Mock Test Paper - Series I: March, 2025

Date of Paper: 10th March, 2025

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

FINAL COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

ANSWER TO PART – I CASE SCENARIO BASED MCQS

1. **Option (a):** ₹ 2,000 capitalised to the cost of inventory; ₹ 500 debited to profit and loss account
2. **Option (b):** ₹ 5,000 capitalised to the cost of inventory; ₹ 500 credited to profit and loss account
3. **Option (c) :** ₹ 6,857; ₹ 643
4. **Option (d):** ₹ 9,80,000
5. **Option (d) :** ₹ 98,000
6. **Option (d) :** ₹ 2,29,500
7. **Option (c) :** ₹ 24,000
8. **Option (a) :** ₹ 8,550
9. **Option (b) :** ₹ 5,67,427
10. **Option (c) :** ₹ 4,32,573
11. **Option (**a) :₹ 1 crore
12. **Option (**b) : ₹ 2 crores
13. **Option (**d) : ₹ 2.20 crores; debiting retained earnings by ₹ 0.20 crore
14. **Option (c) :** ₹ 9,50,000
15. **Option (a) :** Artificial Intelligence (AI) and Machine Learning (ML)

ANSWERS OF PART – II : DESCRIPTIVE QUESTIONS

1. As per the terms and conditions of the partnership deed, the consent of both the partners shall be required for taking decisions on any matter which may affect the returns of the business. Here, both the partners have joint control over the business of the partnership firm as defined under Ind AS 111. Therefore, we can conclude that the arrangement between A Ltd. and B Ltd. is a joint arrangement under Ind AS 111.

Classification of the joint arrangement for the year ended 31st March, 20X2

Para B15 of Ind AS 111 states that the classification of joint arrangements requires the parties to assess their rights and obligations arising from the arrangement. When making that assessment, an entity shall consider the following:

(a) the structure of the joint arrangement.

(b) when the joint arrangement is structured through a separate vehicle:

 (i) the legal form of the separate vehicle;

 (ii) the terms of the contractual arrangement; and

 (iii) when relevant, other facts and circumstances.

Para B24 states that the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle is sufficient to conclude that the arrangement is a joint operation only if the parties conduct the joint arrangement in a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (ie the assets and liabilities held in the separate vehicle are the parties' assets and liabilities).

As per para 15 of Ind AS 111, a joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

Accordingly, the joint arrangement is carried out through a separate vehicle M/s. Star Hotel whose legal form does not confer separation between the parties and the separate vehicle (ie the assets and liabilities held in vehicle M/s. Star Hotel are the parties' assets and liabilities ie of A Ltd. and B Ltd.). This is reinforced by the terms agreed by the parties in their contractual arrangement, which state that A Ltd. and B Ltd. have rights to the assets, and obligations for the liabilities relating to the arrangement that is conducted through vehicle M/s. Star Hotel. [As per para B25 and B28 of Ind AS 111].

Hence, here the joint arrangement is a joint operation.

Recognition in the financial statements of A Ltd. for the year ended 31st March, 20X2

A Ltd. in its financial statements for the year ended 31st March, 20X2 will recognise its share of the assets and its share of any liabilities resulting from the arrangement (eg-accounts payable to third parties) on the basis of its agreed participation share. It will also recognise its share of the revenue and expenses resulting from the hospitality services provided through M/s Star Hotel.

First floor that is controlled by A Ltd. shall be accounted for by A Ltd. in its financial statements.

For the two floors (Ground Floor and Third Floor) that are jointly controlled by A Ltd. and B Ltd., as per the contractual arrangement, both A Ltd. and B Ltd. will jointly and equally own the legal and beneficial ownership of assets and related liabilities. Thus, A Ltd. will recognise its 50% share of the revenue and expenses resulting from these floors.

With respect to second floor, A Ltd. should not account for any items of assets and liabilities, revenue and expenses in its financial statements.

The assets, liabilities, revenue and expenses should be recognised on a line-by-line basis based on nature and classification of the respective items and according to the principles of recognition and measurement prescribed under the respective Ind AS applicable to such items.

Reclassification of the joint arrangement for the year ended 31st March, 20X3

As per para B23 of Ind AS 111, the joint arrangement is carried out through a separate vehicle whose legal form causes the separate vehicle to be considered in its own right (ie the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).

Since the terms of the contractual arrangement in the formation of company Star Hotel Pvt. Ltd. does not specify the parties have rights to the assets, or obligations for the liabilities, relating to the arrangement. Instead, the terms of the contractual arrangement establish that the parties have rights to the net assets of Star Hotel Pvt. Ltd.

The legal form of the company confers separation between the shareholders and the company. Further, as per the shareholders' agreement, the individual assets and liabilities of the business are legally beneficial to the company rather than the shareholders. Upon liquidation of the company, its net assets, after repayment of all its liabilities, shall be distributed to the shareholders in the proportion of share capital held by them. It implies that the shareholders have rights to the assets of the company. This is a key characteristic of a joint venture.

The terms and conditions of the shareholders' agreement do not modify or reverse the rights and obligations conferred by the legal form of the company.

Therefore, on the basis of the description of terms and conditions of the shareholders' agreement, there are no other facts and circumstances that indicate that the parties have rights to substantially all the economic benefits of the assets relating to the arrangement, and that the parties have an obligation for the liabilities relating to the arrangement.

Hence, the joint arrangement shall be reclassified from a joint operation to a joint venture in the financial statements of A Ltd. for the financial year ended 31st March, 20X3.

Recognition in the consolidated financial statements of A Ltd. for the year ended 31st March, 20X3

As per Para 24 of Ind AS 111, a joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with Ind AS 28 'Investments in Associates and Joint Ventures' unless the entity is exempted from applying the equity method as specified in that standard.

Accordingly, A Ltd. shall recognise its right to the net assets of Star Hotel Pvt. Ltd. as investment and account for it using the equity method assuming that the right to sell the shares to B Ltd. is not substantive and will not have any implication on the assessment as it will not alter the joint arrangement.

Note: Right to sell 50% shares by A Ltd. has been ignored, since the right to exercise the option rest with A Ltd. and not B Ltd. Hence, B Ltd. is under obligation to buy but do not have potential voting rights.

2. (a) The OCPS is redeemable at the end of the 5th year. Hence, the preference share contains a liability component. Further the dividend payable on the preference shares is non-cumulative. The holder may also be able to convert the preference shares at his option any time until maturity.

Paragraph AG 37 of Ind AS 32, *Financial Instruments: Presentation* states that non-cumulative dividends paid at the discretion of the issuer entity is part of equity element.

Paragraph 29 of Ind AS 32, *Financial Instruments: Presentation*, requires separate recognition of components of a financial instrument that (a) creates a financial liability of the entity; and (b) grants an option to the holder of the instrument to convert it into fixed number of equity instruments of the entity.

From the above paragraphs it is clear that OCPS issued by ABC Ltd. has a financial liability component as well as an equity component, making it a compound financial instrument.

As per paragraph 32, in case of compound financial instruments, the issuer first determines the carrying amount of the financial liability component by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity represented by (a) non-cumulative dividend feature and (b) option to convert the preference shares for fixed number of pre-determined ordinary shares is then determined by deducting the fair value of the financial liability component from the fair value of the compound financial instrument as a whole.

Measurement and recognition (Calculations have been done at full scale):

At 7% market rate of interest, the fair value of the financial liability component of the OCPS is ₹ 71,29,862 [100,000 OCPS x ₹ 100 x $(1/(1+7\%))^5$]

The fair value of the equity component is (residual value) ₹ 28,70,138 [₹ 1,00,00,000 - ₹ 71,29,862]

Journal Entries

1st April, 20X1	**On Initial recognition**		₹	₹
	Bank	Dr.	1,00,00,000	
	To OCPS (Financial liability)			71,29,862
	To OCPS (Equity)			28,70,138
	(Being OCPS issued and recognised)			
31st March, 20X2	**<u>Interest expense – unwinding of discount</u>**			
	Interest expense @ 7% (Refer W.N.)	Dr.	4,99,090	
	To OCPS (Financial liability)			4,99,090
	(Being interest recorded as per EIR)			
	Interest entry will be passed every year till conversion option is not exercised			
	Whenever the option is exercised by the holder to convert to equity shares			
	OCPS (Financial liability)	Dr.	Balance on date of exercise of the option	
	To OCPS (Equity)			

As per paragraph 30, in case of a convertible financial instrument, the classification of the liability and equity components is not revised as a result of change in the likelihood that a conversion option will be exercised.

In other words, the amount attributable to equity component on initial recognition shall remain in equity and will not be reclassified even if the OCPS are ultimately redeemed in cash by the issuer.

31st March, 20X6	**If redeemed in cash on maturity**	₹	₹
	OCPS (financial liability) Dr. (Refer W.N.)	1,00,00,000	
	To Bank		1,00,00,000
	(Being OCPS redeemed on maturity)		

Working Note:

Calculation of the amortised cost of the financial liability (at full scale):

Year	Opening Balance (₹)	Interest @ 7%	Repayment	Closing Balance (₹)
1	71,29,862	4,99,090	-	76,28,952
2	76,28,952	5,34,027		81,62,979
3	81,62,979	5,71,409		87,34,388
4	87,34,388	6,11,407		93,45,795
5	93,45,795	6,54,206	10,000,000	-

(b) As per Rule 4(1)(ii)(a) of the Companies (Indian Accounting Standards) Rules, 2015, X Ltd. having net worth of ₹ 600 crores at the end of the financial year 2015-2016, would be required to prepare its financial statements for the accounting periods commencing from 1st April, 2016, as per the Companies (Indian Accounting Standards) Rules, 2015. While Y Ltd. having net worth of ₹ 150 crores in the year 2015-2016, would be required to prepare its financial statements as per the Companies (Accounting Standards) Rules, 2006.

Since, the foreign company ABC Inc., is not a company incorporated under the Companies Act, 2013 or the earlier Companies Act, 1956, it is not required to prepare its financial statements as per the Companies (Indian Accounting Standards) Rules, 2015. As the foreign company is not required to prepare financial statements based on Ind AS, the net worth of foreign company

ABC Inc. would not be the basis for deciding whether Indian Subsidiary X Ltd. and Y Ltd. are required to prepare financial statements based on Ind AS.

3. (a) On initial measurement, X Ltd. will measure the lease liability and ROU asset as under:

Year	Lease Payments (USD)	Present Value factor @ 5%	Present Value of Lease Payment	Conversion rate (spot rate)	INR value
1	10,000	0.952	9,520	68	6,47,360
2	10,000	0.907	9,070	68	6,16,760
3	10,000	0.864	8,640	68	5,87,520
4	10,000	0.823	8,230	68	5,59,640
5	10,000	0.784	7,840	68	5,33,120
Total			**43,300**		**29,44,400**

As per Ind AS 21 *The Effects of Changes in Foreign Exchange Rates*, monetary assets and liabilities are restated at each reporting date at the closing rate and the difference due to foreign exchange movement is recognised in profit and loss whereas non-monetary assets and liabilities carried measured in terms of historical cost in foreign currency are not restated.

Accordingly, the ROU asset in the given case being a non-monetary asset measured in terms of historical cost in foreign currency will not be restated but the lease liability being a monetary liability will be restated at each reporting date with the resultant difference being taken to profit and loss.

At the end of Year 1, the lease liability will be measured in terms of USD as under:

Lease Liability:

Year	Initial Value (USD) (a)	Lease Payment (b)	Interest @ 5% (c) = (a x 5%)	Closing Value (USD) (d = a + c - b)
1	43,300	10,000	2,165	35,465

Interest at the rate of 5% will be accounted for in profit and loss at average rate of ₹ 69 (i.e., USD 2,165 x 69) = ₹ 1,49,385.

Particulars		Dr. (₹)	Cr. (₹)
Interest Expense	Dr.	1,49,385	
To Lease liability			1,49,385

Lease payment would be accounted for at the reporting date exchange rate, i.e. ₹ 70 at the end of year 1

Particulars		Dr. (₹)	Cr. (₹)
Lease liability	Dr.	7,00,000	
To Cash			7,00,000

As per the guidance above under Ind AS 21, the lease liability will be restated using the reporting date exchange rate i.e., ₹ 70 at the end of Year 1. Accordingly, the lease liability will be measured at ₹ 24,82,550 (35,465 x ₹ 70) with the corresponding impact due to exchange rate movement of ₹ 88,765 (24,82,550 – (29,44,400 + 1,49,385 – 700,000) taken to profit and loss.

At the end of year 1, the ROU asset will be measured as under:

Year	Opening Balance (₹)	Depreciation (₹)	Closing Balance (₹)
1	29,44,400	5,88,880	23,55,520

(b) Translation of the balances for the purpose of consolidation

	USD	Rate	L$
Property, plant and equipment	50,000	1.13	44,248
Receivables	9,35,000	1.13	8,27,434
Total assets	**9,85,000**		**8,71,682**
Issued capital	50,000	—	30,055
Opening retained earnings	28,000	—	15,274
Profit for the year	20,000	1.175	17,021
Accounts payable	8,40,000	1.13	7,43,363
Accrued liabilities	47,000	1.13	41,593
Total equity and liabilities USD	**9,85,000**		**8,47,306**
Foreign Currency Translation Reserve (Refer WN-1)			**24,376**
Total equity and liabilities L$			**8,71,682**

Working Note:

1. **Cumulative balance of the FCTR**

Particulars	Actual translated amount in L$	Amount (Refer WN-2)	Difference
	A	B	B-A
Issued capital	30,055	44,248	14,193
Opening retained earnings	15,274	24,779	9,505
Profit for the year	17,021	17,699	678
	62,350	**86,726**	**24,376**

2. **Translated amount if the same conversion rate is applied to following items as applied on other items**

			Translated amount
Issued capital	50,000	1.13	44,248
Opening retained earnings	28,000	1.13	24,779
Profit for the year	20,000	1.13	17,699
	98,000		**86,726**

4. (a) **Journal Entries**

31st March, 20X2		₹
Employee benefits expenses Dr.	4,60,000	
To Share based payment reserve (equity)		4,60,000
(Being expenses to the extent of 1/3 of expected vested equity instruments value recognized)		
Profit and Loss Account Dr.	4,60,000	
To Employee benefits expenses		4,60,000
(Being expenses transferred to Profit and Loss Account)		
31st March, 20X3		
Share based payment reserve (equity) Dr.	40,000	
To Employee benefits expenses		40,000
(2/3 of expected vested equity instruments value)		

Employee benefits expenses Dr.	40,000	
To Profit and Loss Account		40,000
(Being expenses transferred to Profit and Loss Account)		
31st March, 20X4		
Employee benefits expenses Dr.	3,80,000	
To Share based payment reserve (equity)		3,80,000
(Final vested equity instruments value)		
Profit and Loss Account Dr.	3,80,000	
To Employee benefits expenses		3,80,000
(Being expenses transferred to Profit and Loss Account)		
31st March, 20X5		
Share based payment reserve (equity) Dr.	8,00,000	
Bank Account (150 x 100 x 30) Dr.	4,50,000	
To Share Capital [150 x 100 x 10]		1,50,000
To Securities Premium [150 x 100 x (50+20)]		10,50,000
To Retained Earnings (10 x 100 x 50)		50,000
(Being 150 options exercised and 10 options lapsed)		

Calculation of employee benefits expenses

Year ended 31st March	Calculation	Expense for Period	Cumulative expense
		₹	₹
20X2	(300 – 10 - 14) employees x 100 shares x ₹ 50 x 1/3 years	4,60,000	4,60,000
20X3	[{(300 – 10 - 110 - 54) employees x 100 shares x ₹ 50 x 2/3 years} - 4,60,000]	(40,000)	4,20,000
20X4	[(160 employees x 100 shares x ₹ 50) - 4,20,000]	3,80,000	8,00,000

(b) As per Ind AS 23, when an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity should determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

The amount of borrowing costs eligible for capitalization, in cases where the funds are borrowed generally, should be determined based on the capitalisation rate and expenditure incurred in obtaining a qualifying asset. The costs incurred should first be allocated to the specific borrowings.

Analysis of expenditure:

Date	Expenditure (₹ '000)	Amount allocated in general borrowings (₹ '000)	Weighted for period outstanding (₹ '000)
1st April, 20X1	200	0	0
30th June, 20X1	600	100*	100 × 9/12 = 75
31st Dec., 20X1	1,200	1,200	1,200 × 3/12 = 300
31st March, 20X2	200	200	200 × 0/12 = 0
Total	2,200		375

*Specific borrowings of ₹ 7,00,000 fully utilized on 1st April & on 30th June to the extent of ₹ 5,00,000 hence remaining expenditure of ₹ 1,00,000 allocated to general borrowings.

The capitalisation rate relating to general borrowings should be the weighted average of the borrowing costs applicable to the entity's borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

$$\text{Capitalisation rate} = \frac{(10{,}00{,}000\times12.5\%) + (15{,}00{,}000\times10\%)}{10{,}00{,}000+15{,}00{,}000} = 11\%$$

Borrowing cost to be capitalized:	Amount (₹)
On specific loan	65,000
On General borrowing (3,75,000 x 11%)	41,250
Total	1,06,250
Less: interest income on specific borrowings	(20,000)
Amount eligible for capitalization	86,250

Therefore, the borrowing costs to be capitalized are ₹ 86,250.

5. (a) (i) As per para 27 of Ind AS 115, a good or service that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to them. A readily available resource is a good or service that is sold separately (by the entity or another entity) or that the customer has already obtained from the entity or from other transactions or events; and

(b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

Factors that indicate that two or more promises to transfer goods or services to a customer are separately identifiable include, but are not limited to, the following:

(a) significant integration services are not provided (i.e. the entity is not using the goods or services as inputs to produce or deliver the combined output called for in the contract)

(b) the goods or services does not significantly modify or customize other promised goods or services in the contract.

(c) the goods or services are not highly inter-dependent or highly interrelated with other promised goods or services in the contract

Accordingly, on 1st April, 20X1, entity A entered into a single transaction with three identifiable separate components:

1. Sale of a good (i.e. engineering machine);
2. Rendering of services (i.e. engineering machine maintenance services on 30th September, 20X1 and 1st April, 20X2); and
3. Providing finance (i.e. sale of engineering machine and rendering of services on extended period credit).

(ii) Calculation and allocation of revenue to each component of the transaction

Date	***Opening balance***	***Finance income***	***Goods***	***Services***	***Payment received***	***Closing balance***
1st April, 20X1	–	–	2,51,927	–	–	2,51,927
30th September,	2,51,927	12,596 (Note 1)	–	45,000	–	3,09,523

20X1						
31st March 20X2	3,09,523	15,477 (Note 2)	–	–	–	3,25,000
1st April, 20X2	3,25,000	–	–	75,000	(4,00,000)	

Notes:

1. Calculation of finance income as on 30th September, 20X1

   = 5% x 2,51,927 = ₹ 12,596

2. Calculation of finance income as on 31st March, 20X2

   = 5% x 3,09,523 = ₹ 15,477

(iii) **Journal Entries**

Date	Particulars	Dr. (₹)	Cr. (₹)
1st April, 20X1	Mr. Anik Dr.	2,51,927	
	To Revenue - sale of goods (Profit or loss A/c)		2,51,927
	(Being revenue recognised from the sale of the machine on credit)		
	Cost of goods sold (Profit or loss) Dr.	1,60,000	
	To Inventories		1,60,000
	(Being cost of goods sold recognised)		
30th September 20X1	Mr. Anik Dr.	12,596	
	To Finance Income (Profit or loss)		12,596
	(Being finance income recognised)		
	Mr. Anik Dr.	45,000	
	To Revenue- rendering of services (Profit or loss)		45,000
	(Being revenue from the rendering of maintenance services recognised)		
	Cost of services (Profit or loss) Dr.	30,000	
	To Cash/Bank or payables		30,000
	(Being the cost of performing maintenance services recognised)		
31st March 20X2	Mr. Anik Dr.	15,477	
	To Finance Income (Profit or loss)		15,477
	(Being finance income recognised)		
1st April, 20X2	Mr. Anik Dr.	75,000	
	To Revenue - rendering of services		75,000

	(Profit or loss) (Being revenue from the rendering of maintenance services recognised)		
	Cost of services (Profit or loss) Dr. To Cash/Bank or payables (Being the cost of performing maintenance services recognised)	50,000	50,000
	Cash/Bank Dr. To Mr. Anik (Being the receipt of cash from the customer recognised)	4,00,000	4,00,000

(b) **Either**

1. Service in later years will lead to a materially higher level of benefit than in earlier year. So, for employees expected to leave after 20 or more years, the entity should attribute benefit on a straight-line basis under Para 71. Service beyond 20 years will lead to no material amount of further benefits. So, the benefit attributed to each of the first 20 years will be 2.5% of the Present Value of the Expected Medical Costs (50% ÷ 20 years).

2. For employees expected to leave between 10 and 20 years, the benefit attributed to each of the first 10 years is 1% (10% ÷ 10 years) of the Present Value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the tenth year and the estimated date of leaving.

3. For employees expected to leave within ten years, no benefit is attributed.

4. The Current Service Cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits.

Or

(i) Yes, an entity whose financial statements comply with Ind AS shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with Ind AS unless they comply with all the requirements of Ind AS. (Refer Para 16 of Ind AS 1)

(ii) No, but need to disclose in the financial statement that these are individual financial statements of the Company. (Refer Para 51(b) of Ind AS 1)

(iii) Yes, Para 51(d) of Ind AS 1 inter alia states that an entity shall display the presentation currency, as defined in Ind AS 21 prominently, and repeat it when necessary for the information presented to be understandable.

(iv) No, as per Para 38 of Ind AS 1, except when Ind AS permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.

6. (a) Lease agreement substance presentation

Stakeholders make informed and accurate decisions based on the information presented in the financial statements and as such, ensuring the financial statements are reliable and of utmost importance. The directors of Sunshine Ltd. are ethically responsible to produce financial statements that comply with Ind AS and are transparent and free from material error. Lenders often attach covenants to the terms of the agreement in order to protect their interests in an entity. They would also be of crucial importance to potential debt and equity investors when assessing the risks and returns from any future investment in the entity.

The proposed action by Sunshine Ltd. appears to be a deliberate attempt to circumvent the terms of the covenants. The legal form would require treatment as a series of short-term leases which would be recorded in the profit or loss, without any right-of-use asset and lease liability being recognized as required by Ind AS 116, *Leases*. This would be a form of 'off-balance sheet finance' and would not report the true assets and obligations of Sunshine Ltd. As a result of this proposed action, the liquidity ratios would be adversely misrepresented. Further, the operating profit margins would also be adversely affected, as the expenses associated with the lease are likely to be higher than the deprecation charge if a leased asset was recognized, hence the proposal may actually be detrimental to the operating profit covenant.

Sunshine Ltd. is aware that the proposed treatment may be contrary to Ind AS. Such manipulation would be a clear breach of the fundamental principles of objectivity and integrity as outlined in the Code of Ethics. It is important for a chartered accountants to exercise professional behaviour and due care all the time. The proposals by Sunshine Ltd. are likely to mislead the stakeholders in the entity. This could discredit the profession by creating a lack of confidence within the profession. The directors of Sunshine Ltd. must be reminded of their ethical responsibilities and persuaded that the accounting treatment must fully comply with the Ind AS and principles outlined within the framework should they proceed with the financing agreement.

However, if the CFO fails to comply with his professional duties, he will be subject to professional misconduct under Clause 1 of Part II of Second Schedule of 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, if he contravenes any of the provisions of this Act or the regulations made there under 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.

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

			₹ in crore
Share capital- Equity share Capital			80
Other Equity			
General Reserve		40	
Capital Reserve		5	
Retained Earnings (95-5-40)	50		
Add: Increase in value of land (10-4.5)	5.5		
Add: De recognition of proposed dividend (0.6 + 0.18)	0.78		
Add: Increase in value of Investment	0.75	57.03	102.03
Balance total equity as on 1st April, 20X1 after transition to Ind AS			182.03

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

		₹ in crore
Equity share capital		80
Redeemable Preference share capital		25

		105
Reserves and Surplus		95
Total Equity as per AS		200
Adjustment due to reclassification		
Preference share capital classified as financial liability		(25)
Adjustment due to derecognition		
Proposed Dividend not considered as liability as on 1st April 20X1		0.78
Adjustment due to remeasurement		
Increase in the value of Land due to remeasurement at fair value	5.5	
Increase in the value of investment due to remeasurement at fair value	0.75	6.25
Equity as on 1st April, 20X1 after transition to Ind AS		182.03

(c) Determination of Enterprise Value of XYZ Ltd.

Particulars	₹ in crore
EBITDA as on the measurement date	40
EV/EBITDA multiple as on the date of valuation	8
Enterprise value of XYZ Ltd.	320

Determination of subsequent measurement of XYZ Ltd.

Particulars	₹ in crore
Enterprise Value of XYZ Ltd.	320
ABC Ltd.'s share based on percentage of holding (5% of 320)	16
Less: Liquidity discount & Non-controlling stake discount (5%+5%=10%)	(1.6)
Fair value of ABC Ltd.'s investment in XYZ Ltd.	14.4