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

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 I

A Limited had acquired an item of Property, Plant and Equipment on 1st April, 2022 for ₹ 48,000 lakhs. The following are the estimates of cash flows related to the said Property, Plant and Equipment on 31st March, 2025:

Year ended 31st March	Cash Flows (₹ lakhs)
2026	5,000
2027	7,000
2028	7,000
2029	9,000
2030	5,000

The discount rate is 10%.

The Property, Plant and Equipment has a useful life of 8 years and its residual value at the end of 31st March, 2030 is ₹ 2000 lakhs. The Net Selling Price on 31st March, 2025 is ₹ 27,000 lakhs.

The Present Value of ₹ 1 discounted @ 10% at the end of Year 1 to Year 5 is given as under:

Year	1	2	3	4	5
P.V.	0.909	0.826	0.751	0.683	0.621

A Limited has 5 business segments. The Profit/loss of each of the segments for the year ended 31st March, 2025 is given below:

Segment	Profit/Loss (₹ lakhs)
M	390
N	750
O	(1,150)
P	(2,250)
Q	3,000
Total	740

A Limited has also provided you with the following information as on 31st March, 2025:

Particulars	Value
Net Profit (after Tax)	₹ 15,60,000
No. of shares outstanding as on 31st March, 2025 (Face Value ₹ 10/- each)	8,00,000
Weighted Average No. of shares outstanding as on 31st March, 2025 (Face Value ₹ 10/- each)	6,50,000
Average fair value of one equity share during 2024-25	₹ 25
Weighted Average No. of Shares under Option during 2024-25	80,000
Exercise price for Shares under Option during 2024-25	₹ 20
30,000 6% Convertible Bonds of ₹ 100/- each (Each Bond is convertible into 4 Equity Shares)	₹ 30,00,000
Tax Rate	30%

Based on the information given in the above case scenario, answer the following Question Nos. 1-4:

1. Which of the following business segments would be identified as reportable segments on the basis of "Profitability Test" as per AS 17?

   i. N, O, P and Q

   ii. O and P

   iii. M, N and Q

   iv. M, N, O, P and Q

2. What will be the Value in Use of Property, Plant and Equipment at the end of 31st March, 2025?

   i. 28,750 lakhs

ii. 24,836 lakhs

iii. 26,078 lakhs

iv. 30,750 lakhs

3. What will be the Impairment Loss to be recognized for the year ended 31st March, 2025?

   i. 3,750 lakhs

   ii. 8,750 lakhs

   iii. 6,250 lakhs

   iv. 6,000 lakhs

4. What will be the amount of Diluted Earnings per Share for the year ended 31st March, 20257 (rounded off to 2 decimal places)

   i. ₹ 2.40

   ii. ₹ 2.15

   iii. ₹ 2.34

   iv. ₹ 2.25

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

Case Scenario-II

A Limited, an Indian company listed on the National Stock Exchange, is engaged in various businesses. Its tourism business sells holiday packages to customers. The company negotiates upfront with the Airlines for purchase of tickets for a particular date and resells those tickets to customers. A Limited bears the loss for any unsold tickets. A Limited also assists the customers in resolving grievances with the services provided by the airlines. However, each airline is responsible for fulfilling obligations associated with the ticket including remedies to a customer for dissatisfaction with the service.

A Limited has been awarded a contract to construct a hospital for a fixed price of ₹ 400 lakhs. Transactions related to the contract include:

Purchase of Building Material- ₹ 160 lakhs

Material lying unused at site- ₹ 60 lakhs

Labour charges - ₹ 120 lakhs

Equipment used for 3 years for the contract. Original cost of the equipment is ₹ 200 lakhs. Expected useful life is 15 years.

It is estimated that further costs of ₹ 160 lakhs would be incurred to complete the contract.

A Limited acquired 10% stake in B Limited on 1st April, 2024 for ₹ 2,00,000 and further 15% stake on 1st October, 2024 for ₹ 3,10,000. The Net assets of B Limited stood at ₹ 17,00,000 and ₹ 20,00,000 on 1st April, 2024 and 1st October, 2024 respectively.

On 1st January, 2025, A Limited created an interest-free loan of ₹ 25,00,000 to B Limited.Based on the information given in the above case scenario, answer the following Questions Nos. 5-8:

5. What would be the basis of revenue recognition for A Limited for its tourism business as per the requirements of Accounting Standards?

   (i) Gross basis

   (ii) Net basis

   (iii) Depends on the accounting policy of A Limited.

   (iv) Indian GAAP allows a choice to the company to recognize revenue on Gross basis or Net basis.

6. What would be the amount of loss to be recognized by A Limited on the construction contract?

   (i) ₹ 80 lakhs

   (ii) ₹ 20 lakhs

   (iii) Nil

   (iv) ₹ 40 lakhs

7. What would be the amount of Goodwill or Capital Reserve arising on the acquisition of significant influence in B Limited?

   (i) Goodwill ₹ 20,000

   (ii) Goodwill ₹ 40,000

   (iii) Capital Reserve ₹ 40,000

   (iv) Goodwill ₹ 10,000

8 Is any specific disclosure required to be made in relation to interest-free loan of ₹ 25,00,000 granted by A Limited to B Limited?

   (i) Yes, disclosure is required to be made as per AS 3, Cash Flow Statements.

   (ii) Yes, disclosure is required to be made as per AS 18, Related Party Disclosures.

   (iii) Yes, disclosure is required to be made as per AS 13, Accounting for Investments.

   (iv) No specific disclosure is required.

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

9. Vivid Textiles Ltd. prepares its financial statements on the assumption that it will continue its operations for the foreseeable future, with neither the intention nor the necessity to liquidate or materially curtail the scale of its operations. The company does not make any specific mention of this assumption anywhere in its financial statements. Is this acceptable under AS 1?

   (i) No, every fundamental accounting assumption must always be explicitly disclosed, regardless of whether it has been followed.

   (ii) Yes — where the fundamental accounting assumptions (going concern, consistency, and accrual) are followed in the preparation and presentation of financial statements, specific disclosure of this fact is not required, since their acceptance and use are assumed; disclosure is necessary only if a fundamental accounting assumption is NOT followed.

   (iii) No, disclosure is required annually regardless of whether the assumptions are followed, as a matter of good governance.

   (iv) Yes, but only if the company's auditor certifies in writing that the assumptions have been followed **(2 Marks)**

10. Raman & Co., a partnership firm, is preparing its financial statements. The accountant says that since the firm is not a company, Accounting Standards are not relevant. Which statement is correct?

   (i) Accounting Standards are relevant only to listed companies.

   (ii) Non-corporate entities must apply only Ind AS.

   (iii) Accounting Standards for non-corporate entities are issued by ICAI and are relevant subject to applicability/exemptions.

   (iv) Partnership firms are prohibited from following Accounting Standards. **(2 Marks)**

11. Omega Ltd. is preparing its financial statements. A transaction is covered by a specific Accounting Standard, but the finance manager believes that a different treatment appears more consistent with the Framework. What should Omega Ltd. do?

   (i) Follow the Framework because it provides the fundamental principles.

   (ii) Follow tax law treatment in all cases.

   (iii) Ignore both and follow management judgment.

   (iv) Follow the specific Accounting Standard because the Framework does not override Accounting Standards. **(2 Marks)**

CASE SCENARIO III

Ketan Private Limited has entered into a finance lease agreement with Mehra Ltd. for acquiring machinery. The lease term is four years, and the machinery's fair value at the inception of the lease is ₹ 20,00,000. The annual lease rent is ₹ 6,25,000, payable at the end of each year. The lease includes a guaranteed residual value of ₹ 1,25,000 and an expected residual value of ₹ 3,75,000. The implicit interest rate for the lease is 15%. The discounted rates for the first to fourth years are 0.8696, 0.7561, 0.6575, and 0.5718, respectively. Based on the information given in the above case scenario, answer the following Questions Nos. 12 to 15

12. What is the total amount of the minimum lease payments over the lease term?

    (i) ₹ 20,00,000

    (ii) ₹ 25,00,000

    (iii) ₹ 26,25,000

    (iv) ₹ 27,50,000

13. What is the present value of the minimum lease payments using the implicit interest rate?

    (i) ₹ 20,00,000

    (ii) ₹ 18,55,850

    (iii) ₹ 19,50,000

    (iv) ₹ 17,80,000

14. At what value should the lease asset and corresponding lease liability be recognized in the books of Ketan Private Limited at the inception of the lease?

    (i) ₹ 20,00,000

    (ii) ₹ 18,55,850

    (iii) ₹ 19,50,000

    (iv) ₹ 17,80,000

15. What is the present value of the lease payments for the 1st year?

    (i) ₹ 6,25,000

    (ii) ₹ 5,43,500

    (iii) ₹ 4,72,563

    (iv) ₹ 4,10,937

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 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 the answer by the candidates. Working Notes should form part of the answer.

1. (a) Accountants of Vaibhav Ltd. showed a net profit of ₹ 9,50,000 for the second quarter of 2026 after incorporating the following:

(i) Bad debts of ₹ 60,000 incurred during the quarter. The company has decided to defer 60% of the bad debts to the next quarter, on the ground that recovery efforts are still in progress.

(ii) An extraordinary loss of ₹ 50,000 due to loss of inventory in a flood was incurred during the quarter and has been fully recognised in this quarter itself.

(iii) The company changed its method of charging depreciation during the quarter, resulting in additional depreciation of ₹ 30,000. This entire amount of ₹ 30,000 has been charged as an expense of the second quarter only, since it relates to the effect of the change identified during this quarter.

(iv) A cost of ₹ 80,000 was incurred on account of a planned major repair (overhaul) of machinery, which is undertaken every year and benefits the whole year's production. The company has charged the entire ₹ 80,000 in the second quarter itself, being the quarter in which the repair was carried out.

You are required to examine whether the net profit of ₹ 9,50,000 has been correctly stated as per AS 25 "Interim Financial Reporting." Ascertain the correct quarterly income of Vaibhav Ltd. for the second quarter of 2026. **(7 Marks)**

(b) Zenith Consultancy Ltd. is a mid-sized professional services firm engaged in providing consulting services in the areas of taxation, audit, and regulatory compliance to its clients. During the financial year 2025-26, the company undertook the following initiatives and incurred the related expenditure:

(i) The company organised an intensive training program for its 50 employees on recently introduced amendments in GST law, new Accounting Standards (AS), and Ind AS, to ensure that the staff remains updated and compliant with the latest regulatory requirements. The total cost incurred on this training program was ₹ 15,00,000, covering trainer fees, study material, and venue charges.

(ii) Simultaneously, the company entered into a 3-year non-compete and retention agreement with each of the 10 senior consultants who attended the training, under which these consultants are contractually bound to continue working exclusively for Zenith Consultancy Ltd. for a minimum period of 3 years, failing which they would be liable to pay a penalty to the company.

The management of Zenith Consultancy Ltd. is of the view that since the training has significantly enhanced the technical knowledge and efficiency of its employees, and is expected to generate future economic benefits in the form of better client servicing, higher billing, and improved reputation, the entire cost of ₹ 15,00,000 should be recognised as an "Intangible Asset" in the books of the company, to be amortised over the useful life of the expected benefit.

You are required to examine whether Zenith Consultancy Ltd. is justified in recognising the training cost of ₹15,00,000 as an intangible as per AS 26 "Intangible Assets". Would your answer differ, if at all, in respect of the cost relating to the 10 senior consultants who are bound by the non-compete and retention agreement? Give reasons for your conclusion. **(7 Marks)**

2 (a) A Ltd., a UK-based company, entered into a joint venture with B Ltd. in India, wherein B Ltd. will import the goods manufactured by A Ltd. on account of the joint venture and sell them in India. A Ltd. and B Ltd. agreed to share the expenses & revenues in the ratio of 5:4 respectively, whereas profits are distributed equally. A Ltd. invested 49% of total capital but has an equal share in all the assets and is equally liable for all the liabilities of the joint venture. Following is the trial balance of the joint venture at the end of the first year:

Particulars	**Dr. (₹)**	**Cr. (₹)**
Purchases	9,00,000	
Other Expenses	3,06,000	
Sales		13,05,000
Property, Plant and Equipment	6,00,000	
Current Assets	2,00,000	
Unsecured Loans		2,00,000
Current Liabilities		1,00,000
Capital		4,01,000

1. Closing inventory was valued at ₹ 1,00,000.
2. You are required to prepare the Consolidated Financial Statement.

(10 Marks)

(b) "A change in the amount of cash does not always represent a cash flow." Explain this statement with reference to foreign currency cash/cash equivalents, using a suitable numerical example. **(4 Marks)**

3 (a) Trident Ltd. holds 85% of the equity shares of Ganga Ltd. Trident Ltd. also directly holds 12% of the equity shares of Yamuna Ltd. Additionally, Ganga Ltd. holds 9% of the equity shares of Yamuna Ltd.

The management of Trident Ltd. is preparing its consolidated financial statements for the year ended 31st March, 2026 and seeks your advice on the following:

You are Required to:

(i) Determine the relationship between Trident Ltd. and Ganga Ltd.

(ii) Determine, as per AS 23 "Accounting for Investments in Associates in Consolidated Financial Statements," whether Yamuna Ltd. is an associate of Trident Ltd. Show the working for the total direct and indirect holding of Trident Ltd. in Yamuna Ltd. for the purpose of determining the relationship.

(iii) State the effective percentage shareholding of Trident Ltd. in Yamuna Ltd. that should actually be considered while preparing the consolidated financial statements, and briefly explain why this differs from the holding computed in (ii) above. **(7 Marks)**

(b) A Ltd. has entered into a binding agreement with Gamma Ltd. to buy a custom-made machine ₹ 1,00,000. At the end of 2025-26, before delivery of the machine, A Ltd. had to change its method of production. The new method will not require the machine ordered and it will be scrapped after delivery. The expected scrap value is nil.

You are required to advise the accounting treatment and give necessary journal entry in the year 2025-26. **(7 Marks)**

4. The following are the Balance Sheets of Yes Ltd. and No Ltd. as at 31st March, 2026:

		Particulars	Notes	Yes Ltd (₹ in crores)	No Ltd. (₹ in crores)
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	12	5
	B	Reserves and Surplus		88	10

2		**Non-current liabilities**			
	A	Long term borrowings	2	--	10
3		**Current liabilities**		33	15
		Total		133	40
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment	3	20	6
	B	Non-current investments	4	13	--
2		**Current assets**		100	34
		Total		133	40

Notes of accounts

		Yes Ltd.	No Ltd.
1	**Share Capital**		
	Equity share capital		
	Authorized share capital	25	5
	Issued and subscribed:		
	Equity shares of ₹ 10 each fully paid	12	5
		12	5
2	**Long term borrowings**		
	Unsecured loan from Yes Ltd.	-	10
		-	10
3	**Property, Plant and Equipment**		
	Gross value	70	30
	Depreciation	(50)	(24)
		20	6
4	**Non-current investments**		
	30 lakhs equity shares of ₹ 10 each	3	-
	Long term loan to No Ltd.	10	-
		13	-

On that day Yes Ltd. absorbed No Ltd. The members of No Ltd. are to get one equity share of Yes Ltd. issued at a premium of ₹ 2 per share for every five equity shares held by them in No Ltd. The necessary approvals are obtained.

You are asked to pass journal entries in the books of the two companies to give effect to the above if the amalgamation is in the nature of merger. **(14 Marks)**

5. (a) Following is the Trial Balance as on 31st December, 2026 of the Cambridge Branch of Harry Limited whose Head Office is situated at Pune, India.

	Dr€	**Cr€**
Furniture	80,000	
Stock as on 1st January,2026	36,000	
Debtors	16,000	
Cash at Bank	3,000	
Head Office A/c		80,000
Creditors		12,000
Sales		2,80,000
Expenses		
Goods sent from Head Office	12,000	
Total	3,72,000	3,72,000

In the books of Head Office, the Branch Account stood as under:

Cambridge Branch Account

	₹in Lakhs		**₹ in Lakhs**
To Balance b/d	27.00	By Bank	146.00
To Goods sent to Branch	180.00	By Balance c/d	61.00
	207.00		207.00

Additional Information:

1. Good are sent to the branch at cost plus 10% and the branch sells goods at invoice price plus 25%.
2. Furniture was acquired on 1st April, 2026 when € 1.00 ₹ 84. Furniture is depreciated at 10%.
3. The Branch Manager is entitled to a commission of 10% on the profits of the branch before charging such commission.
4. Rates of Exchange were on 1st January, 2026 € 1.00 ₹ 91, on 31st December, 2026 € 1.00 = ₹ 89 and Average € 1.00 = ₹ 86.

You are required to:

(i) Prepare the Branch Trading and Profit & Loss Account in Euros.

(ii) Convert the Trial Balance of the Branch in Indian Currency. **(Total 7 Marks)**

(b) The following is the Trial Balance of Radiant Limited as on 31st March, 2026:

Particulars	**Dr. (₹/ lakhs)**	**Particulars**	**Cr. (₹/ lakhs)**
Land at Cost	440	Equity Share Capital (Shares of ₹ 10 each)	600
Cash in hand	15		
Plant & Machinery at Cost	1,540	10% Debentures of ₹ 100 each	400
Trade Receivables	200	General Reserve	260
Inventories (31.3.2026)	172	Profit & Loss A/c (Balance on 01-04-2025)	144
Cash at Bank	27		
Adjust Purchases	640	Securities Premium Reserve	80
Salary and Wages	120	Sales	1,400
Administration Expenses	60	Trade Payables	100
Selling Expenses	54	Provision for Depreciation	344
Interim Dividend Paid	42	Miscellaneous Receipts A/c	8
Interim on Debentures (Paid up to 31st December, 2025)	30	Provision for Doubtful Debts (1.4.2025)	4
Total	**3,340**	**Total**	**3,340**

Additional Information:

(i) Closing Stock is more than Opening Stock by ₹ 55 lakhs.

(ii) The Company declared a final dividend of 10% on 5th April, 2026.

(iii) Miscellaneous Receipts A/c of ₹ 8 lakhs represents amount received from the sale of an item of Machinery on 1st April, 2025. Cost of the Machinery was 20 lakhs and the Accumulated Depreciation thereon being ₹ 16 lakhs. The balance of Plant and Machinery given in the Trial Balance is before adjustment of sale of machinery.

(iv) Provision for Doubtful Debts is to be made at 5% on Trade Receivables.

(v) Depreciation is to be provided on Plant & Machinery at 10% on cost.

(vi) Provision for Income tax is required to be made @25%

You are required to prepare the Statement of Profit and Loss for the year ended 31st March, 2026 of Radiant Limited as per Schedule III of the Companies Act, 2013. **(Total 7 Marks)**

6 (a) What are the key disclosure requirements for MSMEs availing exemptions under Accounting Standards?

Or

(a) Give examples of areas where accounting policies adopted could be different for different enterprises. Would there be any adverse impact due to the adoption of different policies, and if yes, how does Accounting Standard 1 seek to address such issue? **(5 Marks)**

(b) In the financial statements of the financial year 2023-2024, Alpha Ltd. has mentioned in the notes to accounts that during financial year, 24,000 equity shares of ₹ 10 each were issued as fully paid bonus shares. However, the source from which these bonus shares were issued has not been disclosed. Is such non-disclosure a violation of the Schedule III to the Companies Act? Comment.

(4 Marks)

(c) Indicate in each case whether revenue can be recognized and when it will be recognized as per AS-9.

(1) Trade discount and volume rebate received.

(2) Where goods are sold to distributors or others for resale.

(3) Where seller concurrently agrees to repurchase the same goods at a later date.

(4) Insurance agency commission for rendering services.

(5) On 11-03-2026 cloths worth ₹ 50,000 were sold to X mart, but due to refurbishing of their showroom being underway, on their request, clothes were delivered on 12-04-2026. **(5 Marks)**