INDEX

MCQ's

FINANCIAL STATEMENTS OF COMPANIES

ICAI MCQs

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 current year & 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 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

7. 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.

8. 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-progress.

9. "Fixed assets held for sale" will be classified in the Balance sheet as per Schedule III of the Companies Act as *(PYQ Sep 2024)*
   a) Deferred tax assets
   b) Current Asset
   c) Non-Current Asset
   d) Long Term Investments

10. Glow Limited had taken a loan of ₹ 5,00,000 in June, 2023. The loan is to be repaid in 10 half yearly equal instalments starting from December, 2023. Determine how the remaining loan will be classified in the Balance sheet as on 31st March, 2024 as per Schedule III of the Companies Act, 2013? *(PYQ Jan 2025)*
    a) ₹ 3,50,000 is to be shown under the head 'Long Term Borrowings' and ₹ 75,000 is to be shown under the head 'Short Term Borrowings' and ₹ 25,000 is to be shown under the head 'Other Current Liabilities'
    b) ₹ 3,50,000 is to be shown under the head 'Long Term Borrowings' and ₹ 1,00,000 is to be shown under the head 'Short Term Borrowings'
    c) ₹ 4,50,000 is to be shown under the head 'Long Term Borrowings'
    d) ₹ 3,50,000 is to be shown under the head 'Long Term Borrowings' and ₹ 1,00,000 is to be shown under the head 'Other Current Liabilities

ADDITIONAL MCQs

11. Ankesh Ltd. is a company that is required to present its financial statements as per the Schedule III. While making ageing of trade receivables what are the first 2 classifications?
    a) Less than 12 months , 12 months – 24 months
    b) Less than 6 months , 6 months – 12 months
    c) Less than 6 months , 6 months – 24 months
    d) None of the above

12. Mukesh Ltd. is a company that is required to present its financial statements as per the Schedule III. While making ageing of trade payables what are the first 2 classifications?
    a) Less than 12 months , 12 months – 24 months
    b) Less than 6 months , 6 months – 12 months
    c) Less than 6 months , 6 months – 24 months
    d) None of the above

13. The balance of reserves after withdrawal of amount for declaration of dividend should not fall below ……………………. as appearing in the latest audited financial statement.
    a) 25% of its paid up share capital
    b) 25% of its authorised share capital
    c) 15% of its paid up share capital
    d) 15% of its authorised share capital

14. Good Writing Ltd. had incurred a loss of ₹ 25 crore during financial year 2023-24 up to the end of second quarter. Board of directors of Good Writing Ltd. has declared interim dividend. The rate of dividend of last 3 years are 10%, 20% and 6% respectively.
What is the maximum rate of interim dividend is allowed?
   a) 10%
   b) 20%
   c) 6%
   d) 12%

15. Provision for gratuity is shown in the balance sheet of a company under the head ....
   a) Reserves and surplus
   b) Non-current liabilities
   c) Current liabilities
   d) Contingent liabilities

16. State under which head unpaid matured debenture and interest accrued thereon should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:
   a) Short Term Borrowings
   b) Money received against share warrants
   c) Other Current Liabilities
   d) Long Term Borrowings

17. Board of directors declared dividend of 5% on the paid up capital on 2nd April, 2023 for the year ended on March 31, 2023. State under which head dividend should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013
   a) Reserve and Surplus
   b) Current Liabilities
   c) Share Capital
   d) None of Above

18. The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is inclusive of ₹ 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery. How much amount is shown under Long term borrowing?
   a) ₹ 7,20,000
   b) ₹ 7,12,000
   c) ₹ 7,50,000
   d) ₹ 7,12,500

19. State under which head Unclaimed Dividend should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:
   a) Other Long term Liabilities
   b) Short Term Provision
   c) Other Expenses
   d) Other Current Liabilities

20. Contingent Liabilities are shown under which head in Books of Accounts:
   a) In P&L Statement after the other Expense Head
   b) In Balance Sheet after the Long Term Liability
   c) In Balance Sheet after the Short Term Liability
   d) Shown as a footnote in the balance sheet.

21. Y Ltd. took loan from bank for ₹ 20,00,000 to be settled within 5 years in 10 equal half yearly instalments with interest. First instalment is due on 30.09.2023 of ₹ 2,00,000. Determine the amount of loan to be classified under short-term borrowing and long-term borrowing respectively in preparation of Financial Statements of Y Ltd. for year ended 31st March, 2023.
    e) Nil; ₹ 20,00,000
    f) ₹ 4,00,000; ₹ 16,00,000
    g) ₹ 20,00,000; Nil
    h) ₹ 2,00,000; ₹ 18,00,000

Answers:

1: (c)	2: (a)	3: (a)	4: (b)	5: (b)	6: (b)	7: (c)
8: (b)	9: (b)	10: (b)	11: (b)	12: (a)	13: (c)	14: (d)
15: (b)	16: (c)	17: (d)	18: (d)	19: (d)	20: (d)	21: (b)

CASH FLOW STATEMENTS (AS 3)

ICAI MCQs

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 sharesas
   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 aninsignificant 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. 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.

7. 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.

8. 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.

9. 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.

10. 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

11. 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

12. 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.

13. How should the dividend paid by the Company should be disclosed in the Cash Flows Statement:
a) Cash flows from Operating Activities
b) Cash flows from Investing Activities
c) Cash flows from Financing Activities
d) No disclosure in Cash Flow Statement

ADDITIONAL MCQs

14. Which of the following activities is investing activity in cash flow?
a) Sale of investment by non-financial enterprise
b) Issuing a debenture
c) Paying back a loan
d) The raw material purchased with cash

15. Nora Ltd., arrived at a net profit of ₹ 5,00,000 for the year ended March 31, 2023. Depreciation for the year was ₹ 2,00,000. There was a profit of ₹ 50,000 on assets sold which was transferred to Statement of Profit and Loss account. Trade Receivables increased during the year ₹ 40,000 and Trade Payables also increased by ₹ 60,000. Compute the cash flow from operating activities by indirect method.
    a) ₹ 5,50,000
    b) ₹ 5,60,000
    c) ₹ 6,70,000
    d) ₹ 6,60,000

16. In case of other enterprises cash flow arising from interest paid should be classified as cash flow from ________ while dividends and interest received should be stated as cash flow from ____.
    a) Operating activities, financing activities
    b) Financing activities, investing activities
    c) Investing activities, operating activities
    d) None of the above

17. The aggregate cash flows arising from acquisitions and disposals of subsidiaries or other business units should be presented separately and classified as which activities.
    a) Operating activities
    b) Investing activities
    c) Financing activities
    d) None of the above

18. Which are examples of non-cash transactions are:
    a) the acquisition of assets by assuming directly related liabilities
    b) the buyback of shares from open market
    c) the acquisition of an enterprise by means of payment through demand draft.
    d) the redemption of debentures

19. How to report the effect of changes in exchange rates on cash and cash equivalents held in a foreign currency?
    a) Should be reported as a separate notes after financial statements
    b) Should be reported as part of the reconciliation of the changes in cash and cash equivalents during the period
    c) Should not be reported anywhere
    d) Should be reported by CA in special report.

20. Where to show dividends received and dividends paid in cash flow statement.
    a) Investing activities; financing activities
    b) Financing activities; operating activities
    c) Investing activities; operating activities
    d) Financing activities; investing activities

21. XYZ Ltd. has interest payable at beginning and end of the year for ₹ 100 and ₹ 230 respectively. Company has incurred ₹ 400 as interest expenses for the year. Help Mr A in calculation of Interest paid during the year 2023.
    a) ₹ 270
    b) ₹ 260
    c) ₹ 250
    d) ₹ 240

22. Cash flows arising from capitalised research and development costs and self-constructed fixed assets are part of..............................
    a) Investing activities
    b) Operating activities
    c) Financing activities
    d) None of above

23. A non-trading company pays ₹4,00,000 to acquire shares in Ranbir Ltd. and receive ₹ 40,000 as dividend after Acquisition. In the Cash flow statement, these transactions will result in:
    a) Cash used in Investing Activities ₹ 3,60,000
    b) Cash generated from Investing Activities ₹ 3,60,000
    c) Cash used in Investing activities ₹ 4,00,000 & Cash flow from Financing activities ₹ 40,000
    d) Cash generated from Financing Activities ₹ 4,00,000

24. M/s Anmol & Sons; A Bamboo pens producing company, purchased machinery for ₹9,00,000. It received a dividend of ₹70,000 on investment in shares. The company also sold an old machine with the book value of ₹79,000 at a loss of ₹10,000 Compute the amount of Cash flow/used from/in Investing Activities.
    a) 7,41,000
    b) 7,61,000
    c) 8,81,000
    d) 8,31,000

25. From the following data, find the value of building sold during the year:

Particulars	31.3.2023	31.3.2024
Land & building	2,00,000	1,70,000
Capital reserve	Nil	20,000

A piece of land has been sold during the year and the profit on sale has been credited to capital reserve. Depreciation charged on the building during the year is ₹ 5,000; no additions have been made under this head during the year.
    a) ₹ 30,000
    b) ₹ 50,000
    c) ₹ 40,000
    d) ₹ 45,000

26. Some of the account balances of KK Ltd. are as follows in its balance sheet:

	2023 (₹)	2024 (₹)
Share Capital	2,50,000	4,50,000
10% Debentures	2,00,000	1,50,000
Share Premium	25,000	50,000

If interest paid on debentures was 20,000, the net cash flows from financing activities were:
    a) ₹ 1,75,000
    b) ₹ 1,55,000
    c) ₹ 2,05,000
    d) ₹ 2,25,000

27. Investments at the beginning and at the end of the year 2023-24 were ₹ 255 Lakh and ₹ 210 Lakh respectively. During the year 40% of original investments were sold at a profit of ₹63 Lakh. Amount of cash inflow & outflow respectively from Investments will be:
   a) ₹ 102 Lakh and ₹ 57 Lakh
   b) ₹ 165 Lakh and ₹ 57 Lakh
   c) ₹ 45 Lakh and Nil
   d) ₹ 147 Lakh and ₹ 39 Lakh

28. The following information of a non-financial enterprise is given:
   (i) Purchase of fixed assets ₹ 40,000;
   (ii) Proceeds from the sale of equipment ₹ 35,000;
   (iii) Interest received ₹ 3,000;
   (iv) Interest paid ₹ 6,000,
   (v) Dividend received ₹ 4,000 and
   (vi) Dividend paid ₹ 15,000.

   Amount of cash generated from/(used in) investing activities will be –
   a) ₹ 1,000
   b) ₹ (4,000)
   c) ₹ 2,000
   d) ₹ (2,000)

Answers:

1: (a)	2: (b)	3: (a)	4: (d)	5: (d)	6: (c)	7: (b)
8: (c)	9: (a)	10: (c)	11: (a)	12: (c)	13: (c)	14: (a)
15: (c)	16: (b)	17: (b)	18: (a)	19: (b)	20: (a)	21: (a)
22: (a)	23: (a)	24: (b)	25: (d)	26: (b)	27: (b)	28: (c)

BUY-BACK OF SECURITIES

ICAI MCQs

1) As per section 68(1) of the Companies Act, buy-back of own shares by thecompany, 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-upcapital 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-fiveper 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-backshould 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 arecancelled.
   c) Discourage others to make hostile bid to take over the company as thebuy-back will increase the promoters holding.
   d) All of the above.

ADDITIONAL MCQs

7) Debt Equity ratio after buyback must not be more than………
   a) 1:1
   b) 1:2
   c) 2:3
   d) 2:1

8) As per section 68 of the Companies Act, 2013, a company can buy back its own shares out of:
   a) Free Reserves which are available for distribution as dividend.
   b) Securities premium account.
   c) Proceeds of fresh issue of shares or other specified securities.
   d) All of the above.

9) If shares are bought back out of free reserves then a sum equal to nominal value of the shares so bought back is transferred to:
   a) Capital reserve account.
   b) Capital redemption reserve account (CRR).
   c) General reserve account.
   d) Forfeited shares account.

10) For cancellation of shares at the time of buy back:
   a) Equity share capital a/c is debited and shareholders account is credited
   b) Shareholders account is debited and Equity share capital account is credited
   c) Equity share capital is debited and CRR is credited
   d) Equity share capital is debited and Shares Surrendered is credited

11) Which of the following is not a free reserve for the purpose of buyback of shares?
   a) General reserves
   b) Surplus
   c) Dividend equalisation reserves
   d) Revaluation reserve

12) The maximum permissible buy-back under the Companies Act, 2013 is
   a) 15% of paid-up capital with Board resolution.
   b) 25% of paid-up capital with Board resolution.
   c) 25% of the aggregate of paid-up capital and free reserves of the company with a special resolution of shareholders.
   d) 25% of the aggregate of paid-up capital and free reserves of the company with an ordinary resolution of shareholders.

13) For buy-back up to _____________of the company, Board resolution is sufficient.
   a) 10% of paid-up capital
   b) 10% of free reserves
   c) 10% of paid-up capital or free reserves
   d) 10% of paid-up capital and free reserves

14) No offer of buy-back shall be made within a period of reckoned from the date of the closure of the preceding offer of buy-back
   a) 6 months
   b) 1 year

c) 2 years
d) 10 months

15) The Paid-up equity shares capital of ABC Ltd. is ₹ 50,00,000 having a face value of ₹ 10 each fully paid-up. Other details:
General Reserve = ₹ 15,00,000
Capital Redemption Reserve = ₹ 4,00,000
Profit & Loss Account = ₹ 1,00,000
Statutory reserve = ₹ 6,40,000
Securities Premium = ₹ 1,00,000

The Board of Directors passed a resolution in a Board meeting to buy back a maximum number of shares as allowed by law. Maximum No. of shares that can be bought back =?
a) 50,000 shares
b) 67,000 shares
c) 1,25,000 shares
d) 1,67,500 shares

16) N Ltd. had 90,000 equity shares of ₹ 100 each, fully paid up. The company decided to buy back 10% shares at par by the issue of the sufficient number of preference shares. N Ltd. does not have any reserves.
How many preference shares are required to be issued if new preference shares are to be issued at ₹ 10 each?
a) 9,00,000 shares
b) 90,000 shares
c) 1,00,000 shares
d) 1,20,000 shares

17) S Ltd. decided to buy back 2,000 equity shares of ₹ 100 each at a premium of 10%. For the purpose of redemption, the company issued 15,000 10% Preference shares of ₹ 10 each at a premium of 20%. At the time of buy-back shares, the amount to be transferred by the company to the Capital Redemption Reserve Account =?
a) ₹ 20,000
b) ₹ 50,000
c) ₹ 1,50,000
d) ₹ 2,00,000

Answers:

1: (a)	2: (c)	3: (b)	4: (b)	5: (c)	6: (c)	7: (d)
8: (d)	9: (b)	10: (a)	11: (d)	12: (c)	13: (d)	14: (b)
15: (b)	16: (b)	17: (b)				

INTERNAL RECONSTRUCTION

ICAI MCQs

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) General Reserves

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.

ADDITIONAL MCQs

7. Increase in value of Liability under Internal Reconstruction is debited to ____________.
   a) Profit & Loss A/c
   b) Goodwill A/c
   c) Capital Reduction A/c
   d) None.

8. The existing 1,000 shares of ₹ 100 each are altered to 10,000 shares of ₹ 10 each. This is known as
   a) Consolidation
   b) Sub-division
   c) Conversion in Stock
   d) Surrender

9. The existing 1,000 shares of ₹ 1 each are altered to 100 shares of ₹ 10 each. This is known as
   a) Consolidation
   b) Sub-division
   c) Conversion in Stock
   d) Surrender

10. Any credit balance on Capital Reduction Account after writing off losses is transferred to_____ Account.
   a) Reserve & Surplus
   b) Profit & Loss
   c) Share Capital
   d) Capital Reserve

11. Creditors of the company are ₹ 50,00,000 one creditor for ₹ 20,00,000 decided to forego 40% of his claim. He is allotted 30,000 equity shares of ₹ 40 each in full satisfaction. The amount transferred to capital reduction is __________.
   a) 8,00,000
   b) 20,00,000
   c) 12,00,000
   d) 50,00,000

12. The preference shareholders agree to forego arrears of preference dividend of ₹ 72,000. The amount transferred to Capital Reduction Account is __________ .
   a) Nil
   b) 72,000
   c) 36,000
   d) 70,000

13. Creditors are ₹ 3,00,000. They are given option to either accept 50% of their claim in cash in full settlement or to convert their claim into equity shares of ₹ 10 each. Creditors of ₹ 2,00,000 opt for shares in satisfaction of claim. Capital reduction A/c is credited by ______.
   a) 1,00,000
   b) 1,50,000
   c) 50,000
   d) 2,00,000

14. Investment costing of ₹ 24,000 given to Bank for bank overdraft of 16,800. The capital reduction is debited by ________.
   a) 24,000
   b) 8,000
   c) 7,200
   d) 16,800

15. Provision for taxation is ₹ 1,00,000. The tax liability of the company is settled at ₹ 80,000 & it is paid immediately. Amount credited to capital reduction is ___________ .
    a) 80,000
    b) 1,00,000
    c) 20,000
    d) 60,000

16. 6% debentures of ₹ 100 each amounting ₹ 1,00,000 to be converted into such number of 8% debentures of ₹ 50 each as to generate the same amount of interest as before. The amount of 8% debentures will be _________ .
    a) 1,00,000
    b) 25,000
    c) 75,000
    d) 1,20,000

Answers:

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

AMALGAMATION (AS 14)

ICAI MCQs

1. Which of the following statement is correct:
   a) In case of merger – ESH can be issued equity shares or Preference 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.

2. 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.

3. 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.

4. 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 taken over at agreed values or book values.
   c) Both (a) and (b) are correct.
   d) Only (a) is correct.

5. State which statement is incorrect:
   a) In case of merger – We can issue either preference shares or equityshares to PSH.
   b) In case of Purchase – We can issue either preference shares or equityshares to PSH.
   c) In case of merger – We can issue only preference shares to PSH.
   d) none of the above.

6. 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

7. 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.

8. 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.

9. 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

10. A company into which the vendor company is merged is called
    a) Transferee company.
    b) Transferor company.
    c) Selling company.
    d) Acquiree company.

11. 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.

ADDITIONAL MCQs

12. When two or more companies carrying on similar business decide to combine, a new company is formed, it is known as ....
    a) Amalgamation
    b) Absorption
    c) Internal reconstruction
    d) External reconstruction

13. When one of the existing companies takes over business of another company or companies, it is known as ....
    a) Amalgamation
    b) Absorption
    c) Internal reconstruction
    d) External reconstruction

14. Zee Ltd.'s purchase consideration is ₹ 12,345 and Net Assets ₹ 3,568, then______.
    a) Goodwill ₹ 8,777
    b) Capital Reserve ₹ 8,777
    c) Goodwill ₹ 15,913
    d) Capital Reserve ₹ 15,913

15. For amalgamation in the nature of merger, the shareholders holding at least ______ or more of the equity shares of the transferor company becomes the equity shareholders of the transferee company.
    a) 51%
    b) 90%
    c) 99%
    d) 100%

16. Goodwill arising on amalgamation is to be amortised:
    a) Within 8 years.
    b) Within 5 years unless a longer period is justified.
    c) Within 10 years.
    d) Within 3 years.

17. Under the pooling of interest method where it will be adjusted, the difference between share capital of the transferor company and the considerations paid.
    a) Goodwill or Capital reserve.
    b) The general reserve or other reserves of the transferee company.
    c) Amalgamation Adjustment Account.
    d) All of the above.

18. When purchasing company bears the liquidation expenses, it will debit the expenses to
    a) Vendor Company's Account
    b) Bank Account
    c) Goodwill Account
    d) Realisation Account

19. When the Vendor (seller) company agrees to bear liquidation expenses, it will debit
    a) Realisation Account
    b) Bank Account
    c) Goodwill Account
    d) None

20. As per AS-14 purchase consideration is what is payable to
    a) Shareholders
    b) Creditors
    c) Debenture holders
    d) Shareholders and Debenture holders.

Answers:

1: (b)	2: (c)	3: (d)	4: (d)	5: (c)	6: (b)	7: (a)
8: (c)	9: (b)	10: (a)	11: (a)	12: (a)	13: (b)	14: (a)
15: (b)	16: (b)	17: (b)	18: (c)	19: (a)	20: (a)	

BRANCH ACCOUNTING

ICAI MCQs

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
   a) 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)

6. 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

7. 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

8. 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

9. 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

ADDITIONAL MCQs

10. As per AS 11 assets and liabilities of integral foreign operations should be converted at which rates?
    a) Opening Rate for all assets and liabilities (monetary and non-monetary)
    b) Closing Rate for all assets and liabilities (monetary and non-monetary)
    c) Record transactions at the spot rate, monetary items at closing rate and non-monetary items at the rate on which the transaction was executed.
    d) Average Rate for all assets and liabilities (monetary and non-monetary)

11. Head Office transfers goods to Branch at a price that includes a mark-up/profit of 25% on cost. If the closing stock at Branch is ₹ 1,00,000, stock reserve will be created for:
    a) ₹ 25,000
    b) ₹ 1,00,000
    c) ₹ 20,000
    d) ₹ 80,000

12. If the head office has sent goods worth ₹ 5,00,000 to the branch but the branch has received goods worth only ₹ 3,00,000 by 31st March of the year, the entry to be passed in the books of the branch at year end would be:
    a) Goods-in-Transit A/c Dr ₹ 2,00,000
       To Head Office A/c ₹ 2,00,000
    b) No entry will be passed by branch and only head office will pass an entry
    c) Head Office A/c Dr ₹ 2,00,000
       To Goods-in-Transit A/c ₹ 2,00,000
    d) Goods-in-Transit A/c Dr ₹ 5,00,000
       To Head Office A/c ₹ 5,00,000

13. P Ltd opened a branch at Jaipur and sent goods costing ₹ 50,000 to Jaipur branch. Jaipur Branch sold entire goods on credit at ₹ 62,000. No other transaction occurred at the branch. What is the net profit earned by branch?
    a) ₹ 12,000
    b) ₹ 22,000
    c) ₹ 28,000

d) ₹ 18,000

14. X Ltd opened a new branch at Delhi. X Ltd sent goods costing ₹ 40,000 to Delhi branch. Delhi branch sold entire goods in cash at ₹ 70,000. Branch paid expenses of ₹ 12,000. No other transaction occurred at the branch. Find out the profit.
a) ₹ 30,000
b) ₹ 8,000
c) ₹ 18,000
d) ₹ 12,000

15. If M/s Puvi Nuvi Ltd. Has a business of sports equipment and send goods to number of outlets in India at cost plus 25% and then outlets sell goods at the retail shops at 20% above the wholesale price. What is the retail sales value if gross profit made by outlet is ₹ 75,000?
a) ₹ 3,60,000
b) ₹ 4,50,000
c) ₹ 3,50,000
d) ₹ 3,75,000

16. When books are kept by independent branch type what is the journal entry passed in the books of branch for depreciation on asset when Branch has purchased asset but asset account retained at H.O. books?
a) Depreciation A/c Dr.
   To Head Office A/c
b) Depreciation A/c Dr.
   To Asset A/c
c) Depreciation A/c Dr.
   To Branch Asset A/c
d) Depreciation A/c Dr.
   To H.O. Asset A/c

17. Resulting exchange rate difference should be accumulated in a _______________ until the disposal of "net investment in non-integral foreign operation".
a) foreign currency reserve
b) foreign translation reserve
c) currency translation reserve
d) foreign currency translation reserve

18. The debit or credit balance of "Foreign Currency Translation Reserve 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

Answers:

1: (c)	2: (c)	3: (c)	4: (a)	5: (c)	6: (c)	7: (c)
8: (a)	9: (b)	10: (c)	11: (c)	12: (a)	13: (a)	14: (c)
15: (b)	16: (a)	17: (d)	18: (b)			

AS 13: ACCOUNTING FOR INVESTMENTS

ICAI MCQs

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) Pratham and Associates is a manufacturer of steel rods. It invests its profits by purchasing shares of listed companies in order to earn dividend income. It had purchased shares of Bharti Airtel Limited in FY 2018-19. However, it sold all the shares of Bharti Airtel Limited during the current year i.e. FY 2023-24. What amount would be disclosed in the profit and loss account for FY 2023-24?
   a) This transaction would not affect the profit and loss account since the primary business of the company is manufacturing, and not investment.
   b) The carrying amount net of expenses would be disclosed in the profit and loss account.
   c) The disposal proceeds net of expenses would be disclosed in the profit and loss account.
   d) The difference between the carrying amount and the disposal proceeds, net of expenses, would be disclosed in the profit and loss account.

7) 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 (a) and (b)
   d) That is intended to be held for not more than two years from the date on which such investment is made.

8) All the following are fixed income bearing securities except
   a) Debentures
   b) Equity shares
   c) Govt. Bonds
   d) Loan

9) Cost of current investment acquired was ₹ 1,00,000 but the fair value was ₹ 80,000. The Investment was recorded at ₹ 80,000. Now the fair value of Investment is Rs 1,20,000. At what value should it be recorded and how much gain will be credited to profit and loss account.
   a) No change is required and it will continue at ₹ 80,000
   b) Current investment will be recorded at ₹ 1,00,000 and gain of ₹ 20,000 will be credited to profit and loss account.
   c) Current investment will be recorded at ₹ 1,20,000 and gain of ₹ 40,000 will be credited to profit and loss account.
   d) Current investment will be recorded at ₹ 1,20,000 but no gain will be credited to profit and loss account.

ADDITIONAL MCQs

10) .... is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise.
   a) Shares
   b) Debentures
   c) Investment Property
   d) Govt. Securities

11) On disposal of an investment, the difference between the carrying amount and the disposal proceeds, net of expenses, is recognised in the ....
   a) Profit and loss statement
   b) Realisation Account
   c) Investment Account
   d) None of the above

12) Mr. X has purchased 10000 10% debentures on 01.12.2023 for ₹ 101 and also paid brokerage @ 2%. What is the cost of 10% debentures as per AS 13.
   a) ₹ 10,10,000
   b) ₹ 10,00,000
   c) ₹ 10,20,000
   d) ₹ 10,30,200

13) X Ltd has issued bonus shares in the ratio of 1:2. Mr Vipin has 500 shares which it has taken from market @ 135. How many bonus shares is issued by company and what is cost of bonus share to Mr. Vipin?
   a) 500, ₹ 135
   b) 250, ₹ 135
   c) 250, NIL
   d) 500, NIL

14) On 31.1.2023, Bonus was declared in the ratio of 1: 2. Before and after the record date of bonus shares, the shares were quoted at ₹ 175 per share and ₹ 90 per share respectively. On 1.1.2023, Mr. KM has 1000 shares and sold bonus shares to a Broker, who charged 2% brokerage. Calculate Sale Proceeds of bonus shares.
   a) ₹ 88,200
   b) ₹ 90,000
   c) ₹ 44,100
   d) ₹ 45,000

15) Mr. X purchased 1000 equity shares of ₹ 10 each in PW Co. Ltd. for ₹ 75,000 inclusive of brokerage and stamp duty. He received Bonus shares in the ratio of 1:2. He sold bonus shares for ₹ 45,000. What is the profit on sale of bonus shares?
   a) ₹ 20,000
   b) ₹ 25,000
   c) ₹ 44,100
   d) ₹ 45,000

16) Miss Kalpana has purchased 6000 shares of MN Ltd. on 15.01.2023 and then on 23.03.2023 purchased another 7000 shares. On 30.06.2023 company has issued 8000 bonus shares to her. MN Ltd has issued right shares on 31.08.2023 in ratio of 3:7 which she subscribed to the maximum extent. Calculate total number of shares.
   a) 21,000
   b) 30,000
   c) 70,000
   d) 13,000

17) Dividends for the year ended 31.3.2023 at the rate of 20% were declared by X Ltd. and received by Sundari on 31.10.2023. Dividends for 5000 shares acquired by her on 20.6.2023 are to be adjusted against the cost of purchase. X Ltd. has also issued bonus and right shares. Miss Sundari has received 500 and 700 shares respectively. Initially she has 35000 shares of face value ₹ 10 each purchased at 20 per share. Directors of X Ltd. decided not to pay dividend on bonus and right shares. How much dividend received is to be transferred to P&L Account by Sundari?
   a) ₹ 70,000
   b) ₹ 1,40,000
   c) ₹ 80,000
   d) ₹ 1,60,000

18) Calculate profit on sale of Bonds. C has purchased 1000 bonds at ₹ 55,000. On 02.02.2023 he sold 200 bonds @ 99 each.
   a) ₹ 19,800
   b) ₹ 11,000
   c) ₹ 8,800
   d) None of the above

19) Mr. F has sold 400 debentures @ 98/- ex interest and has also paid brokerage @ 1%. Cost of debentures ₹ 39,697. Compute Profit or loss on sale of debentures.
   a) ₹ 890 Profit
   b) ₹ 890 Loss
   c) ₹ 889 Profit
   d) ₹ 889 Loss

20) As per AS 13, investments are reclassified from current to long term, transfers are made at lower of cost and ……………………. on the date of transfer.
   a) Carrying amount
   b) Fair Value
   c) Face Value
   d) None of the Above

21) Puvi Nuvi Ltd. has invested in various types of investments?

Particular	Cost (₹)	Market Value (₹)
Shares	2,10,000	2,25,000
Bond	90,000	88,000
Gold	78,000	72,000

Calculate value of investment at end of year as on 31.03.2024 assuming current investments.
   a) ₹ 3,85,000
   b) ₹ 3,70,000
   c) ₹ 3,78,000
   d) ₹ 3,93,000

22) Calculate profit on sale of 500 shares if Mr. Tara has earlier purchased 1000 shares @ 120/- each and paid 1% brokerage and 0.50% Stamp duty on purchase. He also received bonus shares in ratio of 1:2. Sales proceeds of shares are ₹ 48,100.
   a) ₹ 7,500
   b) ₹ 7,600
   c) ₹ 7,700
   d) ₹ 7,800

23) If rights are not subscribed for but are sold in the market, the sale proceeds are taken to the ……………………..
   a) Profit and Loss Account
   b) Realisation Account
   c) Investment Account
   d) None of the above

24) Any reduction to fair value is debited to profit and loss account, however, if fair value of investment is increased subsequently, the increase in value of current investment up to the cost of investment is credited to the ……………………… (and excess portion, if any, is ignored).
   a) Profit and Loss Account
   b) Realisation Account
   c) Investment Account
   d) None of the above

25) Decide and state on the amount of transfer, based on the following information:
Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹ 15 lakhs but had been written down to ₹ 12 lakhs to recognise other than temporary decline as per AS 13.
a) ₹ 18 Lakhs
b) ₹ 12 Lakhs
c) ₹ 15 Lakhs
d) None of Above

26) If the investments are acquired on cum-right basis and the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired, then the sale proceeds till the carrying amount becomes equal to the market value is ……………………… to know cost of investment.
a) Reduced
b) Added
c) No treatment
d) reduced or added depends on the information

Answers:

1: (a)	2: (b)	3: (c)	4: (a)	5: (c)	6: (d)	7: (c)
8: (b)	9: (b)	10: (c)	11: (a)	12: (d)	13: (c)	14: (c)
15: (a)	16: (b)	17: (a)	18: (c)	19: (d)	20: (b)	21: (b)
22: (a)	23: (a)	24: (a)	25: (b)	26: (a)		

AS 21: CONSOLIDATED FINANCIAL STATEMENTS

ICAI MCQs

1. 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.

2. 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.

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) Nothing.

4. In consolidated balance sheet, the share of the outsiders in the net assets ofthe subsidiary must be shown as
   a) Minority interest.
   b) Capital reserve.
   c) Current liability.
   d) Current assets.

5. Provision for Tax made by the subsidiary company will appear in theconsolidated balance sheet as an item of
   a) Current liability.
   b) Revenue profit.
   c) Capital profit.
   d) Current assets.

6. 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

7. Goodwill is equal to
   a) Cost of Investment less Parents share in the equity of the subsidiary on date of investment.
   b) Cost of investment less Parents share in the debentures of subsidiary on date of investment.
   c) Parents share in the equity of subsidiary on date of investment less Cost of investment.
   d) Parents share in the debentures of subsidiary on date of investment

8. 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.

9. 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.

10. 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.

ADDITIONAL MCQs

11. A single set of financial statements that combines the separate sets of financial statements of a parent and its subsidiaries is known as
    a) equity financial statements
    b) condensed financial statements
    c) consolidated financial statements
    d) interim financial statements

12. ABC Limited acquired 70% of the shares of PQR Limited directly from the owners of those shares. The shares were purchased on the market for ₹400000 in total. PQR Limited must?
    a) recognize the inflow of cash of ₹400000 and an increase in issued capital of ₹400 000.
    b) recognize an investment of ₹400000 and an increase in equity of ₹400000.
    c) de-recognize share capital amounting to ₹400000.
    d) not make an accounting entry as the transaction is between ABC Limited and the individual shareholders of PQR Limited.

13. The method adopted in combining the separate sets of financial statements of entities in a group to form a set of consolidated financial statements is
    a) set-off all assets and liabilities and recognize a single net investment.
    b) line-by-line recognition of the elements of financial statements.
    c) combine the cash balances of the separate entities into one-line and aggregate the remaining net assets into one item.
    d) combine all assets and liabilities into one net assets item and combine all profits and losses into one profit or loss item.

14. A group of entities comprised of All Limited, Night Limited and Long Limited have the following cash balances:
All Limited ₹2,000, Night Limited ₹5,000, Long Limited ₹10,000.
All Limited is the parent entity. The consolidated financial statements show the following amount as the consolidated cash balance?
    a) ₹2,000
    b) ₹7,000
    c) ₹15,000
    d) ₹17,000

15. If consolidated financial statements are required to be prepared
    a) they are additional to the separate financial statements of the entities in the group.
    b) there is no need to prepare separate financial statements for the entities in the group.
    c) the need to prepare separate financial statements for the parent entity is redundant.
    d) it is not necessary to prepare separate financial statements for the subsidiary entities of the group.

16. Pre-acquisition profit in subsidiary company is considered as:
    a) Revenue profit.
    b) Capital profit.
    c) Goodwill
    d) Cost of control

17. Subsidiary company in relation to any other company (that is to say the holding company), means a company in which the holding company -……………
    a) Controls the composition of the Board of Directors
    b) Exercises or controls more than 50% of the total voting power either at its own or together with one or more of its subsidiary companies
    c) Either (A) or (B)
    d) Neither (A) nor (B)

18. Which section of the Companies Act, 2013 requires the preparation of consolidated financial statements
    a) Section 127
    b) Section 128
    c) Section 130
    d) Section 129

19. Holding company's share in revenue profits of subsidiary company is adjusted in:
    a) Cost of control
    b) Shown on assets side of balance sheet
    c) Profit and loss account of holding company
    d) Capital profits of holding company

20. If cost of acquisition of shares in the subsidiary company is less than intrinsic value of the shares of subsidiary company on the date of acquisition then resultant figure will be:
    a) Minority interest
    b) Capital Reserve
    c) Goodwill
    d) Significant cost

21. Dividend received out of pre-acquisition profits of subsidiary
    a) It should be treated as revenue income and credited to the Profit and Loss A/c.
    b) Added while calculating 'cost of control'.
    c) Should be treated as capital receipt and credited to Investment A/c
    d) Will increase the Goodwill while calculating cost of control.

22. If cost of acquisition of shares in the subsidiary company is more than intrinsic value of the shares of subsidiary company on the date of acquisition then resultant figure will be:
    a) Minority interest
    b) Capital Reserve
    c) Goodwill
    d) Significant cost

23. Which of the following treatment is correct for mutual debts with regard to purchase and sale of goods between holding and subsidiary company
    a) Amount of mutual debt will be added to the Debtors and Creditors on asset side and liability side respectively while preparing the consolidated balance sheet.
    b) Amount of mutual debt will be ignored as it is not asset or liability.
    c) Amount of mutual debt will be deducted from the Debtors and Creditors on asset side and liability side respectively while preparing the consolidated balance sheet.
    d) Amount of mutual debt will require adjustment on debtors figure on asset side only.

24. H Ltd. acquires 70% of the equity shares of S Ltd. on 1.1.2023. On that date, paid-up capital of S Ltd. was 10,000 equity shares of ₹ 10 each; accumulated reserve balance was ₹ 1,00,000. H Ltd. paid ₹ 1,60,000 to acquire 70% interest in the S Ltd. Assets of S Ltd. were revalued on 1.1.2023 and a revaluation loss of ₹ 20,000 was ascertained. Which of the following is correct in relation to cost of control of group consolidated financial statement.
    a) Capital Reserve — ₹ 34,000
    b) Goodwill — ₹ 34,000
    c) Capital Reserve — ₹ 1,26,000
    d) Goodwill — ₹ 1,26,000

Answers:

1: (c)	2: (c)	3: (c)	4: (a)	5: (a)	6: (c)	7: (a)	8: (c)
9: (b)	10: (a)	11: (c)	12: (d)	13: (b)	14: (d)	15: (a)	16: (b)
17: (c)	18: (d)	19: (c)	20: (b)	21: (c)	22: (c)	23: (c)	24: (b)

FRAMEWORK FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

ICAI MCQs

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) 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 associated with the item will flow to the enterprise.
   b) Item has a cost or value that can be measured with reliability.
   c) Both (a) and (b)
   d) It is probable that no future economic benefit associated with the item will flow to the enterprise.

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) 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

9) Which of the assumption is not considered as fundamental accounting assumption?
   a) Going Concern
   b) Accrual
   c) Reliability
   d) Consistency

ADDITIONAL MCQs

10) Framework for preparation and presentation of financial statements suggests that the financial statements should observe?
   a) Relevance
   b) Understandability
   c) Reliability
   d) All the three

11) Which of the following are underlying assumptions of financial statements?
   a) Relevance and reliability.
   b) Going concern and Accrual basis.
   c) Financial capital maintenance and physical capital maintenance.
   d) Prudence and conservatism.

12) Mr. A purchased a machine on 1st January, 2016 at ₹ 7,00,000. As on 1.1.2021, Mr. A found that it would cost ₹ 25,00,000 to purchase that machine. Mr. X also took loan from a bank as on 1st January, 2016 for ₹ 5,00,000 @ 18% p.a. repayable at the end of 15th year together with interest. As per historical cost, what amount of liability & asset will be recorded in the books of accounts?
   a) 5,00,000 and 7,00,000
   b) 18,50,000 and 25,00,000
   c) 7,00,000 and 5,00,000
   d) 25,00,000 and 18,50,000

Answers:

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

INTRODUCTION TO ACCOUNTING STANDARDS

ICAI MCQs

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 & eliminate 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) IASB stands for
   a) International Accounting Standards Bureau
   b) International Advisory Standards Board
   c) International Accounting Standard Board
   d) International Accounting System Board

7) IFRS stands for
   a) International Financial Reporting System
   b) International Finance Reporting Standard
   c) International Financial Reporting Standard
   d) International Financial Reserve Standard

8) Phase I of Ind AS was applicable to:
   a) All listed companies in India or outside India
   b) Companies with turnover ₹ 500 crores or more
   c) Companies with net worth ₹ 500 crores or more
   d) Companies with turnover ₹ 250 crores or more

ADDITIONAL MCQs

9) Accounting Standards cover the aspect of_______?
   a) Recognition of events and transactions in the financial transactions.
   b) Measurement of events and transactions in the financial transactions.
   c) Presentation & disclosure of events and transactions in the financial transactions.
   d) All of the above.

10) Additional guidance given in Ind AS over and above what is given in IFRS are called?
   a) Carve-outs
   b) Carve-ins
   c) Clarifications
   d) Carve Clarifications

Answers:

1: (c)	2: (c)	3: (d)	4: (b)	5: (d)
6: (c)	7: (c)	8: (c)	9: (d)	10: (b)

APPLICABILITY OF ACCOUNTING STANDARDS

ICAI MCQs

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)

AS 1: DISCLOSURE OF ACCOUNTING POLICIES

ICAI MCQs

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) Which of the following is included in the consideration for selection of accounting policies:
   a) Going concern
   b) Consistency
   c) Prudence
   d) Accrual

5) Which of the following is included in Fundamental Accounting Assumption:
   a) Prudence
   b) Substance over form
   c) Consistency
   d) Materiality

6) 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

7) Fundamental accounting assumption is?
   a) Materiality
   b) Business entity
   c) Going concern
   d) Dual aspect

8) 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

9) 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

10) AS 1 recognizes __________ Fundamental Accounting Assumptions?
   a) three
   b) four
   c) five
   d) none of the three

11) 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)

ADDITIONAL MCQs

12) Two major considerations that govern the selection of accounting policy
   a) Substance over form and Consistency
   b) Prudence and Materiality
   c) Prudence and Reliability
   d) Reliability and Consistency

13) AS 1 requires that accounting policies should be applied consistently. What does consistency mean to in this context?
   a) Using different accounting policies for different transactions
   b) Applying the same accounting policies for similar transactions over time
   c) Changing accounting policies every year
   d) Adopting the most popular accounting policies in the industry

Answers:

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

AS 2: VALUATION OF INVENTORIES

ICAI MCQs

1) Which item of inventory is under the scope of AS 2?
   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 not 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) 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

6) Inventory consists of
   a) Raw materials and consumables and loose tools
   b) Work in process
   c) Finished goods
   d) All of the above

7) 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)

8) Which of the method is not recommended by AS 2?
   a) FIFO
   b) LIFO
   c) Weighted average
   d) Specific identification method

9) 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.

10) As per AS 2, Inventories include materials awaiting use in production process, what should be included in Inventories from the following: *(RTP Sep 2024)*
   a) Secondary Packing material required for transporting and forwarding the material.
   b) Spare parts, servicing equipment and standby equipment
   c) Primary packing material which is essential to bring an item of inventory to its saleable condition, for example, bottles, cans etc., in case of food and beverages industry.
   d) Publicity material

11) In determining the cost of inventories, it is appropriate to exclude certain costs and recognise them as expenses in the period in which they are incurred. Which of the following is not an example of such costs:
   a) Abnormal amounts of wasted materials, labour, or other production costs;
   b) Storage costs, unless the production process requires such storage;
   c) Raw Material cost
   d) Selling and distribution costs.

12) On 31st March 2024, Sri Radhey shyam Enterprise finds that the cost of a partly finished unit on that date is ₹ 530. The unit can be finished in 2024-25 by an additional expenditure of ₹ 310. The finished unit can be sold for ₹ 750 subject to payment of 8% brokerage on the selling price.
   Sri Radhey shyam Enterprise seeks your advice regarding the amount at which the unfinished unit should be valued as at 31st March, 2024 for preparation of final accounts. the partly finished unit cannot be sold in semi finished form and its NRV is zero without processing it further.
   a) ₹ 470
   b) ₹ 380
   c) ₹ 500
   d) ₹ 440

ADDITIONAL MCQs

13) Under AS 2, how should the cost of inventories be measured?
   a) Net realizable value
   b) Lower of cost and net realizable value
   c) Historical cost
   d) Replacement cost

14) How should the cost of raw materials be measured under AS 2?
   a) Cost plus a reasonable profit margin
   b) Cost minus a reasonable profit margin
   c) Costs (if finished goods are sold at cost or at above cost)
   d) Market value only

15) A company has inventory with a historical cost of ₹ 10,000. Due to a decline in market prices, the net realizable value is now ₹ 8,000. According to AS 2, what should be the valuation of inventory in the financial statements?
   a) ₹ 10,000
   b) ₹ 8,000
   c) ₹ 9,000
   d) None of the above

16) A manufacturing company has incurred ₹5,000 in abnormal wastage during the production process. According to AS 2, how should this cost be treated in the financial statements?
   a) Included in the cost of production
   b) Recognized as an expense
   c) Deducted from revenue
   d) Ignored in the financial statements

17) Pawan and-Vikas are partners in firm sharing profits and losses in the ratio of 4: 3.

Balance Sheet (Extract)

Liabilities	₹	Assets	₹
		Inventory	2,00,000

If the value of Inventory reflected in the above balance sheet is overvalued by 25%, find out the value of inventory to be shown in the new Balance Sheet.
   a) ₹ 1,60,000
   b) ₹ 2,00,000
   c) ₹ 2,40,000
   d) ₹ 2,50,000

Answers:

1: (b)	2: (a)	3: (b)	4: (b)	5: (a)	6: (d)
7: (a)	8: (b)	9: (c)	10: (c)	11: (c)	12: (b)
13: (b)	14: (c)	15: (b)	16: (b)	17: (a)	

AS 4: CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

ICAI MCQs

1) Cash amounting to ₹ 4 lakhs, stolen by the cashier in the month of March 2023, was detected in April, 2023. The financial statements for the year ended 31st March, 2023 were approved by the Board of Directors on 15th May, 2023. As per Accounting Standards, this is _______ for the financial statements year ended on 31st March, 2023.
   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.
   c) liabilities of life assurance & general insurance enterprises arising from policies issued
   d) All of the above.

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, 2023, the documentation and legal formalities are pending. For the financial year ended 31st March, 2023
   a) The company should record the sale.
   b) The company should recognise profit of ₹ 20 lakhs in its profit & 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)

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

ICAI MCQs

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, 2021 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) 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 which is not material.

7) 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

8) 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

9) 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 realizable value
b) Legislative changes having retrospective application
c) Litigation settlements
d) Separation cost paid to CEO of the company

ADDITIONAL MCQs

10) There was an omission of ₹ 15,000 purchases from last year books and this error is traced in current year. This will be called as
a) Exceptional item
b) Prior period item
c) Extraordinary item
d) Change in accounting estimates

11) Nature and amount of each extra-ordinary item is disclosed…………..in notes to accounts.
a) Jointly
b) Separately
c) As per management's discretion
d) None of the above

12) Following items require separate disclosures.
a) Litigation settlements
b) Disposal of long term investments
c) Writing down of inventories
d) All of the above

13) Accounting policies can be changed only if:
a) When it is required by statute
b) To comply with AS
c) When change is required for more appropriate presentation
d) All of the above

Answers:

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

AS 7: CONSTRUCTION CONTRACTS

ICAI MCQs

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 2022. The expected completion time is 3 years. XY Ltd. incurred a cost of ₹ 30 lakh up to 31st March 2023. It is expected that additional costs of ₹ 90 lakh. Total contract value is ₹ 112 lakh. As at 31st March 2023, 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 2023 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. The revenue to be recognised based on the certified work completed.

4) Revenue to be recognised by M/s AV is
   a) ₹ 320 lakh
   b) ₹ 370 lakh
   c) ₹ 360 lakh
   d) ₹ 400 lakh

5) Total expense to be recognised by M/s AV is
   a) ₹ 380 lakh
   b) ₹ 400 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) Which of the following does not form a part of contract costs as defined in AS 7?
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.

8) When fixed-price construction contracts require more than one accounting period for completion & 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.

9) AB Contractors undertakes a fixed price contract of ₹ 350 Lakhs. Information related to contract is given as under:

Material purchased	₹ 125 Lakhs
Labour charges	₹ 95 Lakhs
Unused material	₹ 22 Lakhs
Estimated future costs to be incurred to complete the contract	₹ 115 Lakhs
Payment received as part payment of contract	₹ 50 Lakhs

Machinery used for 4 years for the contract. Original cost of the machine is ₹ 210 Lakhs. Expected life of machinery is 20 years.
What will be the Profit / Loss on the contract? *(PYQ Jan 2025)*
a) Loss on contract ₹ 49 Lakhs
b) Loss on contract ₹ 5 lakhs
c) Profit on contract ₹ 45 Lakhs
d) Profit on contract ₹ 26.5 Lakhs

ADDITIONAL MCQs

10) According to AS 7, "Construction Contracts," which of the following criteria must be met for a contract to be considered a construction contract?
a) Involvement of physical construction only
b) The contract should involve the construction of an asset
c) The contract should be completed within a fiscal year
d) The contract should be of significant value

11) According to AS 7, which method is preferred for recognizing revenue and costs of long-term contracts?
   a) Percentage of completion method
   b) Completed contract method
   c) Installment method
   d) Cost recovery method

12) Under AS 7, when should an entity recognize contract revenue and expenses for a construction contract using the percentage of completion method?
   a) When the contract is completed
   b) When the contract is initiated
   c) Over the contract period based on the stage of completion
   d) When the costs are incurred

13) XYZ Ltd. has a construction contract where the outcome cannot be reliably measured. How should revenue be recognized for this contract according to AS 7?
   a) Recognize revenue only to the extent of contract costs incurred of which recovery is probable.
   b) Recognize revenue at the beginning of the contract
   c) Recognize revenue only upon completion of the contract
   d) Do not recognize revenue until the outcome is reliably measurable

14) What does AS 7 require regarding the disclosure of information about construction contracts in financial statements?
   a) Disclose only the total revenue and expenses from the contracts
   b) Disclose details of contracts and the basis of revenue recognition
   c) Disclose information only if the contract value exceeds a certain threshold
   d) Do not disclose information about construction contracts

15) In construction contract, when should an expected loss be recognized according to AS 7?
   a) As soon as the loss becomes probable
   b) Only upon completion of the contract
   c) At the beginning of the contract
   d) When the contract value exceeds a certain threshold

16) According to AS 7, which costs should be included when determining the costs attributable to a contract?
   a) General and administrative costs
   b) Costs that are directly related to the specific contract
   c) Costs incurred before the contract date
   d) Costs incurred after the completion of the contract

Answers:

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

AS 9: REVENUE RECOGNITION

ICAI MCQs

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 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 are ₹ 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 2021. After 1 month, he has agreed to pay the annual membership & has paid ₹ 1,200 on

31st March 2021 for subscription that is valid up to 31st of March 2022. Revenue that can be recognized by FlixNet for year ended 31st March 2022 is

a) ₹ 100
b) ₹ 1,200
c) Nil
d) ₹ 1,100

6) Sahil Ltd agreed to sell its factory located in Assam to Kali Ltd on 4.12.2023. It entered into a sale deed (transferring all significant risks and rewards of ownership) on 1.2.2024. But the transaction was registered with the registrar on 30.5.2024 When should the sale and gain be recognized?
   a) Both sale and gain should be recognized as on the balance sheet date i.e. 31.3.2024.
   b) Both sale and gain should be recognized on 30.5.2024.
   c) The sale should be recognized as on balance sheet date but gain should be recognized on 30.5.2024.
   d) Both sale and gain should be recognized on 4.12.2023.

ADDITIONAL MCQs

7) Goods worth ₹ 4,00,000 were sold on approval basis on 01st Dec, 2022 by ABC Ltd. The period of approval was 3 months after which they were to be considered as sold. Buyer sent approval for 75% goods up to 31st March, 2023 and no approval or disapproval received for the remaining goods till 31st March, 2023. For year ended 31st March, 2023.
   a) Revenue should not be recognized at all
   b) Revenue should be recognized for only 75% of sales
   c) Revenue should be recognized for the total sales amounting ₹ 4,00,000 as the time period for rejecting the goods had expired
   d) Revenue should be recognized for only 25% of sales

8) Argentina Enterprises provides subscription-based services. According to AS 9, how should revenue be recognized for subscription services?
   a) At the beginning of the subscription period
   b) Over the subscription period
   c) At the end of the subscription period
   d) Only when subscribers renew their subscriptions

9) Unique Enterprises receives an order for goods to be shipped internationally on FOB basis. According to AS 9, when should revenue be recognized for international sales?
   a) At the time of receiving the order
   b) When the goods are shipped
   c) When the goods reach the international destination
   d) When payment is received

10) X Ltd. sold goods to customer on credit. As per AS 9, when should revenue be recognized?
   a) At the time of delivery
   b) When payment is received
   c) When the significant risks & rewards / property in goods are transferred.
   d) When the customer places the order

Answers:

1: (a)	2: (c)	3: (c)	4: (c)	5: (b)
6: (a)	7: (c)	8: (b)	9: (b)	10: (c)

AS 10: PROPERTY, PLANT AND EQUIPMENT

ICAI MCQs

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 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 2021. The GST amount is available as input tax credit. The rate of depreciation is 10% on SLM basis. The depreciation for 2022 -23 would be
a) ₹ 10,000.
b) ₹ 11,800.
c) ₹ 9,000.
d) ₹ 10,500.

7) Accounting Standard 10, Property, Plant and Equipment is applicable to:
a) Biological Assets (other than Bearer Plants) related to agricultural activity
b) Wasting Assets including Mineral rights, Expenditure on the exploration for and extraction of minerals, oil, natural gas and similar non regenerative resources
c) Inventories
d) Bearer Plant (except produce on Bearer Plants)

ADDITIONAL MCQs

8) According to AS 10, how should the cost of property, plant, and equipment be measured initially?
a) Historical Cost
b) Fair Value
c) Present Value
d) Replacement Cost

9) Under AS 10, which of the following costs should be included in the initial measurement of property, plant, and equipment?
a) Selling Costs
b) General and Administrative Expenses
c) Borrowing Costs
d) Future Maintenance Costs

10) In what circumstances does AS 10 allow the revaluation of property, plant, and equipment?
a) Only when required by tax regulations.
b) When there is a significant change in fair value
c) At the discretion of management
d) Only during periods of inflation

11) A company purchases a building costing ₹ 25 Lakhs. It is estimated that the estimated life of the building will be 30 years but the company is thinking of selling the building after 20 years when the residual value of the building will be ₹ 25 lakhs. Depreciation will be
a) 1,25,000
b) 0
c) 2,50,000
d) None of the above

12) An entity wishes to accelerate its depreciation policy because of changes in the useful life of the asset. How should the change be dealt with?
    a) By retrospective restatement
    b) By retrospective application
    c) By prospective application
    d) By disclosure of an error

13) According to AS 10, which of the following is not considered as part of the cost of property, plant, and equipment?
    a) Purchase price
    b) Installation costs
    c) Initial estimate of dismantling and removal costs
    d) General administration overheads

14) How does AS 10 recommend the depreciation of property, plant, and equipment?
    a) Straight-line method
    b) Diminishing balance method
    c) Units of production method
    d) All of the above

15) How does AS 10 recommend treating the cost of day-to-day servicing of property, plant, and equipment?
    a) Capitalized as part of the asset's cost
    b) Expensed as incurred
    c) Recorded as a liability
    d) Not recorded in books.

Answers:

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

AS 11: THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

ICAI MCQs

NOTE: *All the MCQs related to Foreign Operations topic already covered in Branch Accounting. Therefore, the same are not covered here to avoid repetition.*

1) The debit or credit balance of "Foreign Currency Monetary Item Translation Difference Account" *(RTP Jan 2025)*
   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

2) 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

ADDITIONAL MCQs

3) Which of the following statements is false?
   a) AS 11 should be applied in accounting for transactions in foreign currencies
   b) AS 11 deals with accounting for foreign currency transaction in the nature of forward exchange contracts
   c) AS 11 specifies the currency in which an enterprise should present its financial statements
   d) The principal issues in accounting for foreign currency transactions are to decide which exchange rate to use and how to recognize in the financial statements the financial effect of changes in exchange rates

4) Closing rate
   a) is the exchange rate at the balance sheet date
   b) is the mean of the exchange rates in force during a period
   c) is the ratio for exchange of two currencies
   d) is the rate at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction

5) Exchange rate
   a) is the exchange rate at the balance sheet date.
   b) is the mean of the exchange rates in force during a period.
   c) is the ratio for exchange of two currencies.
   d) is the rate at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

6) Currency other than the reporting currency of an enterprise
   a) Non-Reporting currency
   b) U.S. Dollars
   c) Foreign Currency
   d) Indian Rupees

7) Currency used in presenting the financial statements
   a) Reporting currency
   b) Non-Foreign Currency
   c) Official Currency
   d) Indian Rupees

8) Money held and assets and liabilities to be received or paid in fixed or determinable amounts of money
   a) Current items
   b) Non-monetary items
   c) Monetary items
   d) Forward Exchange Contract

9) Which of the following is a foreign currency transaction?
   (i) an enterprise buys or sells goods or services whose price is denominated in a foreign currency.
   (ii) an enterprise borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency.
   (iii) an enterprise becomes a party to an unperformed forward exchange contract.
   a) only (iii)
   b) all
   c) only (i)
   d) only (ii)

10) Which of the following statements is false?
   a) At each balance sheet date, foreign currency monetary items should be reported using the closing rate.
   b) At each balance sheet date, non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction.
   c) At each balance sheet date, non-monetary items, which are carried at fair value denominated in a foreign currency should be reported using the exchange rates that existed when the values were determined.
   d) At each balance sheet date, foreign currency monetary items should be reported using the average rate during the year.

Answers:

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

AS 12: ACCOUNTING FOR GOVERNMENT GRANTS

ICAI MCQs

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 asset. The expected remaining useful life of machine is 10 years. Assume that there is no salvage value & 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) 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

7) 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

8) 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

9) 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

10) What is the 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

11) Entity A 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

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 amount should be credited to statement of Profit & Loss out of Deferred Government Grant account in FY 2022-23.

a) ₹ 500 Cr
b) Zero
c) ₹ 50Cr
d) ₹ 25 Cr

ADDITIONAL MCQs

13) 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 maintained separately under Deferred Grant account.
a) ₹ 16 Cr
b) ₹ 12 Cr
c) ₹ 13.33 Cr
d) ₹ 15 Cr

Answers:

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

AS 15: EMPLOYEE BENEFITS

ICAI MCQs

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 charge to Profit and Loss Statement

ADDITIONAL MCQs

6) AS-15 is not applicable to?
   a) Salary and Wages
   b) Long-term service award
   c) Employee Stock Options
   d) Termination benefits.

7) Cost arising out of increase in the present value of the defined benefit obligation resulting from employee service in the current period is called?
   a) Interest cost
   b) Contribution to the plan
   c) Current Service Cost
   d) Past service cost

8) As per AS 15, which of the following is an example of short-term employee benefits?
   a) Provident fund contributions
   b) Gratuity
   c) Long-term disability benefits
   d) Bonus payable within 12 months

9) What is the primary objective of AS 15 regarding the disclosure of employee benefits?
   a) To minimize the liability of the employer
   b) To ensure compliance with tax laws
   c) To provide information about the cost of employee benefits
   d) To maximize employee satisfaction

10) AS 15 Applies to
   a) Part time employees
   b) Full time employees
   c) Casual employee
   d) All of the above

11) B Ltd. is required to pay ₹ 5,00,000 salary to Mr. X, but it only paid ₹ 4,50,000 till year ending 31st March 2023 and balance in April 2023.
   How much salary needs to be recorded in the liability for year ended 31st March 2023?
   a) ₹ 4,50,000
   b) ₹ 5,00,000
   c) ₹ 50,000
   d) None of the above

Answers:

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

AS 16: BORROWING COSTS

ICAI MCQs

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.
   d) ₹ 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, 2023: Loan interest relating to the project starts to beincurred
   (ii) 2nd June, 2023: Technical site planning commences
   (iii) 19th June, 2023: Expenditure on the project started to be incurred
   (iv) 18th July, 2023: Construction work commences
   Identify the commencement date for capitalisation under AS 16.
   a) 15th May, 2023
   b) 19th June, 2023
   c) 18th July, 2023
   d) 2nd June, 2023

6) 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 & 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

7) Gyan Ltd. borrowed ₹ 10 crore for construction of a plant at the rate of 10% per annum (interest paid annually ₹ 1 crore). The construction was being carried on and out of the borrowings. ₹ 4 crore was temporarily placed in a fixed deposit at the rate of 6% per annum (interest earned ₹ 24 lakh). At the year end, how much cost of borrowing Gyan Limited will capitalise? *(RTP May 2024)*
   a) Interest paid on ₹ 10 crore i.e. ₹ 1 crore
   b) Interest paid on ₹ 6 crore as only this amount was utilized i.e. ₹ 60 Lakh.
   c) Interest paid less income on temporary investment i.e. ₹ 76 lakh
   d) Nothing will be capitalized

8) Following will not be considered as borrowing cost.
   a) amortisation of discounts or premiums relating to borrowings
   b) finance charges in respect of assets acquired under finance leases or under other similar arrangements
   c) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs
   d) Interest and commitment charges on bank borrowings on non-qualifying assets

9) 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 instalment 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

10) Vijay Ltd. borrowed ₹ 30 lakh at interest rate of 5% per annum and purchased plant and machinery for ₹ 60 lakh (using borrowed funds) and started production. It took 1 year time for Vijay Ltd. to create optimum market for the goods manufactured and generate revenue. How much borrowing cost can be capitalised with cost of plant and machinery:
   a) ₹ 1.5 lakh
   b) ₹ 3 Lakh
   c) Nil
   d) ₹ 5 Lakh

11) Ace Limited borrowed ₹ 25 Lakhs from ABN Bank during the financial year 2023-24. Ace Limited used these funds to invest in Equity shares of Kay Limited. Kay Limited is implementing a new Project, so with these future prospects, Ace Limited invested ₹ 25 Lakhs in Kay Limited. As on 31st March, 2024, since the said project was not complete, the directors of Ace Limited capitalised the interest on loan amounting to ₹ 2 lakhs and thus added the amount of interest to the cost of Investments.
   Market value of these investments on 31 March, 2024 is ₹ 24 Lakhs.
   Identify the correct statement, considering the above facts as per AS 16: *(PYQ Jan 2025)*
   a) Since project is qualifying Asset, directors of Ace Limited correctly added the amount of interest in cost of investments.
   b) Interest paid is acquisition charge, hence directors of Ace Limited correctly added the amount of interest in cost of investment.
   c) Ace Limited invested in equity share which is not a qualifying asset, therefore directors are wrong to add the interest in cost of investments, rather it should be charged to profit and loss account.
   d) Since project is qualifying asset, directors of Ace Limited should capitalize the interest amount to market value of investments, rather than cost of investments.

12) 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.

ADDITIONAL MCQs

13) Borrowing cost of a qualifying asset does not include?
   a) Finance charges in respect of assets acquired under finance lease
   b) Exchange differences arising from foreign currency borrowing
   c) Interest charges on bank borrowing
   d) Loss on sale of investment

14) Under AS 16, which of the following borrowing costs should be capitalized?
   a) All borrowing costs
   b) Only borrowing costs directly attributable to the acquisition, construction, or production of qualifying assets
   c) Only borrowing costs incurred for short-term loans
   d) Borrowing costs incurred for any purpose

15) Under AS 16, what is the treatment of borrowing costs that do not qualify for capitalization?
   a) They should be expensed in the period they are incurred
   b) They should be capitalized in the subsequent period
   c) They should be amortized over an extended period
   d) They should be disclosed in the financial statements

16) A qualifying being constructed in a factory since 1.4.21 is completed on 28.2.22 Interest on loan taken for the asset for the entire year is 1,20,000. What will be the completion date and capitalisation amount for the asset.
   a) 28.2.22 ₹ 1,20,000
   b) 28.2.22 ₹ 1,10,000
   c) 31.3.22 ₹ 1,20,000
   d) 31.3.22 ₹ 1,10,000

17) What is the primary objective of Accounting Standard 16 (AS 16) - Borrowing Costs?
   a) To define the accounting treatment for interest income
   b) To prescribe the accounting treatment for borrowing costs
   c) To regulate the issuance of bonds
   d) To provide guidelines for lease accounting

Answers:

1: (c)	2: (d)	3: (a)	4: (b)	5: (b)	6: (a)
7: (c)	8: (d)	9: (c)	10: (c)	11: (c)	12: (a)
13: (d)	14: (b)	15: (a)	16: (b)	17: (b)	

AS 17: SEGMENT REPORTING

ICAI MCQs

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 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

7) 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.

ADDITIONAL MCQs

8) Under AS 17, segments must be reported separately if the reported revenues (internal and external) are more than ___________ of the combined revenues of all the segments.
a) 10%
b) 15%
c) 20%
d) 25%

9) Following is not included in Segment Revenue.
a) External Revenue.
b) Inter Segment revenue.
c) The relevant portion of enterprise revenue that can be allocated on a reasonable basis to the segment.
d) Extraordinary Item.

10) Segment assets doesn't include:
a) segment debtors
b) plant and machinery
c) income tax assets
d) all of the above

11) Segments liabilities doesn't include:
a) income tax liabilities
b) borrowings
c) both (a) and (b)
d) None of the above

12) How should inter-segment transfers be accounted for under AS 17?
   a) At cost
   b) At market value
   c) At transfer price
   d) At fair value

13) Primary reporting format includes:
   a) segments results
   b) carrying amount of assets
   c) carrying amount of liabilities
   d) all of the above

14) ABC Ltd has a segment which has assets worth ₹50 Lakhs which includes income tax assets worth ₹1 lakh. Calculate segment assets.
   a) ₹50 Lakhs
   b) ₹51 Lakhs
   c) ₹49 Lakhs
   d) None of the above

15) B Ltd has three segments namely A, B and C which has assets worth ₹50 lakhs, ₹20 lakhs, ₹30 lakhs respectively. Which segment will be a reportable segment?
   a) A
   b) B
   c) C
   d) All of the above

Answers:

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

AS 18: RELATED PARTY DISCLOSURES

ICAI MCQs

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)

	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 companies 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 is financed by ABC Bank.

7) Which of the following disclosure is required as per AS 18?
   a) Disclosure of Intra-group transactions in Standalone 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.

9) P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a Listed Company and regularly supplies goods to P Ltd. The Management of R Ltd. has not disclosed its relationship with P Ltd. While preparing Financial Statements of P Ltd., which entities would you disclose as related parties with reference to AS-18? *(PYQ Sep 2024)*
   a) Q Ltd.
   b) R Ltd.
   c) Q Ltd. and R Ltd.
   d) Neither of Q Ltd. or R Ltd.

ADDITIONAL MCQs

10) Related party disclosures are primarily intended to
   a) Ensure a company's financial statements comply with tax regulations
   b) Highlight potential conflicts of interest and related-party transactions
   c) Minimize external scrutiny of a company's operations
   d) Facilitate goodwill among different business entities

11) A director of a company purchases goods from that company for personal use. How should this transaction be disclosed in financial statements?
   a) No disclosure required
   b) Disclose only if the transaction value exceeds a certain threshold
   c) Disclose as a related party transaction
   d) Disclose in the footnotes if the director owns more than 10% of the company's shares

12) What is the primary objective of disclosing related party transactions in financial statements?
   a) To demonstrate the company's profitability
   b) To comply with legal requirements

c) To enhance transparency and avoid potential conflicts of interest
d) To increase the company's market value

13) Which of the following is an example of a related party transaction?
a) Sale of goods to an unrelated third-party customer
b) Purchase of inventory from an independent supplier
c) Loan provided to a subsidiary company
d) Salary payment to regular employees

14) Related party disclosures in financial statements typically include information about
a) Nature of relationships and transactions
b) Names of related parties
c) Amounts of transactions and outstanding balances
d) All of the above

15) According to accounting standards, who are considered related parties?
a) Entities under common control
b) Individuals having significant influence over the company
c) Both a and b
d) None of the above

16) A company rents office space from its major shareholder. How should this transaction be disclosed?
a) As a related party transaction
b) Only if the rent exceeds a certain percentage of total expenses
c) Disclose the nature of the transaction but not the amount
d) No disclosure required

17) As per AS 18, A key management personnel is a person who has following authority/responsibility over the reporting entity's organization.
a) Planning
b) Directing
c) Controlling
d) All of the above

18) Which of the following is not a related party of Tiger Ltd.
a) An associate of Tiger Ltd
b) A key management personnel of Tiger Ltd.
c) A subsidiary of Tiger Ltd
d) The Bank in which Tiger Ltd has a current account

Answers:

1: (b)	2: (d)	3: (c)	4: (b)	5: (b)	6: (b)
7: (a)	8: (c)	9: (c)	10: (b)	11: (c)	12: (c)
13: (c)	14: (d)	15: (c)	16: (a)	17: (d)	18: (d)

AS 19: LEASES

ICAI MCQs

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) 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

8) 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 10 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 10th 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

9) 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 15th year is 0.18 lakh & of ₹ 0.2 lakh is 0.07 lakh. Calculate Net investment in the lease for S Limited.
   a) ₹ 7.25 Lakh
   b) ₹ 7.7 Lakh
   c) ₹ 7.38 Lakh
   d) ₹ 7.57 Lakh

10) 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

11) 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

12) 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

13) 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)

14) 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 lakh 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. 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 15th year is 5.5 lakh. Calculate Minimum Lease Payment for N Limited.
a) ₹ 15 Lakh
b) ₹ 12 Lakh
c) ₹ 34 Lakh
d) ₹ 24.7 Lakh

15) 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 lakh 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 15th 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

16) 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

17) As per Accounting Standards, difference between the Gross Investment and the present value of Minimum Lease Payments under finance lease (from the standpoint of the lessor) and Unguaranteed Residual Value accruing to the lessor is recorded as
a) Unearned finance income
b) Guaranteed Residual Value
c) Profit on lease
d) Loss on lease

18) Accounting Standard 19, Lease is applicable on following Leases:
a) Lease agreements to explore for or use of natural resources, such as oil, gas, timber metals and other mineral rights.
b) Legal owner of an asset conveys to another party in return for a payment or series of periodic payments, the right to use an asset for an agreed period of time.

c) licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights.
d) lease agreements to use lands

19) A Machinery was given on 3 years lease by a dealer of the machinery for equal annual lease rentals to yield 20% profit margin on cost of the machinery, which is ₹ 3,00,000. Economic life of the machinery is 5 years, and estimated output from the machinery in 5 years is as follows:

Year I	50,000 units
Year II	60,000 units
Year III	40,000 units
Year IV	65,000 units
Year V	85,000 units. Compute Annual Lease Rent. *(PYQ Sep 2024)*

a) ₹ 30,000
b) ₹ 60,000
c) ₹ 50,000
d) ₹ 36,000

ADDITIONAL MCQs

20) Which of the following is the primary criterion used to classify a lease under AS 19?
a) Ownership of the asset
b) Length of the lease term
c) Transfer of risks and rewards
d) Maintenance responsibilities

21) What is the recognition criteria for a finance lease under AS 19 by the lessee at the commencement of the lease term?
a) Recognize the lower of fair value of the leased asset or present value of minimum lease payments as an asset and a liability.
b) Recognize only the fair value of the leased asset as an asset.
c) Recognize the present value of minimum lease payments as an expense.
d) Do not recognize anything until the lease term ends.

22) Which of the following statements regarding an operating lease, as per AS 19, is true?
a) It is capitalized on the lessee's balance sheet.
b) It usually involves transferring ownership of the asset at the end of the lease term.
c) It includes finance charges.
d) It is expensed over the lease term.

23) In case of a finance lease, which statement regarding the lessee's profit and loss account is correct under AS 19?
a) A portion of the total lease payment is recognized as interest expense, and the rest is recorded as depreciation.
b) Total lease payment is recognized as interest expense.
c) Total lease payment is recognized as depreciation.
d) No expense is recorded until the lease term ends.

24) As per AS 19, what is the basis for recognizing lease payments for an operating lease?
a) Ratio of benefit obtained and if not available then Straight-line basis.
b) Reducing balance method
c) Annuity method
d) No specific basis is required for recognition.

25) Which financial statement should disclose the information about lease liabilities and assets recognized under AS 19?
   a) Income Statement
   b) Statement of Changes in Equity
   c) Balance Sheet
   d) Cash Flow Statement

26) Under AS 19, what happens if a lease agreement includes an option for the lessee to purchase the asset at a price significantly below its fair market value?
   a) It qualifies as a finance lease.
   b) It is recognized as an operating lease.
   c) It has no impact on lease classification.
   d) It is considered a direct financing lease.

27) In a finance lease, how is the interest component of the lease payment calculated by the lessee under AS 19?
   a) It remains constant throughout the lease term.
   b) It decreases over the lease term.
   c) It increases over the lease term.
   d) It is equal to the lease payment.

28) As per AS 19, a leased asset should be depreciated over the?
   a) Shorter of the lease term and the assets useful life
   b) Longer of the lease term and the assets useful life
   c) Entire lease term
   d) Useful life of the asset.

29) If Sale and leaseback transaction results in a finance lease, any excess or deficiency of sales proceeds over the carrying amount should be?
   a) credited to Profit and Loss statement.
   b) deferred and amortized over the lease term in proportion to the depreciation of the leased asset.
   c) deferred and amortized over period of five years.
   d) amortized in proportion to lease payments

Answers:

1: (b)	2: (a)	3: (c)	4: (c)	5: (b)	6: (c)	7: (b)	8: (a)
9: (a)	10: (c)	11: (a)	12: (c)	13: (b)	14: (a)	15: (a)	16: (a)
17: (a)	18: (b)	19: (b)	20: (c)	21: (a)	22: (d)	23: (a)	24: (a)
25: (c)	26: (a)	27: (b)	28: (a)	29: (b)			

AS 20: EARNINGS PER SHARE

ICAI MCQs

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 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

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 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.

9) 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.

10) As per AS 20 an enterprise should present/disclose the following:
   (i) the amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to the net profit or loss for the period.
   (ii) the weighted average number of equity shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other.
   (iii) basic and diluted earnings per share, even if the amounts disclosed are negative (a loss per share).
   (iv) the nominal value of shares along with the earnings per share figures.
   a) All the statements are correct
   b) Statements (i), (ii) and (iii) are correct
   c) Statements (ii), (iii) and (iv) are correct
   d) Statements (i), (ii) and (iv) are correct

11) A Ltd. had 1,50,000 shares of common stock outstanding on 1 April, 2023. Additional 50,000 shares were issued on 1st November, 2023 and 32,000 shares were bought back on 1st February, 2024. Calculate the weighted average number of shares outstanding at the year ended on 31st March, 2024 is: *(PYQ Sep 2024)*
   a) 1,34,500 shares
   b) 1,65,500 shares
   c) 1,76,167 shares
   d) 1,23,833 shares

ADDITIONAL MCQs

12) Number of shares outstanding as on 01-01-2023 are 2000. Fresh issue of 600 shares for cash on 31-05-2023. Buy back of 300 shares on 01-11-2023. Calculate weighted average outstanding number of shares.
   a) 2300 shares
   b) 2500 shares
   c) 2000 shares
   d) 2800 shares

13) Opening balance of shares as on 01-01-2023 is 2000 shares. On 31-10-2023, issue of 600 shares of ₹ 10 each, ₹ 5 paid up. Calculate weighted average outstanding number of shares.
   a) 2100 shares
   b) 2050 shares
   c) 2000 shares
   d) 1500 shares

14) XYZ Limited reported a net profit of ₹ 50,00,000 for the year ended 31st December 2022. The company had 20 Lakh ordinary shares outstanding throughout the year. On 1st July 2022, XYZ issued ₹ 30,00,000 of 5% convertible bonds of ₹100 each convertible into 10 shares. The bonds were outstanding for the entire year, and XYZ pays tax at a rate of 25%. Calculate the diluted earnings per share (EPS) for the year ended 31st December 2022.
   a) 1.80
   b) 2.00
   c) 2.50
   d) 2.35

15) When calculating Diluted Earnings Per Share (DEPS), what should be considered as potential equity shares?
   a) Convertible preference shares
   b) Convertible debentures
   c) Stock options
   d) All of the above

16) If a company has a net profit of ₹ 800,000, dividends on preference shares of ₹ 50,000, and 150,000 equity shares outstanding, what is the Basic Earnings Per Share (BEPS)?
   a) 5.33
   b) 5.00
   c) 6.00
   d) 8.00

17) If converting a security to share will increase the DEPS then it is:
   a) Dilutive
   b) Anti-dilutive
   c) Accurate
   d) None of the above

18) While calculating DEPS, the net income is adjusted by the following amounts related to potential equity shares:
   a) Interest savings
   b) Dividend savings
   c) any other expenses which will not incur after conversion in equity shares
   d) All of the above

Answers:

1: (c)	2: (a)	3: (b)	4: (b)	5: (c)	6: (c)
7: (a)	8: (a)	9: (a)	10: (a)	11: (b)	12: (a)
13: (b)	14: (d)	15: (d)	16: (b)	17: (b)	18: (d)

AS 22: ACCOUNTING FOR TAXES ON INCOME

ICAI MCQs

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 = ₹ 2,00,000
   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 45%?
   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:
   (i) There are no pre-conditions required to recognize deferred tax liability,
   (ii) 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 (i) is correct.
   c) Only (ii) 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.

ADDITIONAL MCQs

5) According to AS 22, how should deferred tax assets and liabilities be measured?
   a) At the enacted or substantively enacted tax rates
   b) At the highest current tax rate
   c) At the average of historical tax rates
   d) At the lowest current tax rate

6) How does AS 22 recommend accounting for the tax effect of timing differences that reverse during the tax holiday period?
   a) Ignored in financial statements
   b) Recognized in the profit and loss statement
   c) Adjusted against the revaluation reserve
   d) Amortized over an extended period

7) According to AS 22, what is the primary objective of accounting for taxes on income?
   a) To minimize tax liabilities
   b) To ensure compliance with tax laws
   c) To reflect the impact of income taxes in financial statements
   d) To maximize deferred tax assets

8) How does AS 22 recommend accounting for deferred tax assets arising from unabsorbed depreciation and carry-forward of losses?
   a) Recognized in full without any limitations
   b) Recognized only to the extent of virtual certainty of future taxable profits
   c) Ignored in financial statements
   d) Amortized over a fixed period

Answers:

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

AS 23: ACCOUNTING FOR INVESTMENT IN ASSOCIATES IN CONSOLIDATED FINANCIAL STATEMENTS

ICAI MCQs

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

ADDITIONAL MCQs

6) ....of voting power in investee company by investor company is considered as significant influence.
   a) 15%
   b) 20%
   c) 10%
   d) 5%

7) An investor should stop using equity method if.................
   a) It ceases to have a significant impact in associate company
   b) When following equity method is not appropriate
   c) Both (a) and (b)
   d) None of the above

8) X Ltd. acquired 10% shareholding of Y Ltd. on 1 January and further 15% on 1 July of the same year.
   Cost of investment for 10% = 2,00,000
   Cost of investment for 15% = 2,90,000
   Net asset on 1 January 17,00,000 and on 1 July 20,00,000
   Calculate the amount of goodwill/capital reserve.
   a) Goodwill 20,000
   b) Goodwill 40,000
   c) Capital reserve 20,000
   d) Capital reserve 40,000

Answers:

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

AS 24: DISCONTINUING OPERATIONS

ICAI MCQs

1) AB decided to dispose of its Clothing division as part of its long-term strategy.
   (i) Date of Board approval - 1st March 2021;
   (ii) Date of formal announcement made to affected parties - 15th March 2021.
   (iii) Date of Binding Sale agreement – 1st July 2021;
   (iv) Reporting date – 31st March 2021

   The date of initial disclosure event would be:

   a) 1st March 2021
   b) 15th March 2021
   c) 31st March 2021
   d) 31st July 2021

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 & liabilities of 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.

ADDITIONAL MCQs

5) What does AS 24 primarily deal with in accounting?
   a) Revenue recognition
   b) Property, plant, and equipment
   c) Discontinuing operations
   d) Employee benefits

6) A discontinuing plan includes:
   a) expected method of disposal
   b) the principal location affected
   c) estimated proceeds
   d) all of the above

7) After providing the disclosures as per AS 24 during initial disclosure event, in following year..............
   a) updation for significant changes is required in notes to accounts.
   b) re-disclosure is required
   c) No formality is required
   d) None of the above

8) How should the results of a discontinued operation be presented in the financial statements according to AS 24?
   a) As part of continuing operations
   b) As a separate line item after continuing operations
   c) As extraordinary items
   d) As a separate line item before continuing operations

Answers:

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

AS 25: INTERIM FINANCIAL REPORTING

ICAI MCQs

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) 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

6) 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.

7) 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

ADDITIONAL MCQs

8) Which of the following is not an objective of AS 25?
a) To prescribe the minimum content of an interim financial report
b) To prescribe which entities are required to publish interim financial reports, how frequently and how soon after the end of the reporting period
c) To prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period
d) None of the above

9) ___________ is a financial reporting period shorter than a full financial year.
a) Short period
b) A quarter
c) Interim period
d) None of these

10) XYZ Ltd. follows the calendar year as its financial year-end. The company releases interim financial statements for the six-month period ending June 30th. According to AS 25, what is the minimum requirement for the interim financial statements?
a) Balance Sheet
b) Profit and Loss Statement
c) Statement of Cash Flows
d) All of the above

11) Under AS 25, how should an entity account for income tax expense in interim financial statements?
a) Estimate and recognize income tax expense based on the annual effective tax rate
b) Ignore income tax expense in interim financial statements
c) Recognize income tax expense only in the fourth quarter
d) Pro-rate the annual income tax expense evenly across all quarters

12) ABC Ltd. has identified a significant impairment loss on one of its assets during the second quarter of the financial year. According to AS 25, how should this impairment loss be disclosed in the interim financial statements?
a) Disclose only in the notes to the interim financial statements
b) Recognize the impairment loss in the profit and loss statement for the second quarter
c) Ignore the impairment loss until the annual financial statements
d) Recognize the impairment loss in the profit and loss statement for the entire financial year

13) Income tax amount is recorded in the interim financial statements based on best estimate of
   a) Simple average
   b) Weighted average of annual effective tax
   c) Last year tax
   d) Estimated future tax

14) B Ltd has started its operations on 1st September. On year end i.e on 31st March, This period (1st September to 31st March) is:
   a) Interim period
   b) Not an interim period
   c) Can be both (a) and (b)
   d) None of the above

15) X Ltd has changed its accounting policies since last financial statements, what information it should present in interim financial report.
   a) Nature of change
   b) Effect of change
   c) Both (a) and (b)
   d) None of the above

Answers:

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

AS 26: INTANGIBLE ASSETS

ICAI MCQs

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) 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 at ₹ 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

6) 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

7) 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

8) 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 rebuttable presumption
   c) 8 years
   d) Should be charged off in first year.

9) 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

10) 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

11) 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

12) 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

13) 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

ADDITIONAL MCQs

14) If an asset incorporates both intangible and tangible elements, it shall be treated under
    a) AS 10 Property, Plant and Equipment
    b) AS 26 Intangible Assets
    c) A or B, depending which element is more significant
    d) A and B

15) What are intangible assets?
    a) Monetary assets with physical substance
    b) 'Non-monetary assets without physical substance
    c) Non-monetary assets with physical substance
    d) Monetary assets without physical substance

16) If an intangible asset is exchange for another, cost of intangible assets is measured at
    a) Cost price
    b) Acquisition price
    c) Fair value
    d) Nominal value

17) As per AS 26 internally generated goodwill is:
    a) Not recognised as an asset
    b) Recognised after 3 years
    c) Recognised as an assets
    d) Recognised if accrued

18) Which of the following items qualify as an intangible asset under AS 26?
    a) Advertising and promotion on the launch of a huge product
    b) Operating losses incurred during the initial stages of the project
    c) Legal costs paid to intellectual property lawyers to register a patent
    d) Expenditure on research

19) B Ltd has a patent worth Rs 500000, In what circumstances this asset will be derecognize?
    a) When asset is disposed
    b) When there is no future economic benefit
    c) When amortization method is changed
    d) Both (a) and (b)

20) An asset can be recognized as per AS 26 if the value of the asset can be measured:-
    a) Reliably
    b) Accurately
    c) Probably
    d) None of the above

Answers:

1: (c)	2: (d)	3: (a)	4: (b)	5: (a)	6: (c)	7: (a)
8: (c)	9: (b)	10: (d)	11: (c)	12: (c)	13: (a)	14: (c)
15: (b)	16: (c)	17: (a)	18: (c)	19: (d)	20: (a)	

AS 27: FINANCIAL REPORTING OF INTERESTS IN JOINT VENTURES

ICAI MCQs

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 23 as 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 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 incurredby 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 equal ratio only.

a) Point no. (i) only.
b) Point no. (i) and (ii).
c) Point no. (ii).
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. (i) and (ii).
b) Point no. (i), (ii) and (iii).
c) Point no. (i), (ii), (iii) and (iv).
d) None of the above.

ADDITIONAL MCQs

6) What is the primary objective of AS 27?
a) To determine fair value of assets
b) To prescribe accounting treatment for joint ventures
c) To calculate depreciation
d) To assess liquidity ratios

7) What kind of joint ventures classified under AS 27?
a) Jointly controlled operations
b) Jointly controlled assets and
c) Jointly controlled entities
d) All of the above

8) Joint venture requires:
a) Two or more parties
b) Contractual agreement
c) Both (a) and (b)
d) Social work

9) A separate entity is not created under this form of joint venture:
a) Jointly controlled operations
b) Jointly controlled assets and
c) Jointly controlled entities
d) Both (a) and (b)

10) In…………………….,, venturer use their own assets.
   a) Jointly controlled operations
   b) Jointly controlled assets
   c) Jointly controlled entities
   d) None of the above

11) In case of jointly controlled entity, how are joint assets and liabilities recognized in the consolidated financial statements?
   a) Using proportionate consolidation
   b) Using equity method
   c) Based on the controlling interest
   d) Ignored in accounting

12) Under jointly controlled assets, venturers show……………in financial statements
   a) Their share in assets
   b) Expenses incurred under joint venture
   c) Income earned under venture
   d) All of the above

Answers:

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

AS 28: IMPAIRMENT OF ASSETS

ICAI MCQs

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 istrue:
   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 istrue:
   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.

5) Read the statements given below:
   1. Goodwill cannot be tested for impairment without allocation to CGU.
   2. Corporate assets cannot be tested for impairment without allocation to CGU.

   a) Both statements (1) and (2) are correct.
   b) Both statements (1) and (2) are incorrect.
   c) Only (1) correct.
   d) Statements (1) correct and (2) is incorrect.

ADDITIONAL MCQs

6) Which of the following terms does this statement define: “the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount”?
   a) Depreciation
   b) Fair value
   c) Impairment loss
   d) Value in use

7) Which of the following statements do agree with AS 28?
   a) An entity shall assess at the end of each reporting period whether there is any indication that its assets may be impaired
   b) An entity shall assess at the end of each reporting period the recoverable amount of its assets
   c) An entity shall test its assets on impairment at the end of each reporting period
   d) All of the above

8) The existence of which of the following in the entity’s internal reporting does indicate that an asset may be impaired?
   a) Cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly lower than those originally budgeted
   b) Actual net cash flows or operating profit or loss flowing from the asset that are significantly worse than those budgeted
   c) A significant decline in budgeted net cash flows or operating profit, or a significant increase in budgeted loss, flowing from the asset
   d) Both b and c

9) On 1st January Year 1, Entity Q purchased a machine costing ₹ 2,40,000 with an estimated useful life of 20 years and an estimated zero residual value. Depreciation is computed on straight-line basis. The asset had been re-valued on 1st January Year 3 to ₹ 2,50,000, but with no change in useful life at that date. On 1st January Year 4 an impairment review showed the machine’s recoverable amount to be ₹ 1,00,000 and its estimated remaining useful life to be 10 years.
   Calculate the carrying amount of the machine at the end of Year 2
   a) ₹ 2,00,000
   b) ₹ 2,16,000
   c) ₹ 2,35,000
   d) ₹ 2,66,000

10) Venus Ltd. has an asset, which is carried in the Balance Sheet on 31st March, 2023 at ₹ 500 lakh. As at that date the value in use is ₹ 400 lakh and the fair value less costs to sells is ₹ 375 lakh. From the above data calculate the impairment loss.
   a) ₹ 20 lakhs
   b) ₹ 120 lakhs
   c) ₹ 100 lakhs
   d) None of these

11) Jupiter Ltd, a leading manufacturer of steel is having a furnace, which is carried in the balance sheet on 31st March, 2023 at ₹ 250 lakh. As at that date the value in use and fair value is₹200 lakh. The cost of disposal is₹13 lakh. Calculate the Impairment Loss to be recognized in the books of the Company?

a) ₹ 100 lakhs
b) ₹ 150 lakhs
c) ₹ 50 lakhs
d) None of these

12) Recoverable amount is higher of it's value in use or……………
a) Net selling price
b) Fair value
c) Intrinsic value
d) None of the above

13) Cost of disposal doesn't include:
a) Income tax expense
b) Finance costs
c) Both (a) and (b)
d) None of the above

14) Cash flow projections are based on maximum…………recent years of budgets approved.
a) Two
b) Three
c) Five
d) Four

15) If recoverable amount of an asset is more than it's book value then we………… the difference.
a) Ignore
b) Transfer to capital reserve
c) Transfer to P/L A/c
d) Debit in asset

16) Following type of assets do not generate cash flows
a) Cash generating units
b) Corporate assets
c) Both (a) and (b)
d) None of the above

17) Impairment loss…………….
a) Can be reversed
b) Cannot be reversed
c) Is assessed once in lifetime
d) None of the above

Answers:

1: (b)	2: (c)	3: (c)	4: (c)	5: (b)	6: (c)	7: (d)
8: (d)	9: (b)	10: (c)	11: (c)	12: (a)	13: (c)	14: (c)
15: (a)	16: (b)	17: (a)				

AS 29: PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

ICAI MCQs

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 1st March 2023, X Co. had made a provision for repairs of ₹ 25,000. At 31st March 2023, 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 2023?
   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 not 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 Y Ltd.?
   a) Create a Provision of ₹ 5,50,000
   b) Make a Disclosure of a contingent liability of ₹ 5,50,000
   c) Create Provision of ₹50,000 & make disclosure of contingent liability of ₹ 5,00,000
   d) Create a Provision of ₹ 5,00,000

5) 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 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

6) AS 29 is applicable in making provision from which of the following case?
   a) Onerous Contract
   b) Provision for employee benefit
   c) Deferred tax liability
   d) None of the above

7) 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 10.05.2022
   b) On 29.09.2022
   c) On 02.10.2022
   d) Since incorporation of the company as per moral duty

8) 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 receivable of NIL.

9) 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

10) 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 ₹ 8 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.

11) 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

12) XYZ limited has likely liability of ₹ 10 cr. 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 cr. What should be the accounting treatment of ₹ 1 cr. while recognizing provision in books?
    a) ₹ 1 crore should be ignored
    b) Provision should be reduced by ₹ 1 cr.
    c) Gain should be recorded separately for ₹ 1 cr.
    d) Present value of ₹ 1 cr. should be recorded as income.

13) Contingent Liability is disclosed
    a) In Directors Report
    b) Auditors Report
    c) In Notes to Accounts
    d) In Liabilities Side of the Balance Sheet

ADDITIONAL MCQs

14) An onerous contract is a contract in which _________ of meeting the obligations under the contract _________ the economic benefits expected to be received under it.
    a) Unavoidable costs; are less than
    b) Unavoidable costs; exceed
    c) Avoidable costs; exceed
    d) Avoidable costs; are less than

15) Which of the following statements does more likely define the term "restructuring"?
    a) Significant change in the scope of a business undertaken by an entity
    b) Significant change in the manner in which that business is conducted
    c) None of the above
    d) Either a or b

16) Contingent asset usually arises from unplanned or unexpected events that give rise to
    a) The possibility of an inflow of economic benefits to the business entity.
    b) The possibility of an outflow of economic benefits to the business entity.
    c) Either (a) or (b)
    d) None of the above.

17) In Financial Statements, Contingent Liabilities are?
    a) Recognized
    b) Not Recognized
    c) Adjusted
    d) Not disclosed.

18) If an inflow of economic benefits is probable then a contingent asset is disclosed
    a) In the financial statements.
    b) In the report of the approving authority (Board of Directors in the case of a company, & corresponding approving authority in case of any other enterprise).
    c) In the cash flow statement.
    d) None of the above

19) In the case of__________, either outflow of resources to settle the obligation is not probable or the amount expected to be paid to settle the liability cannot be measured with sufficient reliability.
   a) Liability
   b) Provision
   c) Contingent liabilities
   d) Contingent Asset

20) Present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation is termed as
   a) Provision.
   b) Liability.
   c) Contingent liability.
   d) Contingent Asset

21) What does a restructuring provision not include?
   a) Investment in new systems
   b) Relocating continuing staff
   c) Marketing
   d) All of these

Answers:

1: (a)	2: (b)	3: (c)	4: (c)	5: (d)	6: (a)	7: (b)
8: (b)	9: (a)	10: (a)	11: (b)	12: (a)	13: (c)	14: (b)
15: (d)	16: (a)	17: (b)	18: (b)	19: (c)	20: (a)	21: (d)

Case Scenario 1 *(RTP May 2024)*

RTS Ltd, ("RTS" or the "Company"), is engaged in the business of manufacturing of urea, has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment of manufacturing of equipment's/components. The Company has a contract with the Indian Railways for a brake component which is structured such that:

- The Company's obligation is to deliver the component to the Railways' stockyard, while the delivery terms are ex-works, the Company is responsible for engaging a transporter for delivery.
- Railways sends an order for a defined quantity.
- The Company manufactures the required quantity and informs Railways for carrying out the inspection.
- Railways representatives visit the Company's factory and inspect the components, and mark each component with a quality check sticker.
- Goods once inspected by Railways, are marked with a hologram sticker to earmark for delivery identification by the customer when they are delivered to the customer's location.
- The Company raises an invoice once it dispatches the goods.

The management of RTS is under discussion with the auditors of the Company in respect of accounting of a critical matter as regards its accounting with respect subsequent events i.e. events after the reporting period. They have been checking as to which one of the following events after the reporting period provide evidence of conditions that existed at the end of the reporting period?

I. Nationalizations or privatization by government
II. Out of court settlement of a legal claim
III. Rights issue of equity shares
IV. Strike by workforce
V. Announcing a plan to discontinue an operation

The Company has received a grant of ₹ 8 crores from the Government for setting up a factory in a backward area. Out of this grant, the Company distributed ₹ 2 crores as dividend. The Company also received land, free of cost, from the State Government but it has not recorded this at all in the books as no money has been spent.
RTS has a subsidiary, LPP Media & Creations Ltd (LPP), an advertising agency which prepares and publishes advertisement in newspapers on behalf of its clients. LPP invoices its clients for the commission they are entitled to as well as the media space payable to the newspaper.

1. When should RTS Ltd recognize revenue as per the Accounting Standards notified under the Companies (Accounting Standards) Rules. Would your answer be different if inspection is normally known to lead to no quality rejections?
   (a) Revenue should be recognized on dispatch of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.
   (b) Revenue should be recognized on completion of inspection of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.
   (c) Revenue should be recognized on dispatch of components. The assessment would change where inspection is normally known to lead to no quality rejections.
   (d) Revenue should be recognized on delivery of the component to the Railways' stockyard. The assessment would change where inspection is normally known to lead to no quality rejections.

2. In respect of LPP, how should the revenue be recognized as per Accounting Standards?
   (a) LPP should record net amount of commission earned by it.
   (b) LPP should record net amount of commission earned by it and disclose the information about gross income from advertisement 9,700 moulds through media and preparation of advertisement material as well as payments to media and expenditure incurred for creation of an advertisement in the notes to accounts.
   (c) LPP should record gross income from advertisement through media and preparation of advertisement material and gross amount of payments to media and expenditure incurred for creation of an advertisement
   (d) LPP may record this on net or gross basis depending on its accounting policy

3. Please guide the management of RTS Ltd as to which one of the events mentioned above (i to v) after the reporting period provide evidence of conditions that existed at the end of the reporting period?
   (a) ii and v
   (b) ii
   (c) v
   (d) i, iii and iv

4. Please guide regarding the accounting treatment of both the grants mentioned above in line with the requirements of Accounting Standard 12.
   (a) Distribution of dividend out of grant is correct. In the second case also not recording land in the books of accounts is correct
   (b) Distribution of dividend out of grant is incorrect. In the second case, not recording land in the books of accounts is correct.
   (c) Distribution of dividend out of grant is correct. In the second case, land should be recorded in the books of accounts at a nominal value.
   (d) Distribution of dividend out of grant is incorrect. In the second case, land should be recorded in the books of accounts at a nominal value.

Answer Key:

1. **Option (b)**
   As per AS 9, revenue should be recognized once the significant risks & rewards are transferred which would take place after inspection.

2. **Option (c)**
   As per AS 9, LPP is acting as the principal and hence gross basis of accounting would be followed.

3. **Option (b)**
   As per AS 4, Events occurring after the balance sheet date are those significant events, both favorable and unfavorable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity. All the events other than (ii) occurred only after the balance sheet date and those events did not provide any further evidence of conditions that existed at the balance sheet date.

4. **Option (d)**
   As per AS 12, grants should be utilized only for the purposes for which they have been received by the entity and hence any distribution of dividend in the above-mentioned case in inappropriate. Further, land is non-monetary government grant. Government grants may take the form of non-monetary assets, such as land or other resources, given at concessional rates. In these circumstances, it is usual to account for such assets at their acquisition cost. Non-monetary assets given free of cost are recorded at a nominal value.

Case Scenario 2 *(RTP Sep 2024)*

Suman Ltd. is in the business of manufacturing electronics equipment and selling these at its various outlets. It provides installation services for the equipment sold and also provide free 1 year warranty on all the sold products.

Beach Resorts are leading resorts in the city. It purchased 5 air conditioners (AC) from Suman Ltd. for its resort. Suman Ltd. sold 5 AC to Beach resort for ₹ 45,000 each which includes installation fees of ₹ 1,000 for each AC. The Company also offers 1 year warranty for any repair etc. The Company also offered ₹ 500 per AC as trade discount. Beach resort placed order on March 15, 2024 and made payment on March 20, 2024. The ACs were delivered on March 27, 2024 and the installation was completed on April 5, 2024.

1. How much revenue should be recognised by the Company as on March 31, 2024:
   (a) ₹ 2,25,000
   (b) ₹ 2,17,500
   (c) ₹ 2,00,000
   (d) ₹ 2,30,000

2. How much revenue should be recognised by the Company in the financial year 2024-25:
   (a) ₹ 5000
   (b) ₹ 2,20,000
   (c) ₹ 10,000
   (d) ₹ 2,40,000

3. What will be the accounting for trade discount:
   (a) The same will be recognised separately in the profit and loss
   (b) The trade discounts are deducted in determining the revenue
   (c) Trade discount will be recognised after one year, when the warranty will be over
   (d) Trade discount will be recognised after installation is complete

4. Is the Company required to do any accounting for 1 year warranty provided by it:
   (a) No accounting treatment is required till some warranty claim is actually received by the Company
   (b) As there exist a present obligation to provide warranty to customers for 1 year, the Company should estimate the amount that it may have to incur considering various factors including past trends and create a provision as per AS 29
   (c) Accounting for claims will be done on cash basis i.e. expense will be recognised when expense is made
   (d) As the Company is not charging separately for the warranty provided, there is no need to create any provision

Answer Key:

1. **Option (b)**

   As per AS 9, in cases where installation fees are other than incidental to the sale of a product, they should be recognised as revenue only when the equipment is installed and accepted by the customer. Thus, revenue will be recognised excluding installation charges. Further, as per AS 9, trade discount are not encompassed with revenue. The revenue for F.Y. 23-24 will be: 5 *(₹ 45000-500-1000) = ₹ 2,17,500)

2. **Option (a)**

   As per AS 9, in cases where installation fees are other than incidental to the sale of a product, they should be recognised as revenue only when the equipment is installed and accepted by the customer. Thus, revenue pertaining to installation should be recognised when ACs are installed.)

3. **Option (b)**

   As per AS 9, trade discount should be deducted in determining revenue.

4. **Option (b)**

   As per paragraph 14 of AS 29, a provision should be recognised when there exists present obligation to act or perform in a certain way and other conditions for its recognition under AS 29 are satisfied. Here, the Company can estimate the amount that it may have to incur considering past trends and make a provision.

Case Scenario 3 *(MTP May 2024)*

Mars Ltd. is a manufacturing enterprise which is starting a new manufacturing plant at X Village. It has commenced construction of the plant on April 1, 2023 and has incurred following expenses:

- It has acquired land for installing Plant for ₹ 50,00,000
- It incurred ₹ 35,00,000 for material and direct labour cost for developing the Plant.
- The Company incurred ₹ 10,00,000 for head office expenses at New Delhi which included rent, employee cost and maintenance expenditure.
- The Company borrowed ₹ 25,00,000 for construction work of Plant @12% per annum on April 1, 2023. Director finance of the Company incurred travel and meeting expenses amounting to ₹ 5,00,000 during the year for arranging this loan.
- On November 1, 2023, the construction activities of the plant were interrupted as the local people alongwith the activists have raised issues relating to environmental impact of plant being constructed. Due to agitation the construction activities came to standstill for 3 months.
- With the help of Government and NGOs, the agitation was over by February 28, 2024 and the work resumed. However, to balance the impact on environment, government ordered the company to install certain devices for which the Company had to incur ₹ 6,00,000 in March 2024.
- The rate of depreciation on Plant is 10%.

Based on the above information, answer the following questions.

1. Which of the following expenses cannot be included in the cost of plant:
   (a) Cost of Land
   (b) Construction material and labour cost
   (c) Head office expenses
   (d) Borrowing cost

2. How much amount of borrowing cost can be capitalised with the plant:
   (a) ₹ 3,00,000
   (b) ₹ 2,00,000
   (c) ₹ 7,00,000
   (d) ₹ 6,00,000

3. The total cost of plant as on march 31, 2024 will be:
   (a) ₹ 85,00,000
   (b) ₹ 98,00,000
   (c) ₹ 93,00,000
   (d) ₹ 95,00,000

4. The amount of depreciation to be charged for the year end March 31, 2024
   (a) ₹ 4,30,000
   (b) ₹ 9,30,000
   (c) ₹ 9,80,000
   (d) Nil

Answer Key:

1. **Option (c)**

   As per paragraph 17(b) of AS 10 states that the cost of an item of Property, Plant and Equipment comprises any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Head office is generally used for the overall supervision, planning etc. which are not directly related to construction.

2. **Option (b)**

   As per Paragraph 17 of AS 16 states that capitalisation of borrowing cost should be suspended during extended periods to which active development is interrupted. Thus, interest cost from November 1, 2023 to February 28, 2024 will not be capitalised. Interest for only 8 months will be capitalised (₹ 25,00,000*12%*8/12)

3. **Option (c)**

   As per paragraph 17(b) of AS 10 states that the cost of an item of Property, Plant and Equipment comprises any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Thus, directly attributable costs in this case are cost of land ₹ 50,00,000, cost of material and direct labour ₹ 35,00,000, devices installed due to government order ₹ 6,00,000 and borrowing cost ₹ 2,00,000 as per paragraph 6 of AS 16.

4. **Option (d)**

   As per paragraph 57 of AS 10, Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. As the construction is not yet complete and the asset is not available for use, the depreciation will not start.

Case Scenario 4 *(MTP May 2024)*

Beloved Finance Ltd. is a financial enterprise which is in the business of lending loan to small businesses and earn interest on loans.

- During the year the Company has lend 50 crores and earned ₹ 1.5 crore as interest on loans.
- The Company had surplus funds during the year and invested then in Fixed Deposits with bank and earned interest on fixed deposits of ₹ 20 lacs.
- The Company also acquired a gold loan unit for ₹ 10 crore during the year and the Company provided interest free loan of ₹ 15 crore to its wholly- owned subsidiary.
- The Company paid a total income tax of ₹ 75 lacs for the year.

1. In the Cash Flow Statement as per AS 3, the interest income of ₹ 1.5 crore earned on earned on loans given by the Company will be disclosed as:
   (a) Cash Flow from Operating Activities
   (b) Cash Flow from Investing Activities
   (c) Cash Flow from Financing Activities
   (d) Non-cash Items

2. In the Cash Flow Statement as per AS 3, the interest income of ₹ 20 Lacs earned fixed deposits with bank will be disclosed as:
   (a) Cash Flow from Operating Activities
   (b) Cash Flow from Investing Activities
   (c) Cash Flow from Financing Activities
   (d) Non-cash Items

3. In the Cash Flow Statement as per AS 3, amount paid for acquiring gold loan unit will be disclosed as:
   (a) Cash Flow from Operating Activities
   (b) Cash Flow from Investing Activities
   (c) Cash Flow from Financing Activities
   (d) Non-cash Items

4. In the Cash Flow Statement as per AS 3, total income tax of ₹ 75 lacs paid for the year will be disclosed as:
   (a) Cash Flow from Operating Activities
   (b) Cash Flow from Investing Activities
   (c) Cash Flow from Financing Activities
   (d) Non-cash Items

5. Is any specific disclosures required to made in relation to the interest free loan of ₹ 15 crore provided by the Company to its wholly-owned subsidiary, if yes, as per which Accounting Standard:
   (a) Yes, disclosure is required to be made as per AS 3, Cash Flow Statements
   (b) Yes, disclosure is required to be made as per AS 18, Related Party Disclosures
   (c) Yes, disclosure is required to be made as per AS 13, Accounting for Investments
   (d) No specific disclosures are required

Answer Key:

1. **Option (a)**
   As per Paragraph 30 of AS 3 states that Cash flows from interest and dividends received and paid should each be disclosed separately. Cash flows arising from interest paid and interest and dividends received in the case of a financial enterprise should be classified as cash flows arising from operating activities.

2. **Option (a)**
   As per Paragraph 30 of AS 3 states that Cash flows from interest and dividends received and paid should each be disclosed separately. Cash flows arising from interest paid and interest and dividends received in the case of a financial enterprise should be classified as cash flows arising from operating activities. So, it will also be disclosed as cash flow from operating activities.

3. **Option (b)**
   As per paragraph 37 of AS 3, the aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units should be presented separately and classified as investing activities. This is acquisition of business, so the same should be disclosed as Cash Flow from investing activities.

4. **Option (a)**
   As per Paragraph 34 of AS 3 states cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities. Here, no information is provided as to which activity the tax belongs so it will be disclosed as cash flow from operating activities.

5. **Option (b)**
   As per paragraph 10.1 of AS 18, Related party is defined as parties are considered to be related if at any time during 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.

Case Scenario 5 *(MTP Sep 2024)*

Venus Limited received a parcel of land at no cost from the government for the purpose of developing a factory in an outlying area. The land is valued at ₹ 75 lakhs, while the nominal value is ₹ 10 lakhs. Additionally, the company received a government grant of ₹ 30 lakhs, which represents 25% of the total investment needed for the factory development. Furthermore, the company received ₹ 15 lakhs with the stipulation that it be used to purchase machinery. There is no expectation from the government for the repayment of these grants.

Answer the following questions based on the above information:

1. The land received from Government, free of cost should be presented at:
   (a) ₹ 75 Lakhs
   (b) ₹ 30 Lakhs
   (c) ₹ 10 Lakhs
   (d) ₹ 45 Lakhs

2. As per AS 12, how the Government Grant of ₹ 30 Lakhs should be presented:
   (a) It should be recognised in the profit and loss statement as per the related cost
   (b) It will be treated as capital reserve
   (c) It will be treated as deferred income
   (d) It will not be recognised in the financial statements

3. As per AS 12, how the Government Grant of ₹ 15 Lakhs with a condition to purchase machinery may be presented as:
   (a) Capital Reserve
   (b) Shareholders Fund
   (c) Deferred Income
   (d) Income in statement of profit and loss as received.

4. Which of the above grants are required to be recognised in the statement of profit and loss on a systematic and rational basis over the useful life of the asset:
   (a) Land received as Grant
   (b) Government Grant of ₹ 30 Lakhs
   (c) Government Grant of ₹ 15 Lakhs with a condition to purchase machinery
   (d) Noe of the above

Answer Key:

1. **Option (c)**
   As per Paragraph 7 of AS 12 states that Non-monetary assets given free of cost are recorded at a nominal value.)

2. **Option (b)**
   As per Paragraph 10.1 of AS 12, where the government grants are of the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.)

3. **Option (c)**
   As per Paragraph 8.4 of AS 12 states that under the other method, grants related to depreciable assets are treated as deferred income which is recognised in the statement of profit and loss on a systematic and rational basis over the useful life of the asset.
   As there are two methods of presentation allowed, we have used 'may' in the question

4. **Option (c)**
   As per Paragraph 8.4 of AS 12 states that grants related to depreciable assets are treated as deferred income which is recognised in the statement of profit and loss on a systematic and rational basis over the useful life of the asset.

Case Scenario 6 *(MTP Sep 2024)*

Axis limited is a manufacturing company. It purchased a machinery costing ₹ 10 Lakhs in April 2023. It paid ₹ 4 lakhs upfront and paid the remaining ₹ 6,00,000 as deferred payment by paying instalment of ₹ 1,05,000 for the next 6 months. During the year, the Company sold a land which was classified as its 'property, plant and equipment' for ₹ 25,00,000 and paid ₹ 1,00,000 as income tax as long term capital gain on such sale. During the year, the Company also received income tax refund along with interest.

1. As per the requirements of AS 3, 'Cash Flow Statements', how the amount for purchase of machinery should be presented:
   (a) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 will simply be booked in profit and loss with no presentation if Cash Flow Statement.
   (b) ₹ 10.30 lakhs as 'Cash flows from Investing Activities' as entire amount is spend on purchase of machinery.
   (c) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 as 'Cash flows from Financing Activities'.
   (d) ₹ 10.30 lakhs as 'Cash flows from Financing Activities' as the machinery has been purchased on finance.

2. At what amount, the machinery should be recognised in the financial statements:
   (a) ₹ 400,000
   (b) ₹ 10,30,000
   (c) ₹ 600,000
   (d) ₹ 10,00,000

3. How should the income tax paid on sale of land should be disclosed in the Cash Flows Statement:
   (a) Cash flows from Operating Activities
   (b) Cash flows from Investing Activities
   (c) Cash flows from Financing Activities
   (d) No disclosure in Cash Flow Statement

4. How should the interest on income tax refunds should be disclosed in the Cash Flows Statement:
   (a) Cash flows from Operating Activities
   (b) Cash flows from Investing Activities
   (c) Cash flows from Financing Activities
   (d) No disclosure in Cash Flow Statement

Answer Key:

1. **Option (c)**

   As per AS 3, Interest paid to vendor for acquiring fixed asset under deferred payment basis should be presented as financing activities and Principal sum payment under deferred payment basis for acquisition of fixed assets should be presented as investing activities.

2. **Option (d)**

   As per paragraph 6 of AS 16, Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred. In this case, the machinery has been purchased and it is readily usable, thus, it is not a qualifying asset and thus, interest cost should not be capitalised.

3. **Option (b)**

   As per Paragraph 34 of AS 3, Cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities. The sale of PPE is cash flow from investing activities and accordingly, taxes paid on same should be disclosed as investing activities.

4. **Option (b)**

   These interests pertain to income taxes and are not arising from the principle revenue-producing activities, therefore, should be disclosed as per paragraph 30 of AS 3.

Case Scenario 7 *(MTP May 2024)*

SEAS Ltd., the "Company", is in the business of tours and travels. It sells holiday packages to the customers. The Company negotiates upfront with the Airlines for specified number of seats in flight. The Company agrees to buy a specific number of tickets and pay for those tickets regardless of whether it is able to resell all of those in package.

The rate paid by the Company for each ticket purchased is negotiated and agreed in advance. The Company also assists the customers in resolving complaints with the service provided by airlines. However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

The Company bought a forward contract for three months of US$ 1,00,000 on 1 March 2024 at 1 US$ = INR 83.10 when exchange rate was US$ 1 = INR 83.02. On 31 March 2024, when the Company closed its books, exchange rate was US$ 1 = INR 83.15. On 1 April 2024, the Company decided for premature settlement of the contract due to some exceptional circumstances.

The Company is evaluating below mentioned schemes:

i. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.
ii. Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

SEAS Ltd. has a subsidiary, ADI Ltd., which is in the business of construction having turnover of ₹ 200 crores. SEAS Ltd. and ADI Ltd. hold 9% and 23% respectively in an associate company, ASOC Ltd. Both SEAS Ltd. and ADI Ltd. prepare consolidated financial statements as per Accounting Standards notified under the Companies (Accounting Standards) Rules, 2021.

1. What would be the basis of revenue recognition for SEAS Ltd. as per the requirements of Accounting Standards?
   (a) Gross basis
   (b) Net basis
   (c) Depends on the accounting policy of the Company
   (d) Indian GAAP allows a choice to the Company to recognize revenue on gross basis or net basis

2. Please suggest accounting treatment of forward contract for the year ended 31 March 2024 as per Accounting Standard 11.
   (a) MTM (marked to market value) of contract will be recorded on 31 March 2024
   (b) MTM (marked to market value) of contract will be computed as at 31 March 2024 and only if there is loss, it will be recorded during the year ended 31 March 2024
   (c) No accounting will be done during the year ended 31 March 2024
   (d) Premium on contract will be amortized over the life of the contract

3. You are requested to advise the Company in respect of the accounting requirements of above schemes related to employee benefits as to which one of those schemes should be considered as a change in accounting policy during the year.
   (a) 1 – Change in accounting policy. 2 – Change in accounting policy
   (b) 1– Not a change in accounting policy. 2 – Change in accounting policy
   (c) 1 – Not a change in accounting policy. 2 – Not a change in accounting policy
   (d) 1– Change in accounting policy. 2 – Not a change in accounting policy

4. Please comment regarding consolidation requirements for SEAS Ltd. and ADI Ltd. using the below mentioned options as to which one should be correct.
   (a) ADI Ltd. would using equity method of accounting for 23% in ASOC Ltd. SEAS Ltd. would consolidate ADI Ltd. and consequently automatically equity account 23% and separately account for the balance 9% as per AS 13.
   (b) ADI Ltd. would account for 23% in ASOC Ltd. as per AS 13. SEAS Ltd. would consolidate ADI Ltd. and consequently automatically account 23% and separately account for the balance 9%.
   (c) ADI Ltd. would account for 23% share in ASOC Ltd using equity method of accounting. SEAS Ltd. would consolidate ADI Ltd. and consequently, automatically account for ASOC Ltd 23% share and separately account for 9% share in ASOC Ltd. using equity method of accounting in consolidated financial statements.
   (d) ADI Ltd. would account for 23% in ASOC Ltd. as per AS 13. SEAS Ltd. would consolidate ADI Ltd. and using equity method of accounting 23% in ASOC Ltd. and separately account for the balance 9% as per AS 13.

Answer Key:

1. **Option (a)**
   As per the requirements of AS 9, SEAS Ltd is acting as a principal and not an agent. Therefore, it would recognize revenue on gross basis.

2. **Option (d)**
   As per the requirements of AS 11, any premium or discount arising at the inception of a forward exchange contract (which is not intended for trading or speculation purposes) should be amortised as expense or income over the life of the contract.

3. **Option (c)**
   As per the requirements of AS 5, the following are not considered as changes in accounting policies:
   (a) the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, e.g., the introduction of a formal retirement gratuity scheme by an employer in place of adhoc ex-gratia payments to employees on retirement; and
   (b) the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial.
   Schemes (i) and (ii) are the events or transactions which did not occur and are different from previously occurred transactions.

4. **Option (c)**
   Since ADI Ltd hold 23% ASOC Ltd, it would do equity accounting in respect of ASOC Ltd as per AS 23.
   Since, ADI Ltd is a subsidiary of SEAS Ltd, SEAS Ltd would consolidate ADI Ltd on a line by line basis wherein 23% of ASOC Ltd held by ADI Ltd in ASOC Ltd would automatically get covered. Further, the balance 9% held by SEAS Ltd in ASOC Ltd would also be required to be consolidated using equity method of accounting as per AS 23.

Case Scenario 8 *(MTP May 2024)*

On 1st April, 2022, Shubham Limited purchased some land for ₹ 30 lakhs for the purpose of constructing a new factory. This cost of 30 lakhs included legal cost of ₹ 2 lakhs incurred for the purpose of acquisition of this land. Construction work could start on 1st May, 2022 and Shubham Limited provides you the details of the following costs incurred in relation to its construction:

	₹
Preparation and levelling of the land	80,000
Employment costs of the construction workers (per month)	29,000
Purchase of materials for the construction	21,24,000
Cost of relocating employees to new factory for work	60,000
Costs of inauguration ceremony on 1st January, 2023	80,000
Overhead costs incurred directly on the construction of the factory (per month)	25,000
General overhead costs allocated to construction project by the Manager is ₹ 30,000. However, as per company's normal overhead allocation policy, it should be ₹ 24,000. The auditor of the company has support documentation for the cost of ₹ 15,000 only and raised objection for the balance amount.	

The construction of the factory was completed on 31st December, 2022 and production could begin on 1st February, 2023. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it was estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building.

The construction of the factory was partly financed by a loan of ₹ 28 lakhs borrowed on 1st April, 2022. The loan was taken at an annual rate of interest of 9%. During the period when the loan proceeds had been fully utilized to finance the construction, Shubham Limited received investment income of ₹ 25,000 on the temporary investment of the proceeds.
You are required to assume that all of the net finance costs to be allocated to the cost of factory (not land) and interest cost to be capitalized based on nine months' period.
Based on the information given in the above scenario, answer the following multiple choice questions:

1. Which of the following cost (incurred directly on construction) will be capitalized to the cost of factory building?
   (a) ₹ 2,00,000 incurred as legal cost
   (b) ₹ 60,000 – costs of relocating employees
   (c) ₹ 80,000 costs of inauguration ceremony
   (d) ₹ 24,000 – allocated general overhead cost

2. What amount of employment cost of construction workers will be capitalized to the cost of factory building?
   (a) ₹ 2,90,000
   (b) ₹ 3,48,000
   (c) ₹ 2,32,000
   (d) ₹ 29,000

3. What is the amount of net borrowing cost capitalized to the cost of the factory?
   (a) ₹ 1,89,000
   (b) ₹ 1,68,000
   (c) ₹ 1,44,000
   (d) ₹ 1,64,000

4. What will be the carrying amount (i.e. value after charging depreciation) of the factory in the Balance Sheet of Shubham Limited as at 31st March, 2023?
   (a) ₹ 30,00,000
   (b) ₹ 57,78,125
   (c) ₹ 27,78,125
   (d) ₹ 58,00,000

Answer Key:

1. **Option (a)**
   Legal costs of 2,00,000 are directly attributable to the acquisition of land and are already included in the cost of the land, not the factory building.

2. **Option (c)**
   Employment costs of ₹ 29,000 per month incurred from May 2022 to December 2022 (8 months) would be capitalized, as these are directly attributable to construction. Employment cost capitalized = 29,000 × 8 = 2,32,000

3. **Option (d)**

4. **Option (b)**

For Answer 3 & 4

Cost:	
Land	30,00,000
Preparation, levelling	80,000
Materials	21,24,000
Costs of Construction workers (29,000 x 8 months)	2,32,000
Direct overhead (25,000 x 8 months)	2,00,000
Allocated overheads	Nil
Relocation costs, costs of inauguration	Nil
Net borrowing costs (1,89,000 less 25,000)	1,64,000
Total	**58,00,000**

Carrying amount:

	Land	Factory
	30,00,000	28,00,000
Depreciation:		
Land	Nil	8,750
Roof (28,00,000 x .25x1/20 x 3/12)		13,125
Remaining factory (28,00,000 x .75x1/40 x 3/12)	-	(21,875)
		27,78,125

Case Scenario 9 *(MTP May 2024)*

Kesar Ltd., a company engaged in various business activities, has decided to initiate a share buy-back on 1st April, 2023. The company plans to repurchase 25,000 equity shares of ₹ 10 each at a price of ₹ 20 per share. This buy-back initiative is in compliance with the company's articles of association, and the necessary resolution has been duly passed by the company. As part of the financial arrangement for the share buy-back, Kesar Ltd. intends to utilize its current assets, particularly the bank balance, to make the payment for the repurchased shares.

Here is a snapshot of Kesar Ltd.'s Balance Sheet as of 31st March, 2023:

A. Share Capital: Equity share capital (fully paid up shares of ₹ 10 each) - ₹ 12,50,000
B. Reserves and Surplus: Securities premium ₹ 2,50,000; Profit and loss account ₹ 1,25,000; Revenue reserve ₹ 15,00,000;
C. Long term borrowings: 14% Debentures- ₹ 28,75,000, Unsecured Loans - ₹ 16,50,000
D. Land and Building ₹ 19,30,000; Plant and machinery ₹ 18,00,000; Furniture and fitting ₹ 9,20,000 and Other Current Assets - ₹ 30,00,000

Authorized, issued and subscribed capital: Equity share capital (fully paid up shares of 10 each) - 12,50,000.

1. By using the Shares Outstanding Test the number of shares that can be bought back
   (a) 1,25,000
   (b) 31,250
   (c) 25,000
   (d) 30,000

2. By using the Resources Test determine the number of shares that can be bought back:
   (a) 25,000
   (b) 31,250
   (c) 28,750
   (d) 39,062

3. By using the Debt Equity Ratio Test determine the number of shares that can be bought back:
   (a) 25,000
   (b) 31,250
   (c) 28,750
   (d) 39,062

4. On the basis of all three tests determine Maximum number of shares that can be bought back:
   (a) 25,000
   (b) 31,250
   (c) 28,750
   (d) 39,062

Answer Key:

1. Option (b)

Shares Outstanding Test

Particulars	(Shares)
Number of shares outstanding	1,25,000
25% of the shares outstanding	31,250

2. Option (d)

Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves

Particulars	(Shares)
Paid up capital (₹)	1,25,000
Free reserves (₹) (15,00,000 + 2,50,000 + 1,25,000)	18,75,000
Shareholders' funds (₹)	31,25,000
25% of Shareholders fund (₹)	7,81,250
Buy-back price per share	₹ 20
Number of shares that can be bought back (shares)	39,062

3. Option (c)

Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back.

Particulars		(Shares)
(a)	Loan funds (₹) (18,75,000 + 10,00,000 + 16,50,000)	45,25,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	22,62,500
(c)	Present equity/shareholders fund (₹)	31,25,000
(d)	Future equity/shareholders fund (₹) (see W.N.) (31,25,000 – 2,87,500)	28,37,500
(e)	Maximum permitted buy-back of Equity (₹) [(d) – (b)]	5,75,000
(f)	Maximum number of shares that can be bought back @ ₹ 20 per share	28,750 shares

Working Note

Equation 1 : (Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained = Maximum permissible buy-back of equity.

(31,25,000 –x)-22,62,500 = y

Since 8,62,500 – x = y (1)

Equation 2 : $\left(\frac{Maximum\ buy-Back}{Offer\ Price\ for\ buy-back} \times Nominal\ Value\right)$

= Nominal value of the shares bought –back to be transferred to CRR

= $\left(\frac{y}{20} \times 10\right)$ = x

2x = y (2)

x = ₹ 2,87,500 and y = ₹ 5,75,000

4. Option (c)

Summary statement determining the maximum number of shares to be bought back

Particulars	Number of shares
Shares Outstanding Test	31,250
Resources Test	39,062
Debt Equity Ratio Test	28,750
Maximum number of shares that can be bought back [least of above]	28,750

Case Scenario 10 *(MTP May 2024)*

Kumar Ltd., a privately-held company, operates in the manufacturing industry. Founded in 2008, the company has steadily grown its operations and established a strong presence in the market. As of 31st March, 2023, the company's capital structure reflects a blend of equity and debt financing.

Capital Structure Overview:

- Equity Share Capital: The company has a total of ₹ 30,00,000 invested in equity shares, each valued at ₹ 10 and fully paid.
- Reserves & Surplus: Kumar Ltd. has accumulated reserves and surplus totaling ₹ 49,00,000, comprising contributions from various sources including General Reserve (₹ 32,50,000), Security Premium Account (₹ 6,00,000), Profit & Loss Account (₹ 4,30,000), and Revaluation Reserve (₹ 6,20,000).
- Loan Funds: The company has acquired loan funds amounting to ₹ 42,00,000 to support its operational and growth initiatives.

Buy-Back Decision:
Considering its financial position and market conditions, Kumar Ltd. has decided to initiate a share buy-back program. The company intends to repurchase its shares at a price of ₹ 30 per share.
In accordance with financial regulations and internal policies, Kumar Ltd. aims to assess the maximum number of shares it can repurchase while maintaining a prudent debt-equity ratio. By utilizing the Debt Equity Ratio Test, the company seeks to strike a balance between its equity base and debt obligations.
Based on the above information, answer the following questions.

1. What is the minimum equity Kumar Ltd. needs to maintain after buy-back, according to the Debt Equity Ratio Test?
   (a) ₹ 12,95,000
   (b) ₹ 21,00,000
   (c) ₹ 32,50,000
   (d) ₹ 6,00,000

2. What is the maximum permitted buy-back of equity for Kumar Ltd.?
   (a) ₹ 38,85,000
   (b) ₹ 42,00,000
   (c) ₹ 12,95,000
   (d) ₹ 59,85,000

3. How many shares of Kumar Ltd. can be bought back at ₹ 30 per share according to the Debt Equity Ratio Test?
   (a) 43,000
   (b) 1,29,500
   (c) 2,00,000
   (d) 78,000

Answer Key:

1. Option (b)

2. Option (b)

3. Option (b)

For 1, 2 & 3:

Debt Equity Ratio Test

	Particulars	₹
(a)	Loan funds	42,00,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1	21,00,000
(c)	Present equity shareholders fund	72,80,000
(d)	Future equity shareholder fund (See Note 2)	59,85,000 (72,80,000-12,95,000)
(e)	Maximum permitted buy-back of Equity (₹ in crores) [(d) – (b)] (See Note 2)	38,85,000 (by simultaneous equation)
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (See Note 2)	1,29,500 (by simultaneous equation)

Working Note:

1. Shareholders' funds

Particulars	₹
Paid up capital	30,00,000
Free reserves (32,50,000 + 6,00,000 + 4,30,000)	42,80,000
	72,80,000

2. Equation 1 : (Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained = Maximum permissible buy-back of equity.
(72,80,000 –x)-21,00,000 = y
Since 51,80,000 – x = y (1)
Since 51,80,000 – x = y
Equation 2 : $\left(\frac{Maximum\ buy-Back}{Offer\ Price\ for\ buy-back} \times Nominal\ Value\right)$
= Nominal value of the shares bought –back to be transferred to CRR
= $\left(\frac{y}{30} \times 10\right)$ = x
3x = y (2)
x = ₹ 12,95,000 and
y = ₹ 38,85,000

Case Scenario 11 *(MTP Sep 2024)*

Super Ltd., a manufacturing company, has the following summarized Balance Sheet as of March 31, 2024:

Equity Shares of ₹ 10 each fully paid up: ₹ 17,00,000

Reserves & Surplus:

Revenue Reserve:	₹ 23,50,000
Securities Premium:	₹ 2,50,000
Profit & Loss Account:	₹ 2,00,000
Infrastructure Development Reserve:	₹ 1,50,000

Secured Loan:

9% Debentures:	₹ 38,00,000
Unsecured Loan:	₹ 8,50,000
Property, Plant & Equipment:	₹ 58,50,000
Current Assets:	₹ 34,50,000

Super Ltd. plans to buy back 35,000 equity shares of ₹ 10 each fully paid up on April 1, 2024, at ₹ 30 per share. The buyback is authorized by its articles, and necessary resolutions have been passed. The payment for the buyback will be made using the company's bank balance, which is part of its current assets.

Answer the following questions based on the above information:

1. As per The Companies Act, 2013 under Section 68 (2) the buy-back of shares in any financial year must not exceed -
   (a) 20% of its total paid-up capital and free reserves
   (b) 25% of its total paid-up capital and free reserves
   (c) 25% of its total paid-up capital
   (d) 20% of its total paid-up capital

2. How many shares can Super Ltd. buy back according to the Shares Outstanding Test?
   (a) 35,000 shares
   (b) 42,500 shares
   (c) 37,500 shares
   (d) 54,375 shares

3. What is the maximum number of shares that can be bought back according to the Resources Test?
   (a) 35,000 shares
   (b) 42,500 shares
   (c) 37,500 shares
   (d) 54,375 shares

4. According to the Debt Equity Ratio Test, what is the maximum number of shares that can be bought back?
   (a) 35,000 shares
   (b) 42,500 shares
   (c) 37,500 shares
   (d) 54,375 shares

Answer Key:

1. **Option (b)**
   As per The Companies Act, 2013 under Section 68 (2) the buy-back of shares in any financial year must not exceed 25% of its total paid-up capital and free reserves.

2. **Option (b)**
   According to the Shares Outstanding Test, the maximum number of shares that can be bought back is 25% of the shares outstanding. With 1,70,000 shares outstanding, 25% equals 42,500 shares.

3. **Option (c)**
   According to the Resources Test, the maximum permitted limit is 25% of the equity paid-up capital plus free reserves. Calculating this gives 25% of ₹ 45,00,000 (₹ 17,00,000 + ₹ 28,00,000), which is ₹ 11,25,000. At ₹ 30 per share, this equals 37,500 shares.

4. **Option (d)**
   According to the Debt Equity Ratio Test, the maximum number of shares that can be bought back is determined by ensuring that the company's post-buyback loans do not exceed twice the equity shareholders' funds. This calculation shows a maximum buyback of 54,375 shares.

Case Scenario 12 *(MTP Sep 2024)*

Anshul manufacturers purchased 20,000 Kg. of raw material at ₹ 170 per Kg. Direct transit cost incurred ₹ 5,00,000 and normal transit loss is 3%. Anshul manufacturers actually received 19,000 kg of raw material. During the year it consumed 17,600 kg of raw material.

Further information:

i. The purchase price includes ₹ 15 per kg as GST in respect of which full credit is allowed and will be availed by Anshul manufacturers.

ii. Assume that there is no opening stock.

Answer the following questions based on above:

1. What will be the cost of material:
   (a) ₹ 36,00,000
   (b) ₹ 34,00,000
   (c) ₹ 39,00,000
   (d) ₹ 31,00,000

2. what will be the value of the closing stock:
   (a) ₹ 1,70,000
   (b) ₹ 1,85,500
   (c) ₹ 2,38,000
   (d) ₹ 2,59,700

3. What will be the cost per Kg of raw material:
   (a) ₹ 180
   (b) ₹ 183.6
   (c) ₹ 185.5
   (d) ₹ 189.4

4. How much amount as abnormal loss will be debited in P&L:
   (a) ₹ 72,000 approx
   (b) ₹ 73,440 approx
   (c) ₹ 74,200 appox
   (d) ₹ 75,760 approx

Answer Key:

1. Option (a)

2. Option (d)

3. Option (c)

4. Option (c)

For 1 ,2 3 & 4

Cost of Material

20,000 kg @ ₹ (170-15)	= ₹ 31,00,000
Direct cost	= ₹ 5,00,000
Total cost	= ₹ 36,00,000

Units

Units purchased	= 20,000 Kg
Normal loss @3%	= 600 Kg
Units received	= 19,000 Kg
Abnormal loss (20,000-600-19000)	= 400 Kg

Cost per unit

₹ 36,00,000/19,400 units	= ₹ 185.5 per unit

Abnormal loss to be charged to profit and loss

= 400Kg * ₹ 185.5	= ₹ 74,200

Value of closing stock

Closing units = 19,000-17,600	= 1400 units
Value = 1400*₹ 185.5	= 2,59,700

Case Scenario 13 *(MTP Sep 2024)*

Aazad Ltd. has the following particulars:

Particulars	₹ (lakh)
10% Preference Share Capital (₹ 10 each)	2,500
Equity Share Capital of ₹ 10 each	8,000
Capital Redemption Reserve	1,000
Securities Premium	800
General Reserve	6,000
Profit & Loss A/c	300
Cash	1,650
Investments (Market Value ₹ 1,500 lacs)	3,000

The company decides to redeem all it's preference shares at a premium of 10% and buys back 25% of equity shares @ ₹ 15 per share. Investments amounting to Market Value of ₹ 1,000 lakhs sold at ₹ 3,000 lakhs and raises a bank loan of ₹ 2,000 lakhs.
Answer the following questions based on above:

1. The amount of Profit/Loss on Sale of Investment is:
   (a) ₹ 1,500 lakhs Profit
   (b) ₹ 1,000 lakhs Profit
   (c) ₹ 2,000 lakhs Loss
   (d) ₹ 1,000 lakhs Loss

2. Securities Premium available for Buyback after redemption of Preference Shares
   (a) ₹ 550 lakhs
   (b) ₹ 800 lakhs
   (c) Can't utilize securities premium for buyback
   (d) ₹ 350 lakhs

3. Cash balance after buyback
   (a) ₹ 1,150 lakhs
   (b) ₹ 2,200 lakhs
   (c) ₹ 3,250 lakhs
   (d) ₹ 900 lakhs

Answer Key:

1. **Option (b)**

The market value of investment

Particulars	₹ (lakh)
Sale value of investment	3,000
Less: The cost value of investment (3,000/1,500 x 1,000)	2,000
Profit	1,000

2. **Option (a)**

	₹ (lakh)
Securities premium	800
Less: premium on redemption of preference shares	250
Balance available	550

3. **Option (d)**

Opening Balance + Investment sold + Loan raised- Preference Shares redeemed- Equity Share buy back Lakhs [₹ 1,650 + ₹ 3,000 + ₹ 2,000 - ₹ 2,750 - ₹ 3,000] = ₹ 900 lakhs

Case Scenario 14 *(MTP Sep 2024)*

On April 1, 2022, Hello Limited approached a software company for implementation of SAP ERP at its organisation. The cost of implementation of SAP ERP is ₹ 25,00,000 and the time required is 15 months. The company was also required to pay ₹ 100,000 annually after implementation for maintenance and normal updation of ERP. The implementation work started in June, 2022 and could not be finished in 15 months. The ERP was implemented on May 2024. Due to delay in implementation the vendor refunded ₹ 2,00,000. The Company recognised the intangible asset 'SAP ERP' on September 2023 (15 months from June 2022). After two years, the Company has got the SAP ERP more upgraded with latest version and additional features and functions which also increased its speed and usage to Hello Limited for ₹ 7,00,000.

1. On which date the Intangible asset should be recognised:
   (a) April 2022 (When it was decided that SAP ERP is to be implemented)
   (b) June 2022 (When the implementation work started)
   (c) September 2023 (When the implementation work should have completed as per agreed terms)
   (d) May 2024 (When the SAP actually got implemented)

2. At what amount the SAP ERP should be initially recognised as 'intangible asset:
   (a) ₹ 25,00,000
   (b) ₹ 26,00,000
   (c) ₹ 23,00,000
   (d) ₹ 32,00,000

3. How should the annual maintenance and updation expenses should be accounted for:
   (a) Should be capitalised with 'Intangible Asset'
   (b) Should be recognised as a separate 'Intangible Asset'
   (c) Should be recognised as expense in Profit and Loss annually.
   (d) No accounting is required

4. During the implementation period, how the expenditure incurred will be accounted for:
   (a) It will be expensed in profit and loss as and when incurred
   (b) It will be recognized as an asset 'Intangible asset under development'
   (c) It will only be disclosed in notes to accounts and will be recognised when complete
   (d) It will be recognised as an item of Property, Plant and Equipment

Answer Key:

1. **Option (d)**
   As per the provision of AS 26.

2. **Option (c)**
   ₹ 25,00,000 less the amount refunded i.e. ₹ 200,000 = ₹ 23,00,000

3. **Option (c)**
   As per paragraph 59 of AS 26, subsequent expenditure on an intangible asset after its completion should be recognised as expense as it is only normal maintenance expense.

4. **Option (b)**
   Till the asset is complete it will be recognised as 'intangible asset under development' till the same is available for use.

Case Scenario 15 *(MTP Jan 2025)*

Fly Ltd. made a sale of INR 7,00,000 to Wings International in May 2023 and recognised Trade Receivables which was initially recorded at the prevailing exchange rate on the date of sales, transaction recorded at US$ 1= ₹ 79.4. The Company also took a loan from U.S Company for ₹ 10,00,000 in December 2023 which was initially recorded at the prevailing exchange rate on the date of transaction, transaction recorded at US$ 1= ₹ 81.1.
On 31st March 2024, exchange rate was US$ 1 = ₹ 83.3

1. What will be the closing balance of Trade Receivables on 31st March 2024:
   (a) ₹ 700,000
   (b) ₹ 7,14,978 approx
   (c) ₹ 7,34,383 approx
   (d) ₹ 7,50,000 approx

2. How much is the reporting difference (gain or loss) in case of Trade Receivable:
   (a) Gain of ₹ 34,383 approx
   (b) Loss of ₹ 34,383 approx
   (c) Gain of ₹ 19,395 approx
   (d) Loss of ₹ 19,395 approx

3. What will be the closing balance of Loan as on 31st March 2024:
   (a) ₹ 10,00,000
   (b) ₹ 10,27,127 approx
   (c) ₹ 9,79,002 approx
   (d) ₹ 10,79,002 approx

4. How much is the reporting difference (gain or loss) in case of Loan:
   (a) Gain of ₹ 48,087 approx
   (b) Loss of ₹ 48,087 approx
   (c) Gain of ₹ 27,127 approx
   (d) Loss of ₹ 27,127 approx

Answer Key:

1. **Option (c)**

2. **Option (a)**

3. **Option (b)**

4. **Option (d)**

Trade Receivable

	Foreign Currency Rate	In INR
Initial recognition of Trade Receivables = US$ 8816 (7,00,000/79.4)	**US $ 1 = 79.4**	**700,000**
Rate on 31st March	**US $ 1 = 83.3**	**7,34,383**
Exchange Difference Gain US $8816* (83.3-79.4)		**34,383**

Loan

	Foreign Currency Rate	In INR
Initial recognition of Loan = US$ 12330 (10,00,000/81.1)	**US $ 1 = 81.1**	**10,00,000**
Rate on 31st March	**US $ 1 = 83.3**	**10,27,127**
Exchange Difference Loss US $12330* (83.3-81.1)		**27,127**

Case Scenario 16 *(MTP Jan 2025)*

X Ltd. purchased 3,000 shares of Amazing Ltd. in December 2023 @ ₹ 100 each and paid brokerage @ 1%. In May 2024, Amazing Ltd. issued bonus shares at one for every three shares held by shareholders.
X Ltd. sold 1000 shares in September 2024 at ₹ 110 each. After issue of bonus, shares were quoted at ₹ 95. In December 2024, the shares were quoted at ₹ 70.

1. What would be the carrying cost of investments in Amazing Ltd. after sale of shares as per AS 13:
   (a) ₹ 3,03,000
   (b) ₹ 2,27,250
   (c) ₹ 3,00,000
   (d) ₹ 3,30,000

2. What is the cost of bonus shares:
   (a) ₹ 1,00,000
   (b) ₹ 1,10,000
   (c) Nil
   (d) ₹ 1,01,000

3. What is the profit on sale of Bonus Shares:
   (a) ₹ 100,000
   (b) ₹ 75,750
   (c) ₹ 34,250
   (d) ₹ 1,01,000

4. What would be the carrying cost of investments in Amazing Ltd. in quarter ending in December 2024 as per AS 13:
   (a) ₹ 2,10,000
   (b) ₹ 2,27,250
   (c) ₹ 2,20,000
   (d) ₹ 3,00,000

Answer Key:

1. **Option (b)**

2. **Option (c)**

3. **Option (c)**

4. **Option (a)**

Cost of 3,000 shares	=	(3,000*100) + 1% (3,000*100) = ₹ 3,03,000
Bonus shares	=	1,000 at no cost
Profit on sale of 1,000 shares:		
(110*1,000) – (1,000/4,000*3,03,000)	=	1,10,000 - 75,750 = ₹ 34,250
Carrying value of 3000 shares	=	3,000/4,000*3,03,000
	=	₹ 2,27,250
Market value of shares	=	3,000*95 = ₹ 2,85,000

Cost being lower than the market price, therefore shares are carried forward at cost.

Case Scenario 17 *(MTP Jan 2025)*

Sun Limited has acquired 40% share in Moon Ltd. for ₹ 5,00,000 on 01.07.2023. Moon Ltd. is holding 40% stake in Star Limited. Now, Sun limited can exercise significant influence on Moon Limited. Moon limited declared dividend of ₹ 80,000 for the Financial Year 2022-23 on 15.09.2023. For the year 2023-24, Moon Ltd. earned profit of ₹ 4,00,000 and declared dividend for ₹ 90,000 on 15.09.2024.

1. With respect to relationship between Companies, it can be said that:
   (a) Star Ltd. is associate of Sun Ltd.
   (b) Moon Ltd. and Star Ltd. both are associates of Sun Ltd.
   (c) Moon Ltd. is an associate of Sun Ltd.
   (d) Sun Ltd. is Parent of both Moon Ltd. and Star Ltd.

2. What will be the carrying amount of investment in Separate Financial Statements of Sun Limited as on 31.03.2024?
   (a) ₹ 5,00,000
   (b) ₹ 5,80,000
   (c) ₹ 4,68,000
   (d) ₹ 5,32,000

3. What will be the carrying amount of investment in Consolidated Financial Statements of Sun Limited as on 31.03.2024?
   (a) ₹ 9,00,000
   (b) ₹ 5,88,000
   (c) ₹ 4,52,000
   (d) ₹ 6,20,000

4. As per AS 23, the existence of significant influence by an investor is usually evidenced in one or more of the following ways:
   i. Participation in policy making processes
   ii. Interchange of managerial personnel
   iii. Right to receive dividend
   iv. Provision of essential technical information
   (a) All the statements are correct
   (b) Statements (i), (ii) and (iii) are correct
   (c) Statements (ii), (iii) and (iv) are correct
   (d) Statements (i), (ii) and (iv) are correct

Answer Key:

1. Option (c)

Sun Ltd. has indirect holding in Star ltd. of (40% of 40%) 16%), thus, star limited is not associate of Sun Limited.

2. Option (c)

Amount paid for investment in Associate (on 01.07.23)	5,00,000
Deduct: Pre acquisition dividend (40% x 80,000)	(32,000)
Carrying amount of Investment as on 31.03.2024	4,68,000

3. Option (b)

Carrying amount as per Separate Financial Statements (₹ 4,68,000) plus 9 months share in profit for the year (₹ 4,00,000 x 40% x 9/12) ₹ 1,20,000 = ₹ 5,88,000

4. Option (d)

Paragraph 5 of AS 23 does not include right to receive dividend

Case Scenario 18 *(MTP Jan 2025)*

Surya Ltd. Has a two fixed asset, FA1 is being carried in the balance sheet for ₹ 600 lakhs and FA 2 is being carried at ₹ 300 lakhs.
As at 31st March 2024, the value in use for FA 1 is ₹ 500 lakhs and the net selling price is ₹ 550 lakhs. The Company did upward revaluation last year for ₹ 20 lakhs for FA 1.
As at 31st March 2024, the value in use for FA 2 is ₹ 350 lakhs and net selling price is ₹ 320 lakhs.

1. How much is the total Impairment loss for current year for FA 1:
   (a) ₹ 100 Lakhs
   (b) ₹ 50 Lakhs
   (c) ₹ 30 lakhs
   (d) Nil

2. How much impairment loss will be charged to profit and loss for current year for FA1:
   (b) ₹ 100 Lakhs
   (a) ₹ 50 Lakhs
   (b) ₹ 30 lakhs
   (c) Nil

3. How much is the total Impairment loss for current year for FA 2:
   (a) ₹ 50 Lakhs
   (b) ₹ 30 Lakhs
   (c) ₹ 20 lakhs
   (d) Nil

4. What will be the carrying value on 1st April 2024 for FA 1:
   (a) ₹ 550 Lakhs
   (b) ₹ 530 Lakhs
   (c) ₹ 520 lakhs
   (d) ₹ 500 lakhs

Answer Key:

1. Option (b)

2. Option (c)

3. Option (d)

4. Option (a)

For FA 1
Recoverable amount = ₹ 550 lakh (higher of value in use and net selling price)
Impairment Loss : Carried amount – recoverable amount
= ₹ 600 lakhs-₹ 550 Lakhs = ₹ 50 Lakhs
Impairment Loss charged to Profit and loss
= ₹ 50 lakh – ₹ 20 lakh = ₹ 30 lakh
Carrying Value FA 1
Recoverable Amount = ₹ 550 Lakh
For FA 2
Recoverable amount = ₹ 350 lakh (higher of value in use and net selling price)
Carrying amount = ₹ 300 lakh
When recoverable amount is more than carrying amount, there is no need to provide impairment loss.

Case Scenario 19

ADI Ltd (the Company), engaged in the business of manufacturing of urea, has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment.

Having fulfilled all the conditions under the scheme, the Company on its investment of ₹ 50 crores in capital assets received ₹ 10 crores from the Government in January 2024 (financial year being 2023-24). The Company wants to treat this receipt as an item of revenue and thereby reduce the losses on profit and loss account for the year ended 31 March 2024.

ADI Ltd holds 51% in SHA Ltd. SHA Ltd is a joint venture of ADI Ltd due to a contractual agreement. ADI Ltd is engaged in the manufacturing business and it entered into a joint venture to get synergies in the same business. ADI Ltd and SHA Ltd hold 10% and 30% respectively in SHB Ltd.

As per the requirements of SEBI, ADI Ltd prepared results/accounts for the quarter ended 30 June 2024 and took following positions in respect of following accounting matters:

i. Training expenses incurred during the quarter ended 30 June 2024 were allocated equally over the four quarters because the benefit was spread over the entire year and similarly some training expenses expected to be incurred in the last quarter have been estimated and equally allocated over the four quarters.
ii. Provision made for donation of ₹ 5 million expected to be made in the second quarter.
iii. Since historically there has been an immaterial variance between budgets and actuals, depreciation charge for the quarter was determined by the budgeted figure.
iv. Incentives were provided to the customers if they purchase 1 million kgs of urea on an annual basis. It was expected that at least 50 customers would be able to achieve this target before the end of third quarter. No provision was made for this incentive during the quarter ended 30 June 2024 since ADI Ltd believed that the provision was not yet fructified.

ADI Ltd owns 60% holding in ANI Ltd, an unquoted entity. The government has recently announced an increase in interest rates. The increase will cause a fall in value of equity holdings. This is due to the fact that risk free investments offer a higher return making them relatively more attractive. The market value of equity will adjust downwards to improve the return available on this sort of investment.

SHB Ltd took a loan of USD 10,000 on 1 April 2023 for a specific project at an interest rate of 5% p.a. payable annually. On 1 April 2023, the exchange rate between the currency was ₹ 81 per USD. The exchange rate as at 31 March 2024 was ₹ 82 per USD. The corresponding amount could have been borrowed by SHB Ltd in local currency at an interest rate of 11% per annum as on 1 April 2023. ADI Ltd follows April to March as the financial year

1. In respect of abovementioned receipt of ₹ 10 crores, which of the following options would be correct under Indian GAAP?
   (a) Accounting treatment desired by the company is correct.
   (b) The subsidy should be credited to capital reserve.
   (c) The subsidy should be treated as a capital grant.
   (d) The accounting treatment should be as per the accounting policy of the company in relation to any grant. The company can choose any accounting policy in this respect.

2. Please suggest which one of the following options would be correct in respect of consolidated accounts of ADI Ltd as per Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006.
   (a) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per AS 13 and 30% investment of SHA Ltd in SHB Ltd would be accounted for using equity method.
   (b) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per equity method and 30% investment of SHA Ltd in SHB Ltd would be accounted using proportionate consolidation method.
   (c) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB

Ltd as per AS 13 and 30% investment of SHA Ltd in SHB Ltd would be accounted using proportionate consolidation method.

(d) In the consolidated accounts of ADI Ltd, it would account for its 10% investment in SHB Ltd as per equity method and 30% investment of SHA Ltd in SHB Ltd would also be accounted for using equity method.

3. Please share your views in respect of the accounting positions taken by ADI Ltd (Points i to iv) as per Accounting Standards notified under the Companies (Accounting Standards) Rules.
   (a) Position taken in point ii was incorrect.
   (b) Positions taken in points ii and iv were incorrect.
   (c) Positions taken in points i and ii were incorrect.
   (d) Positions taken in points i, ii, iii and iv were incorrect.

4. Will there be any adjustment required in the financial statements of ADI Ltd because of abovementioned event (increase in interest rates by the Government) as per Accounting Standards notified under the Companies (Accounting Standards) Rules.
   (a) The increase is an indication that ADI Ltd's holding in ANI Ltd might have increased. Hence ADI Ltd would require to increase the value of its interest in ANI Ltd.
   (b) No adjustment is required.
   (c) The increase is an indication that ADI Ltd's holding in ANI Ltd might be impaired. ADI Ltd should make a formal estimate of the recoverable amount of its interest in ANI Ltd.
   (d) Whether to make any adjustment or not will depend on the accounting policy of ADI Ltd.

Answer Key:

1. **Option (b)**

   As per AS 12, the grant is in the nature of promoter's contribution. Where the government grants are of the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve.

2. **Option (a)**

   ADI Ltd's investment in SHB Ltd would be treated as any other investment as per the requirements of AS 13. Further, SHB Ltd would be treated as an associate of SHA Ltd as per the requirements of AS 23 and therefore, for such investment equity method of accounting would be required to be followed.

3. **Option (d)**
   i. Training expenses incurred during the quarter ended 30 June 2024 should be expensed in the same quarter and should not be deferred as per the accrual basis of accounting. Further, any future costs should not be recognized.
   ii. Provision made for donation of ₹ 5 million expected to be made in the second quarter is a future cost which should not be recognized.
   iii. Depreciation should be computed based on useful life and not budgets.
   iv. Provision for expense around incentives should have been recognized.

4. **Option (c)**

   Due to increase in the interest rates, there will be a fall in the value of equity holdings. This is due to the fact that risk free investments offer a higher return making them relatively more attractive. The market value of equity will adjust downwards to improve the return available on this sort of investment. This is an indicator for impairment as per AS 28 due to which ADI should do an impairment testing in respect of its investment in ANI Ltd.

Case Scenario 20

Ketan Private Limited has entered into a finance lease agreement with Mehra Ltd. for acquiring machinery. The lease term is four years, and the machinery's fair value at the inception of the lease is ₹ 20,00,000. The annual lease rent is ₹ 6,25,000, payable at the end of each year. The lease includes a guaranteed residual value of ₹ 1,25,000 and an expected residual value of ₹ 3,75,000. The implicit interest rate for the lease is 15%. The discounted rates for the first to fourth years are 0.8696, 0.7561, 0.6575, and 0.5718, respectively.

1. What is the total amount of the minimum lease payments over the lease term?
   (a) ₹ 20,00,000
   (b) ₹ 25,00,000
   (c) ₹ 26,25,000
   (d) ₹ 27,50,000

2. What is the present value of the minimum lease payments using the implicit interest rate?
   (a) ₹ 20,00,000
   (b) ₹ 18,55,850
   (c) ₹ 19,50,000
   (d) ₹ 17,80,000

3. At what value should the lease asset and corresponding lease liability be recognized in the books of Ketan Private Limited at the inception of the lease?
   (a) ₹ 20,00,000
   (b) ₹ 18,55,850
   (c) ₹ 19,50,000
   (d) ₹ 17,80,000

4. What is the present value of the lease payments for the 1st year?
   (a) ₹ 6,25,000
   (b) ₹ 5,43,500
   (c) ₹ 4,72,563
   (d) ₹ 4,10,937

Answer Key:

1. **Option (c)**

2. **Option (b)**

3. **Option (b)**

4. **Option (b)**

Year	Minimum Lease Payment in (₹)	Implicit interest rate (Discount rate @15%)	Present value (₹)
1	6,25,000	0.8696	5,43,500
2	6,25,000	0.7561	4,72,563
3	6,25,000	0.6575	4,10,937
4	7,50,000*	0.5718	4,28,850
Total	26,25,000		18,55,850

Present value of minimum lease payments ₹ 18,55,850 is less than fair value at the inception of lease i.e. ₹ 20,00,000, therefore, the asset and corresponding lease liability should be recognised at ₹ 18,55,850 as per AS 19.

* Minimum Lease Payment of 4th year includes guaranteed residual value amounting ₹ 1,25,000.

Case Scenario 21 *(PYQ Sep 2024)*

Mr. Vikram took a loan of ₹ 6,00,000 carrying interest @ 10% p.a. on 1st August, 2023 to purchase raw material. He purchased 4,000 units of raw material @ 125 per unit. Replacement cost of raw material as on 31 March, 2024 is 100 per unit. Labour charges and variable overheads incurred are ₹ 1,00,000 to produce 1000 units of finished goods.

1,000 units of Finished goods are produced with raw material (for every unit of finished goods produced, 2 units of raw material are required). Net realizable value of finished good is ₹ 300 per unit. All the finished goods produced are lying in stock as on 31 March, 2024.
There is no opening stock of raw material and finished goods.

Mr. Vikram used 1,500 units of raw material to construct an Asset (Qualifying Asset). Labour and other overhead charges incurred on construction of asset are ₹ 90,000. Mr. Vikram also paid ₹ 15,000 to install the asset at Factory premises.
Mr. Vikram used Balance of loan proceeds of ₹ 1,00,000 to invest in Equity Shares of P. Ltd. He purchased 9,000 Equity shares (Face Value ₹ 10 each) for ₹ 1,00,000 on 25th March, 2024.
The P. Ltd declared and paid dividend @ 20% on 30th March for the year 2023-24.

1. What would be the value of closing stock of Raw Material X and Finished Goods as on 31st March 2024?
   (a) Closing Stock of Raw Material X ₹ 50,000 and closing stock of Finished Goods ₹ 3,50,000
   (b) Closing Stock of Raw Material X ₹ 50,000 and closing stock of Finished Goods ₹ 3,00,000
   (c) Closing Stock of Raw Material X ₹ 62,500 and closing stock of Finished Goods ₹ 3,50,000
   (d) Closing Stock of Raw Material X ₹ 62,500 and closing stock of Finished Goods ₹ 3,00,000

2. Cost of Self Constructed Asset as per AS 10 will be ?
   (a) ₹ 2,92,500
   (b) ₹ 2,77,500
   (c) ₹ 3,05,000
   (d) ₹ 2,90,000

3. As per AS 16 what will be the amount of interest to be capitalized and amount of interest to be charged to Profit & Loss A/c ?
   (a) ₹ 12,500 interest to be capitalised and Profit & Loss A/c. ₹ 27,500 interest to be charged to Profit & Loss A/c
   (b) ₹ 12,500 interest to be capitalised and ₹ 20,833 interest to be charged to Profit & Loss A/c.
   (c) ₹ 19,167 interest to be capitalised and ₹ 20,833 interest to be charged to Profit & Loss A/c.
   (d) Whole of ₹ 40,000 interest to be charged to Profit & Loss A/c.

4. What is the carrying amount of investment as on 31st March, 2024 as per AS 13 and suggest the treatment of dividend received from P. Ltd.?
   (a) Carrying amount of Investment as on 31st March, 2024 is ₹ 72,000 and the dividend is deducted from the nominal value of investment.
   (b) Carrying amount of Investment as on 31st March, 2024 is ₹ 90,000 and the dividend is credited to Profit & Loss A/c.
   (c) Carrying amount of Investment as on 31st March, 2024 is₹ 1,00,000 and the dividend is credited to Profit & Loss A/c.
   (d) Carrying amount of Investment as on 31st March, 2024 is 82,000 and the dividend is deducted from the cost of investment.

Answer Key:

1. **Option (b)**

If the finished good cost is more than the expected selling price then Raw material is valued at Replacement cost. So Value of Raw Material will be 500 units @ ₹ 100 per unit and value of finished Goods will be ₹ 1,000 units @ 300 per unit

Cost of finished Goods

2,000 units of Raw Material @ 125 per unit	=	₹ 2,50,000
Labour Charges	=	₹ 1,00,000
For 1,000 units	=	**₹ 3,50,000**

Per unit Cost is ₹ 350 per unit so NRV is considered

2. **Option (c)**

Cost of Self Constructed Asset:

Cost of raw material consumed (1500 units @ 125 per unit)	₹ 1,87,500
Add: Labour Charges	₹ 90,000
Add: Installation cost	₹ 15,000
Add: Borrowing cost (1,87,500 x 10% for 8 months)	₹ 12,500
	₹ 3,05,000

3. **Option (a)**

₹ 12,500 interest to be capitalised and Profit & Loss A/c.
₹ 27,500 interest to be charged to Profit & Loss A/c
Loan Proceeds ₹ 6,00,000 out of this ₹ 1,87,500 used for qualifying Assets and balance for Non qualifying Asset.
So Interest on ₹ 1,87,500 i.e. ₹ 12,500 capitalised to cost of Asset and interest on ₹ 4,12,500 i.e. ₹ 27,500 charged to profit and loss account.

4. **Option (d)**

Carrying amount of Investment as on 31st March 2024 is ₹ 82,000 and the dividend is deducted from the cost of investment.

Case Scenario 22 *(PYQ Sep 2024)*

Kay Ltd. sold goods of ₹ 22,00,000 to Mr. Ravi Kumar on 1st February 2024 but at the request of the buyer, these goods were delivered on 10th April 2024.

Kay Ltd. also sold ₹ 2,00,000 goods on approval basis on 1st January, 2024 to Sheetal Enterprises. The period of approvals 3 months after which they were considered sold. Buyer sent disapproval for 25% of goods and approval for 50% of goods till 31 March, 2024.

Mr. Ravi Kumar has commenced legal action against Kay Ltd. for supply of faulty goods to claim damages. The lawyers of Kay Ltd. have advised that it is not remote yet that resources may be required to settle the claim. Legal cost to be incurred irrespective of the outcome of the case is ₹ 45,000. Settlement amount if the claim is required to be paid ₹ 5,00,000,

Sheetal Enterprises, a trade receivable of Kay Ltd. suffered a heavy loss due to an earthquake that occurred on 30th March, 2024. The loss was not covered by any insurance policy. In April, 2024, Sheetal Enterprises became bankrupt. The Balance due from Sheetal Enterprises as on 31st March, 2024 is ₹ 75,000. Kay Ltd. makes provision for doubtful debts @ 5%.

1. What is the amount to be recognized as Revenue as per AS 9 in the books of Kay Ltd. as on 31 March, 2024?
   (a) ₹ 23,50,000
   (b) ₹ 1,50,000
   (c) ₹ 23,00,000
   (d) ₹ 1,00,000

2. What will be the treatment of legal cost and claim for legal action commenced by Mr. Ravi Kumar in the Books of Kay Ltd. as on 31 March, 2024 as per AS 29?
   (a) Create a Provision for ₹ 5,45,000
   (b) Create a Provision for ₹ 5,00,000
   (c) Create a Provision for ₹ 45,000 and make a disclosure of contingent liability of ₹ 5,00,000
   (d) Make a disclosure of contingent liability of 5,45,000

3. What is the treatment of insolvency of Sheetal Enterprises in the Books of Kay Ltd. as on 31st March, 2024 as per AS 4?
   (a) An Adjusting Event, full provision of ₹ 75,000 should be made in the Final Accounts for the year ended 31 March, 2024.
   (b) An Adjusting Event, provision of ₹ 3,750 should be made in the Final Accounts for the year ended 31 March, 2024.
   (c) A Non-adjusting event, no provision is required to be made as Sheetal Enterprises became bankrupt in April, 2024.
   (d) A Non- adjusting event, only disclosure is required in the Final Accounts for the year ended 31st March, 2024.

Answer Key:

1. **Option (a)**
   Goods sold and delivery pending at the request of buyer is recognized as revenue and out of goods sold on approval basis ₹ 2,00,000, only 25% were not accepted by the buyer. Rest are treated as revenue. So total revenue recognized is ₹ 22,00,000+ ₹ 1,50,000 = ₹ 23,50,000

2. **Option (c)**
   There are remote chances of payment of damages to the buyer so claim of ₹ 5,00,000 treated as contingent liability & provision is made for legal charges as these charges will be incurred.

3. **Option (a)**
   The earthquake occurred before 31st March and at the time of the bankruptcy of Sheetal enterprises, there was sufficient evidence that the amount due from the buyer was not recoverable.

Case Scenario 23 *(PYQ Sep 2024)*

Jay Ltd. submits the following data extracted from the Final Accounts as on 31st March, 2023:

	₹
Equity Share Capital: 50,000 Equity shares of ₹ 10 each	5,00,000
Profit and Loss (Dr. balance)	(50,000)
9% Debentures	2,00,000
Loan from Bank	3,00,000
Advance given to suppliers of goods	45,000
Provision for tax	14,000
Plant and Machinery	4,50,000
Furniture and Fixtures	85,000
Investment in Star Ltd. 10,000 equity shares of 10 each	1,25,000
Sundry Debtors	70,000
Cash and Bank Balance	65,500

Additional information given by Jay Ltd.:
On 31st March, 2023 Jay Ltd. decided to reconstruct the company for which necessary resolution was passed. Accordingly, it was decided that:

(a) 9% Debentures to be settled in full by issuing them 15,000 Equity shares of ₹ 10 each.
(b) Equity shareholders will give up 40% of their capital in exchange for allotment of new 11% Debentures of ₹ 1,00,000.
(c) Balance of Profit & Loss to be written off.
(d) Equity shares issued for ₹ 1,00,000.

In addition to above, following information was also presented by Jay Ltd. on 1st April, 2023:

(a) Interest is received on advances given to suppliers of goods ₹ 3,000.
(b) Taxation liability is settled at ₹ 14,000.
(c) A debtor of ₹ 40,000 is insolvent, only 40% of his dues are recovered from his estate.
(d) Dividend is received on Investment in Star Ltd. ₹ 1 per equity share invested.
(e) Part of Plant and Machinery is sold at a loss of ₹ 3,000 (book value ₹ 15,000)

Based on the information given in above Case Scenario, answer the following Questions:

1. The amount of Cash Flow from operating activity is:
   (a) ₹ 2,000
   (b) ₹ 5,000
   (c) ₹ 12,000
   (d) ₹ 15,000

2. The amount of Cash Flow from investing Activity is
   (a) ₹ 28,000
   (b) ₹ 25,000
   (c) ₹ 15,000
   (d) ₹ 22,000

3. What is the amount of closing Cash and Cash equivalents as on 1 April, 2023?
   (a) ₹ 1,92,500
   (b) ₹ 92,500
   (c) ₹ 1,27,000
   (d) ₹ 1,98,500

4. The Balance of Equity Share Capital after internal reconstruction is :
   (a) ₹ 6,50,000
   (b) ₹ 4,50,000
   (c) ₹ 5,50,000
   (d) ₹ 7,50,000

Answer Key:

1. **Option (b)**
   ₹ 3,000 +₹ 16,000 – ₹ 14,000 = ₹ 5,000

2. **Option (d)**
   ₹ 10,000 (Dividend) + ₹ 12,000 (Proceeds from Sale of Plant and Machinery)

3. **Option (a)**

	₹
Opening Cash	65,500
Operating cost flows (₹ 3,000+ ₹ 16,000- ₹14,000)	5,000
Investing Cash flows (₹10,000+ ₹ 12,000)	22,000
Financing Cash flows Closing cash + Cash Equivalent	1,00,000
	1,92,500

4. **Option (c)**

	₹
Opening Capital	5,00,000
New capital issued	1,00,000
Issued to Debenture holder	1,50,000
Capital Surrendered	(2,00,000)
	5,50,000

Case Scenario 24

On 31st March, 2001, seven companies finalized their financial statements, which were approved on 15th June, 2001. During the financial year 2001-2002, several material events occurred, as detailed below. You are required to analyze each situation and decide how they should be treated in the financial statements for the year ended 31st March, 2001, based on AS 4: Contingencies and Events Occurring After the Balance Sheet Date.

1. A Ltd. entered into a contract to sell a property valued at ₹ 1,00,000 in its balance sheet on 15th March, 2001. The sale was finalized on 15th May, 2001, for ₹ 2,50,000.
2. B Ltd.'s 100% subsidiary declared a dividend of ₹ 3,00,000 on 30th April, 2001, for the year ended 31st March, 2001.
3. C Ltd. decided to close its mail order activities on 31st May, 2001, incurring closure costs of ₹ 2.5 million.
4. D Ltd. discovered, on 1st July, 2001, that sand at a major civil engineering project site increased project costs by 25%, with no recovery from the customer.
5. On 2nd April, 2001, a fire destroyed E Ltd.'s manufacturing plant. The estimated loss of ₹ 10 million is expected to be fully covered by insurance.
6. F Ltd. received a ₹ 8 million damage claim for breach of patent before 31st March, 2001. Legal advice suggests the claim is baseless, though legal fees are expected.
7. G Ltd. experienced an 8% foreign exchange rate change between 1st April, 2001, and 1st June, 2001, reducing the value of its foreign assets by ₹ 1.3 million.

1. For A Ltd., how should the sale of property be treated in the financial statements?
   (a) Recognize ₹1,50,000 profit in the 2000-2001 financial statements.
   (b) Disclose the sale as a non-adjusting event.
   (c) Exclude the sale from the financial statements entirely.
   (d) Treat it as an extraordinary item in the 2001-2002 financial statements.

2. For B Ltd., how should the dividend declaration be treated?
   (a) Recognize the dividend in the 2000-2001 financial statements.
   (b) Treat it as an adjusting event.
   (c) Disclose it as a non-adjusting event in the notes to accounts.
   (d) Ignore the event entirely.

3. For C Ltd., how should the closure of mail order activities be treated?
   (a) Recognize the closure costs in the 2000-2001 financial statements
   (b) Treat it as an adjusting event
   (c) Disclose it as a non-adjusting event in the financial statements
   (d) Ignore the closure since it occurred after the approval date

4. For E Ltd., what should be the treatment of the fire incident?
   (a) Recognize the ₹ 10 million loss in the 2000-2001 financial statements.
   (b) Disclose it as a non-adjusting event with a note about insurance coverage.
   (c) Ignore the incident since it occurred after the year-end.
   (d) Treat it as an extraordinary item in the 2001-2002 financial statements.

5. For F Ltd., how should the damage claim for breach of patent be treated?
   (a) Provide ₹ 8 million for the claim in the 2000-2001 financial statements.
   (b) Disclose it as a contingent liability and provide for estimated legal fees.
   (c) Recognize the full amount as an expense in the financial statements.
   (d) Ignore the claim since it is deemed baseless.

Answer Key:

1. **Option (a)**
   The contract exchange occurred before 31st March, 2001, making it an adjusting event. The sale's impact must be reflected in the financial statements for 2000-2001.

2. **Option (c)**
   The dividend was declared after 31st March, 2001. As per AS 4, it is a non- adjusting event and must be disclosed in the notes.

3. **Option (c)**
   The closure decision was made after 31st March, 2001, and is a non- adjusting event requiring disclosure to ensure user understanding.

4. **Option (b)**
   The fire occurred after 31st March, 2001, making it a non-adjusting event. Disclosure is required, especially given the insurance coverage.

5. **Option (b)**
   The claim is considered baseless but must be disclosed as a contingent liability per AS 4. Legal fees should be provided if not recoverable.

Case Scenario 25

Energy Ltd. acquired a generator on 1st April, 2001, for ₹100 lakh. The company applied for a subsidy from the Indian Renewable Energy Development Authority (IREDA) on 2nd April, 2001. The subsidy was granted in June, 2002, after the accounts for the financial year 2001-2002 were finalized. The company did not account for the subsidy in the financial statements for the year ended 31st March, 2002.

Additionally, consider the following scenarios:

1. The sanction letter for the subsidy was received in June, 2002, before the Board of Directors approved the accounts for the year 2001-2002.
2. Energy Ltd. had previously made similar applications for subsidies and received them every time without exception.

1. In the original scenario, how should the subsidy granted in June, 20X2, be treated in the financial statements?
   (a) Recognize it as income for the financial year 2001-2002.
   (b) Treat it as a prior period item in the financial year 2002-2003.
   (c) Deduct it from the cost of the generator in the financial year 2002-2003.
   (d) Ignore it as it relates to a past financial year

2. If the subsidy sanction letter was received before the accounts for 2001-2002 were approved by the Board of Directors, how should the subsidy be treated?
   (a) Recognize it in the financial statements for 2001-2002 by deducting it from the cost of the generator.
   (b) Disclose it as a contingent asset in the notes for 2001-2002.
   (c) Recognize it as deferred income in the financial year 2002-2003.
   (d) Ignore it as the event occurred after 31st March, 2002.

3. If Energy Ltd. had a history of receiving subsidies on all similar applications in the past, how should the subsidy for 20X1-20X2 be treated?
   (a) Recognize it in the financial statements for 2001-2002 by deducting it from the cost of the generator.
   (b) Recognize it as deferred income for the financial year 2002-2003.
   (c) Treat it as a prior period item in the financial year 2002-2003.
   (d) Disclose it as a contingent asset in the notes for 2001-2002.

Answer Key:

1. Option (c)

As per AS 12, a grant can only be recognized when there is reasonable assurance of compliance with conditions and receipt of the subsidy. Since the subsidy was sanctioned after 31st March, 2002, and after accounts for 2001-2002 were approved, it cannot be treated as an adjusting event for 2001-2002. It must be accounted for in 2002-2003 by deducting it from the cost of the generator.

2. Option (a)

As per AS 4, events occurring after the balance sheet date but before approval of accounts by the Board of Directors are adjusting events if they confirm conditions existing at the balance sheet date. Receipt of the sanction letter confirms the condition that the subsidy application was valid, and hence, the subsidy should be adjusted in the financial statements for 2001-2002.

3. Option (a)

If the company has consistently received subsidies for similar applications in the past, there is reasonable assurance as required by AS 12. In such cases, the subsidy should have been recognized in the financial statements for 2001-2002, as the past pattern provides assurance of receipt.

Case Scenario 26

A company is engaged in refining, transportation, and marketing of petroleum products. During the financial year ended 31st March, 2001, it acquired a controlling interest in another public sector undertaking from the Government of India at ₹ 1,551 per share. The book value and market value of the shares as of 18th February, 2001, were ₹ 192.58 and ₹ 876 per share, respectively. The company paid a strategic premium of ₹ 675 per share due to various tangible and intangible factors.
The company classified the acquired shares as long-term strategic investments and accounted for them at cost, i.e., ₹ 1,551 per share, in its financial statements. No provision for diminution in value was made. However, Schedule III of the Companies Act, 2013, requires the aggregate market value of quoted shares to be disclosed, and this has been reflected.
On 28th March, 20X1, the market price of the acquired shares was ₹ 880 per share. By 18th July, the price had dropped to ₹ 300. Management believes that the decline in value is not permanent, given the strategic and synergy benefits expected, and hence, no provision for diminution has been made.

1. Is the accounting treatment of recording the investment 'at cost' without providing for diminution correct as per AS 13?
   (a) Yes, as the investment is classified as long-term.
   (b) Yes, provided the decline in value is not other than temporary.
   (c) No, the market value must always be considered for long-term investments.
   (d) No, a provision for diminution must be made regardless of the cause of decline.

2. How should the company assess whether the decline in market value is other than temporary?
   (a) Based solely on the market price on the balance sheet date.
   (b) Based on a comparison of the market price with the book value of the shares.
   (c) By considering all relevant factors, such as the financial health of the investee and expected benefits.
   (d) By applying a uniform threshold for decline across all investments.

3. If a provision for diminution in value is required, how should it be treated in the financial statements?
   (a) As a charge to the profit and loss account.
   (b) As deferred expenditure amortized over five years.
   (c) Directly adjusted against the investment account.
   (d) As a disclosure note without impacting the financial statements.

4. Can the premium paid for strategic benefits be accounted for separately from the cost of investment?
   (a) Yes, it should be recorded as a separate intangible asset.₹
   (b) Yes, it can be disclosed as goodwill in the balance sheet.
   (c) No, it must be included in the cost of investment as per AS 13.
   (d) No, it must be expensed immediately in the profit and loss account.

Answer Key:

1. **Option (b)**
   As per AS 13, long-term investments are recorded at cost unless there is a decline other than temporary in their value. If the management can substantiate that the decline in market value is temporary, there is no need to create a provision for diminution.

2. **Option (c)**
   Per paragraph 17 of AS 13, the company must consider all relevant factors, such as the financial and operational performance of the investee, the expected benefits from the investment, and external economic conditions, to assess whether the decline is other than temporary.

3. **Option (a)**
   AS 13 requires that any provision for diminution in the value of investments be charged to the profit and loss account. It cannot be treated as deferred expenditure or amortized over future periods.

4. **Option (c)**
   As per AS 13, long-term investments are recorded at cost, which includes any premium paid. There is no provision in AS 13 to account for the premium separately, even if it is paid for strategic benefits.

Case Scenario 27

Sigma Builders Pvt. Ltd. enters into a contract with Alpha Developers Ltd. on 1st January 2001 to construct a 5-storied residential complex. The construction is to be completed within three years, by 31st December 20X3. The contract terms include the following provisions:

- Fixed Price: ₹ 5 crore
- Material Cost Escalation: 20% of the increase in material costs during the contract period.
- Labour Cost Escalation: 30% of the increase in minimum wages during the contract period.
- Early Completion Incentive: ₹ 50 lakh if the project is completed in less than 2 years and 10 months.
- Delay Penalty: ₹ 20 lakh if the project is delayed beyond 3 years and 2 months.

At the start of the project, Sigma believes it can complete the construction in 2 years and 8 months. The project was ultimately completed in 2 years and 9 months.

The following additional details are relevant:

- Labour Cost: Initially estimated at ₹ 1.20 crore based on minimum wages but increased by 25% during the project period.
- Material Cost: Increased by 40% during the project due to market conditions, resulting in a total increase of ₹ 80 lakh.

In 2002, Alpha Developers requested Sigma Builders to increase the scope of the project by constructing an additional floor, leading to an increase in the fixed contract fee by ₹ 1 crore. Sigma incurred ₹ 20 lakh in obtaining local authority approvals for this variation, which it will recover from Alpha Developers in addition to the fixed fee increase.

1. What is the total contract revenue excluding variations, claims, and incentives?
   (a) ₹ 5 crore
   (b) ₹ 5.40 crore
   (c) ₹ 5.70 crore
   (d) ₹ 6.20 crore

2. How should Sigma Builders account for the early completion incentive of ₹ 50 lakh?
   (a) Recognize only after the project is completed.
   (b) Recognize as revenue progressively since the completion date is predictable.
   (c) Recognize at the end of the project if Sigma Builders is eligible for it.
   (d) Do not recognize, as it depends on external factors.

3. What is the revised total contract revenue after considering variations and claims?
   (a) ₹ 6.40 crore
   (b) ₹ 7.20 crore
   (c) ₹ 7.40 crore
   (d) ₹ 7.60 crore

4. How should Sigma Builders account for the ₹20 lakh spent on obtaining approvals for the additional floor?
   (a) Capitalize the cost as part of the project expense.
   (b) Charge it to the profit and loss account.
   (c) Include it as a claim recoverable from Alpha Developers.
   (d) Record it separately as deferred expenditure.

Answer Key:

1. **Option (d)**

   The total revenue includes the fixed price (₹ 5 crore) plus adjustments for material and labour cost escalations and the early completion incentive:

   - Fixed Price: ₹ 5 crore
   - Material Cost Recovery: (to the extent of) 20% = ₹ 0.40 crore
   - Labour costs recovery (Actual increase is less than 30%) (1.20 crore x 25%) = ₹ 0.30 crore
   - Early Completion Incentive: ₹ 0.50 crore
   - Total: ₹ 6.20 crore

2. **Option (b)**

   As per AS 7 Construction Contracts, incentives for early completion can be recognized as revenue when the company has sufficient evidence of achieving the performance condition (completion in less than 2 years and 10 months). Since Sigma reasonably estimated early completion, progressive recognition is appropriate.

3. **Option (c)**

   The total revenue includes the base contract revenue and adjustments for additional scope and recoverable claims:

   - Base Revenue: ₹ 6.20 crore
   - Variation for Additional Floor: ₹ 1 crore
   - Claims for Local Authority Approvals: ₹ 20 lakh
   - Total: ₹ 7.40 crore

4. **Option (c)**

   The ₹ 20 lakh spent for approvals is recoverable as per the contract terms, so it should be accounted as a claim receivable and added to the total contract revenue.

Case Scenario 28

AB Ltd. is engaged in manufacturing a variety of products, including modules, dyes, infrastructure goods, etc. The company caters to a broad customer base across sectors like automobiles, infrastructure, construction, and others, both in India and internationally. Its financial statements are prepared annually as of 31st March.

Additional details for the financial year ending 31st March 2024 are provided below:

Segment Information: AB Ltd. has identified five segments. The details are as follows:

Segment	Sale		Total sale	Profit	Asset
	Export	Domestic			
K	54,00,000	-	54,00,000	4,50,000	9,00,00,000
L	1,12,50,000	36,00,000	1,48,50,000	13,50,000	2,25,00,000
M	2,02,50,000	-	2,02,50,000	22,50,000	3,15,00,000
M	1,21,50,000	27,00,000	148,50,000	13,50,000	4,50,00,000
O	18,00,000	22,50,000	40,50,000	9,00,000	6,75,00,000
			5,94,00,000	63,00,000	25,65,00,000

Additional Information

i. **Machinery Purchase**
On 1st April 2023, AB Ltd. purchased machinery worth ₹15,00,000 for producing specific items for a particular customer. The cost is deductible over two years for tax purposes: ₹10,00,000 in year 1 and the balance in year 2. The applicable tax rate is 30%.

ii. **Trademark and Process Development:**
AB Ltd. introduced a new manufacturing process and incurred the following costs:
Trademark acquisition: ₹70,00,000
Product promotion: ₹2,00,000
Employee benefits for testing: ₹3,00,000

iii. **Government Grant:**
AB Ltd. was engaged in the process of development of a manufacturing unit in one of the specified industrial areas. The development of the manufacturing unit shall be completed within 2 years. To encourage industrial promotion in specified areas, the government provides government grants in the form of subsidies. The cost of the project for the company is ₹ 700 lakhs against which the government provided a grant of ₹ 500 lakhs & this grant was in nature of the promoter's contribution

1. Based on the quantitative threshold which of the above segment K to O would be considered as reportable segment?
   (a) Segment M
   (b) Segment M, N & L
   (c) Segment L, M, N & O
   (d) All Segment

2. What will be the tax effect on the financial statement for the year 2023-24 respect of machinery purchased on 1st April 2023?
   (a) Create DTA ₹ 75,000
   (b) Reverse DTA ₹ 75,000
   (c) Create DTL ₹ 75,000
   (d) Reverse DTL ₹ 75,000

3. What is the total cost that should be capitalized for a trademark related to the new process?
   (a) ₹ 75,00,000
   (b) ₹ 73,00,000
   (c) ₹ 72,00,000
   (d) ₹ 70,00,000

4. How should subsidy received be accounted in the books of the company?
   (a) Credit into capital reserve
   (b) Credit it as "Other income" in the statement of profit & Loss A/c in the year of commencement of commercial operation.
   (c) Both A & B are permitted
   (d) Credit it to General Reserve.

Answer Key:

1. **Option (d)**
   Based on the 10% quantitative threshold: Revenue (L, M, N are reportable), Profit (L, M, N, O are reportable), Assets (K, M, N, O are reportable). Hence, all segments qualify as reportable.

2. **Option (c)**
   Book value of machinery at the end of year 1: ₹15,00,000 – depreciation ₹ 7,50,000 = ₹ 7,50,000.
   Tax base: ₹ 15,00,000 – ₹ 10,00,000 = ₹ 5,00,000.
   Temporary difference: ₹ 2,50,000. DTL is created @ 30% on ₹ 2,50,000 = ₹ 75,000.

3. **Option (b)**
   Cost to be capitalized for trademark:

Cost	70,00,000
Testing expenses	3,00,000
	73,00,000

   Expenses on promoting the new product are not capitalized

4. **Option (a)**
   As the grant is a promoter's contribution, it is credited to the capital reserve.

Case Scenario 29

G Ltd. is an automotive supplier and is in the business of manufacturing components & parts to be used by various automotive companies. The company has its registered office in North Delhi and is listed in a stock exchange. Following are some outstanding issues not yet solved towards the finalization of the financial statement for the year ending on 31.3.2024.

G Ltd. installed new machinery in its plant during 2023-2024.
G Ltd. incurred the following costs:

The basic price of machinery	₹ 50,00,000
Initial delivery & handling cost	₹ 10,00,000
Cost of site preparation	₹ 5,00,000
The interest charge for deferred credit paid to the supplier	₹ 1,00,000
The present value of estimated dismantling costs to be incurred after 15 years is	₹ 5,00,000.

Operating losses after commercial production ₹ 4,00,000. The plant was ready for its intended use on 1st July 2023 but commercial production started on 1st August 2023. The estimated life of the machine is 10 years with no residual value.

To acquire the above machinery G Ltd. is to borrow US $ 62,500 on 1.4.2023 which will be repaid on 1.7.2024. Rate of exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under:

On 1.4.2023 1 US $ = ₹ 80
31.03.2024 1 US$ = ₹ 82.50

G Ltd. acquired a machine on 1st April, 2018 for ₹ 25 lakhs that had an estimated useful life of 8 years. The machine is depreciated on straight line basis and does not carry any residual value. On 31.3.2022 assets was revalued 18 lakhs with revised useful life of 5 years. The surplus arising on revaluation was credited to Revaluation Reserve A/c.
G Ltd. had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation.

As on 31.3.2024 the condition indicating impairment of the asset existed & its recoverable value came down to ₹ 6 lakhs. The company sold the asset as on 1 May 2024 for ₹ 2.8 lakh. G Ltd. acquired 35% shares of Build Ltd. as on 1.7.2023 for ₹ 14,00,000. By such acquisition, it can exercise significant influence over Build Ltd. the following balance of Build Ltd. as on the date of acquisition:

Particular	₹
Share capital	15,00,000
Reserve & Surplus (includes current year profit for 3 months)	8,50,000

Build Ltd. paid a dividend of ₹ 1,50,000 on 15.7.2023 for the year ending 31.3.2023. The profit earned by Build Ltd. during the year ending 31.3.2024 amounts to ₹ 4,80,000 (assume profit to be accrue evenly)

1. What is the carrying value of machinery on 31.3.2024 installed in the plant?
   (a) ₹ 65,33,333
   (b) ₹ 64,75,000
   (c) ₹ 69,06,667
   (d) ₹ 68,45,000

2. What is the amount of exchange loss/gain to be recognized and what will be the amount of foreign loan to be shown in the financial statement on 31.3.2024?
   (a) ₹ 1,56,250 exchange loss and ₹ 50,00,000 of foreign loan.
   (b) ₹ 1,56,250 exchange gain and ₹ 51,56,250 of foreign loan.
   (c) ₹ 1,56,250 exchange gain and ₹ 50,00,000 of foreign loan.
   (d) ₹ 1,56,250 exchange loss and ₹ 51,56,250 of foreign loan.

3. What is the amount of impairment loss on 31.3.2024?
   (a) ₹ 5.5 lakh
   (b) ₹ 7.2 lakh
   (c) ₹ 4.8 lakh
   (d) ₹ 3 lakh

4. What will be the carrying amount of investment in the separate financial statement of G Ltd. as on 31.3.2024?
   (a) ₹ 14,00,000
   (b) ₹ 8,22,500
   (c) ₹ 13,47,500
   (d) ₹ 14,52,500

Answer Key:

1. Option (b)

	₹
Cost of machinery to be capitalized (except interest as the asset is not qualified & operating loss) (50,00,000 + 10,00,000 + 5,00,000 + 5,00,000).	70,00,000
Machinery ready for intended use on 1.7.2023 and life is 10 years therefore, depreciation for 9 months will be 70,00,000x 1/10x 9/12 = 5,25,000.	(5,25,000)
Carrying value of machine as on 31.3.2024	**64,75,000**

2. Option (d)

Exchange loss = 62,500 x 2.50= 1,56,250

This loss will be added to the value of the foreign loan amount. So, the foreign loan amount will be increase by ₹ 1,56,250.

3. Option (c)

	₹ (in Lakh)
Cost of the asset on 1.4.2017	25
Less: Depreciation for 4 years (2017-18 to 2020-21)	(12.5)
Carrying amount as on 31.3.2021	12.5
Add: upward revaluation (credited to revaluation reserve)	5.5
	18
Less: depreciation of 2 years i.e 2021-22, 22-23	(7.2)
Carrying amount as on 31.3.2023	10.8
Less: recoverable amount	(6)
Impairment loss	**4.8**

4. Option (c)

Carrying amount of investment in the separate financial statement, of G ltd. as on 31.3.2024

	₹
Amount paid for investment in Build Ltd.	14,00,000
Less: pre acquisition dividend	(52,500)
Carrying amount as on 31.3.2024	13,47,500

Case Scenario 30

Perrotte Ltd. (a non-listed company) has the following Capital Structure as on 31.03.2001:

	Particulars	(₹)	
(1)	Equity Share Capital (Shares of ₹ 10 each fully paid)	-	24,00,000
(2)	Reserves and Surplus		
	General Reserve	20,50,000	-
	Securities Premium Account	7,50,000	-
	Profit & Loss Account	2,00,000	-
	Infrastructure Development Reserve	20,00,000	
	Revaluation reserve	1,70,000	51,70,000
(3)	Loan Funds		52,00,000

The Shareholders of Perrotte Ltd., on the recommendation of their Board of Directors, have approved on 12.09.2001 a proposal to buy-back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.

The in order to induce the existing shareholders to offer their shares for buy- back, it was decided to offer a price of buy back price per share is ₹ 25.

You are also informed that the Infrastructure Development Reserve is created to satisfy Income-tax Act requirements.

Assuming that the entire buy-back is completed by 09.12.2001,

1. What is the maximum number of shares to be bought back as per debt- equity ratio?
   (a) 1,12,000 shares
   (b) 80,000 shares
   (c) 54,000 shares
   (d) 60,000 shares

2. What is the maximum permitted equity as per debt- equity ratio test.
   (a) 20,00,000
   (b) 28,00,000
   (c) 15,00,000
   (d) 13,50,000

3. What will be the future equity shareholding fund if a company buys back shares as per the result of the debt-equity ratio test?
   (a) 48,000
   (b) 48,60,000
   (c) 42,80,000
   (d) 46,00,000

4. What is the maximum number of shares that can be buy back as per resource test?
   (a) 54,000
   (b) 75,700
   (c) 55,700
   (d) 74,000

Answer Key:

1. Option (b)

2. Option (a)

3. Option (d)

4. Option (a)

Shares Outstanding Test

Particulars	(Shares)
Number of shares outstanding	2,40,000
25% of the shares outstanding	60,000

Resources Test

Particulars	
Paid up capital (₹)	24,00,000
Free reserves (₹)	30,00,000
Shareholders' funds (₹)	54,00,000
25% of Shareholders fund (₹)	₹ 13,50,000
Buy-back price per share	₹ 25
Number of shares that can be bought back	54,000 shares

Debt Equity Ratio Test

	Particulars	When loan fund is
(a)	Loan funds (₹)	52,00,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹)	26,00,000
(c)	Present equity shareholders fund	54,00,000
(d)	Future equity shareholder fund	(54,00,000–8,00,000) 46,00,000
(e)	Maximum permitted buy-back of Equity [(d) – (b)]	20,00,000 (by simultaneous equation)
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share	80,000 (by simultaneous equation)

(54,00,000 –x)-26,00,000 = y

= $\left(\frac{y}{25} \times 10\right)$ = x

x = ₹ 8,00,000

y = ₹ 20,00,000

Case Scenario 31

P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a Listed Company and regularly supplies goods to P Ltd. The Management of R Ltd. has not disclosed its relationship with P Ltd. While preparing Financial Statements of P Ltd., which entities would you disclose as related parties with reference to AS-18?

1. While preparing Financial Statements of P Ltd., which entities would you disclose as related parties with reference to AS-18?
   (a) Q Ltd.
   (b) R Ltd.
   (c) Q Ltd. and R Ltd.
   (d) Neither of Q Ltd. or R Ltd.

Answer Key:

1. **Option (c)**
   P Ltd. has 60% voting right in Q Ltd. Thus, P Ltd control over Q Ltd
   Q Ltd. has 20% voting rights in R Ltd. Q Ltd has significant influence over
   R. Ltd. P Ltd. directly enjoys voting right of 14% in R Ltd. P Ltd and Q Ltd, together hold 34% of the shares in R Ltd. So, P Ltd has significant influence over R Ltd.

Case Scenario 32

A Machinery was giver on 3 years lease by a dealer of the machinery for equal annual lease rentals to yield 20% profit margin on cost of the machinery, which is ₹ 3,00,000. Economic life of the machinery is 5 years, and estimated output from the machinery in 5 years is as follows:

Year I	50,000 units
Year II	60,000 units
Year III	40,000 units
Year IV	65,000 units
Year V	85,000 units.

1. Compute Annual Lease Rent.
   (a) ₹ 30,000
   (b) ₹ 60,000
   (c) ₹ 50,000
   (d) ₹ 36,000

Answer Key:

1. **Option (b)**

   Total lease rent = 120% of ₹ 3,00,000 × $\frac{Output\ during\ lease\ period}{Total\ output}$

   = ₹ 3,60,000 × $\frac{1{,}50{,}000\ units}{3{,}00{,}000\ units}$ = ₹ 1,80,000

   Annual lease rent = ₹ 1,80,000 / 3 = ₹ 60,000

Case Scenario 33

A Ltd. had 1,50,000 shares of common stock outstanding on 1 April, 2023. Additional 50,000 shares were issued on 1 November, 2023 and 32,000 shares were bought back on 1 February, 2024.

1. Calculate the weighted average number of shares outstanding at the year ended on 31 March, 2024 is:
   (a) 1,34,500 shares
   (b) 1,65,500 shares
   (c) 1,76,167 shares
   (d) 1,23,833 shares

Answer Key:

1. **Option (b)**
   (1,50,000 x 7/12) + (2,00,000 x 3/12) + (1,68,000 x 2/12) = 1,65,500 shares

Case Scenario 34

A Ltd. has a balance of ₹ 17,15,000 in the loan account with State Finance Corporation which is inclusive of ₹ 1,15,000 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.

1. As per Schedule III to the Companies Act, 2013 loan is to be disclosed in the balance sheet as follows:
   (a) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings.
   (b) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and ₹ 1,15,000 under short-term borrowings.
   (c) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and ₹ 1,15,000 under other current liabilities.
   (d) Disclosed ₹ 16,00,000 as a secured loan under long-term borrowings and no disclosure for ₹ 1,15,000.

Answer Key:

1. **Option (c)**

   As per Schedule III ₹ 16,00,000 as a secured loan under long-term borrowings and interest accrued but not due will be shown under other current liabilities.

Case Scenario 35

In the books of G Ltd., closing inventory as at 31.03.2024 amounts to ₹ 10,40,000 (on the basis of FIFO method).
The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory for 31.3.2024. On the basis of weighted average method, closing inventory as on 31.03.2024 amounts to ₹ 8,80,000. Realisable value of the inventory as on 31.03.2024 amounts to ₹ 12,00,000.

1. What will be the value of inventory in the books and what disclosure should be given in the financial statement on 31.3.2024?
   (a) The value of inventory will be ₹ 8,80,000 and the fact that the valuation method has changed to be disclosed in the financial statement.
   (b) The value of inventory will be ₹ 12,00,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.
   (c) The value of inventory will be ₹ 12,00,000, and the fact that valuation method has changed to be disclosed in the financial statement.
   (d) The value of inventory will be ₹ 8,80,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.

Answer Key:

1. **Option (d)**
   'The company values its inventory at lower of cost and net realizable value. Since net realizable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost i.e. ₹ 8,80,000
   As per AS 1"Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Thus A Ltd. should disclose the change in valuation method of inventory and its effect on financial statements.

Case Scenario 36 *(MTP Jan 2025)*

Excellence Ltd. is a Real Estate Company which constructs residential and commercial projects for selling. The Company has commenced a new project and the expenses incurred are as follows:

- The cost of land acquired for Project is ₹ 10 crore
- Cost of construction incurred is ₹ 25 crores.
- The Company also incurred cost of ₹ 10 lacs for various administrative meetings in relation to planning of the building.
- The construction of building completed and at the end of the year 1, the net realisable value of the building was ₹ 40 crore.
- At the beginning of the next year (year 2), the Company decided to use the building as its corporate office.
- The Company further incurred ₹ 50 lacs for making necessary changes in the structure for using it as corporate office in accordance with government norms for commercial spaces. Without these changes the office cannot be set up.
- Ignore the effect of depreciation, if any.

In view of above information, answer the following issues:

1. At the end of Year 1, how the building should be classified:
   (a) Inventory
   (b) Investments
   (c) Property, Plant and Equipment
   (d) Intangible Asset

2. At the end of Year 1, at value Project should be recognised:
   (a) ₹ 40 Crore
   (b) ₹ 35 Crore
   (c) ₹ 35.10 Crore
   (d) ₹ 25 Crore

3. At the end of Year 2, when the intention is to use the building as corporate office, it should be classified as:
   (a) Inventory
   (b) Investments
   (c) Property, Plant and Equipment
   (d) Intangible Assets

4. At the end of Year 2, the Project should be valued at:
   (a) ₹ 40 Crore
   (b) ₹ 35.50 Crore
   (c) ₹ 35.10 Crore
   (d) ₹ 25 Crore

Answer Key:

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

Case Scenario 37 *(MTP Jan 2025)*

Supercool Ltd. is a manufacturing company, engaged in manufacturing eco- friendly equipment. On April 1, 2023, the Company received a grant of ₹ 20 crore from the Government (which is 25% of the total capital of the Company) for various purposes that the company deems fit and no repayment is required to be made to Government.
The Company also borrowed ₹ 10 crore from financial Institutions and interest paid on the same during the year is ₹ 1 lac.
The Company acquired plant and machinery from the funds for ₹ 10 crore and ₹ 1 crore was spent on its installation and assembly.
₹ 10 lacs were spent on professional fees necessary for installation and operating of the machine.
The Company also spent ₹ 50 lacs on revenue expenditure.
The Plant and Machinery was ready for its intended use on September 30, 2023
The depreciation on plant and machinery is charged @10%.

1. The grant of ₹ 20 crores received by the Company should be presented as:
   (a) Grants related to Revenue
   (b) Grants related to Specific Fixed Assets
   (c) Capital Reserve
   (d) Other Income

2. At what value the plant and machinery acquired should be recognised as at 31st March 2024:
   (a) ₹ 11.10 Crore
   (b) ₹ 11 Crore
   (c) ₹ 10.54 Crore
   (d) ₹ 11.60 Crore

3. The revenue expenditure of ₹ 50 lacs should be recognised as:
   (a) Part of Plant and Machinery
   (b) Part of Grant
   (c) Revenue expenditure in the Profit and Loss
   (d) Deducted from loan

4. Which of the following statement is true:
   (a) Plant and Machinery has been acquired out of Government Grant so the same should be disclosed at Nil value.
   (b) Plant and Machinery belongs to Financial Institution
   (c) Plant and Machinery belong to the Company and should be recognised as its Property, Plant and Equipment
   (d) Plant and Machinery should not be disclosed in the financial statements of the Company at all

Answer Key:

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

Case Scenario 38 *(PYQ Jan 2025)*

The following summary cash account has been extracted from the Next space Limited's accounting records:

	₹	₹
Cash Balance as on 01-04-2023		72,000
Inflow of Cash		
Cash Sales	15,56,000	
Trade Receivable	7,40,000	
Rent from Property held as investment	64,000	
Income tax refund	25,000	
Loan from Bank	5,00,000	
Issue of Shares	2,50,000	
Sale of Investment	49,500	31,84,500
Outflow of Cash		
Trade Payable	19,60,000	
Office and Selling Exp.	1,20,000	
Trade Commission	40,500	
Underwriting Commission	25,000	
Redemption of Preference shares	8,00,000	
Brokerage on Sale of Investment	9,200	
Interest on long term borrowings	85,600	
Payment for Overheads	46,000	
Purchases of Goodwill	50,000	(31,36,300)
Balance as on 31-03-24		1,20,200

Based on the information given in above Case Scenario, answer the following Questions

1. Which of the following would be considered as a 'Cash Flow item from an Investing Activities'?
   (a) Trade Commission
   (b) Underwriting Commission
   (c) Purchase of Goodwill
   (d) Interest on Long Term Borrowings

2. What would be the value of Cash Flow from Operating Activities?
   (a) ₹ 1,54,500
   (b) ₹ 1,29,500
   (c) ₹ 1,45,300
   (d) ₹ 4,04,000

3. What would be the value of Cash Flow from Investing Activities?
   (a) ₹ 1,04,300
   (b) ₹ 54,300
   (c) ₹ 29,300
   (d) ₹ (500)

4. What would be the value of Cash Flow from Financing Activities?
   (a) ₹ (1,35,600)
   (b) ₹ (50,000)
   (c) ₹ 54,300
   (d) ₹ (1,60,600)

Answer Key:

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

Case Scenario 39 *(PYQ Jan 2025)*

On 1st April, 2019, Black Limited received a government grant of ₹ 15,00,000 for acquisition of a Machine costing ₹ 50,00,000. The grant was credited to the cost of the Machine. The life of the Machine is expected to be 10 years and estimated residual value at the end of 10 years is ₹ 5,00,000. The company charges depreciation on straight line basis.

Due to non-fulfillment of certain conditions the company had to refund the entire grant on 1st April, 2021.

On 31st March, 2023, Black Limited received certain indications of impairment of the Machine and the recoverable amount was ascertained to be ₹ 28,00,000 with revised useful life of 4 years and nil residual value.

On 1st April, 2024, the company exchanged the Machine by paying cash of ₹ 2,00,000 and new Machine valued at ₹ 18,00,000.

Based on the information given in above Case Scenario, answer the following Questions:

1. What will be the amount of Profit or Loss on exchange of Machine as on 1st April, 2024?
   - (a) Loss of ₹ 1,00,000
   - (b) Loss of ₹ 8,00,000
   - (c) Profit of ₹ 1,00,000
   - (d) Loss of ₹ 3,00,000

2. What will be the carrying amount of the Machine as on 31st March, 2021 after charging depreciation for the year?
   - (a) ₹ 26,00,000
   - (b) ₹ 28,00,000
   - (c) ₹ 41,00,000
   - (d) ₹ 29,00,000

3. What will be the amount of depreciation to be charged on the Machine for the year ended 31st March, 2022?
   - (a) ₹ 6,37,500
   - (b) ₹ 4,87,500
   - (c) ₹ 4,50,000
   - (d) ₹ 5,37,500

4. What will be the impact of test of impairment on Profit & Loss Account of the company?
   - (a) Impairment loss of ₹ 4,25,000 to be debited to Profit & Loss A/c.
   - (b) Impairment loss of ₹ 4,00,000 to be debited to Profit & Loss A/c.
   - (c) Impairment loss of ₹ 6,25,000 to be debited to Profit & Loss A/c.
   - (d) Impairment loss of ₹ 15,25,000 to be debited to Profit & Loss A/c.

Answer Key:

1. None of the Option
2. Option (d)
3. Option (b)
4. Option (c)

Case Scenario 40 *(PYQ Jan 2025)*

The following particulars are stated in the Balance Sheet of Star Limited as on 31st March, 2023:

Deferred Tax Assets (Dr.)	₹ 1,20,000
Deferred Tax Liabilities (Cr.)	₹ 2,10,000

The following transactions were reported during the year 2023-24:

		₹
1.	Depreciation as per accounting records	12,00,000
2.	Depreciation as per income tax records	18,00,000
3.	Interest paid accounted in books on accrual basis but paid on 15-05-2024	4,50,000
4.	Employer PF Contribution exp. disallowed for tax purpose in year 2022-23 but allowed in year 2023-24	82,000
5.	Unamortized preliminary expenses as per tax records	1,00,000
6.	Donation	70,000
7.	Tax Rate	20%

Based on the information given in above Case Scenario, answer the following Questions

1. Which is the permanent difference item as per AS 22?
   (a) Donation
   (b) Employer PF Contribution exp.
   (c) Unamortized preliminary expenses
   (d) Depreciation

2. What would be the value of the Deferred Tax Assets as on 31-03-2024?
   (a) ₹ 3,30,000
   (b) ₹ 1,52,000
   (c) ₹ 1,23,600
   (d) ₹ 4,50,000

3. What would be the value of the Deferred Tax Liabilities as on 31-03-2024?
   (a) ₹ 3,30,000
   (b) ₹ 1,23,600
   (c) ₹ 1,52,000
   (d) ₹ 1,20,000

4. What would be the value of reversal of Deferred Tax Assets as on 31-03-2024?
   (a) ₹ 1,04,000
   (b) ₹ 20,000
   (c) ₹ 16,400
   (d) ₹ 90,000

Answer Key:

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