Mock Test Paper - Series I: September, 2026

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FINAL COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

ANSWER TO PART – I CASE SCENARIO BASED MCQS

1. **Option (C):** A Ltd. may have control because, in addition to its majority shareholding, it has power over activities such as structural design, cheque approvals, pricing and marketing that significantly affect C Ltd.'s returns.

2. **Option (C):** A Ltd. has the exclusive authority over structural design and independently determines pricing and marketing strategy.

3. **Option (D):** The contractual decision-making arrangements would need to be assessed to determine whether A Ltd. actually has power over the relevant activities.

4. **Option (B):** Only three of the ten trustees are closely related to A Ltd.; the trustees act in their own capacity, and A Ltd. does not have power over the Foundation's relevant activities.

5. **Option (B):** A Ltd. should consolidate C Ltd. but should not consolidate ABC Foundation, as the facts indicate that A Ltd. has power over C Ltd. and exposure to its variable returns, whereas the three elements of control are not established for ABC Foundation.

6. **Option (B):** The loan repayable on demand should generally be recognised at ₹ 10 lakh, whereas the three-year loan should initially be measured at its fair value by discounting the future repayment using the market rate of interest.

7. **Option (A):** ₹ 40,00,000, based on the contracted selling price of ₹ 10,000 per unit.

8. **Option (C):** ₹ 40,00,000 for 400 units and ₹ 9,60,000 for 100 units, i.e. ₹ 49,60,000

9. **Option (B):** ₹ 27,00,000

10. **Option (C):** A deductible temporary difference of ₹ 30,000 arises, resulting in a deferred tax asset of ₹ 9,000.

11. **Option (C):** The non-compete condition represents a condition relating to the employee's future service/behaviour and its effect is considered in determining the fair value of the award at grant date.

12. **Option (B):** ₹ 1,50,000

13. **Option (C):** A Ltd. should recognise an expense of ₹ 1,50,000 immediately and cannot reverse the expense recognised even if the director goes to work for a competitor and loses the share options.

14. **Option (B):** Current liability, because A Ltd. did not have an right at the reporting date to defer settlement for at least 12 months because of breach of covenant.

15. **Option (B):** Classify the loan as non-current at 31 March, while considering the subsequent breach for disclosure where relevant.

16. **Option (A):** ₹ 25 lacs

17. **Option (B):** ₹ 42,000

18. **Option (D):** ₹ 50,000

19. **Option (C):** 11.4375%

20. **Option (D):** ₹ 36 million

21. **Option (D):** Do not disclose assumptions and bases, so that users are not misled.

22. **Option (B):** Self-interest threat; addressed by eliminating the circumstance, e.g., removing Ajay from the estimate approval process or the option scheme's connection to his role

23. **Option (C):** The personal preference of the accountant for one software brand over another

ANSWERS OF PART – II : DESCRIPTIVE QUESTIONS

1. **Calculation of purchase consideration:**

Particulars	₹ in million
Market value of shares issued (150 million x 4/3 x ₹ 10)	2,000
Initial estimate of market value of shares to be issued (150 million x 1/5 x ₹ 10)	300
Total consideration	2,300

Contingent consideration is recognized in full if payment is probable.

As per para 53 of Ind AS 103, acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with Ind AS 32 and Ind AS 109.

Statement of fair value of identifiable net assets at the date of acquisition

Particulars	₹ in million
As per Bosman Ltd.'s Balance Sheet	1,200
Fair value of customer relationships	100
Fair value of research and development project	50
Total net assets acquired	1,350

As per Ind AS 38 'Intangible assets', intangible assets can be recognized separately from goodwill provided they are identifiable, are under the control of the acquiring entity, and their fair value can be measured reliably.

Customer relationships that are similar in nature to those previously traded, pass these tests but employee expertise fail the 'control' test. Both the research and development phases of in process project can be capitalised provided their fair value can be measured reliably.

Statement of computation of goodwill

Particulars	**₹ in million**
Fair value of consideration given	2,300
Fair value of net assets acquired	(1,350)
Goodwill on acquisition	950

Paragraph 58 of Ind AS 103 provides guidance on the subsequent accounting for contingent consideration. In general, an equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Ind AS 32 describes an equity instrument as one that meets both of the following conditions:

- There is no contractual obligation to deliver cash or another financial asset to another party, or to exchange financial assets or financial liabilities with another party under potentially unfavourable conditions (for the issuer of the instrument).
- If the instrument will or may be settled in the issuer's own equity instruments, then it is:
    - a non-derivative that comprises an obligation for the issuer to deliver a fixed number of its own equity instruments; or
    - a derivative that will be settled only by the issuer exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

In the given case, given that the acquirer has an obligation to issue fixed number of shares on fulfillment of the contingency, the contingent consideration will be classified as equity as per the requirements of Ind AS 32.

As per paragraph 58 of Ind AS 103, contingent consideration classified as equity should not be re-measured and its subsequent settlement should be accounted for within equity.

2. **(a)** In the financial statements of A Ltd., the carrying amount of the debenture is allocated on issue as follows:

	₹
Liability component	
Present value of 20 half-yearly interest payments of ₹ 50, discounted at 11% (₹ 50 x 11.95)	598

Present value of ₹ 1,000 due in 10 years, discounted at 11%, compounded half-yearly (₹ 1,000 x 0.342)	342
	940
Equity component	
Difference between ₹ 1,000 total proceeds and ₹ 940 allocated above	60
Total proceeds	**1,000**

The repurchase price is allocated as follows:

	Carrying Value (₹)	Fair Value (₹)	Difference (₹)
Liability component:			
Present value of 10 remaining half-yearly interest Payments of ₹ 50, discounted at 11% and 8% respectively	377	406	
Present value of ₹ 1,000 due in 5 years, discounted at 11% and 8%, compounded half yearly, respectively	585	676	
	962	1,082	(120)
Equity component	60	618	(558)
Total	**1,022**	**1,700**	**(678)**

A Ltd. recognises the repurchase of the debenture as follows: **(₹)**

Liability component Dr.	962	
Debt settlement expense (P&L) Dr.	120	
To Cash		1,082
(To recognize the repurchase of the liability component)		
Equity component Dr.	60	
Reserves and Surplus Dr.	558	
To Cash		618
(To recognize the cash paid for the equity component)		

The debt settlement expense represents the difference between the carrying value of the debt component and its fair value.

(b) **Either**

As per para 74 of Ind AS 1 "Presentation of Financial Statements", where there is a breach of a material covenant 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, it classifies the liability as current, even 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 current because, at the end of the reporting period, it does not have the right to defer its settlement for at least twelve months after that date.

In the given case, though Company B (the lender) agreed for not to demand payment after the reporting date and the financial statements were approved for issuance, on the reporting date, Company A due to breach of covenant, lost the right to defer its settlement for at least twelve months after that date.

Hence, the liability should be classified as current in the financial statement as at 31st March, 20X2.

Or

Recognition of assets

The Conceptual Framework for Financial Reporting defines an asset as a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits. Assets should be recognized if they meet the Conceptual Framework definition of an asset and such recognition provides users of financial statements with information that is useful i.e. with(a)relevant information; and(b)a faithful representation of the asset.

(a) Relevance

Information about assets is relevant to users of financial statements. However, recognition of a particular asset may not always provide relevant information like when:

(i) it is uncertain whether an asset exists; or

(ii) an asset exists, but the probability of an inflow or outflow of economic benefits is low

It may be a combination of factors and not any single factor that determines whether recognition provides relevant information.

Whether or not the asset is recognised, explanatory information about the uncertainties associated with it, may need to be provided in the financial statements.

(b) Faithful representation

Recognition of a particular asset is appropriate if it provides not only relevant information, but also a faithful representation of that asset and of any resulting income, expenses or changes in equity. Whether a faithful representation can be provided may be affected by the level of measurement uncertainty associated with the asset or by other factors.

Faithful representation of a recognised asset involves not only recognition of that item, but also its measurement as well as presentation and disclosure of information about it.

Derecognition of assets

Derecognition is the removal of all or part of a recognised asset from an entity's balance sheet.

Derecognition normally occurs when that item no longer meets the definition of an asset i.e. when the entity loses control of all or part of the recognised asset.

In some cases, an entity might appear to transfer an asset but derecognition of that asset is not appropriate. For example, if an entity has apparently transferred an asset but retains exposure to significant positive or negative variations in the amount of economic benefits that may be produced by the asset, this sometimes indicates that the entity might continue to control that asset. If an entity has transferred an asset to another party that holds the asset as an agent for the entity1 the transferor still controls the asset.

3. (a) (i) Calculation of ROU Asset and Lease Liability:

Year	Lease Payments / Purchase Price	PVF @ 10%	PV of Lease payments
1	8,00,000	0.909	7,27,200
2	8,00,000	0.826	6,60,800
3	8,00,000	0.751	6,00,800
4	8,00,000	0.683	5,46,400
5	64,00,000 (8,00,000 + 56,00,000)	0.621	39,74,400
			65,09,600

Entity would amortise the right-of-use asset over the useful life of the underlying asset (5 years). Annual amortisation expense would be ₹ 13,01,920 (₹ 65,09,600 / 5 years). Accordingly, ROU Asset balance at the end of Year 1 is ₹ 52,07,680 (₹ 65,09,600 - ₹ 13,01,920).

(ii) Presentation at the end of Year 1:

In Balance Sheet	In Profit and Loss	In Statement of Cash Flows
ROU Asset: ₹ 52,07,680 (W.N.2)	Depreciation = ₹ 13,01,920 (W.N.2)	Cash flow from financing activities: Lease payment = ₹ 8,00,000
Lease Liability: ₹ 63,60,560 (W.N.1)	Interest expense (Finance cost) = ₹ 6,50,960 (W.N.1)	

(iii) In the above part (i), it was considered that lessee was reasonably certain that he will exercise the option at the end of 5th year that's why the same has been considered in determination of lease payment. Now, lessee is exercising the option at the end of 3rd year which implies that there is **change in the assessment of an option** to purchase the underlying asset.

The lease liability has to be remeasured on change in the assessment of exercising the option.

Original lease liability is ₹ 60,16,278 (Working Note 1). Since at the end of the 3rd year, the lease has been terminated due to exercise of option to purchase the asset, the revised lease liability is the amount paid on exercising the option i.e. ₹ 56,00,000. The difference of original lease liability and revised lease liability will decrease the carrying amount of the right-of-use asset.

Accordingly, the adjustment to ROU Asset would be

= ₹ 60,16,278–₹ 56,00,000 = ₹ 4,16,278.

Journal Entry

Particulars	(₹)	(₹)
Lease liability Dr.	4,16,278	
To ROU Asset		4,16,278
(Adjustment of difference in original lease liability and revised lease liability to ROU Asset)		
PPE Dr.	21,87,562	
To ROU Asset		21,87,562
(₹ 26,03,840 (Refer W.N.2) - ₹ 4,16,278)		
(ROU Asset balance transferred to PPE on exercising of lease option)		
Lease Liability Dr.	56,00,000	
To Bank/Lease payable		56,00,000
(Extinguishment of lease liability)		

Working Notes:

1. Calculation of outstanding Lease Liability at the end of 3rd year

Year	Opening balance (A)	Interest @ 10% (B)	Lease payments (C)	Closing balance (A) + (B) - (C)
	₹	₹	₹	₹
1	65,09,600	6,50,960	8,00,000	63,60,560
2	63,60,560	6,36,056	8,00,000	61,96,616
3	61,96,616	6,19,662	8,00,000	60,16,278

2. Calculation of ROU Asset balance at the end of 3rd year

Year	Opening balance (A)	Depreciation (B)	Closing balance (A-B)
	₹	₹	₹
1	65,09,600	13,01,920	52,07,680
2	63,60,560	13,01,920	39,05,760
3	61,96,616	13,01,920	26,03,840

(b) If the advance received from the customer is determined to be in the nature of prepayments or progress payments, these are treated as non-monetary items.

Accordingly, in the instant case, PQR Ltd. receives the advance payment of USD 3,000 on 1st February which it translates into its functional currency using the exchange rate on 1st February, 20X2. Applying paragraph 23(b) of Ind AS 21, the entity does not update the translated amount of the nonmonetary liability.

Applying Ind AS 115, Revenue from Contracts with Customers, it recognises revenue over a period of two years.

Since, the entity recognises revenue at the end of the year, revenue of USD 5,000 will be recognised at the end of the first year.

PQR Ltd. has determined that the consideration of USD 3,000 relates to the service it has rendered in the first year. At the end of year 1, the entity is entitled to an unconditional right to USD 2,000 of the remaining consideration.

Accordingly, at the end of the first year, on 31st March 20X3, it recognises revenue of USD 5,000 out of which USD 3,000 will be recognised by derecognising the contract liability and no exchange fluctuation will be involved. Balance of USD 2,000 revenue will be recognised by translating the exchange rate at the date of transaction and a receivable (monetary asset) will be recognised and translated at the exchange rate as at 31st March 20X3.

It will update the translated amount of the receivable until the receivable is settled on 31st March 20X4 and recognises the corresponding gain or loss in profit or loss.

At the end of the second year on 31st March 20X4, it recognises the balance revenue of USD 5,000 using the exchange rate at the date of the transaction.

4. (a) Calculation of the liability and equity components on 6% Convertible debentures:

Present value of principal payable at the end of 4th year (₹ 1,80,000 thousand x 0.74)

= ₹ 1,33,200 thousand

Present value of interest payable annually for 4 years (₹ 1,80,000 thousand x 6% x 3.31)

= ₹ 35,748 thousand

Total liability component = ₹ 1,68,948 thousand

Therefore, equity component = ₹ 1,80,000 thousand – ₹ 1,68,948 thousand

= ₹ 11,052 thousand

Calculation of finance cost and closing balance of 6% convertible debentures

Year	Opening balance ₹ in '000	Finance cost @ 8% ₹ in '000	Interest paid @ 6% ₹ in '000	Closing balance ₹ in '000
	a	b = a x 8%	c	d = a + b - c
31.3.20X2	1,68,948	13,515.84	10,800	1,71,663.84
31.3.20X3	1,71,663.84	13,733.11	10,800	1,74,596.95

Finance cost of convertible debentures for the year ended 31.3.20X3 is ₹ 13,733.11 thousand and closing balance as on 31.3.20X3 is ₹ 1,74,596.95 thousand.

Calculation of Basic EPS **₹ in '000**

Profit for the year	39,000
Less: Dividend on preference shares (80,000 thousand x ₹ 0.05)	(4,000)
Profit attributable to equity shareholders	35,000

Weighted average number of shares = 20,00,00,000 + {5,00,00,000 x (9/12)}

= 23,75,00,000 shares or 2,37,500 thousand shares

Basic EPS = ₹ 35,000 thousand / 2,37,500 thousand shares

= ₹ 0.147

Calculation of Diluted EPS **₹ in '000**

Profit for the year		39,000
Less: Dividend on preference shares (80,000 x 0.05)		(4,000)
		35,000
Add: Finance cost (as given in the above table)	13,733.11	
Less: Tax @ 25%	(3,433.28)	10,299.83
		45,299.83

Weighted average number of shares = 20,00,00,000 + {5,00,00,000 x (9/12)} + 10,00,00,000

= 33,75,00,000 shares or 3,37,500 thousand shares

Diluted EPS = ₹ 45,299.83 thousand / 3,37,500 thousand shares

= ₹ 0.134

(b) Paragraph 15 of Ind AS 105 states that an entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

Further, paragraph 17 of Ind AS 105 states that when the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in profit or loss as a financing cost.

Company X has identified a disposal group and is committed to sell the same. The sale is expected to be completed after a period of one year hence, it will measure the costs to sell such disposal group at present value as per paragraph 17 of Ind AS 105.

A. On 30th September, 20X1

The disposal group will be measured at fair value less costs to sell which will be as follows:

Fair value:	₹ 400.00 crores	
PV of costs to sell:	(₹ 8.67 crores)	(₹ 10 crores x 0.867)
Total:	₹ 391.33 crores	

B. On 31st March, 20X2

The disposal group will be measured at fair value less costs to sell which will be as follows:

Fair value:	₹ 400.00 crores	
PV of costs to sell:	(₹ 9.09 crores)	(10 x 0.909)
Total:	₹ 390.91 crores	

The increase in costs to sell the division by ₹ 0.42 crore (₹ 9.09 crores – ₹ 8.67 crores) will be recognised in profit and loss as financing cost in accordance with paragraph 17 of Ind AS 105.

5. (a) Computation of balance total equity as on 1st April, 20X1 after transition to Ind AS

			₹ in crore
Share capital- Equity share Capital			80.00
Other Equity			

General Reserve		40.00	
Capital Reserve		5.00	
Retained Earnings (95 – 5 - 40)	50.00		
Add: Increase in value of land (10 - 4.5)	5.50		
Add: Derecognition of proposed dividend (0.6 + 0.18)	0.78		
Add: Increase in value of Investment	0.75	57.03	102.03
Balance total equity as on 1st April, 20X1 after transition to Ind AS			182.03

Reconciliation between Total Equity as per AS and Ind AS to be presented in the opening balance sheet as on 1st April, 20X1

		₹ in crore
Equity share capital		80.00
Redeemable Preference share capital		25.00
		105.00
Reserves and Surplus		95.00
Total Equity as per AS		200.00
Adjustment due to reclassification		
Preference share capital classified as financial liability		(25.00)
Adjustment due to derecognition		
Proposed Dividend not considered as liability as on 1st April, 20X1		0.78
Adjustment due to remeasurement		
Increase in the value of Land due to remeasurement at fair value	5.50	
Increase in the value of investment due to remeasurement at fair value	0.75	6.25
Equity as on 1st April, 20X1 after transition to Ind AS		182.03

(b) 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

  = (₹ 1,00,000 / ₹ 10,00,000) x 100 = 10%
- Share of upfront payment to be recognised in Quarter 1

  = 10% x ₹ 50,000 = ₹ 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

  = ₹ 1,00,000 +₹ 1,25,000 = ₹ 2,25,000
- Percentage of sale till Quarter 2 to total estimated sale

  = (₹ 2,25,000 / ₹ 15,00,000) x 100 = 15%
- Share of upfront payment to be recognised in Quarter 2

  = (15% x ₹ 50,000 upfront payment) – Upfront payment recognized in Quarter 1

  = ₹ 7,500 – ₹ 5,000 = ₹ 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).

6. **(a)** Since SAL prepares consolidated financial statements for three subsidiaries, Robotic Process Automation can materially streamline this process. Software “bots” can be configured to automatically extract financial data from each subsidiary's system and feed it into the parent company's financial system, performing the necessary currency conversions where the Bangladesh subsidiary reports in a foreign currency. Because Ind AS 110 requires intercompany transactions to be eliminated to avoid double counting, the bots can also be programmed to identify such transactions within the consolidated data, adjust the corresponding accounts and generate the elimination entries automatically. Once the eliminations are complete, the bots can apply the consolidation adjustments, compute non-controlling interests and other comprehensive income attributable to the parent and non-controlling shareholders and generate the consolidated balance sheet, statement of profit and loss, statement of changes in equity and statement of cash flows, thereby improving both the speed and accuracy of the group's reporting cycle.

Cloud-based collaboration tools such as Microsoft Teams or Google Workspace would further help SAL's finance teams across the three locations work on the same set of consolidation workings simultaneously. Team members can update revenue, cost and expense figures in real time from their respective locations, while version-control features maintain an audit trail of every change made to the workings, which is useful both for internal review and for the statutory auditors. Access controls within these platforms would also ensure that only authorised personnel can view or edit sensitive financial data, addressing the confidentiality concerns that are heightened after the recent cyber incident.

(b) Since the entity is not in the business of dealing in securities, a sum of ₹ 2,31,500 invested in a bond will be classified as investing activities. There is no cash flow of interest during bond period, as there is no cash receipt. On maturity, proceeds of ₹ 6,00,000 will be classified as receipt under investing activity with a bifurcation of ₹ 3,68,500 as interest and ₹ 2,31,500 as proceeds towards redemption of bond.

(c) **Calculation of deferred tax arising on acquisition of S Ltd. and goodwill**

	₹'000	₹'000
Fair values of S Ltd.'s identifiable assets and liabilities (excluding deferred tax)		1,070
Less: Tax base		(920)
Temporary difference arising on acquisition		150
Net deferred tax liability arising on acquisition of S Ltd. (₹ 1,50,000 @ 40%)– replaces book deferred tax		60
Purchases consideration		1,500
Fair values of S Ltd.'s identifiable assets and liabilities (excluding deferred tax)	1,070	
Deferred tax	(60)	1,010
Goodwill arising on acquisition		490

The tax base of the goodwill is nil, so a taxable temporary difference of ₹ 4,90,000 arises on the goodwill. No deferred tax is recognised on the goodwill. The deferred tax on other temporary differences arising on acquisitions is provided at 40% (not 30%), because taxes will be payable or recoverable in S Ltd.'s tax jurisdictions when the temporary differences are reversed.