

Mock Test Paper - Series II: March, 2025

Date of Paper: 26th March, 2025

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

INTERMEDIATE COURSE: GROUP - I
PAPER – 1 : ADVANCED ACCOUNTING
Part I is compulsory.

Case Scenario

1. (a) (iv)
 (b) (ii)
 (c) (i)
 (d) (iii)
2. (a) (ii)
 (b) (iii)
 (c) (i)
 (d) (iv)
3. (a) (ii)
 (b) (iv)
 (c) (iii)
 (d) (iii)
4. (iii)
5. (ii)
6. (iii)

PART II – Descriptive Questions (70 Marks)

1. (a) Mere gradual phasing out is not considered as discontinuing operation as defined under para 3 of AS 24, 'Discontinuing Operations'.

Examples of activities that do not necessarily satisfy criterion of the definition, but that might do so in combination with other circumstances, include:

- (1) Gradual or evolutionary phasing out of a product line or class of service;
- (2) Discontinuing, even if relatively abruptly, several products within an ongoing line of business;
- (3) Shifting of some production or marketing activities for a particular line of business from one location to another; and
- (4) Closing of a facility to achieve productivity improvements or other cost savings.

A Reportable business segment or geographical segment as defined in AS 17, would normally satisfy criteria (b) of the definition.

In view of the above the answers are:

- (i) No, the companies' strategic plan has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Above all, the new segment i.e. commercial vehicle production line in a new factory has not started.
 - (ii) No, the resolution is salient about stoppage of the Car segment in definite time period. Though, sale of some assets and some transfer proposal were passed through a resolution to the new factory, closure road map and new segment starting roadmap are missing. Hence, AS 24 will not be applicable.
 - (iii) Yes, phased and time bound programme resolved in the board clearly indicates the closure of the passenger car segment in a definite time frame and will constitute a clear roadmap. Hence, this action will attract compliance of AS 24.
- (b) (i) Suit filed against the company is a contingent liability but it was not existing as on balance sheet date as the suit was filed on 20th April after the balance Sheet date. As per AS 4, 'Contingencies' used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. Hence, it will have no effect on financial statements and will be a non-adjusting event.

- (ii) In the given case, terms and conditions for acquisition of business were finalised and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2025. This is clearly an event occurring after the balance sheet date. Hence, necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31st March 2025.
- (iii) Only those significant events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustment to assets and liabilities existing on the balance sheet date or may require disclosure. In the given case, theft of cash was detected on 16th July, 25 after approval of financial statements by the Board of Directors, hence no treatment is required.
- (iv) Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. In the given case, sale of immovable property was under proposal stage (negotiations also not started) on the balance sheet date. Therefore, no adjustment to assets for sale of immovable property is required in the financial statements for the year ended 31st March, 2025.
- (v) The condition of fire occurrence was not existing on the balance sheet date. Only the disclosure regarding event of fire and loss being completely insured may be given in the report of approving authority.
2. The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

Year	Profit / (Loss)	Minority Interest (30%)	Additional Consolidated P & L (Dr.) or Cr.	Minority's Share of losses borne by H Ltd.		Cost of Control
				₹	Balance	
At the time of acquisition on 1.1.2021		1,62,000 (W.N.)	-			
2021	(1,25,000)	<u>(37,500)</u>	(87,500)			1,22,000 (W.N.)

Balance 2022	(2,00,000)	1,24,500 <u>(60,000)</u>	(1,40,000)			1,22,000
Balance 2023	(2,50,000)	64,500 <u>(75,000)</u>	(1,75,000)			1,22,000
	Loss of minority borne by Holding Co.	(10,500) <u>10,500</u>	<u>(10,500)</u>	10,500	10,500	
Balance 2024	(60,000)	Nil <u>(18,000)</u>	<u>(1,85,500)</u> (42,000)			1,22,000
	Loss of minority borne by Holding Co.	18,000	(18,000)	18,000	28,500	
Balance 2025	25,000	Nil <u>7,500</u>	<u>(60,000)</u> 17,500			1,22,000
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(7,500)	7,500	(7,500)	21,000	
		Nil	<u>25,000</u>			
Balance 2026	50,000	15,000 <u>(15,000)</u>	35,000 <u>15,000</u>	(15,000)	6,000	1,22,000
Balance 2027	75,000	Nil <u>22,500</u>	<u>50,000</u> 52,500	(6,000)	Nil	1,22,000
		<u>(6,000)</u>	<u>6,000</u>			
Balance		16,500	58,500			

Working Note:

Calculation of Minority interest and Cost of control on 1.1.2021

		Share of Holding Co.	Minority Interest
	100%	70%	30%
	(₹)	(₹)	(₹)
Share Capital	5,00,000	3,50,000	1,50,000
Reserve	40,000	<u>28,000</u>	<u>12,000</u>
		3,78,000	<u>1,62,000</u>
Less: Cost of investment		<u>(5,00,000)</u>	
Cost of Control		<u>1,22,000</u>	

3. (a) Step 1: Calculation of Deficiency

Branch stock account (at invoice price)

Particulars	₹	Particulars	₹
To Opening Stock (₹ 74,736 + 1/3 of ₹ 74,736)	99,648	By Sales	3,61,280
To Goods sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	<u>3,86,240</u>	By Closing Stock	1,23,328
	<u>4,85,888</u>	By Deficiency at sale price [Balancing figure]	<u>1,280</u>
			<u>4,85,888</u>

Step 2: Calculation of Net Profit before Commission

Branch account

Particulars	₹	Particulars	₹
To Opening (₹ 74,736 + 1/3 of ₹ 74,736)	99,648	By Sales	3,61,280
To Gross sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Closing Stock	1,23,328
To Expenses	49,120	By Stock Reserve A/c	24,912
To Stock Reserve A/c (₹ 1,23,328 x 25/100]	30,832	By goods sent to Branch A/c	96,560
To Net Profit – subject to manager's commission	<u>40,240</u>		
	<u>6,06,080</u>		<u>6,06,080</u>

Step 3: Calculation of Commission still due to manager

		₹
A	Calculation at 10% profit before charging his commission [₹ 40,240 x 10/100]	4,024
B	Less: 25% of cost of deficiency in stock (25% of (75% of ₹ 1,280)	<u>(240)</u>
C	Commission for the year [A-B]	3,784
D	Less: Paid on account	<u>(2,400)</u>
E	Balance due (C-D)	1,384

- (b) As per para 3 of AS 23 'Accounting for Investments in Associates in Consolidated Financial Statements', an associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

Standard further explains in para 4 that as regards share ownership, if an investor holds, directly or indirectly through subsidiary (ies), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiary (ies), less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

Further as per an explanation to para 4 of the standard, for the purpose of classification of associate, the potential equity shares of the investee held by the investor will not be taken into account for determining the voting power of the investor. In other words, the voting power should be determined on the basis of the current outstanding securities with voting rights.

As per the information given in the question, H Ltd. presently holds indirectly 22.7% shares (with and without voting rights) (Refer W.N.) in A Ltd. However, the current outstanding securities with voting rights in A Ltd. is only 15% and the remaining holding is on account of potential equity shares. Since potential equity shares do not have voting rights they will not be taken into consideration while determining the significant influence of H Ltd. on A Ltd. Hence, A Ltd. is not an associate of H Ltd.

Working Note:

Calculation of percentage of holding of shares after conversion

₹

Current holding is 15% i.e. 7,500 shares of ₹ 100 each
7,50,000

Potential equity shares i.e. 5,000 shares of ₹ 100 each 5,00,000
12,50,000

Total share capital of A Ltd. after conversion of debentures into equity shares will be = ₹ 50,00,000 + ₹ 5,00,000 = ₹ 55,00,000

Percentage of holding = ₹ (12,50,000/55,00,000) x 100 = 22.7% approx.

4. Cash Flow from Operating Activities

Particulars	₹
Profit before tax	3,68,000
(Add) Depreciation	28,800

Interest on 8% Debentures	48,000
Loss on sale of Vehicle	3,200
Goodwill Written off	52,000
(Less) Profit on sale of Land	(1,00,000)
Profit on sale of Long term Investments	(32,000)
Interest Income Received	<u>(26,000)</u>
Operating Profit before Working Capital	3,42,000
(Add) Increase in Outstanding Expenses	6,000
(Add) Increase in trade payable	16,000
(less) Decrease in bills payable	(8,000)
(Less) Increase in stock	(32,000)
(Less) Increase in bills receivable	(14,600)
Decrease in trade receivable	<u>24,000</u>
Operating profit before tax	3,33,400
Income tax paid (WN 4)	<u>36,000</u>
Net cash from Operating Activities	<u>2,97,400</u>

Working Notes :

1. Vehicle A/c

	₹		₹
To Bal. b/d	1,12,000	By Bank A/c	12,000
		By Depreciation A/c	8,800
		By P&L A/c	3,200
		By Bal. c/d	<u>88,000</u>
	<u>1,12,000</u>		<u>1,12,000</u>

2. Land A/c

	₹		₹
To Bal. b/d	24,00,000	By Bank A/c	5,00,000
To P&L A/c	1,00,000	By Bal. c/d	23,00,000
To Capital	<u>3,00,000</u>		
	<u>28,00,000</u>		<u>28,00,000</u>

3. **Furniture / Fixture A/c**

	₹		₹
To Bal. b/d	1,76,000	By Depreciation	20,000
To Bank A/c	36,000	By Bal. c/d	1,92,000
	2,12,000		2,12,000

4. **Provision for taxation A/c**

	₹		₹
To Bank A/c	36,000	By Bal. b/d	44,000
To Bal. b/d	72,000	By P&L A/c	64,000
	1,08,000		1,08,000

5. **Calculation of Profit before tax:**

Increase in P&L A/c	1,64,000
Increase in General Reserve A/c	1,20,000
(Add) Current year Provision for Tax	64,000
(Add) Interim Dividend Paid	<u>20,000</u>
Profit before Tax	<u>3,68,000</u>

5. **Journal Entries in the books of Z Ltd.**

	Particulars		Dr. (₹)	Cr. (₹)
1)	Business Purchase A/c	Dr.	3,24,00,000	
	To Liquidator of A Ltd. A/c			3,24,00,000
2)	Land and Building A/c	Dr.	1,68,00,000	
	Plant and Machinery A/c	Dr.	1,20,00,000	
	Long term advance to B Ltd. A/c	Dr.	13,20,000	
	Inventories A/c	Dr.	62,40,000	
	Trade Receivables A/c	Dr.	49,20,000	
	Cash and Bank A/c	Dr.	18,00,000	
	Goodwill A/c	Dr.	73,20,000	
	To Retirement Gratuity Fund A/c			6,00,000
	To 10% Debentures A/c			1,20,00,000
	To Unsecured Loan A/c			36,00,000
	To Trade Payables A/c			6,00,000
	To Other Liabilities A/c			12,00,000

	To Business Purchase A/c			3,24,00,000
3)	10% Debenture A/c	Dr.	1,20,00,000	
	To 12% Debentures A/c			1,20,00,000
4)	Liquidator of A Ltd. A/c	Dr.	3,24,00,000	
	To Equity Share Capital A/c			1,62,00,000
	To Securities Premium A/c			1,62,00,000
5)	Business Purchase A/c	Dr.	1,72,80,000	
	To Liquidator of B Ltd. A/c			1,72,80,000
6)	Land and Building A/c	Dr.	1,26,00,000	
	Plant and Machinery A/c	Dr.	45,60,000	
	Inventories A/c	Dr.	42,00,000	
	Trade Receivables A/c	Dr.	31,20,000	
	Cash and Bank (less dividend) A/c	Dr.	3,60,000	
	To Unsecured Loan A/c			49,20,000
	To Trade Payables A/c			20,40,000
	To Business Purchase A/c			1,72,80,000
	To Capital Reserve. A/c			6,00,000
7)	Liquidators of B Ltd. A/c	Dr.	1,72,80,000	
	To Equity Share Capital A/c			86,40,000
	To Securities Premium A/c			86,40,000
8)	Unsecured Loans A/c	Dr.	13,20,000	
	To Long term Advance to B Ltd. A/c			13,20,000
9)	Capital Reserve A/c	Dr.	6,00,000	
	To Cash & Bank A/c (Liquidation Exp.)			4,80,000
	To Goodwill A/c			1,20,000

Balance Sheet of Z Ltd. as at 31st March, 2025

	Particulars	Notes	Amounts (₹)
I]	Equity and liabilities		
(1)	Shareholder's funds		
(a)	Share Capital	1	2,48,40,000
(b)	Reserves and Surplus	2	2,48,40,000

(2)	Non-Current liabilities		
(a)	Long-term borrowings	3	1,20,00,000
(b)	Long-term provisions	4	6,00,000
(3)	Current liabilities		
(a)	Short-term borrowings ¹	5	72,00,000
(b)	Trade Payables	6	26,40,000
(c)	Other liability		12,00,000
	Total		7,33,20,000
II]	Assets		
(1)	Non-Current assets	7	4,59,60,000
(a)	Property, Plant and Equipment		
(b)	Intangible Assets (73,20,000 – 1,20,000)		72,00,000
(2)	Current Assets		
(a)	Inventories	8	1,04,40,000
(b)	Trade receivables	9	80,40,000
(c)	Cash and Cash Equivalents	10	16,80,000
	Total		7,33,20,000

Unsecured loans have been considered as short-term borrowings. Alternatively, it may be considered as long-term borrowings and presented accordingly.

Notes to Accounts:

	Particulars	₹	₹
1.	Share Capital		
	Authorized Share Capital		
	36,00,000 Equity shares of ₹ 10 each		3,60,00,000
	Issued, Subscribed & Paid up		
	24,84,000 Equity Shares of ₹ 10 each		2,48,40,000
	(all these shares were issued for consideration other than cash)		

2.	Reserves and Surplus		
	- Securities Premium Account		2,48,40,000
	(24,84,000 shares × ₹ 10)		
3.	Long-term borrowings		
	12% Debentures		1,20,00,000
4.	Long Term Provisions		
	Retirement gratuity fund		6,00,000
5.	Short term borrowings		
	Unsecured loans		
	A Ltd.	36,00,000	
	B Ltd.	49,20,000	
	Less: Mutual	(13,20,000)	
		72,00,000	
6.	Trade payables		
	A Ltd.	6,00,000	
	B Ltd.	20,40,000	
		26,40,000	
7.	Property, Plant and Equipment		
	Land and Building		
	A Ltd.	1,68,00,000	
	B Ltd.	1,26,00,000	2,94,00,000
	Plant and Machinery		
	A Ltd.	1,20,00,000	
	B Ltd.	45,60,000	1,65,60,000
			4,59,60,000
8.	Inventories		
	A Ltd.	62,40,000	
	B Ltd.	42,00,000	
			1,04,40,000

9.	Trade receivables		
	A Ltd.		49,20,000
	B Ltd.		31,20,000
			80,40,000
10.	Cash and cash equivalents		
	A Ltd.	18,00,000	
	B Ltd. [18,00,000 – 14,40,000 (dividend)]	3,60,000	
		21,60,000	
	Less: Liquidation Expenses	(4,80,000)	16,80,000

Working Note 1

Calculation of amount of Purchase Consideration

Particulars	A Ltd.	B Ltd.
Existing shares	18,00,000	14,40,000
Agreed value per share	₹ 108	₹ 72
Purchase consideration ₹	3,24,00,000	1,72,80,000
No. of shares to be issued of ₹ 20 each (including ₹ 10 premium)	16,20,000	8,64,000
Face value of shares at ₹ 10	1,62,00,000	86,40,000
Premium of shares at ₹ 10	1,62,00,000	86,40,000

6. (a) Difference between Amalgamation, Absorption and External Reconstruction

Basis	Amalgamation	Absorption	External Reconstruction
Meaning	Two or more companies are wound up and a new company is formed to take over their business.	In this case, an existing company takes over the business of one or more existing companies.	In this case, a newly formed company takes over the business of an existing company.
Minimum number of Companies involved	At least three companies are involved.	At least two companies are involved.	Only two companies are involved.

Number of new resultant companies	Only one resultant company is formed. Two companies are wound up to form a single resultant company.	No new resultant company is formed.	Only one resultant company is formed. Under this case a newly formed company takes over the business of an existing company.
Objective	Amalgamation is done to cut competition and reap the economies in large scale.	Absorption is done to cut competition and reap the economies in large scale.	External reconstruction is done to reorganise the financial structure of the company.
Example	A Ltd. and B Ltd. amalgamate to form C Ltd.	A Ltd. takes over the business of another existing company B Ltd.	B Ltd. is formed to take over the business of an existing company A Ltd.

Or

Matching of taxes against revenue for a period poses special problems arising from the fact that in number of cases, taxable income may be different from the accounting income. The divergence between taxable income may be different from the accounting income arises due to two main reasons: Firstly, there are differences between items of revenue and expenses as appearing in the statement of profit and loss and the items which are considered as revenue, expenses or deductions for tax purposes, known as Permanent Difference. Secondly, there are differences between the amount in respect of a particular item of revenue or expense as recognised in the statement of profit and loss and the corresponding amount which is recognised for the computation of taxable income, known as Timing Difference.

Permanent differences are the differences between taxable income and accounting income which arise in one accounting period and do not reverse subsequently. For example, an income exempt from tax or an expense that is not allowable as a deduction for tax purposes.

Timing differences are those differences between taxable income and accounting income which arise in one accounting period and are capable of reversal in one or more subsequent periods. For e.g., Depreciation, Bonus, etc.

- (b) The interest expense relating to overdrafts and other operating liabilities identified to a particular segment should not be included as a part of the segment expense unless the operations of the segment are primarily of a financial nature or unless the interest is included as a part of the cost of inventories.

In case interest is included as part of the cost of inventories where it is so required as per AS 16 "Borrowing Costs", read with AS 2 "Valuation of Inventories", and those inventories are part of segment assets of a particular segment, such interest should be considered as a segment expense.

In this case, the amount of such interest and the fact that the segment result has been arrived at after considering such interest should be disclosed by way of a note to the segment result.

- (c) (i) As per AS 2 (Revised) 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognised as expenses in the period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

(ii)	Material used	16,000 MT @ ₹ 190 = ₹ 30,40,000
	Normal Loss (5% of 16,000 MT)	800 MT (included in calculation of cost of inventories)

	Net quantity of material	15,200 MT
--	--------------------------	-----------

(iii)	Abnormal Loss in quantity	(950 - 800) 150 MT
	Abnormal Loss	₹ 30,000

[150 units @ ₹ 200 (₹ 30,40,000/15,200)]

Amount of ₹ 30,000 (Abnormal loss) will be charged to the Profit and Loss statement.