Mock Test Paper - Series I: November, 2025

Date of Paper: 18th November, 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. Alfa ltd. submits the following data extracted from the Final Accounts as on 31 March, 2025:

Equity Share Capital Equity shares of ₹ 10 each	50,000
Profit & Loss (Dr. balance)	(50,000)
9% Debentures	2,00,000
Loan from Bank	3,00,000
Advance given to suppliers of goods	45,000
Provision for tax	14,000
Plant & Machinery	4,50,000
Furniture & Fixtures	85,000
Investment in Beta Ltd. 10,000 equity shares of 10 each	1,25,000
Sundry Debtors	70,000
Cash & Bank Balance	65,500

Additional information given by Jay Ltd.:

On 31 March, 2025 Alfa ltd. decided to reconstruct the company for which necessary resolution was passed. Accordingly, it was decided that:

(a) 9% Debentures to be settled in full by issuing them 15,000 Equity shares of 10 each.

(b) Equity shareholders will give up 40% of their capital in exchange for allotment of new 11% Debentures of ₹ 1,00,000.

(c) Balance of Profit & Loss to be written off.

(d) Equity shares issued for ₹ 1,00,000.

In addition to above, following information was also presented by Alfa ltd. on 1st April, 2025:

i. Interest is received on advances given to suppliers of goods₹ 3,000.

ii. Taxation liability is settled at ₹ 14,000.

iii. A debtor of ₹ 40,000 is insolvent, only 40% of his dues are recovered from his estate.

iv. Dividend is received on Investment in Beta Ltd. ₹ 1 per equity share invested.

v. Part of Plant and Machinery is sold at a loss of₹ 3,000 (book value ₹ 15,000)

Based on the information given in above Case Scenario, answer the following Question No. 1-4

1. The amount of Cash Flow from operating activity is:

(A) ₹ 2,000

(B) ₹ 5,000

(C) ₹ 12,000

(D) ₹ 15,000

2 The amount of Cash Flow from investing Activity is:

(A) ₹ 28,000

(B) ₹ 25,000

(C) ₹ 15,000

(D) ₹ 22,000

3. What is the amount of closing Cash and Cash equivalents as on 1 April, 2025?

(A) ₹1,92,500

(B) ₹ 92,500

(C) ₹ 1,27,000

(D) ₹ 1,98,500

4. The Balance of Equity Share Capital after internal reconstruction is:

(A) ₹ 6,50,000

(B) ₹ 4,50,000

(C) ₹ 5,50,000

(D) ₹ 7,50,000

5. "Fixed Asset held for sale" will be classified in the Balance Sheet as per Schedule III of the Companies Act as:

(A) Deferred Tax Assets

(B) Current Asset

(C) Non-Current Asset

(D) Long term Investments

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

2. Hari Ltd.is in the business of manufacturing electronics equipment and selling these at its various outlets. It provides installation services for the equipment sold and also provide free 1 year warranty on all the sold products.

Beach Resorts are leading resorts in the city. It purchased 5 air conditioners (AC) from Hari Ltd. for its resort. Hari Ltd. sold 5 AC to Beach resort for ₹ 45,000 each which includes installation fees of ₹ 1,000 for each AC. The Company also offers 1 year warranty for any repair, etc. The Company also offered ₹ 500 per AC as trade discount. Beach resort placed order on March 15, 2025 and made payment on March 20, 2025. The ACs were delivered on March 27, 2025 and the installation was completed on April 5, 2025.

Based on the information given in above Case Scenario, answer the following Question No. 6-9

6. How much revenue should be recognised by the Company as on March 31, 2025:

(A) ₹ 2,25,000

(B) ₹ 2,17,500

(C) ₹ 2,00,000

(D) ₹ 2,30,000

7. How much revenue should be recognised by the Company in the financial year 2025-26:

   (A) ₹ 5000

   (B) ₹ 2,20,000

   (C) ₹ 10,000

   (D) ₹ 2,40,000

8. What will be the accounting for trade discount:

   (A) The same will be recognised separately in the profit and loss.

   (B) The trade discounts are deducted in determining the revenue.

   (C) Trade discount will be recognised after one year, when the warranty will be over.

   (D) Trade discount will be recognised after installation is complete.

9. Is the Company required to do any accounting for 1 year warranty provided by it:

   (A) No accounting treatment is required till some warranty claim is actually received by the Company.

   (B) As there exist a present obligation to provide warranty to customers for 1 year, the Company should estimate the amount that it may have to incur considering various factors including past trends and create a provision as per AS 29.

   (C) Accounting for claims will be done on cash basis i.e. expense will be recognised when expense is made.

   (D) As the Company is not charging separately for the warranty provided, there is no need to create any provision.

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

3. A company is engaged in refining, transportation, and marketing of petroleum products. During the financial year ended 31st March, 2025, it acquired a controlling interest in another public sector undertaking from the Government of India at ₹ 1,551 per share. The book value and market value of the shares as of 18th February, 2025, were ₹ 192.58 and ₹ 876 per share, respectively. The company paid a strategic premium of ₹ 675 per share due to various tangible and intangible factors.

The company classified the acquired shares as long-term strategic investments and accounted for them at cost, i.e., ₹ 1,551 per share, in its financial statements. No provision for diminution in value was made. However, Schedule III of the Companies Act, 2013, requires the aggregate market value of quoted shares to be disclosed, and this has been reflected.

On 28th March, 2025, the market price of the acquired shares was ₹ 880 per share. By 18th July, the price had dropped to ₹ 300. Management believes that the decline in value is not permanent, given the strategic and synergy benefits expected, and hence, no provision for diminution has been made.

Based on the information given in above Case Scenario, answer the following Question No. 10-14

10. Is the accounting treatment of recording the investment 'at cost' without providing for diminution correct as per AS 13?

    (A) Yes, as the investment is classified as long-term.

    (B) Yes, provided the decline in value is not other than temporary.

    (C) No, the market value must always be considered for long-term investments.

    (D) No, a provision for diminution must be made regardless of the cause of decline.

11. How should the company assess whether the decline in market value is other than temporary?

    (A) Based solely on the market price on the balance sheet date.

    (B) Based on a comparison of the market price with the book value of the shares.

    (C) By considering all relevant factors, such as the financial health of the investee and expected benefits.

12. If a provision for diminution in value is required, how should it be treated in the financial statements?

    (A) As a charge to the profit and loss account.

    (B) As deferred expenditure amortized over five years.

    (C) Directly adjusted against the investment account.

    (D) As a disclosure note without impacting the financial statements.

13. Can the premium paid for strategic benefits be accounted for separately from the cost of investment?

(A) Yes, it should be recorded as a separate intangible asset.

(B) Yes, it can be disclosed as goodwill in the balance sheet.

(C) No, it must be included in the cost of investment as per AS 13.

(D) No, it must be expensed immediately in the profit and loss account.

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

14 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?

(A) Q Ltd.

(B) R Ltd.

(C) Q Ltd. and R Ltd.

(D) Neither of Q Ltd. or R Ltd.

15. 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)**

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) The following information is provided for MoreLimited:

Particulars	31st March 2024 (₹)	31st March 2025 (₹)
Profit and Loss a/c	5,400 (Dr.)	37,800
Provision for Taxation	2,21,400	1,35,000
General Reserve	54,000	81,000
12% Debentures	1,18,800	2,91,600
Trade Payables	1,29,600	1,18,800
8% Current Investments	54,000	1,08,000
Property, plant and equipment (Gross)	3,99,600	3,99,600
Accumulated Depreciation	1,29,600	1,62,000
Trade Receivables (Gross)	81,000	2,61,360
Provision for Doubtful Debts	27,000	54,000
Inventories	1,35,000	81,000
Cash and Cash Equivalents	54,00	30,240

Additional information:

(i) Income tax provided during the year ₹ 1,62,000.

(ii) New debentures have been issued at the end of current financial year.

(iii) New investments have been acquired at the end of the current financial year.

You are required to calculate net Cash Flow from Operating Activities.

(b) On 1st April, 2024, A Limited started the construction of an Office Building (qualified asset). The land under the building is regarded as a separate asset and is not a part of qualifying asset.

For the purpose of construction of building, the company raised a specific loan of ₹ 14 lakhs from a Bank at an interest rate of 12% per annum. An interest income of ₹ 15,000 was earned on this loan while it was held in anticipation of payments.

The company's other outstanding loans on 1st April, 2024 were as follows:

Amount of Loan	Rate of Interest per annum
₹ 20,00,000	15%
₹ 30,00,000	8%

The construction of building started on 1st April, 2024 and was completed on 31st January, 2025 when it was ready for its intended use. Up to the date of completion of the building, the following payments were made to the contractor:

Payment date	Amount in ₹
1st Apirl,2024	4,00,000
1st August,2024	10,00,000
1st December,2024	25,00,000
31st January,2025	5,00,000

The life of building is estimated to be 20 years and depreciation is calculated on straight line method.

You are required to:

(i) Calculate the amount of borrowing cost to be capitalized.

(ii) Pass initial journal entry to recognise the cost of building (assume that interest amount will be paid at the year end).

(iii) Depreciation on building for the year ending 31st March, 2025.

(iv) Carrying value of building as on 31st March, 2025. **(7 + 7 = 14 Marks)**

2. (a) Happy Limited is a Textile Manufacturing Company and engaged in the production of Polyester (P) and Nylon (N). While manufacturing the main products, a by-product Fiber (F) is also produced. Details of the cost of production are as under:

Purchase of Raw Material for manufacturing process of

30,000 units	₹ 3,50,000
Wages paid	₹ 1,60,000
Fixed overheads	₹ 1,20,000
Variable overheads	₹ 60,000
Output:	
Polyester (P)	12,500 Units
Nylon (N)	10,000 Units
Fiber (F)	3,200 Units

Closing Inventory:	
Polyester (P)	1,600 Units
Nylon(N)	400 Units

Average market price of Polyester and Nylon is ₹ 100 and ₹ 60 per unit respectively, by-product Fiber is sold@₹ 40 per unit. There is a profit of ₹ 8,000 on sale of by-product after incurring separate processing expenses of ₹ 10,000 and packing charges of ₹ 9,000. ₹ 5,000 was realized from sale of scrap.

On the basis of the above information, you are required to compute the value of closing inventory of Polyester and Nylon.

(b) Aerodots Ltd. has the following capital structure as on 31.03.2025 :

Particulars	Amount (₹ in thousands)
Equity Share Capital (shares of ₹ 10 each)	600
Reserves:	
General Reserve	540
Securities Premium	200
Profit & Loss	100
Revaluation Reserve	30
Investment Allowance Reserve (Statutory Reserve)	75
Infrastructure Development Reserve	25
Loan Funds	2000

On 1st April, 2025 the company wants to buy back 14,000 equity shares of ₹ 10 each at ₹ 30 per Equity share.

You are required to calculate maximum permissible number of equity shares that can be bought back.

Buy Back of shares is duly authorized by its articles and necessary resolution has been passed by the company. **(7 + 7 = 14 Marks)**

3. GB Limited acquired 80% of equity shares of TB Limited on 1st April,2018 at a cost of ₹ 58,00,000 when TB Limited had an Equity share capital of ₹ 50,00,000 and Reserves and Surplus of ₹ 4,64,000.

The following information is provided:

Year	Profit /(Loss) of TB Limited (₹)
2018-19	(14,50,000)
2019-20	(23,20,000)
2020-21	(29,00,000)
2021-22	(6,96,000)
2022-23	1,90,000
2023-24	6,80,000
2024-25	12,70,000

You are required to calculate the minority interests and const of control at the end of each year for the purpose of consolidation. **(14 Marks)**

4. (a) Mr. Suresh is working for Raina Ltd. Consider the following particulars:

Particulars	Year 2023-2024	Year 2024-2025
Annual salary	₹ 30,00,000	₹ 30,00,000
No. of working days during the year	300 days	300 days
Leave allowed	10 days	10 days
Leave taken	7 days	13 days
Leave carried forward to next year	3 days	Nil

Based on past experience, Raina Ltd. assumes that Mr. Suresh will avail the unutilized leaves of 3 days of 2023-2024 in 2024-2025. Raina Ltd. contends that it will record ₹ 30,00,000 as employee benefits expense in each of the years 2023-2024 and 2024-2025, stating that the leaves will, in any case, be utilized by 2024-2025.

Comment on the accounting treatment proposed to be followed by Raina Ltd. Also pass journal entries for both the years

(b) The summarized Balance Sheet of Vijay Ltd. as on 31st March, 2025 is given below

Liabilities	Amount
Equity Shares of ₹ 10 each	3,50,000
8%, Cumulative Preference Shares of ₹ 100 each	1,75,000
6% Debentures of ₹ 100 each	1,40,000
Sundry Creditors	1,75,000
Provision for taxation	3,500
Total	8,43,500

Assets	
Property Plant and Equipment	4,37,500
Investments (Market value ₹ 33,250)	35,000
Current Assets (Including Bank Balance)	3,50,000
Profit and Loss Account	21,000
Total	8,43,500

The following Scheme of Internal Reconstruction is approved and put in effect on 31st March, 2025.

1. Investments are to be brought to their market value.
2. The Taxation Liability is settled at ₹5,250 out of Current Assets
3. The balance of Profit and Loss Account to be written off.
4. All the existing equity shares are reduced to Rs 4 each.
5. All preference shares are reduced to ₹60 each.
6. The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of ₹100 each and exchange them for fresh debentures of ₹80 each. Each old debenture is exchanged for one new debenture.
7. Balance of Current Assets left after settlement of taxation liability are revalued at ₹ 1,57,500.
8. Property Plant and Equipment are written down to 80%.
9. One of the creditors of the Company for ₹70,000 gives up 50% of his claim. He is allotted 8,750 equity shares of ₹4 each in full and final settlement of his claim.

Pass Journal entries for the above transactions. **(6+8=14 Marks)**

5. The following is the Trial Balance of AT Ltd as on 31st March, 2025:

Particulars	**Dr. (₹ 000)**	**Particulars**	**Cr. (₹ 000)**
Land at Cost	148	Equity Share of ₹ 10 each	200
Plant & Machinery at Cost	520	10% Debenture of ₹ 100 each	135
Debtors	65	General Reserve	90
Closing Stock	58	Profit & Loss Ale	48

Bank	14	Security Premium	27
Adjusted Purchases	226	Sales	473
Factory Expenses	40	Creditors	35
Administration Expenses	22	Provision for Depreciation	116
Selling Expenses	20	Suspense A/c	3
Debenture Interest	14		
Total	1,127	Total	1,127

Additional Information:

- On 31st March, the Company issued Bonus Shares to the Shareholders on 1 : 2 basis (one equity share issued as bonus for every 2 equity shares held). No entry relating to this has yet been made.
- The Authorized Share Capital of the Company is 35,000 Equity Shares of ₹ 10 each.
- The Company, on the advice of an independent valuer, revalued the Land at ₹ 2,45,000.
- The Directors declared a Dividend of 10% on 5th April, 2025 and also transferred profit @ 10% to General Reserve.
- Suspense Account of ₹ 3,000 represents cash received for the Sale of some Machinery on the 1st day of the financial year 2024-25. Cost of this Machinery was ₹ 10,000 and Accumulated Depreciation thereon being ₹ 8,000.
- Depreciation is to be provided on Plant & Machinery at 10% on Cost.
- Provision for Income tax is required@ 30%.

You are required to prepare AT Ltd.'s Profit and Loss A/c for the year ended 31st March, 2025and Balance Sheet as at that date as per the provisions of the Companies Act, 2013 after considering the above information. Ignore previous year figures. **(14 Marks)**

6. (a) Colour Limited leased a Machine to Red Limited on 1 April, 2021 on the following:

Cost of the machine	₹ 18,00,000
Lease term	3 Years
Fair market value of the machine	₹ 18,00,000
Unguaranteed residual value as on 31.3.2024	₹ 2,00,000
Internal rate of return	12%

Other information:

The expected useful life of the machine is 5 years. The machine will revert to Colour Limited on termination of the lease. The lease payment is to be made at the end of each year in 3 equal parts.

The present value of ₹ 1 due at the end of 3rd year at 12% rate of interest is ₹ 0.7118. The present value of annuity of at ₹ 1 due at the end of 3rd year at 12% IRR is ₹ 2.4018.

You are required to analyze whether lease constitutes finance lease. Also calculate unearned finance income, if any.

OR

(a) On 1 April 2025, ABC Limited has given the following information:

	₹
50,000 equity shares of ₹ 100 each (₹ 80 paid up by all shareholders)	40,00,000
2,00,000 8% Preference shares of ₹ 10 each	20,00,000
10,000, 12% Debentures of ₹ 100 each (Each debenture is convertible into 3 equity shares of ₹ 100 each)	10,00,000

On 1st July 2025, the remaining ₹ 20 was called up and paid by all the shareholders except one shareholder holding 10,000 equity shares. During the year 2025-26 the company had a profit after tax of ₹ 3,44,000.

Tax rate is 30%.

You are required to compute Basic and Diluted EPS. **(4 Marks)**

(b) Following information are available in respect of Z Limited as on 31st March, 2024

1.	Equity shares of ₹ 100 each	₹ 500 lakhs
2.	General Reserve	₹ 100 lakhs
3.	Loss for the year ending 31st March, 2024	₹ 5 lakhs

Due to absence of profits during the year 2023-24, the management recommends to declare dividend of 10% on equity share capital out of general reserve.

The rates of equity dividend for the last 5 years immediately preceding the year 2023-24 are as follows:

2022-23	2021-22	2020-21	2019-20	2018-19
12%	14%	10%	10%	7%

As an accountant of the company, you are required to suggest whether the recommendation of the management is justified? If, you do not agree, then suggest the rate of dividend. **(4 Marks)**

(c) Smart Limited is an Indian Company and has its Branch at New York. The following balances in respect of Smart Limited's USA Branch office are provided:

(i) Debit Balances (in USD)

Expenditure (excluding Depreciation)	:	1,03,095
Cash & bank balances	:	2,175
Debtors	:	7,365
Fixed Assets (Gross)	:	34,200
(Rate of Depreciation on Fixed Assets: 20%)		
Inventory-Stock 'P'	:	5,520
Inventory- Stock 'Q'	:	1,035

(ii) Credit Balances (in USD)

Incomes	:	1,32,000
Creditors	:	15,570
HO Control a/c	:	5,820

The following additional information is provided:

(1) The average exchange rate during the above financial year was 1 USD = ₹ 56.

(2) The fixed assets were purchased when the exchange rate was 1 USD ₹ 55.

(3) The closing exchange rate on reporting date is 1 USD = ₹ 58.

(4) Stock item 'P' is valued at cost of USD 5,520, purchased when the exchange rate was ₹ 56.50. The present net realizable value of this item is ₹ 2,85,000.

(5) Stock item 'Q' is carried at net realizable value of USD 1,035, but its cost in USD is 1,065, It was purchased when exchange rate was 1 USD = ₹ 53.

(6) Branch Control Account as per HO books was ₹ 2,66,265.

You are required to show how it will be reflected in the books of Head Office in the form of Trial Balance, if the USA Branch Office is classified as an Integral Foreign Operation. **(6 Marks)**