**Mock Test Paper - Series I: March, 2026**

**Date of Paper: 16th March, 2026**

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

**INTERMEDIATE COURSE: GROUP - I**

**PAPER – 1 : ADVANCED ACCOUNTING**

**ANSWERS**

**Case Scenario**

| | |
|---|---|
| 1. | (B) |
| 2. | (A) |
| 3. | (B) |
| 4. | (B) |
| 5. | (B) |
| 6. | (C) |
| 7. | (C) |
| 8. | (A) |
| 9. | (D) |
| 10. | (B) |
| 11. | (B) |
| 12. | (A) |
| 13. | (C) |
| 14. | (D) |
| 15. | (D) |

**PART II – Descriptive Questions (70 Marks)**

**1.** **(a)** According to AS 16 "Borrowing Costs", borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

The standard also states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Thus, eligible borrowing cost on Loan of data bank to be capitalized:

= ₹ (60,00,000 x 8%) x 10/12 - ₹ 30,000

= ₹ (4,80,000) x 10/12) =₹ 4,00,000

= ₹ 4,00,000 - ₹ 30,000

= ₹ 3,70,000

| Loan | Particulars | Nature of assets | (a) Interest to be Capitalized (₹) | (b) Interest to be charged to Profit & Loss Account (₹) |
|---|---|---|---|---|
| Data bank | Construction of factory building | Qualifying Asset | 3,70,000 | (4,80,000 - 4,00,000) 80,000 |
| Satya Bank | Construction of factory building | Qualifying Asset | (1,92,000x14/20) x 10/12 = 1,12,000 | (1,92,000 x 14/20) x 2/12 = 22,400 |
| Satya Bank | Working Capital | Not a Qualifying Asset | NIL | (1,92,000x6/20) = ₹ 57,600 |
| | Total | | ₹ 4,82,000 | ₹ 1,60,000 |

Note: Loan from Satya bank is considered to be specific borrowings.

**(b)** As per AS 11 "The Effects of Changes in Foreign Exchange Rates", **Foreign currency monetary items should be reported using the closing rate**. **Non-monetary items** which are carried in terms of historical cost denominated in a foreign currency **should be reported using the exchange rate at the date of the transaction**. **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**.

**(i) Items given in the question will appear in the Balance Sheet at the following values:**

Trade Payables (30,96,000/86= 36,000 German Currency) x ₹ 90 = ₹ 32,40,000

Plant and Machinery 18,500 German Currency X ₹ 88 = ₹ 16,28,000

Trade Receivables (50,40,000/84= 60,000 German Currency) x ₹ 90 = ₹ **54,00,000**

**(ii) Amount of gain / loss on each transaction on account of exchange difference:**

Exchange loss on Transaction of import of goods from Try Ltd. = ₹ (1,44,000)

[36,000 German Currency X ₹ 4 (i.e. 90-86)]

Exchange gain on Transaction of export of goods to Cream Ltd = ₹ 3,60,000

[60,000 German Currency X ₹ 6 (i.e. 90-84)]

**(c) (i) Cost of closing inventory is shown below:**

| | ₹ |
|---|---|
| Sale value of opening stock and purchases (₹ 20,000 + ₹ 1,47,000) x 1.10 | **1,83,700** |
| Sales | (1,54,000) |
| Sale value of unsold stock | **29,700** |
| *Less:* Gross Margin (₹ 29,700 / 1.10) x 0.10 | **(2,700)** |
| Cost of closing inventory | **27,000** |

**Alternative presentation**

**Cost of closing inventory is shown below:**

| | ₹ |
|---|---|
| Opening stock and purchases (₹ 20,000 + ₹ 1,47,000) | **1,67,000** |
| Less: cost of goods sold | (1,40,000) |
| Cost of closing inventory | **27,000** |

| Calculation of cost of goods sold | ₹ |
|---|---|
| Goods sold | 1,54,000 |
| Less: gross margin (1,54,000 X 10/110) | (14,000) |
| Cost of goods sold | 1,40,000 |

**(ii)**

| | | |
|---|---|---|
| Closing stock at cost (250X ₹ 300) | (i) | 75,000 |
| Net Realizable value of closing stock (₹ 280* × 250) | (ii) | 70,000 |
| Value of closing stock [lower of (i) and (ii)] | | 70,000 |

**2. (a) In the Books of Mr. Happy**

**10% Government Bonds (Investment) Account**

| Particulars | | Nominal Value | Interest | Principal | Particulars | | Nominal Value | Interest | Principal |
|---|---|---|---|---|---|---|---|---|---|
| **2025-26** | | ₹ | ₹ | ₹ | **2025-26** | | ₹ | ₹ | ₹ |
| April 1 | To Balance b/d (W.N.1) | 5,00,000 | 12,500 | 4,85,000 | June. 30 | By Bank A/c (W.N.3) | | 28,000 | |
| June 1 | To Bank A/c (W.N.2) | 60,000 | 2,500 | 56,900 | Oct. 1 | By Bank A/c (W.N.4) | 2,50,000 | 6,250 | 2,46,250 |
| | | | | | Dec.31 | By Bank A/c (W.N.6) | | 27,500 | |
| Aug. 1 | To Bank A/c | 2,40,000 | 2,000 | 2,34,000 | Jan. 1 | By Bank A/c (W.N.7) | 3,00,000 | | 2,97,000 |
| Oct. 1 | To P&L A/c (W.N.5) | | | 3,750 | March31 | By Balance c/d (W.N. 9 & W.N.10) | 2,50,000 | 6,250 | 2,43,483 |
| Jan. 1 | To P&L A/c (b.f.) (W.N.8) | | | 7,083 | | | | | |
| March 31 | To P&L A/c (Transfer) | | 51,000 | | | | | | |
| | | 8,00,000 | 68,000 | 7,86,733 | | | 8,00,000 | 68,000 | 7,86,733 |

**Working Notes:**

1. Interest element in opening balance of bonds = 5,00,000 x 10% x 3/12 = ₹ 12,500

2. Purchase of bonds on 1.6.25

   Interest element in purchase of bonds = 600 x 100 x 10% x 5/12 = ₹ 2,500

Investment element in purchase of bonds = (600 X 99) = ₹ 59,400 - ₹ 2,500 = 56,900

3. Interest for half-year ended 30.6.25 = ₹ 5,60,000 x 10% x 6/12 = ₹ 28,000

4. Sale of bonds on 1.10.2025

   Interest element = 2,500 x 100 x 10% x 3/12 = ₹ 6,250

   Investment element = 2,500 x 98.50 = ₹ 2,46,250

5. Profit on sale of bonds on 1.10.25

   Cost of bonds = (4,85,000/5,000 X 2,500) = 2,42,500

   Sale proceeds = ₹ 2,46,250

   Profit element = ₹ 3,750

6. Interest for half-year ended 31 December 2025

   = 5,500 x 100 x 10% x 6/12 = ₹ 27,500

7. Sale of bonds on Jan.1 ,26

   Interest element = 0 (Nil)

   Investment element = 3000 x ₹ 99 = ₹ 2,97,000

8. Profit on sale of bonds on Jan 1, 26

   Cost of bonds = [2,42,500+56,900X5/6] = 2,42,500 + 47,417 = 2,89,917

   Sale proceeds = ₹ 2,97,000

   Profit element = ₹ 7,083

9. Closing value of investment

| Calculation of closing balance: | **Nominal value** | **₹** |
|---|---|---|
| Bonds in hand remained in hand on 1.4.25 | | --- |
| Purchased on 1st June,25 | 10,000 | 9,483 |
| Purchased on 1st August,25 | 2,40,000 | 2,34,000 |
| | 2,50,000 | 2,43,483 |

10. Interest element in closing balance of bonds = 2,500 x 100 x 10% x 3/12 = ₹ 6,250.

**(b) Books of Jolly Industries, Delhi**

**Jalandhar Branch Stock Account**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d – Op Stock | 1,25,000 | By Bank A/c – Cash Sales | 1,04,000 |
| To Branch Debtors A/c – Sales Return | 11,000 | By Branch Debtors A/c - Credit Sales | 4,16,000 |
| To Goods sent to Branch A/c (6,00,000 +12,000) | 6,12,000 | By Goods sent to Branch (Returns to H.O.) | 60,000 |
| | | By Branch Stock Adjustment A/c (Normal Loss) | 12,000 |
| | | By Branch Stock Adjustment A/c (Abnormal Loss) (bal. fig.) | 6,000 |
| | | By Balance c/d - Closing stock | 1,50,000 |
| | 7,48,000 | | 7,48,000 |

**Jalandhar Branch Stock Adjustment Account**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Goods sent to Branch A/c (1/5 of ₹ 60,000) (on returns) | 12,000 | By Balance b/d (20% of 1,25,000) | 25,000 |
| To Branch Stock A/c (abnormal Loss) (6,000 x 1/5) | 1,200 | By Goods sent to Branch A/c (1/5 of ₹ 6,12,000) | 1,22,400 |
| To Branch Stock A/c (Normal Loss) | 12,000 | | |
| To Balance c/d (1/5 of ₹ 1,50,000) | 30,000 | | |
| To Branch P & L A/c (Profit on sale) – Bal fig | 92,200 | | |
| | 1,47,400 | | 1,47,400 |

**Goods Sent to Branch Account**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Jalandhar Branch Stock Adjustment A/c | 1,22,400 | By Jalandhar Branch Stock A/c | 6,12,000 |
| To Jalandhar Branch Stock A/c (Returns) | 60,000 | By Jalandhar Branch Stock Adj. A/c | 12,000 |
| To Purchases A/c | 4,41,600 | | |
| | 6,24,000 | | 6,24,000 |

**Branch Debtors Account**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 1,10,000 | By Bank | 3,45,000 |
| To Branch Stock A/c | 4,16,000 | By Branch P&L A/c - Discount | 5,500 |
| | | By Branch P&L A/c - Bad Debts | 9,500 |
| | | By Branch Stock - Sales Returns | 11,000 |
| | | By Balance c/d | 1,55,000 |
| | 5,26,000 | | 5,26,000 |

**Branch Expenses Account**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Bank A/c (Rent & Taxes) | 9,000 | By Branch Profit & Loss A/c (Transfer) | 65,500 |
| To Bank A/c (Salaries & Staff Welfare expenses) | 54,000 | | |
| To Bank A/c (office exp.) | 2,500 | | |
| | 65,500 | | 65,500 |

**Branch Profit & Loss Account for the year ending 31st March 2026**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Branch Expenses A/c | **65,500** | By Branch Stock Adj. A/c | **92,200** |
| To Branch Debtors A/c | 5,500 | | |
| To Branch Debtors A/c | 9,500 | | |
| To Abnormal Loss (cost) | 4,800 | | |
| To Net Profit transferred to Profit & Loss A/c | 6,900 | | |
| | 92,200 | | 92,200 |

**3.** **Statement of Profit and Loss of Falgun Ltd.**

**for the year ended 31st March, 2025**

| | **Particulars** | **Notes** | **₹** |
|---|---|---|---|
| I. | Revenue from operations | | 8,46,000 |
| II. | Other income (Rent income) | | 24,000 |
| III. | Total Income (I + II) | | 8,70,000 |
| IV. | Expenses: | | |
| | Cost of materials consumed / Cost of purchases | 9 | 2,42,200 |
| | Changes in inventories of finished goods, work-in-progress and Inventory-in-Trade | | - |
| | Employee benefits expense | 10 | 72,000 |
| | Finance costs (Interest on debentures) | 11 | 20,000 |
| | Depreciation and amortization expenses | 12 | 1,80,000 |
| | Other expenses | 13 | 2,54,800 |
| | Total expenses | | 7,69,000 |
| V. | Profit (Loss) for the period (III - IV) | | 1,01,000 |

**Balance Sheet of Falgun Ltd. as at 31st March, 2025**

| **Particulars** | **Note No** | **₹** |
|---|---|---|
| Equity and Liabilities | | |
| 1 Shareholders' funds | | |
| a Share capital | 1 | 14,00,000 |
| b Reserves and Surplus | 2 | 6,26,000 |
| 2 Non-current liabilities | | |
| a Long-term borrowings | 3 | 8,14,000 |
| 3 Current liabilities | | |
| a Short term borrowings | 4 | 1,00,000 |
| b Trade Payables | | 72,000 |
| c Other current liabilities | 5 | 79,000 |
| d Short term provisions | | |
| Total | | 30,91,000 |

| | | |
|---|---|---|
| ASSETS | | |
| 1 Non-current assets | | |
| a Property, plant and equipment | 6 | 22,30,000 |
| 2 Current assets | | |
| a Inventories | | 1,12,000 |
| b Trade receivables | 7 | 3,10,000 |
| c Cash and bank equivalents | 8 | 4,39,000 |
| d Short term loans & advances | | |
| Total | | 30,91,000 |

**Note:** There is a Contingent Liability for bills discounted but not yet matured amounting ₹ 35,000.

**Notes to accounts:**

| | | | ₹ |
|---|---|---|---|
| 1 | Authorised capital: | | |
| | 10,000, 10% preference shares of ₹ 100 | | 10,00,000 |
| | 20,000 Equity shares of ₹ 100 each | | 20,00,000 |
| | | | 30,00,000 |
| | Issued and subscribed capital: | | |
| | 4,000, 10% preference shares of ₹ 100 each fully paid | | 4,00,000 |
| | 10,000 Equity shares of ₹ 100 each, fully paid | | 10,00,000 |
| | (of the above 2,500* shares have been issued for consideration other than cash) | | 14,00,000 |
| 2 | Reserves and Surplus | | |
| | Securities premium | 50,000 | |
| | Revaluation reserve | 1,50,000 | |
| | General Reserve | 2,85,000 | 4,85,000 |
| | Surplus (Profit & Loss balance) | | |
| | Opening balance | 40,000 | |
| | Profit for the year | 1,01,000 | 1,41,000 |
| | Total | | 6,26,000 |

| | | | | |
|---|---|---|---|---|
| 3. | Long-term borrowings | | | |
| | Debentures | | | |
| | 2,000 10% Debentures of ₹ 100 each | | 2,00,000 | |
| | Secured: Term Loans | | | |
| | 6% Loan from State Finance Corporation [repayable after 3years (₹ 4,50,000 - ₹ 36,000 for interest accrued but not due)] (secured by hypothecation of Plant and machinery) | | 4,14,000 | |
| | Others | | | |
| | Bank overdraft from Nationalized bank (secured by hypothecation of stocks) | | 2,00,000 | |
| | Total | | | 8,14,000 |
| 4. | Short-term borrowings | | | |
| | Loan from Directors | | | 1,00,000 |
| 5 | Other current liabilities | | | |
| | Unclaimed dividend | | 23,000 | |
| | Interest on Debentures | | 20,000 | |
| | Interest accrued but not due on loans (SFC) | | 36,000 | 79,000 |
| 6 | Property, plant and equipment | | | |
| | Land | 7,00,000 | | |
| | Add: Revaluation Adjustment | 1,50,000 | | 8,50,000 |
| | Plant & Machinery | | 14,70,000 | |
| | *Less*: Provision for depreciation | | (3,00,000) | 11,70,000 |
| | Furniture | | 4,00,000 | |
| | *Less*: Provision for depreciation | | (1,90,000) | 2,10,000 |
| | Total | | | 22,30,000 |
| 7 | Trade receivables | | | |
| | Debts outstanding for a period exceeding six months | | | 46,000 |
| | Other Debts | | | 2,64,000 |
| | | | | 3,10,000 |
| 8 | Cash and cash equivalents | | | |
| | Cash at bank with Scheduled Banks (3,05,000 - 55,000) | | 2,50,000 | |
| | with others | | 55,000 | |

| | | | |
|---|---|---|---|
| | Cash in hand | 1,34,000 | 4,39,000 |
| | *Weightage of this item should be considered equal to two figures (i.e. double) | | |
| 9 | Cost of materials consumed/Cost of purchases | | |
| | Adjusted purchases | 2,25,000 | |
| | Carriage inward | 17,200 | 2,42,200 |
| 10 | Employee benefit expense | | |
| | Salaries | | 72,000 |
| 11 | Finance cost | | |
| | Debenture interest | | 20,000 |
| 12 | Depreciation and amortization expenses | | |
| | Plant and Machinery 1,10,000 | | |
| | Furniture 70,000 | | |
| | | | 1,80,000 |
| 13 | Other expenses | | |
| | Misc. expenses (10,200-5,000) | 5,200 | |
| | Audit fee | 5,000 | |
| | Selling & Distribution expenses | 46,600 | |
| | Director's fee | 40,000 | |
| | Travelling expenses (including foreign tour) | 1,30,000 | |
| | Office expenses | 28,000 | 2,54,800 |

**Notes:**

1. 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.
2. Since Bonus issue is in proposal state, no adjustment has been made in the given answer.

**4. Journal Entries in the books of Tourna Ltd.**

| | | *Dr.* ₹ | *Cr.* ₹ |
|---|---|---|---|
| Equity Share Capital (₹ 100) A/c | Dr. | 16,00,000 | |

| | | | |
|---|---|---|---|
| To Share Surrender A/c | | | 6,40,000 |
| To Equity Share Capital (₹ 10) A/c | | | 9,60,000 |
| (Subdivision of 16,000 equity shares of ₹ 100 each into 1,60,000 equity shares of ₹ 10 each and surrender of 64,000 of such subdivided shares as per capital reduction scheme) | | | |
| 6% Preference Share Capital (₹ 100) A/c | Dr. | 8,00,000 | |
| To 12% Debentures A/c | Dr. | | 5,60,000 |
| To Reconstruction A/c | | | 2,40,000 |
| (12% Debenture issued to Preference Shareholders and 30% of the capital foregone by them) | | | |
| Bank A/c | Dr. | 4,00,000 | |
| To 12% Debenture (₹ 100) A/c | | | 4,00,000 |
| (Being 12% debentures issued) | | | |
| Bank Overdraft A/c | Dr. | 1,40,000 | |
| To Bank A/c | | | 1,26,000 |
| To Reconstruction A/c | | | 14,000 |
| (Being bank overdraft amount paid) | | | |
| 10% Debentures A/c | Dr. | 3,20,000 | |
| Interest payable A/c | Dr. | 32,000 | |
| To Debenture holders A/c | | | 3,52,000 |
| (Being Interest payable on the 10% debentures credited to debenture holders A/c) | | | |
| Debentureholder A/c | Dr. | 3,52,000 | |
| To furniture & fixtures A/c | | | 2,80,000 |
| To Reconstruction A/c | | | 72,000 |
| <u>Alternative combined entry:</u> | | | |
| 10% Debentures A/c | Dr. | 3,20,000 | |
| Interest payable A/c | Dr. | 32,000 | |
| To furniture & fixtures A/c | | | 2,80,000 |
| To Reconstruction A/c | | | 72,000 |
| (Settlement of debenture holders by allotment of Furniture & Fixtures) | | | |

| | | | |
|---|---|---|---|
| Trade payables A/c | Dr. | 1,15,000 | |
| To Reconstruction A/c | | | 1,15,000 |
| (Transferred claims of the trade payables to reconstruction account, 30% of which is being clear reduction and equity shares are being issued in consideration of the balance) | | | |
| Share Surrender A/c | | 6,40,000 | |
| To Equity Share Capital (₹ 10) A/c | | | 80,500 |
| To Reconstruction A/c | | | 5,59,500 |
| (Issued equity shares to discharge the claims of the trade payables respectively as a per scheme and the balance in share surrender account is being transferred to reconstruction account) | | | |
| Provision for Taxation A/c | Dr. | 42,000 | |
| Reconstruction A/c | Dr. | 8,000 | |
| To Bank A/c | | | 50,000 |
| (Being taxation liability settled) | | | |
| <u>Alternative Separate entry:</u> | | | |
| Provision for Taxation A/c | Dr. | 42,000 | |
| Reconstruction A/c | Dr. | 8,000 | |
| To Liability for taxation A/c | | | 50,000 |
| (Being conversion of the provision for taxation into liability for taxation.) | | | |
| Liability for taxation A/c | | 50,000 | |
| To Cash/Bank A/c | | | 50,000 |
| (Being taxation liability settled) | | | |
| Reconstruction A/c | Dr. | 70,000 | |
| To Investment A/c | | | 70,000 |
| (Being investments' value reduce to market price) | | | |
| Inventory A/c | Dr. | 32,000 | |
| To Reconstruction A/c | Dr. | | 10,400 |
| To Provision for doubtful debts (4,32,000 x 5%) | | | 21,600 |
| (Being inventory revalued and provision for doubtful debts created) | | | |

| | | | |
|---|---|---|---|
| Reconstruction A/c | Dr. | 9,32,900 | |
| To Profit and Loss A/c | | | 9,10,000 |
| To Capital Reserve A/c | | | 22,900 |
| (Adjusted debit balance of profit and loss account against the reconstruction account and the balance in the latter is being transferred to capital reserve) | | | |
| Alternative combined entry: | | | |
| Inventory A/c | Dr. | 32,000 | |
| Reconstruction A/c | Dr. | 9,92,500 | |
| To Investment A/c | | | 70,000 |
| To Provision for doubtful debts (4,32,000 x 5%) | | | 21,600 |
| To Profit and Loss A/c | | | 9,10,000 |
| To Capital Reserve A/c | | | 22,900 |
| (Being inventory revalued and provision for doubtful debts created, investments' value reduce to market price, Adjusted debit balance of profit and loss account against the reconstruction account and the balance in the latter is being transferred to capital reserve) | | | |

**Reconstruction Account**

| | | ₹ | | | ₹ |
|---|---|---|---|---|---|
| To | Provision for taxation | 8,000 | By | Preference share capital A/c | 2,40,000 |
| To | Investments A/c | 70,000 | By | Bank Overdraft A/c | 14,000 |
| To | Provision for doubt full debt | 21,600 | By | 10% Debenture holders A/ | 72,000 |
| To | Profit and loss A/c | 9,10,000 | By | Trade payables A/c | 1,15,000 |
| To | Capital reserve A/c | 22,900 | By | Share Surrender A/c | 5,59,500 |
| | | | By | Inventory | 32,000 |
| | | 10,32,500 | | | 10,32,500 |

**Balance Sheet of Tourna Limited (and reduced) as at...**

| Particulars | Note No. | ₹ |
|---|---|---|
| I. Equity and Liabilities | | |
| (1) Shareholder's Funds | | |
| (a) Share Capital | 1 | 10,40,500 |
| (b) Reserves and Surplus | 2 | 22,900 |
| (2) Non-Current Liabilities | | |
| (a) Long-term borrowings | 3 | 9,60,000 |
| (3) Current Liabilities | | |
| Total | | 20,23,400 |
| II. Assets | | |
| (1) Non-current assets | | |
| (a) Property, plant and equipment | 4 | 5,00,000 |
| (b) Intangible assets | 5 | 1,70,000 |
| (c) Non-current investments | 6 | 1,10,000 |
| (2) Current assets | | |
| (a) Inventories | 7 | 5,44,000 |
| (b) Trade receivables | 8 | 4,10,400 |
| (c) Cash and cash equivalents (W.N) | | 2,89,000 |
| Total | | 20,23,400 |

**Notes to Accounts**

| | | | ₹ |
|---|---|---|---|
| 1. | Share Capital<br>Equity Share Capital<br>Issued Capital: 1,04,500 Equity Shares of ₹ 10 each (9,60,000+80,500)<br>(Of the above shares all are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares without payment being received in cash) | | 10,40,500 |

| | | | |
|---|---|---|---|
| 2. | Reserve and Surplus | | |
| | Capital Reserve | | 22,900 |
| 3. | Long-term borrowings | | |
| | Unsecured Loans | | |
| | 12% Debentures (5,60,000 + 4,00,000) | | 9,60,000 |
| 4. | Property, plant and Equipment | | |
| | Plant & Machinery | | 5,00,000 |
| 5. | Intangible assets | | |
| | Patents & copyrights | | 1,70,000 |
| 6. | Non-Current Investments | | |
| | Investments (1,80,000 – 80,000) | | 1,10,000 |
| 7. | Inventory | 5,12,000 | |
| | Add: Appreciation under scheme of Reconstruction | 32,000 | 5,44,000 |
| 8. | Trade Receivables | 4,32,000 | |
| | Less: Provision for doubtful debts | 21,600 | 4,10,400 |

**Cash & Bank A/c**

| | ₹ | | ₹ |
|---|---|---|---|
| To Opening balance | 65,000 | By Bank Overdraft A/c | 1,26,000 |
| To 12% Debenture A/c | 4,00,000 | By Liability for taxation | 50,000 |
| | | By Closing balance | 2,89,000 |
| | 4,65,000 | | 4,65,000 |

**5. (a) Consolidated statement of profit and loss of Birds Ltd. and its subsidiary Rooster Ltd. for the year ended on 31st March, 2025**

| Particulars | Note No. | ₹ |
|---|---|---|
| Revenue from operations | 1 | 38,80,000 |
| Other Income | 2 | 8,33,000 |
| **Total revenue (I)** | | 47,13,000 |
| Expenses: | | |
| Cost of material purchased/consumed | 3 | 10,90,000 |
| Changes (Increase) in inventories of finished goods | 4 | (6,20,000) |

| | | |
|---|---|---|
| Employee benefit expense | 5 | 11,53,000 |
| Other expenses | 6 | 6,55,500 |
| **Total expenses (II)** | | 22,78,500 |
| **Profit before tax (II-III)** | | 24,34,500 |

**Notes to Accounts**

| | | | ₹ | ₹ |
|---|---|---|---|---|
| 1. | Revenue from operations | | | |
| | Sales and other operating revenues | | | |
| | Birds Ltd. | | 28,40,000 | |
| | Rooster Ltd. | | 10,40,000 | 38,80,000 |
| 2. | Other Income | | | |
| | Dividend income: | | | |
| | Birds Ltd. | 1,35,000 | | |
| | *Less:* Dividend received from Rooster Ltd. (2,50,000 × 12%) | (30,000) | | |
| | Rooster Ltd. | 28,000 | 1,33,000 | |
| | Other Non-operating Income | | | |
| | Birds Ltd. | 2,38,000 | | |
| | Rooster Ltd. | 57,000 | 2,95,000 | |
| | Rent received | | | |
| | Birds Ltd. | 5,40,000 | | |
| | *Less:* Rent received by Birds Ltd. from Rooster Ltd. (11,250 x 12) | (1,35,000) | 4,05,000 | 8,33,000 |
| 3. | Cost of material purchased/ consumed | | | |
| | Birds Ltd. | 9,15,000 | | |
| | Rooster Ltd. | 1,75,000 | | 10,90,000 |
| 4. | Changes (Increase) in inventories of finished goods | | | |
| | Birds Ltd. (7,85,000 - 3,35,000) | | 4,50,000 | |
| | Rooster Ltd. (2,90,000 -1,20,000) | | 1,70,000 | 6,20,000 |
| 5. | Employee benefits and expenses | | | |

| | | | | |
|---|---|---|---|---|
| | Salaries: | | | |
| | Birds Ltd. | | 7,75,000 | |
| | Rooster Ltd. | | 3,78,000 | 11,53,000 |
| 6. | Other expenses | | | |
| | General & Administrative expenses: | | | |
| | Birds Ltd. | 2,81,500 | | |
| | Rooster Ltd. | 1,98,000 | | |
| | *Less:* Rent paid to Birds Ltd. | (1,35,000) | 3,44,500 | |
| | Selling and distribution Expenses: | | | |
| | Birds Ltd. | 2,21,000 | | |
| | *Less:* paid to Rooster Ltd | (15,000) | | |
| | Rooster Ltd. | 90,000 | | |
| | *Add:* Received from Birds Ltd. | 15,000 | 3,11,000 | 6,55,500 |

**Note:**

An amount of ₹ 15,000 was added under Selling and Distribution Expenses of Rooster Ltd. due to a rectification entry, while ₹ 15,000 was deducted from Birds Ltd. under the same head to account for the set-off of inter-company transactions.

**(b) Determination of Buy-back of maximum no. of shares as per the Companies Act, 2013**

**1. Shares Outstanding Test**

| **Particulars** | **(Shares)** |
|---|---|
| Number of shares outstanding | 4,00,000 |
| 25% of the shares outstanding | 1,00,000 |

**2. Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves**

| **Particulars** | |
|---|---|
| Paid up capital (₹) | 40,00,000 |
| Free reserves (₹) (48,00,000 + 18,00,000 + 10,00,000) | 76,00,000 |
| Shareholders' funds (₹) | 1,16,00,000 |
| 25% of Shareholders fund (₹) | 29,00,000 |
| Buy-back price per share | ₹ 25 |

| | |
|---|---|
| Number of shares that can be bought back (shares) | 1,16,000 |
| Actual Number of shares for buy-back | 80,000 |

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back

Debt Equity ratio of the company should not exceed 2:1 after such buy-back. In this case, the debt is ₹ 92,00,000 (60,00,000 + 32,00,000)* and equity after such buy back will be ₹ 96,00,000 (1,16,000 – 20,00,000). Thus, the debt equity ratio is 0.96:1, which is less than 2:1.

Company qualifies all tests for buy-back of shares and came to the conclusion that it can buy 80,000 equity shares @ ₹ 25.

* Total debt may be considered (i.e including current liability).

**6. (a)** An enterprise should include the following information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure event occurs:

a. A description of the discontinuing operation(s).

b. The business or geographical segment(s) in which it is reported as per AS 17.

c. The date and nature of the initial disclosure event.

d. The date or period in which the discontinuance is expected to be completed if known or determinable.

e. The carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled.

f. The amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period.

g. The amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense related thereto.

h. The amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.

**OR**

**(a) Purchase consideration**

| | *Raman Ltd.* | *Naman Ltd.* |
|---|---|---|
| | ₹ | ₹ |
| Payable to preference shareholders: | | |
| Preference shares at ₹ 115 per share | 5,15,200 | 2,57,600 |
| | $\left(3{,}360\times\frac{4}{3}\right)$ | $\left(1{,}680\times\frac{4}{3}\right)$ |
| Equity Shares at ₹ 12 per share | 13,44,000 | 5,04,000 |
| | $\left(67{,}200\times\frac{5}{3}\right)$ | $\left(25{,}200\times\frac{5}{3}\right)$ |
| Cash [See W.N.] | 41,260 | 94,980 |
| | 19,00,460 | 8,56,580 |

**Working note:**

| | *Raman Ltd.* | *Naman Ltd.* |
|---|---|---|
| | ₹ | ₹ |
| Goodwill | 1,62,000 | |
| PPE | 10,58,100 | 5,20,100 |
| Trade receivables | 2,47,140 | 1,38,180 |
| Inventory | 2,78,620 | 2,06,780 |
| Cash & Cash Equivalent | 2,35,240 | 1,60,480 |
| | 19,81,100 | 10,25,540 |
| *Less*: Trade payables | (80,640) | (1,68,960) |
| | 19,00,460 | 8,56,580 |
| Payable in shares | 18,59,200 | 7,61,600 |
| Payable in cash | 41,260 | 94,980 |

**(b)** (i) In this case, accountant of company created a provision for damages of probability of losing a suit by a charge against profits. Unless the probability of losing the suit is more than probability of not losing it, there should not be any creation of provision for such probable losses. So there is no need to charge such loss against profit and disclosing the same in financial statements.

(ii) Repairs and maintenance are revenue expenditure and should not be added to the value of assets, as these expenses do not increase the capacity of asset. Hence such expenses should be charged to profit & loss statement.

Further the chief accountant also disclosed its policy of adding repairs to value of assets by way of notes to accounts. As per AS 1 disclosure is not a method to correct the wrong treatments. So the contention of chief accountant is wrong.

(iii) Accrual is one of the Fundamental accounting assumptions. If fundamental accounting assumptions are followed properly then no specific disclosure is required. Disclosure is required only when there is deviation and the company is not following fundamental accounting assumptions. So the company need not disclose this in financial statements.

(iv) As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Accordingly, the notes on accounts should properly disclose the change and its effect.

**Note:** So far, the company has been providing 2% of sales for meeting after sales expenses during the warranty period. Now the company has improved the quality of its products with better technology and has been observing that actual expenses are very less than the provision, Hence, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change, the profit for the year is increased by ₹ 1 crore than would have been the case if the old policy were to continue.

**(c)** As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

Its segment assets are 10% or more of the total assets of all segments.

If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments. This is not applicable in the given case. In the given case 75% of External Revenue is ₹ 10,500 Lakhs (₹ 14,000 × 75%) and the total External Revenue from Reportable segments is ₹ 12,300 Lakhs. So, no need to add Reportable segments.

On the basis of turnover criteria segment Fan is reportable segment as its sales are more than 1,850 lakhs (10% of ₹ 18,500 lakhs). Moreover, total external revenue attributable to reportable segment is also more than 75% of the total enterprise revenue.

On the basis of asset criteria, Fan and Light are reportable segments as their assets are more than 4,450 lakhs (10% of ₹ 44,500 lakhs).