Mock Test Paper - Series II: December, 2025

Date of Paper: 6th December, 2025

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

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

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

1. Sun Limited has acquired 40% share in Moon Ltd. for ₹ 5,00,000 on 01.07.2024. Moon Ltd. is holding 40% stake in Star Limited. Now, Sun limited can exercise significant influence on Moon Limited. Moon limited declared dividend of ₹ 80,000 for the Financial Year 2023-24 on 15.09.2024. For the year 2024-25, Moon Ltd. earned profit of ₹ 4,00,000 and declared dividend for ₹ 90,000 on 15.09.2025.

   Answer the following questions based on above:

   1. With respect to relationship between Companies, it can be said that:

      (a) Star Ltd. is associate of Sun Ltd.

      (b) Moon Ltd. and Star Ltd. both are associates of Sun Ltd.

      (c) Moon Ltd. is an associate of Sun Ltd.

      (d) Sun Ltd. is Parent of both Moon Ltd. and Star Ltd.

   2. What will be the carrying amount of investment in Separate Financial Statements of Sun Limited as on 31.03.2025?

      (a) ₹ 5,00,000

      (b) ₹ 5,80,000

      (c) ₹ 4,68,000

      (d) ₹ 5,32,000

3. What will be the carrying amount of investment in Consolidated Financial Statements of Sun Limited as on 31.03.2025?

   (a) ₹ 9,00,000

   (b) ₹ 5,88,000

   (c) ₹ 4,52,000

   (d) ₹ 6,20,000

4. As per AS 23, the existence of significant influence by an investor is usually evidenced in one or more of the following ways:

   (i) Participation in policy making processes

   (ii) Interchange of managerial personnel

   (iii) Right to receive dividend

   (iv) Provision of essential technical information

   (a) All the statements are correct

   (b) Statements (i), (ii) and (iii) are correct

   (c) Statements (ii), (iii) and (iv) are correct

   (d) Statements (i), (ii) and (iv) are correct

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

2. Anshul manufacturers purchased 20,000 Kg. of raw material at ₹ 170 per Kg. Direct transit cost incurred ₹ 5,00,000 and normal transit loss is 3%. Anshul manufacturers actually received 19,000 kg of raw material. During the year it consumed 17,600 kg of raw material.

   Further information:

   (i) The purchase price includes ₹ 15 per kg as GST in respect of which full credit is allowed and will be availed by Anshul manufacturers.

   (ii) Assume that there is no opening stock.

   Answer the following questions based on above:

5. What will be the cost of material:

   (a) ₹ 36,00,000

   (b) ₹ 34,00,000

(c) ₹ 39,00,000

(d) ₹ 31,00,000

6. what will be the value of the closing stock:

(a) ₹ 1,70,000

(b) ₹ 1,85,500

(c) ₹ 2,38,000

(d) ₹ 2,59,700

7. What will be the cost per Kg of raw material:

(a) ₹ 180

(b) ₹ 183.6

(c) ₹ 185.5

(d) ₹ 189.4

8. How much amount as abnormal loss will be debited in P&L:

(a) ₹ 72,000 approx

(b) ₹ 73,440 approx

(c) ₹ 74,200 appox

(d) ₹ 75,760 approx

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

3. Jay Ltd. submits the following data extracted from the Final Accounts as on 31st March, 2024:

	₹
Equity Share Capital 50,000 Equity shares of ₹ 10 each	5,00,000
Profit & Loss (Dr. balance)	(50,000)
9% Debentures	2,00,000
Loan from Bank	3,00,000
Advance given to suppliers of goods	45,000
Provision for tax	14,000
Plant & Machinery	4,50,000

Furniture & Fixtures	85,000
Investment in Star Ltd. 10,000 equity shares of ₹ 10 each	1,25,000
Sundry Debtors	70,000
Cash & Bank Balance	65,500

Additional information given by Jay Ltd.:

On 31st March, 2024 Jay Ltd. decided to reconstruct the company for which necessary resolution was passed. Accordingly, it was decided that:

(i) 9% Debentures to be settled in full by issuing them 15,000 Equity shares of ₹ 10 each.

(ii) Equity shareholders will give up 40% of their capital in exchange for allotment of new 11% Debentures of ₹ 1,00,000.

(iii) Balance of Profit & Loss to be written off.

(iv) Equity shares issued for ₹ 1,00,000.

In addition to above, following information was also presented by Jay Ltd. on 1st April, 2024:

(1) Interest is received on advances given to suppliers of goods ₹ 3,000.

(2) Taxation liability is settled at ₹ 14,000.

(3) A debtor of ₹ 40,000 is insolvent, only 40% of his dues are recovered from his estate.

(4) Dividend is received on Investment in Star Ltd. ₹ 1 per equity share invested.

(5) Part of Plant and Machinery is sold at a loss of ₹ 3,000 (book value ₹ 15,000)

Based on the information given in above Case Scenario, answer the following Questions:

9. The amount of Cash Flow from operating activity is:

   (a) ₹ 2,000

   (b) ₹ 5,000

   (c) ₹ 12,000

   (d) ₹ 15,000

10. The amount of Cash Flow from investing Activity is

   (a) ₹ 28,000

(b) ₹ 25,000

(c) ₹ 15,000

(d) ₹ 22,000

11. What is the amount of closing Cash and Cash equivalents as on 1 April, 2024?

(a) ₹ 1,92,500

(b) ₹ 92,500

(c) ₹ 1,27,000

(d) ₹ 1,98,500

12. The Balance of Equity Share Capital after internal reconstruction is :

(a) ₹ 6,50,000

(b) ₹ 4,50,000

(c) ₹ 5,50,000

(d) ₹ 7,50,000

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

13. Vijay Ltd. borrowed ₹ 30 lakh at interest rate of 5% per annum and purchased plant and machinery for ₹ 60 lakh (using borrowed funds) and started production. It took 1 year time for Vijay Ltd. to create optimum market for the goods manufactured and generate revenue. How much borrowing cost can be capitalised with cost of plant and machinery:

(a) ₹ 1.5 lakh

(b) ₹ 3 Lakh

(c) Nil

(d) ₹ 5 Lakh **(2 Marks)**

14. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned using following cost formula

(a) By specific identification of their individual costs

(b) First-in, First-out (FIFO) Method

(c) Weighted average cost formula

(d) The formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition. **(2 Marks)**

15. A Ltd. had 1,50,000 shares of common stock outstanding on 1 April, 2024. Additional 50,000 shares were issued on 1 November, 2024 and 32,000 shares were bought back on 1 February, 2025.

Calculate the weighted average number of shares outstanding at the year ended on 31 March, 2025 is:

(a) 1,34,500 shares

(b) 1,65,500 shares

(c) 1,76,167 shares

(d) 1,23,833 shares **(2 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 answer by the candidates. Working Notes should form part of the answer.

1. (a) Jared Limited purchased a machine for US$ 20,000 on 31 December 2024, payment being due after four months. On the same date the company entered into a four-month forward contract at ₹78.85 per US$. The spot exchange rate on 31 December 2024 was ₹ 77.50 per US$.

(i) How should Jared Limited recognise the profit or loss on the forward contract in its books for the year ended 31 March 2025? Explain the accounting treatment and point out when and where the gain or loss should be recorded.

Additional transaction

Trade payables of Jared Limited include an amount due to Sterling Limited of ₹ 9,75,000, which was recorded at the prevailing exchange rate on the date of purchase. The original transaction was recorded using US$ 1 = ₹ 75.00. The exchange rate on the balance-sheet date (31 March 2025) was US$ 1 = ₹ 79.00. The payment was actually made on 1 May 2025, when the exchange rate was US$ 1 = ₹ 78.30.

(ii) Calculate:

- the exchange difference as at 31 March 2025, and
- the exchange difference on 1 May 2025 (on settlement).

Also explain the required accounting treatment in Jared Limited's books in accordance with AS 11 — The Effects of Changes in Foreign Exchange Rates.

(b) As per provisions of AS-26, how would you deal to the following situations:

(1) ₹ 23,00,000 paid by a manufacturing company to the legal advisor for defending the patent of a product is treated as a capital expenditure.

(2) During the year 2024-2025, a company spent ₹ 7,00,000 for publicity and research expenses on one of its new consumer product which was marketed in the same accounting year but proved to be a failure.

(3) A company spent ₹ 25,00,000 in the past three years to develop a product, these expenses were charged to profit and loss account since they did not meet AS-26 criteria for capitalization. In the current year approval of the concerned authority has been received. The company wishes to capitalize ₹ 25,00,000 by disclosing it as a prior period item.

(4) A company with a turnover of ₹ 200 crores and an annual advertising budget of ₹ 50,00,000 had taken up for the marketing of a new product by a company. It was estimated that the company would have a turnover of ₹ 20 crore from the new product. The company had debited to its Profit & Loss Account the total expenditure of ₹ 50,00,000 incurred on extensive special initial advertisement campaign for the new product.

(c) Kumar Ltd. is engaged in the manufacture of both passenger cars and commercial vehicles. The management has recently developed a long-term strategic vision under which the company intends to gradually shift its focus away from the passenger car segment and move more strongly toward the commercial vehicles business over the next five years. As part of this broad strategy, the management has informally discussed a plan to reduce the production of passenger cars by approximately 20% every year and, in parallel, to establish a new manufacturing facility dedicated to commercial vehicles. It is also envisaged that certain employees will be transferred in phases to support the expansion of the commercial vehicle division.

However, despite these strategic intentions, no specific or detailed plan has been formulated or approved for the sale, closure, or complete discontinuance of the passenger car division. There is no formal plan regarding the disposal of its assets, and no proposal has been placed before or approved by the Board of Directors. Further, the proposed new commercial vehicle factory has not commenced operations, nor have any binding commitments been made.

In light of the above circumstances, you are required to comment on whether such gradual scaling down of activities, without a formal and approved plan for disposal, can be regarded as a 'Discontinuing Operation' within the meaning of AS 24 – Discontinuing Operations. **(5 + 5 + 4 = 14 Marks)**

2. (a) Prem Ltd. holds 2,000, 15% Debentures of ₹ 100 each in Mehar Ltd. as on April 1, 2024 at a cost of ₹ 2,50,000.

Interest is payable on June, 30 and December, 31 each year.

Following are the details of 15% Debentures purchased and sold during the year 2024-25.

Particulars
On May 1, 2024, 1,000 debentures are purchased cum-interest at ₹ 1,05,000.
On November 1, 2024, 1200 debentures are sold ex-interest at ₹ 1,28,200.
On November 30, 2024, 500 debentures are purchased ex-interest at ₹ 54,500.
On December 31, 2024, 900 debentures are sold cum-interest for ₹ 1,18,000

You are required to prepare the investment Account showing value of holdings on March 31, 2025 at cost, using FIFO Method.

(b) Care who carried on a retail business opened a branch Omega on January 1st, 2025 where all sales were on credit basis. All goods required by the branch were supplied from the Head Office and were invoiced to the branch at 10% above cost.

The following were the transactions:

	Jan. 2025	**Feb. 2025**	**March 2025**
	₹	₹	₹
Goods sent to Branch (Purchase Price)	60000	75000	90000
Sales as shown by the branch monthly report	57000	63000	82500

Cash received from Debtors and remitted to H.O.	30000	76500	52500
Returns to H.O. (Invoice price to Branch)	1800	900	3600

The stock of goods held by the branch on March 31, 2025 amounted to ₹ 80,100 at invoice to branch.

Record these transactions in the Head Office books, showing balances as on 31st March, 2025 and the branch gross profit for the three months ended on that date.

All workings should form part of your solution. **(7 + 7 = 14 Marks)**

3. Hari Ltd., OM Ltd. and Bhakti Ltd. decided to jointly construct a pipeline to transport the gas from one place to another that was manufactured by them. For the purpose following expenditure was incurred by them: Buildings ₹ 18,00,000 to be depreciated @ 5% p.a., Pipeline for ₹ 90,00,000 to be depreciated @ 15% p.a., computers and other electronics for ₹ 4,50,000 to be depreciated @ 40% p.a. and various vehicles of ₹ 13,50,000 to be depreciated @ 20% p.a.

   They also decided to equally bear the total expenditure incurred on the maintenance of the pipeline that comes to ₹ 9,00,000 each year.

   You are required to show the Extract of consolidated balance sheet and the extract of Statement of Profit & Loss and Balance Sheet for each venturer. **(14 Marks)**

4. Following is the summarized Balance Sheet of Star Ltd. as on 31st March, 2025.

Particulars	**Amount (₹)**
Liabilities	
Authorized and Issued Share Capital	
(a) 15,000 8% Preference shares of ₹ 50 each	7,50,000
(b) 18,750 Equity shares of ₹ 50 each	9,37,500
Profit and Loss Account	(5,63,750)
Loan	7,16,250
Trade Payables	2,58,750
Other Liabilities	43,750
Total	21,42,500
Assets	
Building at cost less depreciation	5,00,000
Plant at cost less depreciation	3,35,000

Trademarks and goodwill at cost	3,97,500
Inventory	5,00,000
Trade Receivables	4,10,000
Total	21,42,500

(Note: Preference shares dividend is in arrear for last five years).

The Company is running with the shortage of working capital and not earnings profits. A scheme of reconstruction has been approved by both the classes of shareholders. The summarized scheme of reconstruction is as follows:

(i) The equity shareholders have agreed that their ₹ 50 shares should be reduced to ₹ 5 by cancellation of ₹ 45.00 per share. They have also agreed to subscribe for three new equity shares of ₹ 5.00 each for each equity share held.

(ii) The preference shareholders have agreed to forego the arrears of dividends and to accept for each ₹ 50 preference share, 4 new 6% preference shares of ₹ 10 each, plus 3 new equity shares of ₹ 5.00 each, all credited as fully paid.

(iii) Lenders to the company for ₹ 1,87,500 have agreed to convert their loan into shares and for this purpose they will be allotted 15,000 new preference shares of ₹ 10 each and 7,500 new equity shares of ₹ 5.00 each.

(iv) The directors have agreed to subscribe in cash for 25,000 new equity shares of ₹ 5.00 each in addition to any shares to be subscribed by them under (i) above.

(v) Of the cash received by the issue of new shares, ₹ 2,50,000 is to be used to reduce the loan due by the company.

(vi) The equity share capital cancelled is to be applied:

  (a) To write off the debit balance in the Profit and Loss A/c, and

  (b) To write off ₹ 43,750 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill. The nominal capital, as reduced, is to be increased to ₹ 8,12,500 for preference share capital and ₹ 9,37,500 for equity share capital.

You are required to pass journal entries to show the effect of above scheme and prepare the Balance Sheet of the Company after reconstruction. **(14 Marks)**

5. The following is the Trial Balance of Madhav Ltd.as on 31st March, 2024 :

Particulars	Dr. (₹ 000)	Particulars	Cr. (₹ 000)
Land at Cost	148	Equity Share of ₹ 10 each	200
Plant & Machinery at Cost	520	10% Debenture of ₹ 100 each	135
Debtors	65	General Reserve	90
Closing Stock	58	Profit & Loss Ale	48
Bank	14	Security Premium	27
Adjusted Purchases	226	Sales	473
Factory Expenses	40	Creditors	35
Administration Expenses	22	Provision for Depreciation	116
Selling Expenses	20	Suspense A/c	3
Debenture Interest	14		
Total	1,127	Total	1,127

Additional Information:

- On 31st March, the Company issued Bonus Shares to the Shareholders on 1 : 2 basis (one equity share issued as bonus for every 2 equity shares held). No entry relating to this has yet been made.
- The Authorized Share Capital of the Company is 35,000 Equity Shares of ₹ 10 each.
- The Company, on the advice of an independent valuer, revalued the Land at ₹ 2,45,000.
- The Directors declared a Dividend of 10% on 5th April, 2025 and also transferred profit @ 10% to General Reserve.
- Suspense Account of ₹ 3,000 represents cash received for the Sale of some Machinery on the 1st day of the financial year 2023-24. Cost of this Machinery was ₹ 10,000 and Accumulated Depreciation thereon being ₹ 8,000.
- Depreciation is to be provided on Plant & Machinery at 10% on Cost.
- Provision for Income tax is required@ 30%.

You are required to prepare Shivam Ltd.'s Profit and Loss A/c for the year ended 31st March, 2025 and Balance Sheet as at that date as per the provisions of the Companies Act, 2013 after considering the above information. Ignore previous year figures. **(14 Marks)**

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

(i) Delivery is delayed at buyer's request but buyer takes title and accepts billing.

(ii) Instalment Sales,

(iii) Trade discounts and volume rebates

(iv) Insurance agency commission for rendering services.

(v) Advertising commission.

OR

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

Provide examples of such costs as per AS 2 (Revised) 'Valuation of Inventories.

(4 Marks)

(b) In the following cases, record Journal Entries for amortization in the books of Huge Ltd. for the year ended 31st March, 2025 with reference to AS-26:

The company had acquired Patent Rights for ₹ 340 lakhs on 01.04.2023. The estimated product life is 4 years. Amortization was decided in the ratio of estimated future cash flows which are as under:

1st Year ₹ 140 Lakhs

2nd Year ₹ 350 Lakhs

3rd Year ₹ 280 Lakhs

4th Year ₹ 420 Lakhs **(5 Marks)**

(c) Pendora Ltd. has given the following details in respect of employee benefit pension plan:

Particulars	**Amount ₹**
The fair value of plan assets as on 01-04-2024	5,00,000
The benefits paid out on 30-11-2024	63,000
Inward contributions received on 30-09-2024	1,42,000
The fair value of plan assets as on 31-03-2025	7,50,000

On 01.04.2024, the company made following estimates, based on its market studies and prevailing prices:

Particulars	**%**
Interest and dividend income (after tax) payable by fund	10.50
Realised gains on plan assets (after tax)	2.00
Fund administrative costs	-2.00
Expected rate of annual return (Interest is compounded annually)	10.50

You are required to find the expected and actual returns on plan assets as on 31.03.2025 as per AS 15. **(5 Marks)**

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PAPER – 1 : ADVANCED ACCOUNTING

ANSWERS

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

PART II – Descriptive Questions (70 Marks)

1. (a) (i)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. (a) In the Books of Prem Ltd

15% Debentures (Investment) Account

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

1. Loss on sale of debentures on 1.11.24

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

   Sale proceeds = ₹ 1,28,200

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

2. Profit on sale of debentures on 31.12.24

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

   Sale proceeds = ₹ 1,11,250

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

3.

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

(b) **Books of Care**

Branch Account

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

Working Note

Memorandum Branch Debtors Account

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

Goods Sent to Branch Account

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

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

3. Extract of Consolidated Balance Sheet

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

Notes to Accounts

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

In the Books of Hari Ltd.

Extract of statement of Profit & Loss

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

Extract of Balance Sheet

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

Notes to Accounts

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

In the Books of OM Ltd.

Extract of draft Profit & Loss Account

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

Extract of Balance Sheet

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

Notes to Accounts

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

In the Books of Bhakti Ltd.

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

Extract of Balance Sheet

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

Notes to Accounts

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

4. In the books of Star Ltd.

Journal Entries

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

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

Balance sheet of Star Ltd. (and reduced)

as on 31.3.2025

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

Notes to accounts:

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

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

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

5. Madhav Limited

Balance Sheet as at 31st March 2025

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

Madhav Limited

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

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

Notes to accounts

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

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

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

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

Working note:

Bonus Shares Issue:

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

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

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

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

(iii) **Trade discounts and volume rebates:** Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue.

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

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

Or

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

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

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

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

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

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

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

Working note

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

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

(ii)

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

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

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

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