D)	6:A)	7: B)	8: D)	9: C)	10: B)

IND AS 36 : IMPAIRMENT OF ASSETS

Question - 1:
____________is considered as recoverable amount when it is not possible to measure the fair value less costs of disposal for an asset.

A) Market value
B) Replacement value
C) Value in use
D) Carrying amount

Question - 2:
In case of estimation of cash flows for Calculating value in use, future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. An entity translates the present value using the________________at the date of the value in use calculation.

A) Closing rate
B) Spot exchange rate
C) Average rate
D) Incremental borrowing rate

Question - 3:
Which of the following is required to be tested for impairment annually irrespective of the presence of indications of impairment or not?

A) Intangible asset with an indefinite useful life
B) Intangible asset not yet available for use
C) Goodwill acquired in a business combination
D) All of the above

Question - 4:
Recoverable amount of an asset or cash generating unit is_____________.
A) Higher of 'Fair value less costs of disposal 'and 'Value in use'
B) Lower of net realizable value and cost
C) Higher of market value less costs of disposal and value in use
D) Higher of fair value and value in use

Question - 5:
In measuring value in use, cash flow projections should be based on the budgets/forecasts covering a maximum period of________________, unless a longer period can be justified.
A) Three Years
B) Five Years
C) Ten Years
D) of asset which is subject to impairment assessment

Question - 6:
When a cash-generating unit has an impairment loss, the loss must be firstly applied to__________.
A) Asset with obvious impairment
B) Goodwill
C) Other assets of CGU on a pro-rata basis
D) Based on management discretion

Question - 7:
When an impairment loss occurs, the carrying amount of the asset should be reduced to its__________.
A) Fair Value
B) Recoverable amount
C) Fair Value less cost to disposal
D) Value in use

Question - 8:
Smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets is known as________
A) Cash-generating unit
B) Branch
C) Department
D) Operating Segment

Question - 9:
Which of the following is not covered by Ind AS36, Impairment of Assets?
A) Deferred tax assets
B) Inventory
C) Financial assets
D) All of the above

Question - 10:
Which of the following is not an internal indication of impairment?
A) Economic performance of the asset is worse than expected
B) Physical damage of the asset
C) Asset is part of a plans to discontinue or restructure the operation
D) Decline in market value

ANSWERS:

1: C)	2: B)	3: D)	4: A)	5: B)	6: B)	7: B)	8: A)	9: D)	10: D)

IND AS 38: INTANGIBLE ASSETTS

Question - 1:
Which of the following items qualify as an intangible asset under Ind AS 38?
A) Advertising and promotion on the launch of a huge product
B) Operating losses during the initial stages of the project
C) College tuition fees paid to employees who decide to enroll in an executive M.B.A. program at Harvard University while working with the company
D) Legal costs paid to intellectual property lawyers to register a patent

Question - 2:
AG Limited has purchased a computer with various additional software. These are integral part of the computer. Which of the following are true in the context of Ind AS 38?
A) Recognize Computer and software as tangible asset
B) Recognize computer and software as intangible asset
C) Recognize tangible and intangible separately
D) : None of the above

Question - 3:
Amortization of an intangible asset ceases
A) When the asset is derecognized
B) When the asset is withdrawn from use
C) At the earlier when the asset is classified as held for sale or when the asset is derecognized
D) At the later of asset is classified as held for sale or derecognized

Question - 4:
Which of the following is not covered within the scope of Ind AS 38?
A) Non-current Intangible assets held for sale
B) Intangible assets held-for-sale in the ordinary course of business
C) Assets arising from employee benefits
D) All of the above

Question - 5:
Which of the following is required to be tested for impairment annually irrespective of the presence of indications of impairment or not?
A) Intangible asset with an indefinite useful life
B) Intangible asset not yet available for use
C) Goodwill acquired in a business combination
D) All of the above

Question - 6:

An intangible asset with a finite useful life should be amortized over

A) Its expected useful life
B) A period determined by management
C) Five years
D) No foreseeable limit

Question - 7:

A newly set up dot-com entity has recently completed one of its highly publicized research and development projects. It seeks your advice on the accuracy of the following statements made by one of its stakeholders. State which one is true?

A) Costs incurred during the 'research phase' can be capitalized
B) Costs incurred during the 'development phase' can be capitalized if criteria such as technical feasibility of the project being established are met
C) Training costs of technicians used in research can be capitalized
D) Designing of jigs and tools qualify as research activities

Question –8:

With respect to valuation of goodwill and recognition of the same on acquisition of another entity. Ind AS 38 Intangibles assets establishes general principles for the recognition and measurement of intangible assets in the financial statements. The standard requires any entity to recognize the intangible assets in the financial statements if and only if: i) it is probable that the future economic benefits which are attributable to the asset will flow to the enterprise; and ii) the cost of the asset can be reliably measured which of the following is NOT correct about the intangible assets?

A) The above recognition criteria are applicable to both the costs incurred to acquire intangible assets and those generated internally
B) Internally generated goodwill is prohibited to be recognized by the standard. Only acquired goodwill can be recognized as an intangible asset in the financial statements
C) In case of brands, mastheads, publishing titles, and similar intangible assets can be recognized both when generated internally as well as acquired separately
D) In case of research and development phase of an internally generated asset, standard permits capitalization only in the development phase

Question - 9:

AG Limited is developing a new production process. During 20X1-20X2, expenditure incurred was ₹11 lakhs of which ₹8 lakhs was incurred before 1st January, 20X2 and ₹3 lakhs was incurred between January and March 20X2. The company is able to demonstrate that on 1st January, 20X2, the production process met the criteria for recognition as an intangible asset. The recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be ₹2 lakhs as at 31st March, 20X2. What is the carrying value of intangible asset at the end of the year?

A) ₹11 lakhs
B) ₹8 lakhs
C) ₹2 lakhs
D) ₹3 lakhs

Question – 10:

AG Ltd acquired copyrights for ₹ 7,50,000 on 1st April 20X1. The Management assessed the copyright's useful life at 25 years from the date of acquisition. The entity will consume the copyright's future economic benefits evenly over 25 years from the date of acquisition. The fair value of the copyright at 31st March, 20X3 is ₹ 7,00,000. The entity shall measure the carrying amount of the copyright on 31st March, 20X3 at

A) ₹ 7,00,000
B) ₹ 6,90,000
C) ₹ 7,20,000
D) ₹ 7,50,000

ANSWERS:

1: D)	2: A)	3: C)	4: D)	5: D)	6: A)	7: B)	8: C)	9: C)	10: B)

IND AS 40: INVESTMENT PROPERTY

Question - 1:

State which of the following statements is true

A) An investment property may be a qualifying asset under Ind AS 23 'Borrowing Costs'
B) An entity is not required to capitalize the borrowing cost in respect of investment properties even if they are qualifying assets
C) Investment property can be measured at fair value at each reporting date on an asset-by-asset basis
D) Investment property measured at fair value is not depreciated or tested for impairment under Ind AS40

Question - 2:

Which of the following is an example of investment property?

A) Land held for construction of factory
B) Building rented out to employees as staff quarters
C) Lawn rented out to third parties for events / private functions
D) Parking lot attached to land on which the Company's factory is constructed

Question - 3:

Which of the following is an example of Investment Property?

A) Property held for sale in the ordinary course of sale or in the process of construction or development for such sale
B) Right of use asset related to property used for business purposes
C) Property leased to another entity for finance lease
D) Right of use asset related to building held by the entity and leased out under one or more operating leases

Question - 4:

At what value the reclassification or transfers between investment property and property, plant and equipment are made?

A) Transfers are made at the carrying amount of the property transferred
B) Transfers are made at the fair value of the property transferred

C) Transfers are made at the revalued amount of the property transferred
D) Transfers are made at the higher of fair value and carrying amount of the property transferred

Question - 5:
Which of the following characteristics distinguish investment property from owner-occupied property?
A) Property held for sale in the ordinary course of sale
B) Property held to earn rental or capital appreciation
C) Property classified as held for sale
D) Property held for use in the production or supply of goods or services or for administrative purposes

Question - 6:
AG Limited has purchased a commercial building and let out the same to one of its subsidiaries. How it should be reflected in the consolidated financial statements?
A) Owner-occupied from the perspective of the group
B) Investment property measured at fair value
C) Investment property measured at cost
D) Eliminated as intercompany balance

Question - 7:
Which of the following is not considered as a transfer from or to investment property?
A) Commencement of operating lease from undetermined use
B) Commencement of owner-occupation
C) Commencement of development with a view to sale
D) End of owner-occupation

Question – 8:
AG India Limited uses portion of building for their administrative use and let out the remainder portion. Which is not the right approach for dealing with this situation while accounting in the books of the company in accordance with Ind AS 40?
A) Account for the portion separately, if these portions can be sold separately
B) An investment property, if portions could not be sold separately and insignificant portion can beheld for administrative use
C) As owner occupied property, if portions could not be sold separately and insignificant portion is rent out
D) It will be treated as right-of-use asset depending upon the significance of self-usage and let out

Question - 9:
Real Estate Limited have acquired an investment property within the meaning of Ind AS 40 "Investment Property". The company has details of costs and other related expenses, but it is not sure as to what would be the correct accounting treatment of the said items. Identify the correct statement.
A) Start-up costs are not to be capitalized to cost of the investment property except cases where they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by the management

B) Operating losses incurred before the investment property achieves the planned level of occupancy are not to be capitalized to the cost of investment property
C) Abnormal amounts of wasted materials, labor and other resources incurred in constructing or developing the property are not to be capitalized to the cost of investment property
D) All of the above

Question - 10:
On 1st April 20X1, ABC Limited purchased a new head office building for ₹ 60 crore and on the same day leased out top 3 floors to its subsidiary on a long-term operating lease. The annual rent receivable was ₹ 2 crore starting from 31st March 20X2. On 1st April 20X1, the Directors of the Company estimated that the initial cost of the building should be allocated - ₹ 15 million to the top 3 floors, remainder of the building ₹ 20 million and land component ₹ 25 million. On 31st March 20X2, the property had a fair value of ₹ 64 million out of which 25% was attributable to the top 3 floors. The useful life of the building is 60 years. The carrying value of investment property in the separate standalone financial statements of ABC Limited as at 31st March 20X2 is:
A) ₹ 16 million
B) ₹ 15 million
C) ₹ 14.75 million
D) No investment property is recognized in the financial statements as the asset is leased out to a subsidiary

ANSWERS:

1: B)	2: C)	3: D)	4: A)	5: B)	6: A)	7: A)	8: D)	9: D)	10: C)

IND AS 105: NON-CURRENT ASSETS HELD FOR SALE AND DISCOUNTED OPERATIONS

Question - 1:
SA Ltd. acquires a subsidiary RA Ltd. exclusively with a view of selling it. The subsidiary meets the criteria to be classified as held for sale. The subsidiary remains unsold at the end of close of the year. It will be valued at
A) Lower of recoverable value or carrying value
B) Fair value less cost to sell
C) Present value of future cash flows
D) Lower of carrying amount and fair value less cost to sell

Question - 2:
SA Ltd. bought 30% share in RA Ltd. with a view of selling that investment within six months. The investment has been classified as held for sale in accordance with Ind AS 105. How should the investment be treated in the financial statement of the entity?
A) It should be accounted as per the equity method
B) The assets and liabilities should be presented separately from other assets in the balance sheet under Ind AS 105

A) The investment should be dealt with under Ind AS 29
C) Purchase accounting should be used for this investment

Question - 3:
Non-current asset is classified as held for sale, if it is available for__________sale and sale is __________

A) Instant, most likely
B) Immediate, probable
C) Immediate, highly probable
D) Distant future, reasonably assured

Question - 4:
The results of discontinued operation should be disclosed under

A) Single amount in the statement of profit and loss
B) Part of normal trading profit and loss in the statement of profit and loss
C) Notes to the financial statements
D) Statement of changes in equity

Question - 5:
A disposal group is a group of assets

A) To be disposed in one single transaction
B) Falling in cash generating unit
C) Being part of discontinuing operation
D) Having no disposal cost

Question - 6:
Gain or loss on re measurement of non-current asset classified as held for sale which does not meet the definition of discontinued operation should be included in

A) Profit or loss from continuing operations in statement of profit and loss
B) Notes to the financial statements
C) Statement of changes in equity
D) Other comprehensive income

Question - 7:
As per Ind AS 105, which of the following is not allowed as a "cost to sell"?

A) Finance cost
B) Auctioneers commission
C) Advertisement cost
D) Legal fee for drafting contract of sale

Question - 8:
How to measure a non-current asset (or disposal\ group) that ceases to be classified as held for sale?

A) Lower of carrying amount which would have been had the asset not been classified as held for sale (adjusted for any depreciation, amortization or revaluations, if any) and recoverable amount at the date of the subsequent decision not to sell or distribute
B) Lower of carrying amount on the date the asset ceased to be classified as held for sale and recoverable amount at the date of the subsequent decision not to sell or distribute
C) Lower of carrying amount and fair value less cost to disposal
D) Lower of carrying amount and the amount which would have been had the asset not been classified as held for sale

Question - 9:
How to present a non-current asset (or disposal group) classified as held for sale in the balance sheet?
A) Pooled with other current assets
B) Pooled with other non-current assets
C) Separately from other assets
D) Based on management intention

Question - 10:
Which of the following is not a requirement to classify an asset (or disposal group) as 'held for sale'?
A) Appropriate level of management has an intention to sell the asset
B) Active program to locate a buyer have been initiated
C) Actively marketed for sale at a reasonable price
D) It is likely that significant changes to the plan will be made or that the plan will be withdrawn

ANSWERS:

1: D)	2: B)	3: C)	4: A)	5: A)	6: A)	7: A)	8: A)	9: C)	10: D)

IND AS 116: LEASES

Question - 1:
SA Ltd. has taken a building on lease from RA Ltd. for 10 years to operate a restaurant. As per the contract, SA Ltd. has decision-making right regarding all the operations and usage of the restaurant. However, as per the contract, RA Ltd. has a right to restrict SA Ltd. from selling any kind of non-vegetarian item in the restaurant. The restriction rights of RA Ltd. will become exercisable only after 6 years. Whether the contract contains a lease?
A) Contract contains a lease for 10 years as the rights of the lesser are protective in nature
B) Contract contains a lease for 6 years as the lessee has a right to control the use of the asset for a portion of period
C) Contract contains a lease for 4 years as the lesser has rights to control the use of the asset for a portion of period
D) None of the above

Question - 2:
Lease term includes the periods covered by an extension option if exercise of that option by the lessee is
A) Remote
B) Highly probable
C) Reasonably certain
D) Virtually certain

Question - 3:
An entity shall revise the lease term if there is a change in
A) Non-cancellable period
B) Economic life of underlying asset
C) Secondary period
D) Useful life of the underlying asset

Question - 4:
According to Ind AS 116, initial measurement of the right of use asset does not include:
A) Lease liability
B) Initial direct cost
C) Estimate of dismantling and restoration
D) Contingent rent

Question - 5:
According to Ind AS 116, lease liability does not include
A) Present value of fixed payment
B) Guaranteed residual value
C) Unguaranteed residual value
D) Lease termination penalty

Question - 6:
In case of a contract that contains a lease component and one or more additional lease or non-lease component, lessee is required to allocate the contract consideration to each lease component on the basis of their relative:
A) value in use
B) stand-alone price
C) market price
D) cost

Question - 7:
A lessee is required to measure the right of use asset in the financial statements initially at
A) Fair value
B) Realizable value
C) Cost
D) Present value of lease payment

Question - 8:
The lease payments shall be discounted using the
A) Interest rate implicit in the lease or general borrowing rate
B) LIBOR or weighted average cost of capital
C) Interest rate implicit in the lease or incremental borrowing rate
D) Weighted average cost of capital or interest rate implicit in the lease

Question 9:
According to Ind AS 116, the right of use asset in the books of Lessee shall be depreciated over the
A) Lower of the lease term and the asset's useful life
B) Higher of the lease term and the asset's useful life
C) Entire lease term
D) Useful life of the asset

Question -10:
An entity is required to assess whether the contract is or contains, a lease at on ___________
A) Commencement of lease term
B) Obtaining the possession of identified asset
C) Inception of contract
D) Beginning of the relevant annual year

ANSWERS

1: B)	2: C)	3: A)	4: D)	5: C)	6: B)	7: C)	8: C)	9: A)	10: A)

IND AS 41: AGRICULTURE

Question - 1:
Fair value less costs to sell at the point of harvest of Agricultural produce becomes__________at that date when applying Ind AS 2 or other Ind AS

A) Cost
B) Market Value
C) Net realizable value
D) Fair value less cost to sell

Question - 2:
Which of the following is the criteria for recognizing the biological asset in books according to Ind AS 41?

A) Control the asset
B) Future economic benefit will flow
C) Fair value or cost can be measured reliably
D) All of the above

Question - 3:
Which of the following combination is false regarding the definition of a "biological asset" and "agriculture produce" in Ind AS 41?

A) Agricultural land, Paddy
B) Bushes, Leaf
C) Pigs, Carcass
D) Vines, Grapes

Question - 4:
A conditional government grant related to a biological asset measured at its fair value less costs to sell shall be recognized in profit or loss when and only when____________

A) Grant becomes receivable
B) Conditions attaching to grant are met
C) Reasonable assurance that conditions will met
D) Reasonable assurance that grant will be received

Question - 5:
Generally, biological assets relating to agricultural activity should be measured using

A) Historical cost
B) Cost less depreciation less impairment
C) Net realizable value
D) Fair value less cost to sell

Question – 6:
Agricultural activity involves biological transformation and harvest of biological asset

A) For sale
B) For conversion into agricultural product
C) Into additional biological assets
D) All of the above

Question - 7:
Which of the following is not dealt with by Ind AS 41 Agriculture?

A) Biological assets
B) Agriculture produces at the point of harvest
C) Government grants related to biological assets
D) Agriculture produces after harvest

Question - 8:
Gain/Loss arising from initial recognition of a biological asset and from a change in the value of biological assets should be recognized in

A) Statement of profit and loss for the period in which it arises
B) Recognized through statement of profit and loss as other comprehensive income item
C) Entered into a deferral account and amortized over the estimated useful life of the biological asset
D) Recognized on a revaluation reserve

Question - 9:
Which of the following are considered as bearer plants and not to be accounted in accordance with Ind AS 41?
A) Plants cultivated to be harvested as agricultural produce(for example trees grown for use as lumber)
B) Plants which gives fruits in a particular season for more than one year (for example mango tree)
C) Plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example trees that are cultivated both for their fruit and their lumber)
D) Annual crops (for example, maize and wheat)

Question - 10:
Fresho Vineyards Ltd owns a vineyard in the outskirts of Satara city in western Maharashtra. The grape vine plants and the grapes have a combined fair value of Rs. 10,00,000. The purchase cost of vine plants was Rs. 3,00,000 and the fair value of grapes on the plants is Rs. 2,40,000. The company uses the cost model to measure assets classified under Ind AS 16 Property, Plant and Equipment. Which of the following options is the measurement of bearer plants and bearer fruits respectively
A) ₹3,00,000, ₹2,40,000
B) ₹7,60,000, ₹2,40,000
C) ₹3,00,000, ₹7,00,000
D) ₹5,55,555, ₹4,44,445

ANSWERS:

1: A)	2: D)	3: A)	4: B)	5: D)	6: D)	7: D)	8: A)	9: B)	10: A)

IND AS 20: ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE

Question - 1:
How is a grant recognized in profit or loss when it is set up as deferred income?
A) It is recognized as income in the year the grant is received
B) It is recognized in profit or loss on a systematic basis over the useful life of the asset
C) It is recognized as a reduction in depreciation expense over the life of the asset
D) It is recognized as a separate item in the other comprehensive income section

Question - 2:
According to Ind AS 20, which of the following is included in the definition of "government"?
A) Local and national bodies only
B) Government agencies only

C) International bodies only
D) Government, government agencies, and similar bodies whether local, national, or international

Question - 3:
According to Ind AS 20, when should government grants be recognized by an entity?
A) As soon as the grant is offered by the government
B) Once the entity fulfills the conditions attached to the grants
C) When there is reasonable assurance that the entity will comply with the conditions and receive the grants
D) After the entity has received the grants

Question - 4:
Which Ind AS provides guidance on accounting for government grants and disclosure of government Assistance?
A) Ind AS 115
B) Ind AS 20
C) Ind AS 16
D) Ind AS 16

ANSWERS:

1: B)	2: D)	3: C)	4: B)

IND AS 102: SHARE BASED PAYMENT

Question - 1:
In respect of an entity which is a first-time adopter of Ind AS, Ind AS 102 would not necessarily be required to be applied to which of the following equity instruments?
A) Equity instruments that vested before date of transition to Ind AS
B) Equity instruments that vested after date of transition to Ind AS
C) Equity instruments that vested on the date of transition to Ind AS
D) All equity instruments that vested before, on and after date of transition to Ind AS

Question - 2:
On 1 April 20X1, ABC Ltd acquired an item of plant for an agreed consideration of its own 1,000 shares. The plant was received on same date and the obligation to transfer shares was to be settled on 1 May 20X1. The fair value of the item of the plant was Rs. 10,000 on 1 April 20X1. ABC Ltd's share price was INR 8.00 on 1 April 20X1 and INR 9.00 on 31 March 20X2. In accordance with Ind AS 102 Share-based Payment, ABC Ltd should:
A) Re measure the equity to 9,000 on 31 March 20X2
B) Initially recognize the plant and equity at 8,000 on 1April 20X1
C) Make no entry in relation to the transaction until 1 May20X1
D) Initially recognize the plant and equity at 10,000on 1 April 20X1

Question - 3:

Silver Jubilee Motors granted 2,000 share options to each of its three Branch Manager on 1 April 2017, subject to the Branch Managers being in employment till 31 March 2020. The options will vest on 31 March 2020 only if the company's share price reaches INR 14 per share at that time. The fair value of each option on 1 April 2017 is INR 10. The share price at 31 March 2018 is INR 8 and it is not anticipated that it will rise over the next two years. Further, it is anticipated on 31 March 2018 that only two Branch Managers will be in employment by 31 March 2020. Determine the value of share option to be recorded per Ind AS 102 Share Based Payment in the Balance Sheet for the year ended 31 March 2018.

A) INR 20,000
B) INR 13,333
C) INR 10,667
D) INR 18,667

ANSWERS:

1: A)	2: D)	3: B)

IND AS 19: EMPLOYEE BENEFITS

Question - 1:

While accounting for a defined benefit obligation, there is net interest to be recognized in profit or loss. Based on the prevailing accounting practices, which of the following statement is true?

A) Net interest cost shall be recognized as 'employee benefit expenses' in the statement of profit or loss
B) Net interest cost shall be recognized as 'finance cost' in the statement of profit or loss
C) Net interest cost shall be recognized as 'other expenses' in the statement of profit or loss
D) The Company has an accounting policy choice of recognizing net interest cost either in 'employee benefit expenses' or 'finance cost'

Question - 2:

From the following items, identify what must be classified as other long-term benefits under Ind AS 19?

A) Paid maternity leave
B) Cash bonus payable in August 20X3 for results obtained up to 31st March, 20X3
C) Deferred compensation payable 20 months after the period in which it is earned
D) Lump sum retirement benefit of ₹ 10lakh that vests after five years of service

Question - 3:

How should we treat maternity or paternity leaves while accruing liability for compensated absences as per actuarial valuation?

A) Depends on accounting policy of the company
B) Should be included for actuarial valuation
C) Should not be included for actuarial valuation
D) Only maternity leaves should be included for actuarial valuation

Question - 4:
While recognizing the expenses for paid leave to employees which are carried forward to next year if unutilized. An employee can utilize such carry forward leaves anytime subject to maximum of 30 accumulated leaves. How should the Company recognize re-measurement of liability comprising the actuarial gain/loss?

A) The statement of profit or loss
B) In other comprehensive income as item to be reclassified to profit or loss
C) Directly in equity
D) In other comprehensive income as item not to be reclassified to profit or loss

Question - 5:
An entity has decided to improve its defined benefit pension scheme. The benefit payable will be determined by reference to 60 years of service rather than 80 years of service. As a result the deemed benefit pension liability will increase by Rs 2 Crores. The average remaining service lives of its employees is 10 years. The Company wants to understand as to how should the increase in pension liability by Rs. 2 Crores be treated in the financial statements?

A) The past service cost should be charged against retained profit
B) The past service cost should be charged against profit or loss for the year
C) The past service cost should be spread over the remaining working lives of the employees
D) The past service cost should not be recognized

ANSWERS:

1: D)	2: C)	3: C)	4: A)	5: B)

IND AS 37: PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETTS

Question - 1:
Which one of the following is a correct statement in relation to provisions and contingencies?

A) An item of a contingent nature may be recognized, but not disclosed, in the body of the financial statements
B) Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets applies to provisions to perform land rehabilitation activity
C) Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets applies to contingent liabilities and contingent assets of insurers that result from insurance contracts
D) A present obligation exists in all circumstances where a company may have some choice in whether or not to make a future sacrifice of economic benefits in settlement of an obligation

Question - 2:
As at 31 March 20X1 (reporting date), ABC Ltd is involved in a legal dispute with one of its supplier in relation to the early termination of the exclusive license agreement between the two companies. The supplier seeks damages of Rs. 50 crore. The directors of ABC believe that, they will be successful in defending this claim. ABC lawyers have advised that there is 90% chances that the entity would not be

made liable for this claim. In accordance with Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets, which one of the following is the most appropriate option for ABC while preparing its financial statements for 31 March 20X1?

A) Neither recognition of provision nor disclosure of contingent liability is required
B) Disclose information about the possible liability as a contingent liability
C) Recognize a provision for the best estimate of the obligation to the supplier
D) Recognize a contingent liability for the best estimate of the obligation to the supplier

Question -3:

Which one of the following represents an appropriate discount rate for measuring a provision based on Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets?

A) Market yields on national government bonds
B) Market yields on high-quality corporate bonds
C) Pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability
D) Pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the entity

Question - 4:

As per Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets, where measurement uncertainty exists, which one of the following methods is NOT an appropriate valuation for a provision based on accounting standards?

A) the mid-point of a range of equally likely outcomes of expenditure
B) no provision should be recognized where measurement uncertainty exists
C) the minimum amount expected to represent a best estimate, where the other option is omission
D) the most likely amount expected to represent a best estimate, where there is a single obligation

ANSWERS

1: B)	2: B)	3: C)	4: B)

IND AS 12: INCOME TAXES

Question - 1:

Star Ltd expects that it will earn a minimum of Rs 250 lakh per year for the anticipatable future and will be subject to 30% tax. A liability for Rs 50 lakh in respect of accrued product warranty costs has been recognized by Star Ltd. For tax purposes, the product warranty costs will be deductible when the enterprise claims or incurs the costs. In accordance with Ind AS 12 Income Taxes, which of the following Star Ltd should recognize as a deferred tax asset / liability?

A) A deferred tax asset of Rs 15 lakh
B) A deferred tax liability of Rs 15 lakh
C) A deferred tax liability of Rs 35 lakh
D) Neither a deferred tax asset or liability

Question - 2:

During the year ended 31 March 20X1, Zee Ltd has acquired 60% shares of Global. In accordance with Ind AS 103 Business Combinations, goodwill arising on\ acquisition of subsidiary amounted to INR 20 lakh. The tax rate applicable for Zee Ltd is 30% The deferred tax liability relating to goodwill will be:

A) INR 6,00,000
B) INR 36,000
C) INR 3,60,000
D) Zero

Question - 3:

Entity A has calculated taxable temporary differences of Rs. 50,00,000 and deductible temporary differences of Rs. 20,00,000 on separate items. The tax rate of the current year is 35%. However, tax rate in the previous year is 30% and it is expected that in future the tax rate would be 40%. What basis should be used for measurement of deferred tax assets and liabilities?

A) 30%
B) 35%
C) 40%
D) 5%

Question - 4:

To calculate the tax base of a liability for employee benefits, which one of the following formulas would be used?

A) Carrying amount + Future assessable amounts
B) Carrying amount ? Future non-assessable amounts of revenue
C) Carrying amount+ Future deductible amounts ? Future assessable amounts
D) Carrying amount? Future deductible amounts + Future assessable amounts

ANSWERS:

1: A)	2: D)	3: B)	4: D)

IND AS 21: THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

Question - 1:

In the context of Ind AS 21, which of the following is not a monetary item?

A) Cash and bank balances
B) Fixed deposits
C) Shareholders' equity
D) Accounts payable

Question - 2:

Pursuant to Ind AS 21, which factor will not be used in determining the entity's functional currency?

A) The currency that primarily influences the prices at which goods and services are sold
B) The currency in which the costs of the entity are mainly denominated
C) The currency which is used mostly for international trading in that industry
A) D)The currency in which funds from financing are generated

Question - 3:

Parent P owns 80% of the net assets of Subsidiary S. S's functional currency is Dinar. S was acquired on 30th September, 20X1 and its net assets fair value was Dinar 40,000. P has recognized a cost of investment amounting to CU 10,675 in its financial statements. The group's accounting policy for goodwill is to recognize it on a proportionate basis. Exchange rates are as follows: 30th September, 20X1 CU 1= 6.5 Dinar 31st December, 20X2 CU 1= 6.0 Dinar Calculate the goodwill to be recognized in the consolidated statement of balance sheet as at 31st December, 20X2 under Ind AS 21

A) CU 3,207
B) CU 3,918
C) CU 5,342
D) CU 6,231

Question - 4:

XYZ Ltd., during the financial year ended 31 March 20X2, disposed of an investment in a foreign operation. Up to the date of disposal, XYZ had to translate the financial statement of the foreign operation from another currency for inclusion in its consolidated financial statements. During prior reporting periods, ₹14,000 of exchange difference gains net of tax (pre-tax exchange difference gains ₹20,000) had been recognized in OCI in the consolidated financial statements of XYZ Ltd. During the year 20X2 reporting period, ₹3,500 exchange difference gain net of tax (pre-tax exchange difference gain ₹5,000) up to the date of disposal of the foreign operation had been recognized in OCI. Which one of the following statements is correct in relation to the treatment of the disposal of the foreign operation in the consolidated statement of profit or loss and OCI of XYZ for the year ended 31March 20X2?

A) OCI would include an exchange difference net of tax gain of ₹3,500
B) OCI would include a reclassification adjustment net of tax of ₹14,000
C) OCI would include a reclassification adjustment net of tax of ₹17,500
D) No reclassification adjustment from OCI to profit or loss is necessary on disposal of the foreign operation

Question - 5:

XYZ Ltd prepares consolidated financial statements. During the financial year ended 31st March 20X2, XYZ disposed of an investment in a foreign operation. Up to the date of disposal, XYZ had to translate the financial statement of the foreign operation from another currency for inclusion in its consolidated financial statements. During prior reporting periods, ₹14,000 of exchange difference gains net of tax (pre-tax exchange difference gains ₹20,000) had been recognized in other comprehensive income in the consolidated financial statements of XYZ Ltd. During the reporting period ending on 31st March, 20X2, ₹3,500 exchange difference gain net of tax (pre-tax exchange difference gain ₹5,000) up to the date of disposal of the foreign operation had been recognized in other comprehensive income. Which one of the following statements is correct in relation to the treatment of the disposal of the foreign operation in the consolidated statement of profit and loss and other comprehensive income of XYZ Ltd. for the year ended 31st March 20X2?

A) Other comprehensive income would include an exchange difference net of tax gain of ₹3,500
B) Other comprehensive income would include a reclassification adjustment net of tax of ₹14,000
C) Other comprehensive income would include a reclassification adjustment net of tax of ₹17,500
D) No reclassification adjustment from other comprehensive income to profit or loss is necessary on disposal of the foreign operation

Question - 6:

Zed Ltd. imported an item of Property, plant and equipment i.e. machinery costing USD 100,000. The exchange rate as at the date of receipt of the Plant and Machinery in India was ₹60 = 1 USD. However, at the time of remitting the payment to the foreign vendor [30 days after receipt of the Plant and machinery in India] the exchange rate was ₹62 = 1 USD. Accordingly, ZED Ltd. passed a journal entry debiting Vendor account for ₹60,00,000, debiting Exchange loss for ₹2,00,000 and crediting bank account for ₹62,00,000. At the first balance sheet date after the acquisition of the aforesaid Plant and Machinery, Zed Ltd. opted to use the Revaluation model. The accounting treatment as per Ind AS 21 as regards the exchange loss of ₹2,00,000 is as follows:

A) ₹2,00,000 being a realized exchange loss on a monetary item, it should be recognized in Profit or Loss account
B) ₹2,00,000 being an unrealized exchange loss on a monetary item, it should be recognized in Profit or Loss account
C) ₹2,00,000 being a realized loss on a non-monetary item, it should be recognized in Profit or Loss account
D) ₹2,00,000 being a realized loss on a non-monetary item, it should be recognized in Other Comprehensive Income as the asset is being accounted under the revaluation model

Question - 7:

Casper Ltd is a New York based company engaged in the business of manufacturing mobile handsets. Casper's functional currency is the dollar. Casper purchased a machine on credit from a European supplier for ' 6 million on 31 January 2018. At this date the exchange rate was ' 2 = $1. Casper did not settle the dues until its reporting date i.e. 31 March 20X1. At this date the closing exchange rate was ' 1.5 = $1. Casper follows cost model for measuring its noncurrent assets. Which one of the following statements is correct in accordance with Ind AS 21 'The Effects of Changes in Foreign Exchange Rates for the period ending 31 March 20X1?

A) Cost of machine $ 4 million, trade payable $ 3 million, exchange gain $ 1 million
B) Cost of machine $ 3.0 million, trade payable $ 4 million, exchange loss $ 1 million
C) Cost of machine $ 3.0 million, trade payable $ 4 million, exchange loss $ 1.2 million
D) Cost of machine $ 4 million, trade payable $ 4 million, no exchange loss

ANSWERS:

1: C)	2: C)	3: D)	4: C)	5: C)	6: A)	7: B)

IND AS 24: RELATED PARTY DISCLOSURES

Question - 1:

Era is a director of Titanic Ltd. She also owns 60% of Gracious Ltd and is a director of, but not a shareholder in, Fortuner Ltd. Era's husband is the sole shareholder in Kite Ltd. Era's daughter holds 6% of the shares in Bluebell Ltd. The only involvement she has in the company is to receive dividends. Which of the following companies would be classified under Ind AS 24 Related Part Disclosures as related parties of Titanic Ltd?

A) Gracious Ltd and Kite Ltd
B) Gracious Ltd only
C) Bluebell Ltd and Fortuner Ltd
D) Kite Ltd, Gracious Ltd and Bluebell Ltd

Question - 2:

Sunbeam Ltd has a 70% subsidiary Hexa Ltd and is a venture in Texotech, a joint venture company. During the financial year to 31 March 2018, Sunbeam sold goods to both companies. Consolidated financial statements are prepared combining the financial statements of Sunbeam Ltd and Hexa Ltd. Under Ind AS 24 Related Part Disclosures, in the separate financial statements of Sunbeam Ltd for the year ended 31 March 2018, disclosure is required of transactions with

A) Neither Hexa Ltd nor Texotech Ltd.
B) Hexa Ltd only
C) Texotech Ltd. only
D) Both Hexa Ltd and Texotech Ltd.

Question - 3:

Mr. K owns all of the issued share capital of entity L. He is also a member of the key management personnel of entity M which, in turn, owns all of the issued share capital of entity N. Which of the following is true about the related party relationships from the above structure?

A) K is not a related party of L & M
B) L & M are related parties
C) L & N are related parties
D) Both (b) & (c)

ANSWERS:

1: A)	2: D)	3: D)

IND AS 33: EARNING PER SHARE

Question - 1:

A Limited has the following options with regards to its own equity shares. Which of these should be included in the calculation of diluted earnings per share?

A) In the money purchased put options
B) In the money purchased call options
C) In the money written put options
D) Out of the money written put options

Question – 2:

Following information is available for A Ltd: 1 January - Shares in issue 1,000,000 Profit for the year ended 31 March Rs. 2,000,000 Average fair value during the period Rs.8 Weighted Average number of shares under options during the year = 2,00,000 shares Exercise price Rs.6 Calculate Diluted earnings per shares (DEPS) for the year.

A) Rs. 2.50
B) Rs. 2.10
C) Rs. 1.74
D) Options would be anti-dilutive and hence DEPS would be Rs. 2

ANSWERS:

1: C)	2: C)

IND AS 108

Question - 1:

As per Ind AS 108 'Operating Segments', if a financial statement contains both the consolidated financial statements of a parent, as well as parent's separate financial statements, segment information is required:

A) Only in the consolidated financial statements
B) Only in the parent's separate financial statements
C) Both sets of financial statements
D) Either in the consolidated financial statement or in the parent's separate financial statements

Question - 2:
As per Ind AS 108 'Operating Segments', if financial statement contains both the consolidated financial statements of a parent, as well as parent's separate financial statements, segment information is required:
A) Only in the consolidated financial statements
B) Only in the parent's separate financial statements
C) Both sets of financial statements
D) Either in the consolidated financial statement or in the parent's separate financial statements

Question - 3:
Entity A and Entity B both manufacture and distribute furniture and electrical products used in residential and commercial units. Entity A is structured such that decisions are made and performance is evaluated on a regional basis (e.g., India, Asia Pacific), whereas Entity B makes decisions and evaluates performance on a product-line basis (e.g., furniture, electrical products). How should Entity A and Entity B report operating segments as per Ind AS 108, 'Operating Segments'?
A) Entity A and B should report similar operating segments
B) Entity A should report operating segments based on regions and Entity B should report operating segments based on product lines
C) Entity A and B have a choice to report operating segments based on regions or product lines
D) Entity A and B have a choice not to report any operating segment

ANSWERS:

1: A)	2: A)	3: B)

ACCOUNTING AND REPORTING OF FINANCIAL STATEMENTS

Question - 1:
Which of the following categories of financial assets is NOT subject to impairment requirements of Ind AS 109 "Financial Instruments"?
A) Equity instruments measured at fair value through profit or loss
B) Investment in debentures where
   (i) Contractual cash flows represent solely payment of principal and interest; and
   (ii) entity's business model is to hold financial assets in order to collect contractual cashflows
C) Lease receivables
D) Trade debtors

Question - 2:
Entity A has issued preference shares to the investors which has similar voting rights and dividend rights and will be converted into one is to one equity shares at the time of IPO. As per the terms of the

agreement, if the IPO does not happen by the end of the 7th year, then the Company will have to buy back the shares from the investors. The Company is growing very fast and is confident of going through the IPO within 3 years itself. How will the company classify the above instrument in the financial statement?

A) Equity
B) Liability
C) Hybrid
D) Compound

Question - 3:

A Ltd. has invested in debentures whose interest rate is floating in nature and as per the terms of the instrument interest will be reset every month. Terms of interest is 0.5 x (MIBOR + 2%). Classify the financial asset and determine the subsequent measurement for the aforesaid Instrument.

A) Financial asset measured at amortized cost
B) Financial asset measured at FVOCI without recycling
C) Financial asset measured at FVTPL
D) Financial asset measured at FVOCI with recycling

Question - 4:

New Age Technology Limited has taken loan from a bank which has debt to equity ratio as one of its financial covenants. Any new fund raise could have a direct implication on the covenants of existing loans. Therefore, the CFO wants to understand which amongst the following instruments is an equity instrument as per Ind AS 32 Financial Instruments: Presentation?

A) Non-redeemable preference shares with payment of dividend at market rates
B) Preference shares redeemable at the option of the issuer with payment of dividend at the discretion of the issuer
C) Preference shares redeemable at the option of the holder with payment of dividend at the discretion of the issuer
D) Preference shares redeemable at the option of the holder with payment of dividend at market rates

Question - 5:

From the below list of instruments held by Swan Limited as at 31.03.20X2, you need to identify the financial instrument which does not meet the contractual cash flow characteristics test as per the provisions of Ind AS 109:

A) Variable rate instrument with a stated maturity date that permits the borrower to choose to pay three-month LIBOR for a three-month term or one-month LIBOR for a one-month term
B) A fixed term variable market interest rate bond where the variable market interest rate is capped
C) A financial instrument with an interest rate that is reset to a higher rate if the debtor misses a particular number of payments
D) A financial instrument with an interest rate that is reset to a higher rate if a specified equity index reaches a particular level

Question - 6:

On 1 January 20X6, XYZ Ltd issues a new instrument with the following characteristics. ' Face value Rs. 100, issue price Rs. 90. Cumulative dividend payable at 5% per annum for 10 years. After 10 years, the dividend is payable at the discretion of the issuer. 'The holder of the note has the option to convert to ordinary shares of XYZ Ltd. after 10 years, and conversion will be 10 ordinary shares for each instrument. 'The holder can demand redemption for the face value at any time, with six months' notice up until the end of 10 years. After 10 years, redemption is at the discretion of the issuer. There is no fixed maturity date. How should the instrument be classified by XYZ Ltd. in the first 10 years in accordance with Ind AS 32? Select which one of the following is correct.

A) as equity
B) as a liability
C) as either equity or liability
D) as a compound instrument

ANSWERS:

1: A)	2: D)	3: C)	4: B)	5: D)	6: B)

BUSINESS COMBINATION AND CORPORATE RESTRUCTING

Question - 1:

Entity C acquires Entity D as per the principles of Ind AS 103 'Business Combinations'. Fair Value of identifiable assets is Rs. 10,00,000. Fair Value of Liability assumed is Rs. 6,00,000. Consideration paid for the acquisition of Entity D is Rs. 5,00,000 Goodwill on acquisition is deductible for tax purposes. You need to compute the Goodwill amount to be recognized the books of Acquirer i.e. Entity C at acquisition date? (Assume tax rate @ 30%)

A) Rs. 1,00,000
B) Rs. 1,30,000
C) Rs. 4,00,000
D) Rs. 70,000

Question - 2:

PQR Holdings Limited enters into a number of transactions each year. The accountant has requested your help to identify which of these must be accounted for as a business combination:

A) PQR Holdings Limited purchases 30% equity in TP Ltd, an unlisted company
B) PQR Holdings Limited purchases a 45% interest which gives it control over TR Ltd.
C) PQR Holdings Limited purchases one of many brand names and products of TQ Ltd.
D) PQR Holdings Limited purchases a 30% equity and invests in debentures of TS Ltd.

Question - 3:

P Ltd acquires 95% of the issued share capital of S Ltd on 1 October 2017 by way of a share for share exchange. The profits before tax of P and S for the year ended 31 March 2018 are Rs 2,00,000 and Rs 1,50,000 respectively. How much profit before tax would be shown in the consolidated statement of profit or loss of P Ltd for the year ended 31 March 2018, in accordance with Ind AS 103 'Business Combinations'?

A) Rs 271,250
B) Rs 275,000
C) Rs 342,500
D) Rs 350,000

ANSWERS:

1: A)	2: B))	3: B

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Question - 1:

In consolidated financial statements of PQR Ltd., non-controlling interest should be presented:

A) Within long-term liabilities
B) In between long-term liabilities and current liabilities
C) Within the parent shareholders equity
D) Within equity but separate from the parent shareholders equity

Question - 2:

P owns a controlling investment of 70% of S.During the year, P sold goods to S for Rs 60,000 at cost plus20%. At the year end, S still had half of the goods in their inventory. P?s total inventory at the year-end was Rs120,000, and S?s total inventory was Rs 80,000. How much inventory should be recognized in P's consolidated statement of financial position prepared in accordance with Ind AS?

A) Rs 1,95,000
B) Rs 2,00,000
C) Rs 1,76,000
D) Rs 1,58,500

Question – 3:

On 1st March 20X2, Quixote Ltd acquired 30% of the shares of Tintin Ltd. The investment was accounted for as an associate in Quixote's consolidated financial statements. Both Quixote and Tintin have an accounting year ending at 31st October 20X2. Quixote Ltd has no other investments in associates. Net profit for the year in Tintin's income statement for the year ended 31st October 20X2 was Rs. 2,30,000. It declared and paid dividend of Rs.100,000 on 1st July 20X2. No other dividends were paid in the year. What amount will be shown as an inflow in respect of earnings from the associate in the consolidated cash flow statement of Alpha for the year ended 31st October 20X2?

A) Rs. 20,000
B) Rs. 26,000
C) Rs. 30,000
D) Rs. 46,000

Question - 4:

A Ltd. controls another entity B Ltd., owning 60% of its ordinary share capital. At the group's year end, 31st December 20X1, B Ltd. included Rs. 6,000 in its receivables in respect of goods supplied to A Ltd. However, the payables of A Ltd. included only Rs. 4,000 in respect of amounts due to B Ltd. The difference arose because, on 31st December 20X1, A Ltd. sent a cheque of Rs. 2,000, which was not received by B Ltd. until 3rd January 20X2. Which one of the following sets of consolidation adjustments to Current assets and current liabilities is correct?

A) Deduct Rs. 6,000 from both consolidated receivables and consolidated payables
B) Deduct Rs. 3,600 from both consolidated receivables and consolidated payables
C) Deduct Rs. 6,000 from consolidated receivables and Rs. 4,000 from consolidated payables and include Rs. 2,000 as cash-in-transit
D) Deduct Rs. 6,000 from consolidated receivables and Rs. 4,000 from consolidated payables and include inventory in transit of Rs. 2,000

Question - 5:

You are the finance manager of Vassar, a listed company which prepares consolidated financial statements as per AS. The newly appointed managing director who is not an accountant, reviewed the draft financial statements for the year ended 31 March 20X1 which were due to be published shortly. The managing director had a query out of the review regarding the exclusion of certain investment in subsidiaries from preparing consolidated financial statements. Which of the following statements are correct about the exclusion of subsidiary from consolidation?

A) Vassar had acquired a subsidiary Aqua on 1 October 20X0. This acquisition was temporary in nature and that it had held exclusively with a view to its subsequent disposal in near future
B) There was another subsidiary acquired in the first quarter of the year, which had huge losses. Vassar believed that due ICAI. to change in management and other synergies, it could turn around the losses into profits in few years. But, due to the losses in the current year, you had not consolidated this subsidiary
C) If there is an investment acquired without the intention of subsequent disposal in near future, but which was decided to dispose off subsequently, this investment can be excluded from consolidation
D) If the relevant investment was acquired with the intention of subsequent disposal in near future but could not be disposed off due to some valid reasons, it will later be included in the consolidation

ANSWERS:

1: D)	2: A)	3: C)	4: C)	5: A)

ANALYSIS OF FINANCIAL STATEMENTS

Question - 1:

Jatin purchases investment properties and funds this by issuing bonds in the market. The liability in respect of the bonds is designated to be measured at fair value through profit or loss. The bonds had an overall fair value decline of Rs 50 crores in the year, out of which Rs 5 crores relates to decrease in Jatin's credit worthiness. Which of the following is the correct accounting treatment?

A) Rs 50 crores should be recorded in P&L
B) Rs 50 crores should be recorded in OCI
C) Rs 5 crores should be recorded in OCI and Rs 45 crores in P&L
D) Rs 45 crores should be recorded in OCI and Rs 5 crores in P&L

Question - 2:

An asset had a carrying value of Rs.10,00,000 as on 1st April 20X1. It was revalued at Rs.11,00,000 as on 31st March 20X2 by crediting the increase of Rs. 1,00,000 to revaluation surplus. Later it was sold for Rs. 12,50,000 on 30 June 20X2. The amount to be taken to retained earnings would be:

A) Rs. 2,50,000
B) Rs. 1,00,000
C) Rs. 1,50,000
D) Rs. 1,25,000

Question - 3:

A Ltd is a public sector entity under the Ministry of Defense and is in the business of construction of warships. The contracts are awarded on fixed price basis except certain variable components, such as, foreign exchange variation and cost of spares etc. The payment for fixed price part is on the basis of completion of milestones. The payment for variable component is based on actual cost to the shipyard. The payment terms for the fixed price portion of the contract are generally spread over 10-12 milestones starting with initial payment of 10% on signing of the contract. As the gestation period of the contracts for shipbuilding is longer, it so happens that during initial period when funds are made available, at times, become temporary surplus funds, which are deployed in short-term fixed deposits. However, in the later part of the execution of the contract, the cost incurred on the project exceeds the stage payments received on the vessel leading to a negative cash flow. Further, the last stage payment of the project is deferred till one year after the delivery of the vessel. Thus, the interest earned initially on the temporary surplus compensates to a certain extent for the period of deficit cash flow, especially at the later part of the execution of the project. A Ltd wants to check the presentation requirement of interest earned on deposits made out of temporary surplus as per AS?

A) To be presented as 'Other income'
B) To be presented as 'Other operating revenue'
C) Option to present either as 'Other income' or 'Other operating revenue'
D) To be netted off from cost

ANSWERS:

1: C)	2: B)	3: A)

IND AS 101: FIRST TIME ADOPTION OF IND AS

Question - 1:

According to Ind AS 101, when should the accounting under Ind AS be applied?

A) Prospectively from the date of adoption
B) Retrospectively at the time of transition to Ind AS
C) Selectively based on management's judgment
D) In accordance with Indian GAAP principles

Question - 2:

Under Ind AS 101, what is the treatment of items that are not permitted to be recognized as assets or liabilities under Ind AS?

A) They should be recognized as assets or liabilities in the opening Ind AS Balance Sheet
B) They should not be recognized as assets or liabilities in the opening Ind AS Balance Sheet
C) They should be recognized as contingent assets or liabilities in the opening Ind AS Balance Sheet
D) They should be recognized as deferred assets or liabilities in the opening Ind AS Balance Sheet

Question – 3:

What is the purpose of Ind AS 101?

A) To prescribe accounting principles for first-time adoption of Ind AS
B) To provide exemptions from disclosure requirements in Ind AS
C) To mandate retrospective application of Ind AS in all areas
D) To lay down transition requirements from Ind AS to Indian GAAP

ANSWERS:

1: B)	2: B)	3: A)

PROFFESSIONAL AND ETHICAL DUTY OF A CHARTERED ACCOUNTANT

Question - 1:
What should a Chartered Accountant do to comply with the principle of Professional Behavior?
A) Discredit the profession to raise awareness
B) Follow relevant laws and regulations
C) Promote personal interests over professional obligations
D) Engage in conduct that may compromise business relationships

Question - 2:
Which principle emphasizes being straightforward and honest in professional and business relationships?
A) Integrity
B) Objectivity
C) Professional Competence and Due Care
D) Confidentiality

Question - 3:
What is the primary responsibility of a Chartered Accountant in relation to pressure to breach the fundamental principles?
A) Succumb to the pressure if it comes from a superior
B) Resist the pressure and report it to higher management
C) Apply pressure on others to ensure compliance with the principles
D) Evaluate the level of threat and take appropriate actions

Question - 4:
What is the stance of a Chartered Accountant regarding conflicts of interest?
A) Conflicts of interest are acceptable if managed properly
B) Conflicts of interest should be disclosed but can still compromise judgment
C) Conflicts of interest should not compromise professional or business judgment
D) Conflicts of interest are unavoidable and should be embraced

Question - 5:
Which principle is violated if a conflict of interest compromises professional or business judgment?
A) Integrity
B) Objectivity
C) Professional Competence and Due Care
D) Confidentiality

ANSWERS:

1: B)	2: A)	3: D)	4: C)	5: B)

ACCOUNTING AND TECHNOLOGY

Question - 1:
Which of the following is NOT a benefit of automation processes?

A) Streamlining data entry
B) Enhancing accuracy in accounting processes
C) Increasing the risk of human error
D) Saving time and resources

Question - 2:
Which of the following statements best describes cloud computing?
A) The use of physical servers located in a company's premises to store and process data
B) The delivery of computing services over the internet, allowing access to data and software from any device with an internet connection
C) The process of using local storage devices to store and manage data
D) The practice of relying on traditional client-server architecture for remote data access

Question - 3:
Automation processes aid in compliance by:
A) Introducing inaccuracies in accounting practices
B) Generating financial statements that don't meet standards
C) Streamlining data entry from source documents
D) Increasing the risk of non-compliance and penalties

Question - 4:
How do ERP systems work?
A) By using different data structures for each department to ensure data security
B) By integrating multiple business systems from various vendors
C) By providing real-time data to help managers compare performance across different locations
D) By relying on manual data entry and validation processes

Question - 5:
Which of the following best describes AI?
A) The simulation of human intelligence in machines, enabling them to perform tasks that would typically require human intervention
B) The process of programming computers to perform tasks without learning
C) The analysis of large amounts of data to make predictions about future trends
D) The automation of routine tasks in the accounting profession

Question - 6:
What is the purpose of employee training in mitigating cyber security risks?
A) To ensure that all staff members are aware of the importance of cyber security
B) To make employees responsible for creating strong passwords
C) To limit access to sensitive data to a few select individuals
D) To eliminate the need for data backups

ANSWERS:

1: C)	2: B)	3: C)	4: C)	5: A)	6: A)

CASE SCENARIOS

CASE SCENARIO- 1

A Ltd. is engaged in the business of manufacturing a number of products including moulds, dies and machinery. They have a wide customer base both within India and abroad. Typically, a contract is entered into for sale of each product and consideration is received on the event of delivery of goods to the customer place. The cost of each mould is Rs. 400 and the selling price is Rs. 450. The terms of the contract entitle the customer to return any unused moulds within 30 days and receive a full refund. The Company estimates that the costs of recovering the mould will be immaterial and expects that the returned moulds can be resold at a profit. The company has sold a total of 10,000 moulds during the month ended 31st March, 20X4. From past experience, A Ltd expects that 3% of the moulds will be returned during the current year.

Question - 1:
The consideration received from the customer is

A)Variable B) Fixed
C) Both variable and fixed D) There is no consideration

Description:
Since the contract allows a customer to return the products, the consideration received from the customer is variable.

Question - 2:
Upon transfer of control of the 10,000 moulds, the entity will recognize revenue for

A) 10,000 moulds B) 300 moulds
C)9,700 moulds D) 10,300 moulds

Description:
Upon transfer of control of the 10,000 moulds, the entity does not recognize revenue for the300 moulds that it expects to be returned.

Question - 3:
The entity recognizes revenue of

A) Rs. 45,00,000 B)Rs. 43,65,000
C) Rs. 1,35,000 D) Rs. 1,20,000

Description:
The entity recognizes the Revenue of Rs. 43,65,000 (Rs. 450 × 9,700 moulds not expected to be returned)

Question - 4:
The entity recognizes a refund liability of

A) Rs. 45,00,000 B) Rs. 43,65,000
C)Rs. 1,35,000 D) Rs. 1,20,000

Description:
The entity recognizes a refund liability of Rs. 1,35,000 (Rs. 450 refund × 300 moulds expected to be returned)

Question - 5:
The entity recognizes a return asset of

A) Rs. 45,00,000
B) Rs. 43,65,000
C) Rs. 1,35,000
D)Rs. 1,20,000

Description:
The entity recognizes a return asset of Rs. 1,20,000 (Rs. 400 × 300 moulds for its right to recover products from customers on settling the refund liability)

Question - 6:
The journal entry for the above would be

A) Trade Receivables (Customer)		Dr. 45,00,000	
	To Revenue		45,00,000
B) Return asset		Dr. 43,65,000	
	To Revenue		43,65,000
C) Trade Receivables (Customer)		Dr. 1,35,000	
	To Return asset		1,35,000
D) Trade Receivables		Dr. 45,00,000	
	To Revenue		43,65,000
	To Refund liability		1,35,000

Answer:

1: A)	2: C)	3: B)	4: C)	5: D)	6: D)

CASE SCENARIO- 2

All Limited holds 35% of total equity shares of M Limited, an associate company. The value of investments in M Limited on 31 March 20X3 is Rs. 3,00,00,000 in the consolidated financial statements of All Limited. All Limited sold goods worth Rs. 3,50,000 to M Limited.
The cost of goods sold is Rs. 3,00,000. Out of these goods costing Rs. 1,00,000 to M Limited were in the closing stock of M Limited. M Limited declared a dividend of Rs. 75,00,000 to the equity shareholders of the Company. During the year ended 31 March 20X4 the statement of profit and loss of M Limited showed a profit of Rs. 1,50,00,000.

Question – 1:
What is the share of All Limited in the post-acquisition gain of M Limited?

A) Rs. 1,50,00,000
B)Rs. 52,50,000
C) Rs. 75,00,000
D) Rs. 26,25,000

Description:
1,50,00,000 x 35% = 52,50,000

Question – 2:
What is unrealized gain on inventory left unsold with M Limited?

A)Rs. 5,000
B) Rs. 16,667
C) Rs. 50,000
D) Rs. 5,833

Description:
[{(50,000/3,50,000) x 1,00,000} x 35%]

Question - 3 :
What is the share of All Limited in the Dividend declared from M Limited?
A) Rs. 75,00,000
B) Rs. 50,00,000
C)Rs. 26,25,000
D) Rs. 52,50,000

Description:
(75,00,000 x 35%) = 26,25,000

Question - 4:
What is the value of investment in M Limited as on 31st March 20X4 as per equity method in the consolidated financial statements of All Limited?
A) Rs. 3,26,25,000
B) Rs. 3,52,50,000
C) Rs. 3,52,45,000
D) Rs. 3,26,20,000

Description:
3,00,00,000 + 52,50,000- 5,000 - 26,25,000 =3,26,20,000

Question - 5:
What is the approximate gross margin on goods sold by All Limited to M Limited?
A)14.29%
B) 16.67%
C) 50%
D) 5%

Description:
(50,000 / 3,50,000) x 100

Answer:

1: B)	2: A)	3: C)	4: D)	5: A)

CASE SCENARIO-3

Following is the Balance Sheet of XY Limited, one of the subsidiary of BD Limited for the year ended 31st March 20X3

(₹ in lacs)

	PARTICULARS	20X3	20X2
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		
	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 31st March 20X3 - ₹ 4,450 lacs
2. Interim Dividend paid during the year - ₹ 450 lacs
3. Depreciation and amortization 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 31st March 20X3 two machineries were sold for ₹ 70 lacs. The carrying amount of these machineries as on 31st March 20X3 is ₹ 60 lacs.
5. Income taxes paid during the year ₹ 105 lacs.
6. Other non-current/current assets / liabilities are related to business operations of XY Limited.

Question - 1:
In the given scenario, what will be the treatment of 'other non-current liabilities' while preparing the statement of cash flows?

A) Change in the balance of 'other non-current liabilities' will be adjusted for arriving at cash generated from financing activities
B) Change in the balance of 'other non-current liabilities' will be adjusted for arriving at cash generated from investing activities
C) Change in the balance of 'other non-current liabilities' will be adjusted for arriving at cash generated from operating activities
D) Change in the balance of 'other non-current liabilities' will not be adjusted in the statement of cash flows.

Question - 2:
Where will the change in the financial asset 'Investment' be reflected in the Statement of Cashflows?

A) Operating Activities B)Investing Activities
C) Financing Activities D) Will not be reflected anywhere in the Statement of Cashflows

Question - 3:
In the given scenario, what will be the treatment of 'Deferred Tax Asset' while preparing the statement of cash flows?

(A) Change in the balance of 'Deferred Tax Asset' will be adjusted for arriving at cash generated from operating activities
(B) Change in the balance of 'Deferred Tax Asset' will be adjusted for arriving at cash generated from investing activities
(C) Change in the balance of 'Deferred Tax Asset' will be adjusted for arriving at cash generated from financing activities
(D) Change in the balance of 'Deferred Tax Asset' will not be adjusted in the statement of cash flows.

Question - 4:
What is the final amount of machinery purchased during the year, to be reflected in the Statement of cash flows?

A) Rs. 500 lacs B) Rs. 1,000 lacs
C) Rs. 1,060 lacs D) Rs. 560 lacs

Question - 5:
What is the opening cash and cash equivalents, in the given scenario, for the purpose of Statement of Cash flows?

A) Rs. 460 lacs
B)Rs. 400 lacs
C) Rs. 60 lacs
D) Rs. 520 lacs

Description:
460-60 = 400 lacs

Question - 6:
What is the closing cash and cash equivalents, in the given scenario, for the purpose of Statement of Cash flows?
A) Rs. 75 lacs
B) Rs. 295 lacs
C) Rs. 220 lacs
D)Rs. 145 lacs

Description:
220-75 = 145 lacs

Question - 7:
What is the net generated cash flow from operating activities? (Note: Bracket here denotes outflow)
A) Rs. 4,025 lacs
B) Rs. (830) lacs
C) Rs. (3,450) lacs
D) Rs. (255) lacs

Question - 8:
What is the net cash inflow/outflow from investing activities? (Note: Bracket here denotes outflow)
A) Rs. 4,025 lacs
B)Rs. (830) lacs
C) Rs. (3,450) lacs
D) Rs. (255) lacs

Question - 9:
What is the net cash inflow/outflow from financing activities? (Note: Bracket here denotes outflow)
A) Rs. 4,025 lacs
B) Rs. (830) lacs
C) Rs. (3,450) lacs
D) Rs. (255) lacs

Question - 10:
What is the net cash inflow/outflow from all activities? (Note: Bracket here denotes outflow)
A) Rs. 4,025 lacs
B) Rs. (830) lacs
C) Rs. (3,450) lacs
D)Rs. (255) lacs

Answer:

1: C)	2: B)	3: A)	4: C)	5: B)	6: D)	7: A)	8: B)	9: C)	10: D)

CASE SCENARIO-4

On 1st April 20X1, A Limited acquired 80% of the share capital of S Limited. On acquisition date the share capital and reserves of S Ltd. stood at Rs. 5,00,000 and Rs. 1,25,000 respectively. A Limited paid initial cash consideration of Rs. 10,00,000. Additionally, A Limited issued 2,00,000 equity shares with a nominal value of Rs. 1 per share at current market value of Rs. 1.80 per share.

It was also agreed that A Limited would pay a further sum of Rs. 5,00,000 after three years. A Limited's cost of capital is 10%. The appropriate discount factor for Rs. 1 @ 10% receivable at the end of

1st year: 0.91
2nd year: 0.83
3rd year: 0.75

The shares and deferred consideration have not yet been recorded by A limited.
Below are the Balance Sheet of A Limited and S Limited as at 31st March, 20X3:

	A Limited (Rs. 000)	S Limited (Rs. 000)
Non-current assets:		
Property, plant & equipment	5,500	1,500
Investment in S Limited at cost	1,000	
Current assets:		
Inventory	550	100
Financial Assets		
Receivables	400	200
Cash	200	50
Equity:		
Share capital	2,000	500
Retained earnings	1,400	300
	3,400	300
Non-current liabilities	3,000	400
Current liabilities	1,250	650
	7,650	1,850

Further Information:

1. On the date of acquisition the fair values of S Limited's plant exceeded its book value by Rs. 2,00,000. The plant had a remaining useful life of five years at this date;
2. The consolidated goodwill has been impaired by Rs. 2,58,000; and
3. The A Limited Group, values the non-controlling interest using the fair value method. At the date of acquisition, the fair value of the 20% non-controlling interest was Rs. 3,80,000.

Question - 1:
What will be amount of purchase consideration at the acquisition date i.e. 1st April, 20X1? (Rs. in ₹000s)

A) 1,000 B) 1,360
C) 1,375 D) 1,735

Description:
Calculation of purchase consideration at the acquisition date i.e. 1st April, 20X1

	Rs. in 000s
Payment made by A Ltd. to S Ltd.	
Cash	1,000.00
Equity shares (2,00,000 shares x Rs. 1.80)	360.00
Present value of deferred consideration (Rs. 5,00,000 x 0.75)	375.00
Total consideration	1,735.00

Question - 2:
Compute the amount of net assets / net worth at the acquisition date i.e. 1st April, 20X1. (Rs. in ₹000s)

A) 825 B) 625
C) 500 D) 325

Description:
Calculation of net assets i.e. net worth at the acquisition date i.e. 1st April, 20X1

	Rs. in 000s
Share capital of S Ltd.	500.00
Reserves of S Ltd.	125.00
Fair value increase on Property, Plant and Equipment	200.00
Net worth on acquisition date	825.00

Question – 3:
What will be the amount of Goodwill at the acquisition date i.e. 1st April, 20X1? (Rs. in ₹000s)

A) 910 B) 2,115
C) 1,290 D) 1,032

Description:
Calculation of Goodwill at the acquisition date i.e. 1st April, 20X1

	Rs. in 000s
Purchase consideration (W.N.1)	1,735.00
Non-controlling interest at fair value (as given in the question)	380.00
	2,115.00
Less: Net worth (W.N.2)	(825.00)
Goodwill as on 1^{st} April 20X1	1,290.00

Question - 4:
What will be the amount of Goodwill on reporting date i.e. 31st March, 20X3? (Rs. in ₹000s)

A) 910 B) 2,115
C) 1,290 D)1,032

Description:
Calculation of Goodwill at the reporting date i.e. 31st March, 20X3

	Rs. in 000s
Purchase consideration (W.N.1)	1,735.00
Non-controlling interest at fair value (as given in the question)	380.00
	2,115.00
Less: Net worth (W.N.2)	(825.00)
Goodwill as on 1^{st} April 20X1	1,290.00
Less: Impairment (as given in the question)	258.00
Goodwill as on 31^{st} March 20X3	1,032.00

Question - 5:

What will the net value of Property, Plant and Equipment (after all adjustment) as on 31st March 20X3 ? (Rs. in ₹000s)

A) 7,000 B)7,120
C) 6,880 D) 7,200

Description:

Calculation of Property, Plant and Equipment as on 31st March 20X3

			Rs. in 000s
A Ltd.			5,500.00
S Ltd.		1,500.00	
Add: Net fair value gain not recorded yet	200.00		
Less: Depreciation [(200/5) x 2]	(80.00)	120.00	1,620.00
			7,120.00

Question - 6:

Compute value of NCI as on 31st March 20X3.

A) Rs. 380 thousand B) Rs. 399 thousand
C) Rs. 347.40 thousand D) Rs. 328.40 thousand

Description:

			₹ in 000s
			NCI (20%)
Acquisition date balance			380.00
Closing balance of Retained Earnings		300.00	
Less: Pre-acquisition balance		(125.00)	
Post-acquisition gain		175.00	
Less: Additional Depreciation on PPE [(200/5) x 2]		(80.00)	
		95.00	
20% Share in post-acquisition gain			19.00
Less: Impairment on goodwill (20%)	258.00		(51.60)
			347.40

Question - 7:

Compute Post-acquisition gain / (loss) of A Ltd. (after adjustment of impairment on goodwill) as on 31st March 20X3

A) Nil B) Loss Rs. 130.40 thousand
C) Gain Rs. 76 thousand D) Loss Rs. 206.40 thousand

Description:

		₹ in 000s
		NCI (20%)
Acquisition date balance		Nil
Closing balance of Retained Earnings	300.00	
Less: Pre-acquisition balance	(125.00)	
Post-acquisition gain	175.00	

Less: Additional Depreciation on PPE [(200/5) x 2]	(80.00)	
	95.00	
80% Share in post-acquisition gain		76.00
Less: Impairment on goodwill (80%) 258.00		(206.40)
		(130.40)

Question - 8:

Compute the finance cost for the year 20X1-20X2 and 20X2-20X3 to be recognized in the books for the respective years.

A) Rs. 37.50 thousand and Rs. 41.25 thousand
B) Rs. 41.25 thousand and Rs. 37.50 thousand
C) Rs. 45.375 thousand and Rs. 37.50 thousand
D) Rs. 37.50 thousand and Rs. 45.375 thousand

Description:

Finance cost for the year 20X1-20X2 = Rs. 375 thousand x 10% = Rs. 37.50 thousand
Finance cost for the year 20X2-20X3 = Rs. 412.50 thousand x 10% = Rs. 41.25 thousand

Question - 9:

Compute Consolidated Retained Earnings to be shown in the consolidated financial statements as on 31st March 20X3.

A) Rs. 1,400 thousand
B) Rs. 1,269.60 thousand
C) Rs. 1,321.25 thousand
D)Rs. 1,190.85 thousand

Description:

Consolidated Retained Earnings as on 31st March 20X3

	₹ in 000s
A Ltd.	1,400.00
Add: Share of post-acquisition loss of S Ltd.	(130.40)
Less: Finance cost on deferred consideration (37.5 + 41.25)	(78.75)
Retained Earnings as on 31st March 20X3	1,190.85

Question - 10:

What will be the value of deferred consideration as on 31st March 20X3?

A) Rs. 412.50 thousand
B) Rs. 416.25 thousand
C)Rs. 453.75 thousand
D) Rs. 375.00 thousand

Description:

Calculation of value of deferred consideration as on 31st March 20X3

	₹ in 000s
Value of deferred consideration as on 1st April 20X1	375.00
Add: Finance cost for the year 20X1-20X2 (375 x 10%)	37.5
	412.50
Add: Finance cost for the year 20X2-20X3 (412.50 x 10%)	41.25
Deferred consideration as on 31st March 20X3	453.75

Question - 11:

Compute current Liability to be shown in the consolidated balance sheet as on 31st March 20X3.

A) Rs. 2,353.75 thousand
B) Rs. 1,900 thousand
C) Rs. 1,250 thousand
D) Rs. 1,703.75 thousand

Description:

Calculation of current liability to be shown in the consolidated financial statements as on 31st March 20X3

	₹ in 000s
A Ltd.	1,250.00
S Ltd.	650.00
Deferred consideration as on 31st March 20X3	453.75
Current Liability as on 31st March 20X3	2,353.75

Question - 12:

What will be the total of consolidated balance sheet as on 31st March, 20X3?

A) Rs. 9,304.60 thousand
B)Rs. 9,652.00 thousand
C) Rs. 9,452.00 thousand
D) Rs. 9,000.00 thousand

Description:

Consolidated Balance Sheet of A Ltd. and its subsidiary, S Ltd. as at 31st March, 20X3

Particulars	₹ in 000s
I. Assets	
(1) Non-current assets	
1. Property Plant & Equipment	7,120.00
2. Intangible asset – Goodwill	1,032.00
(2) Current Assets	
(i) Inventories (550 + 100)	650.00
(ii) Financial Assets	
(a) Trade Receivables (400 + 200)	600.00
(b) Cash & Cash equivalents (200 + 50)	250.00
TOTAL ASSETS	9,652.00
II. Equity and Liabilities	
(1) Equity	
(i) Equity Share Capital (2,000 + 200)	2,200.00
(ii) Other Equity	
(a) Retained Earnings	1190.85
(b) Securities Premium	160.00
(2) Non-Controlling Interest	347.40
(3) Non-Current Liabilities (3,000 + 400)	3,400.00
(4) Current Liabilities	2353.75
TOTAL EQUITY & LIABILITIES	9,652.00

Answers:

1: D)	2: A)	3: C)	4: D)	5: B)	6: C)	7: B)	8: A)	9: D)	10: C)	11: A)	12: B)

CASE SCENARIO-5

Joy Ltd. wishes to calculate tax base of its assets and defer tax as on 31st March 20X5. The balance sheet has been adjusted by current tax expense. The extracts of the Assets part of the Balance Sheet as on31st March 20X5 is as follows:

ASSETS	Rs.
Non-current Assets	
Property, Plant and Equipment	12,00,000
Intangible Assets:	
Product Development Costs	60,000
Investment In Subsidiary - Pall Ltd.	4,40,000
Current Assets	
Trade Investments	2,08,000
Trade Receivables	6,26,000
Inventories	3,04,000
Cash and Cash Equivalents	1,80,000
TOTAL ASSETS	30,18,000

Notes:

1. Depreciation expense for the year 20X4-20X5 allowable in accordance with tax laws is Rs. 2,06,000. Accounting depreciation included in operating costs is Rs. 1,70,000. The cost of PPE is Rs. 16,00,000 and Joy Ltd has deducted expenses of Rs. 4,16,000 in its tax returns prior to the financial year 20X4-20X5. Moreover, as on 31st March 20X5, Joy Ltd for the first time revalued its property, plant and equipment to fair value of Rs. 12,00,000 (revaluation surplus = Rs. 88,000).
2. In 20X1-20X2, Joy Ltd incurred product development costs of Rs. 1,00,000. These costs were recognized as an asset and being amortized over a useful period of 10 years. For tax purposes, Joy Ltd deducted full product development costs in 20X1-20X2.
3. Trade investments were acquired in 20X3-20X4 with cost of Rs. 2,30,000. These investments are classified at fair value through profit and loss and thus recognized at their fair value. Fair value adjustments are not tax deductible.

Assuming the tax rate of 32% for the year 20X4-20X5.

Question - 1:

With respect to point (a), determine the tax base of property, plant and equipment for the year 20X4-20X5.

A) Rs. 12,00,000 B)Rs. 9,78,000
C) Rs. 13,94,000 D) Rs. 11,84,000

Description:

Property Plant & Equipment as per tax records

	Rs.
Cost of PPE	16,00,000
Less: Current Tax Depreciation	(2,06,000)
Less: Previous year Tax Depreciation	(4,16,000)
Tax base	9,78,000

Question - 2:
With respect to point (a), determine defer tax on property, plant and equipment for the year 20X4-20X5.

A) DTL Rs. 71,040
B) DTA Rs. 71,040
C) DTL Rs. 28,160
D) DTA Rs. 28,160

Description:
Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Property Plant &Equipment	12,00,000	9,78,000	2,22,000	Taxable	(71,040)

Question - 3:
With respect to point (b), determine the tax base of Product Development Cost for the year 20X4-20X5.

A) Rs. 60,000
B) Rs. 1,00,000
C) Rs. 40,000
D)Nil

Description:
Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Product Development Costs	60,000	0	60,000	Taxable	(19,200)

Question - 4:
With respect to point (b), determine defer tax on Product Development Cost for the year 20X4-20X5.

A) DTL Rs. 32,000
B) DTA Rs. 32,000
C) DTL Rs. 19,200
D) DTA Rs. 19,200

Description:
Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Product Development Costs	60,000	0	60,000	Taxable	(19,200)

Question - 5:
With respect to point (c), determine the tax base of Trade Investment for the year 20X4-20X5.

A) Rs. 2,30,000
B) Rs. 2,08,000
C) Rs. 22,000
D) Nil

Description:
Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Trading Investment	208,000	2,30,000	(22,000)	Deductible	7,040

Question - 6:
With respect to point (c), determine defer tax on Trade Investment for the year 20X4-20X5.

A) DTL Rs. 66,560
B) DTA Rs. 66,560
C) DTL Rs. 7,040
D)DTA Rs. 7,040

Description:
Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Trading Investment	208,000	2,30,000	(22,000)	Deductible	7,040

Question - 7:
Determine the net defer tax asset / liability of Joy Ltd. for the year 20X4-20X5.

A) DTL Rs. 83,200
B) DTA Rs. 83,200
C) DTL Rs. 97,280
D) DTA Rs. 44,800

Description:
Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Product Development Costs	12,00,000	9,78,000	2,22,000	Taxable	(71,040)
Product Development Costs	60,000	0	60,000	Taxable	(19,200)
Trading Investment	208,000	2,30,000	(22,000)	Deductible	7,040
Deferred tax asset – total					7,040
Deferred tax liability – total					(90,240)
Net Deferred tax liability					(83,200)

Answers:

1: B)	2: A)	3: D)	4: C)	5: A)	6: D)	7: A0

CASE SCENARIO-6

Joy Ltd. wishes to calculate tax base of its assets and defer tax as on 31st March 20X5. The balance sheet has been adjusted by current tax expense. The extracts of the Assets part of the Balance Sheet as on 31st March 20X5 is as follows:

ASSETS	Rs.
Non-current Assets	
Property, Plant and Equipment	12,00,000
Intangible Assets:	
Product Development Costs	60,000
Investment In Subsidiary - Pall Ltd.	4,40,000

Current Assets	
Trade Investments	2,08,000
Trade Receivables	6,26,000
Inventories	3,04,000
Cash and Cash Equivalents	1,80,000
TOTAL ASSETS	30,18,000

Notes:

1. Bad debt provision amounts to Rs. 1,30,000 and relates to 2 debtors:
   - Debtor A Rs. 80,000 (receivable originated in 20X2-20X3 and 100% provision was recognized in 20X3-20X4) and
   - Debtor B - Rs. 50,000 (receivable originated in 20X3-20X4 and 100% provision was recognized in 20X4-20X5).

   Tax law allows deduction of 20% of provision for debtors overdue for more than 1 year, another 30% for debtors overdue for more than 2 years and remaining 50% for debtors overdue for more than 3 years.
2. Joy Ltd accounts for inventory obsolescence provision. The new provision created in 20X4-20X5 was Rs. 10,800 (total provision: Rs. 18,000). This provision is not tax deductible, as it is a general provision.

Assuming the tax rate of 32% for the year 20X4-20X5.

Question - 1:

With respect to point (a), determine the tax base of Trade Receivables for the year 20X4-20X5.

A) Rs. 7,16,000
B) Rs. 7,46,000
C) Rs. 7,56,000
D)Rs. 7,06,000

Description:

Trade receivables – Provision for doubtful debts:

		Rs.
Calculation of Cost for tax records		
Carrying amount		6,26,000
Add back: Bad debt provision		1,30,000
Cost (A)		7,56,000
Debtor A – Rs. 80,000 from 20X2-20X3		
>1 year – 20% deducted in 20X3-20X4	16,000	
>2 years – 30% deducted in 20X4 -20X5	24,000	
Already deducted for tax:	40,000	
Debtor B – Rs. 50,000 from 20X4		
>1 year – 20% deducted in 20X5	10,000	
Total deducted for tax purposes (B)		50,000
Tax base of trade receivables: (A-B)		7,06,000

Question – 2:

With respect to point (a), determine defer tax on Trade Receivables for the year 20X4-20X5.

A) DTA Rs. 28,800 B) DTA Rs. 41,600
C)DTA Rs. 25,600 D) DTA Rs. 41,600

Description:
Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Trading Receivables	6,26,000	7,06,000	(80,000)	Deductible	25,600

Question - 3:
With respect to point (b), determine the tax base of Inventories for the year 20X4- 20X5.
A) Rs. 3,04,000 B)Rs. 3,22,000
C) Rs. 3,14,800 D) Nil

Description:
Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Inventories	3,04,000	3,22,000	(18,000)	Deductible	5,760

Question - 4:
With respect to point (b), determine defer tax on Inventories for the year 20X4- 20X5.
A) DTA Rs. 5,760 B) DTA Rs. 3,456
C) Nil D) DTA Rs. 18,000

Description:
Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Inventories	3,04,000	3,22,000	(18,000)	Deductible	5,760

Answers:

1: D)	2: C)	3: B)	4: A)

CASE SCENARIO-7

Joy Ltd. wishes to calculate tax base of its liabilities and defer tax as on 31st March 20X5. The balance sheet has been adjusted by current tax expense. The extracts of equity and liabilities portion of the Balance Sheet as on 31st March 20X5 is as follows

EQUITY & LIABILITIES	Rs.
Equity	
Share Capital	12,00,000
Accumulated Profits	7,37,438
Revaluation Surplus	88,000
Long-term Liabilities	
Deferred Income - Government Grants	40,000

Liability for Product Warranty Costs	16,000
Deferred Tax Liability (From 20X3-20X4)	22,162
Current Liabilities	
Trade Payables	7,64,000
Health Care Benefits for Employees	70,000
Current Tax Liability	80,400
TOTAL EQUITY & LIABILITIES	30,18,000

Notes:

1. Government grants are not taxable. Government grants received in 20X4-20X5 is appearing in the balance sheet.
2. In 20X4-20X5, Joy Ltd made a further provision for product warranty of Rs. 5,000. Such provisions for product warranty costs are not tax deductible until the claims are paid or settled. During the year 20X4- 20X5, warranty claims were paid/settled for Rs. 6,200.
3. During the year 20X4-20X5, Joy Ltd introduced health care benefits for employees. The expenses are allowable as a deduction in tax only when benefits are paid but in line with Ind AS 19, such liability is recognized in profit or loss when employees provide service.

Assuming the tax rate of 32% for the year 20X4-20X5

Question - 1:

With respect to point (a), determine the tax base of Government grants for the year 20X4-20X5.

A) Nil
B) Rs. 40,000
C) Rs. 12,800
D) Rs. 27,200

Description:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Deferred income- Government grants	(40,000)	0	(40,000)	Excluded	0

Question - 2:

With respect to point (a), determine defer tax on Government grants for the year 20X4-20X5.

A) Nil
B) DTA Rs. 40,000
C) DTL Rs. 12,800
D)Deferred income - government grant will not be taxable

Description:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Deferred income- Government grants	(16,000)	0	(16,000)	Excluded	0

Question - 3:

With respect to point (b), determine the tax base of Liability for product warranty costs for the year 20X4-20X5.

A) Nil
B) Rs. 5,000
C) Rs. 16,000
D) Rs. 6,200

Description:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Liability for product warranty costs	(16,000)	0	(16,000)	Deductible	5,120

Question - 4:

With respect to point (b), determine defer tax on Liability for product warranty costs for the year 20X4-20X5.

A) Nil
B) DTA Rs. 5,120
C) DTL Rs. 5,120
D) Liability for product warranty costs will not be taxable.

Description:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Liability for product warranty costs	(16,000)	0	(16,000)	Deductible	5,120

Question - 5:

With respect to point (c), determine the temporary difference, as per Ind AS 12, on account of Health care benefits for employees for the year 20X4-20X5.

A) Rs. 70,000
B) Rs. 80,400
C) Rs. 22,162
D) Nil

Description:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Health care benefits for employees	(70,000)	0	(70,000)	Deductible	22,400

Question - 6:

With respect to point (c), determine defer tax on Health care benefits for employees for the year 20X4-20X5.

A) Nil
B) DTL Rs. 22,400
C)DTA Rs. 22,400
D) Health care benefits for employees will not be taxable.

Description:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Health care benefits for employees	(70,000)	0	(70,000)	Deductible	22,400

Answers:

1: A)	2: D)	3: A)	4:B)	5: A)	6: C)

CASE SCENARIO-8

A Ltd. is a diversified business group operating in multiple business segments across different parts of the world. It maintains its books of accounts and publishes its annual consolidated financial statements under Indian Accounting Standards.

The central finance team has been working on closing the books of accounts and generating consolidated financial statements for the year ended 31st March 20X3. You are the Finance Controller and your assistants want your views on following transactions for finalization of financial statements:

1. B Ltd., one of the subsidiaries of A Ltd., reported net income of ₹ 25 lakhs, which equals the company's comprehensive income. The company has no outstanding debt. Following is the information from the comprehensive balance sheet (₹ in lakhs) related to cash flows:

Extract of Balance Sheet	31.03.20X2	31.03.20X3
Equity share capital	100	100
Further issue of equity shares	100	140
Retained earnings	100	115
Total shareholders' equity	300	357

2. A Limited also operates in the travel industry and incurs costs unevenly through the financial year. Advertising costs of ₹ 40 lakhs were incurred on 1st July 20X2, and staff bonuses are paid at year-end based on sales. Staff bonuses are expected to be around ₹ 400 lakhs for the year; of that a sum of ₹ 60 lakhs would relate to the period ending 30th September 20X2.
3. An item of equipment X was acquired by A Ltd. on 1st April 20X1 for ₹ 1,00,000 having an estimated useful life of 10 years, with a residual value of zero. The asset is depreciated on a straight-line basis. The asset was revalued to ₹ 1,04,000 on 31st March 20X3.
4. A Ltd. has spent ₹ 15,00,000 in developing a new product during the year ended 31st March, 20X3. The development costs incurred were recognized as an intangible asset as per Ind AS 38. For the purposes of computing the taxable income, these expenses are allowable in full in the year of incurring the expenses. At the year end, the Company recognized an impairment loss of ₹ 75,000 against the intangible asset.
5. The company has issued preference shares that are redeemable at the option of the holder. Three months before the end of the year, it was probable that the holders would require redemption.

Question - 1:

What cashflow should B Ltd. report, as financing activity in the statement of cash flows?

A) Issuance of equity shares Rs. 240 lakhs; dividends paid Rs. 10 lakhs
B) Issuance of equity shares Rs. 100 lakhs; dividends paid Rs. 10 lakhs
C) Issuance of equity shares Rs. 140 lakhs; dividends paid Rs. 10 lakhs
D) Issuance of equity shares Rs. 40 lakhs; dividends paid Rs. 10 lakhs

Description:
Issuance of equity shares including further issue of equity shares (240 – 200) = Rs. 40 lakhs
Dividends paid worked out as under:

Particulars	Rs. Lakhs
Opening retained earnings Add: Net income Less: Cash dividend paid (balancing figure)	100 25 (10)
Closing retained earnings	115

Hence, cash dividend paid Rs. 10 lakhs.

Question – 2:
With respect to point (ii), what costs should be included in the entity's financial report for the quarter ended 30th September 20X2?

A) Advertising costs Rs. 40 lakhs; staff bonuses Rs. 100 lakhs
B) Advertising costs Rs. 10 lakhs; staff bonuses Rs. 100 lakhs
C) Advertising costs Rs.10 lakhs: staff bonuses Rs. 60 lakhs
D) Advertising costs Rs. 40 lakhs; staff bonuses Rs. 60 lakhs

Description:
As per para 39 of Ind AS 34 'Interim Financial Reporting', costs that are incurred unevenly during an entity's financial year shall be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

A bonus is anticipated for interim reporting purposes if and only if,

a. The bonus is a legal obligation or past practice would make the bonus a constructive obligation for which the entity has no realistic alternative but to make the payments and
b. a reliable estimate of the obligation can be made.

Accordingly, in the given case, while advertising costs cannot be deferred, bonus expenses are accrued relating to the period to which they relate.

Question-3:
What will be the annual depreciation charge on equipment X for years 3 to 10 and the amount of the revaluation surplus that can be transferred to retained earnings annually?

A) Annual depreciation charge will be Rs. 10,000 and an annual transfer of Rs. 3,000 can be made from revaluation surplus to retained earnings.
B) Annual depreciation charge will be Rs. 10,000, however, annual transfer from revaluation surplus to retained earnings is not permitted.
C) Annual depreciation charge will be Rs. 13,000 and an annual transfer of Rs. 3,000 may be made from revaluation surplus to retained earnings.
D) Annual depreciation charge will be Rs. 13,000, however, annual transfer from revaluation surplus to retained earnings is not permitted.

Question - 4:
With respect to point (iii), What is the tax base of the intangible asset?

A) Rs. 15,00,000
B) Rs. 75,000
C) Rs. 14,25,000
D)Nil

Description:
As per para 7 of Ind AS 12 'Income Taxes', the tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset.
In the given case, since the entire cost of intangible asset is fully allowed as expense for tax purposes, the tax base will be nil.

Question - 5:
Which one of the following is the appropriate classification for the annual payment of Rs. 12,000 to preference shareholders at year-end?
A) Dividend Rs. 12,000
B) Interest expense Rs. 12,000
C) Dividend Rs. 3,000, interest expense Rs. 9,000
D) Dividend Rs. 9,000, interest expense Rs. 3,000

Description:
Under Ind AS 32, the redeemable preference shares are classified as a liability from the date of issue because the holder has the right to demand redemption. Therefore, the instruments are a liability and the payment for the year is classified as interest. The probability of conversion makes no difference to the classification of the instruments.

Answers:

1: D)	2: D)	3: C)	4: D)	5: B)

CASE SCENARIO-9

U Ltd. is engaged in mining and many other industries and prepares its financial statements following Indian Accounting Standards and follows April-March as their financial year. During the year 20X2-20X3, the company has faced some issues and for their solution seeks your professional advice.

I. U Ltd. and F Ltd. are partners of a joint operation engaged in the business of mining precious metals. The entity uses a jointly owned drilling plant in its operations. During the year ended 31st March 20X3, an inspection was conducted by the government authorities in the mining fields. The inspection authorities concluded that adequate safety measures were not followed by the entity. As a consequence, a case was filed and a penalty of Rs. 50 crores has been demanded from U Ltd.

The legal counsel of the company has assessed the demand and opined that appeals may not be useful, and the appeal orders will be unfavorable to the joint arrangement. Out of Rs. 50 crores (to be paid by U Ltd.), Rs. 30 crore will be reimbursed by F Ltd. later, as per the terms of the Joint Operation Agreement. At the year end, actual reimbursement was not received from F Ltd.

II. On 1st April 20X2, U Ltd. leased a machine from D Ltd. on a three-year lease. The expected future economic life of the machine on 1st April 20X2 was eight years. If the machine breaks down, then under the terms of the lease, D Ltd. would be required to repair the machine or provide a replacement.

D Ltd. agreed to allow U Ltd. to use the machine for the first six months of the lease without the payment of any rental as an incentive to U Ltd. to sign the lease agreement. After this initial period, lease rentals of Rs. 2,10,000 were payable six-monthly in arrears, the first payment falling due on 31st March 20X3.

III. U Ltd. has issued 10,00,000, 9% cumulative preference shares. The Company has arrears of Rs. 15 crores of preference dividend as on 31st March 20X3, it includes current year arrears of Rs. 1.75 crores. The Company did not declare any dividend for equity shareholders as well as for preference shareholders.

Further U Ltd. has also issued certain optionally convertible debentures, which are outstanding as at the year end.

IV. On 1st January 20X3, U Ltd. acquired 30% of the shares of T Ltd. The investment was accounted for as an associate in U Ltd.'s consolidated financial statements. Both U Ltd. and T Ltd. have an accounting year end of 31st March 20X3. U Ltd. has no other investments in associates.

Net profit for the year in T Ltd.'s income statement for the year ended 31st March 20X3 was Rs. 0.23 crores. It declared and paid dividend of Rs. 0.1 crore on 1st March 20X3. No other dividends were paid in the year.

V. On 1st January, 20X3, U Ltd. also acquired a 60% stake in S Ltd. The cash consideration payable was Rs. 1 crore to be paid immediately, and Rs. 1.21 crores after two years. The fair value of net assets of S Ltd. at acquisition date was Rs. 3 crores. U Ltd. has calculated that its cost of capital is 10%. Non-controlling interest is measured at the proportionate share of identifiable net assets.

Question - 1:

With respect to a joint operation engaged in the business of mining precious metals, how will the liability be disclosed in the books of U Ltd.?

A) Provision for Rs. 20 crores and a contingent liability for ₹ 30 crores
B) Contingent liability for Rs. 50 crores
C) Provision for Rs. 30 crores and a contingent liability for Rs. 20 crores
D) Provision for Rs. 50 crores.

Description:

As per para 53 of Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets', when some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision. In the statement of profit and loss, the expense relating to a provision may be presented net of the amount recognized for a reimbursement.

In the given case, U Ltd. will record provision by Rs. 50 crores in its books and Rs. 30 crores will be reimbursed by F Ltd. Hence Rs. 50 crore will be recognized as provision and Rs. 30 crore is disclosed as a contingent asset, if it is virtually certain that reimbursement will be received if the entity settles the obligation.

Question - 2:

Calculate the current liability of leased machine from D Ltd. to be shown in the balance sheet as at 31st March 20X3.

A) Rs. 70,000
B) Rs. 1,40,000
C) Rs. 3,50,000
D) Rs. 4,20,000

Description:
In accordance with the principles of Ind AS 116 'Leases' the lease of the machine is an operating lease because the risks and rewards of ownership of the machine remain with D Ltd. The lease is for only three years of the eight- year life and D Ltd is responsible for breakdowns, etc.
Therefore, U Ltd will recognize lease rentals as an expense in the statement of profit or loss. Ind AS 116 stipulates that this should normally be done on a straight-line basis.
The total lease rentals payable over the whole lease term are Rs.10,50,000 (Rs. 2,10,000 x 5). Therefore, the charge for the current year is Rs. 3,50,000 (Rs. 10,50,000 x 1/3).
The difference between the charge for the period (Rs. 3,50,000) and the rent actually paid (Rs. 2,10,000) will be shown as a liability in the balance sheet at 31st March 20X3. This amount will be Rs. 1,40,000. Rs. 70,000 (2 x Rs. 2,10,000 – Rs. 3,50,000) of this liability will be current and Rs. 70,000 non-current.

Question - 3:
What is the amount of preference dividend to be reduced from profit or loss for the year for calculating Basic Earnings Per Share?
A) Rs. 15 crores
B) Rs. 1.75 crores
C) Rs. 13.25 crores
D) Nothing, as no dividend has been declared by the entity.

Description:
As per para 14(b) of Ind AS 33 'Earnings per Share', the after-tax amount of preference dividends that is deducted from profit or loss is the after-tax amount of the preference dividends for cumulative preference shares required for the period, whether or not the dividends have been declared. The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.
In the given case, the amount of preference dividends of Rs. 1.75 crore declared for the year ended 31st March 20X3 (i.e. the current period) is to be deducted from profit or loss for calculating EPS.

Question - 4:
What amount will be shown as an inflow in respect of earnings from the associate in the statement of cash flows of U Ltd. for the year ended 31st March 20X3?
A) Rs. 0.020 crores
B) Rs. 0.026 crores
C) Rs. 0.030 crores
D) Rs. 0.046 crores

Description:
As per para 37 of Ind AS 7, when accounting for an investment in an associate, a joint venture or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

Accordingly,

Dividend paid by associate T Ltd. = Rs. 0.10 crores

U Ltd.'s share of dividend 30% x Rs. 0.10 lakhs = Rs. 0.030 crores

This is the amount that should appear in the statement of cash flows of U Ltd. as this is the share of U Ltd.'s dividend from the associate T Ltd.

Question - 5:

Calculate the amount of goodwill / gain on bargain purchase arising upon acquisition of S Ltd.

A) Rs. 1 crore gain on bargain purchase
B) Rs. 80 lakhs gain on bargain purchase
C) Rs. 20 lakhs goodwill
D) Rs. 41 lakhs goodwill

Description:

Total consideration paid:

Cash	1cr
PV of deferred consideration (1.21 x 0.826)	1cr
	2cr

NCI by Proportionate Share Method 3 cr x 40% = 1.20 cr

Calculation of goodwill:

Proportionate Share Method (Rs. in crore)			
Net Identifiable Assets	Dr.	3.00	
Goodwill (Balancing figure)	Dr.	0.20	
To Consideration payable			2.00
To Non-controlling Interest			1.20

Answers:

1: D)	2: A)	3: B)	4: C)	5: C)

CASE SCENARIO-10

G Ltd. is a multi-national company and prepares and presents its financial statements following Indian Accounting Standards as its securities are listed on National Stock Exchange. G Ltd. has a number of business segments.

1. H Ltd. is one of the recently acquired Indian subsidiary of G Ltd. It has to adopt Ind AS for the first time as at 31st March, 20X4, with 1st April, 20X2 as the date of transition. As at 31st March, 20X2, the value of raw material inventories was incorrectly reported due to an error. The amounts are significant.
2. G Ltd. is also engaged in software development. It enters into a contract with a customer to transfer a software license, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. G Ltd. sells the license, installation service and technical support separately.

The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

3. G Ltd. sells a 20% interest in a wholly owned subsidiary K Ltd. to outside investors for Rs. 100 lakh in cash. The carrying value of K Ltd.'s net assets is Rs. 300 lakh, including goodwill of Rs. 65 lakh from the subsidiary's initial acquisition.

Question - 1:

With respect to H Ltd. state whether the error should be reported in the Ind AS financial statements and how to rectify it

A) H Ltd. shall report the impact of the error as a correction to Statement of Profit and Loss for the comparative period i.e., the year ended 31st March, 20X3.

B) The correction shall be reflected in a reconciliation as at the end of the first Ind AS reporting period i.e., as at 31st March, 20X3.

C) The impact of the correction is significant and it shall be amortized on a rational and systematic basis in the first two periods of Ind AS reporting i.e., years ended 31st March, 20X3 and 31st March, 20X4.

D) The first Ind AS financial statements shall distinguish the correction of errors from changes in accounting policies and reported as part of the reconciliations as at 1st April, 20X2.

Description:

Refer para 26 of Ind AS 101 which states that if an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraph 24(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.

Question - 2:

How many performance obligations G Ltd. has, with respect to the contract with the customer to transfer software license?

A) 4 performance obligations
B) 3 performance obligations
C) 2 performance obligations
D) 1 performance obligation

Description:

The entity assesses the goods and services promised to the customer to determine which goods and services are distinct. The entity observes that the software is delivered before the other goods and services and remains functional without the updates and the technical support. Thus, the entity concludes that the customer can benefit from each of the goods and services either on their own or together with the other goods and services that are readily available.

The entity also considers the factors of Ind AS 115 and determines that the promise to transfer each goods and service to the customer is separately identifiable from each of the other promises. In particular, the entity observes that the installation service does not significantly modify or customise the software itself and, as such, the software and the installation service are separate outputs promised by the entity instead of inputs used to produce a combined output.

On the basis of this assessment, the entity identifies four performance obligations in the contract for the following goods or services:

- The software license
- An installation service
- Software updates
- Technical support

Question - 3:

What is the amount of gain on sale of interest in subsidiary K Ltd.?

A) Rs. 100 lakhs B) Rs. 60 lakhs

C) Rs. 53 lakhs D)Rs. 40 lakhs

Description:

	Rs. In Lakh	
	Dr.	Cr.
Cash Dr.	100	
To Non-Controlling interest (20%X300 Lakh)		60
To Other Equity (Gain on sale of interest in subsidiary)		40

As per para B96 of Ind AS 110, where proportion of the equity of NCI changes, then group shall adjust controlling and non-controlling interest and any difference between amount by which NCI (Rs. 60 Iakh) is adjusted and fair value of consideration received (Rs. 100 lakh) to be attributed to parent in other equity ie. Rs. 40 lakh.

Answers:

1: D)	2: A)	3: D)

CASE SCENARIO-11

FA Ltd. is a company which manufactures aircraft parts and engines and sells them to large multinational companies like Boeing and Airbus Industries. Following are the details of some of the transactions entered into by the company:

i. On 1st April 20X2, the company began the construction of a new production line in its aircraft parts manufacturing shed.

Costs relating to the production line are as follows:

Details	₹in lakhs
Costs of the basic materials (list price₹12.5 lakhs less 20% trade discount)	10.00
Recoverable goods and services tax incurred but not included in the purchase cost	1.00
Employment costs of the construction staff for three months till 30th June 20X2	1.20
Other overheads directly related to the construction	0.90
Payments to external advisors relating to the construction	0.50
Expected dismantling and restoration costs	2.00

The production line took two months to make ready for use and was brought into use on 31st May 20X2.

The other overheads were incurred during the two-month period ended on 31st May 20X2. They included an abnormal cost of ₹ 0.3 lakhs caused by a major electrical fault.

The production line is expected to have a useful economic life of eight years. After 8 years, FA Ltd. is legally required to dismantle the plant in a specified manner and restore its location to an acceptable standard. The amount of ₹ 2 lakhs included in the cost estimates is the amount that is expected to be incurred at the end of the useful life of the production line. The appropriate discount rate is 5%. The present value of ₹ 1 payable in 8 years at a discount rate of 5% is approximately ₹ 0.68.

Four years after being brought into use, the production line will require a major overhaul to ensure that it generates economic benefits for the second half of its useful life. The estimated cost of the overhaul, at current prices, is ₹ 3 lakhs.

No impairment of the plant had occurred by 31st March 20X3.

ii. During the year ended 31st March 20X3, FA Ltd. provided consultancy services to a customer regarding the installation of a new production system related to aircraft parts. The system has caused the customer considerable problems, so the customer has taken legal action against the Company for the loss of profits that has arisen as a result of the problems with the system. The customer has claimed damages to the tune of ₹ 1.6 lakhs.

The legal department of FA Ltd. considers that there is a 25% chance the claim can be successfully defended. The legal department further stated that they are reasonably confident the Company is covered by insurance against these types of loss. Th accountant feels nothing needs to be provided for this claim as the Company is suitably covered against any possible losses.

iii. FA Ltd. has an associate company, Flynet Limited. Following are the information of Flynet Limited for the year ended 31st March 20X3:

Particulars	**₹ in lakhs**
Net Income after taxes	**120**
Decrease in accounts receivables	**20**
Depreciation	**25**
Increase in inventory	**10**
Increase in accounts payable	**7**
Decrease in wages payable	**5**
Tax charge for the year (deferred tax liabilities)	**15**
Profit from sale of land	**2**

On the basis of the facts given above, chose the most appropriate answer to Questions 1 to 5 below based on the relevant Indian Accounting Standards (Ind AS).

<u>Question – 1:</u>
Which of the following items need to be capitalized in determining the cost of Production Line?

A) Abnormal cost of ₹ 0.3 lakhs
B) Recoverable GST of ₹ 1 lakhs

C) Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 2 lakhs

D) Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 1.36 lakhs

Reason:
As per para 16(c) of Ind AS 16, elements of cost of PPE includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Question -2:

Calculate the company's associate Flynet Ltd.'s cash flow from operations.

(a) ₹ 158 lakhs
(b) ₹ 170 lakhs
(c) ₹ 174 lakhs
(d) None of the above

Reason:

Cash flow from operating activities – Indirect method

Particulars	₹ in lakhs
Net Income after taxes	120
Add /(Less) No- cash or non-operating item:	
Depreciation	25
Profit from sale of land	(2)
Tax charges for the year (deferred tax liabilities)	15
	158
Decrease in accounts receivables	20
Increase in inventory	(10)
Increase in accounts payable	7
Decrease in wages payable	(5)
Cash flow from operations	170

Question -3:

What accounting treatment should be done in FA Ltd.'s books for the year ending 31st March 20X3, as the customer has taken legal action against the Company on the loss of profits that has arisen as a result of the problems with the system?

A) Nothing needs to be provided for claim instituted by the customer as the Company is suitably covered against any possible losses.

B) Provision of ₹ 1.6 lakhs should be recognized with a corresponding charge to profit or loss.

C) Provision of ₹ 0.4 lakhs as per best possible outcome should be recognized with a corresponding charge to profit or loss.

D) Contingent Liability would be disclosed in the 31st March 20X3 financial statements. Charge to profit or loss if any would be recognized in the period when the claim is settled.

Reason:
In accordance with Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets', the claim

Question – 4:

Compute the total amount to be charged to the Statement of Profit and Loss with respect to Production Line for the year ending 31st March 20X3 and the balance of Provision for Dismantling Cost carried to Balance Sheet.

A) ₹ 1.70 lakhs; ₹ 1.36 lakhs
B) ₹ 1.42 lakhs; ₹ 1.70 lakhs
C) ₹ 1.76 lakhs; ₹ 1.42 lakhs
D) ₹ 1.42 lakhs; ₹ 1.76 lakhs

Question – 5:

Compute the cost of the production Line to be capitalized initially on 31st May, 20X2.

A) ₹ 13.26 lakhs
B) ₹ 14.60 lakhs
C) ₹ 13.96 lakhs
D) ₹ 15.76 lakhs

Reason for 4 & 5:

Statement showing computation of cost of production line

Particulars	₹ in lakhs
Purchase cost	10.00
GST – recoverable goods and services tax not included	-
Employment costs during the period of getting the production line ready for use [(1.2/3 month) x 2 month]	0.80
Other overheads – abnormal costs of ₹ 0.3 lakhs has been excluded (0.90- 0.30)	0.60
Payment to external advisors – directly attribute able cost	0.50
Dismantling costs – recognized at present value (2 lakhs x 0.68)	1.36
Total	13.26

Provision for dismantling cost carried to Balance Sheet

Particulars	₹ in lakhs
Non-current liabilities (₹ 2 lakhs x 0.68)	1.36
Add: Finance cost (1.36 x 5% x 10/12)	0.06
Net book value – carried to Balance Sheet	1.42

Extract of Statement of Profit and Loss

Particulars	₹ in lakhs
Depreciation (W.N.)	1.70
Finance cost (1.36 x 5% x 10/12)	0.06
Amounts carried to Statement of Profit & Loss	1.76

Working Note:

Calculation of depreciation charge

Particulars	**₹ in lakhs**
The asset is split into two depreciable components outof the total capitalization amount of 13.26 lakhs:	

• Depreciation for ₹ 3 lakhs with a useful economic life of four years (3 lakhs x ¼ x 10/12). (This is related to a major overhaul to ensure that it generates economic benefits for the second half of its useful life)	0.63
• Depreciation for ₹ 10.26 lakhs (13.26 – 3.00) with a useful economic life of eight years will be: ₹ 10.26 lakhs x 1/8 x 10/12	1.07
Total depreciation to be charged to Statement of Profit and Loss for the year ended 31st March 20X3	1.70

Answers:

1: D)	2: B)	3: B)	4: C)	5: A)

CASE SCENARIO-12

HS Limited (HSL) is a car manufacturing company. During the year, HSL has entered into many transactions, details of which are given below.

1. With the intention to expand, HSL has entered into a Share Purchase Agreement ("SPA") with the shareholders of FM Limited to purchase 30% stake in FM Limited as at 1st June 20X2 at a price of ₹ 30 per share. As per the terms of SPA, HSL has an option to purchase an additional 25% stake in FM Limited on or before 15th June 20X2 at a price of ₹ 30 per share. Similarly, the selling shareholder has an option to sell additional 25% stake in FM Limited on or before 15th June, 20X2 to HSL at a price of ₹ 30 per share. The decisions on relevant activities of FM Limited are made in Annual General Meeting / Extraordinary General Meeting (AGM / EGM). A resolution in AGM / EGM is passed when more than 50% votes are cast in favour of the resolution. An AGM / EGM can be called by giving at least 21 days advance notice to all shareholders.

2. During the year, HSL issued Compulsory Convertible Debentures ("CCDs") on a private placement basis for ₹ 100 lakh. Each CCD is convertible into 5 shares at the end of 4 years from the date of issue and an annual interest is payable at the rate of 6% p.a. At initial recognition, HSL recognized a liability component of compound instrument at ₹ 20,79,063. HSL also incurred expenses of ₹ 2,00,000 in connection with the issue of the instrument. Nature of expenses includes fees paid to legal advisors, registration and regulatory fees.

3. HSL acquired a 40% stake in NM Limited as at 1st January, 20X2 for ₹ 8,00,000 and classified the investment in NM Limited as an associate. As at 1st January, 20X2, the carrying amount and fair value of plant & equipment of NM Limited is ₹ 3,00,000 and ₹ 5,00,000 respectively with remaining useful life of 5 years (i.e. 20 quarters). From st January, 20X2 to 31st March, 20X2, NM Limited generated a profit of ₹ 50,000.

4. While selling a car, HSL provides a trade discount of 1% on sale price which is mentioned on the invoice. HSL provides a credit period of 7 days to its customers, however if paid upfront then HSL gives an additional cash discount of 2%. HSL also provides a voucher worth ₹ 500 with a validity of 1 year which can be used at an apparel store.

Question 1:
At what amount HSL shall carry its investments in NM Limited in its consolidated financial statements as at 31st March, 20X2?

A) ₹ 8,00,000
B) ₹ 8,20,000
C) ₹ 8,16,000
D) ₹ 8,10,000

Reason:
As per para 10 of Ind AS 28, under the equity method, on initial recognition the investment in an associate or a joint venture is recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition.
Accordingly,

Cost of investment for 40% stake on acquisition date	₹ 8,00,000
Add: Share of post-acquisition profit and loss (50,000 x 40%)	₹ 20,000
Less: Share of post-acquisition loss due to additional depreciation [{(5,00,000 – 3,00,000)/20} x 40%]	(₹ 4,000)
	₹ 8,16,000

Question 2:
How should HSL account for the trade discount, cash discount and voucher given to customers on sale of a car?

A) Trade discount shall be reduced from the revenue however cash discount and value of voucher shall be charged as expenses.
B) Trade discount and cash discount both shall be reduced from the revenue however value of voucher shall be charged as expenses.
C) Trade discount, cash discount and value of voucher shall be charged as expenses.
D) Trade discount, cash discount and value of voucher shall be reduced from revenue.

Question 3:
What shall be the accounting treatment of directly attributable expenses of ₹ 2 lakh incurred in connection with the issue of Compulsory Convertible Debentures?

A) Entire ₹ 2,00,000 shall be recognized as expenses in the statement of profit and loss in the current year.
B) Entire ₹ 2,00,000 shall be reduced from equity in the current year.
C) A proportion of ₹ 1,58,419 shall be reduced from equity and Balance of ₹ 41,581 shall be recognized as interest cost over the period of 4 years using an effective interest method.
D) Entire ₹ 2,00,000 shall be recognized as interest cost over the period of 4 years using effective interest method.

Question 4:

With more acquisitions, at the end of the year, HSL has investments in 2 subsidiaries, 3 associates and 1 joint venture. Which of the following statements is correct in relation to accounting of these investments in separate financial statements?

(a) HSL is required to measure all such investments at cost.
(b) HSL has an option to account for the investments in associates and joint ventures using equity method of accounting and carry the investments in subsidiaries at cost.
(c) HSL has an option for each investment to measure either at cost or in accordance with Ind AS 109.
(d) HSL has an option to measure all such investments either at cost or in accordance with Ind AS 109. The option is available for each category of investments separately (i.e. subsidiaries, associates and joint venture).

Question 5:

With respect to the SPA entered by HSL, determine the date when HSL gained control over FM Limited

A) 1 st June, 20X2.
B) 15th June, 20X2.
C) On the date of AGM/EGM
D) On the date when the resolution for AGM/EGM is issued. Ind AS 103 'Business Combinations'

ANSWERS:

1: C)	2: D)	3: C)	4: D)	5: A)

Case Scenario 13

ABC Ltd. is a diversified business group operating in multiple business segments across different parts of the world. It maintains its books of accounts and publishes its annual financial statements under Indian Accounting Standards. The finance team has been working on closing the books of accounts and generating financial statements for the year ended 31st March 20X3 and are facing issues in the following transactions while finalization of financial statements:

1. One of the businesses of ABC Ltd. is of manufacturing sugar and chemicals. The Company has taken a term loan for ₹ 5 crores from State Bank to buy certain plant and machinery during the year ended 31 March 20X2. The loan is repayable over a period of 5 years. The terms and conditions of the loan agreement requires the company to maintain a current ratio of 1.33 : 1 and debt-equity ratio of 1 : 2. If these loan covenants fall below this level, then the bank has a right to recall the entire loan.

   The loan outstanding as on 31 March, 20X3 was ₹ 4.25 crores. The current ratio of ABC Ltd. was 1 : 1 and debt equity ratio was 0.5 : 2. State Bank sent a notice on 5 April 20X3 demanding repayment of loan, on account of breach of terms of the loan agreement. The financials were signed on 10 May, 20X3.

   On receiving the notice, the CFO of ABC Ltd. negotiated with the bank and ensured to rectify the breach. As a result, on 25 April, 20X3, the Bank has agreed not to recall the loan and allowed the Company to achieve the contracted current and debt-equity ratio by 20X5.

2. ABC Ltd. has inventory of raw material Y of 10,000 units as at 31 March, 20X4 with a carrying amount of ₹ 100 each. The current market value of that raw material is ₹ 95 each. ABC Ltd. will use the raw material to manufacture a component for a customer. The conversion cost for making the finished goods would be ₹ 130 each. ABC Ltd. estimates costs to completion and sale of ₹ 50 each and a selling price for the component is estimated to be₹ 290 each.

3. ABC Ltd. sold a machinery Z for ₹ 900 thousand to a new customer. To get into long term relationship with the customer, the terms of sale also include after sales service to be provided for next three years free of cost. The company also sells the sales service contract separately where the customer buys it after the initial warranty period at ₹ 100 thousand.

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

Question - 1

How the long-term loan from State Bank has to be classified in the financials for the year ended 31 March 20X3 in case ABC Ltd. has not negotiated with the bank for rectification of breach?

(a) Other current liabilities
(b) Current financial liability
(c) Non-current financial liability
(d) Other non-current liability

Question - 2

After negotiation with State Bank, how the long-term loan has to be classified in the financials for the year ended 31 March 20X3?

(a) Other current liabilities
(b) Current financial liability
(c) Non-current financial liability
(d) Other non-current liability

Question - 3

At what value the raw material Y be measured in the books of ABC Ltd. As per applicable Ind AS?

(a) ₹ 950 thousand.
(b) ₹ 1,100 thousand.
(c) ₹ 1,000 thousand.
(d) ₹ 1,600 thousand.

Question - 4

How should the revenue be recognised in the books of account for the sale of machinery Z?

(a) ₹ 900 thousand is to be recognised as revenue in the year of sale.
(b) ₹ 900 thousand is to be recognised at the end of three years after sale.
(c) ₹ 900 thousand is to be recognised in the year of sale and ₹ 100 thousand to be spread over next three

years.

(d) ₹ 810 thousand is to be recognised in the year of sale and ₹ 90 thousand to be spread over next three years.

Answers

1. (B)	2. (B)	3. (C)	4. (D)

Case Scenario 14

DEF Ltd. is a globally diversified business conglomerate with operations spanning across various business sectors worldwide. The company adheres to Indian Accounting Standards for maintaining its financial records and annually releases its financial statements. As the finance team progresses towards finalizing the financial statements for the fiscal year ending on 31 March 20X3, the team is stuck up in the accounting of the following transactions:

1. On 1 June 20X2, DEF Ltd. decided to dispose of the business and current and non-current assets of one of its divisions related to specialty chemicals business which it had acquired several years ago. This disposal does not involve DEF Ltd. withdrawing from a particular market sector. The carrying values on 1 June 20X2 of the assets to be disposed of were as follows:

Particulars	₹ in Million
Goodwill	10.0
Property, Plant and Equipment	20.0
Patents and trademarks	8.0
Inventories	15.0
Trade Receivables	10.0

None of the assets of the business had suffered impairment as at 1 June 20X2. At that date the inventories and trade receivables of the business were already stated at no more than their recoverable amounts.

DEF Ltd. offered the business for sale at a price of ₹ 46.5 million, which was considered to be reasonably achievable. DEF Ltd. estimated that the direct costs of selling the business would be ₹ 5,00,000. These estimates have not changed since 1 June 20X2 and DEF Ltd. estimates that the business will be sold by 31 March 20X3 at the latest.

1. The government provided DEF Ltd. with a grant of ₹ 21 million to assist it in the development of the factory. This grant was provided in two parts:

   i. ₹ 6 million of the grant was a payment by the government as an inducement to DEF Ltd. to begin developing the factory. No conditions were attached to this part of the grant.

ii. ₹ 15 million of the grant related to the construction of the factory at a cost of ₹ 60 million. The land was leased so the whole of the ₹ 60 million is depreciable over the estimated 40 year useful life of the factory.

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

Question - 1

Compute the value of Specialty chemical division's Goodwill at the date of classification after re-measurement.

a) ₹ 7.3 million
b) ₹ 10 Million
c) ₹ Nil
d) ₹ 8 million 6.

Question - 2

Calculate the closing balance of Specialty chemical division's asset – Property, Plant and Equipment at the period end.

a) ₹ 21 million
b) ₹ 17.36 million
c) ₹ 6 million
d) ₹ 15 million

Question - 3

What would be the treatment for grant of ₹ 15 million related to the construction of the factory at a cost of ₹ 60 million?

a) ₹ 15 million grant in respect of the plant and equipment should be recognized immediately in the income statement since the company is certain to build the factory.
b) Deduct the grant received from the cost of the asset and depreciate the net carrying value over its useful economic life.
c) Show the grant as a deferred credit and leave the initial carrying value of the property at ₹ 60 million. Thereafter the deferred credit would be released to the income statement at the end of 40th year.
d) 0.375 million is to be credited in 20X3-20X4 in the income statement over 40 year period as deferred grant income.

Question - 4

What would be the treatment of grant of ₹ 6 million received from the government as an inducement to DEF Ltd. to begin developing the factory?

a) Grant relating to an inducement to begin developing the factory can be recognized immediately in the Statement of Profit or Loss.
b) 0.15 million amount is to be credited each year in the income statement over 40 year period.
c) 1.2 million amount is to be credited each year in the income statement over 40 year period.
d) Net off the grant received against the cost of the asset and depreciate the net figure over its useful economic life.

Answers

1. (C)	2. (D)	3. (B)	4. (A)

Case Scenario 15

HIJ Ltd. is a globally diversified business conglomerate with operations spanning multiple business segments across various regions worldwide. For maintaining its financial records, the company follows Indian Accounting Standards. As the finance team diligently finalizes the books of accounts and prepares the financial statements for the financial year ending on 31 March 20X2, it requires insights and accounting suggestions on the following transactions:

1. On 1 October 20X1, HIJ Ltd. subscribed for 40 million ₹ 1 loan notes in Z Ltd. The loan notes were issued at 90 paise and were redeemable at ₹ 1.20 on 30 September 20X6. Interest is payable on 30 September in arrears at 4% of par value. This represents an effective annual rate of return for HIJ Ltd. of 9.9%. HIJ Ltd.'s intention is to hold the loan notes until redemption.

2. On 1st April 20X1, HIJ Ltd. commenced joint construction of a property with G Ltd. For this purpose, an agreement has been entered into that provides for joint operation and ownership of the property. All the ongoing expenditure, comprising maintenance plus borrowing costs, is to be shared equally. The construction was completed on 30th September 20X1 and utilisation of the property started on 1st January 20X2 at which time the estimated useful life of the same was estimated to be 20 years.

   Total cost of the construction of the property was ₹ 40 crores. Besides internal accruals, the cost was partly funded by way of loan of ₹ 10 crores taken on 1st January 20X1. The loan carries interest at an annual rate of 10% with interest payable at the end of year on 31st December each year. The company has spent ₹ 4,00,000 on the maintenance of such property.

   The company has recorded the entire amount paid as investment in Joint Venture in the books of accounts. Suggest the suitable accounting treatment of the above transaction as per applicable Ind AS. Analyze the transactions mentioned above and choo

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 9 to 13 in line with relevant Ind AS:

Question - 1

What would be the initial measurement of financial instruments as subscription of loan notes in Z Ltd.?

a) ₹ 40 million
b) ₹ 37.782 million
c) ₹ 38.4 million
d) ₹ 36 million

Question - 2

What would be the closing balance of financial instruments (as subscription of loan notes in Z Ltd.) as on 31 March 20X2?

(a) ₹ 37.6 million
(b) ₹ 34.218 million
(c) ₹ 37.782 million

(d) ₹ 36.182 million

Question - 3

With respect to point (ii), what is the nature of the agreement?

(a) Agreement is in the nature of Joint venture
(b) Agreement is in the nature of Joint Operations
(c) Agreement is in the nature of Holding subsidiary relationship
(d) Agreement is in the nature of Associates

Question - 4

What will the initial cost of PPE appearing in the books of HIJ Ltd.?

a) ₹ 40,50,00,000
b) ₹ 40,00,00,000
c) ₹ 20,25,00,000
d) ₹ 20,00,00,000

Question - 5

Calculate the depreciation charge for the year ended 31 March 20X2 to be charged by G Ltd. in its books?

(a) ₹ 50,62,500
(b) ₹ 1,01,25,000
(c) ₹ 1,00,00,000
(d) ₹ 50,00,000

Question-6

F Ltd. is a first-time adopter of Ind AS. The date of transition is 1st April, 20X1. On 1st April, 20X0, it obtained a 7 year US $1,00,000 loan. It has been exercising the option provided in paras 46/46A of AS 11 and has been amortizing the exchange differences in respect of this loan over the balance period of such loan. On the date of transition, the company intends to continue the same accounting policy with regard to amortization of exchange differences.

State which of the following true with respect to the above transaction:

a) F Ltd. can continue following the existing accounting policy of amortizing the exchange differences in respect of loan over the balance period of such long-term liability routed through statement of profit and loss for the period
b) F Ltd. can continue following the existing accounting policy of amortizing the exchange differences in respect of loan over the balance period of such long-term liability routed through OCI
c) F Ltd. can continue following the existing accounting policy of amortizing the exchange differences in respect of loan over the balance period of such long-term liability routed either through statement of profit and loss or OCI as per the choice of the entity.
d) F Ltd. cannot continue following the existing accounting policy

Question7-

X Ltd., a large multinational corporation, needs to prepare its financial statements according to Ind AS. The company has a vast amount of financial data stored in the system in various formats, including spreadsheets, PDFs, and scanned documents. Manually extracting and analyzing this data is time consuming and error prone. By implementing AI-driven optical character recognition (OCR) technology, the company automates the data extraction process from diverse sources and converts it into structured formats. Which of the following problems will not be avoided by implementing AI?

(A) Manually extraction of data will lead to delay in the process.
(B) Analyzing the data manually might be error prone
(C) Scanned documents of several years will acquire unnecessary office space.
(D) All of the above

Answers:

1.(D)	2.(C)	3.(B)	4.(C)	5.(A)	6.(A)	7.(C)