Mock Test Paper - Series I: July, 2026

Date of Paper: 25th July, 2026

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

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

Time Allowed – 3 Hours **Maximum Marks – 100**

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Case Scenario based Multiple Choice Questions (MCQs)
3. Part II comprises questions which require descriptive type answers.

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory.

Case Scenario I

1. SBHA Ltd deals in business of manufacturing, purchase and sale of rice. The company has around 56 acres of land as part of its property, plant and equipment which is stated at cost in its financial statements. As per the new business model, 30 acres of land falls in the residential zone which the company is planning to develop residential area as a plotted development and would like to sell the plots after development.

   The company does not have intention of keeping the property development as a business on long-term basis, as the company does not have any objective to receive any income in the form of the capital appreciation or rent as per the proposed business plan and the company wants to sell the plots after development (irrespective of the construction of houses on land).

   SBHA Ltd has two equal joint venturers holding 50% each, KSJ one of them. The other company is from outside the KSJ Group. KSJ Group has three companies (one of them is KSJ Ltd and two more companies), each of which hold some equity shares in the joint venture which aggregates 50%.

   One of the KSJ Group of companies, ADK Ltd, is engaged in generation of power which is supplied to various Electricity Boards. One of the terms and conditions of the Tariff Regulatory Authority and the tariff agreement is that the income tax relating to the power generating schemes will be reimbursed by the Electricity Boards on quarterly basis before the payment of advance income tax.

RIMMI Ltd, another KSJ Group company, is into shipping business and has an annual turnover of ₹ 1,000 crores. It is required by law to bring all its vessels into dry dock every five years for major overhaul. This cost is incurred to get the vessel back to its seaworthy condition. A vessel costs ₹ 20 crores with a useful life of 20 years and it requires major overhaul every 5 years. The estimated cost of first overhaul is ₹ 5 crores.

In the previous year, RIMMI Ltd had impaired one of its Cash Generating Units (CGU) for a loss of ₹ 100 crores, with ₹ 50 crores allocated to goodwill and the balance allocated to Plant & Machinery and Technical Knowhow for a loss of ₹ 26 crores and ₹ 24 crores respectively. Recoverable amount was not measurable. Carrying amounts at the end of current year after impairment of ₹ 100 crores recorded in previous year were ₹ 427 crores and ₹ 383 crores for Plant & Machinery and Technical Knowhow respectively. Had there been no impairment in the previous year, the carrying amounts at the end of current year would have been ₹ 450 crores and ₹ 405 crores for Plant & Machinery and Technical Knowhow respectively. During the current year, the impairment test proves that the CGU is no longer impaired.

Based on the information given in above Case Scenario, answer the following Question Nos. 1-5

1 In respect of above mentioned land in residential zone, what would be the accounting treatment under Indian GAAP?

(i) The 'land in residential zone' appearing in property, plant and equipment would be credited by its carrying amount and inventory would be recognised equivalent to its fair value. Differential will be taken to profit or loss on conversion.

(ii) The 'land in residential zone' appearing in property, plant and equipment would be credited by its gross amount and inventory would be recognised equivalent to carrying amount of reclassified property, plant and equipment. Differential will be taken to profit or loss on conversion.

(iii) The 'land in residential zone' appearing in property, plant and equipment would be credited by its carrying amount and inventory would be recognised at the same amount.

(iv) The 'land in residential zone' appearing in property, plant and equipment would be credited by its gross amount and inventory would be recognised at the same amount.

2 In the above mentioned situation, how would SBHA Ltd be accounted for by joint venturers as per Accounting Standards notified under the Companies (Accounting Standards) Rules?

(i) Joint venture will be proportionately consolidated by KSJ Ltd only and other venturer outside KSJ Group.

(ii) Joint venture will be proportionately consolidated only by venturer outside KSJ Group.

(iii) Joint venture will be proportionately consolidated by all the three companies of KSJ Group only, to the extent of their own holding.

(iv) Joint venture will be proportionately consolidated by all the three companies of KSJ Group, to the extent of their own holding and other venturer outside KSJ Group (assuming each one has individual control)

3 How should the above mentioned transaction in relation to ADK Ltd be accounted for as per Accounting Standards notified under the Companies (Accounting Standards) Rules?

(i) Reimbursement should be recorded as revenue.

(ii) Reimbursement should be taken to other income.

(iii) Reimbursement should be netted from income tax provision.

(iv) Reimbursement can be netted from appropriate expense head like rates & taxes.

4 What should be the accounting treatment in the statement of profit and loss of RIMMI Ltd in year 1 in respect of property, plant and equipment?

(i) Overhauling costs of ₹ 5 crores and depreciation of ₹ 1 crore would be charged to the statement of profit and loss in year 1.

(ii) Depreciation of ₹ 2 crores would be charged to the statement of profit and loss in year 1.

(iii) Overhauling costs of ₹ 5 crores and depreciation of ₹ 75 lakhs would be charged to the statement of profit and loss in year 1.

(iv) Depreciation of ₹ 1.75 crores would be charged to the statement of profit and loss in year 1.

5 What should be the accounting treatment in the books of RIMMI Ltd in respect of impairment of CGU?

(i) No adjustment would be required.

(ii) Reversal of impairment loss should be taken to P&L amounting to ₹ 100 crores.

(iii) Reversal of impairment loss should be taken to P&L amounting to ₹ 45 crores.

(iv) Reversal of impairment loss should be taken to P&L amounting to ₹ 50 crores.

Multiple Choice Questions [5 MCQs of 2 Marks each: Total 10 Marks]

6. A Ltd. has a balance of ₹ 17,15,000 in the loan account with State Finance Corporation which is inclusive of ₹ 1,15,000 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.

   As per Schedule III to the Companies Act, 2013 loan is to be disclosed in the balance sheet as follows:

   (i) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings.

   (ii) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and ₹ 1,15,000 under short-term borrowings.

   (iii) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and ₹ 1,15,000 under other current liabilities.

   (iv) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and no disclosure for ₹ 1,15,000. **(2 Marks)**

7. 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:

   (i) ₹ 1.5 lakh

   (ii) ₹ 3 Lakh

   (iii) Nil

   (iv) ₹ 5 Lakh **(2 Marks)**

Case scenario II

On April 1, 2022, Hello Limited approached a software company for implementation of SAP ERP at its organisation. The cost of implementation of SAP ERP is ₹ 25,00,000 and the time required is 15 months. The company was also required to pay ₹ 100,000 annually after implementation for maintenance and normal updation of ERP. The implementation work started in June, 2022 and could not be finished in 15 months. The ERP was implemented on May 2024. Due to delay in implementation the vendor refunded ₹ 2,00,000. The Company recognised the intangible asset 'SAP ERP' on September 2023 (15 months from June 2022). After two years, the Company has got the SAP ERP more upgraded with latest version and additional features and functions which also increased its speed and usage to Hello Limited for ₹ 7,00,000.

Based on the information given in above Case Scenario, answer the following Question Nos. 8-11

8 On which date the Intangible asset should be recognised:

(i) April 2022 (When it was decided that SAP ERP is to be implemented)

(ii) June 2022 (When the implementation work started)

(iii) September 2023 (When the implementation work should have completed as per agreed terms)

(iv) May 2024 (When the SAP actually got implemented)

9 At what amount the SAP ERP should be initially recognised as 'intangible asset:

(i) ₹ 25,00,000

(ii) ₹ 26,00,000

(iii) ₹ 23,00,000

(iv) ₹ 32,00,000

10 How should the annual maintenance and updation expenses should be accounted for:

(i) Should be capitalised with 'Intangible Asset'

(ii) Should be recognised as a separate 'Intangible Asset'

(iii) Should be recognised as expense in Profit and Loss annually.

(iv) No accounting is required

11 During the implementation period, how the expenditure incurred will be accounted for:

(i) It will be expensed in profit and loss as and when incurred

(ii) It will be recognised as an asset 'Intangible asset under development'

(iii) It will only be disclosed in notes to accounts and will be recognised when complete

(iv) It will be recognised as an item of Property, Plant and Equipment

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

Case scenario III

Asteria Ltd., a listed company with equity share capital of ₹ 6,000 lakh and free reserves of ₹ 10,000 lakh as per the latest audited balance sheet, proposes to buy back 20% of its equity capital at ₹ 40 per share. The Articles of Association authorize buy-back. The Board passed a resolution in March 2025 to proceed. To fund this, the company decided to sell investments worth ₹ 5,000 lakh, which have a book value of ₹ 6,000 lakh. It has existing borrowings of ₹ 9,500 lakh.

The company has not made any default in repayment of term loans, debentures, or dividend payments and has filed all statutory returns under Sections 92, 123, 127, and 129 of the Companies Act, 2013. It had completed its previous buy-back in October 2024.

The Board now seeks to implement the buy-back by July 2025.

On the basis of above solve below mentioned mcqs

12 Can Asteria Ltd. proceed with the buy-back based solely on the Board Resolution?

(i) Yes, because Board Resolution is always sufficient

(ii) No, it must always be by special resolution in general meeting.

(iii) No, because 20% buy-back exceeds the 10% limit allowed for Board Resolution alone.

(iv) Yes, because the Articles authorize it and 20% is within the 25% limit.

13 What is the maximum permissible buy-back limit for Asteria Ltd. under the Resource Test as per Section?

(i) ₹ 4,000lakh

(ii) ₹ 5,000 lakh

(iii) ₹ 6,500 lakh

(iv) ₹ 9,000 lakh

14 After completing the proposed buy-back, will Asteria Ltd. satisfy the Debt-Equity Ratio condition under Section?

(i) Yes, because total debt is within 2:1 ratio post buy-back

(ii) No, because the loss on investment increases the debt

(iii) No, because buy-back reduces reserves, tightening equity base

(iv) Yes, because CRR creation boosts equity buffer

Multiple Choice Questions [3 MCQs of 2 Marks each: Total 6 Marks]

15. In the books of G Ltd., closing inventory as at 31.03.2026 amounts to ₹ 10,40,000 (on the basis of FIFO method).

The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory for 31.3.2026. On the basis of weighted average method, closing inventory as on 31.03.2026 amounts to ₹ 8,80,000. Realisable value of the inventory as on 31.03.2026 amounts to ₹ 12,00,000.

What will be the value of inventory in the books and what disclosure should be given in the financial statement on 31.3.2026?

(i) The value of inventory will be ₹ 8,80,000 and the fact that the valuation method has changed to be disclosed in the financial statement.

(ii) The value of inventory will be ₹ 12,00,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.

(iii) The value of inventory will be ₹ 12,00,000, and the fact that valuation method has changed to be disclosed in the financial statement.

(v) (The value of inventory will be ₹ 8,80,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.

(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) Kumar Ltd. purchased on 1st April, 2025 8% convertible debenture in Hello Ltd. of face value of ₹ 2,00,000 @ ₹ 108. On 1st July, 2025 Kumar Ltd. purchased another ₹ 1,00,000 debentures @ ₹ 112 cum interest. On 1st October, 2025 ₹ 80,000 debentures were sold @ ₹ 105. On 1st December, 2025, Hello Ltd. give option for conversion of 8% convertible debentures into equity share of ₹ 10 each. Kumar Ltd. received 5,000 equity shares in Hello Ltd. in conversion of 25% debentures held on that date. The market price of debenture and equity share in Hello Ltd. on 31st December, 2025 is ₹ 110 and ₹ 15 respectively. Interest on debenture is payable each year on 31st March, and 30th September. Prepare investment account in the books of Kumar Ltd. on average cost basis for the accounting year ended 31st December, 2025. **(10 Marks)**

(b) A company incorporated in June 2026, has setup a factory within a period of 8 months with borrowed funds. The construction period of the assets had reduced drastically due to usage of technical innovations by the company and the company is able to justify the reasons for the same. Whether interest on borrowings for the period prior to the date of setting up the factory should be capitalized although it has taken less than 12 months for the assets to get ready for use. You are required to comment on the necessary treatment with reference to AS 16.

(4 Marks)

2. You are required to prepare a Balance Sheet as at 31st March 2026, as per Schedule III of the Companies Act, 2013, from the following information of Vishnu Ltd.:

Particulars	Amount (₹)	Particulars	Amount (₹)
Term Loans (Secured)	40,00,000	Investments (Non-current)	9,00,000
Trade payables	45,80,000	Profit for the year	32,00,000
Cash and Bank Balances	38,40,000	Trade receivables	49,00,000
Staff Advances	2,20,000	Miscellaneous Expenses	2,32,000
Other advances (given by Co.)	14,88,000	Loan from other parties	8,00,000
Provision for Taxation	10,20,000	Provision for Doubtful Debts	80,000
Securities Premium	19,00,000	Stores	16,00,000
Loose Tools	2,00,000	Finished Goods	30,00,000
General Reserve	62,00,000	Plant and Machinery (WDV)	2,14,00,000

Additional Information: -

1. Share Capital consists of-
   (a) 1,20,000 Equity Shares of ₹ 100 each fully paid up.
   (b) 40,000, 10% Redeemable Preference Shares of ₹ 100 each fully paid up.
2. Write off the amount of Miscellaneous Expenses in full, amounting ₹ 2,32,000.
3. Staff Advances and Other Advances are Considered to be short term

(14 Marks)

3. (a) Grace Limited acquired business (cash-generating units) of Venus Limited on 31st March 2023 for ₹ 8,000 Lakhs. The details of acquisition are as under:

Fair value of identifiable asset : ₹ 6,000 Lakhs

Goodwill (to be amortized in 5 years) : ₹ 2,000 Lakhs

The anticipated useful life of acquired assets is 8 years with no residual value. Grace Limited uses straight-line method of depreciation. On 31st March 2025, Grace Limited estimated significant decline in production due to change in Government policies, the net selling price of identifiable asset is ₹ 3,000 lakhs. Grace Limited closes its books on 31st March of each year.

The cash flow forecast based on recent financial budget for next 6 years are:

Year	Estimated cash flow (₹ in Lakhs)
2025-2026	1,000
2026-2027	800
2027-2028	700
2028-2029	800
2029-2030	600
2030-2031	500

You are required to calculate:

(i) Value in use if discounting rate is 10% on 31 March 2025.

(ii) Impairment loss to be recognized for the year ended 31 March 2025.

(iii) Revised carrying amount of asset on 31 March 2025.

(P.V. factor @ 10% 0.909, 0.826, 0.751, 0.683, 0.621, 0.564) **(7 Marks)**

(b) Answer the following with respect to AS 18:

(i) ABC Ltd. sold goods of ₹ 2,00,000 to its associate company for the 1st quarter ending 30.06.2025. After that the related party relationship ceased to exist. However, goods were supplied to any other ordinary customer. Decide whether transactions of the entire year have to be disclosed as related party transaction.

(ii) If the majority of directors of Arjun Ltd. constitute the majority of the Board of another Company Bheem Ltd. in their individual capacity as professionals (and not by virtue of their being Directors in Arjun Ltd.). Are both the companies related?

(iii) Asha Ltd. sells all the manufactured furniture of ₹ 1,00,00,000 to Sasha Ltd, as per agreement. Sasha Ltd. is the only customer to Asha Ltd. In the financial statements, Asha Ltd. wants to present Sasha company as a related party. Comment on the disclosure requirement. **(7 Marks)**

4. X Ltd. and Y Ltd. had been carrying on business independently. They agreed to amalgamate and form a new company XY Ltd. with an authorized share capital of ₹ 40,00,000 divided into ₹ 8,00,000 equity shares of 5 each. On 31st March, 2025 the respective information of X Ltd. and Y Ltd. were as follows:

	X Ltd. (₹)	**Y Ltd. (₹)**
Share Capital	34,25,000	36,10,000
Trade Payable	59,70,000	18,02,500
Property, Plant and Equipment	58,25,000	37,40,000
Current Assets	31,45,000	15,99,500

Additional Information:

The following revalued figures of non-current and current assets are:

	X Ltd.	**Y Ltd.**
Property, Plant and Equipment	71,00,000	39,00,000
Current Assets	29,95,000	15,77,500

The debtors and creditors include 1,37,250 owed by X Ltd. to Y Ltd.

The purchase consideration is satisfied by issue of the following shares and debentures.

6,20,000 equity shares of XY Ltd. to X Ltd. and Y Ltd. in the proportion to the profitability of their respective business based on the average net profit during the last four years which were as follows:

	X Ltd.	**Y Ltd.**
2022 Profit	42,50,000	26,50,000
2023 Profit	44,45,760	27,60,000
2024 (Loss) / Profit	(75,000)	34,00,000
2025 Profit	37,79,240	35,90,000

7.5% debenture in XY Ltd. at par to provide an income equivalent to 4% return business as on capital employed in their respective business as on 31st March, 2025 after revaluation of assets.

You are required to:

(1) Compute the amount of debenture and shares to be issued to 'X' Ltd. and 'Y' Ltd.

(2) A Balance Sheet of XY Ltd. showing the position immediately after amalgamation.

(14 Marks)

5. Star Ltd. and its subsidiary Moon Ltd. Give the following information as on 31st March, 2026:

	Star Ltd. (₹)	Moon Ltd. (₹)
Share Capital		
Equity Share Capital (fully paid up shares of ₹ 10 each)	12,00,000	2,00,000
Reserves and Surplus		
General Reserve	4,35,000	1,55,000
Cr. Balance in Profit and Loss Account	2,80,000	65,000
Current Liabilities		
Trade Payables	3,22,000	1,23,000
Non-Current Assets		
Property, Plant and Equipment		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
Non-Current Investments		
Shares in Moon Ltd. - 16,000 shares @ ₹ 20 each	3,20,000	-
Current Assets		
Inventories	2,68,000	62,000
Trade Receivables	4,70,000	2,35,000
Cash and Bank	1,64,000	32,000

Star Ltd. acquired the 80% shares of Moon Ltd. on 1st April, 2025. On the date of acquisition, General Reserve and Profit Loss Account of Moon Ltd. stood at ₹ 50,000 and ₹ 30,000 respectively.

Machinery (book value ₹ 2,00,000) and Furniture (book value ₹ 40,000) of Moon Ltd. were revalued at ₹ 3,00,000 and ₹ 30,000 respectively on 1st April,2025 for the purpose of fixing the price of its shares (rates of depreciation on W.D.V basis: Machinery 10% and Furniture 15%). Trade Payables of Star Ltd. include ₹ 35,000 due to Moon Ltd. for goods supplied since the acquisition of the shares. These goods are charged at 10% above cost. The inventories of Star Ltd. includes goods costing ₹ 55,000 (cost to Star Ltd.) purchased from Moon Ltd.

You are required to prepare the Consolidated Balance Sheet of Star Ltd. with its subsidiary as at 31st March, 2026. **(14 Marks)**

6. (a) "How will interest be capitalised when qualifying assets are funded by borrowings in the nature of bonds that are issued at a discount? **(4 Marks)**

Or

An entity presents the following items in its trial balance. Classify the items as current or non-current assets in accordance with Accounting Standard 1 (AS 1) and, where AS 1 is silent, refer to Schedule III of the Companies Act, 2013:

Item Description	**Classification (Current / Non-Current)**
Security deposits paid to electricity company	
Raw materials inventory	
Prepaid rent (for 14 months)	
Fixed deposits with 18-month maturity	

(4 Marks)

(b) Following is the cash flow abstract of Alpha Ltd. for the year ended 31st March, 2026:

Cash Flow (Abstract)

Inflows	**₹**	**Outflows**	**₹**
Opening cash and bank balance	80,000	Payment for Account Payables	90,000
Share capital – shares issued	5,00,000	Salaries and wages	25,000
Collection from Trade		Payment of overheads	15,000
Receivables	3,50,000	Machinery acquired Debentures redeemed	4,00,000 50,000
Sale of Machinery	70,000	Bank loan repaid	2,50,000
		Tax paid	1,55,000
		Closing cash and bank balance	15,000
	10,00,000		10,00,000

Prepare Cash Flow Statement for the year ended 31st March, 2026 in accordance with AS 3. **(5 Marks)**

(c) M/s Shrikant operates a number of retail outlets to which goods are invoiced at wholesale price which is cost plus 25%. These outlets sell the goods at the retail price which is wholesale price plus 20%.

Following is the information regarding one of the outlets for the year ended 31.3.2026:

Stock at the outlet 1.4.2025	₹ 45,000
Goods invoiced to the outlet during the year	₹ 4,86,000
Gross profit made by the outlet	₹ 90,000
Goods lost by fire	?
Expenses of the outlet for the year	₹ 30,000
Stock at the outlet 31.3.2026	₹ 54,000

You are required to prepare the following accounts in the books of M/s Shrikant for the year ended 31.3.2026: [a] Outlet Stock Account [b] Outlet Profit & Loss Account **(5 Marks)**