Skillshort

Self-Study Preparation Pack

CA INTERMEDIATE

Paper 1: Advanced Accounting

Mock Test 2 – Full Paper with Detailed Solutions

ICAI new-scheme pattern: 100 marks · 3 hours · Part I 15 MCQs (30) + Part II Q1 compulsory + any 4 of Q2–Q6 (70) · Original Skillshort questions

Time: 3 hours | Max marks: 100 | No negative marking | Solutions follow the question paper

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This subject pack has 6 parts

1 Chapter-wise notes

2 Important topics & weightage

3 Past papers: trends & links

4 Mock tests + solutions

5 Chapter practice questions

6 Last-week plan & strategy

Prepared by Skillshort for self-study. Original explanations and questions; not an official ICAI/ICMAI/ICSI publication. Items marked VERIFY should be checked against the latest official material.

Part I – Multiple Choice Questions (30 marks)

Instructions: Each MCQ carries 2 marks. Financial year is 1 April – 31 March. Answer key with workings follows Part I.

CASE LAW Case Scenario I – Saturn Pharma Ltd. (MCQs 1–5)

Saturn Pharma Ltd. is developing a new vaccine. In 2025-26 it spent ₹30 lakh on research (April–June) and ₹50 lakh on development (July–December). All six AS 26 criteria for recognising development cost were first demonstrated on 1 October 2025; ₹20 lakh of the development spend was incurred before that date. The vaccine process became available for use on 1 January 2026, with an estimated useful life of 5 years. Saturn has vacated a warehouse held under a non-cancellable lease with 2 years left at ₹6 lakh a year; it has sub-let the warehouse for ₹2 lakh a year. Saturn has carry-forward business losses of ₹40 lakh but no convincing evidence of future taxable profits. While finalising the accounts it found that a 2023-24 freight bill of ₹3 lakh had never been recorded.

1. The amount to be recognised as an intangible asset for the vaccine process is

(a) ₹80 lakh
(b) ₹50 lakh
(c) ₹30 lakh
(d) Nil

2. Amortisation for 2025-26 is

(a) ₹6.0 lakh
(b) ₹1.5 lakh
(c) ₹3.0 lakh
(d) ₹4.5 lakh

3. Provision required for the vacated warehouse is

(a) ₹12 lakh
(b) ₹4 lakh
(c) ₹8 lakh
(d) Nil

4. Deferred tax asset on the carry-forward losses of ₹40 lakh (tax rate 25%) is

(a) ₹10 lakh
(b) ₹5 lakh
(c) disclosed only
(d) Nil – not to be recognised

5. The unrecorded 2023-24 freight bill of ₹3 lakh is

(a) a change in accounting estimate
(b) an extraordinary item
(c) a prior period item – shown separately in the current P&L
(d) adjusted against opening reserves without disclosure

CASE LAW Case Scenario II – Mercury Retail Ltd. (MCQs 6–10)

Mercury Retail Ltd. sent goods on sale-or-return to dealers on 25 March 2026 at ₹5 lakh (cost + 25%); no dealer had approved by 31 March. It received a government grant of ₹20 lakh to buy land, with no conditions attached. It sold goods to a US customer for USD 20,000 on 1 February 2026 when ₹84 = USD 1; on 31 March 2026 the rate was ₹86 and the amount was still unpaid. Its four business segments are all reportable on the 10% tests, but their external revenue totals only ₹600 crore out of the enterprise's ₹1,000 crore. Mercury and Venus Ltd. have a common independent director but no other link.

6. For the sale-or-return goods, Mercury should show

(a) revenue ₹5 lakh
(b) revenue ₹4 lakh
(c) no revenue; inventory at ₹4 lakh
(d) no revenue; inventory at ₹5 lakh

7. The land grant of ₹20 lakh should be

(a) credited to capital reserve
(b) credited to P&L
(c) deducted from the cost of land
(d) treated as deferred income

8. The US receivable at 31 March 2026 and the exchange difference are

(a) ₹16,80,000; nil
(b) ₹17,20,000; gain ₹40,000 to P&L
(c) ₹17,20,000; gain ₹40,000 to reserve
(d) ₹16,80,000; loss ₹40,000

9. Under AS 17, Mercury must

(a) report only the four segments
(b) identify additional reportable segments until external revenue of reportable segments is at least 75% of enterprise revenue
(c) report one segment only
(d) stop segment reporting

10. Under AS 18, Mercury and Venus Ltd. are

(a) related parties
(b) not related merely because of a common director
(c) related only if transactions exceed ₹1 crore
(d) associates

CASE LAW **Case Scenario III – Jupiter Ltd. (MCQs 11–14)**

On 1 April 2025 Jupiter Ltd. acquired 70% of Io Ltd. for ₹84 lakh, when Io's share capital was ₹80 lakh and reserves ₹20 lakh. On 31 March 2026 Io's net assets (share capital + reserves) were ₹120 lakh. Jupiter also holds 40% of Europa Ltd., a jointly controlled entity whose assets are ₹200 lakh and liabilities ₹80 lakh. Jupiter has a 9% term loan of which ₹15 lakh is repayable within 12 months.

11. Goodwill on consolidation of Io Ltd. is

(a) ₹14 lakh
(b) ₹20 lakh
(c) ₹0
(d) ₹4 lakh

12. Minority interest in the consolidated balance sheet at 31 March 2026 is

(a) ₹30 lakh
(b) ₹36 lakh
(c) ₹24 lakh
(d) ₹84 lakh

13. In Jupiter's consolidated statements, Europa Ltd.'s assets included under proportionate consolidation are

(a) ₹200 lakh
(b) ₹120 lakh
(c) ₹48 lakh
(d) ₹80 lakh

14. The ₹15 lakh of the term loan repayable within 12 months is shown under Schedule III as

(a) long-term borrowings
(b) other current liabilities
(c) short-term borrowings (current maturities of long-term debt)
(d) a footnote only

15. A company reported EPS of ₹6 for 2024-25. In 2025-26 it issued bonus shares 1 for 2. The restated EPS for 2024-25 shown as comparative is

(a) ₹6
(b) ₹3
(c) ₹4
(d) ₹9

Part I – Answer key with workings

Q	Ans	Explanation / working
1	(c)	Research is always expensed; development cost is capitalised only from the date all six criteria are met: 50 − 20 = ₹30 lakh. Earlier expenditure cannot be reinstated.
2	(b)	Amortisation starts when the asset is available for use: 30 ÷ 5 × 3/12 = ₹1.5 lakh.
3	(c)	Onerous contract (AS 29): unavoidable cost 2 × 6 = 12 less expected sub-let income 2 × 2 = 4 → ₹8 lakh (not discounted).
4	(d)	DTA on carry-forward losses requires virtual certainty supported by convincing evidence (AS 22); none exists, so no DTA.
5	(c)	An omission in prior-period financial statements is a prior period item (AS 5), disclosed separately in the current statement of P&L.
6	(c)	Risks and rewards not transferred until approval (AS 9). The goods are included in inventory at cost = 5 × 100/125 = ₹4 lakh.
7	(a)	A grant for a non-depreciable asset with no obligations is credited to capital reserve (AS 12).
8	(b)	Monetary item restated at closing rate: 20,000 × 86 = ₹17,20,000; exchange gain ₹40,000 recognised in P&L (AS 11).
9	(b)	The 75% test: 600 < 750, so additional segments are treated as reportable even if they fail the 10% tests.
10	(b)	AS 18 expressly states that two companies are not related simply because they have a director in common.
11	(a)	84 − 70% × (80 + 20) = 84 − 70 = ₹14 lakh.
12	(b)	30% × 120 = ₹36 lakh (share capital + all reserves at the balance-sheet date).
13	(d)	AS 27: venturer's share 40% × 200 = ₹80 lakh of assets (and 40% × 80 = ₹32 lakh of liabilities).
14	(c)	Current maturities of long-term borrowings are disclosed under short-term borrowings (amended Schedule III).
15	(c)	Bonus is adjusted retrospectively: 6 ÷ 1.5 = ₹4 (AS 20).

Part II – Descriptive Questions (70 marks)

Instructions: Question 1 is **compulsory**. Attempt **any four** of Q2–Q6. Working notes should form part of the answer.

QUESTION Question 1 (compulsory)

(a) Titan Ltd. is constructing a new plant (a qualifying asset) through 2025-26. Expenditure: ₹40 lakh on 1 April 2025, ₹20 lakh on 1 July 2025 and ₹30 lakh on 1 October 2025. The ₹20 lakh spent on 1 July was financed by a specific 9% loan taken that day. The rest was financed from general borrowings: a 12% term loan of ₹100 lakh and a 10% loan of ₹50 lakh, both outstanding all year. Compute the borrowing cost to be capitalised and the amount charged to P&L under AS 16. (5 marks)

(b) On 1 April 2025 Hyperion Ltd. took a machine on lease for 3 years at an annual rent of ₹2,00,000 payable at the end of each year. The machine's fair value is ₹5,00,000 and its useful life is 3 years with nil residual value. The interest rate implicit in the lease is 10% (PV factors 0.9091, 0.8264, 0.7513). Determine the amount at which the lessee records the asset and prepare the schedule of finance charges and principal. Also state the annual depreciation. (5 marks)

(c) Rhea Ltd. expects to earn ₹6 lakh in each quarter of 2025-26. Tax rates: 20% on the first ₹10 lakh of annual income and 30% on the balance. In Q3 it also made a long-term capital gain of ₹4 lakh, taxable at 12.5%. Compute the tax expense for each quarter under AS 25. (4 marks)

QUESTION Question 2

Balance sheets of Orion Ltd. (₹ lakh):

Liabilities	31-3-2025	31-3-2026	Assets	31-3-2025	31-3-2026
Equity share capital (₹10)	200	250	PPE (net)	300	345
Securities premium	20	30	Long-term investments	40	30
General reserve	60	70	Inventories	55	70
Profit and loss	40	65	Trade receivables	45	60
10% debentures	80	50	Cash and bank	23	34
Trade payables	45	52			
Provision for tax	18	22			
Total	**463**	**539**	**Total**	**463**	**539**

Additional information for 2025-26: (i) depreciation charged ₹30 lakh; (ii) a machine with book value ₹15 lakh was sold for ₹12 lakh; (iii) investments costing ₹10 lakh were sold for ₹14 lakh; (iv) tax provision for the year ₹25 lakh; (v) final dividend of ₹20 lakh for 2024-25 was paid; (vi) ₹30 lakh of debentures were redeemed at par on 1 April 2025 and interest was paid on the balance; (vii) dividend of ₹2 lakh was received on investments; (viii) ₹10 lakh was transferred to general reserve; (ix) shares were issued at a premium for cash.

Prepare the cash flow statement for 2025-26 by the indirect method as per AS 3. (14 marks)

QUESTION Question 3

(a) Vesta Ltd.'s balance sheet on 31 March 2026 shows (₹ lakh): equity share capital (₹10 each) 300; securities premium 60; general reserve 240; P&L 100; secured loans 500; unsecured loans 260; current liabilities 140. The Board proposes to buy back 6,00,000 equity shares at ₹25 each, using securities premium first and then general reserve. Examine whether the buy-back is permissible under section 68 and pass journal entries (assume adequate bank balance). (8 marks)

(b) On 1 May 2025 Mr. Kiran bought 2,000 10% debentures of ₹100 each at ₹98 cum-interest; interest is payable on 30 September and 31 March. On 1 December 2025 he sold 800 debentures at ₹101 ex-interest. Prepare the Investment (Debentures) Account for 2025-26 on average cost basis, showing interest and profit separately; the market price on 31 March 2026 was ₹96 and the debentures are held as current investments. (6 marks)

QUESTION Question 4

Balance sheets as at 31 March 2026 (₹ lakh): **A Ltd.** – equity shares of ₹10: 50; general reserve 15; P&L 10; creditors 10 (total 85); PPE 50; inventory 20; receivables 10; bank 5. **B Ltd.** – equity shares of ₹10: 30; general reserve 8; P&L 4; creditors 6 (total 48); PPE 28; inventory 10; receivables 6; bank 4.

A and B amalgamate on 1 April 2026 to form AB Ltd., which takes over all assets and liabilities. AB issues equity shares of ₹10 at par: 5,50,000 shares to A's shareholders and 3,00,000 shares to B's shareholders; all shareholders accept. AB will continue both businesses. B values inventory on a basis different from A; to bring uniformity B's inventory is to be reduced by ₹1 lakh. No other changes are made to book values.

(i) State, with reasons, the nature of the amalgamation and the method to be used. (ii) Compute the purchase consideration. (iii) Pass journal entries in AB Ltd.'s books. (iv) Prepare AB Ltd.'s balance sheet after amalgamation. (14 marks)

QUESTION Question 5

Balance sheets as at 31 March 2026 (₹ lakh): **H Ltd.** – equity shares of ₹10: 300; general reserve 60; P&L 48; trade payables 30 (total 438); PPE 220; investment in 8,00,000 shares of S Ltd. 110; inventory 50; trade receivables 38; bank 20. **S Ltd.** – equity shares of ₹10: 100; general reserve 20; P&L 16; trade payables 18 (total 154); PPE 90; inventory 30; trade receivables 22; bank 12.

Information: (i) H acquired the shares on 1 July 2025. On 1 April 2025 S had general reserve ₹20 lakh and P&L ₹10 lakh; S's profit for 2025-26 was ₹16 lakh, earned evenly. (ii) On 1 September 2025 S paid a dividend of 10% for 2024-25 out of its opening P&L; H credited its share to its P&L. (iii) H's inventory includes goods costing ₹6 lakh bought from S, which sells at cost + 25%. (iv) S's receivables include ₹4 lakh due from H.

Prepare the consolidated balance sheet as at 31 March 2026. (14 marks)

QUESTION Question 6

(a) EITHER Distinguish between convergence and adoption of IFRS and explain the objectives of carve-outs. **OR** State the conditions that must be demonstrated to recognise an intangible asset arising from development under AS 26. (4 marks)

(b) On 1 February 2026 Atlas Ltd. imported goods for USD 50,000 payable on 30 April 2026 and on the same day took a 3-month forward contract to buy USD 50,000 at ₹86.40 (spot ₹85.80). The spot rate on 31 March 2026 was ₹86.20. The contract is for hedging, not trading. Show the amounts to be recognised in P&L for 2025-26 under AS 11. (4 marks)

(c) Atlas Ltd.'s New York branch (an integral foreign operation) sends the following trial balance for 2025-26 (USD): PPE 50,000 (bought when ₹80 = USD 1); depreciation 5,000; opening inventory 8,000 (rate ₹82); purchases 40,000; expenses 12,000; debtors 10,000; cash 4,000; HO account 60,000 Cr (₹49,80,000 in HO books); sales 64,000 Cr; creditors 5,000 Cr. Average rate ₹84; closing rate ₹86. Closing inventory USD 9,000 was bought when the rate was ₹85. Convert the trial balance into rupees and prepare the branch Trading and P&L Account. (6 marks)

Solutions and Working Notes

SOLUTION Q1(a) AS 16 (₹)

Specific loan: 20,00,000 × 9% × 9/12 = **1,35,000**.

Capitalisation rate on general borrowings = (12,00,000 + 5,00,000) ÷ 1,50,00,000 = **11.333%**.

General: 40,00,000 × 11.333% × 12/12 = 4,53,333; 30,00,000 × 11.333% × 6/12 = 1,70,000 → **6,23,333** (within actual general interest of 17,00,000).

Total capitalised = ₹7,58,333. Charged to P&L = (17,00,000 + 1,35,000) − 7,58,333 = **₹10,76,667**.

SOLUTION Q1(b) AS 19 – lessee

PV of MLP = 2,00,000 × 2.4868 = **₹4,97,360**, lower than fair value ₹5,00,000 → asset and liability recorded at ₹4,97,360.

Year	Opening liability	Finance charge 10%	Rent	Principal	Closing
2025-26	4,97,360	49,736	2,00,000	1,50,264	3,47,096
2026-27	3,47,096	34,710	2,00,000	1,65,290	1,81,806
2027-28	1,81,806	18,194 (balancing)	2,00,000	1,81,806	Nil

Depreciation (SLM over 3 years, nil residual) = 4,97,360 ÷ 3 = **₹1,65,787** p.a.

SOLUTION Q1(c) AS 25 (₹ lakh)

Annual ordinary income 24; tax = 20% × 10 + 30% × 14 = 6.2 → estimated annual effective rate **25.83%**. Tax on ordinary income per quarter = 6 × 25.83% = **1.55**.

Q1 1.55; Q2 1.55; **Q3 1.55 + 0.50 (capital gain 4 × 12.5%) = 2.05**; Q4 1.55. Total for the year 6.70.

SOLUTION Q2 Cash flow statement of Orion Ltd. for 2025-26 (₹ lakh)

Working – net profit before tax: closing P&L 65 = opening 40 + PAT − transfer to GR 10 − dividend 20 → PAT = 55; PBT = 55 + 25 = **80**. Tax paid = 18 + 25 − 22 = **21**. PPE purchased = 345 − 300 + 30 + 15 = **90**. Interest paid = 50 × 10% = **5**. Shares issued = (250 − 200) + (30 − 20) = **60**.

A. Operating activities	₹ lakh
Net profit before tax	80
Add: depreciation 30; loss on sale of machine 3; interest on debentures 5	38
Less: profit on sale of investments 4; dividend received 2	(6)
Operating profit before working capital changes	112
Increase in inventories (15); increase in receivables (15); increase in payables 7	(23)
Cash generated from operations	89
Income tax paid	(21)
Net cash from operating activities	**68**
B. Investing activities: purchase of PPE (90); sale of machine 12; sale of investments 14; dividend received 2	**(62)**
C. Financing activities: issue of shares 60; redemption of debentures (30); interest paid (5); dividend paid (20)	**5**
Net increase in cash and cash equivalents (68 − 62 + 5)	11
Opening cash and cash equivalents	23
Closing cash and cash equivalents	**34**

SOLUTION Q3(a) Buy-back – Vesta Ltd.

Test	Working	Shares
Shares outstanding	25% × 30,00,000	7,50,000
Resources	25% × (300 + 60 + 240 + 100) = 175 lakh ÷ 25	7,00,000
Debt–equity	Loans 760 → minimum equity 380; permissible reduction 700 − 380 = 320 lakh ÷ (25 + 10)	9,14,285
Maximum (least)		**7,00,000**

The proposed 6,00,000 shares is within all limits → **permissible**.

Entries (₹ lakh): (1) Equity Share Capital Dr 60; Premium payable on buy-back Dr 90; To Equity Shares Buy-back A/c 150. (2) Securities Premium Dr 60; General Reserve Dr 30; To Premium payable on buy-back 90. (3) Equity Shares Buy-back A/c Dr 150; To Bank 150. (4) General Reserve Dr 60; To Capital Redemption Reserve 60.

SOLUTION Q3(b) Investment in 10% debentures – Mr. Kiran (average cost)

Date	Particulars	Nominal	Interest	Cost
1-5-2025	Bank (1,96,000 cum-interest; accrued interest 1 month = 1,667)	2,00,000	1,667	1,94,333
30-9-2025	Bank – half-year interest (Cr)		(10,000)	
1-12-2025	Bank – sale of 800 at ₹101 ex-interest (Cr)	(80,000)	(1,333)	(80,800)
1-12-2025	Profit on sale (80,800 − 77,733)			3,067
31-3-2026	Bank – interest on 1,200 for 6 months (Cr)		(6,000)	
31-3-2026	P&L – interest income (balancing)		15,667	
31-3-2026	P&L – write-down to market (1,16,600 − 1,15,200)			(1,400)
31-3-2026	Balance c/d (1,200 debentures)	1,20,000		1,15,200

Interest income = (10,000 − 1,667) + 1,333 + 6,000 = **₹15,667**; profit on sale **₹3,067**; closing carrying amount = lower of cost 1,16,600 and market value 1,15,200 = **₹1,15,200**.

SOLUTION Q4 Amalgamation in the nature of merger – AB Ltd. (₹ lakh)

(i) **Merger**: all assets and liabilities taken over; all shareholders (≥ 90%) become shareholders of AB; consideration wholly in equity shares; businesses continued; no change in book values except for uniformity of accounting policies → **pooling of interests method**.

(ii) **Purchase consideration:** A 55 + B 30 = **₹85 lakh** (8,50,000 shares of ₹10).

(iii) Entries: Business Purchase Dr 85; To Liquidators of A 55, of B 30. A's assets: PPE 50, inventory 20, receivables 10, bank 5 Dr; To creditors 10, general reserve 10 (15 − 5), P&L 10, Business Purchase 55. (Excess of shares issued 55 over A's capital 50 is adjusted against A's general reserve.) B's assets: PPE 28, inventory 9 (after uniformity adjustment), receivables 6, bank 4 Dr; To creditors 6, general reserve 8, P&L 3 (4 − 1), Business Purchase 30. Liquidators of A and B Dr 85; To Equity Share Capital 85.

(iv) **Balance sheet of AB Ltd.:** equity share capital 85; general reserve 18; P&L 13; creditors 16 → **132** = PPE 78 + inventory 29 + receivables 16 + bank 9.

SOLUTION Q5 Consolidated balance sheet of H Ltd. (₹ lakh)

Pre-acquisition (capital) profits of S: GR 20 + opening P&L 10 + 3 months' profit 4 − dividend paid out of pre-acquisition profits 10 = **24**. **Post-acquisition:** 9 months' profit 12 − unrealised profit 1.20 (6 × 25/125, upstream) = **10.80**.

Dividend received by H (8) is pre-acquisition → reduce cost of investment to 102 and H's P&L to 40.

Cost of control: 102 − 80% × (100 + 24) = 102 − 99.20 = **goodwill 2.80**.

Minority interest: 20% × (100 + 20 + 16 − 1.20) = **26.96**.

Consolidated P&L: 48 − 8 + 80% × 10.80 = **48.64**.

Equity and liabilities	₹ lakh	Assets	₹ lakh
Share capital	300.00	Goodwill	2.80
General reserve	60.00	PPE (220 + 90)	310.00
Surplus (P&L)	48.64	Inventory (50 + 30 − 1.20)	78.80
Minority interest	26.96	Trade receivables (38 + 22 − 4)	56.00
Trade payables (30 + 18 − 4)	44.00	Bank	32.00
Total	**479.60**	**Total**	**479.60**

SOLUTION Q6(a)

EITHER: Convergence – national standards drafted in line with IFRS but modified for local laws (carve-outs/carve-ins), as India did with Ind AS; adoption – IFRS taken as issued without modification. Objectives of carve-outs: to align with Indian laws and regulations, to suit the economic environment, to avoid undue volatility or impracticability, and to reflect the preparedness of Indian industry.

OR: Technical feasibility of completing the asset; intention to complete and use or sell it; ability to use or sell it; how it will generate probable future economic benefits (market or internal use); availability of adequate technical, financial and other resources; ability to measure the attributable expenditure reliably.

SOLUTION Q6(b) Forward contract – AS 11 (₹)

Premium = 50,000 × (86.40 − 85.80) = 30,000, amortised over 3 months: **₹20,000 expense in 2025-26** (Feb–Mar) and ₹10,000 in 2026-27.

Payable restated at 31 March: 50,000 × (86.20 − 85.80) = **exchange loss ₹20,000**; forward contract (spot-to-spot) **gain ₹20,000** → net nil. **Net charge to P&L 2025-26 = ₹20,000** (premium).

SOLUTION **Q6(c) New York branch – translation (integral operation)**

Item	USD	Rate	Dr ₹	Cr ₹
PPE	50,000	80	40,00,000	
Depreciation	5,000	80	4,00,000	
Opening inventory	8,000	82	6,56,000	
Purchases	40,000	84	33,60,000	
Expenses	12,000	84	10,08,000	
Debtors	10,000	86	8,60,000	
Cash	4,000	86	3,44,000	
HO account	60,000	actual		49,80,000
Sales	64,000	84		53,76,000
Creditors	5,000	86		4,30,000
Exchange difference (loss, balancing)			1,58,000	
Total			**1,07,86,000**	**1,07,86,000**

Trading and P&L (₹): sales 53,76,000 + closing inventory (9,000 × 85) 7,65,000 – opening inventory 6,56,000 – purchases 33,60,000 = **gross profit 21,25,000**; less expenses 10,08,000, depreciation 4,00,000 and exchange loss 1,58,000 → **net profit ₹5,59,000**.