PAPER – 1 : ADVANCED ACCOUNTING

PART – 1: Multiple Choice Questions

Case Scenario - I

Road Builders Corp. is a publicly traded infrastructure and commercial real estate development company specializing in the construction and operation of major over bridges, integrated service complexes and large scale commercial properties including shopping malls. They follow financial year from 1st April to 31st March.

On 1st April, 2025, Roadbuilders Corp. undertook the following major transactions:

1. *The company acquired 200 acres of land at a cost of ₹ 35,000 per acre to establish a new central equipment yard and fabrication facility.*
2. *The company purchased a machinery costing ₹ 320 Lakhs for a construction project in backward area. The company immediately received a government grant of ₹ 80 Lakhs related to this purchase. The company's policy is to recognize the grant as a deduction from cost of the asset. The estimated useful life of the asset 10 years, with an estimated salvage value of ₹ 6 Lakhs. The company uses the straight line method for depreciation.*

Roadbuilders Corp. acquired equity stakes in GeoSurvey Limited, a specialized topographical surveying firm, on two dates:

On 1st April, 2025: Acquired 10% stake for ₹ 40,00,000

1st October, 2025: Acquired a further 15% stake for ₹ 58,00,000 reaching a total holding of 25% and gain significant influence.

The net assets of GeoSurvey Ltd. (Book Value) were as follows:

Date	***Net Assets ₹***
On 1st April, 2025	*3,40,00,000*
1st October, 2025	*4,00,00,000*

On 1st April, 2025 Roadbuilders Corp, undertook a contract to construct an underpass. The following details are available from the records kept for the year ended 31st March, 2026.

	₹
Total Contract Price	*1,02,00,000*
Cost Incurred till 31st March,2026	*77,98,800*
Prudent estimate of additional cost for completion	*38,41,200*

Roadbuilders Corp. is currently developing a huge shopping mall with all the amenities including multiplex theatre. The mall is expected to be completed by the end of March, 2026. The inauguration of the mall is planned on 1st April, 2026.

However, the construction of Multiplex theatre within the mall complex was completed earlier, on 1st February, 2026. The company decided to have a 'soft' opening of the theatre to the public. During this soft opening:

- *Tickets are sold at a discount of 50%.*
- *The theatre operates at 70% capacity.*
- *Management claims that the soft opening of the theatre is a trial run necessary to check the operational capability and system integration for the entire mall complex.*

*Based on the information given in the above case scenario, answer the following questions from **1** to **4** as per relevant accounting standards:*

1. *The amount of annual depreciation to be charged as an expense in the profit and loss account for the year 2025-26 for the machinery purchased for the construction project in backward area will be*

   (A) ₹ 31.4 Lakhs

   (B) ₹ 32 Lakhs

   (C) ₹ 24 Lakhs

   (D) ₹ 23.4 Lakhs ***(2 Marks)***

2. *What is the amount of goodwill or capital reserve arising when RoadBuilders Corp. achieves significant influence in GeoSurvey Limited?*

   (A) Goodwill ₹ 4,00,000

   (B) Goodwill ₹ 8,00,000

   (C) Capital Reserve ₹ 4,00,000

   (D) Capital Reserve ₹ 8,00,000 ***(2 Marks)***

3. *What amount should be recognized as revenue for the contract to construct underpass for the year ended 31 March, 2026 as per the provisions of Accounting Standard 7 (Revised)?*

   (A) ₹ 77,98,800

   (B) ₹ 68,34,000

   (C) ₹ 9,64,800

   (D) Revenue will be recognized only on completion of the contract.

   (2 Marks)

4. *Which of the following treatment is most appropriate for recording net operating costs/revenue of the Multiplex theatre for the period 1st February, 2026 to 31st March, 2026?*

   (A) Net operating costs/revenue should be capitalized as the entire shopping Mall complex has not officially started functioning.

   (B) Net operating costs/revenue should not be capitalized but should be recognized in the statement of profit and loss account.

   (C) 70% of net operating cost /revenue should be capitalized.

   (D) 50% of net operating cost /revenue should be capitalized. ***(2 Marks)***

5. *On 1st April, 2025 Zed Limited had 5,00,000 equity shares of ₹ 10 each (5 paid up) and 45,000 10% Preference shares of ₹ 100 each fully paid up. On 1st July, 2025 the remaining ₹ 5 was called up on equity shareholders and paid by all shareholders except one shareholder having 30,000 shares. The net profit for the year ended 31st March, 2026 was ₹ 23,25,500 before considering dividend on preference shares of ₹ 4,50,000. What will be the basic Earnings Per Share for the year ended 31st March, 2026, as per Accounting Standard 20 "Earnings per share"?*

   (A) ₹ 3.75 per share

   (B) ₹ 4.00 per share

   (C) ₹ 4.40 per share

   (D) ₹ 4.51 per share ***(2 Marks)***

Case Scenario - II

Unicorn Limited is engaged in manufacturing of building material. The company has manufacturing plants at Bhopal (MP) and Nashik (Maharashtra). The company prepares the financial statements by following financial year 1st April to 31 March. The company took a loan of ₹ 60 Lakhs carrying interest @ 10% p.a. on 1st August, 2025 to purchase raw material. On the same day, the company purchased 40,000 units of raw material @ ₹ 125 per unit. For each unit of finished goods 2 units of raw material is required. On 31st March, 2026 the company provides you the following information:

(i) 10,000 units of finished goods were produced.

(ii) Net realizable value of finished goods is ₹ 300 per unit.

(iii) Net replacement value of raw material was ₹ 100 per unit.

(iv) Labour charges and variable overheads incurred are ₹ 10,00,000 to produce 10,000 units of finished goods.

(v) All the finished goods produced were lying in the stock as on 31st March, 2026.

(vi) There was no opening stock of raw material and finished stock.

Unicorn Limited used 15,000 units of raw material to construct an asset (Qualifying Asset). Labour and other overhead charges incurred on construction of asset are ₹ 9,00,000. The company also paid ₹ 1,50,000 to install the asset at factory premises.

Unicorn Limited used Balance of loan proceeds of ₹ 10,00,000 to invest in Equity shares of Royal Limited. The company purchased 90,000 equity shares (Face value ₹ 10 each) for ₹ 10,00,000 on 25th March, 2026. Royal Limited declared and paid dividend @ 20% on 30th March 2026 for the year 2024-25.

A fraud of ₹ 2,80,000 done by the cashier of Unicorn Limited in January, 2026 was detected in April, 2026. The financial statements for the year ended 31stMarch, 2026 were approved by the Board of Directors of the company on 1st May, 2026.

Based on the information given in the above case scenario, answer the following questions from ***6 to 9:***

6. *What would be the value of closing stock of Raw Material and Finished goods as on 31st March, 2026?*

   (A) *The value of Closing Stock of Raw Material would be ₹ 5,00,000 and the value of Finished goods would be ₹ 35,00,000.*

   (B) *The value of Closing Stock of Raw Material would be ₹ 5,00,000 and the value of Finished goods would be ₹ 30,00,000.*

   (C) *The value of Closing Stock of Raw Material would be ₹ 6,25,000 and the value of Finished goods would be ₹ 30,00,000.*

   (D) *The value of Closing Stock of Raw Material would be ₹ 6,25,000 and the value of Finished goods would be ₹ 35,00,000.* ***(2 Marks)***

7. *What would be the Cost of Self Constructed Asset as per AS 10?*

   (A) *₹ 29,25,000*

   (B) *₹ 27,75,000*

   (C) *₹ 30,50,000*

   (D) *₹ 29,00,000* ***(2 Marks)***

8. *What will be the carrying amount of investment as on 31st March, 2026 as per AS 13 and the treatment of dividend received from Royal Limited?*

   (A) *Carrying amount of investment as on 31st March, 2026 will be ₹ 7,20.000 and dividend received from Royal Limited will be deducted from the nominal value of investment.*

   (B) *Carrying amount of investment as on 31st March, 2026 will be ₹ 9,00,000 and dividend received from Royal Limited will be credited to Profit and Loss account.*

   (C) *Carrying amount of investment as on 31st March, 2026 will be ₹ 10,00,000 and dividend received from Royal Limited will be credited to Profit and Loss account.*

   (D) *Carrying amount of investment as on 31st March, 2026 will be ₹ 8,20,000 and dividend received from Royal Limited will be deducted from the cost of the investment.* ***(2 Marks)***

9. *How the loss due to fraud by cashier will be recognized in the books of Unicorn Limited?*

   (A) *Loss of ₹ 2,80,000 should be recognized in the Profit and Loss account for the year ended 31 March, 2027.*

   (B) *Loss of ₹ 2,80,000 should be recognized in the Profit and Loss account for the year ended 31 March, 2026.*

   (C) *Loss of ₹ 1,40,000 should be recognized in the Profit and Loss account for the year ended 31 March, 2026.*

   (D) *Loss of ₹ 2,10,000 should be recognized in the Profit and Loss account for the year ended 31st March, 2026 and balance loss of ₹ 70,000 should be recognized in the Profit and Loss account for the year ended 31st March, 2027.* ***(2 Marks)***

10. *Volt Tech Limited is engaged in the business of manufacturing electric Vehicle (EV) batteries. Accountant of Volt Tech Limited showed Profit Before Tax (PBT) of ₹ 14,00,000 for the third quarter ending 31st December, 2025 after incorporating the following:*

    (i) *During the quarter sales promotion expenses were ₹ 50,000. 80% of these sales promotion expenses has been deferred to the fourth quarter as the sales in last quarter is high.*

    (ii) *Sale of investments in the first quarter resulted in a gain of ₹ 1,60,000. The company had apportioned this equally to the four quarters.*

    (iii) *Additional depreciation of ₹ 80,000 resulting from the change in the method of depreciation. The entire amount has been debited in the third quarter, though the share of the third quarter is only ₹ 20,000.*

    What amount should be reported as adjusted Profit Before Tax for third quarter?

    (A) *₹ 13,20,000*

    (B) *₹ 13,80,000*

    (C) *₹ 14,60,000*

    (D) *₹ 13,60,000* ***(2 Marks)***

Case Scenario - III

Softline Limited gives you the following balance sheet as at 31st March, 2025:

	Particulars	Notes	Amount ₹
	Equity and Liabilities:		
	Shareholders Fund:		
	Share Capital	1	30,00,000
	Reserve and Surplus	2	4,00,000
	Current Liabilities:		
	Trade Payables		5,00,000
	Other Current Liabilities		1,00,000
	Total		40,00,000
	Assets:		
	Non-current Assets:		
A	Property, plant and equipment		23,00,000
B	Intangible assets (Goodwill)		8,00,000
	Current Assets:		
A	Inventories		5,00,000
B	Trade Receivables		2,00,000
C	Cash and Cash Equivalents		2,00,000
	Total		40,00,000

Notes to Accounts:

		31st March,2025
1	Share Capital	
	2,00,000 Equity Shares of ₹ 10 each fully paid up	20,00,000
	9% Redeemable Preference Shares of ₹ 100 each	10,00,000
2	Reserves and Surplus	
	General Reserve	11,00,000
	Profit and Loss Account (Dr. Balance)	(7,00,000)

Softline Limited had been facing financial difficulties due to past operational inefficiencies, leading to an accumulated debit balance in its Profit and Loss account. It was decided to reconstruct the company for which necessary special resolution was passed in general meeting and approval were obtained from appropriate authorities including NCLT and notify creditors.

The following reconstruction scheme was approved and to be executed on 1st April, 2025:

(i) The equity shares were reduced from ₹ 10 to ₹ 6 per share, fully paid up.

(ii) All the 9% redeemable preference share were reduced to ₹ 70 fully paid up.

(iii) The balance created in Capital Reduction account was utilized to completely write off the accumulated debit balance of Profit and Loss account, and remaining balance was used to write off goodwill.

Following the reconstruction, the company revamped its business model and provide you with the following information as on 31st March, 2026;

(1) Profit Before Tax (PBT) for the year 2025-26 was ₹ 12,00,000.

(2) This profit was arrived after charging depreciation of ₹ 2,00,000 on PPE

(3) During the year, trade receivables increased by ₹ 1,00,000 but inventories, trade payables and other liabilities remained unchanged.

(4) The company paid Income tax amounting to ₹ 3,00,000 during the year.

With sufficient liquidity and a healthy General reserve supplemented by current year profits, the Board of Directors passed the following resolution on 1st April, 2026 which was fully executed on the same day.

i. Redeem the entire outstanding 9% Redeemable Preference Shares at a premium of 5%.

ii. Offer buy back of 40,000 Equity shares at a price of ₹ 9 per share. Both the redemption and buy back carried out entirely out of free reserves (General reserve and Current year Profit).

*Based on the information given in the above case scenario, answer the following questions from **11** to **14:***

11. *After executing the scheme of reconstruction on 1st April, 2025, what will be the remaining carrying amount of goodwill in the Balance Sheet?*

    (A) ₹ 5,00,000

    (B) ₹ 8,00,000

    (C) ₹ 4,00,000

    (D) Nil **(2 Marks)**

12. *What is the Net Cash Flow from Operating Activities for the financial year ended 31st March, 2026?*

    (A) ₹ 12,00,000

    (B) ₹ 14,00,000

    (C) ₹ 13,00,000

    (D) ₹ 10,00,000 **(2 Marks)**

13. *As per the provisions of the Companies Act, what is the total amount that Softline Limited must transfer to the Capital Redemption Reserve (CRR) out of free reserves immediately after the redemption and buy-back?*

    (A) ₹ 9,40,000

    (B) ₹ 10,40,000

    (C) ₹ 10,00,000

    (D) ₹ 8,40,000 **(2 Marks)**

14. *What will be the balance of Cash and Cash equivalent for Softline Limited after completing all operations, redemption of preference shares and buy-back of equity shares?*

    (A) ₹ 1,05,000

    (B) ₹ 2,00,000

    (C) Zero Balance

    (D) ₹ 3,60,000 **(2 Marks)**

15. *Amalgamation adjustment reserve is opened in the books of the amalgamated company to incorporate*

    (A) Non-current assets of the amalgamating company

    (B) Non-Statutory reserves of the amalgamating company

    (C) Statutory reserves of the amalgamating company

    (D) General reserves of the amalgamating company ***(2 Marks)***

Answer Key

MCQ. No.	Correct Answer
1.	(D)
2.	(A)
3.	(B)
4.	(B)
5.	(C)
6.	(B)
7.	(C)
8.	(D)
9.	(B)
10.	(A)
11.	(C)
12.	(D)
13.	(A)
14.	(A)
15.	(C)

PART – II – Descriptive Questions

*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.

Question 1

(a) *Mr. A has joined a company XYZ Ltd. on 1st April, 2025. The terms of his appointment was as follows;*

(i) Mr. A will get ₹ 18,62,764 as annual emoluments.

(ii) The salary of Mr. A is expected to grow @ 10% per annum.

The company also has a policy of giving lump sum payment of 30% of the last drawn annual salary of the employee for each completed year of service if the employee retires after completing minimum 5 years of service.

Since the company has inducted Mr. A in the beginning of the year and it is expected that he will complete the minimum five-year term before retiring. Thus, he will get 5 yearly increments.

You are required to:

(1) Compute the amount that should be charged by XYZ Limited in its Profit & Loss account every year as cost for the Defined Benefit Obligation.

(ii) Calculate the current service cost and the interest cost to be charged per year assuming the discount rate is 8% p.a.

(P.V. factor for 8% -0.735, 0.794, 0.857, 0.926, 1) ***(5 Marks)***

(b) *On 1 April, 2022, Sky Limited purchased a machinery for ₹ 7,35,000 (inclusive of GST @ 5%). Input credit is available for entire amount of GST paid. The company incurred the following other expenses for installation:*

	₹
Cost of preparation of site for installation	*16,500*
Total Labour charges	*75,000*

(200 out of the total 500 men hours worked, were spent on installation of the machinery)	
Total salary of supervisor	*34,000*
(Time spent for installation was 25% of the total time worked)	
Interest charges paid to supplier of machinery for deferred credit	*8,000*
Test run and experimental production expenses	*28,200*
Consultancy charges to architect for plant set up	*18,800*
Depreciation on assets used for installation	*8,000*

The machine was ready for use on October 1, 2022 but was put to use from February 1, 2023. Due to this delay further expenses of ₹ 10,800 were incurred. The estimated useful life of machine is 10 years. The machine is depreciated on straight line basis and does not carry any residual value.

On September 30, 2025, the company has revalued the machine at ₹ 7 lakhs and the surplus arising out of the revaluation being credited to revaluation reserve. For the year ended March 31, 2026, conditions indicating an impairment of the machine existed and the amount recoverable ascertained to be only ₹ 3 Lakhs.

You are required to:

(i) Calculate the value at which the machine should be capitalized and the amount of depreciation to be charged for the year ending March 31, 2023 in the books of Sky Limited.

(ii) Calculate the loss on impairment of the machine and show how this loss is to be treated in the books of Sky Limited. The company had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation. ***(5 Marks)***

(c) The following information are provided to you in respect of Vardhman Ltd. for the financial year 2025-26:

Estimated total annual income ₹ 5,00,000

(Inclusive of estimated capital gains earned in 2nd quarter ₹ 1,00,000)

Tax rates for the financial year 2025-26 are:

On capital gains	*20%*
On other incomes	
First 2,00,000	*35%*
Balance income	*40%*

Assuming that there is no difference between the estimated taxable income and the estimated accounting income, you are required:

(i) To compute total tax expenses for the year 2025-26;

(ii) To calculate tax expenses for each quarter, when the estimated income of each quarter is ₹ 1,25,000 and income for 2nd quarter includes capital gain of ₹ 1,00,000. ***(4 Marks)***

Answer

(a) (i) Calculation of Defined Benefit Obligation (DBO)

Expected last drawn salary = ₹ 18,62,764 x 110% x 110% x 110% x 110% x 110%

= ₹ 30,00,000

Defined Benefit Obligation (DBO) = ₹ 30,00,000 x 30% x 5 **=** ₹ 45,00,000

Amount of ₹ 9,00,000 will be charged to Profit and Loss Account of the company every year as cost for Defined Benefit Obligation.

(ii) Calculation of Current Service Cost

Year	**Equal apportioned amount of DBO [i.e. ₹ 45,00,000/5 years]**	**Discounting @ 8% PV factor**	**Current service cost (Present Value)**
a	**b**	**c**	**d = b x c**
1	9,00,000	0.735 (4 Years)	6,61,500
2	9,00,000	0.794 (3 Years)	7,14,600
3	9,00,000	0.857 (2 Years)	7,71,300
4	9,00,000	0.926 (1 Year)	8,33,400
5	9,00,000	1 (0 Year)	9,00,000

Calculation of Interest Cost to be charged per year

Year	Opening balance	Interest cost	Current service cost	Closing balance
a	**b**	**c = b x 8%**	**d**	**e = b + c + d**
1	0	0	6,61,500	6,61,500
2	6,61,500	52,920	7,14,600	14,29,020
3	14,29,020	1,14,322	7,71,300	23,14,642
4	23,14,642	1,85,171	8,33,400	33,33,213
5	33,33,213	2,66,787	9,00,000	45,00,000

*Due to approximations used in calculation, this figure is adjusted accordingly.

(b) (i) Calculation of Cost of Machinery

Particulars		₹
Purchase Price	Given	7,35,000
Add: Site Preparation Cost	Given	16,500
Labour charges (75,000 × 200/500)	Given	30,000
Supervisor's Salary	25% of ₹ 34,000	8,500
Test run and experimental production charges	Given	28,200
Architect Fees for set up	Given	18,800
Depreciation on assets used for installation	Given	8,000
Total Cost of Asset		8,45,000
Less: GST credit receivable		(35,000)
Value to be capitalized		8,10,000
Depreciation to be charged on 31.3.2023 (for 6 month)	SLM 10 year	40,500

Note:

(i) Further Expenses of ₹ 10,800 from 1.10.2022 to 1.2.2023 to be charged to profit and loss A/c as plant was ready for production on 1.10.2022

(ii) Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of ₹ 8,000 is not regarded as directly attributable costs and thus cannot be capitalized. It should be written off to the Statement of Profit and Loss in the period they are incurred.

(ii) Statement showing impairment loss & Its Treatment Amount (₹)

Carrying amount of the machine as on 01/10/2022	8,10,000
Less: Depreciation for 3 years (8,10,000 x 3/10)	(2,43,000)
Carrying amount as on September 30/09/2025	5,67,000
Add: Upward revaluation (credited to revaluation reserve)	1,33,000
Carrying amount of the machine as on 30/09/2025	7,00,000
Less: Depreciation for 6 months up to 31/03/2026 (7,00,000 x 0.5/ 7)	(50,000)
Carrying amount as on March 31/03/2026	6,50,000
Less: Recoverable amount	(3,00,000)
Impairment Loss	3,50,000
Less: balance in revaluation reserve as on March 31/03/2026 (1,33,000 - (50,000 - 40,500)]*	(1,23,500)
Impairment Loss to be debited to Profit & Loss Account	2,26,500

* Depreciation for 01/10/2025 to 31/03/2026 (7,00,000 x 0.5/ 7) ₹ 50,000

Depreciation to be set off against Revaluation Reserve = (1,33,000 x 0.5/ 7) = ₹ 9,500

(Impairment loss set off against revaluation reserve balance as per para 58 of AS 28 "impairment of assets")

(c) (i) Computation of Total tax expense

As per para 29 of AS 25 'Interim Financial Reporting', income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

		₹
Capital Gain		1,00,000
Other Income		4,00,000
Estimated total Annual Income	(A)	5,00,000
Tax expense:		
20% on ₹ 1,00,000 (capital gain)		20,000
35% on First ₹ 2,00,000		70,000
40% on the remaining ₹ 2,00,000		80,000
Total Tax expense	(B)	1,70,000

Weighted average annual income tax rate = $\frac{1,50,000}{4,00,000}$ = 37.5%

Income Tax Rate on Capital Gain=20%

Quarterly Income

	Total Income (₹)	Capital Gain (₹)	Quarterly Tax Calculation	Quarterly Tax expense
Q1	1,25,000	Nil	1,25,000 × 37.5%	46,875
Q2	1,25,000	1,00,000	Tax on Capital Gains = 1,00,000 × 20% = 20,000 Tax on remaining income = 25,000 × 37.5% = 9,375	29,375
Q3	1,25,000	Nil	1,25,000 × 37.5%	46,875
Q4	1,25,000	Nil	1,25,000 × 37.5%	46,875

Question 2

Following is the trial balance of Vinayak Ltd. as on 31st March 2026:

	Dr. ₹ '000	Cr. ₹ '000
Equity share capital (shares of ₹ 100 each)		7,500
General Reserve		2,250
P&L A/c (on 1-04-2025)		1,125
Securities premium		600
10% Debentures		4,500
Calls in arrear	75	
Plant and machinery at cost	12,360	
Land at cost	12,000	
Cash in hand	30	
Cash in Bank	420	
Sales		18,000
Trade payables		450
Trade receivables	1,800	
Inventories (31-03-2026)	1,440	
Purchases	6,000	
Provision for Depreciation		2,250
Debenture interest	450	
Factory expenses	1,200	
Administrative expenses	675	
Selling expenses	375	
Suspense account		150
Total	36,825	36,825

Additional information:

(a) *The authorized share capital of the company is 1,20,000 shares of ₹ 100 each.*

(b) *The company revalued the land at ₹ 1,44,00,000.*

(c) *Equity share capital includes shares of ₹ 7,50,000 issued for consideration other than cash.*

(d) *Suspense account of ₹ 1,50,000 represents cash received from the sale of some of machinery on 1 April, 2025. The cost of the machinery was ₹ 3,60,000 and the accumulated depreciation thereon being ₹ 3,00,000. The balance of Plant and Machinery given in the trial balance is before adjustment of sale of machinery.*

(e) *Depreciation is to be provided on plant and machinery at 10% p.a. on cost.*

(f) *Balance at bank includes ₹ 75,000 with XYZ Bank Ltd., which is not a Scheduled Bank.*

(g) *Make provision for income tax @ 40%*

(h) *Trade receivables of ₹ 7,50,000 are due for more than six months.*

On the basis of the above information, you are required to prepare Vinayaka Ltd.'s Balance Sheet as on 31st March, 2026 and Statement of Profit and Loss with notes to accounts for the year ended 31st March, 2026 as per Schedule III (ignore previous year's figures). ***(14 Marks)***

Answer

Vinayak Limited

Balance Sheet as at 31st March 2026

Particulars	**Note No.**	**(₹ in '000)**
A. Equity and Liabilities		
1. Shareholders' funds		
(a) Share Capital	1	7,425
(b) Reserves and Surplus	2	11,289
2. Non-Current Liabilities		
(a) Long Term Borrowings	3	4,500
3. Current Liabilities		
(a) Trade Payables		450
(b) Short- term provision	4	3,276
Total		26,940

B. Assets		
1. Non-Current Assets		
(a) Property, Plant and Equipment	5	23,250
2. Current Assets		
(a) Inventories		1,440
(b) Trade Receivables	6	1,800
(c) Cash and Cash equivalents	7	450
Total		26,940

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

Particulars	Note No.	(₹ in '000)
I. Revenue from Operations		18,000
II. Other Income	8	90
III. Total Income (I +II)		18,090
IV. Expenses:		
Purchases		6,000
Finance Costs	9	450
Depreciation (10% of12,000)		1,200
Other expenses	10	2,250
Total Expenses		9,900
V. Profit / (Loss) for the period before tax (III – IV)		8,190
VI. Tax expenses @40%		3,276
VII Profit for the period (V-VI)		4,914

Notes to Accounts

	Particulars		(₹ in '000)
1.	**Share Capital**		
	Equity Share Capital		
	Authorised		
	1,20,000 Shares of ₹ 100/- each		12,000

	Issued, Subscribed and Called-up		
	75,000 Shares of ₹ 100/- each	7,500	
	(Out of the above 7500 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	(75)	7,425
2.	**Reserves and Surplus**		
	Securities Premium		600
	Revaluation Reserve ₹ (14,400-12,000)		2,400
	General Reserve		2,250
	Surplus i.e. Profit & Loss Account Balance		
	Opening Balance	1,125	
	Add: Profit for the period	4,914	6,039
			11,289
3.	**Long-Term Borrowings**		
	10% Debentures		4,500
4.	**Short–term provision**		
	Provision for tax		3,276
5.	**Property, plant & equipment**		
	Land		
	Opening Balance	12,000	
	Add: Revaluation adjustment	2,400	
	Closing Balance		14,400
	Plant and Machinery		
	Opening Balance	12,360	
	Less: Disposed off	(360)	
		12,000	
	Less: Depreciation ₹ [(2,250-300) + 1,200 (10% of 12,000)]	(3,150)	8,850
	Closing Balance		23,250
	Total		

6.	**Trade receivables**		
	Debtors outstanding for a period exceeding six months	750	
	Other debts	1,050	1,800
7.	**Cash and Cash Equivalents**		
	Cash at Bank With scheduled banks	345	
	With others (XYZ Bank Limited)	75	
	Cash in hand	30	450
8.	**Other Income**		
	Profit on sale of machinery		
	Sale value of machinery	150	
	Less: Book value of machinery (360 - 300)	(60)	90
9.	**Finance Costs**		
	Debenture Interest (10% of 4,500)		450
10.	**Other Expenses:**		
	Factory expenses	1,200	
	Selling expenses	375	
	Administrative expenses	675	2,250

Question 3

(a) Maharishi Ltd, gives you the following information for the year ended 31st March, 2026:

(i) The company sells goods for cash only. Cost of goods sold was 60% of sales. Closing inventory was higher than opening inventory by ₹ 34,400. Trade payables on 31st March, 2026 exceed the balance of trade payables on 31st March, 2025 by ₹ 18,400.

(ii) Net profit before taxation was ₹ 11,04,000. Tax paid amounted to ₹ 5,60,000. Depreciation on fixed assets for the year was ₹ 2,52,000. Outstanding expenses on 31st March, 2025 and 31st March, 2026 totalled ₹ 65,600 and ₹ 72,800 respectively.

(iii) New machinery costing ₹ 8,22,000 was purchased during the year 2025-26.

(iv) Issued Bonds of ₹ 5,00,000 at face value in an exchange for plant assets on 30th March, 2026.

(v) A right issue was made of 40,000 equity shares of ₹ 10 each at a premium of ₹ 4 per share. The entire money was received with application.

(vi) Investment costing ₹ 1,20,000 were sold at a profit of ₹ 20,000.

(vii) Dividends paid during the year ₹ 3,31,200.

(viii) Cash and cash Equivalents on 31st March, 2025 ₹ 1,71,040.

You are required to prepare a statement of cash flows as per AS-3 (Revised), using indirect method and ascertain the closing balance of cash and cash equivalent on 31st March, 2026. ***(6 Marks)***

(b) Given below is the Balance Sheet of ABC Ltd. as at March 31, 2026:

		Particulars	**Notes**	**₹**
		Equity and Liabilities:		
1		Shareholders' fund		
	A	Share Capital	1	18,50,000
	B	Reserve and Surplus	2	(6,53,000)
2		Non-Current Liabilities		
	A	Long-term borrowings	3	6,78,000
3		Current Liabilities		
	A	Trade Payables		3,57,000
	B	Other Current Liabilities	4	85,000
		Total		23,17,000
		Assets:		
1		Non-current Assets		
	A	Property, plant and equipment	5	9,78,000
	B	Intangible assets	6	4,50,000

2		*Current Assets*		
	A	*Inventories*		*5,39,000*
	B	*Trade Receivables*		*3,50,000*
		Total		*23,17,000*

Notes to Accounts:

		₹
1	*Share Capital*	
	Equity Share Capital	
	21,000 Equity Shares of ₹ 50 each	*10,50,000*
	Preference Share Capital	
	16,000, 8% Cumulative Preference Shares of ₹ 50 each	*8,00,000*
	(Preference dividend is in arrears for 3 years)	
	Total	*18,50,000*
2	*Reserve and Surplus*	
	Debit balance of Profit and Loss Account	*(6,53,000)*
3	*Long-term borrowings*	
	6% Debentures	*6,78,000*
4	*Other current liabilities*	
	Interest payable on debentures	*40,680*
	Outstanding wages & salaries	*44,320*
	Total	*85,000*
5	*Property, plant and equipment*	
	Building at cost less depreciation	*5,00,000*
	Plant and machinery at cost less depreciation	*4,78,000*
	Total	*9,78,000*
6	*Intangible Assets*	
	Goodwill	*1,25,000*
	Trademarks	*3,25,000*
	Total	*4,50,000*

Since the company was not earning profits, it was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from appropriate authorities.

A summary of the reconstruction scheme is as follows:

(i) The equity shareholders have agreed that their ₹ 50 shares should be reduced to ₹ 10 by cancellation of ₹ 40 per share. They have also agreed to subscribe for three new equity shares of ₹ 10 each for each equity share held.

(ii) The preference shareholders have agreed to waive off the arrear of dividends. They also agreed to accept for each ₹ 50 share, 4 new 5% preference shares of ₹ 10 each fully paid up, plus one new equity share of ₹ 10 each fully paid up.

(iii) The debenture holders accepted the inventories at an agreed figure of ₹ 5,20,000 and ₹ 1,48,680 in cash and forego the remaining amount due to them.

(iv) Building is to be revalued at ₹ 6,50,000.

(v) A contingent liability for which no provision had been made was settled at ₹ 10,800 and of this amount, ₹ 4,800 was recovered from insurance.

(vi) The debit balance of Profit and Loss account is to be written off.

(vii) Any balance remaining is first used to write down the value of goodwill and then applied to trademarks.

You are required to pass necessary journal entries to record the above reconstruction in the books of ABC Limited. ***(8 Marks)***

Answer

(a) Cash Flow Statement for the year ended 31 March, 2026

(Using the Indirect Method as per AS-3)

Particulars	(₹)	(₹)
(A) Cash Flow from Operating Activities		
Net Profit before taxation		11,04,000
Adjustments for non-cash and non-operating items:		

Add: Depreciation	2,52,000	
Less: Profit on sale of investment	(20,000)	2,32,000
Operating Profit before Working Capital changes		13,36,000
Adjustments for Working Capital:		
Less: Increase in Inventory	(34,400)	
Add: Increase in Trade Payables	18,400	
Add: Increase in Outstanding Expenses (72,800 - 65,600)	7,200	(8,800)
Cash generated from operations		13,27,200
Less: Income Tax Paid		(5,60,000)
Net Cash from Operating Activities (A)		7,67,200
(B) Cash Flow from Investing Activities		
Purchase of Machinery	(8,22,000)	
Sale of Investment (1,20,000 cost + 20,000 profit)	1,40,000	
Net Cash used in Investing Activities (B)		(6,82,000)
(C) Cash Flow from Financing Activities		
Proceeds from Rights Issue (40,000 shares × ₹ 14)	5,60,000	
Less: Dividend Paid	(3,31,200)	
Net Cash from Financing Activities (C)		2,28,800
Net Increase in Cash and Cash Equivalents (A + B + C)		3,14,000
Add: Cash and Cash Equivalents at the beginning (31.03.2025)		1,71,040
Cash and Cash Equivalents at the end (31.03.2026)		4,85,040

(b) Journal entries in the books of ABC Ltd

			₹	₹
1.	Equity share capital A/c (₹ 50)	Dr.	10,50,000	
	To Equity share capital A/c (₹ 10)			2,10,000
	To Reconstruction A/c			8,40,000
	(Being equity capital reduced to nominal value of ₹ 10 each)			
2.	Bank A/c	Dr.	6,30,000	
	To Equity share capital (Rs 10)			6,30,000
	(Being 3 right shares against each share was issued and subscribed)			
3.	8% Preference share capital A/c (₹ 50)	Dr.	8,00,000	
	To 5% Preference share capital (₹ 10)			6,40,000
	To Equity share capital (₹ 10)			1,60,000
	(Being 8% preference shares of ₹ 50 each converted to 5% preference shares of ₹ 10 each and also given to them 1 equity share for every share held)			
4	6% Debentures A/c	Dr.	6,78,000	
	Interest Payable on Debentures A/c	Dr.	40,680	
	To Inventories A/c			5,20,000
	To Cash A/c			1,48,680
	To Reconstruction A/c			50,000
	(Being Debenture Holder's settled by Inventory and cash)			

5	Reconstruction A/c To Inventories A/c (Being Reduction in inventory value accounted for)	Dr.	19,000	 19,000
6	Building A/c To Reconstruction A/c (Being building revalued)	Dr.	1,50,000	 1,50,000
7	Contingent Liability A/c To Bank A/c (Contingent liability paid as a part of the internal reconstruction scheme)	Dr.	10,800	 10,800
8	Bank A/c Reconstruction A/c To Contingent Liability A/c (The insurance company remitting part of the contingency payment amount)	Dr. Dr.	4,800 6,000	 10,800
9	Reconstruction A/c To Profit and loss A/c (Accumulated losses written off to reconstruction account as a part of the internal reconstruction scheme)	Dr.	6,53,000	 6,53,000
10	Reconstruction A/c To Goodwill A/c To Trade Mark A/c (The assets written off as a part of the internal reconstruction scheme)	Dr.	3,62,000	 1,25,000 2,37,000

Question 4

Blue Limited and Green Limited had been carrying on business independently. They agreed to amalgamate and form a new company BG Ltd. with an authorized share capital of ₹ 12,00,000 divided into ₹ 2,40,000 equity shares of ₹ 5 each. On 31st March, 2026 the Balance sheets of both the companies were as follows:

Particulars	Blue Ltd.	Green Ltd.
I. Equity and Liabilities:		
(a) Shareholder's Fund		
(i) Share Capital	10,95,000	10,57,500
(b) Current liabilities		
(i) Trade Payables	3,50,000	2,25,000
(ii) Short term borrowings	14,41,000	3,15,750
	28,86,000	15,98,250
II. Assets:		
(a) Noncurrent assets		
(i) Property, plant and equipment	19,05,000	10,95,000
(b) Current assets		
(i) Inventories	8,56,000	3,53,250
(ii) Trade receivables	1,25,000	1,50,000
	28,86,000	15,98,250

Additional Information:

(a) Details of trade receivables and trade payables is given as under:

	Blue Limited	Green Limited
(i) Trade Payables		
Bills Payables	1,00,000	-
Trade Creditors	2,50,000	2,25,000
	3,50,000	2,25,000
(ii) Trade receivables		
Bills receivables	-	50,000

Trade Debtors	*1,25,000*	*1,00,000*
	1,25,000	*1,50,000*

(b) *Revalued figures of non-current and current assets as on 31st March, 2026 were as follows:*

	Blue (₹)	*Green (₹)*
Property, Plant and Equipment	*21,30,000*	*11,70,000*
Inventories	*7,73,500*	*3,23,250*

(c) *The trade debtors and trade creditors include ₹ 75,000 owed by Blue Limited to Green Limited.*

(d) *All the bills receivables held by Green Limited were Blue Limited's acceptances.*

(e) *The purchase consideration is satisfied by issue of the following shares and debentures:*

(i) *1,80,000 equity shares of ₹ 5 each in BG Ltd. to Blue Limited and Green Limited in the proportion to the profitability of their respective business based on the average net profit of previous three years which were as follows:*

	Blue (₹)	*Green (₹)*
2022-23 Profit	*13,48,700*	*8,21,700*
2023-24 (Loss)/Profit	*(7,500)*	*10,26,300*
2024-25 Profit	*11,33,800*	*10,77,000*

(ii) *15% debenture in BG Ltd. at par to provide an income equivalent to 8% return on capital employed in their respective business as on 31st March, 2026 after revaluation of assets.*

You are required to:

(A) *Compute the number of debentures and shares to be issued to Blue Limited and Green Limited.*

(B) *A Balance Sheet of BG Ltd. as at 31st March, 2026 showing the position immediately after amalgamation.* ***(14 Marks)***

Answer

(A) Computation of Amount of Debentures and Shares to be issued:

(i) Average Net Profit

Blue	₹ (13,48,700-7,500 + 11,33,800)/3	= 8,25,000
Green	₹ (8,21,700 + 10,26,300+10,77,000)/3	= 9,75,000

(ii) Equity Shares Issued

(a) Ratio of distribution

Blue : Green

825 : 975

(b) Number

Blue	82,500
Green	97,500
	1,80,000

(c) Amount

Blue 82,500 shares of ₹ 5 each = 4,12,500

Green 97,500 shares of ₹ 5 each = 4,87,500

(iii) Capital Employed (Net Assets Computation) (after revaluation of assets)

	Blue	Green
Property, plant and equipment	21,30,000	11,70,000
Current Assets		
Inventories	7,73,500	3,23,250
Bills receivables	-	50,000
Trade debtors	1,25,000	1,00,000
Total (A)	30,28,500	16,43,250
Less: Current Liability		
Bills payables	1,00,000	
Creditors	2,50,000	2,25,000

Short-term Borrowings	14,41,000	3,15,750
Total (B)	(17,91,000)	(5,40,750)
Net Assets: (A-B)	12,37,500	11,02,500
Debentures Issued 8% of on available Net Assets	99,000	88,200
15% Debentures to be issued to provide equivalent income	6,60,000	5,88,000
	$99,000 \times \frac{100}{15}$	$88,200 \times \frac{100}{15}$

(B) **Balance Sheet of BG Ltd.**

As at 31st March 2026 (after amalgamation)

Particulars	Note No	₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	9,00,000
(b) Reserves and Surplus	2	1,92,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	12,48,000
(3) Current Liabilities		
(a) Short term borrowings (14,41,000 + 3,15,750)		17,56,750
(b) Trade payables	4	4,50,000
Total		45,46,750
II. Assets		
(1) Non-current assets		
(a) PPE		33,00,000
(2) Current assets		
(a) Inventories (7,73,500 + 3,23,250)		10,96,750
(b) Trade receivables	5	1,50,000
Total		45,46,750

Notes to Accounts

		₹
1.	Share Capital	
	Authorized	
	2,40,000 Equity Shares of ₹ 5 each	12,00,000
	Issued and Sub-scribed	
	1,80,000 Equity Shares of ₹ 5 each	9,00,000
	(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 (1,65,000 + 27,000)	1,92,000
3.	Long-term borrowings	
	Secured Loans	
	15% Debentures	
	Blue Ltd.	6,60,000
	Green ltd.	5,88,000
		12,48,000
4.	Trade payable	
	Creditors (2,50,000 + 2,25,000 - 75,000)	4,00,000
	Bills payable (1,00,000 - 50,000 + 0)	50,000
		4,50,000
5.	Trade receivable	
	Debtors (1,25,000 - 75,000 + 1,00,000)	1,50,000
	Bills receivable (50,000 - 50,000)	0
		1,50,000

Working Notes: Capital Reserve

			Blue ₹	Green ₹	Total ₹
(1)		*Purchase Consideration*			
		Equity Shares Issued	4,12,500	4,87,500	9,00,000
		15% Debentures Issued	6,60,000	5,88,000	12,48,000
			10,72,500	10,75,500	21,48,000
(2)		*Capital Reserve*			
	(a)	Net Assets taken over	12,37,500	11,02,500	23,40,000
	(b)	Purchase Consideration	10,72,500	10,75,500	21,48,000
	(c)	Capital Reserve [(a) - (b)]	1,65,000	27,000	1,92,000

Question 5

(a) *Glamour Ltd. and its subsidiary Fashion Ltd. has provided you the following information for the year ended 31stMarch, 2026:*

Particulars	***Glamour Ltd. ₹ in '000***	***Fashion Ltd. ₹ in '000***
Equity share capital	*1,000*	*750*
Sales and other operating revenue	*4,500*	*2,800*
Inventory as on 1.04.2025	*545*	*390*
Inventory as on 31.03.2026	*750*	*615*
Dividend income	*125*	*80*
Raw materials consumed	*1,550*	*940*
Production expenses	*710*	*680*
Administrative expenses	*314*	*129*
Selling & Distribution expenses	*285*	*230*
Interest expenses	*150*	*95*
Depreciation	*70*	*45*
Wages & salaries	*880*	*740*

Loss on sale of investment	-	35
Other non-operating income	74	22

Other information:

(i) On 1st April, 2024 Glamour Ltd. acquired 6,000 equity shares of ₹ 100 each fully paid up in Fashion Ltd.

(ii) Fashion Ltd. paid a dividend of 12% for the year ended 31st March, 2025, the same was correctly accounted for by Glamour Ltd.

(iii) Glamour Ltd. purchased goods worth ₹ 5,00,000 (Invoice Price) from Fashion Ltd. at a profit of 25% on cost. 50% of these goods are still in stock of Glamour Ltd.

(iv) Selling & Distribution expenses of Fashion Ltd. includes ₹ 45,000 paid to Glamour Ltd. as brokerage fees.

(v) Administrative expenses of Glamour Ltd. include ₹ 65,000 paid to Fashion Ltd. as consultancy fees.

(vi) Consultancy fees and brokerage fee is to be considered as operating revenues.

You are required to prepare consolidated Profit and Loss Account of Glamour Ltd. and its subsidiary Fashion Ltd. for the year ended 31st March, 2026 as per Schedule III of the Companies Act, 2013.

(b) Oasis Limited runs a famous chain of super markets and restaurants. Restaurant division constitutes 35% of total group revenue.

The management of the company decides to close the business of restaurants as the company has been experiencing declining profitability due to increased competition. On 1st April, 2025, the management announced its intention to discontinue the restaurant business and concentrate on Super market segment only. The decision was made through strategic review and the management started actively seeking buyers for the restaurant division. During the year 2025-26, the company has sold 5 restaurants out of 12 restaurants so far as part of the sale.

Comment, whether it will be considered as discontinuing operation or not as per the provisions of AS-24? ***(10 Marks)***

Answer

(a) Consolidated statement of profit and loss of Glamour Ltd. and its subsidiary Fashion Ltd for the year ended on 31st March, 2026

Particulars	**Note No.**	**(₹ in 000)**
Revenue from operations	1	6,690
Other Income	2	194
Total revenue (I)		6,884
Expenses:		
Cost of material purchased/consumed	3	3,380
Changes (Increase) in inventories of finished goods	4	(380)
Employee benefit expense	5	1,620
Finance cost	6	245
Depreciation and amortization expense	7	115
Other expenses	8	848
Total expenses (II)		5,828
Profit before tax (II-III)		1,056

Notes to Accounts:

			(₹ in 000)	**(₹ in 000)**
1.	Revenue from operations			
	Sales and other operating revenues			
	Glamour Ltd.		4,500	
	Fashion Ltd.		2,800	
			7,300	
	Less: Inter-company sales		(5,00)	
	Consultancy fees received by Fashion Limited from Glamour Ltd.		(65)	
	Brokage received by Glamour Ltd. from Fashion Ltd		(45)	6,690

2.	Other Income			
	Dividend income:			
	Glamour Ltd.	125		
	Fashion Ltd	80		
	Sub-Total:	205		
	Less: Dividend realized from Fashion Ltd. (6,00,000 x 12%)	(72)	133	
	Other Non-operating Income			
	Glamour Ltd.	74		
	Fashion Ltd.	22		
	Sub Total:	96		
	Less: Loss on sale of investments Fashion Ltd	(35)	61	194
3.	Cost of material purchased/consumed			
	Glamour Ltd.	1,550		
	Fashion Ltd.	940		
	Less: Inter company purchase	(500)	1,990	
	Direct expenses (Production)			
	Glamour Ltd.	710		
	Fashion Ltd.	680	1,390	3,380
4.	Changes (Increase) in inventories of finished goods			
	Glamour Ltd. (750-545)	(205)		
	Fashion Ltd. (615-390)	(225)	(430)	
	Less: Unrealized profits ₹ 2,00,000 × 25%		50	(380)
5.	Employee benefits and expenses			
	Wages and salaries:			
	Glamour Ltd.		880	

	Fashion Ltd.		740	1,620
6	Finance cost			
	Interest:			
	Glamour Ltd.		150	
	Fashion Ltd.		95	245
7.	Depreciation			
	Glamour Ltd.		70	
	Fashion Ltd.		45	115
8.	Other expenses			
	Administrative expenses:			
	Glamour Ltd.	314		
	Fashion Ltd.	129		
		443		
	Less: Consultancy fees received by Fashion Ltd from Glamour Ltd.	(65)	378	
	Selling and distribution Expenses:			
	Glamour Ltd.	285		
	Fashion Ltd.	230		
		515		
	Less: Brokerage received by Glamour Ltd. from Fashion Ltd.	(45)	470	848

(b) As per AS24, a discontinuing operation is a component of an enterprise:

that the enterprise, pursuant to a single plan, is:

- disposing of substantially in its entirety, or
- disposing of piecemeal, or
- terminating through abandonment;

and which represents a separate major line of business or geographical area of operations.

Hence the restaurant division's closure by Oasis Limited will be considered a discontinuing operation as per the provisions of AS 24. This is due to the fact that the assets are sold off as part of a single plan, and that the business represents a separate major line of business, and can be distinguished both operationally and for financial reporting purposes.

Question 6

(a) *Explain the key aspects which required the need for convergence towards global standards of financial reporting* ***(4 Marks)***

OR

(a) *ABC Ltd, borrowed 10,000 US $ in foreign currency on 1st April, 2025 at 6% p.a. annual interest and acquired a depreciable asset. The exchange rates are as under:* ***(4 Marks)***

Date	***Rate per US$***
01-04-2025	*85.00*
31-03-2026	*90.00*

(Assume interest accrued on 31st March, 2026 is paid on the same date.)

You are required to:

(i) *Pass the journal entries in case option under Para 46 A of AS 11 is availed by the company.*

(ii) *Explain the difference in treatment of exchange difference if Para 46 A of AS 11 is not availed.*

(iii) *Would your answer be different regarding treatment of exchange difference if the loan was taken to finance the operations of the entity, not to procure a depreciable asset and option under Para 46 A of AS 11 is availed by the company?*

(b) *The accountant of Moon Limited provides you the following information:*

(i) *Provision for doubtful debts was created @ 3% till 31st March, 2025. From the Financial Year 2025-26, the rate of provision has been changed to 5%.*

(ii) During the year ended 31st March, 2026 the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.

(iii) During the year 2025-26, there was change in cost formula in measuring the cost of inventories.

(iv) Management of Moon Limited decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 25,000 per month. Earlier there was no such scheme of pension in the organization.

You are required to advise the accountant of Moon Limited, with valid reasons, whether the above transactions would be treated as change in accounting policy or not, for the year ended 31st March, 2026 in the context of AS 5. ***(4 Marks)***

(c) (i) Why goods are marked on invoice price by the head office while sending goods to the branch?

(ii) Rama Ltd. has a branch at Delhi, that closes its books of accounts every year on 31st March. This is an independent branch, which maintains comprehensive books of accounts for recording their transactions. You are required to show Journal Entries in the books of branch on 31st March, 2026 to rectify or adjust the following:

(A) Head Office allocates ₹ 2,70,000 to the Branch as Head Office Expenses, which have not yet been recorded by Branch.

(B) Depreciation of Branch Fixed Assets, whose accounts are kept by Head Office in its books, not yet recorded in the Branch Books ₹ 2,30,000.

(C) Branch paid ₹ 2,80,000 as salary to a Head Office manager the amount paid has been debited by the branch to its Salaries A/c.

(D) Head Office collected ₹ 2,60,000 directly from a Branch Customer on behalf of the Branch. The intimation of the fact has been received by the branch only now. It is not recorded in the branch books till now.

(E) A remittance of ₹ 3,00,000 sent by the Branch has not yet been received by Head Office.

(F) *The Branch incurred Advertisement Expenses of ₹ 60,000 on behalf of another Branch.*

(G) *Goods worth ₹ 1,50,000 dispatched by the head office, but the branch has received the goods worth ₹ 1,10,000 till date of reconciliation. Rest goods have been received subsequently by the branch.*

(H) *Goods worth ₹ 25,000 returned by the branch to head office yet not received by the head office.* ***(6 Marks)***

Answer

(a) A few key aspects which required the need for convergence are as under:

1. **Raising funds from international markets:** Each country has its own set of rules and regulations for accounting and financial reporting. Therefore, when an enterprise decides to raise capital from the markets other than the country in which it is located, the rules and regulations of that other country will apply and this in turn will require that the enterprise is in a position to understand the differences between the rules governing financial reporting in the foreign country as compared to its own country of origin.

2. **Comparability of Financial Statements:** International analysts and investors would like to compare financial statements based on similar ASs, and this has led to the growing need for an internationally accepted set of ASs for cross-border filings. The harmonization of financial reporting around the world will help to raise confidence of investors, generally, in the information they are using to make their decisions and assess their risks.

3. **Uniformity, Comparability Transparency etc.:** A strong need was felt by legislation to bring about uniformity, rationalisation, comparability, transparency and adaptability in financial statements. Having a multiplicity of types of ASs around the world is against the public interest. If accounting for the same events and information produces different reported numbers, depending on the system of standards that are being used, then it is self-evident that accounting will be increasingly discredited in the eyes of those using the numbers. It creates confusion, encourages error and may facilitate fraud. The cure

for these ills is to have a single set of global standards, of the highest quality, set in the interest of public.

4. **Global Investment:** The convergence of financial reporting and ASs is a valuable process that contributes to the free flow of global investment and achieves substantial benefits for all capital market stakeholders. It improves the ability of investors to compare investments on a global basis and, thus, lower their risk of errors of judgment. It facilitates accounting and reporting for companies with global operations and eliminates some costly requirements like reinstatement of financial statements. It has the potential to create a new standard of accountability and greater transparency provides value to all market participants including regulators. It reduces operational challenges for accounting firms and focuses their values and expertise around an increasingly unified set of standards. It creates an unprecedented opportunity for standard setters and other stakeholders to improve the reporting model.

OR

(a) (i) Option under Para 46A is availed (Journal Entries in the Books of ABC Ltd.

Date	Particulars	₹ (Dr.)	₹ (Cr.)
2025			
Apr. 01	Bank Account (10,000 x 85) Dr.	8,50,000	
	To Foreign Loan Account		8,50,000
2026			
Mar 31	Finance Cost (USD 10,000 x 6% x ₹ 90)	54,000	
	To Bank Account		54,000
Mar 31	Foreign Exchange Difference Account Dr.	50,000	
	To Foreign Loan Account [10,000 x (90-85)]		50,000
Mar 31	Property, Plant and Equipment Dr.	50,000	
	To Foreign Exchange Difference Account		50,000

In this case, since the option under Para 46A is availed, the Exchange Loss of ₹ 50,000 is capitalized in the cost of Property, Plant and Equipment, which will indirectly get recognized in the Profit & Loss A/c by way of increased depreciation over the remaining useful life of the asset.

(ii) The difference in treatment of exchange difference if Para 46 A of AS 11 is not availed.

In this case, since the option under Para 46A is NOT availed, the Exchange Loss of ₹ 50,000 is recognised as an expense in the Statement of Profit and Loss for the year ending 31 March 2026.

(iii) The difference regarding treatment of exchange difference if the loan was taken to finance the operations of the entity, not to procure a depreciable asset and option under Para 46 A of AS 11 is availed by the company

In this case, since the option under Para 46A is availed, the Exchange Loss of ₹ 50,000 is accumulated in the FCMITD A/c, which will be subsequently spread over and debited to P&L A/c over the tenure of the loan.

(b) As per para 21 of AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the preparation of financial statements involves making estimates which are based on the circumstances existing at the time when the financial statements are prepared. It may be necessary to revise an estimate in a subsequent period if there is a change in the circumstances on which the estimate was based. Revision of an estimate, by its nature, does not bring the adjustment within the definitions of a prior period item or an extraordinary item [para 21 of AS 5 (Revised) on Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies].

(i) In the given case, Provision for doubtful debts was created @ 3% till 31 March, 2025. From the Financial Year 2025-26, the rate of provision has been changed to 5%. As per AS-5 (Revised), this change in estimate is neither a prior period item nor an extraordinary item.

Change in Accounting estimate is not a change in accounting policy.

However, as per para 27 of AS 5 (Revised), a change in accounting estimate which has material effect in the current period, should be disclosed and quantified. Any change in the accounting estimate which is expected to have a material effect in later periods should also be disclosed and quantified.

(ii) As per AS 5, adopting an accounting policy for event or transactions that differ in substance from previously occurring events or transactions will not be considered as change in accounting policy. Accordingly, introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy.

(iii) As per AS-2 (Valuation of Inventories) and AS-5 (Net Profit or Loss, Prior Period Items and Changes in Accounting Policies):

The method of determining cost (FIFO / Weighted Average) is an accounting policy choice.

Any change in such method affects the measurement of inventory and profit. Hence a Change in cost formula in measuring the cost of inventories is a change in Accounting Policy

(iv) The adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial will not be treated as a change in an accounting policy.

(c) (i) Goods are marked on invoice price to achieve the following objectives:

(a) To keep secret from the branch manager, the cost price of the goods and profit made, so that the branch manager may not start a rival and competitive business with the concern; and

(b) To have effective control on stock i.e. stock at any time must be equal to opening stock plus goods received from head office minus sales made at branch.

(c) To dictate pricing policy to its branches,

(d) As well as save work at branch because prices have already been decided.

(ii) Books of Branch

Journal Entries

Sr. No	**Particulars**	**Amount in ₹**	
		Dr.	**Cr.**
(A)	Expenses Account Dr.	2,70,000	
	To Head Office Account		2,70,000
	(Being allocated expenses of Head Office recorded)		
(B)	Depreciation A/c Dr.	2,30,000	
	To Head Office Account		2,30,000
	(Being depreciation on assets recorded, accounts maintained by HO)		
(C)	Head Office Account Dr.	2,80,000	
	To Salaries Account		2,80,000
	(Being rectification of salary paid on behalf of Head Office)		
(D)	Head Office Account Dr.	2,60,000	
	To Debtors Account		2,60,000
	(Being adjustment entry for collection from Branch Debtors directly by Head Office)		
(E)	No entry in Branch Books is required.		
(F)	Head Office Account Dr.	60,000	
	To Cash Account		60,000
	(Being expenditure incurred on account of other branch, now recorded in books)		
(G)	Goods -in- transit Account Dr.	40,000	
	To Head Office Account		40,000
	(Being goods sent by Head Office still in-transit)		
(H)	No entry in Branch Books is required. Head office should make the Goods-in-Transit entry. Branch would have already made the entry while returning the goods to HO.		