Mock Test Paper - Series II: August, 2025

Date of Paper: 4th August, 2025

Time of Paper: 2 P.M. to 5 P.M.

FINAL COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

Time Allowed – 3 Hours **Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory.

Case Scenario 1

ABC Ltd is a diversified company engaged in multiple lines of business and operates through several subsidiaries and associates. The Group has prepared its consolidated financial statements for the year ended 31st March 2024 in accordance with the Indian Accounting Standards. During the preparation of these financial statements, the management identified certain accounting issues and errors relating to prior periods, along with revenue recognition implications under Ind AS.

(i) ABC Ltd. has an investment property with an original cost of ` 1,00,000 which it inadvertently omitted to depreciate in previous financial statements. The property was acquired on 1st April, 20X1. The property has a useful life of 10 years and is depreciated using straight line method. Estimated residual value at the end of 10 year is Nil.

(ii) While preparing the annual financial statements for the year ended 31st March, 20X4, ABC Ltd. discovers that a provision for constructive obligation for payment of bonus to selected employees in corporate office (material in amount) which was required to be recognised in the annual financial statements for the year ended 31st March, 20X2 was not recognised due to oversight of facts. The bonus was paid during the financial year ended 31st March, 20X3 and was recognised as an expense in the annual financial statements for the said year.

(iii) ABC Ltd. sells gym memberships for ` 7,500 per year to 100 customers, with an option to renew at a discount in 2nd and 3rd year at ` 6,000 per year. Entity estimates an annual attrition rate of 50% each year.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 3 in line with relevant Ind AS:

1. How should the omission of depreciation of investment property be corrected in the financial statements for the year ended 31st March, 20X4, assuming the impact of the same is considered material?

   (a) The error shall be corrected by restating the figures prospectively for financial year 20X2-20X3.

   (b) The error shall be corrected by retrospectively restating the figures for financial year 20X2-20X3 but without presenting a third balance sheet as at 1st April, 20X2 which is the beginning of the earliest period presented in the financial statements.

   (c) The error shall be corrected by retrospectively restating the figures for financial year 20X2-20X3 and also by presenting a third balance sheet as at 1st April, 20X2 which is the beginning of the earliest period presented in the financial statements.

   (d) There is no error, its only omission of the adjustment, hence should be ignored.

2. With respect to point (ii) above, how should ABC Ltd. treat the situation in its financial statements for the financial year 20X3–20X4?

   (a) No adjustment is required as the expense has already been recognised in FY 20X2–20X3.

   (b) Recognise the provision in FY 20X3–20X4 as a current year expense.

   (c) Present a third balance sheet as at the beginning of the preceding period (i.e., as at 1st April, 20X2) wherein it should recognise the provision for bonus and restate the retained earnings.

   (d) Disclose the omission in the notes to accounts without any retrospective adjustment.

3. Amount of revenue per membership to be recognized in the first year and the amount of contract liability per membership against the option given to the customer for renewing the membership at discount would be

(a) Revenue can be recognized at ` 7,500 per membership with no contract liability

(b) Revenue can be recognized at ` 6,857 approx. per membership and remaining ` 643 per membership should be recorded as contract liability

(c) Revenue can be recognized at ` 7,50,000 approx. per membership with no contract liability

(d) Revenue can be recognized at ` 6,85,700 approx. per membership and remaining ` 64,300 per membership should be recorded as contract liability

(3 x 2 = 6 Marks)

Case Scenario 2

MS Ltd., a diversified organisation with several subsidiaries and business lines, has prepared its financial statements for the year ended 31^{st} March in accordance with the Indian Accounting Standards. During the preparation, the management of MS Ltd. are facing following issues:

(i) MS Ltd. has acquired a heavy machinery at a cost of ` 1,00,00,000 (with no breakdown of the component parts). The estimated useful life is 10 years. At the end of the sixth year, one of the major components, the turbine requires replacement, as further maintenance is uneconomical. The remainder of the machine is perfect and is expected to last for the next four years. The cost of a new turbine is ` 45,00,000. The discount rate assumed is 5%.

(ii) The rate of income tax applicable to MS Ltd. is 20%. The following information relates to transactions, assets and liabilities of MS Ltd during the year ended 31^{st} March 20X6:

1. MS Ltd. has a 40% shareholding in L Ltd. MS Ltd purchased this shareholding for ` 45 Cr. The shareholding gives MS Ltd significant influence over L Ltd but not control and therefore MS Ltd. accounts for its interest in L Ltd using the equity method. The equity method carrying value of MS Ltd.'s investment in L Ltd was ` 70 Cr on 31^{st} March 20X5 and ` 75 Cr on 31^{st} March 20X6. In the tax jurisdiction in which MS Ltd operates, profits recognised under the equity method are taxed if and when they are distributed as a dividend or the relevant investment is disposed of.

2. MS Ltd. measures its head office building using the revaluation model. The building is revalued every year on 31^{st} March. On 31^{st} March 20X5, carrying

value of the building (after revaluation) was ` 40 Cr and its tax base was ` 22 Cr. During the year ended 31st March 20X6, MS Ltd. charged depreciation in its statement of profit or loss of ` 2 Cr and claimed a tax deduction for tax depreciation of ` 1.25 Cr. On 31st March 20X6, the building was revalued to ` 45 Cr. In the tax jurisdiction in which MS Ltd. operates, revaluation of property, plant and equipment does not affect taxable income at the time of revaluation.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 4 to 8 in line with relevant Ind AS:

4. The approximate cost of turbine at year 1 would be

   (a) ` 45,00,000

   (b) ` 33,57,900

   (c) ` 13,43,160

   (d) Nil

5. The current carrying amount of the turbine at the end of 6th year would be

   (a) ` 45,00,000

   (b) ` 33,57,900

   (c) ` 13,43,160

   (d) Nil

6. The revised carrying amount of machine after replacement of new turbine would be

   (a) ` 71,56,840

   (b) ` 45,00,000

   (c) ` 40,00,000

   (d) ` 60,00,000

7. The total deferred tax liability of MS Ltd. at 31st March 20X6 would be

   (a) Nil

   (b) ` 6 Crore

   (c) ` 4.85 Crore

(d) ` 10.85 Crore

8. The charge to other comprehensive income relating to deferred tax for the year ended 31st March 20X6 would be

(a) ` 1.4 Cr

(b) ` 3.45 Cr

(c) ` 0.15 Cr

(d) ` 4.85 Cr

(5 x 2 = 10 Marks)

Case Scenario 3

XYZ Ltd. prepares its financial statements as per Ind AS. The management requires your assistance in following cases:

(i) XYZ Ltd. originates 2,000 bullet loans with a total gross carrying amount of ` 5,00,000. XYZ Ltd. segments its portfolio into borrower groups (Groups X and Y) on the basis of shared credit risk characteristics at initial recognition. Group X comprises 1,000 loans with a gross carrying amount per client of ` 200, for a total gross carrying amount of ` 2,00,000. Group Y comprises 1,000 loans with a gross carrying amount per client of ` 300, for a total gross carrying amount of ` 3,00,000. There are no transaction costs, and the loan contracts include no options, premiums or discounts, points paid, or other fees.

Additional information

Group	**Historic per annum average defaults**	**Present value of observed loss assumed**
X	4	` 600
Y	2	` 450

(ii) XYZ Ltd. has invested in 40% share capital of N Ltd. and hence N Ltd. is an associate of XYZ Ltd. During the year, N Ltd. sold inventory to XYZ Ltd. for a value of ` 10,00,000. This included profit of 10% on the transaction price i.e. profit of ` 1,00,000. Out the above inventory, XYZ Ltd. sold inventory of ` 6,00,000 to outside customers. Hence, the inventory of ` 4,00,000 purchased from N Ltd. is still lying with XYZ Ltd.

(iii) XYZ Ltd. has also invested in 40% share capital of A Ltd. and hence A Ltd. is also an associate of XYZ Ltd. XYZ Ltd. sold the inventory to A Ltd. for a value of ` 10,00,000.

This included profit of 10% on the transaction price i.e. profit of ` 1,00,000. Out the above inventory, A Ltd. sold inventory of ` 6,00,000 to outside customers. Hence, the inventory of ` 4,00,000 purchased from XYZ Ltd. is still lying with A Ltd.

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

9. Calculate the loss rate of Group X

   (a) 0.15%

   (b) 0.3%

   (c) 0.45%

   (d) Nil

10. Calculate loss rate of Group Y

   (a) 0.15%

   (b) 0.3%

   (c) 0.45%

   (d) Nil

11. The unrealised profit to be eliminated on sale of inventory would be .

   (a) ` 4,00,000

   (b) ` 6,00,000

   (c) ` 16,000

   (d) ` 40,000

12. In case of N Ltd. sold inventory to XYZ Ltd., the net profit of XYZ Ltd. from the Associate N Ltd. following equity method would be

   (a) ` 4,00,000

   (b) ` 3,84,000

   (c) ` 3,60,000

   (d) ` 40,000

13. In case of XYZ Ltd. sold inventory to A Ltd., the unrealised profit of XYZ Ltd. would be reversed by debiting

(a) Sales A/c by ` 160,000

(b) Cost of material consumed A/c by ` 160,000

(c) Investment in A Ltd. by ` 160,000

(d) Not required to reverse the unrealised profit in this case

(5 x 2 = 10 Marks)

14. Which of the following is an example of an item that may need to be recognised on the transition date under Ind AS?

(a) Redeemable preference shares previously shown as equity

(b) Customer-related intangible assets arising from a restated business combination

(c) Discounting of long-term provisions

(d) Deferred tax based only on timing differences **(2 Marks)**

15. Which of the following correctly identifies circumstances under which a Chartered Accountant may or must disclose confidential information?

(a) Disclosure is always prohibited unless a court orders it.

(b) Disclosure is allowed only with client permission, regardless of legal or regulatory demands.

(c) Disclosure may be required or appropriate when mandated by law, permitted by law with client authorization, or when there is a professional duty or right to disclose not prohibited by law.

(d) Disclosure is never appropriate under any circumstances unless it benefits the client directly. **(2 Marks)**

PART – II DESCRIPTIVE QUESTIONS

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

Working notes should form part of the answers.

Maximum Marks – 70 Marks

1. DEF Ltd. acquired 100% ordinary shares of ` 100 each of XYZ Ltd. on 1st October 20X1. On 31st March, 20X2 the summarised Balance Sheets of the two companies were as given below:

	DEF Ltd.	XYZ Ltd.
Assets		
Property Plant Equipment		
Land & Buildings	15,00,000	18,00,000
Plant & Machinery	24,00,000	13,50,000
Investment in XYZ Ltd.	34,00,000	-
Inventory	12,00,000	3,64,000
Financial Assets		
Trade Receivable	5,98,000	4,00,000
Cash	1,45,000	80,000
Total	**92,43,000**	**39,94,000**
Equity & Liabilities		
Equity Capital (Shares of ` 100 each fully paid)	50,00,000	20,00,000
Other Equity		
Other reserves	24,00,000	10,00,000
Retained Earnings	5,72,000	8,20,000
Financial Liabilities		
Bank Overdraft	8,00,000	-
Trade Payable	4,71,000	1,74,000
Total	**92,43,000**	**39,94,000**

The retained earnings of XYZ Ltd. showed a credit balance of ` 3,00,000 on 1st April 20X1 out of which a dividend of 10% was paid on 1st November; DEF Ltd. has recognised the dividend received to profit or loss account; Fair Value of P&M as on

1st October 20X1 was ` 20,00,000. The rate of depreciation on plant & machinery is 10%.

Following are the increases on comparison of Fair value as per respective Ind AS with Book value as on 1st October 20X1 which are to be considered while consolidating the Balance Sheets:

Liabilities	**Amount**	**Assets**	**Amount**
Trade Payables	1,00,000	Land & Buildings	10,00,000
		Inventories	1,50,000

Notes:

I. It may be assumed that the inventory is still unsold on balance sheet date and the Trade Payables are also not yet settled.

II. Also assume that the Other Reserves of both the companies as on 31st March 20X2 are the same as was on 1st April 20X1.

III. All fair value adjustments have not yet started impacting consolidated post-acquisition profits.

Prepare consolidated Balance Sheet as at 31st March, 20X2. **(14 Marks)**

2. (a) ABC Company issued 10,000 compulsory cumulative convertible preference shares (CCCPS) as on 1 April 20X1 @ ` 150 each. The rate of dividend is 10% payable every year. The preference shares are convertible into 5,000 equity shares of the company at the end of 5th year from the date of allotment. When the CCCPS are issued, the prevailing market interest rate for similar debt without conversion options is 15% per annum. Transaction cost on the date of issuance is 2% of the value of the proceeds.

Date of Allotment	1st April 20X1
Date of Conversion	1st April 20X6
Number of Preference Shares	10,000
Face Value of Preference Shares	150
Total Proceeds	15,00,000
Rate of dividend	10%
Market Rate for Similar Instrument	15%
Transaction Cost	30,000

Face value of equity share after conversion	10
Number of equity shares to be issued	5,000
Effective interest rate	15.86%

You are required to compute the liability and equity component and pass journal entries for entire term of arrangement i.e. from the issue of preference shares till their conversion into equity shares keeping in view the provisions of relevant Ind AS. **(10 Marks)**

(b) An entity has taken a loan facility from a bank that is to be repaid within a period of 9 months from the end of the reporting period. Prior to the end of the reporting period, the entity and the bank enter into an arrangement, whereby the existing outstanding loan will, unconditionally, roll into the new facility which expires after a period of 5 years.

(a) How should such loan be classified in the balance sheet of the entity?

(b) Will the answer be different if the new facility is agreed upon after the end of the reporting period?

(c) Will the answer to (a) be different if the existing facility is from one bank and the new facility is from another bank?

(d) Will the answer to (a) be different if the new facility is not yet tied up with the existing bank, but the entity has the potential to refinance the obligation? **(4 Marks)**

3. (a) On 1st January, 20X2, the directors of Johansen Ltd. decided to terminate production at one of the company's divisions. This decision was publicly announced on 31st January, 20X2. The activities of the division were gradually reduced from 1st April, 20X2 and closure is expected to be complete by 30th September, 20X2.

At 31st January, 20X2, the directors prepared the following estimates of the financial implications of the closure:

(i) Redundancy costs were initially estimated at ` 2 million. Further expenditure of ` 8,00,000 will be necessary to retrain employees who will be affected by the closure but remained with Johansen Ltd. in different divisions. This retraining will begin in early July 20X2. Latest estimates are that redundancy costs will be ` 1.9 million, with retraining costs of ` 8,50,000.

(ii) Plant and equipment having an expected carrying value at 31st March, 20X2 of ` 8 million will have a recoverable amount ` 1.5 million. These estimates remain valid.

(iii) The division is under contract to supply goods to a customer for the next three years at a pre-determined price. It will be necessary to pay compensation of ` 6,00,000 to this customer. The compensation actually paid, on 31st May, 20X2, was ` 5,50,000.

(iv) The division will make operating losses of ` 3,00,000 per month in the first three months of 20X2-20X3 and ` 2,00,000 per month in the next three months of 20X2-20X3. This estimate proved accurate for April, 20X2 and May, 20X2.

(v) The division operates from a leasehold premises. The lease is a non-cancellable operating lease with an unexpired term of five years from 31st March, 20X2. The annual lease rentals (payable on 31st March in arrears) are ` 1.5 million. The landlord is not prepared to discuss an early termination payment.

Following the closure of the division it is estimated that Johansen Ltd. would be able to sub-let the property from 1st October, 20X2.

Johansen Ltd. could expect to receive a rental of ` 3,00,000 for the six-month period from 1st October, 20X2 to 31st March, 20X3 and then annual rentals of ` 5,00,000 for each period ending 31st March, 20X4 to 31st March, 20X7. All rentals will be received in arrears.

Any discounting calculations should be performed using a discount rate of 5% per annum. You are given the following data for discounting at 5% per annum:

Present value of ` 1 received at the end of year 1	= ` 0.95
Present value of ` 1 received at the end of year 1–2 inclusive	= ` 1.86
Present value of ` 1 received at the end of year 1–3 inclusive	= ` 2.72
Present value of ` 1 received at the end of year 1–4 inclusive	= ` 3.54
Present value of ` 1 received at the end of year 1–5 inclusive	= ` 4.32

Compute the amounts that will be included in the Statement of Profit and Loss for the year ended 31st March, 20X2 in respect of the decision to close the division of Johansen Ltd. **(8 Marks)**

(b) Global Limited, an Indian company acquired on 30th September, 20X1, 70% of the share capital of Mark Limited, an entity registered as company in Germany. The functional currency of Global Limited is Rupees and its financial year end is 31st March, 20X2.

(i) The fair value of the net assets of Mark Limited was 23 million EURO and the purchase consideration paid is 17.5 million EURO on 30th September, 20X1.

The exchange rates as at 30th September, 20X1 was ` 82 / EURO and at 31st March, 20X2 was ` 84 / EURO.

Determine the value at which the goodwill has to be recognised in the financial statements of Global Limited as on 31st March, 20X2, when NCI is valued at proportionate share of fair value of net assets of Mark Limited.

(ii) Mark Limited sold goods costing 2.4 million EURO to Global Limited for 4.2 million EURO during the year ended 31st March, 20X2. The exchange rate on the date of purchase by Global Limited was ` 83 / EURO and on 31st March, 20X2 was ` 84 / EURO. The entire goods purchased from Mark Limited are unsold as on 31st March, 20X2.

Determine the unrealised profit to be eliminated in the preparation of consolidated financial statements. **(6 Marks)**

4. (a) Ankita Holding Inc. grants 100 shares to each of its 500 employees on 1st January, 20X1. The employees should remain in service during the vesting period. The shares will vest at the end of the

First year if the company's earnings increase by 12%;

Second year if the company's earnings increase by more than 20% over the two-year period;

Third year if the entity's earnings increase by more than 22% over the three-year period.

The fair value per share at the grant date is ` 122. In 20X1, earnings increased by 10%, and 29 employees left the organisation. The company expects that the shares will vest at the end of the year 20X2. The company also expects that additional 31 employees will leave the organisation in the year 20X2 and that 440 employees will receive their shares at the end of the year 20X2. At the end of 20X2, company's earnings increased by 18%. Therefore, the shares did not vest. Only 29 employees left the organization during 20X2. Company believes that additional 23 employees will leave in 20X3 and earnings will further increase so that the performance target will be achieved in 20X3. At the end of the year 20X3, only 21 employees have left the organization. Assume that the company's earnings increased to desired level and the performance target has been met.

Determine the expense for each year and pass appropriate journal entries?

(8 Marks)

(b) (i) Sun Ltd. acquired a software from Earth Ltd. in exchange for a telecommunication license. The telecommunication license is carried at ` 5,00,000 in the books of Sun Ltd. The Software is carried at ` 10,000 in the books of the Earth Ltd. which is not the fair value.

Pass journal entries in the following situations in the books of Sun Ltd. and Earth Ltd.:

1) Fair value of software is ` 5,20,000 and fair value of telecommunication license is ` 5,00,000.

2) Fair value of software is not measurable. However, similar telecommunication license is transacted by another company at ` 4,90,000.

3) Neither fair value of software nor telecommunication license could be reliably measured.

(ii) Alpha Ltd. on 1st April, 20X1, borrowed ` 30,00,000 @ 9% to finance the construction of two qualifying assets. Construction started on 1st April, 20X1. The loan facility was availed on 1st April, 20X1 and was utilized as follows with remaining funds invested temporarily at 7%:

	Factory Building	**Office Building**
1st April, 20X1	5,00,000	10,00,000
1st October, 20X1	5,00,000	10,00,000

Calculate the cost of the asset and the borrowing cost to be capitalized.

(6 Marks)

5. (a) ST Limited enters into a contract with a customer to sell an asset. Control of the asset will transfer to the customer in two years (i.e. the performance obligation will be satisfied at a point in time). The contract includes two alternative payment options:

(1) Payment of ` 5,000 in two years when the customer obtains control of the asset or

(2) Payment of ` 4,000 when the contract is signed. The customer elects to pay ` 4,000 when the contract is signed.

ST Limited concludes that the contract contains a significant financing component because of the length of time between when the customer pays for the asset and when the entity transfers the asset to the customer, as well as the prevailing interest rates in the market.

The interest rate implicit in the transaction is 11.8 per cent, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the entity determines that, the rate that should be used in adjusting the promised consideration is 6%, which is the entity's incremental borrowing rate.

Pass journal entries showing how the entity would account for the significant financing component. **(5 Marks)**

(b) ABC Ltd. acquired 5% equity shares of XYZ Ltd. for ` 10 crores in the year 20X1-20X2. The company is in process of preparing the financial statements for the year 20X2-20X3 and is assessing the fair value at subsequent measurement of the investment made in XYZ Ltd. Based on the observable input, ABC Ltd. identified a similar nature of transaction in which PQR Ltd. acquired 20% equity shares in XYZ Ltd. for ` 60 crores. The price of such transaction was determined on the basis of Comparable Companies Method (CCM)- Enterprise Value (EV) / EBITDA which was 8. For the current year, the EBITDA of XYZ Ltd. is ` 40 crores. At the time of acquisition, the valuation was determined after considering 5% of liquidity discount and 5% of non-controlling stake discount. What will be the fair value of ABC Ltd.'s investment in XYZ Ltd. as on the balance sheet date? **(5 Marks)**

(c) ABC Ltd. buys goods from an overseas supplier. It has recently taken delivery of 1,000 units of component X. The quoted price of component X was ` 1,200 per unit but ABC Ltd. has negotiated a trade discount of 5% due to the size of the order.

The supplier offers an early settlement discount of 2% for payment within 30 days and ABC Ltd. intends to achieve this.

Import duties (basic custom duties) of ` 60 per unit must be paid before the goods are released through custom. Once the goods are released through customs, ABC Ltd. must pay a delivery cost of ` 5,000 to have the components taken to its warehouse.

Calculate the cost of inventory. **(4 Marks)**

6. (a) **Either**

Entity Y and Entity Z execute a 12-year lease of a railcar with the following terms on 1st January, 20X1:

- The lease commencement date is 1st February 20X1.
- Entity Y must pay Entity Z the first monthly rental payment of ` 10,000 upon execution of the lease.
- Entity Z will pay Entity Y ` 50,000 cash incentive to enter into the lease payable upon lease execution.

Entity Y incurred ` 1,000 of initial direct costs, which are payable on 1st February 20X1. Entity Y calculated the initial lease liability as the present value of the lease payments discounted using its incremental borrowing rate because the rate implicit in the lease could not be readily determined; the initial lease liability is ` 8,50,000.

How would Lessee Company measure and record this lease? **(4 Marks)**

Or

Company X has identified one of its division (disposal group) to be sold to a prospective buyer and the Board has approved the plan to sell the division on 30th September, 20X1. The sale is expected to complete after one year but it still qualifies to be held for sale under Appendix B of Ind AS 105. Costs to sell the division is estimated to be ` 10 crores (to be incurred in March, 20X3). The fair value of the division is ` 400 crores (on 30th September, 20X1 and 31st March, 20X2) and carrying value is ` 500 crores.

How shall such a division (disposal group) be measured under Ind AS 105 on following reporting dates:

A. 30th September, 20X1

B. 31st March, 20X2

Consider the discounting factor @ 10% for 1 year to 0.909 and for 1.5 years to be 0.867. **(4 Marks)**

(b) What are proactive measures to mitigate cybersecurity risks? **(5 Marks)**

(c) Mercury Ltd. has sold goods to Mars Ltd. at a consideration of ` 10 lakhs, the receipt of which receivable in three equal installments of ` 3,33,333 over a two-year period (receipts on 1st April, 20X1, 31st March, 20X2 and 31st March, 20X3).

The company is offering a discount of 5 % (i.e. ` 50,000) if payment is made in full at the time of sale. The sale agreement reflects an implicit interest rate of 5.36% p.a.

The total consideration to be received from such sale is at ` 10 Lakhs and hence, the management has recognised the revenue from sale of goods for ` 10 lakhs.

Analyse whether the above accounting treatment made by the accountant is in compliance of the Ind AS. If not, advise the correct treatment along with working for the same. **(5 Marks)**