CA-INTERMEDIATE

ADVANCED ACCOUNTING

GROUP-1

MODULE-3

NEW COURSE

BY:

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(DIPLOMA IN IFRS:ACCA LONDON)

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Dedicated to

BABA VISHAN PURI JI MAHARAJ

BABA LAKSHMAN PURI JI MAHARAJ

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INTRODUCTION TO ACCOUNTING STANDARDS

1. Accounting Standards for non-corporate entities in India are issued by
   (a) Central Govt.
   (b) State Govt.
   (c) Institute of Chartered Accountants of India.
   (d) MCA
2. Accounting Standards
   (a) Harmonise accounting policies and eliminate the non-comparability of financial statements.
   (b) Improve the reliability of financial statements.
   (c) Both (a) and (b).
   (d) manipulate the data for the management.
3. It is essential to standardize the accounting principles and policies in order to ensure
   (a) Transparency.
   (b) Consistency.
   (c) Comparability.
   (d) All the above.
4. Which committee is responsible for approval of accounting standards and their modification for the purpose of applicability to companies?
   (a) NFRA.
   (b) MCA.
   (c) Central Government Advisory Committee.
   (d) IASB
5. Global Standards facilitate
   (a) Cross border flow of money.
   (b) Comparability of financial statements.
   (c) Uniformity and Transparency of financial statements.
   (d) All the three.
6. IFRS stands for
   (a) International Financial Reporting System
   (b) International Finance Reporting Standard

(c) International Financial Reporting Standard

(d) International Financial Reserve Standard

7. Additional guidance given in Ind AS over and above what is given in IFRS are called

(a) Carve-outs

(b) Carve-ins

(c) Carve clarifications

(d) Clarifications

8. Phase I of Ind AS was applicable to :

(a) All listed companies in India or outside India

(b) Companies with turnover INR 500 crores or more

(c) Companies with net worth INR 500 crores or more

(d) Companies with turnover INR 250 crores or more

9. IASB stands for

(a) International Accounting Standards Bureau

(b) International Advisory Standards Board

(c) International Accounting Standard Board

(d) International Accounting System Board

ANSWERS :

1	(c)	2	(c)	3	(d)	4	(b)	5	(d)
6.	(c)	7.	(b)	8.	(c)	9.	(c)		

APPLICABILITY OF ACCOUNTING STANDARDS

1. Non-corporate entities which are not Level I entities whose turnover (excluding other income) exceeds rupees ___________ but does not exceed rupees two-fifty crores in the immediately preceding accounting year are classified as Level II entities.
   (a) five crores.
   (b) two crores.
   (c) fifty crores.
   (d) ten crores.
2. The following Accounting Standard is not applicable to Non-corporate Entities falling in Level II in its entirety
   (a) AS 10.
   (b AS 17.
   (c) AS 2.
   (d) AS 13.
3. All non-corporate entities engaged in commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees 250 crores in the immediately preceding accounting year, are classified as
   (a) Level II entities.
   (b) Level I entities.
   (c) Level III entities.
   (d) Level IV entities.
4. All non-corporate entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of rupees two crores but does not exceed rupees ten crores at any time during the immediately preceding accounting year.
   (a) Level II entities.
   (b) Level IV entities.
   (c) Level III entities.
   (d) Level I entities.
5. "Small and Medium Sized Company" (SMC) means, a company-
   (a) which may be a bank, financial institution or an insurance company.
   (b) whose turnover (excluding other income) does not exceed rupees two-fifty crores in the immediately preceding accounting year;

(c) whose turnover (excluding other income) does not exceed rupees fifty crores in the immediately preceding accounting year;

(d) whose turnover (excluding other income) does not exceed rupees five hundred crores in the immediately preceding accounting year.

ANSWERS :

1	(c)	2	(b)	3	(b)	4	(c)	5	(b)

FRAMEWORK FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

1. The 'going concern' concept assumes that
   (a) The business can continue in operational existence for the foreseeable future.
   (b) The business cannot continue in operational existence for the foreseeable future.
   (c) The business is continuing to be profitable.
   (d) The business cannot continue if it is not able to earn profits.
2. Two principal qualitative characteristics of financial statements are
   (a) Understandability and materiality
   (b) Relevance and reliability
   (c) Relevance and materiality
   (d) Comparability and materiality.
3. All of the following are components of financial statements except
   (a) Balance sheet
   (b) Statement of Profit and loss
   (c) Human responsibility report
   (d) Social responsibility report.
4. An accounting policy can be changed if the change is required
   (a) By statute or accounting standard
   (b) For more appropriate presentation of financial statements
   (c) Both (a) and (b)
   (d) By statute as well as accounting standards.
5. Value of equity may change due to
   (a) Contribution from or Distribution to equity participants
   (b) Income earned
   (c) expenses incurred
   (d) All the three.
6. Which of the assumption is not considered as fundamental accounting assumption?
   (a) Going Concern
   (b) Accrual

(c) Reliability

(d) Comparability

7. A machine was acquired in exchange of an old machine and ₹ 20,000 paid in cash. The carrying amount of old machine was ₹ 2,00,000 whereas its fair value was ₹ 1,50,000 on the date of exchange. The historical cost of the new machine will be taken as

(a) ₹ 2,00,000

(b) ₹ 1,70,000

(c) ₹ 2,20,000

(d) ₹ 1,80,000

8. An item that meets the definition of an element of financial statements should be recognised in the financial statements if :

(a) It is probable that any future economic benefit associate with the item will flow to the enterprise

(b) Item has a cost or value that can be measured with reliability

(c) Both 1 and 2

(d) It is probable that no future economic benefit associated with the item will flow to the enterprise

9. Liabilities are recorded at the undiscounted amount of cash expected to be paid on settlement of liability in the normal course of business under :

(a) Present value

(b) Realizable value

(c) Current cost

(d) Fair value

ANSWERS :

1	(a)	2	(b)	3	(c)	4	(c)	5	(d)
6.	(c)	7.	(b)	8.	(c)	9.	(b)		

FINANCIAL STATEMENTS OF COMPANIES

1. Trade payables as per Schedule III will include:
   (a) Dues payable in respect to statutory obligation
   (b) Interest accrued on trade payables
   (c) Bills payables.
   (d) Bills receivables
2. Securities Premium Account is shown on the liabilities side in the Balance Sheet under the heading:
   (a) Reserves and Surplus.
   (b) Current Liabilities.
   (c) Share Capital.
   (d) Share application money pending allotment
3. "Fixed assets held for sale" will be classified in the company's balance sheet as
   (a) Current asset
   (b) Non-current asset
   (c) Capital work- in- progress
   (d) Deferred tax assets
4. Current maturities of long- term debt will come under
   (a) Current Liabilities.
   (b) Short term borrowings.
   (c) Long term borrowings.
   (d) Short term provisions
5. Declaration of dividends for current year is made after providing for
   (a) Depreciation of past years only.
   (b) Depreciation on assets for the current year and arrears of depreciation of past years (if any).
   (c) Depreciation on current year only and by forgoing arrears of depreciation of past years.
   (d) Excluding current year depreciation

6. Which item will form part of 'Share capital' as per Schedule III to the Companies Act, 2013?
   (a) Share options outstanding account
   (b) Forfeited Shares
   (c) Share application money pending allotment
   (d) Capital work-in-progresses
7. Hari Uttam, a stock broking firm, received ₹ 1,50,000 as premium for forward contracts entered for purchase of equity shares. How will you classify this amount in the cash flow statement of the firm?
   (a) Operating Activities
   (b) Investing Activities
   (c) Financing Activities
   (d) Non-cash transaction
8. While preparing cash flow statement, conversion of debt to equity
   (a) Should be shown as a financing activity.
   (b) Should be shown as an investing activity.
   (c) Should not be shown as it is a non-cash transaction.
   (d) Should not be shown as operating activity.
9. Trade payables as per Schedule III will include :
   (a) Dues payable in respect to statutory obligation
   (b) Interest accrued on trade payables
   (c) Bills payables
   (d) Bills receivables
10. Which of the following would be considered a "cash-flow item from an 'investing' activity"?
   (a) Cash outflow to the government for payment of taxes.
   (b) Cash outflow to purchase bonds issued by another company.
   (c) Cash outflow to shareholders as dividends
   (d) Cash outflow to make payment to trade payables
11. Which of the following is not a current liability as per Schedule III?
   (a) Bank overdraft
   (b) Net deferred tax liability

(c) Dividend declared

(d) Provisions for employee benefits

12. As per AS 3 on Cash Flow Statements, cash received by a manufacturing company from sale of shares of ABC Company Ltd. should be classified as

(a) Operating activity.

(b) Financing activity.

(c) Investing activity.

(d) Non-cash transaction.

13. All of the following would be included in a company's operating activities except :

(a) Income tax payments

(b) Collections from customers or Cash payments to suppliers

(c) Dividend payments

(d) Office and selling expenses

14. As per the Schedule III, separate disclosure is required in the financial statements for an item of income or expenditure which exceeds

(a) 5% of Revenue from operations or ₹ 1,00,000 whichever is lower.

(b) 1% of Revenue or ₹ 5,000.

(c) 1% of Revenue from operations or ₹ 1,00,000 whichever is higher.

(d) 1% of Revenue from operations or ₹ 50,000 whichever is higher.

15. Deferred payment liabilities will be shown in the balance sheet of a company under the heading

(a) Other long term liability

(b) Long term borrowings

(c) Short term borrowings

(d) Current Liabilities

ANSWERS :

1.	(c)	2.	(a)	3.	(a)	4.	(b)	5.	(b)
6.	(b)	7.	(a)	8.	(c)	9.	(c)	10.	(b)
11.	(b)	12.	(c)	13.	(c)	14.	(c)	15.	(b)

NOTES

BUY-BACK OF SECURITIES

1. As per section 68(1) of the Companies Act, buy-back of own shares by the company, shall not exceed
   (a) 25% of the total paid-up capital and free reserves of the company.
   (b) 20% of the total paid-up capital and free reserves of the company.
   (c) 15% of the total paid-up capital and free reserves of the company.
   (d) 10% of the total paid-up capital and free reserves of the company.
2. The companies are permitted to buy-back their own shares out of
   (a) Free reserves and Securities premium
   (b) Proceeds of the issue of any shares.
   (c) Both (a) and (b)
   (d) Neither (a) nor (b).
3. When a company purchases its own shares out of free reserves; a sum equal to nominal value of shares so purchased shall be transferred to
   (a) Revenue redemption reserve.
   (b) Capital redemption reserve.
   (c) Buy-back reserve
   (d) Special reserve
4. State which of the following statements is true?
   (a) Buy-back is for more than twenty-five per cent of the total paid-up capital and free reserves of the company.
   (b) Partly paid shares cannot be bought back by a company.
   (c) Buy-back of equity shares in any financial year shall exceed twenty-five per cent of its total paid-up equity capital in that financial year.
   (d) Partly paid shares can be bought back by a company.
5. Premium (excess of buy-back price over the par value) paid on buy-back should be adjusted against
   (a) Free reserves.
   (b) Securities premium.
   (c) Both (a) and (b).
   (d) Neither (a) nor (b).

6. Advantages of Buy-back of shares include to
   - (a) Encourage others to make hostile bid to take over the company.
   - (b) Decrease promoters holding as the shares which are bought back are cancelled.
   - (c) Discourage others to make hostile bid to take over the company as the buy-back will increase the promoters holding.
   - (d) All of the above.

ANSWERS :

1.	(a)	2.	(c)	3.	(b)	4.	(b)	5.	(c)	6.	(c)

INTERNAL RECONSTRUCTION

1. When the object of reconstruction is usually to re-organise capital or to compound with creditors or to effect economies then such type of reconstruction is called
   (a) Internal reconstruction with liquidation
   (b) Internal reconstruction without liquidation of the company
   (c) External reconstruction
   (d) None of the above.
2. The accumulated losses under scheme of internal reconstruction are written off against
   (a) Capital Reduction account
   (b) Share Capital account
   (c) Shareholders' account
   (d) Reserve and surplus.
3. A process of reconstruction, which is carried out without liquidating the company and forming a new one is called
   (a) Internal reconstruction.
   (b) External reconstruction.
   (c) Amalgamation in the nature of merger.
   (d) Amalgamation in the nature of purchase.
4. Reconstruction is a process by which affairs of a company are reorganized by
   (a) Revaluation of assets and Reassessment of liabilities.
   (b) Writing off the losses already suffered by reducing the paid up value of shares and/or varying the rights attached to different classes of shares.
   (c) Both (a) and (b).
   (d) None of the above.

5 For reduction of the share capital, the permission has to be sought from
   (a) Court.
   (b) Controller.
   (c) State government.
   (d) Shareholders.

6. In case of internal reconstruction

   (a) Only one company is liquidated.

   (b) Two or more companies are liquidated.

   (c) No company is liquidated.

   (d) Two companies amalgamated.

ANSWERS :

1.	(b)	2.	(a)	3.	(a)	4.	(c)	5.	(a)	6.	(c)

ACCOUNTING FOR BRANCHES INCLUDING FOREIGN BRANCHES

1. If goods are invoiced to branches at cost, trading results of branch can be ascertained by
   (a) Debtors method.
   (b) Stock and debtors method.
   (c) Either (a) or (b).
   (d) Both (a) and (b).
2. Under branch trading and profit loss account method
   (a) H.O prepares profit and loss account.
   (b) Each branch is treated separate entity.
   (c) Both (a) and (b).
   (d) Either (a) or (b).
3. Goods may be invoiced to branch at
   (a) Cost or Selling price.
   (b) Wholesale price.
   (c) Both (a) and (b).
   (d) Either (a) or (b).
4. Under debtors method, opening balance of debtors is
   (a) Debited to branch account.
   (b) Credited to branch account.
   (c) Debited to H.O account.
   (d) Credited to H.O account.
5. Cost of goods returned by branch will have the following effect
   (a) Goods sent to branch account will be debited.
   (b) Branch stock account will be credited.
   (c) Both (a) and (b).
   (d) Either (a) or (b).

ANSWERS :

1.	(c)	2.	(c)	3.	(c)	4.	(a)	5.	(c)		

NOTES

ACCOUNTING STANDARD 1 - DISCLOSURE OF ACCOUNTING POLICIES

1. Which of the following is NOT a major consideration in selection and application of accounting policies?

   (a) Prudence

   (b) Comparability

   (c) Materiality

   (d) Substance over form

2. Adoption of different accounting policies by different companies operating in the same industry affects which of the qualitative characteristics the most?

   (a) Comparability

   (b) Relevance

   (c) Faithful representation

   (d) Reliability

3. Which of the following statement would not be correct in relation to disclosures to be made in the financial statements after making any change in an accounting policy?

   (a) Any change in an accounting policy which has a material effect should be disclosed.

   (b) The amount by which any item in the financial statements is affected by such change should be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

   (c) If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the period in which the change is adopted.

   (d) If a change is made in an accounting policy which has material effect on the financial statements for the current period and is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed only in the later periods i.e. year(s) next to the year in which the change is adopted.

4. AS-1 recognizes ___________ Fundamental Accounting Assumptions

   (a) Three

   (b) Four

(c) Five

(d) None of the three

5. Which of the following is included in the consideration for selection of accounting policies

(a) Going concern

(b) Consistency

(c) Prudence

(d) Accrual

6. It is essential to standardize the accounting principles and policies in order to ensure

(a) Transparency

(b) Consistency

(c) Comparability

(d) All of the three

7. The major considerations governing the selection and application of accounting policies are

(a) Prudence

(b) Substance over form

(c) Materiality

(d) All of the three

8. Fundamental Accounting Assumption is compulsory for which of the following

(a) All Companies

(b) All Commercial organisations

(c) Only private sector organisations

(d) All entities (All profit and Not for profit organisations)

9. All significant Accounting Policies are disclosed

(a) In Auditors Report

(b) In Notes to Accounts of the financial statements

(c) Board of Directors Report

(d) Audit Committee Report

10. Which of the following is included in Fundamental Accounting Assumption :

(a) Prudence

(b) Substance over form

(c) Consistency

(d) Materiality

11. Fundamental accounting assumption is

(a) Materiality

(b) Business entity

(c) Going concern

(d) Dual aspect

ANSWERS :

1	(b)	2	(a)	3	(d)
4.	(a)	5	(c)	6.	(d)
7	(d)	8.	(d)	9.	(b)
10.	(c)	11.	(c)		

NOTES

ACCOUNTING STANDARD 2 - VALUATION OF INVENTORY

1. Which item of inventory is under the scope of AS 2 (Revised)?
   (a) WIP arising under construction contracts
   (b) Raw materials
   (c) Shares
   (d) Debentures held as stock in trade.
2. Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be
   (a) sold at or above cost.
   (b) sold above cost.
   (c) sold less than cost.
   (d) sold at market value(where market value is more than cost).
3. All of the following costs are excluded while computing value of inventories except?
   (a) Selling and Distribution costs
   (b) Allocated fixed production overheads based on normal capacity.
   (c) Abnormal wastage
   (d) Storage costs (which is necessary part of the production process)
4. Identify the statement(s) which is/are incorrect.
   (a) Storage costs which is a necessary part of the production process is included in inventory valuation.
   (b) Administration overheads are never included in inventory valuation.
   (c) Full amount of variable production overheads incurred are included in inventory valuation.
   (d) Administration overheads are always included in inventory valuation.
5. In determining the cost of inventories in accordance with AS 2, it is appropriate to exclude certain costs and recognize them as expenses in the period in which they are incurred. An example of such cost is
   (a) Fixed production overheads.
   (b) Freight inwards.

(c) Selling and distribution costs.

(d) Costs of designing products for specific customers.

6. Inventory account should be classified in which section of a balance sheet?

(a) Current assets

(b) Investments

(c) Property, plant and equipment

(d) Intangible assets

7. Inventory consists of

(a) Raw materials and consumables and loose tools.

(b) Work in process

(c) Finished goods

(d) All of the above

8. Which of the method is not recommended by AS 2?

(a) FIFO

(b) LIFO

(c) Weighted average

(d) Specific identification method

9. The cost of inventories of items that are not ordinarily inter-changeable and goods or services produced and segregated for specific projects should be assigned by

(a) Specific identification of their individual costs

(b) FIFO

(c) Weighted average cost formula

(d) (b) or (c)

ANSWERS :

1.	(b)	2.	(a)	3.	(b)	4.	(d)
5.	(c)	6.	(a)	7.	(d)	8.	(b)
9.	(a)						

ACCOUNTING STANDARD 3 - CASH FLOW STATEMENT

1. Crown Ltd. wants to prepare its cash flow statement. It sold equipment of book value of ₹ 60,000 at a gain of ₹ 8,000. The amount to be reported in its cash flow statement under operating activities is
   (a) Nil
   (b) ₹ 8,000
   (c) ₹ 68,000
   (d) ₹ 60,000
2. While preparing cash flows statement, an entity (other than a financial institution) should disclose the dividends received from its investment in shares as
   (a) operating cash inflow
   (b) investing cash inflow
   (c) financing cash inflow
   (d) cash & cash equivalent
3. XYZ Co. is a financial enterprise. In its cash flow statement, interest paid and dividends received should be
   (a) classified as operating cash flows.
   (b) classified as financing cash flows.
   (c) Not shown in cash flow statement.
   (d) classified as investing cash flows.
4. In the cash flow statement, 'cash and cash equivalents' do not include
   (a) Bank balances .
   (b) Short-term investments readily convertible into Cash are subject to an insignificant risk of changes in value.
   (c) Cash balances.
   (d) Loan from bank.
5. While preparing a Cash Flow Statement using the Indirect method as required under AS 3, which of the following will not be deducted from/added to the Net Profit to arrive at the "Cash flow from Operating activities"?
   (a) Interest income
   (b) Gain on sale of a fixed asset.

(c) Depreciation.

(d) Gain on sale of inventory

6. In the cash flow statement of a financial enterprise, interest paid and dividends received should be

   (a) Classified as operating cash flows

   (b) Classified as financing cash flows

   (c) Not shown in cash flow statement

   (d) classified as investing cash flows

7. XYZ Co. Ltd. is a financial institution and has given loans and advances to its subsidiary and earned interest of ₹ 5 lacs on that loan. Interest earned by XYZ Co. Ltd. is shown as

   (a) Operating Cash Flow

   (b) Investing Cash Flow

   (c) Financing Cash Flow

   (d) Cash and Cash equivalent

8. Yash Ltd. wants to prepare its cash flow statement. It sold equipment of book value of ₹ 60,000 at a gain of ₹ 8,000. The amount to be reported in its cash flow statement under operating activities is

   (a) Nil

   (b) -8,000

   (c) 8,000

   (d) 60,000

9. As per AS 3 on Cash Flow Statements, cash received by a manufacturing company from sale of shares of ABC Company ltd. should be classified as

   (a) Operating activity.

   (b) Financing activity.

   (c) Investing activity.

   (d) None of the above.

10. Which of the following items is not considered as 'Cash or cash equivalent'?

   (a) Cash on hand

   (b) Cash at Bank

   (c) Securities deposits for 4 months

   (d) Investments with a maturity of two months from the date of acquisition.

11. While preparing cash flow statement, conversion of debt to equity
    (a) Should be shown as a financing activity.
    (b) Should be shown as an investing activity.
    (c) Should not be shown as it is a non-cash transaction
    (d) Should not be shown as operating activity.
12. Which of the following would be considered a 'cash-flow item from an "investing" activity'?
    (a) Cash outflow to the government for payment of taxes.
    (b) Cash outflow to purchase bonds issued by another company.
    (c) Cash outflow to shareholders as dividends
    (d) Cash outflow to make payment to trade payables.
13. All of the following would be included in a company's operating activities except:
    (a) Income tax payments
    (b) Collections from customers or Cash payments to suppliers
    (c) Dividend payments
    (d) Office and selling expenses.
14. Hari Uttam, a stock broking firm, received ₹ 1,50,000 as premium for forward contracts entered for purchase of equity shares. How will you classify this amount in the cash flow statement of the firm?
    (a) Operating Activities.
    (b) Investing Activities.
    (c) Financing Activities.
    (d) Non-cash transaction
15. As per AS 3 on Cash Flow Statements, cash received by a manufacturing company from sale of shares of ABC Company Ltd. should be classified as
    (a) Operating activity.
    (b) Financing activity.
    (c) Investing activity.
    (d) Non-cash transaction

ANSWER :

1.	(a)	2.	(b)	3.	(a)	4.	(d)	5.	(d)
6.	(a)	7.	(a)	8.	(b)	9.	(c)	10.	(c)
11.	(C)	12.	(B)	13.	(C)	14.	(A)	15.	(C)

NOTES

ACCOUNTING STANDARD 4 - CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

1. Cash amounting to ₹ 4 lakhs, stolen by the cashier in the month of March 20X1, was detected in April, 20X1. The financial statements for the year ended 31st March, 20X1 were approved by the Board of Directors on 15th May, 20X1. As per Accounting Standards, this is __________ for the financial statements year ended on 31st March, 20X1.
   (a) An Adjusting event.
   (b) Non-adjusting event.
   (c) Contingency.
   (d) Provision
2. As per Accounting Standards, events occurring after the balance sheet date are
   (a) Only favourable events that occur between the balance sheet date and the date when the financial statements are approved by the Board of directors.
   (b) Only unfavourable events that occur between the balance sheet date and the date when the financial statements are approved by the Board of directors.
   (c) Those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of directors.
   (d) Those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are not approved by the Board of directors.
3. AS 4 does not apply to
   (a) Obligation under retirement benefit plans.
   (b) Commitments arising from long term lease contracts.
   (d) liabilities of life assurance and general insurance enterprises arising from policies issued
   (c) Both (a) & (b).
4. A Ltd. sold its building for ₹ 50 lakhs to B Ltd. and has also given the possession to B Ltd. The book value of the building is ₹ 30 lakhs. As on 31st March, 20X1, the documentation and legal formalities are pending. For the financial year ended 31st March, 20X1
   (a) The company should record the sale.
   (b) The company should recognise the profit of ₹ 20 lakhs in its profit and loss account.

(c) Both (a) and (b).

(d) The company should disclose the profit of ₹ 20 lakhs in notes to accounts.

5. Which is adjusting event as per AS 4.

(a) Decline in market value of investments between the balance sheet date and the date on which the financial statements are approved.

(b) Dividend declared after the balance sheet date but before the financial statements are approved for issue.

(c) Filing of Bankruptcy by a major customer between the balance sheet date and the date on which the financial statements are approved.

(d) Loss from fire which took place between the balance sheet date and the date on which the financial statements are approved.

ANSWERS :

1.	(a)	2.	(c)	3.	(d)	4.	(c)
5.	(c)						

ACCOUNTING STANDARD 5 - NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES

1. A change in the estimated life of the asset, which necessitates adjustment in the depreciation is an example of
   (a) Prior period item.
   (b) Ordinary item.
   (c) Extraordinary item.
   (d) Change in accounting estimate.
2. Which of the following is considered as an extraordinary item as per AS 5?
   (a) Write down or write-off of receivables, inventory and intangible assets.
   (b) Gains and losses from sale or abandonment of equipment used in a business.
   (c) Effects of a strike, including those against competitors and major suppliers.
   (d) Flood damage from unusually heavy rain or a normally dry environment.
3. Which one of the following is an example of extraordinary item?
   (a) The write down of inventories to their net realisable value
   (b) Reversal of write down of inventories
   (c) Government grants become refundable
   (d) Reversal of provisions.
4. Extraordinary items are income or expenses
   (a) That arise from events clearly distinct from the ordinary activities of the enterprise.
   (b) That are not expected to recur frequently or regularly.
   (c) Both (a) and (b).
   (d) None of the three.
5. An audit stock verification during the year ended 31st March, 20X1 revealed that opening stock of the year was understated by ₹ 5 lakhs due to wrong counting. While finalizing accounts, your opinion will be
   (a) It is not a prior period item and no separate disclosure is required
   (b) It should be treated as a prior period adjustment and should be separately disclosed in the current year's financial statement

(c) The adjustment of ₹ 5 lakhs in both opening stock of current year and profit brought forward from previous year should be made

(d) Both (b) and (c).

6. Which of the following circumstances may not give rise to the separate disclosure of items of income and expense

(a) The write-down of inventories to net realisable value

(b) Legislative changes having retrospective application

(c) Litigation settlements

(d) Separation cost paid to CEO of the company

7. Which of the following may not be considered as an extra ordinary item?

(a) Attachment of property of the enterprise

(b) Losses sustained as a result of an earthquake

(c) Claims from policyholders arising from an earthquake for an insurance enterprise that insures against such risks

(d) Loss due to major fire in an important plant of the company

8. Which of the following is a Prior Period item?

(a) Arrears payable to workers as a result of revision of wages with retrospective effect during the current period.

(b) Change in the useful life of the asset in current year based on 3 years old technical estimate.

(c) Income or expense recognised on the outcome of a contingency which previously could not be estimated reliably

(d) Change in the estimate of the amount of bad debts based on court order in current year

9. Following is not required to be disclosed separately in the statement of P&L?

(a) Profit or loss from ordinary activities

(b) Profit or loss from extraordinary activities

(c) The nature and amount of prior period items

(d) Impact of change in estimate in the normal course of transaction.

ANSWERS :

1.	(d)	2.	(d)	3.	(c)	4.	(c)	5.	(d)
6.	(d)	7.	(c)	8.	(b)	9.	(a)		

ACCOUNTING STANDARD 7 - CONSTRUCTION CONTRACTS

The below information relates to Questions 1 – 3:

XY Ltd. agrees to construct a building on behalf of its client GH Ltd. on 1st April 20X1. The expected completion time is 3 years. XY Ltd. incurred a cost of ₹ 30 lakh up to 31st March 20X2. It is expected that additional costs of ₹ 90 lakh. Total contract value is ₹ 112 lakh. As at 31st March 20X2, XY Ltd. has billed GH Ltd. for ₹ 42 lakh as per the agreement. Assume that the work is completed to the extent of 75% by the end of Year 2.

1. Revenue to be recognized by XY Ltd. for the year ended 31st March 20X2 is

   (a) ₹ 28 lakh

   (b) ₹ 42 lakh

   (c) ₹ 30 lakh

   (d) ₹ 32 lakh

2. Total expense to be recognised in Year 1 is

   (a) ₹ 30 lakh

   (b) ₹ 120 lakh

   (c) ₹ 38 lakh

   (d) ₹ 36 lakh

3. Revenue to be recognised for year 2 is

   (a) ₹ 84 lakh

   (b) ₹ 42 lakh

   (c) ₹ 56 lakh

   (d) ₹ 28 lakh

Below information relates to Questions 4-5

M/s AV has presented the information for Contract No. XY123:

Total contract value	₹ 370 lakh
Certified work completed	₹ 320 lakh
Costs incurred to date	₹ 360 lakh
Progress Payments received	₹ 300 lakh
Expected future costs to be incurred	₹ 50 lakh

4. Revenue to be recognised by M/s AV is

   (a) ₹ 320 lakh

   (b) ₹ 370 lakh

   (c) ₹ 360 lakh

   (d) ₹ 400 lakh

5. Receivable from customer to be recognised by M/s AV is

   (a) ₹ 360 lakh

   (b) ₹ 20 lakh

   (c) ₹ 320 lakh

   (d) ₹ 360 lakh

6. LP Contractors undertakes a fixed price contract of ₹ 200 lakh. Transactions related to the contract include:

Material purchased:	₹ 80 lakh
Unused material:	₹ 30 lakh
Labour charges:	₹ 60 lakh

   Machine used for 3 years for the contract. Original cost of the machine is ₹ 100 lakh. Expected useful life is 15 years.

   Estimated future costs to be incurred to complete the contract: ₹ 80 lakh.

   Loss on contract to be recognised is:

   (a) ₹ 40 lakh

   (b) ₹ 10 lakh

   (c) ₹ 90 lakh

   (d) ₹ 50 lakh

7. When fixed-price construction contracts require more than one accounting period for completion, and the contract costs can be reasonably estimated, revenue should be recognized

   (a) At the completion of contract

   (b) When cash is received from the buyer

   (c) When title to the project is transferred to the buyer

   (d) As per percentage of completion

8. Which of the following does not form a part of contract costs as defined in AS 7 (Revised)?

   (a) Estimated warranty costs under the construction contract.

   (b) Comprehensive insurance policy premium for all open construction contracts.

   (c) Research and development costs incurred at the instance of the contractee and billed to his account.

   (d) General administration costs for which reimbursement is not specified in the contract.

ANSWERS :

1.	(a)	2.	(d)	3.	(c)	4.	(a)	5.	(b)	6.	(b)
7.	(d)	8.	(d)								

NOTES

ACCOUNTING STANDARD 9 - REVENUE RECOGNITION

1. Which of the conditions mentioned below must be met to recognize revenue from the sale of goods?
   (i) the entity selling does not retain any continuing influence or control over the goods;
   (ii) when the goods are dispatched to the buyer;
   (iii) revenue can be measured reliably;
   (iv) the supplier is paid for the goods;
   (v) it is reasonably certain that the buyer will pay for the goods;
   (vi) the buyer has paid for the goods.
   (a) (i), (ii) and (v)
   (b) (ii), (iii) and (iv)
   (c) (i), (iii) and (v)
   (d) (i), (iv) and (v)
2. Consignment inventory is an arrangement whereby inventory is held by one party but owned by another party. Which of the following indicates that the inventory in question is a consignment inventory?
   (a) Manufacturer cannot require the dealer to return the inventory
   (b) Dealer has the right to return the inventory
   (c) Manufacture is responsible for the pricing of goods and any changes in the pricing can only be approved by the manufacturer .
   (d) Manufacture is responsible for the holding the goods and any changes in the pricing can only be approved by the dealer
3. Which of the following transactions qualify as revenue for M/s AB Enterprises?
   (a) Sales of ₹ 20 lakhs made under consignment sales.
   (b) Sale of an old machine amounting ₹ 5 lakhs
   (c) Services provided to the customer in the normal course of business. Sales recorded is ₹ 50,000.
   (d) Sales of ₹ 25 lakhs made under consignment sales
4. The Accounting Club has 100 members who are required to pay an annual membership fee of ₹ 5,000 each. During the current year, all members have paid the fee. However, 5 members have paid an amount of ₹ 10,000 each. Of these, 3 members paid the

current year's fee and also the previous year's dues. Remaining 2 members have paid next years' fee of ₹ 5,000 in advance.

Revenue from membership fee for the current year to be recognised will be:

(a) ₹ 5,25,000

(b) ₹ 5,10,000

(c) ₹ 5,00,000

(d) ₹ 5,15,000

5. FlixNet International offers a subscription fee model to allow the paid subscribers an annual viewing of movies, sports events and other content. It allows users to register for free and have access to limited content for one month without any charges. The customer has a right to cancel the subscription within a month's time but is required to pay for 1 year subscription fee after the free period.

XY has subscribed for free viewing on 1st March 20X1. After 1 month, he has agreed to pay the annual membership and has paid ₹ 1,200 on 31st March 20X1 for the subscription that is valid up to 31st of March 20X2.

Revenue that can be recognized by FlixNet for the year ended 31st March 20X2 is

(a) ₹ 100

(b) ₹ 1,200

(c) Nil

(d) ₹ 1,100

ANSWERS :

1.	(a)	2.	(c)	3.	(c)	4.	(c)	5.	(b)

ACCOUNTING STANDARDS 10 - PROPERTY, PLANT AND EQUIPMENT

1. As per AS 10 (Revised) 'Property, plant and equipment', which of the following costs is not included in the carrying amount of an item of PPE
   (a) Costs of site preparation
   (b) Costs of relocating
   (c) Installation and assembly costs.
   (d) Initial delivery and handling costs
2. As per AS 10 (Revised) 'Property, Plant and Equipment', an enterprise holding investment properties should value Investment property
   (a) as per fair value
   (b) under discounted cash flow model.
   (c) under cost model
   (d) under cash flow model
3. A plot of land with carrying amount of ₹ 1,00,000 was revalued to ₹ 1,50,000 at the end of Year 2. Subsequently, due to drop in market values, the land was determined to have a fair value of ₹ 1,30,000 at the end of Year 4. Assuming that the entity adopts Revaluation Model, what would be the accounting treatment of Revaluation?
   (a) Initial upward valuation of ₹ 50,000 credited to Revaluation Reserve. Subsequent downward revaluation of ₹ 20,000 debited to P/L.
   (b) Initial upward valuation of ₹ 50,000 credited to P/L. Subsequent downward revaluation of ₹ 20,000 debited to P/L.
   (c) Initial upward valuation of ₹ 50,000 credited to Revaluation Reserve. Subsequent downward revaluation of ₹ 20,000 debited to Revaluation Reserve.
   (d) Initial upward valuation of ₹ 50,000 debited to P/L. Subsequent downward revaluation of ₹ 20,000 credited to P/L.
4. A plot of land with carrying amount of ₹ 1,00,000 was revalued to ₹ 90,000 at the end of Year 2. Subsequently, due to increase in market values, the land was determined to have a fair value of ₹ 1,05,000 at the end of Year 4. Assuming that the entity adopts Revaluation Model, what would be the accounting treatment of Revaluation?
   (a) Initial downward valuation of ₹ 10,000 debited to Revaluation Reserve. Subsequent upward revaluation of ₹ 15,000 credited to P/L.
   (b) Initial downward valuation of ₹ 10,000 debited to P/L. Subsequent upward revaluation of ₹ 15,000 credited to P/L.

(c) Initial downward valuation of ₹ 10,000 debited to P/L. Subsequent upward revaluation of ₹ 10,000 credited to P/L and ₹ 5,000 credited to Revaluation Reserve.

(d) Initial downward valuation of ₹ 10,000 credited to P/L. Subsequent upward revaluation of ₹ 10,000 debited to P/L and ₹ 5,000 debited to Revaluation Reserve.

5. On sale of an asset which was revalued upwards, what would be the treatment of Revaluation Reserve?

(a) The Revaluation Reserve is credited to P/L since the profit on sale of such asset is now realized.

(b) The Revaluation Reserve is credited to Retained Earnings as a movement in reserves without impacting the P/L.

(c) No change in Revaluation Reserve since profit on sale of such asset is already impacting the P/L.

(d) The Revaluation Reserve is reduced from the asset value to compute profit or loss.

6. A machinery was purchased having an invoice price ₹ 1,18,000 (including GST ₹ 18,000) on 1 April 20X1. The GST amount is available as input tax credit. The rate of depreciation is 10% on SLM basis. The depreciation for 20X2 -X3 would be

(a) ₹ 10,000.

(b) ₹ 11,800.

(c) ₹ 9,000.

(d) ₹ 10,500.

7. Computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and is treated as ____________

(a) Intangible asset

(b) Inventory

(c) Property, plant and equipment

(d) Current asset other than inventory

ANSWERS :

1.	(b)	2.	(c)	3.	(c)	4.	(c)	5.	(b)	6.	(a)
7.	(c)										

ACCOUNTING STANDARD 11 - THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

1. As per AS 11 assets and liabilities of non-integral foreign operations should be converted at _________ rate.
   (a) Opening
   (b) Average
   (c) Closing
   (d) Transaction
2. The debit or credit balance of "Foreign Currency Monetary Item Translation Difference Account"
   (a) Is shown as "Miscellaneous Expenditure" in the Balance Sheet
   (b) Is shown under "Reserves and Surplus" as a separate line item
   (c) Is shown as "Other Non-current" in the Balance Sheet
   (d) Is shown as "Current Assets" in the Balance Sheet
3. If asset of an integral foreign operation is carried at cost, cost and depreciation of tangible fixed asset is translated at
   (a) Average exchange rate
   (b) Closing exchange rate
   (c) Exchange rate at the date of purchase of asset
   (d) Opening exchange rate
4. Which of the following can be classified as an integral foreign operation?
   (a) Branch office serving as an extension of the head office in terms of operations
   (b) Independent subsidiary of the parent company
   (c) Branch office independent of the head office in terms of operational decisions
   (d) None of the above
5. Which of the following items should be converted to closing rate for the purposes of financial reporting?
   (a) Items of Property, Plant and Equipment
   (b) Inventory
   (c) Trade Payables, Trade Receivables and Foreign Currency Borrowings
   (d) All of the above
6. What will be the treatment of the balance in the foreign currency translation reserve

on disposal of the foreign operation?

(a) Transfer the balance in foreign currency translation reserve to reserves without impacting P/L.

(b) Record the balance in foreign currency translation reserve as income or expense in P/L.

(c) Foreign currency translation reserve will continue; no change will be made to the balance and it will continue to appear as such even after disposal of the foreign operation

(d) Any method from the above can be adopted

ANSWERS :

1.	(c)	2.	(b)	3.	(c)	4.	(a)	5.	(c)
6.	(b)								

ACCOUNTING STANDARD 12 - ACCOUNTING FOR GOVERNMENT GRANTS

1. To encourage industrial promotion, IDCI offers subsidy worth ₹ 50 lakhs to all new industries set up in the specified industrial areas. This grant is in the nature of promoter's contribution. How such subsidy should be accounted in the books?
   (a) Credit it to capital reserve
   (b) Credit it as 'other income' in the profit and loss account in the year of commencement of commercial operations
   (c) Both (a) and (b) are permitted
   (d) Credit it to general reserve
2. Government grants that are receivable as compensation for expenses or losses incurred in a previous accounting period or for the purpose of giving immediate financial support to the enterprise with no further related costs, should be
   (a) recognised and disclosed in the Statement of Profit and Loss of the period in which they are receivable as an ordinary item.
   (b) recognised and disclosed in the Statement of Profit and Loss of the period in which the losses or expenses were incurred.
   (c) recognised and disclosed in the Statement of Profit and Loss of the period in which they are receivable, as an extraordinary item if appropriate as per AS 5.
   (d) disclosed in the Statement of Profit and Loss of the period in which they are receivable, as an extraordinary item
3. Which of the following is an acceptable method of accounting presentation for a government grant relating to an asset?
   (a) Credit the grant immediately to Income statement
   (b) Show the grant as part of Capital Reserve
   (c) Reduce the grant from the cost of the asset or show it separately as a deferred income on the Liability side of the Balance Sheet.
   (d) Show the grant as part of general Reserve
4. X Ltd. has received a grant of ₹ 20 crore for purchase of a qualified machine costing ₹ 80 crore. X Ltd has a policy to recognise the grant as a deduction from the cost of the asset. The expected remaining useful life of the machine is 10 years. Assume that there is no salvage value and the depreciation method is straight-line. The amount of annual depreciation to be charged as an expense in Profit and Loss Statement will be:

(a) ₹ 10 crore

(b) ₹ 6 crore

(c) ₹ 2 crore

(d) ₹ 8 crore

5. X Ltd has received a grant of ₹ 20 crore for purchase of a qualified machine costing ₹ 80 crore. X Ltd. has a policy to recognise the grant as deferred income. The expected remaining useful life of the machine is 10 years. Assume that there is no salvage value and the depreciation method is straight-line. The amount of other income to be to be recognised in Profit and Loss Statement will be:

(a) ₹ 10 crore

(b) ₹ 6 crore

(c) ₹ 2 crore

(d) ₹ 8 crore

6. What is accounting treatment of government grant refundable which was in the nature of promoters' contribution?

(a) Debited to profit & loss account

(b) Added in the Cost of Fixed asset

(c) Reduced from Deferred Government Grant account

(d) Reduced from Capital Reserve

7. Entity X purchased a fixed asset of ₹ 160 Cr. having useful life of 10 years. Government provided grant of ₹ 60 Cr. After 4 years, entity had to refund the grant of ₹ 20 Cr. due to non-fulfilment of a condition. Kindly provide the amount of depreciation to be charged in year 5. Assume – Company follows SLM method of depreciation & grant amount is reduced from the gross block of fixed asset.

(a) ₹ 16 Cr.

(b) ₹ 12 Cr.

(c) ₹ 13.33 Cr.

(d) ₹ 15 Cr.

8. AS 12 "Accounting for Government Grants" is not applicable for following :

(a) Subsidy from Government

(b) Cash incentives from Government

(c) Government participation in the ownership of the company

(d) Duty Drawback from Government

9. Following is not a government grant :
   (a) Purchase of Diesel by Indian Railways
   (b) Amount from government for establishing setup in backward area
   (c) Land from Rajasthan government at a concessional rate
   (d) Subsidy from Ministry of External Affairs to purchase from Indian Vendor
10. A government grant that becomes refundable is treated as :
   (a) Ordinary item
   (b) Prior Period item
   (c) Change in Accounting Policy
   (d) Extra Ordinary item
11. At what value government grant is recorded in books in case a non-monetary asset is given free of cost?
   (a) Fair value
   (b) Nominal Value
   (c) Concessional rate
   (d) Should not be recorded
12. Entity A received government grant of ₹ 500 Cr. on 01.10.2022 for investment in capital assets having useful life of 10 years. As on 31.03.2023, no amount could be capitalized in the books as the assets were not ready for use. What should be the amount to be credited to statement of Profit & Loss out of Deferred Government Grant account in FY 2022-23?
   (a) ₹ 500 Cr.
   (b) ZERO
   (c) ₹ 50 Cr.
   (d) ₹ 25 Cr.

ANSWERS :

1.	(a)	2.	(c)	3.	(c)	4.	(b)	5.	(c)
6.	(d)	7.	(c)	8.	(c)	9.	(a)	10.	(d)
11.	(b)	12.	(b)						

NOTES

ACCOUNTING STANDARD 13 - ACCOUNTING FOR INVESTMENTS

1. The cost of Right shares is
   (a) added to the cost of investments.
   (b) subtracted from the cost of investments.
   (c) no treatment is required.
   (d) added to cost of investments at market value.
2. Long term investments are carried at
   (a) fair value.
   (b) cost less 'other than temporary' decline.
   (c) Cost and market value whichever is less.
   (d) Cost and market value whichever is higher.
3 Current investments are carried at
   (a) Fair value.
   (b) cost.
   (c) Cost and fair value, whichever is less.
   (d) Cost and fair value, whichever is higher.
4. A Ltd. acquired 2,000 equity shares of Omega Ltd. on cum-right basis at ₹ 75 per share. Subsequently, omega Ltd. made a right issue of 1:1 at ₹ 60 per share, which was subscribed for by A. Total cost of investments at the year- end will be ₹
   (a) 2,70,000.
   (b) 1,50,000.
   (c) 1,20,000.
   (d) 1,70,000.
5. Cost of investment includes
   (a) Purchase costs.
   (b) Brokerage and Stamp duty paid.
   (c) Both (a) and (b).
   (d) none of the above.

6. A current investment is an investment
   (a) That is readily realisable.
   (b) That is intended to be held for not more than one year from the date on which such investment is made.
   (c) Both 1 and 2
   (d) That is intended to be held for not more than two years from the date on which such investment is made.
7. All the following are fixed income bearing securities except
   (a) Debentures
   (b) Equity shares
   (c) Govt. Bonds
   (d) Loan

ANSWERS :

1.	(a)	2.	(b)	3.	(c)	4.	(a)	5.	(c)
6.	(c)	7.	(b)						

ACCOUNTING STANDARD 14 - AMALGAMATION OF COMPANIES

1. In case of amalgamation, the entry for elimination of unrealized profit or loss on stock is made
   (a) By the vendor company
   (b) By the purchasing company
   (c) By the third party
   (d) By the court
2. If expenses of liquidation of the vendor company are paid by the purchasing company then, in purchasing company's book, the account debited is
   (a) Goodwill account.
   (b) Liquidation expense account.
   (c) Vendor company account.
   (d) General reserve.
3. Amalgamation adjustment reserve is opened in the books of the amalgamated company to incorporate
   (a) Assets of the amalgamating company.
   (b) Non- Statutory reserves of the amalgamating company.
   (c) Statutory reserves of the amalgamating company.
   (d) General reserve of the amalgamating company.
4. Amalgamation Adjustment Reserve is presented in the financial statements of the transferee company as
   (a) Other current asset.
   (b) Separate line item with a negative sign under the head 'Reserves and Surplus'.
   (c) Other non-current assets.
   (d) Investment of the company
5. A company into which the vendor company is merged is called
   (a) Transferee company.
   (b) Transferor company.
   (c) Selling company.
   (d) Acquiree company.

6. If the purchase consideration is more than net assets (at agreed values) of the transferor company, difference shall be recorded as __________ in the books of the transferee company.
   (a) Goodwill.
   (b) Capital Reserve.
   (c) Profit.
   (d) Loss.
7. Which of the following statement is correct:
   (a) In case of merger – ESH can be issued only equity shares as a part of Purchase consideration.
   (b) In case of purchase – ESH can be issued Preference shares also as a part of Purchase consideration.
   (c) Both (a) and (b) are correct.
   (d) Both (a) and (b) are incorrect.
8. State which statement is correct:
   (a) In case of merger – assets and liabilities can only be taken over at book values.
   (b) In case of purchase – assets and liabilities can be taken over at book values or agreed values.
   (c) Both (a) and (b) are correct.
   (d) Both (a) and (b) are incorrect.
9. State which statement is correct:
   (a) In case of merger – All Reserves and surplus of vendor company are taken over by Purchasing company.
   (b) In case of Purchase – None of the Reserves and surplus of vendor company are taken over by Purchasing company.
   (c) Both (a) and (b) are correct.
   (d) Only (a) is correct.
10. State which statement is correct:
   (a) In case of merger – We use pooling of interest method for accounting.
   (b) In case of Purchase We use purchase method or pooling of interest method depending upon whether it is take over at agreed values or book values.
   (c) Both (a) and (b) are correct.
   (d) Only (a) is correct.

11. State which statement is incorrect:

    (a) In case of merger – We can issue either preference shares or equity shares to PSH.

    (b) In case of Purchase – We can issue either preference shares or equity shares to PSH.

    (c) In case of merger – We can issue only preference shares to PSH.

    (d) none of the above.

ANSWERS :

1.	(b)	2.	(a)	3.	(c)	4.	(b)	5.	(a)	6.	(a)
7.	(c)	8.	(c)	9.	(d)	10.	(d)	11.	(c)	.	

NOTES

ACCOUNTING STANDARD 15 - EMPLOYEE BENEFITS

1. Gratuity and Pension would be examples of:
   (a) Short-term employee benefits
   (b) Long-term employee benefits
   (c) Post-employment benefits.
   (d) None of the above.
2. Non-accumulating compensating absence is commonly referred to as:
   (a) Earned Leave
   (b) Sick Leave
   (c) Casual leave
   (d) All of the above
3. The plans that are established by legislation to cover all enterprises and are operated by Governments include:
   (a) Multi-Employer plans
   (b) State plans
   (c) Insured Benefits
   (d) Employee benefit plan
4. Best estimates of the variable to determine the eventual cost of post- employment benefits is referred to as:
   (a) Employer's contribution
   (b) Actuarial assumptions
   (c) Cost to Company
   (d) Employee's contribution
5. Actuarial gains / losses should be:
   (a) Recognised through reserves
   (b) Charged over the expected life of employees
   (c) Charged immediately to Profit and Loss Statement
   (d) Do not charged to Profit and Loss Statement

ANSWERS :

1.	(c)	2.	(c)	3.	(b)	4.	(b)	5.	(c)

NOTES

ACCOUNTING STANDARD 16 - BORROWING COSTS

1. As per AS 16, all the following are qualifying assets except
   (a) Manufacturing plants and Power generation facilities
   (b) Inventories that require substantial period of time
   (c) Assets those are ready for sale.
   (d) None of the above
2. Which of the following statement is correct:
   (a) Entire exchange gain is reduced from the cost of the Qualifying asset.
   (b) Entire exchange loss is added to the cost of a Qualifying asset.
   (c) No adjustment is done for the exchange loss while computing cost of Qualifying asset.
   (d) None of the above
3. Capitalisation rate considers:
   (a) Borrowing costs on general borrowings only.
   (b) Borrowing costs on general and specific borrowings both.
   (c) Borrowing costs on specific borrowings only
   (d) None of the above
4. If the amount eligible for capitalisation in case of inventory as per AS 16 is ₹ 12,000 and cost of inventory is ₹ 40,000 and its net realizable value is ₹ 45,000; What amount can be capitalised as a part of inventory cost.
   (a) ₹ 12,000.
   (b) ₹ 5,000.
   (c) ₹ 7,000.
   (c) ₹ 10,000.
5. X Ltd is commencing a new construction project, which is to be financed by borrowing. The key dates are as follows:
   (i) 15th May, 20X1: Loan interest relating to the project starts to be incurred
   (ii) 2nd June, 20X1: Technical site planning commences
   (iii) 19th June, 20X1: Expenditure on the project started to be incurred
   (iv) 18th July, 20X1: Construction work commences

Identify the commencement date for capitalisation under AS 16.

(a) 15th May, 20X1.

(b) 19th June, 20X1.

(c) 18th July, 20X1.

(d) 2nd June, 20X1

6. What is the correct treatment of income from temporary investment from borrowed fund pending expenditure on qualifying asset.

(a) Income is deducted from borrowing cost.

(b) Income is credited to P&L account.

(c) Income is deducted from PPE.

(d) Income is deducted from borrowing amount.

7. X Limited has approved a plan for construction of building on 14.05.2022. It has finalized the vendor on 20.06.2022. Borrowing cost is due to be paid from 01.07.2022. First installment of borrowing cost is made on 01.08.2022. Construction of building started from 15.07.2022. When should Capitalisation of borrowing commence?

(a) 01.07.2022

(b) 01.08.2022

(c) 15.07.2022

(d) 14.05.2022

8. X Limited had taken borrowing construction of building A and building B. The loan for both building was taken on 01.07.2019. Construction of both building commenced on 05.07.2019. Construction of building A was completed on 01.06.2022 and building B on 01.10.2022. Both buildings were inaugurated on 15.11.2022. The loan is to be repaid on 31.03.2028. When should capitalization of borrowing cost cease for Building A?

(a) 01.06.2022

(b) 01.10.2022

(c) 15.11.2022

(d) Capitalization should continue till 31.03.2028

9. X Limited had taken borrowing construction of building. The loan for building was taken on 01.07.2019. Construction of building commenced on 05.07.2019. Construction of building was completed 01.10.2022. Both buildings were inaugurated on 15.1.2022. X Limited started using the building from 01.12.2022. The loan is to be repaid on 31.08.2028. When should capitalization of borrowing cost cease for Building B?

(a) 01.12.2022

(b) 01.10.2022

(c) 15.11.2022

(d) Capitalization should continue till 31.03.2028

ANSWERS :

1.	(c)	2.	(c)	3.	(a)	4.	(b)	5.	(b)
6.	(a)	7.	(c)	8.	(a)	9.	(b)		

NOTES

ACCOUNTING STANDARD 17 - SEGMENT REPORTING

1. As per AS 17, reportable segments are those whose total revenue from external sales and inter-segment sales is
   (a) 10% or more of the total revenue of all segments
   (b) 10% or more of the total revenue of all external segments
   (c) 12% or more of the total revenue of all segments
   (d) 12% or more of the total revenue of all external segments
2. Which of the following statements is correct?
   (a) Management has a discretion to include a segment as a reportable segment even if it passes the 10% materiality test.
   (b) Management has a discretion to include any segment as a reportable segment if it fails the 12% materiality test.
   (c) It is mandatory for the management to include the segment as a reportable segment if it passes the 10% materiality test.
   (d) It is not mandatory for the management to include the segment as a reportable segment if it passes the 10% materiality test.
3. Which of the following statements is correct?
   (a) The overall test of 75% considers only external revenue to compute the threshold limit.
   (b) The overall test of 75% considers only internal revenue to compute the threshold limit.
   (c) The overall test of 75% considers both internal and external revenue to compute the threshold limit.
   (d) It is management choice whether they want to include both external and internal revenue for computing threshold limit.
4. Which of the following statements is correct?
   (a) The 10% test computed on the basis of revenue, considers both internal and external revenue to compute the threshold limit.
   (b) The 10% test computed on the basis of revenue, considers only external revenue to compute the threshold limit.
   (c) The 10% test computed on the basis of revenue, considers only internal revenue to compute the threshold limit.
   (d) It is management choice whether they want to include both external and internal revenue for computing threshold limit.

5. Which of the following statements is correct?

   (a) In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit or net loss respectively of all segments taken together becomes reportable segment.

   (b) In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit (after netting the losses) of all segments taken together becomes reportable segment.

   (c) In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit or loss (whichever is higher in absolute figures) of all segments taken together becomes reportable segment.

   (d) In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit or loss (whichever is lower in absolute figures) of all segments taken together becomes reportable segment.

6. Following is not included in Segment Expense.

   (a) Income tax expense

   (b) The expense resulting from the operating activities of a segment that is directly attributable to the segment

   (c) The relevant portion of enterprise expense that can be allocated on a reasonable basis to the segment

   (d) Expense relating to transactions with other segments of the enterprise

7. Following is included in Segment Revenue.

   (a) Extraordinary items as defined in AS 5

   (b) Revenue from transactions with other segments of the enterprise

   (c) Interest or dividend income

   (d) Gain on sale of investments

ANSWERS :

1.	(a)	2.	(c)	3.	(a)	4.	(a)	5.	(c)
6.	(a)	7.	(b)						

ACCOUNTING STANDARD 18 - RELATED PARTY DISCLOSURES

1. According to AS-18 Related Party Disclosures, which ONE of the following is not a related party of Skyline Limited?
   (a) A shareholder of Skyline Limited owning 30% of the ordinary share capital
   (b) An entity providing banking facilities to Skyline Limited in the normal course of business
   (c) An associate of Skyline Limited
   (d) Key management personnel of Skyline Limited
2. Are the following statements in relation to related parties true or false, according to AS-18 Related Party Disclosures?
   (A) A party is related to another entity that it is jointly controlled by.
   (B) A party is related to another entity that it controls.

	Statement (A)	Statement (B)
(a)	False	False
(b)	False	True
(c)	True	False
(d)	True	True

3. Which of the following is not a related party as envisaged by AS-18 Related Party Disclosures?
   (a) A director of the entity
   (b) The parent company of the entity
   (c) A shareholder of the entity that holds 1% stake in the entity
   (d) The spouse of the managing director of the entity
4. According to AS-18 Related Party Disclosures, related party transaction is a transfer of resources or obligations between related parties – provided a price is charged for such transfer.
   (a) True
   (b) False
5. According to AS-18 Related Party Disclosures, parties are considered to be related, if and only if at the end of the reporting period - one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

(a) True

(b) False

6. Which of the following may be treated as Related party as per AS 18?

   (a) A Limited & B Limited only because Mr. X is a common director in both the company

   (b) A Limited & B Limited are totally independent company, however, majority of the Board of Directors of both the company are same

   (c) Mr. S & A Limited only because Mr. S purchases majority of the products of A Limited

   (d) ABC Bank & N Limited because all borrowings of N Limited as financed by ABC Bank.

7. Which of the following disclosure is required as per AS 18?

   (a) Disclosure of Intra-group transactions in Stand alone Financial Statements

   (b) Transaction of one Central government controlled enterprise with other State government controlled enterprise

   (c) Transaction of one Central government controlled enterprise with other Central government controlled enterprise

   (d) Transaction of one State government controlled enterprise with other State government controlled enterprise.

8. A Ltd. sold goods for ₹ 90 lakhs to B Ltd. during financial year ended 31-3-2023. The Managing Directors of A Ltd. exercise 100% control in B Ltd. The sales were made to B Ltd. at normal selling prices followed by A Ltd.

   What should be treatment for this transaction in the financial statements of A Ltd.

   (a) Sales need not require a different treatment from the other sales made by the company.

   (b) A Ltd. and B Ltd. are not related parties.

   (c) A Ltd. and B Ltd. are related parties and hence disclosure of transaction between them is required irrespective of whether the transaction was done at normal selling price.

   (d) A Ltd. and B Ltd. are related parties but no disclosure is necessary as per the accounting standard because sales are made at normal selling prices.

ANSWERS :

1.	(b)	2.	(d)	3.	(c)	4.	(b)	5.	(b)
6.	(b)	7.	(a)	8.	(c)				

ACCOUNTING STANDARD 19 - LEASES

1. A Ltd. sold machinery having WDV of ₹ 40 lakhs to B Ltd. for ₹ 50 lakhs (Fair value ₹ 50 lakhs) and same machinery was leased back by B Ltd. to A Ltd. The lease back is in nature of operating lease. The treatment will be
   (a) A Ltd. should amortise the profit of ₹ 10 lakhs over lease term.
   (b) A Ltd. should recognise the profit of ₹ 10 lakhs immediately.
   (c) A Ltd. should defer the profit of ₹ 10 lakhs.
   (d) B Ltd. should recognise the profit of ₹ 10 lakhs immediately.
2. In case of an operating lease – identify which statement is correct:
   (a) The lessor continues to show the leased asset in its books of accounts.
   (b) The lessor de-recognises the asset from its Balance Sheet.
   (c) The lessor discontinues to claim depreciation in its books.
   (d) The lessee recognises the asset in its Balance Sheet.
3. In case of finance lease, if the asset is returned back to the lessor at the end of the lease term - the lessee always claims depreciation based on which of the following:
   (a) Useful life.
   (b) Lease term.
   (c) Useful life or lease term whichever is less.
   (d) Useful life or lease term whichever is higher.
4. AS 19 lays down 5 deterministic conditions to classify the lease as a finance lease. To classify the lease as an operating lease – which statement is correct?
   (a) Any 1 condition fails.
   (b) Majority of the 5 conditions fail.
   (c) All 5 conditions fail.
   (d) Any 2 conditions fails.
5. The basis of classification of a lease is:
   (a) Control Test.
   (b) Risk and reward Test.
   (c) Both control test and risk and reward test.
   (d) Only reward Test
6. Which of the following would not lead to lease being classified as Finance lease?
   (a) Title of the asset is not transferred but the lease term is for the major part of the economic life of the asset.

(b) The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable.

(c) The lease does not transfer substantially all the risks and rewards incident to ownership.

(d) At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

7. On which date lessee should recognise Lease asset & Liability?

(a) The date of the lease agreement

(b) The date of a commitment by the parties to the principal provisions of the lease.

(c) At earlier of A & B

(d) The date when asset is available for use

8. What is the accounting treatment for Initial Direct cost incurred by lessor to earn revenues from an operating lease?

(a) Deferred and allocated to income over the lease term in proportion to the recognition of rent income

(b) Recognised as an expense in the statement of profit and loss in the period in which they are incurred

(c) Added in the cost of the Asset

(d) Either A or B

9. Classification of lease as Operating or Finance is done on following date :

(a) The date of the lease agreement

(b) The date of a commitment by the parties to the principal provisions of the lease.

(c) At earlier of A & B.

(d) The date when asset is available for use

10. N Limited has taken a lease of land from S Limited for 15 years. Folowing are the terms of lease agreement :

- N Limited to make payment of ₹ 1 lakh for 15 years.
- N Limited to reimburse ₹ 10,000 Tax to S Ltd. every year.
- If N Limited makes petrol pump on the land, then it has to pay ₹ 50,000 extra every year. N Limited is not sure about the receipt of approval for making petrol pump.
- N Limited has option to purchase land for extra ₹ 10 lakh after end of lease.

However, N Limited is not sure about purchase of land. Present Value of ₹ 1 lakh for 15 years is ₹ 12 lakh, Present value of ₹ 10 lakh after 15^{th} years is 3 lakh. Calculate Minimum Lease Payment for N Limited.

(a) ₹ 15 lakh

(b) ₹ 12 lakh

(c) ₹ 34 lakh

(d) ₹ 24.7 Lakh

11. N Limited has taken a lease of land from S Limited for 15 years. Following are the terms of lease agreement :

- N Limited to make payment of ₹ 1,00,000 for 15 years.
- N Limited to reimburse ₹ 10,000 tax to S Limited every year.
- If N Limited makes petrol pump on the land, then it has to pay ₹ 50,000 extra every year. N Limited is not sure about the receipt of approval for making petrol pump.
- N Limited has option to purchase land for extra 10 lakh after end of lease. It is beneficial for N Limited to purchase land. Present Value of ₹ 1 lakh for 15 years is ₹ 12 Lakh, Present Value of ₹ 10 lakh after 15^{th} year is 5.5 lakh. Calculate Minimum Lease Payment for N Limited.

(a) ₹ 25 lakh

(b) ₹ 17.5 lakh

(c) ₹ 34 lakh

(d) ₹ 24.7 lakh

12. X Limited has taken machinery on Operating lease for 3 years. Initial yearly rent is ₹ 10,000. Rent is subject to 5% escalation every year. General inflation rate in the country is also 5% per year. What amount will be charged in the statement of P&L in the first year? Present value of Total rent payment over 3 years is ₹ 26051.

(a) ₹ 10,508.33

(b) ₹ 10,000

(c) ₹ 26,051

(d) ₹ 11,302.55

13. In the books of seller-lessee, if a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, then :

(a) Any profit or loss should be recognised immediately.

(b) Any profit or loss should be deferred and amortised over the period for which the asset is expected to be used.

(c) If there is loss, then immediately recognized in P&L statement and if there is gain, then amortised over the lease term.

(d) Either A or B

14. In the books of seller-lessee, if a sale and leaseback transaction results in a finance lease, any excess or deficiency of sales proceeds over the carrying amount is :
    (a) Immediately recognised as income or loss in the financial statements.
    (b) Deferred and amortised over the lease term in proportion to the depreciation of the leased asset.
    (c) If there is loss, then immediately recognized in P&L statement and if there is gain, then amortised over the lease term.
    (d) Either A or B
15. If Sale and leaseback transaction results in an operating lease and sale price is more than fair value, the Excess amount is
    (a) Credited to Profit and Loss statement
    (b) Deferred and amortized over expected period of use of the asset.
    (c) Deferred and amortized over period of five years.
    (d) Amortized in proportion to lease payments.
16. N Limited has entered into lease agreement for machinery from S Limited for 10 years for ₹ 1 lakh per year. Guaranteed scrap value of machinery after 15 years is ₹ 0.5 lakh unguaranteed scrap value is ₹ 0.2 lakh. Present Value of ₹ 1 lakh for 10 years is ₹ 7 lakh, Present value of ₹ 0.5 lakh after 15^{th} year is 0.18 lakh & of ₹ 0.2 lakh is 0.07 lakh. Calculate Unearned Finance Income for S Limited.
    (a) ₹ 3.45 Lakh
    (b) ₹ 3 Lakh
    (c) ₹ 3.32 Lakh
    (d) ₹ 3.13 Lakh

ANSWERS :

1.	(b)	2.	(a)	3.	(c)	4.	(c)	5.	(b)
6.	(c)	7.	(c)	8.	(d)	9.	(c)	10.	(a)
11.	(b)	12.	(b)	13.	(a)	14.	(b)	15.	(b)
16.	(a)								

ACCOUNTING STANDARD 20 - EARNINGS PER SHARE

1. AB Company Ltd. had 1,00,000 shares of common stock outstanding on January 1. Additional 50,000 shares were issued on July 1, and 25,000 shares were re- acquired on September 1. The weighted average number of shares outstanding during the year on Dec. 31 is
   (a) 1,40,000 shares
   (b) 1,25,000 shares
   (c) 1,16,667 shares
   (d) 1,20,000 shares
2. As per AS 20, potential equity shares should be treated as dilutive when, and only when, their conversion to equity shares would
   (a) Decrease net profit per share from continuing ordinary operations.
   (b) Increase net profit per share from continuing ordinary operations.
   (c) Make no change in net profit per share from continuing ordinary operations.
   (d) Decrease net loss per share from continuing ordinary operations.
3. As per AS 20, equity shares which are issuable upon the satisfaction of certain conditions resulting from contractual arrangements are
   (a) Dilutive potential equity shares
   (b) Contingently issuable shares
   (c) Contractual issued shares
   (d) Potential equity shares
4. In case potential equity shares have been cancelled during the year, they should be:
   (a) Ignored for computation of Diluted EPS.
   (b) Considered from the beginning of the year till the date they are cancelled.
   (c) The company needs to make an accounting policy and can follow the treatment in (a) or (b) as it decides.
   (d) Considered for computation of diluted EPS only if the impact of such potential equity shares would be material.
5. Partly paid up equity shares are:
   (a) Always considered as a part of Basic EPS.
   (b) Always considered as a part of Diluted EPS.

(c) Depending upon the entitlement of dividend to the shareholder, it will be considered as a part of Basic or Diluted EPS as the case may be.

(d) Considered as part of Basic/ Diluted EPS depending on the accounting policy of the company.

6. Which of the following statements is correct?

(a) Reported Diluted EPS is always less than reported Basic EPS.

(b) Reported Diluted EPS can be greater than reported Basic EPS.

(c) Reported Diluted EPS is always greater than reported Basic EPS.

(d) Reported Diluted EPS is always equal to or more than reported Basic EPS.

7. Which of the following statements is correct?

1. Options are generally dilutive in nature.

2. Options are generally more dilutive as compared to other potential equity shares.

(a) Both (1) and (2) are correct.

(b) Both (1) and (2) are incorrect.

(c) Only (1) is correct.

(d) Only (2) is correct.

8. Which of the following is not a Potential Equity Share?

(a) Employee stock option

(b) Share warrants

(c) Cumulative Preference Shares

(d) Shares issuable under a loan contract upon default of payment of principal or interest

9. Which of the following statements is true?

(a) Right issue always contains a bonus element.

(b) Right issue may or may not contain a bonus element.

(c) Right issue does not contain a bonus element.

(d) Right issue may or may not be considered to contain a bonus element depending on the accounting policy of the company.

10. In case potential equity shares have been cancelled during the year, they should be :

(a) Ignored for computation of Diluted EPS.

(b) Considered from the beginning of the year till the date they are cancelled.

(c) The company needs to make an accounting policy and can follow the treatment in (a) or (b) as it decides.

(d) Considered for computation of diluted EPS only if the impact of such potential equity shares would be material.

11. Partly paid up equity shares are :

(a) Always considered as a part of Basic EPS.

(b) Always considered as a part of Diluted EPS.

(c) Depending upon the entitlement of dividend to the shareholders, it will be considered as a part of Basic or Diluted EPS as the case may be.

(d) Considered as part of Basic / Diluted EPS depending on the accounting policy of the company.

12. In which of the following scenario, calculation of basic and diluted earnings per share for prior period is not restated?

(a) If the number of equity shares outstanding increases as a result of a bonus issue

(b) If the number of potential equity shares outstanding decreases as a result of a reverse share split

(c) If Bonus shares are issued after the balance sheet date but before the date on which the financial statements are approved by the board of directors

(d) If the number of equity shares outstanding increases as a result of a right issue

ANSWERS :

1.	(c)	2.	(a)	3.	(b)	4.	(b)	5.	(c)
6.	(a)	7.	(a)	8	(c)	9	(a)	10	(b)
11	(c)	12	(c)						

NOTES

ACCOUNTING STATDARD 21 - CONSOLIDATED FINANCIAL STATEMENTS

1. Issue of bonus shares by the subsidiary company out of capital profits will
   (a) Decrease Goodwill or increase capital reserve.
   (b) Increase Goodwill or decrease capital reserve.
   (c) Have no effect on Goodwill or capital reserve.
   (d) Have no effect on Goodwill.
2. Dividend paid by subsidiary to its parent, out of capital profits, should be credited by the parent company in its
   (a) Profit and loss account.
   (b) Dividend account.
   (c) Shares invested in subsidiary account.
   (d) Capital reserve.
3. In consolidation of accounts of holding and subsidiary company __________ is eliminated in full.
   (a) Current liabilities of subsidiary company
   (b) Reserves and surplus of both holding and subsidiary company
   (c) Mutual indebtedness
   (d) Current assets of subsidiary company.
4. If there remains any unrealized profit in the inventory, of any of the Group Company,
   (a) Unrealized profit is added to value of inventory to compute consolidated profit.
   (b) Unrealized profit is reduced from value of inventory to compute consolidated profit.
   (c) No adjustment needs to be done.
   (d) Unrealized profit is added to revenue profit.
5. Minority interest should be presented in the consolidated balance sheet of Holding Company (with its subsidiary)
   (a) As a part of liabilities
   (b) As part of equity of the parent's shareholders
   (c) Separately from liabilities and the equity of the parent's shareholders
   (d) As a part of assets
6. If the subsidiary company follows weighted average method for valuation of inventories

and the holding company follows FIFO method, then while consolidating.

(a) Financial statements of subsidiary company should be restated by adjusting the value of inventories to bring the same in line with the valuation procedure adopted by the holding company.

(b) Financial statements of holding company should be restated by adjusting the value of inventories to bring the same in line with the valuation procedure adopted by the subsidiary company.

(c) Financial statements of both companies may continue as per the basis followed by them.

(d) No changes are required to be done for consolidation purposes.

7. Goodwill is equal to

(a) Cost of Investment less Parent's share in the equity of the subsidiary on date of investment.

(b) Cost of investment less Parent's share in the debentures of subsidiary on date of investment.

(c) Parent's share in the equity of subsidiary on date of investment less Cost of investment.

(d) Parent's share in the debentures of subsidiary on date of investment

8. Minority interest should be presented in the consolidated balance sheet

(a) As a part of liabilities.

(b) As a part of equity of the parent's shareholders.

(c) Separately from liabilities and the equity of the parent's shareholders.

(d) As a part of assets.

9. Minority of the subsidiary is entitled to

(a) Capital profits of the subsidiary company.

(b) Revenue profits of the subsidiary company.

(c) Both capital and revenue profits of the subsidiary company.

(d) Neither capital nor revenue profits of the subsidiary..

10. In consolidation of accounts of holding and subsidiary company________ is eliminated in full.

(a) Current liabilities of subsidiary company.

(b) Reserves and surplus of both holding and subsidiary company.

(c) Mutual indebtedness.

(d) Nothing.

11. In consolidated balance sheet, the share of the outsiders in the net assets of the subsidiary must be shown as
    (a) Minority interest.
    (b) Capital reserve.
    (c) Current liability.
    (d) Current assets.
12. Provision for Tax made by the subsidiary company will appear in the consolidated balance sheet as an item of
    (a) Current liability.
    (b) Revenue profit.
    (c) Capital profit.
    (d) Current assets.

ANSWERS :

1.	(c)	2.	(c)	3.	(c)	4.	(b)	5.	(c)	6.	(a)
7.	(a)	8.	(c)	9.	(c)	10.	(c)	11.	(a)	12.	(a)

NOTES

ACCOUNTING STANDARD 22 - ACCOUNTING FOR TAXES ON INCOME

1. As per AS 22 on 'Accounting for Taxes on Income', tax expense is:
   (a) Current tax + deferred tax charged to profit and loss account
   (b) Current tax-deferred tax credited to profit and loss account
   (c) Either (a) or (b)
   (d) Deferred tax charged to profit and loss account
2. G Ltd. has provided the following information:
   Depreciation as per accounting records = ₹ 2,30,000
   Depreciation as per tax records = ₹ 5,00,000
   There is adequate evidence of future profit sufficiency.
   How much deferred tax asset/liability should be recognized as transition adjustment when the tax rate is 50%?
   (a) Deferred Tax asset = ₹ 2,70,000.
   (b) Deferred Tax asset = ₹ 1,35,000.
   (c) Deferred Tax Liability = ₹ 2,70,000
   (d) Deferred Tax Liability = ₹ 1,35,000.
3. State which of the followings statements are correct:
   (1) There are no pre-conditions required to recognize deferred tax liability,
   (2) Deferred tax asset under all circumstances can only be created if and only if there is reasonable certainty that future taxable income will arise.
   (a) Both are correct.
   (b) Only (1) is correct.
   (c) Only (2) is correct.
   (d) None of the statements are correct.
4. Which of the following statement are incorrect:
   (a) Only timing differences result in creation of deferred tax.
   (b) Permanent differences do not result in recognition of deferred tax.
   (c) The tax rate used for measurement of deferred tax is substantively enacted tax rate.
   (d) The entity has to recognize deferred tax liability/asset arising out of timing difference. There are no conditions which are required to evaluated for their recognition.

ANSWERS :

1.	(c)	2.	(d)	3.	(a)	4.	(d)

ACCOUNTING STANDARD 23 - ACCOUNTING FOR INVESTMENTS IN ASSOCIATES IN CONSOLIDATED FINANCIAL STATEMENTS

1. Identity which of the statements are correct.

   An enterprise can influence the significant economic decision making by many ways like:

   (i) Representation on the board of directors or governing body of the investee.

   (ii) Participation in policy-making processes.

   (iii) Interchange of managerial personnel.

   (iv) Provision of essential technical information.

   (a) Statement (i) and (ii) are correct.

   (b) Statement (i), (ii) and (iii) are correct.

   (c) Statement (i), (ii), (iii) and (iv) are correct.

   (d) Statement (ii) and (iii) are correct.

2. A Ltd. is holding 90% share in B Ltd. and 10% shares in C Ltd., and B Ltd. is holding 11% shares in C Ltd.

   Identity which of the statements are incorrect.

   (i) In this case, A Ltd. is parent of B Ltd.

   (ii) As far as the relationship between A Ltd. and C Ltd. is concerned; A Ltd. has a total of direct and indirect holding of (10% + 90% of 11%) 19.9 % in C Ltd.

   (iii) C Ltd. is an associate of A Ltd.

   (a) Statement (ii) is incorrect.

   (b) Statement (iii) is incorrect.

   (c) Statement (ii) and (iii) both are incorrect.

   (d) All statements are incorrect.

3. A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on October 01 of the same year. Other information is as follows:

   Cost of Investment for 10% ₹ 1,00,000 and for 15% ₹ 1,55,000

   Net asset on April 01 ₹ 8,50,000 and on October 01 ₹ 10,00,000.

   What is the amount of goodwill or capital reserve arising on significant influence?

   (a) Goodwill = ₹ 10,000.

   (b) Goodwill = ₹ 20,000.

(c) Capital Reserve = ₹ 10,000.

(d) Capital Reserve = ₹ 20,000.

4. A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on October 01 during the same year. Other information is as follow:

Cost of Investment for 10% ₹ 1,00,000 and for 15% ₹ 1,45,000

Net asset on April 01 ₹ 8,50,000 and on October 01 ₹ 10,00,000.

What is the amount of goodwill or capital reserve arising on significant influence?

(a) Goodwill = ₹ 10,000.

(b) Goodwill = ₹ 20,000.

(c) Capital Reserve = ₹ 10,000.

(d) Capital Reserve = ₹ 20,000.

5. Identity which of the statements are correct.

(i) In case an associate has made a provision for proposed dividend (i.e. dividend declared after the reporting period but it pertains to that reporting year) in its financial statements, the investor's share of the results of operations of the associate should be computed without taking into consideration the proposed dividend.

(ii) In case an associate has made a provision for proposed dividend (i.e. dividend declared after the reporting period but it pertains to that reporting year) in its financial statements, the investor's share of the results of operations of the associate should be computed after taking into consideration the proposed dividend.

(iii) The potential equity shares of the investee held by the investor should not be taken into account for determining the voting power of the investor.

(iv) The potential equity shares of the investee held by the investor should be taken into account for determining the voting power of the investor.

(a) Statement (i) and (iii).

(b) Statement (ii) and (iv).

(c) Statement (i) only.

(d) Statement (iii) only.

ANSWERS :

1.	(c)	2.	(a)	3.	(b)	4.	(a)	5.	(a)

ACCOUNTING STANDARD 24 - DISCONTINUING OPERATIONS

1. AB decided to dispose of its Clothing division as part of its long-term strategy.
   (a) Date of Board approval - 1st March 20X1;
   (b) Date of formal announcement made to affected parties - 15th March 20X1.
   (c) Date of Binding Sale agreement – 1st July 20X1;
   (d) Reporting date – 31st March 20X1

   The date of initial disclosure event would be:
   (a) 1st March 20X1
   (b) 15th March 20X1
   (c) 31st March 20X1
   (d) 31st July 20X1
2. To qualify as a component that can be distinguished operationally and for financial reporting purposes, the condition(s) to be met is (are):
   (a) The operating assets and liabilities of the component can be directly attributed to it.
   (b) Its revenue can be directly attributed to it.
   (c) At least a majority of its operating expenses can be directly attributed to it.
   (d) All of the above
3. Identify which of the following statements is incorrect?
   (a) A discontinuing operation is a component of an enterprise that represents a separate major line of business or geographical area of operations.
   (b) A discontinuing operation is a component of an enterprise that can be distinguished operationally and for financial reporting purposes.
   (c) A discontinuing operation is a component of an enterprise that may or may not be distinguished operationally and for financial reporting purposes.
   (d) A discontinuing operation may be disposed of in its entirety or piecemeal, but always pursuant to an overall plan to discontinue the entire component.
4. Identify the incorrect statement.
   (a) Discontinuing operations are infrequent events, but this does not mean that all infrequent events are discontinuing operations.
   (b) The fact that a disposal of a component of an enterprise is classified as a discontinuing operation under AS 24 would always raise a question regarding the enterprise's ability to continue as a going concern.

(c) For recognising and measuring the effect of discontinuing operations, AS 24 does not provide any guidelines, but for the purpose the relevant Accounting Standards should be referred.

(d) An enterprise shall include a description of the discontinuing operation, in its financial statements beginning with the financial statements for the period in which the initial disclosure event occurs.

ANSWERS :

1.	(b)	2.	(d)	3.	(c)	4.	(b)

ACCOUNTING STANDARD 25 - INTERIM FINANCIAL REPORTING

1. AS 25 mandates the following in relation to interim financial reports.
   (a) which entities should publish interim financial reports.
   (b) how frequently it should publish interim financial reports.
   (c) how soon it should publish after the end of interim period.
   (d) none of the above.
2. The standard defines Interim financial Report as a financial report for an interim period that contains a set of _________ financial statements.
   (a) Complete
   (b) Condensed
   (c) Financial statement similar to annual
   (d) Either complete or condensed
3. ABC Limited has reported ₹ 85,000 as per tax profit in first quarter and expects a loss of ₹ 25,000 each in subsequent quarters. It has corporate tax rate slab of 20% on the first ₹ 20,000 earnings and 40% on all additional earnings. Calculate tax expenses that should report in first quarter interim financial report.
   (a) ₹ 17,000
   (b) ₹ 30,000
   (c) ₹ 2,000
   (d) AS 25 does not mandate to report tax expenses
4. An entity prepares quarterly interim financial reports in accordance with AS 25. The entity is engaged in sale of mobile phones and normally 5% of customers claim on their warranty. The provision in the first quarter was calculated as 5% of sales to date, which was ₹10 million. However, in the second quarter, a fault was found and warranty claims were expected to be 10% for the whole of the year. Sales in the second quarter were ₹15 million. What would be the provision charged in the second quarter's interim financial statements?
   (a) ₹1 million
   (b) ₹ 2 million
   (c) ₹ 1.25 million
   (d) ₹ 1.5 million

5. XYZ limited is incorporated on 01.10.2022 in India. Its first financial statement is prepared on 31.03.2023 for 6 months. AS 25 is applicable for XYZ Limited if financial statements are published :

   (a) From 01.10.2022 to 31.03.2023

   (b) From 01.10.2022 to 31.12.2024

   (c) From 01.10.2022 to 31.12.2022

   (d) AS 25 is not applicable during 1st year of operations.

6. Following is not part of Minimum component of an Interim Financial Report :

   (a) Condensed Cashflow Statement

   (b) Condensed Director's Report

   (c) Condensed Profit & Loss Statement

   (d) Selected Explanatory Notes

7. Interim period as per AS 25 means :

   (a) A Quarter

   (b) Half year

   (c) A Calendar year

   (d) Any period shorter than a full financial year

ANSWERS :

1.	(d)	2.	(d)	3.	(a)	4.	(b)
5.	(c)	6.	(b)	7.	(d)		

ACCOUNTING STANDARD 26 - INTANGIBLE ASSETS

1. Which of the following is not covered within the scope of AS 26?
   (a) Intangible assets held-for-sale in the ordinary course of business
   (b) Assets arising from employee benefits
   (c) (a) & (b) both
   (d) Research and development activities
2. Intangible asset is recognised if it:
   (a) meets the definition of an intangible asset
   (b) is probable that future economic benefits will flow
   (c) the cost can be measured reliably
   (d) meets all of the above parameters
3. Sun Limited has purchased a computer with various additional software. These are integral part of the computer. Which of the following are true in the context of AS 26:
   (a) Recognise Computer and software as tangible asset
   (b) Recognise tangible and intangible separately
   (c) Recognise computer and software as intangible asset
   (d) Does not recognize the software as an asset.
4. Hexa Ltd developed a technology to enhance the battery life of mobile devices. Hexa has capitalised development expenditure of ₹ 5,00,000. Hexa estimates the life of the technology developed to be 3 years but the company has forecasted that 50% of sales will be in year 1, 35% in year 2 and 15% in year 3. What should be the amortisation charge in the second year of the product's life?
   (a) ₹ 2,50,000
   (b) ₹ 1,75,000
   (c) ₹ 1,66,667
   (d) ₹ 1,85,000
5. Which of the following expense can be capitalized as per AS 26?
   (a) Expenditure on Major advertising
   (b) Expenditure on an intangible item that was initially recognised as an expense in the previous Financial Year
   (c) Expenditure on training activities of new license acquired
   (d) Subsequent expenditure on Intangible asset which will enhance future benefit expenditure that can be measured reliably

6. AS 26 is applicable to following:
   (a) Deferred tax assets
   (b) Rights under licensing agreements for films
   (c) Financial Assets
   (d) Goodwill arising on an amalgamation
7. Which of the following expenditure may be capitalized as per AS 26?
   (a) Activities aimed at obtaining new knowledge
   (b) The search for alternatives for products
   (c) The design of tools, jigs, moulds and dies involving new technology
   (d) Internally generated Customers list
8. As per AS 26 there is a rebuttable presumption that the useful life of an intangible asset will not exceed
   (a) 2 years
   (b) 5 years
   (c) 10 years
   (d) 15 years
9. An entity purchase a license for 12 years. However, entity estimates that license can be used only for 8 years because fast growing technology. What should be the amortisation period of license?
   (a) 12 years
   (b) 10 years as per rebutable presumption
   (c) 8 years
   (d) Should be charged off in first year.
10. X Limited purchased a license for ₹ 5 lakh. Company assumes that the license can be sold to third party after useful life for ₹ 20,000. As per flea market, the license can be sold ₹ 50,000 but flea market is not estimated to be in existence from next year. Present value of ₹ 20,000 is ₹ 1500. What should be the residual value of license?
    (a) NIL
    (b) ₹ 20,000
    (c) ₹ 50,000
    (d) ₹ 1500

11. Gain or loss arising from the disposal of an intangible asset is
    (a) Recognised as income or expense in the Statement of Profit and Loss in the year of disposal.
    (b) Deferred over a period of five years
    (c) Capitalized
    (d) Not recognized at all
12. Gujarat government has provided X Limited license to operate radio for ₹ 1 lakh for 5 years. Market value of the license is ₹ 10 lakh. X limited incurred ₹ 50,000 as Initial direct cost for operating the license. What should be the accounting treatment of the license?
    (a) Capitalize at ₹ 1.5 lakh
    (b) Capitalize at ₹ 10.5 lakh
    (c) Capitalize at ₹1 lakh ₹ 50,000 should be charged as expense
    (d) ₹ 1.5 lakh should be charged as expense in the first year

ANSWERS :

1.	(c)	2.	(d)	3.	(a)	4.	(b)
5.	(d)	6.	(b)	7.	(c)	8.	(c)
9.	(c)	10.	(a)	11.	(a)	12.	(a)

NOTES

ACCOUNTING STANDARD 27 - FINANCIAL REPORTING OF INTERESTS IN JOINT VENTURES

1. State which of the following statements are incorrect.

   (i) The requirements relating to accounting for joint ventures in consolidated financial statements according to proportionate consolidation method, as contained in AS 27, applies only when consolidated financial statements are prepared by venturer.

   (ii) The requirements relating to accounting for joint ventures in consolidated financial statements according to proportionate consolidation method, as contained in AS 27, applies irrespective whether consolidated financial statements are prepared by venturer or not.

   (iii) An investor in joint venture, which does not have joint control, should report its interest in a joint venture in its consolidated financial statements in accordance with AS 13, AS 21 and AS 23as the case may be.

   (a) Point (i) is incorrect.

   (b) Point (ii) is incorrect.

   (c) Point (iii) is incorrect.

   (d) None of the above.

2. Identify which of the following is not a feature of a Jointly controlled operations (JCO):

   a. Each venturer has his own separate business.

   b. There is a separate entity for joint venture business.

   c. Each venturer record only his own transactions without any separately set of books maintained for the joint venture business.

   d. There is a common agreement between all of them.

3. Identify which of the following is/are not a feature of a Jointly controlled assets (JCA):

   (i) There is a separate legal identity.

   (ii) There is a common control over the joint assets.

   (iii) Expenses on jointly held assets are shared by the venturers as per the contract.

   (iv) In their financial statement, venturer shows only their share of the asset and total income earned by them along with total expenses incurred by them.

   (a) Point no. (i) only.

   (b) Point no. (i) and (iii).

(c) Point no. (iii) and (iv).

(d) Point (i) and (ii).

4. Identify which is/are not features of a Jointly controlled entity (JCE):

(i) Venturer creates a new entity for their joint venture business.

(ii) All the venturers pool their resources under new banner and this entity purchases its own assets, create its own liabilities, expenses are incurred by the entity itself and sales are also made by this entity.

(iii) The revenues and expenses of the entity is shared by the venturers in the ratio agreed upon in the contractual agreement.

(a) Point no. (i) only.

(b) Point no. (i) and (ii).

(c) Point no. (iii).

(d) Point no. (iii).

5. Identify the correct statements.

From the date of discontinuing the use of the proportionate consolidation method:

(i) If interest in entity is more than 50%, investments in such joint ventures should be accounted for in accordance with AS 21, Consolidated Financial Statements.

(ii) If interest is 20% or more but upto 50%, investments are to be accounted for in accordance with AS 23, Accounting for Investment in Associates in Consolidated Financial Statements.

(iii) For all other cases investment in joint venture is treated as per AS 13, Accounting for Investments.

(iv) For this purpose, the fair value of the investment at the date on which joint venture relationship ceases to exist should be regarded as cost thereafter.

(a) Point no. 1 and 2.

(b) Point no. 1, 2 and 3.

(c) Point no. 1, 2, 3 and 4.

(d) None of the above.

ANSWERS :

1.	(b)	2.	(b)	3.	(a)	4.	(c)	5.	(b)

ACCOUNTING STANDARD 28 - IMPAIRMENT OF ASSETS

1. If there is indication that an asset may be impaired but the recoverable amount of the asset is more than the carrying amount of the asset, the following are true:
   (a) No further action is required and the company can continue the asset in the books at the book value itself.
   (b) The entity should review the remaining useful life, scrap value and method of depreciation and amortization for the purposes of AS 10.
   (c) The entity can follow either (a) or (b).
   (d) The entity should review the scrap value and method of depreciation and amortization for the purposes of AS 10.
2. In case Goodwill appears in the Balance Sheet of an entity, the following is true:
   (a) Apply Bottom up test if goodwill cannot be allocated to CGU (cash generating unit) under review.
   (b) Apply Top down test if goodwill cannot be allocated to CGU (cash generating unit) under review.
   (c) Apply both Bottom up test and Top down test if goodwill cannot be allocated to CGU (cash generating unit) under review.
   (d) Apply either Bottom up test or Top down test if goodwill cannot be allocated to CGU (cash generating unit) under review.
3. In case of Corporate assets in the Balance Sheet of an entity, the following is true:
   (a) Apply Bottom up test if corporate assets cannot be allocated to CGU (cash generating unit) under review.
   (b) Apply Top down test if corporate assets cannot be allocated to CGU (cash generating unit) under review.
   (c) Apply both Bottom up test and Top down test if corporate assets cannot be allocated to CGU (cash generating unit) under review.
   (d) Apply either Bottom up test or Top down test if corporate assets cannot be allocated to CGU (cash generating unit) under review.
4. In case of reversal of impairment loss, which statement is true:
   (a) Goodwill written off can never be reversed.
   (b) Goodwill written off can be reversed without any conditions to be met.
   (c) Goodwill written off can be reversed only if certain conditions are met.
   (d) Goodwill written off can be reversed.

ANSWERS :

1.	(b)	2.	(c)	3.	(c)	4.	(c)

ACCOUNTING STANDARD 29 (REVISED) - PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

1. Which of the following best describes a provision
   (a) A provision is a liability of uncertain timing or amount.
   (b) A provision is a possible obligation of uncertain timing.
   (c) A provision is a credit balance set up to offset a contingent asset so that the effect on the statement of financial position is nil.
   (d) A provision is a possible obligation of uncertain amount.
2. X Co is a business that sells second hand cars. If a car develops a fault within 30 days of the sale, X Co will repair it free of charge. At 1 st March 20X1, X Co had made a provision for repairs of ₹ 25,000. At 31st March 20X1, X Co calculated that the provision should be ₹ 20,000. What entry should be made for the provision in X Co's income statement for the month 31st March 20X1?
   (a) A charge of ₹ 5,000
   (b) A credit of ₹ 5,000
   (c) A charge of ₹ 20,000
   (d) A credit of ₹ 25,000
3. Which of the following item does the statement below describe?

" A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the entity's control"
   (a) A provision
   (b) A current liability
   (c) A contingent liability
   (d) Deferred tax liability
4. Z Ltd has commenced a legal action against Y Ltd claiming substantial damages for supply of a faulty product. The lawyers of Y Ltd have advised that the company is likely to lose the case, although the chances of paying the claim is remote. The estimated potential liability estimated by the lawyers are:

   Legal cost (to be incurred irrespective of the outcome of the case) ₹ 50,000 Settlement if the claim is required to be paid ₹ 5,00,000

   What is the appropriate accounting treatment in the books of Z Ltd.?

(a) Create a Provision of ₹ 5,50,000

(b) Make a Disclosure of a contingent liability of ₹ 5,50,000

(c) Create a Provision of ₹ 50,000 and make a disclosure of contingent liability of ₹ 5,00,000

(d) Create a Provision of ₹ 5,00,000

5. As per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets' warranty claims normally generate

(a) A contingent liability

(b) A provision

(c) A contingent asset

(d) An onerous contract

6. In line with AS 29 'Provisions, Contingent Liabilities and Contingent Assets', a provision shall be recognized when

(a) An entity has a present obligation that is a result of a past event.

(b) It is probable that an outflow of resources embodying economic benefits will be required.

(c) A reliable estimate can be made of the amount of the obligation

(d) All the three

7. Which of the following item does the statement below described? 'A possible obligation that arises from past events and whose existence will be confirmed of one or more uncertain future events not wholly within the entity's control'

(a) A provision

(b) A current liability

(c) A contingent liability

(d) Deferred tax liability

8. XYZ limited has likely liability of ₹ 10 Crore for which it is considering to create provision in books of accounts. However, if liability materialises, then XYZ limited is entitled to sell an asset of ₹ 1 Crore. What should be the accounting treatment of ₹ 1 Crore while recognizing provision in books ?

(a) ₹ 1 Crore should be ignored

(b) Provision should be reduced by ₹ 1 Crore

(c) Gain should be recorded separately for ₹ 1 Cr.

(d) Present value of ₹ 1 Cr. should be recorded as income.

9. A company had made a provision for rent liability of ₹ 10 Cr. & interest provision of ₹ 1 Cr. However, Court made order to the company to pay ₹ 8 Cr Rent & ₹ 1.5 Cr. interest. What should be the correct accounting treatment?

   (a) Provision for Rent of ₹ 2 Cr. shall be written back and provision for interest shall be increased by ₹ 0.5 Cr.

   (b) Provision for Rent of ₹ 1.5 Cr. shall be written back and remaining rent provision shall be adjusted with additional interest by ₹ 0.5 Cr.

   (c) Total provision of ₹ 11 Cr. shall be written back and fresh rent & interest expense shall be booked by ₹ Cr. & ₹ 1.5 Cr. respectively.

   (d) Provision for Rent of ₹ 10 Cr. shall be written back and provision for interest shall be increased by ₹ 0.5 Cr.

10. When should a company dealing in hazardous goods make provision for social welfare expenditure if it is to be made mandatory as per new law? Till 31.03.2022, it was not mandatory. On 10.05.2022, minister made an announcement of developing the new law. On 12.09.2022, both houses of parliament approved it pending for Presidential approval. On 29.09.2022, President approved the new law. On 02.10.2022, gazette notification is issued for the new law.

    (a) On 10.05.202

    (b) On 29.09.2022

    (c) On 02.10.2022

    (d) Since incorporation of the company as per moral duty

    (d) Create a Provision of ₹ 5,00,000

11. An entity has made a provision for insurance liability of ₹ 5 Cr. Company has a policy to recover its insurance expenses from its dealers. What will be the accounting treatment if the recovery amount will be ₹ 6 Cr. or ₹ 4 Cr.?

    (a) Make provision of ₹ 5 Cr & Show receivable of ₹ 6 Cr. or 4 Cr.

    (b) Make provision of ₹ 5 Cr & Show receivable of ₹ 5 Cr. or 4 Cr.

    (c) Make provision of NIL or ₹ 1 Cr. & show receivable of ₹ 1 Cr. or NIL

    (d) Make provision of NIL or ₹ 1 Cr & show receivables of NIL.

12. What should be the accounting treatment of Income which is Virtually certain?

    (a) Recognised in P&L

    (b) Disclosed in notes to accounts

    (c) Considered as Remote

    (d) No Action is required

13. AS 29 is applicable in making provision from which of the following case?
    - (a) Onerous Contract
    - (b) Executory Contract
    - (c) Provision for employee benefit
    - (d) Income tax provision
14. Contingent Liabilities is disclosed
    - (a) In Directors Report
    - (b) Auditors Report
    - (c) In Notes to Accounts
    - (d) In Liabilities Side of the Balance Sheet

ANSWERS :

1.	(a)	2.	(b)	3.	(c)	4.	(c)
5.	(b)	6.	(d)	7.	(c)	8.	(a)
9.	(a)	10.	(b)	11.	(b)	12.	(a)
13.	(a)	14.	(c)				