IFRS: Multiple choice questions

1. **The conceptual framework for Financial Reporting prescribes that the purpose of financial reporting is to provide information:**

A) To existing and future employees for security of the entity as an employer
B) To management accountants for decision making
C) To investors, lenders and other creditors for decision making
D) To tax authorities for tax assessment

Answer: (C)

2. **The two main requirements of financial information are that it should:**

A) Be complete and reflect economic substance over legal form
B) Be prudent and free from bias
C) Be relevant and offer a faithful representation
D) Adhere to the principle of going concern and consistency

Answer (C)

3. **Prudence represents:**

A. Overstating the reserve for doubtful advances
B. Understating the reserve for doubtful advances
C. Fairly estimating the reserve for doubtful advances
D. Ignoring the doubtful advances

Answer (C)

4. **Consistency represents:**

A. Not changing the method of preparation of financial statements even when a new accounting standard prescribes so
B. Changing the method of preparation of financial statements when it is more appropriate
C. Not changing the method of preparation of financial statements when the entity changes its operations
D. None of the above

Answer (B)

5. **In times of inflationary conditions, what effect does the use of the historical cost concept have on a company's assets and profit?**

A. Assets values and profit both are overstated
B. Assets values and profit both are understated
C. Assets values are overstated and profit understated
D. Assets values are understated and profit overstated

Answer (D)

6. **Which of the following statements is correct according to IAS 1, " Presentation of Financial Statements"**
   A) Accounting Standards can be deviated from if agreed by all shareholders
   B) Accounting Standards can be deviated from in order to achieve fair presentation
   C) Accounting Standards must always be adhered to
   D) Accounting Standards can be deviated from in order to achieve prudence

   Answer (C)

7. **Which of the following correctly describes the order of items reported in a Balance Sheet in accordance with IAS 1:**

   A) Non-current assets, current assets, non-current liabilities, current liabilities, capital and reserves
   B) Non-current assets, non-current liabilities, current assets, current liabilities, capital and reserves
   C) Non-current assets, current assets, current liabilities, non-current liabilities, capital and reserves
   D) Non-current assets, current assets, capital and reserves, non-current liabilities and current liabilities

   Answer (D)

8. **Which of the following statements are correct?**
   (i) The going concern concept assumes that a business entity will continue its operational existence for at least one year
   (ii) The accrual concept means that transactions and events are recognised only when cash is received or paid for them
   (iii) An item is material if it is omission of misstatement could influence the economic decisions of users considered on the basis of the financial statements.

A. (i) and (ii)
B. (i) and (iii)
C. (ii) and (iii)
D. (i), (ii) and (iii)

Answer (B)

9. **Which of the following statements is correct?**
A. A dividend equalization reserve is a reserve to maintain the rate of dividend even in a lean period
B. A general reserve is a voluntary reserve and cannot be used for dividend distribution
C. Share premium is available for distribution of dividends, as it is collected only from the shareholders
D. Asset replacement reserves are the reserves created when, as a result of revaluation, the value of assets increases.

Answer (A)

10. **Which of the following will appear on the face of a company's statement of changes in equity?**
(i) Share premium
(ii) Profit for the year
(iii)Surplus on revaluation of non-current assets

A. (i) and (ii)
B. (ii) and (iii)
C. (i) and (iii)
D. All of the above

Answer 10. (D)

11. Clockwork Limited carried out the following transactions related to non-current assets during the year ended March 31, 2022.
a) A write down in the value of certain plant held at historic costs of Rs. 90 million.
b) Upward revaluation of land Rs. 108 million.

How much would be reported under revaluation surplus in Clockwork's Statement of changes in Equity?

A. Rs.90 million
B. Rs. 108 million
C. Rs. 198 million
D. None of the above

Answer (B)

12. Which of the statements shown below are incorrect?
(i) An entity can raise bonus issue to raise funds for expansion,
(ii)Both realised and unrealised gains and losses may be included in the statement of changes in equity, prescribed under IAS 1,
(iii)The profit or loss on the disposal of a part of an entity's operations must be disclosed in the statement of profit or loss or other comprehensive income as an extraordinary item if material

A. All of the above
B. (i) and (iii)
C. (i) and (ii)
D. (ii) and (iii)

Answer (B)

13. Seabed Ltd purchased a quantity of inventory, incurring the following costs:

	Rs.
Base cost	**230,000**
Irrecoverable sales tax	**46,000**
Shipping	**22,000**
Storage	**15,000**
Handling fee	**9,000**
Total	**322,000**

How this batch of inventory be valued and reflected in Balance Sheet?

A) Rs.307,000
B) Rs. 322,000
C) Rs. 230,000
D) Rs. 276,000

Answer (A)

14. Rex Limited holds three batches of inventories. The following details are relevant:

Inventory Type	Cost	Selling price	Selling cost
	Rs	Rs	Rs.
X	250	275	40
Y	125	145	15
Z	320	290	30

What would be the aggregate value of all the batches to be shown in the Balance Sheet in accordance with IAS 2 Inventories?

	Rs.
A)	695
B)	620
C)	625
D)	700

Answer (B)

15. Diamond Limited uses retail method to valued its closing inventory. The opening inventory was valued at Rs.280,000 and sold at Rs.560,000. Purchases for the period amounted to Rs. 780,000 and were priced to sell at twice that amount. Actual sales for the period were Rs.12,00,000 and were all the normal retail price. What would the closing inventory be valued using the retail method of inventory valuation?

A. Rs.230,000
B. Rs.300,000
C. Rs.460,000
D. Rs.600,000

Answer (C)

16. An item of inventory which was originally valued at Rs.1500 can be sold at Rs.1680, after incurring further costs of Rs. 110 and marketing cost of Rs.140. Calculate the value of the inventory to be included in the financial statements.

A. Rs. 1500
B. Rs. 1680
C. Rs. 1430
D. Rs. 1490.

Answer (C)

17. Alpha Limited manufactures unique equipment according to customer needs. Method of valuation of inventory Alpha Limited follows:

A. Weighted Average
B. FIFO
C. Specific Identification method
D. None of the above

Answer (C)

18. Changing the method of inventory valuation should be reported in the financial statements under what qualitative characteristic of accounting information?

A. Verifiability
B. Understandability
C. Comparability
D. Timeliness

Answer (C)

19. According to IAS 2, Inventories, which of the following statements about valuation of inventories are incorrect?

(i) The inventories items are normally valued at higher of cost of net realisable value

(ii) **The cost of goods manufactured by an enterprise will include only material and labour. Overhead costs cannot be included**

(iii) **The selling price less the estimated profit margin may be used to arrive at cost of inventory, if this approximates actual cost.**

(iv) **The first in first out or weighted average method may be used to determine the cost of inventory.**

A. (i), (iii) and (iv)
B. Only (i)
C. (i) and (ii)
D. All of the above

Answer (C)

20. Financial statements of Bolton Ltd included an investment in associate at Rs.6,600,000 in its consolidated statement of financial position at 30th September 2021. At 30th September 2022, the investment in associate had increased to Rs.6,750,000. Bolton Ltd's pre-tax share of profit in the associate was Rs.420,000, with a related tax charge of Rs.180,000. The net amount of Rs.240,000 was included in the consolidated income statement for the year ended 30th September 2022.

There were no impairments to the investment in associate, or acquisitions or disposals of shares during the financial year.

What is the amount of the cash flow related to this investment for inclusion in the consolidated cash flow statement for the year ended 30th September 2022 ?

A) Rs.90,000
B) Rs.240,000
C) Rs.390,000
D) Rs.420,000

Answer (A)

Workings

Statement of reconciliation of investment in associates

Particulars	Amount Rs
Opening balance of investment in Associate	6,600,000
Add: Share of profit in Associate	240,000
Less: Cash flow (dividend paid) balancing figure	(90,000)
Closing balance of investment in Associate	6,750,000

Hence correct answer is A.

21. The following details of Monaco Ltd pertain to the year ended 31st December 2022:
Paid financial lease liabilities (principal portion) Rs.300,000
The information on share capital and share premium account is as under:

	01/01/2022	**31/12/2022**
Ordinary share capital (par value Re.1)	**250,000**	**500,000**
Share premium	**50,000**	**50,000**

On 10 July 2022 a bonus issue of 1 share for every 5 ordinary shares was made utilizing the share premium account. The remainder of the increase in ordinary shares was due to an issue of shares for cash on 21st August 2022.
From the above information, calculate the cash flows from financing activities for the year ended 31st December 2022.

a) (Rs.100,000)
b) Rs.685,000
c) (Rs.50,000)
d) Rs.385,000

Answer (C)

Working Notes:

WN1

Dr **Ordinary share capital account** **Cr**

	Rs.		Rs.
Balance c/d	500,000	Balance b/d	250,000
		Bonus issue (1/5 x 250,000)	50,000
		Issue of shares for cash on 21st August (balancing figure)	200,000
Total	500,000	Total	500,000

WN2

Dr **Share Premium account** **Cr**

	Rs.		Rs.
Bonus issue (1/5 x 250000)	50,000	Balance b/d	50,000
Balance c/d	50,000	Cash (premium received on issue of shares for cash on 21st August (balancing figure)	50,000
Total	100,000	Total	100,000

Reconciliation of net cash flow from financing activities

	Rs
Proceeds from issue of share capital (W1 and W2) (200,000 + 50,000)	250,000
Payment of finance lease liabilities	(300,000)
Net cash flow from financing activities	**(50,000)**

22. Using the following information, what is Alcorn Ltd's cash flow from operations?

Particulars	**Amount Rs.**
Net Income	**120**
Decrease in accounts receivables	**20**
Depreciation	**25**
Increase in inventory	**10**
Increase in accounts payable	**7**
Decrease in wages payable	**5**
Increase in deferred tax liabilities	**15**
Profit from sale of land	**2**

a) Rs. 158
b) Rs. 170
c) Rs. 174
d) None of the above

Answer (B)

Workings

Cash flow from operating activities – Indirect method

Particulars	Amount Rs.
Net Income	120
Depreciation	25
Profit from sale of land	(2)
Cash generation	143
Decrease in accounts receivables	20
Increase in inventory	(10)
Increase in deferred tax liabilities	15
Increase in accounts payable	7
Decrease in wages payable	(5)
Cash flow from operations	170

Hence correct answer is B

23. Gamma Ltd reported net income of Rs.25 million, which equals the company's comprehensive income. The company has no outstanding debt. Using the following information from the comprehensive statement of financial position (Rs.in millions).

What should the company report in the financing section of the statement of cash flows?

Extract of Statement of Financial Position	**31.12.2021 Rs.**	**31.12.2023 Rs.**
Equity share capital	**100**	**102**
Further issue of equity shares	**100**	**140**

Retained earnings	**100**	**115**
Total shareholders' equity	**300**	**357**

A. Issuance of equity shares Rs.42 million; dividends paid Rs.10 million
B. Issuance of equity shares Rs.38 million; dividends paid Rs.10 million
C. Issuance of equity shares Rs.42 million; dividends paid Rs.40 million
D. None of the above

Answer (A)

Workings

Issuance of equity shares including further issue of equity shares (242 – 200) = Rs.42 million
Dividends paid worked out as under:

Particulars	Rs. million
Opening retained earnings	100
Add: Net income	25
Less: Cash dividend paid	(10)
Closing retained earnings	115

Hence cash dividend paid Rs.10 million.

24. On 1st of March 2022, Alpha Ltd acquired 30% of the shares of Beta Ltd. The investment was accounted for as an associate in Alpha's consolidated financial statements. Both Alpha and Beta have an accounting year end of 31st October 2022. Alpha Ltd has no other investments in associates.
Net profit for the year in Beta's income statement for the year ended 31st October 2022 was Rs.230,000. It declared and paid dividend of Rs.100,000 on 1st July 2022. No other dividends were paid in the year.
What amount will be shown as an inflow in respect of earnings from the associate in the consolidated cash flow statement of Alpha for the year ended 31st October 2022?

A. Rs. 20,000
B. Rs. 26,000
C. Rs. 30,000
D. Rs. 46,000

Answer (C)

Dividend paid by Associate Tintin Ltd = Rs.100,000
Alpha's share of dividend 30% x Rs.1, 00,000 = Rs. 30, 000
This is the amount that should appear in the cash flow statement of Quixote as this is the share of Alpha's dividend from the Associate.

Hence correct answer is C

25. Which of the following is not a cash inflow?

A Decrease in debtors
B Issue of shares
C Decrease in creditors
D Sale of fixed assets

Answer: (C)

26. Which of the following describes the ordering and inclusion of items in a cash flow statement in accordance with IAS 7 "Statement of cash flows"?

A. Operating activities, investing activities (including dividends received), financing activities

B. Operating activities (including income tax paid), financing activities, investing activities

C. Operating activities, investing activities (including proceeds from long term borrowings), financing activities

D. Financing activities, investing activities, operating activities (including interest paid)

Answer (A)

27. **Gabba Ltd acquired a business from Delta Ltd on 1st December 2014. Gabba Ltd amortized the goodwill over 20 years. On 1 November 2022 Delta Ltd ceased amortization of goodwill as required by *IFRS 3 Business Combinations.* Pursuant to *IAS 8*, this transaction will be treated as:**

A) Change in accounting policy,
B) Change in accounting estimates,
C) Errors,
D) Prior period adjustment.

Answer (A)

28. **An equipment has been purchased at a cost of Rs. 200,000 and an estimated useful life of ten years with nil residual value. It is depreciated on a straight-line method and the annual depreciation works out to Rs.20,000 p.a. The carrying amount of the equipment after four years works out to Rs.120,000. It was decided in the fifth year that the remaining useful life of the equipment is only three years and not six years. In accordance with *IAS 8*, the Company should:**

A) Change the depreciation charged per annum to Rs. 28,571 in retrospective effect as change in accounting estimate.
B) Change the subsequent depreciation per annum to Rs 30,000 per annum.
C) Change the subsequent depreciation per annum to Rs.40,000 per annum.
D) Continue charging depreciation per annum for Rs.20, 000 per annum.

Answer (C)

29. **Dexter Ltd acquired a business from Cluster Ltd on 1st December 2012. Dexter Ltd amortized the goodwill over 20 years. On 1 October 2019 Cluster Ltd ceased amortization of goodwill as required by *IFRS 3 Business Combinations.* Pursuant to *IAS 8*, this transaction will be treated as:**

A) Errors,
B) Change in accounting policy,
C) Change in accounting estimates,
D) Prior period adjustment.

Answer (A)

30. Jeremy Ltd created a provision for claims under its warranty of products sold during the year. 4.5% of sales revenue had previously been set as the required provision amount as a matter of policy. However, after an analysis of five years sales and warranty claims the calculation of the provision amount has been changed to 6.5% of sales which is more realistic. Pursuant to *IAS 8*, this transaction will be treated as:

A) Change in accounting policy,
B) Change in accounting estimates,
C) Errors,
D) Prior period adjustment.

Answer (B)

31. Pursuant to IAS 8, which of the following will be treated as change in accounting policy?

(i) Changes in the fair values and financial assets and liabilities
(ii) Changes in the provision for warranty obligation
(iii)Reduced the rate of bad debt provision
(iv)Changes in the treatment of borrowing costs under IAS 23 from expensing it off to capitalizing interest related to construction of non-current assets

A. (i) and (ii)
B. (i), (ii) and (iii)
C. Only (iv)
D. None of the above

Answer (C)

32. An entity has included in its consolidated financial statements this year a subsidiary acquired several years ago that was appropriately excluded from consolidation last year.

This needs to be reported as:

A. An accounting change that should be reported prospectively
B. An accounting change that should be reported retrospectively
C. Neither an accounting change nor a correction of an error
D. A correction of an error

Answer (C)

33. **The following dates are relevant to the financial statements of Conway Ltd for the year ended 31st March 2022.**

Management completes draft financial statements	**5th July 2022**
The Board of directors reviews them and approves them	**20th July 2022**
Shareholders approve the financial statements	**10th August 2022**

Which is the date that will be construed as date of authorisation of the financial statements under *IAS 10*?

A) 5th July 2022
B) 20th July 2022
C) 10th August 2022
D) None of the above.

Answer (B)

34. **A case for damages against Baxter Ltd was pending in court on 31st March 2022, the end of reporting period. Baxter Ltd had estimated the probable liability at Rs. 600,000 and made a provision in the Accounts. The Company's lawyers studied the claim and advised that the provision should be considered at Rs.635, 000 on 30th April 2022. The Company's auditors reviewed the legal opinion but failed that the provision should be made to the tune of Rs.675,000. The Court gave a verdict on 31 May 2022 fixing the liability to Rs. 650,000. Baxter Ltd accepted the verdict. The financial statements were approved on 30th June 2022. The Company in accordance with *IAS 10*:**

A) Retain probable liability at Rs.600, 000.
B) Increase provision to Rs. 635, 000 treating it as adjusting event.
C) Increase provision to Rs.650, 000 treating it as adjusting event.
D) Increase provision to 675,000 treating it as adjusting event.

Answer (C)

35. Which of the following is an adjusting event under IAS 10, Events after the reporting date?
i) There was a dispute with the workers and all production ceased one week after the year-end
ii) A fire destroyed all of the entity's finished goods inventory two weeks after the year-end
iii) Inventory valued at the year-end at Rs. 20,00,000 was sold one month later for Rs. 16,00,000.

A. (i) and (ii)
B. (ii) and (iii)
C. Only (iii)
D. (i) and (ii)

Answer (C)
The sale depicted in (iii) above, gives evidence of the recovery value of the inventory at the reporting date and so it is an adjusting event.
Events under (i) and (ii) are non-adjusting events, which needs to be disclosed in Notes to Accounts of the Financial statements.

36**. The cost of an asset is Rs. 500,000. For the first year, the accounting depreciation is Rs. 80,000, whereas the depreciation according to tax laws is Rs.125, 000. Tax rate is 20%. The deferred tax treatment under *IAS 12: Taxes* would be:**
A) Deferred tax assets of Rs.9, 000.
B) Deferred tax liabilities of Rs.9, 000.
C) Deferred tax asset of Rs.45, 000.
D) Deferred tax liability of Rs. 45, 000.

Answer (B)

37**. The tangible non-current asset balances and their equivalent tax base are:**

Item	**Carrying value Rs**	**Tax base Rs.**
As at January 20X0	**2,000**	**1,600**
Depreciation	**(200)**	**(400)**
31st December 20X0	**1,800**	**1,200**

The rate of tax is 30%
What is the deferred tax charge or credit included in Statement of Profit & Loss for the year ended December 20X0?

A. Charge of Rs. 60
B. Credit of Rs.60
C. Charge of Rs. 630
D. Credit of Rs. 630

Answer: (A)

38. According to IAS 12, Income Taxes, when should deferred tax assets be recognized?

A. Only if there will probably be sufficient taxable profit
B. Only if tax rates are expected to fall
C. Only if they do not surpass deferred tax liabilities
D. Only if they are recoverable beyond reasonable doubt

Answer: (A)

39. The accountant of Travancore Limited wants to calculate the net deferred tax expense for the year ended December 31, 2022. The following information is available:

	Deferred tax liability	Deferred tax asset
December 31, 2021	Rs. 380,000	Rs. 90,000
December 31, 2022	Rs. 500,000	Rs. 98,000

The net deferred tax expense for the year ended December 31, 2022 is worked out at:

A. Rs.120,000
B. Rs.98,000
C. Rs.112,000
D. Rs. 8,000

Answer (C)

40. **Pursuant to *IAS 16*, an asset is classified as non-current if**

A) It is expected to be realized in, or is intended for sale or consumption in, the entity's normal operating cycle and is held primarily for the purpose of being traded,
B) It is expected to be realized within 12 months after the statement of financial position date, or
C) It is cash or a cash equivalent (as defined in IAS 7 Statement of Cash Flows, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the statement of financial position date.
D) None of the above.

Answer (D)

41**. According to *IAS 16*, the following items need to be included while capitalizing, Property, Plant and Equipment:**

A) Cost of launching a new product or service
B) Expenses on opening a new business facility or expenses related to an inaugural function
C) Initial losses when the asset operates at lower capacity
D) Initial estimate of the costs of dismantling and removing the item and restoration of site

Answer (D)

42. Little Ltd needs to revalue a factory building that it has. The property was purchased for Rs.600,000 in 2013 and has been depreciated for the last 10 years on a straight-line basis of 5%. The revaluation report states that the building is worth Rs. 650,000 on 31st December 2022.
The revaluation surplus would be:

A) Rs.300,000
B) Rs.350,000
C) Rs.320,000
D) Rs.400,000

Answer (C)

43. An asset had a carrying value of Rs.10,00,000 as on 1st April 2021. It was revalued at Rs.1,100,000 as on 31st March 2022 by crediting the increase of Rs.100,000 to revaluation surplus. Later it was sold for Rs. 1,250,000 on 30 June 2022. The amount to be taken to retained earnings would be:

A) Rs.250,000
B) Rs.100,000
C) Rs.150,000
D) Rs.125,000

Answer (B)

44. Pursuant to IAS 16, which of the following is correct:

A) Accumulated depreciation and impairment losses from the date of initial recognition are deducted from the revalued amount.

B) In the revaluation model, each year the starting point is the historical cost less accumulated depreciation

C) Revaluation should be made with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.

D) Gain on revaluation surplus is recognized in the statement of profit or loss.

Answer (C)

45. An entity has purchased equipment worth Rs.125,000. It had to incur following costs for purchasing the machine:

Item	Amount
Freight	500
Installation charges	1000
Incidental expenses	1500
General Overhead	3000
Rent of the premises where the machine has to be kept	2500
Initial losses due to low capacity of the machine	1000
Costs incurred for testing equipment	2000

What is the cost of the equipment as per IAS 16?

A. Rs. 128,560
B. Rs. 126,560
C. Rs. 132,060
D. Rs. 135,060

Answer (B)

46. In accordance with IAS 16, which of the following is correct about depreciation of complex assets?

A. Each part of an item of property, plant and equipment whose value is not less than 10% of the total cost of equipment should be depreciated separately.

B. If two or more significant parts of an item have the same useful life and depreciation method, these parts may be grouped together to determine the depreciation charge

C. An entity will have to depreciate the parts of an item separately even if they do not have a cost that is significant in relation to the total cost of the item

D. None of the above.

Answer (B)

47. **Hybrid Limited provides following information as below. Please calculate the net interest on the pension plan for the year ended 2022.**

	Rs'000
Defined benefit liability as at 31.12.2021	24,600
Defined benefit liability as at 31.12.2022	32,800
Fair value of plan assets as at 31.12.2021	28.800
Fair value of plan assets as at 31.12.2022	41,000

Discount rate used to compute net interest is 10%

A. Rs. 420 (income)
B. Rs. 420 (expenses)
C. Rs. 820 (income)
D. Rs.820 (expenses)

Answer (A)

Workings

Item	Rs'000
Defined benefit liability as at 31/12/2021	24,600
Less: Fair value of Plan assets as at 31/12/2021	(28,800)
Net defined benefit liability (asset)	(4,200)

Net interest income (as it is an asset) is 10% of Rs.4,200 = Rs.420

48. A defined benefit plan of Croner Limited has provided the following information:

	Rs'000
Present value of the obligation – 31 December 2022	2,800
Fair value of plan assets – 31 December 2022	2,000
Present value of the obligation – 1 January 2022	2,100
Fair value of plan assets – 1 January 2022	1,600

Ascertain the amount to be disclosed in the financial statements with respect to net Defined Benefit Obligation as at 31st December 2022

A. Rs. 800,000
B. Rs. 2,800,000
C. Rs. 2,000,000
D. Rs. 500,000

Answer (A)

49. Alpha Limited contributes 5% of an employee's salary to the plan. The employee is guaranteed a return of the contributions plus a terminal bonus of 20% by Alpha Limited. The plan would be accounted as:

A. Defined contribution plan
B. Defined benefit plan
C. Multi-employer plan
D. None of the above

Answer (C)

50. In accordance with IAS 19, past service cost

A. Is the increase in the present value of the obligation for employee service in prior periods
B. Is the employment cost for previous years
C. Can only be negative
D. Can only be positive

Answer (A).

51. What is the event that will cause a change in a defined benefit obligation and will require re-measurement per IAS 19 Employee Benefits:

A. Changes in the benefits which will occur in the future
B. Changes in the proportion of employees taking early retirement
C. Changes in the discount rate used to calculate defined benefit liabilities
D. All of the above

Answer (D)

52. In accordance with IAS 20, the treatment of grants related to assets is:

A. In the Statement of Profit & Loss for the period they are due to be received
B. In the Balance Sheet as deferred income
C. In the Balance Sheet as a deduction from carrying amount of the relevant asset
D. In the Balance Sheet as deferred income OR as a deduction from the carrying amount of the relevant asset

Answer (D)

53. On January 1, 2021, Carefree Limited purchased a machine costing Rs.135,000. Carefree Limited received a grant of Rs.13,500 towards the capital cost. The company policy is to treat the grant as a reduction in the cost of the asset.

Under IAS 20, what should be the depreciation expense in respect of the machine for the year ended December 31, 2022, assuming that depreciation is calculated on a 20% reducing balance basis?

A. Rs. 27,000
B. Rs. 24,300
C. Rs. 19,440
D. Rs. 22,140

Answer (C)

54. According to IAS 20, which of the following is government assistance?
A. Provision of infrastructure facilities in designated areas
B. Imposing trading constraints on competitors
C. Reduce unemployment by subsidizing jobs and training
D. Imposing import tariffs

Answer (C)

55. An entity has received free technical assistance from Government. According to IAS 20, how should this be treated in the financial statements?

A. Financial statements must ignore all assistance as no monetary consideration is involved
B. Financial statements must disclose the nature, extent and duration of the assistance provided
C. Financial statements must show only 25% of total assistance provided
D. None of the above.

Answer (B)

56. IAS 21, defines the treatment of the financial statements of foreign subsidiaries in consolidated financial statements of the parent. On the disposal of a foreign operation, the cumulative amount of exchange differences held with respect to the operation should be:

A. Left in equity

B. Shown in the Statement of Profit & Loss when the gain or loss is recognized

C. Transferred to Other Comprehensive Income

D. Shown as an extra-ordinary item in the Statement of Profit & Loss

Answer (B)

57 Pursuant to IAS 21, any one of the following factors will not be used in determining the entity's functional currency:

A) The currency that primarily influences the prices at which goods and services are sold

B) The currency in which the costs of the entity are mainly denominated

C) The currency which is used mostly for international trading in that industry

D) The currency in which funds from financing are generated.

Answer (C)

58. In accordance with IAS 21, non-monetary items should be reported at:

A. The spot exchange rate of the transaction
B. The average rate for the year
C. The closing rate
D. None of the above.

Answer (A)

59. Delta Limited is a manufacturing entity which purchases a machine on credit from a foreign supplier for € 12 million on January 31, 2022. On this date the exchange rate was € 1 = USD 1.1.

Delta Limited did not settle the dues until March 31, 2022. On this date the closing exchange rate was € 1.0 = USD 1.2.

The functional currency of Delta Limited is USD.

Which one of the following statements is / are correct in accordance with IAS 21?

A. Cost of Plant USD 8 million, exchange gain USD 2 million, trade payable USD 6 million
B. Cost of Plant USD 6 million, exchange loss USD 2.4 million, trade payable USD 8 million
C. Cost of Plant USD 10.909 million, exchange loss USD 909,091, trade payable USD 10 million
D. None of the above.

Answer (C)

60. Treetone Limited has a policy of capitalizing interest costs on self-constructed property in accordance with IAS 23: Borrowing costs

During the year it has the following sources of borrowings:

Item	Average outstanding liability Rs'000	Interest cost Rs'000
Medium term bank debt	**10,000**	**900**
50-year term debt	**25,000**	**2,000**
Bank overdraft	**5,000**	**600**

All the borrowings have been used to finance the production of qualifying assets but none relate to a specific qualifying asset. What is the appropriate capitalization rate to apply to the qualifying assets?

A. Nil %
B. 8.29%
C. 8.75%
D. 10.0%

Answer (C)

61. On April 1, 2021, Cosby Limited took out a loan to finance the construction of a building. Work on the building commenced on July 1, 2021 and was completed on March 31, 2022. The building was brought to use on July 1, 2022.

In accordance with IAS 23, what is the period over which borrowing costs related to the project be capitalized?

A. April 1, 2021 to June 30, 2022
B. April 1, 2021 to March 31, 2022
C. July 1, 2021 to June 30, 2022
D. July 1, 2021 to March 31, 2022

Answer (D)

62. Which of the following statements is correct?

A. IAS 23 permits an entity to either capitalize the borrowing costs or expense the borrowing cost in the period in which they are incurred,
B. IAS 23 permits and entity to capitalize the borrowing costs that are directly attributable to the acquisition, construction or production of all assets,
C. IAS 23 requires an entity to capitalize borrowing costs attributable to qualifying assets,
D. None of the above

Answer (C)

63. During 2021-22 Zoro Limited was engaged in the following transactions:

a) Salary expenses to key employees who are also principal owners Rs. 250,000

b) Sales to associate enterprises Rs.450,000.

Which of the above transactions would be disclosed as related party transaction in Zoro Limited financial statements for the year ended 2021-22.

A. Neither transaction
B. Rs. 450,000
C. Both transactions
D. Rs. 200,000

Answer (C)

64. Which one of the following is not considered as a related party in accordance with IAS 24?

A. Its subsidiaries

B. Its associates

C. Directors of the Board

D. Best Bank which provides cash credit facility.

Answer (D)

65. Bailey Limited had 100,000 shares in issue on 1 January 20X0. On March 31, 20X0 it issued Rs.200,000 of 5% convertible debt. The terms of conversion allow the debt holders to convert each Rs.100 of debt into 10 shares on September 30, 20X2 or to convert each Rs.100 of debt into 12 shares on September 30, 20X4.
The profit after tax for the year ended December 31, 20X0 is Rs.300,000.
The rate of tax is 30%.
What is the diluted earnings per share for the year ended December 31, 20X0 in accordance with Ind AS 33, Earnings per share?

A. Rs. 2.59
B. Rs. 2.48
C. Rs. 2.65
D. Rs. 3.00

Answer (B)

Workings

Profit after tax			Rs.3,00,000
Add: Interest			
200,000x 5%	=	10000	
10000 x 70/100	=	7000	Rs. 7,000
Total			Rs.307,000 (A)

Number of shares	100,000	
Conversion of convertible Debentures into shares (200000/100 x 12)	24,000	124,000 (B)
Diluted EPS (A/B) = (C)		**Rs.2.48**

66. During 2021 and 2022 Greenpeas Limited had the following shares outstanding:

4% cumulative irredeemable preference shares of Rs.10	**25,000 shares**
Equity shares of Rs.10	**200,000 shares**

The net profit after tax for the year ended December 31, 2022 was Rs.500,000. Greenpeas Limited paid no preferred dividends in 2021 and only paid Rs.16,000 of preference dividends in 2022.

What is the Greenpeas Limited basic EPS for 2022?

A. Rs. 2.50
B. Rs. 2.42
C. Rs. 2.45
D. Rs. 2.15

Answer (C)

Basic EPS = (Rs.500,000 – (25,000 shares x Rs.10 x 4%))/200,000 shares

= Rs.2.45

67. The following information relates to Bolster Limited:

Item	**Amount / numbers**
Profit attributable to equity shareholders of the parent entity during 2022	**Rs.60,00,000**
Weighted average number of shares outstanding during 2022	**16,00,000**
Average market price of one equity shares during 2022	**Rs.60**
Weighted average number of share options during 2022	**4,00,000**
Exercise price of share options during 2022	**Rs.48**

Calculate the diluted earnings per share due to the issue of share option.

A. Rs.3.00
B. Rs.3.13
C. Rs.3.57
D. Rs.3.75

Answer (C)

68. Alpha Limited listed on a recognized stock exchange has prepared its financial statements for the year ended March 31, 2021. It shows earnings per share of Rs.1.70. On October 2022 Alpha Limited made a bonus issue of 3: 1.

In accordance with IAS 33, what would be the comparative EPS for the year ended March 31, 2022?

- **A. Rs.0.34**
- **B. Rs.1.70**
- **C. Rs.0.43**
- **D. Rs.0.56**

Answer (C)

69. Beta Limited has a capital structure as on December 31, 2022 as follows:
110,000 equity shares of Rs. 1.50/- each = Rs. 16,500
100,000 5% debenture each of Rs.3.00 = Rs.300,000
5% debenture are convertible into 20,000 equity shares after a period of two years.
Profit after tax for the year ended December 31, 2022 was Rs.850,000. Tax rate is 30%.
Calculate Beta Limited's diluted earnings per share for the year ended December 31, 2022.

- A. Rs.7.82
- B. Rs.6.55
- C. Rs.6.62
- D. Rs.6.46

Answer (C)

Diluted EPS = (Rs.850,000 + (Rs.15,000x0.70))/(110,000 + 20,000)

= Rs.6.62

70. A Ltd has a machine whose original cost was Rs. 250,000. The accumulated depreciation on the machine is Rs. 85000. A Ltd recently sold another similar machine at Rs. 340,000 and the selling expenses were Rs. 23,000. Management has determined the value in use of the machine as Rs. 330,000. The recoverable value would be:

A) Rs.165,000
B) Rs.317,000
C) Rs.330,000
D) None of the above

Answer (C)

71. A mining company owns a private railway to support its mining activities. The private railway connects its number of quarries. The private railway could be sold only for scrap value and the private railway does not generate cash inflows from continuing use that are largely independent of the cash inflows from the other assets of the mine. The cash generating unit will be:

A) Mining company
B) Quarries
C) Private railway
D) None of the above

Answer (A)

72. A cash generating unit has the following net assets:

	Rs. million
Goodwill	**80.0**
Property	**120.0**
Plant & Equipment	**180.0**
Total	**380.0**

The recoverable amount has been ascertained and it works out to Rs. 290 million
Carrying amount of goodwill after allocating impairment loss will be:

A) Rs. 90 million
B) Rs. NIL
C) Rs. 60 million
D) Rs. 30 million

Answer (B)

73. During the year 20X2, expenditure incurred is Rs. 20 lakhs. At the end of 20X2, the recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be Rs. 19 lakhs.
Hence the impairment loss would be:

(A) Rs.20 lakhs
(B) Rs.19 lakhs
(C) Rs.1 lakh

Answer (C)

At the end of the year 20X2, the cost of the production process is Rs. 20 lakhs (i.e. Rs. 20 lakhs expenditure recognised in 20X2). The enterprise recognises an impairment loss of Rs. 1 lakh to adjust the carrying amount of the process before impairment loss (Rs. 20 lakhs) to its recoverable amount (Rs. 19 lakhs).

74 Robson Ltd closes its accounts on 30th September 2022. Administrative expenses booked in the financial records include a provision of Rs. 4 million for the costs of a legal claim lodged against Robson Ltd by one of the customers before 30.9.2022. The customer is claiming Rs.10 million and the lawyers of Robson Ltd have opined that there is 40% chance the claim will be successful. Under *IAS 37*, the action to be taken by the Company would be:

A) Treat the potential claim as contingent liability.
B) Provide for 40% of the claim.
C) Provide for the entire claim.
D) Do nothing.

Answer (B)

75. Tech Ltd manufactures plastic products and the effluent generated out of its production process causes contamination. The organization has not been doing any clean up exercise because there is no legislation requiring cleaning up and the enterprise has been contaminating land and adjacent water bodies for several years.
At 31 March 2022 it was virtually certain that a law requiring a clean-up of land and water bodies already contaminated will be enacted shortly after the year end. The total clean-up cost estimated would be Rs.20 million. The organization should:
A) Treat the entire amount as a provision its books of account.
B) Treat the entire amount as contingent liability.
C) Since the implementation of the legislation is uncertain, include a provision of 50% of the estimated amount as abundant precaution.
D) Do nothing.

Answer (B)

76. Greenwood Ltd is an organization which supplies organic fruits and vegetables to customers through its multiple retail stores in the Amsterdam. Greenwood Ltd has a published policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known and declared in its website. During the year ended the total amount of such refund worked out to Rs. 2.5 million. The organization should:
A) Treat this as a contingent liability.
B) Book 50% of the amount as provision.
C) Book 100% of the amount as provision under constructive obligation.
D) Do nothing.

Answer (B)

77. Cloak Ltd is an enterprise which operates profitably from a factory that it has leased under an operating lease. During December 2022 the enterprise relocates its operations to a new factory site. The lease on the old factory is non-cancellable and continues for the next four year and the factory cannot be re-let to another user. The organization needs to:
A) Ignore the lease amount related to the old factory.
B) Treat the lease amount as contingent liability.
C) Provide for the entire lease amount related to the old factory undiscounted for the next four years.
D) Provide for the present value of the lease amount related to the old factory for the next four years.

Answer (B)

78. To ensure a provision is made under *IAS 37*, the following conditions must be fulfilled:

- **i) The entity must have a present obligation based on some past event**
- **ii) It is probable that there would be an outflow of economic resources, being the embodiment of economic benefits, will be required to settle the obligations**
- **iii) A reliable estimate can be made of the amount to be settled.**
- **iv) Any one of the above.**

Which of the above is correct?

(a) (i)
(b) (ii) & (iii)
(c) (iv)
(d) (i),(ii) and (iii)

Answer (D)

79. In accordance with *IAS 37*: Contingent liabilities are:

(A) always disclosed in the notes to the financial statements,
(B) always recognized in the statement of financial position,
(C) disclosed in the notes unless the possibility of an outflow of economic benefits is remote,
(D) recognized in the statement of financial position unless the possibility of an outflow of economic benefits is remote.

Answer (C)

80. Cukoo Ltd is in the business of chemicals. Under a recent legislation related to pollution the company needs to install equipments related to purification of air in the premises by 31st December 2022. As at 31st March 2023 Cukoo Ltd failed to install the equipments. The cost of the equipment was Rs.250, 000 and the penalty for non-compliance was Rs.25,000. What amount should be provided under *IAS 37?*

(A) Rs.250,000
(B) Rs.25,000
(C) Nil
(D) Rs. 275,000

Answer (B)

81. Pursuant to *IAS 37* a contingent asset is:

A) not recognized but is disclosed when an inflow of economic benefits is probable.
B) always recognized in financial statements.
C) always disclosed in the notes to the financial statements,
D) disclosed in the notes when the possibility of an inflow of economic benefits is remote.

Answer (A)

82. Cookware Ltd has received a claim of Rs.1,000,000 from a customer for supplying poor quality products. The lawyers of Cookware Ltd have opined that there is a 25% chance that Cookware Ltd will successfully avert the claim. Whether Cookware Ltd should,

A) provide for the claim,
B) disclose the amount as contingent liability in notes to accounts,
C) do nothing.
D) provide for the claim when there is a court order substantiating the same.

Answer (A)

83. Cutglass Ltd owns a patent for a established successful drug that has a remaining life of 8 years. A firm of specialized advisors has estimated current value of patent at Rs 20 m. However, the firm is awaiting clinical trials, which if successful would push the value upwards to Rs. 35 m. Value of patent to be considered under *IAS 38: Intangible Assets* would be:

A) Rs.35 million
B) Rs.20 million
C) Rs.10 million
D) None of the above.

Answer (B)

84. In Dec 2021 Alpha Ltd paid Rs 15 million for a television advertising campaign for its products that will run for six months from 1st Jan 2022 to 30th June 2022. The directors believe that increased sales as a result of the publicity will continue for two years from the start of the advertisement. However, it is not clear whether the advertising campaign will generate economic benefit to flow to the entity.

A) The amount of Rs.15 million to be shown under Intangible assets.
B) The amount of Rs.15 million to be charged to Statement of Profit & Loss.
C) The amount of Rs.15 million should be amortized for a period of two years.
D) None of the above.

Answer (B)

85. Flamingo Ltd hold a trademark with a carrying value of Rs.3.7 million, which it uses to produce consumer goods. It is expected that the products will continue to be in demand for at least ten years and the trademark has an indefinite life. At 31st December 2022, based on a report by an independent expert, it is estimated that the recoverable amount of the trademark is only Rs. 2.6 million.

A) The trademark will be amortized for a period of ten years.
B) The trademark having indefinite life would be tested for impairment.
C) The carrying value of trademark should be charged to revenue.
D) None of the above.

Answer (B)

86. Falcon Ltd. produced a place of antivirus software and declared it as 'open' software. Anybody can download it for free from the internet and anyone can make changes to it. Falcon Ltd has spent Rs. 5 million in developing the software.

a) The software will be treated as intangible asset and amortized over its useful life.
b) The software will be tested for impairment depending on its recoverable value in future.
c) The amount spent on the software will be capitalized under Ind AS 16.
d) The software cost would be charged to revenue as it does not meet the criteria laid down under *IAS 38: Intangible Assets*

Answer (D)

87. Panama Ltd has created employee goodwill by recognizing its retirement benefit package. An independent management consultant estimated the value of the goodwill at Rs.5 million. In addition, Panama Ltd recently purchased a patent that was developed by a competitor. The patent has an estimated useful life of five years. Should Panama Ltd report the goodwill and patent on its Balance Sheet?

	Goodwill	Patent
A)	Yes	No
B)	No	Yes
C)	No	No
D)	Yes	Yes

Answer (B)

88. Alpha Ltd hold a trademark with a carrying value of Rs.2.7m, which it uses to produce consumer goods. It is expected that the products will continue to be in demand for the foreseeable future, and the trademark has an indefinite life. At 31st December 20X9, based on a report by an independent expert, it is estimated that the recoverable amount of the trademark is only Rs.2.6m. Accordingly, please state which of the following statements is true:

A The value of the trademark will be Rs.2.7m and will be tested for impairment

B The value of the trademark will be Rs.2,6m and will be amortized.

C The value of the trademark will be Rs.2.6 with an impairment loss of Rs.0.1m and will be tested for impairment

D None of the above.

Answer: (C)

89. Beta Ltd has a software that originally cost Rs.350,000. Its accumulated amortization is Rs. 50,000. The market value of the software is Rs. 300,000 if sold at this stage. The costs of restructuring the software company if the software is sold are Rs. 100,000. The value in use as determined by the management is Rs. 275,000. The remaining estimated life of the software as assessed by the management is at least 5 years and estimated residual value at the end of this life is Rs. 25,000.

Impairment loss would be:

A Rs. 25,000

B Rs. 30,000

C Rs. 29,500

D None of the above

Answer: (B)

90. Using the data in 89 above, the revised amortization charge on the software after the impairment loss has been recognized would be:

A Rs. 25,000

B Rs. 30,000

C Rs. 50,000

D None of the above

Answer: (C)

91. ABC Ltd owns a patent for a established successful drug that has a remaining life of 8 years. A firm of specialized advisors has estimated current value of patent at Rs 40 m.

However, the firm is awaiting clinical trials, which if successful would push the value upwards to Rs. 75 m.

Value of patent to be considered under *IAS 38: Intangible Assets* would be:

A Rs.40 million

B Rs.20 million

C Rs.75 million

D None of the above.

Answer: (A)

92. Which of the points below are not true:

The cost of a separately acquired intangible asset comprises:

(A) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(B) any directly attributable cost of preparing the asset for its intended use.

(C) costs of introducing a new product or service (including costs of advertising and promotional activities)

Answer: (C)

93. Which are the expenses that cannot be capitalized as intangible asset?

(A) costs of employee benefits (as defined in IAS 19) arising directly from bringing the asset to its working condition.

(B) professional fees arising directly from bringing the asset to its working condition; and

(C) costs of testing whether the asset is functioning properly.

(D) costs of conducting business in a new location or with a new class of customer (including costs of staff training);

Answer: (D)

94. An enterprise is developing a new production process. During the year 20X1, expenditure incurred was Rs. 10 lakhs, of which Rs. 9 lakhs were incurred before 1 December 20X1 and 1 lakh was incurred between 1 December 20X1 and 31 December 20X1.

The enterprise is able to demonstrate that, on 1 December 20X1, the production process met the criteria for recognition as an intangible asset. The recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be Rs. 5 lakhs.

Which of the following will be recognized as intangible asset:

(A) Rs. 10 lakhs

(B) Rs.9 lakhs

(C) Rs. 1 lakh

(D) Rs. 5 lakhs

Answer (C)

At the end of 20X1, the production process is recognised as an intangible asset at a cost of Rs. 1 lakh (expenditure incurred since the date when the recognition criteria were met, that is, 1 December 20X1). The Rs. 9 lakhs expenditure incurred before 1 December 20X1 is recognised

as an expense because the recognition criteria were not met until 1 December 20X1. This expenditure will never form part of the cost of the production process recognised in the balance sheet.

95. According to *IAS 40, Investment property*, which of these are investment properties:
A) Property held for sale in the ordinary course of business,
B) Building given out on lease,
C) Owner occupied property used for corporate headquarters,
D) Property held for use in the production or supply of goods or services or for administrative processes.

Answer (B)

96. In accordance with IAS 40, the following are not investment properties:

(i) Land held for long term capital appreciation

(ii) Land held for undetermined future use.

(iii)Abuilding that is vacant, but is held to be leased out via one, or more operating leases

(iv)Owner occupied property

(v)Property held for sale in the ordinary course of business

A. All of the above are investment properties
B. (i), (ii) and (iv)
C. (ii), (iii) and (v)
D. (iv) and (v)

Answer (D)

97. Alpha Limited has rented out its property to Beta Limited. Alpha Limited provides ancillary services to Beta Limited in its property which includes provision for security and maintenance to tenants.

According to IAS 40, how should this property be treated?

A. It will be classified as owner – occupied property
B. The service fees should be capitalized
C. It will be classified as investment property,
D. None of the above

Answer (C)

98. In accordance with *IAS 41, Agriculture,* a bearer plant

(A) is a living plant that used in the production or supply of agricultural produce and is expected to bear produce for more than one period;
(B) is a dead plant that used in the production or supply of agricultural produce;
(C) is expected to bear produce for one period only;

(D) has a likelihood of being sold as agricultural produce, except for incidental scrap sales.

Answer (A)

99. Which of the following agricultural activities are within the scope of IAS 41, Agriculture?

(i) Agricultural produce at the point of harvest
(ii) Biological assets
(iii)Land related to agricultural activity
(iv)Intangible assets related to agricultural activity

A. (i) and (ii)
B. Only (i)
C. Only (ii)
D. All of the above

Answer (A)

100. An entity shall recognize a biological asset or agricultural produce when:

(i) the entity controls the asset as a result of past event
(ii) the fair value and cost of the asset can be measured reliably
(iii)future benefits associated with the asset, will flow to the entity.

A. (i) and (ii)
B. Only (i)
C. Only (ii)
D. All of the above

Answer (D)

101. Bolton Ltd offers bonus issue to its employees on meeting sales target for 2022. What is the nature of share-based payment in accordance with *IFRS 2: Shared based payments*:

a) Cash settled share-based payment
b) Equity settled share-based payment
c) Share appreciation rights
d) None of the above.

Answer (B)

102. Iceland Ltd offered share options scheme to its staff on 5th August 2022. The scheme was approved by shareholders on 31st December 2022. The scheme commenced on 10th January 2023. The financial year of Iceland Ltd ends on 31st March 2023. The grant date is:

a) 5th August 2022
b) 31st December 2022
c) 10th January 2023
d) 31st March 2023

Answer (B)

103. Lockbox Limited issued share options on June 1, 2020 to pay for the purchase of inventory. The inventory is eventually sold on December 31, 2022. The value of the inventory on June 1, 2020 was Rs. 600,000 and this value was unchanged up to the date of sale. The sale proceeds were Rs. 800,000. The shares issued have a market value of Rs. 630,000.

Calculate the value at which the share-based payment transaction be recorded in the financial statements for the year ended December 31, 2022.

A. Rs. 600,000
B. Rs. 800,000
C. Rs. 630,000
D. None of the above.

Answer: (A)

104. Cameron Limited grants 2000 share options to each of the three directors on January 1, 2022 subject to the directors being employed on December 31, 2024. The options vest on December 31, 2024. The fair value of each option on January 1, 2022 is Rs. 10/- and it is anticipated that on January 1, 2022 all of the share options will vest on December 30, 2022.

The options will only vest of the entity's share price reaches Rs.14 per share. The share price at December 31, 2022 is Rs.8/- and it is not anticipated that it will rise over the next two years. It is

anticipated on December 31, 2022 that only two directors will be employed on December 31, 2024.

Calculate the charge to the income statement of Quixote Limited for the year ended December 31, 2022?

A. Rs 13,333
B. Rs.26,667
C. Rs.10,667
D. Rs.21,333

Answer (A)

According to IFRS 2, the market-based conditions (i.e. increase in share price) can be ignored for the purpose of the computation. However, the employment condition must be considered and the options will be calculated as follows:

(2000 options x 2 directors x Rs.10/-) x one year

-- = Rs.13,333

Three years

105. K Ltd acquired al the 5,00,000 shares of C Ltd as at 1st January 2022 for Rs.25 per share. Just before the acquisition date, C Ltd's Balance Sheet reported net assets of Rs.10 million. K Ltd did a financial due diligence and determined the fair value of C Ltd's property and equipment at Rs. 1 million higher than the amount reported by Cola. What would be the amount of goodwill calculated by K Ltd on acquisition of C Ltd?

A. Rs. 5,00,000
B. Rs. 15,00,000
C. Rs. 0

Solution
Statement of calculation of goodwill:

		Amount Rs.
Cost of acquisition (5,00,000 x Rs.15/-)	(A)	125,00,000
Fair value of net assets ($.100,00,000 + $.10,00,000)	(B)	110,00,000
Goodwill	(A – B)	15,00,000

Hence correct answer is (B).

106. Parent Ltd paid Rs.600 million for the outstanding share of Partner Ltd. At the acquisition date Partner Ltd reported the following condensed balance sheet.

Condensed balance sheet of Partner Ltd

	Amount (Rs million)
Plant & Equipment(net)	**760**
Current assets	**80**
Goodwill	**30**
Liabilities	**400**
Shareholders' equity	**470**

The fair value of plant and equipment was Rs.120 million more than its recorded book value. The fair values of all other identifiable assets and liabilities were equal to their recorded book values. Calculate the amount of goodwill Parent Ltd should report on its consolidated Balance Sheet.

A. Rs. 50 Million
B. Rs. 40 Million
C. Rs. 0

Solution
Statement of calculation of purchased goodwill:

Item	Rs Million	Rs Million
Cost of investment		600.0 (A)
Less Fair value of net assets Plant & Equipment (net) Current Assets Liabilities	 880.0 80.0 (400.0)	
Total (B)		560.0 (B)
Purchased goodwill (A-B)		40.0

Goodwill reported in Partner Ltd's balance sheet is an identifiable asset and hence not an intangible asset under Ind AS 38 and hence ignored in calculation of Parent's goodwill amount.

Correct Answer (B)

107. Computation of goodwill under full goodwill method follows:

A) Fair value of net assets on acquisition plus Fair value of consideration minus fair value of non-controlling interest.

B) Fair value of consideration plus fair value of non-controlling interest minus fair value of net assets.

C) Fair value of consideration plus fair value of non-controlling interest plus fair value of net assets on acquisition.

D) Fair value of consideration minus fair value of non-controlling interest minus fair value of net assets

Answer (B)

108. On 1st Jan 2023, A Ltd acquired 27,000 shares in B Ltd by way of exchange of two shares in A Ltd for every three shares in B Ltd. The face value of A Ltd's share is Re. 10 each and its market price is Rs. 30 each.

Hence the consideration in B Ltd will work to:

A) Rs. 540,000
B) Rs. 180,000
C) Rs. 810,000
D) Rs. 400,500

Answer (A)

109. When a consideration that an acquirer commits to the acquiree in cash or additional equity interests or other assets after the acquisition date on the fulfilment of a certain specified event or condition in the future, it is called:

A) Consideration in cash
B) Deferred consideration
C) Consideration through share exchange
D) Contingent consideration

Answer (D)

110. When consideration is not payable immediately but is payable in the future and which is not dependent upon any future events, it is called:

A) Contingent consideration

B) Deferred consideration

C) Consideration through share exchange

D) None of the above.

Answer (B)

111. A Ltd acquires 85% of shares of B Ltd. The fair value of net assets is Rs.20 million. Goodwill on acquisition worked out to Rs.1.2 million. The valuer appointed by B Ltd determines the fair value of the 15% non-controlling interest in C Ltd is Rs.4.2 million. Hence the fair value of the consideration in acquisition of B Ltd would be:

A) Rs.20.0 million
B) Rs.24.4 million
C) Rs.17.0 million
D) None of the above

Answer (C)

112. P Ltd acquires 60% of shares of S Ltd for Rs.136 million. The fair value of net assets is Rs.150 million. The goodwill on acquisition was Rs.25.4 million.
Fair value of non-controlling interest in S Ltd would be:

A) Rs. 10.40 million
B) Rs. 39.40 million
C) Rs.110.60 million
D) Rs. 29.40 million

Answer (B)

113. In accordance with *IFRS 3 Business Combination,* which of the following statements are correct:

A) Goodwill should be reviewed annually for test of impairment,
B) Goodwill should be amortized for a period of twenty years,
C) The carrying value of goodwill should be revised annually to reflect fair value of assets
D) Goodwill should not be disclosed in statement of financial position.

Answer (A)

114. Pursuant to *IFRS 5 – Assets held for sale and discontinued operations* all of the following are the criteria to be met for an asset to be held for sale except:

A) Sale must be highly probable,
B) An appropriate level of management must be committed to sell the asset or the disposal group,
C) The sale should be expected to be completed within two years,
D) An activate program to locate a buyer and complete the plan must have been initiated.

Answer (C)

115. Proxy Limited uses the cost model for measuring the non-current assets. On October 30, 2022 Proxy Limited classified a non-current asset as held for sale in accordance with IFRS 5. At that date the asset's carrying amount was Rs. 30,000, its fair value was estimated at Rs.22,000 and the costs of disposal at Rs.3,000.
On November 20, 2022 the asset was sold for net proceeds of Rs.18,400.
Pursuant to Ind AS 105, what amount should be included as a loss on disposal in Proxy's Statement of Profit and Loss for the year ended December 31, 2022?

A. Rs.11,000
B. Rs. 8,600
C. Rs. 11,600
D. Rs. 600

Answer (D)

Workings

According to IFRS 5, when any non-current asset is classified as held for sale it is valued at lower of the carrying value or fair value less cost of disposal. The difference if any is treated as impairment loss.

Hence the working is as follows:

Carrying value (A)	= Rs. 30,000
Fair value	= Rs.22,000
Less cost of disposal	= Rs.3,000
Fair value less cost of Disposal (B)	= Rs.19,000
Hence the asset will be carried at lower of A and B = (C)	Rs. 19,000
Loss recognized on disposal Rs. 19,000 (C)– Rs. 18,400 (D) = (E)	Rs. 600

116. Alpha Limited stopped using a Plant during 2021. In the same year, it let the Plant out on lease to Beta Limited and now foresees that the Plant will be of no further use to it. It is now negotiating the sale of the Plant to Beta Limited.

According to IFRS 5, what is the treatment to be provided to the depreciation of the Plant?

A. Plant is depreciated like other assets as actual sale has not taken place yet
B. Depreciation is reversed
C. Depreciation is charged to discontinued operations
D. Plant is not depreciated.

Answer (D)

117. According to IFRS 5, which of the following are the criteria to be met for an asset to be held for sale?

(i) **Sale must be highly probable**
(ii) **An appropriate level of management must be committed to sell the asset or the disposal group**
(iii) **An active programme to locate a buyer and complete the plan must have been initiated**
(iv) **The sale should be expected to be completed within two years.**
(v) **The asset should be fully depreciated.**
(vi) **There is remote possibility of the modification or cancellation of plan.**

A. (i),(ii),(iii) and (iv)
B. (i),(iii),(v) and (vi)
C. (i),(ii),(iii) and (vi)
D. All of the above

Answer (C)

118. Which of the following statements are incorrect?

A. It requires segments to be determined with reference to information regularly reviewed by the chief operating decision maker

B. Allows exemption from disclosure on the grounds that it would be seriously prejudicial

C. An entity must disclose some geographical information.

D. Disclosures are only required for companies with listed securities and those in the process of listing securities

Answer (D)

119. According to IFRS 8, two or more operating segments may be aggregated into a single operating segment if it satisfies all of the below requirements, except,

A. The segments have dissimilar characteristics

B. The aggregation is consistent with the core principle of segment reporting

C. The segments have similar characteristics

D. The segments are similar in the nature of product or service, nature of production process, class of customer, method of product distribution and regulatory environment

Answer (A)

120. Pursuant to IFRS 8, an entity shall disclose which of the following information?

A. Factors used to identify the entity's reportable segments including the basis of organization

B. Types of products and services from which each reportable segment derives its revenue

C. Neither A or B

D. Both A and B

Answer (D)

121. IFRS 8 prescribes that, under the quantitative threshold, the total amount of revenue that should be covered by reportable segments is at least:

A. 50%

B. 75%

C. 80%

D. None of the above

Answer (B)

122. Valuation of Financial Assets

Financial Instruments to be held at Fair Value (IFRS 9)

Under IFRS 9 Financial Instruments which of the following should be held at fair value?

(i) An interest rate swap
(ii) 7% 2020 bonds acquired with the intention to hold to maturity
(iii) An investment in the ordinary shares of Milk Plc
(iv) An investment in a convertible loan note

A (i) only

B (ii) only

C All of the above

D (i), (iii) and (iv)

Answer (D)

123-124. Alpha Ltd took a loan of Rs.25 million from Beta Ltd at an annual interest rate of 5% on 1 April 2022. The principal is repayable on 31 March 2027. The interest is to be paid annually in arrears. Beta Ltd is provided with an option to convert this loan into ordinary shares of Alpha Ltd on 31 March 2027. The annual market interest rate on nonconvertible loans on 1 April 2022 was 8 %. Finance costs in the books of Alpha Ltd include Rs.1.25 million (Rs.25 million x 5/100).

Note - Discount factors are as follows:

	5% annual discount rate	**8% annual discount rate**
Present value of Re.1 payable in 5 years	**78 paise**	**68 paise**
Cumulative present value of Rs.1 payable at the end of years 1-5	**Rs. 4·33**	**Rs. 3·99**

123. Determine the value of equity component to be disclosed as on 31 March 2023 in accordance with *IAS 32 Financial Instruments: Presentation*.

A Rs. 3,012

B Rs. 22,497

C Rs. 21,988

D Rs. 21,500

The correct option is (A).

124. Determine the value of debt component to be disclosed as on 31 March 2023 in accordance with IAS 32 Financial Instruments: Presentation.

A Rs. 3,012

B Rs. 22,497

C Rs. 21,988

D Rs. 21,500

The correct option is (B).

Workings

The loan is a compound financial instrument and must be split into debt and equity components.

	Rs'000
The debt component is (Rs.1,250 x 3.99) + (Rs.25,000 x 0.68)	21,988
Therefore the equity component is (Rs.25,000 – Rs.21,988)	3,012
	25,000
The finance cost for the period is Rs. 21,988 X 8%	1,759

Extracts of Alpha Ltd's statement of financial position on 31 March 2023

	Rs'000
Equity	3,012
Equity component of bond	
Non-current liabilities	22,497
Interest bearing borrowings (Schedule 1)	

Schedule 1 Interest bearing borrowings

	Rs'000
Initial liability	21,988
Add: Finance cost	1,759
Less: Interest paid	(1,250)
Closing liability	22,497

125. Please mention which one of these is not correct:

A financial liability is any contract that is:

A) A contractual obligation to deliver cash or another financial asset to another entity.
B) A contractual right to receive cash or another financial asset to another entity.
C) A contractual obligation to exchange financial assets or financial liabilities under conditions that are potentially unfavourable.
D) None of the above

Answer (A)

126. For financial assets classified as bonds, how are unrealized gains and losses reflected in shareholders' equity?

A) They are not recognized
B) Shown as an adjustment in paid-in capital
C) Recognised as amortized cost and measured through effective interest method
D) None of the above.

Answer (C)

127. When a company buys back its own shares to be held in treasury, it records a reduction in:
A) Both assets and liabilities
B) Both assets and shareholders' equity
C) Assets and an increase in shareholders' equity
D) None of the above

Answer (B)

128. Alpha Ltd has issued 10,000 convertible debentures with a face value of Rs. 100 per debenture. The interest rate on the debentures is 5%. The debenture holders have the option of converting these debentures into ordinary shares at the end of four years. The prevailing market rate for a similar debt which does not have a conversion right is 7%.
Present Value of Rs. 1 at 7% after 4 years would be 0.763.
Present Value of Annuity of Rs.1 after 4 years would be 3.387.
The carrying amount of the debt portion of convertible debentures would be:

A) Rs.1,000,000.
B) Rs. 932,350.
C) Rs. 950,000
D) None of the above.

Answer (B)

129. From the above example the carrying amount of equity portion of the convertible debentures would be:

A) Rs. Nil.
B) Rs. 65,350.
C) Rs. 67,650
D) Rs. 69,650

Answer (C)

130. Beta Ltd purchased a 6% bond at par for Rs.1,000,000 at the beginning of the year, interest rates have recently increased, and the market value of the bond declined by Rs.20,000. Determine the bond's effect on Beta Ltd's financial statements under classification of securities under the following options.

A) The bond would be treated under fair value through profit or loss.
B) The bond would be treated under amortized cost and resultant interest income capitalized.
C) The bond would be treated under amortized cost and resultant interest income considered under Statement of Profit & Loss.
D) None of the above.

Answer (C)

131. In accordance with IFRS 9, hedge accounting can be applied to the following types of hedging relationships:

A) Fair value hedge,
B) Cash flow hedge,
C) Hedges of a net investment in a foreign operation,
D) All of the above.

Answer (D)

132. Small Ltd issued Rs.10,000,000 worth of 8% debentures of face value Rs.100 each on par value basis on 1st Jan 2023. These debentures are redeemable at 12% premium at the end of 2028 or exchangeable for ordinary shares of Mega Ltd on 1:1 basis. The interest rate for similar debentures that do not carry conversion entitlement is 12%. You are required to calculate the value of the debt portion of the above compound financial instrument. The present value of the rupee at the end of years 1 to 4 at 8% and 12% are supplied to you as:

	8%	**12%**
End of year 2024	**0.926**	**0.893**
End of year 2025	**0.857**	**0.797**
End of year 2026	**0.794**	**0.712**
End of year 2027	**0.735**	**0.636**

The equity and debt component are:

	Equity component	Debt component
A)	9,500,000	500,000
B)	9,553,600	446,400
C)	9,450,000	550,000
D)	9,550,000	450,000

Answer (B)

133. Omni Ltd purchased a 6% bond at par for Rs.2,500,000 at the beginning of the year, interest rates have recently increased, and the market value of the bond declined by Rs.20,000.
Determine the bond's effect on Omni Ltd's financial statements under classification of securities under the following options:
a) The bond would be treated under fair value through profit or loss.
b) The bond would be treated under amortized cost and resultant interest income capitalized.
c) The bond would be treated under amortized cost and resultant interest income considered under Statement of Profit & Loss.
d) None of the above.

Answer (C)

134 - 136. Ruby Ltd issues 2000 convertible bonds at the start of 20X2. The bonds have a three-year term and are issued at par with a face value of Rs. 1000 per bond giving total proceeds of Rs. 20,00,000. Interest is payable annually in arrears at a nominal annual interest rate of 6%. Each bond is convertible at any time up to maturity into 250 common shares.

When the bonds are issued, the prevailing market interest rate for similar debt without conversion options is 9%. At the issue date the market price of one common share is Rs. 3. The dividends expected over three-year term of the bonds amount to 14 p per share at the end of each year. The risk-free annual interest rate for a three-year term is 5%.

Discount and annuity tables (0.772 = DF 3 years @ 9%; 2.531 = AF 3 years @ 9%)

134. What is the present value of the principal?

A. Rs.15,00,000

B. Rs.15,44,000

C. Rs.15,40,000

D. Rs. 15,30,000

Answer: (B)

135. What is the present value of interest?

A Rs. 300,000

B Rs. 302,500

C Rs. 303,000

D Rs. 303,725

Answer: (D)

136. What is the value of the equity component in the bond?

A Rs. 1,52,280

B Rs. 150,000

C. Rs. 145,000

D. Rs. 152,000

Answer: (A)

137. XYZ Ltd needs $ 300,000 on May 1 2020 for repayment of loan instalment and interest. As on 1st December 2019 it appears to the company that the dollar may be dearer as compared to the exchange rate prevailing on that date $ 1 = Rs.73.50. Accordingly, the company enters into a forward contract with a banker for $ 300,000. Forward rate as on 1 December 2099 was $1 = Rs.74. As on May 1 2020, the banker will have to pay the company $ 300,000 at Rs.74. Spot rate as on May 1 2020 was $1 = Rs.74.80.

Has the company gained or lost on forward contract?

A Gain of Rs, 200,000

B Loss of Rs,200,000

C. Gain of Rs.240,000

D. Loss of Rs.240,000

Answer: (C)

138. Given the above example, had the result been different if the rate would have been $1 = Rs.73.80?

A Gain of Rs, 60,000

B Loss of Rs, 60,000

C. Gain of Rs.240,000

D. Loss of Rs.240,000

Answer: (C)

139. Green Energy Software Ltd is expecting a period of intense growth and has decided to retain more of its earnings to help finance that growth. As a result, it is going to reduce its annual dividend by 30 percent a year for the next 2 years. After that, it will maintain a constant dividend of Rs.2.50 a share. Last year, the company paid Rs.3.60 as the annual dividend per share. What is the market value of this stock if the required rate of return is 14.5 percent?

A. Rs.14.63

B. Rs.16.70

C. Rs.18.08

D. Rs.19.61

E. Rs.21.23

Answer: (B)

Workings

$$P2 = \frac{Rs.2.50}{0.145} = Rs.17.24$$

$$P0 = \frac{Rs.3.60 \times (1-0.30)}{(1+0.145)1} + \frac{Rs.3.60 \times (1-0.30)2 + Rs.17.24}{(1+0.145)2} = Rs.16.70$$

140. At the beginning of year 1, XYZ Ltd issued 20,000 convertible debentures with face value Rs100 per debenture at par. The debentures have six-year term. The interest at annual rate of 9% is paid half-yearly. The bond holders have an option to convert half of the face value of debentures into 2 equity shares at the end of year 3. The bond holders not exercising the conversion option will be repaid at par to the extent of Rs.50 per debenture at the end of the year 3. The non-convertible portion will be repaid at 10% premium at the end of the year 6. At the time of issue the prevailing market interest rate for similar debt without conversion option was 10%.

Value of the embedded derivative would be in Rs'000:

A Rs.750.00

B Rs.760.05

C Rs.770.05

D None of the above

Answer: (B)

141. Given the data in above example the value of the host contract would be in Rs'000

A Rs.1200.00

B Rs. 1239.95

C Rs. 1229.95

D None of the above

Answer: (B)

142. Alpha Ltd enters into a contract whereby it will pay Rs.10,000 if Beta Ltd's share price increases by Rs.10 or more during an eight-month period; it will receive Rs.10,000 if the share price decreases by Rs.10 or more during the same eight-month period; and no payment will be made if the price swing is less than Rs.10 up or down. Which of the statements is true?

A This is not a transaction

B This is a financial instrument but not a derivative

C This is a derivative as the value of an instrument changes, no initial investment is needed, and it can be settled at a future date

D None of the above

Answer: (C)

143. Foreign Currency Convertible Bond (FCCB) means ______________

A A bond convertible from Indian Currency to Foreign Currency

B A bond convertible from Foreign Currency to Indian Currency

C A bond issued by an Indian company expressed in foreign currency, the principal and interest of which is payable in foreign currency

D A bond issued by a foreign company expressed in Indian currency, the principal and interest of which is payable in Indian currency

Answer: (C)

144. On 1st April 2022, Sigma Ltd issued 30,000 6% Convertible Debentures of Face Value of Rs100 per Debenture at par. The Debentures are redeemable at a premium of 10% on 31–03–2026, 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 10%. Being a compound financial instrument, you are required to separate Equity and Debt portions as on 01–04–22.

The Present Value of Rs.1 receivable at the end of each year based on discount rates of 6% and 10% can be taken as:

End of year	1	2	3	4
6%	0.94	0.89	0.84	0.79
10%	0.91	0.83	0.75	0.68

If the value of the Equity Portion is Rs1,85,400, the Debt Portion would be:

A Rs. 28,00,000

B Rs. 28,14,600

C Rs. 30,00,000

D None of the above

Answer:(B)

145. Fairbrother Ltd paid Rs.600 million for the outstanding share of Parker Ltd. At the acquisition date Parker Ltd reported the following condensed balance sheet.

Condensed Statement of Financial Position of Parker Ltd is under:

	Amount (Rs million)
Property, Plant & Equipment(net)	**760**
Current assets	**80**
Goodwill	**30**
Liabilities	**400**
Shareholders' equity	**470**

The fair value of Property, Plant and equipment was Rs.120 million more than its recorded book value. The fair values of all other identifiable assets and liabilities were equal to their recorded book values. Goodwill Fairbrother Ltd should report on its consolidated Balance Sheet would be:

A) Rs. 70 million
B) Rs.100 million
C) Rs. 40 million
D) Rs. 30 million.

Answer (C)

146. Parent Ltd held 25% of the shares of Partner Ltd and exerts significant influence over it. Partner Ltd sells goods to Parent Ltd during the year for Rs.100,000. The cost of goods to Partner Ltd was Rs.80,000. At the year-end, Parent Ltd's inventories include Rs.16000 of goods purchased from Partner Ltd. The unrealised profit to be deducted from Share of profits of associates would be:

A) Rs.3,200.
B) Rs.800.
C) Nil
D) None of the above.

Answer (B)

147. Alpha Ltd controls another entity Beta Ltd, owning 60% of its ordinary share capital. At the group's year end, 31st December 2022, Beta Ltd included Rs.6000 in its receivables in respect of goods supplied to Alpha Ltd. However, the payables of Alpha Ltd included only Rs.4000 in respect of amounts due to Beta Ltd. The difference arose because, on 31st December 2022, Alpha Ltd sent a cheque of Rs.2000, which was not received by Beta Ltd until 3rd January 2023.

Which one of the following sets of consolidation adjustments to current assets and current liabilities is correct?

A) Deduct Rs.6000 from both consolidated receivables and consolidated payables
B) Deduct Rs.3600 from both consolidated receivables and consolidated payables
C) Deduct Rs.6000 from consolidated receivables and Rs.4000 from consolidated payables and include Rs.2000 as cash-in-transit
D) Deduce Rs.6000 from consolidated receivables and Rs. 4000 from consolidated payables and include inventory in transit of Rs.2000.

Answer (C)

148. On 31st December 2022 Alpha holds 25% of shares of Beta and throughout its financial year ended 31st March 2023, Alpha held 80% of the share capital of its subsidiary Gamma.
Revenue for the period ended 31st March 2023 recorded in the books of three entities was as under:

Entities	**Rs.**
Alpha	**23,500**
Beta	**5,400**
Gamma	**14,600**

During the year, Gamma supplied Alpha with goods with a sales value of Rs.1,400. The cost to Gamma of these goods was Rs.1,200.
What is the amount of consolidated revenue for inclusion in Alpha group's income statement for the year ended 31st March 2023?

A) 37,150
B) 36,700
C) 31,980
D) 37,700.

Answer (B)

149. Alpha owns a controlling interest in another entity Beta and exerts significant influence over Gamma, an entity in which it holds 40% of the ordinary share capital. During the financial year ended 31st March 2023, Alpha sold goods to Gamma valued at Rs.80,000. The cost of the goods to Gamma was Rs.60,000. 25% of the goods remained in Alpha's inventory at 31st March 2023.

Which one of the following is the correct consolidation adjustment in respect of the inventory?

A)	Dr. Consolidated reserves	Rs.5,000	Cr. Inventory	Rs.5,000
B)	Dr. Consolidated reserves	Rs.2,000	Cr. Inventory	Rs.2,000
C)	Dr. Consolidated reserves	Rs.5,000	Cr. Investment in associates	Rs.5,000
D)	Dr. Consolidated reserves	Rs.2,000	Cr. Investment in associates	Rs.2,000

Answer (D)

150. Extract of Statement of Financial Position of Axis Ltd at the end of the year as follows:

Particulars	**Amount Rs.**
Investment in Betty Ltd at fair value	**150,000**
Deferred taxes	**86,000**
Equity share capital Rs.1/- par value	**550,000**
Preference share capital Rs.100 par value	**175,000**
Retained earnings	**893,000**
Accumulated other comprehensive income	**46,000**

The investment in Betty Ltd had an original cost of Rs.120, 000. It is assumed that the investment in Betty Ltd is classified as available for sale. Total owners' equity of Axis Ltd at the year-end is closed to:

a) Rs.1,618,000
b) Rs.1,664,000
c) Rs.1,714,000
d) None of the above.

Answer (B)

151. A Ltd acquires 85% of shares of B Ltd. The fair value of net assets is Rs.20 million. Goodwill on acquisition worked out to Rs.1.2 million. The valuer appointed by B Ltd determines the fair value of the 15% non-controlling interest in C Ltd is Rs.4.2 million. Hence the fair value of the consideration in acquisition of B Ltd would be:

E) Rs.20.0 million
F) Rs.24.4 million
G) Rs.17.0 million
H) None of the above

Answer (C)

152. P Ltd acquires 60% of shares of S Ltd for Rs.136 million. The fair value of net assets is Rs.150 million. The goodwill on acquisition was Rs.25.4 million.
Fair value of non-controlling interest in S Ltd would be:

I) Rs. 10.40 million
J) Rs. 39.40 million
K) Rs.110.60 million
L) Rs. 29.40 million

Answer (B)

153. On 1st Jan 2023, A Ltd acquired 27,000 shares in B Ltd by way of exchange of two shares in A Ltd for every three shares in B Ltd. The face value of A Ltd's share is Re. 10 each and its market price is Rs. 30 each.

Hence the consideration in B Ltd will work to:

A) Rs. 540,000
B) Rs. 180,000
C) Rs. 810,000
D) Rs. 400,500

Answer (A)

154. When a consideration that an acquirer commits to the acquiree in cash or additional equity interests or other assets after the acquisition date on the fulfilment of a certain specified event or condition in the future, it is called:

A) Consideration in cash
B) Deferred consideration
C) Consideration through share exchange
D) Contingent consideration.

Answer (D)

155. When consideration is not payable immediately but is payable in the future and which is not dependent upon any future events, it is called:

a) Contingent consideration
b) Deferred consideration
c) Consideration through share exchange
d) None of the above.

Answer (B)

156. Consolidated Financial Statements are designed to provide?

(A) Subsidiary information for the non-controlling interest.

(B) Detailed information to shareholders related to cash flow, statement of profit & loss and statement of financial position in a comprehensible manner.

(C) The results of cash flow, statement of profit & loss and statement of financial position as if it were a single entity.

(D) Information related to non-current and current assets of equity holdings of parent.

Answer (C)

157. What is the non-controlling interest calculated on?

(A) Acquisition date

(B) Reporting date

(C) Acquisition and reporting date

(D) None of the above dates

Answer (C)

158. What would be the treatment of goodwill related to the cost of investment?

(A) Should be amortized over ten years

(B) Must be disclosed separately from goodwill derived from subsidiaries

(C) Is not calculated

(D) Added to the cost of investment

Answer (C)

159. A Ltd owns a controlling interest in another entity B Ltd and exerts significant influence over C Ltd, an entity in which it holds 40% of the ordinary share capital. During the financial year ended 31st March 2019, C Ltd sold goods to A Ltd valued at Rs.80,000. The cost of the goods to C Ltd was Rs.60,000. 25% of the goods remained in A Ltd's inventory at 31st March 2019.

Which one of the following is the correct consolidation adjustment in respect of the inventory?

A)	Dr. Consolidated reserves	Rs.5,000	Cr. Inventory	Rs.5,000
B)	Dr. Consolidated reserves	Rs.2,000	Cr. Inventory	Rs.2,000
C)	Dr. Consolidated reserves	Rs.5,000	Cr. Investment in associates	Rs.5,000
D)	Dr. Consolidated reserves	Rs.2,000	Cr. Investment in associates	Rs.2,000

Answer (B)

160. Under *IFRS 15: Revenue from Contract with Customers* revenue is recognized when there is a transfer of:

A) Consideration
B) Risks and rewards
C) Control
D) Goods

Answer (C)

161. Catalyst Ltd sold 20,000 gallons of aviation oil to Loxton Ltd on 1 February 2022 at Rs.50 per gallon. Catalyst Ltd delivered 10,000 gallons on 15 March 2022 and the remaining 10,000 gallons on 15 April 2022. Payment terms were 50% due on 1 October 2021, 25% due on first delivery and the remaining 25% due on second delivery. The amount of revenue recognized in year ending 31 March 2022 would be:

A) Rs. 300,000
B) Rs. 500,000
C) Rs. 750,000
D) Rs. 1,000,000

Answer (B)

162. At the beginning of 2022, Archer Ltd entered into a contract to build a road for the government. Construction will take three years and there were performance obligations based on milestones at the end of each year. The following information as of 31st December 2022 is available for the contract:

Total revenue according to contract	**Rs.10,000,000**
Total expected cost	**Rs.8,000,000**
Cost incurred during 2022 on completion of first performance obligation.	**Rs.1,200,000**

Under IFRS 15, how much revenue will be reported in 2022?

A) Rs.1,200,000
B) Rs. 300,000
C) Rs.1,500,000
D) None of the above

Answer (C)

163. Workhorse Ltd provides consultancy services to its customers. It has won a contract through a tender process and incurs following costs to obtain the contract:

	Rs. Million
External legal fees for due diligence	**1.50**
Travel cost to deliver proposal	**2.50**
Commissions to sales employees	**1.50**
Total cost incurred	**5.50**

A) The total amount of Rs.5.5 million will be charged to revenue.
B) Travel cost to deliver proposal of Rs.2.5 million will be capitalized under IFRS 15.
C) Commission to sales employees of Rs.1.5 million will be capitalized under IFRS 15 and amortized during the period of the contract.
D) Only external legal fees of Rs.1.5 million will be capitalized.

Answer (C)

164. Samson Ltd is a telecommunication company that pays discretionary annual bonus to its employees of the sales department based on annual sales target, EBITDA target and employees' ratings. Samson Ltd wants advice as to the treatment of this cost under IFRS 15.
A) The annual bonus is to be charged to Statement of Profit & Loss.
B) The annual bonus is treated as incremental cost of obtaining contracts and hence eligible for capitalization and amortized during the period of the contract.
C) The annual bonus is to be treated as deferred revenue expenditure.
D) None of the above.

Answer (A)

165. Alpha Limited leased a freehold building having a useful life of 25 years to Beta Limited for its full life with effect from April 1, 2021. Annual rent of Rs. 10 lakhs are payable in advance on January 1. On the same day the fair value of the leasehold interest was Rs.80 lakhs of which 75% was attributable to the building.

According to IFRS 16, the amount to be recognised as operating lease expense by Alpha Limited for the year ended March 31, 2022 is:

A. Rs. 10 lakhs
B. Rs. 2.5 lakhs
C. Rs. 7.5 lakhs
D. Nil

Answer (B)

166. Alpha Limited has leased out a machine to Beta Limited. Following information is available:

Item	Amount Rs.
Payment for the lease to be received	45000
Contingent rent	60000
Cost of services	10000
Finance charges	23000
Taxes	12000
Amount guaranteed by lessee	50000

Calculate the minimum lease payment of Alpha Limited

A. Rs. 178000
B. Rs. 118000
C. Rs. 155000
D. Rs. 127000

Answer (B)

167. Southpaw Limited entered into a lease agreement on November 2020. The lease was for five years, the fair value of the asset acquired was Rs.45,000 and the interest rate implicit in the lease was 7%. The annual lease payment of Rs. 10,975 is made in arrears. Determine the current portion of total lease obligation as at October 31, 2022.

A. Rs. 28,802
B. Rs. 27,212
C. Rs.10,975
D. Rs. 8,323

Answer (D)

Workings

	Opening balance	Interest @ 7%	Instalments	Closing balance
Year 1	45,000	3,150	10,975	37,175
Year 2	37,175	2,602	10,975	28,802

Current portion of the obligation would be Rs. 37,175 – Rs.28,802 = Rs.8,323.

168. Thomson Limited has acquired a machine on lease for a non-cancellable period of five years. The estimated useful life of the machine is 20 years. The terms of the lease are to pay Rs.150,000 for 4 years starting on April 1 from year 2. An incentive was given by the lessor to Thomson Limited at the beginning of the year 1, in the form of a one year rent free period. Thomson Limited closes its books of accounts on March 31, every year.

What would be the charge to Statement of Profit or loss as at March 31, in respect of year 1 of the lease.

A. No charge – since it is rent free
B. Rs. 150,000
C. Rs. 120,000
D. Rs. 30,000

Answer (C)
Workings
The charge to Statement of Profit & Loss would be
(Rs. 150,000 x 4)/5 = Rs. 120,000