

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

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. Digitex limited acquired an intellectual property at the cost of ₹ 70,00,000 (at the beginning of the year) and it meets the definition of intangible asset as per AS 26. As per the calculations made by the Company, the benefit from this intellectual property will accrue for next 5 years wherein for first year will be 30%, for next two years it will be 25% each and 10% for the next 2 years.

Year 2

The Company incurred development cost for its new product and incurred ₹ 25,00,000 (at the beginning of the year) and was of the view that it will get the benefits for the next 5 years.

Year 3

During the year, it was found that due to change in government policies, no further benefits will be available to the Company from development cost.

Year 4

At beginning of year 4 it was found that the remaining 20% benefit from intellectual property will flow to the Company in this year itself.

Answer the following questions on the basis of above information:

- (a) At the end of year 2, what will be the value of Intangible Asset of the Company in the financial statements:

- (i) ₹ 95,00,000
 - (ii) ₹ 74,00,000
 - (iii) ₹ 56,50,000
 - (iv) ₹ 51,50,000
- (b) For the year 2, how much amount will be expensed in the profit and loss account from Intangible assets in the financial statements:
- (i) ₹ 21,00,000
 - (ii) ₹ 22,50,000
 - (iii) ₹ 14,00,000
 - (iv) ₹ 5,00,000
- (c) For the year 3, how much amount will be expensed in the profit and loss account from Intangible assets in the financial statements:
- (i) ₹ 37,50,000
 - (ii) ₹ 22,50,000
 - (iii) ₹ 20,00,000
 - (iv) None of the above
- (d) For the year 4, how much amount will be expensed in the profit and loss account from Intangible assets in the financial statements:
- (i) ₹ 19,00,000
 - (ii) ₹ 20,00,000
 - (iii) ₹ 14,00,000
 - (iv) Nil

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

2. Situation 1: Expert Ltd. has depreciation amounting to ₹ 6,00,000 in its books as per accounting records and depreciation as per tax records at ₹ 15,00,000. There is adequate evidence of future profit sufficiency.

Situation 2: Further, they have accrued ₹ 8,00,000 towards GST liability for the last month of the year which is expected to be paid off by next month. As per the provisions of Section 43B of the Income Tax Act, 1961 – Any expenditure of the nature mentioned in section 43B (e.g. taxes, duty, cess, fees, etc.) accrued in the statement of profit and loss

on mercantile basis will be allowed for tax purposes in subsequent years on payment basis only. Answer the following questions on the basis of above information:

- (a) In Situation 1: How much deferred tax asset/liability should be recognized as transition adjustment when the tax rate is 50%:
 - (i) ₹ 8,50,000 (deferred tax liability)
 - (ii) ₹ 4,50,000 (deferred tax liability)
 - (iii) ₹ 8,50,000 (deferred tax asset)
 - (iv) ₹ 4,50,000 (deferred tax asset)
- (b) In Situation 1: How much deferred tax asset/liability should be recognized as transition adjustment when the tax rate is 35%:
 - (i) ₹ 3,15,000 (deferred tax asset)
 - (ii) ₹ 7,35,000 (deferred tax asset)
 - (iii) ₹ 3,15,000 (deferred tax liability)
 - (iv) ₹ 7,35,000 (deferred tax liability)
- (c) In Situation 2: How much deferred tax asset/liability should be recognized as transition adjustment when the tax rate is 35%:
 - (i) ₹ 2,80,000
 - (ii) ₹ 5,20,000
 - (iii) ₹ 8,00,000
 - (iv) Nil
- (d) In assessing whether there is any indication that an asset may be impaired, an enterprise should consider, as a minimum, the following indications from internal sources of information:
 - (i) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use
 - (ii) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially
 - (iii) the carrying amount of the net assets of the reporting enterprise is more than its market capitalisation

- (iv) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected

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

3. Hello Ltd., a company engaged in various business activities, has decided to initiate a share buy-back on 1st April, 2023. The company plans to repurchase 25,000 equity shares of ₹ 10 each at a price of ₹ 20 per share. This buy-back initiative is in compliance with the company's articles of association, and the necessary resolution has been duly passed by the company. As part of the financial arrangement for the share buy-back, Hello Ltd. intends to utilize its current assets, particularly the bank balance, to make the payment for the repurchased shares.

Here is a snapshot of Hello Ltd.'s Balance Sheet as of 31st March, 2023:

- (A) Share Capital: Equity share capital (fully paid up shares of ₹ 10 each) ₹ 12,50,000
- (B) Reserves and Surplus: Securities premium ₹ 2,50,000; Profit and loss account ₹ 1,25,000; Revenue reserve ₹ 15,00,000;
- (C) Long term borrowings: 14% Debentures- ₹ 28,75,000, Unsecured Loans ₹ 16,50,000
- (D) Land and Building ₹ 19,30,000; Plant and machinery ₹ 18,00,000; Furniture and fitting ₹ 9,20,000 and Other Current Assets - ₹ 30,00,000

Authorized, issued and subscribed capital: Equity share capital (fully paid up shares of 10 each) - 12,50,000.

Answer the following questions on the basis of above information:

- (a) By using the Shares Outstanding Test the number of shares that can be bought back
- (i) 1,25,000
- (ii) 31,250
- (iii) 25,000
- (iv) 30,000
- (b) By using the Resources Test determine the number of shares that can be bought back:
- (i) 25,000
- (ii) 31,250

- (iii) 28,750
- (iv) 39,062
- (c) By using the Debt Equity Ratio Test determine the number of shares that can be bought back:
 - (i) 25,000
 - (ii) 31,250
 - (iii) 28,750
 - (iv) 39,062
- (d) On the basis of all three tests determine Maximum number of shares that can be bought back:
 - (i) 25,000
 - (ii) 31,250
 - (iii) 28,750
 - (iv) 39,062

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

- 4. As per AS 2, Inventories include materials awaiting use in production process, what should be included in Inventories from the following:
 - (i) Secondary Packing material required for transporting and forwarding the material.
 - (ii) Spare parts, servicing equipment and standby equipment
 - (iii) Primary packing material which is essential to bring an item of inventory to its saleable condition, for example, bottles, cans etc., in case of food and beverages industry.
 - (iv) Publicity material **(2 Marks)**
- 5. Sargam Ltd. (the lessee) has taken machinery on lease from Dhun Ltd. (the lessor) for 13 years on annual lease payment of ₹ 50,000. The life of the machine is 15 years. How this lease arrangement should be classified and why:
 - (i) Operating lease because lease payments are being made annually and the value of asset is not available.
 - (ii) Finance Lease because lease term is for the major part of the economic life of the asset even if title is not transferred.

- (iii) Operating Lease because it is not stated that the asset will transferred to lessee at the end of lease term.
 - (iv) Finance Lease because the leased asset is of a specialized nature such that only the lessee can use it without major modifications being made. **(2 Marks)**
6. Suman Ltd. acquired 1000 shares of Sarika Ltd @ ₹ 150 each and paid brokerage @ 1%. In the same financial year, Sarika Ltd. issued bonus shares at one share for every four shares held by shareholders. Suman Ltd. sold 500 shares in the month of March in the same year and paid 1% brokerage, what will be the carrying value of investment in Sarika Ltd after sale of shares as per AS 13.
- (i) ₹ 150000
 - (ii) ₹ 113625
 - (iii) ₹ 90900
 - (iv) ₹ 112500 **(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) Arzoo Ltd. is in the business of manufacture of Passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the Passenger car segment over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles plus transfer of employees in a phased manner.
- (i) You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.
 - (ii) If the company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS 24?
 - (iii) Would your answer to the above be different if the company resolves to sell the assets of the Passenger Car Division in a phased but time bound manner?

- (b) The financial statements of PQ Ltd. for the year 2024-25 approved by the Board of Directors on 15th July, 2025. The following information was provided:
- (i) A suit against the company's advertisement was filed by a party on 20th April, 2025, claiming damages of ₹ 25 lakhs.
 - (ii) The terms and conditions for acquisition of business of another company have been decided by March, 2025. But the financial resources were arranged in April, 2025 and amount invested was ₹ 50 lakhs.
 - (iii) Theft of cash of ₹ 5 lakhs by the cashier on 31st March, 2025 but was detected on 16th July, 2025.
 - (iv) Company sent a proposal to sell an immovable property for ₹ 40 lakhs in March, 2025. The book value of the property was ₹ 30 lakhs on 31st March, 2025. However, the deed was registered on 15th April, 2025.
 - (v) A, major fire has damaged the assets in a factory on 5th April, 2025. However, the assets are fully insured.

With reference to AS-4 "Contingencies and events occurring after the balance sheet date", state whether the above mentioned events will be treated as contingencies, adjusting events or non-adjusting events occurring after the balance sheet date. **(7+7 = 14 Marks)**

2. H Ltd. acquire 70% of equity share of S Ltd. as on 1st January, 2021 at a cost of ₹ 5,00,000 when S Ltd. had an equity share capital of ₹ 5,00,000 and reserves and surplus of ₹ 40,000.

Both the companies follow calendar year as the accounting year.

In the four consecutive years, S Ltd. performed badly and suffered losses of ₹ 1,25,000, ₹ 2,00,000, ₹ 2,50,000 and ₹ 60,000 respectively.

Thereafter in 2025, S Ltd. experienced turnaround and registered an annual profit of ₹ 25,000. In the next two years i.e. 2026 and 2027, S Ltd. recorded annual profits of ₹ 50,000 and ₹ 75,000 respectively.

Show the Minority Interests and Cost of Control at the end of each year for the purpose of consolidation. **(14 Marks)**

3. (a) Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit at selling price is constant at 25 per cent throughout the year to 31st March, 2025.

Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal in 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch in head office.

The following details for the year ended 31st March, 2025 are given as follows:

	₹		₹
Opening Stock (at cost)	74,736	Chargeable expenses	49,120
Goods sent to branch (at cost)	2,89,680	Closing Stock (Selling Price)	1,23,328
Sales	3,61,280		
Manager's commission paid on account	2,400		

From the above details, you are required to calculate the commission due to manager for the year ended 31st March, 2025.

- (b) A Ltd. has a share capital of 50,000 shares @ ₹ 100 per share. H Ltd. acquired 15% shares in A Ltd. on 1.4.2024. It also acquired all the 5,000, 12% convertible debentures of ₹ 100 each of A Ltd. These debentures will be converted at par into equity shares of A Ltd. after 3 years. State whether, as per AS 23, A Ltd. is an Associate of H Ltd. or not with reasons? **(7 Marks)**

4. The summarized Balance Sheet of Flora Limited for the year ended 31st March, 2024 and 31st March, 2025 are as below:

Assets	31.03.2025 (₹)	31.03.2024 (₹)
Goodwill	60,000	1,12,000
Land	23,00,000	24,00,000
Furniture and Fixtures	1,92,000	1,76,000
Vehicles	88,000	1,12,000
Office Equipment	84,000	-
Long-term Investments	2,40,000	4,40,000
Stock-in-hand	3,84,000	3,52,000
Bills Receivables	72,600	58,000
Trade Receivables	1,84,000	2,08,000
Cash and Bank Balances	<u>5,19,400</u>	<u>1,38,000</u>
Total	<u>41,24,000</u>	<u>39,96,000</u>

Liabilities		
Equity Share Capital	27,20,000	20,00,000
General Reserves	3,60,000	2,40,000
Profit and Loss Account	3,72,000	2,08,000
Capital Reserve	3,00,000	-
8% Debentures of 100 each	-	12,00,000
Loan from Mr. Andrew	-	60,000
Bills Payables	44,000	52,000
Trade Payables	1,96,000	1,80,000
Creditors for Equipment	42,000	-
Outstanding Expenses	18,000	12,000
Provision for Taxation	<u>72,000</u>	<u>44,000</u>
Total	41,24,000	39,96,000

Additional Information:

1. On 1st April, 2024, one of the vehicles was sold for ₹ 12,000. No new purchases were made during the year.
2. A part of the total land was sold for ₹ 5,00,000 (Cost ₹ 4,00,000) and the balance land was revalued. Capital reserve consists of profit on revaluation of balance land. No new purchases were made during the year.
3. Depreciation provided during the year -
Furniture and Fixtures ₹ 20,000
Vehicles ₹ 8,800
4. Interim dividend of ₹ 20,000 was paid during the year.
5. Provision for taxation for the year 2024-2025 was ₹ 64,000.
6. 8% Debentures were redeemed at par after half year interest payment on 30th September, 2024,
7. Part of the long-term investments were sold at a profit of ₹ 32,000.
8. Interest income received during the year on long – term investment was ₹ 26,000.

You are required to prepare Cash Flow Statement from Operating Activities for the year ended 31st March, 2025 using indirect method. (All workings should form part of the answer) **(14 Marks)**

5. The summarized Balance Sheet of A Ltd. and B Ltd. as at 31st March, 2025 are as under:

Particulars	A Ltd.	B Ltd.
Equity shares of ₹ 10 each, fully paid up	1,80,00,000	1,44,00,000
Share Premium Account	24,00,000	—
General Reserve	37,20,000	30,00,000
Profit and Loss Account	21,60,000	19,20,000
Retirement Gratuity Fund Account	6,00,000	—
10% Debentures	1,20,00,000	—
Unsecured Loan	36,00,000	49,20,000
(Including loan from A Ltd.)		
Trade Payables	<u>6,00,000</u>	<u>20,40,000</u>
Total	<u>4,30,80,000</u>	<u>2,62,80,000</u>
Land and Buildings	1,68,00,000	1,26,00,000
Plant and Machinery	1,20,00,000	45,60,000
Long term advance to B Ltd.	13,20,000	—
Inventories	62,40,000	42,00,000
Trade Receivables	49,20,000	31,20,000
Cash and Bank	<u>18,00,000</u>	<u>18,00,000</u>
Total	<u>4,30,80,000</u>	<u>2,62,80,000</u>

B Ltd. is to declare and pay ₹ 6 per equity share as dividend, before the following amalgamation takes place with Z Ltd.

Z Ltd. was incorporated to take over the business of both A Ltd. and B Ltd.

1. The authorized share capital of Z Ltd. is ₹ 360 lakhs divided into 18 lakhs equity shares of ₹ 10 each.
2. As per Registered Valuer the value of equity shares of A Ltd. is ₹ 108 per share and of B Ltd. is ₹ 72 per share respectively and agreed by respective shareholders of the companies.
3. 10% Debentures of A Ltd. to be issued 12% Debentures of Z Ltd. at par in consideration of their holdings.
4. A contingent liability of A Ltd. of ₹ 12,00,000 is to be treated as actual liability
5. Liquidation expenses including Registered Valuer fees of A Ltd. ₹ 3,00,000 and B Ltd. ₹ 1,80,000 respectively to be borne by Z Ltd.

6. The shareholders of A Ltd. and B Ltd. is to be paid by issuing sufficient number of fully paid-up equity shares of ₹ 60 each at a premium of ₹ 60 per share.

Assuming amalgamation in the nature of purchase, you are required to pass the necessary journal entries (narrations not required) in the books of Z Ltd. and Prepare Balance Sheet of Z Ltd. immediately after amalgamation of both the companies.

(14 Marks)

6. (a) Distinguish between Amalgamation, Absorption and External Reconstruction of Company.

Or

Write short note on Timing difference and Permanent Difference as per AS 22.

(4 Marks)

- (b) Whether interest expense relating to overdrafts and other operating liabilities identified to a particular segment should be included in the segment expense or not?

In case interest is included as a part of the cost of inventories where it is so required as per AS 16, read with AS 2 and those inventories are part of segment assets of a particular segment, state whether such interest would be considered as a segment expense.

(5 Marks)

- (c) Wooden Plywood Limited has a normal wastage of 5% in the production process. During the year 2024-25, the Company used 16,000 MT of Raw material costing ₹ 190 per MT. At the end of the year, 950 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books.

You are required to:

- (1) Calculate the amount of abnormal loss.
- (2) Explain the treatment of normal loss and abnormal loss. [In the context of AS-2]

(5 Marks)