Star Rating

On the basis of Maximum marks from a chapter	Nil
On the basis of Questions included every year from a chapter	Nil
On the basis of Compulsory questions from a chapter	☆☆

CHAPTER

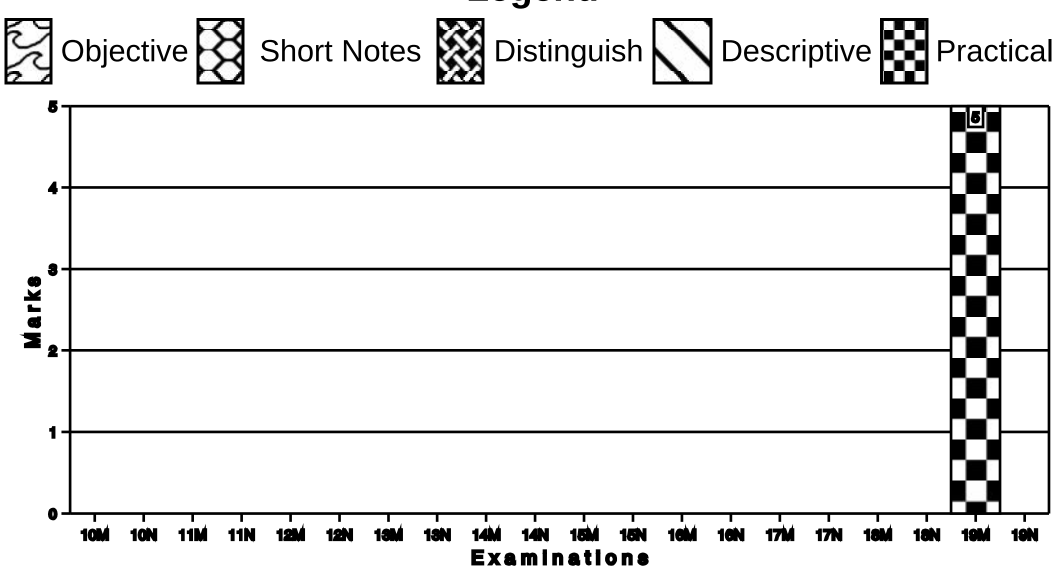
1 Framework for Preparation and Presentation of Financial Statements

THIS CHAPTER COMPRISES OF

☞ Framework and its purpose ☞ Users of Financial Statements ☞ Objectives to prepare financial statements ☞ Underlying assumptions ☞ Accrual Basis ☞ Going concern ☞ Qualitative aspects of financial statements ☞ Constraints on relevant and reliable information ☞ Elements of Financial Statements ☞ Recognition of the elements of financial statements ☞ Measurement of the elements of financial statements ☞ Financial Capital Maintenance vs. Physical Capital Maintenance

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



PRACTICAL QUESTIONS

2019 - May [2] (b) Mr. Unique commenced business on 01/04/17 with ₹ 20,000 represented by 5,000 units of the product @ ₹ 4 per unit. During the year 2017-18, he sold 5,000 units @ ₹ 5 per unit. During 2017-18, he withdraw ₹ 4,000.

- 31/03/18 : Price of the product @ ₹ 4.60 per unit
- Average price indices : 1/4/17 : 100 & 31/3/18 : 120

Find Out:

(i) Financial capital maintenance at Historical Cost

(ii) Financial capital maintenance at Current Purchasing Power

(iii) Physical Capital Maintenance (5 marks)

Answer:

(i) **Financial Capital Maintenance at Historical Costs**

	₹	₹
Closing capital (At historical cost)		21,000
Less: Capital to be maintained opening capital (At historical cost)	20,000	
Introduction (At historical cost)	Nil	(20,000)
Retained Profit		1,000

(ii) **Financial Capital Maintenance at Current Purchasing Power**

Opening equity at closing price = ₹ 20,000 × $\frac{120}{100}$ = ₹ 24,000

Closing equity at closing price = (₹ 25,000 - ₹ 4,000) = ₹ 21,000

Retained Profit = ₹ 21,000 - ₹ 24,000 = – ₹ 3,000 (Loss)

	₹	₹
Closing capital (At closing cost price)		21,000

Less: Capital to be maintained opening capital (At closing price)	₹ 24,000	
Introduction (At closing price)	Nil	(24,000)
Retained Profit		(3,000)

(iii) **Physical Capital Maintenance:**

Current Cost of opening stock = (5,000 units × 4.60)
= ₹ 23,000
Current Cost of closing cash = ₹ 21,000 (25,000 - 4,000)
Opening Equity at closing current costs = ₹ 23,000
Closing Equity at closing current costs = ₹ 21,000
Retained Profit= ₹ 21,000 - ₹ 23,000 = - ₹ 2,000

	₹	₹
Closing capital (At Current Cost)		21,000
Less: Capital to be maintained opening capital (At Current Cost)	23,000	
Introduction (At Current Cost)	Nil	(23,000)
Retained Profit		(2,000)

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Topic not yet asked but equally important for examination

DESCRIPTIVE QUESTIONS

Q1. What is the purpose of Framework?

Answer:

The purpose of the framework is to:

1. Set out the concepts that underlie the preparation and presentation of financial statements in accordance with the Ind AS for external users.
2. Assist in the development of future Ind AS and in its review of existing Ind AS.
3. Assist in promoting harmonization of regulations, accounting standards and procedures relating to the presentation of financial statements.
4. Providing a basis for reducing the number of alternative accounting treatments permitted by Ind AS.
5. Assist preparers of financial statements in applying Ind AS and in dealing with topics that have yet to form the subject of an Ind AS.
6. Assist auditors in forming an opinion as to whether financial statements conform with Ind AS.
7. Assist users of financial statements in interpreting the information contained in financial statements prepared inconformity with Ind AS; and
8. Provide those who are interested in Ind AS with information about approach to their formulation.

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Q2. What are the underlying assumptions in Financial Statements?

Answer:

The underlying assumptions in Financial Statements are:

1. Accrual Basis:

The effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the Financial Statements of the periods to which they relate.

2. Going Concern:

- The Financial Statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future.

- It is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations, if such an intention or need exists, the Financial Statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

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Q3. How are Assets and Liabilities recognised?

Answer:

Recognition of Assets

- **An asset is recognised in the Balance Sheet** when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.
- **An asset is not recognised in the Balance Sheet** when expenditure has been incurred for which it is considered improbable that economic benefits will flow to the entity beyond the current accounting period. Instead such a transaction results in the recognition of an expense in the statement of profit and loss.

Recognition of Liabilities

- **A liability is recognised in the Balance Sheet** when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.
- **In practice**, obligations under contracts that are equally proportionately unperformed (for example, liabilities for inventory ordered but not yet received) are generally not recognised as liabilities in the Financial Statements. However, such obligations may meet the definition of liabilities and, provided the recognition criteria are met in the particular circumstances, may qualify for recognition. In such circumstances, recognition of liabilities entails recognition of related assets or expenses.

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Q4. What is the concept of materiality?

Answer:

- The Relevance of information is affected by its (a) Nature, and/or (b) Materiality.
- Information is material if its omission or misstatement could influence the economic decision of Users taken on the basis of the Financial Statements.
- Materiality depends on the size of the item or error judged in the surrounding circumstances. So, it provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

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Q5. Elucidate the concept of True & Fair under the framework of Financial Statement under Ind AS.

Answer:

- The Framework does not directly address the True and Fair View or Fair Presentation.
- If the Qualitative Characteristics are applied along with the appropriate Accounting Standards this normally results in Financial Statements that convey what is generally understood as a True and Fair View of such information.
- Ind AS-1 states that presentation of a True and Fair View is achieved by compliance with applicable Ind AS.

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Q6. How is Schedule III a supplement to AS?

Answer:

The Disclosure Requirements specified in Schedule III are in addition to and not in substitution of the Disclosure Requirements specified in the AS/Ind AS.

Additional Disclosures specified in the AS/Ind AS shall be made in the Notes to Accounts or by way of Additional Statement, unless required to be disclosed on the face of the Financial Statements.

Similarly, all other disclosures as required by the Companies Act shall be made in the Notes to Accounts in addition to the requirements set out in this Schedule.

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