

## PAPER – 1 : FINANCIAL REPORTING

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### PART – I: Multiple Choice Questions

#### Case Study - I:

*Raja Limited, a leading public limited company engaged in the manufacture of pharmaceuticals, prepares its accounts as per Ind AS. The company has entered into the following transactions during the financial year ended 31<sup>st</sup> March, 2025:*

- (i) On 1<sup>st</sup> April, 2024, Raja Limited held 35% of total equity shares of Volga Limited, which is an associate company. The carrying value of the investment in Volga Limited on 31<sup>st</sup> March, 2024 is ₹ 1,50,00,000 in the consolidated financial statements of Raja Limited. During financial year 2024-2025, Raja Limited sold goods worth ₹ 3,50,000 to Volga Limited. The cost of goods sold is ₹ 3,00,000. Out of these, goods costing ₹ 1,00,000 to Volga Limited were lying unsold with it on 31<sup>st</sup> March, 2025. During the year ended 31<sup>st</sup> March, 2025, the Statement of Profit and Loss of Volga Limited showed a profit of ₹ 25,00,000. Volga Limited declared and paid a dividend of ₹ 10,00,000 to its equity shareholders during 2024-2025.*
- (ii) Raja Limited held 50% of the voting power of Sharp Limited, which is a Joint Venture of Raja Limited. The carrying value as on 1<sup>st</sup> April, 2024 of the investment in Sharp Limited as per Equity Method is ₹ 50,00,000. On 1<sup>st</sup> July, 2024, out of the 50% stake, Raja Limited sold 20% stake in Sharp Limited to an unrelated entity for a consideration of ₹ 40,00,000. The fair value of the retained 30% interest is ₹ 60,00,000.*
- (iii) On 1<sup>st</sup> August, 2024, Raja Limited acquired 70% Equity Shares of S Limited by paying a cash consideration of ₹ 97,50,000 (including control premium). The fair value of net identifiable assets of S Limited is ₹ 1,30,00,000. The fair value of 30% of the shares owned by the non-controlling shareholders on the date of acquisition is ₹ 25,00,000. The carrying amount of net identifiable assets of S Limited is ₹ 1,20,00,000. Raja Limited choses to measure the interest of non-controlling shareholders at fair value.*

**On the basis of the information provided above, you are required to choose the most appropriate answer to the below mentioned questions 1 to 3 in line with the relevant Ind AS.**

1. *Determine the value of Investment in Volga Limited as on 31<sup>st</sup> March, 2025 in the Consolidated Financial Statements of Raja Limited, if equity method is adopted for valuing the investment in associates.*  
(A) ₹ 1,55,25,000  
(B) ₹ 1,58,75,000  
(C) ₹ 1,55,10,714  
(D) ₹ 1,55,20,000
2. *Determine the amount of gain/loss to be recorded by Raja Limited on disposal of its stake in Sharp Limited.*  
(A) ₹ 20,00,000  
(B) Nil  
(C) ₹ 50,00,000  
(D) ₹ 30,00,000
3. *Determine the amount of goodwill/gain on bargain purchase arising on the acquisition of S Limited.*  
(A) Goodwill ₹ 2,50,000  
(B) Gain on Bargain Purchase ₹ 7,50,000  
(C) Goodwill ₹ 6,50,000  
(D) Goodwill ₹ 16,50,000

**(3 x 2 = 6 Marks)****Case Study - II**

XYZ Ltd. is a manufacturing company engaged in the manufacturing of home and kitchen appliance products. Following information is available in respect of XYZ Ltd. for the year ended on 31<sup>st</sup> March, 2025:

- (i) *During the year 2024-2025, XYZ Ltd. purchased a special type of packing material from an USA based company for \$ 14,00,000 on 1<sup>st</sup> December, 2024 when the exchange rate was \$ 1 = ₹ 75. The American company provided XYZ Ltd. with 5-month interest-free credit. At the reporting date i.e. 31<sup>st</sup> March, 2025, the exchange rate was \$ 1 = ₹ 77.5. As at 31<sup>st</sup> March, 2025, 60% of the raw material purchased was still in inventory of XYZ Ltd. The functional currency of XYZ Ltd. is Indian Rupee.*

- (ii) In order to motivate and retain employees, XYZ Ltd. announced on 1<sup>st</sup> April, 2022, a scheme of granting 6 stock appreciation rights (SAR) to 400 employees who remain in the organization for the next 3 years. Other information available on the portal relating to this scheme is as under:

Year ended	Fair value of SAR (₹)	Employees expected to remain in the organization as at year end
31.03.2023	100	400
31.03.2024	110	390
31.03.2025	116	380

- (iii) The borrowings of XYZ Ltd. include 10% Optionally Convertible Debentures (OCD) issued on 1<sup>st</sup> October, 2024 for ₹ 50 lakhs. These debentures are convertible into equity shares of XYZ Ltd. at the option of the holder at the end of the tenure of 5 years in the ratio of 1:1 i.e., each OCD will be converted to one equity share. Interest is paid annually on 31<sup>st</sup> March. The market rate for these debentures without a conversion option is 14% per annum.
- (iv) The share capital of XYZ Ltd. includes 10,00,000 12% cumulative preference shares of ₹ 100 each. The Company has arrears of ₹ 2.40 crores of preference dividend as on 31<sup>st</sup> March, 2025; it includes current year arrear of ₹ 1.20 crores. The Company did not declare any dividend for equity shareholders as well as for preference shareholders for the year ended on 31<sup>st</sup> March 2025.

**On the basis of the information provided above, you are required to choose the most appropriate answer to the below mentioned questions 4 to 7 in line with the relevant Ind AS.**

4. Determine the amount of exchange loss/gain to be recognized on 31<sup>st</sup> March, 2025 in relation to the purchase of raw material from the American Company.

(A) ₹ 35,00,000 exchange loss

- (B) ₹ 33,20,000 exchange loss
- (C) ₹ 17,40,000 exchange loss
- (D) Nil
5. *With respect to share appreciation rights, determine the balance of liability at the end of 31.3.2025 and expense for the financial year 2024-2025.*
- (A) ₹ 92,880 and ₹ 72,880 respectively
- (B) ₹ 2,64,480 and ₹ 1,71,600 respectively
- (C) ₹ 2,64,480 and ₹ 92,880 respectively
- (D) ₹ 92,880 and ₹ 2,64,480 respectively
6. *With respect to Optionally Convertible Debentures, determine the finance cost that should be charged to Statement of Profit and Loss as per relevant Ind AS for the year ended 31<sup>st</sup> March, 2025.*
- (A) ₹ 6,03,897
- (B) ₹ 3,01,949
- (C) ₹ 6,86,450
- (D) ₹ 96,103
7. *Determine the amount of preference share dividend to be reduced from profit or loss for the year ended 31<sup>st</sup> March, 2025 to compute the basic Earnings per Share.*
- (A) ₹ 2.40 crores
- (B) ₹ 1.20 crores
- (C) ₹ 3.60 crores
- (D) Nothing, as no dividend has been declared by the company

**(4 x 2 = 8 Marks)**

**Case Study - III**

*Savita Limited, a public listed company, is engaged in various types of manufacturing and retail activities. It is also engaged in the real estate business. You are provided with the following information:*

- (i) *Savita Limited had the following closing stock of raw material\* as on 31.03.2025:*

<b>Item</b>	<b>Quantity (No.)</b>	<b>Cost (₹ per pc)</b>	<b>Estimated Selling Price (₹ per pc)</b>	<b>Selling Cost (₹ per pc)</b>
Wooden Boards	1000	88	110	5
Iron rods	300	458	495	46

- (ii) *On 1<sup>st</sup> June, 2022, Savita Ltd. purchased land at Kota for ₹ 1,45,60,000 whose future use was not determined. It remained vacant for more than two years. On 30<sup>th</sup> September, 2024, the fair value of the property was ₹ 1,60,80,000 and on the same date Savita Ltd. began to convert the property into twenty separate flats of equal size which it intended to sell in the ordinary course of its business. Savita Ltd. spent a total of ₹ 1,82,68,000 on this conversion project till 31<sup>st</sup> March, 2025. The project was incomplete as on 31<sup>st</sup> March, 2025, and it was estimated that Savita Ltd. need to spend further ₹ 94,00,000 to complete the project, after which each flat could be sold for ₹ 20,00,000.*
- (iii) *Savita Ltd. developed a new drug that was in the final phase of clinical trials. Beta Ltd. had an equity investment in Savita Ltd.'s shares. Beta Ltd. determined that the shares had a readily determinable fair value and accounted for the investment at fair value through profit and loss. On 31<sup>st</sup> March, 2025, the drug approval authority notified Savita Ltd.'s management that the drug was not approved. Savita Ltd.'s share closed at ₹ 112 on 31<sup>st</sup> March, 2025. Savita Ltd. issued a press release after markets*

\* PS: Read 'raw material' as 'finished goods'.

closed on 31<sup>st</sup> March, 2025 announcing the failed clinical trial. Savita Ltd.'s share opened on the next working day at ₹ 85.

- (iv) Omega Ltd. is one of the associate companies of Savita Ltd. Omega Ltd. provided you with the following information for the year ended 31<sup>st</sup> March, 2025:

<b>Particulars</b>	<b>₹ Crores</b>
Net Profit after taxes	93.4
Decrease in accounts receivables	42.5
Depreciation	24.9
Increase in inventory	31.3
Increase in accounts payable	12.7
Decrease in wages payable	5.7
Increase in deferred tax asset	1.5
Tax paid	21.8
Profit from sale of land	3.4
Sale of land	85.2

**On the basis of the information provided above, you are required to choose the most appropriate answer to the below mentioned questions 8 to 12 in line with the relevant Ind AS.**

8. The value of closing inventory of raw material as on 31<sup>st</sup> March 2025 is:
- (A) ₹ 2,22,700  
(B) ₹ 2,39,700  
(C) ₹ 2,25,400  
(D) ₹ 2,41,500
9. What is the classification of land at Kota as on 31<sup>st</sup> March 2024?
- (A) Property, Plant & Equipment  
(B) Investment Property  
(C) Inventory

(D) Not required to be disclosed in Books

10. Compute the value of flats to be disclosed in the financial statements for the year ended 31<sup>st</sup> March, 2025.

(A) ₹ 3,43,48,000

(B) ₹ 3,28,28,000

(C) ₹ 3,06,00,000

(D) ₹ 4,22,28,000

11. **Assertion (I):** Beta Ltd. will record the share at ₹ 85 and disclose the investment as Level 2 measurement as per Ind AS 113 as on 31<sup>st</sup> March 2025.

**Reason (II):** Level 2 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

(A) Both (I) & (II) are true and (II) is the correct explanation of (I).

(B) Both (I) & (II) are true but (II) is not the correct explanation of (I).

(C) (I) is true but (II) is false.

(D) (I) is false but (II) is true.

12. Omega Ltd.'s cash flow from Operations for financial year 2024-2025 is:

(A) ₹ 135.0 Crores

(B) ₹ 216.8 Crores

(C) ₹ 131.6 Crores

(D) ₹ 109.8 Crores

(5 x 2 = 10 Marks)

13. Bazar Ltd. enters into a contract for the sale of Product H for ₹ 2,000 per piece. As part of the contract, it gives the customer a 40% discount voucher for any future purchase upto ₹ 1,000 in the next 30 days. Bazar Ltd. intends to offer a 10% discount on all sales during the next 30 days as part of a seasonal promotion. The 10% discount cannot be used in addition to the 40% discount voucher. Bazar Ltd. believes there is 90% likelihood that a customer will redeem the voucher and, on an average, a customer will purchase ₹ 1,000 of additional products.

*On the basis of above information, determine how many performance obligations does Bazar Ltd. have and the allocated transaction price?*

- (A) 2 performance obligations, allocated price of product H is ₹ 1,762 and discount voucher is ₹ 238.*
  - (B) 1 performance obligation, allocated price of product H is ₹ 2,000.*
  - (C) 2 performance obligations, allocated price of product H is ₹ 1,850 and discount voucher is ₹ 150.*
  - (D) 2 performance obligations, allocated price of product H is ₹ 1,900 and discount voucher is ₹ 100.*
14. *Win Limited is a first time adopter of Ind AS. The company has a financial asset classified as held-to-maturity (HTM) under previous GAAP. Under Ind AS 101, the company decides to classify the asset as a Financial Asset at Fair Value through Profit or Loss. Determine the impact of this decision on the first set of Ind AS financial statements of Win Limited.*
- (A) Win Limited must apply the fair value treatment retrospectively for all the periods, restating the financial asset in the comparative periods.*
  - (B) Win Limited must recognize the financial asset at fair value at the transition date and the difference from the carrying amount under previous GAAP is adjusted through Retained Earnings.*
  - (C) Win Limited must classify all similar financial assets as financial assets at Fair Value through Profit or Loss in future periods under Ind AS.*
  - (D) Win Limited is required to recognize the financial asset at deemed cost in the first Ind AS financial statements.*
- (2 Marks)**
15. *Securities Limited is a financial institution that handles voluminous sensitive data of its clients, such as personal information and records of their financial transactions. At times it is also required by various regulatory bodies to share its clients' data with them. Traditionally it involves reviewing the transactions and extracting data from various sources which is time consuming. Securities Limited wants to ensure secure and transparent storage of its financial data, enhance data privacy and maintain the trust of its stakeholders.*

*Which technology would be most suitable for Securities Limited to achieve the above?*



- (A) Artificial Intelligence  
 (B) Blockchain  
 (C) Cloud Computing  
 (D) Robotic Process Automation

**(2 Marks)****Answer Key**

1.	<b>Option (D):</b> ₹ 1,55,20,000
2.	<b>Either Option (A):</b> ₹ 20,00,000 (When Equity method continued) <b>Or Option (C):</b> ₹ 50,00,000 (When Equity method discontinued)
3.	<b>Option (B):</b> Gain on Bargain Purchase ₹ 7,50,000
4.	<b>Option (A):</b> ₹ 35,00,000 exchange loss
5.	<b>Option (C):</b> ₹ 2,64,480 and ₹ 92,880 respectively
6.	<b>Option (B):</b> ₹ 3,01,949
7.	<b>Option (B):</b> ₹ 1.20 crores
8.	<b>Option (A):</b> ₹ 2,22,700
9.	<b>Option (B):</b> Investment Property
10.	<b>Option (C):</b> ₹ 3,06,00,000
11.	<b>Option (C):</b> (I) is true but (II) is false
12.	<b>Option (C):</b> ₹ 131.6 Crores
13.	<b>Option (A):</b> 2 performance obligations, allocated price of product H is ₹ 1,762 and discount voucher is ₹ 238
14.	<b>Option (B):</b> Win Limited must recognize the financial asset at fair value at the transition date and the difference from the carrying amount under previous GAAP is adjusted through Retained Earnings
15.	<b>Option (B):</b> Blockchain

**PART – II: Descriptive Questions**

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

Working notes should form part of the answer.

**Question 1**

A Limited and B Limited are engaged in the manufacture of pharmaceuticals. On 1<sup>st</sup> June, 2024, A Limited acquired 15% of equity shares of B Limited. On 1<sup>st</sup> October, 2024, A Limited obtains control of B Limited when it acquires a further 55% of B Limited's shares, thereby resulting into a total holding of 70%. The fair value of the shares of B Limited was ₹ 40 per share as on that date.

Prior to the acquisition of additional 55% stake by A Limited on 1<sup>st</sup> October, 2024, the Balance Sheets of the two companies stood as under: (**₹ in lakhs**)

<b>Particulars</b>	<b>A Ltd.</b>	<b>B Ltd.</b>
<b>Assets</b>		
<b>Non-Current Assets</b>		
Property, Plant and Equipment	600	400
Investments	210	-
(6,00,000 Shares of B Ltd. acquired on 1 <sup>st</sup> June, 2024)		
<b>Current Assets</b>		
Inventories	500	150
Financial Assets		
Trade receivables	450	300
Cash and cash equivalents	400	100
Other Current Assets	200	230
Non-current assets held for sale	-	250
<b>Total</b>	<b><u>2,360</u></b>	<b><u>1,430</u></b>
<b>Equity and Liabilities</b>		
Equity		
Share Capital – Equity Shares of ₹ 100 each	500	-

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

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

In addition to the above:

- A Limited agreed to pay an additional payment as consideration that is higher of ₹ 35 lakhs and 25% of any excess profit in the first year, after acquisition over its profits in the preceding one year made by B Limited. This additional amount would be due after 2 years. B Limited has earned ₹ 10 lakhs profit in the preceding year and expects to earn another ₹ 20 lakhs.
- A Limited also agreed to pay one of the promoter shareholders of B Limited a payment of ₹ 15 lakhs provided he stays with the company for two years after acquisition.
- A Limited\* had a certain equity settled share-based payment award (Original award) which was replaced by the new award issued by B Limited\*\*. As per the original terms, the vesting period was 4 years and as of the acquisition

\* PS: Read 'A Limited' as 'B Limited'.

\*\* PS: Read 'B Limited' as 'A Limited'.

date, the employees of B Limited have already served 2 years of service. As per the replaced award, the vesting period is reduced to one year (one year from the acquisition date). The fair value of the award on the acquisition date was as under:

- (i) Original Award: ₹5 lakhs
  - (ii) Replacement Award: ₹8 lakhs
- (d) The fair value exercise resulted in the following:
- (i) The fair value of Property, Plant and Equipment and Inventory of B Limited as on 1<sup>st</sup> October, 2024 was ₹480 lakhs and ₹170 lakhs respectively.
  - (ii) The carrying value of Non-Current Asset held for sale of ₹250 lakhs of B Limited represents its fair value less cost to sell in accordance with the relevant Ind AS.
  - (iii) B Limited has developed and patented a new drug for Parkinson disease which has been approved for clinical use. The cost of developing the drug was ₹140 lakhs. Based on early assessment of its sales success, the valuer has estimated its market value at ₹200 lakhs.
  - (iv) B Limited had a lawsuit for infringement of Trademark pending with a competitor who had made a claim of ₹50 lakhs. B Limited has disclosed the same as a contingent liability as it is not probable that the amount would be payable. Management reliably estimated the fair value of the liability to be 10 lakhs. Any sum which would be paid in respect of the lawsuit would be tax deductible.
- (e) The cost of capital of A Limited is 10%. The appropriate discount factor for ₹1 @ 10% payable at the end of 1<sup>st</sup> year is 0.91 and 2<sup>nd</sup> year is 0.83.
- (f) The applicable tax rate for both the entities is 30%.

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

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

**(14 Marks)**

## Answer

**Consolidated Balance Sheet of A Ltd. and its subsidiary B Ltd. as at  
1<sup>st</sup> October, 2024**

	Notes No.	₹ in lakhs
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	1	1,080.00
Goodwill	2	461.95
Intangible assets (patents)		200.00
<b>Current assets</b>		
Inventories	3	670.00
Financial assets		
Cash and cash equivalents	4	170.00
Trade receivables	5	750.00
Other current assets	6	430.00
Assets held for sale		<u>250.00</u>
<b>Total</b>		<b><u>4,011.95</u></b>
<b>Equity and Liabilities</b>		
<b>Equity</b>	7	775.00
Other equity	8	1007.50
Non-controlling interest (W.N.4)		248.40
<b>Non-current liabilities</b>		
Financial liabilities		
Long-term borrowings	9	450.00
Long-term provisions	10	149.05
Deferred tax liabilities	11	127.00
<b>Current Liabilities</b>		
Financial liabilities		
Short-term borrowings	12	685.00

Trade payables	13	560.00
Provision for lawsuit damages		<u>10.00</u>
<b>Total</b>		<b><u>4,011.95</u></b>

**Notes to Accounts****1. Property, Plant and Equipment** ₹ in lakhs

Particulars			
A Ltd.		600.00	
B Ltd.	400.00		
Add: Fair value gain	<u>80.00</u>	<u>480.00</u>	1,080.00

**2. Goodwill** ₹ in lakhs

Particulars	
Goodwill on acquisition of B Ltd. (Refer W.N.5)	461.95

**3. Inventories** ₹ in lakhs

Particulars			
A Ltd.		500.00	
B Ltd.	150.00		
Add: Fair value given	<u>20.00</u>	<u>170.00</u>	670.00

**4. Cash and cash equivalents** ₹ in lakhs

Particulars			
A Ltd.	400.00		
Less: Paid to B Ltd.'s Shareholders	<u>(330.00)</u>	70.00	
B Ltd.		<u>100.00</u>	170.00

**Note:** The additional consideration paid to promoter shareholder is contingent to him/her continuing in employment and hence this will be considered as employee compensation and will be recorded as post combination expense in the income statement by A Ltd.

## 5. Trade receivables

₹ in lakhs

Particulars		
A Ltd.	450.00	
B Ltd.	<u>300.00</u>	750.00

## 6. Other current assets

₹ in lakhs

Particulars		
A Ltd.	200.00	
B Ltd.	<u>230.00</u>	430.00

## 7. Equity

₹ in lakhs

Particulars	
Equity Share Capital 7,75,000 Equity shares of ₹ 100 each (Out of the above, 2,75,000 Equity shares of ₹ 100 each allotted to shareholders of B Ltd for consideration other than cash)	775.00

## 8. Other equity

₹ in lakhs

Particulars			
A. Retained earnings of A Ltd.	810.00		
Add: Gain on previously acquired shares of A Ltd.	<u>30.00</u>	840.00	
B. Replacement award		2.50	
C. Security premium (2,75,000 shares x ₹ 60)		<u>165.00</u>	1007.50

## 9. Long-term borrowings

₹ in lakhs

Particulars		
A Ltd.	250.00	
B Ltd.	<u>200.00</u>	450.00

**10. Long term provisions****₹ in lakhs**

Particulars			
A Ltd.	50.00		
Add: Deferred consideration	<u>29.05</u>	79.05	
B Ltd.		<u>70.00</u>	149.05

**11. Deferred tax liabilities****₹ in lakhs**

Particulars		
Deferred tax liability of A Ltd	40.00	
Deferred tax liability (W.N. 2)	<u>87.00</u>	127.00

**12. Short term borrowings****₹ in lakhs**

Particulars		
A Ltd.	400.00	
B Ltd.	<u>285.00</u>	685.00

**13. Trade payables****₹ in lakhs**

Particulars		
A Ltd.	310.00	
B Ltd.	<u>250.00</u>	560.00

**Working Notes:****1. Calculation of purchase consideration****₹ in lakhs**

Investment in B Ltd.			
Shares acquired			
On 1 <sup>st</sup> June, 2024	15%	$[(400/10) \times 15\% \times ₹ 40]$	240.00
On 1 <sup>st</sup> October, 2024	55%		
Own equity given		$(40 \times 55\%) \times 1/8 \times ₹ 160$	440.00
Cash		$(40 \times 55\%) \times ₹ 15$	330.00
Contingent consideration		$(35 \times 0.83)$	29.05
Replacement award		$(5 \times 2/4)$	<u>2.50</u>
			<u>1041.55</u>



**2. Calculation of deferred tax on assets and liabilities acquired as part of the business combination**

Item	₹ in lakhs				
	Book value	Fair value	Tax base	Taxable (deductible) temporary difference	Deferred tax assets (liability) @ 30%
Property, plant and equipment	400.00	480.00	400.00	80.00	(24.00)
Intangible assets		200.00	0.00	200.00	(60.00)
Inventories	150.00	170.00	150.00	20.00	(6.00)
Trade receivables	300.00	300.00	300.00	-	-
Cash and cash equivalents	100.00	100.00	100.00	-	-
Other current assets	230.00	230.00	230.00	-	-
Non-current asset held for sale	<u>250.00</u>	<u>250.00</u>	<u>250.00</u>	<u>-</u>	<u>-</u>
(A)	<u>1,430.00</u>	<u>1,730.00</u>	<u>1,430.00</u>	<u>300.00</u>	<u>(90.00)</u>
Trade payables	250.00	250.00	250.00	-	-
Long-term provisions	70.00	70.00	70.00	-	-
Short-term borrowings	285.00	285.00	285.00	-	-
Contingent liability	<u>-</u>	<u>10.00</u>	<u>-</u>	<u>(10.00)</u>	<u>3.00</u>
(B)	<u>605.00</u>	<u>615.00</u>	<u>605.00</u>	<u>(10.00)</u>	<u>3.00</u>
Deferred tax liabilities (A-B)					(87.00)

**3. Calculation of fair value of identifiable net assets acquired**

	₹ in lakhs	₹ in lakhs
Property, plant and equipment	480.00	
Intangible assets	200.00	
Inventories	170.00	
Trade receivables	300.00	
Cash and cash equivalents	100.00	

Non-current asset held for sale	250.00	
Other current assets	<u>230.00</u>	
Total assets		1,730.00
Less: Long-term borrowings	200.00	
Trade payables	250.00	
Long-term provisions	70.00	
Short-term borrowings	285.00	
Contingent liabilities	10.00	
Deferred tax liabilities	<u>87.00</u>	
Total liabilities		<u>(902.00)</u>
Net identifiable assets		<u>828.00</u>

#### 4. Calculation of NCI by proportionate share of identifiable net assets

Identifiable net assets of S Ltd. on 1<sup>st</sup> October, 2024 (Refer W.N.3) = ₹ 828.00 lakhs

NCI on 1<sup>st</sup> October, 2024 = 828.00 lakhs x 30% = 248.40 lakhs

#### 5. Calculation of Goodwill

Particulars	₹ in Lakhs
Fair Value of Net Identifiable Assets	828.00
Less: NCI	<u>(248.40)</u>
	579.60
Less: Purchase Consideration	<u>(1041.55)</u>
Goodwill on 1 <sup>st</sup> October, 2024	<u>461.95</u>

#### Question 2

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

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

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

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

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

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

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

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

The following present values of ₹ 1 are provided:

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

**(10 Marks)**

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

- (i) Dividend income of ₹ 8 lakhs received during the quarter has been recognized to the extent of ₹ 2 lakhs only.
- (ii) 60% of sales promotion expenses of ₹ 30 lakhs incurred in the third quarter has been deferred to the fourth quarter as the sales in fourth quarter are expected to be high.

- (iii) ₹ 4 lakhs extraordinary gain received in third quarter was allocated equally to the third and fourth quarter.
- (iv) Cumulative loss of ₹ 30 lakhs resulting from change in method of inventory valuation was recognized in the third quarter. Out of this loss, ₹ 10 lakhs relate to previous quarters.
- (v) Sale of investment in the first quarter resulted in a gain of ₹ 40 lakhs. The company had apportioned this equally to the four quarters.

You are required to discuss the treatment of the above observations and ascertain the adjusted profit /loss before tax for the third quarter. **(4 Marks)**

### Answer

- (a) On the date of initial recognition, the effective interest rate of the loan shall be computed keeping in view the contractual cash flows and upfront processing fee paid. The following table shows the amortisation of loan based on effective interest rate:

Date	Opening Balance	Cash outflows (principal)	Cash outflows (interest and fee)	Interest [EIR @ 11.50%]	Closing Balance (amortised cost)
	(a)	(b)	(c) = [(5,00,00,000 - instalments paid till previous year) x 11%]	(d) = [a x 11.50%]	(e) = (a) - (b) - (c) + (d)
1-Apr-2023	(5,00,00,000)	5,90,000			4,94,10,000
31-Mar-2024	4,94,10,000	1,00,00,000	55,00,000	56,82,150	3,95,92,150
31-Mar-2025	3,95,92,150	1,00,00,000	44,00,000	45,53,097	2,97,45,247
31-Mar-2026	2,97,45,247	1,00,00,000	33,00,000	34,20,703	1,98,65,950
31-Mar-2027	1,98,65,950	1,00,00,000	22,00,000	22,84,584	99,50,534
31-Mar-2028	99,50,534	1,00,00,000	11,00,000	11,49,466*	(0)

\*Difference of ₹ 5,155 (11,49,466 – 11,44,311) is due to rounding off.

a. 1<sup>st</sup> April, 2023

Particulars	(₹)	(₹)
Bank A/c Dr. To Loan from Tera Finance Limited A/c (Being loan recorded at its fair value less transaction costs on the initial recognition date)	4,94,10,000	4,94,10,000

31<sup>st</sup> March, 2024

Particulars	(₹)	(₹)
Loan from Tera Finance Limited A/c Dr. Interest expense (profit and loss) Dr. To Bank A/c (1,00,00,000 + 55,00,000) (Being first instalment of loan and payment of interest accounted for as an adjustment to the amortised cost of loan)	98,17,850 56,82,150	1,55,00,000

31<sup>st</sup> March, 2025 – Before Mera Limited approached the bank

Particulars	(₹)	(₹)
Interest expense (profit and loss) Dr. To Loan from Tera Finance Limited A/c To Bank A/c (Being loan payment of interest recorded by the Company before it approached the Bank for deferment of principal)	45,53,097	1,53,097 44,00,000

Upon receiving the new terms of the loan, Mera Limited, re-computed the carrying value of the loan by discounting the new cash flows with the original effective interest rate and comparing the same with the current carrying value of the loan. As per requirements of Ind AS 109, any change of more than 10% shall be considered a substantial modification, resulting in fresh accounting for the new loan:

Date	Cash flows (principal) (a)	Interest outflow @15% (b)	Discount factor @ 11.50% (c)	PV of cash flows (a + b) x c
31-Mar-2025	(4,00,00,000)			
31-Mar-2026	50,00,000	60,00,000	0.897	98,67,000
31-Mar-2027	50,00,000	52,50,000	0.804	82,41,000
31-Mar-2028	50,00,000	45,00,000	0.721	68,49,500
31-Mar-2029	50,00,000	37,50,000	0.647	56,61,250
31-Mar-2030	50,00,000	30,00,000	0.580	46,40,000
31-Mar-2031	50,00,000	22,50,000	0.520	37,70,000
31-Mar-2032	50,00,000	15,00,000	0.467	30,35,500
31-Mar-2033	50,00,000	7,50,000	0.419	24,09,250
PV of new contractual cash flows discounted at 11.50%				4,44,73,500
Carrying amount of loan (3,95,92,150 + 1,53,097)				3,97,45,247
Difference				47,28,253
Percentage of difference to carrying amount				11.90%

Considering a more than 10% change in PV of cash flows compared to the carrying value of the loan, the existing loan shall be considered to have been extinguished and the new loan shall be accounted for as a separate financial liability.

The accounting entries for the same are included below:

**b. 31<sup>st</sup> March, 2025 – Accounting for Extinguishment**

Particulars	(₹)	(₹)
Loan from Tera Finance Limited (old) A/c Dr.	3,97,45,247	
Loss on modification of loan (profit and loss) Dr.	2,54,753	
To Loan from Tera Finance Limited (new) A/c		4,00,00,000
(Being new loan accounted for at its principal amount by correspondingly derecognising the existing loan)		

31 March, 2026

Particulars		(₹)	(₹)
Loan from Tera Finance Limited A/c Dr.		50,00,000	
Interest expense (profit and loss) Dr.		60,00,000	
To Bank A/c			1,10,00,000
(Being first instalment of the principal of new loan and payment of interest accounted)			

- (b) As per para 37 and para 39 of Ind AS 34 "Interim Financial Reporting", seasonal or occasional revenue and cost within a financial year should not be anticipated or deferred as of interim date if it would not be appropriate to anticipate or defer the same at the end of the entity's financial year. Therefore, dividend income, extraordinary gain, and gain on sale of investment received during 3<sup>rd</sup> quarter should be recognised in the 3<sup>rd</sup> quarter only.

Similarly, sales promotion expenses incurred in the 3<sup>rd</sup> quarter should also be charged in the 3<sup>rd</sup> quarter only.

Further, as per the standard, if there is change in the accounting policy within the current financial year, then such a change should be applied retrospectively by restating the financial statements of prior interim periods of the current financial year.

The change in the method of inventory valuation is a change in the accounting policy. Therefore, the prior interim periods' financial statements should be restated by applying the change in the method of valuation retrospectively.

Accordingly, the adjusted profit before tax for the 3<sup>rd</sup> quarter will be as follows:

**Statement showing Adjusted Profit Before Tax for the Third Quarter ending 31<sup>st</sup> December, 2024**

	(₹ in lakhs)
Profit before tax (as reported)	8
Add: Dividend income ₹ (8-2) lakhs	6
Extraordinary gain ₹ (4-2) lakhs	2

Cumulative loss due to change in the method of inventory valuation should be applied retrospectively	<u>10</u>
	26
Less: Sales promotion expenses (60% of ₹ 30 lakhs)	(18)
Gain on sale of investment (occasional gain should not be deferred)	<u>(10)</u>
Adjusted Profit before tax for the third quarter	<u>(2)</u>

**Question 3**

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

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

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

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

*You are required to:*

- (i) *Calculate the impairment loss, if any, as on 31<sup>st</sup> March 2024.*



(ii) Also advise the accounting treatment for reversal of impairment loss and the subsequent depreciation thereon. **(8 Marks)**

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

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

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

(i) Basic and Diluted EPS of A Ltd. and

(ii) Diluted EPS of B Ltd.

**(6 Marks)**

### Answer

- (a) Since the fair value less costs of disposal is not determinable the recoverable amount of the CGU is its value in use. The carrying amount of the assets of the CGU on 31<sup>st</sup> March, 2024 is as follows:

#### Calculation of Impairment loss

₹ in crores			
	Goodwill	Other assets	Total
Historical Cost	13.00	51.00	64.00
Accumulated Depreciation [(51/15) x 2]	—	(6.80)	(6.80)
Carrying Amount	13.00	44.20	57.20
Impairment Loss	(13.00)	(9.20)	(22.20)

**Revised Carrying Amount**

Impairment Loss = Carrying Amount – Recoverable Amount (₹ 57.20 crore - ₹ 35 crore) = ₹ 22.20 crore is charged to Statement of Profit and Loss for the period ending 31<sup>st</sup> March, 2024 as impairment loss.

Impairment loss is allocated first to goodwill ₹ 13 crore and remaining loss of ₹ 9.20 crore (₹ 22.20 crore – ₹ 13 crore) is allocated to the other assets.

**Reversal of Impairment loss**

Reversal of impairment loss is recognised subject to that the impairment loss on goodwill cannot be reversed.

The increased carrying amount of an asset after reversal of an impairment loss not to exceed the carrying amount that would have been determined had no impairment loss been recognised in prior year.

**Calculation of carrying amount of identifiable assets had no impairment loss is recognised**

	₹ in crore
Historical Cost	51.00
Accumulated Depreciation for 3 years [(51/15) x 3]	(10.20)
Carrying amount had no impairment loss is recognised on 31 <sup>st</sup> March, 2025	<u>40.80</u>

**Carrying amount of other assets after recognition of impairment loss**

	₹ in crore
Carrying amount on 31 <sup>st</sup> March, 2024	35.00
Accumulated Depreciation for 1 year [(35 /13) x 1] [rounded off to nearest two decimal]	(2.69)
Carrying amount on 31 <sup>st</sup> March, 2025	<u>32.31</u>

1. Recoverable amount on 31<sup>st</sup> March, 2025 would be ₹ 52 crore [i.e. higher of fair value less costs of disposal (₹ 48 crore) and value in use (₹ 52 crore)]
2. The impairment loss recognised previously can be reversed only to the extent of lower of re-estimated carrying amount (₹ 40.80 crore) and

recoverable amount (₹ 52 crore) i.e. ₹ 40.80 crore.

3. Impairment loss reversal will be ₹ 8.49 crore i.e. (₹ 40.80 crore – ₹ 32.31 crore). This amount is recognised as income in the statement of profit and loss for the year ended 31<sup>st</sup> March, 2025.
4. The carrying amount of other assets at 31<sup>st</sup> March, 2025 after reversal of impairment loss will be ₹ 40.80 crore.
5. From 1<sup>st</sup> April, 2025, the depreciation charge will be ₹ 3.40 crore i.e. (₹ 40.80 crore/12)

**(b) (i) Basic EPS of A Ltd.**

Basic EPS (Continued Operations)	= Profit from continued operations/Weighted average number of shares outstanding = ₹ 5,04,000 / 1,60,000 = ₹ 3.15
Basic Loss per share (Discontinued operations)	= Loss from discontinued operations / Weighted average number of shares outstanding = (₹ 8,40,000) / 1,60,000 = (₹ 5.25)
Overall Basic Loss per share	= (₹ 3,36,000) / 1,60,000 = (₹ 2.10)

**Diluted EPS of A Ltd.**

Diluted EPS = Profit for the year / Adjusted weighted average number of shares outstanding

DEPS (Continued Operations)	= Profit from continued operations / Adjusted weighted average number of shares outstanding = ₹ 5,04,000 / 1,92,000 = ₹ 2.625
Diluted Loss per share (Discontinued operations)	= Loss from discontinued operations/ Adjusted weighted average number of shares outstanding = (₹ 8,40,000) / 1,92,000 = (₹ 4.375)
Overall Diluted Loss per share	= (₹ 3,36,000) / 1,92,000 = (₹ 1.75)

- (ii) In case of B Ltd.'s loss from continuing operations, the potential shares are excluded since including those shares would result into anti-dilution effect on the control number (loss from continuing operations).

Therefore, the Diluted EPS of B Ltd will be calculated as under:

Diluted EPS	=	Profit for the year / Adjusted weighted average number of shares outstanding
Overall Profit	=	Loss from continuing operations + Gain from discontinued operations
	=	(₹ 3,60,000) + ₹ 6,51,840 = ₹ 2,91,840
Weighted average number of shares outstanding	=	1,92,000
Diluted EPS	=	₹ 1.52

#### Question 4

- (a) Chimney Ltd. purchased a machinery on 1.4.2019 for ₹ 18,00,000. The machinery has no residual value. It was reflected in its books at ₹ 14,40,000 on 1.4.2021. The Company charges depreciation on straight line method.

The Company had estimated an upward revaluation of 8% on 1.4.2021 to arrive at the fair value of the asset. Chimney Ltd. availed the option given by Ind AS of transferring some of the surplus, as the asset is used by the enterprise.

On 1.4.2023, the machinery was revalued downward by 10% and the company also re-estimated the machinery's remaining life to be 8 years.

On 31.3.2025 the machinery was sold for ₹ 8,98,780.

You are required to prepare machinery account in the books of Chimney Ltd. over its useful life to record the above transactions. **(6 Marks)**

- (b) National Ltd. granted 1,000 stock appreciation rights (SAR) each to its 160 employees on 1<sup>st</sup> April, 2021 with a fair value of ₹ 100 each. The terms of the award require the employees to provide service for four years to earn the award. The SARs are expected to be settled in cash and it is expected

that 100% of the employees will exercise the options. The fair value of each SAR at each reporting date is as follows:

On 31<sup>st</sup> March, 2022 ₹ 120

On 31<sup>st</sup> March, 2023 ₹ 130

On 31<sup>st</sup> March, 2024 ₹ 135

On 31<sup>st</sup> March, 2025 ₹ 140

- (i) You are required to pass necessary journal entries across all the years for recognition of expenses.
- (ii) Would your answer be different, if at the end of the second year of service i.e. at 31<sup>st</sup> March, 2023, National Ltd. modifies the terms of the award to require only three years of total service instead of four years to earn the award. The SARs are expected to be settled in cash and it is expected that 100% of the employees will exercise the options. Pass revised journal entries. **(8 Marks)**

### Answer

(a) In the books of Chimney Ltd.

#### Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1.4.2019	To Bank/ Vendor	18,00,000	31.3.2020	By Depreciation (W.N.1)	1,80,000
			31.3.2020	By Balance c/d	16,20,000
		<u>18,00,000</u>			<u>18,00,000</u>
1.4.2020	To Balance b/d	16,20,000	31.3.2021	By Depreciation	1,80,000
			31.3.2021	By Balance c/d	14,40,000
		<u>16,20,000</u>			<u>16,20,000</u>
1.4.2021	To Balance b/d	14,40,000	31.3.2022	By Depreciation (W.N.2)	1,94,400
1.4.2021	To Revaluation Reserve	<u>1,15,200</u>	31.3.2022	By Balance c/d	13,60,800
		<u>15,55,200</u>			<u>15,55,200</u>

1.4.2022	To Balance b/d	13,60,800	31.3.2023	By Depreciation	1,94,400
			31.3.2023	By Balance c/d	<u>11,66,400</u>
		<u>13,60,800</u>			<u>13,60,800</u>
1.4.2023	To Balance b/d	11,66,400	1.4.2024	By Revaluation Reserve (W.N.4)	86,400
			31.3.2024	By Profit and Loss A/c (W.N.5)	30,240
			31.3.2024	By Depreciation (W.N.3)	1,31,220
			31.3.2024	By Balance c/d	<u>9,18,540</u>
		<u>11,66,400</u>			<u>11,66,400</u>
1.4.2024	To Balance b/d	9,18,540	31.3.2025	By Depreciation	1,31,220
31.3.2025	To Profit and Loss A/c (bal. fig.)		31.3.2025	By Bank A/c	8,98,780
		<u>1,11,460</u>			
		<u>10,30,000</u>			<u>10,30,000</u>

**Working Notes:**

**1. Calculation of useful life of machinery on 1.4.2019**

Depreciation charge in 2 years = (18,00,000 – 14,40,000)	= ₹ 3,60,000
Depreciation per year as per Straight Line method	= 3,60,000/ 2 years
	= ₹ 1,80,000
Remaining useful life = ₹ 14,40,000/₹ 1,80,000	= 8 years
Total useful life = 2 years + 8 years	= 10 years

**2. Depreciation after upward revaluation as on 1.4.2021 ₹**

Book value as on 1.4.2021	14,40,000
Add: 8% Upward revaluation	<u>1,15,200</u>
Revalued amount	<u>15,55,200</u>
Remaining useful life 8 years (Refer W.N.1)	
Depreciation on revalued amount = 15,55,200 / 8 years =	₹ 1,94,400

**3. Depreciation after downward revaluation as on 1.4.2023 ₹**

Book value as on 1.4.2023	11,66,400
Less: 10% Downward revaluation	<u>(1,16,640)</u>
Revalued amount	<u>10,49,760</u>
Revised useful life 8 years	
Depreciation on revalued amount = 10,49,760 / 8 years	1,31,220

**4. Amount transferred from revaluation reserve**

Revaluation reserve on 1.4.2021 (A)	₹ 1,15,200
Remaining useful life	8 years
Amount transferred every year (1,15,200 / 8)	₹ 14,400
Amount transferred in 2 years (14,400 x 2) (B)	₹ 28,800
Balance of revaluation reserve on 1.4.2023 (A-B)	₹ 86,400

**5. Amount of downward revaluation to be charged to Profit and Loss Account ₹**

Downward revaluation as on 1.4.2023 (W.N.3)	1,16,640
Less: Adjusted from Revaluation reserve (W.N.4)	<u>(86,400)</u>
Amount transferred to Profit and Loss Account	<u>30,240</u>

**(b) (i) Journal Entries in the books of National Ltd. (without modification of service period of stock appreciation rights) (₹ in lakhs)**

Date	Particulars	Debit	Credit
31.3.2022	Employee Benefit Expenses Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	48.00	48.00
31.3.2023	Employee Benefit Expenses Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	56.00	56.00

31.3.2024	Employee Benefit Expenses Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	58.00	58.00
31.3.2025	Employee Benefit Expenses Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	62.00	62.00

**Working Note:**

Calculation of expenses for issue of stock appreciation rights without modification of service period

Period	Fair value (a)	To be Vested (b)	Cumulative (₹.) a x 1000 awards x 160 employees x years of service	Expense (₹)
Start	100			
31 <sup>st</sup> March 2022	120	100%	$120 \times 1000 \times 160 \times 1$ years / 4 years of service = 48,00,000	48,00,000
31 <sup>st</sup> March 2023	130	100%	$130 \times 1000 \times 160 \times 2$ years / 4 years of service = 1,04,00,000	= 1,04,00,000 – 48,00,000 = 56,00,000
31 <sup>st</sup> March 2024	135	100%	$135 \times 1000 \times 160 \times 3$ years / 4 years of service = 1,62,00,000	= 1,62,00,000 – 1,04,00,000 = 58,00,000
31 <sup>st</sup> March 2025	140	100%	$140 \times 1000 \times 160 \times 4$ years / 4 years of service = 2,24,00,000	= 2,24,00,000 – 1,62,00,000 = 62,00,000



(ii) Journal Entries in the books of National Ltd. (with modification of service period of stock appreciation rights) (₹ in lakhs)

Date	Particulars	Debit	Credit
31.03.2023	Employee Benefit Expenses Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	90.67	90.67
31.03.2024	Employee Benefit Expenses Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	77.33	77.33

**Working Note:**

**Calculation of expenses for issue of stock appreciation rights with modification of service period**

Period	Fair value (a)	To be Vested (b)	Cumulative (₹) a x 1000 awards x 160 employees x years of service	Expense (₹)
1 <sup>st</sup> April, 2021	100			
31 <sup>st</sup> March 2022	120	100%	120 x 1000 x 160 x 1 years / 4 years of service = 48,00,000	48,00,000
31 <sup>st</sup> March 2023	130	100%	130 x 1000 x 160 x 2 years / 3 years of service = 1,38,66,667	= 1,38,66,667 – 48,00,000 = 90,66,667
31 <sup>st</sup> March 2024	135	100%	135 x 1000 x 160 x 3 years / 3 years of service = 2,16,00,000	= 2,16,00,000 – 1,38,66,667 = 77,33,333

**Question 5**

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

- (i) Mr. Grahak purchases a software application license from HaSo Ltd. for ₹ 2,00,000. Under the agreement, HaSo Ltd. will provide updates or upgrades on a when-and-if-available basis. Mr. Grahak can choose whether to install them or not. HaSo Ltd. will undertake no other activities that will change the functionality of the software application license.
- (ii) HaSo Ltd. licenses the right to operate its exclusive store in Madurai to Franchisee Ltd. The store will bear HaSo Ltd. trade name and brand logo. Franchisee Ltd. will have the right to sell HaSo Ltd.'s products for next 5 years from the date of agreement. Franchisee Ltd. pays an all-inclusive up-front fixed fee on signing of the agreement. The franchise agreement requires HaSo Ltd. to maintain the brand through product improvements, marketing campaigns etc. **(5 Marks)**
- (b) Tiger Gems Ltd. and Mammoth Minerals Ltd. are engaged in extraction of coal and minerals from coal-fields, which they own and operate independently of each other.

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

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

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

**(5 Marks)**

(c)

***EITHER***

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

- (i) Electricity deposit paid to permanently enhance the power load of the factory.*
- (ii) Tender deposit. Tender is likely to be opened & awarded to the lowest bidder within next six months.*
- (iii) GST demand deposited with the department against which the entity has filed an appeal before the appellate authorities. Appeal is likely to be heard after 30<sup>th</sup> June, 2026.*
- (iv) Earnest money deposit on award of a long-term job contract to be completed by 31<sup>st</sup> May, 2026. Earnest money is returnable only on completion of the job work.* **(4 Marks)**

***OR***

- (c) Discuss the limitations of general-purpose financial reporting.* **(4 Marks)**

**Answer**

- (a) (i)** Although the updates and upgrades will change the functionality of the software, they are not considered in determining the nature of the entity's promise in granting the license. The activities of HaSo Ltd. to provide updates or upgrades are not considered because they transfer a promised goods or service to Mr. Grahak i.e. updates or upgrades are distinct from the licence. Therefore, the software application license ₹ 2,00,000 provides a right to use the IP that is satisfied at a point in time.

Hence, ₹ 2,00,000 will be recognised immediately in the income statement by HaSo Ltd., on purchase of the software application license by Mr Grahak.

- (ii)** The licence provides Franchisee Ltd. access to the IP as it exists at any point in time in the licence period. This is because:

- HaSo Ltd. is required to maintain the brand, which will significantly affect the IP by affecting Franchisee Ltd.'s ability to obtain benefit from the brand;
  - Any action by HaSo Ltd. may have a direct positive or negative effect on Franchisee Ltd.; and
  - These activities do not transfer goods or service to Franchisee Ltd.
- Therefore, HaSo Ltd. recognizes the up-front fee over the 5-year franchise period.

**(b) (i) Determination of Joint Arrangement**

As per Ind AS 111 'Joint Arrangements', a joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The structure and form of the arrangement determines the nature of the relationship.

**Joint Operation:** A joint arrangement which is NOT structured through a separate vehicle is a joint operation. In such a case, the contractual arrangement establishes the parties' rights and obligations.

**Joint Venture:** A Joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint operator accounts for the assets, liabilities, revenues and expenses relating to its involvement in a joint operation in accordance with the relevant Ind AS.

The arrangement between Tiger Gems Ltd. and Mammoth Minerals Ltd. is a joint operation as no separate vehicle is formed and the companies have agreed to share services and costs with decisions regarding the underground 'Luminous' coal mine requiring unanimous agreement of both the parties.

Both the companies should recognize their share of the asset as Property, Plant and Equipment.

**(ii) Accounting for the unextracted coal and mineral**

As per para 16 of Ind AS 16 'Property, Plant and Equipment', the cost of an item of property, plant and equipment comprises the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Further, para 45 of Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets', provides that where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.

Thus, costs incurred by an entity in respect of obligations for dismantling, removing and restoring the site on which an item of property, plant and equipment is situated are recognized and measured in accordance with Ind AS 16 and Ind AS 37.

Each of the entities in the joint arrangement should recognize their respective share of the cost of decommissioning of the underground storage facility.

However, as per para 29 of Ind AS 37 where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.

Accordingly, each of the entities in the joint arrangement should also disclose the share of the cost of decommissioning of the underground facility, to be borne by another joint arrangement entity, as a contingent liability.

As per Ind AS 16, Property, Plant and Equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one period.)

Thus, both the entities should classify and account for their share of irrecoverable coal and minerals as property, plant and equipment, as the irrecoverable coal and minerals is necessary for the storage facility to perform its function. Therefore, the irrecoverable coal and minerals, being a part of the storage facility, should be capitalized as a

component of the storage facility asset, and should be depreciated to its residual value over the life of the storage facility.

**Either**

- (c) (i) **Electricity Deposit** - At all points of time, the deposit is recoverable on demand, when the connection is not required. However, practically, such electric connection is required as long as the entity exists. Hence, from a commercial reality perspective, an entity does not expect to realise the asset within twelve months from the end of the reporting period. Hence, electricity deposit should be classified as a non-current asset.
- (ii) **Tender Deposit** - In the given case, tender is likely to be opened and awarded to the lowest bidder within six months. Therefore, it is expected that the refund of tender deposit will also be received within a few days or a month from the date of tender being opened and awarded. Hence, tender deposit will be classified as current asset in the books of the entity as on 31<sup>st</sup> March, 2025.
- (iii) **GST Demand Deposit paid under dispute** - Since appeal is likely to be heard after 30<sup>th</sup> June, 2026 i.e., 15 months from 31<sup>st</sup> March, 2025 (reporting date), it should classify such GST demand deposit as non-current asset.
- (iv) **Earnest Money Deposit** - Since the job contract is of long term in nature and is expected to be completed by 31<sup>st</sup> May, 2026, i.e., 14 months from 31<sup>st</sup> March, 2025 (reporting date), the earnest money deposit should be classified as non-current asset.

**Or**

**(c) Limitations of General-Purpose Financial Reporting:**

- ◆ General-purpose Financial Reporting does not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic

conditions and expectations, political events and political climate, and industry and company outlooks;

- ◆ General-purpose Financial Reporting is not designed to show the value of a reporting entity; but they provide information to help existing and potential investors, lenders and other creditors to estimate the value of the reporting entity; and
- ◆ General-purpose Financial Reporting is not primarily directed to other parties, such as regulators and members of the public other than investors, lenders and other creditors.

### Question 6

(a) Discuss any five key impacts of Blockchain on Financial Reporting.

**(5 Marks)**

(b) In a manufacturing process of Milky Way Ltd., one by-product 'Universe' emerges besides two main products Galaxy 1 and Galaxy 2, apart from scrap. Details of cost of production process are hereunder:

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

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

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

**(5 Marks)**

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

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

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

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

Compute value per share upto 2 decimal points.

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

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

**(4 Marks)**

### Answer

#### (a) Key Impacts of Blockchain on Financial Reporting

1. **Enhanced Transparency:** Blockchain technology provides a decentralized and immutable ledger, where transactions are recorded and stored in a transparent and tamper-proof manner. This increased transparency ensures that financial data is accurately captured and can be easily audited, promoting trust and reliability in financial reporting.
2. **Improved Data Integrity:** Blockchain's distributed ledger ensures that each transaction is verified and encrypted, preventing unauthorized modifications or tampering. This feature enhances data integrity,

\* PS: Read '₹ 20 lakhs' as '20 lakhs'.



reducing the risk of fraudulent activities and errors in financial reporting.

3. **Streamlined Audit Processes:** Blockchain technology enables real-time access to financial data, eliminating the need for time-consuming and manual data reconciliation processes. Auditors can directly access the blockchain ledger to verify transactions, reducing audit time and enhancing efficiency in financial reporting.
4. **Enhanced Security:** Blockchain incorporates advanced cryptographic algorithms, making it highly secure against unauthorized access or data breaches. Financial data stored on the blockchain is encrypted and protected, minimizing the risk of data manipulation or unauthorized disclosure, thus strengthening the security of financial reporting.
5. **Simplified Reconciliation:** Blockchain's decentralized ledger eliminates the need for reconciling multiple versions of data across different systems. With a single shared source of truth, financial reporting processes become more streamlined, reducing reconciliation efforts and potential errors.
6. **Cost Reduction:** By eliminating intermediaries and central authorities, blockchain reduces the costs associated with traditional financial reporting processes. It eliminates the need for third-party verification and reconciliation, leading to cost savings for organizations.
7. **Enhanced Audit Trail:** Blockchain maintains a comprehensive and immutable audit trail of all transactions, providing a transparent and traceable record of financial activities. This audit trail simplifies the identification and investigation of any irregularities or discrepancies, improving the accuracy and reliability of financial reporting.
8. **Real-time Financial Reporting:** With blockchain's real-time data availability and consensus mechanism, financial reporting can be performed more frequently and with greater accuracy. Organizations can generate up-to-date financial statements, enabling stakeholders to

make informed decisions based on the most current financial information.

- (b) As per Ind AS 2 'Inventories', by-products as well as scrap or waste materials which are immaterial in nature, are measured at net realisable value and this value is deducted from the cost of the main product.

**(1) Calculation of NRV of By-product Universe**

		₹
Selling price of by-product	2,000 units x 20 per unit	40,000
Less: Separate processing charges of by-product Universe		(8,000)
Packing charges		<u>(2,000)</u>
Net realisable value of by-product Universe		<u>30,000</u>

**(2) Calculation of cost of conversion for allocation between joint products Galaxy 1 and Galaxy 2**

		₹
Raw material		1,50,000
Wages		90,000
Fixed overhead		65,000
Variable overhead		50,000
Less: NRV of by-product Universe (See calculation 1)	30,000	
Sale value of scrap	<u>5,000</u>	<u>(35,000)</u>
Joint cost to be allocated between Galaxy 1 and Galaxy 2		<u>3,20,000</u>

**(3) Determination of "basis for allocation" and allocation of joint cost to Galaxy 1 and Galaxy 2**

	Galaxy 1	Galaxy 2
Output in units (a)	5,000	4,000
Sales price per unit (b)	₹ 60	₹ 50

Sales value (a x b)	₹ 3,00,000	₹ 2,00,000
Ratio of allocation	3	2
Joint cost of ₹ 3,20,000 allocated in the ratio of 3:2 (c)	₹ 1,92,000	₹ 1,28,000
Cost per unit [c/a]	₹ 38.4	₹ 32

**(4) Determination of value of closing stock of Galaxy 1 and Galaxy 2**

Particulars	Galaxy 1	Galaxy 2
Closing stock in units	100 units	250 units
Cost per unit	₹ 38.4	₹ 32
Value of closing stock	₹ 3,840	₹ 8,000

**(c) Determination of equity value of Glue Ltd.****(₹ in lakhs)**

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Cash flows	420.0000	418.0000	272.0000	606.0000	777.0000
Terminal value					8,919.0000
	420.0000	418.0000	272.0000	606.0000	9,696.0000
Discount rate factor	0.8929	0.7972	0.7118	0.6355	0.5674
Free cash flow available to the firm	375.0180	333.2296	193.6096	385.1130	5,501.5104
Total of all years discounted cashflows					6,788.4806
Less: Debt					(3,294.0000)
Add: Cash & cash equivalents					240.0000
Equity value of Glue Ltd.				(A)	3,734.4806
Number of shares				(B)	20,00,000
Per share value				(A/B)	186.72403