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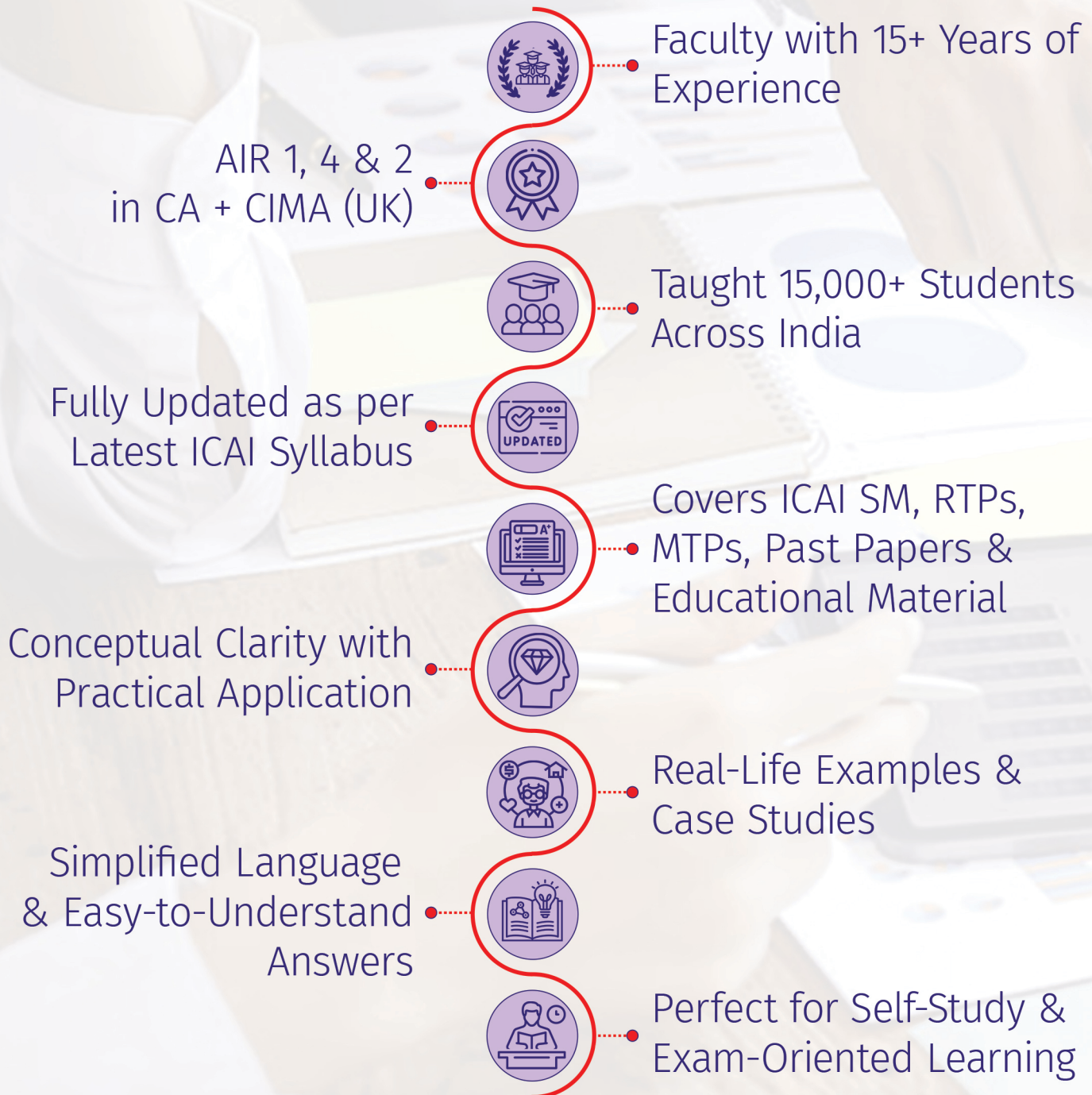
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CA SURAJ LAKHOTIA

(AIR 1,4,2)

1FIN By IndigoLearn



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AIR 1,4 & 2 IN CA

What Our Students have to say....

Sudeepta Benya

I took FR and AFM classes from 1FIN and secured good marks in both. I am deeply grateful to **Sriram Sir** and **Suraj Sir** for making my conceptual clarity very strong and making me fall in love with the subjects. I secured 70 marks in FR and 87 in AFM. Highly recommended.

AIR 27

Arun Kumar

I have watched SFM, FR and IDT classes from indigo learn I was using 1FIN platform from my CA Inter and I feel this platform is the only platform which focuses on concepts rather than focusing on only scoring marks.

Kanishka

Thank you so much Sir! I am excited to share that I have successfully cleared the CA Final exams and became A Chartered Accountant

Srinivasan

I really liked the way of teaching and conceptual clarity given by **Suraj Sir**

Bhoomi Makhecha

Suraj Sir's classes were comprehensive & helped me score 76 (Exemption) in FR

Yug Bhattad

From Foundation to Final, you have been a constant source of guidance. This journey would truly not have been possible without your support, belief, and mentorship. Your advice at every stage, whether academic or personal, gave me clarity and confidence when I needed it the most.

Venkata Naresh

Thank You IndigoLearn for the Conceptual Clarity and well illustrated Examples of the faculties, making my concepts very strong and assisted me in clearing my exams

Hannoch Matthew

1FIN is a perfect place for assistance in CA Exams. I had opted for FR and AFM. I found it well understandable and helped me to get through with the concepts. Their MCQ and material is very useful.

Himanshu Somani

Thank you so much to **Suraj and Sriram sir** for your support during my entire CA journey, will forever be grateful to you

Priyanka Udeshi

Thank you **Suraj sir!** Have successfully cleared CA Final with exemption in 5 subjects

Our Rankers

AIR 1



Diksha Goyal
CA Final Jan-26

AIR 49



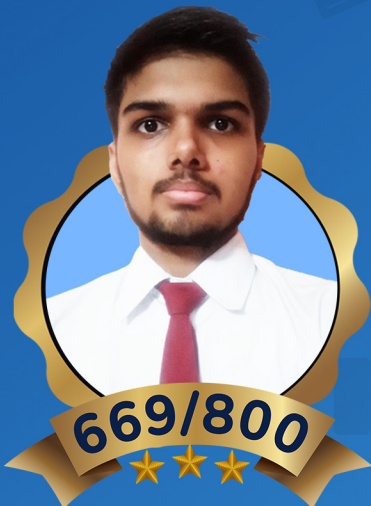
Hamsa Gayatri
CA Final Sep-25

AIR 27



Sudeepta Benya
CA Final Nov-24

AIR 5



Sarthak
CA Inter May-23

AIR 19



Aman Mahajan
CA Inter Dec-21

AIR 33



Sundar B
CA Inter Dec-21

CA FINAL PAPER 1 : FINANCIAL REPORTING 100 MARKS
CHAPTER WISE WEIGHTAGE BASED ON PAST EXAM & ANALYSIS THEREOF

S. No.	CHAPTER NAME	May-26		Jan-26		Sep-25		May-25		Nov-24		Average	Weightage
		MCQ	Des	MCQ	Des	MCQ	Des	MCQ	Des	MCQ	Des		
1	Conceptual Framework		4		4		4					15.50 M	10-15 %
2	Ind AS on Presentation of General Purpose FS												
	Unit 1 - Ind AS 1				4	2			4	4	4		
	Unit 2 - Ind AS 34		4	2					4		4		
	Unit 3 - Ind AS 7			2			4	2					
3	Ind AS on Measurement based on Accounting Policies												
	Unit 1 - Ind AS 8	2					4				4		
	Unit 2 - Ind AS 10												
	Unit 3 - Ind AS 113	2	4		4			2	4				
	TOTAL	4	12	4	12	2	12	4	12	4	12		
4	Ind AS on Income Statement - Ind AS 115 - Revenue	2	5	2	5	2	5	2	5	2	5	7.00 M	5-10%
	TOTAL	2	5	2	5	2	5	2	5	2	5		
5	Ind AS on Assets of the Financial Statements												
	Unit 1: Ind AS 2: Inventories					2		4	5				
	Unit 2: Ind AS 16: Property, Plant and Equipment				8				6	2	11		
	Unit 3: Ind AS 116: Leases		10										
	Unit 4: Ind AS 23: Borrowing Costs		5				6						

CA FINAL PAPER 1 : FINANCIAL REPORTING 100 MARKS
CHAPTER WISE WEIGHTAGE BASED ON PAST EXAM & ANALYSIS THEREOF

S. No.	CHAPTER NAME	May-26		Jan-26		Sep-25		May-25		Nov-24		Average	Weightage
	Unit 5: Ind AS 36: Impairment of Assets	2		2			5		8			25.00 M	15-25 %
	Unit 6: Ind AS 38: Intangible Assets			2		2							
	Unit 7: Ind AS 40: Investment Property					2		2			8		
	Unit 8: Ind AS 105: NCA held for Sale and Disc Operations	4			6								
6	Ind As on Liabilities of Financial Statements												
	Ind AS 19		6		5		8						
	Ind AS 37			2		2				2			
	Total	6	21	6	19	8	19	6	19	4	19		

CA FINAL PAPER 1 : FINANCIAL REPORTING 100 MARKS
CHAPTER WISE WEIGHTAGE BASED ON PAST EXAM & ANALYSIS THEREOF

S. No.	CHAPTER NAME	May-26		Jan-26		Sep-25		May-25		Nov-24		Average	Weightage
7	Other Indian Accounting Standards											18.50 M	15-20 %
	Unit 1 - Ind AS 20		8		8					2			
	Unit 2 - Ind AS 102					2		2	8		8		
	Ind AS 41 - Agriculture					2							
8	Ind AS on Items impacting the Financial Statements												
	Ind AS 12 - Income Taxes				6						6		
	Ind AS 21 - Foreign Exchange			2			8	2					
9	Ind AS on Disclosures												
	Unit 1: Ind AS 24: Related Party Disclosures												
	Unit 2: Ind AS 33: Earnings Per Share	2		2			6	2	6				
	Unit 3: Ind AS 108: Operating Segments		4							2			
	TOTAL	2	12	4	14	4	14	6	14	4	14		
10	Accounting & Reporting of Financial Instruments	4	10	6	10	6	10	2	10	2	10	14.00 M	10-15%
	TOTAL	4	10	6	10	6	10	2	10	2	10		
11	Business Combination & Corporate Restructuring	2	14			2			5	6		21.75 M	10-20 %
12	Consolidation & Separate Financial Statements	6		6	14	2	14	6	14	4	14		
	TOTAL	8	14	6	14	4	14	6	19	10	14		
13	Ind AS 101 - First Time Adoption of Ind AS	2	5		5	2	5	2		2		6.00 M	5-10 %

CA FINAL PAPER 1 : FINANCIAL REPORTING 100 MARKS
CHAPTER WISE WEIGHTAGE BASED ON PAST EXAM & ANALYSIS THEREOF

S. No.	CHAPTER NAME	May-26		Jan-26		Sep-25		May-25		Nov-24		Average	Weightage
14	Analysis of Financial Statements									5		6.00 M	5-10 %
	TOTAL	2	5	0	5	2	5	2		2	5		
15	Accounting & Technology		5				5	2	5	2	5	7.00 M	5-10 %
16	Professional Ethics	2		2	5	2							
	TOTAL	2	5	2	5	2	5	2	5	2	5		
	Grand Total	30	84	30	84	30	84	30	84	30	84		

CA Final Paper 1 - Financial Reporting											
QUESTION WISE TOPICS BASED ON PAST EXAM PATTERN											
#	May-26		Jan-26		Sep-25		May-25		Nov-24		May-24
	Topic	M	Topic	M	Topic	M	Topic	M	Topic	M	Topic
Comp											
1 (a)	Acquisition Accounting and CFS	14	CFS of Holding & Subsidiary	14	CFS of Holding & Subsidiary	14	CFS of Holding & Subsidiary	14	Consolidation under Ind AS	14	CFS of Holding, Subsidiary & Associate
1 (b)											
OPTIONAL (4 of 5)											
2(a)	FI - Convertible and Prepayment option	10	Ind AS 109 - Int free loan repayable on demand	10	Ind AS 109 - Derivative	10	Ind AS 109 - Derivative	10	Ind AS 109 - Derivative	10	Derivatives - Contracts in FC
2(b)	Ind AS 34 - IFS - Adjustments	4	Ind AS 1 - Classification of loan default	4	Ind AS 7 - Cashflows	4	Ind AS 34 - Interim Financial Reporting	4	Ind AS 34 - Tax Expense	4	Ind AS - 1, Loan repayable on Demand
2(c)											
3(a)	Ind AS 116 - Dealer Lessor - Finance Lease	10	Ind AS 16 - PPE in case of exchange with FOC, insurance	8	Ind AS 19 - Employee Benefits	8	Impairment - CGU	8	Ind AS 40 - BS values & Disclosures	8	Lease Modifications - Ind AS 116
3(b)	Ind AS 108 - Reportable Segment	4	Ind AS 12 - Deferred tax computation, Associate, revaluation cases	6	Ind AS 33 - Earnings per Share	6	Ind AS 33 - Earnings per Share	6	Ind AS 12 - Deferred Tax	6	Compound financial Instruments
3(c)											
4(a)	Ind AS 19 - Remeasurement, PL Items	6	Ind AS 105 - Asset held for sale	6	Ind AS 23 - Borrowing Cost	6	Ind AS 16 - Property, Plant & Equipment	6	Ind AS 16 - Decommissioning	6	Defined benefit plans - Comprehensive
4(b)	Ind AS 20 - Government Grants : Multiple Cases	8	Ind AS 20 - Government Grants : Multiple Cases	8	Ind AS 21 - The Effects of Changes in Foreign Exchange Rates	8	Ind AS 102 - Share Based Payments	8	Ind AS 102 - Share based payment	8	Government Grants - Treatment
5(a)	Ind AS 115 - Bill and Hold considerations	5	Ind AS 115 - Revenue from contract with Customers	5	Ind AS 115 - Revenue from contract with Customers	5	Ind AS 115 - Revenue Recognition	5	Ind AS 115 - Reward Points	5	Ind As 115 - discount on subsequent pur.
5(b)	Ind AS 101- Convertible Debentures	5	Ind AS 101- First time adoption of IND AS	5	Ind AS 101- First time adoption of IND AS	5	Ind AS 111 - Joint Arrangements	5	Analysis of FS - Ind AS Impact report	5	Ind As 101- Exchange fluctuation capitalisation
5(c)	Qualitative Characteristics / On Market & off Market transactions	4	Need for Ind AS / Board Report	4	Conceptual framework	4	General Purpose FR	4	Ind AS 1 - Offsetting or Enhancing Qualitative characteristics	4	Theory - Conceptual framework de/recognition or entities covered for Ind AS
6(a)	Cloud Computing applications	5	Profesional ethics	5	Accounting and technology	5	Accounting & Technology	5	Accounting & Tech	5	Cloud Computing
6(b)	Borrowing cost - Phase wise capitalisation	5	Ind AS 19 - Leaves and Bonus plans	5	Ind AS 36 - Impairment of Assets	5	Ind AS 2 - Inventories	5	Ind As 16 - Revaluation	5	Ind As 105 - Held for sale
6(c)	Ind AS 113 :Principal Market and Most Advantageous	4	Ind AS 113 : Compute Fair value	4	Ind AS 8 - Accounting Policies, Changes in Accounting Estimates and Errors	4	Ind AS 113 - Measuring Fair Value	4	Ind AS 8- Errors/Estimates	4	Interim financial reporting - Computation of profit
6 (d)											
		84		84		84		84		84	

1. 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	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		
5,000 Equity share capital (face value ₹ 100 each)	5,00,000	50,00,000
Other reserves	24,00,000	60,00,000
Long term Borrowings	–	15,00,000
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.

Solution

Working Notes

WN 1: Gain on Re-measurement of Previously Held 30% Interest

Particulars	Amount (₹)
Fair value of 30% interest on acquisition date (1st Jan 2026)	17,50,000
Less: Cost of acquisition of 30% (1st July 2025)	(15,00,000)
Gain on re-measurement (recognised in P&L)	2,50,000

WN 2: Computation of Goodwill on Acquisition Date

Particulars	Amount (₹)
Consideration transferred (for 40% stake)	24,00,000
Fair value of previously held 30% interest	17,50,000
NCI measured at Fair Value	16,00,000
(A) Total	57,50,000
Net Identifiable Assets at Fair Value:	



Book value of Net Assets (5,00,000 + 24,00,000)	29,00,000
Fair value Gain – PP&E (Labs): 26,00,000 – 18,00,000	8,00,000
Fair value uplift – Investment in Bonds: 11,50,000 – 10,00,000	1,50,000
Vax-Shield (self-generated intangible, recognised at FV)	8,50,000
(B) Net Identifiable Assets at FV	47,00,000
Goodwill [(A) – (B)]	10,50,000

WN 3: Unrealised Profit in Inventory

Particulars	Amount (₹)
Goods sold by Panama to Bio Gen during the year	2,00,000
Cost to Panama	1,50,000
Profit = 2,00,000 – 1,50,000	50,000
Unsold portion in Bio Gen's inventory as at 1st Jan 2026 (40%)	40%
Unrealised profit to be eliminated (50,000 × 40%)	20,000

Note : It is assumed that equity method accounting is not applicable on initial acquisition of stake and also sufficient information for using equity method is not given in question.

(i) Journal Entries in Books of Panama Pharma Ltd.

Entry 1: Re-measurement of previously held 30% interest to fair value

Account	Dr (₹)	Cr (₹)
Investment in Bio Gen Research Ltd. A/c Dr.	2,50,000	
To Gain on Re-measurement of Investment (P&L) A/c		2,50,000
[Being: gain on FV re-measurement of previously held 30% stake]		

Entry 2 (Consolidation Elimination): Investment vs. Equity + FV Adjustments + NCI

Account	Dr (₹)	Cr (₹)
Property, Plant and Equipment	26,00,000	
Intangible Assets	8,50,000	
Investment in Bonds	11,50,000	
Inventories*	5,00,000	
Trade Receivable	4,00,000	
Cash & Cash Equivalent	2,00,000	
Goodwill on Consolidation A/c Dr.	10,50,000	
To Trade payables		10,00,000



To Investment in Bio Gen Research Ltd. A/c		41,50,000
To Non-Controlling Interests A/c		16,00,000

*Inventory's book value is considered to be fair value on date of acquisition

Entry 3 (Consolidation Elimination) Inter-company balance

Account	Dr (₹)	Cr (₹)
Trade Payables (Bio Gen) A/c Dr.	1,00,000	
To Trade Receivables (Panama) A/c		1,00,000
[Being elimination of inter-company receivable/payable for consultancy]		

Entry 4 (Consolidation Elimination) Unrealised profit in inventory

Account	Dr (₹)	Cr (₹)
Other Reserves / Retained Earnings A/c Dr.	20,000	
To Inventories (Bio Gen) A/c		20,000
[Being elimination of unrealised profit in unsold inventory (₹50,000 × 40%)]		

(ii) Consolidated Balance Sheet as at 1st January 2026

Particulars	Note	Amount (₹)
ASSETS		
Non-Current Assets		
Property, Plant & Equipment (Labs)	1	86,00,000
Goodwill		10,50,000
Intangible Asset		8,50,000
Financial Assets		
Investment in Bonds (at FV)		11,50,000
Current Assets		
Inventories	2	19,80,000
Financial Assets		
Trade Receivables	3	11,50,000
Cash and Cash Equivalents		14,50,000
TOTAL ASSETS		1,62,30,000
EQUITY & LIABILITIES		
Share Capital		50,00,000



Other Equity / Retained Earnings	4	62,30,000
Non-Controlling Interests		16,00,000
Non-Current Liabilities		
Long-term Borrowings		15,00,000
Current Liabilities		
Trade Payables	5	19,00,000
TOTAL EQUITY & LIABILITIES		1,62,30,000

Notes to Consolidated Balance Sheet

Note	Particulars	Panama Ltd. (₹)	Bio Gen Ltd. (₹)	Adjustments (₹)	Total (₹)
1	PP&E	60,00,000	18,00,000	8,00,000	86,00,000
2	Inventories	15,00,000	5,00,000	(20,000)	19,80,000
3	Trade Receivables	8,50,000	4,00,000	(1,00,000) (Inter-company eliminated)	11,50,000
4	Other Equity	60,00,000	—	2,50,000 (Gain on remeasurement) (20,000) (Unrealised profit)	62,30,000
5	Trade Payables	10,00,000	10,00,000	(1,00,000) (Inter-company eliminated)	19,00,000

2. (a) 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 :

- (i) Total Face Value : ₹ 50,00,000
- (ii) Coupon Rate is 6% per annum which is payable annually on March 31.
- (iii) 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.
- (iv) 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.
- (v) Market Interest Rate : The effective market interest rate for a similar non-convertible debenture is 10% per annum.

Required :

- (i) 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)

(i) Nature of Instrument

An instrument that (a) creates a financial liability of the entity, and (b) grants the holder an option to convert it into a fixed number of the entity's ordinary shares, is a compound financial instrument. It comprises two components – a financial liability (obligation to deliver cash) and an equity instrument (the conversion option granted to the holder).

In the current case, the holder has a prepayment option (a put option as well) Hence, the debentures are COMPOUND FINANCIAL INSTRUMENTS containing:

- A FINANCIAL LIABILITY component – the issuer's obligation to pay coupon (6% p.a.) and principal.
- A PUT OPTION (Prepayment Option) giving holders the right to demand repayment at Year 3 at 5% premium.
- An EQUITY COMPONENT (Conversion Option) – the right to convert into 10 equity shares per debenture at maturity (Year 5).

(ii) Bifurcation – Liability and Equity Components on 1st April 2023

Alternative 1

Since the holder can demand early repayment at Year 3, the entity does not have an unconditional right to avoid payment at end of year 3. Hence, the instrument is treated as a 3-year liability (to Year 3, the earliest exercise date of the put option), and the conversion option represents the equity component. The liability is discounted at the market rate of 10% for non-convertible instruments.

As per Ind AS 32, the value of any derivative features (such as a call option, prepayment feature) embedded in the compound financial instrument other than the equity component (such as an equity conversion option) is included in the liability component.

Cash flows to Year 3 (earliest exercise date of put option):

Year	Nature of Payment	Amount (₹)	PV Factors @ 10%	Present Value (₹)
1–3	Annual Coupon Interest (6% × ₹50,00,000 = ₹3,00,000 p.a.)	3,00,000 p.a.	2.4869	7,46,070
3	Redemption Amount including 5% premium	52,50,000	0.7513	39,44,325
	Total Liability Component			46,90,395
	Total Issue Proceeds			50,00,000
	Equity Component (Conversion Option)			3,09,605

Journal Entry on 1st April 2023 (Issue of Debentures):



Account	Dr (₹)	Cr (₹)
Bank A/c Dr.	50,00,000	
To Financial Liability (Debentures) A/c		46,90,395
To Equity		3,09,605
[Being 50,000 convertible debentures issued; bifurcated into liability and equity components per Ind AS 32]		

(iii) Amortization Schedule (Effective Interest Method @ 10%)

Year	Opening Balance (₹)	Interest @ 10% (₹)	Coupon Paid 6% (₹)	Closing Balance (₹)
1 (2023–24)	46,90,395	4,69,040	3,00,000	48,59,435
2 (2024–25)	48,59,435	4,85,944	3,00,000	50,45,379
3 (2025–26)	50,45,379	5,04,621	3,00,000	52,50,000

Journal Entry on 31st March 2026 – Put Option Exercised:

Account	Dr (₹)	Cr (₹)
Financial Liability (Debentures) A/c Dr.	52,50,000	
To Bank A/c		52,50,000
[Being: repayment of debentures at 5% premium on exercise of put option]		

Account	Dr (₹)	Cr (₹)
Equity A/c Dr.	3,09,605	
To Retained Earnings A/c		3,09,605
[Being equity component transferred to retained earnings on derecognition of the liability]		

Alternative II [In line with past RTPs]

The liability component is measured first as the present value of contractual cash flows (assuming no conversion) at the market rate of **10%** for similar non-convertible debt. The equity component is the residual.

Cash flows (5-year contractual term):

- Annual interest = $6\% \times ₹50,00,000 = ₹3,00,000$ (Years 1–5)
- Principal repayment = ₹50,00,000 (Year 5)

PV factors @ 10%: $PVAF(5 \text{ yrs}) = 3.7908$; $PVF(\text{Year } 5) = 0.6209$



Particulars	Cash Flow (₹)	PV Factor	Present Value (₹)
Interest (Years 1–5)	3,00,000 p.a.	3.7908	11,37,237
Principal (Year 5)	50,00,000	0.6209	31,04,606
Liability component			42,41,843
Equity component (Residual)			7,58,157
Total proceeds			50,00,000

Journal Entry on April 1, 2023

Particulars	Dr. (₹)	Cr. (₹)
Bank A/c ...Dr.	50,00,000	
To 6% Convertible Debentures (Liability) A/c		42,41,843
To Equity Component of Convertible Debentures A/c		7,58,157
(Being issue of 50,000 6% convertible debentures of ₹100 each, split into liability and equity)		

Part (iii) – Exercise of Put Option on March 31, 2026

Step 1 – Amortisation of Liability at EIR of 10% (Ind AS 109)

Year ended	Opening Balance (₹)	Interest @ 10% (₹)	Coupon Paid (₹)	Closing Balance (₹)
31-03-2024	42,41,843	4,24,184	3,00,000	43,66,027
31-03-2025	43,66,027	4,36,603	3,00,000	45,02,630
31-03-2026	45,02,630	4,50,263	3,00,000	46,52,893

Carrying amount of liability on 31-03-2026 = ₹46,52,893

Since the discount rate does not change, the fair value of liability is equal to carrying amount. The liability is settled at **₹46,52,893** and balance amount is towards settlement of equity.

Journal Entry on March 31, 2026

Particulars	Dr. (₹)	Cr. (₹)
6% Convertible Debentures (Liability) A/c ...Dr.	46,52,893	
Equity A/c ...Dr.	7,58,157	
To Bank A/c		52,50,000
To Retained Earnings		1,61,050

The balance in equity will be reclassified to retained earnings.

2. (b) 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. **4**

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.

Solution

Issue (i): Revenue Deferral from Q1

Mr. Das's Proposal: Recognise only ₹250 lakhs in Q1 and defer ₹550 lakhs to Q2–Q4.

Treatment: INCORRECT. Mr. Das's approach is NOT permissible.

Under Ind AS 34, each interim period is treated as a DISCRETE reporting period. Revenue is recognised when the performance obligation is satisfied (Ind AS 115). The company actually earned ₹800 lakhs in Q1 due to summer demand. Revenue cannot be smoothed or deferred. The correct treatment is to recognise the full ₹800 lakhs in Q1.

Issue (ii): Income Tax Expense

Mr. Das's Approach: Q1 tax = 25% × ₹40 lakhs = ₹10 lakhs (standalone basis).

Treatment: INCORRECT. Use the Estimated Annual Effective Tax Rate

Particulars	Amount
Estimated full-year pre-tax profit	₹1,00,00,000
Tax on first ₹50 lakhs @ 25%	₹12,50,000
Tax on next ₹50 lakhs @ 40%	₹20,00,000
Total annual tax	₹32,50,000
EAETR = 32,50,000 / 1,00,00,000	32.5%
Q1 Tax = 32.5% × ₹40 lakhs (Q1 actual profit)	₹13,00,000

Issue (iii): Change in Warranty Estimate

Mr. Das's Proposal: Restate Q1 and Q2 financial statements to reflect 5% warranty rate.

Treatment: INCORRECT. A change in estimate is NOT a prior period error.

The revision of the warranty provision from 2% to 5% is a CHANGE IN ACCOUNTING ESTIMATE (Ind AS 8). Per Ind AS 34, it should be recognised PROSPECTIVELY in Q3 (the period in which the estimate changes) and subsequent periods. Q1 and Q2 should NOT be restated. No restatement of prior interim periods is required.



3. (a) 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. 10

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.

Solution

Step 1: Computation of Revenue, Cost of Sales & Selling Profit

Electro Drive is a manufacturer/dealer lessor. Initial direct costs (₹25,000) are EXPENSED at commencement since they relate to selling profit, not included in Net Investment in Lease.

Particulars	Amount (₹)
(A) REVENUE (Lower of PV of MLP and FV)	
PV of Minimum Lease Payments (MLPs) = $18,06,560 \times 3.170$ (annuity factor)	57,26,796
(B) COST OF SALES	
Cost to manufacture the bus	45,00,000
Less: PV of Unguaranteed Residual Value (URV) at Year 4	
$4,00,000 \times 0.683$	(2,73,200)
Cost of Sales	42,26,800



(C) PROFIT [(A) – (B)]	14,99,996 ≈ 15,00,000
Less: Initial Direct Costs (expensed immediately)	(25,000)
NET SELLING PROFIT	14,75,000

Step 2: Net Investment in Lease at Commencement {not required in exam}

Particulars	Amount (₹)
PV of MLPs	57,26,796
PV of URV (4,00,000 × 0.683)	2,73,200
Net Investment in Lease (NIL) at Commencement or Lease receivable	60,00,000

Journal Entry

Lease Receivable A/c Dr.	60,00,000	
Initial Direct Cost Dr.	25,000	
Cost of Sales	42,26,800	
To Bank		25,000
To Revenue		57,26,796
To Inventory	45,00,000	

Step 3: Lease Amortisation Schedule (Electro Drive – Lessor)

Year End	Opening NIL (₹)	Finance Income @ 10% (₹)	Lease Receipt (₹)	Closing NIL (₹)
31 Mar 2023	60,00,000	6,00,000	18,06,560	47,93,440
31 Mar 2024	47,93,440	4,79,344	18,06,560	34,66,224
31 Mar 2025	34,66,224	3,46,622	18,06,560	20,06,286
31 Mar 2026	20,06,286	2,00,274*(b.f)	18,06,560	4,00,000

3. (b) PQR Ltd. has identified 4 Operating Segments for which revenue data is given below :

4

	External Sales (₹)	Internal Sales (₹)	Total (₹)
Segment L	52,00,000	3,00,000	55,00,000
Segment M	4,00,000	9,00,000	13,00,000
Segment N	17,00,000	2,00,000	19,00,000
Segment O	9,00,000	96,00,000	1,05,00,000
Total Sales	82,00,000	1,10,00,000	1,92,00,000

Additional Information :



Segment N is a new business unit and Management expects this segment to make a significant contribution to External Revenue in coming years.

You are required to identify reportable segments under Ind-AS 108.

Solution

Step 1: Quantitative Threshold – 10% of Total Revenue = 19,20,000

Segment	Total Revenue (₹)	Meets Threshold?
L	55,00,000	YES
M	13,00,000	No
N	19,00,000	No
O	1,05,00,000	Yes

As per above, Segment L & O are reportable.

Step 2: 75% External Revenue Test

Particulars	Amount (₹)
Total External Revenue	82,00,000
75% threshold	61,50,000
External revenue of reportable segments (L + O): 52,00,000 + 9,00,000	61,00,000
Shortfall	50,000
Add Segment N (external revenue 17,00,000) to meet 75% test	

Conclusion – Reportable Segments

Segment	Reason for Reportable Status
Segment L	Meets 10% revenue threshold (₹55,00,000 > ₹19,20,000)
Segment O	Meets 10% revenue threshold (₹1,05,00,000 > ₹19,20,000)
Segment N	Included to meet 75% external revenue test; Management also expects significant future contribution

4. (a) 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 :

Particulars	31/3/2024	31/3/2025	31/3/2026
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Current service cost	250	280	310
Benefits paid	260	300	340
Contributions paid	160	180	200
Present value of the obligation at 31st March	2,430	2,826	3,200
Fair value of plan assets at 31st 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%

(₹ in lakhs)

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.

Solution

Note: Ind AS 19 (Para 83) The rate used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields **at the end of the reporting period** on government bonds. The question does not have such rates for all three years and hence solution is provided considering the rates given in the question.

Year 1: FY 2023–24

Particulars	Obligation (₹ L)	Plan Assets (₹ L)	Net Liability (₹ L)
Opening balance (1 Apr 2023)	2,000	2,000	0
Current service cost	250	–	250
Interest cost/income (11% on opening)	220	220	0
Benefits paid	(260)	(260)	0
Contributions paid	–	160	(160)
Remeasurement – balancing figure (OCI)	220 (loss)	(174) (gain)	46(loss)
Closing balance (31 Mar 2024)	2,430	2,294	136

FY 2023–24 – Recognition

Amount (₹ lakhs)



P&L: Current service cost	250
P&L: Net interest (11% × net liability ₹0)	0
Total P&L charge	250
OCI: Net remeasurement loss (220 loss on obligation – 174 gain on assets)	(46)

Year 2: FY 2024–25

Particulars	Obligation (₹ L)	Plan Assets (₹ L)	Net Liability (₹ L)
Opening balance (1 Apr 2024)	2,430	2,294	136
Current service cost	280	–	280
Interest cost/income (10% on opening)	243	229	14
Benefits paid	(300)	(300)	0
Contributions paid	–	180	(180)
Remeasurement – balancing (OCI)	173 (loss)	(129) (loss)	
Closing balance (31 Mar 2025)	2,826	2,274	552

FY 2024–25 – Recognition	Amount (₹ lakhs)
P&L: Current service cost	280
P&L: Net interest (10% × 136)	14
Total P&L charge	294
OCI: Net remeasurement loss (173 on obligation + 129 on assets)	(302)

Year 3: FY 2025–26

Particulars	Obligation (₹ L)	Plan Assets (₹ L)	Net Liability (₹ L)
Opening balance (1 Apr 2025)	2,826	2,274	552
Current service cost	310	–	310
Interest cost/income (9% on opening)	254	205	49
Benefits paid	(340)	(340)	0
Contributions paid	–	200	(200)
Remeasurement – balancing (OCI)	150 (loss)	61 (gain)	
Closing balance (31 Mar 2026)	3,200	2,400	800



FY 2025-26 – Recognition	Amount (₹ lakhs)
P&L: Current service cost	310
P&L: Net interest (9% × 552)	49
Total P&L charge	359
OCI: Net remeasurement loss (150 on obligation – 61 gain on assets)	(89)
NET LIABILITY IN BALANCE SHEET	800

4. (b) How will you recognize and present the grants received from the Government in the following cases as per Ind AS 20 ?

- (i) A Ltd. received an amount of ₹ 40 lakh for immediate start-up of a business without any condition.
- (ii) Government gives a grant of ₹ 30 lakh to B Limited for research and development of medicine for lung cancer, even though similar medicines are available in the market but are expensive. The company is to ensure by developing a manufacturing process over a period of two years so that the cost comes down at least to 50%.
- (iii) C Ltd. received one acre of land free of cost to set-up a plant in backward area (fair value of land ₹ 15 lakh and acquired value by Government is ₹ 5 Lakhs).
- (iv) D Ltd. received an amount of loan for setting up a plant at concessional rate of interest from the Government.
- (v) E Ltd. received ₹ 20 lakh of grant for purchase of machinery costing ₹ 90 lakh. Useful life of machinery is 10 years. Depreciation on this machinery is to be charged on straight line basis.

Solution

(i) A Ltd. – ₹40 Lakhs for Immediate Start-up (No Condition)

This is a grant related to income. Since there are no conditions attached, the grant is recognised in Profit & Loss immediately when it becomes receivable.

Account	Dr (₹)	Cr (₹)
Bank / Grant Receivable A/c Dr.	40,00,000	
To Other Income (P&L) A/c		40,00,000

(ii) B Ltd. – ₹30 Lakhs for R&D of Medicine (Conditional on Cost Reduction)

This is an income-related grant with a performance condition (cost must reduce to 50% over 2 years). The grant should be recognised as income on a SYSTEMATIC basis over the 2-year period as the related conditions are fulfilled and expenses are incurred.

The grant is initially recorded as deferred income:

Account	Dr (₹)	Cr (₹)
Bank A/c Dr.	30,00,000	
To Deferred Government Grant A/c		30,00,000



[Recognised in P&L over 2 years as conditions are fulfilled]		
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(iii) C Ltd. – Land Received Free (FV ₹15 Lakhs) for Plant in Backward Area

Non-monetary government grants (land) are recognised at FAIR VALUE (₹15 lakhs). The grant is presented as deferred income. Since setting up the plant is the condition, the grant income is recognised over the productive life or when conditions are met.

Account	Dr (₹)	Cr (₹)
Land A/c Dr. (at Fair Value)	15,00,000	
To Deferred Government Grant A/c		15,00,000
[Grant income recognised as conditions are met]		

Alternatively, the grant can be recognised at nominal value (Say Rs. 10) as well.

(iv) D Ltd. – Loan at Concessional Rate from Government

Under Ind AS 20 read with Ind AS 109: The loan is initially recognised at FAIR VALUE (using market interest rate). The difference between fair value and the loan proceeds = government grant benefit.

Account	Note
Bank A/c Dr.	Full amount received
To Financial Liability (Loan) A/c	FV Measured at market rate
To Deferred Government Grant	Balancing figure

The grant (difference) is recognised as income systematically over the loan term.

(v) E Ltd. – ₹20 Lakhs Grant for Machinery Costing ₹90 Lakhs (SLM, 10 Years)

Grant related to an asset. Two permissible methods under Ind AS 20:

Method	Treatment	Annual P&L Impact
Method 1: Deferred Income	Asset at cost ₹90L; Grant as Deferred Income ₹20L (amortised ₹2L/year)	Depreciation ₹9L – Grant income ₹2L = Net ₹7L
Method 2: Deduction from Asset	Net asset = ₹90L – ₹20L = ₹70L	Depreciation ₹70L/10 = ₹7L

Both methods result in the same net P&L impact of ₹7 lakhs per year. The choice of method is an accounting policy decision applied consistently.

5. (a) PQR Ltd. enters into a contract with a customer on 01st April, 2023 for the sale of a machine and spare parts. The manufacturing lead time for the machine and spare parts is 3 years.

On completion of manufacturing, PQR Ltd. demonstrates that the machine and spare parts meet the specifications agreed in the contract. The promises to transfer the machine and spare parts to the buyer are distinct and result in two performance obligations each of which will be satisfied at a point in time.



On 31st March 2026, the customer pays for the machine and spare parts, but only takes the physical possession of the machine. Although the customer inspects and accepts the spare parts, the customer requests that the spare parts be stored at PQR Ltd's warehouse because of its close proximity to the customer's factory.

The customer has legal title to the spare parts and the parts can be identified as belonging to the customer. PQR Ltd. stores the spare parts in a separate section of its warehouse and the parts are ready for immediate shipment at the customer's request. PQR Ltd. expects to hold the spare parts for one to three years and does not have the authority to use the spare parts or direct them to another customer.

Determine how the revenue will be recognized by PQR Ltd. for the different performance obligations as per Ind AS 115 ?

Solution

Performance Obligation 1: Machine

The customer takes physical possession of the machine on 31st March 2026. The promises to transfer the machine and spare parts are DISTINCT performance obligations. Control of the machine transfers when the customer physically receives it.

Hence, the revenue from Machine is recognised on 31st March 2026.

Performance Obligation 2: Spare Parts (Bill-and-Hold Arrangement)

The customer has paid, inspected, and accepted the spare parts but requested PQR to store them at its warehouse. This is a BILL-AND-HOLD arrangement under Ind AS 115

For revenue recognition under a bill-and-hold arrangement, all four prescribed criteria are satisfied in this case:

- The reason for the bill-and-hold arrangement is substantive, since the customer's factory proximity and related logistical considerations justify the arrangement.
- The products are specifically identified as belonging to the customer, as they are stored separately and clearly marked as customer inventory.
- The products are currently ready for physical transfer, as they are available for immediate shipment upon the customer's request.
- PQR does not have the ability to use the products or redirect them to another customer, because it has no authority to use or redirect the spare parts once designated for the customer.

Accordingly, all the required conditions for revenue recognition are fulfilled.

Control of spare parts transfers to the customer on 31st March 2026. Revenue from Spare Parts is recognised on 31st March 2026.

PQR limited is also providing storage services (a separate performance obligation) to the customer. The revenue from this service should be recognised over the period of storage.

5. (b) On 1st April, 2022, Gama Ltd. issued 1,00,000, 8% convertible, debentures of face value of 100 per debenture at par. The debentures are redeemable at a premium of 10% on March 31,



2026 or these may be converted into ordinary shares at the option of the holder. The interest rate for equivalent debentures without conversion rights would have been 14%. The date of transition to Ind AS is April 1, 2024. 5

You are required to suggest how Gama Ltd. should account for this compound financial instrument on the date of transition ?

The present value of ₹ 1 receivable at the end of each year based on discount rates of 8% and 14% can be taken as :

End of Year	8%	14%
1	0.9259	0.8772
2	0.8573	0.7695
3	0.7938	0.6750
4	0.7350	0.5921

Solution

Step 1: Bifurcation at ORIGINAL Issue Date (1st April 2022)

Face value: 1,00,000 debentures × ₹100 = ₹1,00,00,000 | Coupon: 8% | Redeemable at 10% premium
| Market rate: 14%

Year	Cash Flow (₹)	PV Factor @ 14%	PV (₹)
4 Redemption	1,10,00,000	0.5921	65,13,100
1-4 Interest	8,00,000	2.9138	23,31,040
Total Liability Component			88,44,140
Equity Component			11,55,860
Total			1,00,00,000

Step 2: Carrying Value of Liability at Transition Date (1st April 2024)

Year	Opening Balance (₹)	Interest @ 14% (₹)	Coupon Paid 8% (₹)	Closing Balance (₹)
Year 1 (2022-23)	88,44,140	12,38,180	8,00,000	92,82,320
Year 2 (2023-24)	92,82,320	12,99,525	8,00,000	97,81,845

Carrying value of liability component at 1st April 2024 = ₹97,81,845

Step 3: Transitional Accounting Entry (Ind AS 101 – Retrospective Application)



Under Ind AS 101, when bifurcating a compound instrument at transition, if the equity component was not previously recognised, the adjustment is made against retained earnings (equity at transition date).

Carrying Amount of existing debentures assuming AS-16 was applied and premium has been amortised over four years period,

Face value : 1,00,00,000

Premium Amortised over two years : $10,00,000 \times 2/4 = 5,00,000$

Carrying Amount : 1,05,00,000

Account	Dr (₹)	Cr (₹)
8% Convertible Debentures Dr.	1,05,00,000	
Retained Earnings Dr.	4,37,705	
To Financial Liability (Debentures) A/c		97,81,845
To Equity		11,55,860
[Being bifurcation of compound instrument at transition to Ind AS; liability at EIR value, equity at original amount]		

5. (c) List and explain the enhancing qualitative characteristics of financial information according to the Ind AS.

Characteristic	Description
1. Comparability	Financial information is more useful when it can be compared with similar information for (a) other entities and (b) the same entity for prior periods. Comparability enables users to identify and understand similarities and differences. It does NOT mean uniformity – different methods may be used when different economic phenomena require different treatment.
2. Verifiability	Verifiability helps assure users that information faithfully represents the phenomena it purports to represent. It means different knowledgeable and independent observers could reach consensus that a depiction is faithful. Verification can be direct (e.g., counting cash) or indirect (e.g., checking inputs to a model).
3. Timeliness	Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, older information is less useful; however, some information may be timely for a long period after the reporting date.



4. Understandability	Classifying, characterising, and presenting information clearly and concisely makes it understandable. While some phenomena are inherently complex, they cannot be excluded merely because they are difficult to understand. Financial reports are prepared for users with a reasonable knowledge of business and economic activities.
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OR

5. (c) 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.

Solution

Transactions on Market Terms and Off-Market Terms

1. Transactions on Market Terms

- When an asset is acquired or a liability is incurred in a normal market transaction, the transaction price generally equals its fair value at initial recognition.
- Therefore, the initial measurement is usually based on the consideration paid or received.
- In exchange transactions, if the asset acquired is measured at fair value and differs from the carrying amount of the asset transferred, the difference is recognised in profit or loss.
- However, if the acquired asset is subsequently measured at cost, generally no gain or loss arises on initial recognition.

2. Transactions not on Market Terms (Off-Market Transactions)

- These arise when the transaction price does not represent fair value due to special circumstances such as relationships between parties, government grants, donations, penalties, or interest-free loans.
- In such cases, historical cost may not faithfully represent the substance of the transaction. Hence, assets or liabilities may be initially measured at deemed cost based on current value/fair value.
- Any difference between the deemed cost and consideration paid or received is recognised appropriately as income, expense, equity contribution, or distribution.
- Example: An interest-free loan from a parent to its subsidiary is measured initially at fair value, and the difference is treated as an equity contribution under Ind AS 109.

6. (a) Define cloud computing and explain any four common applications of cloud computing.

Solution

Definition

Cloud computing is the delivery of computing services – including servers, storage, databases, networking, software, analytics, and intelligence – over the internet ('the cloud') on a pay-per-



use basis, allowing organisations to access technology resources on demand without owning or managing physical infrastructure.

Four Common Applications of Cloud Computing

Application	Description	Example
1. Software as a Service (SaaS)	Delivery of fully functional software applications via the internet on a subscription basis. Users access applications through a web browser without installation or maintenance.	Microsoft 365, Salesforce, Google Workspace
2. Infrastructure as a Service (IaaS)	Provides virtualised computing infrastructure (virtual machines, storage, networking) on demand. Organisations scale resources up or down as needed without purchasing hardware.	Amazon Web Services (AWS), Microsoft Azure, Google Cloud
3. Platform as a Service (PaaS)	Provides a managed platform for developers to build, run, and deploy applications without managing the underlying infrastructure. Speeds up application development.	Google App Engine, Microsoft Azure App Service, Heroku
4. Data Storage & Backup / Disaster Recovery	Cloud storage enables secure remote storage and retrieval of data from any device. Eliminates the need for on-premise backup infrastructure and enables business continuity.	Dropbox, Google Drive, Amazon S3, iCloud

5

6. (b) Real Estate Ltd. is a construction company and decided to construct a huge office building for its use since FY 2022-23. The construction of office building consists of five floors. It is expected that the full office building will be constructed over several years but floor I, floor II and floor III of the building will be operational as soon as they are completed. During the initial stage, the project was funded out of internal accruals. However, the company decided to avail a term loan for the project from 1st April, 2025 and load the same to the project expenses.

Following are the details of the work done on different floors of the office building up to the financial year 2025-26 :

(₹ in lakhs)

	Floor I (₹)	Floor II (₹)	Floor III (₹)	Floor IV (₹)	Floor V (₹)
Cash expenditure	60	40	60	100	120
Building Materials purchased	88	70	74	120	152
Total expenditure	148	110	134	220	272
Total expenditure on all phases					884



Loan taken @ 12% in the beginning of the year					900
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After taking substantial period for construction floor I, floor II and floor III have become operational, at the mid of the year i.e. on 30th September, 2025. The project was continuing for the rest of the floors.

You are required to find out the total amount to be capitalized and to be expensed during the financial year 2025-26.

Solution

In the given case, the expenditure on construction is less than the amount borrowed. If it is assumed that the loan is specific borrowing, entire borrowing cost (less income on temporary investment) is capitalised.

The interest is apportioned on the basis of expenditure incurred.

Total Interest = 108

	Floor I (₹)	Floor II (₹)	Floor III (₹)	Floor IV (₹)	Floor V (₹)	Total
Cash expenditure	60	40	60	100	120	
Building Materials purchased	88	70	74	120	152	
Total expenditure	148	110	134	220	272	884
Interest	$148/884 \times 108$	$110/884 \times 108$	$134/884 \times 108$	$220/884 \times 108$	$272/884 \times 108$	
Interest on Loan	18.08	13.44	16.37	26.88	33.23	108.00
Capitalised	9.04	6.72	8.19	26.88	33.23	84.05
Expensed						23.95

6. (c) An asset is sold in two different active markets at different prices. An entity enters into transactions in both markets and can access the price in those markets for the asset at the measurement date.

4

In Market C :

The price that would be received is ₹ 88, transaction costs in the market are ₹ 9 and the cost of transport of the asset are ₹ 6.

In Market D :

The price that would be received is ₹ 85, transaction costs in that market are ₹ 3 and the costs of transport of the asset are ₹ 6.

You are required to calculate :



- (i) The fair value of the asset, if market C is the principal market, and
- (ii) The fair value of the asset, if none of the markets is principal market.

(i) If Market C is the Principal Market

Particulars	Market C (₹)
Price in Market C	88
Less: Transport costs	(6)
Fair Value (transaction costs excluded from FV measurement)	82
[Transaction costs of ₹9 do NOT affect fair value – they are recognised in P&L when incurred]	

Fair Value (Market C is Principal Market)	₹ 82
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(ii) If No Principal Market – Most Advantageous Market

Particulars	Market C (₹)	Market D (₹)
Price	88	85
Less: Transaction costs	(9)	(3)
Less: Transport costs	(6)	(6)
Net proceeds (to identify most advantageous)	73	76
Most advantageous market (higher net proceeds)		Market D

Particulars	Amount (₹)
Price in Market D (most advantageous)	85
Less: Transport costs only (transaction costs excluded from FV)	(6)
Fair Value	79

Fair Value (No Principal Market – Market D is Most Advantageous)	₹ 79
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