Mock Test Paper - Series II: December, 2025

Date of Paper: 6th December, 2025

Time of Paper: 10 P.M. to 1 P.M.

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

ANSWERS

1. (c)
2. (c)
3. (b)
4. (d)
5. (a)
6. (d)
7. (c)
8. (c)
9. (b)
10. (d)
11. (a)
12. (c)
13. (c)
14. (a)
15. (b)

PART II – Descriptive Questions (70 Marks)

1. (a) (i)

	₹
Forward Rate	78.85
Less: Spot Rate	(77.50)
Premium on Contract	**1.35**
Contract Amount	US$ 20,000
Total Loss (20,000 x 1.35)	**₹ 27,000**

Contract period 4 months (3 months falling in the year ended 31st March, 2025)

Loss to be recognized (27,000x 3/4) = ₹ 20,250 in the year ended 31st March, 2025.

(ii) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or as expenses in the period in which they arise.

Trade payables	Foreign Currency Rate	Amount ₹
Initial recognition US $13,000 (9,75,000/75)	1 US $ = ₹ 75	
Exchange Rate on Balance sheet date	1 US $ = ₹ 79	
Exchange Difference Loss US $ 13,000 X (79 - 75)		52,000
Exchange Rate on Settlement date	1 US $ = ₹ 78.30	
Exchange Difference Profit US $ 13,000 x (79 - 78.30)		9,100

For the year ended 31st March, 2025 exchange diffefence loss amounting ₹ 52,000 will be charged to statement of Profit & Loss A/c.

However, there is exchange difference gain of ₹ 13,000 x (79-78.30) = 9,100 on 1st May, 2025. Thus gain of ₹ 9,100 will be credited to statement of Profit & Loss A/c for the year ended 31st March, 2026.

(b) As per AS 26 "Intangible Assets", subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense when it is incurred unless (a) it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and (b) expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset.

(i) In the given case, the legal expenses to defend the patent of a product amounting ₹ 23,00,000 should not be capitalized and be charged to Profit and Loss Statement.

(ii) The company is required to expense the entire amount of ₹ 7,00,000 in the Profit and Loss account for the year ended 31st March, 2025 because no benefit will arise in the future.

(iii) As per AS 26, expenditure on an intangible item that was initially recognized as an expense by a reporting enterprise in previous annual financial statements should not be recognized as part of the cost of an intangible asset at a later date. Thus the company cannot capitalize the amount of ₹ 25,00,000 and it should be recognized as expense

(iv) Expenditure of ₹ 50,00,000 on advertising and promotional activities should always be charged to Profit and Loss Statement. Hence, the company has done the correct treatment by debiting the sum of 50 lakhs to Profit and Loss Account.

(c) Mere gradual phasing out is not considered as discontinuing operation as defined under AS 24, 'Discontinuing Operations'.

Examples of activities that do not necessarily satisfy criterion of the definition, but that might do so in combination with other circumstances, include:

(1) Gradual or evolutionary phasing out of a product line or class of service;

(2) Discontinuing, even if relatively abruptly, several products within an ongoing line of business;

(3) Shifting of some production or marketing activities for a particular line of business from one location to another; and

(4) Closing of a facility to achieve productivity improvements or other cost savings.

In view of the above, mere gradual phasing out in itself cannot be considered as discontinuing operation. The companies' strategic plan also has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Moreover, the new segment i.e. commercial vehicle production line in a new factory has not started.

2. (a) In the Books of Prem Ltd

15% Debentures (Investment) Account

Particulars		Face Value	Interest	Principal	Particulars		Face Value	Interest	Principal
		₹	₹	₹			₹	₹	₹
1.4.24	To Balance b/d	2,00,000	7,500	2,50,000	30.6.24	By Bank A/c		22,500	
					1.11.24	By Bank A/c	1,20,000	6,000	1,28,200
1.5.24	To Bank A/c	1,00,000	5,000	1,00,000	1.11.24	By P&L A/c			21,800
					31.12.24	By Bank A/c	90,000	6,750	1,11,250
30.11.24	To Bank A/c	50,000	3,125	54,500	31.12.24	By Bank A/c		10,500	
31.12.24	To P&L A/c			1,250	31.3.25	By Balance c/d	1,40,000	5,250	1,44,500
31.3.25	To P&L A/c (Transfer)		35,375						
		3,50,000	51,000	4,05,750			3,50,000	51,000	4,05,750

1. Loss on sale of debentures on 1.11.24

   Cost = 2,50,000/2,000X 1,200 = ₹ 1,50,000

   Sale proceeds = ₹ 1,28,200

   Loss = ₹ 1,50,000 less ₹ 1,28,200 = ₹ 21,800

2. Profit on sale of debentures on 31.12.24

   Cost = 2,50,000/2,000X 800 + 1,00,000/1,000X 100 = ₹ 1,10,000 (1,00,000+10,000)

   Sale proceeds = ₹ 1,11,250

   Loss = ₹ 1,11,250 less ₹ 1,10,000 = ₹ 1,250

3.

Calculation of closing balance:	Units		₹
Debentures in hand remained in hand at 1.4.25			
Purchased on 1st May, 24	900	1,00,000 x 9/10	90,000
Purchased on 30th Nov. 24	500	54,500	54,500
	1,400		1,44,500

(b) **Books of Care**

Branch Account

	₹			₹
To Goods sent to Branch A/c (2,25,000 + 10%)	2,47,500	By Goods sent to Branch-Loading		22,500
To Goods sent to Branch A/c (6,300 X 10/110)	573	By Goods sent to Branch-returns		6,300
To Stock Reserve (80,100 x 10/110)	7,283	By Bank		1,59,000
To Net Profit (Bal fig) ts/f to General P&L A/c	56,045	By Balance c/d -Closing Branch Assets		-
		Stock	80,100	-
		Debtors (Sales-Collection)	43,500	1,23,600
	3,11,400			3,11,400

Working Note

Memorandum Branch Debtors Account

	₹		₹
To Balance b/d	---	By Cash/Bank	1,59,000
To Sales	2,02,500	By Balance c/d	43,500
	2,02,500		2,02,500

Goods Sent to Branch Account

	₹		₹
To Branch A/c – Loading	22,500	By Branch A/c	2,47,500

To Branch A/c – Returns	6,300	By Branch A/c – Loading on returns	573
To Purchases A/c	2,19,273		
	2,48,073		2,48,073

3. Extract of Consolidated Balance Sheet

	Note	(₹)
Assets		
Non-current Assets		
Property, Plant and Equipment:	1	1,07,10,000
		1,07,10,000

Notes to Accounts

			(₹)
1.	Property, Plant and Equipment		
	Land & Building:		
	Hari Ltd.	5,70,000	
	OM Ltd.	5,70,000	
	Bhakti Ltd.	5,70,000	17,10,000
	Plant & Machinery:		
	Hari Ltd.	25,50,000	
	OM Ltd.	25,50,000	
	Bhakti Ltd.	25,50,000	76,50,000
	Computers:		
	Hari Ltd.	90,000	
	OM Ltd.	90,000	
	Bhakti Ltd.	90,000	2,70,000
	Vehicles:		
	Hari Ltd.	3,60,000	
	OM Ltd.	3,60,000	
	Bhakti Ltd.	3,60,000	10,80,000

In the Books of Hari Ltd.

Extract of statement of Profit & Loss

Particulars	Note No.	₹
Depreciation and amortisation expense	1	6,30,000
Other operating Expenses (Pipeline Expenses)		3,00,000

Extract of Balance Sheet

	Note No.	₹
Assets		
Non-current assets		
Property, Plant and Equipment	2	35,70,000

Notes to Accounts

		₹	₹
1.	Depreciation and amortisation expense		
	Land & Building	30,000	
	Plant & Machinery	4,50,000	
	Computers	60,000	-
	Vehicles	90,000	6,30,000
2.	Land & Building	6,00,000	-
	Less: Depreciation	-	5,70,000
		30,000	
	Plant & Machinery	30,00,000	-
	Less: Depreciation	-	25,50,000
		4,50,000	
	Computers	1,50,000	-
	Less: Depreciation	-	90,000
		60,000	
	Vehicles	4,50,000	-
	Less: Depreciation	-	3,60,000
		90,000	
		-	35,70,000

In the Books of OM Ltd.

Extract of draft Profit & Loss Account

Particulars	Note No.	₹
Depreciation and amortisation expense	1	6,30,000
Other operating Expenses (Pipeline Expenses)		3,00,000

Extract of Balance Sheet

	Note No.	₹
Assets		
Non-current assets		
Property, Plant and Equipment	2	35,70,000

Notes to Accounts

		₹	₹
1.	Depreciation and amortisation expense		
	Land & Building	30,000	
	Plant & Machinery	4,50,000	
	Computers	60,000	-
	Vehicles	90,000	6,30,000
2.	Land & Building	6,00,000	-
	Less: Depreciation	-	
		30,000	5,70,000
	Plant & Machinery	30,00,000	-
	Less: Depreciation	-	
		4,50,000	25,50,000
	Computers	1,50,000	-
	Less: Depreciation	-	
		60,000	90,000
	Vehicles	4,50,000	-
	Less: Depreciation	-	
		90,000	3,60,000
		-	35,70,000

In the Books of Bhakti Ltd.

Extract of Draft Profit & Loss Account	Note No.	₹
Depreciation and amortisation expense	1	6,30,000
Other operating Expenses (Pipeline Expenses)		3,00,000

Extract of Balance Sheet

	Note No.	₹
Assets		
Non-current assets		
Property, Plant and Equipment	2	35,70,000

Notes to Accounts

		₹	₹
1.	Depreciation and amortisation expense		
	Land & Building	30,000	
	Plant & Machinery	4,50,000	
	Computers	60,000	-
	Vehicles	90,000	6,30,000
2.	Land & Building	6,00,000	-
	Less: Depreciation	-30,000	5,70,000
	Plant & Machinery	30,00,000	-
	Less: Depreciation	-4,50,000	25,50,000
	Computers	1,50,000	-
	Less: Depreciation	-60,000	90,000
	Vehicles	4,50,000	-
	Less: Depreciation	-90,000	3,60,000
		-	35,70,000

4. In the books of Star Ltd.

Journal Entries

	Particulars		Debit (₹)	Credit (₹)
1.	Equity share capital A/c (₹ 50)	Dr.	9,37,500	
	To Equity share capital A/c (₹ 5)			93,750

	To Capital reduction A/c*			8,43,750
	(Being equity capital reduced to nominal value of ₹ 5 each)			
2.	Bank A/c	Dr.	2,81,250	
	To Equity share capital			2,81,250
	(Being 3 right shares against each share was issued and subscribed)			
3.	8% Preference share capital A/c (₹ 50)	Dr.	7,50,000	
	Capital reduction A/c	Dr.	75,000	
	To 6% Preference share capital (₹ 10)			6,00,000
	To equity share capital (₹ 50)			2,25,000
	(Being 8% preference shares of ₹ 50 each converted to 6% preference shares of ₹ 10 each and also given to them 3 equity shares for every share held)			
4.	Loan A/c	Dr.	1,87,500	
	To 6% Preference share capital A/c (15,000 x ₹ 10)			1,50,000
	To Equity share capital A/c (7,500 x ₹5)			37,500
	(Being loan to the extent of ₹ 1,50,000 converted into share capital)			
5.	Bank A/c (25,000 x ₹5)	Dr.	1,25,000	
	To Equity share application A/c			1,25,000
	(Being shares subscribed by the directors)			
6.	Equity share application A/c	Dr.	1,25,000	
	To Equity share capital A/c			1,25,000
	(Being application money transferred to capital A/c)			
7.	Loan A/c	Dr.	2,50,000	
	To Bank A/c			2,50,000
	(Being loan repaid)			
8.	Capital reduction A/c	Dr.	7,68,750	
	To Profit and loss A/c			5,63,750
	To Plant A/c			43,750
	To Trademarks and Goodwill A/c (Bal. fig.)			1,61,250
	(Being losses and assets written off to the extent required)			

Balance sheet of Star Ltd. (and reduced)

as on 31.3.2025

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	15,12,500
2		Non-current liabilities		
	a	Long-term borrowings (7,16,250-1,87,500-2,50,000)		2,78,750
3		Current liabilities		
	a	Trade Payables		2,58,750
	b	Other current liabilities		43,750
		Total		20,93,750
		Assets		
1		Non-current assets		
	a	Property, Plant and Equipment	2	7,91,250
	b	Intangible assets	3	2,36,250
2		Current assets		
	a	Inventories		5,00,000
	b	Trade receivables		4,10,000
	c	Cash and cash equivalents	4	1,56,250
		Total		20,93,750

Notes to accounts:

			₹
1	Share Capital		
	Authorized capital:		
	81,250 Preference shares of ₹ 10 each	8,12,500	
	1,87,500 Equity shares of ₹ 5 each	9,37,500	17,50,000
	Issued, subscribed and paid up:		
	1,52,500 equity shares of ₹ 5 each	7,62,500	
	75,000, 6% Preference shares of ₹ 10 each	7,50,000	15,12,500
2	Property, Plant and Equipment		
	Building at cost less depreciation	5,00,000	
	Plant at cost less depreciation	2,91,250	7,91,250

3.	Intangible assets		
	Trademarks and goodwill		2,36,250
4	Cash and cash equivalents		
	Bank (2,81,250+1,25,000-2,50,000)		1,56,250

Note: **In place of Capital Reduction Account, Reconstruction Account or Internal Reconstruction Account may also be used.*

5. **Madhav Limited**

Balance Sheet as at 31st March 2025

Particulars	Note No.	₹ (in 000)
I. Equity and Liabilities		
1. Shareholders' funds		
(a) Share capital	1	300.00
(b) Reserves and Surplus	2	232.70
2. Non-Current liabilities		
(a) Long term borrowings	3	135.00
3. Current liabilities		
(a) Trade Payables		35.00
(b) Short-Term Provisions		30.30
Total		733.00
II. Assets		
1. Non-current assets		
(a) Property, Plant and Equipment and Intangible assets		
(i) Property, Plant and Equipment	4	596.00
2. Current assets		
(a) Inventories		58.00
(b) Trade receivables		65.00
(c) Cash and cash equivalents		14.00
Total		733.00

Madhav Limited

Statement of Profit and Loss for the year ended 31st March 2025

	Particulars	**Notes**	**₹ (in '000)**
I.	Revenue from operations		473.00
II.	Other Income	5	1.00
III.	Total Income		474.00
IV.	Expenses:		
	Purchases		226.00
	Finance costs		14.00
	Depreciation and Amortisation expenses (10% of 510*)		51.00
	Other expenses	6	82.00
	Total Expenses		373.00
V.	Profit before Tax (III-IV)		101.00
	Tax Expense:		
	Current tax		(30.30)
	Profit for the period (after tax)		70.70

Notes to accounts

				₹ (in 000)
1.	**Share Capital**			
	Equity share capital			
	Authorised			
	35,000 shares of ₹ 10 each			350.00
	Issued, subscribed & paid-up			
	20,000 shares of ₹ 10 each fully paid up		200.00	
	Add: 10,000 Bonus Shares issued during the year		100.00	300.00
2.	**Reserves and Surplus**			
	Securities Premium Account			
	Opening Balance	27.00		

* 520 (Plant and machinery at cost) – 10 (Cost of plant and machinery sold)

	Less: Utilised for bonus issue		27.00		0.00
	Revaluation reserve (2,45,000 – 1,48,000)				97.00
	General Reserve	90			
	Less: Utilized for bonus issue	(73)	17.00		
	Add: Transfer from Profit & loss @ 10%		7.07		24.07
	Profit & loss Balance				
	Opening balance		48.00		
	Profit for the period		70.70		
	Appropriations				
	Transfer to General Reserve @ 10%		(7.07)		111.63
					232.70
3.	**Long term borrowing**				
	10% Debentures				135.00
4	**Property, Plant and Equipment**				
	Land				
	Opening balance			148.00	
	Add: Revaluation adjustment			97.00	
	Closing balance				245.00
	Plant and Machinery				
	Opening balance			520.00	
	Less: Disposed off			(10.00)	
				510.00	
	Less: Depreciation (1,16,000-8,000+51,000)			(159.00)	
	Closing balance				351.00
			Total		596.00
5	**Other Income**				
	Profit on sale of machinery:				
	Sale value of machinery			3.00	
	Less: Book value of machinery (10,000-8,000)			(2.00)	1.00
6	**Other expenses:**				
	Factory expenses			40.00	
	Selling expenses			20.00	
	Administrative expenses			22.00	82.00

The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March 2025. Such dividends will be disclosed in notes only.

Working note:

Bonus Shares Issue:

- Bonus shares are issued in a 1:2 ratio, so for every 2 equity shares, 1 bonus share is issued.
- Equity Share Capital = ₹ 2,00,000 / ₹ 10 = 20,000 shares.
- Bonus Shares = 20,000 / 2 = 10,000 shares × ₹ 10 = ₹ 1,00,000.

Alternatively, since, the amount of interest on 10% 1,35,000 Debentures comes to ₹ 13,500 while the Debenture Interest in the trial balance is listed as ₹ 14,000, the difference of ₹ 500 (₹13,500 - ₹14,000) may be treated as an advance payment.

6. **(a)** **(i)** **Delivery is delayed at buyer's request and buyer takes title and accepts billing:** Revenue should be recognized notwithstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made. However, the item must be on hand, identified and ready for delivery to the buyer at the time the sale is recognized rather than there being simply an intention to acquire or manufacture the goods in time for delivery.

(ii) **Instalment sales:** When the consideration is receivable in instalments, revenue attributable to the sales price exclusive of interest should be recognized at the date of sale. The interest element should be recognized as revenue, proportionately to the unpaid balance due to the seller.

(iii) **Trade discounts and volume rebates:** 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.

(iv) **Insurance agency commissions for rendering services:** Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.

(v) **Advertising commission:** Revenue should be recognized when the service is completed. For advertising agencies, media commissions will normally be recognized when the related advertisement or commercial appears before the public and the necessary intimation is received by the agency, as opposed to production commission, which will be recognized when the project is completed.

Or

In determining the cost of inventories, it is appropriate to exclude certain costs and recognise them as expenses in the period in which they are incurred. Examples of such costs are:

(a) **Abnormal amounts** of wasted materials, labour, or other production costs;

(b) **Storage costs**, unless the production process requires such storage.

(c) **Administrative overheads** that do not contribute to bringing the inventories to their present location and condition.

(d) **Selling and distribution costs**.

(b) (i) Journal Entry for the year ended on 31st March 2025

			₹ in lakhs	₹ in lakhs
31.3.25	Amortization A/c (340 × 350/ 1,190)	Dr.	100	
	To Patent Rights A/c			100
	P&L A/c	Dr.	100	
	To Amortization A/c			100

Working note

Huge Limited amortised ₹ 340 lakhs during next 4 years on the basis of net cash flows arising of the product. The amortisation for second year will be worked out as under:

₹ 340 x 350 /1,190 (140+350+280+420) = ₹ 100 lakhs

(ii)

Particulars		**₹ in lakhs**	**₹ in lakhs**
Prior period item	Dr.	50	
Amortization A/c	Dr.	10	
To Know-how A/c			60
[Being amortization of 6 years (out of which amortization of 5 years charged as prior period item i.e. 80 x 6 /8 = 60 lakhs)]			

Profit and Loss A/c	Dr.	60	
To Amortization A/c			10
To Prior Period Item			50
(Being amount transferred to Profit and Loss account)			

(c) Computation of Expected and Actual Returns on Plan Assets

		₹
Return on ₹ 5,00,000 held for 12 months at 10.50%		52,500
Return on ₹ 1,42,000 for 6 months at 10.50%		7,455
Loss of interest on benefits paid for 4 months on ₹ 63,000 for 4 months @ 10.50%		(2,205)
Expected return on plan assets for 2024-2025		57,750
Fair value of plan assets as on 31st March 2025		7,50,000
Less: Fair value of plan assets as on 1 April,2024	5,00,000	
Contributions received on 30.9.2024	1,42,000	(6,42,000)
		1,08,000
Add: Benefits paid on 30th Nov 2024		63,000
Actual return on plan assets		1,71,000