Mock Test Paper - Series II: July, 2025

Date of Paper: 4th August, 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)**	**(ii)**
	(b)	**(iv)**
	(c)	**(iv)**
	(d)	**(iii)**
	(e)	**(i)**
2.	**(a)**	**(iii)**
	(b)	**(iv)**
	(c)	**(i)**
	(d)	**(iv)**
	(e)	**(iii)**
3.	**(a)**	**(iii)**
	(b)	**(i)**
	(c)	**(i)**
4.		**(iv)**
5.		**(iii)**

PART II – Descriptive Questions (70 Marks)

1. (a) Calculation of depreciation as per AS 12 for the financial year 2024-25:

(i) If the grant amount is deducted from the value of Plant, then the amount of deprecation will be ₹ 3,00,000 p.a. (₹ 60,00,000 - ₹ 10,00,000 - ₹ 20,00,000) / 10 year.

(ii) If the grant is treated as deferred income, then amount of depreciation will be ₹ 5,00,000 p.a. (₹ 60,00,000 - ₹ 10,00,000) / 10 year.

(iii) If the grant amount is deducted from the value of plant, but at the end of the year 2024-25 grant is refunded to the extent of ₹ 4 lakh then the amount of depreciation will be ₹ 3,00,000 p.a. (₹ 60,00,000 - ₹ 10,00,000 - ₹ 20,00,000) /10 year for year 2023-24 and for the year 2024-25 Depreciation will be ₹ 3,00,000 calculated as follows, (₹ 60,00,000 - ₹ 10,00,000 - ₹ 20,00,000 – ₹ 3,00,000) / 9 years.

Note: It is assumed that the depreciation for the year has been charged on the book value on the plant before making adjustment for grant. Alternatively, if it is considered otherwise then the depreciation will be charged after making adjustment for grant. In that case depreciation for the year 2024-25 will be as ₹ 3,44,444 calculated as follows, (₹ 60,00,000 - ₹ 10,00,000 - ₹ 20,00,000 + 4,00,000 – ₹ 3,00,000 / 9 years

(iv) If the grant is treated as promoter's contribution, then the amount of depreciation will be ₹ 5,00,000 p.a. (₹ 60,00,000 -10,00,000) /10 year.

(b) (i) As per AS 18, parties are considered to be related if any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party. Transactions of ABC Ltd. with its associate company for the first quarter ending 30.06.2025 only are required to be disclosed as related party transactions as the company has the ability to exercise significant influence only till 30.6.2025.

The transactions for the period in which related party relationship did not exist need not be reported.

(ii) In the given case, Arjun Ltd. cannot be said to control the composition of board of directors of Bheem Ltd. as the directors have been appointed in their individual capacity as professionals and not by virtue of their being directors in Arjun Ltd.

Hence, it cannot be concluded that the companies are related merely because the majority of the directors of one company became the majority of the directors of the second in their individual capacity as professionals.

(iii) In the context of AS 18, a single customer, supplier, franchiser, distributor, or general agent with whom an enterprise transacts a significant volume of business cannot be construed as Related Party Relationship merely by virtue of the resulting economic dependence. There is an economic dependence between the companies but no one controls or exercise significant influence on the other.

In the given case, Asha Ltd. need not report Sasha Company as its related party in its financial statements.

2. (1) Computation of amount of Debentures and Shares to be issued:

(i) Average Net Profit

	X Ltd.	Y Ltd.
₹ (42,50,000+44,45,760-75,000+37,79,240)/4	31,00,000	
₹ (26,50,000+27,60,000+34,00,000+35,90,000)/4		31,00,000

(ii) Equity Shares Issued

(a) Ratio of distribution

X Ltd.	:	Y Ltd.
1		1

(b) Number of shares

X Ltd.	:	3,10,000
Y Ltd.	:	3,10,000
		6,20,000

(c) Amount of shares

3,10,000 shares of ₹ 5 each = ₹ 15,50,000

3,10,000 shares of ₹ 5 each = ₹ 15,50,000

(iii)

Capital Employed (after revaluation of assets)	**X Ltd. (₹)**	**Y Ltd. (₹)**
Property, plant and equipment	71,00,000	39,00,000
Current Assets	29,95,000	15,77,500
	1,00,95,000	54,77,500
Less: Current Liabilities	(59,70,000)	(18,02,500)
	41,25,000	36,75,000

(iv) Debentures Issued

	X Ltd. (₹)	**Y Ltd. (₹)**
4% Return on capital employed	1,65,000	1,47,000
7.5% Debentures to be issued to provide equivalent income:	$1,65,000 \times \frac{100}{7.5}$ 22,00,000	$1,47,000 \times \frac{100}{7.5}$ 19,60,000

(2) Balance Sheet of XY Ltd.

As at 31st March 2025 (after amalgamation)

Particulars	Note No	₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	31,00,000
(b) Reserves and Surplus	2	5,40,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	41,60,000
(3) Current Liabilities		
(a) Trade Payables	4	76,35,250
Total		1,54,35,250
II. Assets		
(1) **Non-current assets**		
(a) PPE	5	1,10,00,000
(2) **Current assets**		
(a) Other current assets	6	44,35,250
Total		1,54,35,250

Notes to Accounts

			₹
1.	Share Capital		
	Authorized		
	8,00,000 Equity Shares of ₹ 5 each		40,00,000
	Issued and Subscribed		
	6,20,000 Equity Shares of ₹ 5 each		31,00,000
	(all the above shares are allotted as fully paid-up pursuant to a contract without payment being received in cash)		
2.	Reserve and Surplus		
	Capital Reserve		5,40,000
3.	Long-term borrowings		
	Secured Loans		
	7.5% Debentures		
	X Ltd.	22,00,000	
	Y Ltd.	19,60,000	41,60,000

4.	Current Liabilities:		
	Trade Payables		
	X Ltd.	59,70,000	
	Y Ltd.	18,02,500	
		77,72,500	
	Less: Mutual Owings	(1,37,250)	76,35,250
5.	Property, Plant and Equipment:		
	X Ltd.	71,00,000	
	Y Ltd.	39,00,000	1,10,00,000
6.	Other Current Assets:		
	X Ltd.	29,95,000	
	Y Ltd.	15,77,500	
		45,72,500	
	Less: Mutual Owings	(1,37,250)	44,35,250

Working Notes:

			X Ltd. ₹	Y Ltd. ₹	Total ₹
(1)		Purchase Consideration			
		Equity Shares Issued	15,50,000	15,50,000	31,00,000
		7.5% Debentures Issued	22,00,000	19,60,000	41,60,000
			37,50,000	35,10,000	72,60,000
(2)		Capital Reserve			
	(a)	Net Assets taken over			
		Property, plant & equipment	71,00,000	39,00,000	1,10,00,000
		Current Assets	29,95,000	14,40,250*	44,35,250
			1,00,95,000	53,40,250	1,54,35,250
		Less: Current Liabilities	(58,32,750**)	(18,02,500)	(76,35,250)
			42,62,250	35,37,750	78,00,000
	(b)	Purchase Consideration	37,50,000	35,10,000	72,60,000
	(c)	Capital Reserve [(a) - (b)]	5,12,250	27,750	5,40,000

* 15,77,500–1,37,250 = 14,40,250

** 59,70,000–1,37,250 = 58,32,750

Note: In Working note 2 given above, the mutual owings amounting ₹ 1,37,250 included in debtors and creditors of X Ltd. and Y Ltd. have been adjusted. Alternatively, the capital reserve can be computed without adjustment of mutual owings

3. **Consolidated statement of profit and loss of G Ltd. and its subsidiary K Ltd. for the year ended on 31st March, 2025**

Particulars		Note No.	₹ in Crores
I.	**Revenue from operations**	1	3,525
II.	**Total Income**		3,525
III.	**Expenses**		
	Cost of material purchased/consumed	2	650
	Changes of inventories of finished goods	3	(842)
	Employee benefit expense	4	675
	Finance cost	5	105
	Depreciation and amortization expense	6	105
	Other expenses	7	225
	Total expenses		918
IV.	**Profit before tax (II-III)**		2,607

Notes to Accounts

		₹ in Crores	*₹ in Crores*
1.	Revenue from operations		
	Sales and other income		
	G Ltd.	3,000	
	K Ltd.	750	
		3,750	
	Less: Inter-company sales	(200)	
	Consultancy fees received by G Ltd. from K Ltd.	(5)	
	Commission received by K Ltd. from G Ltd.	(20)	3,525
2.	Cost of material purchased/consumed		
	G Ltd.	600	
	K Ltd.	100	
		700	
	Less: Purchases by K Ltd. from G Ltd.	(200)	500

	Direct expenses (Production)		
	G Ltd.	100	
	K Ltd.	50	150
			650
3.	Changes of inventories of finished goods		
	G Ltd.	750	
	K Ltd.	100	
		850	
	Less: Unrealized profits ₹ 40 crores × 25/125	(8)	842
4.	Employee benefits and expenses		
	Wages and salaries:		
	G Ltd.	600	
	K Ltd.	75	675
5.	Finance cost		
	Interest:		
	G Ltd.	75	
	K Ltd.	30	105
6.	Depreciation		
	G Ltd.	75	
	K Ltd.	30	105
7.	Other expenses		
	Administrative expenses		
	G Ltd.	75	
	K Ltd.	50	
		125	
	Less: Consultancy fees received by G Ltd. from K Ltd.	(5)	120
	Selling and distribution Expenses:		
	G Ltd.	100	
	K Ltd.	25	
		125	
	Less: Commission received by K Ltd. from G Ltd.	(20)	105
			225

4. **Cash Flow from Operating Activities**

	₹
Profit Before Tax	2,30,000
Add: Depreciation	18,000
Interest on 8% Deb.	30,000
Loss on sale of Vehicle	2,000
Goodwill Write off	32,500
Less: Profit on sale of Land (W.N.2)	(62,500)
Profit on sale of Long term Investments	(20,000)
Int. Income Received	(16,250)
Operating Profit before Working Capital	2,13,750
Add: Increase in Out standing Exp.	3,750
Increase in trade payable	10,000
Less: Decrease in bills payable	(5,000)
Increase in stock	(20,000)
Increase in bills receivable	(9,125)
Decrease in trade receivable	15,000
Operating profit before tax	2,08,375
Income tax paid (WN 4)	22,500
Net cash from Operating Activities	1,85,875

Working Notes:

1. Vehicle Account

To Balance b/d	70,000	By Bank A/c	7,500
		By Depreciation A/c	5,500
		By P&L A/c	2,000
		By Balance c/d	55,000
	70,000		70,000

2. Land Account

To Balance b/d	15,00,000	By Bank A/c	3,12,500
To P&L A/c	62,500	By Balance c/d	14,37,500
To CR	1,87,500		
	17,50,000		17,50,000

3. **Furniture / Fixture Account**

To Balance b/d	1,10,000	By Depreciation	12,500
To Bank A/c	22,500	By Balance c/d	1,20,000
	1,32,500		1,32,500

4. **Provision for taxation Account**

To Bank A/c	22,500	By Balance b/d	27,500
To Balance b/d	45,000	By P&L A/c	40,000
	67,500		67,500

5. **Calculation of Profit Before Tax:**

Increase in P&L A/c	1,02,500
Increase in General Reserve A/c	75,000
Add: Current Year Provision for Tax	40,000
Add: Interim Dividend Paid	12,500
Profit before Tax	2,30,000

5. **In the books of Atwood**

Investment in Equity Shares of Sun Ltd. Account

Date	*Particulars*	*No.*	*Dividend (₹)*	*Amount (₹)*	*Date*	*Particulars*	*No.*	*Dividend (₹)*	*Amount (₹)*
1.04.24	To Balance b/d	3,000		3,30,000	2.10.24	By Bank A/c (W.N. 5)		30,000	15,000
1.07.24	To Bank A/c	1,500		1,38,600	1.1.25	By Bank A/c	1,000		1,15,000
15.10.24	To Bonus Issue	1,800			31.3.25	By Balance c/d (W.N.7)	5,300		3,81,600
1.01.25	To Profit & Loss A/c (W.N. 6)			43,000					
31.3.25	To Profit & Loss A/c		30,000						
		6,300	30,000	5,11,600			6,300	30,000	5,11,600

9% Bonds Account [Interest Payable: 1st September & 1st March]

Date	*Particulars*	*Nominal Value (₹)*	*Interest (₹)*	*Cost (₹)*	*Date*	*Particulars*	*Nominal Value (₹)*	*Interest (₹)*	*Cost (₹)*
1.8.24	To Bank A/c (W.N.1)	5,00,000	18,750	4,66,250	1.9.24	By Bank A/c (5,00,000 x 9% x 6/12)	-	22,500	-
31.3.25	To Profit & Loss A/c (W.N 3)			23,000	1.3.25	By Bank A/c	-	22,500	-
					31.3.25	By Bank A/c (W.N 2)	4,00,000	3,000	3,96,000
31.3.25	To Profit & Loss A/c		30,000		31.3.25	By Balance c/d (W.N.4)	1,00,000	750	93,250
		5,00,000	48,750	4,89,250			5,00,000	48,750	4,89,250

Working Notes:

1. **Cost of Bond purchased on 1st August, 2024**

   5,000, 9% bonds were purchased @ ₹ 97 cum-interest. Total amount paid 5,000 bonds x ₹ 97 = 4,85,000 which includes accrued interest for 5 months, i.e., 1st March, 2024 to 31st July, 2024. Accrued interest will be ₹ 5,00,000 x 9/100x 5/12 = ₹ 18,750. Therefore, cost of Bond purchased = ₹ 4,85,000 – 18,750 = ₹ 4,66,250.

2. **Sale of bonds on 31st March, 2025**

   4,000 bonds were sold@ ₹ 99 ex-interest, i.e., Total amount received = 4,000 x 99 + accrued interest for 1 month = ₹ 3,96,000 + ₹ 3,000 (4,00,000 x 9/100 x 1/12)

3. **Profit on sale of bonds**

	₹
Sale value	= 3,96,000
Cost of 4,00,000 9% bonds = 4,66,250/5,000x 4,000	= 3,73,000
Profit	= **23,000**

4. **Value of bonds on 31.3.2025**

   Lower of:

   Cost of bonds on 31.3.2025 will be ₹ 4,66,250/ 5,000 x 1,000 = ₹ 93,250.

   Market Value on 31.3.2025 will be ₹ 1,000 X 98 = 98,000

   Value of bonds on 31.3.2025 = ₹ 93,250

   Interest accrued on bonds on 31.3.2025 = 1,00,000 x 9% x 1/12 = ₹ 750

5. **Dividend on equity shares for 2023-24**

Post acquisition dividend = 3,00,000 x 10% = ₹ 30,000 transferred to Profit & Loss account

Pre-acquisition dividend = 1,50,000 X 10% = ₹ 15,000 credited to investment A/c

6. **Profit on sale of equity shares** ₹

Sale value	= 1,15,000
Cost of shares = 4,53,600 / 6,300 x 1,000	= 72,000
Profit	= 43,000

(Average cost method being followed)

7. **Value of equity shares at end of year**

Lower of:

Cost of shares on 31.3.2025 will be ₹ 4,53,600 / 6,300 x 5,300 = ₹ 3,81,600

Market Value on 31.3.2025 will be ₹ 5,300 x 125 = 6,62,500

Value of shares = ₹ 3,81,600

6. **(a)** As per AS 16, "Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds". Further, the Statement contemplates "amortisation of discounts or premiums relating to borrowings" as a component of borrowing costs (paragraph 4(b)). Thus, the borrowing costs comprise the periodic interest payable on the bonds in question and the amount of discount amortised during the period.

Paragraph 6 of the Statement, inter-alia, states that "Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset". Further, paragraph 19 states that "Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete". Thus, only that portion of the amortised discount should be capitalised as part of the cost of a qualifying asset which relates to the period during which acquisition, construction or production of the asset takes place.

(b) **Journal Entries in the books of X Ltd.**

			₹	₹
(i)	Equity Share Capital (₹ 100) A/c To Equity Share Capital (₹ 10) A/c	Dr.	80,000	 80,000

	(Being the sub-division of 1,000 shares of ₹ 100 each with ₹ 80 paid up into 10,000 shares ₹ 10 each with ₹ 8 paid up by resolution in general meeting dated....)			
(ii)	Equity Share Capital (₹ 100) A/c To Equity Stock A/c (Being conversion of 1,000 fully paid Equity Shares of ₹ 100 into ₹ 1,00,000 Equity Stock as per resolution in general meeting dated…)	Dr.	1,00,000	 1,00,000
(iii)	Cumulative Preference Share Capital A/c Capital Reduction (Reconstruction) A/c To 11% Debentures (Unsecured) (Being 1,500 cumulative preference shares of ₹ 100 each fully paid up converted into 11% debentures of ₹ 100 each (including arrears of dividends amounting ₹ 33,000)	Dr. Dr.	1,50,000 33,000	 1,83,000
(iv)	Capital Reduction (Reconstruction) A/c To Goodwill To Patents (Writing off patents, goodwill)	Dr.	1,07,800	 80,000 27,800

(c)

Item Description	Classification
Security deposits paid to electricity company	Non-current asset
Raw materials inventory	Current asset
Prepaid rent (for 14 months)	Current asset (if not material beyond 12 months)
Fixed deposits with 18-month maturity	Non-current asset