VIVITSU

STRIVING TOWARDS KNOWLEDGE

Paper 1

Advanced Accounting

Chapter-wise compilation of RTPs, MTPs and PYPs

NEW *Modified as per new scheme*

Applicable for Sept'24 & Jan'25

SAMPLE MATERIAL

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HOW TO GET THE BEST OUT OF OUR MATERIAL?

1 INITIAL READING

After your initial reading of a particular chapter in your study material, go through the questions in our 3, 5, and 11 attempt's compilations, focusing on the chapter you've just covered. Make note of challenging questions for later reference.

2 FIRST REVISION

During your first revision, revisit the marked questions. If you still can't answer them, highlight them in red and review the related concepts to improve your understanding. This process helps you to grasp the key concepts and address your weak points

3 KEEP GOING WITH THE REVISIONS

Repeat the reading and revision process as often as possible before your exams. Each iteration will enhance your confidence and knowledge.

4 EXAMINERS COMMENTS

Pay attention to the examiner's comments in our compilations, as they highlight common mistakes. Learning from these errors will help you avoid them in your exams

Frequently Asked Questions

1. **Why RTP's, MTP's and PYP's?**
   RTP's, MTP's, and PYP's are extremely important to ensure that you reproduce ICAI language. These questions train you to understand what is important and what is expected of you.
   At least 41% of questions* are asked from previous RTP's, MTP's and PYP's.

2. **What is included?**
   In this compiler, all questions from the last 3, 5 or 11 attempts depending on the one you have selected will be available. There will be references to the marks and the attempt from which they were asked. Identical or similar questions have been removed and references for both attempts are mentioned.

3. **What is the benefit of Chapter-wise?**
   We have categorized each and every question from all Old RTPs, MTP's, and PYP's into chapters. This means that you don't have to wait until you've completed your entire syllabus to tackle an RTP, MTP, or past paper. You can start solving these questions to check your conceptual clarity right after finishing a particular chapter.

4. **What does amended for the latest attempt mean?**
   When we reviewed all the questions from the past 11 attempts of RTP, MTP, and PYP'S, we didn't just segregate them Chapterwise; we also updated them to reflect the latest provisions. All the answers provided in the compilation are applicable for the May 2024 examination. So, there's no need to stress about outdated or incorrect information.

5. **How are Old RTP's, MTP's & PYP's beneficial for me?**
   All old RTPs, MTPs, and PYPs have been organized according to the new syllabus issued by ICAI. This means that if a specific chapter from the old scheme is not included in the new scheme, it has been omitted. If a particular chapter in the new scheme is based on concepts from two or more chapters in the old scheme, it has been adapted to align with how the chapter should be in the new scheme. If a chapter is only partially included in the new scheme, the questions related to those specific concepts are only included in the corresponding chapter of the new scheme. A comprehensive reconciliation of the chapters between the new scheme and the old scheme is provided on the following page.

6. **What if a new attempt is added post my purchase?**
   If you have purchased materials for the May 2024 attempt, you will receive a file with the questions segregated Chapterwise specifically for that attempt.

7. **What does N/A mean?**
   It could mean any of the following:
   1. No questions from that chapter have been included in the selected attempts.
   2. The chapter is newly introduced, and as a result, no questions have been previously asked in RTP's, MTP's, or PYP's.

*This is on an average based on the last 11 attempts

Advance Accountancy

Reconciliation of chapters of the new scheme (May'24) with old course

New Chapter No.	Chapter Name as per NEW Syllabus	Paper No. as per Old Course	Comparison with chapters of Old Scheme
1	Introduction to Accounting Standards	Paper 1	Same
2	Framework for Preparation and Presentation of Financial Statements	Paper 1	Same
3	Applicability of Accounting Standards	Paper 1	Same
4	**Chapter 4: Presentation & Disclosures Based Accounting Standards**		Same
4.1	AS 1- Disclosure of Accounting Policies	Paper 1	Same
4.2	AS 3- Cash Flow Statement	Paper 1	Same
4.3	AS 17- Segment Reporting	Paper 5	Same
4.4	AS 18- Related Party Disclosures	Paper 5	Same
4.5	AS 20- EPS	Paper 5	Same
4.6	AS 24- Discontinuing Operations	Paper 5	Same
4.7	AS 25- Interim Financial Reporting*		Not a part of CA inter syllabus in the old scheme
5	**Asset Based Accounting Standards**		
5.1	AS 2- Valuation of Inventory	Paper 1	Same
5.2	AS 10-Property, Plant & Equipment	Paper 1	Same
5.3	AS 13-Accounting for Investments	Paper 1	Same
5.4	AS 16-Borrowing Costs	Paper 1	Same
5.5	AS 19- Leases	Paper 5	Same
5.6	AS 26- Intangible Assets	Paper 5	Same
5.7	AS 28- Impairment of Assets*		Not a part of CA inter syllabus in the old scheme
6	**Liabilities based Accounting Standards**		
6.1	AS 15- Employee Benefits*		Not a part of CA inter syllabus in the old scheme
6.2	AS 29- Provisions, Contingent Liabilities & Contingent Assets	Paper 5	Same
7	**Accounting Standards based on Items Impacting Financial Statement**		
7.1	AS 4- Contingencies & Events occuring after the Balancesheet Date	Paper 5	Same

7.2	AS 5- Net Profit or Loss for the period, Prior period items & Changes in Accounting policies	Paper 5	Same
7.3	AS 11- The Effects of Changes in Foreign Exchange rates	Paper 1	Same
7.4	AS 22- Accounting for Taxes on Income	Paper 5	Same
8	**Revenue Based Accounting Standards**		
8.1	AS 7- Construction Contracts	Paper 5	Same
8.2	AS 9- Revenue Recognition	Paper 5	Same
9	**Other Accounting Standards**		
9.1	AS 12-Accounting for Government Grants	Paper 1	Same
9.2	AS 14- Accounting for Amalgamation	Paper 5	Same
10	**Accounting Standards for Consolidated Financial Statement**		
10.1	AS 21- Consolidated Financial Statement	Paper 5	Same
10.2	AS 23- Accounting for Investments in Associates in Consolidated Financial Statements	Paper 5	Same
10.3	AS 27- Financial Reporting of Interests in Joint Ventures	Paper 5	Same
11	**Financial Statements of Companies**		
11.1	Preparation of Financial Statements	Paper 1	Same
11.2	Cash Flow Statement	Paper 1	Same
12	Buyback of Securities	Paper 5	Same
13	Amalgamation of Companies	Paper 5	Same
14	Accounting for Reconstruction of Companies	Paper 5	Same
15	Accounting for Branches including Foreign Branches	Paper 1	Same

*These Chapters were earlier a part of CA Final Paper 1: Financial Reporting

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MTPs: March'19, April'19, Oct'19, May'20, Oct'20, March'21, April'21, Oct '21, Nov '21, March '22, April '22, Sep '22, Oct '22, March '23, April '23,Sep '23 ,Oct '23,March'24 & April '24

PYPs: May'19, Nov'19, Nov'20, Jan'21, July '21, Dec '21, May'22, Nov '22, May'23, Nov'23

RTPs: May'19, Nov'19, May'20, Nov'20, May'21, Nov '21, May '22, Nov '22, May '23, Nov '23, May'24

Chapter 1
Introduction to Accounting Standards

Question 1

"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 5 Marks, Nov '21 & Apr'23 , PYP 5 Marks, Nov'18)

Answer 1

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.

Question 2

Explain the objective of 'Accounting Standards' in brief. State the advantages of setting Accounting Standards. (PYP 4 Marks, Nov '22, Old & New SM)

Answer 2

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 facilitate the preparation of financial statements and make them comparable.

c) Accounting Standards give a sense of faith and reliability to the users.

The main advantages of setting accounting standards are as follows:

a) Accounting Standards make 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.

Question 3

What do you mean by Carve outs/ins in Ind AS? Explain (RTP May'24)(SM)

Answer 3

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'.

Chapter 2
Framework for Preparation and Presentation of Financial Statements

Question 1

Explain in brief, the alternative measurement bases, for determining the value at which an element can be recognized in the Balance Sheet or Statement of Profit and Loss. (MTP 5 Marks, March '19 & April 19, March '21 ,Oct '23 ,RTP Nov 18)

Answer 1

The Framework for Recognition and Presentation of Financial statements recognizes four alternative measurement bases for the purpose of determining the value at which an element can be recognized in the balance sheet or statement of profit and loss. These bases are: (i)Historical Cost; (ii)Current cost (iii) Realizable (Settlement) Value and (iv) Present Value.

A brief explanation of each measurement basis is as follows:

1. **Historical Cost**: Historical cost means acquisition price. According to this, assets are recorded at an amount of cash or cash equivalent paid or the fair value of the asset at the time of acquisition. Liabilities are generally recorded at the amount of proceeds received in exchange for the obligation.
2. **Current Cost**: Current cost gives an alternative measurement basis. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.
3. **Realizable (Settlement) Value**: As per realizable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal. Liabilities are carried at their settlement values; i.e. the undiscounted amount of cash or cash equivalents paid to satisfy the liabilities in the normal course of business.
4. **Present Value**: Under present value convention, assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities under this convention are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.

Question 2

"**One of the characteristics of financial statements is neutrality"- Do you agree with this statement? Comment. [MTP March '18, 5 Marks, PYP Nov '18 5 Marks, Old & New SM ,MTP 4 Marks Apr'24)**

Answer 2

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.

For example, if the assets of a company primarily consist of trade receivables and insurance claims and the financial statements do not specify that the insurance claims have been lying unrealized for a number of years or that a few key trade receivables have not given balance confirmation certificates, an erroneous conclusion may be drawn on the liquidity of the company. Financial statements are said to depict the true and fair view of the business of the organization by virtue of neutrality.

Question 3

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

(1) Earned 10% dividend on 2,000 equity shares held of Rs. 100 each

(2) Paid Rs. 50,000 to creditors for settlement of Rs. 70,000

(3) Rent of the premises is outstanding Rs. 10,000

(4) Mr. A withdrew Rs. 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 5 Marks, April 21, April 22, Old & New SM, MTP 4 Marks Apr'24)

Answer 3

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

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

Question 4

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

(i) Share application money received in excess of issued share capital.
(ii) Share option outstanding account.
(iii) Unpaid matured debenture and interest accrued thereon.
(iv) Uncalled liability on shares and other partly paid investments.
(v) Calls unpaid.
(vi) Intangible Assets under development.
(vii) Money received against share warrant.
(viii) Cash equivalents. (MTP 4 Marks, Mar'22, 5 Marks, April'19)

Answer 4

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

Question 5

How will a company classify its investment in preference shares, which are convertible into equity shares within one year from the balance sheet date? Will it classify the investment as a current asset or a non-current asset? Explain. (MTP 5 Marks, March'19, Oct'18, Aug'18, Mar'18)

Answer 5

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

Question 6

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

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

Details of the year's transactions are as follows:

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

No Property, Plant & Equipment were sold during the year. Any difference in cash account to be considered as cash sales. You are required to prepare Trading and Profit & Loss Account for the year ended 31.03.2020 and the Balance Sheet as at 31.03.2020 from the given information. (MTP 16 Marks, Oct '21, May'20)

Answer 6

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

Particulars	₹	₹	Particulars	₹	₹
To Opening stock		10,000	By Sales:		
To Purchases:			Cash	500	
Cash	1,000		Credit	71,500	
Credit (W.N. 3)	56,100		Less: Returns	(1,450)	70,550
	57,100		By Closing Stock		12,000
Less: Returns	(400)	56,700			
To Gross Profit c/d		15,850			
		82,550			82,550
To Discount allowed		4,000	By Gross profit b/d		15,850
To Bad Debts		500	By Discount received		700
To General expenses (W.N. 5)		9,200	By Net Loss (balancing fig.)		150
To Depreciation (W.N. 4)		3,000			
		16,700			**16,700**

Balance Sheet as at 31st March, 2020

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

Working Notes:

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

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

(2) Sundry Debtors Account

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

(3) Sundry Creditors Account

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

(4) Depreciation on Property, Plant & Equipment

	₹
Opening balance of Property, Plant & Equipment	12,000
Add: Additions	4,000
	16,000

Less: Closing balance of Property, Plant & Equipment	(13,000)
Depreciation	3,000

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

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

(6) Cash and Bank Account

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

Question 7

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

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

Liabilities	₹
Issued and subscribed capital:	
20,000, 14% Preference shares of ₹ 100 each fully paid	20,00,000
1,20,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	96,00,000
Capital reserves (₹ 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000
Unsecured loans: Public deposits repayable after one year	3,70,000
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,00,000

You are required to compute Effective Capital as per the provisions of Schedule V to Companies Act, 2013. (MTP 5 Marks, Sep 22 & Oct '23)

Answer 7

Computation of Effective capital

	₹
Paid-up share capital-	
20,000, 14% Preference shares	20,00,000
1,20,000 Equity shares	96,00,000

Capital reserves (excluding revaluation reserve)	45,000
Securities premium	50,000
15% Debentures	65,00,000
Public Deposits	3,70,000
(A)	1,85,65,000
Investments	75,00,000
Profit and Loss account (Dr. balance)	15,00,000
(B)	90,00,000
Effective capital (A–B)	95,65,000

Question 8

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

Amount ₹ in lakhs

Securities Premium Account	**80**
Capital Reserve	**60**
General Reserve	**90**

The company had an accumulated loss of ₹ 250 lakhs on the same date, which it has disclosed under the head "Statement of Profit and Loss" as asset in its Balance Sheet. Comment on accuracy of this treatment in line with Schedule III to the Companies Act, 2013. (MTP 4 Marks Oct '22)

Answer 8

Schedule III to the Companies Act, 2013 provides that debit balance of Statement of Profit and Loss (after all allocations and appropriations) shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative. In this case, the debit balance of profit and loss i.e. ₹ 250 lakhs exceeds the total of all the reserves i.e. ₹ 230 lakhs. Therefore, balance of 'Reserves and Surplus' after adjusting debit balance of profit and loss is negative by ₹ 20 lakhs, which should be disclosed on the face of the balance sheet. Thus the treatment done by the company is incorrect.

Question 9

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

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

They give you the following additional information:

(i) Creditors' Velocity 1.5 month & Debtors' Velocity 2 months. Here velocity indicates the no. of times the creditors and debtors are turned over a year.

(ii) Stock level is maintained uniformly in value throughout all over the year.

(iii) Depreciation on machinery is charged @ 10%, Depreciation on building @ 5% in the current year.

(iv) Cost price will go up 15% as compared to last year and also sales in the current year will increase by 25% in volume.

(v) Rate of gross profit remains the same.

(vi) Business Expenditures are ₹ 50,000 for the year. All expenditures are paid off in cash.

(vii) Closing stock is to be valued on LIFO Basis.

(viii) All sales and purchases are on credit basis and there are no cash purchases and sales.
You are required to prepare Trading, Profit and Loss Account, Trade Debtors Account and Trade Creditors Account for the year ending 31.03.2022.
(MTP 16 Marks April 23 & Nov '21)

Answer 9

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

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

Trade Debtors Account

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

Trade Creditors Account

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

Working Note:

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

Question 10

What is meant by 'Measurement'? What are the bases of measurement of Elements of Financial Statements? Explain in brief. (RTP Nov 21, PYP 5 Marks Dec '21)

Answer 10

Measurement is the process of determining money value at which an element can be recognized in the balance sheet or statement of profit and loss. The framework recognizes four alternative measurement bases for the purpose. These bases can be explained as:

Historical cost	This is the Acquisition price. According to this, assets are recorded at an amount of cash and cash equivalent paid or the fair value of the assets at time of acquisition.
Current Cost	Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.
Realizable (Settlement) Value	For assets, amount currently realizable on sale of the asset in an orderly disposal. For liabilities, this is the undiscounted amount expected to be paid on settlement of liability in the normal course of business.
Present Value	Assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.

In preparation of financial statements, all or any of the measurement basis can be used in varying combinations to assign money values to financial items.

Question 11

With regard to financial statements, name any five qualitative characteristics and elements. (RTP May'21)

Answer 11

(i) Qualitative Characteristics of Financial Statements: Understandability, Relevance, Comparability, Reliability & Faithful Representation

(ii) Elements of Financial Statements:
Asset, Liability, Equity, Income/Gain and Expense/Loss

Question 12

Shiva started a business on 1st April 2022 with ₹ 15,00,000 represented by 80,000 units of ₹ 25 each. During the financial year ending on 31st March, 2023, he sold the entire stock for ₹ 35 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Shiva in the year 2022-23 if Financial Capital is maintained at historical cost. (RTP May'24) (RTP May'21, Nov'19) (Same concept different figures Old & New SM, RTP Nov'18)

Answer 12

Particulars	**Financial Capital Maintenance at Historical Cost (₹)**
Closing equity (₹ 35 x 80,000 units)	28,00,000 represented by cash
Opening equity	80,000 units x ₹ 25 = 20,00,000
Permissible drawings to keep Capital intact	8,00,000 (28,00,000 – 20,00,000)

Question 13

With regard to financial statements name any four.

(i) Users

(ii) Qualitative characteristics

(iii) Elements (RTP Nov 20, RTP May 19, MTP 5 Marks Mar'23)

Answer 13

(i) Users of financial statements:

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

(ii) Qualitative Characteristics of Financial Statements:

Understandability, Relevance, Comparability, Reliability & Faithful Representation

(iii) Elements of Financial Statements:

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

Question 14

A Ltd. has entered into a binding agreement with Gamma Ltd. to buy a custom-made machine Rs.1,00,000. At the end of 20X1-X2, before delivery of the machine, A Ltd. had to change its method of production. The new method will not require the machine ordered and it will be scrapped after delivery. The expected scrap value is nil.

You are required to advise the accounting treatment and give necessary journal entry in the year 20X1-X2. (RTP May'20, May'23 & Nov '23)

Answer 14

A liability is recognized when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured. In the given case, A Ltd. should recognize a liability of Rs.1,00,000 to Gamma Ltd.

When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognized as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognized as an expense.

Journal entry

Loss on change in production method	Dr.	1,00,000	
To Gamma Ltd.			1,00,000
(Loss due to change in production method)			
Profit and loss A/c	Dr.	1,00,000	
To Loss on change in production method			1,00,000
(Loss transferred to profit and loss account)			

Question 15

What are fundamental accounting assumptions? (RTP May 19)

Answer 15

Fundamental Accounting Assumptions: Accrual, Going Concern and Consistency

Question 16

Explain main elements of Financial Statements. (RTP May 18) (PYP 5 Marks May '18)

Answer 16

Elements of Financial Statements

The Framework for preparation and Presentation of financial statements classifies items of financial statements can be classified in five broad groups depending on their economic characteristics: Asset, Liability, Equity, Income/Gain and Expense/Loss.

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

Question 17

Summarised Balance Sheet of Cloth Trader as on 31.03.2021 is given below:

Equity & Liabilities	Amount (₹)	Assets	Amount (₹)
Proprietor's Capital	3,00,000	Property, plant and equipment	3,60,000
Profit & Loss Account	1,25,000	Closing Inventory	1,50,000
10% Loan Account	2,10,000	Trade receivables	1,00,000
Trade payables	50,000	Deferred Expenses	50,000
		Cash & Bank	25,000
	6,85,000		6,85,000

Additional Information is as follows:

(1) The remaining life of Property, plant and equipment is 8 years. The pattern of use of the asset is even. The net realisable value of Property, plant and equipment on 31.03.2022 was ₹ 3,25,000.

(2) Purchases and Sales in 2021-22 amounted to ₹ 22,50,000 and ₹ 27,50,000 respectively.

(3) The cost and net realizable value of inventory on 31.03.2022 were ₹ 2,00,000 and ₹ 2,50,000 respectively.

(4) Expenses including interest on loan for the year amounted to ₹ 78,000.

(5) Deferred Expenses are amortized equally over 5 years.

(6) Sundry Debtors on 31.03.2022 are ₹ 1,50,000 of which ₹ 5,000 is doubtful. Collection of another ₹ 25,000 depends on successful re-installation of certain product supplied to the customer;

(7) Closing Sundry Creditors are ₹ 75,000, likely to be settled at 10% discount.

(8) Cash balance as on 31.03.2022 is ₹ 4,22,000.

(9) There is an early repayment penalty for the loan of ₹ 25,000. You are required to prepare: (Not assuming going concern)

(1) Profit & Loss Account for the year 2021-22.

(2) Balance Sheet as on 31st March, 2022. (RTP May'22, Nov'22, PYP 5 Marks May'19) (Same concept different figures PYP 4 Marks Nov'20, Old & New SM)

Answer 17

Profit and Loss Account for the year ended 2021-22(not assuming going concern)

Particulars	Amount ₹	Particulars	Amount ₹
To Opening Stock	1,50,000	By Sales	27,50,000
To Purchases	22,50,000	By Closing Stock	2,50,000
To Expenses	78,000	By Trade payables	7,500
To Depreciation	35,000		
To Provision for doubtful debts	30,000		
To Deferred expenses	50,000		
To Loan penalty	25,000		
To Net Profit (b.f.)	3,89,500		
	30,07,500		30,07,500

Balance Sheet as at 31st March, 2022 (not assuming going concern)

Liabilities	Amount ₹	Assets	Amount ₹
Capital	3,00,000	Fixed Assets	3,25,000
Profit & Loss A/c	5,14,500	Inventory	2,50,000
10% Loan	2,35,000	Trade receivables (less provision)	1,20,000
Trade payables	67,500	Deferred expenses	Nil
		Bank	4,22,000
	11,17,000		11,17,000

Question 18

What are the qualitative characteristics of the Financial Statements which improve the usefulness of the information furnished therein? (PYP 4 Marks Nov '20, Old & New SM) (MTP 4 Marks Mar'24)

Answer 18

The qualitative characteristics are attributes that improve the usefulness of information provided in financial statements. Financial statements are required to show a true and fair view of the performance, financial position and cash flows of an enterprise. The framework for Preparation and Presentation of Financial Statements suggests that the financial statements should maintain the following four qualitative characteristics to improve the usefulness of the information furnished therein.

1. **Understandability:** The financial statements should present information in a manner as to be readily understandable by the users with reasonable knowledge of business and economic activities and accounting.
2. **Relevance:** The financial statements should contain relevant information only. Information, which is likely to influence the economic decisions by the users, is said to be relevant. Such information may help the users to evaluate past, present or future events or may help in confirming or correcting past evaluations. The relevance of a piece of information should be judged by its materiality. A piece of information is said to be material if its misstatement (i.e., omission or erroneous statement) can influence economic decisions of a user.
3. **Reliability:** To be useful, the information must be reliable; that is to say, they must be free from material error and bias. The information provided are not likely to be reliable unless transactions and events reported are faithfully represented. The reporting of transactions and events should be neutral, i.e. free from bias and be reported on the principle of 'substance over form'. The information in financial statements must be complete. Prudence should be exercised in reporting uncertain outcome of transactions or events.
4. **Comparability:** Comparison of financial statements is one of the most frequently used and most effective tools of financial analysis. The financial statements should permit both inter-firm and intra-firm comparison. One essential requirement of comparability is disclosure of financial effect of change in accounting policies.

Question 18

Explain how financial capital is maintained at historical cost? Kishore started a business on 1st April, 2019 with ₹ 15,00,000 represented by 75,000 units of ₹20 each. During the financial year ending on 31st March, 2020, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Kishore in the year 2019-20 if Financial Capital is maintained at historical cost. (PYP 4 Marks Jan 21)

Answer 18

Financial capital maintenance at historical cost: Under this convention, opening and closing assets are stated at respective historical costs to ascertain opening and closing equity. If retained profit is greater than or equals to zero, the capital is said to be maintained at historical costs. This means the business will have enough funds to replace its assets at historical costs. This is quite right as long as prices do not rise.

Maximum amount withdrawn by Kishore in year 2019-20 if financial capital is maintained at historical cost

Particulars	Financial Capital Maintenance at Historical Cost (₹)
Closing equity (₹ 30 x 75,000 units)	22,50,000 represented by cash
Opening equity	75,000 units x ₹ 20 = 15,00,000
Permissible drawings to keep Capital intact	7,50,000 (22,50,000 – 15,00,000)

Thus ₹ 7,50,000 is the maximum amount that can be withdrawn by Kishore in year 2019-20 if financial capital is maintained at historical cost.

Question 19

A trader commenced business on April 1, 2020 with ₹ 120,000, represented by 6000 units of a certain product at ₹ 20 per unit. During the year 2020-21 he sold these units at ₹ 30/- per unit and had withdrawn ₹ 60,000. The price of the product at the end of financial year was ₹ 25/- per unit. Compute retained profit of the trader under the concept of physical capital maintenance at current cost. Also, state, whether answer would be different if the trader had not withdrawn any amount. (PYP July'21, 5 Marks) (MTP 5 Marks Sep '23)

Answer 19

Physical Capital Maintenance at Current Cost

In the given case, the specific price index applicable to the product is 125 (25/20X100). Current cost of opening stock = (₹ 1, 20,000 / 100) x 125 Or 6,000 unit's x ₹ 25 = ₹ 1,50,000

Current cost of closing cash = ₹ 1,20,000 (₹ 1,80,000 – ₹ 60,000) Opening equity at closing current costs

= ₹ 1,50,000

Closing equity at closing current costs = ₹ 1,20,000 Retained Profit = ₹ 1,20,000 – ₹ 1,50,000 = (-) ₹ 30,000

The negative retained profit indicates that the trader has failed to maintain his capital. The available fund of ₹ 1,20,000 is not sufficient to buy 6,000 units again at increased price of ₹ 25 per unit. The drawings should have been restricted to ₹ 30,000 (₹ 60,000 – ₹ 30,000).

If the trader had not withdrawn any amount, then the answer would have been as below:

Current cost of opening stock = ₹ 1,80,000

Opening equity at closing current costs = ₹ 1,50,000

Retained Profit = ₹ 1,80,000 – ₹ 1,50,000 = ₹ 30,000

If the trader had not withdrawn any amount, then the retained profit would have been₹ 30,000.

Question 20

Mrs. A is showing the consolidated aggregate opening balance of equity, liabilities and assets of ₹ 6 lakh, 4 lakh and 10 lakhs respectively. During the current year Mrs. A has the following transactions:

1. **Received 20% dividend on 10,000 equity shares of ₹ 10 each held as investment.**
2. **The amount of ₹ 70,000 is paid to creditors for settlement of ₹ 90,000.**
3. **Salary is pending by ₹ 20,000.**
4. **Mrs. A's drawing ₹ 20,000 for her personal use.**

You are required to prepare the statement of the effect of aforesaid each transaction on closing balance sheet in the form of Assets – Liabilities = Equity after each transaction. (PYP 5 Marks, Dec '21)

Answer 20

Effect of each transaction on Balance sheet of Mrs. A is shown below:

Transactions	Assets ₹ lakh	-	Liabilities ₹ lakh	=	Equity ₹ lakh
Opening	10.00	-	4.00	=	6.00
(1) Dividend earned	10.20 [10.00+0.20]	-	4.00	=	6.20 [6.00+0.20]
(2) Settlement of Creditors	9.50 [10.20-0.70]	-	3.10 [4.00-0.90]	=	6.40 [6.20+0.20]
(3) Salary Outstanding	9.50	-	3.30 [3.10+0.20]	=	6.20 [6.40-0.20]
(4) Drawings	9.30 [9.50-0.20]	-	3.30	=	6.00 [6.20-0.20]

Question 21

As on 1st April, 2021 opening Balance Sheet of Mr. Mohanty is showing the aggregate value of Assets, Liabilities and Equity ₹ 12 Lakhs, 3 Lakhs and 9 lakhs respectively.

During the accounting period 01/04/2021 to 31/03/2022, Mr. Mohanty has the following transactions:

(1) **A liability of ₹ 50,000 was finally settled at a discount of 2%.**
(2) **Dividend earned @ 15% on 1,000 (F.V 100 each) Equity shares held @ ₹ 12,000.**
(3) **Rent of the premises paid ₹ 20,000.**
(4) **Mr. Mohanty withdrew ₹ 10,000 for personal purposes and also withdrew Goods worth ₹ 5,000 for personal purposes.**
(5) **₹ 15,000 were received against Bill Receivables.**

You are required to show the effect of the above transactions on Balance Sheet in the form of Assets - Liabilities = Equity equation after each transaction. .(PYP 4 Marks Nov '22)

Answer 21

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

Transactions	**Assets ₹ lakh**	-	**Liabilities ₹ lakh**	=	**Equity ₹ lakh**
Opening	12	-	3	=	9
(1) Settlement of Creditors	12 – 0.49 11.51	-	3 – 0.50 2.5	=	9.0 + 0.01 9.01
(2) Dividend earned	11.51 + 0.15 11.66	-	2.5	=	9.01+ 0.15 9.16
(3) Rent paid	11.66 -0.20 11.46	-	2.5	=	9.16 -0.20 8.96
(4) Drawings	11.46 -0.15 11.31	-	2.5	=	8.96 -0.15 8.81

(5)	*Money received against Bills receivables	11.31+0.15 -0.15 11.31	-	2.5	=	8.81

*No change as cash received from bills receivable will have impact on individual asset only (will reduce bill receivables with corresponding increase in cash).

Question 22

Mille started a business on 01.04.2022 with a capital of ₹ 15,00,000. She purchased ₹ 1,500 units of stock at ₹ 1,000 each. She sold the entire stock for ₹ 1,500 each unit till 31.03.2023.

You are required to calculate the maximum amount which can be withdrawn by Mille in order to keep her capital intact, if Financial Capital is maintained at:

(i) Historical Cost

(ii) Current Purchasing Power (opening index at 100 and closing index at 125)

(iii) Physical Capital Maintenance

(Price per unit at the end of year is ₹ 1,350) (PYP 5 Marks May '23)

Answer 22

Financial Capital Maintenance at historical Costs

Sr. No.	Particulars	Computation	₹
(i)	Opening Equity	1,500 x 1,000	15,00,000
(ii)	Closing Equity	1,500 x 1,500	22,50,000
(iii)	Maximum Drawing	(ii)- (i)	7,50,000

Financial Capital Maintenance at current purchasing power

Sr. No.	Particulars	Computation	₹
(i)	Opening Equity	1,500 x 1,000 x 125/100	18,75,000
(ii)	Closing Equity	1,500 x 1,500	22,50,000
(iii)	Maximum Drawing	(ii)- (i)	3,75,000

Financial Capital Maintenance at Physical Capital Maintenance

Sr. No.	Particulars	Computation	₹
(i)	Opening Equity	1,500 x1,350	20,25,000
(ii)	Closing Equity	1,500 x 1,500	22,50,000
(iii)	Maximum Drawing	(ii)- (i)	2,25,000