Commercial's

Problems and Solutions in

ADVANCED ACCOUNTING

For CA Intermediate as per New Syllabus 2023

Applicable for May 2024 Examination & Onwards

Parveen Sharma

Kapileshwar Bhalla

3rd Edition
Jan. 2024

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Dedicated to our Parents

Sh. Satpal Sharma and Smt. Janki Devi

Sh. A. S. Bhalla and Smt. Manju Bhalla

Preface

For a thorough grasp on the subject of Accounting, adequate practice is required which involves conceptual knowledge and practicing variety of numerical problems. In light of the changes in Companies Act, 2013 and its impact on accounting it is very important that information about terms, accounting conventions and concepts along with relevant provisions of law is handy to the student while working on accountancy problems.

The present book is specially designed to enable the students to acquire conceptual base through variety of questions. In each chapter various sections have been introduced so that the student understands the types of problems he/she can confront in the exam. This will test the student in identifying his weakness areas whereupon he can take corrective action. Questions have been taken from the latest examination papers of the various Universities and Professional Bodies.

The book has been specially designed for the students studying at the CA (Inter - New Course) level of Institute of Chartered Accountants of India. It can also be used for other professional courses.

This book has been thoroughly revised keeping in view the latest changes.

Salient Features of the book:

1. Deals with Problems and solutions for all chapters in the course.
2. Arrangement in each chapter is:
   (a) From simple problems to advanced problems in a chronological manner.
   (b) Each chapter is further subdivided in various sections to develop the concepts in a logical flow.
3. (Each chapter has a 'Table of Index' for quick reference – indicating the no. of questions in each section)
4. Questions from last 24 past examinations conducted by ICAI, RTP's (Revisionary Test Papers), MTP's (Mock Test Papers) and other professional bodies have been incorporated to provide an extensive understanding of each and every topic and simultaneously providing an extensive practice.
5. The book is updated for the latest changes in accounting and the Companies Act, 2013.
6. A chapter on MCQs has also been added based on the change in the examination pattern.

Though every attempt has been made to avoid errors but in case it comes to your notice please bring it to our knowledge. We shall be happy to hear about any feedback.

Suggestion and clarifications from the students and teachers are welcome and same will be acknowledged and replied suitably.

You can get in touch at kapileshwarbhalla@gmail.com or connect me at 989911-4735(M).

Date: 10th January, 2024

CA. PARVEEN SHARMA
CA. KAPILESHWAR BHALLA

Contents

Chapter 1

Introduction to Accounting Standards

Question 1

Briefly explain the process of issuance of Indian Accounting Standards.

Answer

The standard-setting procedure of ASB can be briefly outlined as follows:

Steps	Particulars	Remarks
Step I	Identification of area	Identification of broad areas by ASB for formulation of AS.
Step II	Constitution of study groups	• Constitution of study groups by ASB to consider specific projects and to prepare **preliminary drafts** of the proposed accounting standards. • The draft normally **includes:** (a) objective and scope of the standard; (b) definitions of the terms used in the standard; (c) recognition and measurement principles wherever applicable; and (d) presentation and disclosure requirements. • **Consideration** of the preliminary draft prepared by the study group of ASB and revision, if any, of the draft on the basis of deliberations.
Step III	Preparation of draft and its circulation	**Circulation of draft** of accounting standard (after revision by ASB) to the Council members of the ICAI and specified outside bodies such as: • MCA; • Securities and Exchange Board of India (SEBI); • Comptroller and Auditor General of India (C&AG); • Central Board of Direct Taxes (CBDT); • Standing Conference of Public Enterprises (SCOPE), etc. for comments.
Step IV	Ascertainment of views of different bodies on draft	**Meeting with the representatives** of the specified outside bodies to ascertain their **views** on the draft of the proposed accounting standard.
Step V	Finalization of exposure draft (E.D.)	**Finalization of the exposure draft** of the proposed accounting standard **and its issuance** inviting public comments.
Step VI	Comments received on exposure draft (E.D.)	**Consideration of comments** received on the exposure draft and finalization of the draft accounting standard by the ASB for submission to the Council of the ICAI for its consideration and approval for issuance.
Step VII	Modification of the draft	**Consideration of the final draft** of the proposed standard by the Council of the ICAI and if found necessary, modification of the draft in consultation with the ASB is done.

Steps	Particulars	Remarks
Step VIII	Issue of AS	The accounting standard on the relevant subject (for non-corporate entities) is then issued by the ICAI. For corporate entities the accounting standards are issued by the **Ministry of Corporate Affairs in consultation with the NFRA.**

Standard – Setting Process (Summary)

Identification of area

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Constitution of study group

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Preparation of draft and its circulation

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Ascertainment of views of different bodies on draft

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Finalisation of exposure draft (E.D.)

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Comments received on exposure draft (E.D.)

↓

Modification of the draft

↓

Issue of AS

Question 2

Explain the significance of emergence of IFRS as Global Standards.

Answer

Few key aspects which required the need for convergence are as under:

1. **Raising funds from international markets:**

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

   Therefore, translation and reinstatements are of utmost importance in a world that is rapidly globalizing in all ways.

2. **Comparability of Financial Statements:**

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

3. **Uniformity, Comparability Transparency etc.:**

A strong need was felt by legislation to bring about uniformity, rationalization, comparability, transparency and adaptability in financial statements. Having a multiplicity of types of ASs around the world is against the public interest. If accounting for the same events and information produces different reported numbers, depending on the system of standards that are being used, then it is self-evident that accounting will be increasingly discredited in the eyes of those using the numbers. It creates confusion, encourages error and may facilitate fraud. The cure for these ills is to have a single set of global standards, of the highest quality, set in the interest of public. Global Standards facilitate cross border flow of money, global listing in different stock markets and comparability of financial statements.

4. **Global Investment:**

The convergence of financial reporting and ASs is a valuable process that contributes to the free flow of global investment and achieves substantial benefits for all capital market stakeholders. It improves the ability of investors to compare investments on a global basis and, thus, lower their risk of errors of judgment.

Question 3

What do you mean by Carve outs/ins in Ind AS? Explain.

Answer

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRS issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRS requirements and extensive discussion with various stakeholders.

Accordingly, while formulating Ind AS, efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/IFRS and departures have been made where considered absolutely essential.

These changes have been made considering various factors, such as:

S. No.	Particulars	Remarks
1.	Carve outs	**Difference in economic environment:** Certain changes have been made considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS. These differences are due to differences in economic conditions prevailing in India. These differences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as **'Carve-outs'**.
2.	Carve Ins	**Additional guidance** given in Ind AS over and above what is given in IFRS, is termed as **'Carve in'**.
3.	Not resulting in carve outs	**Removal of options in accounting principles and practices:** Removal of options in accounting principles and practices in Ind AS vis-a-vis IFRS, have been made to maintain consistency and comparability of the financial statements to be prepared by following Ind AS. However, these changes will **not result into carve outs.**

Chapter 2

Framework for Preparation & Presentation of FS

Table of Index:

Section no.	Sub-topic	Question no.
I	Theory Questions	1 to 5
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Section I
Theory Questions

Question 1

With regard to financial statements name any four:

(1) Users

(2) Qualitative characteristics

(3) Elements.

RTP November 2015 ; RTP November 2017; RTP May 2019; RTP November 2020

Answer:

(1) Users of financial statements:

a. Investors

b. Employees

c. Lenders, Supplies/Creditors

d. Customers

e. Government & Public

(2) Qualitative Characteristics of Financial Statements:

a. Understandability

b. Relevance

c. Comparability

d. Reliability

e. Faithful Representation

(3) Elements of Financial Statements:

a. Asset

b. Liability

c. Equity

d. Income/Gain

e. Expense/Loss

Question 2

Write short note on main elements of Financial Statements.

May 2017 Examination – 4 Marks; May 2018 Examination – 4 Marks

RTP May 2018

Answer:

The framework classifies items of financial statements can be classified in five broad groups depending on their economic characteristics:

Asset	Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise
Liability	Present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.
Equity	Residual interest in the assets of an enterprise after deducting all its liabilities.
Income/gain	Increase in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity participants
Expense/loss	Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity other than those relating to distributions to equity participants.

Question 3

Explain in brief, the alternative measurement bases, for determining the value at which an element can be recognized in the Balance Sheet or Statement of Profit and Loss.

November 2016 Examination – 4 Marks

MTP April 2018; MTP March 2019; MTP March 2021

RTP November 2018

What is meant by 'Measurement'? What are the bases of measurement of Elements of Financial Statements? Explain the brief.

December 2021 Examination - 4 Marks

RTP November 2021

Answer:

The Framework for Recognition and Presentation of Financial statements recognizes four alternative measurement bases for the purpose of determining the value at which an element can be recognized in the balance sheet or statement of profit and loss.

These bases are:

1. **Historical Cost:**

   Historical cost means acquisition price. According to this, assets are recorded at an amount of cash or cash equivalent paid or the fair value of the asset at the time of acquisition. Liabilities are generally recorded at the amount of proceeds received in exchange for the obligation.

2. **Current Cost:**

   Current cost gives an alternative measurement basis. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

3. **Realizable (Settlement) Value:**

   As per realizable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal. Liabilities are carried at their settlement values; i.e. the undiscounted amount of cash or cash equivalents paid to satisfy the liabilities in the normal course of business.

4. **Present Value:**

   Under present value convention, assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities under this convention are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.

Question 4

What are the qualitative characteristics that improve the usefulness of information provided in the financial statements?

November 2011 Examination – 4 Marks

May 2013 Examination – 4 Marks

November 2020 Examination – 4 Marks

Answer:

The following qualitative characteristics will help in improving the usefulness of the information provided in the financial statements:

1. **Understandability:**

   Information in financial statements should be presented in a manner that the users with reasonable knowledge of business and economic activities and accounting, may readily understand it. All relevant information should be given therein.

2. **Relevance:**

   The relevance of a piece of information should be judged by its materiality i.e. whether its omission or misstatement can influence economic decisions of users or not. No relevant information should be withheld on the grounds of complexity.

3. **Reliability:**

   The information is said to be reliable when transactions and events reported are represented faithfully and also when they are reported in terms of their substance and economic reality. Prudence concept is also used whenever required.

4. **Comparability:**

   The financial statements should permit both inter-firm and intra firm comparison. One essential feature or requirement of comparability is disclosure of financial effect of change in accounting policies.

Question 5

"One of the characteristics of the financial statement is neutrality."

Do you agree with this statement? Explain in brief.

November 2018 Examination – 5 Marks

MTP August 2018

Answer:

Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias.

Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion based on the business results. Information contained in the financial statements must be free from bias. It should reflect a balanced view of the financial position of the company without attempting to present them in biased manner. Financial statements cannot be prepared with the purpose to influence certain division, i.e. they must be neutral.

Section II
Practical Problems

Question 6

ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom -made machine amounting to Rs. 4,00,000. As on 31st March, 2018 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is 'NIL'.

Show the treatment of machine in the books of ABC Ltd.

May 2017 Examination – 4 Marks

MTP August 2018; MTP October 2018; MTP March 2022

Answer:

A liability is recognized when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured.

In the above case, ABC Ltd. should recognize a liability of Rs.4,00,000 payable to XYZ Ltd. When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognized as an expense rather than as an asset.

In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognized as an expense.

Hence ABC Ltd. should charge the amount of Rs. 4,00,000 (being loss due to change in production method) to Profit and loss statement and record the corresponding liability (amount payable to XYZ Ltd.) for the same amount in the books for the year ended 31st March, 2018.

Question 7

A Ltd. entered into a binding contract with C Ltd. to buy a machine for Rs. 1,00,000. The machine is to be delivered on 15th February, 2009. On 1st January, 2009, A Ltd. changed its process of production. The new process will not require the machine ordered and it shall have to be scrapped after delivery. The expected scrap value of the machine is nil.

Explain how A Ltd. should recognize the entire transaction in the books of account for the year ended 31st March, 2009.

Nov 2009 Examination – 2 Marks

RTP May 2020; MTP October 2020 (Figures X 4 Times)

Answer:

A Ltd. entered into a binding contract with C Ltd. and therefore, it should recognize a liability of Rs.1,00,000. The entire amount of purchase price of the machine should be recognized in the year ended 31st March, 2009 as loss because future economic benefit from the machine to the enterprise is improbable.

The accounting entry should be as follows:

Particulars		Rs.	Rs.
Profit and Loss A/c	Dr.	1,00,000	
To C Ltd.			1,00,000
(Being value of machinery fully depreciated because of change in the process of production i.e. obsolescence)			