

Mock Test Paper - Series II: August, 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

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. ADI Ltd (the Company), engaged in the business of manufacturing of urea, has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment.

Having fulfilled all the conditions under the scheme, the Company on its overall investment of ₹ 50 crores received ₹ 10 crores from the Government in January 2024 (financial year being 2023-24). The Company wants to treat this receipt as an item of revenue and thereby reduce the losses on profit and loss account for the year ended 31 March 2024.

ADI Ltd holds 51% in SHA Ltd. SHA Ltd is a joint venture of ADI Ltd due to a contractual agreement. ADI Ltd is engaged in the manufacturing business and it entered into a joint venture to get synergies in the same business. ADI Ltd and SHA Ltd hold 10% and 30% respectively in SHB Ltd.

As per the requirements of SEBI, ADI Ltd prepared results/accounts for the quarter ended 30 June 2024 and took following positions in respect of following accounting matters:

- i. Training expenses incurred during the quarter ended 30 June 2024 were allocated equally over the four quarters because the benefit was spread over the entire year and similarly some training expenses expected to be incurred in the last quarter have been estimated and equally allocated over the four quarters.
- ii. Provision made for donation of ₹ 5 million expected to be made in the second quarter.

- iii. Since historically there has been an immaterial variance between budgets and actuals, depreciation charge for the quarter was determined by the budgeted figure.
- iv. Incentives were provided to the customers if they purchase 1 million kgs of urea on an annual basis. It was expected that at least 50 customers would be able to achieve this target before the end of third quarter. No provision was made for this incentive during the quarter ended 30 June 2024 since ADI Ltd believed that the provision was not yet fructified.

ADI Ltd owns 60% holding in ANI Ltd, an unquoted entity. The government has recently announced an increase in interest rates. The increase will cause a fall in value of equity holdings. This is due to the fact that risk free investments offer a higher return making them relatively more attractive. The market value of equity will adjust downwards to improve the return available on this sort of investment.

SHB Ltd took a loan of USD 10,000 on 1 April 2023 for a specific project at an interest rate of 5% p.a. payable annually. On 1 April 2023, the exchange rate between the currency was ₹ 81 per USD. The exchange rate as at 31 March 2024 was ₹ 82 per USD. The corresponding amount could have been borrowed by SHB Ltd in local currency at an interest rate of 11% per annum as on 1 April 2023.

ADI Ltd follows April to March as the financial year

- (a) In respect of abovementioned receipt of ₹ 10 crores, which of the following options would be correct under Indian GAAP?
 - (i) Accounting treatment desired by the company is correct.
 - (ii) The subsidy should be credited to capital reserve.
 - (iii) The subsidy should be treated as a capital grant.
 - (iv) The accounting treatment should be as per the accounting policy of the company in relation to any grant. The company can choose any accounting policy in this respect.
- (b) Please suggest which one of the following options would be correct in respect of consolidated accounts of ADI Ltd as per Accounting Standards notified under the Companies (Accounting Standards) Rules.
 - (i) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per AS 13 and 30% investment of SHA Ltd in SHB Ltd would be accounted for using equity method.

- (ii) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per equity method and 30% investment of SHA Ltd in SHB Ltd would be accounted using proportionate consolidation method.
 - (iii) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per AS 13 and 30% investment of SHA Ltd in SHB Ltd would be accounted using proportionate consolidation method.
 - (iv) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per equity method and 30% investment of SHA Ltd in SHB Ltd would also be accounted for using equity method.
- (c) Please share your views in respect of the accounting positions taken by ADI Ltd (Points i to iv) as per Accounting Standards notified under the Companies (Accounting Standards) Rules.
- (i) Position taken in point ii was incorrect.
 - (ii) Positions taken in points ii and iv were incorrect.
 - (iii) Positions taken in points i and ii were incorrect.
 - (iv) Positions taken in points i, ii, iii and iv were incorrect.
- (d) Will there be any adjustment required in the financial statements of ADI Ltd because of abovementioned event (increase in interest rates by the Government) as per Accounting Standards notified under the Companies (Accounting Standards) Rules.
- (i) The increase is an indication that ADI Ltd's holding in ANI Ltd might have increased. Hence ADI Ltd would require to increase the value of its interest in ANI Ltd.
 - (ii) No adjustment is required.
 - (iii) The increase is an indication that ADI Ltd's holding in ANI Ltd might be impaired. ADI Ltd should make a formal estimate of the recoverable amount of its interest in ANI Ltd.
 - (iv) Whether to make any adjustment or not will depend on the accounting policy of ADI Ltd.

(e) Compute the borrowing cost which can be capitalized in the books of SHA Ltd as per the above mentioned fact pattern.

(i) ₹ 41,000

(ii) ₹ 48,100

(iii) ₹ 89,100

(iv) ₹ 51,000

Multiple Choice Questions [5 MCQs of 2 Marks each: Total 10 Marks]

2. SBHA Ltd deals in business of manufacturing, purchase and sale of rice. The company has around 56 acres of land as part of its property, plant and equipment which is stated at cost in its financial statements. As per the new business model, 30 acres of land falls in the residential zone which the company is planning to develop residential area as a plotted development and would like to sell the plots after development.

The company does not have intention of keeping the property development as a business on long-term basis, as the company does not have any objective to receive any income in the form of the capital appreciation or rent as per the proposed business plan and the company wants to sell the plots after development (irrespective of the construction of houses on land).

SBHA Ltd has two equal joint venturers holding 50% each, KSJ one of them. The other company is from outside the KSJ Group. KSJ Group has three companies (one of them is KSJ Ltd and two more companies), each of which hold some equity shares in the joint venture which aggregates 50%.

One of the KSJ Group of companies, ADK Ltd, is engaged in generation of power which is supplied to various Electricity Boards. One of the terms and conditions of the Tariff Regulatory Authority and the tariff agreement is that the income tax relating to the power generating schemes will be reimbursed by the Electricity Boards on quarterly basis before the payment of advance income tax.

RIMMI Ltd, another KSJ Group company, is into shipping business and has an annual turnover of ₹ 1,000 crores. It is required by law to bring all its vessels into dry dock every five years for major overhaul. This cost is incurred to get the vessel back to its seaworthy condition. A vessel costs ₹ 20 crores with a useful life of 20 years and it requires major overhaul every 5 years. The estimated cost of first overhaul is ₹ 5 crores.

In the previous year, RIMMI Ltd had impaired one of its Cash Generating Units (CGU) for a loss of ₹ 100 crores, with ₹ 50 crores allocated to goodwill and the balance allocated to Plant & Machinery and Technical Knowhow for a loss of ₹ 26 crores and ₹ 24 crores

respectively. Recoverable amount was not measurable. Carrying amounts at the end of current year after impairment of ₹ 100 crores recorded in previous year were ₹ 427 crores and ₹ 383 crores for Plant & Machinery and Technical Knowhow respectively. Had there been no impairment in the previous year, the carrying amounts at the end of current year would have been ₹ 450 crores and ₹ 405 crores for Plant & Machinery and Technical Knowhow respectively. During the current year, the impairment test proves that the CGU is no longer impaired.

- (a) In respect of abovementioned land in residential zone, what would be the accounting treatment under Indian GAAP?
 - (i) The 'land in residential zone' appearing in property, plant and equipment would be credited by its carrying amount and inventory would be recognised equivalent to its fair value. Differential will be taken to profit or loss on conversion.
 - (ii) The 'land in residential zone' appearing in property, plant and equipment would be credited by its gross amount and inventory would be recognised equivalent to carrying amount of reclassified property, plant and equipment. Differential will be taken to profit or loss on conversion.
 - (iii) The 'land in residential zone' appearing in property, plant and equipment would be credited by its carrying amount and inventory would be recognised at the same amount.
 - (iv) The 'land in residential zone' appearing in property, plant and equipment would be credited by its gross amount and inventory would be recognised at the same amount.
- (b) In the above mentioned situation, how would SBHA Ltd be accounted for by joint venturers as per Accounting Standards notified under the Companies (Accounting Standards) Rules?
 - (i) Joint venture will be proportionately consolidated by KSJ Ltd only and other venturer outside KSJ Group.
 - (ii) Joint venture will be proportionately consolidated only by venturer outside KSJ Group.
 - (iii) Joint venture will be proportionately consolidated by all the three companies of KSJ Group only, to the extent of their own holding.
 - (iv) Joint venture will be proportionately consolidated by all the three companies of KSJ Group, to the extent of their own holding and other venturer outside KSJ Group (assuming each one has individual control)

- (c) How should the above mentioned transaction in relation to ADK Ltd be accounted for as per Accounting Standards notified under the Companies (Accounting Standards) Rules?
- (i) Reimbursement should be recorded as revenue.
 - (ii) Reimbursement should be taken to other income.
 - (iii) Reimbursement should be netted from income tax provision.
 - (iv) Reimbursement can be netted from appropriate expense head like rates & taxes.
- (d) What should be the accounting treatment in the statement of profit and loss of RIMMI Ltd in year 1 in respect of property, plant and equipment?
- (i) Overhauling costs of ₹ 5 crores and depreciation of ₹ 1 crore would be charged to the statement of profit and loss in year 1.
 - (ii) Depreciation of ₹ 2 crores would be charged to the statement of profit and loss in year 1.
 - (iii) Overhauling costs of ₹ 5 crores and depreciation of ₹ 75 lakhs would be charged to the statement of profit and loss in year 1.
 - (iv) Depreciation of ₹ 1.75 crores would be charged to the statement of profit and loss in year 1.
- (e) What should be the accounting treatment in the books of RIMMI Ltd in respect of impairment of CGU?
- (i) No adjustment would be required.
 - (ii) Reversal of impairment loss should be taken to P&L amounting to ₹ 100 crores.
 - (iii) Reversal of impairment loss should be taken to P&L amounting to ₹ 45 crores.
 - (iv) Reversal of impairment loss should be taken to P&L amounting to ₹ 50 crores.

Multiple Choice Questions [5 MCQs of 2 Marks each: Total 10 Marks]

3. Asteria Ltd., a listed company with equity share capital of ₹ 6,000 lakh and free reserves of ₹ 10,000 lakh as per the latest audited balance sheet, proposes to buy back 20% of its equity capital at ₹ 40 per share. The Articles of Association authorize buy-back. The Board passed a resolution in March 2025 to proceed. To fund this, the company decided

to sell investments worth ₹ 5,000 lakh, which have a book value of ₹ 6,000 lakh. It has existing borrowings of ₹ 9,500 lakh.

The company has not made any default in repayment of term loans, debentures, or dividend payments and has filed all statutory returns under Sections 92, 123, 127, and 129 of the Companies Act, 2013. It had completed its previous buy-back in October 2024.

The Board now seeks to implement the buy-back by July 2025.

On the basis of above solve below mentioned mcqs

- (a) Can Asteria Ltd. proceed with the buy-back based solely on the Board Resolution?
- (i) Yes, because Board Resolution is always sufficient
 - (ii) No, it must always be by special resolution in general meeting.
 - (iii) No, because 20% buy-back exceeds the 10% limit allowed for Board Resolution alone.
 - (iv) Yes, because the Articles authorize it and 20% is within the 25% limit.
- (b) What is the maximum permissible buy-back limit for Asteria Ltd. under the Resource Test as per Section?
- (i) ₹ 4,000lakh
 - (ii) ₹ 5,000 lakh
 - (iii) ₹ 6,500 lakh
 - (iv) ₹ 9,000 lakh
- (c) After completing the proposed buy-back, will Asteria Ltd. satisfy the Debt-Equity Ratio condition under Section?
- (i) Yes, because total debt is within 2:1 ratio post buy-back
 - (ii) No, because the loss on investment increases the debt
 - (iii) No, because buy-back reduces reserves, tightening equity base
 - (iv) Yes, because CRR creation boosts equity buffer

Multiple Choice Questions [3 MCQs of 2 Marks each: Total 6 Marks]

4. In the books of G Ltd., closing inventory as at 31.03.2024 amounts to ₹ 10,40,000 (on the basis of FIFO method).

The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory for 31.3.2024. On the basis of weighted average method, closing inventory as on 31.03.2024 amounts to ₹ 8,80,000. Realisable value of the inventory as on 31.03.2024 amounts to ₹ 12,00,000.

What will be the value of inventory in the books and what disclosure should be given in the financial statement on 31.3.2024?

- (i) The value of inventory will be ₹ 8,80,000 and the fact that the valuation method has changed to be disclosed in the financial statement.
- (ii) The value of inventory will be ₹ 12,00,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.
- (iii) The value of inventory will be ₹ 12,00,000, and the fact that valuation method has changed to be disclosed in the financial statement.
- (iv) The value of inventory will be ₹ 8,80,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.

(2 Marks)

5. A Ltd. has a balance of ₹ 17,15,000 in the loan account with State Finance Corporation which is inclusive of ₹ 1,15,000 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.

As per Schedule III to the Companies Act, 2013 loan is to be disclosed in the balance sheet as follows:

- (i) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings.
- (ii) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and ₹ 1,15,000 under short-term borrowings.
- (iii) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and ₹ 1,15,000 under other current liabilities.
- (iv) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and no disclosure for ₹ 1,15,000.

(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) On 1st April 2023, Eleanor Limited purchased a manufacturing Plant for ₹ 60 lakhs, which has an estimated useful life of 10 years with a salvage value of ₹ 10 lakhs. On purchase of the Plant, a grant of ₹ 20 lakhs was received from the government. You are required to calculate the amount of depreciation as per AS 12 for the financial year 2024-25 in the following cases:
- (i) If the grant amount is deducted from the value of Plant.
 - (ii) If the grant is treated as deferred income.
 - (iii) If the grant amount is deducted from the value of Plant, but at the end of the year 2024-2025 grant is refunded to the extent of ₹ 4 lakhs, due to non-compliance of certain conditions.
 - (iv) If the grant is treated as the promoter's contribution.
- (Assume depreciation on the basis of Straight-Line Method.)
- (b) Answer the following with respect to AS 18:
- (i) ABC Ltd. sold goods of ₹ 2,00,000 to its associate company for the 1st quarter ending 30.06.2025. After that the related party relationship ceased to exist. However, goods were supplied to any other ordinary customer. Decide whether transactions of the entire year have to be disclosed as related party transaction.
 - (ii) If the majority of directors of Arjun Ltd. constitute the majority of the Board of another Company Bheem Ltd. in their individual capacity as professionals (and not by virtue of their being Directors in Arjun Ltd.). Are both the companies related?
 - (iii) Asha Ltd. sells all the manufactured furniture of ₹ 1,00,00,000 to Sasha Ltd, as per agreement. Sasha Ltd. is the only customer to Asha Ltd. In the financial statements, Asha Ltd. wants to present Sasha company as a related party. Comment on the disclosure requirement. **(7 + 7 = 14 Marks)**

2. X Ltd. and Y Ltd. had been carrying on business independently. They agreed to amalgamate and form a new company XY Ltd. with an authorized share capital of ₹ 40,00,000 divided into ₹ 8,00,000 equity shares of 5 each. On 31st March, 2025 the respective information of X Ltd. and Y Ltd. were as follows:

	X Ltd. (₹)	Y Ltd. (₹)
Share Capital	34,25,000	36,10,000
Trade Payable	59,70,000	18,02,500
Property, Plant and Equipment	58,25,000	37,40,000
Current Assets	31,45,000	15,99,500

Additional Information:

The following revalued figures of non-current and current assets are:

	X Ltd.	Y Ltd.
Property, Plant and Equipment	71,00,000	39,00,000
Current Assets	29,95,000	15,77,500

The debtors and creditors include 1,37,250 owed by X Ltd. to Y Ltd.

The purchase consideration is satisfied by issue of the following shares and debentures.

6,20,000 equity shares of XY Ltd. to X Ltd. and Y Ltd. in the proportion to the profitability of their respective business based on the average net profit during the last four years which were as follows:

	X Ltd.	Y Ltd.
2022 Profit	42,50,000	26,50,000
2023 Profit	44,45,760	27,60,000
2024 (Loss) / Profit	(75,000)	34,00,000
2025 Profit	37,79,240	35,90,000

7.5% debenture in XY Ltd. at par to provide an income equivalent to 4% return business as on capital employed in their respective business as on 31st March, 2025 after revaluation of assets.

You are required to:

- (1) Compute the amount of debenture and shares to be issued to 'X' Ltd. and 'Y' Ltd.
- (2) A Balance Sheet of XY Ltd. showing the position immediately after amalgamation.

(14 Marks)

- 3 G Ltd. and its subsidiary K Ltd. give the following information for the year ended 31st March, 2025: (₹ in crores)

Particulars	G Ltd.	K Ltd
Sales and other Income	3000	750
Increase in Inventory	750	100
Raw material consumed	600	100
Wages and Salaries	600	75
Production expenses	100	50
Administrative expenses	75	50
Selling and Distribution expenses	100	25
Interest	75	30
Depreciation	75	30

The following information is also given:

- G sold goods of ₹ 200 crores (sale value) to K Ltd. at cost plus 25%. (1/5th of such goods were still in inventory of K Ltd. at the end of the year)
- G Ltd. holds 75% of the Equity share capital of K Ltd. and the Equity share capital of K Ltd. is ₹ 800 crores on 01.04.2024 (date of acquisition of shares)
- Administrative expenses of K Ltd. include ₹ 5 crore paid to G Ltd. as consultancy fees. Also, selling and distribution expenses of G Ltd. include ₹ 20 crores paid to K Ltd. as commission.

Prepare a consolidated statement of Profit and Loss of G Ltd. with its subsidiary K. Ltd. for the year ended 31st March, 2025. (14 Marks)

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

Assets	31.03.2025 (₹)	31.03.2024 (₹)
Goodwill	37,500	70,000
Land	14,37,500	15,00,000
Furniture and Fixtures	1,20,000	1,10,000
Vehicles	55,000	70,000
Office Equipment	52,500	-
Long-term Investments	1,50,000	2,75,000
Stock-in-hand	2,40,000	2,20,000

Bills Receivables	45,375	36,250
Trade Receivables	1,15,000	1,30,000
Cash and Bank Balances	<u>3,24,625</u>	<u>86,250</u>
Total	<u>25,77,500</u>	<u>24,97,500</u>
Liabilities	31.03.2025 (₹)	31.03.2024 (₹)
Equity Share Capital	17,00,000	12,50,000
General Reserves	2,25,000	1,50,000
Profit and Loss Account	2,32,500	1,30,000
Capital Reserve	1,87,500	-
8% Debentures of ₹ 100 each	-	7,50,000
Loan from Mr. Rajesh	-	37,500
Bills Payables	27,500	32,500
Trade Payables	1,22,500	1,12,500
Creditors for Equipment	26,250	-
Outstanding Expenses	11,250	7,500
Provision for Taxation	45,000	27,500
Total	25,77,500	24,97,500

Additional Information:

- (1) On 1st April, 2024, one of the vehicles was sold for ₹ 7,500. No new purchases were made during the year.
- (2) A part of the total land was sold for ₹ 3,12,500 (Cost ₹ 2,50,000) 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	₹ 12,500
Vehicles	₹ 5,500
- (4) Interim dividend of ₹ 12,500 was paid during the year.
- (5) Provision for taxation for the year 2024-2025 was ₹ 40,000.
- (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 ₹ 20,000.

(8) Interest income received during the year on long – term investment was ₹ 16,250.

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 following information is given for Mr. Atwood for the year ended 31.03.2025:

01.04.2024	Mr. Atwood has 3,000 equity shares in Sun Limited at a book value of ₹ 3,30,000 (nominal value ₹ 100 each.)
01.07.2024	Purchased 1,500 equity shares in Sun Limited for ₹ 1,38,600.
01.08.2024	Purchased 5,000.9% Bonds at ₹ 97 cum-interest (face value ₹ 100). The due dates of interest are 1 st September and 1 st March.
02.10.2024	Dividend declared on equity shares and paid by Sun Limited for the year 2023- 2024 @ 10%.
15.10.2024	Sun Limited made a bonus issue of two equity shares for every five shares held.
01.01.2025	1,000 equity shares in Sun Limited sold @ ₹ 115 per share.
31.03.2025	Sold 4,000.9% Bonds @ ₹ 99 ex-interest

- The market price of Equity Shares of Sun Limited is ₹ 125 each and Bonds ₹ 98 each on 31st March 2025.
- Interest on bonds was received on due dates.

You are required to prepare Investment Account in the books of Mr. Atwood for the year ended 31st March 2025, assuming that the investments are valued at the average cost or market value, whichever is lower. (Round off to nearest Rupee) **(14 Marks)**

6. (a) How will interest be capitalised when qualifying assets are funded by borrowings in the nature of bonds that are issued at a discount? **(5 Marks)**
- (b) X Ltd. had ₹ 1,00,000 equity share capital divided into 1,000 shares of ₹ 100 each out of which ₹ 80 per share was called up and paid up. It has 1,500 cumulative preference shares of ₹ 100 each fully paid up. Intangible assets include Goodwill of ₹ 80,000 and patents of ₹ 27,800. Preference dividends are in arrears of ₹ 33,000.

You are required to show the entries (Ignore dates) under each of the following conditions:

- (i) If X Ltd. resolves to subdivide the equity shares into 10,000 equity shares of ₹ 10 each of which ₹ 8 per share is called up and paid up.

- (ii) If X Ltd. resolves to convert its 1,000 equity shares of ₹ 100 each (assume fully - paid) into ₹ 1,00,000 worth of stock.
- (iii) The preference shares are to be converted into 11% unsecured debentures of ₹ 100 each (including arrears of dividends).
- (iv) Patents and Goodwill to be written-off. **(5 Marks)**

- (c) An entity presents the following items in its trial balance. Classify the items as current or non-current assets in accordance with Accounting Standard 1 (AS 1) and, where AS 1 is silent, refer to Schedule III of the Companies Act, 2013:

Item Description	Classification (Current / Non-Current)
Security deposits paid to electricity company	
Raw materials inventory	
Prepaid rent (for 14 months)	
Fixed deposits with 18-month maturity	

(4 Marks)