Mock Test Paper - Series II: March, 2025

Date of Paper: 26th March, 2025

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

1. Digitex limited acquired an intellectual property at the cost of ₹ 70,00,000 (at the beginning of the year) and it meets the definition of intangible asset as per AS 26. As per the calculations made by the Company, the benefit from this intellectual property will accrue for next 5 years wherein for first year will be 30%, for next two years it will be 25% each and 10% for the next 2 years.

   Year 2

   The Company incurred development cost for its new product and incurred ₹ 25,00,000 (at the beginning of the year) and was of the view that it will get the benefits for the next 5 years.

   Year 3

   During the year, it was found that due to change in government policies, no further benefits will be available to the Company from development cost.

   Year 4

   At beginning of year 4 it was found that the remaining 20% benefit from intellectual property will flow to the Company in this year itself.

   Answer the following questions on the basis of above information:

   (a) At the end of year 2, what will be the value of Intangible Asset of the Company in the financial statements:

(i) ₹ 95,00,000

(ii) ₹ 74,00,000

(iii) ₹ 56,50,000

(iv) ₹ 51,50,000

(b) For the year 2, how much amount will be expensed in the profit and loss account from Intangible assets in the financial statements:

(i) ₹ 21,00,000

(ii) ₹ 22,50,000

(iii) ₹ 14,00,000

(iv) ₹ 5,00,000

(c) For the year 3, how much amount will be expensed in the profit and loss account from Intangible assets in the financial statements:

(i) ₹ 37,50,000

(ii) ₹ 22,50,000

(iii) ₹ 20,00,000

(iv) None of the above

(d) For the year 4, how much amount will be expensed in the profit and loss account from Intangible assets in the financial statements:

(i) ₹ 19,00,000

(ii) ₹ 20,00,000

(iii) ₹ 14,00,000

(iv) Nil

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

2. Situation 1: Expert Ltd. has depreciation amounting to ₹ 6,00,000 in its books as per accounting records and depreciation as per tax records at ₹ 15,00,000. There is adequate evidence of future profit sufficiency.

Situation 2: Further, they have accrued ₹ 8,00,000 towards GST liability for the last month of the year which is expected to be paid off by next month. As per the provisions of Section 43B of the Income Tax Act, 1961 – Any expenditure of the nature mentioned in section 43B (e.g. taxes, duty, cess, fees, etc.) accrued in the statement of profit and loss on mercantile basis will be allowed for tax purposes in subsequent years on payment basis only. Answer the following questions on the basis of above information:

(a) In Situation 1: How much deferred tax asset/liability should be recognized as transition adjustment when the tax rate is 50%:

 (i) ₹ 8,50,000 (deferred tax liability)

 (ii) ₹ 4,50,000 (deferred tax liability)

 (iii) ₹ 8,50,000 (deferred tax asset)

 (iv) ₹ 4,50,000 (deferred tax asset)

(b) In Situation 1: How much deferred tax asset/liability should be recognized as transition adjustment when the tax rate is 35%:

 (i) ₹ 3,15,000 (deferred tax asset)

 (ii) ₹ 7,35,000 (deferred tax asset)

 (iii) ₹ 3,15,000 (deferred tax liability)

 (iv) ₹ 7,35,000(deferred tax liability)

(c) In Situation 2: How much deferred tax asset/liability should be recognized as transition adjustment when the tax rate is 35%:

 (i) ₹ 2,80,000

 (ii) ₹ 5,20,000

 (iii) ₹ 8,00,000

 (iv) Nil

(d) In assessing whether there is any indication that an asset may be impaired, an enterprise should consider, as a minimum, the following indications from internal sources of information:

 (i) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use

 (ii) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially

 (iii) the carrying amount of the net assets of the reporting enterprise is more than its market capitalisation

(iv) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected

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

3. Hello Ltd., a company engaged in various business activities, has decided to initiate a share buy-back on 1st April, 2023. The company plans to repurchase 25,000 equity shares of ₹ 10 each at a price of ₹ 20 per share. This buy-back initiative is in compliance with the company's articles of association, and the necessary resolution has been duly passed by the company. As part of the financial arrangement for the share buy-back, Hello Ltd. intends to utilize its current assets, particularly the bank balance, to make the payment for the repurchased shares.

   Here is a snapshot of Hello Ltd.'s Balance Sheet as of 31st March, 2023:

   (A) Share Capital: Equity share capital (fully paid up shares of ₹ 10 each) ₹ 12,50,000

   (B) Reserves and Surplus: Securities premium ₹ 2,50,000; Profit and loss account ₹ 1,25,000; Revenue reserve ₹ 15,00,000;

   (C) Long term borrowings: 14% Debentures- ₹ 28,75,000, Unsecured Loans ₹ 16,50,000

   (D) Land and Building ₹ 19,30,000; Plant and machinery ₹ 18,00,000; Furniture and fitting ₹ 9,20,000 and Other Current Assets - ₹ 30,00,000

   Authorized, issued and subscribed capital: Equity share capital (fully paid up shares of 10 each) - 12,50,000.

   Answer the following questions on the basis of above information:

   (a) By using the Shares Outstanding Test the number of shares that can be bought back

   (i) 1,25,000

   (ii) 31,250

   (iii) 25,000

   (iv) 30,000

   (b) By using the Resources Test determine the number of shares that can be bought back:

   (i) 25,000

   (ii) 31,250

(iii) 28,750

(iv) 39,062

(c) By using the Debt Equity Ratio Test determine the number of shares that can be bought back:

(i) 25,000

(ii) 31,250

(iii) 28,750

(iv) 39,062

(d) On the basis of all three tests determine Maximum number of shares that can be bought back:

(i) 25,000

(ii) 31,250

(iii) 28,750

(iv) 39,062

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

4. As per AS 2, Inventories include materials awaiting use in production process, what should be included in Inventories from the following:

(i) Secondary Packing material required for transporting and forwarding the material.

(ii) Spare parts, servicing equipment and standby equipment

(iii) Primary packing material which is essential to bring an item of inventory to its saleable condition, for example, bottles, cans etc., in case of food and beverages industry.

(iv) Publicity material **(2 Marks)**

5. Sargam Ltd. (the lessee) has taken machinery on lease from Dhun Ltd. (the lessor) for 13 years on annual lease payment of ₹ 50,000. The life of the machine is 15 years. How this lease arrangement should be classified and why:

(i) Operating lease because lease payments are being made annually and the value of asset is not available.

(ii) Finance Lease because lease term is for the major part of the economic life of the asset even if title is not transferred.

(iii) Operating Lease because it is not stated that the asset will transferred to lessee at the end of lease term.

(iv) Finance Lease because the leased asset is of a specialized nature such that only the lessee can use it without major modifications being made. **(2 Marks)**

6. Suman Ltd. acquired 1000 shares of Sarika Ltd @ ₹ 150 each and paid brokerage @ 1%. In the same financial year, Sarika Ltd. issued bonus shares at one share for every four shares held by shareholders. Suman Ltd. sold 500 shares in the month of March in the same year and paid 1% brokerage, what will be the carrying value of investment in Sarika Ltd after sale of shares as per AS 13.

(i) ₹ 150000

(ii) ₹ 113625

(iii) ₹ 90900

(iv) ₹ 112500 **(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) Arzoo Ltd. is in the business of manufacture of Passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the Passenger car segment over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles plus transfer of employees in a phased manner.

(i) You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.

(ii) If the company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS 24?

(iii) Would your answer to the above be different if the company resolves to sell the assets of the Passenger Car Division in a phased but time bound manner?

(b) The financial statements of PQ Ltd. for the year 2024-25 approved by the Board of Directors on 15th July, 2025. The following information was provided:

(i) A suit against the company's advertisement was filed by a party on 20th April, 2025, claiming damages of ₹ 25 lakhs.

(ii) The terms and conditions for acquisition of business of another company have been decided by March, 2025. But the financial resources were arranged in April, 2025 and amount invested was ₹ 50 lakhs.

(iii) Theft of cash of ₹ 5 lakhs by the cashier on 31st March, 2025 but was detected on 16th July, 2025.

(iv) Company sent a proposal to sell an immovable property for ₹ 40 lakhs in March, 2025. The book value of the property was ₹ 30 lakhs on 31st March, 2025. However, the deed was registered on 15th April, 2025.

(v) A, major fire has damaged the assets in a factory on 5th April, 2025. However, the assets are fully insured.

With reference to AS-4 "Contingencies and events occurring after the balance sheet date", state whether the above mentioned events will be treated as contingencies, adjusting events or non-adjusting events occurring after the balance sheet date. **(7+7 = 14 Marks)**

2. H Ltd. acquire 70% of equity share of S Ltd. as on 1st January, 2021 at a cost of ₹ 5,00,000 when S Ltd. had an equity share capital of ₹ 5,00,000 and reserves and surplus of ₹ 40,000.

Both the companies follow calendar year as the accounting year.

In the four consecutive years, S Ltd. performed badly and suffered losses of ₹ 1,25,000, ₹ 2,00,000, ₹ 2,50,000 and ₹ 60,000 respectively.

Thereafter in 2025, S Ltd. experienced turnaround and registered an annual profit of ₹ 25,000. In the next two years i.e. 2026 and 2027, S Ltd. recorded annual profits of ₹ 50,000 and ₹ 75,000 respectively.

Show the Minority Interests and Cost of Control at the end of each year for the purpose of consolidation. **(14 Marks)**

3. (a) Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit at selling price is constant at 25 per cent throughout the year to 31st March, 2025.

Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal in 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch in head office.

The following details for the year ended 31st March, 2025 are given as follows:

	₹		₹
Opening Stock (at cost)	74,736	Chargeable expenses	49,120
Goods sent to branch (at cost)	2,89,680	Closing Stock (Selling Price)	1,23,328
Sales	3,61,280		
Manager's commission paid on account	2,400		

From the above details, you are required to calculate the commission due to manager for the year ended 31st March, 2025.

(b) A Ltd. has a share capital of 50,000 shares @ ₹ 100 per share. H Ltd. acquired 15% shares in A Ltd. on 1.4.2024. It also acquired all the 5,000, 12% convertible debentures of ₹ 100 each of A Ltd. These debentures will be converted at par into equity shares of A Ltd. after 3 years. State whether, as per AS 23, A Ltd. is an Associate of H Ltd. or not with reasons? **(7 Marks)**

4. The summarized Balance Sheet of Flora Limited for the year ended 31st March, 2024 and 31st March, 2025 are as below:

Assets	31.03.2025 (₹)	31.03.2024 (₹)
Goodwill	60,000	1,12,000
Land	23,00,000	24,00,000
Furniture and Fixtures	1,92,000	1,76,000
Vehicles	88,000	1,12,000
Office Equipment	84,000	-
Long-term Investments	2,40,000	4,40,000
Stock-in-hand	3,84,000	3,52,000
Bills Receivables	72,600	58,000
Trade Receivables	1,84,000	2,08,000
Cash and Bank Balances	5,19,400	1,38,000
Total	41,24,000	39,96,000

Liabilities		
Equity Share Capital	27,20,000	20,00,000
General Reserves	3,60,000	2,40,000
Profit and Loss Account	3,72,000	2,08,000
Capital Reserve	3,00,000	-
8% Debentures of 100 each	-	12,00,000
Loan from Mr. Andrew	-	60,000
Bills Payables	44,000	52,000
Trade Payables	1,96,000	1,80,000
Creditors for Equipment	42,000	-
Outstanding Expenses	18,000	12,000
Provision for Taxation	72,000	44,000
Total	41,24,000	39,96,000

Additional Information:

1. On 1st April, 2024, one of the vehicles was sold for ₹ 12,000. No new purchases were made during the year.
2. A part of the total land was sold for ₹ 5,00,000 (Cost ₹ 4,00,000) and the balance land was revalued. Capital reserve consists of profit on revaluation of balance land. No new purchases were made during the year.
3. Depreciation provided during the year -

   Furniture and Fixtures ₹ 20,000

   Vehicles ₹ 8,800
4. Interim dividend of ₹ 20,000 was paid during the year.
5. Provision for taxation for the year 2024-2025 was ₹ 64,000.
6. 8% Debentures were redeemed at par after half year interest payment on 30th September, 2024,
7. Part of the long-term investments were sold at a profit of ₹ 32,000.
8. Interest income received during the year on long – term investment was ₹ 26,000.

You are required to prepare Cash Flow Statement from Operating Activities for the year ended 31st March, 2025 using indirect method. (All workings should form part of the answer) **(14 Marks)**

5. The summarized Balance Sheet of A Ltd. and B Ltd. as at 31st March, 2025 are as under:

Particulars	A Ltd.	B Ltd.
Equity shares of ₹ 10 each, fully paid up	1,80,00,000	1,44,00,000
Share Premium Account	24,00,000	_
General Reserve	37,20,000	30,00,000
Profit and Loss Account	21,60,000	19,20,000
Retirement Gratuity Fund Account	6,00,000	—
10% Debentures	1,20,00,000	—
Unsecured Loan	36,00,000	49,20,000
(Including loan from A Ltd.)		
Trade Payables	6,00,000	20,40,000
Total	4,30,80,000	2,62,80,000
Land and Buildings	1,68,00,000	1,26,00,000
Plant and Machinery	1,20,00,000	45,60,000
Long term advance to B Ltd.	13,20,000	—
Inventories	62,40,000	42,00,000
Trade Receivables	49,20,000	31,20,000
Cash and Bank	18,00,000	18,00,000
Total	4,30,80,000	2,62,80,000

B Ltd. is to declare and pay ₹ 6 per equity share as dividend, before the following amalgamation takes place with Z Ltd.

Z Ltd. was incorporated to take over the business of both A Ltd. and B Ltd.

1. The authorized share capital of Z Ltd. is ₹ 360 lakhs divided into 18 lakhs equity shares of ₹ 10 each.
2. As per Registered Valuer the value of equity shares of A Ltd. is ₹ 108 per share and of B Ltd. is ₹ 72 per share respectively and agreed by respective shareholders of the companies.
3. 10% Debentures of A Ltd. to be issued 12% Debentures of Z Ltd. at par in consideration of their holdings.
4. A contingent liability of A Ltd. of ₹ 12,00,000 is to be treated as actual liability
5. Liquidation expenses including Registered Valuer fees of A Ltd. ₹ 3,00,000 and B Ltd. ₹ 1,80,000 respectively to be borne by Z Ltd.

6. The shareholders of A Ltd. and B Ltd. is to be paid by issuing sufficient number of fully paid-up equity shares of ₹ 60 each at a premium of ₹ 60 per share.

Assuming amalgamation in the nature of purchase, you are required to pass the necessary journal entries (narrations not required) in the books of Z Ltd. and Prepare Balance Sheet of Z Ltd. immediately after amalgamation of both the companies.

(14 Marks)

6. (a) Distinguish between Amalgamation, Absorption and External Reconstruction of Company.

Or

Write short note on Timing difference and Permanent Difference as per AS 22.

(4 Marks)

(b) Whether interest expense relating to overdrafts and other operating liabilities identified to a particular segment should be included in the segment expense or not?

In case interest is included as a part of the cost of inventories where it is so required as per AS 16, read with AS 2 and those inventories are part of segment assets of a particular segment, state whether such interest would be considered as a segment expense. **(5 Marks)**

(c) Wooden Plywood Limited has a normal wastage of 5% in the production process. During the year 2024-25, the Company used 16,000 MT of Raw material costing ₹ 190 per MT. At the end of the year, 950 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books.

You are required to:

(1) Calculate the amount of abnormal loss.

(2) Explain the treatment of normal loss and abnormal loss. [In the context of AS-2] **(5 Marks)**

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

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

Part I is compulsory.

Case Scenario

1. (a) (iv)

(b) (ii)

(c) (i)

(d) (iii)

2. (a) (ii)

(b) (iii)

(c) (i)

(d) (iv)

3. (a) (ii)

(b) (iv)

(c) (iii)

(d) (iii)

4. (iii)

5. (ii)

6. (iii)

PART II – Descriptive Questions (70 Marks)

1. **(a)** Mere gradual phasing out is not considered as discontinuing operation as defined under para 3 of 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.

A Reportable business segment or geographical segment as defined in AS 17, would normally satisfy criteria (b) of the definition.

In view of the above the answers are:

(i) No, the companies' strategic plan has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Above all, the new segment i.e. commercial vehicle production line in a new factory has not started.

(ii) No, the resolution is salient about stoppage of the Car segment in definite time period. Though, sale of some assets and some transfer proposal were passed through a resolution to the new factory, closure road map and new segment starting roadmap are missing. Hence, AS 24 will not be applicable.

(iii) Yes, phased and time bound programme resolved in the board clearly indicates the closure of the passenger car segment in a definite time frame and will constitute a clear roadmap. Hence, this action will attract compliance of AS 24.

(b) (i) Suit filed against the company is a contingent liability but it was not existing as on balance sheet date as the suit was filed on 20^{th} April after the balance Sheet date. As per AS 4, 'Contingencies' used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. Hence, it will have no effect on financial statements and will be a non-adjusting event.

(ii) In the given case, terms and conditions for acquisition of business were finalised and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2025. This is clearly an event occuring after the balance sheet date. Hence, necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31st March 2025.

(iii) Only those significant events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustment to assets and liabilities existing on the balance sheet date or may require disclosure. In the given case, theft of cash was detected on 16th July, 25 after approval of financial statements by the Board of Directors, hence no treatment is required.

(iv) Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. In the given case, sale of immovable property was under proposal stage (negotiations also not started) on the balance sheet date. Therefore, no adjustment to assets for sale of immovable property is required in the financial statements for the year ended 31st March, 2025.

(v) The condition of fire occurrence was not existing on the balance sheet date. Only the disclosure regarding event of fire and loss being completely insured may be given in the report of approving authority.

2. The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

Year	**Profit / (Loss)**	**Minority Interest (30%)**	**Additional Consolidated P & L (Dr.) or Cr.**	**Minority's Share of losses borne by H Ltd.**		**Cost of Control**
				₹	**Balance**	
At the time of acquisition on 1.1.2021		1,62,000 (W.N.)	-			
2021	(1,25,000)	(37,500)	(87,500)			1,22,000 (W.N.)

Balance		1,24,500				
2022	(2,00,000)	(60,000)	(1,40,000)			1,22,000
Balance		64,500				
2023	(2,50,000)	(75,000)	(1,75,000)			1,22,000
	Loss of minority borne by Holding Co.	(10,500) 10,500	(10,500)	10,500	10,500	
Balance		Nil	(1,85,500)			
2024	(60,000)	(18,000)	(42,000)			1,22,000
	Loss of minority borne by Holding Co.	18,000	(18,000)	18,000	28,500	
Balance		Nil	(60,000)			
2025	25,000	7,500	17,500			1,22,000
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(7,500)	7,500	(7,500)	21,000	
		Nil	25,000			
Balance						
2026	50,000	15,000	35,000	(15,000)	6,000	1,22,000
		(15,000)	15,000			
Balance		Nil	50,000			
2027	75,000	22,500	52,500	(6,000)	Nil	1,22,000
		(6,000)	6,000			
Balance		16,500	58,500			

Working Note:

Calculation of Minority interest and Cost of control on 1.1.2021

		Share of Holding Co.	Minority Interest
	100%	70%	30%
	(₹)	(₹)	(₹)
Share Capital	5,00,000	3,50,000	1,50,000
Reserve	40,000	28,000	12,000
		3,78,000	1,62,000
Less: Cost of investment		(5,00,000)	
Cost of Control		1,22,000	

3. (a) **Step 1: Calculation of Deficiency**

Branch stock account (at invoice price)

Particulars	₹	*Particulars*	₹
To Opening Stock (₹ 74,736 + 1/3 of ₹ 74,736)	99,648	By Sales	3,61,280
		By Closing Stock	1,23,328
To Goods sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Deficiency at sale price [Balancing figure]	1,280
	4,85,888		4,85,888

Step 2: Calculation of Net Profit before Commission

Branch account

Particulars	₹	*Particulars*	₹
To Opening (₹ 74,736 + 1/3 of ₹ 74,736)	99,648	By Sales	3,61,280
To Gross sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Closing Stock	1,23,328
To Expenses	49,120	By Stock Reserve A/c	24,912
To Stock Reserve A/c (₹ 1,23,328 x 25/100]	30,832	By goods sent to Branch A/c	96,560
To Net Profit – subject to manager's commission	40,240		
	6,06,080		6,06,080

Step 3: **Calculation of Commission still due to manager**

		₹
A	Calculation at 10% profit before charging his commission [₹ 40,240 x 10/100]	4,024
B	*Less:* 25% of cost of deficiency in stock (25% of (75% of ₹ 1,280)	(240)
C	Commission for the year [A-B]	3,784
D	*Less:* Paid on account	(2,400)
E	Balance due (C-D)	1,384

(b) As per para 3 of AS 23 'Accounting for Investments in Associates in Consolidated Financial Statements', an associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

Standard further explains in para 4 that as regards share ownership, if an investor holds, directly or indirectly through subsidiary (ies), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiary (ies), less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

Further as per an explanation to para 4 of the standard, for the purpose of classification of associate, the potential equity shares of the investee held by the investor will not be taken into account for determining the voting power of the investor. In other words, the voting power should be determined on the basis of the current outstanding securities with voting rights.

As per the information given in the question, H Ltd. presently holds indirectly 22.7% shares (with and without voting rights) (Refer W.N.) in A Ltd. However, the current outstanding securities with voting rights in A Ltd. is only 15% and the remaining holding is on account of potential equity shares. Since potential equity shares do not have voting rights they will not be taken into consideration while determining the significant influence of H Ltd. on A Ltd. Hence, A Ltd. is not an associate of H Ltd.

Working Note:

Calculation of percentage of holding of shares after conversion

	₹
Current holding is 15% i.e. 7,500 shares of ₹ 100 each	7,50,000
Potential equity shares i.e. 5,000 shares of ₹ 100 each	5,00,000
	12,50,000

Total share capital of A Ltd. after conversion of debentures into equity shares will be = ₹ 50,00,000 + ₹ 5,00,000 = ₹ 55,00,000

Percentage of holding = ₹ (12,50,000/55,00,000) x 100 = 22.7% approx.

4. Cash Flow from Operating Activities

Particulars	₹
Profit before tax	3,68,000
(*Add*) Depreciation	28,800

	Interest on 8% Debentures	48,000
	Loss on sale of Vehicle	3,200
	Goodwill Written off	52,000
(Less)	Profit on sale of Land	(1,00,000)
	Profit on sale of Long term Investments	(32,000)
	Interest Income Received	(26,000)
Operating Profit before Working Capital		3,42,000
(*Add*)	Increase in Outstanding Expenses	6,000
(*Add*)	Increase in trade payable	16,000
(*less*)	Decrease in bills payable	(8,000)
(Less)	Increase in stock	(32,000)
(*Less*)	Increase in bills receivable	(14,600)
Decrease in trade receivable		24,000
Operating profit before tax		3,33,400
Income tax paid (WN 4)		36,000
Net cash from Operating Activities		2,97,400

Working Notes :

1. Vehicle A/c

	₹		₹
To Bal. b/d	1,12,000	By Bank A/c	12,000
		By Depreciation A/c	8,800
		By P&L A/c	3,200
		By Bal. c/d	88,000
	1,12,000		1,12,000

2. Land A/c

	₹		₹
To Bal. b/d	24,00,000	By Bank A/c	5,00,000
To P&L A/c	1,00,000	By Bal. c/d	23,00,000
To Capital	3,00,000		
	28,00,000		28,00,000

3. **Furniture / Fixture A/c**

	₹		₹
To Bal. b/d	1,76,000	By Depreciation	20,000
To Bank A/c	36,000	By Bal. c/d	1,92,000
	2,12,000		2,12,000

4. **Provision for taxation A/c**

	₹		₹
To Bank A/c	36,000	By Bal. b/d	44,000
To Bal. b/d	72,000	By P&L A/c	64,000
	1,08,000		1,08,000

5. **Calculation of Profit before tax:**

Increase in P&L A/c	1,64,000
Increase in General Reserve A/c	1,20,000
(Add) Current year Provision for Tax	64,000
(Add) Interim Dividend Paid	20,000
Profit before Tax	3,68,000

5. **Journal Entries in the books of Z Ltd.**

	Particulars		Dr. (₹)	Cr. (₹)
1)	Business Purchase A/c	Dr.	3,24,00,000	
	To Liquidator of A Ltd. A/c			3,24,00,000
2)	Land and Building A/c	Dr.	1,68,00,000	
	Plant and Machinery A/c	Dr.	1,20,00,000	
	Long term advance to B Ltd. A/c	Dr.	13,20,000	
	Inventories A/c	Dr.	62,40,000	
	Trade Receivables A/c	Dr.	49,20,000	
	Cash and Bank A/c	Dr.	18,00,000	
	Goodwill A/c	Dr.	73,20,000	
	To Retirement Gratuity Fund A/c			6,00,000
	To 10% Debentures A/c			1,20,00,000
	To Unsecured Loan A/c			36,00,000
	To Trade Payables A/c			6,00,000
	To Other Liabilities A/c			12,00,000

	To Business Purchase A/c			3,24,00,000
3)	10% Debenture A/c	Dr.	1,20,00,000	
	To 12% Debentures A/c			1,20,00,000
4)	Liquidator of A Ltd. A/c	Dr.	3,24,00,000	
	To Equity Share Capital A/c			1,62,00,000
	To Securities Premium A/c			1,62,00,000
5)	Business Purchase A/c	Dr.	1,72,80,000	
	To Liquidator of B Ltd. A/c			1,72,80,000
6)	Land and Building A/c	Dr.	1,26,00,000	
	Plant and Machinery A/c	Dr.	45,60,000	
	Inventories A/c	Dr.	42,00,000	
	Trade Receivables A/c	Dr.	31,20,000	
	Cash and Bank (less dividend) A/c	Dr.	3,60,000	
	To Unsecured Loan A/c			49,20,000
	To Trade Payables A/c			20,40,000
	To Business Purchase A/c			1,72,80,000
	To Capital Reserve. A/c			6,00,000
7)	Liquidators of B Ltd. A/c	Dr.	1,72,80,000	
	To Equity Share Capital A/c			86,40,000
	To Securities Premium A/c			86,40,000
8)	Unsecured Loans A/c	Dr.	13,20,000	
	To Long term Advance to B Ltd. A/c			13,20,000
9)	Capital Reserve A/c	Dr.	6,00,000	
	To Cash & Bank A/c (Liquidation Exp.)			4,80,000
	To Goodwill A/c			1,20,000

Balance Sheet of Z Ltd. as at 31st March, 2025

	Particulars	Notes	Amounts (₹)
I]	Equity and liabilities		
(1)	Shareholder's funds		
(a)	Share Capital	1	2,48,40,000
(b)	Reserves and Surplus	2	2,48,40,000

(2)	Non-Current liabilities		
(a)	Long-term borrowings	3	1,20,00,000
(b)	Long-term provisions	4	6,00,000
(3)	Current liabilities		
(a)	Short-term borrowings1	5	72,00,000
(b)	Trade Payables	6	26,40,000
(c)	Other liability		12,00,000
	Total		7,33,20,000
II]	Assets		
(1)	Non-Current assets	7	4,59,60,000
(a)	Property, Plant and Equipment		
(b)	Intangible Assets (73,20,000 – 1,20,000)		72,00,000
(2)	Current Assets		
(a)	Inventories	8	1,04,40,000
(b)	Trade receivables	9	80,40,000
(c)	Cash and Cash Equivalents	10	16,80,000
	Total		7,33,20,000

Unsecured loans have been considered as short-term borrowings. Alternatively, it may be considered as long-term borrowings and presented accordingly.

Notes to Accounts:

	Particulars	₹	₹
1.	Share Capital		
	Authorized Share Capital		
	36,00,000 Equity shares of ₹ 10 each		3,60,00,000
	Issued, Subscribed & Paid up		
	24,84,000 Equity Shares of ₹ 10 each		2,48,40,000
	(all these shares were issued for consideration other than cash)		

2.	Reserves and Surplus		
	- Securities Premium Account (24,84,000 shares × ₹ 10)		2,48,40,000
3.	Long-term borrowings		
	12% Debentures		1,20,00,000
4.	Long Term Provisions		
	Retirement gratuity fund		6,00,000
5.	Short term borrowings		
	Unsecured loans		
	A Ltd.		36,00,000
	B Ltd.		49,20,000
	Less: Mutual		(13,20,000)
			72,00,000
6.	Trade payables		
	A Ltd.		6,00,000
	B Ltd.		20,40,000
			26,40,000
7.	Property, Plant and Equipment		
	Land and Building		
	A Ltd.	1,68,00,000	
	B Ltd.	1,26,00,000	2,94,00,000
	Plant and Machinery		
	A Ltd.	1,20,00,000	
	B Ltd.	45,60,000	1,65,60,000
			4,59,60,000
8.	Inventories		
	A Ltd.		62,40,000
	B Ltd.		42,00,000
			1,04,40,000

9.	Trade receivables		
	A Ltd.		49,20,000
	B Ltd.		31,20,000
			80,40,000
10.	Cash and cash equivalents		
	A Ltd.	18,00,000	
	B Ltd. [18,00,000 – 14,40,000 (dividend)]	3,60,000	
		21,60,000	
	Less: Liquidation Expenses	(4,80,000)	16,80,000

Working Note 1

Calculation of amount of Purchase Consideration

Particulars	A Ltd.	B Ltd.
Existing shares	18,00,000	14,40,000
Agreed value per share	₹ 108	₹ 72
Purchase consideration₹	3,24,00,000	1,72,80,000
No. of shares to be issued of ₹ 20 each (including ₹ 10 premium)	16,20,000	8,64,000
Face value of shares at ₹ 10	1,62,00,000	86,40,000
Premium of shares at ₹ 10	1,62,00,000	86,40,000

6. (a) Difference between Amalgamation, Absorption and External Reconstruction

Basis	Amalgamation	Absorption	External Reconstruction
Meaning	Two or more companies are wound up and a new company is formed to take over their business.	In this case, an existing company takes over the business of one or more existing companies.	In this case, a newly formed company takes over the business of an existing company.
Minimum number of Companies involved	At least three companies are involved.	At least two companies are involved.	Only two companies are involved.

Number of new resultant companies	Only one resultant company is formed. Two companies are wound up to form a single resultant company.	No new resultant company is formed.	Only one resultant company is formed. Under this case a newly formed company takes over the business of an existing company.
Objective	Amalgamation is done to cut competition and reap the economies in large scale.	Absorption is done to cut competition and reap the economies in large scale.	External reconstruction is done to reorganise the financial structure of the company.
Example	A Ltd. and B Ltd. amalgamate to form C Ltd.	A Ltd. takes over the business of another existing company B Ltd.	B Ltd. is formed to take over the business of an existing company A Ltd.

Or

Matching of taxes against revenue for a period poses special problems arising from the fact that in number of cases, taxable income may be different from the accounting income. The divergence between taxable income may be different from the accounting income arises due to two main reasons: Firstly, there are differences between items of revenue and expenses as appearing in the statement of profit and loss and the items which are considered as revenue, expenses or deductions for tax purposes, known as Permanent Difference. Secondly, there are differences between the amount in respect of a particular item of revenue or expense as recognised in the statement of profit and loss and the corresponding amount which is recognised for the computation of taxable income, known as Timing Difference.

Permanent differences are the differences between taxable income and accounting income which arise in one accounting period and do not reverse subsequently. For example, an income exempt from tax or an expense that is not allowable as a deduction for tax purposes.

Timing differences are those differences between taxable income and accounting income which arise in one accounting period and are capable of reversal in one or more subsequent periods. For e.g., Depreciation, Bonus, etc.

(b) The interest expense relating to overdrafts and other operating liabilities identified to a particular segment should not be included as a part of the segment expense unless the operations of the segment are primarily of a financial nature or unless the interest is included as a part of the cost of inventories.

In case interest is included as part of the cost of inventories where it is so required as per AS 16 "Borrowing Costs", read with AS 2 "Valuation of Inventories", and those inventories are part of segment assets of a particular segment, such interest should be considered as a segment expense.

In this case, the amount of such interest and the fact that the segment result has been arrived at after considering such interest should be disclosed by way of a note to the segment result.

(c) (i) As per AS 2 (Revised) 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognised as expenses in the period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

(ii)	Material used	16,000 MT @ ₹ 190 = ₹ 30,40,000
	Normal Loss (5% of 16,000 MT)	800 MT (included in calculation of cost of inventories)
	Net quantity of material	15,200 MT
(iii)	Abnormal Loss in quantity	(950 - 800) 150 MT
	Abnormal Loss	₹ 30,000

[150 units @ ₹ 200 (₹ 30,40,000/15,200)]

Amount of ₹ 30,000 (Abnormal loss) will be charged to the Profit and Loss statement.