Mock Test Paper - Series I: September, 2024

Date of Paper: 9th September, 2024

Time of Paper: 2 P.M. to 5 P.M.

FINAL COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

Time Allowed – 3 Hours **Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory.

Case Scenario 1

A Ltd. is a diversified business group operating in multiple business segments across different parts of the world. It maintains its books of accounts and publishes its annual financial statements under Indian Accounting Standards. The finance team has been working on closing the books of accounts and generating financial statements for the year ended 31st March 20X2 and are facing issues in the following transactions while finalization of financial statements:

(i) A Ltd. owns 250 ordinary shares in X Ltd., an unquoted company. X Ltd. has a total share capital of 5,000 shares with nominal value of ₹ 10. X Ltd.'s after-tax maintainable profits are estimated at ₹ 70,000 per year. An appropriate price/earnings ratio determined from published industry data is 15 (before lack of marketability adjustment). A Ltd.'s management estimates that the discount for the lack of marketability of X Ltd.'s shares and restrictions on their transfer is 20%. A Ltd. values its holding in X Ltd.'s shares based on earnings.

(ii) A Ltd. has a telecom segment. It entered into an agreement with B Ltd. which is engaged in generation and supply of power. The agreement provided that A Ltd. will provide 1,00,000 minutes of talk time to employees of B Ltd. in exchange for getting power equivalent to 20,000 units. A Ltd. normally charges ₹ 0.50 per minute and B Ltd. charges ₹ 2.5 per unit.

(iii) A Ltd. began construction of a new building at an estimated cost of ₹ 7 lakh on 1st April, 20X1. To finance construction of the building it obtained a specific loan of ₹ 2 lakh from a financial institution at an interest rate of 9% per annum.

The company's other outstanding loans were:

Amount	Rate of Interest per annum
₹ 7,00,000	12%
₹ 9,00,000	11%

The expenditure incurred on the construction was:

April, 20X1	₹ 1,50,000
August, 20X1	₹ 2,00,000
October, 20X1	₹ 3,50,000
January, 20X2	₹ 1,00,000

The construction of building was completed by 31st January, 20X2.

The construction of building started on 1st April, 20X1 and all the expenditures on construction of building had been incurred at the beginning of the respective month.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 6 in line with relevant Ind AS:

1. What is the value of a share of X Ltd.?

   (a) ₹ 8,40,000

   (b) ₹ 10,50,000

   (c) ₹ 8,00,000

   (d) ₹ 10,00,000

2. What is the fair value of A Ltd.'s investment in X Ltd.'s shares?

   (a) ₹ 50,000

   (b) ₹ 42,000

   (c) ₹ 10,50,000

   (d) ₹ 10,00,000

3. By what amount the revenue be measured and recognised by A Ltd. in case of telecom segment?

   (a) ₹ 10,000

   (b) ₹ 2,50,000

   (c) ₹ 2,00,000

   (d) ₹ 50,000

4. What will be the capitalization rate for computation of borrowing cost on the building based on general borrowings?

   (a) 9%

   (b) 11%

   (c) 11.4375%

   (d) 12%

5. What will be the total amount of borrowing cost on specific borrowing?

   (a) ₹ 11,250

   (b) ₹ 13,500

(c) ₹ 15,000

(d) ₹ 37,875

6. What will be the total amount of borrowing cost on general borrowing?

(a) ₹ 22,875

(b) ₹ 15,000

(c) ₹ 37,875

(d) ₹ 13,500 **(6 MCQs x 2 Marks each = 12 Marks)**

Case Scenario 2

D Ltd. is a globally diversified business conglomerate with operations spanning across various business sectors worldwide. The company adheres to Indian Accounting Standards for maintaining its financial records and annually releases its financial statements. As the finance team progresses towards finalizing the financial statements for the fiscal year ending on 31st March 20X2, the team is stuck up in the accounting of the following transactions:

(i) D Ltd., for its dairy business, purchased cattle at an auction on 30th June 20X1

Purchase price at 30th June 20X1	₹ 1,00,000
Costs of transporting the cattle back to the entity's farm	₹ 1,000
Sales price of the cattle at 31st March, 20X2	₹ 1,10,000

The company would have to incur similar transportation costs if it were to sell the cattle at auction, in addition to an auctioneer's fee of 2% of sales price. The auctioneer charges 2% of the selling price, from both, the buyer as well as the seller.

Calculate the amount at which cattle is to be recognised in books on initial recognition and at year end 31st March, 20X2. Show corresponding journal entries.

(ii) D Ltd. has certain financial instruments:

- Irredeemable preference shares with face value of ₹ 10 each and premium of ₹ 90. These shares carry dividend @ 8% per annum, however dividend is paid only when D Ltd declares dividend on equity shares.

- Borrowings from Z Ltd. for ₹ 10,00,000 with settlement against issue of a certain number of equity shares of D Ltd. whose value equals ₹ 10,00,000. Fair value per share (to determine total number of equity shares to be issued) be determined based on the market price of the shares of D Ltd. at a future date, upon settlement of the contract.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 7 to 10 in line with relevant Ind AS:

7. What will be the gain/(loss) on initial recognition of biological asset i.e. cattle at the time of purchase on 30th June 20X1?

   (a) Gain on initial recognition of biological asset ₹ 9,800

   (b) Loss on initial recognition of biological asset ₹ 9,800

   (c) Gain on initial recognition of biological asset ₹ 6,000

   (d) Loss on initial recognition of biological asset ₹ 6,000

8. What will be the gain/(loss) on remeasurement of biological asset i.e. cattle at the time of sale on 31st March 20X2?

   (a) Gain on remeasurement of biological asset ₹ 9,800

   (b) Loss on remeasurement of biological asset ₹ 9,800

   (c) Gain on remeasurement of biological asset ₹ 6,000

   (d) Loss on remeasurement of biological asset ₹ 6,000

9. Irredeemable preference shares would be accounted for in the books of D Ltd. as

   (a) Financial Asset

   (b) Financial Liability

   (c) Equity

   (d) Will not be accounted for in the books

10. Borrowings from Z Ltd. for ₹ 10,00,000 with settlement against issue of a certain number of equity shares of D Ltd. would be accounted for in the books of D Ltd. as

   (a) Financial Asset

   (b) Financial Liability

   (c) Equity

   (d) Will not be accounted for in the books

(4 MCQs x 2 Marks each = 8 Marks)

Case Scenario 3

H Ltd. is a globally diversified business conglomerate with operations spanning multiple business segments across various regions worldwide. For maintaining its financial records, the company follows Indian Accounting Standards. As the finance team diligently finalizes the books of accounts and prepares the financial statements for the financial year ending on 31st March 20X2, it requires insights and accounting suggestions on the following transactions:

(i) H Ltd. holds 12% of the voting shares in Z Ltd. Z Ltd.'s board comprises of eight members and two of these members are appointed by H Ltd. casting significant influence. Each board member has one vote at the meeting.

(ii) H Ltd. holds 10% of the voting power of G Ltd. The balance 90% voting power is held by nine other investors each holding 10%.

The decisions about the relevant activities (except decision about taking borrowings) of G Ltd. are taken by the members holding majority of the voting power. The decisions about taking borrowings are required to be taken by unanimous consent of all the investors. Further, decisions about taking borrowing are not the decisions that most significantly affect the returns of G Ltd.

(iii) H Ltd. is also engaged in the business of pharmaceuticals. It has invested in the share capital of Y Ltd. and is holding 15% of Y Ltd.'s total voting power.

Y Ltd. is engaged in the business of producing packing materials for pharmaceutical entities. One of the incentives for H Ltd. to invest in Y Ltd. was the fact that Y Ltd. is engaged in the business of producing packing materials which is also useful for H Ltd. Since last many years, almost 90% of the output of Y Ltd. is procured by H Ltd.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 11 to 13 in line with relevant Ind AS:

11. What is the relationship of Z Ltd. with H Ltd.?

    (a) Z Ltd. is a subsidiary of H Ltd.

    (b) Z Ltd. is an associate of H Ltd.

    (c) Z Ltd. is in joint arrangement with H Ltd.

    (d) H Ltd. has invested in Z Ltd. with no further relationship as subsidiary, associate or joint arrangement.

12. What is the relationship of G Ltd. with H Ltd.?

    (a) G Ltd. is a subsidiary of H Ltd.

    (b) G Ltd. is an associate of H Ltd.

    (c) G Ltd. is in joint arrangement with H Ltd.

    (d) H Ltd. has invested in G Ltd. with no further relationship as subsidiary, associate or joint arrangement.

13. What is the relationship of Y Ltd. with H Ltd.?

    (a) Y Ltd. is a subsidiary of H Ltd.

    (b) Y Ltd. is an associate of H Ltd.

    (c) Y Ltd. is in joint arrangement with H Ltd.

    (d) H Ltd. has invested in Y Ltd. with no further relationship as subsidiary, associate or joint arrangement.

(3 MCQs x 2 Marks each = 6 Marks)

14. With respect to the best practices applicable to all companies, which of the following statements is incorrect?

    (a) Comply with the standards and regulations but also ensure that financial statements are an effective part of wider communication with stakeholders.

    (b) Disclose complete information in the financial to avoid any further cross questioning in the mind of the users.

    (c) Reduce generic disclosures and focus on company specific disclosures that explain how the company applies the policies.

    (d) Do not disclose assumptions and bases, so that users are not misled.

(2 Marks)

15. Which of the following proactive measures do not mitigate cybersecurity risks?

    (a) Ensure that all passwords are simple and are not changed regularly.

    (b) Include procedures for detecting, containing, and mitigating the impact of a cyberattack

    (c) Ensure that firewalls and other security measures are in place to prevent unauthorized access to the network.

    (d) Ensure that data backups are performed regularly and that backups are stored securely **(2 Marks)**

PART – II DESCRIPTIVE QUESTIONS

Question No.1 is compulsory. Candidates are required to answer any four questions from the remaining five questions.

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the answers.

Maximum Marks – 70 Marks

1. On 31st December, 20X1, Entity A issues 2.5 shares in exchange for each ordinary share of Entity B. All of Entity B's shareholders exchange their shares in Entity B. Therefore, Entity A issues 150 ordinary shares in exchange for all 60 ordinary shares of Entity B.

   The fair value of each ordinary share of Entity B at 31st December, 20X1 is ₹ 40. The quoted market price of Entity A's ordinary shares at that date is ₹ 16.

   The fair values of Entity A's identifiable assets and liabilities at 31st December, 20X1 are the same as their carrying amounts, except that the fair value of Entity A's non- current assets at 31st December, 20X1 is ₹ 1,500.

The balance sheets of Entity A and Entity B immediately before the business combination are:

	Entity A (legal parent, accounting acquiree)	**Entity B (legal subsidiary, accounting acquirer)**
Current assets	500	700
Non-current assets	1,300	3,000
Total assets	1,800	3,700
Current liabilities	300	600
Non-current liabilities	400	1,100
Total liabilities	700	1,700
Shareholders' equity		
Retained earnings	800	1,400
Issued equity		
100 ordinary shares	300	
60 ordinary shares		600
Total shareholders' equity	1,100	2,000
Total liabilities and shareholders' equity	1,800	3,700

Assume that Entity B's earnings for the annual period ended 31st March, 20X1 were ₹ 600 and that the consolidated earnings for the annual period ended 31st March, 20X2 were ₹ 800. Assume also that there was no change in the number of ordinary shares issued by Entity B during the annual period ended 31st March, 20X1 and during the period from 1st January, 20X1 to the date of the reverse acquisition on 31st December, 20X1.

Calculate the fair value of the consideration transferred measure goodwill and prepare consolidated balance sheet as on 31st December, 20X1.

(14 Marks)

2. (a) XYZ Ltd. is a company incorporated in India. It provides ₹ 10,00,000 interest free loan to its wholly owned Indian subsidiary, ABC Ltd. There are no transaction costs.

State how the loan be accounted for, in the separate financial statements of XYZ Ltd., individual financial statements of ABC Ltd. and consolidated financial statements of the group when the loan is repayable after 3 years. The current market rate of interest for similar loan is 10% p.a. for both holding and subsidiary. **(10 Marks)**

(b) **Either**

One of the directors of Buildwell Ltd., Mr. Ben Jones has informed Central Finance team that on 1st January 20X3, his spouse acquired a controlling interest in one of Buildwell Ltd.'s major suppliers, Candour Ltd. Mr. Jones seemed to think that this would have implications on the financial statements of Buildwell Ltd. Buildwell Ltd. has been purchasing goods from Candour Ltd. ₹ 1·5 million per month of the year ended 31st March 20X3. As per the financial statements of Buildwell Ltd., this is a significant amount. While checking all the purchase transactions it was found that all the purchases from Candour Ltd. were made at normal market rates.

How the effect of acquisition of controlling interest in Candour Ltd. by Mr. Ben Jones is to be reflected in the financial statements for the year ending 31st March 20X3? **(4 Marks)**

Or

An entity uses the weighted average cost formula to assign costs to inventories and cost of goods sold for financial reporting purposes, but the reports provided to the chief operating decision maker use the First-In, First-Out (FIFO) method for evaluating the performance of segment operations.

State the cost formula to be used for Ind AS 108 disclosure purposes.

(4 Marks)

3. (a) One of the subsidiaries of B Ltd. submitted to Central Finance its Summarized Statement of Profit and Loss and Balance Sheet.

Summarized Statement of Profit and Loss for the year ended 31st March 20X3

Particulars	**Amount (₹)**
Net sales	2,52,00,000
Less: Cash cost of sales	(1,92,00,000)
Depreciation	(6,00,000)
Salaries & wages	(24,00,000)
Operating expenses	(14,00,000)
Provision for taxation	(8,80,000)
Net Operating Profit	7,20,000
Non-recurring income – profit on sale of equipment	1,20,000
	8,40,000
Retained earnings and profit brought forward	15,18,000
	23,58,000

Dividends declared and paid during the year	(7,20,000)
Profit & loss balance as on 31st March 20X3	16,38,000

Summarized Balance Sheet

Assets	31 March 20X2	31 March 20X3
Non-current Assets		
Property, Plant and Equipment:		
Land	4,80,000	9,60,000
Buildings and Equipment	36,00,000	57,60,000
Current Assets		
Cash	6,00,000	7,20,000
Inventories	16,80,000	18,60,000
Trade Receivables	26,40,000	9,60,000
Advances	78,000	90,000
Total Assets	90,78,000	1,03,50,000
Liabilities & Equity		
Share capital	36,00,000	44,40,000
Surplus in profit & loss	15,18,000	16,38,000
Current liability		
Trade Payables	24,00,000	23,40,000
Outstanding expenses	2,40,000	4,80,000
Income tax payable	1,20,000	1,32,000
Accumulated depreciation on buildings and equipment	12,00,000	13,20,000
Total	90,78,000	1,03,50,000

The original cost of equipment sold during the year 20X2-20X3 was ₹ 7,20,000.

Work out a Statement of cash flows (as per indirect method) for the year ended 31st March 20X3. **(8 Marks)**

(b) SA Pvt Ltd is engaged in the business of retail having 100 retail outlets across Northern and Southern India. The company's head office is located at Chennai.

SA Pvt Ltd is a subsidiary of SAG Ltd. SAG Ltd is listed on the National Stock Exchange in India.

Following information is available for SA Pvt Ltd:

Plan Assets

At 1st April, 20X1, the fair value of plan assets was ₹ 10,000.

Contribution to the plan assets done on 31st March, 20X2 – ₹ 3,000

Amount paid on 31st March, 20X2 – ₹ 300

At 31st March, 20X2, the fair value of plan assets was ₹ 14,700

Actual return on plan assets – ₹ 2,000

Defined Benefit Obligation

At 1st April, 20X1, present value of the defined benefit obligation was ₹ 12,000.

At 31st March, 20X2, present value of the defined benefit obligation was ₹ 15,500.

Actuarial losses on the obligation for the year ended 31st March, 20X2 were ₹ 100.

Current Service Cost – ₹ 2,500

Benefit paid – ₹ 300

Discount rate used to calculate defined benefit liability - 10%.

Suggest the amount that would be taken to other comprehensive income (with workings). Also compute net interest on the net defined benefit liability (asset). **(6 Marks)**

4. (a) PQR Ltd., a manufacturing company, prepares consolidated financial statements to 31st March each year. During the year ended 31st March, 20X2, the following events affected the tax position of the group:

i QPR Ltd., a wholly owned subsidiary of PQR Ltd., incurred a loss adjusted for tax purposes of ₹ 30,00,000. QPR Ltd. is unable to utilise this loss against previous tax liabilities. Income-tax Act does not allow QPR Ltd. to transfer the tax loss to other group companies. However, it allows QPR Ltd. to carry the loss forward and utilise it against company's future taxable profits. The directors of PQR Ltd. do not consider that QPR Ltd. will make taxable profits in the foreseeable future.

ii During the year ended 31st March, 20X2, PQR Ltd. capitalised development costs which satisfied the criteria as per Ind AS 38 'Intangible Assets'. The total amount capitalised was ₹ 16,00,000. The development project began to generate economic benefits for PQR Ltd. from 1st January, 20X2. The directors of PQR Ltd. estimated that the project would generate economic benefits for five years from that date. The development expenditure was fully deductible against taxable profits for the year ended 31st March, 20X2.

iii On 1st April, 20X1, PQR Ltd. borrowed ₹ 1,00,00,000. The cost to PQR Ltd. of arranging the borrowing was ₹ 2,00,000 and this cost qualified for a tax deduction on 1st April 20X1. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31st March 20X4 will be ₹ 1,30,43,800. This equates to an effective annual interest rate of 10%. As per the Income-tax Act, a further tax deduction of ₹ 30,43,800 will be claimable when the loan is repaid on 31st March, 20X4.

Explain and show how each of these events would affect the deferred tax assets / liabilities in the consolidated balance sheet of PQR Ltd. group at 31st March, 20X2 as per Ind AS. The rate of corporate income tax is 30%. **(8 Marks)**

(b) An entity enters into a contract with a customer on 1st April, 20X1 for the sale of a machine and spare parts. The manufacturing lead time for the machine and spare parts is two years.

Upon completion of manufacturing, the entity demonstrates that the machine and spare parts meet the agreed-upon specifications in the contract. The promises to transfer the machine and spare parts are distinct and result in two performance obligations that each will be satisfied at a point in time. On 31st March, 20X3, the customer pays for the machine and spare parts, but only takes physical possession of the machine. Although the customer inspects and accepts the spare parts, the customer requests that the spare parts be stored at the entity'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. Furthermore, the entity stores the spare parts in a separate section of its warehouse and the parts are ready for immediate shipment at the customer's request. The entity expects to hold the spare parts for two to four years and the entity does not have the ability to use the spare parts or direct them to another customer.

How will the Company recognize revenue for sale of machine and spare parts? Is there any other performance obligation attached to this sale of goods? **(6 Marks)**

5. (a) ABC Ltd is a government company and is a first-time adopter of Ind AS. As per the previous GAAP, the contributions received by ABC Ltd. from the government (which holds 100% shareholding in ABC Ltd.) which is in the nature of promoters' contribution have been recognised in capital reserve and treated as part of shareholders' funds in accordance with the provisions of AS 12, Accounting for Government Grants.

State whether the accounting treatment of the grants in the nature of promoters' contribution as per AS 12 is also permitted under Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance. If not, then what will be the accounting treatment of such grants recognised in capital reserve as per previous GAAP on the date of transition to Ind AS. **(4 Marks)**

(b) Feel Fresh Limited (the Company) is into manufacturing and retailing of FMCG products listed on stock exchanges in India. One of its products is bathing soap which the Company sells under the brand name 'Feel Fresh'. The Company does not have its own manufacturing facilities for soap and therefore it enters into arrangements with a third party to procure the soaps. The Company entered into a long-term purchase contract of 10 years with M/s. Radhey. Following are the relevant terms of the contract with M/s. Radhey.

(i) M/s. Radhey has to purchase a machine costing ₹ 10,00,000 from the supplier as specified by the Company. The machine will be customized to produce the soaps as designed by the Company. This machine cannot be used by M/s. Radhey to produce the soaps for buyer other than the Company due to the design specifications. The machine has a useful life of 10 years and the straight line method of depreciation is best suited considering the use of the machine.

(ii) The Company will pay ₹ 4.75 per soap for the first year of contract. This is calculated based on the budgeted annual purchase of 7,00,000 soaps as follows:

Particulars	**Per soap price**
Variable cost of manufacturing	4.00
Cost of machine (₹ 1,74,015/7,00,000 soaps)	0.25
M/s. Radhey's margin	0.50
Per soap cost to the Company	4.75

In case the Company purchases more than 7,00,000 (i.e. budgeted number of soaps) soaps in the first year then the cost of the machine (i.e. 0.25 per soap) will not be paid for soaps procured in excess of 7,00,000 units. However, in case Company procures less than budgeted number of soaps, then the Company will pay the differential unabsorbed cost of the machine, at the end of the year. For example, if the Company purchases only 6,00,000 soaps in first year then the differential amount of ₹ 24,015 (1,74,015 - (6,00,000 x 0.25)) will be paid by the Company to M/s. Radhey at the end of the year. Variable cost will be actualized at the end of the year.

(iii) The cost per soap will be calculated for each year in advance based on the budgeted number of soaps to be produced each year. An amount of ₹ 1,74,015 shall be considered each year for the cost of machine for year 1 to year 8 while calculating the cost per soap. Any differential under absorbed amount shall be paid by the Company to M/s. Radhey at the end of that year. A charge of ₹ 1,74,015 per annum for the machine is derived using borrowing cost of 8% p.a. For year 9 and year 10, only variable cost and margins will be paid.

(iv) M/s. Radhey does not have any right to terminate the contract but the Company has the right to terminate the contract at the end of each year. However, if the Company terminates the contract, it has to compensate M/s. Radhey for any unabsorbed cost of Machine. For example, if the Company terminates the contract at the end of second year then it has to pay ₹ 10,44,090 (i.e. 1,74,015 per year x 6 remaining years). If it terminates the contract after the 8th year then the Company does not have to pay the compensation since the cost of the machine would have been absorbed.

(v) In the first year, the Company purchases 5,50,000 soaps at ₹ 4.75 per soap.

Analyze the contract of the Company with M/s. Radhey and provide necessary accounting entries for first year in accordance with Ind AS with working notes. Assume all cash flows occur at the end of the year.

(10 Marks)

6. (a) Venus Ltd. is a multinational entity that owns three properties. All three properties were purchased on 1st April, 20X1. The details of purchase price and market values of the properties are given as follows:

Particulars	Property 1	Property 2	Property 3
	Factory	Factory	Let-Out
Purchase price	15,000	10,000	12,000
Market value 31.03.20X2	16,000	11,000	13,500
Life	10 Years	10 Years	10 Years
Subsequent Measurement	Cost Model	Revaluation Model	Revaluation Model

Property 1 and 2 are used by Venus Ltd. as factory building whilst property 3 is let-out to a non-related party at a market rent. The management presents all three properties in balance sheet as 'property, plant and equipment'.

The Company does not depreciate any of the properties on the basis that the fair values are exceeding their carrying amount and recognise the difference between purchase price and fair value in Statement of Profit and Loss.

Analyse whether the accounting policies adopted by the Venus Ltd. in relation to these properties is in accordance with Ind AS. If not, advise the correct treatment alongwith working for the same. **(9 Marks)**

(b) Infostar Ltd. is a listed company engaged in the provision of IT services in India. The directors are paid a bonus based on the profits achieved by the company during the year as per the bonus table given below:

Profit Range	Bonus to Directors
NIL < Profit < ₹ 1 crore	NIL
₹ 1 crore < Profit < ₹ 5 crores	2% of Net Profit
₹ 5 crores < Profit < ₹ 10 crores	4% of Net Profit
₹ 10 crores < Profit < ₹ 20 crores	6% of Net Profit
₹ 20 crores < Profit < ₹ 30 crores	8% of Net Profit
Profit > ₹ 30 crores	10% of Net Profit

The draft Statement of Profit and Loss for the year ended 31 March 20X2 currently shows a profit of ₹ 2 crores.

Issue:

The employees of Infostar Ltd. have historically been paid an individual-performance-based discretionary incentive for the last 15 years. Based on the past trends and performance, the bonus amount for the year 20X1-20X2 would be ₹ 3 crores. In view of the possibility of the directors not receiving the bonus on account of the company's poor performance, Infostar Ltd.'s Chief Financial Officer (CFO), who is a chartered accountant, has suggested that the discretionary incentive usually payable to the employees could be avoided in the current year, which would result in the company reporting profits. As a part of its annual report, Infostar Ltd. reports employee satisfaction scores, staff attrition rates, gender equality and employee absenteeism rates as non-financial performance measures. The CFO has also told the directors over mail that no stakeholder reads the non-financial information anyway, and thus his aforesaid suggestion of not paying the discretionary incentive would not impact the company greatly.

Discuss the ethical and accounting implications of the above issues, referring to the relevant Ind AS wherever appropriate from perspective of CA. Sushil Bhupathy. **(5 Marks)**