

CA FINAL FINANCIAL REPORTING

THEORY QUESTIONS

PAST 5 EXAMS



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CA Final - FINANCIAL REPORTING

THEORY QUESTIONS - PAST 5 EXAMS

Exam	QN	Marks	Standard	Topic
May-24	2(b)	4	Ind AS 1	Loan classification
May-23	1(b)	5	Ind AS 1	Loan classification
May-22	1(b)	5	Ind AS 1	Loan classification
May-24	5(c)	4	Conceptual framework	Recognition or derecognition of asset
Nov-23	4(b)	6	Conceptual framework	Cost constraints
Nov-23	4(b)	6	Conceptual framework	Characteristics of financial statements
May-23	4(b)	6	Conceptual framework	Faithful representation
Nov-22	3(c)	6	Conceptual framework	Recognition of assets and comparison with Ind AS 38
May-22	4(b)	6	Conceptual framework	Cost constraints and Executory contracts
May-24	5(c)	4	Applicability of Ind AS	Phase 1 and Phase 2
May-24	6(a)	5	Accounting and Technology	Cloud computing
May-23	3(c)	4	Ind AS 24 - Related parties	Determination of relationship

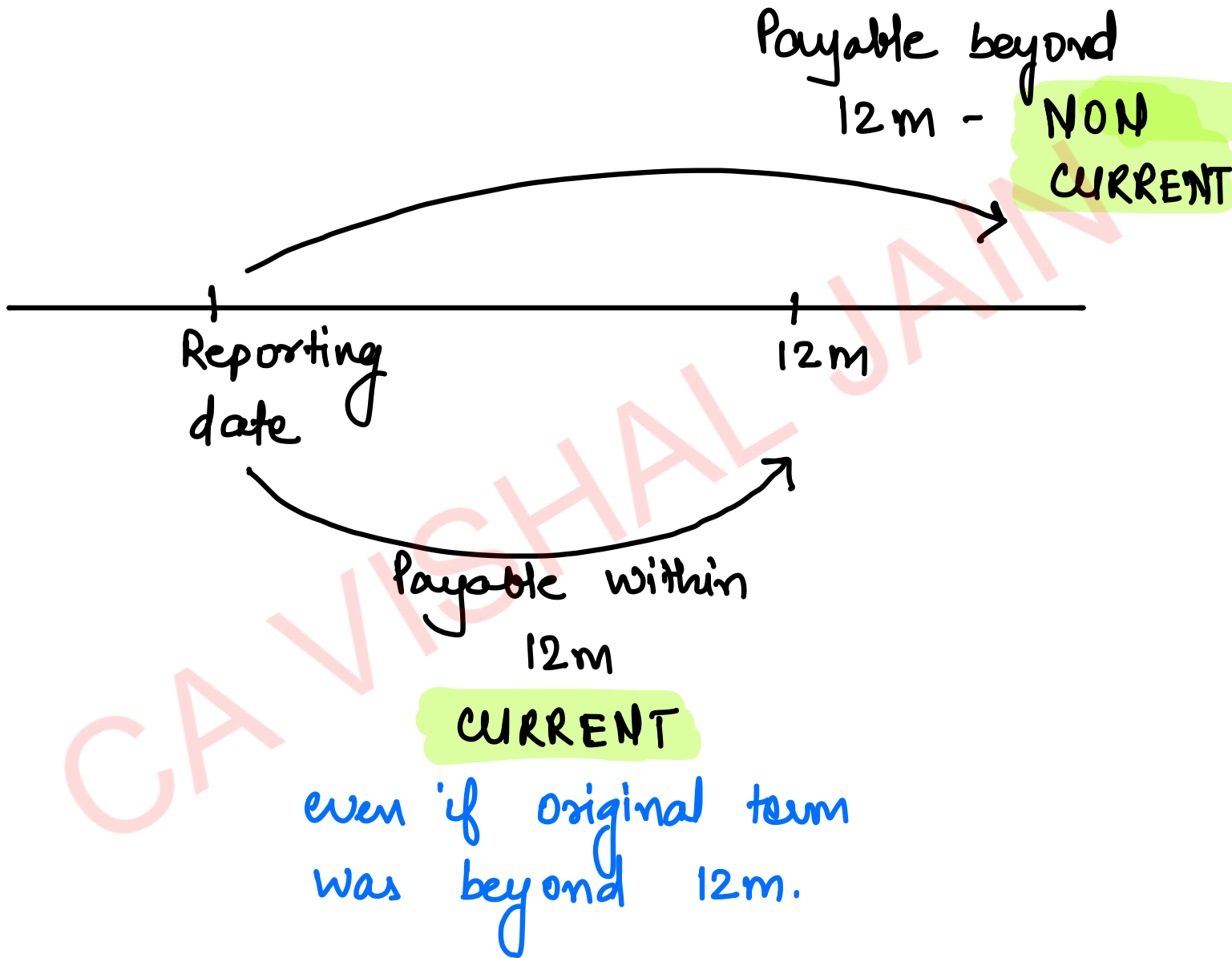
Topic : Ind AS-1

Loan classification

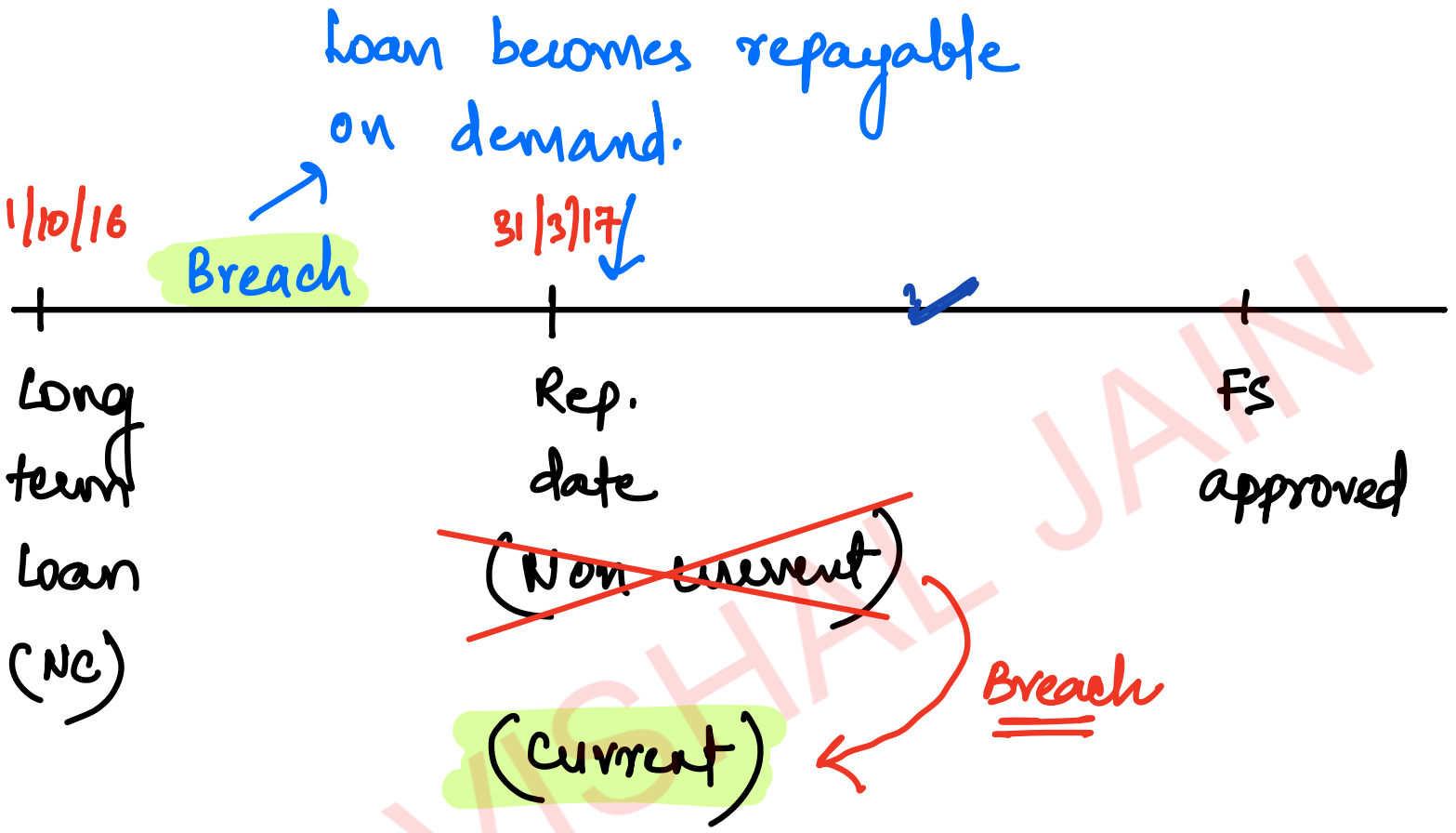
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loan classification (Ind AS 1 and 10)

14



2} Breach of Covenants of long term Loan



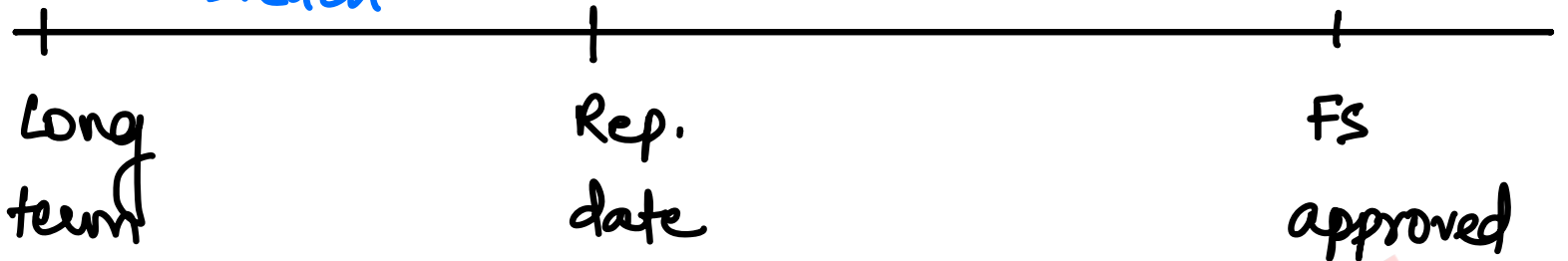
Note: If loan T&C - breached (after RD but before approval)

NON adj event

31.3. → NON CURRENT

3)

→ (C)
Breach.



Lender agreed not to demand repayment/
provide a grace period to rectify breach

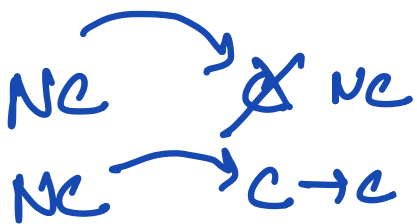
Adj event ←
as per Ind AS 10.

Within 12m

Current

At least 12m
i.e. beyond 12m

Non-current



4.6 Re-financing / Roll-over

iy Rep. date FS Approved



loan payable within 12 m

CURRENT

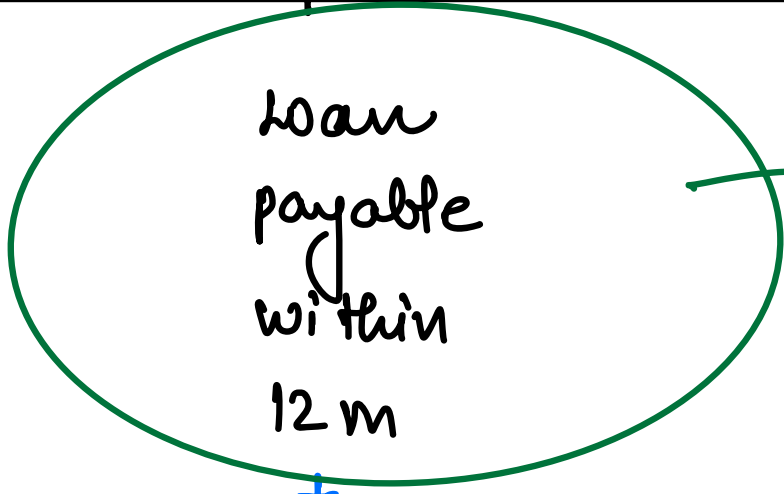
Refinancing agreement signed - LT basis

Non adjusting

iiy

Rep. date

FS Approved



Current

+

Expects and has Discretion (arrangement exists) to refinance or roll over for at least 12 months



iii) If entity does not have discretion
(no arrangement)
Current

Discretion - Relevant

Potential - Not Relevant.

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MAY 2024

Question 2(b)

~~Q~~ In December, 2022, X Limited entered into a loan agreement with a Bank. The loan is repayable in five annual instalments commencing from 1st October, 2024. One of the material provisions of the loan agreement is that X limited should create an equitable mortgage on its assets in favour of the Bank by 31st March, 2023 failing which the loan would become payable on demand. X Limited is not able to create the equitable mortgage by 31st March, 2023. In April, 2023, X Limited started negotiation with the Bank and requested it not to demand payment due to non-creation of the equitable mortgage.

Meanwhile the financial statements of X Limited for the year ended 31st March, 2023 were approved for issue on 30th May, 2023. In the month of June, 2023, the Bank agreed that the payment would not be demanded immediately as a consequence of breach of the material provision. How would the loan liability be classified by X Limited as at 31st March, 2023?

(4 Marks)

As per Ind AS 1 "Presentation of Financial Statements", where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

An entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

In the given case, bank (the lender) agreed for not to demand payment but only after the reporting date and the financial statements were approved for issuance. The financial statements were approved for issuance on 30th May 2023 and the Bank agreed for not to demand payment in the month of June 2023 although negotiation started in the month of April 2023 but could not agree before May 2023 when financial statements were approved for issuance.

Hence, the liability should be classified as current in the financial statement as at 31st March, 2023.

May 2023

Question - 1(b)

current

(b) X Limited has a loan facility from a bank which is to be repaid within a period of six months from the end of the reporting period. Before the end of the reporting period, X Limited and the bank enters into an arrangement as per which the existing outstanding loan will unconditionally roll into the new facility which will expire after a period of 3 years.

- i. How should the loan be classified in the balance sheet of X Limited as at the reporting date? Give reasons. **NC**
- ii. Will the answer be different if the new facility is agreed upon after the end of the reporting period? Why? What will be the answer?
- iii. Will the answer to (i) be different if the new facility is not yet tied up with the existing bank, but X Limited has the potential to refinance the obligation. Give reasons.

(5 Marks)

- (b) (i) The loan is not due for payment at the end of the reporting period. The entity and the bank have agreed for the said roll over before the end of the reporting period for a period of 3 years. Since the entity has an unconditional right to defer the settlement of the liability for at least twelve months after the reporting period, the loan should be classified as non-current.
- (ii) Yes, the answer will be different if the arrangement for roll over is agreed upon after the end of the reporting period, since assessment is required to be made based on terms of the existing loan facility. As at the end of the reporting period, the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period, the loan is to be classified as current.
- (iii) Yes, the answer will be different, and the loan should be classified as current. This is because, as per paragraph 73 of Ind AS 1, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

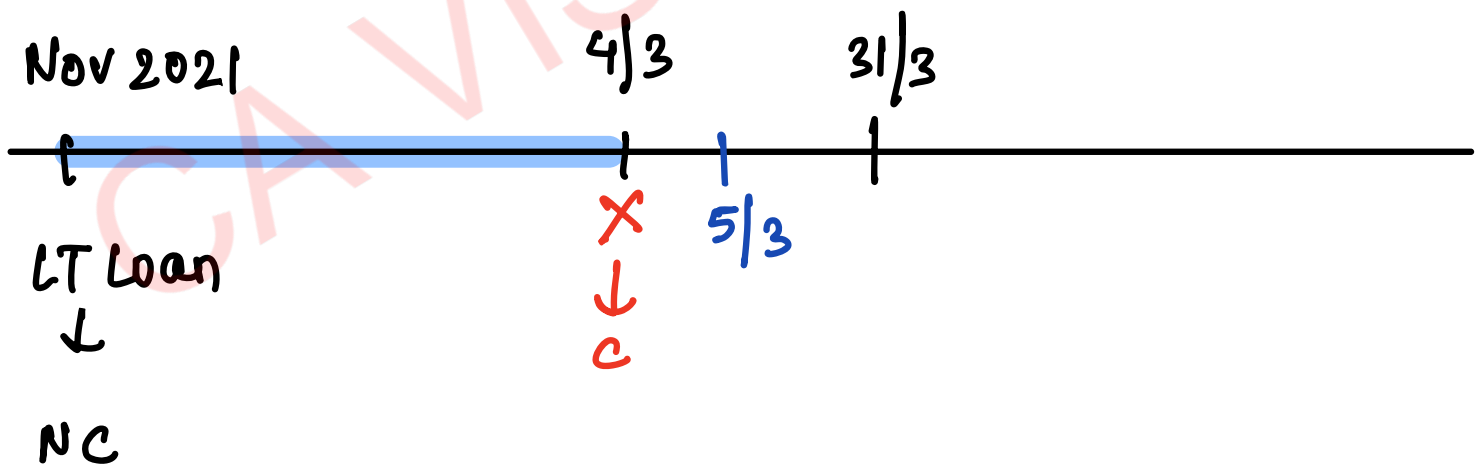
(b) In November 2021, an Ind AS compliant Company entered into a loan agreement with a bank. The loan is repayable in 6 equal annual installments starting from November 2026. One of the loan covenants is that an amount equivalent to the loan amount should be contributed by the promoters of the Company by 4th March, 2022, failing which the loan becomes payable on demand.

As on 4th March, 2022, the Company has not been able to get the promoter's contribution. On 5th March, 2022, the Company approached the Bank and immediately obtained a grace period up to 30th June, 2022 to get the promoter's contribution.

The bank cannot demand immediate repayment during the grace period.

The annual reporting period of the Company ends on 31st March, 2022. You are required to respond to the following:

- (i) As at 31st March, 2022, how should the Company classify the loan?
- (ii) Assume that it may not be able to get the promoter's contribution by the due date, the Company approached the Bank in January 2022 and got the compliance date extended up to 30th June, 2022 for getting promoter's contribution. Will the loan classification as at 31st March, 2022 be different from (i) above? (5 Marks)



- (b) (a) Paragraph 75 of Ind AS 1, inter alia, provides that an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within

which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

In the present case, following the default, grace period within which an entity can rectify the breach is less than twelve months after the reporting period. Hence as on 31st March, 2022, the loan will be classified as current.

- (b) Ind AS 1 deals with classification of liability as current or non-current in case of breach of a loan covenant and does not deal with the classification in case of expectation of breach. In this case, whether actual breach has taken place or not is to be assessed on 30th June, 2022, i.e., after the reporting date. Consequently, in the absence of actual breach of the loan covenant as on 31st March, 2022, the loan will retain its classification as non-current.

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Topic :

Conceptual framework

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May 2024 / Q5 C

Explain the criteria in the Conceptual Framework for Financial Reporting for the recognition and de-recognition of an asset.

Conceptual framework defines ASSET as:

- Present economic resource; and
- Controlled by the entity; and
- arises as a result of past events

An asset is recognised in financial statements if:

- they meet the definition of asset; and
- such recognition provides users of financial statements with information that is useful.

An information is useful if:

- Relevant information
- faithful representation (Complete + Free from error + neutral)

An asset is de-recognised from financial statements if:

- they no longer meet the defn. of asset; or
- entity transferred the asset with significant risk and rewards or along with control

Nov 2023 - Question 4(b)

(b) Discuss the cost constraint on useful financial information.

OR

Discuss the characteristics of good financial statements*.

(6 Marks)

Cost constraints

→ Costs justified by benefits.

Characteristics of good FS

Relevance

Faithful representation

↳ complete

↳ free from bias

↳ Neutral.
=,

- > Cost is a pervasive constraint on the information that can be provided by financial reporting.
- > Financial Reporting imposes costs and it is important that these costs are justified by the benefits of reporting that information.
- > When applying the cost constraint while formulating a proposed Ind AS, ICAI seeks information from providers of financial information, users, auditors and academics about the nature and quality of the benefits and costs of applying the same.
- > Assessments are done both from quantitative and qualitative perspective
- > Assessments are done from financial reporting perspective rather than individual entity perspective.

(b) OR

Characteristics of good financial information are:

1. Relevance

“Relevant financial information”

- Is financial information with (a) predictive value or (b) confirmatory value or both
- Makes it capable of making a difference in decisions made by users
- Makes it relevant financial information

Financial information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Financial information need not be a prediction or forecast to have predictive value. Financial information with predictive value is employed by users in making their own predictions.

Financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

The characteristic of ‘relevance’ also includes the concept of materiality. Information is material if omitting, misstating or obscuring it could reasonably be

expected to influence decisions that the primary users of general-purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity.

2. Faithful Representation

To be useful, financial information must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon.

To be a perfectly faithful representation, a depiction would have following three characteristics:

- ◆ **Complete:** A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations.
- ◆ **Neutral:** A neutral depiction is without bias in the selection or presentation of financial information.
Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated.
- ◆ **Free from error:** Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects.

Question - 4 (b)

- (b) Discuss with respect to 'Conceptual Framework for Financial Reporting under Indian Accounting Standards', 'faithful representation', one of the qualitative characteristics of financial information. (6 Marks)

→ Complete

Free from error

Neutral (no bias) - supported by
exercise of prudence

Faithful representation

To be useful, financial information must faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon.

To be a perfectly faithful representation, a depiction would have following three characteristics:

- ◆ **Complete:** A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations.
- ◆ **Neutral:** A neutral depiction is without bias in the selection or presentation of financial information. Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated, and liabilities and expenses are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses.
- ◆ **Free from error:** Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, being free from error does not mean perfectly accurate in all respects. For example, an estimate of an unobservable price or value cannot be determined to be accurate or inaccurate. However, a representation of that estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate.

NOV 2022

Question 3(c)

- (c) Explain the criteria in the Conceptual Framework for Financial Reporting for the recognition of an asset and discuss whether there are inconsistencies with the criteria in Ind AS 38. (6 Marks)

As per CONCEPTUAL FRAMEWORK, an asset is recognised if:

- they meet the definition of asset; and
- such recognition provides users of financial statements with information that is useful.

Conceptual framework defines ASSET as:

- Present economic resource; and
- Controlled by the entity; and
- arises as a result of past events

As per Ind AS 38, an INTANGIBLE ASSET is recognised if:

- identifiable, non-monetary assets; and
- controlled by the entity; and
- probable that future economic benefits will flow to entity; and
- costs can be measured reliably.

} IA def

} RP

Inconsistency:

- > Conceptual framework does not talk about probability criterion of future economic benefits.
- > Conceptual framework does not talk about identifiability criterion.
- > Recognition criteria of Ind AS 38 are more specific to intangible assets where as recognition criterion of Conceptual framework is a generic one.

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May 2022 - Qn 4(b)

(b) Discuss the following in the context of 'Conceptual Framework for Financial Reporting under Indian Accounting Standards':

- (i) The **cost constraint** on useful financial information
- (ii) Executory contracts.

- > Cost is a pervasive constraint on the information that can be provided by financial reporting.
- > Financial Reporting imposes costs and it is important that these costs are justified by the benefits of reporting that information.
- > When applying the cost constraint while formulating a proposed Ind AS, ICAI seeks information from providers of financial information, users, auditors and academics about the nature and quality of the benefits and costs of applying the same.
- > Assessments are done both from quantitative and qualitative perspective
- > Assessments are done from financial reporting perspective rather than individual entity perspective.

(ii) **Executory Contracts:**

Definition: An executory contract is a contract, or a portion of a contract, that is **equally unperformed** — **neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent.**

Outcome of Executory Contract: An executory contract establishes a combined right and obligation to exchange economic resources. The rights and obligations are inter-dependent and cannot be separated. Hence, the combined rights and obligations constitute a single asset or liability.

The entity has an asset if the terms of the exchange are currently favourable; it has a liability if the terms of the exchange are currently unfavourable.

Basis of Disclosure: Whether such an asset or liability is included in the financial statements depends on **both the recognition criteria and the measurement basis selected for the asset or liability, including, if applicable, any test for whether the contract is onerous.**

Topic : OTHERS

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May 2024 - Q5 (c) [Applicability of Ind AS]

List out the entities which were covered under Phase I & II under the Companies (Indian Accounting Standards) Rules 2015 as notified by the MCA along with the specific date of coverage with its exclusions, if any. (4 Marks)

→ 31.3.17

Phase 1 (w.e.f. 1 April 2016)

- ✓ Any company having Net worth \geq 500 crores;
- ✓ Holding / subsidiary / joint venture and associate of those companies
- First Ind AS Balance sheet - 31 March 2017 ✓
- Comparative Ind AS Balance sheet - 31 March 2016 ✓
- Date of transition - 1 April 2015 ✓

Phase 2 (w.e.f. 1 April 2017)

- Any company having Net worth \geq 250 crores;
- All listed companies
- Holding / subsidiary / joint venture and associate of those companies
- First Ind AS Balance sheet - 31 March 2018
- Comparative Ind AS Balance sheet - 31 March 2017
- Date of transition - 1 April 2016

Question 6 (a)

Question 6

- (a) Discuss how "Cloud Computing" has positively impacted the accounting function and list out the challenges faced by the users of it in cloud computing environment. (5 Marks)

Answer

- (a) Cloud computing refers to the delivery of computing services over the internet. It allows accountants to access their data and software from any device with an internet connection.

Following are some of the ways in which Cloud Computing has positively impacted accounting:

1. **Improved accessibility:** Cloud-based accounting software allows users to access their financial data from any location with an internet connection. This has increased accessibility and flexibility for accountants and business owners, allowing them to work remotely and collaborate in real-time.
2. **Enhanced security:** Cloud-based accounting software providers typically offer advanced security features such as encryption, firewalls, and multi-factor authentication helping in the protection of sensitive financial data from cyber threats and data breaches.
3. **Increased scalability:** Cloud-based accounting software allows businesses to easily scale up or down based on their changing needs. As a business grows, it can easily add new users and features without having to invest in additional hardware or software.
4. **Reduced costs:** Cloud-based accounting software typically requires less upfront investment in hardware and software, as well as ongoing maintenance costs. This can help businesses save money on IT expenses and redirect those funds to other areas of the business. For example, the costs of installing Microsoft Office Suite on a laptop or desktop is far more expensive than subscribing to the Office 365 Suite, which is a web-based download. Further, the web-based download also provides the options of continuous free updates unlike its Office Suite offline counterpart.

Question - 3 (c)

- ✓(c) Mr. M has an investment in X Limited and Y Limited
- (i) Under what circumstances, Mr. M is a related party of X Limited and Y Limited?
- (ii) Will X Limited and Y Limited be related parties, if Mr. M has only significant influence over both X Limited and Y Limited? (4 Marks)

- (c) (i) As per para 9(a) of Ind AS 24, Mr. M will be considered as a related party to X Limited, when
1. Mr. M has control or joint control over X Limited
 2. Mr. M has significant influence over X Limited
- Similar will be the circumstances for Mr. M being considered as related party to Y Limited.
- (ii) Even if Mr. X has only significant influence over both the entities i.e., X Limited & Y Limited, then both the entities (X Limited & Y Limited) will not be considered as related party, if no direct or indirect control is exercised on each other in any of the manner.

