Mock Test Paper - Series I: July, 2025

Date of Paper: 21st July, 2025

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

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

PART I – Case Scenario

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

PART II – Descriptive Questions (70 Marks)

1. **(a)** (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, 2024. This is clearly an event occuring 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 2024.

(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, 2024 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, 2024.

(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.

(b) Minority Interest = Equity attributable to minorities

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case, it should be equal to Share Capital + Profit & Loss A/c

A = Share capital on 1.1.2024

B = Profit & loss account balance on 1.1.2024

C = Share capital on 31.12.2024

D = Profit & loss account balance on 31.12.2024

	Minority % Shares Owned **[E]**	**Minority interest as at the date of acquisition** **[E] x [A + B] ₹**	**Minority interest as at the date of consolidation** **[E] X [C + D] ₹**
Case i [100-85]	15%	29,250	30,750
Case ii [100-70]	30%	51,000	39,000
Case iii [100-65]	35%	10,500	10,500

Case iv [100-90]	10%	6,500	8,500
Case v [100-100]	NIL	NIL	NIL

2. (a) Investment Account for the year ending on 31st December, 2024

Scrip : 8% Convertible Debentures in C Ltd.

[Interest Payable on 31st March and 30th September]

Date	Particulars	Nominal value (₹)	Interest (₹)	Cost (₹)	Date	Particulars	Nominal Value (₹)	Interest (₹)	Cost (₹)
1.4.24	To Bank A/c	2,00,000	-	2,16,000	30.09.24	By Bank A/c	-	12,000	-
1.7.24	To Bank A/c (W.N.1)	1,00,000	2,000	1,10,000		[₹3,00,000 x 8% x (6/12]			
31.12.24	To P & L A/c	-	14,033	-	1.10.24	By Bank A/c	80,000		84,000
	[Interest]				1.10.24	By P & L A/c (loss) (W.N.3)			2,933
					1.12.24	By Bank A/c (Accrued interest) (₹ 55,000 x .08 x 2/12)		733	
					1.12.24	By Equity shares in C Ltd. (W.N. 3 and 4)	55,000		59,767
					31.12.24	By Balance c/d (W.N.5)	1,65,000	3,300	1,79,300
		3,00,000	16,033	3,26,000			3,00,000	16,033	3,26,000

SCRIP: Equity Shares in C LTD.

Date	Particulars	Cost (₹)	Date	Particulars	Cost (₹)
1.12.24	To 8 % debentures	59,767	31.12.24	By balance c/d	59,767

Working Notes:

(i) Cost of Debenture purchased on 1st July = ₹ 1,12,000 – ₹ 2,000 (Interest) = ₹ 1,10,000

(ii) Cost of Debentures sold on 1st Oct.

= (₹ 2,16,000 + ₹ 1,10,000) x 80,000/3,00,000 = ₹ 86,933

(iii) Loss on sale of Debentures = ₹ 86,933– ₹84,000 = ₹ 2,933

Nominal value of debentures converted into equity shares

=₹ 55,000

[(₹ 3,00,000 – 80,000) x.25]

Interest received before the conversion of debentures

Interest on 25% of total debentures = 55,000 x 8% x 2/12 = 733

(iv) Cost of Debentures converted = (₹ 2,16,000 + ₹1,10,000) x 55,000/3,00,000 = ₹ 59,767

(v)

Cost of closing balance of Debentures = (₹ 2,16,000 + ₹ 1,10,000) x 1,65,000/3,00,000
= ₹ 1,79,300

(vii) Closing balance of Debentures has been valued at cost.

(viii) 5,000 equity Shares in C Ltd. will be valued at cost of ₹ 59,767 being lower than the market value ₹ 75,000 (₹ 15 x5,000)

Note: It is assumed that interest on debentures, which are converted into cash, has been received at the time of conversion.

(b) As per Section 70 of the Companies Act, 2013, the company cannot buy back its own shares under the following conditions, all of which apply to Alpha Chemicals Ltd.:

1. Buy-back through Subsidiary – Prohibited

- Section 70(1)(a): A company shall not buy back shares through any subsidiary, including wholly owned subsidiaries.

2. Default in Term Loan – Three-Year Cooling Off Required

- Section 70(1)(c): A company that has defaulted in repayment of a term loan can buy back shares only after 3 years from the cessation of default.
- Alpha repaid the loan only 27 months ago — still short of the required 36-month period. Hence, not eligible.

3. Non-Filing of Annual Return and Financial Statements

- Section 70(2): Buy-back is prohibited if the company has not complied with Sections:

- 92 (Annual Return)
- 129 (Financial Statements)

- Alpha has failed to file both which disqualifies it from buy-back.

4. **Unpaid Dividend for More Than 30 Days**

- Section 127 read with Section 70(2): Non-distribution of declared dividend within 30 days is a punishable offence.

Dividend unpaid for 35 days, this is a default.

Alpha Chemicals Ltd. is not eligible to proceed with the buy-back under Section 70 due to multiple violations.

3. (a) (i) **Stage of completion = Costs incurred to date / Total estimated costs**

Year 1: 98.8 crore / 375 crore = 26.35%

Year 2: 202.4 crore / 375 crore = 53.97%

Year 3: (310 crore – 3 crore) / (375+7) crore = 80.37%

Year 4: 382 crore / 382 crore = 100%

(ii) **Profit to be recognized each year has been calculated as follows:**

	Year 1	**Year 2**	**Year 3**	**Year 4**
Contract Revenue (1)	105.40 crore	110.48 crore	113.64 crore	80.48 crore
	(400 crore x 26.35%)	(400 crore x 53.97% - 105.40 crore)	(410 crore x 80.37% - 105.40 crore - 110.48 crore)	(410 crore x 100% - 105.40 crore - 110.48 crore - 113.64 crore)
Contract Cost (2)	98.8 crore	103.60 crore	104.60 crore	75 crore
		202.40 - 98.80 crore)	(307 crore - 98.8 crore -103.60 crore)	(382 crore - 98.8 crore-103.6 crore – 104.6 crore)
Contract Profit (1) – (2)	6.60 crore	6.88 crore	9.04 crore	5.48 crore

(b) Calculation of Purchase Consideration (Net payment method)

	Particulars	Antu Ltd. (₹)	Bantu Ltd. (₹)
1.	Preference Shares in Anban Ltd. (₹100 each @85 paid up at premium of ₹ 30 each) (W.N.1)	20,60,800	10,30,400
2.	Equity Shares in Anban Ltd. (₹ 10 each @ ₹.7 paid up at premium of ₹ 5 each) (W.N.2)	53,76,000	20,16,000
3.	Cash paid (W.N.3)	1,65,040	3,79,920
	Purchase Consideration	76,01,840	34,26,320

Working notes

1. Consideration for preference shares:

Antu Ltd. = $\left(13{,}440 \times \frac{4}{3}\right)$ = 17,920 shares × (85 + 30) = ₹ 20,60,800

Bantu Ltd. = $\left(6{,}720 \times \frac{4}{3}\right)$ = 8,960 shares × (85 + 30) = ₹ 10,30,400

2. Consideration for equity shares:

Antu Ltd. = $\left(2{,}68{,}800 \times \frac{5}{3}\right)$ = 4,48,000 shares × (7 + 5) = ₹ 53,76,000

Bantu Ltd. = $\left(1{,}00{,}800 \times \frac{5}{3}\right)$ = 1,68,000 shares × (7 + 5) = ₹ 20,16,000

3. Value of Net Assets

Particulars	Antu Ltd	Bantu Ltd.
PPE	42,32,400	20,80,400
Add: Goodwill	6,48,000	-
Inventories	11,14,480	8,27,120
Trade Receivables	9,88,560	5,52,720
Cash & Cash Equivalents	9,40,960	6,41,920
(Less) Trade Payables	(3,22,560)	(6,75,840)
	76,01,840	34,26,320
(less) Payable in shares	(74,36,800)	(30,46,400)
	1,65,040	3,79,920

4. (a) Journal Entry of Sky Ltd

As on 31st March, 2025

	Particulars	**Amount (₹ in lakh)**	**Amount (₹ in lakh)**
1	8% Preference Share Capital A/c Dr.	1,200	
	To 8% Preference Share Capital A/c		900
	To Capital Reduction A/c		300
	(Being Preference Shares of ₹ 100 each reduced to ₹ 75 each, balance transferred to Reconstruction A/c)		
2.	Equity Share Capital A/c Dr.	3,000	
	To Equity Share Capital A/c		600
	To Capital Reduction A/c		2,400
	(Being equity shares of ₹ 10 each reduced to ₹ 2 each, and balance transferred to Reconstruction A/c)		
3.	Capital Reduction A/c Dr.	96	
	To Equity Share Capital A/c		96
	(Being Preference Share dividend in arrears of 3 years waived by 2/3rd and for balance 1/3rd equity shares of ₹ 2 each allotted)		
4.	6% Debentures A/c Dr.	900	
	To Freehold Property A/c		900
	(Being transfer of title deed on freehold property to debenture holders of the company)		
5.	Interest Accrued & due on Debentures A/c Dr.	72	
	To Cash A/c		72
	(Being Interest Accrued and due on debentures paid in cash)		
6.	Freehold Property A/c Dr.	350	
	To Capital Reduction A/c		350
	(Being balance freehold property re-valued)		
7.	Bank A/c Dr.	850	
	To Investment A/c		600

	To Capital Reduction A/c (Being investments sold for ₹ 850 lakhs)		250
8.	Loan for Director's A/c Dr. To Capital Reduction A/c To Equity Share Capital A/c (Being 70% of Director's loan waived off and the balance equity shares allotted)	900	 630 270
9.	Capital Reduction A/c Dr. To Stock A/c To Trade Receivables A/c To Profit & Loss A/c To Bank A/c (Being writing off of losses, penalty paid for contractual commitments, and reduction in the value of assets)	2,970	 720 540 1,566 144
10.	Capital Reduction A/c Dr. To Capital Reserve A/c (Being balance in Capital Reduction A/c transferred to Capital Reserve)	864	 864

(b) **Capital Reduction A/c**

Particulars	**(₹)**	**Particulars**	**(₹)**
To Equity Share Capital A/c	96	By 8% Preference Share Capital A/c	300
To Stock A/c	720	By Equity Share Capital A/c	2,400
To Trade Receivable A/c	540	By Freehold Property A/c	350
To Profit & Loss A/c	1,566	By Loan from directors A/c	630
To Bank A/c	144	By Bank	250
To Capital Reserve A/c*	864		
	3,930		3,930

Bank A/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Balance b/d	12	By Interest accrued & due on debentures A/c	72

To Investment A/c	600	By Capital Reduction A/c	144
To Capital Reduction A/c (Gain of Sale)	250	By Balance c/d	646
	862		862

(c) Notes to Accounts on Share Capital & PPE after implementation of internal reconstruction

	(₹. in lakhs)	(₹ in lakhs)
Authorised: Share Capital		
600 lakh shares of ₹ 2 each		1,200
24 lakh, 8% Preference shares of ₹ 75 each		1,800
		3,000
Issued, subscribed and paid up:		
483 lakhs Equity shares of ₹ 2 each		966
(Out of which 183 lakh shares have been issued for consideration other than cash)		
12 lakhs, 8% Preference shares of ₹ 75 each fully paid up		900
Total		1,866
PPE:		
Freehold property	1,650	
Less: Utilized to pay Debenture holders	(900)	
Add: Appreciation	350	1,100
Plant and machinery		600
Total		1,700

Working Note: Calculation of number of equity shares issued:

	Particulars	No. of Shares (lakhs)
i)	To equity shareholders	300
ii)	To Preference Shareholders	48
iii)	To Directors	135
	Total	483

5. (a) **Cost of Control**

	Particulars	Computation	₹
A	Cost of Investments	Given	70,00,000
	Less: Dividend out of Pre Acquisition Dividend	(3.5 Lacs × ₹10 (FV) × 20%) (No of Shares = 70 Lacs/20 = 3.5 Lacs)	(7,00,000)
		Subtotal A	63,00,000
B	Share in Net Assets of Zed Ltd.	(1,38,50,000 × 70%)	96,95,000
C	Goodwill / (Capital Reserve)	(A – B)	33,95,000

Working notes:

1. Calculation of Net Assets

Particulars	₹
Assets	
Property, Plant & Equipment (120+20%)	1,44,00,000
Investment (55 – 10%)	49,50,000
Current Assets	70,00,000
Loans & Advances	15,00,000
Subtotal A	2,78,50,000
Liabilities	
15% Debentures	90,00,000
Current Liabilities	50,00,000
Subtotal B	1,40,00,000
Net Assets (A – B)	1,38,50,000

2. No of shares acquired

$$= \frac{\text{Cost of investment}}{\text{Purchase price share}}$$

$$= \frac{70{,}00{,}000}{₹\ 20 \text{ shares}} = ₹\ 3{,}50{,}000 \text{ shares}$$

(b) (i) **Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses**

Date of incurrence of expenditure	Amount spent	Financed through	Calculation	₹
1st April 2023	4,00,000	Specific borrowing	4,00,000 x 12% x 10/12	40,000
1st August 2023	10,00,000	Specific borrowing	10,00,000 x 12% x 10/12	1,00,000
1st December 2023	25,00,000	General borrowing	25,00,000 x 10.8% x 2/12	45,000
31st January 2024	5,00,000	General borrowing	5,00,000 x 10.8% x 0/12	Nil
				1,85,000
Less: interest income on borrowing				(15,000)
Total amount borrowing cost to be capitalized				1,70,000

(ii) **Journal Entry**

Date	Particulars	₹	₹
31.1.2024	Building account Dr.	45,70,000	
	To Bank account		44,00,000
	To Interest payable (borrowing cost)		1,70,000
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)		

Note: In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.2024.

(iii) Depreciation

$= \frac{45,70,000}{20\ years} * \frac{2}{12}$ = ₹ 38,083

(iv) Carrying amount = 45,70,000 - 38,083

= ₹ 45,31,917

6. (a) Elements of Financial Statements

Asset	Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise
Liability	Present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.
Equity	Residual interest in the assets of an enterprise after deducting all its liabilities
Income/gain	Increase in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity participants
Expense/loss	Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity other than those relating to distributions to equity participants

Or

Schedule III has come into force for the Balance Sheet and Profit and Loss Account prepared for the financial year commencing on or after 1st April, 2023. As per Part I of the Schedule III, a company should, inter alia, disclose in notes to accounts for the period of 5 years immediately preceding the balance sheet date (31st March, 2024 in the instant case) the aggregate number and class of shares allotted as fully paid-up bonus shares. Schedule III does not require a company to disclose the source from which bonus shares have been issued. Therefore, non-disclosure of source from which bonus shares have been issued does not violate the Schedule III to the Companies Act.

(b) (1) Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue.

(2) When goods are sold to distributor or others, revenue from such sales can generally be recognized if significant risks of ownership have passed;

however, in some situations the buyer may in substance be an agent and in such cases the sale should be treated as a consignment sale.

(3) For transactions, where seller concurrently agrees to repurchase the same goods at a later date that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue.

(4) Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.

(5) On 11.03.2024, if X mart takes title and accepts billing for the goods then it is implied that the sale is complete and all risk and reward on ownership has been transferred to the buyers.

Revenue should be recognized for year ended 31st March, 2024 notwithstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made and items were ready for delivery to the buyer at the time.

(c) (i) Calculation of profit earned by the branch

In the books of Jammu Branch

Trading Account and Profit and Loss Account

Particulars	Amount	Particulars	Amount
	₹		₹
To Opening stock	2,20,000	By Sales	12,00,000
To Goods received by Head office	11,00,000	By Closing stock (Refer W.N.)	3,60,000
To Expenses	45,000		
To Net profit (Bal. fig.)	1,95,000		
	15,60,000		15,60,000

(ii) Stock reserve in respect of unrealised profit

= ₹ 3,60,000 x (20/120) = ₹ 60,000

Working Note:

	₹	
Cost Price	100	
Invoice Price	120	
Sale Price	150	
Calculation of closing stock at invoice price	₹	
Opening stock at invoice price	2,20,000	
Goods received during the year at invoice price	11,00,000	
	13,20,000	
Less: Cost of goods sold at invoice price	(9,60,000)	[12,00,000 x (120/150)]
Closing stock	3,60,000	