Mock Test Paper - Series II: August, 2026

Date of Paper: 8th August, 2026

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

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

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PART II – Descriptive Questions

1. (a) As per AS 25 "Interim Financial Reporting," the quarterly income of Vaibhav Ltd. has not been correctly stated. It needs to be adjusted as follows:

(i) Bad debts:Bad debts of ₹ 60,000 have been incurred during the current quarter. As per AS 25, an expense that is recognised should be based on the best estimate of the item as it relates to that period — such expenses cannot be arbitrarily deferred to a future quarter merely as a matter of convenience or expectation of recovery, unless it meets the definition of a cost genuinely relating to a later period. Since the entire ₹ 60,000 pertains to the current quarter, the deferral of 60% (i.e., ₹ 36,000) is incorrect. This ₹ 36,000 should be added back (i.e., recognised as an expense of the current quarter, reducing profit further is not required since it was already deferred out — so it must be deducted from profit as an additional expense).

Hence ₹ 36,000 to be deducted from ₹ 9,50,000 (since it was wrongly excluded/deferred and must now be charged to this quarter).

(ii) Extraordinary loss:The extraordinary loss of ₹ 50,000 has been correctly recognised in full in the quarter in which it was incurred, in line with AS 25 (extraordinary/non-recurring items are recognised in the period in which they occur and are not spread over the year). No adjustment required.

(iii) Additional depreciation: Recognising the entire additional depreciation of ₹ 30,000 arising from the change in method, in the quarter in which the change was made, is in line with AS 25. No adjustment required.

(iv) The entire ₹ 80,000 must be expensed fully in the quarter in which it is incurred (Q2). The company's original treatment was correct, and no adjustment is required.

Revised Computation of Correct Quarterly Income:

Particulars	Amount (₹)
Net profit as reported	9,50,000
Less: Bad debts wrongly deferred, now to be charged in full to this quarter (60% of ₹ 60,000)	(36,000)
Extraordinary loss — correctly recognised, no adjustment	—
Additional depreciation — correctly recognised, no adjustment	—

Planned major repair — correctly expensed in full, no adjustment	—
Correct quarterly income for Q2 2026	9,14,000

Conclusion: Vaibhav Ltd. should report the correct quarterly income of ₹ 9,14,000 (₹ 9,50,000 – ₹ 36,000) for the second quarter of 2026, as per AS 25.

(b) As per AS 26 "Intangible Assets," an intangible asset should be recognised if, and only if:(a) it is probable that the future economic benefits attributable to the asset will flow to the enterprise; and(b) the cost of the asset can be measured reliably.

Further, AS 26 defines an intangible asset as an identifiable non-monetary asset, without physical substance, held for use... which is controlled by the enterprise as a result of past events. Control implies the enterprise has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.

In the given case, it is true that Zenith Consultancy Ltd. will derive future economic benefits from the enhanced knowledge and efficiency of its trained staff, in the form of better service quality and increased billing. However, the critical requirement of "control" is not satisfied.

The company does not have control over its employees or over the skills and knowledge they have acquired through training, because:

- Employees are free to resign from the company at any time;
- Once an employee leaves, the enhanced skill/knowledge acquired through training leaves with them;
- The company has no legal or contractual right to prevent the employee's knowledge, skill, or expertise from being used elsewhere or to restrict access of others (e.g., a competing employer) to the benefits of that training.

Since the company lacks sufficient control to restrict others from accessing the economic benefits arising from the trained employees' skills, the general staff training cost does not meet the definition of an intangible asset under AS 26. Consequently, the cost of ₹ 15,00,000 (net of the portion discussed below) should be expensed to the Statement of Profit and Loss as and when incurred, and not capitalised.

Cost Relating to Consultants under Non-Compete Agreement :

The position would not differ merely because of the non-compete and retention agreement. While the agreement imposes a contractual and financial disincentive (penalty) on the 10 senior consultants against leaving the company for 3 years, it still does not give the company control in the sense required by AS 26 — the consultants can still choose to leave (by paying the penalty, or otherwise), and the company cannot compel their continued employment or prevent the loss of their trained knowledge/skills upon departure. A contractual retention clause creates an enforceable financial claim against the individual, but it does not transform the underlying "skilled workforce"/training benefit into an identifiable, controllable asset separable from the individuals themselves.

Therefore, even the training cost attributable to these 10 consultants cannot be recognised as an intangible asset and must also be expensed as incurred.

Hence, Zenith Consultancy Ltd. is not justified in recognising the entire training cost of ₹ 15,00,000 as an intangible asset. The entire amount, including the cost relating to consultants under the non-compete agreement, fails the "control" criterion under AS 26 and should be charged to the Statement of Profit and Loss as an expense of the period in which it is incurred.

2. (a) Consolidated Profit & Loss Account

Particulars	***Note No.***	***(₹)***
Revenue from operations	1	13,05,000
Total Revenue (A)		13,05,000
Less: Expenses		
Purchases	2	9,00,000
Other expenses	3	3,06,000
Changes in inventories of finished goods	4	(1,00,000)
Total Expenses (B)		11,06,000
Profit Before Tax (A-B)		1,99,000

Consolidated Balance Sheet

		Note No.	**(₹)**
I	**Equity and liabilities**		
	1. Shareholders’ funds:		

	Share Capital	5	4,01,000
	Reserves and Surplus	6	1,99,000
	2. Non-current liabilities		
	Long term borrowings	7	2,00,000
	3. Current Liabilities	8	1,00,000
			9,00,000
II	**Assets**		
	Non-current Assets		
	Property, Plant and Equipment	9	6,00,000
	Current Assets		
	Inventories	10	1,00,000
	Other current assets	11	2,00,000
			9,00,000

Notes to Accounts

	Particulars		***(₹)***
1.	**Revenue from operations**		
	Sales:		
	A Ltd.	7,25,000	
	B Ltd.	5,80,000	13,05,000
2.	**Purchases**		
	A Ltd.	5,00,000	
	B Ltd.	4,00,000	9,00,000
3.	**Other expenses**		
	A Ltd.	1,70,000	
	B Ltd.	1,36,000	3,06,000
4.	**Closing Inventory**		
	A Ltd.	50,000	

	B Ltd.	50,000	1,00,000
5.	**Share Capital**		
	A Ltd.	1,96,490	
	B Ltd.	2,04,510	4,01,000
6.	**Reserves and Surplus**		
	Profit & Loss Account:		
	A Ltd.	99,500	
	B Ltd.	99,500	1,99,000
7.	**Long Term Borrowings**		
	Unsecured Loans:		
	A Ltd.	1,00,000	
	B Ltd.	1,00,000	2,00,000
8.	**Current Liabilities**		
	A Ltd.	50,000	
	B Ltd.	50,000	1,00,000
9.	**Property, Plant and Equipment**		
	A Ltd.	3,00,000	
	B Ltd.	3,00,000	6,00,000
10.	**Inventories**		
	A Ltd.	50,000	
	B Ltd.	50,000	1,00,000
11.	**Other Current Assets**		
	A Ltd.	1,00,000	
	B Ltd.	1,00,000	2,00,000

(b) As per AS 3 (Cash Flow Statements), a cash flow refers to an actual inflow or outflow of cash and cash equivalents. However, the *balance* of cash held may sometimes change on account of accounting adjustments — such as restatement of foreign currency balances at the closing exchange rate — even though no actual receipt or payment of cash has taken place. Such changes are **not treated as cash flows**, though they must be reported separately in the cash flow statement to reconcile opening and closing cash balances.

An increase or decrease in cash balance arising purely due to translation of foreign currency balances (a "holding gain or loss") does not involve any movement of cash into or out of the enterprise. It merely reflects a change in the rupee-equivalent value of an already-held foreign currency balance because of a shift in the exchange rate between the date of receipt and the balance sheet date.

Suppose an enterprise holds a bank balance of USD 10,000.

Particulars	**Exchange Rate**	**Amount (₹)**
Value on date of receipt of USD	₹ 49/USD	₹ 4,90,000
Value restated at closing rate on Balance Sheet date	₹ 50/USD	₹ 5,00,000
Increase in balance		₹ 10,000

Although the bank balance as shown in the Balance Sheet increases from ₹ 4,90,000 to ₹ 5,00,000 (an increase of ₹ 10,000), this increase does **not** represent any cash inflow no fresh dollars were received, and no cash was paid out. The change is purely notional, arising from the restatement of the existing USD 10,000 balance at a different (closing) exchange rate.

Hence, such an effect of exchange rate changes on cash and cash equivalents held in foreign currency is shown separately in the cash flow statement (distinct from cash flows from operating, investing, and financing activities) in order to reconcile the cash and cash equivalents at the beginning and end of the period, as required under AS 3.

3. **(a)** (i) Relationship between Trident Ltd. and Ganga Ltd.

Since Trident Ltd. holds 85% (i.e., more than 50%) of the equity shares of Ganga Ltd., Ganga Ltd. is a subsidiary of Trident Ltd., and Trident Ltd. is the parent of Ganga Ltd.

(ii) Determination of Relationship with Yamuna Ltd.

For determining whether an investee is an associate, the total of the investing company's direct holding and its indirect holding through subsidiaries is considered:

Particulars	% Holding
Direct holding of Trident Ltd. in Yamuna Ltd.	12%
Indirect holding — through Ganga Ltd. (a subsidiary) in Yamuna Ltd.	9%

Total holding (direct + indirect) for determining relationship	<u>21%</u>

Since the total direct and indirect holding of Trident Ltd. in Yamuna Ltd. (21%) exceeds 20%, Yamuna Ltd. is an associate of Trident Ltd., as per AS 23.

(iii) Effective Holding for Consolidation Purposes

While 21% is used to determine the relationship (i.e., whether significant influence exists and Yamuna Ltd. qualifies as an associate), the actual effective shareholding to be used for consolidation purposes (e.g., for applying the equity method) is computed differently — it reflects Trident Ltd.'s true economic/proportionate interest:

$$\begin{aligned}\text{Effective holding} &= \text{Direct holding} \\ &\quad + (\text{Parent's holding in subsidiary} \\ &\quad \times \text{Subsidiary's holding in investee}) \\ &= 12\% + (85\% \times 9\%) = 12\% + 7.65\% = 19.65\%\end{aligned}$$

The 21% used to establish the relationship is a simple aggregation of direct and indirect holdings, used only as a threshold test (≥20%) to determine significant influence. However, since Ganga Ltd. itself is only 85% owned by Trident Ltd. (not 100%), only 85% of Ganga Ltd.'s 9% stake in Yamuna Ltd. is effectively/economically attributable to Trident Ltd. Hence, for consolidation purposes, the proportionate effective interest of 19.65% (not the flat 21%) should be used.

(b) A liability is recognised when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured. In the given case, A Ltd. should recognise a liability of ₹ 1,00,000 to Gamma Ltd.

When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognised as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognised as an expense.

Journal entry

Loss on onerous contract / change in production method A/c Dr. To Provision / Liability for purchase commitment (Loss due to change in production method)	Dr.	1,00,000	 1,00,000
Statement of Profit and Loss A/c Dr. To Loss on onerous contract / change in production method A/c (Loss transferred to profit and loss account)	Dr.	1,00,000	 1,00,000

4. Journal Entries in the books of No Ltd.

(₹ in crores)

		Dr.	*Cr.*
Realization Account	Dr.	64.00	
To Property, plant and equipment Account			30.00
To Current Assets Account			34.00
(Being the assets taken over by Yes Ltd. transferred to Realization Account)			
Provision for depreciation Account	Dr.	24.00	
Current Liabilities Account	Dr.	15.00	
Unsecured Loan from Yes Ltd. Account	Dr.	10.00	
To Realization Account			49.00
(Being the transfer of liabilities and provision to Realization Account)			
Yes Ltd.	Dr.	1.2	
To Realization Account			1.2
(Being the amount of consideration due from Yes Ltd. credited to Realization Account)			

Equity Shareholders Account	Dr.	13.80	
To Realization Account			13.80
(Being the loss on Realization transferred to equity share-holders account)			
Equity Share Capital Account	Dr.	5.00	
Reserves and Surplus Account		Dr.	10.00
To Equity Shareholders Account			15.00
(Being the amount of share capital, reserves and surplus credited to equity shareholders account)			
Equity shares of Yes Ltd.	Dr.	1.20	
To Yes Ltd.			1.20
(Being the receipt of 10 lakhs equity shares of ₹ 10 each at ₹ 12 per share for allotment to shareholders)			
Equity shareholders Account	Dr.	1.20	
To Equity shares of Yes Ltd.			1.20
(Being the distribution of equity shares received from Yes Ltd. to shareholders)			

Journal Entries in the books of Yes Ltd.

(₹ in crores)

		Dr.	*Cr.*
Business Purchase Account	Dr.	1.2	
To Liquidator of No Ltd. Account			1.2
(Being the amount of purchase consideration agreed under approved scheme of amalgamation- W.N. 1)			
Property, plant and equipment	Dr.	6.00	
Current Assets	Dr.	34.00	

To Current Liabilities			15.00
To Unsecured Loan (from Yes Ltd.)			10.00
To Business Purchase Account			1.20
To Reserve & Surplus A/c			10.00
To Profit & loss A/c35TP*P35T			3.80
(Being the assets and liabilities taken over and the surplus transferred to Profit and loss account)			
Liquidator of No Ltd.	Dr.	1.20	
To Equity Share Capital Account			1.00
To Securities Premium Account			0.20
(Being the allotment to shareholders of No Ltd. 10 lakhs equity shares of ` 10 each at a premium of ₹ 2 per share)			
Unsecured Loan (from Yes Ltd.)	Dr.	10.00	
To Loan to No. Ltd.			10.00
(Being the cancellation of unsecured loan given to No Ltd.)			

Working Note:

Purchase Consideration ₹ *in crores*

$\frac{50\text{lakhs}}{5}$ × ₹ 12 i.e., 10 lakhs equity shares at ₹ 12 per share 1.20

Number of equity shares of ₹ 10 each to be issued $\left[\frac{1.20\text{ crores}}{12}\right]$ = 10 lakhs.

* As amalgamation in the nature of merger so balancing figure will be transferred to Profit & Loss account.

5. (a) In the books of Head Office Harry Limited

Cambridge Branch Trading and Profit & Loss Account for the year ended 31st December, 2026

Particulars	€	Particulars	€
To Opening Stock	36,000	By Sales	2,80,000
To Goods sent from H.O.	2,25,000	By Closing Stock	37,000
To Gross Profit cld	56,000		
	3,17,000		3,17,000
To Expenses	12,000	By Gross Profit b/d	56,000
To Depreciation	8,000		
To Manager's Commission	3,600		
To Net Profit c/d	32,400		
	56,000		56,000

Converted Trial Balance (into Indian Currency) of Cambridge Branch

Particulars	Rate per €	Dr. (₹ in Lakhs)	Cr. (₹ in Lakhs)
Furniture	84	67.20	
Stock as on 1st January 2026	91	32.76	
Debtors	89	14.24	
Cash at Bank	89	2.67	
Head Office A/c	Actual		61.00
Creditors	89		10.68
Sales	86		240.80
Expenses	86	10.32	

Goods from Head Office Exchange Difference in rate	Actual	180.00 5.29	
Total		312.48	312.48

Closing Stock € 37,000 @ 89	**32.93**

Working Notes:

1. **Calculation of Closing Stock and COGS**

Particulars	**€**
Opening Stock	36,000
Add: Goods from Head Office	2,25,000
	2,61,000
Less: Cost of Goods sold (at invoice price)	
€2,80,000 x 100/125 = € 2,24,000	2,24,000
Closing Stock	37,000

2. **Calculation of Manager's Commission @ 10% of Profit**

10% of (Euro 56,000 - Euro 12,000- Euro 8,000)

= 10% of Euro 36,000= Euro 3,600

(b) Radiant Limited

Statement of Profit and Loss for the year ended 31 March, 2026

Particulars	**Note No.**	**Amount (₹ In Lakhs)**
Revenue from Operations		1,400
Other income		4

Total Income		1,404
Expenses: Purchases Changes in Inventory Employees Benefits Expenses Finance Costs Depreciation and Amortization Expenses Other Expenses		 695 (55) 120 40 152 120
Total Expenses		1,072
Profit before Tax Tax Expenses Profit for the period		332 83 249

Working Notes

1. Profit on Sale of Machinery

Particulars	**₹ In Lakhs**
Sale Value	8
Less Book Value (20-16)	4
Profit on Sale of Machinery	4

2. Depreciation on Plant and Machinery

Particulars	**₹ In Lakhs**
Opening Balance	1,540

Less Sold Off	20
Balance	1,520
Depreciation 10%	152

3. **Other Expenses**

Particulars	**₹ In Lakhs**
Administration Expenses	60
Selling Expenses	54
Provision for Doubtful Debts (10-4)	6
Total	120

6 **(a)** As per the revised ICAI announcement, the following key disclosures are required when MSMEs avail exemptions or relaxations under the Accounting Standards:

1. **General Disclosure:**

   An MSME that avails any exemption or relaxation must disclose in its financial statements:

   - That it is an MSME as per the ICAI definition.
   - That it has complied with Accounting Standards applicable to MSMEs.

2. **Partial Exemption Disclosure:**

   If an MSME opts not to avail exemptions in respect of certain Standards but avails them for others, it must specify:

   - The Standards for which it has availed exemption/relaxation.
   - The Standards for which full compliance has been made.

3. **Loss of MSME Status:**

   If an MSME no longer qualifies in the current accounting period, it must:

   - Apply full AS requirements from the current year.
   - Disclose that it had availed exemptions in the prior year.

- Clarify that previous year figures are not revised solely due to change in classification.

4. Newly Qualifying MSME:

A non-company entity that newly qualifies as an MSME can avail exemptions only after it remains as MSME for two consecutive years. Until then, full AS compliance is required.

These disclosures ensure transparency and help financial statement users understand the basis of preparation and compliance with applicable standards.

Or

6 (a) There are various areas where different accounting policies could be adopted by different entities within the same industry. An entity may choose to value its inventories using FIFO method, whereas another entity may choose to value the same using Weighted Average method.

While an entity is free to choose its accounting policy as long as in the financial statements reflect a true and fair view of the state of affairs of the enterprise as at the balance sheet date and of the profit or loss for the period ended, the application of different accounting policies by different entities affects the comparability of the financial statements of such different entities by stakeholders, analysts, investors etc. To mitigate the loss of comparability, Accounting Standard 1, Disclosure of Accounting Policies requires disclosure of significant accounting policies as a part of the financial statements. This would help users of the financial statements to understand the policies followed by different entities, particularly if they belong to the same industry, and make a correct analysis of each entity resulting in more informed decision-making.

(b) Schedule III has come into force for the Balance Sheet and Profit and Loss Account prepared for the financial year commencing on or after 1st April, 2023. As per Part I of the Schedule III, a company should, inter alia, disclose in notes to accounts for the period of 5 years immediately preceding the balance sheet date (31st March, 2024 in the instant case) the aggregate number and class of shares allotted as fully paid-up bonus shares. Schedule III does not require a company to disclose the source from which bonus shares have been issued. Therefore, non-disclosure of source from which bonus shares have been issued does not violate the Schedule III to the Companies Act.

(c) (1) 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.

(2) When goods are sold to distributor or others, revenue from such sales can generally be recognized if significant risks of ownership have passed; however, in some situations the buyer may in substance be an agent and in such cases the sale should be treated as a consignment sale.

(3) For transactions, where seller concurrently agrees to repurchase the same goods at a later date that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue.

(4) Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.

(5) On 11.03.2026, if X mart takes title and accepts billing for the goods then it is implied that the sale is complete and all risk and reward on ownership has been transferred to the buyers.

Revenue should be recognized for year ended 31st March, 2026 notwithstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made and items were ready for delivery to the buyer at the time.