

Mock Test Paper - Series I: March, 2026

Date of Paper: 16th March, 2026

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 (a) : Bad debts expenses incurred during third quarter should be recognised in the same quarter. Accordingly, ₹ 50,000 should be deducted from ₹ 20,00,000.
2. Option (d) : ₹ 14,50,000
3. Option (c) : A single performance obligation
4. Option (b) : ₹ 2,05,00,000
5. Option (a) : ₹ 1,70,83,333
6. Option (c) : ₹ 34,16,667
7. Option (d) : Loss on initial recognition of biological asset ₹ 6,000
8. Option (a) : Gain on remeasurement of biological asset ₹ 9,800
9. Option (c) : Equity
10. Option (b) : Financial Liability
11. Option (a) : ₹ 34,000 crores
12. Option (b) : ₹ 4,000 crores
13. Option (c) : ₹ 250 crores
14. Option (d) : Do not disclose assumptions and bases, so that users are not misled.
15. Option (a) : Ensure that all passwords are simple and are not changed regularly.

ANSWERS OF PART – II : DESCRIPTIVE QUESTIONS

1. **Consolidated Balance Sheet of A Ltd. and its subsidiary, S Ltd.**
as at 31st March, 20X3

Particulars	₹ in 000s
I. Assets	
(1) Non-current assets	
(i) Property Plant & Equipment (W.N.4)	7,120.00
(ii) Intangible asset – Goodwill (W.N.3)	1,032.00
(2) Current Assets	
(i) Inventories (550 + 100)	650.00
(ii) Financial Assets	
(a) Trade Receivables (400 + 200)	600.00
(b) Cash & Cash equivalents (200 + 50)	250.00
Total Assets	9,652.00
II. Equity and Liabilities	
(1) Equity	
(i) Equity Share Capital (2,000 + 200)	2,200.00
(ii) Other Equity	
(a) Retained Earnings (W.N.6)	1190.85
(b) Securities Premium	160.00
(2) Non-Controlling Interest (W.N.5)	347.40
(3) Non-Current Liabilities (3,000 + 400)	3,400.00
(4) Current Liabilities (W.N.8)	2,353.75
Total Equity & Liabilities	9,652.00

Notes:

1. Since the question required not to prepare Notes to Account, the column of Note to Accounts had not been drawn.

2. It is assumed that shares were issued during the year 20X2-20X3 and entries are yet to be made.

Working Notes:

1. **Calculation of purchase consideration at the acquisition date i.e. 1st April, 20X1**

	₹ in 000s
Payment made by A Ltd. to S Ltd.	
Cash	1,000.00
Equity shares (2,00,000 shares x ₹ 1.80)	360.00
Present value of deferred consideration (₹ 5,00,000 x 0.75)	<u>375.00</u>
Total consideration	<u>1,735.00</u>

2. **Calculation of net assets i.e. net worth at the acquisition date i.e. 1st April, 20X1**

	₹ in 000s
Share capital of S Ltd.	500.00
Reserves of S Ltd.	125.00
Fair value increase on Property, Plant and Equipment	<u>200.00</u>
Net worth on acquisition date	<u>825.00</u>

3. **Calculation of Goodwill at the acquisition date i.e. 1st April, 20X1 and 31st March, 20X3**

	₹ in 000s
Purchase consideration (W.N.1)	1,735.00
Non-controlling interest at fair value (as given in the question)	<u>380.00</u>
	2,115.00
Less: Net worth (W.N.2)	<u>(825.00)</u>
Goodwill as on 1 st April 20X1	1,290.00
Less: Impairment (as given in the question)	<u>258.00</u>
Goodwill as on 31 st March 20X3	<u>1,032.00</u>

4. Calculation of Property, Plant and Equipment as on 31st March 20X3

		₹ in 000s
A Ltd.		5,500.00
S Ltd.	1,500.00	
Add: Net fair value gain not recorded yet	200.00	
Less: Depreciation $[(200/5) \times 2]$	<u>(80.00)</u>	
	120.00	<u>1,620.00</u>
		<u>7,120.00</u>

5. Calculation of Post-acquisition gain (after adjustment of impairment on goodwill) and value of NCI as on 31st March 20X3

	₹ in 000s	₹ in 000s
	NCI (20%)	A Ltd. (80%)
Acquisition date balance	380.00	Nil
Closing balance of Retained Earnings	300.00	
Less: Pre-acquisition balance	<u>(125.00)</u>	
Post-acquisition gain	175.00	
Less: Additional Depreciation on PPE $[(200/5) \times 2]$	<u>(80.00)</u>	
Share in post-acquisition gain	<u>95.00</u>	76.00
Less: Impairment on goodwill	258.00	<u>(206.40)</u>
	<u>347.40</u>	<u>(130.40)</u>

6. Consolidated Retained Earnings as on 31st March 20X3

	₹ in 000s
A Ltd.	1,400.00
Add: Share of post-acquisition loss of S Ltd. (W.N.5)	(130.40)
Less: Finance cost on deferred consideration (37.5 + 41.25) (W.N.7)	<u>(78.75)</u>
Retained Earnings as on 31 st March 20X3	<u>1,190.85</u>

7. Calculation of value of deferred consideration as on 31st March 20X3

	₹ in 000s
Value of deferred consideration as on 1 st April 20X1 (W.N.1)	375.00
Add: Finance cost for the year 20X1-20X2 (375 x 10%)	<u>37.50</u>
	412.50
Add: Finance cost for the year 20X2-20X3 (412.50 x 10%)	<u>41.25</u>
Deferred consideration as on 31 st March 20X3	<u>453.75</u>

8. Calculation of current Liability as on 31st March 20X3

	₹ in 000s
A Ltd.	1,250.00
S Ltd.	650.00
Deferred consideration as on 31 st March 20X3 (W.N.7)	<u>453.75</u>
Current Liability as on 31 st March 20X3	<u>2,353.75</u>

2. (a) (i) Journal Entry

Date	Particulars	Dr.	Cr.
		₹	₹
1/4/20X1	Loan to Mrs. Jama Bai A/c Dr. Pre-paid employee cost A/c Dr. To Bank A/c (Being loan to employee recorded at fair value)	10,43,638 1,56,362	12,00,000
31/3/20X2	Loan to Mrs. Jama Bai A/c Dr. To Finance Income A/c (Being finance income @ 9% recorded in the books)	93,927	93,927
31/3/20X2	Bank A/c Dr. To Loan to Mrs. Jama Bai A/c (Being installment received at the end of the year)	3,00,000	3,00,000

(ii) **In the books of Autumn Ltd.**
Loan to Mrs. Jama Bai A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.20X1	To Bank A/c	10,43,638	31.3.20X2	By Bank A/c	3,00,000
31.3.20X2	To Finance income (W.N.3)	<u>93,927</u>	31.3.20X2	By Balance c/d	<u>8,37,565</u>
		<u>11,37,565</u>			<u>11,37,565</u>
1.4.20X2	To Balance b/d	8,37,565	31.3.20X3	By Bank A/c	3,00,000
31.3.20X3	To Finance income (W.N.3)	<u>75,381</u>	31.3.20X3	By Balance c/d	<u>6,12,946</u>
		<u>9,12,946</u>			<u>9,12,946</u>
1.4.20X3	To Balance b/d	6,12,946	31.3.20X4	By Bank A/c	3,00,000
31.3.20X4	To Finance income (W.N.3)	<u>55,165</u>	31.3.20X4	By Balance c/d	<u>3,68,111</u>
		<u>6,68,111</u>			<u>6,68,111</u>
1.4.20X4	To Balance b/d	3,68,111	31.3.20X5	By Bank A/c	3,00,000
31.3.20X5	To Finance income (W.N.3)	<u>33,130</u>	31.3.20X5	By Balance c/d	<u>1,01,241</u>
		<u>4,01,241</u>			<u>4,01,241</u>
1.4.20X5	To Balance b/d	1,01,241	31.3.20X6	By Bank A/c	40,000
31.3.20X6	To Finance income (W.N.3)	<u>9,112</u>	31.3.20X6	By Balance c/d	<u>70,353</u>
		<u>1,10,353</u>			<u>1,10,353</u>
1.4.20X6	To Balance b/d	70,353	31.3.20X7	By Bank A/c	40,000
31.3.20X7	To Finance income (W.N.3)	<u>6,332</u>	31.3.20X7	By Balance c/d	<u>36,685</u>
		<u>76,685</u>			<u>76,685</u>
1.4.20X7	To Balance b/d	36,685	31.3.20X8	By Bank A/c	40,000
31.3.20X8	To Finance income (W.N.3)	<u>3,315*</u>			
		<u>40,000</u>			<u>40,000</u>

*Difference of ₹ 13 (₹ 3,315 – ₹ 3,302) is due to approximation.

Working Notes:

1. Calculation of initial recognition amount of loan to employee

Year	Estimated Cash Flows	PV Factor @9%	Present Value
	₹		₹
31/3/20X2	3,00,000	0.9174	2,75,220
31/3/20X3	3,00,000	0.8417	2,52,510
31/3/20X4	3,00,000	0.7722	2,31,660
31/3/20X5	3,00,000	0.7084	2,12,520
31/3/20X6	40,000 (W.N.2)	0.6499	25,996
31/3/20X7	40,000 (W.N.2)	0.5963	23,852
31/3/20X8	40,000 (W.N.2)	0.5470	<u>21,880</u>
Fair Value of Loan			<u>10,43,638</u>

2. Computation of Interest to be paid

Year	Opening outstanding balance a	Cash Flows b	Principal outstanding at year end c	Interest @ 4% on a d	Cumulative Interest e
		₹	₹	₹	₹
31/3/20X2	12,00,000	3,00,000	9,00,000	48,000	48,000
31/3/20X3	9,00,000	3,00,000	6,00,000	36,000	84,000
31/3/20X4	6,00,000	3,00,000	3,00,000	24,000	1,08,000
31/3/20X5	3,00,000	3,00,000	Nil	12,000	1,20,000
31/3/20X6	1,20,000	40,000 (1,20,000/3)			
31/3/20X7		40,000 (1,20,000/3)			
31/3/20X8		40,000 (1,20,000/3)			

3. Computation of finance cost as per amortization table

Year	Opening Balance (1)	Interest @ 9% (2)	Repayment (3)	Closing Balance (1+2-3)
	₹	₹	₹	₹
1/4/20X1				10,43,638
31/3/20X2	10,43,638	93,927	3,00,000	8,37,565
31/3/20X3	8,37,565	75,381	3,00,000	6,12,946
31/3/20X4	6,12,946	55,165	3,00,000	3,68,111
31/3/20X5	3,68,111	33,130	3,00,000	1,01,241
31/3/20X6	1,01,241	9,112	40,000	70,353
31/3/20X7	70,353	6,332	40,000	36,685
31/3/20X8	36,685	3,315*	40,000	Nil

*Difference of ₹ 13 (₹ 3,315 – ₹ 3,302) is due to approximation.

- (b) Paragraph 16(a) of Ind AS 8 provides that the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring are not changes in accounting policies.

As per Ind AS 16, 'property, plant and equipment' are tangible items that:

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

As per Ind AS 40, 'investment property' is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of business."

As per the above definitions, whether a building is an item of property, plant and equipment (PPE) or an investment property for an entity depends on the purpose for which it is held by the entity. It is thus possible that due to a change in the purpose for which it is held, a building that was previously classified as an item of property, plant and equipment may warrant reclassification as an

investment property, or vice versa. Whether a building is in the nature of PPE or investment property is determined by applying the definitions of these terms from the perspective of that entity. Thus, the classification of a building as an item of property, plant and equipment or as an investment property is not a matter of an accounting policy choice. Accordingly, a change in classification of a building from property, plant and equipment to investment property due to change in the purpose for which it is held by the entity is **not** a change in an accounting policy.

3. (a) As at 15th September, 20X1

The disposal group should be measured at ₹ 18,30,000 (19,00,000-70,000). The impairment write down of ₹ 3,30,000 (₹ 21,60,000 – ₹ 18,30,000) should be recorded within profit from continuing operations.

The impairment of ₹ 3,30,000 should be allocated to the carrying values of the appropriate non-current assets.

Asset/ (liability)	Carrying value as at 15 th September, 20X1	Impairment	Revised carrying value as per Ind AS 105
Attributed goodwill	200	(200)	-
Intangible assets	930	(62)	868
Financial asset measured at fair value through other comprehensive income	360	-	360
Property, plant & equipment	1,020	(68)	952
Deferred tax asset	250	-	250
Current assets – inventory, receivables and cash balances	520	-	520
Current liabilities	(870)	-	(870)
Non-current liabilities – provisions	<u>(250)</u>	<u>-</u>	<u>(250)</u>
Total	<u>2,160</u>	<u>(330)</u>	<u>1,830</u>

The impairment loss is allocated first to goodwill and then prorata to the other assets of the disposal group within Ind AS 105 measurement scope. Following assets are not in the measurement scope of the standard- financial asset

measured at other comprehensive income, the deferred tax asset or the current assets. In addition, the impairment allocation can only be made against assets and is not allocated to liabilities.

(b) As on 31 March, 20X2:

All of the assets and liabilities, outside the scope of measurement under Ind AS 105, are remeasured in accordance with the relevant standards. The assets that are remeasured in this case under the relevant standards are the financial asset measured at fair value through other comprehensive income (Ind AS 109), the deferred tax asset (Ind AS 12), the current assets and liabilities (various standards) and the non-current liabilities (Ind AS 37).

Asset/ (liability)	Carrying amount as on 15 th September, 20X1	Change in value to 31 st March 20X2	Impairment	Revised carrying value as per Ind AS 105
Attributed goodwill	-	-	-	-
Intangible assets	868	-	(29)	839
Financial asset measured at fair value through other comprehensive income	360	50	-	410
Property, plant & equipment	952	-	(31)	921
Deferred tax asset	250	(20)	-	230
Current assets – inventory, receivables and cash balances	520	(120)	-	400
Current liabilities	(870)	(30)	-	(900)
Non-current liabilities – provisions	<u>(250)</u>	<u>-</u>	<u>-</u>	<u>(250)</u>
Total	<u>1,830</u>	<u>(120)</u>	<u>(60)</u>	<u>1,650</u>

(b) The following diagram shows the structure of the Group:

S Ltd.'s management should disclose Mr. A, Mr. B and Mr. C as the ultimate controlling party (as a group) of S Ltd. where they have a contractual arrangement to act together, irrespective of whether there were transactions between them and S Ltd. during the year.

The agreement between Mr. A, Mr. B and Mr. C provided them with a collective control over 60% (40%+10%+10%) of Trust T's voting rights. Mr. A, Mr. B and Mr. C form a group that controls Trust T, which controls P Ltd. and S Ltd.

Trust T should also be disclosed as the ultimate parent entity of S Ltd. in the notes to the financial statements, if this information is not disclosed elsewhere in information published with the financial statements.

Trust T would be the ultimate controlling party of S Ltd. and only Mr. A would be a related party of S Ltd. if the contractual arrangement to act together did not exist. Mr. A is related to S Ltd. because his 40% interest in Trust T gives him the significant influence over S Ltd.

4. (a)

Journal Entries

	₹	₹
Initial recognition of goats at 30th September, 20X7		
Biological asset (goats) Dr.	97,000	
Loss on initial recognition Dr.	4,000	
To Cash (purchase and transport to farm)		101,000
(Initial recognition of the goats at fair value less costs to sell)		
Veterinary expenses Dr.	500	
To Cash		500
Recognition of veterinary expenses at 30 th September, 20X7 (such expenses do not, in themselves, affect the fair value)		
Biological asset (goats) Dr.	9,800	
To Gain on change in fair value less costs to sell (1,06,800-97,000)		9,800
(Subsequent measurement of biological assets at fair value less costs to sell at 31 st March, 20X7 reporting date)		
Sale of goats on 1st June, 20X8		
Cash Dr.	19,450	
Selling expenses (150+400) Dr.	550	
To Revenue		20,000
(Recognition of the revenue from the sale of goats)		

Transfer of biological assets to inventory on 15th September, 20X8		
Inventory (Carcasses)	Dr.	47,880
Fair value loss on goats	Dr.	1,176
To Biological asset (goats) (the proportion of goats sold using the fair value at the previous reporting period, 31 st March, 20X8) (1,06,800 x 42/100)		44,856
To Cash		4,200
(Transfer of goats slaughtered to inventory)		
Subsequent measurement of goats at 30th September, 20X8		
Loss on change in fair value less costs to sell	Dr.	18,440
To Biological asset (goats) (fair value of goats at last reporting date less transfer to inventory) (43,504-(1,06,800-44,856))		18,440
(Subsequent measurement of biological assets at fair value less costs to sell at 30 th September, 20X8 reporting date)		

Working Notes:

1.	The fair value less costs to sell at initial recognition	₹
	Fair value in the most relevant market	1,00,000
	Transport costs	(1,000)
	Auctioneer's fee	<u>(2,000)</u>
		<u>97,000</u>
2.	The fair value less costs to sell at 31st March, 20X8 and gain thereupon	
	Fair value in the most relevant market	1,10,000
	Transport costs	(1,000)
	Auctioneer's fee	<u>(2,200)</u>
		1,06,800
	Less: Original cost recorded	<u>(97,000)</u>
		<u>9,800</u>

3.	The fair value less estimated costs to sell of the carcasses on 15th September, 20X8	
	Market value of carcasses	48,300
	Transport costs	<u>(420)</u>
		<u>47,880</u>
	Initial cost of the carcasses at the date of transfer to inventory is measured at the fair value less costs to sell of the carcasses.	
4.	The fair value less costs to sell at 30th September, 20X8	
	Fair value in most relevant market	44,800
	Transport costs	<u>(400)</u>
	Auctioneer's fee	<u>(896)</u>
		<u>43,504</u>

The reduction in the herd due to the sale of goats at 1st June, 20X8 is included in the fair value adjustment at 30th September, 20X8. An alternative to the above presentation is to remeasure the goats to fair value just prior to the point at which they are sold and record a cost of sales figure separately with a corresponding reduction in the value of the biological assets. This will result in the same net profit for the period, but the presentation of cost of sales and net fair value re-measurements on biological assets will be different.

(b) a. Computation of benefit attributed to prior years and current year:

Amount in ₹

Year	1	2	3	4	5
Benefit attributed to:					
- Prior years	-	131	262	393	524
- Current year (Refer W.N.1)	<u>131</u>	<u>131</u>	<u>131</u>	<u>131</u>	<u>131</u>
Total (i.e. current and prior years)	<u>131</u>	<u>262</u>	<u>393</u>	<u>524</u>	<u>655</u>

b. Computation of the obligation for an employee who is expected to leave at the end of year 5 (taking discount rate of 10% p.a.)

Amount in ₹

Year	1	2	3	4	5
Opening obligation (A)	-	89	196	324	475
Interest at 10% (B = A X 10%)	-	9	20	32	47

Current service cost (C) (Refer WN 2)	<u>89</u>	<u>98</u>	<u>108</u>	<u>119</u>	<u>131</u>
Closing obligation D = (A+B+C)	<u>89</u>	<u>196</u>	<u>324</u>	<u>475</u>	<u>653</u>

Figures have been rounded off in the above table.

Working Notes:

1. A lump sum benefit is payable on termination of service and equal to 1 per cent of final salary for each year of service. The salary in year 1 is ₹ 10,000 and is assumed to increase at 7 per cent (compound) each year.

The year on year salary would be as follows: Amount in ₹

Year	1	2	3	4	5
Salary	10,000	10,700 (10,000 x 107%)	11,449 (10,700 x 107%)	12,250 (11,449 x 107%)	13,108 (12,250 x 107%)

Accordingly, for the purpose of above-mentioned employee benefit, 1% of final salary to be considered for each year of service would be ₹ 131.

2. **Computation of current service cost:** Amount in ₹

Year	1	2	3	4	5
1% salary at the end of year 5	-	-	-	-	131
PV factor at the end of each year to be considered at 10% p.a. (E)	0.683	0.751	0.826	0.909	1.000
PV at the end of each year	89 (131 x E)	98 (131 x E)	108 (131 x E)	119 (131 x E)	131 (131 x E)

Accordingly, for the purpose of above-mentioned employee benefit, 1% of final salary to be considered for each year of service would be ₹ 131.

5. (a) **Either**

Treatment of upfront payment of ₹ 50,000

Upfront payment of ₹ 50,000 would be accounted for as a reduction of the transaction price. It would be deferred and recognised as a reduction of revenue (in proportion to estimated sales) over the contract term.

Accounting for Quarter 1 and Quarter 2 is as follows:

For the first quarter

- Quarter 1 sales = ₹ 1,00,000
- Entity estimates ₹ 10,00,000 sales over the three-year period
- Percentage of Quarter 1 sale to total estimated sale
 $= (\text{₹ } 1,00,000 / \text{₹ } 10,00,000) \times 100 = 10\%$
- Share of upfront payment to be recognised in Quarter 1
 $= 10\% \times \text{₹ } 50,000 = \text{₹ } 5,000$

Hence, in Quarter 1, A Ltd. recognizes revenue of ₹ 95,000 (₹ 1,00,000 actual sales – ₹ 5,000 consideration paid to the customer)

For the second quarter

- Quarter 2 sales = ₹ 1,25,000
- A Ltd. updates its estimate of total sales over the contract to ₹ 15,00,000
- Total sales to date till Quarter 2
 $= \text{₹ } 1,00,000 + \text{₹ } 1,25,000 = \text{₹ } 2,25,000$
- Percentage of sale till Quarter 2 to total estimated sale
 $= (\text{₹ } 2,25,000 / \text{₹ } 15,00,000) \times 100 = 15\%$
- Share of upfront payment to be recognised in Quarter 2
 $= (15\% \times \text{₹ } 50,000 \text{ upfront payment}) - \text{Upfront payment recognized in Quarter 1}$
 $= \text{₹ } 7,500 - \text{₹ } 5,000 = \text{₹ } 2,500$

Hence, A Ltd. would recognize revenue of ₹ 1,22,500 for Quarter 2 (₹ 1,25,000 actual sales – ₹ 2,500 upfront payment made to the customer).

Or

For the year 20X1-20X2

S 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, S Limited expects the following:

Transaction price – ₹ 20,00,000

Expected costs – ₹ 11,00,000

Expected profit (45%) – ₹ 9,00,000

At contract inception, S Limited excludes the ₹ 2,50,000 bonus from the transaction price because it cannot be concluded that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Completion of the heavy-duty equipment is highly susceptible to factors outside the entity's influence.

By the end of the first year, the entity has satisfied 65% of its performance obligation on the basis of costs incurred to date. Costs incurred to date are therefore ₹ 7,15,000 and S Limited reassesses the variable consideration and concludes that the amount is still constrained. Therefore at 31st March, 20X2, the following would be recognised:

Revenue (A) – ₹ 13,00,000 (₹ 20,00,000 x 65%)

Costs (B) – ₹ 7,15,000 (₹ 11,00,000 x 65%)

Gross profit (C) i.e.(A-B) – ₹ 5,85,000

For the year 20X2-20X3

On 4th June, 20X2, the contract is modified. As a result, the fixed consideration and expected costs increase by ₹ 1,50,000 and ₹ 80,000, respectively.

The total potential consideration after the modification is ₹ 24,00,000 which is ₹ 21,50,000 fixed consideration + ₹ 2,50,000 completion bonus. In addition, the allowable time for achieving the bonus is extended by six months with the result that S 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 ₹ 2,50,000 can be included in the transaction price.

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

S Limited has satisfied 60.60% of its performance obligation (₹ 7,15,000 actual costs incurred compared to ₹ 11,80,000 total expected costs). The entity

recognises additional revenue of ₹ 1,54,400 [(60.60% of ₹ 24,00,000) – ₹ 13,00,000 revenue recognised to date] at the date of modification i.e. on 4th June, 20X2 as a cumulative catch-up adjustment.

(b) Accounting Treatment

As per Ind AS 37 – Provisions, Contingent Liabilities and Contingent Assets, a provision shall be recognised when:

- An entity has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate of the amount of the obligation can be made.

Further, the standard states that if a contract becomes onerous, the present obligation under the contract shall be recognised and measured as a provision. A contract is considered onerous when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from it.

In the given case, the construction project undertaken by Zenith Infrastructure Ltd. is expected to incur substantial additional costs, resulting in an expected loss on the contract. Since reliable estimates of the additional costs are available, the contract has effectively become an onerous contract.

Accordingly, the company should recognise a provision for the expected loss in the financial statements in accordance with Ind AS 37.

Failure to recognise the provision would result in overstatement of profits and understatement of liabilities, thereby leading to a misleading presentation of the financial performance and financial position of the company.

Ethical Issues

The direction given by the Chief Executive Officer to defer recognition of the provision to the next year creates an ethical dilemma for CA. Neha Kapoor.

The management's intention to avoid recognising the provision in order to present stronger financial results for obtaining contracts and maintaining credit ratings raises concerns regarding the fair presentation of financial statements.

Threats to Fundamental Principles

The situation gives rise to the following threats to the fundamental principles of professional ethics:

1. Intimidation Threat

The CEO's indication that the financial statements should portray a strong performance may exert pressure on the finance manager to ignore the correct accounting treatment. This creates an intimidation threat to the principles of integrity and objectivity.

2. Advocacy Threat

The expectation that the financial statements should support negotiations with lenders and potential clients may compel the finance manager to present information that favours management's interests rather than reflecting the true financial position. This results in an advocacy threat.

Professional Competence and Due Care

The fundamental principle of professional competence and due care requires that a Chartered Accountant should prepare financial statements in compliance with applicable accounting standards.

Since the project contract has become onerous, a provision for the expected loss must be recognised in accordance with Ind AS 37. Not recognising such provision would lead to misstatement of financial statements.

The Institute of Chartered Accountants of India Code of Ethics requires members to maintain integrity, objectivity, and professional competence while performing their duties.

Appropriate Course of Action

CA. Neha Kapoor should:

- Explain to the CEO the requirements of Ind AS 37 and the implications of not recognising the provision.
- Emphasise that non-recognition would result in misleading financial statements and may affect the credibility of the company.
- If the CEO continues to insist on the incorrect treatment, the matter should be escalated to higher levels of governance, such as the Audit Committee or the Board of Directors.

If CA. Neha Kapoor succumbs to the pressure and accepts the incorrect treatment, it would amount to non-compliance with accounting standards and a breach of the principle of professional competence and due care.

In such a situation, she may be held liable for professional misconduct under Clause (1) of Part II of the Second Schedule of the Chartered Accountants Act, 1949, which states that a member shall be deemed to be guilty of professional misconduct if he or she contravenes the provisions of the Act, Regulations, or Guidelines issued by the Council.

Therefore, CA. Neha Kapoor must ensure that the financial statements are prepared in accordance with the applicable accounting standards and ethical principles, even if this requires escalating the matter to the appropriate governance authority.

6. (a) Table showing computation of tax charge:

	Quarter ending 31 st March, 20X1	Quarter ending 30 th June, 20X1	Quarter ending 30 th September, 20X1	Quarter ending 31 st December, 20X1	Year ending 31 st December, 20X1
	₹	₹	₹	₹	₹
Profit before tax	10,000	10,000	10,000	10,000	40,000
Tax charge	(2,500)	(3,000)	(3,000)	(3,000)	(11,500)
	7,500	7,000	7,000	7,000	28,500

Since an entity's accounting year is not same as the tax year, more than one tax rate might apply during the accounting year. Accordingly, the entity should apply the effective tax rate for each interim period to the pre-tax result for that period.

(b) Based on the above data, it may be suitable for X Ltd. to use unit of production method for amortisation of technical know-how.

The total estimated unit to be produced 4,50,00 MT. The technical know-how will be amortised on the basis of the ratio of yearly production to total production.

The first-year charge should be a proportion of 50,000 / 4,50,000 on ₹ 10,00,00,000 = ₹ 1,11,11,111.

At the end of 2nd year, as per revised estimate the total number of units to be produced in future are 3,70,000 MT (i.e. 65,000 + 85,000 + 1,05,000 + 1,15,000).

The amortisation for second year will be 65,000 / 3,70,000 on (10,00,00,000 – 1,11,11,111) = 1,56,15,615.

Amortisation for remaining years (unless the estimates are again revised):

Year 3 = 85,000 / 3,70,000 on (10,00,00,000 – 1,11,11,111) = ₹ 2,04,20,420

Year 4 = 1,05,000 / 3,70,000 on (10,00,00,000 – 1,11,11,111) = ₹ 2,52,25,225

Year 5 = 1,15,000 / 3,70,000 on (10,00,00,000 – 1,11,11,111) = ₹ 2,76,27,628

- (c) As per Ind AS 23 *Borrowing Costs*, an entity shall capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) as part of the cost of that asset. The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period.

The capitalization rate of the borrowings of Mumbai Challengers Ltd. during the period of construction is 15% per annum (as given in the question), and therefore, the total amount of borrowing costs to be capitalized is the expenditures incurred on the asset multiplied by the capitalization rate, which is as under:

Particulars	₹ in crores
Costs incurred in December 20X1: (₹ 140 crores x 15% x 4/12)	7.000
Costs incurred in January 20X2: (₹ 350 crores x 15% x 3/12)	13.125
Costs incurred in February 20X2: (₹ 350 crores x 15% x 2/12)	8.750
Costs incurred in March 20X2: (₹ 350 crores x 15% x 1/12)	4.375
Borrowing Costs to be capitalized in 20X1-20X2	33.250

OR

Weighted average carrying amount of the stadium during 20X1-X2 is:

$$₹ (140 + 490 + 840 + 1,190) \text{ crores} / 4 = ₹ 665 \text{ crores}$$

Applying the weighted average rate of borrowings of 15% per annum, the borrowing cost to be capitalized is computed as:

$$₹ 665 \text{ crores} \times (15\% \times 4/12) = ₹ 33.25 \text{ crores}$$