

**Mock Test Paper - Series I: July, 2025**

**Date of Paper: 21<sup>st</sup> July, 2025**

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

**FINAL COURSE: GROUP – I**

**PAPER – 1: FINANCIAL REPORTING**

**ANSWER TO PART – I CASE SCENARIO BASED MCQS**

1. **Option (b):** 14 months
2. **Option (a):** Current liability
3. **Option (c):** Two operating segments i.e 'healthcare segment and 'food and grocery segment'
4. **Option (d):** ABC Ltd. should not disclose its transactions with PQR Ltd. in its separate financial statements. PQR Ltd. is not a related party of ABC Ltd., because PQR Ltd. is the subsidiary of ABC Ltd.'s associate, XYZ Ltd.
5. **Option (a):** 3 months
6. **Option (d):** ₹ 1,300
7. **Option (a):** ₹ 1,380
8. **Option (b):** ₹ 2,740
9. **Option (c):** Current financial asset
10. **Option (b):** Non-current, financial asset
11. **Option (d):** Nil
12. **Option (c):** Nil
13. **Option (d):** ₹ 1,00,000
14. **Option (b):** Prospectively to government loans existing at the date of transition to Ind AS and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant.
15. **Option (b):** Contains a materially false or misleading statement

**ANSWERS OF PART – II : DESCRIPTIVE QUESTIONS**

1. **Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. and Associate A Ltd. as at 31<sup>st</sup> March, 20X2**

	₹
<b>Assets</b>	
<b>Non-current assets</b>	
Property, plant and equipment (₹ 5,50,000 + ₹ 4,80,000)	10,30,000
Goodwill (₹ 70,000- Impaired ₹ 70,000)	Nil
Financial assets	
Investment in A Ltd. (Refer W.N.1 (iii))	1,99,600
<b>Current assets</b>	
Inventory (₹ 4,85,000+ ₹ 3,82,500)	8,67,500
Financial assets	
Cash and cash equivalents [(₹ 89,000 - ₹ 50,000 + ₹ 14,000 + ₹ 6,000) + (₹ 98,000 - ₹ 20,000)]	1,37,000
Trade receivables (₹ 3,95,000+₹ 3,05,000)	<u>7,00,000</u>
Total	<u>29,34,100</u>
<b>Equity and Liabilities</b>	
<b>Equity</b>	
Share capital - Equity shares of ₹ 10 each	5,00,000
Other equity (W.N.4+W.N.1(i))	10,60,600
Non-controlling interest (W.N.3)	2,79,000
<b>Non-current liabilities</b>	
Financial liabilities	
Borrowings- term loans (₹ 4,00,000 + ₹ 1,50,000)	5,50,000
<b>Current Liabilities</b>	
Financial liabilities	
Trade payables (₹ 3,79,000+₹ 1,65,500)	<u>5,44,500</u>
Total	<u>29,34,100</u>

**Working Notes:**

**1. Computation of Investment in Associate A Ltd. as per Equity method**

**(i) Capital reserve on the date of acquisition**

The cost of the investment is lower than the net fair value of the investee's identifiable assets and liabilities. Hence there is capital reserve calculated as follows:

	₹
Cost of acquisition of investment	1,00,000
Less: H Ltd.'s share in fair value of net assets of A Ltd. on the date of acquisition [(1,00,000 + 1,75,000) x 40%]	<u>(1,10,000)</u>
Capital Reserve	<u>10,000</u>

Capital reserve is recorded directly in equity.

**(ii) Share in profit of A Ltd.**

	₹
Share in post-acquisition profit of A Ltd. [(4,24,000 - 1,75,000) x 40%]	99,600
Less: Dividend (1,00,000 x 15% x 40%)	<u>(6,000)</u>
Share in profit of A Ltd.	<u>93,600</u>

**(iii) Closing balance of investment of Associate A Ltd. at the end of the year**

	₹
Cost of acquisition of investment	1,00,000
Add: Capital reserve	10,000
Share in post-acquisition profit	93,600
Less: Unrealised gain on inventory [(60,000x20/120) x 40%]	<u>(4,000)</u>
Closing balance of investment	<u>1,99,600</u>

**2. Analysis of Retained Earnings of S Ltd.**

**(i) Retained Earnings (RE) of S Ltd.**

	₹
Closing balance as on 31 <sup>st</sup> March, 20X2	7,50,000
Less: Pre-acquisition as on 31 <sup>st</sup> October, 20X1	<u>(5,00,000)</u>
<b>Post-acquisition Profit</b>	<u><b>2,50,000</b></u>

(ii) **Computation of net worth (net identifiable assets) as on 31<sup>st</sup> October, 20X1** ₹

Share Capital of S Ltd.	2,00,000
Pre-acquisition Retained Earnings	<u>5,00,000</u>
<b>Net Identifiable assets</b>	<u>7,00,000</u>

(iii) **Computation of Goodwill on acquisition date of S Ltd.** ₹

Purchase consideration	5,60,000	
NCI as per proportionate share method (7,00,000 x 30%)	<u>2,10,000</u>	7,70,000
Less: Net worth or Net Identifiable Assets		<u>(7,00,000)</u>
<b>Goodwill</b>		<u>70,000</u>

3. **Non-Controlling Interest as on 31<sup>st</sup> March, 20X2** ₹

NCI (by proportionate share method) as on 31 <sup>st</sup> October, 20X1	2,10,000
Post-acquisition Retained Earnings (W.N.4)	<u>69,000</u>
<b>NCI as on 31<sup>st</sup> March, 20X2</b>	<u>2,79,000</u>

4. **Consolidated Retained Earnings** ₹

Particulars	H Ltd.	S Ltd.
Opening Balance of Retained Earnings	9,00,000	
Post-acquisition Retained Earnings (W.N.2(i))		2,50,000
Less: Unrealised gain on downstream transaction with Associate A Ltd.	(4,000)	
Less: Impairment of Goodwill on acquisition of S Ltd.	(70,000)	
Add: Share of profit and loss in Associate A Ltd.	93,600	
Less: Dividend paid	(50,000)	(20,000)
Add: Dividend Income received from S Ltd.	14,000	
Add: Dividend income received from A Ltd.	6,000	
Less: Share of NCI in post-acquisition Retained Earnings [(2,50,000 - 20,000) x 30%]		<u>(69,000)</u>
	<u>8,89,600</u>	<u>1,61,000</u>
<b>Total Consolidated Retained Earnings</b>		<u>10,50,600</u>

**Note:** Bonus issue by a subsidiary is a transaction with owner in their capacity as owner. Therefore, bonus issue is only a transfer from one component of equity to the other thereby not changing the equity. Accordingly, though bonus issue shall be accounted in the individual financial statements of subsidiary, the same shall not have any effect in consolidated financial statements of the Group.

2. (a) (i) The above security deposit is an interest free deposit redeemable at the end of lease term for ₹ 10,00,000. Hence, this involves collection of contractual cash flows and shall be accounted at amortised cost.

**Upon initial measurement –**

Particulars	Details
Security deposit (A)	10,00,000
Present value factor of 5 <sup>th</sup> year end @ 12%	0.56743
Present value of deposit at beginning (B)	5,67,427
Prepaid lease payment at beginning (A-B)	4,32,573

**Journal Entries**

**Year – 1 beginning**

Particulars	Amount	Amount
Security deposit A/c	Dr. 5,67,427	
Right-of-Use Asset	Dr. 4,32,573	
To Bank A/c		10,00,000

Subsequently, every annual reporting year, interest income shall be accrued @ 12% per annum and prepaid expenses shall be amortised on straight line basis over the lease term.

**Year 1 end**

Particulars	Amount	Amount
Security deposit A/c (5,67,427 x 12%)	Dr. 68,091	
To Interest income A/c		68,091

At the end of 5<sup>th</sup> year, the security deposit shall accrue ₹ 10,00,000 and prepaid lease expenses shall be fully amortised (i.e. depreciated as per Ind AS 116, this prepaid lease rent would be shown as ROU asset).  
Journal entry for realisation of security deposit –

Particulars		Amount	Amount
Security deposit A/c	Dr.	1,07,143	
To Interest income A/c			1,07,143
Bank A/c	Dr.	10,00,000	
To Security deposit A/c			10,00,000

- (ii) On 1 January 20X5, the discounted present value of the remaining cash flows of the original financial liability is ₹ 10,00,000.

On this date, XYZ Ltd. will compute the present value of:

- ◆ cash flows under the new terms – i.e. ₹ 15,00,000 payable on 31 December 20Y1 and ₹ 50,000 payable for each of the 7 years ending 31 December 20Y1.
- ◆ fees paid by the borrower to the lender – i.e. ₹ 1,00,000, using the original effective interest rate of 10%

The total of these amounts to ₹ 11,13,158 (Refer Working Note). This differs from the discounted present value of the remaining cash flows of the original financial liability by 11.32% i.e. by more than 10%. Hence, extinguishment accounting applies.

The next step is to estimate the fair value of the modified liability. This is determined as the present value of the future cash flows (interest and principal), using an interest rate of 11% (the market rate at which XYZ Ltd. could issue new bonds with similar terms). The estimated fair value on this basis is ₹ 958,097 (Refer Working Note). A gain or loss on modification is then determined as:

Gain (loss) = carrying value of existing liability - fair value of modified liability - fees and costs incurred i.e. ₹ 10,00,000 – ₹ 9,58,097 – ₹ 1,00,000 = Loss of ₹ 58,097

**Working Note:**

Amount	Discounting factor @ 10%	Present value	Discounting factor @ 11%	Present value
15,00,000	0.513158	7,69,737	0.481658	7,22,487
1,00,000		1,00,000		

50,000 for 7 years	4.868419	<u>2,43,421</u>	4.712196	<u>2,35,610</u>
		11,13,158		<u>9,58,097</u>
PV of original cash flows @ original EIR		<u>(10,00,000)</u>		
Difference		<u>1,13,158</u>		
Difference %		11.32%		

- (b) Company A and C are unlisted and do not exceed the net worth criteria. However, the net worth of Company B exceeds ₹ 500 crore hence it would be covered as per the roadmap for implementation of Ind AS in the preparation of its Financial Statements.

As Ind AS be applicable to Company B, the parent company of Company B i.e. Company A and subsidiary of Company B i.e. Company C would also get covered under Ind AS irrespective of net worth criteria. Hence Ind AS would be applicable to all three companies i.e. Company A, B and C.

3. (a)

Property	Classification of properties not held for operational purpose
A Ltd.'s office building (registered office)	Excess portion of office space has been given on lease to earn rental income. Out of 15 storey building, only 3 floors are occupied by A Ltd. Such excess office space was constructed for the purpose of letting it out. According to A Ltd., such excess office space will continue to be let out on lease to external parties and have no plans to occupy it, at least in near future. Further, office space given on rent, although in same building, is separately identifiable from another owner-occupied portion and hence can be sold separately (if required). Hence, the excess space will qualify to be an investment property.
Flats in Township located in location 1	Excess flats have been given on lease to earn rental income. According to A Ltd., there is no intention of selling such excess flats or allotting it to its employees. Further, flats given on rent, can be sold separately from

	<p>flats occupied by A Ltd.'s employees as they are separately identifiable. A Ltd. also charges its lessees on account of ancillary services, i.e., water, electricity, cable connection, etc., but the monthly charges in such cases are generally not significant as compared to rental payments. Hence, flats given on rent should qualify to be an 'investment property'.</p> <p>With regards to the flats kept vacant, A Ltd. has to evaluate the purpose of holding these flats, i.e., whether these would be kept for earning rentals or will it be allotted to its future employees. In case they are held for earning rentals, it would be classified as an investment property; and if they are held for allotment to future employees, it would form part of property, plant and equipment.</p>
Flats in township located in location 2	<p>350 flats are given on lease to earn rental income and assuming that management intends to let out these flats on rent in future, such flats should be classified as an 'investment property'.</p> <p>With regards to the flats kept vacant, A Ltd. has to evaluate the purpose of holding these flats, i.e., whether these would be kept for earning rentals or will it be allotted to its future employees. In case they are held for earning rentals, it would be classified as an investment property; and if they are held for allotment to future employees, it would form part of property, plant and equipment.</p>
Hostel located in location 1	<p>Rooms in a hostel have been let out to G Ltd. to be used by its personnel. A Ltd. also charges G Ltd. on account of ancillary services, i.e., water, electricity, cable connection, etc., but the monthly charges in such cases are generally not significant as compared to rental payments. Hence, it should be classified as an 'Investment property'.</p>
Land in location 1	Although management has not determined use

	for property after the development of park, yet in the medium-term the land is held for capital appreciation. As per Ind AS 40, if an entity has not determined that it will use the land either as owner-occupied property or for short term sale in the ordinary course of business, then it will be considered as land held for capital appreciation. Therefore, management should classify the property as an investment property.
Land in location 1	Since the land is held with an intention of giving it on lease and earning capital appreciation over a period, it should be classified as an 'Investment property'.
Land in location 2	Since the land is held with an intention of giving it on lease and earning capital appreciation over a period, it should be classified as 'Investment property'.

- (b) In relation to unused trading losses, the carrying amount is zero since the losses have not yet been recognised in the financial statements of H Ltd. A potential deferred tax asset does arise but the determination of the tax base is more problematic.

The tax base of an asset is the amount which will be deductible against taxable economic benefits from recovering the carrying amount of the asset. Where recovery of an asset will have no tax consequences, the tax base is equal to the carrying amount. H Ltd. operates under a tax jurisdiction which only allows losses to be carried forward for two years. The maximum the tax base could be is therefore equal to the amount of unused losses for years 20X0 and 20X1 since these only are available to be deducted from future profits. The tax base though needs to be restricted to the extent that there is a probability of sufficient future profits to offset the trading losses. The directors of H Ltd. should base their forecast of the future profitability on reasonable and supportable assumptions. There appears to be evidence that this is not the case.

H Ltd. has accumulated trading losses and there is little evidence that there will be an improvement in trading results within the next couple of years. The

market is depressed and sales orders for the first quarter of 20X2 are below levels in any of the previous five years.

The forecast profitability for 20X2 and subsequent growth rate therefore appear to be unrealistically optimistic.

Given that losses can only be carried forward for a maximum of two years, it is unlikely that any deferred tax asset should be recognised.

Hence, the contention of directors to recognized deferred tax assets in relation to ₹ 250 crores is not correct.

**4. (a) As on 31<sup>st</sup> March, 20X1**

Carrying amount of the asset (opening balance)	₹ 100 lakh
Depreciation (₹ 100 lakh /4 years)	<u>₹ 25 lakh</u>
Carrying amount of the asset (closing balance)	<u>₹ 75 lakh</u>
Recoverable amount (given)	₹ 60 lakh

Therefore, an impairment loss of ₹ 15 lakh should be recognised as on 31<sup>st</sup> March, 20X1. Depreciation for subsequent years should be charged on the carrying amount of the asset (after providing for impairment loss), i.e., ₹ 60 lakh.

**As on 31<sup>st</sup> March, 20X2**

Carrying amount of the asset (opening balance)	₹ 60 lakh
Depreciation (₹ 60 lakh /3 years)	<u>₹ 20 lakh</u>
Carrying amount of the asset (closing balance)	<u>₹ 40 lakh</u>

Therefore, no impairment loss should be recognised as on 31<sup>st</sup> March, 20X2.

**As on 31<sup>st</sup> March, 20X3**

Carrying amount of the asset (opening balance)	₹ 40 lakh
Depreciation (₹ 40 lakh / 2 years)	<u>₹ 20 lakh</u>
Carrying amount of the asset (closing balance)	<u>₹ 20 lakh</u>
Recoverable amount (given)	₹ 28 lakh

Since, the recoverable amount of the asset exceeds the carrying amount of the asset by ₹ 8 lakh, impairment loss recognised earlier should be reversed.

However, reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

Carrying amount as on 31<sup>st</sup> March, 20X3 had no impairment loss being recognised would have been ₹ 25 lakh. Therefore, the reversal of an impairment loss of ₹ 5 lakh should be done as on 31<sup>st</sup> March, 20X3.

**(b) Value of goat at initial recognition (30<sup>th</sup> September 20X1) (₹)**

Biological asset (goat)	Dr.	97,000*	
Loss on initial recognition	Dr.	4,000	
To Bank (Purchase and cost of transportation on purchase paid by buyer)			1,01,000
(Initial recognition of goat at fair value less costs to sell)			

\*Fair value of goat = 1,00,000 – 1,000 – 2,000 (2% of 1,00,000) = 97,000

**Subsequent measurement at 31<sup>st</sup> March 20X2 (₹)**

Biological Assets (Goat)	Dr.	9,800	
To Gain on Sale (Profit & Loss)			9,800
(Subsequent measurement of Goat at fair value less costs to sell (1,06,800** – 97,000))			

\*\* Fair value of goat = 1,10,0000 – 1,000 – 2,200 (2% of 1,10,000) = 1,06,800

**Sale of goat on 1<sup>st</sup> June 20X2 (₹)**

Biological Assets (Goats)	Dr.	226	
To Gain on Sale (Profit & Loss)			226
(Subsequent re-measurement of 18 goats at fair value less costs to sell just prior to the point at which they are sold [19,450 - {(1,06,800/100) x 18}])			
Cost to Sales (20,000 – 400 {i.e. 2% of 20,000} – 150)	Dr.	19,450	

To Biological Assets (Goats) (Recording a cost of sales figure separately with a corresponding reduction in the value of the biological assets)			19,450
Bank	Dr.	19,450	
Selling expenses (150 + 400)	Dr.	550	
To Revenue (Recognition of revenue from sale of goat)			20,000

**Transfer of Goat to Inventory on 15<sup>th</sup> September 20X2 (₹)**

Inventory (48,300 - 420)	Dr.	47,880	
Loss on remeasurement	Dr.	1,176	
To Biological Asset (Goats)			44,856 <sup>#</sup>
To Bank (Slaughtering cost)			4,200
(Transfer of goat to inventory)			

<sup>#</sup>Note: 44,856 is calculated as the proportion of goat sold using the fair value [(1,06,800 + 226 - 19,450) x 42/82]

**Subsequent measurement of goat at 30<sup>th</sup> September 20X2 (₹)**

Biological Asset (Goats)	Dr.	784	
To Gain on remeasurement (Subsequent measurement of goat at fair value less costs to sell [43,504 <sup>##</sup> - {(1,06,800 + 226 - 19,450) - 44,856}])			784

<sup>##</sup>Fair value of goat = 44,800 - 400 - 896 (2% of 44,800) = 43,504.

5. (a) Case A—Variable consideration allocated entirely to one performance obligation
- To allocate the transaction price, the entity considers the criteria in paragraph 85 and concludes that the variable consideration (ie the sales-based royalties) should be allocated entirely to Licence B. The entity concludes that the criteria are met for the following reasons:
- (a) the variable payment relates specifically to an outcome from the performance obligation to transfer Licence B (ie the customer's subsequent sales of products that use Licence B).

- (b) allocating the expected royalty amounts of ₹ 20,00,000 entirely to Licence B is consistent with the allocation objective in paragraph 73 of Ind AS 115. This is because the entity's estimate of the amount of sales-based royalties (₹ 20,00,000) approximates the stand-alone selling price of Licence B and the fixed amount of ₹ 16,00,000 approximates the stand-alone selling price of Licence A. The entity allocates ₹ 16,00,000 to Licence A. This is because, based on an assessment of the facts and circumstances relating to both licences, allocating to Licence B some of the fixed consideration in addition to all of the variable consideration would not meet the allocation objective in paragraph 73 of Ind AS 115.

The entity transfers Licence B at inception of the contract and transfers Licence A one month later. Upon the transfer of Licence B, the entity does not recognize revenue because the consideration allocated to Licence B is in the form of a sales-based royalty. Therefore, the entity recognizes revenue for the sales-based royalty when those subsequent sales occur.

When Licence A is transferred, the entity recognizes as revenue the ₹ 16,00,000 allocated to Licence A.

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

To allocate the transaction price, the entity applies the criteria in paragraph 85 of Ind AS 115 to determine whether to allocate the variable consideration (ie the sales-based royalties) entirely to Licence B.

In applying the criteria, the entity concludes that even though the variable payments relate specifically to an outcome from the performance obligation to transfer Licence B (ie the customer's subsequent sales of products that use Licence B), allocating the variable consideration entirely to Licence B would be inconsistent with the principle for allocating the transaction price. Allocating ₹ 6,00,000 to Licence A and ₹ 30,00,000 to Licence B does not reflect a reasonable allocation of the transaction price on the basis of the stand-alone selling prices of Licences A and B of ₹ 16,00,000 and ₹ 20,00,000, respectively. Consequently, the entity applies the general allocation requirements of Ind AS 115.

The entity allocates the transaction price of ₹ 6,00,000 to Licences A and B on the basis of relative stand-alone selling prices of ₹ 16,00,000 and ₹ 20,00,000,

respectively. The entity also allocates the consideration related to the sales-based royalty on a relative stand-alone selling price basis. However, when an entity licenses intellectual property in which the consideration is in the form of a sales-based royalty, the entity cannot recognize revenue until the later of the following events: the subsequent sales occur or the performance obligation is satisfied (or partially satisfied).

Licence B is transferred to the customer at the inception of the contract and Licence A is transferred three months later. When Licence B is transferred, the entity recognizes as revenue ₹ 3,33,333 [(₹ 20,00,000 ÷ ₹ 36,00,000) × ₹ 6,00,000] allocated to Licence B. When Licence A is transferred, the entity recognizes as revenue ₹ 2,66,667 [(₹ 16,00,000 ÷ ₹ 36,00,000) × ₹ 6,00,000] allocated to Licence A.

In the first month, the royalty due from the customer's first month of sales is ₹ 4,00,000. Consequently, the entity recognizes as revenue ₹ 2,22,222 (₹ 20,00,000 ÷ ₹ 36,00,000 × ₹ 4,00,000) allocated to Licence B (which has been transferred to the customer and is therefore a satisfied performance obligation). The entity recognizes a contract liability for the ₹ 1,77,778 (₹ 16,00,000 ÷ ₹ 36,00,000 × ₹ 4,00,000) allocated to Licence A. This is because although the subsequent sale by the entity's customer has occurred, the performance obligation to which the royalty has been allocated has not been satisfied.

- (b) Point (g) of para C4 of Ind AS 101 states that the carrying amount of goodwill or capital reserve in the opening Ind AS Balance Sheet shall be its carrying amount in accordance with previous GAAP at the date of transition to Ind AS after the two adjustments. One of the adjustment states that the standard requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill or capital reserve in accordance with previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill or increase the carrying amount of capital reserve accordingly (and, if applicable, adjust deferred tax and non-controlling interests)

As per the facts given, the entity paid excess amount to avail the rights to use the underlying oil and gas reserves. However, since the rights was not recorded in the books at that time, the value of goodwill subsumed the value of that intangible asset which should be separately identified in the books. Hence, value of goodwill will be reduced accordingly and intangible asset for rights for using mine should be recognised.

Further, regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply Ind AS 36 in testing the goodwill for impairment at the date of transition to Ind AS and in recognising any resulting impairment loss in retained earnings (or, if so required by Ind AS 36, in revaluation surplus). The impairment test shall be based on conditions at the date of transition to Ind AS. No other adjustments (eg- previous amortisation of goodwill) shall be made to the carrying amount of goodwill / capital reserve at the date of transition to Ind AS.

However, once goodwill is recognised in the opening transition date balance sheet, the entity has to follow the provisions of Ind AS, which states that goodwill is not amortised but rather tested for impairment annually. Accordingly, the amortization of goodwill based on 'Unit of Production' method is not correct after implementation of Ind AS.

**6. (a) Presentation of Revenue numbers:**

Ind AS 115 'Revenue from Contracts with Customers' requires revenue to be recognized only on satisfaction of the performance obligations under the contract. It is crucial that the performance obligations be identified at the commencement of the contract, so that the trigger points for revenue recognition become identifiable.

Management would always have an incentive to present higher revenue numbers. In the given case, the fact that the COO is given an incentive for revenues and EBITDA indicates that revenue is a potential area for material misstatement, given the personal interest of the COO in the same.

The sale of fibre optic cable cannot be recognized on 31<sup>st</sup> March 20X2 as the goods are not yet transferred to the customer Ethernet Bullet Ltd.'s factory premises, which is one of the critical obligations of Astra Ltd. The contention of the COO that it takes merely a few minutes to shift the goods, and hence the sale can be recognized does not hold true. One can always cross-question as to why the movement of goods did not happen if it was merely a few minutes job. It could be a possibility that the goods may not be packed, or there may still be some pending inspection of the goods before transferring the same etc. In view of this, the performance obligation under this contract has not been completed, and hence booking the revenue has resulted in an overstatement of revenue by ₹ 2 crores, and a consequent inflation of profits, assuming that Astra Ltd. is making profit on this sale transaction. Additionally, booking this sale has resulted in an understatement of inventory as at the reporting date of 31<sup>st</sup> March 20X2.

In view of the above, multiple conflicts of interest arise for Ms. Suparna Dasgupta:

**(a) Pressure to present favourable revenue figures and chartered accountant's personal circumstances**

The chartered accountant is under pressure to present favourable numbers, notably in favour of the COO, thereby increasing the incentives to the COO, and in turn benefiting with the continued job prospects. Thus, the ethical and professional standards required of the accountant are at odds with the pressures of her personal circumstances.

**(b) Duty to stakeholders**

The directors have a duty to act in the best interests of the company's stakeholders. While higher revenue numbers do indicate a good growth trajectory of the company, recognizing the revenue before fulfilling the performance obligations, or incorrectly booking grant income as revenue, results in misleading the stakeholders about the actual performance of the entity, thereby actually becoming detrimental to the stakeholders.

**Ethical principles guiding the chartered accountant's response**

By exhibiting bias in reporting higher revenue figures due to the risk of losing the job, objectivity stands compromised. Knowingly disclosing incorrect information compromises integrity, and erring in complying with Ind AS requirements, though continuing to report so in the financial statements, results in displaying absence of professional competence.

**Appropriate action**

In the given case, the chartered accountant faces an ethical dilemma, and must apply her moral and ethical judgment. As a professional, she is responsible for presenting the truth, and to avoid indulging in 'creative accounting practices' due to pressure.

The chartered accountant accordingly must put the interests of the company and professional ethics first and insist that the financial statements represent correct revenue numbers, in compliance with the relevant Ind AS. Being an advisor to the directors, she must prevent deliberate misrepresentation / fraudulent financial reporting, regardless of the personal consequences. The accountant should not allow any undue influence from the directors to override

her professional judgment or integrity. This is in the long-term interests of the company,

Further, knowingly providing incorrect information is regarded as professional misconduct. To prevent such misconduct, the chartered accountant should not sign off on the financial statements containing incorrect financial information. By adhering to the ethical principles, the chartered accountant will maintain her professional integrity and contribute to the trust and reliability placed in the work expected from her.

However, if she signs the financial statements containing the inflated revenue numbers, Ms. Suparna Dasgupta would be guilty of professional misconduct under Clause I of Part II of Second Schedule to the Chartered Accountants Act, 1949. The Clause states that a member of the Institute, whether in practice or not, shall be guilty of professional misconduct, if he contravenes any of the provisions of this Act or the regulations made thereunder, or any guidelines issued by the Council. As per the Council guidelines, a member of the Institute who is an employee shall exercise due diligence and shall not be grossly negligent in the conduct of his duties.

**(b) Either**

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

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

Therefore, the entity would recognize a liability equal to twelve days of sick pay.

**OR**

Ind AS 37 "*Provisions, Contingent Liabilities and Contingent Assets*" defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Paragraph 68 of Ind AS 37 states that the unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

In the instant case, cost of fulfilling the contract is ₹ 0.5 million (₹ 2.5 million – ₹ 2 million) and cost of exiting from the contract by paying penalty is ₹ 0.25 million.

In accordance with the above reproduced paragraph, it is an onerous contract as cost of meeting the contract exceeds the economic benefits.

Therefore, the provision should be recognised at the best estimate of the unavoidable cost, which is lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it, i.e., at ₹ 0.25 million (lower of ₹ 0.25 million and ₹ 0.5 million).

**(c) Cash flow from Operations by Indirect Method**

Indirect Method	₹
Profit After Tax	53,000.00
Add back/(Less): Depreciation	7,000.00
Loss on sale of asset	2,000.00
Interest paid	3,000.00
Decrease in Inventory	1,000.00
Increase in Trade Receivables	(3,000.00)
Increase in Trade Payables	4,000.00
Increase in Payables for expenses	3,000.00
Net cash generated from operating activities	70,000.00