Mock Test Paper - Series I: July, 2026

Date of Paper: 25th July, 2026

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

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

Answers

MCQ. No.	MCQ. No.
1	(iii)
2	(iv)
3	(i)
4	(iv)
5	(iii)
6	(iii)
7	(iii)
8	(iv)
9	(iii)
10	(iii)
11	(ii)
12	(iii)
13	(i)
14	(i)
15	(iv)

PART II – Descriptive Questions (70 Marks)

1. (a) Investment Account for the year ending on 31st December, 2025

Scrip : 8% Convertible Debentures in Hello Ltd.

[Interest Payable on 31st March and 30th September]

Date	Particulars	Nominal value ₹	Interest ₹	Cost ₹	Date	Particulars	Nominal Value (₹)	Interest (₹)	Cost (₹)
1.4.2025	To Bank A/c	2,00,000	-	2,16,000	30.09.2025	By Bank A/c	-	12,000	-
1.7.2025	To Bank A/c (W.N.1)	1,00,000	2,000	1,10,000		[₹3,00,000 x 8% x (6/12]			
31.12.2025	To P & L A/c	-	14,033	-	1.10.2025	By Bank A/c	80,000		84,000
	[Interest]				1.10.2025	By P & L A/c (loss) (W.N.3)			2,933
					1.12.2025	By Bank A/c (Accrued interest) (₹ 55,000 x .08 x 2/12)		733	
					1.12.2025	By Equity shares in Hello Ltd. (W.N. 3 and 4)	55,000		59,767
					31.12.2025	By Balance c/d (W.N.5)	1,65,000	3,300	1,79,300
		3,00,000	16,033	3,26,000			3,00,000	16,033	3,26,000

SCRIP: Equity Shares in Hello LTD.

Date	Particulars	Cost (₹)	Date	Particulars	Cost (₹)
1.12.2025	To 8 % debentures	59,767	31.12.2025	By balance c/d	59,767

Working Notes:

(i) Cost of Debenture purchased on 1st July = ₹ 1,12,000 – ₹ 2,000 (Interest) = ₹ 1,10,000

(ii) Cost of Debentures sold on 1st Oct.

= (₹ 2,16,000 + ₹ 1,10,000) x ₹ 80,000/3,00,000 = ₹ 86,933

(iii) Loss on sale of Debentures = ₹ 86,933– ₹84,000 = ₹ 2,933

Nominal value of debentures converted into equity shares =₹ 55,000

[(₹ 3,00,000 – 80,000) x.25]

Interest received before the conversion of debentures

Interest on 25% of total debentures = 55,000 x 8% x 2/12 = 733

(iv) Cost of Debentures converted = (₹ 2,16,000 + ₹1,10,000) x 55,000/3,00,000 = ₹ 59,767

(v)

Cost of closing balance of Debentures = (₹ 2,16,000 + ₹ 1,10,000) x 1,65,000 / 3,00,000

= ₹ 1,79,300

(vii) Closing balance of Debentures has been valued at cost.

(viii) 5,000 equity Shares in Hello Ltd. will be valued at cost of ₹ 59,767 being lower than the market value ₹ 75,000 (₹ 15 x5,000)

Note: It is assumed that interest on debentures, which are converted into cash, has been received at the time of conversion.

(b) As per AS 16 'Borrowing Costs', a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Further, the standard states that what constitutes a substantial period of time primarily depends on the facts and circumstances of each case. However, ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case. In estimating the period, time which an asset takes, technologically and commercially, to get it ready for its intended use or sale is considered.

It may be implied that there is a rebuttable presumption that a 12 months period constitutes substantial period of time.

Under present circumstances where construction period has reduced drastically due to technical innovation, the 12 months period should at best be looked at as a benchmark and not as a conclusive yardstick. It may so happen that an asset under normal circumstances may take more than 12 months to complete. However, an enterprise that completes the asset in 8 months should not be penalized for its efficiency by denying it interest capitalization and vice versa.

The substantial period criteria ensures that enterprises do not spend a lot of time and effort capturing immaterial interest cost for purposes of capitalization.

Therefore, if the factory is constructed in 8 months then it shall be considered as a qualifying asset. The interest on borrowings for the same shall be capitalised although it has taken less than 12 months for the asset to get ready to use.

2. Balance Sheet of Vishnu Ltd. as at 31st March, 2026

		Note	₹
I	**EQUITY AND LIABILITIES:**		
(1)	(a) Share Capital	1	1,60,00,000
	(b) Reserves and Surplus	2	110,68,000
(2)	**Non-current Liabilities**		
	Long term Borrowings- Terms Loans (Secured)		40,00,000
(3)	**Current Liabilities**		
	(a) Trade Payables		45,80,000
	(b) Other current liabilities	3	8,00,000
	(c) Short-term Provisions (Provision for taxation)		10,20,000
	Total		3,74,68,000
II	**ASSETS**		
(1)	**Non-current Assets**		
	(a) Property, Plant and Equipment	4	214,00,000
	(b) Non-current Investments		9,00,000
(2)	**Current Assets:**		
	(a) Inventories	5	48,00,000
	(b) Trade Receivables	6	48,20,000
	(c) Cash and Cash Equivalents		38,40,000
	(d) Short-term Loans and Advances	7	17,08,000
	Total		3,74,68,000

Notes to accounts

				(₹)
1.	**Share Capital**			
	Authorized, issued, subscribed & called up			
	1,20,000, Equity Shares of ₹ 100 each		1,20,00,000	
	40,000 10% Redeemable Preference Shares of 100 each		40,00,000	1,60,00,000
2.	**Reserves and Surplus**			
	Securities Premium Account		19,00,000	
	General reserve		62,00,000	
	Profit & Loss Balance			
	Opening balance	-		
	Profit for the period	32,00,000		
	Less: Miscellaneous Expenditure written off	(2,32,000)	29,68,000	110,68,000
3.	**Other current liabilities**			
	Loan from other parties			8,00,000
4.	**Property, plant and equipment**			
	Plant and Machinery (WDV)			214,00,000
5.	**Inventories**			
	Finished Goods		30,00,000	
	Stores		16,00,000	
	Loose Tools		2,00,000	48,00,000
6.	**Trade Receivables**			
	Trade receivables		49,00,000	
	Less: Provision for Doubtful Debts		(80,000)	48,20,000
7.	**Short term loans & Advances**			
	Staff Advances*		2,20,000	
	Other Advances*		14,88,000	17,08,000

3. (a) (i) Calculation of Value in Use (VIU) as at 31-03-2025

Year	Cash flow (₹ in lakhs)	PV factor @10%	PV (₹ in lakhs)
2025-26	1,000	0.909	909.00
2026-27	800	0.826	660.80
2027-28	700	0.751	525.70
2028-29	800	0.683	546.40
2029-30	600	0.621	372.60
2030-31	500	0.564	282.00
Total VIU			3,296.50

Value in Use (rounded) = ₹ 3,297 lakhs

(ii) Impairment loss to be recognised for the year ended 31^{st} March, 2025

Impairment loss required = Carrying amount − Recoverable amount
= ₹ 5,700 – ₹ 3,297 = 2,403 lakhs.

(iii) Revised carrying amount of identifiable asset

= ₹ 4,500 – ₹1,203

= ₹ 3,297 lakhs

Calculation of Impairment Loss and revised carrying amount

	Goodwill	Identifiable Assets	CGU Total
Acquisition cost on 31^{st} March'2023	2,000	6,000	
Less: Amortization- (Cost/5)*2 / Depreciation (Cost/8)*2 for 2 years	800	1500	
	1,200	4,500	5,700
Recoverable Amount (See Note below)			3,297
Impairment Loss to be recognised			2,403
Allocation of impairment loss (See Note)	1,200	1,203	
Carrying amount after impairment	0	3,297	

Note:

1. **Recoverable amount and impairment test**

   - Fair value less costs to sell for the identifiable asset given = ₹ 3,000 lakhs. *(Note: fair value less costs to sell of whole CGU not provided; value in use of CGU computed above.)*
   - Recoverable amount of the CGU = higher of Value in Use (3,297) and Fair value less costs to sell (use value for comparison). → Recoverable amount = ₹ 3,297 lakhs (since 3,297 > 3,000).
   - Carrying amount (pre-impairment) =₹ 5,700 lakhs.
   - Impairment loss required = Carrying amount − Recoverable amount = ₹ 5,700 − ₹ 3,297 = ₹ 2,403 lakhs.

2. **Allocation of impairment loss**

   As per AS 28 impairment loss for a cash-generating unit is allocated first to reduce goodwill carrying amount to zero, and then to other assets of the unit pro-rata (or as required) so that carrying amount after allocation equals recoverable amount.

(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.

4. (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:	$1,65,000 \times \frac{100}{7.5}$	$1,47,000 \times \frac{100}{7.5}$
	22,00,000	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

5. Consolidated Balance Sheet of Star Ltd. and its Subsidiary Moon Ltd.

as at 31st March, 2026

Particulars	**Note No.**	**₹**
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital (1,20,000 equity shares of ₹ 10 each)		12,00,000
(b) Reserves and Surplus	1	8,16,200
(2) Minority Interest (W.N.4)		99,300
(3) Current Liabilities		
(a) Trade Payables	2	4,10,000
Total		25,25,500
II. Assets		
(1) Non-current assets		
(i) Property, plant and equipment	3	13,10,500
(ii) Intangible assets	4	24,000
(2) Current assets		
(i) Inventories	5	3,25,000
(ii) Trade Receivables	6	6,70,000
(iii) Cash at Bank	7	1,96,000
Total		25,25,500

Notes to Accounts

				₹
1.	Reserves and Surplus			
	General Reserves		4,35,000	
	Add: 80% share of Moon Ltd.'s post-acquisition reserves (W.N.3)		84,000	5,19,000
	Profit and Loss Account		2,80,000	
	Add: 80% share of Moon Ltd.'s post-acquisition profits (W.N.3)	21,200		
	Less: Unrealised gain	(4,000)	17,200	2,97,200
				8,16,200
2.	Trade Payables			
	Star Ltd.		3,22,000	
	Moon Ltd.		1,23,000	
	Less: Mutual transaction		(35,000)	4,10,000
3.	Property, plant and equipment			
	Machinery			
	Star Ltd.		6,40,000	
	Moon Ltd.	2,00,000		
	Add: Appreciation	1,00,000		
		3,00,000		
	Less: Depreciation	(30,000)	2,70,000	9,10,000
	Furniture			
	Star Ltd.		3,75,000	
	Moon Ltd.	40,000		
	Less: Decrease in value	(10,000)		
		30,000		
	Less: Depreciation	(4,500)	25,500	4,00,500
				13,10,500
4.	Intangible assets			
	Goodwill [WN 5]			24,000
5.	Inventories			
	Star Ltd.		2,68,000	

	Moon Ltd.		62,000	3,30,000
	Less: Inventory reserve			(5,000)
				3,25,000
6.	Trade Receivables			
	Star Ltd.		4,70,000	
	Moon Ltd.		2,35,000	
				7,05,000
	Less: Mutual transaction			(35,000)
				6,70,000
7.	Cash and Bank			
	Star Ltd.		1,64,000	
	Moon Ltd.		32,000	1,96,000

Working Notes:

1. **Profit or loss on revaluation of assets in the books of Moon Ltd. and their book values as on 1.4.2025**

	₹
Machinery	
Revaluation as on 1.4.2025	3,00,000
Less: Book value as on 1.4.2025	(2,00,000)
Profit on revaluation	1,00,000
Furniture	
Revaluation as on 1.4.2025	30,000
Less: Book value as on 1.4.2025	(40,000)
Loss on revaluation	(10,000)

2. **Calculation of short/excess depreciation**

	Machinery	Furniture
Upward/ (Downward) Revaluation	1,00,000	(10,000)
Rate of depreciation	10% p.a.	15% p.a.
Difference [(short)/excess]	(10,000)	1,500

3. **Analysis of reserves and profits of Moon Ltd. as on 31.03.2026**

	Pre-acquisition profit +upto 1.4.2025	**Post-acquisition profits (1.4.2025–31.3.2026)**	
	(Capital profits)	**General Reserve**	**Profit and loss account**
General reserve as on 31.3.2026	50,000	1,05,000	
Profit and loss account as on 31.3.2026	30,000		35,000
Upward Revaluation of machinery as on 1.4.2025	1,00,000		
Downward Revaluation of Furniture as on 1.4.2025	(10,000)		
Short depreciation on machinery			(10,000)
Excess depreciation on furniture			1,500
Total	1,70,000	1,05,000	26,500

4. **Minority Interest**

	₹
Paid-up value of (2,00,000 x 20%)	40,000
Add: 20% share of pre-acquisition profits and reserves	
[(20% of (50,000 + 30,000)]	16,000
20% share of profit on revaluation	18,000
20% share of post-acquisition reserves	21,000
20% share of post-acquisition profit	5,300
	1,00,300
Less: Unrealised Profit on Inventory	
(55,000 x 10/110) x 20%	(1,000)
	99,300

5. **Cost of Control or Goodwill**

Cost of Investment		3,20,000
Less: Paid-up value of 80% shares	1,60,000	

80% share of pre-acquisition profits and reserves (₹ 64,000 + ₹ 72,000)	1,36,000	(2,96,000)
Cost of control or Goodwill		24,000

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.

Or

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

(b) Cash Flow Statement for the year ended 31.3.2026

	₹	₹
Cash flow from operating activities		
Cash received on account of trade receivables	3,50,000	
Cash paid on account of trade payables	(90,000)	
Cash paid to employees (salaries and wages)	(25,000)	
Other cash payments (overheads)	(15,000)	
Cash generated from operations	2,20,000	

Income tax paid	(1,55,000)	
Net cash generated from operating activities		65,000
Cash flow from investing activities		
Payment for purchase of machinery	(4,00,000)	
Proceeds from sale of machinery	70,000	
Net cash used in investment activities		(3,30,000)
Cash flow from financing activities		
Proceeds from issue of share capital	5,00,000	
Bank loan repaid	(2,50,000)	
Debentures redeemed	(50,000)	
Net cash used in financing activities		2,00,000
Net decrease in cash and cash equivalents		(65,000)
Cash and cash equivalents at the beginning of the year		80,000
Cash and cash equivalents at the end of the year		15,000

(c) **Outlet Stock A/c**

Particulars	**₹**	**Particulars**	**₹**
To balance b/d	45,000	By Sales (90,000/20 × 120)	5,40,000
To Goods sent at outlet	4,86,000	By goods lost (balancing figure)	27,000
To Gross Profit	90,000	By balance c/d	54,000
	6,21,000		6,21,000

Outlet Profit and Loss A/c

Particulars	**₹**	**Particulars**	**₹**
To Expenses	30,000	By Gross Profit	90,000
To Goods lost	27,000		
To Net Profit (balancing figure)	33,000		
	90,000		90,000