

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 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 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 | Minority interest as at the date of acquisition | Minority interest as at the date of consolidation |
|-------------------|--|--|--|
| | [E] | [E] x [A + B] ₹ | [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 [Interest] | - | 14,033 | - | 1.10.24 | By Bank A/c | 80,000 | | 84,000 |
| | | | | | 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 |
| | | <u>3,00,000</u> | <u>16,033</u> | <u>3,26,000</u> | | | <u>3,00,000</u> | <u>16,033</u> | <u>3,26,000</u> |

SCRIP: Equity Shares in C LTD.

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

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 x 5,000)

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 (400 crore x 26.35%) | 110.48 crore (400 crore x 53.97% - 105.40 crore) | 113.64 crore (410 crore x 80.37% - 105.40 crore - 110.48 crore) | 80.48 crore (410 crore x 100% - 105.40 crore - 110.48 crore - 113.64 crore) |
| Contract Cost (2) | 98.8 crore | 103.60 crore (202.40 - 98.80 crore) | 104.60 crore (307 crore - 98.80 crore - 103.60 crore) | 75 crore (382 crore - 98.80 crore - 103.60 crore - 104.60 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:

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

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

2. Consideration for equity shares:

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

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

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 |

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

(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* | <u>864</u> | | |
| | 3,930 | | <u>3,930</u> |

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

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

2. No of shares acquired

$$\begin{aligned}
 &= \frac{\text{Cost of investment}}{\text{Purchase price share}} \\
 &= \frac{70,00,000}{₹ 20 \text{ shares}} = ₹ 3,50,000 \text{ shares}
 \end{aligned}$$

- (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 | ₹ |
|---|--------------|--------------------|--------------------------|----------|
| 1 st April 2023 | 4,00,000 | Specific borrowing | 4,00,000 x 12% x 10/12 | 40,000 |
| 1 st August 2023 | 10,00,000 | Specific borrowing | 10,00,000 x 12% x 10/12 | 1,00,000 |
| 1 st December 2023 | 25,00,000 | General borrowing | 25,00,000 x 10.8% x 2/12 | 45,000 |
| 31 st 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

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

- (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**

$$= ₹ 3,60,000 \times (20/120) = ₹ 60,000$$

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 | <u>11,00,000</u> | |
| | 13,20,000 | |
| Less: Cost of goods sold at invoice price | <u>(9,60,000)</u> | [12,00,000 x (120/150)] |
| Closing stock | 3,60,000 | |