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CA Inter May-23

AIR 19



Aman Mahajan
CA Inter Dec-21

AIR 33



Sundar B
CA Inter Dec-21

What Our Students have to say....

Pooja
Whenever I listen to Suraj sir's lecture, feels like I've completed the concept! Made it veryyyy simple sir!
Pranams!

Sugam
1Fin is working very hard and providing aeverything we need for CA.
Thanks for the support

Parthi purush
Really I'm impressed on his teaching style and it's like a movie and interesti

Kumar G
Much needed classes for CA! Thank you ! IL team

Nilesh
Excellent explanation and you made easy to understand for anyone. Superb.. I was always confused.. now everything is clear. Amazing Sir!

Jagadeesh Chandra
One of best explanation about the concepts among any other avialable...Thanks Sir, thank you 1fin

Purva Kirad
Very nice explanation of all concpets! thank you

KAVITHA
Very clear explanation sir .
I was not able to understand before but now u have given a clarity. Thank you so much sir...

Jayashree
Really the classes were very useful for my preparation....
Thanks a lot InidgoLearn

akhila
Crystal clear Thank you sir for such an amazing classes

Daniel Philip
Very nice lectures and great explanation sir thank you lots!

What Our Students have to say....

Sudeepta Benya

I took FR and AFM classes from 1FIN and secured good marks in both. I am deeply grateful to **Sriram Sir** and **Suraj Sir** for making my conceptual clarity very strong and making me fall in love with the subjects. I secured 70 marks in FR and 87 in AFM. Highly recommended.

AIR 27

Arun Kumar

I have watched SFM, FR and IDT classes from indigo learn I was using 1FIN platform from my CA Inter and I feel this platform is the only platform which focuses on concepts rather than focusing on only scoring marks.

Kanishka

Thank you so much Sir! I am excited to share that I have successfully cleared the CA Final exams and became A Chartered Accountant

Bhoomi Makhecha

Suraj Sir's classes were comprehensive & helped me score 76 (Exemption) in FR

Srinivasan

I really liked the way of teaching and conceptual clarity given by **Suraj Sir**

Venkata Naresh

Thank You Indigolearn for the Conceptual Clarity and well illustrated Examples of the faculties,making my concepts very strong and assisted me in clearing my exams

Yug Bhattad

From Foundation to Final, you have been a constant source of guidance. This journey would truly not have been possible without your support, belief, and mentorship. Your advice at every stage, whether academic or personal, gave me clarity and confidence when I needed it the most.

Himanshu Somani

Thank you so much to **Suraj and Sriram** sir for your support during my entire CA journey, will forever be grateful to you

Hannoch Matthew

1FIN is a perfect place for assistance in CA Exams. I had opted for FR and AFM. I found it well understandable and helped me to get through with the concepts. Their MCQ and material is very useful.

Priyanka Udeshi

Thank you **Suraj sir!** Have successfully cleared CA Final with exemption in 5 subjects

ADVANCED ACCOUNTING (MAY 2026)

PART – II : DESCRIPTIVE Solution

QUESTION 1 (Compulsory – 14 Marks)

(a) Defined Benefit Obligation – XYZ Ltd. [5 Marks]

Mr. A has joined a company XYZ Ltd. on 1st April, 2025. The terms of his appointment were 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, he will get 5 yearly increments.

You are required to:

(i) 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)

Solution

Salary - ₹18,62,764, with **5 increments @ 10%**

Salary at retirement = ₹18,62,764 × (1.10)^5 = ₹18,62,764 × 1.61051= **₹30,00,000**

Total Retirement Benefit = 30% × ₹30,00,000 × 5 years = ***₹45,00,000***

Benefit Earned Per Year of Service = 30% × ₹30,00,000 = ***₹9,00,000 per year***

Part (i): P&L Charge (Current Service Cost) Each Year

Year	Benefit Earned (₹)	PV Factor @ 8%	Current Service Cost (₹)
1	9,00,000	0.735	6,61,500
2	9,00,000	0.794	7,14,600
3	9,00,000	0.857	7,71,300
4	9,00,000	0.926	8,33,400
5	9,00,000	1.000	9,00,000
Total	**45,00,000**		**38,80,800**



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Part (ii): Current Service Cost and Interest Cost Per Year

Interest Cost = Opening DBO × 8%

Year	Opening DBO (₹)	Current Service Cost (₹)	Interest Cost @ 8% (₹)	Closing DBO (₹)
1	0	6,61,500	0	6,61,500
2	6,61,500	7,14,600	52,920	14,29,020
3	14,29,020	7,71,300	1,14,322	23,14,642
4	23,14,642	8,33,400	1,85,171	33,33,213
5	33,33,213	9,00,000	2,66,787	45,00,000

Summary: Total P&L Charge Each Year

Year	Current Service Cost (₹)	Interest Cost (₹)	Total P&L Charge (₹)
1	6,61,500	0	**6,61,500**
2	7,14,600	52,920	**7,67,520**
3	7,71,300	1,14,322	**8,85,622**
4	8,33,400	1,85,171	**10,18,571**
5	9,00,000	2,66,787	**11,66,787**
Total	**38,80,800**	**6,19,200**	**45,00,000**

(b) Machinery – Capitalization, Depreciation & Impairment – Sky Limited [5 Marks]

On 1st 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:

Particulars	₹
Cost of preparation of site for installation	16,500
Total Labour charges (200/500 men hours for installation)	75,000
Total salary of supervisor (25% time for installation)	34,000
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.

Solution

As per **AS 10**, cost of an item of PPE includes all directly attributable costs of bringing the asset to working condition for its intended use.

Particulars	Amount (₹)	Remarks
Purchase Price excluding GST	7,00,000	735,000/105 x 100
Cost of preparation of site	16,500	Directly attributable
Labour charges (200/500 × ₹75,000)	30,000	Only installation portion
Supervisor salary (25% × ₹34,000)	8,500	Only installation time
Interest charges to supplier (deferred credit)	0	Machinery is not a qualifying asset
Test run & experimental production expenses	28,200	Net cost of testing before commercial use
Consultancy charges to architect	18,800	Directly attributable professional fees
Depreciation on assets used for installation	8,000	Directly attributable
Cost of PPE 2	**8,10,000**	
Useful Life	**10**	
Depreciation per year	**81,000**	
Depreciation for 6 months for year ending 31st March 2023 0.5	**81,000/2 = 40,500**	Depreciation from date when asset is ready to use.
Depreciation from 1st April 2023 – 30th September 2025	**81,000 x 2.5 =**	



	202,500	
Carrying Amount as on 30th September 2025	**5,67,000**	8,10,000 x 7/10
Revalued Amount	**7,00,000**	
Revaluation Surplus 0.5	**1,33,000**	
Excess Depreciation	**9,500**	50,000 – 40,500
Balance Amount in revaluation surplus 0.5	**1,23,500**	
Depreciation for 6 months till 31st March 2026	**7,00,000 / 7 x 0.5 = 50,000**	
Carrying Amount 0.5	**6,50,000**	
Recoverable Amount	**3,00,000**	
Impairment Loss	**3,50,000**	
Dr to Revaluation Surplus	**1,23,500**	
Dr. to PL	**2,26,500**	

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(c) Interim Reporting – Tax Expense – Vardhman Ltd. [4 Marks]

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:

Income Type	Tax Rate
On capital gains	20%
On other incomes – First ₹2,00,000	35%
On other incomes – Balance income	40%

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

(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.



Solution

Part (i): Total Tax Expense for the Year 2025-26

Particulars	₹	₹
Total estimated annual income		5,00,000
Less: Capital gains (taxed separately @ 20%)		(1,00,000)
Other income (taxed at slab rates)		4,00,000
Tax Computation:		
Tax on Capital Gains: ₹1,00,000 @ 20%		20,000
Tax on Other Income:		
First ₹2,00,000 @ 35%	70,000	
Balance ₹2,00,000 @ 40%	80,000	1,50,000
Total Tax Expense for the Year		**1,70,000**
ETR on Ordinary Income = ₹1,50,000 / ₹4,00,000		**37.5%**

1.5
0.5

Particulars	Q1 (₹)	Q2 (₹)	Q3 (₹)	Q4 (₹)	Total (₹)
Ordinary income	1,25,000	25,000	1,25,000	1,25,000	4,00,000
Capital gains	–	1,00,000	–	–	1,00,000
Tax on ordinary income @ 37.5%	46,875	9,375	46,875	46,875	1,50,000
Tax on capital gains @ 20%	–	20,000	–	–	20,000
Total tax expense	**46,875**	**29,375**	**46,875**	**46,875**	**1,70,000**

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QUESTION 2 – Financial Statements of Vinayak Ltd. [14 Marks]

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

Particulars	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	



Particulars	Dr. ₹ '000	Cr. ₹ '000
Land at cost	12,000	
Cash in hand	30	
Cash at 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 1st 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).

Working NOtes

W1: Plant & Machinery

Particulars	Cost (₹'000)	Acc. Dep (₹'000)	Net
As per Trial Balance	12,360	2,250	10,110
Less: Machinery sold on 1st April 2025	(360)	(300)	(60)
Balance after sale	12,000	1,950	10,050
Add: Depreciation for year @ 10% on ₹12,000		1,200	(1,200)
Closing Balance	**12,000**	**3,150**	**8,850**

W2: Profit on Sale of Machinery

Particulars	₹'000
Sale proceeds (Suspense A/c)	150
Written Down Value	(60)
Profit on Sale	**90**

W3: Land Revaluation

Particulars	₹'000
Revalued amount	14,400
Less: Cost as per TB	(12,000)
Revaluation Surplus (Revaluation Reserve)	**2,400**

Balance Sheet as at 31st March, 2026

Particulars	Note	₹'000
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 Provisions	4	3,276
TOTAL		**27,726**
ASSETS		



1. Non-Current Assets		
(a) Property, Plant & Equipment	5	23,250
2. Current Assets		
(a) Inventories		1,440
(b) Trade Receivables	6	1,800
(c) Cash & Cash Equivalents	7	450
TOTAL		**27,726**

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

Particulars	Note	₹'000
I. Revenue from Operations		**18,000**
II. Other Income	WN 2	**90**
III. Total (I + II)		**18,090**
IV. Expenses:		
Purchases		7,440
Changes in Inventories		**(1,440)**
Employee Benefit Expenses		
Finance Costs		450
Depreciation	WN 1	1,200
Other Expenses	8	2,250
V. Total Expenses		9,900
VI. Profit Before Tax		**8,190**
Less: Tax Expense @ 40%		**(3,276)**
VIII. Profit After Tax		**4,914**

*Notes to financial statements**ote 1– Share Capital***

Particulars	₹'000
Authorised: **1,20,000 Equity shares of ₹100 each**	12,000
Issued, Subscribed & Paid up:	
75,000 Equity shares of ₹100 each fully paid up	7,500
Of the above, shares issued for consideration other than cash Rs. 7,50,000	
Less: Calls in arrear	(75)
Total	**7,425**

Note 2 – Reserves and Surplus

Particulars	₹'000
Revaluation Reserve (W3)	2,400
General Reserve	2,250
Securities Premium	600
Surplus (P&L Balance):	
Opening Balance (1-04-2025)	1,125
Add: Profit for the year	4,914
Total	**11,289**



Note 3 – Long-term Borrowings

Particulars	₹'000
10% Debentures	4,500
Total	**4,500**

Note 4 – Short-term Provisions

Particulars	₹'000
Provision for Income Tax @ 40%	3,276
Total	**3,276**

Note 5 – Property, Plant & Equipment

Particulars	Land ₹'000	P&M ₹'000	Total ₹'000
Gross Block			
Opening Balance	12,000	12,360	24,360
Add: Revaluation	2,400	-	2,400
Less: Disposals	-	(360)	(360)
Closing Gross Block	**14,400**	**12,000**	**26,400**
Accumulated Depreciation			
Opening Balance	-	2,250	2,250
Less: On disposals	-	(300)	(300)
Add: For the year	-	1,200	1,200
Closing Acc. Depreciation	**-**	**3,150**	**3,150**
Net Block	**14,400**	**8,850**	**23,250**

Note 6 – Trade Receivables

Particulars	₹'000
Outstanding for more than 6 months	750
Others	1,050
Total	**1,800**

Note 7 – Cash & Cash Equivalents

Particulars	₹'000
Cash in hand	30
Balance with Scheduled Banks	345
Balance with Non scheduled Banks	75
Total	450

Note 8 – Other Expenses

Particulars	₹'000
Factory Expenses	1,200



Administrative Expenses	675
Selling Expenses	375
Total	**2,250**

QUESTION 3

(a) Cash Flow Statement – Maharishi Ltd. [6 Marks]

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.

Particulars	₹	₹
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit Before Tax		11,04,000
Add: Depreciation		2,52,000
Less: Profit on Sale of Investments		(20,000)
Operating Profit before Working Capital Changes		**13,36,000**
Add: Increase in Trade Payables		18,400
Add: Increase in Outstanding Expenses		7,200
Less: Increase in Inventories		(34,400)



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		
Less: Purchase of Machinery		(8,22,000)
Add: Proceeds from Sale of Investments		1,40,000
Net Cash used in Investing Activities (B)		**(6,82,000)**
C. CASH FLOW FROM FINANCING ACTIVITIES		
Add: Proceeds from Rights Issue		5,60,000
Less: Dividends Paid		(3,31,200)
Net Cash from Financing Activities (C)		**2,28,800**
Net Increase in Cash & Cash Equivalents (A+B+C)		**3,14,000**
Add: Opening Cash & Cash Equivalents (31-03-2025)		1,71,040
Closing Cash & Cash Equivalents (31-03-2026)		**4,85,040**

Note: Bonds of ₹5,00,000 issued in exchange for plant assets on 30th March, 2026 is a **significant non-cash transaction** disclosed separately as required by AS-3.

(b) Internal Reconstruction – ABC Ltd. [8 Marks]

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

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



Particulars	Notes	₹
Current Assets		
Inventories		5,39,000
Trade Receivables		3,50,000
Total		23,17,000

Notes to accounts:

Note	Particulars	₹
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 (Preference dividend is in arrears for 3 years)	8,00,000
	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.

Journal Entries

Entry	Particulars	Dr. (₹)	Cr. (₹)
1	**Equity Share Capital A/c (₹50)** Dr.	10,50,000	
	To Equity Share Capital A/c (₹10)		2,10,000
	To Capital Reduction A/c		8,40,000
	(Reduction of 21,000 equity shares from ₹50 to ₹10)		
2	**Bank A/c** Dr.	6,30,000	
	To Equity Share Capital A/c (₹10)		6,30,000
	(63,000 new equity shares × ₹10 subscribed by existing equity shareholders)		
3	**8% Preference Share Capital A/c (₹50)** Dr.	8,00,000	
	To 5% Preference Share Capital A/c (₹10)		6,40,000



	To Equity Share Capital A/c (₹10)		1,60,000
	(16,000 pref shares of ₹50 exchanged for 64,000 new 5% pref shares + 16,000 equity shares)		
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 Bank A/c		1,48,680
	To Capital Reduction A/c		50,000
	(Settlement of debentures — inventories at ₹5,20,000 + cash ₹1,48,680)		
5	***Capital Reduction A/c Dr.***	~~29,000~~ 19000	19000
	To Inventories A/c		~~29,000~~
	(Loss on inventory)		
6	**Building A/c** Dr.	1,50,000	
	To Capital Reduction A/c		1,50,000
	(Revaluation of building from ₹5,00,000 to ₹6,50,000)		
7	**Capital Reduction A/c** Dr.	10,800	
	To Bank A/c		10,800
	(Payment of contingent liability settled)		
8	**Bank A/c** Dr.	4,800	
	To Capital Reduction A/c		4,800
	(Insurance recovery against contingent liability)		
9	**Capital Reduction A/c** Dr.	6,53,000	
	To Profit & Loss A/c		6,53,000
	(Accumulated debit balance of P&L written off)		
10	**Capital Reduction A/c** Dr.	1,25,000	
	To Goodwill A/c		1,25,000
	(Goodwill fully written off from Capital Reduction)		
11	**Capital Reduction A/c** Dr.	48,000	
	To Trademarks A/c		48,000
	(Balance of Capital Reduction applied to write down Trademarks)		

Capital Reduction Account (Summary)

Dr.	₹	Cr.	₹
To Inventory	29,000	By Equity Share Capital	8,40,000
To Bank – Contingent Liability	10,800	By Debentures	50,000
To P&L A/c	6,53,000	By Building revaluation	1,50,000
Goodwill written off	1,25,000	By Bank – Insurance	4,800
Trademarks written off (b.f)	27,000		
Total	**10,44,800**	**Total**	**10,44,800**



QUESTION 4 – Amalgamation: Blue Ltd. & Green Ltd. → BG Ltd. [14 Marks]

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
Total	28,86,000	15,98,250
II. Assets		
(a) Non-current 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
Total	28,86,000	15,98,250

Additional Information:

(a) Details of trade receivables and trade payables:

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



	Blue Limited ₹	Green Limited ₹
Trade Debtors	1,25,000	1,00,000
Total	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:

Year	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) Prepare a Balance Sheet of BG Ltd. as at 31st March, 2026 showing the position immediately after amalgamation.



Solution

Working Note – Computation of Purchase Consideration

(A) Equity Shares issued based on Average Profits

Particulars	Blue Ltd. (₹)	Green Ltd. (₹)
Profit for 2022-23	13,48,700	8,21,700
Profit/(Loss) for 2023-24	(7,500)	10,26,300
Profit for 2024-25	11,33,800	10,77,000
Total Profit	**24,75,000**	**29,25,000**
Average Profit	**8,25,000**	**9,75,000**
Ratio	11	13

Total Equity Shares to be issued by BG Ltd. = 1,80,000 shares

Particulars	Blue Ltd.	Green Ltd.	Total
Shares issued	1,80,000 × 11/24	1,80,000 × 13/24	
Number of shares	82,500	97,500	1,80,000
Value @ ₹5 per share	4,12,500	4,87,500	9,00,000

(B) Computation of Capital Employed

Particulars	Blue Ltd. (₹)	Green Ltd. (₹)
Revalued PPE	21,30,000	11,70,000
Revalued Inventories	7,73,500	3,23,250
Trade Receivables	1,25,000	1,50,000
Less: Trade Payables	(3,50,000)	(2,25,000)
Less: Short-term Borrowings	(14,41,000)	(3,15,750)
Capital Employed	**12,37,500**	**11,02,500**
Return @ 8%	99,000	88,200
Debentures to be issued @15%	6,60,000	5,88,000

Total Debentures Issued ₹12,48,000

In some past exam papers, ICAI has offset intercompany receivables and payables which accordingly to me is not correct approach. Total debentures would not change

As per Past exam solution			
PPE	2130000	1170000	
Inventories	773500	323250	
TR	50000	100000	
TP	-300000	-150000	



STB	-1441000	-315750	
	1212500	1127500	
Return @ 8%	97000	90200	
Debentures to be issued 15%	6,46,666.67	6,01,333.33	12,48,000.00

Total Purchase Consideration (Prepared by CA Suraj Lakhotia)

Particulars	Blue Ltd. (₹)	Green Ltd. (₹)
Equity Shares issued	4,12,500	4,87,500
15% Debentures issued	6,60,000	5,88,000
Purchase Consideration	**10,72,500**	**10,75,500**

Capital Reserve on Amalgamation

Particulars	Blue Ltd. (₹)	Green Ltd. (₹)
Net Assets Taken Over	12,37,500	11,02,500
Less: Purchase Consideration	(10,72,500)	(10,75,500)
Capital Reserve	**1,65,000**	**27,000**

BG Ltd. Balance Sheet as at 31st March, 2026

Particulars	Note No.	Amount (₹)
I. EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
(a) Share Capital	1	9,00,000
(b) Reserves & Surplus	2	1,92,000
(2) Non-Current Liabilities		
(a) Long-term Borrowings	3	12,48,000
(3) Current Liabilities		
(a) Trade Payables	4	4,50,000
(b) Short-term Borrowings	5	17,56,750
TOTAL		**45,46,750**
II. ASSETS		
(1) Non-Current Assets		
(a) Property, Plant & Equipment	6	33,00,000
(2) Current Assets		
(a) Inventories	7	10,96,750
(b) Trade Receivables	8	1,50,000
		12,46,750
TOTAL		**45,46,750**

Notes to Accounts

Note 1 – Share Capital

Particulars	₹
Authorised Share Capital:	
2,40,000 Equity Shares of ₹5 each	12,00,000
Issued, Subscribed & Paid-up Capital:	
1,80,000 Equity Shares of ₹5 each fully paid-up issued for consideration other than cash	9,00,000

Note 2 – Reserves & Surplus

Particulars	₹
Capital Reserve arising on amalgamation	1,92,000

Note 3 – Long-term Borrowings

Particulars	₹
15% Debentures	12,48,000

Note 4 – Trade Payables

Particulars	₹
Trade Creditors taken over	4,75,000
Less: Mutual owing eliminated	(75,000)
Less: Bills payable cancelled against bills receivable	(50,000)
Total	4,50,000

Note 5 – Short-term Borrowings

Particulars	₹
Blue Ltd.	14,41,000
Green Ltd.	3,15,750
Total	17,56,750

Note 6 – Property, Plant & Equipment

Particulars	₹
Blue Ltd. (revalued)	21,30,000
Green Ltd. (revalued)	11,70,000
Total	33,00,000

Note 7 – Inventories

Particulars	₹
Blue Ltd. (revalued)	7,73,500
Green Ltd. (revalued)	3,23,250
Total	10,96,750



0.5x2 for other notes.

Note 8 – Trade Receivables

Particulars	₹
Trade receivables taken over	2,75,000
Less: Mutual debt eliminated	(75,000)
Less: Bills receivable cancelled	(50,000)
Total	1,50,000

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QUESTION 5

(a) Consolidated P&L – Glamour Ltd. & Fashion Ltd. [10 Marks]

Glamour Ltd. and its subsidiary Fashion Ltd. has provided you the following information for the year ended 31st March, 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.

Solution

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

(₹ in '000)

Particulars	Glamour Ltd.	Fashion Ltd.	Adjustments	Consolidated
Revenue from Operations	4,500	2,800	(500) Inter-company sales (45) Brokerage fees (65) Consultancy fees	6,690
Other Non-operating Income	74	22	–	96
Dividend Income	125	80	(72) Dividend from subsidiary	133
Total Income	**4,699**	**2,902**	**(682)**	**6,919**
Expenses				
Changes in Inventory	(205)	(225)	50 Unrealised profit	(430)
Raw Materials Consumed	1,550	940	(500) Inter-company purchases	1,990
Production Expenses	710	680	–	1,390
Wages & Salaries	880	740	–	1,620
Administrative Expenses	314	129	(65) Consultancy fees	378



2 marks for 3 entries.

Selling & Distribution Expenses	285	230	(45) Brokerage fees	470
Interest Expenses	150	95	–	245
Depreciation	70	45	–	115
Loss on Sale of Investment	–	35	–	35
Total Expenses	**3,754**	**2,669**		**5,863**
Consolidated Profit before Tax				**1,056**
Share of Minority (2902-2669-50) x 20%				**36.6**
Share of Glamour				**1019.4**

Unrealised Profit = 5,00,000 / 25 x 100 x 50% = 50,000

(b) Discontinuing Operations – Oasis Limited [4 Marks]

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?

QUESTION 6

(a) EITHER – Global Convergence of Financial Reporting Standards [4 Marks]

Explain the key aspects which required the need for convergence towards global standards of financial reporting.

Solution

As per AS-24, a discontinuing operation refers to disposal of a separate major line of business under a single formal plan.



In the given case, the restaurant division contributes 35% of the total revenue of Oasis Limited. Therefore, it is a major business segment of the company. The management has taken a formal decision to discontinue the restaurant business after conducting a strategic review and the same was announced on 1st April, 2025.
The company has also started actively searching for buyers for the restaurant division and has already sold 5 out of 12 restaurants during the year. Since the business is a separate major segment and the company has both announced and started implementing the disposal plan, the restaurant division will be considered as a discontinuing operation as per AS-24.

OR

(a) Foreign Currency – AS 11 – ABC Ltd. [4 Marks]

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:

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?

Solution

As per Para 46A of AS 11:

In respect of long-term foreign currency monetary items, an enterprise may adjust the exchange differences arising at the time of settlement or on reporting of such items:

- to the cost of the depreciable capital asset, if the monetary item relates to acquisition of such asset; and



- in other cases, accumulate such exchange differences in a "Foreign Currency Monetary Item Translation Difference Account" and amortise it over the balance period of such long-term monetary item.

Date	Particulars	Dr. (₹)	Cr. (₹)
01-04-2025	Asset A/c Dr.	8,50,000	
	To Foreign Currency Loan A/c		8,50,000
	(Being foreign currency loan utilised for purchase of depreciable asset)		
31-03-2026	Interest A/c Dr.	54,000	
	To Bank A/c		54,000
	(Being interest paid on foreign currency loan)		
31-03-2026	Asset A/c Dr.	50,000	
	To Foreign Currency Loan A/c		50,000
	(Being exchange difference adjusted to cost of depreciable asset as per Para 46A of AS 11)		

If Para 46A is not availed, exchange difference of ₹50,000 will not be added to the cost of asset.

Instead, it will be recognised in the Statement of Profit and Loss.

Exchange Loss A/c Dr. (PL) 50,000
To Foreign Currency Loan A/c 50,000

(iii) If loan is taken for financing operations and not for depreciable asset

Yes, the treatment would be different.

Even if Para 46A is availed, where foreign currency loan is taken for financing operations and not for acquiring depreciable asset:

- exchange difference cannot be added to cost of asset.
- such exchange difference is accumulated in "Foreign Currency Monetary Item Translation Difference Account (FCMITDA)" and amortised over the balance period of the loan

Therefore, exchange difference will not be capitalised to asset cost in such a case.



(b) Accounting Policy Changes – AS 5 – Moon Limited [4 Marks]

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.

Solution 1×4 = 4

Particulars	Whether Change in Accounting Policy?	Reason
(i) Change in provision for doubtful debts from 3% to 5%	**No**	It is a change in accounting estimate and not a change in accounting policy because provision percentage is revised based on updated assessment of recoverability of debts.
(ii) Introduction of formal gratuity scheme instead of ad-hoc ex-gratia payments	**No**	Earlier there was no definite policy for retirement benefits. Introduction of a formal gratuity scheme represents adoption of a new accounting policy for employee benefits.
(iii) Change in cost formula for valuation of inventories	**Yes**	Change in inventory valuation method / cost formula is specifically treated as change in accounting policy under AS 5.
(iv) Introduction of pension scheme for retired employees	No	Earlier no pension policy existed. Introduction of pension benefits creates a new accounting policy



		relating to employee retirement benefits.

(c) Branch Accounts – Rama Ltd. [6 Marks]

(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.

Solution

(i) Reason for invoicing goods to branch at invoice price

- Goods are sent by Head Office to branch at invoice price mainly for effective stock control and performance evaluation of branch.
- It helps the Head Office to keep the actual profit margin confidential from branch employees.
- It also facilitates easy identification of stock shortages, pilferage and inefficiencies at the branch level.

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- Further, comparison between goods sent and sales made by branch becomes easier for control purposes.

0·5×8 = 4· (C)

(ii) Journal Entries in the books of Delhi Branch on 31st March, 2026

Particulars	Dr. (₹)	Cr. (₹)
(A) Office Expenses A/c Dr.	2,70,000	
To Head Office A/c		2,70,000
(Being HO expenses allocated by Head Office recorded)		
(B) Depreciation A/c Dr.	2,30,000	
To Head Office A/c		2,30,000
(Being depreciation on branch fixed assets recorded)		
(C) Head Office A/c Dr.	2,80,000	
To Salaries A/c		2,80,000
(Being salary paid on behalf of Head Office adjusted)		
(D) Head Office A/c Dr.	2,60,000	
To Branch Customer A/c		2,60,000
(Being amount collected directly by Head Office from branch customer recorded)		
(E) No entry – Branch has already recorded		
(F) Head Office A/c Dr.	60,000	
To Advertisement Expenses / Bank A/c		60,000
(Being advertisement expense incurred on behalf of another branch adjusted)		
(G) Goods-in-Transit A/c Dr.	40,000	
To Head Office A/c		40,000
(Being goods dispatched by HO but not yet received by branch recorded)		
(H) No entry – Branch has already recorded. Head office needs to record		

