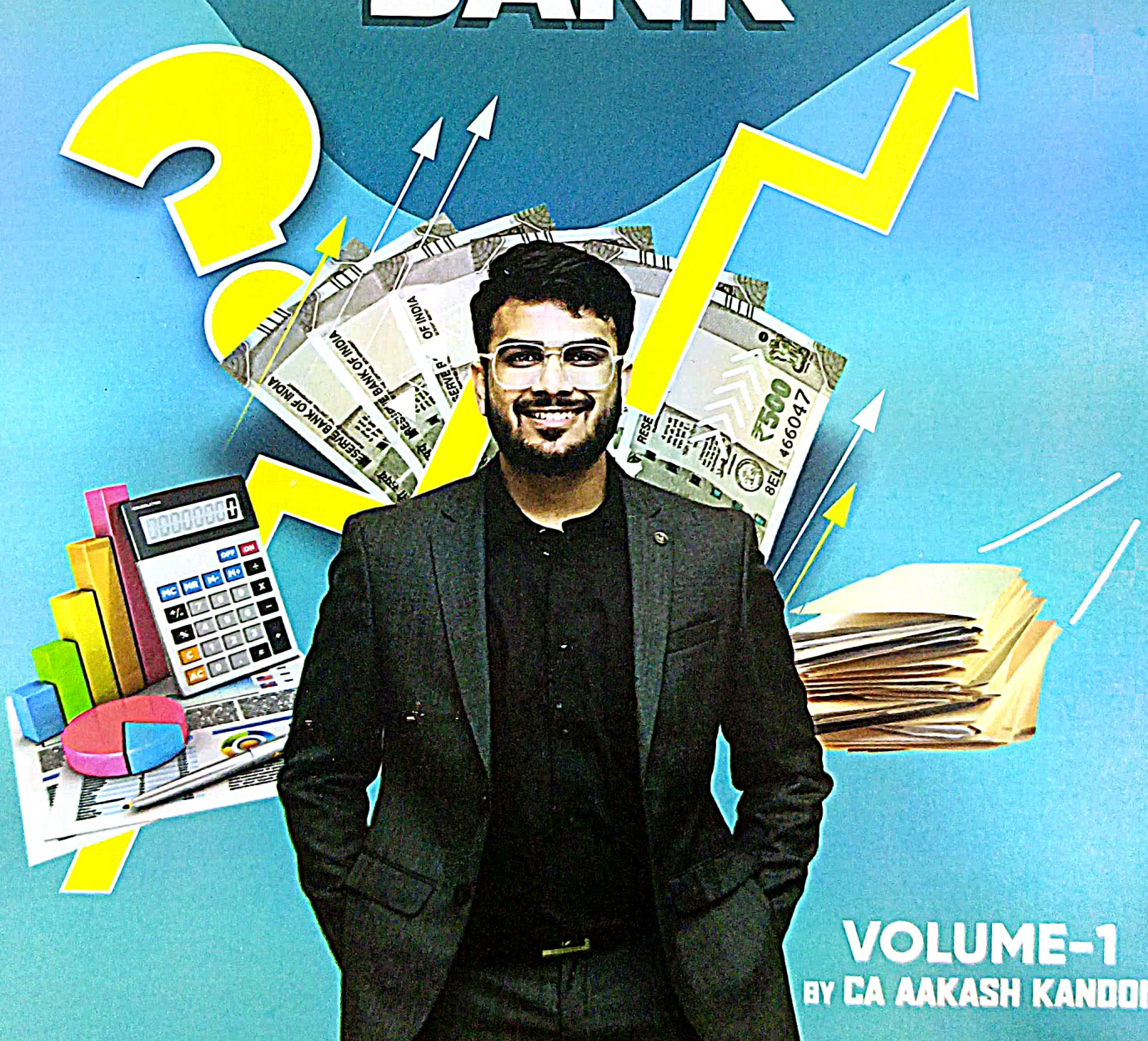


# CA INTER ADVANCED ACCOUNTING

# QUESTION BANK



**VOLUME-1**  
BY CA AAKASH KANDOI



# ADVANCED ACCOUNTING

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# INTRODUCTION TO AS

## ? Question 1 (Past Exam Nov'22)

NB Pg. No.

Explain the objective of "Accounting Standards" in brief. State the advantages of setting Accounting Standards. (4 Marks)

### Solution:

Accounting Standards are the written policy documents issued by Government relating to various aspects of measurement, treatment, presentation and disclosure of accounting transactions and events.

Following are the objectives of Accounting Standards:

- Accounting Standards harmonize the diverse accounting policies and practices followed by different companies in India.
- Accounting Standards facilitates the preparation of financial statements and make them comparable.
- Accounting Standards give a sense of faith and reliability to the users.

### The main advantage of setting accounting standards are as follows:

- Accounting Standards makes the financial statements of different companies comparable which helps investors in decision making.
- Accounting Standards prevent any misleading accounting treatment.
- Accounting Standards prevent manipulation of data by the management.

## ? Question 2

NB Pg. No.

Briefly explain the process of issuance of Indian Accounting Standards.

### Solution:

Due to the recent stream of overseas acquisitions by Indian companies, there is need for adoption of high-quality standards to convince foreign enterprises about the financial standing as also the disclosure and governance standards of Indian acquirers.

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

The ICAI has worked towards convergence of global accounting standards by considering the application of IFRS in Indian corporate environment. Recognising the growing need of full convergence of Ind AS with IFRS, ICAI constituted a Task Force to examine various issues involved.

Ind AS are issued by the Central Government of India under the supervision and control of ASB of ICAI and in consultation with NFRA. NFRA recommends these standards to the MCA and MCA has to spell out the accounting standards applicable for companies in India.

## ? Question 3

NB Pg. No.

Explain the significance of emergence of IFRS as Global Standards.

### Solution :

Global Standards facilitate cross border flow of money, global listing in different bourses and comparability of financial statements. Global Standards improve the ability of investors to compare investments on a global basis and thus lowers their risk of errors of judgment. It facilitates accounting and reporting for companies with global operations and eliminates some costly requirements say reinstatement of financial statements.

## ? Question 4 (RTP May'24 & MTP Jan'25)

NB Pg. No.

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

### Solution :

Certain changes have been made in Ind AS 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'. Additional guidance given in Ind AS over and above what is given in IFRS, is termed as 'Carve in'.

**Question 5 (MTP Nov'21, Apr'23, Sept.'24) (Past Exam Nov'18)**

**NB Pg. No.**

"Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements." Discuss and explain the benefits of Accounting Standards. **(5 Marks)**

**Solution :**

Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. Accounting Standards provide a set of standard accounting policies, valuation norms and disclosure requirements. Accounting standards aim at improving the quality of financial reporting by promoting comparability, consistency and transparency, in the interests of users of financial statements. The following are the benefits of Accounting Standards:

- (i) **Standardization of alternative accounting treatments:** Accounting Standards reduce to a reasonable extent confusing variations in the accounting treatment followed for the purpose of preparation of financial statements.
- (ii) **Requirements for additional disclosures:** There are certain areas where important is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.
- (iii) **Comparability of financial statements:** The application of accounting standards would facilitate comparison of financial statements of different companies situated in India and facilitate comparison, to a limited extent, of financial statements of companies situated in different parts of the world. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in Accounting Standards adopted in different countries.



## APPLICABILITY OF AS

### ? Question 1 (RTP Nov 20) (MTP Mar'24)

NB Pg. No.  
(4 Marks)

What are the issues, with which Accounting Standards deal?

#### Solution:

Accounting Standards deal with the issues of (i) Recognition of events and transactions in the financial statements, (ii) Measurement of these transactions and events, (iii) Presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and (iv) Disclosure requirements.

### ? Question 2

NB Pg. No.

List the criteria to be applied for rating a non-corporate entity as Level-I entity and Level II entity for the purpose of compliance of Accounting Standards in India.

#### Solution:

Refer para 1.2.1 for Criteria to be applied for rating a non-corporate entity as Level-I entity and Level II entity for the purpose of compliance of Accounting Standards in India.

### ? Question 3

NB Pg. No.

List the criteria to be applied for rating a non-corporate entity as Level IV entity for the purpose of compliance of Accounting Standards in India.

#### Solution:

Refer para 1.2.1 for Criteria to be applied for rating a non-corporate entity as Level IV entity for the purpose of compliance of Accounting Standards in India.

### ? Question 4 (Past Exam Nov'23)

NB Pg. No.

XYZ Ltd., with a turnover of ₹ 50 crores during previous year and borrowings of ₹ 1 crore during any time in the previous year, wants to avail the exemptions available in adoption of Accounting Standards applicable to companies for the year ended 31.3.20X1. Advise the management on the exemptions that are available as per the Companies (Accounting Standards) Rules, 2021

#### Solution:

The question deals with the issue of Applicability of Accounting Standards for corporate entities. The companies can be classified under two categories viz **SMCs and Non SMCs** under the Companies (Accounting Standards) Rules, 2021.

As per the Companies (Accounting Standards) Rules, 2021, criteria for above classification as SMCs, are:

#### "Small and Medium Sized Company" (SMC) means, a company-

- whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
  - which is not a bank, financial institution or an insurance company;
  - whose turnover (excluding other income) does not exceed rupees two- fifty crores in the immediately preceding accounting year;
  - which does not have borrowings (including public deposits) in excess of rupees fifty crores at any time during the immediately preceding accounting year; and
  - which is not a holding or subsidiary company of a company which is not a small and medium-sized company.
- Since, XYZ Ltd.'s turnover was ₹ 50 crores which does not exceed ₹ 250 crores and borrowings of ₹ 1 crore are less than ₹ 50 crores, it is a small and medium sized company (SMC).



### Question 5

NB Pg. No.

A company was classified as Non-SMC in 20X1-X2. In 20X2-X3, it has been classified as SMC. The management desires to avail the exemptions or relaxations available for SMCs in 20X2-X3. However, the accountant of the company does not agree with the same. Comment.

#### Solution:

As per Companies (Accounting Standards) Rules, 2021, an existing company, which was previously not a SMC and subsequently becomes a SMC, should not be qualified for exemption or relaxation in respect of accounting standards available to a SMC until the company remains a SMC for two consecutive accounting periods. Therefore, the management of the company cannot avail the exemptions/ relaxations available to the SMCs for the FY 20X2-X3.

### Question 6 (MTP Oct'18, Oct'22)

NB Pg. No.

M/s X & Co. (a partnership firm) had a turnover of ₹ 5 crores (excluding other income) and borrowings of ₹ 1.5 crores in the previous year. It wants to avail the exemptions available in application of Accounting Standards to non-corporate entities for the year ended 31.3.2022. Advise the management of M/s X & Co in respect of the exemptions of provisions of ASs, as per the directive issued by the ICAI.

(5 Marks)

#### Solution:

The question deals with the issue of Applicability of Accounting Standards to a non-corporate entity. For availment of the exemptions, first of all, it has to be seen that M/s Omega & Co. falls in which level of the non-corporate entities. Its classification will be done on the basis of the classification of non-corporate entities as prescribed by the ICAI. According to the ICAI, non-corporate entities can be classified under 4 levels viz Level I, Level II, Level III and Level IV entities.

#### Non-corporate entities which meet following criteria are classified as Level IV entities:

- All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) does not exceed rupees ten crores in the immediately preceding accounting year.
- All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) does not exceed rupees two crores at any time during the immediately preceding accounting year.
- Holding and subsidiary entities of any one of the above.

As the turnover of M/s Omega & Co. is less than ₹ 10 crores and borrowings less than ₹ 2 crores, it falls under Level IV non-corporate entities. In this case, AS 3, AS 14, AS 17, AS 18, AS 20, AS 21, AS 23, AS 24, AS 25, AS 27 and AS 28 will not be applicable to M/s Omega & Co. Relaxations from certain requirements in respect of AS 10, AS 11, AS 13, AS 15, AS 19, AS 22, AS 26 and AS 29 are also available to M/s Omega & Co.

### Question 7 (RTP May'22)

NB Pg. No.

- A company with a turnover of ₹ 225 crores and borrowings of ₹ 51 crore during the year ended 31st March, 2021, wants to avail the exemptions available in adoption of Accounting Standards applicable to companies for the year ended 31.3. 2021. Advise the management on the exemptions that are available as per the Companies (Accounting Standards) Rules, 2021.
- An organization whose objects are charitable or religious, believes that the Accounting Standards are not applicable to it since only a very small proportion of its activities are business in nature. Comment.

#### Solution:

- The question deals with the issue of Applicability of Accounting Standards for corporate entities. The companies can be classified under two categories viz SMCs and Non-SMCs under the Companies (Accounting Standards) Rules, 2021. As per the Companies (Accounting Standards)



Rules, 2021, criteria for above classification as SMCs, are:

"Small and Medium Sized Company" (SMC) means, a company-

- whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- which is not a bank, financial institution or an insurance company;
- whose turnover (excluding other income) does not exceed rupees two-fifty crores in the immediately preceding accounting year;
- which does not have borrowings (including public deposits) in excess of rupees fifty crores at any time during the immediately preceding accounting year; and
- which is not a holding or subsidiary company of a company which is not a small and medium-sized company. Since, XYZ Ltd.'s turnover was ₹ 225 crores which does not exceed ₹ 250 crores but borrowings of ₹ 51 crore are more than ₹ 50 crores, it is not a small and medium sized company (SMC). The exemptions available to SMC are not available to this company.

- b) Accounting Standards apply in respect of any enterprise (whether organized in corporate, co-operative or other forms) engaged in commercial, industrial or business activities, whether or not profit oriented and even if established for charitable or religious purposes. Accounting Standards however, do not apply to enterprises solely carrying on the activities, which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the Accounting Standards would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature. Even if a very small proportion of the activities of an enterprise were considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those, which are not commercial, industrial or business in nature.

### ? Question 8 (Past Exam Jan'21)

**NB Pg. No.**

List the Criteria for classification of non-corporate entities as level I Entities for the purpose of application of Accounting Standards as per the Institute of Chartered Accountants of India.

**(4 Marks)**

#### **Solution:**

Criteria for classification of non-corporate entities as level 1 entities for purpose of application of Accounting Standards decided by the Institute of Chartered Accountants of India is given below: Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:

- (i) Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.
- (ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.
- (iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds **Rupees two fifty crore** in the immediately preceding accounting year.
- (iv) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of **Rupees fifty crore** at any time during the immediately preceding accounting year.

Holding and subsidiary entities of any one of the above.

### ? Question 9 (RTP May'24)

**NB Pg. No.**

Based upon criteria for rating of non-corporate entity, categorize the following as Level I, Level II and Level III Level IV entities for the purpose of compliance of Accounting Standards in India.

- (a) Rama Textiles whose turnover (excluding other income) exceeds ten crore but does not exceed rupees fifty crore in the immediately preceding accounting year.
- (b) Star Industries is having borrowings (including public deposits) in excess of rupees two crore but



not in excess of rupees ten crore at any time during the immediately preceding accounting year.

- (c) Newman Industries is having borrowings (including public deposits) less than rupees fifty lakh at any time during the immediately preceding accounting year.
- (d) SS Finance is a financial institution carrying its business in India since last 10 years.
- (e) DD Finance, holding company of SS Finance. (Entity mentioned at Point (v) above)
- (f) Reliable Co-op Bank, a co-operative bank, carrying banking operations since last 15 years.

**Solution:**

- (a) Level III Entity – Rama textiles, whose turnover (excluding other income) exceeds rupees ten crore but does not exceed rupees fifty crore in the immediately preceding accounting year.
- (b) Level III Entity – Star industries is having borrowings (including public deposits) in excess of rupees two crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.
- (c) Level IV Entity– Newman Industries is having borrowings (including public deposits) of less than rupees fifty lakhs at any time during the immediately preceding accounting year.
- (d) Level I Entity – SS is a financial institution carrying its business in India since last 10 years.
- (e) Level I Entity – DD finance, holding company of SS finance (Entity mentioned in point (d) above).
- (f) Level I Entity – Reliable co-operative banks carrying on banking business for the last 15 years.



# FRAMEWORK FOR PREPARATION & PRESENTATION OF FS

**Question 1 (RTP May'22, Nov'22, Past Exam May'19, Nov'20)**

NB Pg. No.

Balance sheet of a trader on 31st March, 20X1 is given below:

Liabilities	₹	Assets	₹
Capital	60,000	Property, Plant and Equipment	65,000
Profit and Loss Account	25,000	Stock	30,000
10% Loan	35,000	Trade receivables	20,000
Trade payables	10,000	Deferred expenditure	10,000
		Bank	5,000
	1,30,000		1,30,000

Additional information:

- The remaining life of Property, Plant and Equipment is 5 years. The pattern of use of the asset is even. The net realisable value of Property, Plant and Equipment on 31.03.X2 was ₹ 60,000.
- The trader's purchases and sales in 20X1-X2 amounted to ₹ 4 lakh and ₹ 4.5 lakh respectively.
- The cost and net realisable value of stock on 31.03.X2 were ₹ 32,000 and ₹ 40,000 respectively.
- Expenses (including interest on 10% Loan of ₹ 3,500 for the year) amounted to ₹ 14,900.
- Deferred expenditure is amortised equally over 4 years.
- Trade receivables on 31.03.X2 is ₹ 25,000, of which ₹ 2,000 is doubtful. Collection of another ₹ 4,000 depends on successful re-installation of certain product supplied to the customer.
- Closing trade payable is ₹ 12,000, which is likely to be settled at 5% discount.
- Cash balance on 31.03.X2 is ₹ 37,100.
- There is an early repayment penalty for the loan ₹ 2,500.

You are required to prepare Profit and Loss Accounts and Balance Sheets of the trader in both cases (i) assuming going concern (ii) not assuming going concern

(5 to 8 Marks)

**Solution:**

## Profit and Loss Account for the year ended 31st March, 20X2

	Case (i)	Case (ii)		Case (i)	Case (ii)
	₹	₹		₹	₹
To Opening Stock	30,000	30,000	By Sales	4,50,000	4,50,000
To Purchases	4,00,000	4,00,000	By Closing Stock	32,000	40,000
To Expenses	14,900	14,900	By Trade payables		600
To Depreciation	13,000	5,000			
To Provision for doubtful debts	2,000	6,000			
To Deferred expenditure	2,500	10,000			
To Loan penalty		2,500			
To Net Profit (b.f.)	19,600	22,200			
	4,82,000	4,90,600		4,82,000	4,90,600



**Balance Sheet as at 31st March, 20X2**

Liabilities	Case (i) ₹	Case (ii) ₹	Assets	Case (i) ₹	Case (ii) ₹
Capital	60,000	60,000	Property, Plant and Equipment	52,000	60,000
Profit & Loss A/c	44,600	47,200	Stock	32,000	40,000
10% Loan	35,000	37,500	Trade		
			receivables (less provision)	23,000	19,000
Trade payables	12,000	11,400	Deferred expenditure	7,500	Nil
			Bank	37,100	37,100
	1,51,600	1,56,100		1,51,600	1,56,100

**(b) Accrual Basis:**

According to AS 1, revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate. Further Section 128(1) of the Companies Act, 2013 makes it mandatory for companies to maintain accounts on accrual basis only. It is not necessary to expressly state that accrual basis of accounting has been followed in preparation of a financial statement. In case, any income/ expense is recognised on cash basis, the fact should be stated.

**? Question 2**
**NB Pg. No.**

A trader commenced business on 01/01/20X1 with ₹ 12,000 represented by 6,000 units of a certain product at ₹ 2 per unit. During the year 20X1 he sold these units at ₹ 3 per unit and had withdrawn ₹ 6,000. Let us assume that the price of the product at the end of year is ₹ 2.50 per unit. In other words, the specific price index applicable to the product is 125.

Current cost of opening stock =  $(₹ 12,000 / 100) \times 125 = 6,000 \times ₹ 2.50 = ₹ 15,000$

Current cost of closing cash = ₹ 12,000 (₹ 18,000 – ₹ 6,000)

Opening equity at closing current costs = ₹ 15,000

Closing equity at closing current costs = ₹ 12,000

Retained Profit = ₹ 12,000 – ₹ 15,000 = (-) ₹ 3,000

The negative retained profit indicates that the trader has failed to maintain his capital. The available fund of ₹ 12,000 is not sufficient to buy 6,000 units again at increased price of ₹ 2.50 per unit. The drawings should have been restricted to ₹ 3,000 (₹ 6,000 – ₹ 3,000). Had the trader withdrawn ₹ 3,000 instead of ₹ 6,000, he would have left with ₹ 15,000, the fund required to buy 6,000 units at ₹ 2.50 per unit.

You are required to compute the Capital maintenance under all three bases ie. (i) Historical costs, (ii) Current purchasing power and (iii) Physical capital maintenance.

**Solution:**
**Financial Capital Maintenance at historical costs**

	₹	₹
Closing capital (At historical cost)		12,000
Less: Capital to be maintained		



Opening capital (At historical cost)	12,000	
Introduction (At historical cost)	Nil	(12,000)
Retained profit		Nil

### Financial Capital Maintenance at current purchasing power

	₹	₹
Closing capital (At closing price)		12,000
Less: Capital to be maintained		
Opening capital (At closing price)	14,400	
Introduction (At closing price)	Nil	(14,400)
Retained profit/(loss)		<u>(2,400)</u>

### Physical Capital Maintenance

	₹	₹
	₹	₹
Closing capital (At current cost) ( 4,800 units)		12,000
Less: Capital to be maintained		
Opening capital (At current cost) (6,000 units)	15,000	
Introduction (At current cost)	Nil	(15,000)
<b>Loss resulting in non-maintenance of capital</b>		<u><b>(3,000)</b></u>

#### ? Question 3 (MTP Mar'24)

**NB Pg. No.**

What are the qualitative characteristics of the financial statements which improve the usefulness of the information furnished therein? **(4 Marks)**

#### **Solution:**

The qualitative characteristics are attributes that improve the usefulness of information provided in financial statements. Understandability; Relevance; Reliability; Comparability are the qualitative characteristics of financial statements. For details, refer para 7 of the chapter.

#### ? Questions 4 (MTP Mar'18, Apr'24, Jan'25) (Past Exam Nov'18)

**NB Pg. No.**

"One of the characteristics of financial statements is neutrality"- Do you agree with this statement? **(4 Marks)**

#### **Solution:**

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 on the business results.

#### **Question 5 (RTP May'24)**

**NB Pg. No.**

Mohan started a business on 1st April 20X1 with ₹ 12,00,000 represented by 60,000 units of ₹ 20 each. During the financial year ending on 31st March, 20X2, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Mohan in the year 20X1-X2 if Financial Capital is maintained at historical cost.



**Solution:**

Particulars	Financial Capital Maintenance at Historical Cost (₹)
Closing equity (₹ 30 × 60,000 units)	18,00,000 represented by cash
Opening equity	60,000 units × ₹ 20 = 12,00,000
Permissible drawings to keep Capital intact	6,00,000 (18,00,000 – 12,00,000)

**Question 6 (MTP Apr'21, Apr'22, Apr'24) (Past Exam Dec'21)**

**NB Pg. No.**

Opening Balance Sheet of Mr. A is showing the aggregate value of assets, liabilities and equity ₹ 8 lakh, ₹ 3 lakh and ₹ 5 lakh respectively. During accounting period, Mr. A has the following transactions:

- (1) Earned 10% dividend on 2,000 equity shares held of ₹ 100 each
- (2) Paid ₹ 50,000 to creditors for settlement of ₹ 70,000
- (3) Rent of the premises is outstanding ₹ 10,000
- (4) Mr. A withdrew ₹ 9,000 for his personal use.

You are required to show the effect of above transactions on Balance Sheet in the form of Assets – Liabilities = Equity after each transaction. **(5 Marks)**

**Solution:**

**Effects of each transaction on Balance sheet of the trader is shown below:**

Transactions	Assets ₹ lakh	–	Liabilities ₹ lakh	=	Equity ₹ lakh
Opening	8.00	–	3.00	=	5.00
(1) Dividend earned	8.20	–	3.00	=	5.20
(2) Settlement of Creditors	7.70	–	2.30	=	5.40
(3) Rent Outstanding	7.70	–	2.40	=	5.30
(4) Drawings	7.61	–	2.40	=	5.21

**Question 7**

**NB Pg. No.**

Balance Sheet of Anurag Trading Co. on 31st March, 20X1 is given below:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	50,000	Property, Plant and Equipment	69,000
Profit and Loss A/c	22,000	Stock in Trade	36,000
10% Loan	43,000	Trade Receivables	10,000
Trade Payables	18,000	Deferred Expenditure	15,000
		Bank	3,000
	<b>1,33,000</b>		<b>1,33,000</b>

**Additional Information:**

- (i) Remaining life of Property, Plant and Equipment is 5 years with even use. The net realisable value of Property, Plant and Equipment as on 31 st March, 20X2 was ₹ 64,000.
- (ii) Firm's sales and purchases for the year 20X1-X2 amounted to ₹ 5 lacs and ₹ 4.50 lacs respectively.
- (iii) The cost and net realisable value of the stock were ₹ 34,000 and ₹ 38,000 respectively.
- (iv) General Expenses for the year 20X1-X2 were ₹ 16,500.



- (v) Deferred Expenditure is normally amortised equally over 4 years starting from F.Y. 20X0-X1 i.e. ₹ 5,000 per year.
- (vi) Out of trade receivables worth ₹10,000, collection of ₹4,000 depends on successful re-design of certain product already supplied to the customer.
- (vii) Closing trade payable is ₹10,000, which is likely to be settled at 95%.
- (viii) There is pre-payment penalty of ₹2,000 for Bank loan outstanding.

Prepare Profit & loss Account for the year ended 31st March, 20X2 by assuming it is not a Going Concern.

**Solution:**

**Profit and Loss Account of Anurag  
Trading Co. for the year ended 31st March, 20X2  
(Assuming business is not a going concern)**

	₹		₹
To Opening Stock	36,000	By Sales	5,00,000
To Purchases	4,50,000	By Trade payables	500
To General expenses	16,500	By Closing Stock	38,000
To Depreciation (69,000-64,000)	5,000		
To Provision for doubtful debts	4,000		
To Deferred expenditure	15,000		
To Loan penalty	2,000		
To Net Profit (b.f.)	10,000		
	5,38,500		5,38,500

**Question 8 (MTP Mar'19, Apr'19, Mar'21, Oct'23) (RTP Nov'18)**

**NB Pg. No.**

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. **(5 Marks)**

**Solution:**

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: (i) Historical Cost; (ii) Current cost (iii) Realizable (Settlement) Value and (iv) Present Value.

**A brief explanation of each measurement basis is as follows:**

- 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 9 (MTP Mar'22, Apr'19)**

NB Pg. No.

State under which head the following accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:

- (i) Share application money received in excess of issued share capital.
- (ii) Share option outstanding account.
- (iii) Unpaid matured debenture and interest accrued thereon.
- (iv) Uncalled liability on shares and other partly paid investments.
- (v) Calls unpaid.
- (vi) Intangible Assets under development.
- (vii) Money received against share warrant.
- (viii) Cash equivalents.

(4 Marks)

**Solution:**

- (i) Current Liabilities/Other Current Liabilities
- (ii) Shareholders' Fund / Reserve & Surplus
- (iii) Current liabilities/Other Current Liabilities
- (iv) Contingent Liabilities and Commitments
- (v) Shareholders' Fund / Share Capital
- (vi) Property, Plant & Equipment
- (vii) Shareholders' Fund/Money received against share warrants
- (viii) Current Assets

**Question 10 (MTP Oct'18, Mar'19)**

NB Pg. No.

How will a company classify its investment in preference shares, which are convertible into equity shares within one year from the balance sheet date? Will it classify the investment as a current asset or a non-current asset? Explain.

(5 Marks)

**Solution:**

In accordance with the Schedule III, an investment realizable within 12 months from the reporting date is classified as a current asset. Such realisation should be in the form of cash or cash equivalents, rather than through conversion of one asset into another non-current asset. Hence, company must classify such an investment as a non-current asset, unless it expects to sell the preference shares or the equity shares on conversion and realise cash within 12 months.

**Question 11 (MTP May'20, Oct'21)**

NB Pg. No.

M/s Shyam, a proprietorship firm runs a business of stationary items. It provides you the following information relating to assets and liabilities:



Assets & Liabilities	As on 01.04.2019	As on 31.03.2020
Creditors	20,000	15,000
Outstanding Expenses	600	800
Property, Plant & Equipment	12,000	13,000
Stock	10,000	12,000
Cash in hand	7,500	2,000
Cash at Bank	2,500	10,000
Debtors	?	18,000

Details of the year's transactions are as follows:

(1)	Discounts allowed to Debtor	4,000
(2)	Returns from debtors	1,450
(3)	Bad debts	500
(4)	Total sales (Cash and Credit)	72,000
(5)	Discount allowed by creditors	700
(6)	Returns to creditors	400
(7)	Receipts from debtors paid into Bank	76,000
(8)	Cash purchases	1,000
(9)	Expenses paid by cash	9,000
(10)	Drawings by cheque	500
(11)	Purchase of Property, Plant & Equipment by cheque	4,000
(12)	Cash deposited into bank	5,000
(13)	Cash withdrawn from bank	9,000
(14)	Payments to creditors by cheque	60,000

No Property, Plant & Equipment were sold during the year. Any difference in cash account to be considered as cash sales. You are required to prepare Trading and Profit & Loss Account for the year ended 31.03.2020 and the Balance Sheet as at 31.03.2020 from the given information. (16 Marks)

**Solution:**

In the books of M/s Shyam Trading and Profit and Loss Account for the year ended 31st March, 2020

Particulars	₹	₹	Particulars	₹	₹
To Opening stock		10,000	By Sales:		
To Purchases:			Cash	500	
Cash	1,000		Credit	71,500	
Credit (W.N. 3)	56,100		Less: Returns	(1450)	70,550
	57,100		By Closing Stock		12,000
Less: Returns	400	56,700			
<b>To Gross Profit c/d</b>		<b>15,850</b>			
		<b>82,550</b>			<b>82,550</b>
To Discount allowed		4,000	By Gross profit b/d		15,850
To Bad Debts		500	By Discount received		700
To General expenses (W.N. 5)		9,200	<b>By Net Loss (balancing fig.)</b>		<b>150</b>



To Depreciation (W.N. 4)		3,000			
		<b>16,700</b>			<b>16,700</b>

### Balance Sheet as at 31st March, 2020

Liabilities	₹	₹	Assets	₹	₹
Capital (W.N. 1)	39,850		Property, Plant & Equipment	12,000	
Less: Net loss	150		Add: New asset	4,000	
	39,700			16,000	
Less: Drawings	500	39,200	Less: Depreciation	3,000	13,000
Sundry creditors		15,000	Stock in trade		12,000
Expenses outstanding		800	Sundry debtors (W.N. 2)		18,000
			Cash in hand		2,000
			Cash in Bank		10,000
		<b>55,000</b>			<b>55,000</b>

#### Working Notes:

#### (1) Ascertainment of Opening Capital – Statement of Affairs as at 1.4.19

Liabilities	₹	Assets	₹
Sundry creditors	20,000	Property, Plant & Equipment	12,000
Outstanding expenses	600	Stock	10,000
<b>Prasad's Capital</b>		Debtors	28,450
<b>(Balancing figure)</b>	<b>39,850</b>	Cash in hand	7,500
		Cash at Bank	2,500
	<b>60,450</b>		<b>60,450</b>

#### (2) Sundry Debtors Account

	₹		₹
To Balance b/d (bal. fig)	28,450	By Cash	76,000
To Sales (72,000 – 500)	71,500	By Discount	4,000
		By Returns (sales)	1,450
		By Bad debts	500
		<b>By Balance c/d (given)</b>	<b>18,000</b>
	<b>99,950</b>		<b>99,950</b>

#### (3) Sundry Creditors Account

	₹		₹
To Bank – Payments	60,000	By Balance b/d	20,000
To Discount	700	<b>By Purchases – credit</b>	<b>56,100</b>
To Returns	400	<b>(Balancing figure)</b>	
To Balance c/d (closing balance)	15,000		
	<b>76,100</b>		<b>76,100</b>



**(4) Depreciation on Property, Plant & Equipment**

	₹
	12,000
Opening balance of Property, Plant & Equipment	4,000
Add: Additions	16,000
	(13,000)
Less: Closing balance of Property, Plant & Equipment	3,000
Depreciation	

**(5) Expenses to be shown in profit and loss account**

	9,000
Expenses (in cash)	800
Add: Outstanding of 2020	9,800
	600
Less: Outstanding of 2019	9,200

**(6) Cash and Bank Account**

Particulars	Cash	Bank		Cash	Bank
	₹	₹		₹	₹
To balance b/d	7,500	2,500	By Purchases	1,000	-
To debtors	-	76,000	By Expenses	9,000	
To Banks E11 (c)	9,000	-	By Property, Plant & Equipment		4,000
To Cash (c)	-	5,000	By Drawings		500
To sales (balancing as cash sales)	500	-	By Creditors		60,000
			By Cash (C)		9,000
			By Bank (C)	5,000	
			By Balance c/d	2,000	10,000
	17,000	83,500		17,000	83,500

**Question 12 (MTP Sep'22, Oct '23)**

NB Pg. No.

The following extract of Balance Sheet of Ram Ltd. (a non-investment company) was obtained:

**Balance Sheet (Extract) as on 31st March, 2022**

Liabilities	₹
Issued and subscribed capital:	
20,000, 14% Preference shares of ₹ 100 each fully paid	20,00,000
1,20,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	96,00,000
Capital reserves (₹ 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000
Unsecured loans: Public deposits repayable after one year	3,70,000



Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,00,000

You are required to compute Effective Capital as per the provisions of Schedule V to Companies Act, 2013. **(5 Marks)**

**Solution:**

#### Computation of Effective capital

	₹
Paid-up share capital-	
20,000, 14% Preference shares	20,00,000
1,20,000 Equity shares	96,00,000
Capital reserves (excluding revaluation reserve)	45,000
Securities premium	50,000
15% Debentures	65,00,000
Public Deposits	3,70,000
(A)	<b>1,85,65,000</b>
Investments	75,00,000
Profit and Loss account (Dr. balance)	15,00,000
(B)	<b>90,00,000</b>
Effective capital (A-B)	<b>95,65,000</b>

#### ? Question 13 (MTP Oct'22)

**NB Pg. No.**

Futura Ltd. had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 2022:

Securities Premium Account	80
Capital Reserve	60
General Reserve	90

The company had an accumulated loss of ₹ 250 lakhs on the same date, which it has disclosed under the head "Statement of Profit and Loss" as asset in its Balance Sheet. Comment on accuracy of this treatment in line with Schedule III to the Companies Act, 2013. **(4 Marks)**

**Solution:**

Schedule III to the Companies Act, 2013 provides that debit balance of Statement of Profit and Loss (after all allocations and appropriations) shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative. In this case, the debit balance of profit and loss i.e. ₹ 250 lakhs exceeds the total of all the reserves i.e. ₹ 230 lakhs.

Therefore, balance of 'Reserves and Surplus' after adjusting debit balance of profit and loss is negative by ₹ 20 lakhs, which should be disclosed on the face of the balance sheet.

Thus the treatment done by the company is incorrect.



### Question 14 (MTP Apr'23, Nov'21)

The following is the Balance Sheet of Manish and Suresh as on 1st April, 2021:

Equity and Liabilities	₹	Assets	₹
Capital Accounts		Building	1,00,000
Manish	1,50,000	Machinery	65,000
Suresh	75,000	Stock	40,000
Creditors for goods	30,000	Debtors	50,000
Creditors for expenses	25,000	Bank	25,000
	<b>2,80,000</b>		<b>2,80,000</b>

They give you the following additional information:

- Creditors' Velocity 1.5 month & Debtors' Velocity 2 months. Here velocity indicates the no. of times the creditors and debtors are turned over a year.
- Stock level is maintained uniformly in value throughout all over the year.
- Depreciation on machinery is charged @ 10%, Depreciation on building @ 5% in the current year.
- Cost price will go up 15% as compared to last year and also sales in the current year will increase by 25% in volume.
- Rate of gross profit remains the same.
- Business Expenditures are ₹ 50,000 for the year. All expenditures are paid off in cash.
- Closing stock is to be valued on LIFO Basis.
- All sales and purchases are on credit basis and there are no cash purchases and sales.

You are required to prepare Trading, Profit and Loss Account, Trade Debtors Account and Trade Creditors Account for the year ending 31.03.2022. **(16 Marks)**

**Solution:**

#### Trading and Profit and Loss account for the year ending 31st March, 2022

Particulars	Rs	. Particulars	Rs.
To Opening Stock	40,000	By Sales	4,31,250
To Purchases (Working Note)	3,45,000	By Closing Stock	40,000
To Gross Profit c/d (20% on sales)	86,250		
	4,71,250		4,71,250
To Business Expenses	50,000	By Gross Profit b/d	86,250
To Depreciation on:			
Machinery 6,500			
Building 5,000	11,500		
<b>To Net profit</b>	<b>24,750</b>		
	86,250		86,250

#### Trade Debtors Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	50,000	By Bank (bal. fig.)	4,09,375
To Sales	4,31,250	<b>By Balance c/d (1/6 of 4,31,250)</b>	<b>71,875</b>
	4,81,250		4,81,250



**Trade Creditors Account**

Particulars	Rs	Particulars	Rs.
To Bank (Balancing figure)	3,31,875	By Balance b/d	30,000
To Balance c/d/ (1/8 of Rs. 3,45,000)	43,125	By Purchases	3,45,000
	3,75,000		3,75,000

**Working Note:**

		Rs.
(i)	Calculation of Rate of Gross Profit earned during previous year	
A	Sales during previous year (= 50,000 × 12/2)	3,00,000
B	Purchases (Rs. 30,000 × 12/1.5)	2,40,000
C	Cost of Goods Sold (Rs. 40,000 + Rs. 2,40,000 — Rs. 40,000)	2,40,000
D	Gross Profit (A-C)	60,000
E	Rate of Gross Profit $\frac{\text{Rs } 60,000}{\text{Rs. } 3,00,000} \times 100$	20%
(ii)	Calculation of sales and Purchases during current year	Rs.
A	Cost of goods sold during previous year	2,40,000
B	Add: Increases in volume @ 25 %	60,000
	3,00,000	
C	Add: Increase in cost @ 15%	45,000
D	Cost of Goods Sold during Current Year	3,45,000
E	Add: Gross profit @ 25% on cost (20% on sales)	86,250
F	Sales for current year [D+E]	4,31,250

**Question 15 (RTP May'19, Nov'20, RTP May 19)**

NB Pg. No.

With regard to financial statements name any four.

- Users
- Qualitative characteristics
- Elements

(5 Marks)

**Solution:**
**(i) Users of financial statements:**

Investors, Employees, Lenders, Supplies/Creditors, Customers, Government &amp; Public

**(ii) Qualitative Characteristics of Financial Statements:**

Understandability, Relevance, Comparability, Reliability &amp; Faithful Representation

**(iii) Elements of Financial Statements:**

Asset, Liability, Equity, Income/Gain and Expense/Loss

**Question 16 (RTP May'20, May'23, Nov'23)**

NB Pg. No.

A Ltd. has entered into a binding agreement with Gamma Ltd. to buy a custom-made machine Rs.1,00,000. At the end of 20X1-X2, before delivery of the machine, A Ltd. had to change its method