

CA Inter

# ADVANCED ACCOUNTING

Question Bank with MCQ



# STRIKER

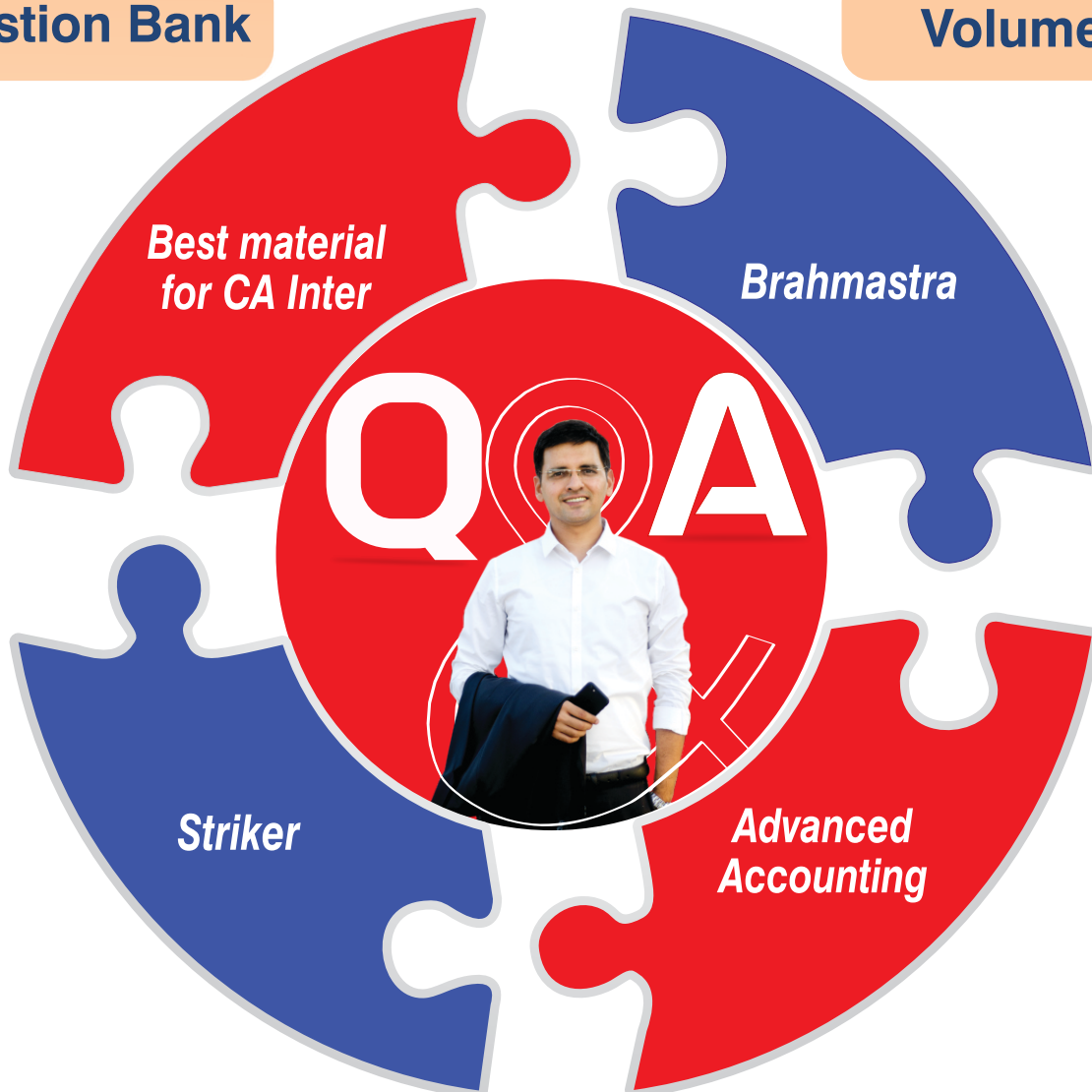
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# ADVANCED ACCOUNTING

# Q & A

QUESTIONS ANSWERS

## QUESTION FOR EVERY CONCEPT

A Question Bank by CA.Sarthak Niraj Jain for Adv. Accounting



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STRIKER  
Volume I

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# CHAPTER 10

## CONSOLIDATED FINANCIAL STATEMENTS

### UNIT 1

### AS 21 - CONSOLIDATED FINANCIAL STATEMENTS

### CLASS BOOK

#### BASIC

**Q. 1**

**Goodwill/Capital Reserve:**

Long Limited acquired 60% stake in Short Limited for a consideration of ₹ 112 lakhs. On the date of acquisition Short Limited's Equity Share Capital was ₹ 100 lakhs, Revenue Reserve was ₹ 40 lakhs and balance in Profit & Loss Account was ₹ 30 lakhs. From the above information you are required to calculate Goodwill / Capital Reserve in the following situations:

- On consolidation of Balance Sheet.
- If Long Limited showed the investment in subsidiary at a carrying amount of ₹ 104 lakhs.
- If the consideration paid for acquiring the 60% stake was ₹ 92 lakhs.

(July-2021)

**Ans.**

	(₹)
60% of the Equity Share Capital ₹ 100 Lakhs	60
60% of Accumulated Reserve ₹ 70 Lakhs (40+30) Lakhs	<u>42</u>
Book value of shares of Short Ltd.	<u>102</u>

- Goodwill / Capital Reserve computation on consolidation of balance sheet Long Ltd. paid a positive differential of ₹ 10 Lakhs (112 - 102). This differential ₹ 10 Lakhs is called goodwill and is shown in the balance sheet under the head intangibles
- If Long Ltd. showed the investment in Short Ltd. at carrying amount of ₹ 104 Lakhs, then the goodwill will be ₹ 2 Lakhs.
- If the consideration paid is ₹ 92 lakhs, then there would have been capital reserve amounting ₹ 10 Lakhs (102- 92).

**Q. 2**

**Goodwill/Capital Reserve:**

King Ltd. acquires 70% of equity shares of Queen Ltd. as on 31st March, 20X1 at a cost of ₹ 140 lakhs. The following information is available from the balance sheet of Queen Ltd. as on 31st March, 20X1:

	(₹ in lakhs)
Property, plant and equipment	240
Investments	110
Current Assets	140
Loans & Advances	30
15% Debentures	180
Current Liabilities	100

The following revaluations have been agreed upon (not included in the above figures): Property, plant and equipment- up by 20% and Investments- down by 10%.

King Ltd. purchased the shares of Queen Ltd. @ ₹20 per share (Face value - ₹10).

Calculate the amount of goodwill/capital reserve on acquisition of shares of Queen Ltd. (SM, MTP-May-2024)

**Ans.**

Revalued net assets of Queen Ltd. as on 31st March, 20X1

	₹ in lakhs	₹ in lakhs
PPE [240 X 120%]		288
Investments [110 X 90%]		99
Current Assets		140
Loans and Advances		<u>30</u>
Total Assets after revaluation		557
Less: 15% Debentures	180.0	
Current Liabilities	<u>100.0</u>	<u>(280)</u>
Equity / Net Worth		<u>277</u>
King Ltd.'s share of net assets (70% of 277)		193.9
King Ltd.'s cost of acquisition of shares of Queen Ltd. (₹140 lakhs)		<u>(140)</u>
Capital reserve		53.9

**Q. 3 Goodwill/Capital Reserve and Minority Interest:**

From the following data, determine in each case:

- Minority interest at the date of acquisition and at the date of consolidation.
- Goodwill or Capital reserve.

Amount of holding company's profit in the consolidated Balance Sheet assuming holding company's own Profit & Loss Account to be ₹ 2,00,000 in each case:

Case	Subsidiary Company	% Shares owned	Cost ₹	Date of acquisition		Consolidation Date	
				1.1.20X1		31.12.20X1	
				Share capital ₹	Profit & Loss Account ₹	Share capital ₹	Profit & Loss Account ₹
Case 1	A	90%	1,40,000	1,00,000	50,000	1,00,000	70,000
Case 2	B	85%	1,04,000	1,00,000	30,000	1,00,000	20,000
Case 3	C	80%	56,000	50,000	20,000	50,000	20,000
Case 4	D	100%	1,00,000	50,000	40,000	50,000	55,000

(RTP-May-2019, MTP-May-2019, MTP-Jan-2025, SM)

Ans.

**(1) Minority interest = Equity attributable to minorities**

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case it should be equal to share capital + Profit & Loss A/c

	Minority % Shares Owned	Minority interest as at the date of acquisition	Minority interest as at the date of consolidation
	[E]	[E] x [A + B] ₹	[E] x [C + D] ₹
Case 1 [100 - 90]	10%	15,000	17,000
Case 2 [100-85]	15%	19,500	18,000
Case 3 [100-80]	20%	14,000	14,000
Case 4 [100-100]	Nil	Nil	Nil

A = Share capital on 1.1.20X1

B = Profit & loss account balance on 1.1.20X1

C = Share capital on 31.12.20X1

D = Profit & loss account balance on 31.12.20X1

**(2) Calculation of Goodwill or Capital Reserve**

	Shareholding % [F]	Cost [G]	Total Equity [A] + [B] = [H]	Parent's Portion of equity [F] x [H]	Goodwill ₹ [G] - [H]	Capital Reserve ₹ [H] - [G]
Case 1	90%	1,40,000	1,50,000	1,35,000	5,000	-
Case 2	85%	1,04,000	1,30,000	1,10,500	-	6,500
Case 3	80%	56,000	70,000	56,000	Nil	Nil
Case 4	100%	1,00,000	90,000	90,000	10,000	-

**(3) The balance in the Profit & Loss Account on the date of acquisition (1.1.20X1) is Capital profit, as such the balance of Consolidated Profit & Loss Account shall be equal to Holding Co.'s profit.**

On 31.12.20X1 in each case the following amount shall be added or deducted from the balance of holding Co.'s Profit & Loss account.

	% Share holding [k]	P & L as on 1.1.20X1 [L]	P & L as on consolidation date [M]	P & L post acquisition [N] = [M] - [L]	Amount to be added / (deducted) from holding's P & L [O] = [K] x [N]
1	90%	50,000	70,000	20,000	18,000
2	85%	30,000	20,000	(10,000)	(8,500)
3	80%	20,000	20,000	NIL	NIL
4	100%	40,000	55,000	15,000	15,000

**Q. 4****Minority Interest:**

A Ltd. acquired 70% of equity shares of B Ltd. on 1.4.20X1 at cost of ₹ 10,00,000 when B Ltd. had an equity share capital of ₹ 10,00,000 and reserves and surplus of ₹ 80,000. In the four consecutive years, B Ltd. fared badly and suffered losses of ₹ 2,50,000, ₹ 4,00,000, ₹ 5,00,000 and ₹ 1,20,000 respectively. Thereafter in 20X5-X6, B Ltd. experienced turnaround and registered an annual profit of ₹ 50,000. In the next two years i.e. 20X6- X7 and 20X7-X8, B Ltd. recorded annual profits of ₹ 1,00,000 and ₹ 1,50,000 respectively. Show the minority interests and cost of control at the end of each year for the purpose of consolidation.

**(RTP-May-2023 Similar Question, SM, MTP-May-2019, MTP-Nov-2019)**

**Ans.**

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. Accordingly, the minority interests will be computed as follows:

Year	Profit / (Loss)	Minority inters (30%)	Additional Consolidated P & L (Dr.) Cr.	Minority's share of losses borne by A Ltd.		Cost of Control
				₹	Balance	
At the time of acquisition in 20X1		3,24,000 (W.N.)	-			
20X1-X2	(2,50,000)	(75,000)	(1,75,000)			2,44,000 (W.N.)
Balance		2,49,000				

20X2-X3	(4,00,000)	(1,20,000)	(2,80,000)			2,44,000
Balance		1,29,000				
20X3-X4	(5,00,000)	(1,50,000)	(3,50,000)			2,44,000
		(21,000)				
	Loss of minority borne by Holding Co.	<u>21,000</u>	<u>(21,000)</u>	21,000	21,000	
Balance		Nil	(3,71,000)			
20X4-X5	(1,20,000)	(36,000)	(84,000)			2,44,000
	Loss of minority borne by Holding Co.	<u>36,000</u>	<u>(36,000)</u>	36,000	57,000	
Balance		Nil	(1,20,000)			
20X5-X6	50,000	15,000	35,000			2,44,000
	Profit share of minority adjusted against losses of minority absorbed by holding Co.	<u>(15,000)</u>	<u>15,000</u>	(15,000)	42,000	
Balance		Nil	50,000			
20X6-X7	1,00,000	30,000	70,000			2,44,000
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	<u>(30,000)</u>	<u>30,000</u>	(30,000)	12,000	
Balance		Nil	100,000			
20X7-X8	1,50,000	45,000	1,05,000	(12,000)	Nil	2,44,000
		<u>(12,000)</u>	<u>12,000</u>			
Balance		<b>33,000</b>	<b>1,17,000</b>			

**Working Note:**

Calculation of Minority interest and Cost of control on 1.4.20X1

	100%	Share of Holding Co.	Minority interest
	(₹)	70% (₹)	30% (₹)
Share Capital	10,00,000	7,00,000	3,00,000
Reserve	80,000	<u>56,000</u>	<u>24,000</u>
		7,56,000	<u>3,24,000</u>
Less: Cost of investment		<u>(10,00,000)</u>	
Goodwill		<u>2,44,000</u>	

Q. 5

**Dividend Accounting for H**

H Ltd. acquired 3,000 shares in S Ltd., at a cost of ₹4,80,000 on 31.7.20X1. The capital of S Ltd. consisted of 5,000 shares of ₹ 100 each fully paid. The Profit & Loss Account of this company for 20X1 showed an opening balance of ₹1,25,000 and profit for the year was ₹ 3,00,000. At the end of the year, it declared a dividend of 40%. Record the entry in the books of H Ltd., in respect of the dividend. Assume calendar year as financial year (SM)

Ans.

The profits of S Ltd., have to be divided between capital and revenue profits from the point of view of the holding company:

	Capital Profit ₹		Revenue Profit ₹
Balance on 1.1.20X1	1,25,000	-	
Profit for 20X1 (3,00,000 × 7/12)	1,75,000	(3,00,000 × 5/12)	1,25,000
Total	3,00,000		1,25,000
Proportionate share of H Ltd. (3/5)	1,80,000		75,000

Total dividend declared = ₹ 5,00,000 X 40 % = ₹ 2,00,000

H Ltd's share in the dividend = ₹ 2,00,000 X 3/5 = ₹ 1,20,000

There can be two situations as regards the treatment of dividend of ₹1,20,000:

(1) The profit for 20X1 has been utilised to pay the dividend.

The share of H Ltd. in profit for the first seven months of S Ltd. = ₹ 1,05,000 (i.e. ₹ 1,75,000 × 3/5)

Profit for the remaining five months = ₹ 75,000

(i.e. ₹ 1,25,000 × 3/5).

The dividend of ₹ 1,20,000 will be adjusted in this ratio of 1,05,000 : 75,000

= ₹ 70,000 out of profits up to 31.7.20X1 and ₹ 50,000 out of profits after that date.

The dividend out of profits subsequent to 31.7.20X1 will be revenue income and that out of earlier profits will be capital receipt. Hence the entry will be:

		₹	₹
Bank	Dr.	1,20,000	
To Investment Account			70,000
To Profit and Loss Account			50,000

(2) Later profits have been utilised first and then pre- acquisition profits.

In such a case, the whole of ₹ 75,000 (share of H Ltd. in profits of S Ltd., after 31.7.20X1) would be received and treated as revenue income; the remaining dividend, ₹45,000 (₹1,20,000 less ₹ 75,000) would be capital receipt. The entry would be:

		₹	₹
Bank	Dr.	1,20,000	
To Investment Account			45,000
To Profit and Loss Account			75,000

**Note:** Point (2) discussed above can arise only if there is definite information about the profits utilized. In practice, such treatment is rare.

Q. 6

**Goodwill/Capital Reserve, Minority Interest and Dividends:**

XYZ Ltd. purchased 80% shares of ABC Ltd. on 1st January, 20X1 for ₹1,40,000. The issued capital of ABC Ltd., on 1st January, 20X1 was ₹1,00,000 and the balance in the Profit & Loss Account was ₹ 60,000.

During the year ended 31st December, 20X1, ABC Ltd. earned a profit of ₹20,000 and at year end, declared and paid a dividend of ₹15,000.

Show by an entry how the dividend should be recorded in the books of XYZ Ltd.

What is the amount of minority interest as on 1st January, 20X1 and 31st December, 20X1? Also please check whether there should be any goodwill/ capital reserve at the date of acquisition.

(SM, MTP-May-2019, MTP-Nov-2020)

Ans.

Total dividend paid is ₹15,000 (out of post-acquisition profits), hence dividend received by XYZ will be credited to P & L.

XYZ Ltd.'s share of dividend = ₹15,000 X 80% = ₹12,000

**In the books of XYZ Ltd.**

		₹	₹
Bank A/c	Dr.	12,000	
To Profit & Loss A/c			12,000
(Dividend received from ABC Ltd. credited to P&L A/c being out of post-acquisition profits - as explained above)			
<b>Goodwill on consolidation (at the date of acquisition):</b>			
Cost of shares			1,40,000
Less: Face value of capital i.e. 80% of capital		80,000	
Add: Share of capital profits [60,000 X 80%]		48,000	(1,28,000)
Goodwill			<b>12,000</b>
<b>Minority interest on:</b>			
- <b>1st January, 20X1:</b>			
20% of ₹ 1,60,000 [1,00,000 + 60,000]			32,000
- <b>31st December, 20X1:</b>			
20% of ₹ 1,65,000 [1,00,000 + 60,000 + 20,000 - 15,000]			33,000

Q. 7

**Goodwill/Capital Reserve:**

Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31st March, 20X1 at a cost of ₹ 70 lakhs. The following information is available from the balance sheet of Zed Ltd. as on 31st March, 20X1:

	₹ In Lakhs
Property, Plant & Equipments	120
Investments	55
Current Assets	70
Loans & Advances	15
15% Debentures	90
Current Liabilities	50

The following revaluations have been agreed upon (not included in the above figures):

Property, Plant & Equipments	Up by 20%
Investments	Down by 10%

Zed Ltd. declared and paid dividend @ 20% on its equity shares as on 31st March, 20X1 (Face value - ₹ 10 per share). Exe Ltd. purchased the shares of Zed Ltd. @ ₹ 20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Zed Ltd.

(Note: Assume dividend is paid and entry already passed in book and above balances are after dividend payment)

(SM, MTP-Nov-2020, MTP-Jan-2025)

Ans.

Revalued net assets of Zed Ltd. as on 31st March, 20X1

	₹ in Lakhs	₹ in Lakhs
Property, Plant & Equipments [120 X 120%]		144.0
Investment [55 X 90%]		49.5
Current Assets		70.0

Loans and Advances		15.0
Total Assets after revaluation		278.5
Less: 15% Debentures	90.0	
Current liabilities	50.0	(140.0)
Equity / Net Worth		138.5
Exe Ltd.'s share of net assets (70% of 138.5)		96.95
Exe Ltd.'s Cost of acquisition of shares of Zed Ltd. (₹ 70 Lakhs - ₹ 7 Lakhs*)		63.00
Capital reserve		33.95

\* Total Cost of 70% Equity of Zed Ltd ₹ 70 Lakhs

Purchase Price of each share ₹ 20

Number of shares purchases [70 Lakhs / ₹20] 3.5 Lakhs

Dividend @ 20% i.e. ₹ 2 per share ₹ 7 Lakhs

Since dividend received is for pre-acquisition period, it has been reduced from the cost of investment in the subsidiary company.

**Q. 8**

**Intra-Group Transactions:**

- A Ltd. holds 80% of the equity capital and voting power in B Ltd. A Ltd. sells inventories costing ₹ 180 lacs to B Ltd. at a price of ₹ 200 lacs. The entire inventories remain unsold with B Ltd. at the financial year end i.e. 31 March 20X1.
- A Ltd. holds 75% of the equity capital and voting power in B Ltd. A Ltd. purchases inventories costing ₹ 150 lacs from B Ltd. at a price of ₹ 200 lacs. The entire inventories remain unsold with A Ltd. at the financial year end i.e. 31 March 20X1.

Suggest the accounting treatment for the above mentioned transactions in the consolidated financial statements of A Ltd. giving reference of the relevant guidance/standard.

(MTP-May-2022, RTP-Nov-2020, SM, MTP-Nov-2020)

**Ans.**

As per para 16 and 17 of AS 21, intragroup balances and intragroup transactions and resulting unrealized profits should be eliminated in full. Unrealized losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered.

Intragroup balances and intragroup transactions, including sales, expenses and dividends, are eliminated in full. Unrealized profits resulting from intragroup transactions that are included in the carrying amount of assets, such as inventory and fixed assets, are eliminated in full. Unrealized losses resulting from intragroup transactions that are deducted in arriving at the carrying amount of assets are also eliminated unless cost cannot be recovered.

One also needs to see whether the intragroup transaction is "upstream" or "down-stream". Upstream transaction is a transaction in which the subsidiary company sells goods to holding company. While in the downstream transaction, holding company is the seller and subsidiary company is the buyer.

In the case of upstream transaction, since the goods are sold by the subsidiary to holding company; profit is made by the subsidiary company, which is ultimately shared by the holding company and the minority shareholders. In such a transaction, if some goods remain unsold at the balance sheet date, the unrealized profit on such goods should be eliminated from minority interest as well as from consolidated profit on the basis of their share-holding besides deducting the same from unsold inventory.

But in the case of downstream transaction, the whole profit is earned by the holding company, therefore, whole unrealized profit should be adjusted from unsold inventory and consolidated profit and loss account only irrespective of the percentage of the shares held by the parent.

**Using above mentioned guidance, following adjustments would be required:**

- This would be the case of downstream transaction. In the consolidated profit and loss account for the

year-ended 31 March 20X1, entire transaction of sale and purchase of ₹ 200 lacs each, would be eliminated by reducing both sales and purchases (cost of sales).

Further, the unrealized profits of ₹ 20 lacs (i.e. ₹ 200 lacs – ₹ 180 lacs), would be eliminated from the consolidated financial statements for financial year ended 31 March 20X1, by reducing the consolidated profits/ increasing the consolidated losses, and reducing the value of closing inventories as of 31 March 20X1.

- b. This would be the case of upstream transaction. In the consolidated profit and loss account for the year ended 31 March 20X1, entire transaction of sale and purchase of ₹ 200 lacs each, would be eliminated by reducing both sales and purchases (cost of sales).

Further, the unrealized profits of ₹ 50 lacs (i.e. ₹ 200 lacs – ₹ 150 lacs), would be eliminated in the consolidated financial statements for financial year ended 31 March 20X1, by reducing the value of closing inventories by ₹ 50 lacs as of 31 March 20X1. In the consolidated balance sheet as of 31 March 20X1, A Ltd.'s share of profit from B Ltd. will be reduced by ₹ 37.50 lacs (being 75% of ₹ 50 lacs) and the minority's share of the profits of B Ltd. would be reduced by ₹ 12.50 lacs (being 25% of ₹ 50 lacs).

**Q. 9**
**Revaluation:**

Gamma Ltd. acquired 24,000 equity shares of ₹ 10 each, in Beta Ltd. on October 1, 2023 for ₹ 4,60,200. The profit and loss account of Beta Ltd. showed a balance of ₹ 15,000 on April 1, 2023. The plant and machinery of Beta Ltd. which stood in the books at ₹ 2,25,000 on April 1, 2023 was considered worth ₹ 2,70,000 on the date of acquisition.

The information of the two companies as at 31-3-2024 was as follows:

	Gamma Ltd. (₹)	Beta Ltd. (₹)
Shares capital (fully paid equity shares of ₹ 10 each)	7,50,000	3,00,000
General reserve	3,60,000	1,50,000
Profit and loss account	85,800	1,23,000
Current Liabilities	2,54,700	49,500
Land and building	2,70,000	2,85,000
Plant and machinery	3,60,000	2,02,500
Investments	4,60,200	-
Current assets	3,60,300	1,35,000

You are required to compute impact of revaluation of Plant and Machinery.

(MTP-May-2024)

Ans.

**Impact of Revaluation of Plant and Machinery will be as -**

	₹
Book value of Plant and Machinery as on 01-04-2023	2,25,000
	10%
Depreciation Rate $\frac{(2,25,000-2,02,500)}{2,25,000} = 22,500/2,25,000 \times 100$	
Book value of Plant and Machinery as on 01-10-2023 after six months depreciation @10% (2,25,000-11,250)	2,13,750
Revalued at	2,70,000
Revaluation profit (2,70,000-2,13,750)	56,250
Share of Gamma Limited in Revaluation Profit (80%)	45,000
Share of Minority in Revaluation profit (20%)	11,250

Additional Depreciation on appreciated value to be charged from post-acquisition profits (10% of ₹ 22,5,000 for 6 months) + (10% of ₹ 2,70,000 for 6 months)	2,250
less ₹ 22500 (as already charged)	
Share of Gamma Limited in additional depreciation that will reduce its share (80%) in post-acquisition profit by	1,800
Share of Minority Interest in additional depreciation	450

**Working note:**

Percentage of holding:

	No. of Shares	Percentage
Holding Co. :	24,000	(80%)
Minority shareholders :	<u>6,000</u>	(20%)
TOTAL SHARES :	<u>30,000</u>	

**Q. 10 Goodwill/Capital Reserve & Minority Interest**

Hemant Ltd. purchased 80% shares of Power Ltd. on 1st January, 20X1 for ₹ 2,10,000. The issued capital of Power Ltd., on 1st January, 20X1 was ₹ 1,50,000 and the balance in the Profit & Loss Account was ₹ 90,000. During the year ended 31st December, 20X1, Power Ltd. earned a profit of ₹ 30,000 and at year end, declared and paid a dividend of ₹ 22,500. What is the amount of minority interest as on 1<sup>st</sup> January, 20X1 and 31<sup>st</sup> December, 20X1? Also compute goodwill/ capital reserve at the date of acquisition. **(SM)**

**Ans.**

Total dividend paid is ₹ 22,500 (out of post-acquisition profits), hence dividend received by Hemant will be credited to P & L account. Hemant Ltd.'s share of dividend = ₹ 22,500 X 80% = ₹ 18,000

<b>Goodwill on consolidation (at the date of acquisition):</b>	₹	₹
Cost of shares		2,10,000
Less: Face value of capital i.e. 80% of capital	1,20,000	
Add: Share of capital profits [90,000 X 80 %]	<u>72,000</u>	<u>(1,92,000)</u>
Goodwill		<u>18,000</u>
<b>Minority interest on:</b>		
- <b>1st January, 20X1:</b>		
20% of ₹ 2,40,000 [1,50,000 + 90,000]		<u>48,000</u>
- <b>31st December, 20X1:</b>		
20% of ₹ 2,47,500 [1,50,000 + 90,000 + 30,000 - 22,500]		<u>49,500</u>

**Q. 11 Goodwill/Capital Reserve with Revaluation and Dividends:**

Zoom Ltd. acquired 70% shares of Star Ltd. @ ₹ 30 per share. Following is the extract of Balance Sheet of Star Ltd.:

	₹
15,00,000 Equity Shares of ₹ 10 each	1,50,00,000
15% Debentures	15,00,000
Trade Payables	82,50,000
Property, Plant and Equipment	1,05,00,000
Investments	67,50,000
Current Assets	1,02,00,000
Loans and Advances	33,00,000

On the same day Star Ltd. declared dividend at 20% and as agreed between both the companies Property, Plant and Equipment were to be depreciated @ 10% and investment to be taken at market value of ₹ 90,00,000. Calculate the Goodwill or Capital Reserve to be recorded in Consolidated Financial Statements.

(Assume dividend has been paid and accounted.)

**(RTP-May-2024)**

**Ans.**

As per para 13 of AS 21 any excess of the cost to the parent of its investment in a subsidiary over the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, should be described as goodwill to be recognised as an asset in the consolidated financial statements. When the cost to the parent of its investment in a subsidiary is less than the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, the difference should be treated as a capital reserve in the consolidated financial statements.

Since dividend is declared by Star Ltd. on the date of acquisition itself, it would be out of the divisible profits of Star Ltd. existing on the date of acquisition i.e., pre-acquisition profits from the perspective of Zoom Ltd. Accordingly, as per para 12 of AS 13, such pre-acquisition dividend would be reduced from the cost of investment, as seen below in the determination of Goodwill on the date of acquisition.

<b>Calculation of Goodwill or Capital Reserve</b>	₹	₹
Cost of Investment in Star Ltd. (70% stake):		
15,00,000 Equity Shares x 70% x ₹ 30 per share	3,15,00,000	
Less: Pre-acquisition dividend: 10,50,000 shares x ₹ 2	<u>(21,00,000)</u>	2,94,00,000
Less: Share of Zoom Ltd. in Net Assets of Star Ltd. (W.N)		<u>(1,55,40,000)</u>
<b>Goodwill on Date of Acquisition</b>		<u>1,38,60,000</u>

**Working Note:**

<b>Calculation of net asset</b>	₹	₹
<b>Assets</b>		
Property, Plant and Equipment	1,05,00,000	
Less: Value written off (₹ 105 lakhs x 10%)	<u>(10,50,000)</u>	
	94,50,000	
Investments at Market Value	90,00,000	
Current Assets	1,02,00,000	
Loans and Advances	<u>33,00,000</u>	3,19,50,000
Less: Liabilities		
Trade Payables	82,50,000	
15% Debentures	<u>15,00,000</u>	<u>(97,50,000)</u>
Net Assets of Star Ltd.		<u>2,22,00,000</u>
Share of Zoom Ltd. in Net Assets of Star Ltd.: 70%		1,55,40,000

**Note:** In the absence of information about the reserves, it is presumed that the given extract of the Balance Sheet of Star Ltd. is after considering the effects of the dividend declared on the date of acquisition.

**Q. 12 Cost of Control:**

A Ltd. acquired 70% equity shares of B Ltd. @ ₹20 per share (Face value - ₹10) on 31<sup>st</sup> March, 2021 at a cost of ₹ 140 lakhs. Calculate the amount of share of A Ltd. and minority interest in the net assets of B Ltd. on this date. Also compute goodwill/capital reserve for A Ltd. on acquisition of shares of B Ltd. from the following information available from the balance sheet of B Ltd. as on 31st March, 2021:

	₹ in lakhs
Property, plant and equipment	360
Investments	90
Current Assets	140
Loans & Advances	30
15% Debentures	180
Current Liabilities	100

(RTP-May-2021)



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# **ACCOUNTING STANDARDS**

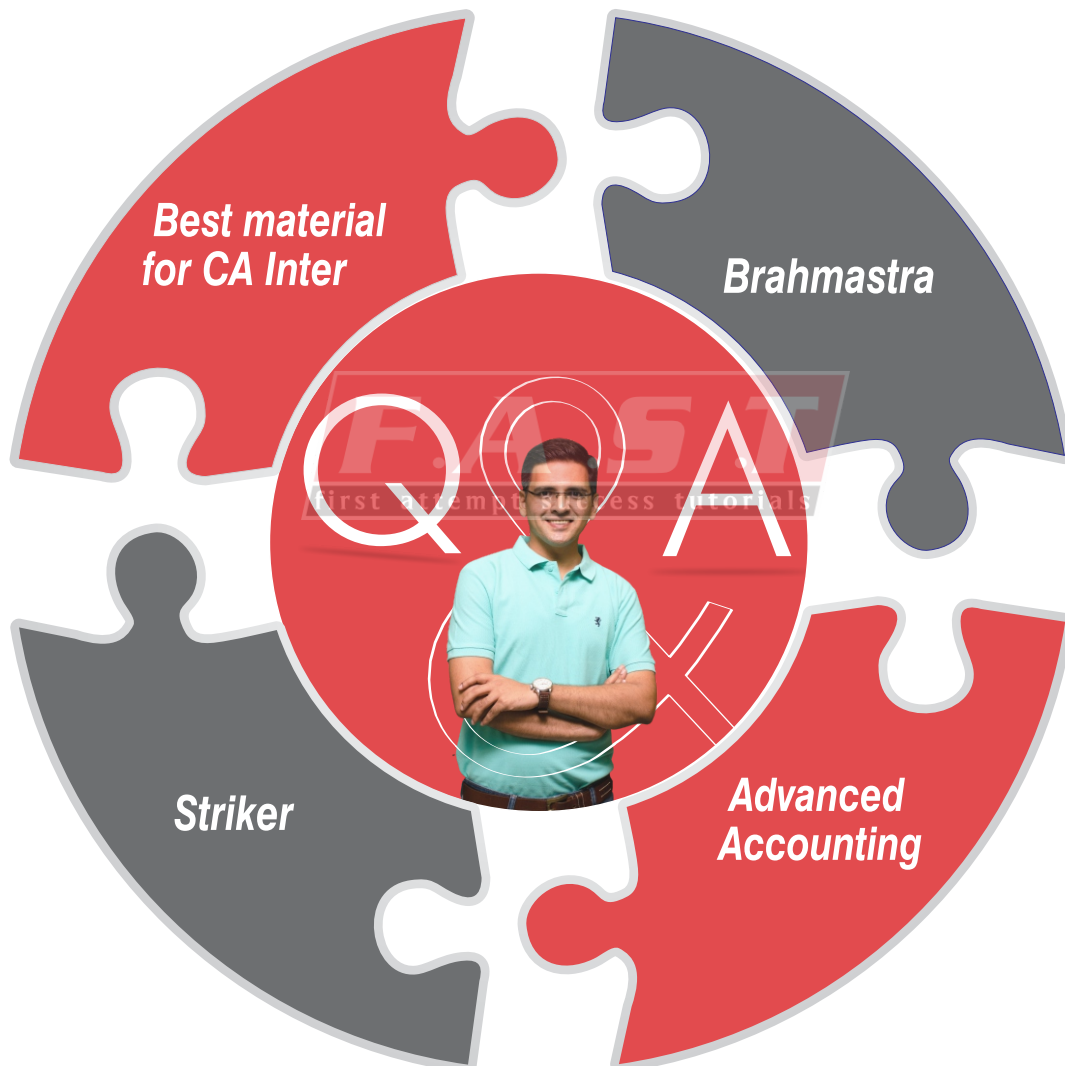
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# ACCOUNTING STANDARDS

**Q** QUESTIONS **&** **A** ANSWERS

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A Question Bank by CA. Sarthak Niraj Jain for Advanced Accounting

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**Chapter**  
**1****INTRODUCTION TO ACCOUNTING STANDARDS****THEORETICAL QUESTIONS**

**Q 1.** Explain the objective of “Accounting Standards” in brief. State the advantages of setting Accounting Standards.

**Ans.**

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

Following are the objectives of Accounting Standards:

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

The main advantage of setting accounting standards are as follows:

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

**Q 2.** Briefly explain the process of issuance of Indian Accounting Standards.

**Ans.**

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

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

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

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

**Q 3.** Explain the significance of emergence of IFRS as Global Standards.

**Ans.**

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

**Q 4.** What do you mean by Carve outs/ins in Ind AS? Explain.

**(RTP-May-2024, MTP-Jan-2025)**

**Ans.**

Certain changes have been made in Ind AS considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS. These differences are due to differences in economic conditions prevailing in India. These differences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as ‘Carve-outs’. Additional guidance given in Ind AS over and above what is given in IFRS, is termed as ‘Carve in’.

**Q 5.** What are the issues, with which Accounting Standards deal?

(MTP-May-2024)

**Ans.**

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

**MCQs**

**Q 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

**Q 2.** Accounting Standards  
 (a) Harmonise accounting policies and eliminate the non-comparability of financial statements.  
 (b) Improve the reliability of financial statements.  
 (c) Both (a) and (b).  
 (d) manipulate the data for the management.

**Q 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.

**Q 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

**Q 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.

**Q 6.** IASB stands for  
 (a) International Accounting Standards Bureau (b) International Advisory Standards Board  
 (c) International Accounting Standard Board. (d) International Accounting System Board

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

**Q 8.** Additional guidance given in Ind AS over and above what is given in IFRS are called  
 (a) Carve-outs. (b) Carve-ins. (c) Carve clarifications. (d) Clarifications

**Q 9.** Phase I of Ind AS was applicable to:  
 (a) All listed companies in India or outside India  
 (b) Companies with turnover INR 500 crores or more  
 (c) Companies with net worth INR 500 crores or more.  
 (d) Companies with turnover INR 250 crores or more

**ANSWERS**

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

**Chapter  
2**
**FRAMEWORK FOR PREPARATION AND PRESENTATION OF  
FINANCIAL STATEMENTS**
**PRACTICAL QUESTIONS**
**Q 1.**

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

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

**Additional information:**

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

 You are required to prepare Profit and Loss Accounts and Balance Sheets of the trader in both cases (i) assuming going concern (ii) not assuming going concern. (SM)
**Ans.**
**Profit and Loss Account for the year ended 31st March, 20X2**

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

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

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

**Q 2.**

A trader commenced business on 01/01/20X1 with ₹ 12,000 represented by 6,000 units of a certain product at ₹ 2 per unit. During the year 20X1 he sold these units at:

₹ 3 per unit and had withdrawn ₹ 6,000. Let us assume that the price of the product at the end of year is ₹ 2.50 per unit. In other words, the specific price index applicable to the product is 125.

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

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

Opening equity at closing current costs = ₹ 15,000

Closing equity at closing current costs = ₹ 12,000

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

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

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

**Ans.**

**Financial Capital Maintenance at historical costs**

	₹	₹
Closing capital (At historical cost)		12,000
Less: Capital to be maintained		
Opening capital (At historical cost)	12,000	
Introduction (At historical cost)	Nil	(12,000)
Retained profit		Nil

**Financial Capital Maintenance at current purchasing power**

	₹	₹
Closing capital (At closing price)		12,000
Less: Capital to be maintained		
Opening capital (At closing price)	15,000	
Introduction (At closing price)	Nil	(15,000)
Retained profit/(loss)		(3,000)

**Physical Capital Maintenance**

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

**Q 3.**

"Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements." Discuss and explain the benefits of Accounting Standards. (MTP-Sept-2024)

**Ans.**

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

The following are the benefits of Accounting Standards:

- (i) **Standardization of alternative accounting treatments:** Accounting Standards reduce to a reasonable extent confusing variations in the accounting treatment followed for the purpose of preparation of financial statements.
- (ii) **Requirements for additional disclosures:** There are certain areas where important is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

- (iii) **Comparability of financial statements:** The application of accounting standards would facilitate comparison of financial statements of different companies situated in India and facilitate comparison, to a limited extent, of financial statements of companies situated in different parts of the world. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in Accounting Standards adopted in different countries.

**Q 4.**

Mohan started a business on 1st April 20X1 with ₹ 12,00,000 represented by 60,000 units of ₹ 20 each. During the financial year ending on 31st March, 20X2, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Mohan in the year 20X1-X2 if Financial Capital is maintained at historical cost. **(RTP-May-2024, MTP-May-2025)**

**Ans.**

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

**Q 5.**

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

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

You are required to show the effect of above transactions on Balance Sheet in the form of Assets - Liabilities = Equity after each transaction. **(MTP-May-2024)**

**Ans.**

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

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

**Q 6.**

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

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

**Additional Information:**

- (i) Remaining life of Property, Plant and Equipment is 5 years with even use. The net realisable value of Property, Plant and Equipment as on 31st March, 20X2 was ₹ 64,000.
- (ii) Firm's sales and purchases for the year 20X1-X2 amounted to ₹ 5 lacs and ₹ 4.50 lacs respectively.
- (iii) The cost and net realisable value of the stock were ₹ 34,000 and ₹ 38,000 respectively.
- (iv) General Expenses for the year 20X1-X2 were ₹ 16,500.
- (v) Deferred Expenditure is normally amortised equally over 4 years starting from F.Y. 20X0-X1 i.e. ₹ 5,000 per year.
- (vi) Out of trade receivables worth ₹10,000, collection of ₹4,000 depends on successful re-design of certain product already supplied to the customer.

(vii) Closing trade payable is ₹10,000, which is likely to be settled at 95%.

(viii) There is pre-payment penalty of ₹2,000 for Bank loan outstanding.

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

Ans.

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

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

**THEORETICAL QUESTIONS**

**Q 7.** What are the qualitative characteristics of the financial statements which improve the usefulness of the information furnished therein? **(MTP-May-2024)**

Ans.

The qualitative characteristics are attributes that improve the usefulness of information provided in financial statements. Understandability; Relevance; Reliability; Comparability are the qualitative characteristics of financial statements.

**Qualitative Characteristics of Financial Statements**

• Understandability	• Information presented in financial statements should be readily understandable by the users with reasonable knowledge of business and economic activities.
• Relevance	• Financial statements should contain relevant information only. Information, which is likely to influence the economic decisions of the users is called relevant.
• Reliability	• Information must be reliable; that is to say, they must be free from material error and bias.
• Comparability	• Financial statements should provide both inter-firm and intra-firm comparison.

**Q 8.** "One of the characteristics of financial statements is neutrality"- Do you agree with this statement? **(MTP-May-2024, MTP-Jan-2025)**

Ans.

Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias. Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion on the business results.

**Q 9.** Briefly explain the elements of financial statements. **(MTP-Jan-2025)**

Ans.

**Elements of Financial Statements**

Asset	Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise
Liability	Present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.

Equity	Residual interest in the assets of an enterprise after deducting all its liabilities
Income/gain	Increase in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity participants
Expense/loss	Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity other than those relating to distributions to equity participants

**Q 10.** With regard to financial statements, name any five qualitative characteristics and elements. (MTP-May-2025)

**Ans.**

**Qualitative Characteristics of Financial Statements:**

Understandability, Relevance, Comparability, Reliability & Faithful Representation

**Elements of Financial Statements:**

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

**MCQs**

**Q 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.

**Q 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.

**Q 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.

**Q 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.

**Q 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.

**Q 6.** Which of the assumption is not considered as fundamental accounting assumption?

- (a) Going Concern
- (b) Accrual
- (c) Reliability.
- (d) Comparability.

**Q 7.** 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 1 and 2
- (d) It is probable that no future economic benefit associated with the item will flow to the enterprise.

**Q 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.

**Q 9.** 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.

**ANSWERS**

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

**Notes:**

**Chapter**  
**3****APPLICABILITY OF ACCOUNTING STANDARDS****PRACTICAL QUESTIONS**

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

**Ans.**

The question deals with the issue of Applicability of Accounting Standards for corporate entities.

The companies can be classified under two categories viz SMCs and Non SMCs under the Companies (Accounting Standards) Rules, 2021.

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

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

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

Since, XYZ Ltd.'s turnover was ₹ 50 crores which does not exceed ₹ 250 crores and borrowings of ₹ 1 crore are less than ₹ 50 crores, it is a small and medium sized company (SMC).

**Q 2.** A company was classified as Non-SMC in 20X1-X2. In 20X2-X3, it has been classified as SMC. The management desires to avail the exemptions or relaxations available for SMCs in 20X2-X3. However, the accountant of the company does not agree with the same. Comment. **(SM)**

**Ans.**

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

**Q 3.** Based upon criteria for rating of non-corporate entity, categorize the following as Level I, Level II and Level III Level IV entities for the purpose of compliance of Accounting Standards in India.

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

- (d) SS Finance is a financial institution carrying its business in India since last 10 years.
- (e) DD Finance, holding company of SS Finance. (Entity mentioned at Point (v) above).
- (f) Reliable Co-op Bank, a co-operative bank, carrying banking operations since last 15 years.

(RTP-May-2024)

**Ans.**

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

**MCQs**

- Q 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.
- Q 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.
- Q 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.
- Q 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.
- Q 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)
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