PAPER – 1 : FINANCIAL REPORTING

Part I - Multiple Choice Questions

Case Scenario - I

Saumya Limited manufactures and sells various paper products & related machinery and equipment.

(i) On 1st June, 2024, Saumya Limited sold a machinery for ₹ 42,02,230 to a new customer. To get into a long-term relationship with the customer, the terms of sales include after sales service to be provided free of cost for the next four years after the initial warranty period of 1 year. In general practice, the Company sells the after-sales service contract separately which is purchased by the customer after the initial warranty period of 1 year at ₹ 7,41,570.

(ii) Saumya Limited had 5,000 packets of computer paper inventory as on 31st March, 2025 recorded at a carrying amount of ₹ 340 per packet. The market price as on 31st March, 2025 was ₹ 280 per packet at which these packets could be sold. Saumya Limited had a firm sales contract with Javin Limited to sell 2,760 packets at ₹ 380 per packet, which cannot be settled net. Estimated incremental selling cost was ₹ 20 per packet.

(iii) Saumya Ltd. bought 100 acres of land on 30th June, 2024 for growing bamboo to be used for paper production. On 1st October, 2024, Saumya Limited purchased 10 dogs for the security of the aforesaid land.

(iv) Saumya Limited acquired software for its internal use costing ₹ 3,20,000. The amount paid for the software was ₹ 1,00,000 immediately and ₹ 2,20,000 in one year's time. It also incurred purchase tax of ₹ 24,000, entry tax of 10% (recoverable later from tax department) and legal fees of ₹ 42,000. The cost of capital of the company is 10%.

(v) Saumya Ltd. obtained a term loan of ₹ 50 lakhs from Wood Cooperative Bank in 2018-2019 and paid 1% as loan processing fees and commitment charges. In May 2024, Saumya Ltd. availed fresh loan of ₹ 30 Lakhs from Iron Cooperative Bank to pay off the old loan taken from Wood Cooperative Bank.

The Company paid ₹ 20,000 as prepayment premium to Wood Cooperative Bank to clear the old term loan and paid 1% as processing fees to Iron Cooperative Bank for the new term loan.

(vi) Saumya Ltd. purchased a building in Chandigarh on 1st September, 2023 for its administrative purposes and disclosed it as Property, Plant and Equipment in the financial statements of 2023-2024. Due to some policy changes of the government, it relocated its office to Delhi in April 2024. On 1st May 2024, Saumya Ltd. leased out the building to Ms. Lessee.

Answer the below questions 1 – 6 based on the information given above in line with the relevant Ind AS:

1. *How much revenue be recognised in the books of Saumya Ltd. for the machinery sold on 1st June, 2024 as per Ind AS 115?*

   (A) ₹ 42,02,230

   (B) ₹ 40,16,838

   (C) ₹ 34,60,660

   (D) ₹ 35,71,896 ***(2 Marks)***

2. *The value of closing inventory of computer paper as on 31st March, 2025 is*

   (A) ₹ 15,76,000

   (B) ₹ 16,76,000

   (C) ₹ 13,00,000

   (D) ₹ 14,00,000 ***(2 Marks)***

3. ***Assertion (I):*** *Purchase of dogs by Saumya Limited will not fall under the scope of Ind AS 41.*

   Reason (II) : *Ind AS 41 applies to agricultural produce at the time of harvest; not prior or subsequent to harvest.*

   (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. ***(2 Marks)***

4. *The cost of the software on initial recognition using the principles of Ind AS 38 is*

   (A) *₹ 4,18,000*

   (B) *₹ 3,86,000*

   (C) *₹ 3,66,000*

   (D) *₹ 3,96,000* **(2 Marks)**

5. *Unamortised processing fees of old loan will be*

   (A) *Added to new loan amount.*

   (B) *Charged to Other Comprehensive Income.*

   (C) *Charged to Statement of Profit and Loss.*

   (D) *Added as transaction cost while calculating effective interest rate for new loan.* **(2 Marks)**

6. ***Assertion (I):*** *Saumya Ltd. should reclassify the leased building from Property, Plant and Equipment to Investment Property in the financial year 2024-2025.*

   Reason (II) : *A change in classification of a building from Property, Plant and Equipment to Investment Property due to a change in purpose for which it is held by the entity is a change in accounting policy.*

   (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.* **(2 Marks)**

Case Scenario - II

Hans Ltd. is engaged in the business of manufacturing of automotive accessories with its registered office in Bhiwadi and is listed on the National Stock Exchange. It also owns a chain of retail stores across 15 different locations in the twin cities of Delhi and Noida. Following are the brief facts about the transactions entered *into by the company for which accounting advice is sought by the Accountant of Hans Ltd. from you:*

(i) As per Company's policy, on 1st April, 2023, Hans Ltd. granted 15,000 share options each to each of its 3,000 key employees. The options are due to vest on 31st March, 2027 provided that the employees remain in employment as at 31st March, 2026. On 1st April, 2023, the directors of Hans Ltd. estimated that 80% of the key employees would satisfy the vesting conditions. However, actual employee turnover was such that this estimate was revised to 82% on 31st March, 2024 and 92% on 31st March, 2025.

On 1st April, 2023 the fair value of each share option was estimated at ₹ 3. The estimate was revised to ₹ 4 on 31st March, 2024 and ₹ 5 on 31st March 2025. Hans Ltd. correctly recognised this transaction in the financial statements for the year ended 31st March, 2024 but, however, the company did not make additional adjustment in the financial statements for the year ended 31st March, 2025.

(ii) On 1st September, 2024, a local statute was passed which necessitated Hans Ltd. to undertake modifications to its automotive accessories to enable reduction of harmful emissions. The modifications should have been completed by 31st January, 2025 at an estimated cost to Hans Ltd. of ₹ 50 lakhs. As a matter of fact, by 31st March, 2025 none of the accessories had been modified although they continued to be used. It is quite likely that Hans Ltd. will be fined ₹ 3 lakhs per month for the illegal use of the accessories. The directors of Hans Ltd. intend to carry out the modifications during the year to be ended on 31st March, 2026. They expect that a penalty will become payable very shortly as legal action has commenced against Hans Ltd.

(iii) On 1st April, 2024, Hans Ltd. issued preference shares for a consideration of ₹ 10 lakhs to an investor. The holder has an option to convert these preference shares to a fixed number of equity shares of Hans Limited anytime upto a period of 3 years. If the option is not exercised by the holder, the preference shares are redeemed at the end of 3 years. The preference shares carry a fixed coupon of 6% per annum which is payable at the end of every year. The prevailing market rate for similar preference shares, without the conversion feature, is 9% per annum.

(iv) On 1st April, 2024, Hans Limited entered into a loan agreement with a bank. The loan is repayable in five equal annual instalments starting from 31st March, 2027. One of the loan covenants is that an amount equivalent to 50% of the loan amount should be contributed by the promoters by 28th February, 2025 failing which the loan becomes payable on demand. In anticipation that the company may not be able to mobilize the promoters' contribution by due date, it approached the bank on 15th January, 2025 and got the compliance date extended up to 31st May, 2025 for getting promoters' contribution.

(v) Hans Limited entered into a transaction to purchase 1,000 grams of silver on 15th January, 2025. The transaction provides for a price payable which is equal to market value of 1,000 grams of silver on 15th April, 2025 and shall be settled by issue of such number of equity shares of Hans Limited as is required to settle the aforementioned transaction, at a price of ₹ 100 per share on 15th April, 2025.

(vi) On 1st May, 2024, Hans Limited acquired 100% of the equity and voting rights of MNO Limited, a subsidiary of a property investment group. It paid ₹ 600 lakhs in cash and issued 1,00,000 Equity Shares of the face value of ₹ 100 each at a fair value of ₹ 185 per share to the selling shareholders of MNO Limited. MNO Limited owns three investment properties. Fair values of the said properties are estimated to be ₹ 700 lakhs. The properties are single tenant industrial warehouses subject to long term leases. The leases oblige MNO Limited to provide basic maintenance and security services, which have been outsourced to third party specialist providers. The administration of MNO Limited's leases was carried out by an executive of its former parent company on a part time basis but the said executive does not transfer to the new owner. The financial statements for the year ended and as on 31st March, 2025 are still under finalization.

Answer the below questions 7 – 12 based on the information given above in line with the relevant Ind AS.

7. What will be the amount of share-based payment to be recognised in Statement of Profit or Loss for the financial year 2024-2025?

(A) ₹ 2,76,75,000

(B) ₹ 6,21,00,000

(C) ₹ 3,44,25,000

(D) ₹ 12,42,00,000 ***(2 Marks)***

8. *What will be the amount of provision of fine for illegal use of automotives accessories, which Hans Ltd. should make as on 31st March, 2025?*

   (A) ₹ 50,00,000

   (B) ₹ 2,00,000

   (C) ₹ 6,00,000

   (D) ₹ 24,00,000 ***(2 Marks)***

9. *What will be the finance cost of convertible loan notes* issued by Hans Ltd., for the year ending 31st March, 2025?*

   (A) ₹ 60,000

   (B) ₹ 55,450 (approx)

   (C) ₹ 83,150 (approx)

   (D) ₹ 90,000 ***(2 Marks)***

10. *How would the loan be classified in the financials of the Company for the year ended on 31st March, 2025?*

    (A) Non-current financial liability

    (B) Other non-current liability

    (C) Current financial liability

    (D) Other current liability ***(2 Marks)***

11. *How would the transaction to purchase silver be classified and measured in the books of Hans Limited as on 31st March, 2025 assuming that the own use assumption does not apply?*

    (A) Derivative financial liability measured at FVTOCI

    (B) Derivative financial liability measured at FVTPL

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* **PS:** Read 'loan notes' as 'preference shares'.

(C) *The contract does not fall within the scope of Ind AS 109*

(D) *Equity measured at fair value on the date of transaction* **(2 Marks)**

12. *How would the acquisition of MNO Limited be accounted for in the books of Hans Limited?*

(A) *As a business combination under Ind AS 103*

(B) *As a purchase of business with goodwill*

(C) *As an asset purchase*

(D) *As a joint arrangement under Ind AS 111* **(2 Marks)**

13. *Albert Ltd. is a multinational company having various subsidiaries and associate companies. Albert Ltd. approached ABCD Bank for loan of ₹ 100 crores to be utilised for business purposes, which will enhance company's profits. To lend ₹ 100 crores, bank required strong projected cash flows. However, the current projected statement of cash flows of Albert Ltd. did not satisfy the bank's criteria for lending, but directors assured the bank that the company is in an excellent financial position and the financial results and cash flow projections will meet the criteria. CA Tarun, senior manager in Albert Ltd., prepared a report showing cash flow projections meeting the bank's criteria under directors' pressure and submitted it to the bank. If CA Tarun refuses to do so, he may lose his job. By knowingly disclosing incorrect information to the bank, which fundamental principles were compromised by CA Tarun?*

(A) *Objectivity & Confidentiality*

(B) *Objectivity & Professional Competence*

(C) *Objectivity, Professional Competence & Integrity*

(D) *Confidentiality, Professional Competence & Integrity* **(2 Marks)**

14. *Mohan Limited had made certain investments in the convertible debt instruments of Rohan Limited. The conversion rights are substantive rights and would provide Mohan Limited with control over Rohan Limited. Mohan Limited has evaluated that Rohan Limited would be treated as its subsidiary under Ind AS and hence, would require consolidation in its Ind AS*

consolidated financial statements. Rohan Limited was not considered as a subsidiary, associate or a joint venture under previous GAAP.

Which of the following statement(s) is / are correct if Rohan Limited is to be consolidated on transition to Ind AS assuming that Mohan Limited has opted to avail the exemption from retrospective restatement of past business combinations?

Statements:

(i) No adjustment is needed as the investments in the convertible debt instruments of Rohan Limited were made before the transition date.

(ii) The Assets and Liabilities of the subsidiary would be included in the Opening Consolidated Financial Statements of Mohan Limited at such values as would appear in the separate financial statements of the subsidiary if it were to adopt the Ind AS at the date of transition of Mohan Limited.

(iii) The subsidiary's financial statements would be prepared as if it was a first-time adopter of Ind AS.

(iv) The business combination should be restated retrospectively in accordance with Ind AS 103.

Options:

(A) Statement (i) is correct.

(B) Statement (ii) is correct.

(C) Statement (ii) and (iii) are correct.

(D) Statement (iv) is correct. ***(2 Marks)***

15. *Zebra Ltd. holds 80% stake of issued equity share capital of Camel Ltd. and 25% of issued irredeemable preference shares. This acquisition was made on 1st October, 2024. Issued equity and preference share capital of Camel Ltd. as on 31st March, 2025 is ₹ 30 crores and ₹ 9 crores respectively; and closing balance of retained earnings as at 31st March, 2025 is ₹ 60 crores. All the book values of assets and liabilities were same as their fair values except for an asset having a life of 6 years as on the date of acquisition of control. The*

carrying amount of the asset was ₹ 6 crores on date of acquisition and its fair value was ₹ 9 crores. The asset is depreciated on SLM basis.

Based on aforesaid information, compute non-controlling interest in Camel Ltd. in the consolidated financial statement of Zebra Ltd. You need to undertake adjustment of depreciation on the asset arising due to its fair valuation.

(A) ₹ 12.75 Crores

(B) ₹ 24.70 Crores

(C) ₹ 24.75 Crores

(D) ₹ 12.70 Crores ***(2 Marks)***

Answer Key

MCQ No.	Correct Option
1.	(D)
2.	(A)
3.	(B)
4.	(C)
5.	(C)
6.	(C)
7.	(C)
8.	(C)
9.	(C)
10.	(A)
11.	(B)
12.	(C)
13.	(C)
14.	(C)
15.	No Correct Option

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

R Limited is a subsidiary of Z Limited. Their respective balance sheet as at 31st March, 2025 is as under:

	Note No.	Z Ltd. (₹ in lakhs)	R Ltd. (₹ in lakhs)
I. Assets			
Non-current assets			
(i) Property, plant and equipment	4	450	248
(ii) Intangible assets	5	75	45
(iii) Investments		375	68
Current assets			
(i) Inventories		75	75
(ii) Financial assets			
a. Trade receivables	6	110	120
b. Cash and cash equivalents		85	135
Total Assets		***1,170***	***691***
II. Equity and Liabilities			
Equity			
(i) Share Capital	1	720	360
(ii) Other Equity	2	315	225
Liabilities			
Current Liabilities			
(i) Financial liabilities			
a. Bank overdraft		45	30
b. Trade payables	3	90	76
Total Equity and Liabilities		***1,170***	***691***

Notes to the Balance Sheet:

Note No.		**Z Ltd. (₹ in Lakhs)**	**R Ltd. (₹ in Lakhs)**
1.	***Share capital:***		
	(i) Equity shares of ₹ 10 each	600	300
	(ii) 10% Preference shares of ₹ 10 each	120	60
		720	360
2.	***Other equity:***		
	(i) General reserve	120	75
	(ii) Retained earnings	195	150
		315	225
3.	***Trade payables:***		
	(i) Sundry creditors	90	69
	(ii) Bills payable	Nil	7
		90	76
4.	***Property, plant and equipment:***		
	(i) Machinery	210	135
	(ii) Furniture and fixture	240	113
		450	248
5.	***Intangible asset:***		
	Goodwill	75	45
6.	***Trade receivables:***		
	(i) Sundry debtors	106	120
	(ii) Bills receivable	4	Nil
		110	120

Additional Information

(a) Z Ltd. acquired 12,00,000 equity shares of R Ltd. on 1st April, 2024 and further acquired 13,50,000 equity shares of R Ltd. on 1st January, 2025 at a cost of ₹ 1,44,00,000 and ₹ 1,55,25,000 respectively.

(b) *The Preference share capital of R Ltd. includes nominal value of ₹ 22,50,000 held by Z Ltd. acquired on 1st April, 2024 at a cost of ₹ 54,00,000.*

(c) *The retained earnings of R Ltd. had a credit balance of ₹ 45,00,000 as on 1st April, 2024 and that of General Reserve on that date was ₹ 30,00,000.*

(d) *R Ltd. had paid dividend @ 12% on its paid-up equity share capital out of its retained earnings' balance on 1st April, 2024 for the year 2023-2024. The entire dividend received by Z Ltd. in August 2024 has been credited to its retained earnings.*

(e) *On 1st October, 2024, machinery of R Ltd. was overvalued by ₹ 15,00,000 for which necessary adjustments are to be made. The Company charges depreciation @ 10% on W.D.V. basis.*

(f) *Bills receivables of Z Ltd. were drawn upon R Ltd. out of which bills amounting to ₹ 3,00,000 have been discounted with bank.*

You are required to prepare consolidated balance sheet (In ₹ without rounding off) of Z Ltd. and its subsidiary R Ltd. as on 31st March, 2025 with the assumption that the group has adopted fair value method to measures NCI and the fair value of each equity share of R Ltd. is ₹ 14 per share as on the date of acquisition of control by Z Ltd. and also on 31st March 2025. Ignore taxation and adjustment, if any, of preference dividend. ***(14 Marks)***

Answer

Consolidated Balance Sheet of Z Ltd. as at 31st March 2025

	Notes No.	**₹**
Assets		
Non-current assets		
(i) Property, plant and equipment	1	6,83,75,000
(ii) Intangible assets	1	75,00,000
(iii) Financial assets		
a. Investments	1	89,75,000
Current assets		
(i) Inventories	1	1,50,00,000

(ii) Financial assets		
a. Trade receivables	1	2,26,00,000
b. Cash and cash equivalents	1	2,20,00,000
Total		14,44,50,000
Equity and Liabilities		
Equity		
(i) Share capital	2	7,20,00,000
(ii) Other equity	3	3,79,96,875
(iii) Non-controlling interest (W.N.3)		1,07,53,125
Current Liabilities		
(i) Financial liabilities		
a. Bank overdraft	1	75,00,000
b. Trade payables	1	1,62,00,000
Total		14,44,50,000

Notes to Accounts

Note 1: Assets and Liabilities

Particulars	**Z Ltd.**	**R Ltd.**	**Adjustments**	**₹**
Property, Plant and Equipment	4,50,00,000	2,48,00,000	-15,00,000 + 75,000	6,83,75,000
Intangible Assets	75,00,000	45,00,000	-45,00,000	75,00,000
Investments	3,75,00,000	68,00,000	-1,44,00,000 - 1,55,25,000 - 54,00,000	89,75,000
Inventories	75,00,000	75,00,000		1,50,00,000
Trade Receivables	1,10,00,000	1,20,00,000	-4,00,000	2,26,00,000
Cash and Cash Equivalents	85,00,000	1,35,00,000		2,20,00,000
Bank Overdraft	45,00,000	30,00,000		75,00,000
Trade Payables	90,00,000	76,00,000	-4,00,000	1,62,00,000

Note 2: Share Capital

	₹
60 lakhs Equity shares of ₹ 10 each, fully paid	6,00,00,000
10%, 12 lakhs Preference Share of ₹ 10 each fully paid	1,20,00,000
	7,20,00,000

Note 3: Consolidated Other Equity

		₹
General Reserve	W.N.1	1,29,56,250
Retained Earnings	W.N.1	2,17,78,125
Capital Reserve	W.N.2	32,62,500
		3,79,96,875

Working Notes:

1. Consolidated Other Equity ₹

Particulars	**General Reserve**	**Retained Earnings**
Standalone - Z Ltd.	1,20,00,000	1,95,00,000
Add: Fair Value gain of existing stake [(12 lakh x 14) – 144 lakhs]		24,00,000
Less: Loss on cancellation of preference shares (54 lakhs - 22.5 lakhs)		(31,50,000)
Add: Share in post-acquisition Profits		
(W.N.4(i))	9,56,250	
(W.N.4(ii))		30,28,125
	1,29,56,250	**2,17,78,125**

2. Computation of bargain purchase i.e. capital reserve

(i) Computation of net worth (net identifiable assets) as on 1st January 2025

	₹
Share Capital	3,00,00,000
Pre-acquisition Retained Earnings (after adjusting downward revaluation of machinery)	1,00,12,500
Pre-acquisition General Reserve	63,75,000
Adjustment for Goodwill since it has no fair value	(45,00,000)
Net worth or Net Identifiable assets	**4,18,87,500**

(ii) Computation of bargain purchase i.e. capital reserve

		₹
Net worth or Net identifiable assets		4,18,87,500
Purchase consideration (155.25 lakhs + 168 lakhs)	3,23,25,000	
NCI [30 lakhs shares x 15% x ₹ 14]	63,00,000	(3,86,25,000)
Bargain purchase (capital reserve)		**32,62,500**

3. Non-Controlling Interest A/c (at Fair Value)

	₹
NCI at fair value as on 1st January 2025	63,00,000
Post-acquisition General Reserve (W.N.4(i))	1,68,750
Post-acquisition Retained Earnings (W.N.4(ii))	5,34,375
Preference share capital (60 lakh – 22.50 lakh)	37,50,000
NCI at fair value as on 31st March 2025	**1,07,53,125**

4. Analysis of Other Equity

(i) General Reserve

		₹
Closing balance as on 31st March 2025		75,00,000
Less: Opening Balance (45.00 - 36.00)	pre	(30,00,000)
Net Profit transferred during the year		45,00,000
For 9 months till 31st December 2024	pre	33,75,000
For 3 months from 1st Jan. 2025 to 31st Mar. 2025	post	11,25,000
Total pre-acquisition reserve (30.00 lakh+33.75 lakh)	pre	63,75,000
Share of Z Ltd. in post-acquisition reserve (85%)	post	9,56,250
Share of NCI in post-acquisition reserve (15%)	post	1,68,750

(ii) Retained Earnings (RE)

			₹
Closing balance as on 31st March, 2025			1,50,00,000
Less: Opening balance	45,00,000		
Less: Dividend @12% (300 lakhx12%)	(36,00,000)	Pre	(9,00,000)
During the year			1,41,00,000
For 9 months till 31st December, 2024		Pre	1,05,75,000
For 3 months from 1st Jan. 2025 to 31st Mar. 2025		Post	35,25,000
Add: Saving in Depreciation for 3 months (from 1st January 2025 to March 2025)			37,500
Net post-acquisition RE		Post	35,62,500
Total pre-acquisition RE (9.00 + 105.75)		Pre	1,14,75,000
Less: Downward revaluation of machinery			(15,00,000)
Add: Saving in depreciation for 3 months (from 1st October 2024 to 31st December 2024)			37,500
		Pre	1,00,12,500
Share of Z Ltd. in post-acquisition RE (85%)		Post	30,28,125
Share of NCI in post-acquisition RE (15%)		Post	5,34,375

Note:

1. At page 4 of the Question Paper under additional information (a) the second acquisition of 13,50,000 equity shares on 1st January 2025 has been done at ₹ 1,55,25,000. This implies that fair value per share is ₹ 11.50 (1,55,25,000/13,50,000). However, in the last para of the question at the same page, the fair value of R Ltd.'s share is mentioned as ₹ 14 per share on the date of acquisition.

   The above solution has been drawn considering fair value of R Ltd.'s share as **₹ 14 per share** for the purpose of computation of gain or loss on existing stake and bargain purchase.

   However, alternatively one can draw a solution considering fair value of R Ltd.'s share as **₹ 11.5 per share** for the purpose of computation of gain or loss on existing stake and bargain purchase only. In such a case, the amount of consolidated retained earnings and bargain purchase i.e. capital reserve will be ₹ 1,87,78,125 and ₹ 62,62,500 respectively.

2. Furthermore, the above solution has been drawn considering goodwill being residuary in nature, has no fair value. However, one may draw a solution considering goodwill as an identifiable asset.

Question 2

(a) On 1st April, 2021, Galaxy Limited issued 15,000, 8% Convertible Debentures with a face value of ₹ 100 each maturing on 31st March, 2026. The debentures are convertible into equity shares of Galaxy Limited at the option of the holder at a conversion price of ₹ 105 per share or are redeemable at face value of ₹ 100 each. Interest is payable annually in cash. At the date of issue, Galaxy Limited could have issued non-convertible debt with a 5 years term bearing a coupon interest rate of 12%. On 1st April, 2024, the convertible debentures have a fair value of ₹ 15,75,000. Galaxy Limited made a tender offer to debenture holders to repurchase the debentures for ₹ 15,75,000, which the holders accepted. At the date of repurchase, Galaxy Limited could have issued non-convertible debt with a 2 years term bearing a coupon interest rate of 9%.

You are required to:

(i) Provide the appropriate accounting entries for initial recognition as per the relevant Ind AS in the books of Galaxy Limited.

(ii) *Calculate the stream of Interest Expenses across the five years of the term of the Debentures. (Rounding off adjustment, if any, be made in the interest calculation of financial year 2025-2026).*

(iii) *Provide the accounting entries at the time of repurchase of the convertible debentures.*

The following present values of ₹ 1 at 8%, 9%, and 12% are supplied to you:

Interest Rate	Year 1	Year 2	Year 3	Year 4	Year 5
8%	0.926	0.857	0.794	0.735	0.681
9%	0.917	0.842	0.772	0.708	0.650
12%	0.893	0.797	0.712	0.636	0.567

(10 Marks)

(b) *Modern Limited, whose functional currency is Indian Rupee, had a balance of cash and cash equivalents of ₹ 5,00,000, but there are no other assets or liabilities in its financial statements as on 1st April, 2024. During the year 2024-2025, the company has entered into the following foreign currency transactions:*

(i) *It purchased goods for resale from Spain for Euro 1,00,000 when the exchange rate was 1 Euro = ₹ 77. This balance is still unpaid at 31st March, 2025 when the exchange rate was 1 Euro = ₹ 72. An exchange gain of ₹ 5,00,000 on the retranslation of Trade Payables is recorded in the Statement of Profit and Loss.*

(ii) *It sold the goods to an American client for US $ 1,00,000 when the exchange rate was 1 US $ = ₹ 82. This amount was settled when the exchange rate was 1 US $= ₹ 85. The exchange gain regarding the Trade Receivable is recorded in the Statement of Profit and Loss.*

(iii) *Modern Limited also borrowed Euro 1,00,000 under a long-term loan agreement when the exchange rate was 1 Euro = ₹ 75 and immediately converted it into ₹ 75,00,000. The loan was retranslated at 31st March, 2025 at ₹ 72, with an exchange gain recorded in the Statement of Profit and Loss. The loan is still payable.*

Modern Limited, therefore, records a cumulative exchange gain of ₹ 11,00,000 (5,00,000 + 3,00,000 + 3,00,000) in arriving at its profit for the year. Besides it also records a trading profit of ₹ 5,00,000 (₹ 82,00,000 - ₹ 77,00,000) on the sale of goods.

How would the cash flows arising from the above transactions be reported in the Statement of Cash flows of Modern Limited prepared under Indirect Method as per applicable Ind AS? Ignore taxation. ***(4 Marks)***

Answer

(a) (i) At the time of initial recognition

	₹
Liability component	
Present value of 5 yearly interest payments of ₹ 1,20,000, discounted at 12% annuity (1,20,000 x 3.605)	4,32,600
Present value of ₹ 15,00,000 due at the end of 5 years, discounted at 12%, compounded yearly (15,00,000 x 0.567)	8,50,500
	12,83,100
Equity component	
(₹ 15,00,000 – ₹ 12,83,100)	2,16,900
Total proceeds	15,00,000

Note: Since ₹ 105 is the conversion price of debentures into equity shares and not the redemption price, the liability component is calculated @ ₹ 100 each only.

Journal Entry

	₹	₹
Bank Dr.	15,00,000	
To 8% Debentures (Liability component)		12,83,100
To 8% Debentures (Equity component)		2,16,900
(Being debentures initially recorded at fair value)		

(ii) Calculation of stream of interest expenses during the term of Debentures

	Opening Balance	Finance cost @ 12%	Interest 8%	Closing Balance
1	12,83,100	1,53,972	1,20,000	13,17,072
2	13,17,072	1,58,049	1,20,000	13,55,121
3	13,55,121	1,62,615	1,20,000	13,97,736
4	13,97,736	1,67,728	1,20,000	14,45,464
5	14,45,464	1,74,536*	1,20,000	15,00,000

* Difference of ₹ 1,080 (1,74,536 – 1,73,456) in the finance cost is due to rounding off and approximation to the nearest absolute figure

(iii) At the time of repurchase of convertible debentures

The repurchase price is allocated as follows:

	Carrying Value @ 12%	Fair Value @ 9%	Difference
	₹	₹	₹
Liability component			
Present value of 2 remaining yearly interest payments discounted at 12% and 9%, respectively.			
[₹ 1,20,000 x (0.893 + 0.797)]	2,02,800		
[1,20,000 x (0.917 + 0.842)]		2,11,080	
Present value of ₹ 15,00,000 due in 2 years, discounted at 12% and 9%, compounded yearly, respectively			
(15,00,000 x (0.797)	11,95,500		
(15,00,000 x (0.842)		12,63,000	
Liability component	13,98,300	14,74,080	(75,780)
Equity component	2,16,900	1,00,920	1,15,980
Total	16,15,200	15,75,000	40,200

**See Note (i)*

***₹ 15,75,000 –₹ 14,74,080 = ₹ 1,00,920*

Journal Entries

	₹	₹
8% Debentures (Liability component) Dr.	13,98,300	
Profit and loss A/c (Debt settlement expense) Dr.	75,780	
To Bank A/c		14,74,080
(Being the repurchase of the liability component recognised)		
8% Debentures (Equity component) Dr.	2,16,900	
To Bank A/c		1,00,920
To Retained Earnings/Reserves and Surplus A/c		1,15,980
(Being the cash paid for the equity component recognised)		

Note: Alternatively, one may adjust the liability component of debentures taking the closing balance as per amortization table and pass the following journal entry:

	₹	₹
8% Debentures (Liability component) Dr.	13,97,736	
Profit and loss A/c (Debt settlement expense) Dr.	76,344	
To Bank A/c		14,74,080
(Being the repurchase of the liability component recognised)		

Loss on Debt Settlement = ₹ 14,74,080 – ₹ 13,97,736 = ₹ 76,344.

(b) An exchange gain on retranslation of the trade payable of ₹ 5,00,000 is recorded in profit or loss [€ 1,00,000 x (77 – 72) = ₹ 5,00,000].

A further exchange gain of ₹ 3,00,000 regarding the trade receivable is recorded in the statement of profit or loss [$ 1,00,000 x (85 – 82) = ₹ 3,00,000].

The loan was retranslated at 31st March 2025 @ ₹ 72 = ₹ 72,00,000, with a further exchange gain of ₹ 3,00,000 recorded in the statement of profit or loss.

Statement of Cash Flows

Particulars	**₹**
Cash flows from operating activities (Indirect method)	
Profit before taxation (5,00,000 + 11,00,000)	16,00,000
Adjustment for unrealised exchange gains / losses:	
Foreign exchange gain on long term loan	(3,00,000)
Foreign Exchange gain on trade payables	(5,00,000)
Operating cash flow before working capital changes	8,00,000
Changes in working capital (Due to increase in trade payables)	77,00,000
Net cash inflow from operating activities	85,00,000
Cash inflow from financing activity	75,00,000
Net increase in cash and cash equivalents	1,60,00,000
Cash and cash equivalents at the beginning of the period	5,00,000
Cash and cash equivalents at the end of the period (Refer W.N.)	1,65,00,000

Working Note:

Closing Cash and Cash Equivalents

Particulars	**₹**
Opening balance of cash and cash equivalents	5,00,000
Add: Received from settlement of Trade Receivables	85,00,000
Add: Received from conversion of loan	75,00,000
	1,65,00,000

Note: One may show changes in working capital net of foreign exchange gain of ₹ 72,00,000.

Question 3

(a) *XYZ Ltd. operates a defined retirement benefits plan on behalf of current and former employees. XYZ Ltd. receives advice from actuaries regarding contribution levels and overall liabilities of the plan to pay benefits. On 1st April, 2024, the actuaries advised that the present value of the defined benefit obligation was ₹ 90 lakhs. On the same day, the fair value of the assets of the defined benefit plan was ₹ 78 lakhs. On 1st April, 2024, the annual market yield on high quality corporate bonds* was 6%. During the year ended 31st March, 2025, XYZ Ltd. made contributions of ₹ 10,50,000 into the plan and the plan paid out benefits of ₹ 6,30,000 to retired members. Assume that both these payments were made on 31st March, 2025. The actuaries advised that the current service cost for the year ended 31st March, 2025 was ₹ 9,30,000.*

On 28th February, 2025, the rules of the plan were amended with retrospective effect. These amendments meant that the present value of defined benefit obligation was increased by ₹ 2,25,000 from that date. During the year ended 31st March, 2025, XYZ Ltd. was in negotiation with employees' representatives regarding redundancies. The negotiations were completed shortly before the year and the redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by ₹ 12,00,000. Before 31st March, 2025, XYZ Ltd. made payments of ₹ 11,25,000 to the employees affected by the redundancies in compensation for the curtailment of their benefits. These payments were made out of the assets of the retirement benefits plan. On 31st March, 2025, the actuaries advised that the present value of the defined benefit obligation was ₹ 1,02,00,000. On the same day, the fair value of the assets of the defined benefit plan were ₹ 84,00,000.

You are required to suggest the accounting treatment of the above under the provisions of relevant Ind AS. Please note that the finance cost is to be computed on the opening balance. ***(8 Marks)***

* **PS:** Read 'annual market yield on high quality corporate bonds' as 'market yields on government bonds'.

(b) *On 31st March, 2024, Vanshika Ltd. granted options to its employees that gave them right to subscribe for equity shares in next 3 years at ₹ 112 per share. It also issued 2 lakhs warrants convertible into shares at ₹ 84.*

As on 31st March, 2025:

Options outstanding	*1,40,000*
Profit after Tax, attributable to equity shareholders	*₹ 91,20,000*
Average market price of equity shares	*₹ 140*
Issued Equity share capital (Face value ₹ 10 each)	*₹ 50,00,000*

There were no grants, exercises or lapses of options during the year. Also, none of the warrants was converted into shares during the year.

You are required to calculate Basic and Diluted EPS as at 31st March, 2025.

(6 Marks)

Answer

(a) On 31st March 2025, XYZ Ltd. will report a net pension liability in the Balance sheet. The amount of the liability will be ₹ 18,00,000 (₹ 1,02,00,000 – ₹ 84,00,000).

For the year ended 31st March 2025, XYZ Ltd. will report the current service cost as an operating cost in the statement of profit and loss. The amount reported will be ₹ 9,30,000. The same treatment applies to the past service cost of ₹ 2,25,000.

For the year ended 31st March 2025, XYZ Ltd. will report a finance cost in profit or loss based on the net pension liability at the start of the year of ₹ 12,00,000 (₹ 90,00,000 – ₹ 78,00,000). The amount of the finance cost will be ₹ 72,000 (₹ 12,00,000 x 6%).

The redundancy programme represents the partial settlement of the curtailment of a defined benefit obligation. The gain on settlement of ₹ 75,000 (₹ 12,00,000 – ₹ 11,25,000) will be reported in the statement of profit and loss.

Other movements in the net pension liability will be reported as remeasurement gains or losses in other comprehensive income.

For the year ended 31st March 2025, the remeasurement loss will be ₹ 4,98,000 (Refer W. N.).

Working Note:

Remeasurement of gain or loss

	₹
Liability at the start of the year (₹ 90,00,000 – ₹ 78,00,000)	12,00,000
Current service cost	9,30,000
Past service cost	2,25,000
Net finance cost	72,000
Gain on settlement	(75,000)
Contributions to plan	(10,50,000)
Remeasurement loss (balancing figure)	4,98,000
Liability at the end of the year (₹ 1,02,00,000 – ₹ 84,00,000)	18,00,000

In the Statement of Profit and loss, the following will be recognised:

	₹
Current service cost	9,30,000
Finance Cost (Net interest) on net defined liability [(₹ 90,00,000 – ₹ 78,00,000) x 6%]	72,000
Past Service Cost	2,25,000
Gain on Settlement	(75,000)

Defined benefit re-measurements recognised in Other Comprehensive Income:	₹
Loss on defined benefit obligation	(4,98,000)

In the Balance sheet, the following will be recognised:	₹
Defined benefit liability (₹ 1,02,00,000 – ₹ 84,00,000)	18,00,000

Note:

Alternatively, one may work out remeasurement gain/loss by making statement or ledger account of defined benefit obligation and plan assets as follows:

Statement to Calculate Actuarial Gain or Loss on Defined Benefit Liability and Plan Assets

	Plan Assets	Defined Benefit obligation
	₹	₹
Fair Value/Present Value as on 1st April, 2024	78,00,000	90,00,000
Interest @ 6%	4,68,000	5,40,000
Current Service Cost		9,30,000
Past Service Cost		2,25,000
Redundancy benefit	(11,25,000)	(12,00,000)
Contribution received	10,50,000	
Contribution paid	(6,30,000)	(6,30,000)
Return on Plan Assets (Balancing Figure)	8,37,000	
Actuarial loss (Balancing Figure)		13,35,000
Closing Balance as on 31st March, 2025	84,00,000	1,02,00,000

(b) Calculation of Basic Earnings Per Share (EPS)

	2024-2025
Profit after tax	₹ 91,20,000
Number of shares (₹ 50,00,000 / ₹ 10 per share)	5,00,000
Basic EPS	₹ 18.24

Calculation of Diluted EPS

(i) Adjusted number of shares	
a. Number of shares under options:	
Issued at full market price [(1,40,000 × 112) /140] = 1,12,000	
Options issued at nil consideration (dilutive) (1,40,000 – 1,12,000)	28,000

b. Number of shares under warrants:	
Issued at full market price	
[(2,00,000 × 84) / 140] = 1,20,000	
Warrants issued at nil consideration (dilutive)	
(2,00,000 – 1,20,000)	80,000
Number of dilutive shares under options and warrants	1,08,000
(ii) Calculation of Diluted EPS:	
Number of equity shares for basic EPS	5,00,000
Number of dilutive shares under options and warrants	1,08,000
Adjusted number of shares (A)	6,08,000
Profit after tax (B)	₹ 91,20,000
Diluted EPS (B/A)	₹ 15

Question 4

(a) R Limited commenced the construction of a factory building on 1st January, 2023. The construction process is expected to take about 18 months from 1st January, 2023 to 30th June, 2024. The factory building meets the definition of a qualifying asset. R Limited has incurred the following expenditure for the construction:

Date	*Amount (₹ in lakhs)*
1st January, 2023	*10*
30th June, 2023	*40*
31st March, 2024	*30*
30th June, 2024	*20*

On 1st July, 2023, R Limited obtained a term loan of ₹ 100 lakhs from a nationalized bank at an interest rate of 12% per annum. The proceeds from the loan form a part of the company's general borrowings, which it uses to finance the construction of the factory building. R Limited had no borrowings (general or specific) before 1st July, 2023 and did not incur any borrowing costs before that date. R Limited incurred ₹ 50 lakhs of construction costs *before obtaining general borrowings on 1st July, 2023 and ₹ 50 lakhs after obtaining the general borrowings.*

You are required to calculate the borrowing costs that R Limited is permitted to capitalize as a part of the building cost for each of the financial years ended 31st March, 2023, 31st March, 2024 and 31st March, 2025. ***(6 Marks)***

(b) *Drape Ltd. took a long-term loan of USD 30,000 from an entity registered in U.S.A. on 1st April, 2024. Interest of USD 2,400 is payable annually on 31st March, starting from 31st March, 2025. The loan is repayable in USD on 31st March, 2030 and the effective annual interest rate implicit in the loan is 11%. The appropriate measurement basis for this loan is amortised cost. Relevant exchange rates are as follows:*

- *1st April, 2024-USD 1 = ₹ 74.*
- *31st March, 2025-USD 1 = ₹ 78.*
- *Average rate for the year ended 31st March, 2025 - USD 1 = ₹ 72.*

The functional currency of the group is Indian Rupee.

Calculate (a) the initial measurement amount for the loan, (b) finance cost for the year 2024-2025, (c) closing balance of loan as at 31st March 2025 and (d) exchange gain / loss for the year 2024-2025. ***(8 Marks)***

Answer

(a) All figures are ₹ in lakhs.

Calculation of borrowing cost for financial year 2022-2023

Expenditure		**Capitalization Period (current year)**	**Weighted average Accumulated Expenditure**
Date	Amount		
1st January 2023	₹ 10 Lakhs	0/3	Nil

Borrowing Costs eligible for capitalisation for financial year 2022-2023 = NIL. R Ltd. cannot capitalise borrowing costs before 1st July 2023 (the day it starts to incur borrowing costs).

Calculation of borrowing cost for financial year 2023-2024

Date	Expenditure amount	Capitalization period (current year)	Weighted average accumulated expenditure
1st January 2023	₹ 10 Lakhs	9/12	7.50
30th June 2023	₹ 40 Lakhs	9/12	30.00
31st March 2024	₹ 30 Lakhs	0/12	Nil
Total			**37.50**

Borrowing Costs eligible for capitalisation for financial year 2023-2024

= 37.50 x 12% = ₹ 4.50 Lakh

Cost of the Qualifying asset till date i.e. 31st March 2024

= ₹ 10 Lakhs + ₹ 40 Lakhs + ₹ 30 Lakhs + ₹ 4.50 Lakhs = ₹ 84.50 Lakhs

Calculation of borrowing cost for financial year 2024-2025

Expenditure		Capitalization Period (current year)	Weighted average Accumulated Expenditure
Date	**Amount**		
1st January, 2023	₹ 10 Lakhs	3/12	₹ 2.5 Lakhs
30th June, 2023	₹ 40 Lakhs	3/12	₹ 10 Lakhs
31st March, 2024	₹ 30 Lakhs	3/12	₹ 7.5 Lakhs
31st March, 2024	₹ 4.50 Lakhs	3/12	1.125 Lakhs
30th June, 2024	₹ 20 Lakhs	0/12	NIL
Total			**₹ 21.125 Lakhs**

Borrowing costs eligible for capitalisation = ₹ 21.125 lakh x 12%

= ₹ 2.535 lakh

Note:

Alternatively, one may present the calculation of borrowing cost to be capitalised for the financial year 2024-2025 as follows:

Cost as on 1st April 2024 = [(₹ 84.50 Lakhs x 3/12) + (₹ 20 Lakhs x 0/12)]

= 21.125 Lakhs

(b) (i) Initial carrying amount of loan in books

Loan amount received = USD 30,000

Present value of loan

Cash flow of interest USD 30,000 x 8% = 2,400 for 6 years.

PV of cash flow of interest USD 2,400 x 4.2305 = 10,153.20

PV of Repayment of loan USD 30,000 x 0.5346 = 16,038.00

Total 26,191.20

When effective interest rate is different from the contractual rate, it results into transaction cost due to which the initial present value of the loan is different from the transaction price. Accordingly, here difference of USD 3,808.80 (USD 30,000 – USD 26,191.20) will be recorded as transaction cost.

As per Ind AS 21, foreign currency transactions are initially recorded at the rate of exchange in force when the transaction was first recognized.

Loan to be converted in Rupees (₹) = USD 26,191.20 x ₹ 74/ USD = ₹ 19,38,149

Therefore, the loan would initially be recorded at ₹ 19,38,149.

(ii) Calculation of Finance Cost for the year 2024-2025

The finance cost = USD 26,191.20 x 11% = USD 2,881

The finance cost would be recorded at an average rate for the period since it accrues over a period of time. Hence, the finance cost for financial year 2024-2025 in Rupees (₹) is ₹ 2,07,432 (USD 2,881 x ₹ 72/USD)

The actual payment of interest would be recorded at USD 2,400 x ₹ 78/ USD = ₹ 1,87,200

(iii) Calculation of closing balance of loan as at 31st March 2025

Period	Opening Financial Liability (USD) A	Interest @ 11% EIR (USD) B	Cash outflow (USD) C	Closing balance of loan (USD) A+B-C
2024-2025	26,191.20	2,881	2,400	26,672.20

(iv) Computation of Exchange Gain/Loss for the year 2024-2025

The loan balance is a monetary item, so it is translated at the rate of exchange at the reporting date.

So, the closing loan balance in Rupees (₹) is USD 26,672.20 x ₹ 78/USD

= ₹ 20,80,432

In this case, the exchange difference is ₹ [20,80,432 - (19,38,149 + 2,07,432 – 1,87,200)] = ₹ 1,22,051.

This exchange loss of ₹ 1,22,051 is taken to profit and loss account.

Note:

Effective interest rate is more than the contractual rate of interest in general when an entity incurs any transaction cost or repayment of loan is not at par value. Since in the question, there is no transaction cost or no repayment information different from par value, effective interest rate should have been equivalent to contractual interest rate.

The above solution has been drawn considering Effective Interest Rate of 11%, leading to calculation of initial recognition of loan amount on the date of acquisition of loan and difference being treated as transaction cost.

However, alternatively one may draw the solution considering Effective Interest Rate of 11% (as given) only for calculation of finance cost without change in the initial recognition of loan amount on the date of acquisition of loan or considering interest rate of 8%.

In both the case the solutions will be drawn as follows:

Alternative: Considering Effective Interest Rate of 11% (as given) only for calculation of finance cost without change in the initial recognition of loan amount on the date of acquisition of loan

(i) Initial carrying amount of loan in books

Loan amount received = USD 30,000

As per Ind AS 21, foreign currency transactions are initially recorded at the rate of exchange in force when the transaction was first recognized.

Loan to be converted in Rupees (₹) = USD 30,000 x ₹ 74 / USD = ₹ 22,20,000

Therefore, the loan would initially be recorded at ₹ 22,20,000.

(ii) Calculation of Finance Cost for the year 2024-2025

The finance cost = USD 30,000 x 11% = USD 3,300

The finance cost would be recorded at an average rate for the period since it accrues over a period of time. Hence, the finance cost for financial year 2024-2025 in Rupees (₹) is ₹ 2,37,600 (USD 3,300 x ₹ 72 / USD)

The actual payment of interest would be recorded at USD 2,400 x ₹ 78/ USD = ₹ 1,87,200

(iii) Calculation of closing balance of loan as at 31st March, 2025

Period	Opening Financial Liability (USD) A	Interest @ 11% EIR (USD) B	Cash outflow (USD) C	Closing balance of loan (USD) A+B-C
2024-2025	30,000	3,300	2,400	30,900

(iv) Computation of Exchange Gain/Loss for the year 2024-2025

The loan balance is a monetary item, so it is translated at the rate of exchange at the reporting date.

So, the closing loan balance in Rupees (₹) is USD 30,900 x ₹ 78 / USD = ₹ 24,10,200

In this case, the exchange difference is ₹ [24,10,200 - (22,20,000 + 2,37,600 – 1,87,200)] = ₹ 1,39,800

This exchange loss of ₹ 1,39,800 is taken to profit and loss account.

Alternative: Considering Interest rate of 8% (as computed)

(i) Initial carrying amount of loan in books

Loan amount received = USD 30,000

As per Ind AS 21, foreign currency transactions are initially recorded at the rate of exchange in force when the transaction was first recognized.

Loan to be converted in Rupees (₹) = USD 30,000 x ₹ 74 USD = ₹ 22,20,000

Therefore, the loan would initially be recorded at ₹ 22,20,000.

(ii) Calculation of Finance Cost for the year 2024-2025

The finance cost = USD 2,400 as given in the question

The finance cost would be recorded at an average rate for the period since it accrues over a period of time. Hence, the finance cost for financial year 2024-2025 in Rupees (₹) is ₹ 1,72,800 (USD 2,400 x ₹ 72/ USD)

The actual payment of interest would be recorded at USD 2,400 x ₹ 78/ USD = ₹ 1,87,200

(iii) Calculation of closing balance of loan as at 31st March, 2025

Period	Opening Financial Liability (USD) A	Interest @ 8% (USD) B	Interest paid	Closing Financial Liability (USD) A+B-C
2024-2025	30,000	2,400	2,400	30,000

(iv) Computation of Exchange Gain/Loss for the year 2024-2025

The loan balance is a monetary item, so it is translated at the rate of exchange at the reporting date.

So, the closing loan balance in Rupees (₹) is USD 30,000 x ₹ 78/USD = ₹ 23,40,000

In this case, the exchange difference is ₹ [23,40,000 – (22,20,000 + 1,72,800-1,87,200)] = ₹ 1,34,400

This exchange loss of ₹ 1,34,400 is taken to profit and loss.

Question 5

(a) *On 1st April, 2023, Shivank Limited entered into a contract with Amey Limited to build an asset for consideration of ₹ 1,20,00,000 with a bonus of ₹ 35,00,000 if the asset is completed within 30 months. At the inception of the contract, Shivank Limited correctly accounted for the promised bundle of goods and services as a single performance obligation in accordance with Ind AS 115 and expected the costs to be ₹ 71,00,000. At the same time, it was concluded that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will occur. Completion of the asset was highly susceptible to factors outside of the Company's influence, mainly due to difficulties with the supply of components.*

At 31st March, 2024, Shivank Limited had satisfied 60% of its performance obligation on the basis of costs incurred to date and concluded that the variable consideration was still constrained in accordance with Ind AS 115. However, on 30th April, 2024, the contract was modified with the result that the fixed consideration and expected costs increased by ₹ 15,50,000 and ₹ 7,60,000 respectively. The time allowable for achieving the bonus was extended by four months with the result that Shivank Limited concluded that it is highly probable that the bonus will be achieved and that the contract remained a single performance obligation.

You are required to give your opinion on the accounting treatment of contract for the years 2023-2024 and 2024-2025 with reference to the provisions of Ind AS 115. ***(5 Marks)***

(b) *Bee Kay Limited has voluntarily opted to adopt Indian Accounting Standards (Ind AS) from 1st April, 2025 in accordance with the Companies (Indian Accounting Standards) Rules, 2015.*

The management has identified the following issues and has sought your guidance so that the Opening Ind AS Balance Sheet as on the date of transition can be prepared:

(i) Property, Plant and Equipment (PPE) comprise land held for capital appreciation purposes costing ₹ 15,00,000 and qualifies to be treated as Investment Property as per Ind AS. Besides Exchange differences of ₹ 1,50,000 were capitalized to depreciable PPE on which accumulated depreciation of ₹ 37,500 was recognized. The management intends to avail deemed cost exemption for using the previous GAAP carrying values as deemed cost at the date of transition.

(ii) Bee Kay Limited had acquired 70% shares of X Private Limited a few years ago thereby acquiring the control upon it at that time. It recognized a goodwill of ₹ 1,25,000 as per the erstwhile Accounting Standard by accounting the excess of consideration paid over the net assets acquired at the date of acquisition. Fair value exercise was not done at the time of acquisition.

(iii) Company had given a loan of ₹ 10,00,000 at an interest rate of 7% per annum to an entity six years ago. Transaction costs were incurred separately for this loan. The loan is repayable in 10 equal instalments over the period of ten years along with accrued interest at the close of each year. The fair value of the loan as on the date of transition is ₹ 5,00,000 against the carrying amount of ₹ 4,00,000. The management says that it is a tedious task to compute the value of the loan by applying the effective interest rate method and has expressed its reluctance in doing so.

You are required to state necessary explanation for each of the items presented by the management of Bee Kay Limited in the form of notes, which may or may not require the adjustment on the date of transition. ***(5 Marks)***

(c) ***EITHER***

As per the statutory requirements, exceptional items are required to be disclosed whereas Ind AS requires separate disclosure of material items and how these are to be presented in financial statements. Does that imply that "exceptional" means "material"? How should these exceptional/material items be presented in the financial statements? Give four examples of exceptional items. ***(4 Marks)***

OR

Define Equity, Income and Expenses as per 'Conceptual Framework' to Ind AS. How the information with respect to income and expenses helps the users in understanding of the financial statements? ***(4 Marks)***

Answer

(a) For the year 2023-2024

Shivank Limited accounts for the promised bundle of goods and services as a single performance obligation satisfied over time in accordance with Ind AS 115. At the inception of the contract, Shivank Limited expects the following:

Transaction price	–	₹ 1,20,00,000
Expected costs	–	(₹ 71,00,000)
Expected profit (40.83%)	–	₹ 49,00,000

At contract inception, Shivank Limited excludes ₹ 35,00,000 bonus from the transaction price because it has been concluded that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will occur. Completion of the construction of asset is highly susceptible to factors outside the entity's influence.

By the end of the first year, the entity has satisfied 60% of its performance obligation on the basis of costs incurred to date. Costs incurred to date are therefore ₹ 42,60,000 and Shivank Limited reassesses the variable consideration and concludes that the amount is still constrained. Therefore at 31^{st} March 2024, the following would be recognised:

Revenue	(A)	– ₹ 72,00,000	(₹ 1,20,00,000 x 60%)
Costs	(B)	– (₹ 42,60,000)	(₹ 71,00,000 x 60%)
Gross profit	(C) i.e.(A-B)	– ₹ 29,40,000	

For the year 2024-2025

On 30^{th} April 2024, the contract was modified. As a result, the fixed consideration and expected costs increase by ₹ 15,50,000 and ₹ 7,60,000, respectively.

The total potential consideration after the modification is ₹ 1,70,50,000 [which is ₹ 1,35,50,000 (i.e. 1,20,00,000 + 15,50,000) fixed consideration + ₹ 35,00,000 completion bonus]. In addition, the allowable time for achieving the bonus is extended by four months with the result that Shivank Limited concludes that it is highly probable that including the bonus in the transaction price will not result in a significant reversal in the amount of cumulative revenue recognised in accordance with Ind AS 115. Therefore, the bonus of ₹ 35,00,000 can be included in the transaction price.

Shivank Limited also concludes that the contract remains a single performance obligation. Thus, Shivank Limited accounts for the contract modification as if it were part of the original contract. Therefore, Shivank Limited updates its estimates of costs and revenue as follows:

Shivank Limited has satisfied 54.20% of its performance obligation (₹ 42,60,000 actual costs incurred compared to ₹ 78,60,000 total expected costs). The entity recognises additional revenue of ₹ 20,41,100 [(54.20% of ₹ 1,70,50,000) – ₹ 72,00,000 revenue recognised to date] at the date of modification i.e. on 30th April 2024 as a cumulative catch-up adjustment.

(b) (i) Property, Plant & Equipment: Since the land held for capital appreciation purposes qualifies as investment property, such investment property should be reclassified from property, plant and equipment (PPE) to investment property and presented separately. As the Company has adopted the previous GAAP carrying values as deemed cost, all items of PPE and investment property should be carried at its previous GAAP carrying values of ₹ 15,00,000. As such, the past capitalised exchange differences require no adjustment in this case.

(ii) Goodwill: Ind AS 103 mandatorily requires measuring the assets and liabilities of the acquiree at its fair value as on the date of acquisition. However, a first-time adopter may elect not to apply the provisions of Ind AS 103 with retrospective effect that occurred prior to the date of transition to Ind AS. Hence, company can continue to carry the goodwill in its books of account as per the previous GAAP.

(iii) Loan: Para B8C of Ind AS 101 states that if it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind AS. Accordingly, ₹ 5,00,000 would be the gross carrying amount of loan and difference of ₹ 1,00,000 (₹ 5,00,000 – ₹ 4,00,000) would be adjusted to retained earnings.

(c) **EITHER**

Exceptional items is neither defined in Division II Schedule III nor in Ind AS. However, paragraph 85, 86, 97 and 98 of Ind AS 1 has reference to such items.

Para 85 of Ind AS 1 states that additional line items, headings and subtotals in the statement of profit and loss shall be presented, when such presentation is relevant to an understanding of the entity's financial performance.

Further, para 86 of Ind AS 1 states that disclosing the components of financial performance assists users in understanding the financial performance achieved and in making projections of future financial performance. An entity considers factors including materiality and the nature and function of the items of income and expense.

Para 97 of Ind AS 1 states that when items of income or expense are material, an entity shall disclose their nature and amount separately.

As per Ind AS 1, materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

The format of Statement of Profit and Loss requires determination of profit(loss) before exceptional items and tax and thereafter exceptional items are required to be shown.

Hence, all material items are not exceptional items. In other words, exceptional items are those items which meet the test of 'materiality' (size and nature) and the test of 'incidence'.

Generally, items of income or expense fulfilling the above-mentioned criteria are classified as exceptional items and are disclosed separately.

Para 98 of Ind AS states that circumstances that would give rise to the separate disclosure of items of income and expense includes:

(a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;

(b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) disposals of items of property, plant and equipment;

(d) disposals of investments;

(e) discontinued operations;

(f) litigation settlements; and

(g) other reversals of provisions

Note: Students may answer any of the four examples out of the seven examples stated above or can provide any other valid example not covered in the above list.

(c) **OR**

Definition of Equity

Equity claims are claims on the residual interest in the assets of the entity after deducting all its liabilities. In other words, they are claims against the entity that do not meet the definition of a liability.

Definition of Income

Income is increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims.

Definition of Expenses

Expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims. However, contributions from holders of equity claims are not income, and distributions to holders of equity claims are not expenses.

How information with respect to income and expenses helps the users in understanding the financial statements?

Income and expenses are the elements of financial statements that relate to an entity's financial performance. Users of financial statements need information about both an entity's financial position and its financial performance. Hence, although income and expenses are defined in terms of changes in assets and liabilities, information about income and expenses is just as important as information about assets and liabilities.

Providing information separately about income and expenses with different characteristics can help users of financial statements to understand the entity's financial performance.

Question 6

(a) Which specific Computer Technology can be used in under-mentioned scenarios to reduce burden and streamline the process? Give reasons in support of your answer.

(i) Koyal Ltd. has 8 subsidiaries including 2 foreign subsidiaries and 2 foreign associate companies, each maintaining their own financial data independently. Koyal Ltd. prepares consolidated financial statements in accordance with Ind AS 110 every year. This whole process needs to be accurate, consistent and completed in time, but Koyal Ltd. is struggling for the same.

(ii) Doham Ltd. is a financial institution which deals with high-profile people and Mr. Salil, who works for Doham Ltd. handles sensitive customer data, such as personal information and transaction records. He is under stress all the time and needs support. ***(5 Marks)***

(b) Nancy Ltd. owns various machines including a machine used in the manufacture of air conditioners. The performance of this machine deteriorated significantly in last few months. This machine is expected to work for next five years after 31st March, 2025 at a reduced level and after that it will be scrapped. The cash flow projections for the machine for the next five years are as follows:

Year	*2025-2026*	*2026-2027*	*2027-2028*	*2028-2029*	*2029-2030*
Amount in ₹	*24,70,000*	*18,60,000*	*16,30,000*	*10,10,000*	*8,50,000*

Additional Information

(i) The above cash inflows should be assumed to occur on the last day of each financial year.

(ii) The pre-tax discount rate is 10%. Present value factor of ₹ 1 at 10% is as under:

2025-2026	*2026-2027*	*2027-2028*	*2028-2029*	*2029-2030*
0.909	*0.826*	*0.751*	*0.683*	*0.621*

(iii) The machine could have been sold at 31st March, 2025 for ₹ 60,00,000 and related selling expenses in this regard could have been ₹ 11,50,000.

(iv) The machine had been revalued previously, and at 31st March, 2025 an amount of ₹ 3,80,000 was held in revaluation surplus in respect of this machine.

(v) The carrying value of the machine at 31st March, 2025 was ₹ 68,20,000.

You are required to calculate impairment loss for the year 2024-2025, if any and revised depreciation of the machine for subsequent years. The machine is depreciated on SLM basis. ***(5 Marks)***

(c) While preparing the financial statements for the year ended 31st March, 2025, Gama Ltd. observed two issues in the previous year Ind AS financial statements (i.e. 31st March, 2024) which are as follows:

Issue 1:

The company had presented certain material liabilities as non-current in its financial statements as on 31st March, 2024. While preparing annual financial statements for the year ended 31st March, 2025, management discovers that these liabilities should have been classified as current. The management intends to restate the comparative amounts for the prior period i.e. as at 31st March, 2024.

Issue 2:

The company had charged off certain expenses as finance costs in the year ended 31st March, 2024. While preparing annual financial statements for the year ended 31st March, 2025, it discovered that these expenses should have been classified as other expenses instead of finance costs. The error occurred because the management inadvertently misinterpreted certain facts. The *entity intends to restate the comparative amounts for the prior period in which the error occurred i.e. year ended 31st March, 2024.*

You are required to analyze the above issues and give your recommendation as to their treatment in preparation of the financial statements for the financial year 2024-2025. ***(4 Marks)***

Answer

(a) (i) In the given scenario, to streamline its financial reporting processes, Koyal Ltd. should leverage Robotic Process Automation (RPA) to automate the process of extracting financial data from the subsidiary systems and consolidating it into the parent company's financial system.

The bots retrieve the relevant financial information, perform necessary currency conversions, and reconcile intercompany transactions, ensuring accurate and timely consolidation.

RPA bots are programmed to identify intercompany transactions within the consolidated financial data. The bots automatically eliminate these transactions by adjusting the corresponding accounts and generating elimination entries, simplifying the process and reducing the potential for errors.

The bots retrieve the consolidated financial data from the parent company's financial system and apply the necessary consolidation adjustments. They perform calculations for non-controlling interests, equity, and comprehensive income attributable to the parent and non-controlling interests.

The bots generate the consolidated balance sheet, income statement, statement of changes in equity, and cash flow statement, ensuring accuracy and consistency in the financial reporting process.

(ii) In the given scenario, to streamline its financial reporting processes and to handle sensitive customer data, an entity should utilize blockchain technology. Doham Ltd., being a financial institution, can implement a secure and encrypted blockchain network to store and share customer data. The finance professional can ensure the integrity and security of the data by leveraging blockchain's cryptographic algorithms and consensus mechanisms. This eliminates the risk of unauthorized access, data tampering, or data loss.

With blockchain, the finance professional can confidently handle customer data, knowing that it is protected by a robust and transparent system, enhancing data privacy, and maintaining the trust of customers and regulatory bodies.

(b) Calculation of Value in Use

Year ended	Cash flow (₹)	Discount factor @ 9%	Amount (₹)
31st March, 2026	24,70,000	0.909	22,45,230
31st March, 2027	18,60,000	0.826	15,36,360
31st March, 2028	16,30,000	0.751	12,24,130
31st March, 2029	10,10,000	0.683	6,89,830
31st March, 2030	8,50,000	0.621	5,27,850
		Total (Value in Use)	**62,23,400**

Calculation of Recoverable Amount

Particulars	Amount (₹)
Value in use	62,23,400
Fair value less costs of disposal (60,00,000 – 11,50,000)	48,50,000
Recoverable amount (Higher of value in use and fair value less costs of disposal)	62,23,400

Calculation of Impairment Loss

Particulars	Amount (₹)
Carrying amount	68,20,000
Less: Recoverable amount (Revised carrying amount)	(62,23,400)
Impairment loss	5,96,600

Set off of Impairment Loss:

The impairment loss of ₹ 5,96,600 must first be set off against any revaluation surplus in relation to the same asset. Therefore, the revaluation surplus of ₹ 3,80,000 is eliminated against impairment loss, and the remainder of the impairment loss ₹ 2,16,600 (₹ 5,96,600 – ₹ 3,80,000) is charged to profit and loss.

Calculation of Revised Carrying Amount

Particulars	Amount (₹)
Carrying amount	68,20,000
Less: Impairment loss	(5,96,600)
Revised carrying amount	62,23,400

Calculation of Revised Depreciation:

(Revised carrying amount – Residual value)/Remaining life

Revised Depreciation = (62,23,400 - 0)/5 = ₹ 12,44,680 per annum

(c) As per paragraph 41 of Ind AS 8, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

Issue 1

In accordance with the guidance provided above, the reclassification of liabilities from non-current to current would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended 31st March 2025, the comparative amounts as at 31st March 2024 would be restated to reflect the correct classification.

Issue 2

The reclassification of expenses from finance costs to other expenses would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended 31st March 2025, the comparative amounts for the year ended 31st March 2024 would be restated to reflect the correct classification.

In the given case, the retrospective restatement of relevant items in statement of profit and loss has no effect on the information in the balance sheet at the beginning of the preceding period (1st April 2023). Therefore, the entity is not required to present a third balance sheet.