**Mock Test Paper - Series I: March, 2025**

**Date of Paper: 8th March, 2025**

**Time of Paper: 10 P.M. to 1 P.M.**

**INTERMEDIATE COURSE: GROUP - I**

**PAPER – 1 : ADVANCED ACCOUNTING**

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

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

**PART I – Case Scenario based MCQs (30 Marks)**

***Part I is compulsory.***

**Case Scenario**

1. ABC Ltd. (a non-listed company) has the following Capital Structure as on 31.03.2024:

| | **Particulars** | | **(₹)** |
|---|---|---|---|
| (1) | Equity Share Capital (Shares of ₹ 10 each fully paid) | - | 24,00,000 |
| (2) | Reserves and Surplus | | |
| | General Reserve | 20,50,000 | - |
| | Securities Premium Account | 7,50,000 | - |
| | Profit & Loss Account | 2,00,000 | - |
| | Infrastructure Development Reserve | 20,00,000 | |
| | Revaluation reserve | 1,70,000 | 51,70,000 |
| (3) | Loan Funds | | 52,00,000 |

The Shareholders of ABC Ltd., on the recommendation of their Board of Directors, have approved on 12.09.2024 a proposal to buy-back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.

The in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of buy back price per share is ₹ 25.

You are also informed that the Infrastructure Development Reserve is created to satisfy Income-tax Act requirements.

Assuming that the entire buy-back is completed by 09.12.2024, Based on the above information, answer the following questions.

i. What is the maximum number of shares to be bought back as per debt-equity ratio?

   (a) 1,12,000 shares

   (b) 80,000 shares

   (c) 54,000 shares

   (d) 60,000 shares

ii. What is the maximum permitted equity as per debt- equity ratio test.

   (a) 20,00,000 shares

   (b) 28,00,000 shares

   (c) 15,00,000 shares

   (d) 13,50,000 shares

iii. What will be the future equity shareholding fund if a company buys back shares as per the result of the debt-equity ratio test?

   (a) 48,000

   (b) 48,60,000

   (c) 42,80,000

   (d) 46,00,000

iv. What is the maximum number of shares that can be buy back as per resource test?

   (a) 54,000

   (b) 75,700

   (c) 55,700

   (d) 74,000

**Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]**

2. RTS Ltd, ("RTS" or the "Company"), is engaged in the business of manufacturing of urea, has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment of manufacturing of equipments/components. The Company has a contract with the Indian Railways for a brake component which is structured such that:

- The Company's obligation is to deliver the component to the Railways' stockyard, while the delivery terms are ex-works, the Company is responsible for engaging a transporter for delivery.
- Railways sends an order for a defined quantity.
- The Company manufactures the required quantity and informs Railways for carrying out the inspection.
- Railways representatives visit the Company's factory and inspect the components, and mark each component with a quality check sticker.
- Goods once inspected by Railways, are marked with a hologram sticker to earmark for delivery identification by the customer when they are delivered to the customer's location.
- The Company raises an invoice once it dispatches the goods.

The management of RTS is under discussion with the auditors of the Company in respect of accounting of a critical matter as regards its accounting with respect subsequent events i.e. events after the reporting period. They have been checking as to which one of the following events after the reporting period provide evidence of conditions that existed at the end of the reporting period?

i. Nationalisation or privatization by government

ii. Out of court settlement of a legal claim

iii. Rights issue of equity shares

iv. Strike by workforce

v. Announcing a plan to discontinue an operation

The Company has received a grant of ₹ 8 crores from the Government for setting up a factory in a backward area. Out of this grant, the Company distributed ₹ 2 crores as dividend. The Company also received land, free of cost, from the State Government but it has not recorded this at all in the books as no money has been spent.

RTS has a subsidiary, LPP Media & Creations Ltd (LPP), an advertising agency which prepares and publishes advertisement in newspapers on behalf of its clients. LPP invoices its clients for the commission they are entitled to as well as the media space payable to the newspaper.

Based on the above information, answer the following questions.

i. When should RTS Ltd recognize revenue as per the Accounting Standards notified under the Companies (Accounting Standards) Rules. Would your answer be different if inspection is normally known to lead to no quality rejections?

(a) Revenue should be recognized on dispatch of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.

(b) Revenue should be recognized on completion of inspection of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.

(c) Revenue should be recognized on dispatch of components. The assessment would change where inspection is normally known to lead to no quality rejections.

(d) Revenue should be recognized on delivery of the component to the Railways' stockyard. The assessment would change where inspection is normally known to lead to no quality rejections.

ii. In respect of LPP, how should the revenue be recognized as per Accounting Standards?

(a) LPP should record net amount of commission earned by it.

(b) LPP should record net amount of commission earned by it and disclose the information about gross income from advertisement through media and preparation of advertisement material as well as payments to media and expenditure incurred for creation of an advertisement in the notes to accounts.

(c) LPP should record gross income from advertisement through media and preparation of advertisement material and gross amount of payments to media and expenditure incurred for creation of an advertisement.

(d) LPP may record this on net or gross basis depending on its accounting policy.

iii. Please guide the management of RTS Ltd as to which one of the events mentioned above (i to v) after the reporting period provide evidence of conditions that existed at the end of the reporting period?

(a) ii and v.

(b) ii.

(c) v.

(d) i, iii and iv.

iv. Please guide regarding the accounting treatment of both the grants mentioned above in line with the requirements of Accounting Standard 12.

(a) Distribution of dividend out of grant is correct. In the second case also not recording land in the books of accounts is correct.

(b) Distribution of dividend out of grant is incorrect. In the second case, not recording land in the books of accounts is correct.

(c) Distribution of dividend out of grant is correct. In the second case, land should be recorded in the books of accounts at a nominal value.

(d) Distribution of dividend out of grant is incorrect. In the second case, land should be recorded in the books of accounts at a nominal value.

**Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]**

3. Mars Ltd. is a manufacturing enterprise which is starting a new manufacturing plant at X Village. It has commenced construction of the plant on April 1, 2023 and has incurred following expenses:

- It has acquired land for installing Plant for ₹ 50,00,000
- It incurred ₹ 35,00,000 for material and direct labour cost for developing the Plant.
- The Company incurred ₹ 10,00,000 for head office expenses at New Delhi which included rent, employee cost and maintenance expenditure.
- The Company borrowed ₹ 25,00,000 for construction work of Plant @12% per annum on April 1, 2023. Director finance of the Company incurred travel and meeting expenses amounting to ₹ 5,00,000 during the year for arranging this loan.
- On November 1, 2023, the construction activities of the plant were interrupted as the local people alongwith the activists have raised issues relating to environmental impact of plant being constructed. Due to agitation the construction activities came to standstill for 3 months.

- With the help of Government and NGOs, the agitation was over by February 28, 2024 and the work resumed. However, to balance the impact on environment, government ordered the company to install certain devices for which the Company had to incur ₹ 6,00,000 in March 2024.
- The rate of depreciation on Plant is 10%.

Based on the above information, answer the following questions.

i. Which of the following expenses cannot be included in the cost of plant:

(a) Cost of Land

(b) Construction material and labour cost

(c) Head office expenses

(d) Borrowing cost

ii. How much amount of borrowing cost can be capitalised with the plant:

(a) ₹ 300,000

(b) ₹ 2,00,000

(c) ₹ 7,00,000

(d) ₹ 6,00,000

iii The total cost of plant as on March 31, 2024 will be:

(a) ₹ 85,00,000

(b) ₹ 98,00,000

(c) ₹ 93,00,000

(d) ₹ 95,00,000

iv. The amount of depreciation to be charged for the year end March 31, 2024

(a) ₹ 4,30,000

(b) ₹ 9,30,000

(c) ₹ 9,80,000

(d) Nil

**Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]**

4. P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a Listed Company and regularly supplies goods to P Ltd. The Management of R Ltd. has not disclosed its relationship with P Ltd. While preparing Financial Statements of P Ltd., which entities would you disclose as related parties with reference to AS-18?

   While preparing Financial Statements of P Ltd., which entities would you disclose as related parties with reference to AS-18?

   (a) Q Ltd.

   (b) R Ltd.

   (c) Q Ltd. and R Ltd.

   (d) Neither of Q Ltd. or R Ltd. **(2 Marks)**

5. A Machinery was giver on 3 years lease by a dealer of the machinery for equal annual lease rentals to yield 20% profit margin on cost of the machinery, which is ₹ 3,00,000. Economic life of the machinery is 5 years, and estimated output from the machinery in 5 years is as follows:

| | |
|---|---|
| Year I | 50,000 units |
| Year II | 60,000 units |
| Year III | 40,000 units |
| Year IV | 65,000 units |
| Year V | 85,000 units. |

   Compute Annual Lease Rent.

   (a) ₹ 30,000

   (b) ₹ 60,000

   (c) ₹ 50,000

   (d) ₹ 36,000 **(2 Marks)**

6. A process of reconstruction, which is carried out without liquidating the company and forming a new one is called

   (a) Internal reconstruction.

   (b) External reconstruction.

   (c) Amalgamation in the nature of merger.

   (d) Amalgamation in the nature of purchase. **(2 Marks)**

**PART II – Descriptive Questions (70 Marks)**

*Question No.**1** is compulsory*

*Answer any **four** questions from the remaining **five** questions.*

*Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates. Working Notes should form part of the answer.*

1. (a) On 1st April, 2024 Mr. Zoom had an opening balance of 1000 equity shares of P Ltd. ₹ 1,20,000 (face value ₹ 100 each).

On 5.04.2024 he further purchased 200 cum-right shares for ₹ 135 each. On 8.04.2024 the director of P Ltd announced right issue in the ratio of 1:6.

Mr. Zoom waived off 100% of his entitlement of right issue in the favour of Mr. X at the rate of ₹ 20 each.

All the shares held by Mr. Zoom had been acquired on cum right basis and the total market price (ex-right) of all these shares after the declaration of rights got reduced by ₹ 3,400.

On 10.10.2024 Zoom sold 350 shares for ₹ 140 each.

31.03.2025 The market price of each share is ₹ 125 each.

You are required to prepare the Investment account in the books of Mr. Zoom for the year ended 31.03.2025 assuming that the shares are being valued at average cost.

(b) Following information was extracted from the books of A Ltd. for the year ended 31st March, 2025:

1) Net profit before taking into account income tax and after taking into account the following items was ₹ 60 lakhs;

   a) Depreciation on Property, Plant & Equipment ₹ 14,00,000.

   b) Discount on issue of debentures written off ₹ 90,000.

   c) Interest on debentures paid ₹8,70,000.

   d) Investment of Book value ₹ 7,00,000 sold for ₹ 7,50,000.

   e) Interest received on Investments ₹ 1,40,000.

2) Income tax paid during the year ₹ 25,60,000

3) Company issued 1,20,000 Equity Shares of ₹10 each at a premium of 20% on 10th April, 2024.

4) 40,000, 9% Preference Shares of ₹ 100 each were redeemed on 31st March, 2025 at a premium of 5%

5) Dividend paid during the year amounted to ₹ 22 Lakhs (Incl. dividend distribution tax)

6) A new Plant costing ₹14 Lakhs was purchased in part exchange of an old plant on 1st January, 2025. The book value of the old plant was ₹ 16 Lakhs but the vendor took over the old plant at a value of ₹ 12 Lakhs only. The balance amount was paid to vendor through cheque on 30th March, 2025.

7) Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 10%. The inventory according to books on 31.03.2025 was ₹ 29,52,000(cost less 10%).

The inventory on 31.03.2024 was correctly valued at ₹ 27,00,000.

8) Current Assets and Current Liabilities in the beginning and at the end of year 2024-2025 were as:

| Particulars | As on 01.4.2024 (₹) | As on 31.3.2025 (₹) |
|---|---:|---:|
| Inventory | 27,00,000 | 29,52,000 |
| Trade Receivables | 6,54,000 | 6,26,400 |
| Cash & Bank Balances | 4,81,400 | 7,41,000 |
| Trade Payables | 5,69,400 | 5,74,600 |
| Outstanding Expenses | 1,94,000 | 2,02,800 |

You are required to prepare a Cash Flow Statement for the operating & investing activity year ended 31st March, 2025 as per AS 3 (revised) using the indirect method. **(7 + 7 = 14 Marks)**

2. The following are the extract of balance sheet of P Ltd., and its subsidiary Q Ltd., as at 31 March 2024:

| | **Particulars** | **P Ltd. ₹** | **Q Ltd. ₹** |
|---|---|---:|---:|
| I | Equity & Liabilities | | |
| (1) | Shareholders' Funds | | |
| (a) | Share capital (Equity shares of ₹100 each fully paid up) | 16,00,000 | 4,00,000 |
| (b) | Reserve & Surplus | 2,00,000 | 80,000 |
| (2) | Current liability | 30,00,000 | 19,20,000 |
| | Total | 48,00,000 | 24,00,000 |

| | | | |
|---|---|---|---|
| II | Assets | | |
| (1) | Non-current assets | | |
| (a) | PPE | 10,00,000 | 3,80,000 |
| (2) | Investment: | | |
| | 3,600 equity shares in Q Ltd. on 1 April 2023 | 5,60,000 | --- |
| (3) | Current Assets | | |
| (a) | Other current assets | 32,40,000 | 20,20,000 |
| | Total | 48,00,000 | 24,00,000 |

On 1 April 2023 Profit & Loss A/c of Q Ltd. showed a credit balance of ₹ 32,000 and equipment of Q Ltd., was revalued by P Ltd., 20% above its book value of ₹ 4,00,000 (but no such adjustment effected in the books of Q Ltd.)

Prepare the consolidated balance sheet as at 31st March 2024. **(14 Marks)**

3. (a) On 31st March, 2024 Delhi Branch submits the following Trial Balance to its Head Office at Mumbai:

| Debit Balances | ₹ in lacs |
|---|---|
| Furniture and Equipment | 36 |
| Depreciation on furniture | 4 |
| Salaries | 50 |
| Rent | 20 |
| Advertising | 12 |
| Telephone, Postage and Stationery | 6 |
| Sundry Office Expenses | 2 |
| Stock on 1st April, 2023 | 120 |
| Goods Received from Head Office | 576 |
| Debtors | 40 |
| Cash at bank and in hand | 16 |
| Carriage Inwards | 14 |
| | 896 |
| Credit Balances | |
| Outstanding Expenses | 6 |
| Goods Returned to Head Office | 10 |
| Sales | 720 |
| Head Office | 160 |
| | 896 |

Additional Information:

Stock on 31st March, 2024 was valued at ₹ 124 lacs. On 29th March, 2024 the Head Office dispatched goods costing ₹ 20 lacs to its branch. Branch did not receive these goods before 1st April, 2024. Hence, the figure of goods received from Head Office does not include these goods. Also the head office has charged the branch ₹ 2 lac for centralized services for which the branch has not passed the entry.

You are required to prepare Final Accounts of the Branch including Balance Sheet. **(7 Marks)**

(b) A Ltd. acquired 70% equity shares of B Ltd. @ ₹ 20 per share (Face value - ₹ 10) on 31st March, 2024 at a cost of ₹ 140 lakhs. Calculate the amount of share of A Ltd. and minority interest in the net assets of B Ltd. on this date. Also compute goodwill/capital reserve for A Ltd. on acquisition of shares of B Ltd. from the following information available from the balance sheet of B Ltd. as on 31st March, 2024:

| | ₹ in lakhs |
|---|---:|
| Property, plant and equipment | 360 |
| Investments | 90 |
| Current Assets | 140 |
| Loans & Advances | 30 |
| 15% Debentures | 180 |
| Current Liabilities | 100 |

**(7 Marks)**

4. The Following is the Trial Balance of Amol Limited as on 31st March, 2024.

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---:|---|---:|
| Purchases | 41,47,500 | Sales | 62,93,500 |
| Wages & Salaries | 6,36,000 | Commission | 36,250 |
| Rent | 1,10,000 | Equity Share Capital | 5,00,000 |
| Rate & Taxes | 25,000 | General Reserve | 5,00,000 |
| Selling & Distribution Expenses | 2,18,000 | Surplus (P & L A/c) 01.04.2023 | 4,37,750 |
| Directors Fees | 16,000 | Securities Premium | 1,25,000 |

| | | | |
|---|---|---|---|
| Bad Debts | 19,250 | Term Loan from Public sector Bank | 51,00,000 |
| Interest on term loan | 4,02,500 | | |
| Land | 12,00,000 | Trade Payables | 27,54,437 |
| Factory Building | 18,40,000 | Provision for Depreciation: | |
| Plant & Machinery | 31,25,000 | - On Plant | 4,68,750 |
| Furniture and fittings | 4,12,500 | - On Furniture and fittings | 41,250 |
| Trade Receivables | 32,37,500 | - On Factory Building | 92,000 |
| Advance Income Tax Paid | 18,750 | Provision for Doubtful Debts | 12,500 |
| Stock (1st April, 2023) | 4,62,500 | Bill Payable | 62,500 |
| Bank Balances | 4,87,500 | | |
| Cash on Hand | 65,937 | | |
| Total | 1,64,23,937 | Total | 1,64,23,937 |

Following information is provided :

(1) The Authorized Share Capital of the Company is 1,00,000 Equity Shares of ₹ 10 each. The company has issued 50,000 Equity Shares of ₹10 each.

(2) Rent of ₹ 10,000 and wages of ₹ 78,250 are outstanding as on 31st March, 2024.

(3) Provide Depreciation @10% per annum on Plant & Machinery, 10% on Furniture and Fittings and 5% on factory Building on written down value basis.

(4) Closing Stock as on 31st March, 2024 is ₹ 5,68,750.

(5) Make a provision for Doubtful Debts @ 5% on Debtors.

(6) Make a provision of 25% for Corporate Income Tax.

(7) Transfer ₹ 50,000 to General Reserve.

(8) Term Loan from Public Sector Bank is secured against Hypothecation of Plant & Machinery Instalment of Term Loan falling due within one year is ₹ 8,50,000.

(9) Trade Receivables of ₹ 42,800 are outstanding for more than six months.

(1) The Board declared a dividend @10% on Paid up Share Capital on 5th April, 2024.

You are required to prepare Balance Sheet as on 31st march, 2024 and Statement of Profit and Losses with Note to Accounts for the year ending 31st March, 2024 as per Schedule III of the Companies Act, 2013. Ignore previous year's figures. **(14 Marks)**

5. Meet Ltd. and Preet Ltd. were amalgamated on and from 1st April, 2024. A new company Heer Ltd. was formed to take over the business of the existing companies. The Balance Sheets of Meet Ltd. and Preet Ltd. as at 31st March, 2024 are given below:

(₹ in Lakhs)

| | Particulars | Notes | Meet Ltd. | Preet Ltd. |
|---|---|---|---|---|
| I] | Equity and Liabilities | | | |
| (1) | Shareholder's Funds | | | |
| (a) | Share Capital | 1 | 3,300 | 2,850 |
| (b) | Reserves and Surplus | 2 | 1,260 | 990 |
| (2) | Non-Current Liabilities | | | |
| | Long Term Borrowings | | | |
| | 10% Debentures of ₹ 100 each | | 180 | 90 |
| (3) | Current Liabilities | | | |
| | Trade Payables | | 1,260 | 570 |
| | Total | | 6,000 | 4,500 |
| II | Assets | | | |
| (1) | Non-Current Assets | | | |
| (a) | Property, Plant and Equipment | | 2,700 | 1,950 |
| (b) | Non-Current Investments | | 450 | 150 |
| (2) | Current Assets | | | |
| (a) | Inventories | | 1,050 | 750 |
| (b) | Trade Receivables | | 900 | 1,050 |
| (c) | Cash and Cash Equivalents | | 900 | 600 |
| | Total | | 6,000 | 4,500 |

Notes to Accounts:

| Note No. | Particulars | Meet Ltd. | Preet Ltd. |
|---|---|---|---|
| 1 | Share Capital | | |
| | Equity Shares of ₹ 100 each | 2,400 | 2,250 |
| | 14% Preference Shares of ₹ 100 each | 900 | 600 |
| | Total | 3,300 | 2,850 |
| 2 | Reserves and Surplus | | |
| | Revaluation Reserve | 450 | 300 |
| | General Reserve | 510 | 450 |
| | Investment Allowance Reserve | 150 | 150 |
| | Profit and Loss Account | 150 | 90 |
| | Total | 1,260 | 990 |

Additional Information:

(1) Heer Limited will issue 5 equity shares for each equity share of Meet Limited and 4 equity shares for each equity share of Preet Limited. The shares are to be issued @ ₹ 35 each having a face value of ₹ 10 per share.

(2) Preference shareholders of the two companies are issued equivalent number of 16% preference shares of Heer Limited at a price of ₹ 160 per share (face value ₹ 100).

(3) 10% Debenture holders of Meet Limited and Preet Limited are discharged by Heer Limited, issuing such number of its 16% Debentures of ₹ 100 each so as to maintain the same amount of interest.

(4) Investment allowance reserve is to be maintained for 4 more years.:

(5) Liquidation expenses are for Meet Limited ₹ 12,00,000 and for Preet Limited ₹ 6,00,000. It is decided that these expenses would be borne by Heer Limited.

(6) All the assets and liabilities of Meet Limited and Preet Limited are taken over at book value.

(7) Authorised equity share capital of Heer Limited is ₹ 30,00,00,000 divided into equity shares of ₹ 10 each. After issuing required number of shares to the liquidators of Meet Limited and Preet Limited, Heer Limited issued balance shares to public. The issue was fully subscribed.

You are required to prepare Balance Sheet of Heer Limited as at 1st April, 2024 after amalgamation has been carried out on the basis of Amalgamation in the nature of purchase. **(14 Marks)**

6. (a) (i) With regard to financial statements, name any five qualitative characteristics and elements.

(ii) Aman started a business on 1st April 2023 with ₹ 24,00,000 represented by 1,20,000 units of ₹ 20 each. During the financial year ending on 31st March, 2024, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Aman in the year 2023-24 if Financial Capital is maintained at historical cost.

Or

When capitalisation of borrowing cost should cease as per Accounting Standard 16? Explain in brief. **(4 Marks)**

(b) (i) Classify the following items into Monetary and Non-monetary:

Share capital; Trade Payables; Cash balance; Property, plant and equipment

(ii) Trade payables of CAT Ltd. include amount payable to JBB Ltd., ₹ 10,00,000 recorded at the prevailing exchange rate on the date of transaction, transaction recorded at US \$1 = ₹ 80.00. The exchange rate on balance sheet date (31.03.2024) was US \$1 = ₹ 85.00. You are required to calculate the amount of exchange difference and also explain the accounting treatment needed for this as per AS 11 in the books of CAT Ltd.

**(5 Marks)**

(c) In the following list of shares issued, for the purpose of calculation of weighted average number of shares, from which date, weight is to be considered:

(i) Equity Shares issued in exchange of cash,

(ii) Equity Shares issued as a result of conversion of a debt instrument,

(iii) Equity Shares issued in exchange for the settlement of a liability of the enterprise,

(iv) Equity Shares issued for rendering of services to the enterprise,

(v) Equity Shares issued in lieu of interest and/or principal of an other financial instrument,

(vi) Equity Shares issued as consideration for the acquisition of an asset other than in cash. **(5 Marks)**