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Exam-May-2026

Ind AS 103 - BUSINESS COMBINATIONS

Q. 1
COMPREHENSIVE : DOA CONSOLIDATION


Panama Pharma Ltd. is a leading company engaged in the manufacturing of generic medicines. The company decided to acquire Bio Gen Research Ltd., a biotech firm specializing in viral vector technology to diversify its portfolio and enter the high-growth vaccine segment.

To achieve this, Panama Pharma Ltd. initially acquired a 30% stake in Bio Gen Research Ltd. for ₹ 15,00,000 on 1st July, 2025.

Subsequently, to gain control, Panama Pharma Ltd. acquired a further 40% stake on 1st January, 2026 for ₹ 24,00,000. On the date of acquiring control (1st January, 2026), the fair value of the previously held 30% equity interest was determined to be ₹ 17,50,000.

The summarized Balance Sheets of both the companies as at 1st January, 2026 were as follows :

Particulars	Note No.	Bio Gen Research Ltd. (₹)	Panama Pharma Ltd. (₹)
ASSETS :			
Non-current Assets			
Property, Plant and Equipment (Labs)		18,00,000	60,00,000
Investments in Bio Gen Research Limited		-	39,00,000
Investments in bonds		10,00,000	-
Current Assets			
Inventories		5,00,000	15,00,000
Financial Assets			
Trade Receivables		4,00,000	8,50,000
Cash and cash equivalent		2,00,000	12,50,000
Total		39,00,000	1,35,00,000
EQUITY AND LIABILITIES :			
Equity & Liabilities			
5,000 Equity share capital (of face value of ₹ 100 each)		5,00,000	50,00,000
Other Equity			
Other reserves		24,00,000	60,00,000
Non-current Liabilities			
Long term Borrowings		-	15,00,000
Current Liabilities			
Trade payables		10,00,000	10,00,000
Total		39,00,000	1,35,00,000

Additional Information :

- (i) Bio Gen Research Ltd. has developed a proprietary vaccine formula known as 'Vax-Shield'. This is a self-generated intangible asset and has not been recognized in the books of Bio Gen Research Ltd. The fair value of 'Vax-Shield' as at 1st January, 2026, is assessed at ₹ 8,50,000.
- (ii) The Trade Receivables of Panama Pharma Ltd. include ₹ 1,00,000 due from Bio Gen Research Ltd. for consultancy services provided in December 2025. Bio Gen Research Ltd. has recorded this amount in its Trade Payables.
- (iii) During the year, Panama Pharma Ltd. sold goods to Bio Gen Research Ltd. for ₹ 2,00,000. The cost of these goods to Panama Pharma Ltd. was ₹ 1,50,000. As on 1st January, 2026, 40% of these goods remain in the Inventory of Bio Gen Research Ltd.
- (iv) The fair value of the assets of Bio Gen Research Ltd. as on 1st January, 2026 was as follows :

Assets	Fair Value (₹)
Property, Plant and Equipment (Labs)	26,00,000
Investment in Bonds	11,50,000

- (v) The NCI is to be measured at Fair Value. The Fair Value of NCI on the acquisition date 1st January, 2026 is ₹ 16,00,000.

You are required to :

- (i) Pass necessary journal entries in the books of Panama Pharma Ltd. to account for the business combination in accordance with Ind AS 103 as at 1st January, 2026.
- (ii) Prepare the Consolidated Balance Sheet of Panama Pharma Ltd. and its subsidiary as at 1st January, 2026, incorporating all necessary adjustments for inter-company balances and unrealized profits. Also provide necessary working notes. Ignore tax implications.

[May-2026]
Ans.
(i) Journal entry as on 1st January 2026

Particulars	Dr. (₹)	Cr. (₹)
Property, Plant and Equipment	Dr. 26,00,000	
Intangible Assets	Dr. 8,50,000	
Investments in bonds	Dr. 11,50,000	
Inventories	Dr. 5,00,000	
Trade Receivables	Dr. 4,00,000	
Cash and Cash Equivalents	Dr. 2,00,000	
Goodwill (Balancing Figure)	Dr. 10,50,000	
To Trade Payables		10,00,000
To Purchase consideration		41,50,000
To Non-controlling Interest		16,00,000
(Being assets and liabilities acquired at fair value and goodwill computed on acquisition of assets and liabilities)		
Trade Payables A/c	Dr. 1,00,000	
To Trade Receivables		1,00,000
(Being mutual transaction adjusted)		
Investment in subsidiary Bio Gen Research Ltd	Dr. 2,50,000	
To Retained Earnings (Fair value gain on 30% stake of Bio Gen Research Ltd.)		2,50,000
(Being gain on fair value adjustment recognised)		
Other Equity (Retained Earnings)	Dr. 20,000	
To Inventories		20,000
(Being elimination of unrealised profit on inventories acquired)		

(ii) **Consolidated Balance Sheet of Panama Pharma Ltd. and its subsidiary, Bio Gen Research Ltd. as at 1st January 2026**

Particulars	Note No.	₹
I. Assets		
(1) Non-Current Assets		
(i) Property Plant & Equipment	1	86,00,000
(ii) Goodwill (W.N.3)		10,50,000
(iii) Intangible Asset (Vax-Shield)	1	8,50,000
(iv) Financial Asset		
(a) Investment in Bonds	1	11,50,000
(2) Current Assets		
(i) Inventories	1	19,80,000
(ii) Financial Assets		
(a) Trade Receivables	1	11,50,000
(b) Cash & Cash Equivalents	1	14,50,000
Total Assets		1,62,30,000
II. Equity and Liabilities		
(1) Equity		
(i) Equity Share Capital		50,00,000
(ii) Other Equity (W.N.4)		62,30,000
(2) Non-Controlling Interest		16,00,000
(3) Non-Current Liabilities		
(i) Financial Liabilities		
(a) Borrowings	1	15,00,000
(4) Current Liabilities		
(i) Financial Liabilities		
(a) Trade Payables	1	19,00,000
Total Equity & Liabilities		1,62,30,000

Notes to Accounts

1. Assets and Liabilities

Particulars	Panama Pharma Ltd.	Bio Gen Research Ltd.	Adjustment	Total
Property, Plant and Equipment	60,00,000	18,00,000	8,00,000	86,00,000
Intangible Assets (Vax-Shield)	-	-	8,50,000	8,50,000
Investments in Bonds	-	10,00,000	1,50,000	11,50,000
Inventories	15,00,000	5,00,000	(20,000)	19,80,000
Trade Receivables	8,50,000	4,00,000	(1,00,000)	11,50,000
Cash and Cash Equivalents	12,50,000	2,00,000	-	14,50,000
Borrowings	15,00,000	-	-	15,00,000
Trade Payables	10,00,000	10,00,000	(1,00,000)	19,00,000

Working Notes:

1. Calculation of purchase consideration at the acquisition date i.e. 1st January 2026

	₹
Fair value of 40% stake acquired in Bio Gen Research Ltd.	24,00,000
Fair value of 30% stake acquired in Bio Gen Research Ltd.	17,50,000
	41,50,000

2. Calculation of fair value of net identifiable assets at the acquisition date i.e. 1st January 2026

	₹
Property, Plant and Equipment	26,00,000
Intangible Assets	8,50,000
Investments in Bonds	11,50,000
Inventories	5,00,000
Trade Receivables	4,00,000
Cash and Cash Equivalents	2,00,000
Fair value of Total Assets	57,00,000
Less: Trade Payables	(10,00,000)
Fair value of Net Identifiable Assets	47,00,000

3. Calculation of Goodwill at the acquisition date - 1st January, 2026

	₹
Purchase consideration (W.N.1)	41,50,000
Non-controlling Interest at fair value	<u>16,00,000</u>
	57,50,000
Less: Fair value of Net Identifiable Assets (W.N.2)	(47,00,000)
Goodwill	10,50,000

4. Consolidated Retained Earnings as on 1st January 2026

	₹
Panama Pharma Ltd.	60,00,000
Add: Gain on fair valuation of previously held 30% stake (17,50,000 – 15,00,000)	2,50,000
Less: Unrealised gain on sale of inventory [(1,50,000-1,00,000) x 40%]	(20,000)
Retained Earnings as on 1st January, 2026	62,30,000

FINANCIAL INSTRUMENT
Q. 2
CFI WITH EARLY REDEMPTION


Power-tech Limited issued 50,000, 5-year, 6% convertible debentures on April 1, 2023. The debentures have a face value of ₹ 100 each.

The terms of the debentures are as follows :

- Total Face Value : ₹ 50,00,000
- Coupon Rate is 6% per annum which is payable annually on March 31.
- Conversion Option : At the maturity date (March 31, 2028), the debenture holder has the option to convert the debentures into 10 equity shares of Power-tech Limited per debenture.
- Prepayment Option (Put Option) : The debenture holder has the right to demand early repayment of the debentures at the end of the third year (i.e., on March 31, 2026). The prepayment amount will be at a premium of 5% on the face value.
- Market Interest Rate : The effective market interest rate for a similar non-convertible debenture is 10% per annum.

Required :

- Analyse the nature of instrument and determine whether it contains a liability and an equity component as per Ind AS 32.

- (ii) Compute the value of the liability component and the equity component on the date of issue (April 1, 2023) and pass necessary journal entry to record the issue of the debentures.
- (iii) Assume the debenture holders exercise the prepayment option on March 31, 2026. Pass the necessary journal entry to record the de-recognition of the financial liability and the treatment of the equity component. Show your workings for any gain or loss.
- (Present value of an annuity of ₹ 1 for three years @ 10% is 2.4869 and present value of ₹ 1 for 3 years @ 10% is 0.7513)

[May-2026]

Ans.

(i) Nature of instrument

As per Ind AS 32, a financial instrument is classified as a compound financial instrument when it contains both a financial liability component and an equity component.

In the given case, the convertible debentures contain:

- (a) Liability component:** The company has a contractual obligation to pay annual coupon interest @ 6% and repay debenture amount (with 5% premium if put option is exercised). Hence, it contains a financial liability.
- (b) Equity component:** The debenture holder has an option to convert each debenture into 10 equity shares. Since this is a fixed number of shares for a fixed amount, it satisfies the fixed-for-fixed criterion. Hence, it contains an equity component.

Thus, the instrument is a compound financial instrument.

- (ii) Value of liability and equity component on initial recognition:** Since debenture holders can exercise put option after 3 years, liability and equity component should be measured considering cash flows up to 31st March, 2026

Present value of interest payments (50,000 debentures x ₹ 100 x 6% x 2.4869)	7,46,070
Present value of redemption amount including 5% premium (₹ 50,00,000 x 105% x 0.7513)	39,44,325
Present value of liability component	46,90,395
Equity component (balancing figure)	3,09,605
Total proceeds	50,00,000

Journal Entry on 1st April, 2023

Particulars	Dr. (₹)	Cr. (₹)
Bank A/c	50,00,000	
Dr.		
To Debentures A/c (financial liability component)		46,90,395
To Debentures A/c (equity component)		3,09,605
(Being issue of 50,000 convertible debentures recorded)		

(ii) Derecognition on exercise of Put Option (31st March, 2026)

Year ended on 31st March	Opening balance	Finance cost @ 10%	Interest @ 6%	Closing balance
	a	b = a x 10%	c = 50,00,000 x 6%	d = a+b-c
2024	46,90,395	4,69,040	3,00,000	48,59,435
2025	48,59,435	4,85,944	3,00,000	50,45,379
2026	50,45,379	5,04,621*	3,00,000	52,50,000

The difference of ₹ 83 (5,04,621-5,04,538) is due to rounding off.

Treatment of Equity Component

As per Ind AS 32, equity component is not reclassified to profit or loss. It is transferred within equity (generally to retained earnings).

Journal Entry on 31st March, 2026

Particulars	Dr. (₹)	Cr. (₹)
Debentures A/c (financial liability component) Dr.	52,50,000	
Debentures A/c (equity component) Dr.	3,09,605	
To Bank A/c		52,50,000
To Retained Earnings (General Reserve) A/c		3,09,605
(Being debentures redeemed on exercise of put option and equity component transferred within equity)		

Ind AS 34
Q. 3
MEASUREMENT


Chill-Zone Ltd. is a listed entity manufacturing Air conditioners. The company prepares its financial statements on a quarterly basis. Mr. Das, the new Accounts Manager, is finalizing the quarterly Interim Financial Reports for the year 2025-26.

During the year, the following three independent issues have arisen :

- (i) Due to the summer season, the company earned ₹ 800 Lakhs in revenue in Quarter 1 (Apr-June), which constitutes 80% of its total expected annual revenue. The remaining ₹ 200 Lakhs turnover is expected evenly over the next three quarters. To show a consistent performance trend to investors, the CFO of the company wants to recognize revenue of only ₹ 250 Lakhs in Q1 and defer the balance to Q2, Q3, and Q4.
- (ii) The company expects a total pre-tax profit of ₹ 1 Crore for the full year.
 - Q1 Actual Profit : ₹ 40 Lakhs.
 - Tax Slab : The tax rate is 25% on the first ₹ 50 Lakhs of annual profit and 40% on profit exceeding ₹ 50 Lakhs.
 - Mr. Das has calculated the Q1 tax expense as ₹ 10 Lakhs, treating Q1 as a standalone period.
- (iii) Change in Estimate (The "Restatement" Error) : In Q1, the company estimated a warranty provision at 2% of sales. However, in Quarter 3, due to a defect in a batch of compressors, the warranty estimate was revised to 5% for the entire year's sales. Mr. Das intends to restate the financial statements of Q1 and Q2 to reflect this higher 5% rate, believing that the earlier reports are now "incorrect."

Required : As the Statutory Auditor, evaluate each of the proposals made by Mr. Das. Advise the correct accounting treatment for each issue in the Interim Financial Reports as per Ind AS 34. **[May-2026]**

Ans.
(i) Recognition of Seasonal Revenue

As per Ind AS 34, revenues in interim periods should be recognized when they are earned. The standard does not permit anticipation or deferral of revenues unless such treatment is appropriate at the year-end under applicable Ind AS. Further, seasonal revenues should not be smoothed over interim periods. Hence, the proposal of CFO to recognize only ₹ 250 lakhs in Quarter 1 and defer the balance revenue to subsequent quarters to show a consistent performance trend to investors is not in accordance with Ind AS 34.

The company should recognize the entire revenue of ₹ 800 lakhs in Quarter 1.

(ii) Computation of Income Tax Expense

Mr. Das has computed tax expense for Quarter 1 as ₹ 10 lakhs by applying 25% on Quarter 1 profit, treating it as a standalone period.

As per Ind AS 34, income tax expense for an interim period should be calculated using the estimated average annual effective tax rate applied to the year-to-date profit.

Computation of AETR:

Estimated annual profit = ₹ 100 lakhs

Tax on first ₹ 50 lakhs @ 25%	₹ 12.5 lakhs
Tax on next ₹ 50 lakhs @ 40%	₹ 20 lakhs
Total tax =	₹ 32.5 lakhs

Average tax rate = $[(₹ 32.5 \text{ lakhs} / ₹ 100 \text{ lakhs}) \times 100] = 32.5\%$

Tax Expense for Quarter 1:

Profit of Quarter 1 = ₹ 40 lakhs

Tax = ₹ 40 lakhs $\times$ 32.5% = ₹ 13 lakhs

Based on the above computation, it is concluded that calculation of tax expense, by the Accounts Manager, Mr. Das, of ₹ 10 lakhs for Quarter 1 is incorrect. The company should recognize ₹ 13 lakhs as tax expense in Quarter 1.

(iii) Change in Estimate (The "Restatement" Error)

As per Ind AS 34 read with Ind AS 8, a change in estimate is not an error and should be accounted for prospectively. Interim financial reports are based on estimates available at the reporting date and revision of estimates does not render earlier reports to be incorrect. Hence, restatement of financial statements of Quarter 1 and Quarter 2 is not permitted.

Accordingly, the revised estimate of 5% should be applied prospectively from Quarter 3 onwards and recognise the catch-up (difference between 5% and 2% already booked) as an expense in Quarter 3 itself. The impact of the change should be recognized in Quarter 3 and future periods, along with appropriate disclosure if material.

Ind AS 116

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Q. 4**MANUFACTURER LESSOR**

Electro Drive Ltd. is a manufacturer of specialized electric buses. The company sells these buses to transport agencies and also offers them on lease. On 1st April, 2022, Electro Drive Ltd. entered into a finance lease agreement with City Transport Corp. for a new model of electric bus.

The details of the arrangement are as follows :

- (i) Lease Term is 4 years commencing on 1st April, 2022.
- (ii) Annual Lease Rental is ₹ 18,06,560 payable annually in arrears on 31st March each year.
- (iii) The bus cost Electro Drive Ltd. ₹ 45,00,000 to manufacture.
- (iv) The fair value of the bus at the commencement of the lease is ₹ 60,00,000.
- (v) Residual Value : The bus is expected to have a residual value of ₹ 4,00,000 at the end of the lease term. This residual value is unguaranteed by the lessee.
- (vi) Electro Drive Ltd. incurred legal and documentation charges of ₹ 25,000 to negotiate and arrange the lease.
- (vii) The interest rate implicit in the lease is 10%.
- (viii) PV Factors at 10% for :

Year	PV Factor
Year 1	0.909
Year 2	0.826
Year 3	0.751
Year 4	0.683

(ix) The present value of annuity of ₹ 1 for 4 years @ 10% is 3.170

You are required to account for this transaction in the books of Electro Drive Ltd. (Lessor) by calculating the Revenue, Cost of Sales and Selling Profit. Also, provide the Lease Amortization Schedule for the entire lease period assuming that the lessor classifies the lease as a finance lease. **[May-2026]**

Ans.

- (i) **Cost of sales** = Cost to the lessor + Initial direct costs - Present value of the unguaranteed residual value
 = ₹ 45,00,000 + ₹ 25,000 - ₹ 2,73,200 (i.e. ₹ 4,00,000 x 0.683)
 = ₹ 42,51,800.
- (ii) **Revenue** = Lower of
 (a) Fair Value of assets i.e. ₹ 60,00,000; and
 (b) Present value of the lease payments receivable
 = 18,06,560 x 3.170 = ₹ 57,26,795 say ₹ 57,26,800
 Revenue = ₹ 57,26,800
- (iii) **Selling Profit** = Revenue - Cost of sale = ₹ 57,26,800 - ₹ 42,51,800
 = ₹ 14,75,000
- (iv) **Net Investment in lease** = Present value of the lease payments receivable + Present value of the unguaranteed residual value
 ₹ 57,26,800 + ₹ 2,73,200 = 60,00,000
- (v) **Amortisation Schedule**

Year	Lease receivable at the beginning of year (₹) (a)	Lease payments (₹) (b)	Interest Income (10% per annum) (₹) (c)	Decrease In lease receivable (₹) (d)=(b)-(c)	Lease receivable at the end of year (₹) (e)=(a)-(d)
1	60,00,000	18,06,560	6,00,000	12,06,560	47,93,440
2	47,93,440	18,06,560	4,79,344	13,27,216	34,66,224
3	34,66,224	18,06,560	3,46,622	14,59,938	20,06,286
4	20,06,286	18,06,560	2,00,274*	16,06,286	4,00,000

*Difference of ₹ 355 (₹ 2,00,629- ₹ 2,00,274) is due to approximation.

(v) **Accounting of lease transactions in the books of Electro Drive Ltd. (lessor)**

Year		₹	₹
1.4.2022	Lease receivable A/c Dr. Cost of sales A/c Dr. To Inventory A/c To Revenue A/c To Creditors/Cash A/c (Recording of lease transaction at the inception)	60,00,000 42,51,800	 45,00,000 57,26,800 25,000
31.3.2023	Cash/Bank Dr. To Lease receivable To Interest income (Being interest income accrued at the end of the year)	18,06,560	 12,06,560 6,00,000
31.3.2024	Cash/Bank Dr. To Lease receivable To Interest income (Being interest income accrued at the end of the year)	18,06,560	 13,27,216 4,79,344
31.3.2025	Cash/Bank Dr. To Lease receivable	18,06,560	 14,59,938

31.3.2026	To Interest income (Being interest income accrued at the end of the year)	18,06,560	3,46,622
	Cash/Bank Dr.		
31.3.2026	To Lease receivable To Interest income (Being interest income accrued at the end of the year)	4,00,000	16,06,286 2,00,274
	Inventory Dr. To Lease receivable (On return of leased electric bus by the lessee)		4,00,000

Ind AS 19

Q. 5

COMPREHENSIVE



Saurabh Engineering Ltd. provides the retirement benefit facility to its employees and prepares its financial statements every year on 31st March based on Ind AS. Following information is available in respect of its employees benefit facility :

(₹ in lakhs)

	31/3/2024	31/3/2025	31/3/2026
Current service cost	250	280	310
Benefits paid	260	300	340
Contributions paid	160	180	200
Present value of the obligation at 31 st March	2,430	2,826	3,200
Fair value of plan assets at 31 st March	2,294	2,274	2,400
Discount rate at the start of the year	11%	10%	9%
Expected return on plan assets	13%	12%	11%

The present value of the obligation and the fair value of the plan assets were both ₹ 2,000 lakhs at 1st April, 2023 and there were no actuarial gains or losses at this date. The average remaining lives of the employees was estimated to be 15 years.

In respect of each of the three years, you are required to :

- Calculate the actuarial gain/loss arising in each of the period.
- Calculate how the gain or loss should be recognised and in which period.
- Calculate the liability to be included in Balance Sheet at each year end.
- Explain the composition of amount recognised in profit and loss.

[May-2026]

Ans.

(i) Calculation of Actuarial Gain / (Loss)

A. Actuarial Gain / (Loss) on Defined Benefit Obligation

(₹ in lakhs)

Particulars	2023-2024	2024-2025	2025-2026
Opening obligation	2,000	2,430	2,826
Add: Interest cost	220	243	254.34
Add: Current service cost	250	280	310
Less: Benefits paid	(260)	(300)	(340)
Expected closing obligation	2,210	2,653	3,050.34
Actual closing obligation	(2,430)	(2,826)	(3,200)
Actuarial (loss)	(220)	(173)	(149.66)

B. Actuarial Gain / (Loss) on Plan Assets (₹ in lakhs)

Particulars	2023-2024	2024-2025	2025-2026
Opening plan assets	2,000.00	2,294.00	2,274.00
Add: Expected return	260.00	275.28	250.14
Add: Contributions	160.00	180.00	200.00
Less: Benefits paid	(260.00)	(300.00)	(340.00)
Expected closing assets	2,160.00	2,449.28	2,384.14
Actual closing assets	2,294.00	(2,274.00)	2,400.00
Actuarial gain/(loss)	134.00	(175.28)	15.86

C. Net Actuarial Gain / (Loss)

Year	Actuarial Gain / (Loss) on Defined Benefit Obligation	Actuarial Gain / (Loss) on Plan Assets	Amount (₹ in lakhs)
2023-2024	(220)	134.00	(86) Loss
2024-2025	(173)	(175.28)	(348.28) Loss
2025-2026	(149.66)	15.86	(133.80) Loss

(ii) Treatment of Actuarial Gain / Loss

As per Ind AS 19 'Employee Benefits', actuarial gain/loss (remeasurements) shall be recognised immediately in Other Comprehensive Income (OCI).

(iii) Amount of Liability to be recognised in Balance Sheet (₹ in lakhs)

Particulars	31.3.2024	31.3.2025	31.3.2026
Present value of obligation	2,430	2,826	3,200
Less: Fair value of plan assets	(2,294)	(2,274)	(2,400)
Net defined benefit liability	136	552	800

(iv) Amount recognised in Statement of Profit and Loss

- Current Service Cost** represents the increase in present value of the defined benefit obligation resulting from employee service in the current period. It is charged to Profit and Loss in the year in which the service is rendered.
- Net Interest Cost on Net Defined Benefit Liability / Asset-** This is the net financing cost which is calculated as difference of interest cost on defined benefit obligation and interest income on plan assets, computed using the discount rate at the beginning of the period.

Extract of Statement of Profit and loss and OCI (₹ in lakhs)

Particulars	2023-2024	2024-2025	2025-2026
Current service cost	250	280	310
Interest cost on obligation	220	243	254.34
Less: Interest income on plan assets	(260)	(275.28)	(250.14)
Net amount recognised in P&L	210	247.72	314.20
Other Comprehensive Income	(86)	(348.28)	(133.80)

CONCEPTUAL FRAMEWORK
Q. 6

As a general principle, the entities should use the same measurement basis for initial recognition and subsequent measurement of an asset or a liability which creates two possible scenarios of 'at-market' transaction and 'off-market' transactions. Explain both scenarios of initial measurement of an asset or a liability. **[May-2026]**

Ans.


As a general principle, the entities should use the same measurement basis for initial recognition and subsequent measurement of an asset or a liability which creates two possible scenarios of "at-market" transactions and "off-market" transactions.

Transactions on market terms (i.e. 'at-market' transactions) Transactions using currency (i.e. cash):

At initial recognition, the cost of an asset acquired, or of a liability incurred is normally similar to its fair value at that date, unless transaction costs are significant. Therefore, whether historical cost or current value is used as a measurement basis subsequently, the same basis is also normally appropriate at initial recognition.

Exchange of asset or liability

When an entity acquires an asset, or incurs a liability, in exchange for transferring another asset or liability, the initial measure of the asset acquired, or the liability incurred, determines whether any income or expenses arise from the transaction which is recognised in statement of profit and loss as an income. The reverse will apply for a liability.

If the asset acquired is subsequently measured at cost, no income or expenses arise at initial recognition since the asset acquired is initially measured at cost which is the fair value of the asset transferred i.e. given up, unless income or expenses arise from the derecognition of the transferred asset or liability, or unless the asset is impaired or the liability is onerous.

Transactions not on market terms (i.e. 'off-market' transactions)

Assets may be acquired, or liabilities may be incurred, as a result of an event that is not a transaction on market terms. For example:

- (a) the transaction price may be affected by relationships between the parties;
- (b) an asset may be granted to the entity free of charge by a government or
- (c) an asset may be donated to the entity by another party;
- (d) a liability may be imposed by legislation or regulation; or
- (e) a liability to pay compensation or a penalty may arise from an act of wrongdoing.

In such cases, measuring the asset acquired, or the liability incurred, at its historical cost may not provide a faithful representation of the entity's assets and liabilities and of any income or expenses arising from the transaction or other event. Hence, it may be appropriate to measure the asset acquired, or the liability incurred, at deemed cost. In some such cases, a current value of the asset or liability is used as a deemed cost on initial recognition and that deemed cost is then used as a starting point for subsequent measurement at historical cost. Any difference between that deemed cost and any consideration given or received would be recognised as income or expenses at initial recognition.

Q. 7

Define cloud computing and explain any four common applications of cloud computing.

[May-2026]

Ans.



Cloud Computing: 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.

With the advent of cloud computing, persons could access the systems from their respective locations, work remotely during the lockdown and ensure that the accounting process and reporting requirements did not suffer adversely.

Common Applications of Cloud Computing

1. **Cloud Storage:** Services like Dropbox, Google Drive, and Microsoft OneDrive offer cloud storage solutions that allow users to store and access their files and data from anywhere with an internet connection. Users can save documents, photos, videos, and other files in the cloud and synchronize them across multiple devices.
2. **Software as a Service (SaaS):** SaaS platforms provide cloud-based software applications that users can access and utilize via the internet. Examples include Salesforce for customer relationship management (CRM), Slack for team collaboration, and QuickBooks Online for accounting and financial management.
3. **Infrastructure as a Service (IaaS):** IaaS providers offer virtualized computing resources, including servers, storage, and networking infrastructure, on a pay-as-you-go basis. Examples include Amazon Web Services (AWS), Microsoft Azure, and Google Cloud Platform. These platforms allow businesses to scale their IT infrastructure based on demand without the need for physical hardware.
4. **Platform as a Service (PaaS):** PaaS providers offer cloud-based platforms that enable developers to build, deploy, and manage applications without the complexity of infrastructure management. Examples include Microsoft Azure App Service, and Google App Engine.
5. **Cloud-based Communication and Collaboration:** Applications like Microsoft Teams, Google Workspace (formerly G Suite), and Zoom provide cloud-based communication and collaboration tools that facilitate real-time messaging, video conferencing, file sharing, and project management.
6. **Cloud-based E-commerce:** Few platforms enable businesses to set up and manage online stores using cloud infrastructure. These platforms provide features like product catalogues, payment processing, inventory management, and customer analytics.
7. **Big Data Analytics:** Cloud computing enables organizations to process and analyze large volumes of data efficiently. Services like Amazon Redshift, Google BigQuery, and Microsoft Azure Data Lake Analytics provide scalable infrastructure for big data processing and analytics, empowering businesses to derive valuable insights from their data.
8. **Content Streaming Services:** Platforms like Netflix use cloud infrastructure to deliver video and media content globally.

CA Final FR

RTP-Nov-2026

PROFESSIONAL AND ETHICAL DUTY OF A CHARTERED ACCOUNTANT

Q. 1


AlphaTech Ltd., a listed company, manufactures specialised industrial equipment and prepares its financial statements under Ind AS. For the year ended 31 March 20X5, its reported revenue before the following transaction was ₹ 492 crore, against management's guidance of ₹ 500 crore.

On 25 March 20X5, AlphaTech received an order of ₹ 30 crore from Beta Industries Ltd. The equipment was delivered on 28 March 20X5 and management recognised the entire ₹ 30 crore as revenue immediately.

CA Rohan Mehta, responsible for financial reporting, noted the following:

- Beta Industries had a 90-day contractual right to return the equipment if it did not meet its production requirements.
- The equipment was highly customised and could not readily be sold to another customer without substantial modification.
- Installation and acceptance testing were not completed as at 31 March 20X5.
- The sales team had separately assured Beta Industries that AlphaTech would take back the equipment and provide a full refund if it did not perform as expected although this assurance was not expressly included in the main contract.
- The consideration of ₹ 30 crore was not received; payment was due 120 days after final acceptance by the customer.
- The CFO stated that AlphaTech had historically recognised revenue on dispatch and asked Rohan to approve the ₹ 30 crore revenue to meet the company's revenue target.

On 15 April 20X5, Beta Industries informed AlphaTech that the equipment had failed acceptance testing and exercised its right to return it. The equipment was returned on 25 April 20X5.

The CFO instructed Rohan not to reconsider the financial year 20X4-20X5 revenue, stating that the return occurred in the next financial year.

Required:

- (a) Whether the ₹ 30 crore revenue should be recognised in financial year 20X4-20X5?;
- (b) How the subsequent failure of acceptance testing and return of the equipment should be considered? and
- (c) What should CA Rohan do in the given circumstances?
- (d) What would be the consequences of failure by CA. Rohan to discharge his professional responsibility?

[RTP-Nov-2026]

Ans.

(a) Correct Accounting treatment under Ind AS 115 'Revenue from Contracts with Customers'

Under Ind AS 115, revenue is recognised when, or as, a performance obligation is satisfied by transferring control of the promised goods or service to the customer. Accordingly, physical delivery or dispatch alone does not necessarily establish that revenue should be recognised.

In the present case, the following factors are relevant:

1. **Acceptance testing:** Testing had not been completed by 31 March 20X5. If the acceptance condition is substantive and control cannot be considered to have transferred before successful acceptance, revenue should be deferred.

2. **Right of return:** Beta Industries had a contractual right to return the equipment. Accordingly, if control had otherwise transferred, AlphaTech would recognise revenue only to the extent to which it expects to be entitled, together with a refund liability and an asset for its right to recover the product, as applicable.
3. **Other terms:** The equipment was highly customised, payment was conditional upon final acceptance, and the sales team had assured the customer of a full refund. These facts are relevant in determining the substance of the arrangement and whether control had transferred. Therefore, AlphaTech cannot recognise the entire ₹ 30 crore merely because the equipment was dispatched on 28 March 20X5. It must first establish whether control had transferred by 31 March 20X5 and apply the right-of-return requirements, as applicable.

(b) Subsequent failure of acceptance testing and return

The fact that Beta Industries failed the acceptance test shortly after year-end and returned the equipment is significant.

At 31 March 20X5:

1. acceptance testing was pending;
2. the customer already had a contractual right of return;
3. payment was conditional upon final acceptance; and
4. the equipment had not successfully passed acceptance testing.

Accordingly, the subsequent failure may provide additional evidence about conditions existing at the reporting date, rather than representing an entirely new condition arising in Financial Year 20X5-20X6. Therefore, the return cannot simply be ignored on the ground that it physically occurred after year-end. It should be considered in determining whether the original revenue recognition in Financial Year 20X4-20X5 was appropriate.

(c) Responsibility of CA Rohan

Rohan should not approve the ₹30 crore revenue merely to enable AlphaTech to achieve its revenue target. Management's revenue target is not a criterion for revenue recognition.

He should:

1. apply Ind AS 115 based on the facts and substance of the transaction;
2. exercise professional integrity, objectivity and professional judgement;
3. explain to management why the proposed accounting treatment may not comply with Ind AS;
4. document his assessment and the relevant evidence; and
5. if management refuses to make an appropriate adjustment, escalate the matter to the Audit Committee or those charged with governance, as appropriate.

Rohan should not allow management pressure or revenue targets to override the requirements of Ind AS 115 and his professional responsibilities.

(d) Consequences of failure to discharge professional responsibility:

In case CA Rohan succumbs to the undue influence of the CFO and knowingly approves an accounting treatment that is not in accordance with Ind AS, he may be liable for professional misconduct under Clause 1 of Part II of the Second Schedule to the Chartered Accountants Act, 1949. The Clause 1 states that a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, for contravening the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council. As per the Guidelines issued by the Council, 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.

Accordingly, Rohan must exercise due care and professional judgment and should not allow management pressure or undue influence to override his professional responsibilities.

Q. 2

CLASSIFICATION



ABC Ltd. has a loan of ₹ 20 crore that is contractually repayable on 31 March 20X6. The loan agreement contains the following covenants relating to the company's working capital ratio:

Covenant	Testing date	Requirement
Working Capital ratio	31 March 20X1	At least 1.20
Working Capital ratio	30 September 20X1	At least 1.50

Under the terms of the loan agreement, if ABC Ltd. fails to comply with the working capital ratio requirement on any of the specified testing dates, the lender has the right to demand immediate repayment of the entire outstanding loan.

ABC Ltd. is preparing its financial statements for the year ended 31 March 20X1.

The following information is available:

1. The working capital ratio of ABC Ltd. on 31 March 20X1 is 1.30.
2. Based on its approved budgets and forecasts, management expects the working capital ratio to be 1.40 on 30 September 20X1.
3. Accordingly, although ABC Ltd. has complied with the covenant applicable at the reporting date, management expects that it will not comply with the covenant applicable on 30 September 20X1.
4. There are no other terms in the loan agreement that could result in the loan becoming repayable on demand as at 31 March 20X1.

Assume that the remaining terms of the loan are unchanged and that the lender has not waived or modified the covenant requirements.

Required:

- (a) Determine whether the loan should be classified as current or non-current in the balance sheet of ABC Ltd. as at 31 March 20X1, giving reasons.
- (b) Explain whether the expected failure to meet the working capital ratio of 1.50 on 30 September 20X1 affects the classification of the loan as at 31 March 20X1.
- (c) State the additional disclosures, if any, required in the financial statements for the year ended 31 March 20X1 in respect of the future covenant.
- (d) Assuming that the actual working capital ratio on 30 September 20X1 is 1.40, explain the consequence of such failure on the loan after the reporting date. **[RTP-Nov-2026]**

Ans.

- (a) **Classification of the loan as at 31 March 20X1:** The loan should be classified as a non-current liability as at 31 March 20X1.
The reason is that the covenant requiring a working capital ratio of at least 1.20 is tested on 31 March 20X1, i.e., on the reporting date. ABC Ltd. has a working capital ratio of 1.30 on that date and therefore complies with the covenant.
Accordingly, ABC Ltd. has the right to defer settlement of the loan for at least 12 months after the reporting date, subject to the requirements of Ind AS 1.
- (b) **Effect of the covenant to be tested on 30 September 20X1:** The covenant requiring a working capital ratio of at least 1.50 is tested on 30 September 20X1, which is after the reporting date.
Under the amendment in Ind AS 1, covenants that an entity is required to comply with after the reporting date do not affect the classification of the liability as current or non-current at the reporting date.

Therefore, even though management expects the working capital ratio to be only 1.40 on 30 September 20X1 and consequently expects to fail the covenant, the loan will continue to be classified as non-current as at 31 March 20X1.

- (c) **Disclosure relating to the future covenant:** Although the future covenant does not affect classification, ABC Ltd. is required to provide disclosures that enable users of the financial statements to understand the risk that the liability could become repayable within 12 months after the reporting date.

The disclosure should include information about:

- the covenant requiring a working capital ratio of at least 1.50 on 30 September 20X1;
- the fact that the company expects to fail this covenant; and
- the fact that failure would result in the loan becoming repayable on demand.

A suitable disclosure could be:

“The loan of ₹ 20 crore, classified as a non-current liability, is subject to a covenant requiring the Company to maintain a working capital ratio of at least 1.50 as at 30 September 20 X1. Based on the Company’s current forecasts, the working capital ratio is expected to be 1.40 on that date. Consequently, the Company expects not to comply with the covenant, which could result in the loan becoming repayable on demand within 12 months after the reporting date.”

- (d) **Consequence if the actual working capital ratio is 1.40 on 30 September 20X1:** If the actual working capital ratio on 30 September 20X1 is 1.40, ABC Ltd. will fail to meet the required ratio of 1.50.

Consequently, under the terms of the loan agreement, the lender will have the right to demand immediate repayment of the loan.

However, this does not retrospectively change the classification made at 31 March 20X1. The loan was appropriately classified as non-current at that reporting date because ABC Ltd. had complied with the covenant applicable on 31 March 20 X1.

The failure on 30 September 20X1 would be relevant to the financial statements for the subsequent reporting period, subject to the applicable requirements of Ind AS 1.

Ind AS 21

Q. 3

EXCHANGEABILITY



A Ltd., whose functional currency is LC, has the following foreign currency liabilities denominated in FC as at 31 March 20X2:

Particulars	FC
Long-term foreign currency borrowing	10,00,000
Trade payables relating to import of electronic goods	10,000

During the year ended 31 March 20X2, A Ltd. imported electronic goods having a total value of FC 70,000.

The following additional information is available:

1. The relevant authority in A Ltd.’s jurisdiction permits A Ltd. to obtain FC up to 1,00,000 per year for payment for imports of electronic goods.
2. For repayment of long-term foreign currency borrowings, the relevant authority permits A Ltd. to obtain FC only up to 50,000 per year.
3. The restrictions are applicable at the level of the specified purpose for which FC is required. The authority does not permit A Ltd. to use the FC obtained under the import quota for repayment of its long-term borrowing.

4. As at 31 March 20X2, the following exchange rates are observable:
 - o LC 1.20 = FC 1. This is the rate at which A Ltd. is permitted to obtain FC for payment for imported electronic goods.
 - o LC 1.32 = FC 1. This is the rate quoted in an unofficial / parallel market. However, transactions in this market do not create enforceable rights and obligations and therefore cannot be considered when assessing whether FC is exchangeable for the purpose of the borrowing.
5. The rate of LC 1.20 per FC is an observable exchange rate for a purpose other than repayment of the borrowing and, based on the facts and circumstances, A Ltd. concludes that this rate meets the objective of estimating the spot exchange rate at 31 March 20X2.
6. Assume that there are no other changes in the foreign currency liabilities during the year and ignore interest and transaction costs.

Required:

- (a) Determine whether FC is exchangeable into LC at 31 March 20X2 separately for each of the two liabilities, giving reasons.
- (b) Determine the exchange rate to be used for translating each liability into LC at 31 March 20X2 in accordance with the amended Ind AS 21.
- (c) Calculate the amount of each liability to be recognised in LC in the financial statements of A Ltd. as at 31 March 20X2.
- (d) Explain whether the LC 1.32 per FC unofficial market rate can be used in determining the exchangeability of FC and, if FC is determined to be non-exchangeable, whether such a rate can nevertheless be considered in estimating the spot exchange rate.

[RTP-Nov-2026]**Ans.**

- (a) **Assessment of exchangeability:** The amendment in Ind AS 21 requires exchangeability to be assessed at the measurement date and for a specified purpose. Therefore, the fact that A Ltd. can obtain FC for one purpose does not automatically establish that it can obtain FC for another purpose. Consequently, the same currency may be exchangeable for settling trade payables but not exchangeable for repayment of a long-term borrowing.

Trade payables: A Ltd. is required to assess exchangeability for the specified purpose of settling trade payables arising from imports. The total imports during 20X1-20X2 are FC 70,000, which are within the annual permitted limit of FC 1,00,000. Accordingly, A Ltd. is able to obtain sufficient FC to settle the trade payables. Therefore, FC is exchangeable into LC for the purpose of settling the trade payables.

Long-term borrowing: For repayment of the long-term borrowing, A Ltd. can obtain only FC 50,000 in a year against the outstanding borrowing of FC 10,00,000. FC 50,000 is only 5% of the outstanding liability and is considered no more than an insignificant amount in relation to the amount required to settle the borrowing. Accordingly, FC is not exchangeable into LC for the purpose of settling the long-term borrowing.

Thus, the exchangeability assessment is made separately for the specified purposes rather than for FC as a currency generally.

- (b) **Exchange rates to be applied:** For the trade payables, since FC is exchangeable for the specified purpose, A Ltd. applies the applicable requirements of Ind AS 21. Accordingly, the exchange rate is LC 1.20 per FC.

For the long-term borrowing, FC is not exchangeable for the specified purpose. Therefore, A Ltd. is required to estimate the spot exchange rate at 31 March 20X2. Since the observable rate of LC 1.20 per FC for another purpose meets the objective of the amended Ind AS 21, A Ltd. may use that observable exchange rate without adjustment.

Therefore:

- Trade payables: LC 1.20 per FC
- Long-term borrowing: LC 1.20 per FC (estimated spot rate)

(c) Translation into LC

Liability	FC	Rate (LC/FC)	LC amount
Long-term borrowing	10,00,000	1.20	LC 12,00,000
Trade payables	<u>10,000</u>	1.20	<u>LC 12,000</u>
	10,10,000		LC 12,12,000

- (d) Treatment of the unofficial market rate:** The LC 1.32 per FC rate cannot be considered when determining whether FC is exchangeable because the unofficial/parallel market does not result in enforceable rights and obligations. However, once A Ltd. has determined that FC is not exchangeable for the purpose of the borrowing, observable exchange rates from unofficial or parallel markets may be considered as an input in estimating the spot exchange rate, subject to appropriate adjustments where necessary to meet the objective of paragraph 19A. The amendment in Ind AS 21 does not prescribe a hierarchy of observable exchange rates for this purpose.

FINANCIAL INSTRUMENTS
Q. 4
FA: ACM


A Ltd. purchases ₹ 10 lakh, 10%, five-year government bonds on 1 April 20X5, with semi-annual interest payable on 30 September and 31 March, for ₹ 10.6 lakh (premium of ₹ 60,000). A Ltd. classifies the bonds as held to maturity (HTM) investments at amortised cost. The amortisation of the bonds to maturity, using the effective interest method is shown below:

Date	Opening balance (a)	Cash received (b)	Effective interest rate @ 4.251% (c)	Carrying amount (d)
1 April 20X5				10,60,000
1 October 20X5	10,60,000	50,000	45,061	10,55,061
1 April 20X6	10,55,061	50,000	44,851	10,49,912
1 October 20X6	10,49,912	50,000	44,632	10,44,544
1 April 20X7	10,44,544	50,000	44,404	10,38,948
1 October 20X7	10,38,948	50,000	44,166	10,33,114
1 April 20X8	10,33,114	50,000	43,918	10,27,032
1 October 20X8	10,27,032	50,000	43,659	10,20,691
1 April 20X9	10,20,691	50,000	43,390	10,14,081
1 October 20X9	10,14,081	50,000	43,109	10,07,190
31 March 2X10	10,07,190	<u>50,000</u>	<u>42,810</u>	10,00,000
Total		5,00,000	4,40,000	

On 1 October 20X6, A Ltd. sells the bond at its fair value of ₹ 10.50 lakh to a third party, with an agreement to repurchase the bond on 1 October 20X7 for ₹ 10.56 lakh. The transferee will be entitled to receive the interest due on 1 April 20X7 and 1 October 20X7 (i.e. ₹ 1 lakh), together with the difference between the repurchase price and sale price of ₹ 6,000, representing a lender's return of 10.081% per annum on the sale price.

Note: A Ltd. has decided to adopt the policy of not recording the said forward contract to repurchase the financial asset at a fixed price as an asset.

Required:

Determine profit/loss on the above transaction at the time of sale and repurchase of the transaction and also pass necessary journal entries for the same.

[RTP-Nov-2026]

Ans.

Since the repurchase price is fixed at the outset, A Ltd. is precluded from de-recognising the bond. The transferee will be entitled to receive the interest due on 1 April 20X7 and 1 October 20X7 (i.e., ₹ 1 lakh), together with the difference between the repurchase price and sale price of ₹ 6,000. This represents a lender's return of 10.081% per annum on the sale price. Therefore, A Ltd. will continue to recognise the bond and the interest on it, as if it still holds the bonds.

A Ltd. will also record a liability of ₹ 10.50 lakh for the proceeds received. This liability accretes to the amount payable on repurchase of ₹ 10.56 lakh at 1 October 20X7, using the effective interest rate method. A Ltd. will continue to recognise a notional interest income in the periods to 1 April 20X7 and 1 October 20X7, and it will also account for an equal amount of notional interest paid to the third party. On 1 October 20X7 following repurchase of the bond by A Ltd., the liability of ₹ 10.56 lakh will be eliminated, as shown below:

Liability carrying value

Particulars	₹
Liability at 1 October 20X6	10,50,000
Interest payable for the half year to 31 March 20X7 @ 10.081%	52,926
Notional cash paid to third party on 31 March 20X7*	<u>(50,000)</u>
Balance at 31 March 20X7	10,52,926
Interest payable for the half year to 30 September 20X7 @ 10.081%	53,074
Notional cash paid to third party on 30 September 20X7*	<u>(50,000)</u>
Balance at 30 September 20X7	10,56,000
Liability repaid on 1 October 20X7 at repurchase price	<u>(10,56,000)</u>
	<u>Nil</u>

* Third party will receive interest directly from the bond as legal owner.

The transferee might be able to pledge or sell the bond during its period of ownership. In that situation, the transferor should reclassify the bond on its balance sheet as a loaned asset or repurchase receivable.

Illustration: Sale and repurchase transaction (net settled in cash)

On 1 October 20X6, A Ltd. sells a bond at its fair value of ₹ 10.50 lakh to a third party, with an agreement to repurchase the bond on 1 October 20X7 for ₹ 10.56 lakh. The amortised cost of the bond at the sale date is ₹ 10,44,544.

The repurchase contract is to be settled net in cash (i.e. A Ltd. will not physically receive the bond back at the settlement date). The fair value of the asset at the settlement date amounts to ₹ 10.60 lakh. This means that A Ltd. will receive an additional ₹ 4,000 from the third party.

The fact that the forward repurchase agreement requires net settlement does not automatically lead to de-recognition. A Ltd. continues to recognise the asset. Since, A Ltd. will not physically receive the bond back, the bond will be de-recognised following receipt of the additional consideration of ₹ 4,000 at the settlement date. It would not be appropriate to continue to classify the bond as HTM at amortised cost. Instead, A Ltd. would need to reclassify the bond at FVTPL at the sale date of 1 October 20X6.

The entries are shown below:

Particulars	₹
Fair value of bond at 1 October 20X6	10,50,000
Amortised cost of bond at 1 October 20X6	<u>(10,44,544)</u>
Gain	<u>5,456</u>

Therefore, A Ltd. will record the bond at its fair value of ₹ 10.50 lakh and a corresponding liability of ₹ 10.50 lakh. The liability accretes to the repurchase price of ₹ 10.56 lakh, using the effective interest rate method. At the settlement date of 1 October 20X7, immediately before de-recognition the bond will be fair valued to ₹ 10.60 lakh and a further gain of ₹ 10,000 will be recorded in P&L. Since the contract will be net settled in cash, the bond is then de-recognised. A Ltd. will record the following entries, from inception to settlement:

Particulars		Dr. ₹	Cr. ₹
Bank	Dr.	10,50,000	
To Liability			10,50,000
Bond at fair value	Dr.	10,50,000	
To Bond at HTM			10,44,544
To Gain on disposal (P&L)			5,456
Interest expense	Dr.	6,000	
To Liability			6,000
Bond at fair value (increase)	Dr.	10,000	
To P&L gain			10,000
Liability	Dr.	10,56,000	
Bank	Dr.	4,000	
To Bond at fair value			10,60,000

Although a forward repurchase agreement that requires net settlement in cash is economically equivalent to a deferred sale, A Ltd. cannot de-recognise the asset, because the risks and rewards of ownership have been retained until settlement.

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Q. 5
SALE OF STAKE


E Ltd. owns 90% of a subsidiary X Ltd., and the balance is NCI. It disposes of 60% of its interest in the subsidiary X Ltd. for ₹ 6,120 and loses control of the subsidiary X Ltd. It will de-consolidate the subsidiary X Ltd. and account for the remaining 30% interest as an associate using the equity method of accounting.

At the disposal date, the fair value of the retained investment is determined to be ₹ 4,080. The carrying value of the identifiable net assets of the subsidiary is ₹ 7,480, excluding goodwill. There is ₹ 1,020 of goodwill recorded related to the previously acquired interests in the subsidiary. The carrying value of NCI is ₹ 850. E Ltd. tested the subsidiary's goodwill and fixed assets prior to disposal and there was no impairment. There is ₹ 68 credit in the FVTOCI arising from a debt instrument and ₹ 170 credit in the revaluation reserve (revaluation of fixed assets) relating to the subsidiary. Ignore tax consequences.

Required:

- Determine the gain/loss on disposal of controlling interest
- Determine the gain/loss on retained investment
- Pass the journal entry on the disposal for 60% stake in X Ltd.

[RTP-Nov-2026]
Ans.

- If a parent loses control of a subsidiary, the parent shall account for all amounts previously recognised in other comprehensive income (OCI) in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in OCI would be reclassified to profit or loss on the disposal of the related assets

or liabilities, the parent shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary.

Accordingly, a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset. Hence, the parent shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary. The revaluation reserve relating to the fixed assets, ₹ 170 is transferred to retained earnings in accordance with Ind AS 16 'Property, Plant and Equipment'.

The FVTOCI reserve arising from debt instrument under Ind AS 109 is recycled to P&L on disposal and is therefore included in the gain on disposal of controlling interest and on retained investment.

The gain or loss on the interest sold, and on the retained investment recognised in the income statement, is calculated as follows:

Particulars	₹
Fair value of the consideration (60%)	6,120
Fair value of retained investment (30%)	4,080
Carrying value of the NCI (10%)	<u>850</u>
Total	11,050
Less: Carrying value of former subsidiary's net assets	<u>(8,500)*</u>
	2,550
Add: FVTOCI reserve transferred to P/L as income	<u>68</u>
Gain on interest sold and on retained investment	<u>2,618</u>

* $7,480 + 1,020 = 8,500$

- (ii) Ind AS 112 requires a parent entity to separately disclose both the total gain or loss on the subsidiary's loss of control and the portion of the gain or loss related to the retained non-controlling investment. To obtain the information necessary for disclosure, a calculation of the portion related to the gain or loss on the retained non-controlling investment is, therefore, necessary. The ₹ 2,618 gain on the interest sold and the retained investment is recognised in the P&L and is disclosed in the consolidated financial statements. Additionally, Ind AS 112 requires the disclosure of the portion of the gain or loss related to the remeasurement of the retained non-controlling investment to fair value. This is calculated as follows:

Particulars	₹
Fair value of retained investment	4,080
Less: Percentage retained of carrying value of subsidiary $[(7,480 + 1,020) \times 30\%]$	<u>(2,550)</u>
Gain on retained investment	<u>1,530</u>

- (iii) **Journal entry on the disposal date**

Particulars		₹	₹
Cash	Dr.	6,120	
Investment in associate	Dr.	4,080	
FVTOCI reserve	Dr.	68	
Revaluation reserve	Dr.	170	
NCI	Dr.	850	
To Net assets (including goodwill)			8,500
To Retained earnings			170
To Gain on disposal of controlling interest			2,618
(The accounting entry on the disposal date for the 60% interest sold, the gain recognised on the 30% retained investment and the de-recognition of the subsidiary)			

Q. 6

JOINT ARRANGEMENTS


K Ltd. prepares its financial statements to 31st March each year. The financial statements are approved for issue on 25th May.

On 1st April 20X1, K Ltd. entered into a joint arrangement with Y Ltd. to jointly operate a delivery depot. Y Ltd. is located and has major customers in the same geographical region as K Ltd. K Ltd. and Y Ltd. each made the following payments in respect of the arrangement on 1st April 20X1:

- ₹ 25 million each to purchase a joint 25-year leasehold interest in a depot which was close to both K Ltd. and Y Ltd.'s business premises. This depot was to act as headquarters for the delivery vehicles.
- ₹ 7.5 million each to purchase a fleet of delivery vehicles. The vehicles have an expected useful life of five years, with no expected residual value.

K Ltd. and Y Ltd. agreed to jointly use the delivery vehicles to deliver products to their customers and to share the operating costs of the depot equally. Any delivery charges to customers were levied by K Ltd. and Y Ltd. directly at the discretion of the individual entities.

During the year ended 31st March 20X2, the total cash cost of operating the depot was ₹ 8 million. This was paid equally by K Ltd. and Y Ltd. In the year ended 31st March 20X2, K Ltd. charged its customers a total of ₹ 2 million in delivery charges.

Required:

Explain how the above transaction would be reported in the financial statements of K Ltd. for the year ended 31 March 20X2. **[RTP-Nov-2026]**

Ans.

The joint arrangement with Y Ltd. is a joint operation because K Ltd. and Y Ltd. have equal rights to the assets and joint obligations for the liabilities relating to the arrangement. In a joint operation, the operators include their share of any jointly held assets. Therefore, the property, plant and equipment of K Ltd. at 31st March 20X2 will include:

- Leasehold property of ₹ 25 million × 24 years / 25 years = ₹ 24 million
- Plant and equipment of ₹ 7.5 million × 4 years / 5 years = ₹ 6 million

In a joint operation, the operators include their share of jointly incurred costs. Therefore, the statement of profit or loss of K Ltd. for the year ended 31st March 20X2 will include the following costs:

- Amortisation of lease premium ₹ 1 million.
- Depreciation of plant and equipment ₹ 1.5 million.
- Cash cost of operating the depot ₹ 4 million.

K Ltd. will also include its own discretionary delivery charges of ₹ 2 million as a reduction in its operating costs.

Ind AS 102

Q. 7

REPRICING


C Ltd. prepares its financial statements to 31 March each year. The financial statements are approved for issue on 20 May.

On 1 April 20X1, C Ltd. granted 2,000 employees 1,000 share options each. The options are due to vest on 31 March 20X4 provided the relevant employees remain in employment over the three-year period ending on 31 March 20X4.

On 1 April 20X1, the directors of C Ltd. estimated that 1,800 employees would qualify for the options on 31 March 20X4. This estimate was amended to 1,850 employees on 31 March 20X2, and further amended to 1,840 employees on 31 March 20X3.

On 1 April 20X1, the fair value of an option was ₹ 1.20. The fair value increased to ₹ 1.30 by 31 March 20X2 but, due to challenging trading conditions, the fair value declined after 31 March 20X2. On 30 September 20X2, when the fair value of an option was 90 paise, the directors repriced the options and this caused the fair value to

increase to ₹ 1.05. Trading conditions improved in the second half of the year and by 31 March 20X3 the fair value of an option was ₹ 1.25.

Any additional costs that have occurred because of the repricing of the options on 30 September 20X2 should be spread over the remaining vesting period from 30 September 20X2 to 31 March 20X4.

Required:

Explain how the above event would be reported in the financial statements of C Ltd. for the year ended 31 March 20 X3. Also provide necessary journal entries for the year ended 31 March 20X2 and 31 March 20X3.

[RTP-Nov-2026]

Ans.

Ind AS 102 'Share-based Payments', requires that equity settled share-based payments should be measured based on their fair value at the grant date, based on the number of options expected to vest based on estimates at the reporting date.

The cost should be spread over the vesting period - three years in this case.

This means that the charge to profit or loss in the year ended 31 March 20X2 = $1,850 \times 1,000 \times ₹ 1.20 \times 1/3 = ₹ 7,40,000$

Journal Entry as on 31 March 20X2

Employee benefits expenses (transferred to P/L)	Dr.	7,40,000	
To Share-based payment reserve (equity) (1/3 of expected vested equity instruments value)			7,40,000

Based on the original arrangements, the cumulative balance in equity on 31 March 20X3 = ₹ 14,72,000 ($1,840 \times 1,000 \times ₹ 1.20 \times 2/3$).

The impact of the repricing on 30 September 20X2 is to charge the incremental increase in fair value over the remaining vesting period on the same basis as the original charge.

Therefore, the additional credit to equity in respect of the repricing

$$= 1,840 \times 1,000 \times \{₹ 1.05 - ₹ 0.90\} \times 6/18 = ₹ 92,000$$

The closing balance in equity

$$= ₹ 14,72,000 + ₹ 92,000 = ₹ 15,64,000.$$

The charge to profit or loss in the year ended 31 March 20 X3

$$= ₹ 15,64,000 - ₹ 7,40,000 = ₹ 8,24,000.$$

Journal Entry as on 31 March 20X2

Employee benefits expenses (transferred to P/L)	Dr.	8,24,000	
To Share-based payment reserve (equity) (2/3 of expected vested equity instruments value)			8,24,000

Ind AS 24

Q. 8

RP ARM'S LENGTH TRANSACTION



CC Ltd prepares its financial statements to 31 March each year. The financial statements are approved for issue on 20 May.

On 1 June 20X1, the spouse of one of the directors of CC Ltd. purchased a controlling interest in O Ltd., a long-standing customer of CC Ltd.

Sales of products from CC Ltd. to O Ltd. in the two-month period from 1 April 20X1 to 31 May 20X1 totalled ₹ 8,00,000.

Following the share purchase by the spouse of one of the directors of CC Ltd. on 1 June 20X1, CC Ltd. began to supply the products at a discount of 20% to their normal selling price and allow O Ltd. three months' credit (previously O Ltd. was only allowed one month's credit, CC Ltd.'s normal credit policy).

Sales of products from CC Ltd. to O Ltd. in the ten-month period from 1 June 20X1 to 31 March 20X2 totalled ₹ 6 million.

On 31 March 20X2, the trade receivables of CC Ltd. included ₹ 1.8 million in respect of amounts owing by O Ltd.

Required:

Explain how the above event would be reported in the financial statements of CC Ltd. for the year ended 31 March 20X2. **[RTP-Nov-2026]**

Ans.

CC Ltd. would include the total revenue of ₹ 6.8 million (₹ 6 million + ₹ 0.8 million) from O Ltd. receivable in the year ended 31 March 20X2 within its revenue and show ₹ 1.8 million within trade receivables at 31 March 20X2.

The spouse of a director of CC Ltd. would be regarded as a related party of CC Ltd. because he/she is a close family member of one of the key management personnel of CC Ltd.

From 1 June 20X1, O Ltd. would also be regarded as a related party of CC Ltd. because from that date O Ltd. is an entity controlled by another related party.

Because O Ltd. is a related party with whom CC Ltd. has transactions, then CC Ltd. should disclose:

- The nature of the related party relationship.
- The revenue of ₹ 6 million from O Ltd. since 1 June 20X1.
- The outstanding balance of ₹ 1.8 million at 31 March 20X2.

In the current circumstances it may well be necessary for CC Ltd. to also disclose the favourable terms under which the transactions are carried out.

Ind AS 7

Q. 9

FINANCING ACTIVITIES



The following details of P Ltd. pertain to the year ended 31st March 20X2:

- Paid lease liabilities (principal portion): ₹ 3,00,000
- The information on equity share capital and securities premium account is as under:

	1/4/20X1	31/3/20X2
Equity share capital (par value ₹ 1)	2,50,000	5,00,000
Securities premium	50,000	50,000

- On 10 October 20X1, a bonus issue of 1 share for every 5 ordinary shares was made utilising the securities premium account. The remainder of the increase in equity shares was due to an issue of shares for cash on 21st November 20X1.

From the above information, show the cash flows from financing activities to be shown in the statement of Cash flows for the year ended 31st March 20X2. **[RTP-Nov-2026]**

Ans.

Extract of Statement of cashflows - showing cash flow from financing activities

	₹
Proceeds from issue of equity share capital (2,00,000 + 50,000) (W.N.1 and W.N.2)	2,50,000
Payment to lease liabilities	<u>(3,00,000)</u>
Net cash outflow from financing activities	<u>(50,000)</u>

Working Notes:**1. Equity Share Capital Account**

	₹		₹
To Balance c/d	5,00,000	By Balance b/d	2,50,000
		By Bonus issue ($1/5 \times 2,50,000$)	50,000
		By Bank (Issue of shares on 21 st November (bal. fig.))	2,00,000
Total	5,00,000	Total	5,00,000

2. Securities Premium Account

	₹		₹
To Bonus issue ($1/5 \times 2,50,000$)	50,000	By Balance b/d	50,000
To Balance c/d	50,000	By Bank (Premium received on issue of shares for cash on 21 st November (bal. fig.))	50,000
Total	1,00,000	Total	1,00,000

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NOTES

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MTP1-Nov-2026

Ind AS 1

Q. 1
Rectification after balance sheet date


Company A has taken a long-term loan from Company B. In the month of December 20X1, there was a breach of material provision of the arrangement. As a consequence of which the loan becomes payable on demand on 31st March, 20X2. In the month of May 20X2, the company started negotiation with company B for not to demand payment as a consequence of the breach. The financial statements were approved for the issue in the month of June 20X2. In the month of July 20X2, both the companies agreed that the payment will not be demanded immediately as a consequence of breach of material provision.

Required

Advise on the classification of the liability as current / non-current.

Note: Answer in line with the amendment in Ind AS 1 effective from annual reporting periods beginning on or after 1st April 2026 [MTP-Nov-2026]

Ans.

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.

Accounting and Technology

Q. 2


Sunrise Apparels Ltd. (SAL) is a listed textile manufacturing company with three subsidiaries located in Tamil Nadu, Gujarat, and Bangladesh. Two years ago, SAL implemented an ERP system to record all financial transactions across the group. However, the internal audit team has recently flagged several weaknesses: journal vouchers are not standardised, changes made to the financial closing and reporting process are not tracked through a proper authorisation mechanism, roles and responsibilities of personnel involved in financial reporting are not clearly documented and user access to the General Ledger module has not been reviewed since the ERP was first implemented.

Required

Which all tools can help streamline the consolidation process across SAL's three subsidiaries and how?

[MTP-Nov-2026]

Ans.

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.

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MTP2-Nov-2026

Ind AS 16

Q. 1

COST OF PPE



DIEL has incurred the following transactions for acquiring Plant 'X' in part exchange of an old Plant Y.

	(₹ in Lakhs)
Sale of scrap from the old site	10
Cost of construction of new site	480
Fair value of the old Plant Y, at which the supplier of the new Plant X has agreed to take it	26
The cash price paid to supplier for new Plant X	320
The carrying amount of old Plant Y	10
The present value of estimated dismantling cost of the site at the end of its useful life	16
Wages paid for installation of the Plant	40
Wages paid for Trial Run	16
Freight paid	16
GST @ 18% is paid both on purchase of plant and on freight. DIEL is eligible to claim Input Tax Credit on same.	
Loss amount for low-capacity utilization of the plant after installation	40
Cost of launching the product to be produced from the plant	10
Administration and general overheads	20
Incidental cost not directly related to installation	5

DIEL has entered into certain transactions with regard to acquiring Plant 'X' in part exchange of an old Plant Y. Based on the data given in the case study in this regard, answer the following:

- (i) How will the Assets be recognized/derecognised, in the books of DIEL, as per Ind AS?
- (ii) At what value the assets be recognised in the books DIEL?
- (iii) How will Plant Y given in part exchange for Plant X be accounted for?
- (iv) Pass journal entry for recognition of Plant X by derecognising Plant Y

(MTP-Nov-2026)

Ans.

- (i) DIEL will be recognising two items of Property, Plant and Equipment (PPE) viz
 1. Recognise Plant X by derecognising Plant Y
 2. Recognise New Site by derecognising the old site

Both the items of PPE will be shown under the heading 'Non-Current Assets' in the Balance Sheet.
- (ii) A. Statement showing initial measurement of Plant X:

Particulars	₹ in lakh
Cash price of Plant X	320
Add: Fair value of the old pant given-up i.e. Plant Y	<u>26</u>
Purchase price of Plant X	346

Note:

- B. Statement showing initial measurement of New Site:**

(iii) Derecognition of Plant Y

(iv) Journal Entry

	₹ in lakh	₹ in lakh
Plant X (320 + 26) Dr.	346	
To Plant Y		10
To Bank		320
To gain on exchange of assets		16

Q. 2

PLAN ASSETS


At 1st April, 20X0, the fair value of the Plan Assets was ₹ 10,00,000. The Plan paid benefits of ₹ 1,90,000 and received contributions of ₹ 4,90,000 on 30th September, 20X0. The company computes the Fair Value of Plan Assets to be ₹ 15,00,000 as on 31 March, 20X1 and the Present Value of the Defined Benefit Obligation amount to ₹ 14,79,200 on the same date. Actuarial losses on defined benefit obligation were ₹ 6,000.

Compounding happens half-yearly. The normal interest rate for 6 months period is 10%, while the effective interest rate for 12 months period is based on the following data:

At 1st April, 20X0, the company made the following estimates based on market prices at that date:

Particulars	%
Interest and Dividend Income, after tax payable by the fund	9.25
Add: Realized and Unrealized Gains on Plan Assets (after tax)	2.00
Less: Administration Costs	<u>(1.00)</u>
Expected Rate of Return	<u>10.25</u>

Determine actual return and expected return on plan asset. Also compute amount to be recognized in 'Other Comprehensive Income' in this case. [MTP-Nov-2026]

Ans.

Computation of Expected Return on Plan Assets

Particulars	₹
Return on ₹ 10,00,000 for 20X0-20X1 at 10.25% = ₹ 10,00,000 x 10.25%	1,02,500
Add: Return on ₹ 3,00,000 for 6 months at 10% Normal Rate = [3,00,000 (Inflow ₹ 4,90,000 less Payments ₹ 1,90,000) x 10% x 6/12]	<u>15,000</u>
Expected Return on Plan Assets	<u>1,17,500</u>

Computation of Actual Return on Plan Assets

Particulars	₹
Fair Value of Plan Assets at the year-end – 31 March 20X1	15,00,000
Less: Fair Value of Plan Assets at the beginning – 1 April 20X0	(10,00,000)
Less: Contributions received during the year 20X0-20X1	(4,90,000)
Add: Benefits paid during the year 20X0-20X1	<u>1,90,000</u>
Actual Return on Plan Assets	<u>2,00,000</u>

Computation of Net Actuarial Gain

Particulars	₹
Actual Return on Plan Assets	2,00,000
Less: Expected Return on Plan Assets	<u>(1,17,500)</u>
Actuarial Gain on Plan Assets	82,500
Less: Actuarial Loss on Defined Benefit Obligation (given)	<u>(6,000)</u>
Net Actuarial Gain to be recognized in 'OCI'	<u>76,500</u>

Ind AS 115
Q. 3 SALE OR RETURN


Makers Ltd. is engaged in the business of manufacturing a number of products including moulds, dies and machinery. They have a wide customer base in automobile, infrastructure, construction and other sectors both within India and abroad.

Typically, a contract is entered into for sale of each product and consideration is received on the event of delivery of goods to the customer place. The cost of each mould is ₹ 400 and the selling price is ₹ 450. The terms of the contract entitle the customer to return any unused moulds within 30 days and receive a full refund. The Company estimates that the costs of recovering the mould will be immaterial and expects that the returned moulds can be resold at a profit. The company has sold a total of 10,000 moulds during the month ended 31 March, 20X4. From past experience, Makers Ltd expects that 3% of the moulds will be returned during the current year.

Analyse the terms of the revenue contracts with customers for sale of moulds as per applicable Ind AS. Determine the amount of revenue, refund liability and the asset to be recognized by Makers Ltd. for the said contracts explaining the reasons for your answers. Also provide the necessary journal entries.

[MTP-Nov-2026]

Ans.

The entity applies the requirements in Ind AS 115 to the portfolio of 10,000 moulds because it reasonably expects that the effects on the financial statements to the portfolio would not differ materially from applying the requirements to the individual contracts within the portfolio. Since the contract allows a customer to return the products, the consideration received from the customer is variable.

The entity considers on constraining estimates of variable consideration to determine whether the estimated amount of variable consideration of ₹ 43,65,000 (₹ 450 × 9,700 moulds not expected to be returned) can be included in the transaction price. The entity determines that although the returns are outside the entity's influence, it has significant experience in estimating returns for this product and customer class. In addition, the uncertainty will be resolved within a short time frame (ie the 30-day return period). Thus, the entity concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognised (i.e. ₹ 43,65,000) will not occur as the uncertainty is resolved (i.e. over the return period).

The entity estimates that the costs of recovering the moulds will be immaterial and expects that the returned moulds can be resold at a profit.

Upon transfer of control of the 10,000 moulds, the entity does not recognise revenue for the 300 moulds that it expects to be returned. Consequently, in accordance with paragraphs 55 and B21 of Ind AS 115, the entity recognises the following:

- Revenue of ₹ 43,65,000 (₹ 450 × 9,700 moulds not expected to be returned);
- A refund liability of ₹ 1,35,000 (₹ 450 refund × 300 moulds expected to be returned); and
- A return asset of ₹ 1,20,000 (₹ 400 × 300 moulds for its right to recover products from customers on settling the refund liability).

Journal Entries

		₹	₹
Trade Receivables (Customer)	Dr.	45,00,000	
To Refund liability			1,35,000
To Revenue			43,65,000
(Being revenue recognised for the assured value and liability created for variable consideration)			

Return asset	Dr.	1,20,000	
To Cost of goods sold			1,20,000
(Being right to recover products from customers on settling the refund liability is accounted for)			

PROFESSIONAL AND ETHICAL DUTY OF A CHARTERED ACCOUNTANT

Q. 4
LEASE TERM & ETHICS


Nova Retail Ltd. (NRL), a listed company, entered into a 5 -year lease for a retail premises on 1 April 20X1, with an option to extend it for another 5 years at an annual rent of ₹ 4.5 crore.

At commencement, NRL determined the lease term as 5 years, as the extension was optional and had not been formally exercised.

During the fourth year of the lease, the following developments took place:

1. NRL spent ₹ 6 crore on major interior fit-outs and customised fixtures at the premises. These improvements are highly specific to the location and cannot be economically relocated to another store.
2. The premises are situated in one of NRL's most profitable markets, and management's internal business plan assumes that the store will continue operating from this location for at least nine years.
3. The company has already entered into long-term supply arrangements and marketing agreements specifically linked to this store, extending beyond the initial five-year lease period.
4. The Board has approved a capital expenditure plan for the store covering the next four years.
5. The store has consistently generated returns above the company's average store-level profitability.

The store has also consistently generated above-average profitability.

Management maintains that the lease term should remain 5 years, arguing that NRL is not legally committed to exercise the extension option. The management is also concerned that including the extension period would increase the lease liability and adversely affect debt-related ratios.

The CFO CA Ananya, however, believes that the above factors provide significant economic incentives for NRL to continue using the premises beyond the initial lease period and therefore the lease term may need to be reassessed.

Required:

- (i) Analyse whether NRL should consider the five-year extension period while determining the lease term at the commencement date and/or subsequently reassessing the lease term.
- (ii) Identify the fundamental principles of professional ethics that are relevant to CA Ananya's situation.
- (iii) What steps should CA. Ananya take if management refuses to revise the lease term and accounting thereof?
- (iv) What would be the consequences of failure by CA. Ananya to discharge his professional responsibility?

[MTP-Nov-2026]

Ans.

Determination of the lease term under Ind AS 116

Under Ind AS 116, the lease term inter alia includes the period covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and

Therefore, the fact that the extension is legally optional does not by itself mean that the extension period must be excluded.

In the present case, following factors indicate a strong economic incentive and provide significant evidence that NRL may be reasonably certain to exercise the extension option:

- substantial expenditure has been incurred on customised leasehold improvements;
- the improvements are not readily transferable to another location;
- the store is highly profitable;
- long-term supply and marketing arrangements are linked to the premises;
- the business plan assumes continued operation;
- the renewal rental appears commercially attractive; and
- the Board has approved future capital expenditure relating to the store.

Therefore, the conclusion should not be based merely on whether the option has been formally exercised.

- (i) **Accounting of lease:** Since it is reasonably certain to exercise the extension option, the extension period would form part of the lease term. Consequently, the lease liability and right-of-use asset should be determined using the applicable lease term and measurement requirements under Ind AS 116.

If circumstances change such that the lease term needs to be reassessed, the lease liability may need to be remeasured, with the corresponding adjustment generally made to the right-of-use asset, subject to the requirements of Ind AS 116.

Therefore, excluding the extension merely to avoid increasing reported liabilities would not be appropriate since the underlying facts support the conclusion that NRL is reasonably certain to exercise the option.

- (ii) **Professional ethics:** Several fundamental principles are relevant.

Integrity: CA Ananya must be straightforward and honest in preparing financial information. She should not knowingly support an accounting treatment that does not appropriately reflect the requirements of Ind AS 116.

Objectivity: Ananya should exercise independent professional judgment and should not allow the CFO's concern regarding leverage ratios to influence the accounting conclusion.

The desired impact on the company's financial ratios is not a criterion under Ind AS 116.

Professional competence and due care: Ananya must have sufficient knowledge of Ind AS 116 and carefully evaluate all relevant facts and circumstances before reaching a conclusion. She cannot simply accept management's argument:

Professional behaviour: Ananya should comply with applicable Ind AS and avoid conduct that could bring discredit to the profession.

- (iii) **Appropriate course of action:** Ananya should obtain sufficient evidence and review the documents related to Lease contract and perform an independent assessment as to whether the available facts establish that NRL is reasonably certain to exercise the extension option.

She should communicate to the management that the assessment under Ind AS 116 is based on the relevant economic incentives and circumstances, rather than simply whether the option has been formally exercised.

CA Ananya should not allow the desired effect on the company's financial ratios to determine the accounting treatment. Management may choose its business strategy, but it cannot choose an accounting conclusion merely because that conclusion produces a preferred financial result.

If management refuses to make the appropriate accounting adjustment, CA. Ananya should escalate the matter to the appropriate level and, where appropriate, those charged with governance/Audit Committee.

- (iv) **Consequences of failure to discharge professional responsibility:** In case CA Ananya succumbs to the undue influence of the CFO and knowingly approves an accounting treatment that is not in accordance with Ind AS, she may be liable for professional misconduct under Clause 1 of Part II of the Second Schedule to the Chartered Accountants Act, 1949. The Clause 1 states that a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, for

contravening the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council. As per the Guidelines issued by the Council, 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.

Ind AS 101**Q. 5****DECOMMISSIONING**

Kavya Industries Ltd. is a listed company engaged in the manufacture of specialty chemicals. The company has been preparing its financial statements under previous GAAP. It is required to prepare its first Ind AS financial statements for the year ended 31 March 20X4.

On 1 April 20X0, Kavya Industries Ltd. constructed a chemical processing facility at a cost of ₹ 80 crore. Under the terms of an environmental licence, the company is required to dismantle the facility and restore the site at the end of its useful life of 10 years. Under previous GAAP, no provision was recognised for this obligation.

On 1 April 20X2, the present value of the estimated decommissioning obligation was ₹ 12 crore. Under Ind AS, the obligation meets the definition of a present obligation and is required to be recognised.

The company proposes to recognise the entire ₹ 12 crore liability on transition and debit the same amount to retained earnings. The estimated useful life of the facility as at the date of transition is 8 years. The appropriate discount rate is 8% per annum.

Kavya Industries Ltd. proposes to use the relevant Ind AS 101 exemption relating to decommissioning liabilities.

Determine the appropriate accounting treatment in the opening Ind AS Balance Sheet, giving suitable reasons with reference to Ind AS 101 and other applicable Ind AS.

[MTP-Nov-2026]**Ans.**

As per Ind AS 101, a first-time adopter is required to prepare an opening Ind AS Balance Sheet at the date of transition to Ind AS.

Under Ind AS, an obligation to dismantle an asset and restore the site is recognised when the relevant recognition criteria are met. However, Ind AS 101 provides a specific optional exemption to a first-time adopter in relation to certain decommissioning, restoration and similar liabilities. A first-time adopter may elect not to apply the relevant requirements retrospectively. Instead, the liability can be measured at the date of transition in accordance with the prescribed transition mechanism.

Therefore, Kavya Industries Ltd. need not simply recognise ₹ 12 crore as a transition liability and debit the entire amount to retained earnings. Since the company has elected to use the Ind AS 101 exemption, the liability is measured at the transition date in accordance with the exemption.

The corresponding amount is added to the cost of the related asset, subject to the requirements of the exemption.

Accounting consequence

At transition, decommissioning liability = ₹ 12 crore

A corresponding amount is added to the carrying amount of the related asset, subject to the Ind AS 101 transition requirements. The resulting asset is depreciated over its remaining useful life.

Since the remaining useful life is 8 years, annual depreciation attributable to the transition adjustment = ₹ 12 crore ÷ 8 years = ₹ 1.50 crore per year.