CHAPTER	
1	**Theoretical Framework**
Unit: 1	**Meaning and Scope of Accounting**

Theoretical Framework

Unit: 1 Meaning and Scope of Accounting

SELF STUDY QUESTIONS

Q 1. Write Introduction to Accounting.

Answer:

In all activities (whether profit making or non-profit making) and in all organisations (like manufacturing entities, trading entities, or non-profit organisations like schools, hospitals, clubs, temples, political parties) some or the other kind of economic activities are performed. Such activities require money and other economic resources for which accounting is required to account for these resources.

Such economic activities are performed through "transactions and events". In other words, wherever money is involved, accounting is required to account for it. **Accounting is thereby often called language of business.** Basic function of any language is to serve as a means of communication, and accounting serves that purpose.

Transactions and Events

Transaction is defined as a business, performance of an act, an agreement, while event is used to mean a happening, as a consequence of transaction, or a result. Events are the end results or conclusions of all the transactions taking place round the year.

Nalin starts a music shop by introducing capital of ₹ 5,00,000. He purchases goods worth ₹ 2,20,000, pays shop rent and electricity charges, ₹ 15,000. He sells goods worth ₹ 1,80,000 for ₹ 2,35,000.

The individual performs an economic activity. He carries on a few transactions and encounters with some events. Obviously he would want to know the result of his activities.
Result of the above activity may be ascertained as follows:

	₹
Sales	2,35,000
Less: Cost of goods sold	1,80,000
Gross Profit	55,000
Less: Expenses paid	15,000
Net Profit/Surplus	40,000

Earning surplus of ₹ 40,000 is an event, and closing inventory in hand ₹40,000 (2,20,000 – 1,80,000) is also an event. Introduction of capital, purchase of goods, sale of goods and payment of expenses are all transactions.
Likewise, Government collects taxes, pays salary to employees and spends on other developmental activities.
Everybody wants to keep record of all such transactions and accounting helps us to keep record of all such transactions and events.
The aim of accounting is to meet the informational needs of the rational and sound decision-makers, and thus, it is called language of business.

Q 2. Write Meaning and Definition of Accounting.
Answer:
Accounting is a process of recording financial transactions, summarising them and communicating the financial information to users viz, the proprietor, creditors, investors, government agencies, etc. It is because of these characteristics, that accounting is called the language of business.
The committee on Terminology formed by American Institute of Certified Public Accountants gave the following definition of Accounting —
"Accounting is the art of recording, classifying, and summarising in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof."

The American Accounting Association defined accounting as –
"The process of identifying, measuring and communicating economic information to permit informed judgements and decisions by the users of accounts".
Accounting helps to ascertain the impact of events and transactions occurred during the period in terms of money. It not only helps in recording the transactions but also relates to interpreting the results thereof.

Q3. What are the Procedural Aspects of Accounting?
Answer:

(i) **Generating financial information:**

Recoding the business events and transactions of financial nature in Primary Books (Journal) and other subsidiary books with the help of invoices, sales bills, passbooks, etc.

Classification of transaction and events is done to group identical transactions together and to describe them by the name of account. This classification is done in secondary books called ledger, by posting transactions from Journal.

Summarising the transactions is the systematic presentation of recorded data so that it is understandable and useful for its users. It is the combined effect of all recorded transactions and is obtained by preparing various financial statements such as:

1. Trial Balance
2. Profit & Loss A/c
3. Balance Sheet
4. Cash flow statement.

Analysing provides the basis for interpreting the recorded data. It involves critical examination of accounting data. It is the process to evaluate the relationship between various components of financial statements.

Interpreting is the process of giving meaning to the analysed data so that proper judgement regarding profitability and financial position of business operations can be made. It helps in planning the future business activities.

Communication is the process of transmitting the financial statements in the form of accounting reports, balance sheets etc. to the users to help them in the decision making process.

(ii) **Using the Financial Information:**

Financial information is used not only by the management of business but also by other stakeholders, such as creditors, investors, employees, bankers, competitors, government etc. Various stakeholders require information related to the business for different purposes.

The financial information required for different purposes must be presented in different forms so that it meets the objective of the users which may be internal or external. Information regarding internal working should be in detail for the use by management; however, information can be in charts and graphs with less details for external users, who only want an overview of the business.

Q 4. How was Evolution of Accounting as a Social Science done?

Answer:

Phase I: The root of financial accounting system was Stewardship Accounting. This traditional approach of accounting places an obligation on stewards or agents to manage the property and provide relevant financial information relating to their resources to the owner which were usually the wealthy persons or businessmen.

Phase II: Then emerged the idea of joint stock company in the second phase of evolution. It is a type of business organisation with the basic idea of separating ownership from the management. For better disclosure of financial data, various tools such as profit and loss account and Balance Sheet were introduced.

These were the information systems used by the different users such as investors, employees, managers, and other stakeholders for getting meaningful information.

Phase III: Then came the new dimension of accounting in the third phase called as Management Accounting, which was seen as "value creator". It was developed in 20th century. Its focus was to apply professional knowledge and kills in such a way so as to assist the management in making quality decisions.

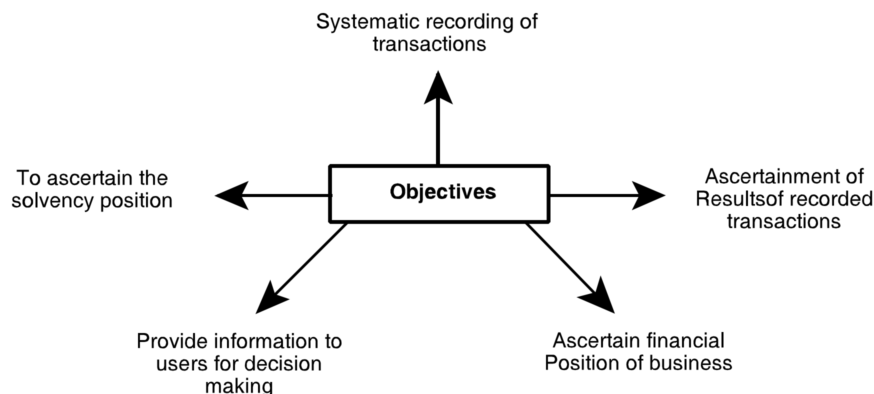
Phase IV: Social Responsibility Accounting is the process of communicating the social and environmental effects of an organisation's actions to particular groups of society and society at large. It broadens the scope of accounting in a sense that it should:

- concern itself with more than only economic events;
- not be exclusively expressed in financial terms; and
- be accountable to a broader group of stakeholders beyond reporting financial success.

Social Science studies man as a member of society and concerns about social purposes, contribution to the social progress. Hence, Accounting is treated as **social science**.

Q 5. What are Objectives of Accounting?

Answer:



1. **Systematic recording of transactions** – of financial nature for further analysis. Recording is usually done in Journal or other subsidiary books and the entries are later posted to secondary books (ledger) on the basis of classification.
2. **Ascertainment of Results of recorded transactions** – by keeping proper records of expenses and revenue.
   If income/revenue < expenses = Loss.
   If income/revenue > expenses = Profit
   This is calculated by preparing Profit and loss Account. It helps management to take necessary actions accordingly.
3. **Ascertainment of financial position of business** – by preparing a Balance Sheet. A Balance Sheet is a statement of Assets and liabilities of the business organisation which serves as a barometer for ascertaining the financial health of business at a particular point of time or date.
4. **Providing information to users for rational decision making –** who analyse it as per their individual needs at the required point of time. Information is provided by preparing and communicating financial statements to various stakeholders for the purpose of decision making.
5. **To ascertain the solvency position** – If the organisation is able to meet its liabilities as and when due, in the long run, the enterprise is said to be solvent. Also, organisation must maintain its liquidity position so as to meet its short-term liabilities at relevant due date.

Q 6. What are Functions of Accounting?

Answer:

(i) **Measurement:** Accounting helps the business organisation to measure its financial performance of earlier years along with current position.

(ii) **Comparison:** It facilitates comparison of financial position of earlier years with the current year.

(iii) **Evaluation:** Accounting helps to evaluate the financial results of a business organisation by providing proper disclosures about the accounting policies used in preparation of books of accounts.

(iv) **Forecasting:** 'It helps in predicting the future business activities by using the past data.

(v) **Control:** Accounting keeps a check on operational system and thus identifies weaknesses which can be overcome by implementing necessary measures.

(vi) **Government Regulation and Taxation:** Accounting information helps the government to keep a check on business activities and facilitates collection of various taxes.

Q 7. Define Book Keeping.

Answer:

1. Book keeping is the systematic recording of financial transactions on a day to day basis.
2. It includes —
   - Recording of transactions and events in books of Accounts.
   - Classifying the recorded transactions and events in ledger [i.e. posting]
3. The end product of book keeping is the 'financial statements' which includes Profit and Loss A/c, Balance sheet, Notes to Accounts and Cash flow statement.
4. The transactions of financial nature [which are related to money] are recorded. For, example Appointment of a director or employee in the company is not a financial transaction, hence need not be a part of book keeping. On the other hand if a loan is given to director of ₹ 1,00,000, it is a financial transaction, and hence will be recorded as a part of book keeping.
5. The person responsible for maintaining the records of business is known as **book keeper.**
6. Book Keeping helps to know the true picture of company's income, expenses, assets, liabilities, etc.
7. Various laws such as Companies Act, Income tax Act, Banking Regulation Act, Insurance Act, etc. guide about proper preparation, presentation and preservation of books of Accounts of the company.

Q 8. What are Objectives of Book Keeping?

Answer:

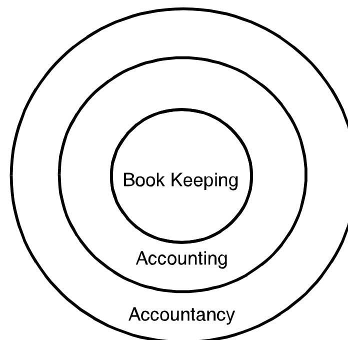
1. **Complete recording of transactions** in orderly and systematic manner, so that proper documentary base is created which can be referred by any person and he is able to interpret the same.
2. **Ascertain the financial effect** of the business transaction done during a specified period on the business as a whole in terms of profit or loss.
3. **To know the financial position** of business as and when required.
4. **Facilitating management** to discharge their duties by providing information for taking business decisions.

Q 9. Differentiate between Book Keeping and Accounting.

Answer:

Basis of Difference	Book Keeping	Accounting
1. Scope	Recording of transaction in a systematic manner	Summarising of the recorded transactions
2. Stage	Primary Stage or initial stage	Accounting begins where book keeping ends.
3. Decision-making	Cannot be done	Can be done.
4. Nature of job	Clerical and routine. Can be done by lower staff	Analytical in nature an requires special knowledge and ability.
5. Objective	Accurate and complete record of financial transaction of business.	Apply further financial analysis to financial records.
6. Financial Position of business	Cannot be ascertained	Can be ascertained.

Relationship of Book Keeping, Accounting, and Accountancy.



Book Keeping is the primary function of accounting and focuses on proper recording and maintenance of books of accounts.

Accounting is the secondary function. It **starts where book keeping ends.**

Accountancy is the systematic knowledge applied in the process of accounting.

It can be said that accountancy is a broader term that acts as a guide for preparation of books of accounts and it involves book keeping and accounting.

Q 10. What are the Sub Fields of Accounting?

Answer:

1. **Financial Accounting:** It is concerned with recording, summarising and interpreting the financial transactions and communication of the same to the users.

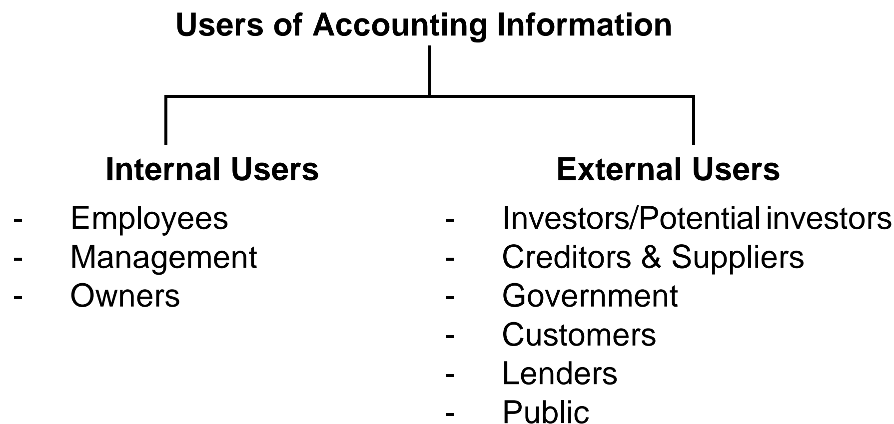
   It focuses on preparation of profit and loss account and balance sheet to ascertain the financial position of business at the end of an accounting period.
2. **Management Accounting:** It is a recent development in accounting. It deals with the aspect of costing and cost control. It includes costing department which keeps records of various products and services. It is the process of analysis, interpretation and presentation of accounting

information collected with the help of financial accounting and cost accounting in order to assist the managerial staff in decision making and day to day operations of the business.

3. **Cost Accounting:** It ascertains the cost of products manufactured or the services rendered and helps the management in taking pricing decisions and exercising control. According to Institute of cost management accounts of England, "Cost Accounting is the process of accounting for cost which begins with the recording of income and expenditure or the base on which they are calculated, and ends with the preparation of periodical statements and reports for ascertaining and controlling costs.
4. **Social Responsibility Accounting:** It is the ability to provide correct information in company's financial statements regarding the estimated social cost and social benefits generated due to business operations. For example, if a factory is setup, it will benefit the society by way of generation of employment opportunities crates etc. Similarly, if a product is found defective or harmful to the users then it may adversely affect the image of the company. The organisations which creates value for its users and society usually survive in the long run. Thus, the demand of social responsibility accounting has increased.
5. **Human Resource Accounting:** It is the process of assigning, budgeting and reporting the cost of human resources incurred by an organisation. It includes salaries or wages paid, training expenses, recruitment costs, etc. It is a new branch of accounting which includes the management of human resource which will ultimately enhance the quantity and quality of goods and services.

Q 11. Who are the Users of Accounting Information?

Answer:



Internal Users:

(a) Employees

- They have direct relationship with the growth of the business organisation.
- They are entitled to incentives linked to profit earned by the business and thus are interested in financial statements.

(b) Management

- Accounting information acts as a guiding tool for various managerial decisions such as ascertaining the selling price of a product, investment in a new project, market entry strategy, etc.
- They are concerned with using their expertise knowledge about the business operations to improve the performance and increase the efficiency within the company.

(c) Owners

- They are the persons who contribute towards the capital of the business and are therefore exposed to business risk.
- Owners are concerned with the profits and losses of the business.

External Users:

(a) investors or Potential investors

- Accounting information helps the investors to know the return on investment made, or to be made.
- It helps them to know how safe is their investment and also whether the business will survive, prosper and pay good dividends, or not.

(b) Creditors & Suppliers

- Creditors are those who supply goods and services to the business organisation and are concerned whether business will survive in a long run.
- Before granting credit, creditors want to satisfy themselves about the credit worthiness of the business and formulate credit policy accordingly.

(c) Government

- Government regulates day to day activities of the business, and imposes various taxes. Therefore, it is necessary for it to inquire into the financial statements of the business organisation to find whether the correct account of taxes due are paid, or not.
- Accounting information also helps the government in price fixation of essential commodities, compilation of National Income and other necessary information.

(d) Customers

- Customers are concerned with the fact whether the company offers products at fair prices, and its survival, for honouring product warranties.
- They want to know about the stability and profitability of the business enterprise since they are dependent on products and services of such businesses.

(e) Lenders

- They are the providers of loan funds and hence want to assure themselves about the recovery of loans alongwith interest, if any, as and when due.

- "Lenders" includes banks & financial institutions which are interested to know the performance of business, whether the business is flourishing as projected at the time of raising of loan, or do the terms of loans need to be revised.

(f) Public

- Public needs to know whether the business is contributing substantially for the growth of economy, or not.
- Public also wants to know whether the products and services provided are useful, for providing employment to the public without adversely affecting the environment.

Q 12. What is the Relationship of Accounting with other disciplines?
Answer:

1. Accounting and Economics:

- Economic theories help to develop the decision making tools which are used in accounting. Accountants gets the idea about income, value, capital maintenance, etc. from economics and applies the same in accounting of business operations.
- Economics is regarded as science of rational decision making for use of scarce resources efficiently to satisfy the human wants. Accounting provides financial data which is relevant for taking such decisions.
- Accountants use various methods to analyse expenses, incomes, budgets etc., whereas economics on the other hand is concerned with interpreting the financial patterns for understanding the economic behaviour of such transactions, and takes rational decisions for the business.

2. Accounting and Statistics:

- Statistics deals with typical values, behaviour, trends of a given period of time and the degree of deviation over a series of observations while accounting focuses on accuracy in recording of financial transactions of business.
- The main object of both is to make arithmetical figures in such form which is understandable and usable to the management and other concerned parties.

- Various accounting and financial ratios are formulated on the basis of statistical method. Accounting records are usually viewed for short term, however statistical analysis takes long term view of events.

3. Accounting and Mathematics

- For accounting, it is necessary to have to knowledge of algebra, arithmetic for calculation of interest, lease rentals, depreciation, tax due, penalties, etc.
- For better understanding of financial information, analysts use various presentation tools such as matrix, graphs, charts, and hence it has become essential to have knowledge of geometry, trigonometry for proper understanding.
- Accounting expression cap be expressed in algebraic forms. For example double entry book keeping can be stated in algebraic form Assets = Liabilities + Equity.

4. Accounting and Law

- All the transactions of a business organisation are governed by several Acts such as contract Act, companies Act, sales of goods Act, Labour Laws, etc. These laws need to be followed to prevent the organisation from being penalised due to non-compliance.
- There cannot be enactment of legislation about accounting system unless accounting discipline is developed correspondingly. Therefore, it can be said that accounting influences law and is also influenced by laws.

5. Accounting and Management

- Management decisions are based on accounting data provided by the accountant. Accountants are thus required to present the data in an understandable and usable manner.
- With the information provided by accountants, management is able to analyse past performance of business organisation, and accordingly plan future operations.
- Various functions of management are linked with accounting. For example – Planning of budget requires costing of a product; controlling function requires management to control cost/expenditure which can only be done if management is aware about the standard

cost to be incurred for a product and the excess or deficit in actual cost in making of the product. All this requires accounting data. Hence, we can say that both the disciplines are related to each other.

Q 13. What are Limitations of Accounting?

Answer:

- Various qualitative factors are ignored such as expertise and knowledge of managerial personnels, loyalty of employees, etc., although responsible for success of business, as they are not measurable in term of money.
- Accounting for future projections are done on basis of various assumptions and estimations which may not hold good if conditions change in future in an unpredictable manner.
- Accounting ignores time value of money for recording transactions.
- Selection of different methods for calculation of depreciation such as SLM, WDV, method of calculation of valuation of closing stock such as LIFO, FIFO etc. may give different results for the financial period.
- Selection of methods, assumptions, etc., may vary from organisation to organisation. Hence, it becomes difficult to compare the two organisations.
- Financial statements are subject to window dressing, and hence, may not show the true picture of the business operations and financial position of the company.
- Accounting is based on personal judgement of accountants for various estimates, and hence, may provide different results from time to time.

Q 14. What is the Role of Accountant in the society?

Answer:

Accounting profession serves the society in various ways such as —

A. Areas of Services

1. **Maintenance of Books of Accounts** of business and preparation of financial statements such as profit and loss account, Balance Sheet, which assist various users for decision making.

2. **Taxation:** Accounting records helps to assess the tax liability of a person and also assists in tax planning.
3. **Analysis:** Accounting Data of various years is compared, and thus, the performance of business can be monitored.
4. **Statutory Audits:** Books of Accounts must give true and fair view. For limited companies, statutory audit is necessary, which must be done by a Chartered Account or a firm of Chartered Accountants.
5. **Internal Audits:** To ensure that proper controls are implemented by the management over the assets of company and preparation of financial statements, firms appoint internal Auditors who are responsible to check controls and communicate deficiencies, if any, to management in a timely manner.
6. **Management and Consultancy Services:** Various functions of management, including decision making, requires financial data. Hence, Accountant may play advisory role in such decision making process.
7. **Financial Advice:** Accountants are believed to be financial literate persons, i.e., having expertise knowledge, and so they can give advice in areas such as–
   (a) Insurance
   (b) Business Expansion
   (c) Investment
   (d) Sale of business
   (e) Tax relief under various Pension Schemes
8. **Investigation:** Accountants are required to investigate into various financial matters such as:
   (a) Variation in profit figures as compared to previous years.
   (b) Costing of a product or service rendered.
   (c) Detection of Fraud and remedial action required to lower the impact of such fraud.
   (d) Valuation of business for ascertaining correct tax liability, for purchase or sale of business, etc.

9. Other Services:

(a) Portfolio Management
(b) Secretarial Work
(c) Company incorporation
(d) Feasibility study
(e) Arbitration
(f) Share Transfer and Registration work
(g) Act as a liquidator, Receiver, Arbitrator
(h) Cost Accounting Work
(i) Supply of information.

B. Chartered Accountants in Industry

- Act as financial advisor of management for planning future activities.
- Performs various business functions such as setting of budgets, ascertaining cost of product, calculation of profit linked bonus of employees, etc.

C. Chartered Accountants in Public Sector

- Preparation of report of public corporations to know whether the expenditure by several departments exceeds the budget sanctioned to them, or not.
- To keep a check, whether the Public Sector units are performing their functions properly, challenges faced by them, if any, and making the general public aware about the authenticity of various items appearing in financial statements and other reports.

D. Chartered Accountant in Framing Fiscal Policies

- Fiscal Policy is the spending made by the government which influences the economy of the nation. Accountants help in development of trade, commerce, industry, and hence, help to determine suitable fiscal policies.
- There is a social responsibility on Accountants along with the industry to give true and correct disclosures regarding financial results as are necessary in calculation of national income.

E. Chartered Accountants and Economic Growth

- High quality corporate reporting helps in transparency and mobilisation of various investments and generating confidence among investors across the globe, hence facilitating economic growth of the nation.
- Chartered Accountants are responsible for proper reporting and encouraging the business organisations for efficient working and true and fair disclosures. This, in turn, contributes to the growth of the economy.

Questions for Practice and Conceptual Clarity only (The questions below have been given for building the basics and increasing knowledge of the students)

MULTIPLE CHOICE QUESTIONS

1. The main objectives of Book-Keeping are:
   (a) Complete Recording of Transactions
   (b) Ascertainment of Financial Effect on the Business
   (c) Analysis and Interpretation of data
   (d) (a) and (b) both
2. At the end of the financial year, after sale of goods worth ₹2,00,000, there was a closing stock of ₹10,000. This is:
   (a) An event
   (b) A transaction
   (c) Both event as well as transaction
   (d) None of these
3. Financial Statements are a part of:
   (a) Accounting
   (b) Book - Keeping
   (c) Both
   (d) None

4. ____ of American Institute of Certified Public Accountants enumerated the functions of Accounting:
   (a) Accounting Principles Board
   (b) Accounting Standards Board
   (c) Accounting Concepts Board
   (d) None of these
5. Management Accounting:
   (a) Is a clerical work
   (b) Is accounting for future
   (c) Is a recording technique of the management related transactions
   (d) Is an analysis of the past business activities
6. The direct advantage of accounting does not include:
   (a) Preparation of financial statements
   (b) Competitive advantage
   (c) Ascertainment of profit or loss
   (d) Information to interested groups
7. Double Accounting System owes its origin to:
   (a) Lucas Pacioli
   (b) Adam Smith
   (c) Kohler
   (d) Karl Marx
8. On 31st December, 2005, Ashok Ltd. purchased a machine from Mohan Ltd. for ₹1,75,000. This is: (Year end: 31st December)
   (a) A transaction
   (b) An event
   (c) None of these
   (d) Both transaction as well as event
9. The problems related to price-rise are handled under:
   (a) Management Accounting
   (b) Cost Accounting
   (c) Financial Accounting
   (d) Inflation Accounting

10. Financial statements users include
    (a) Shareholders
    (b) Government
    (c) Vendors
    (d) All of the above
11. Which of these is not available in the Financial Statements of a Company?
    (a) Total Sales
    (b) Total Profit & Loss
    (c) Capital
    (d) Cost of Production
12. ₹5000 paid as rent of office premises is an/a ______
    (a) Event
    (b) Transaction
    (c) Both
    (d) None.
13. Which of the following is correct? Owner's Equity is:
    (a) (Current Asset + Fixed Asset) + (Current Liabilities + Long term Liabilities)
    (b) (Current Asset + Fixed Asset) - (Current Liabilities + Long term Liabilities)
    (c) (Current Asset - Fixed Asset) - (Current Liabilities + Long term Liabilities)
    (d) None of the above.
14. If owner's capital is ₹50,000 liability is ₹30,000 and fixed assets is ₹70,000, then what is the value of current assets?
    (a) ₹10,000
    (b) ₹40,000
    (c) ₹80,000
    (d) ₹1,00,000
15. Net Profit or Loss will be derived at ____ stage of accounting
    (a) Classifying
    (b) Interpretation

(c) Recording
(d) Summarising

16. Which one of the following is not a main objective of accounting?
    (a) Systematic recording of the transaction
    (b) Ascertainment of the profitability of the business.
    (c) Ascertainment of the financial position of the business.
    (d) Solving tax disputes with tax authorities
17. At the end of the financial year, Mr. X earns a profit of ₹57,000 in his business. This is
    (a) a transaction
    (b) an event
    (c) a transaction as well as an event
    (d) neither a transaction nor an event
18. Which of the following is an event?
    (a) Sale of goods for ₹5,000
    (b) Closing stock of worth ₹4,000
    (c) Purchase of goods for ₹8,000
    (d) Rent paid ₹2,000
19. Accounting has universal application for recording __________ and events and presenting suitable information for decision making
    (a) Entries
    (b) Transactions
    (c) Data
    (d) Figures.
20. _______ was the root of financial accounting system:
    (a) Social accounting
    (b) Stewardship accounting
    (c) Management accounting
    (d) Responsibility accounting
21. Interpreting Financial Statements means:
    (a) Methodical classification of the data given in the financial statements.
    (b) Preparation and presentation of the classified data in a manner useful to the users of financial statements.

(c) Systematic analysis of the recorded data so as to put information in usable form.
(d) Explaining the meaning and significance of the relationship of analysis of accounting data.

22. The process of recording financial data along with the preparation of trial balance are covered under:-
(a) Book Keeping
(b) Accounting
(c) Classifying
(d) Summarising

23. All items relating to fixed assets are put at one place while all items relating to current assets are put at another place. Which procedural stage of the accounting is being referred?
(a) Communicating
(b) Analysing
(c) Interpreting
(d) Recording

24. Government raises funds through taxes and spends on various development activities. The deficit or surplus at the end of accounting year is:
(a) A transaction
(b) An event
(c) A transaction as well as an event
(d) Neither transaction nor an event.

25. "Substance of any transaction should be considered while recording them and not only the legal form." This statement holds true for?
(a) Substance over form
(b) Disclosure of accounting policies
(c) Both (a) and (b)
(d) None of the three

26. Financial position of the business is ascertained on the basis of:
(a) Records prepared under book keeping process
(b) Trial balance
(c) Accounting Reports
(d) None of the above

27. On March 31st, 2016, after sale of goods worth ₹45,000, businessman is left with the closing inventory of ₹20,000. This is:
    (a) an event
    (b) a transaction
    (c) a transaction as well as an event
    (d) neither a transaction nor an event
28. BOD, government, lender, suppliers, customers, managers, investors, partners. From the above identify the external and internal stakeholders.
    (a) Internal: BOD, lender, suppliers, manager, partners
        External: Investor, customers, government
    (b) Internal: BOD, managers, partners
        External: Investor, customer, government, lender, supplier
    (c) Internal: BOD, lenders
        External: Suppliers, managers, partners, investors, customers, government
    (d) Internal: BOD, partners
        External: Suppliers, managers, investors, lenders, customers
29. Procedure of accounting includes two main components, namely:
    (a) Generating and using financial information
    (b) Generating and reporting financial information
    (c) Generating and classifying financial information
    (d) Reporting and communicating information

ANSWER

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

SHORT PRACTICE QUESTIONS

1. State with reasons whether following statements are **True** or **False**.
   (i) The term book keeping and accountancy can be used interchangeably.
   (ii) Accounting deals with quantifiable information.
   (iii) Accounting is the language of business.
   (iv) Accounting aims to communicate financial information to investors only.

   Answer:

(i) False.	(ii) True
(iii) True	(iv) False

2. Define Accounting. What are the objectives of Accounting?
3. Enumerate the advantages on Accounting.
4. What are the limitations of accounting?
5. Differentiate between Book keeping and Accounting.
6. What are the sub-fields of Accounting?
7. Write short note on ‘transaction’ and ‘events’.
8. Accounting is treated as a social science. Explain.

LONG PRACTICE QUESTIONS

1. Explain in detail different categories of users of Accounting information.
   [Hint: Refer Question 11]
2. The practice of Accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Enumerate various areas of service for an Accountant.
   [Hint Refer Question 14]

PAST YEAR QUESTIONS AND ANSWERS

OBJECTIVE QUESTIONS

1996 - Nov [5] State with reasons whether the following statement is True or False:

1. In accounting, all business transactions are recorded as having dual aspect. (2 marks)

Answer:

True: Being associated with the system of double entry book keeping, every transaction has a two-fold effect in accounting whereby one account is debited and another is credited by the same amount.

2002 - Nov [5] State with reasons whether the following statement is True or False:

(d) Assets and Liabilities of a particular accounting period are shown in the Balance Sheet. (2 marks)

Answer:

False: A balance sheet shows the position of the assets and liabilities as on a particular date.

2003 - May [5] State with reasons whether the following statements are true or false:

(i) Accounting can be viewed as an information system which has its input processing methods and output. (2 marks)

(ii) The value of human resources is generally shown as assets in the Balance Sheet. (2 marks)

(ix) Equity + LTL - CL = FA + CA. (2 marks)

Answer:

(i) **True:** Accounting is a processing system whose input is financial transaction and output is financial statements communicating various information to various interested groups.

(ii) **False:** The human recourse still cannot be defined in terms of money.

(ix) **False:** The correct equation is as follows:–

Equity +LTL+ CL= CA+FA.

2003 - Nov [5] State with reasons whether the following statement is true or false:

(i) Accounting involves communication. (2 marks)

Answer:

True: Accounting starts only when there is a communication of business transactions to the accounting department. It also communicates the results obtained from arranging of data to interested parties like investors, creditors, employees etc.

SHORT NOTES

1999 - May [6] Write short note on the following:

(ii) Double Entry System. (5 marks)

Answer:

Double Entry System:

It is a system of book keeping. It was developed in England. It is a system which recognises that every transaction has a two fold effect. Under "Double Entry System" there are two approaches of recording business transactions:

(i) Traditional Approach i.e. Book Keeping Approach.

(ii) Modern Approach i.e. Accounting-equation Approach.

Under the traditional approach, transactions are recorded into different books of accounts i.e. Journal, Ledger, Subsidiary Book, etc.

Under the modern approach, business transactions are recorded through accounting equation i.e. Assets = Capital + Liabilities.

Advantages:

1. There is a complete record of every transaction because under this system all the accounts i.e. personal, real and nominal are maintained and all the aspects of debit and credit are recorded.
2. It provides all day-to-day and reliable information.
3. It easily makes available the full details of every transaction.

4. It helps in checking of unnecessary expenditures.
5. It helps in testing of ledger posting by trial balance and also the arithmetical accuracy.
6. It helps in ascertaining the financial position of the business by preparing Balance Sheet.

2004 - Nov [6] Write short note on the following:

(v) Role of Accountants in society. (5 marks)

Answer:

Role of Accountants in society: In the present competitive scenario, accountants play a dual role. They not only look into conventional matters relating to tax, costing, management accounting, company legislation etc., but also act in matters of modern concepts like financial policies, economic principles etc.

In brief, we can put forward the role of accountants in the following points:

(i) They maintain the books and accounts of the business in a way that they show a true & fair view of the position of the business.
(ii) They act as an auditor both internal and external.
(iii) They provide service as an tax consultant.
(iv) They act as financial advisors.
(v) They also assist in the share registration, registration of company etc.

2005 - Nov [6] Write short note on the following:

(ii) Qualitative characteristics of Financial Statements. (3 marks)

Answer:

Qualitative Characteristics of Financial Statements: Financial statements have some qualitative characteristics so that they may provide more information to the users. These are the qualitative characteristics of financial statements:

(1) Understandability;
(2) Relevance;
(3) Reliability;
(4) Comparability;
(5) Faithful Representation; and
(6) Completeness.

(1) Understandability: Required quality of information should be provided so that financial statements become more understandable for users. For this reason, it is assumed that users have a reasonable knowledge of business and economic activities and they study information with reasonable diligence. Information regarding complicated matters should be included in the statement because of its relevance to the economic decision-making needs of the users and it should not be excluded merely on the ground that it may be too difficult for some users to understand.

(2) Relevance: Incorporate that information in the financial statement which is relevant for decision making. Quality of relevance of the information is determined when it influences the economic decisions of users.

(3) Reliability: Information must be reliable. Level of reliability of the information is high when it is free from material errors and biased decisions. Information may be relevant but so unreliable in nature or representation that its recognition may be badly misleading.

(4) Comparability: Financial Statements should be prepared in such a way that users of the financial statements must be able to compare their information with other information or financial statements in order to identify trends in performance, Cash flows, and financial position.

(5) Faithful Representation: Information must be represented faithfully so that its degree of reliability is high.

(6) Completeness: In order to present more reliable information in the financial statements, it must be complete within the boundaries of materiality and cost. An omission of information may cause information to be false or misleading and therefore unreliable and deficient in terms of relevance.

DESCRIPTIVE QUESTIONS

1998 - Nov [5] Discuss briefly the relationship of Accounting with:

(i) Economics. (3 marks)

(ii) Statistics. (3 marks)

(iii) Mathematics. (3 marks)

(iv) Law. (3 marks)

(v) Management. (3 marks)

Answer:

(i) Accounting & Economics:

Accounting has some economic specialty of its own. It deals with prices and not the values. It deals with the prices of property and services and not with the property and services themselves. Accounting uses price because it can serve as a quantitative representation of the physical and actual property and services. From the viewpoint of economists, there is a very close relationship between accounting and economics. Emphasis has been laid down to test the economic theories and to apply the economic principles in the concern where accounting is a rich source. Accounting is a major supplier of information to economic agents about the various aspects.

(ii) Accounting and statistics:

Statistical methods are very helpful and useful in the interpretation and development of the accounting data. While the accounting records generally take a view of events in short term and are mainly confined to a year, a statistical analysis is more useful if a long-term view is taken for the purpose. Statistical tools are very helpful in taking decisions when they are applied to accounting data.

(iii) Accounting and Mathematics:

The dual aspect concept of fundamental accounting assumption is expressed in terms of mathematical equation, which is popularly known as Accounting Equation i.e.

Assets = Capital + Liabilities.

Mathematics has a useful impact on the users of the accounts. If the mathematics of the user is strong, its accounting may also be strong because the knowledge of mathematics helps in computations and calculations. The econometric models are also being developed for the users.

(iv) Accounting and Law:

An enterprise works under various statutory laws. The transactions and accounts are also affected by various laws such as companies Act, Sales of goods Act, Negotiable Instrument Act, Customs Act, etc. The financial statements must be prepared in accordance with relevant provisions of the applicable laws.

(v) Accounting and Management:

Accounting provides necessary information to the management for discharging its functions. Since an accountant plays an active role in management, he knows the needs of the system and data. A large portion of accounting information is made for management's decision making. Thus management and accounting are related to each other.

CHAPTER	
1	**Theoretical Framework**
Unit: 2	**Accounting Concepts, Principles and Conventions**

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

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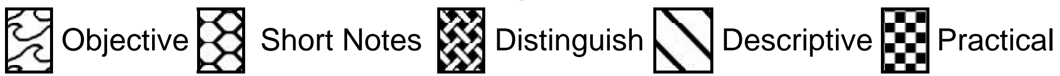

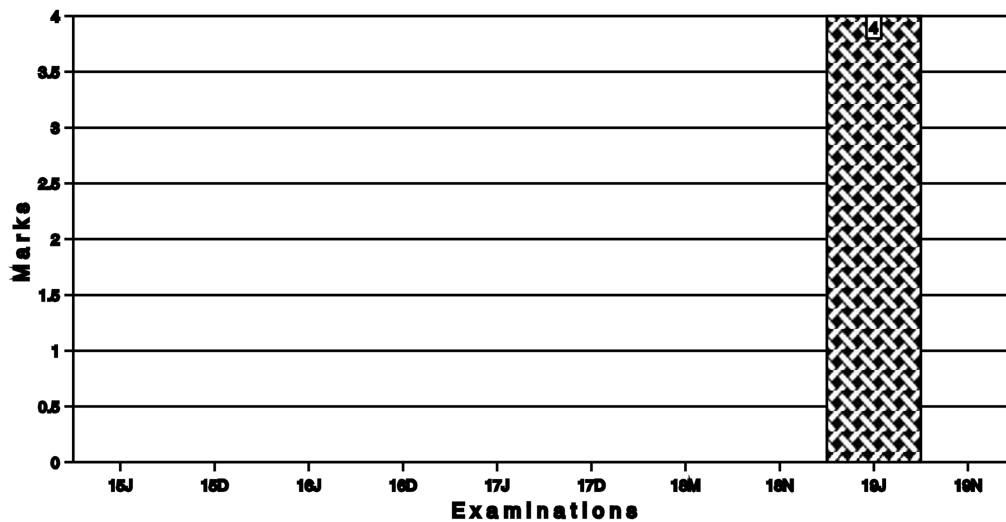

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SELF STUDY QUESTIONS

Q1. Introduce Accounting and GAAPs.

Answer:

Accounting is the language of business. It is not merely the systematic record of financial transactions of a business organisation but also a tool to analyse the financial position of the organisation in the current period and change in the position over a span of time. It enables the comparison of data with not only past period of same organisation but also with other business organisations within the same industry. It is necessary that financial statements prepared for different years or for different organisations must adopt uniformity and consistency in its preparation, which would enable the users to compare the same as and when required.

Suppose Mr. X, a businessman approached his CA to prepare the financial statements from the records provided by him. For assuring the correctness, he further gave the same records to 3 other accountants. All the four accountants submit their statements to Mr. X a week later. When Mr. X read the statements, all the statements were different from one another, showing different figures under different heads. The profits of the statements also varied among themselves. Mr. X is unable to decide which statement is true and correct about his business profits.

To prevent such situations and to build the confidence of general public and the users over the correctness of preparation of financial statements, a set of generally accepted rules have been developed which helps to bring uniformity, and consistency in the preparation of the financial statements which makes the statements understandable and reliable.

Generally Accepted Accounting Principles (GAAP) is applied to accounting procedure by the accountants so as to prepare the financial statements which are uniform in nature. GAAP is the backbone of accounting system which describes rules, principles, conventions, concepts, on the basis of which accounting reports are prepared. GAAP are supported by accounting bodies such as ICAI.

Q2. What are Accounting Concepts ?

Answer:

- These are the basic assumptions upon which accounting is based.
- These concepts help in interpreting the financial statements.

Q3. What are Accounting Principles?

Answer:

- The rules and guidelines to be followed in preparation of financial statements.
- The acceptance of accounting principles depends on following:
  - ⇒ Usefulness, i.e. meaningful information,
  - ⇒ Based on realistic assumptions,
  - ⇒ Consistency,
  - ⇒ Objectivity, i.e., free from personal biases,
  - ⇒ Simplicity, i.e., easy to understand and implement.

Q4. What are Accounting Conventions?

Answer:

- The customs or traditions or guidelines used over a period of time in preparation of accounting statements and reports.
- These can be altered with the changing needs of today's business environment, thus they may not have universal application.

Q5. What are Concepts, Principles and Conventions?

Answer:

(i) **Accounting concepts, Principles and conventions are discussed as follows:**

(a) **Accounting Concepts:** They define the assumptions on the basis of which financial statements of a business entity are prepared. Concepts have a universal application. They lay down the foundation, on the basis of which, accounting principles are formulated.

(b) **Accounting Principles:** These are a body of doctrines commonly associated with the theory and procedures of accounting serving as an explanation of current practice and a guide for selection of accounting alternative.

(c) Accounting Conventions: They emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These are derived from usage and practice and need not have universal application.

(ii) Money Measurement Concept

- Transactions and events which can be ascertained in monetary terms must form the part of accounting records.
- Money is considered as yardstick. Measurement makes the accounting data meaningful and helpful for analysing the financial results of the business organisations.
- Events which may have huge importance but are not ascertainable in money terms are not recorded in financial statements.
- The main focus of this concept in on monetary value, i.e., the home currency in which the accounts of the enterprise are being prepared. All the transactions must be converted in the home currency and in the same denomination before forming the part of financial statements.

(iii) Periodicity Concept

- The life of business is divided into small parts, usually, per year, so as to analyse the results after each year and also to compare the performance of different years.
- These small divisions of the life are termed as accounting periods. An accounting period of a business starts from 1st April and ends on 31st March.
- The financial statements are prepared on the assumption that the entity is a going concern, i.e., it will carry its operations for a foreseeable period. However, various users such as investors, creditors, management, employees, are interested to know the current position rather than to wait for a longer period. Thus, due to periodicity concept or accounting period concept, they can get the desired information at regular intervals.

- The periodicity concept helps in comparing the financial results of different years. It focuses on matching of periodic expenses with periodic income so as to get true profit for the accounting period.

(iv) Accrual Concept

- Transactions are recorded at the time when they occur irrespective of the fact that the settlement is on a later date.
- If any revenue income is received which does not belong to current period but to next period, it must not form part of current year. Similarly, if any payment is done in an earlier year, or, say, next year, but the expense pertains to current year, the same must be recorded in the current year itself irrespective of the payment being done in different period. Company law mandates preparation of accounting books under accrual basis for companies.

For examples:

Mr. A, a trader started retail business. During the year he sold goods worth ₹60,000 for ₹1,20,000 out of which only ₹100,000 was collected during the year. He had a closing stock of ₹15,000. His other business expenses for the period were ₹20,000 out of which ₹10,000 was outstanding at the year-end. Ascertain his total profit. In accrual system, revenue and expense should be recognised as they are earned or incurred and not as money is paid or received. So profit would be:

Sales		1,20,000
Less:	Purchase cost	60,000
		60,000
Less:	Expenses Incurred	20,000
	Profit	40,000

(v) Matching Concept

- Under this concept, expenses incurred for an accounting period are recognised in the period when the related revenue is earned.

- This makes the owner aware of the progress or shortfall in its business after comparing the performances of different years.
- To ascertain the true profit of the accounting period, it is important to match the revenue earned for the period with the expenses incurred to earn such revenues.

(vi) Going Concern Concept

- The financial statements of the enterprise are prepared on the basis of the assumption that the entity is a going concern, i.e., it will carry on its business operations for a foreseeable period.
- It is assumed that there is no intention that the business will stop its operations in the near future, and thus, the expenses are classified as revenue expenditure and capital expenditure. Revenue expenditure is that the benefits of which are realised in a short span of time, say, one year; while capital expenditure is that the benefit of which is realised in a long run.
- Depreciation on fixed assets is charged on the basis of useful life of the asset.

(vii) Cost Concept

- Under this concept, assets are recorded at the acquisition cost, i.e., the price paid at the time of purchase of such asset. This cost becomes relevant for subsequent years' accounting i.e., changing the depreciation on asset over its useful life.
- The market value, realisable value, actual worth of assets, etc. are not recognised, hence the value recorded is free from any personal bias of the makers of financial statements.

Merits:

- Objectivity and reliability of accounting data since the information is not manipulated.
- Simple and convenient in recording.
- Consistency in preparation and makes the financial statements comparable.

Demerits: '

- Does not consider the changes in price level due to inflation.
- Unrealistic profit, since revenue is recognised on current value while depreciation is charged on historical cost.
- Depreciation is charged at lower rates than required for making sufficient provision for replacement.

(viii) Realisation Concept

- Under this concept, revenue is recognised at the point of sale or at the time of rendering of the service incase of long term contracts, hire purchase contracts. etc.

(ix) Dual aspect concept

- Under this concept, all the business transactions have two-fold aspects which needs to be recorded in the books of accounts. It is the core of entire accounting system.
- Every credit entry has an equivalent debit and *vice-versa.* Double entry book keeping system is based on this concept. There is a relationship between assets and liabilities which can be expressed as:
  Assets = Owner's Equity + Liabilities
  Or
  Equity = Assets – Liabilities

(x) Conservatism:

- Under this concept accounting entries are recorded on the basis of prudence, that is, all probable losses must be accounted for, and anticipated profits, should be ignored.
- This concept presents the realistic financial position of the enterprise without any window-dressing for showing better position that it actually has.
- It encourages accountants to create provisions, overstate the liabilities and understate the assets in Balance Sheet. However this concept must be applied with caution so that the real results are not the misleading results.

- The three qualitative characteristic for applying this concept are
  (a) Produce
  (b) Neutrality
  (c) Faithful representation of values.
- It is due to this concept that stock is shown on cost or market value, whichever is lower.

For Example

X traders purchased goods for ₹30,00,000 and sold 70% of such goods during the accounting year ended 31st March 2017. The market value of remaining goods was ₹6,00,000. As per conservatism, the valuation stock should be valued as cost or market price whichever is lower, i.e. ₹6,00,000 and not ₹9,00,000.

(xi) Consistency

- Under this concept, all the accounting principles and policies are applied in a similar manner i.e. consistently in different accounting periods, so that the users may make comparison of the performance for different years.
- The method once chosen for a particular period must be applied in all subsequent periods until change required is for better presentation and disclosures.
- Any change in a accounting policy must be reflected in notes to accounts attached with balance sheet so as to enable the users to understand the reason for change in a particular item and take rational decisions accordingly.
- Any change in a accounting policy can be done:
  ⇒ To comply with law;
  ⇒ To present books as per the accounting standards; or
  ⇒ to reflect true and fair view in presentation of financial standards.

(xii) Materiality

- It is a subjective term – an item material for one business may not be material for another. It usually happens due to various factors such as size of business, level of information, and person requiring to take decision.

- Materiality means the relative importance of an item. If the knowledge of a particular item affects the decision of the user, it may be said to be material. In other words, omission of a material item may lead to incorrect decision making.
- Under this concept, items of material nature are disclosed separately, while immaterial items are ignored or merged with other items.

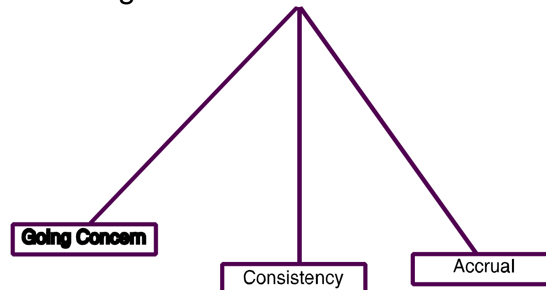
Q6. What are Fundamental Accounting Assumptions?

Answer:

There are three fundamental accounting assumptions:

(i) Going Concern (ii) Consistency (iii) Accrual.

All the above fundamental accounting assumptions are assumed to be followed in the preparation of financial statements and do not require a mention. However, if any of them is not followed, then this fact should be specifically disclosed along with reasons.

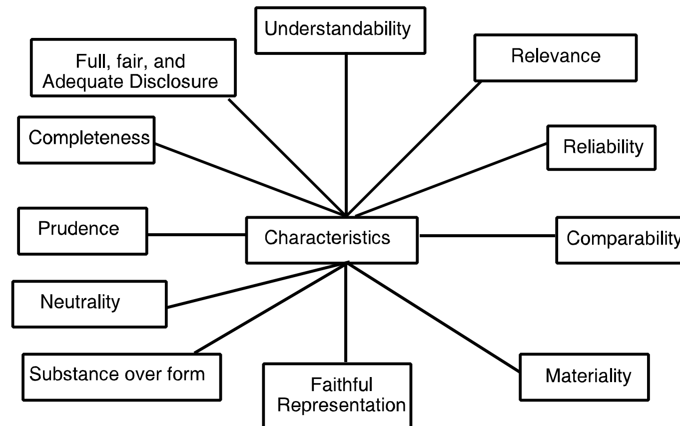


Q7. What are Financial Statements?

Answer:

- Financial statements are the accounting reports prepared to ascertain the financial position and performance of the business at a given point of time.
- It comprises of Profit and Loss Account, which reflects the details of income and expenditure and the net result of such transactions [i.e. Profit / Loss]; Balance Sheet, which reflects the details regarding owner’s equity, outside liabilities, and total assets of the business; and cash flow statement, which reflects the details of cash inflows and outflows during an accounting period.

Q8. What are Qualitative Characteristic of Financial Statements?
Answer:



(a) Understandability:
- Financial statements must be prepared in such manner that the information can be easily understood by the users.

(b) Relevance:
- Information must be relevant i.e. it must be communicated at the time it is required for decision making.
- It should be able to influence the decision of user and help in analysing the financial position.

(c) Reliability:
- Financial information used to prepare accounting statements must be from reliable sources and evidenced by proper supporting documents, such as sale bills, vouchers, etc.
- Unreliable information may result in misleading result which may adversely affect the user.

(d) Comparability:
- Financial statements must be comparable, i.e. they should be prepared by following relevant accounting standards and policies so that users could compare the performance of different organisations.
- Any changes in accounting policies must be communicated along with the monetary effect to the users requiring such statements.

(e) Materiality:

- Information is material if its misstatement (i.e. omission or erroneous statement) could influence the economic decisions of users taken on the basis of the financial information.
- Materiality depends on the size and nature of the item under consideration.
- All material facts must be disclosed in the financial statements.
- Omission of paise and showing the rounded off figure is based on this concept.

(f) Faithful Representation:

- Due to certain inherent limitations of accounting, there are instances where adequate disclosures regarding particular transactions may not be given.
- Information or figures projected in various statements should truly represent the business. No under or over presentation of organisation's position should be projected.
- If any information given in statements is subject to risk of error, the certainty of such risk should be mentioned so as to make users act accordingly.

(g) Substance Over Form:

- Transactions must be recorded in financial statements on the economic substance, i.e., for recording the transactions, a proper judgement should be made to present it in the best manner to reflect the true essence of transaction; and the legal aspects may have to be given less attention to give true and fair disclosure of business affairs.

(h) Neutrality:

- Information in financial statements must be free from personal bias.
- Faithful representation of transactions in the financial statements make the statements reliable.

(i) Prudence:

- Prudence is the degree of caution for making judgements while recording any particular item of income or expense.
- Prudence concept is described as "Don't anticipate profit, but provide for all possible losses".

(j) Completeness:

- Transactions must be recorded properly so that the complete information is displayed about the nature of such transaction in financial statements.
- If any omission of information misleads the decision making of user, it is said that the information is incomplete and hence not reliable.

(k) Full, Fair and Adequate Disclosure:

- All the information relevant for decision making of users must be fully disclosed in the financial statements.
- Financial statements must be prepared on the basis of 'Generally Accepted Accounting Principles' (GAAP), so the users can rely on them.
- Proper disclosure of accounting policies, contingent liabilities and other relevant information necessary to understand the statements must be given.

Questions for Practice and Conceptual Clarity only (The questions below have been given for building the basics and increasing knowledge of the students)

MULTIPLE CHOICE QUESTIONS

1. Provision for bad and doubtful debts is result of:
   (a) Conservatism concept
   (b) Going concern concept
   (c) Disclosure concept
   (d) Consistency concept
2. Recording of Fixed Assets at Cost ensures adherence to:
   (a) Conservatism
   (b) Cost Concept
   (c) Going Concern Concept
   (d) Accrual Concept

3. Fundamental Accounting Assumptions are:
   (a) Going Concern, Conservatism, Accrual
   (b) Going Concern, Matching, Consistency
   (c) Going Concern, Consistency, Accrual
   (d) Going Concern, Entity, Periodicity
4. When Fixed assets are sold:
   (a) Total assets will increase
   (b) Total liabilities will increase
   (c) Total assets will decrease
   (d) There is no change in total assets
5. The Accounting Equation is based on:
   (a) Going Concern Concept
   (b) Dual Aspect Concept
   (c) Money Measurement Concept
   (d) All of these
6. _____Concept is the basic idea that the business is separate from owner.
   (a) Dual Aspect
   (b) Entity
   (c) Realization
   (d) Materiality
7. The owner of a company included his personal medical expenses in the company's income statement. Indicate the principle that is violated.
   (a) Cost principle
   (b) Conservatism
   (c) Disclosure
   (d) Entity Concept
8. Two primary qualitative characteristics of financial statements are:
   (a) Understandability and Materiality
   (b) Relevance and Reliability
   (c) Materiality and Reliability
   (d) Relevance and Understandability

9. Money owed from an Outsider is a:
   (a) Asset
   (b) Liability
   (c) Expense
   (d) Capital
10. Cost of Machinery ₹10,00,000
    Installation charges ₹1,00,000
    Market Value on
    31.3.06 ₹12,00,000
    While finalizing the accounts, if the company values the machinery at ₹12,00,000. Which concept is violated by the Company?
    (a) Cost
    (b) Matching
    (c) Realization
    (d) Periodicity
11. Capital as on 1-4-05 ₹90,000
    Capital introduced ₹25,000
    Drawings made ₹35,000
    Capital as on 31-3-06 ₹1,25,000
    What is the amount of profit added to the Capital?
    (a) ₹50,000
    (b) ₹60,000
    (c) ₹75,000
    (d) ₹45,000
12. GAAP's are:
    (a) Generally Accepted Accounting Policies
    (b) Generally Accepted Accounting Principles
    (c) Generally Accepted Accounting Provisions
    (d) None of these
13. _______ refers to the general agreement on the usage and practices in social or economic life:
    (a) Accounting Assumptions
    (b) Accounting Conventions

(c) Accounting Policies
(d) Accounting Principles

14. Double Entry Principle means:
    (a) Writing twice the same entry
    (b) Writing all the entries twice in the book
    (c) Having debit for every credit and credit for each debit
    (d) All of the above
15. No inference of profit and provision making policy for all possible losses is due to:
    (a) Convention of Consistency
    (b) Convention of Conservatism
    (c) Convention of Disclosure
    (d) Convention of Materiality
16. The underlying accounting principle necessitating amortization of Intangible Assets is/are:
    (a) Cost Concept
    (b) Realization Concept
    (c) Matching Concept
    (d) Both 'b' and 'c'
17. "Holding gains in relation to stocks should not be used for payment of dividend." Which one of the following accounting principle is involved in this?
    (a) Consistency
    (b) Cost
    (c) Materiality
    (d) Realization
18. If Going Concern Concept is no longer valid, which of the following is true?
    (a) All prepaid assets would be completely written off immediately
    (b) The allowance for uncollectible accounts would be eliminated
    (c) Intangible assets would continue to be carried at net amortized historical cost
    (d) Land held as an investment would be valued at its realizable value

19. Ram starts business with ₹90,000 and then buys goods from Shyam on credit for ₹23,000. The accounting equation based on Assets = Capital + Liabilities will be:
    (a) 1,13,000 = 90,000 + 23,000
    (b) 1,13,000 = 1,13,000 + 0
    (c) 90,000 = 67,000 + 23,000
    (d) 67,000 = 90,000 - 23,000
20. Window dressing of Accounts means:
    (a) Presenting accounts in beautiful manner
    (b) Showing more losses to avoid Income Tax
    (c) Showing more profits to attract Investment
    (d) All of the above
21. Which financial statement represents the accounting equation ASSETS = LIABILITIES + OWNER'S EQUITY
    (a) Income Statement
    (b) Cash Flow Statement
    (c) Balance Sheet
    (d) Funds Flow Statement
22. Ram purchased a car for ₹10,000 paid ₹3,000 as cash and balance amount will be paid in three equal installments. Due to this:
    (a) Total assets increase by ₹10,000
    (b) Total liabilities increase by ₹3,000
    (c) Assets will increase by ₹7,000 with corresponding increase in liability by ₹7,000
    (d) Both (b) and (c)
23. During life-time of an entity, accountants prepare financial statements at arbitrary points of time as per:
    (a) Prudence
    (b) Consistency
    (c) Periodicity
    (d) Matching
24. The Accounting Convention of Matching means:
    (a) Profit for the period to be matched with sales revenue
    (b) Profit for the period to be matched with investment

(c) Expenses of one period to be matched against the expenses of another period
(d) Expenses of one period to be matched against the revenue of the same period

25. Recording of capital contributed by the owner as liability ensures adherence of principle of
(a) Matching
(b) Going concern
(c) Double entry
(d) Separate entity of business

26. Omission of paise and showing the round figures in financial statements is based on:
(a) Conservatism concept
(b) Consistency concept
(c) Materiality concept
(d) Realization concept

27. Accounting does not record non-financial transactions because of:
(a) Accrual concept
(b) Cost concept
(c) Continuity concept
(d) Money Measurement concept

28. Which of these is not a fundamental accounting assumption?
(a) Going concern
(b) Consistency
(c) Conservatism
(d) Accrual

29. Fixed assets and Current assets are categorized as per concept of:
(a) Separate entity
(b) Going concern
(c) Consistency
(d) Time period

30. The obligations of an enterprise other than owner's fund are known as:
(a) Assets
(b) Liabilities

(c) Capital
(d) None of these

31. Which concept requires that those transactions which can be expressed in terms of money should be recorded in books of account?
(a) Business Entity
(b) Dual Aspect
(c) Money measurement
(d) None of these

ANSWER

1.	(a)	**2.**	(b)	**3.**	(c)	**4.**	(d)	**5.**	(b)
6.	(b)	**7.**	(d)	**8.**	(b)	**9.**	(a)	**10.**	(a)
11.	(d)	**12.**	(b)	**13.**	(b)	**14.**	(c)	**15.**	(b)
16.	(c)	**17.**	(d)	**18.**	(d)	**19.**	(a)	**20.**	(c)
21.	(c)	**22.**	(c)	**23.**	(c)	**24.**	(d)	**25.**	(d)
26.	(c)	**27.**	(d)	**28.**	(c)	**29.**	(b)	**30.**	(b)
31.	(c)								

SHORT PRACTICE QUESTIONS

1. Write Short Notes on
(i) Entity Concept
(ii) Periodicity Concept
(iii) Accrual Concept
(iv) Fundamental Accounting Assumptions
(v) Accounting Conventions
(vi) Materiality Concept

2. Discuss accounting concept based on presumption that do not anticipate profits but provide for all probable losses.
   [Hint: Refer Question 5 Part (x)]
3. What is the importance of adopting consistency concept in preparation of financial statement.
   [Hint: Refer Question 5 Part (xi)]
4. What is a financial statement? Enumerate its characteristics.
   [Hint: Refer Questions 7 and 8]

PAST YEAR QUESTIONS AND ANSWERS

OBJECTIVE QUESTIONS

1996 - Nov [5] State with reasons whether the following statement is True or False.

1. In accounting, all business transactions are recorded as having dual aspect. (2 marks)

Answer:

True: Being associated with the system of double entry book keeping, every transaction has a two-fold effect in accounting whereby one account is debited and another is credited by the same amount.

1998 - May [5] State with reasons whether the following statement is true or false:

(7) Accrual concept implies accounting on cash basis. (2 marks)

Answer:

False: Accrual concept implies accounting done on due or accrual basis. It involves the recognition of revenues and costs as they accrue irrespective of the actual receipts or payments.

1999 - Nov [5] State with reasons whether the following statement is true or false:

(iii) Companies can keep their accounts under cash basis. (2 marks)

Answer:

False: It is mandatory for companies to keep their accounts under accrual basis as per the provisions of the Company Law.

2003 - May [5] State with reasons whether the following statements are true or false:

(ii) The value of human resources is generally shown as assets in the Balance Sheet. (2 marks)

(iii) Revenue is matched with expenses in accordance with the matching principle. (2 marks)

(iv) The financial statements must also disclose the relevant and reliable information in accordance with the Full Disclosure Principle. (2 marks)

Answer:

(ii) **False:** The human recourse still cannot be defined in terms of money.

(iii) **True:** The matching concept involves that the revenue earned in an accounting year is matched with the expenses incurred during the same period to generate that revenue.

(iv) **True:** The financial statements must also disclose the relevant and reliable information as per AS-1 i.e. Disclosure of Accounting policies.

2003 - Nov [5] State with reasons whether the following statement is true or false:

(ii) The economic life of an enterprise is artificially split into periodic intervals in accordance with the going concern assumption. (2 marks)

Answer:

False: The economic life of an enterprise is artificially split into periodic intervals in accordance with the Periodicity Concept.

2004 - Nov [5] State with reasons whether the following statements are true or false:

(i) Accounting principles are general rules followed in preparation of Financial Statements. (2 marks)

(ix) Capital is equal to assets less external liabilities. (2 marks)

Answer:

(i) True: Accounting principles suggests the rules of action, which are universally accepted by the accountants for the recording of accounting transactions.

(ix) True: Capital + Reserves & Surplus (internal liabilities) = All Assets - External Liabilities

2005 - Nov [5] State with reasons whether the following statement is true or false:

(ii) As per the concept of conservatism, the accountant should provide for all possible losses, but should not anticipate income. (2 marks)

Answer:

True: Concept of conservation states that the accountants should not anticipate income and should provide for all possible losses.

2006 - Nov [5] State with reasons whether the following statement is true or false:

(ix) All significant accounting policies adopted in preparation and presentation of financial statements must be disclosed. (2 marks)

Answer:

True: Disclosure of significant accounting policies must form part of the financial statements and these policies must be disclosed separately, at one place in annual report, e.g., policies relating to valuation of inventory, deprecation accounting, etc.

SHORT NOTES

1996 - May [6] Write short note on the following:
(2) Fundamental Accounting Assumptions (5 marks)

Answer:

Fundamental Accounting Assumptions: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS 1) on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

1. **Going concern:** The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.
2. **Consistency:** It is assumed that accounting policies are consistent from one period to another.
3. **Accrual:** Guidance Vote on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue". The accrual "basis of accounting" includes considerations relating to deferrals, allocations, depreciation and amortisation. Financial Statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual Basis is also referred to as Mercantile Basis of Accounting.

1998 - Nov [6] Write short note on the following:
(i) Going concern concept. (5 marks)

Answer:

Going concern concept: It means that the business will go on indefinitely i.e. the business is not going to be liquidated in foreseeable future. This concept is fundamental to the accounting theory. The Balance sheet is prepared on the basis of this concept and the prepaid expenses are shown as assets in the B/S because of this concept only. The creditors supply the goods and services expecting the continuation of business for a long period.

2000 - May [6] Write short note on the following:
(a) Periodicity Concept. (5 marks)

Answer:

The life of business is based on going concern assumption and the measurement on the basis of this assumption is not possible for a long period. The owner cannot wait for such a long time, so a small workable fraction of time is selected from an unending life cycle of the business enterprise for measuring the performance and looking at the financial position. Generally, a period of one year is taken for measuring and appraising the performance of the financial position. Thus, the periodicity concept makes the accounting system and the term 'accrual' workable.

2003 - Nov [6] (b) What is meant by Accounting Policies? Give four examples of Accounting Policies? (5 marks)

Answer:

Accounting Policies:

"Accounting policies" means specific methods or principles of accounting adopted by an enterprise for a particular transaction or event in the preparation and presentation of financial statements. While adopting a particular accounting policy, main consideration should be to prepare financial statement so as to represent true and fair view of the state of affairs of the enterprise.

For e.g.

1. Valuation of fixed assets, stock, goodwill, investment, etc.
2. Method of depreciation, amortization.

3. Treatment of goodwill, contingent liabilities.
4. Conversion of foreign currency items.

2004 - Nov [6] Write short note on the following:

(iii) Accounting Convention. (5 marks)

Answer:

Accounting Conventions

Accounting Conventions emerge out of accounting practices, commonly known as Accounting Principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting Conventions need not have universal application.

2005 - Nov [6] Write short notes on the following:

(i) Accrual basis of Accounting. (3 marks)

(ii) Qualitative characteristics of Financial Statements. (3 marks)

Answer:

(i) Accrual basis of Accounting: Accrual or mercantile basis of accounting refers to a system of recording revenues and expenses whether or not they have been received or paid in cash at the time of recording.

Accounting on accrual basis signifies that owner's equity is affected by the profit earned or loss suffered by an enterprise during the accounting period, and not as money is received or paid.

Therefore, while ascertaining the profit or loss, not only those expenses which have been paid in cash should be considered, but also expenses which have become due though not paid should be taken into account.

Similarly all the incomes earned during the accounting period should be considered whether they have been received in cash or not.

(ii) Qualitative Characteristics of Financial Statements: Financial statements have some qualitative characteristics so that they may provide more information to the users. These are the qualitative characteristics of financial statements:

(1) Understandability;
(2) Relevance;
(3) Reliability;
(4) Comparability;
(5) Faithful Representation; and
(6) Completeness.

(1) Understandability: Required quality of information should be provided so that financial statements become more understandable for users. For this reason, it is assumed that users have a reasonable knowledge of business and economic activities and they study information with reasonable diligence. Information regarding complicated matters should be included in the statement because of its relevance to the economic decision-making needs of the users and it should not be excluded merely on the ground that it may be too difficult for some users to understand.

(2) Relevance: Incorporate that information in the financial statements which is relevant for decision making. Quality of relevance of the information is determined when it influences the economic decisions of users.

(3) Reliability: Information must be reliable. Level of reliability of the information is high when it is free from material errors and biased decisions. Information may be relevant but so unreliable in nature or representation that its recognition may be badly misleading.

(4) Comparability: Financial Statements should be prepared in such a way that users of the financial statements must be able to compare their information with other information or financial statements in order to identify trends in performance, Cash flows, and financial position.

(5) Faithful Representation: Information must be represented faithfully so that its degree of reliability is high.

(6) Completeness: In order to present more reliable information in the financial statements, it must be complete within the boundary of materiality and cost. An omission of information may cause information to be false or misleading and therefore unreliable and deficient in terms of relevance.

2006 - May [6] Write short note on the following:

(i) Fundamental Accounting Assumptions. (5 marks)

Answer:

Please Refer 1996 - May [6] (2) on page no. 54

2006 - Nov [6] Write short note on of the following:

(i) Money measurement concept (5 marks)

Answer:

Money measurement concept: Accounting records only those transactions which are expressed in monetary terms. As per this concept, a transaction is recorded in terms of money. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money are to be recorded in the books of account. Money i.e., the ruling currency of a country provides a common denomination for the value of material objects.

DISTINGUISH BETWEEN

2019 - June [1] (b) Distinguish between Going Concern concept and Cost concept. (4 Marks)

Answer:

Distinction between Going Concern and cost concept

Going Concern Concept :

The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue operation for the foreseeable future. Hence, it is assumed that enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such intention exists, the statements will have to prepared on different basis, and, if so, the basis used is disclosed.

Cost Concept :

By this concept, the value of an asset is to be determined on the basis of historical cost, in other words, acquisition cost. Although there are various measurement bases, accountants traditionally prefer this concept in the interests of objectivity. It is highly objective and free from all bias.

CHAPTER	
1	**Theoretical Framework**
Unit: 3	**Accounting Terminology**

SELF STUDY QUESTIONS

Q1. What are the key terms in Accounting Terminology?
Answer:
Acceptance: It is a process through which drawee (i.e. buyer) accepts the bill of exchange of drawer (i.e. seller) by way of signing the bill and giving his assent to an unconditional obligation to pay the same on or before maturity date.
Accounting Policies: Methods and principles used for preparing the financial statements of the enterprise.
Accrual basis of accounting: Recording the income and expenses as and when earned irrespective of the receipt & payment schedule. It is also called as mercantile basis of accounting.
Accrued Asset: It is an unenforceable claim against a person which has accumulated as a result of rendering service or with the passage of time but yet not invoiced.
Accrued expense: It is an accounting expense which is recognised in advance but not payable at present.
Accrued liability: Is an unenforceable claim by a person which has accumulated as a result of receipt of service or with the passage of time.
Accrued Revenue: It is an accounting receipt which has been earned but not received till date.

Accumulated Depreciation: It is the cumulative depreciation on depreciable assets for the period beginning from the date of purchase and ending on the date of reporting in financial statement.

Amortisation: It is the way of allocating the cost of asset which is intangible in native over a period of time which may be prescribed and can be for more than one accounting period.

Annual Report: It is the statement providing information to the shareholders about the financial health of the business. It includes Director's Report, Auditor's Report. Balance Sheet, Profit & Loss A/c and Notes to Accounts and other necessary information as require by statute.

Appropriation Account: It is a section of Profit and Loss A/c where the distribution of Net Profit (calculated in Profit and Loss A/c) for transferring to reserves or distributing as dividend etc. are shown separately.

Asset: Assets are property or legal right which are owned or controlled by an organisation and provides future economic benefits.

Authorised Share Capital: It is the maximum number of shares and par value per share to which company is authorised for issuing at any point of time. It is also called as Nominal Share Capital and is the given in Memorandum of Association. A company cannot issue shares in excess of such authorised share capital.

Average Cost: Cost per unit of item.
It is calculated by:

$$\frac{\text{Total cost of all times}}{\text{No. of items}}$$

Bad debts: Debts owned by the company which cannot be recovered and considered as business loss; hence debited to Profit & Loss Account.

Balance Sheet: It is the statement of assets and liabilities along with owner's equity at a given point of time.

Bills of Exchange: It is an instrument in writing which contains an unconditional order given by the creditor to debtor to pay at sight or after a certain period, a certain sum of money to or to the order of the certain specified person or the beared.

Bonus Shares: These are the shares allotted by the company to its existing shareholders by way of capitalising the existing profits held by the company.
Book Value: It is the value at which various assets and securities are recorded in books of accounts or financial statements of business.
Borrowing Cost: It is the cost of borrowed funds. It includes interest cost and other ancillary cost incurred while borrowing funds for business purpose.
Bond/Debenture: It is a long term security issued by a company yielding fixed rate of interest and to be repaid after the end of issue term.
Call: Demand made by the company to pay a part of whole of the sum payable on shares/debenture allotted by the company.
Called up Share Capital: It is the part of sum demanded by the company to be paid by the shareholders to the company against the shares issued.
Capital: It is the funds invested in company along with accumulated wealth of the company.
Capital Asset: Assets other than those held for sale in ordinary course of business. These include tangible and intangible assets, investments, etc.
Capital = Assets – Liabilities
Capital Commitment: It is the amount of money planned by the company to be spent for capital expenditure for which company has entered into contract with third party.
Capital employed: It is the funds deployed by the company in various assets, investments and working capital required for the business operations.
Capital Profit/Capital Loss: It is profit/loss not earned in the ordinary course of business. It may be earned through sale of fixed assets, investments, premium on issue of shares and debentures. If the profit earned from above is negative, it is called as capital loss.
Capital Reserve: It is the portion of funds set aside by the business for long term investments or expenses and is non-distributable i.e. this reserve cannot be utilised for dividend distribution.
Capital work in progress: Expenses incurred on such assets which are not completed on the balance sheet date. It is separately shown under the head Non-current Assets.
Cash: It is a balance sheet item shown under the head ‘Current Assets’. It comprises of cash in hand, cash at bank and demand deposits with banks.

Cash equivalents: These are the short term investments that are readily convertible into cash with negligible risk of change in its value.

Cash Basis of Accounting: Recording of income and expenses on receipt and payment basis irrespective of the period in which they are actually accrued.

Cash Discount: It is an incentive provided by the seller on invoiced price for settling the payment due within the stipulated time.

Cash Profit: Net cash receipt after reducing all cash expenses.

Net Profit
Add: Depreciation
Add: Amortised expenses/Non cash expenses cash profit

Carrying Amount: Cost of Asset
Less: Accumulated Depreciation.

Charge: It is a mortgage or claim on asset done by the lenders for securing the amount of debt. These are of two types:

Fixed charge: Charge against a specific property.

Floating Charge: on company assets as a whole which may crystillise in particular circumstances.

Collateral Security: It is the security other than the principal security offered additionally by borrower to secure a loan.

Cost of Disposal: Incremental expenses directly attributable to disposal of asset.

Contingent Asset: It is a possible asset which may arise out of uncertain future events beyond the control of the entity.

Contingent Liability: It is a potential liability depending on an uncertain future event.

Cost of purchase = Purchase price
+ Freight inwards
+ expenses incurred
(–) Discount/Rebate

Cost of Goods Sold = Opening Stock + Purchases – Closing Stock

Conversion Cost: Cost directly attributable for conversion of raw material into semifinished/finished goods.

Conversion Cost = Direct labour cost + Manufacturing overheads

Convertible Debenture: Debenture having right to be converted wholly or partly into the shares of the company.
Cumulative Preference Shares: A type of preference share where unpaid dividend accumulates against the profit of enterprise and are paid in priority to equity shareholders. Unless specified, preference shares are deemed to be cumulative.
Current Asset: Business assets kept for short-term for the purpose of converting them into cash or for resale in the ordinary course of business-Example Inventory, Debtors, Bank balance, etc.
Current Liability: Liabilities payable in near future (usually within an year). Example-Creditors, Bank overdraft etc.
Depletion: Reduction through periodic write offs, of cost of wasting asset.
Depreciation: It is the fall in value of depreciable fixed assets as a result of normal wear and tear, obsolescence or accident. It is usually spread over the useful life of the asset.
Depreciable amount = Historical value (–) salvage value if any
Depreciable Asset: Asset that provides economic benefits for more than one accounting period but has a limited life and not held for sale in ordinary course of business.
Example: Plant, Machinery, Furniture, etc.
Discount: It is a concession in price offered for enabling prompt payment.
Dividend: Distributable profits or reserves of company paid to shareholders.
Equity Share: They are the ordinary shares carrying voting rights eligible for receiving dividend after the payment of dividend on preference shares.
Exchange difference: Difference resulting from conversion of one unit in one of currency to another currency at different exchange rates.
Expense: Reduction in economic benefits as a result of outflows during an accounting period. It is the cost of carrying business operations.
Extraordinary Items: Income and expenses arising out of infrequent or unusual activities other than those carried in the ordinary course of business.
Expired cost: Expired cost is such portion of cost whose benefit is exhausted at the reporting date.

Fair Value: Exchange price estimated to be received on sale of asset or settlement of liability between willing parties when there is no compulsion on both the parties to buy or sell and both have knowledge about all relevant facts.

Fair Market Value: Exchange price estimated to be received on sale of asset or settlement of liability in an open market when there is no compulsion on both the parties to buy or sell and both have knowledge about all relevant facts.

First Charge: It is a charge on the assets of the principal loan in priority over other charges on that particular asset.

Fixed Assets: Business assets purchased for smooth operation of business activities and not held for resale in ordinary course of business.

Example: Plants, Machinery, Land & Building etc.

Fixed Cost: Production cost fixed in nature in short run and is not affected from change in volume of production. For example - Rent of building, insurance premium, etc.

Financial Instrument: Monetary contracts between the parties that creates financial asset for one enterprise and correspondingly financial liability for another enterprise.

Forfeited Shares: Shares taken back on failure of payment due on calls from shareholders by the directors if authorised by articles of association; the shareholders lose the title on such shares.

Free reserves: Reserves which can be utilised in any manner without any restriction.

Gain: Increase in owner's equity as a result of transaction arising out of other than normal business operations.

General Reserve: Revenue reserves setup for meeting potential future unknown liabilities of the business.

Goodwill: Intangible business asset recorded under Non-current Assets which arises due to reputation, trade name or business connection of the enterprise.

Gross Profit/Gross margin: Difference between total sales revenue earned from sale of goods or rendering of services and the direct cost related to such goods or services.

Gross Profit = Net Sales – Cost of goods

Government Grants: Assistance provided in cash or kind by the government to the business enterprise that requires compliance of certain conditions relating to operations of the business.

Gross Book Value: It is the historical cost of fixed assets as recorded in books of accounts and financial statements of the business.

Income & Expenditure Statement: Financial statement of Non-Profit making enterprises prepared to record the incomes and expenses of the relevant accounting period.

Intangible Asset: It is the asset which cannot be touched i.e. it does not have any physical identity and can only be felt. For example - Goodwill of the business, trademarks, patents, copy rights, etc.

Inventory/stock: It is a tangible asset

- held for the purpose of sale in the ordinary course of business or
- in the process of production of such saleable goods or rendering of services (i.e. raw material or work in progress)
- one used for production of goods and rendering of services (example - stores, spares, etc.)

Investments: Assets held by business enterprises for earning income in the form or dividends, rentals, etc. for future capital appreciation.

Issued Shares Capital: It is the portion of authorised share capital which has been offered for subscription.

Joint Venture: It is a contract executed between two or more parties to undertake an economic activity which is under the control of both the parties.

Liability: Amount that business owes to outsiders (creditors).

Liability = Asset – Capital

Lien: It is the right of one person to satisfy a claim against another by holding or retaining possession of that other assets/property.

Long term Liability/Non-Current Liabilities: Liability whose payment may fall due after twelve months.

Lease: Formal agreement to use the assets for a specified period on payment of lease rentals.

Mortgage: When a loan is advanced in return of immovable property to be treated as security for loan, the property is said to the mortgaged.
Security is redeemed only after repayment of such loan.

Net Assets/Net Worth/Shareholders Wealth = Paid up Share Capital + Reserves Surplus

Or

Total Assets – Liabilities
[except fictitious assets]

Net Profit: Difference between total sales revenue including other income and all the cost (whether direct or indirect cost)

Net Profit = Sales Revenue + Other Income
(–) Cost of Goods sold
(–) Indirect expenses

Net Realisable Value/Net Selling Price: Expected sales price minus cost to complete the sale.

Obsolescence: Process of becoming outdated due to change in technology, production methods, etc. and hence no longer used.

Operating Profit: Profit of the business before reducing interest and tax related expenditure.

Paid-up Share Capital: It is the portion of issued and subscribed share capital for which the amount due on shares has been received by the company including bonus shares issued if any.

Preference Shares: These are the type of shares having preferential right in relation to payment of dividends at fixed rates periodically and repayment of capital at the time of liquidation along with participating rights in surplus profits if any.

Preliminary Expenses: Expenses incurred in formation of company. **Example:** Expenses in issue of prospectus, preparation of memorandum of Association and Articles of Association.

Prepaid expenses: Expenses paid in advance, i.e. before the period in which they are actually incurred.

Prime Cost: Direct material + Direct Wages + Direct Expenses.

Prior Period Items: Income and expenses which arise in current period as a result of errors or omission in preparation of financial statement of one or more prior periods.

Profit & Loss A/c: It is a financial statement showing revenue earned and expenses incurred during an accounting period by the business enterprise.

Revenue > Expenses = Profit

Revenue < Expenses = Loss

Prudence: Care and caution that someone shows while making decisions related to recording of financial transactions so as to give true and correct disclosures. It is because of prudence concept, that profits are not anticipated while all known liabilities and losses are provided for in financial statements.

Provisions: Amount retained and set aside by way of providing for any known liability the amount of which may not be ascertainable with reasonable accuracy.

Redeemable Preference Shares: Type of preference shares which are repayable after a fixed period of time.

Redemption: Discharge of liability on account of repayment of preference shares or debentures issued by the company.

Reserve: It is the portion of earning/profits of the business set aside for general or specific purpose other than provisions.

Revaluation Reserve: Reserve created on account of change in estimated replacement cost or market price over the took value of assets.

Residual Value: Salvage value of the asset at the end of useful life after reducing expenses related to cost of disposal.

Revenue: Gross inflow of cash and receivable on account of sale of goods, supply of services or any other income such as interest, dividends, refunds, etc.

Revenue Reserve: Reserves which are not capital reserves and are used to strengthen the financial position of business, distribution of dividends to shareholders, replacement of assets, etc.

Right Shares: Shares offered for allotment to existing shareholders in proportion to their existing shareholding at the time of making fresh issue by the company.

Sales Turnover: Total sales or revenue of total services rendered by the enterprise.

Secured Loan: Loan against security where security comprises of business.

Shareholder's Equity: Difference between total assets and total liabilities of the business also called stockholders equity or networth.

Share Issue Expenses: Expenses incurred by the business enterprise in relation to issue and allotment of charges.

For example: Governmental fee, Professional charges, Cost of printing of prospectus, brokerage, commission, etc.

Share Warrants: Financial instrument that give the right to its holders to acquire equity shares for the enterprise.

Security Premium: Difference between the issue price and face value of shares.

Subscribed Share Capital: It is a portion of issued share capital for which subscription has been made and shares are allotted, including bonus shares issued, if any.

Sundry Creditors/Trade Creditors/Trade Payables: Amount owed by the enterprise on account of credit purchases from parties.

Sundry Debtors/Trade Debtors/Trade Receivable: Amount receivable by the company on account of credit sales made to parties.

Trade Discount: Reduction from list price offered by supplier to promote instant payment of amount due on such supplies. It does not form part of accounting entries as the discount is deducted in the invoice and net amount is recorded in books.

Unexpired Cost: Such portion of cost whose benefit is not exhausted at the reporting date.

Unissued Share Capital: Part of authorised share capital which has not been issued/offered for subscription.

Unpaid Dividend: Dividend declared but not paid to shareholders.

Useful Life: In respect of fixed asset, it is the estimated life for which a depreciable asset could be used by the enterprise or number of units expected to be produced from the use of particular asset in the entire life span of such asset.

Short Practice Questions

1. Define following terms:
   (a) Charge
   (b) Cumulative preference shares
   (c) Fixed assets
   (d) Inventory
   (e) Preliminary expenses
   (f) Contingent asset
2. Differentiate between the following:
   (a) Authorised share capital and subscribed share capital
   (b) Fixed assets and Current assets
   (c) Capital reserve and Revenue reserve
   (d) Preliminary expenses and Prior period expenses

Past Year Questions and Answers

Objective Questions

1994 - Nov [5] State with reasons whether the following statement is true or false:

(8) Profit and Loss Account shows the financial position of the concern. (2 marks)

Answer:

False: Profit and Loss Account shows the financial results of a concern for a particular period of time. The financial position of a concern is reflected in the balance sheet.

1996 - May [5] State with reasons whether the following statement is true or false:

(5) Goodwill is not a fictitious asset. (2 marks)

Answer:

True: Goodwill is an intangible asset.

1997 - Nov [5] State with reasons whether the following statement is true or false:

(5) Profit and Loss Account shows the financial position of the concern. (2 marks)

Answer:

False: Profit and Loss Account shows the financial results of a concern for a particular period of time. The financial position of a concern is reflected in the balance sheet.

1998 - May [5] State with reasons whether the following statement is true or false:

(3) Goodwill is a current asset. (2 marks)

Answer:

False: Goodwill is an intangible asset and is classified as fixed asset.

2001 - Nov [5] State with reasons whether the following statement is true or false:

(iv) Goodwill is a fictitious asset. (2 marks)

Answer:

False: Goodwill is an intangible asset and not fictitious.

2004 - May [5] State with reasons whether the following statement is true or false:

(x) Depreciable amount refers to the difference between historical cost and the market value of an asset. (2 marks)

Answer:

False: Depreciable amount refers to historical cost less salvage value.

SHORT NOTES

1995 - Nov [6] Write Short Note on the following:
(1) Trade Discount.

Answer:

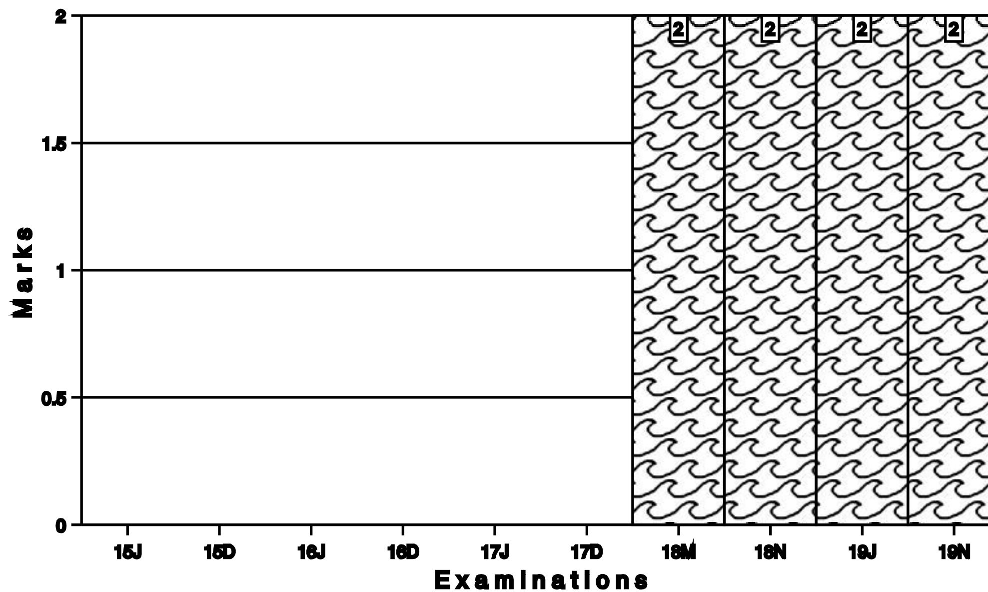
Trade Discount:

This is a discount given by a manufacturer or wholesale dealer to a retail dealer. This is deducted from the sale price in the invoice itself. The retail dealer is required to sell the goods at a fixed price (catalogue price) and hence this practice is followed. It does not form part of accounting entries as the discount is deducted in the invoice and net amount is entered in books of account.

CHAPTER	
1	**Theoretical Framework**
Unit: 4	**Capital and Revenue Expenditure and Receipts**

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

Legend



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SELF STUDY QUESTIONS

Q1. Why is distinction between Various Expenses Needed?

Answer:

Accounting is ascertaining and presenting of financial results of Enterprise for a particular accounting period. A proper distinction should be made between various expenses and incomes regarding their nature so as to give correct information to the users of accounting statements. While preparing of financial accounts, expenses related to business operations for a particular accounting period must form part of Trading and profit and loss Account as they are of revenue nature. Similarly, expenses which generated benefits and revenue for more than a year must be capitalised and form part of balance sheet and later would be transferred to Profit and loss A/c in the year in which the benefit of such expenses is actually utilised. The distinction between the capital and revenue expenditure or income is based on the time factor.

Q2. What consideration is needed is determining Capital and Revenue Expenditures?

Answer:

1. **Nature of business:**
   Categorisation of capital of revenue depends upon the type of business entity. An item can be capital for entity and revenue for another.
   For example:
   Purchase of machinery is generally a capital expenditure however an entity trading in such machines will theat it as a revenue expenditure.
2. **Recurring nature of the expense:**
   An expense of periodic nature, i.e. recurring in nature is generally classified as revenue expenditure while expenses which are not of periodic nature and are infrequent are classified as capital expenditure.

For example:

Amount spent on repairs and white wash of building is required to be done periodically would be treated as revenue expenditure however if cost is incurred for extension of building, the same will be of capital nature because it is non-recurring.

3. **Purpose of expenditures:**

   Purpose is also a deciding factor for treating expenditure as capital or revenue. If any expense is incurred in the ordinary course of business it will be treated as revenue expense and if expense incurred results in creation of new asset, increasing the life beyond original improving the existing system it would be capital expenditure.

   For example:

   Daily repairing and maintenance of office equipments are revenue nature however expense for improvement of electrical wiring system in capital expenditure.

4. **Effect on revenue generating capacity:**

   If the expense incurred results into increase in future benefits of the enterprise it is said to be of capital nature and if the future benefits remain unchanged then the expense is revenue expense.

   For example:

   Expense incurred for increasing the production capacity of a machine so that the number of units produced gets doubled, it will be treated as capital expediture.

   If expense is done for normal wear and tear of machinery, it will be revenue expenditure.

5. **Materiality:**

   The concept of materiality comes into operation while dealing with capital expenditure of low value.

   For example:

   Expenses incurred on purchase of pen drives, calculators, CD, etc although qualify for capital expenditure due to nature of transaction, but still they are treated as expenses and debited in profit and loss A/c.

Q3. What are Capital Expenditures and Revenue Expenditures ?

Answer:

Amount spent by the business enterprise for purchase of assets which are used in business and not meant for resale. It is an expenditure the benefit of which is not exhausted in one accounting year but is spread over a number of years. They are of non-recurring nature i.e. they are infrequently incurred. Revenue expenditure is the amount spent by business enterprise on day to day operations or such expenditure, the benefit of which is exhausted in the period in which they are incurred i.e. within the same accounting period. They are usually of recurring nature and short period expenses. These expenses do not result in any increment in production capacity or improvement in operations but they are expended to maintain the existing revenue generating capacity of the assets.

Example 1:

State whether the following expenditures are of capital or revenue nature.

(a) A second hand machine was purchase for ₹ 60,000 and installation charges ₹ 10,000.

(b) Cost of Aircondition for the office of CEO.

(c) ₹ 50,000 spent on construction of temporary huts necessary for construction of apartment which were demolished after the completion of construction work.

(d) Compensation paid to workers opted for VRS of ₹ 5 crore.

(e) Customs duty ₹ 18,000 paid on import of machinery for mordernisation of factory.

(f) Repairs of 15,000 necessitated by negligence.

Solution:

(a) Total expense of ₹ 70,000 to be treated as capital expenditure as ₹ 60,000 was expended on capital asset and ₹ 10,000 to make asset ready to use.

(b) Capital expenditure since benefit will available for number of years.

(c) Cost of constructing a temporary structure for main building is a capital expenditure as it was necessary for the construction of apartments.

(d) Revenue expenditure but due to huge amount to be deferred over number of years.
(e) Custom duty on import of machinery for modernisation of factory is a capital Expenditure.
(f) Repairs changes are revenue expenditure as they are incurred for maintenance and not for improvement of asset.

Q4.What are Capital Receipts and Revenue Receipts ?
Answer:
Capital Receipts: Amount received by the business which is not or regular nature i.e. not obtained in the normal course of business such as capital contribution received by the owners at the time of issue of shares, these receipts are of non-recurring nature and do not affect the profits and are shown as liability in balance sheet.
Revenue Receipts: Those business receipts which are earned due to normal business activities in the ordinary course of business. These are recurring and are shown in Trading and profit and loss A/c of the accounting period.
Example:
Dividend income, Revenue from sales etc.

Example 2:
(a) Amount received from Trade debtors ₹ 15,000.
(b) Insurance claim received on machinery destroyed due to fire in factory building.
(c) Term loan taken from bank of ₹ 2,00,000
(d) Share premium received on issued of shares
(e) Compensation received from supplier due to late delivery of goods.
Solution:
(a) Revenue receipt since it is earned in the ordinary course of business.
(b) Capital receipt since it is not any ordinary business receipt.
(c) Securing of loan is not a normal business activity and hence loan from bank is a capital receipt.

(d) Share Premium is a capital receipt and is received occasionally when shares are issued. If is shown on th liability side of balance sheet and not in nature of regular income and hence is a capital receipts.

(c) Dealing in goods is the regular business activity, any compensation received on account of such activities is general to business and hence is a revenue receipt.

Questions for Practice and Conceptual Clarity only (The questions below have been given for building the basics and increasing knowledge of the students)

MULTIPLE CHOICE QUESTIONS

1. ₹2500, spent on the overhauling on purchase of second hand machinery:
   (a) Capital expenditure
   (b) Revenue expenditure
   (c) Deferred revenue expenditure
   (d) None of the above
2. Which of the following is a revenue expenditure?
   (a) Freight paid on purchase of plant and machinery
   (b) Legal expenses paid to acquire a property
   (c) Annual white wash of the factory building
   (d) Expenses incurred to reduce working capital requirement
3. Loss caused by theft of cash by cashier after business hours is a :
   (a) Revenue loss
   (b) Deferred revenue loss
   (c) Capital loss
   (d) None of the above

4. Share Premium is a:
   (a) Capital Receipt
   (b) Revenue Receipt
   (c) Deferred Revenue Receipt
   (d) None of these
5. **Assertion:** Damages paid on account of breach of contract to supply certain goods is a capital expenditure.
   Reasoning: Such damages are incurred in the ordinary course of business:
   (a) Both the statements are correct and second is a correct explanation of the first
   (b) Both the statements are correct but second is not a correct explanation of the first
   (c) First statement is correct but second is not
   (d) First statement is not correct but second is correct
6. Amount spent on increasing the seating capacity in a cinema hall is:
   (a) Capital expenditure
   (b) Revenue expenditure
   (c) Deferred Revenue expenditure
   (d) None
7. Capital expenditure provide ________ benefit:
   (a) Short period
   (b) Long period
   (c) Very short period
   (d) None
8. An amount of ₹ 30,000 spent on traveling expenses of the company's director's to a foreign trip for purchase of an asset to be used in the production process. This is a:
   (a) Capital expenditure
   (b) Revenue expenditure
   (c) Deferred revenue expenditure
   (d) None of the above

9. Recovery of Bad debt is a:
   (a) Revenue Receipt
   (b) Capital Receipt
   (c) Capital Expenditure
   (d) Revenue Expenditure
10. Amount spent on unsuccessful patent right is a:
   (a) Revenue Expenditure (Even though the amount is large)
   (b) Deferred Revenue Expenditure (If the amount is large)
   (c) Capital Expenditure
   (d) None of these
11. Capital Receipts are represented in:
   (a) Balance Sheet
   (b) Trading account
   (c) Profit & Loss A/c
   (d) Manufacturing A/c
12. Preliminary Expenses are an example of:
   (a) Revenue Expenditure
   (b) Capital Expenditure
   (c) Deferred Revenue Expenditure
   (d) All of these
13. Brokerage on the issue of shares and debentures is a ________ expenditure:
   (a) revenue
   (b) capital
   (c) deferred revenue
   (d) partly capital partly revenue
14. What is the difference between deferred revenue expenditure and prepaid expenses?
   (a) Accounting treatment
   (b) Estimation of amount
   (c) Benefit for more than one accounting period
   (d) Nature of expenditure

15. Machinery was purchased for ₹ 10,000 and ₹ 500 paid as wages for erection of machinery? The account that should be debited is:
    (a) Wages A/c
    (b) Machinery A/c
    (c) Repairs A/c
    (d) None
16. An old machinery is purchased for ₹10,000. Installation charges of ₹1,000 were incurred. Repairs to the old machinery = ₹7,000 Repairs Account will be debited by:
    (a) ₹7,000
    (b) ₹8,000
    (c) Nil
    (d) None of the above
17. X Limited spent ₹10,00,000 towards construction of office building. It also spent ₹50,000 towards construction of temporary store and used the store for building construction purpose. On completion of building construction the store was dismantled and the materials were sold for ₹20,000. Mr. A, a supervisor was paid ₹60,000 as his salary during the period of construction and he devoted 2/3rd of his time for the building construction. The capitalized cost of office building was:
    (a) ₹10,00,000
    (b) ₹11,10,000
    (c) ₹10,90,000
    (d) ₹10,70,000
18. A truck was purchased and after sometime, the name of the company was painted on it for advertisement purpose for ₹ 1,000 this is:
    (a) Capital Expenditure
    (b) Deferred Revenue Expenditure
    (c) Revenue Expenditure
    (d) None.

19. Medium term loan obtained from bank for augmenting working capital is:
    (a) Revenue Expenditure
    (b) Capital Expenditure
    (c) Revenue Receipt
    (d) Capital Receipt.
20. If repairs of ₹ 100 are done on a machinery then which account will be debited?
    (a) Machinery A/c
    (b) Repairs A/c
    (c) Capital A/c
    (d) Wages A/c.
21. Heavy advertisement expenditure should be treated as:
    (a) Deferred Revenue Expenditure
    (b) Revenue expenditure
    (c) Capital Expenditure
    (d) None of these.
22. Deferred Revenue Expenditure to the extent of not written off, is shown in Balance Sheet under the head:
    (a) Miscellaneous Expenditure
    (b) Capital
    (c) Current Liabilities
    (d) Fixed Assets.
23. 'A' purchased a Car on 1.06.2010 for ₹5,60,000 and incurred ₹25,000 for repairs, etc. He paid ₹10,000 as insurance, ₹1,500 for petrol. What amount should be debited to Car A/c?
    (a) ₹5,60,000
    (b) ₹5,96,500
    (c) ₹5,95,000
    (d) ₹5,85,000

24. XYZ Limited has a house for 3 years. It used it as guest house. Now it incurred an expenditure for ₹2,50,000 for repairing the roof of this house. Expenses incurred on such repairs are:
    (a) Capital Expenditure
    (b) Revenue Expenditure
    (c) Deferred Revenue Expenditure
    (d) None of the above.
25. Which of the following Expenses will not be included in the acquisition of plant?
    (a) Purchase Price of Plant
    (b) Installation Expenses
    (c) Annual Maintenance charges
    (d) Delivery charges of the plant.
26. A new machine was purchased in Delhi and brought to Jaipur factory site for installation. The machine was damaged during transit and repair expenses were incurred amounting to ₹ 20,000. Such repair will be treated as:
    (a) Capital expenditure
    (b) Revenue expenses
    (c) Deferred revenue expenditure
    (d) Reserves
27. Revenue Expenditure wrongly recorded as Capital Expenditure will result in:
    (a) Overstatement of net profit and understatement of assets
    (b) Overstatement of net profit and overstatement of assets
    (c) Understatement of net profit and overstatement of assets
    (d) Understatement of net profit and understatement of assets
28. Which of the following statement is false?
    (a) Expenses in connection with obtaining a licence for running the Cinema is Capital expenditure
    (b) Heavy advertisement expenses to introduce a new product is deferred revenue expenditure

(c) Cost of construction of building including cost of temporary huts for storing building materials is capital expenditure
(d) The cost of Rings and Pistons of an engine changed to increase its fuel efficiency is revenue expenditure

29. Expenditure incurred of ₹ 20,000 for trial run of a newly installed machinery would be:
(a) Preliminary expenditure
(b) Capital expenditure
(c) Revenue expenditure
(d) Deferred revenue expenditure

30. Amount spent on increasing the seating capacity in cinema hall is:-
(a) Capital Expenditure
(b) Revenue Expenditure
(c) Deferred Revenue Expenditure
(d) None of the above.

31. Renewal fee for patent is a:
(a) Capital expenditure
(b) Revenue expenditure
(c) Deferred revenue expenditure
(d) Development expenditure

32. Shivam purchased an old building for ₹50 lakhs. He demolished the building for the purpose of constructing shopping mall on the same site. Demolition cost was. ₹1 lakh. Construction cost of the mall was ₹35 lakhs. He inaugurated it and the inauguration cost was ₹50,000 Capital Expenditure was:
(a) ₹86,00,000
(b) ₹86,50,000
(c) ₹85,00,000
(d) ₹85,50,000

33. Rohit is in real estate business. On 6th June, 2014 he sold a penthouse for ₹4 crores (costing ₹3.5 crores). The amount realised is a
(a) Capital receipt and profit should be transferred to capital reserve.
(b) Revenue receipt and profit should be transferred to Profit and Loss A/c.

(c) Capital receipt and profit should be transferred to Profit and Loss A/c.
(d) Revenue receipt and profit should be transferred to General Reserve A/c.

34. Deepawali advance given to employees is _________.
(a) capital expenditure
(b) revenue expenditure
(c) deferred revenue expenditure
(d) not an expenditure

35. The total of discount column on the debit side of the cash book is, posted in the:
(a) Debit side of discount received account
(b) Credit side of discount received account
(c) Debit side of discount allowed account
(d) Credit side of discount allowed account.

36. If repairs cost is ₹30,000, white wash expenses are ₹5,000, cost of extension of building is ₹3,00,000 and cost of improvement in electrical wiring system is ₹30,000. The amount of Revenue expenditure will be:
(a) ₹65,000
(b) ₹35,000
(c) ₹3,65,000
(d) ₹3,35,000

37. The unexpired portion of capital expenditure is shown in the financial statements:
(a) As an asset
(b) As an income
(c) As a liability
(d) As an expense.

38. Legal expenses incurred in defending a suit for breach of contract to supply goods is a:
(a) Revenue expenditure
(b) Capital expenditure
(c) Deferred revenue expenditure
(d) None of above.

39. Money spent to reduce working/revenue expenses is:
    (a) Revenue Expenditure
    (b) Deferred Revenue Expenditure
    (c) Capital Expenditure
    (d) None of above.
40. If repair cost is ₹30,000, whitewash expenses are ₹6,000, cost of extension of building is ₹3,00,000 and cost of improvement in electrical wiring system is ₹22,800, the amount of expense is:
    (a) ₹3,58,800
    (b) ₹52,800
    (c) ₹36,000
    (d) ₹58,800
41. Insurance claim received on account of machinery damaged by fire:
    (a) Capital receipt.
    (b) Revenue receipt.
    (c) Capital expenditure.
    (d) Business expenditure.

ANSWER

1.	(a)	**2.**	(c)	**3.**	(c)	**4.**	(a)	**5.**	(d)
6.	(a)	**7.**	(b)	**8.**	(a)	**9.**	(a)	**10.**	(a)
11.	(a)	**12.**	(c)	**13.**	(c)	**14.**	(b)	**15.**	(b)
16.	(c)	**17.**	(d)	**18.**	(c)	**19.**	(d)	**20.**	(b)
21.	(a)	**22.**	(a)	**23.**	(b)	**24.**	(c)	**25.**	(c)
26.	(b)	**27.**	(b)	**28.**	(d)	**29.**	(b)	**30.**	(a)
31.	(b)	**32.**	(a)	**33.**	(b)	**34.**	(d)	**35.**	(c)
36.	(b)	**37.**	(a)	**38.**	(a)	**39.**	(c)	**40.**	(c)
41.	(a)								

SHORT PRACTICE QUESTIONS

1. Differentiable between Capital expenditure are revenue expenditure

Answer:

Basis	Capital Expenditure	Revenue Expenditure
Purpose	Incurred for acquiring fixed assets to be used in business	Incurred for day to day operations of business
Earning Capacity	Increases	Remains same

Treatment	It is shown in balance sheet	It is shown as a part of Trading and profit and loss A/c
Nature	Non recurring in nature	Recurring in nature
Examples	(i) Cost of fixed assets (ii) Installation expenses	(i) Depreciation of fixed Assets. (ii) Repairs and maintenance of plant and machinery.

2. Define capital receipts
3. Mention the basic consideration in determining capital and revenue expenditures *(Please Refer Question no.2 on page no. 73)*.

PAST YEAR QUESTIONS AND ANSWERS

OBJECTIVE QUESTIONS

1994 - Nov [5] State with reasons whether following statements are true or false.

(3) Amounts written off from the cost of fixed assets is capital expenditure. (2 marks)

(4) Wages paid to workers to produce a tool to be captively consumed is capital expenditure. (2 marks)

Answer:

(3) False: Amounts written off from the cost of fixed assets is treated as revenue expenditure and charged to profit and loss account. Depreciation is an example of such write off.

(4) True: Wages paid to workers for the creation of an asset to be used in the business is capital expenditure.

1995 - May [5] State with reasons whether following statement is true or false.

(g) Expenditure which results in acquisition of a permanent asset is a capital expenditure. (2 marks)

Answer:

True: Expenditure which results in acquisition of a permanent asset is a capital expenditure.

1995 - Nov [5] State with reasons whether following statements are true or false.

(2) Sale of Office Furniture should be credited to Sales Account. (2 marks)

(3) Wages paid for erection of machinery are debited to Profit and Loss Account. (2 marks)

Answer:

(2) False: Sales of office furniture should be credited to Furniture Account because it is a capital receipt.

(3) False: Wages paid for erection of machinery is a capital expenditure and hence should be debited to Machinery Account.

1996 - May [5] State with reasons whether following statement is true or false.

(3) Overhaul expenses of a second-hand machinery purchased are revenue expenditure. (2 marks)

Answer:

False: Overhaul expenses are incurred to put a second-hand machinery in working condition to derive long term benefits of enduring nature. So this is capital expenditure.

1996 - Nov [5] State with reasons whether following statements are true or false.

(1) In accounting, all business transactions are recorded as having dual aspect. (2 marks)

(7) Major repair charges including replacement of certain worn-out parts incurred before using a second-hand Car purchased recently is a capital expenditure. (2 marks)

Answer:

(1) True: Being associated with the system of double entry book keeping, every transaction has a two-fold effect in accounting whereby one account is debited and another is credited by the same amount.

(7) True: These charges were incurred to put a second-hand car in working condition to derive long term benefits of enduring nature. So this is capital expenditure.

1997 - May [5] State with reasons whether following statement is true or false.

(1) The gain from sale of capital assets need not be added to revenue to ascertain the net profit of a business. (2 marks)

Answer:

True: To ascertain the true net business profit, the gain from sale of capital assets should not be considered because it is not due to normal business operations.

1997 - Nov [5] State with reasons whether following statements are true or false.

(1) An expenditure intended to benefit the current period is a revenue expenditure. (2 marks)

(7) Sale of office furniture should be credited to sales account. (2 marks)

(10) Expenditure which results in acquisition of permanent asset of enduring benefit to the business is a capital expenditure. (2 marks)

Answer:

(1) True: Revenue expenditure is that expenditure benefit of which does not extend beyond the current accounting period.

(7) False: Sale of office furniture should be credited to furniture account because it the capital receipt.

(10) True: Expenditure which results in acquisition of a permanent asset is a capital expenditure since it will generate enduring benefits and help in revenue generation over more than one accounting period.

1998 - May [5] State with reasons whether following statement is true or false.

(6) Wages paid to workers to produce a tool to be captively consumed is capital expenditure. (2 marks)

Answer:

True: Wages paid to workers for the creation of an asset to be used in the business is capital expenditure.

1999 - May [5] State with reasons whether following statements are true or false.

(vii) Expenses incurred on white-washing of factory building done after every six months is Revenue expenditure. (2 marks)

(x) Amount spent for replacement of worn out part of a machine is Capital Expenditure. (2 marks)

Answer:

(vii) True: Expenses incurred on white-washing of factory building done after every six months are incurred in the course of normal maintenance of the asset and are therefore, revenue expenses.

(x) False: Amount spent for replacement of any worn out part of a machine is revenue expenditure since it is part of its maintenance cost.

1999 - Nov [5] State with reasons whether following statements are true or false.

(v) Heavy advertising to introduce a new product is capital expenditure. (2 marks)

(x) Legal fees paid to acquire a property is capital expenditure. (2 marks)

Answer:

(v) False: The effect of heavy advertising with regard to the launching of a new product will last generally for more than one accounting period, but it does not create any property of tangible or intangible nature and so the expenditure is spread over the period for which its effect would remain. This type of expenditure is deferred revenue expenditure and not capital expenditure.

(x) True: Legal fees paid to acquire a property is part of the cost of that property. It is incurred to possess the ownership right of the property and hence a capital expenditure.

2000 - May [5] State with reasons whether following statement is true or false.

(ix) Travelling expenses of ₹80,000 paid to a technician for the installation of a new machine is debited to Profit and Loss Account. (2 marks)

Answer:

False: The expenditure is a capital expenditure since it has been incurred to put the asset in working condition.

2000 - Nov [5] State with reasons whether following statement is true or false.

(7) Expenditure which results in acquisition of a permanent asset is a revenue expenditure. (2 marks)

Answer:

False: Expenditure which results in acquisition of a permanent asset is a capital expenditure since it will generate enduring benefits and help in revenue generation over more than one accounting period.

2001 - Nov [5] State with reasons whether following statement is true or false.

(ii) Expenditure, which results in acquisition of a permanent asset is a Revenue Expenditure. (2 marks)

Answer:

Please refer 2000 - Nov [5] (7) on page no. 91

2002 - May [5] State with reasons whether following statement is true or false.

(v) Wages paid for erection of machinery are debited to the Machinery Account. (2 marks)

Answer:

True: Wages paid for erection of machinery is a capital expenditure and hence should be debited to the machinery account.

2002 - Nov [5] State with reasons whether following statement is true or false.

(j) An Expenditure intended to benefit the current period is a Revenue Expenditure. (2 marks)

Answer:

True: Revenue expenditure is that expenditure the benefit of which does not extend beyond the current accounting period.

2004 - May [5] State with reasons whether following statement is true or false.

(iii) Sale of office furniture should be credited to sales account. (2 marks)

Answer:

Please refer 2000 - Nov [5] (7) on page no. 91

2004 - Nov [5] State with reasons whether following statement is true or false.

(v) Legal fees paid to acquire a property is capital expenditure. (2 marks)

Answer:

True: Legal fees paid to acquire a property is a part of the cost of that property. Hence it is taken as capital expenditure.

2005 - May [5] State with reasons whether following statement is true or false.

(iii) Amount paid to Management company for consultancy to reduce the working expenses is revenue expenditure. (2 marks)

Answer:

False: Amount paid to management company for consultancy to reduce the working expenses is deferred revenue expenditure as this expenditure will generate long-term benefit to the entity.

2005 - Nov [5] State with reasons whether following statement is true or false.

(vi) Wages incurred by a factory in manufacturing a part for its plant, is a revenue expense. (2 marks)

Answer:

False: Wages incurred by a factory in manufacturing a part of its plant, is a capital expenditure. This expenditure will be included in the cost of plant.

2006 - Nov [5] State with reasons whether following statement is true or false.

(viii) A heavy advertisement expense to introduce a new product is a capital expenditure. (2 marks)

Answer:

False: Such expenses are treated as Deferred Revenue Expenditure and not Capital Expenditure as the effect of heavy advertisement expense will be lasting for more than one accounting period. Such expenses are spread over the effective period.

2018 - May [1] {C} (a) State with reasons, whether the following statement is true or false:

(i) Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure. (2 marks)

Answer:

False: The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense which is capitalized. Such expenses are not revenue and amortized over a period of time.

2018 - Nov [1] {C} (a) State with reasons, whether the following statement is true or false:

(i) Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure. (2 marks)

Answer:

False: Overhauling expenses are incurred for the engine of a motor car to derive better fuel efficiency. These expenses will reduce the running cost in future and thus the benefit is in form of endurable long-term advantages. So this expenditure should be capitalised.

2019 - June [1] (a) State with reasons, whether the following statement is true or false :

(i) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure.(2 marks)

Answer:

True: Cost of temporary huts constructed which were necessary for the construction of the Cinema House is part of the construction cost of the Cinema House. Therefore, such costs are to be capitalised.

2019 - Nov [1] {C} (a) State with reason, whether the following statement is True or False.

(ii) M/s. XYZ & Co. runs a café. They renovated some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 15 to 18. The total expenditure incurred was ₹ 30,000 and was treated as a revenue expenditure. (2 marks)

Answer:

False: Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus, the renovation expense is capital expenditure in nature.

SHORT NOTES

1996 - May [6] Write short note of the following:

(3) Capital Receipts and Revenue Receipts. (5 marks)

Answer:

Please refer 1994 - Nov [6] (1) on page no. 95

2004 - Nov [6] Write short note on the following:

(iv) Capital Expenditure and Revenue Expenditure. (5 marks)

Answer:

Capital Expenditure: An expenditure intended to benefit future periods is known as capital expenditure. In other words, if the benefit of an expenditure is not exhausted in one accounting period, but is spread over future periods,

the expenditure is known as capital expenditure. For instance, a table or a chair bought during the current accounting period is intended to be used over and over again, so that the benefit of its usage is spread over a number of future accounting periods. The same is true of land, buildings, plant and machinery, etc.

Accordingly, any expenditure incurred in the acquisition of an asset to be used over a number of years is capital expenditure. Similarly, an expenditure on an existing asset, in the form the additions or improvements, with a view to increasing its revenue earning capacity, is also a capital expenditure.

Revenue Expenditure: Revenue expenditure benefits a current period. Accordingly, an expenditure, the benefit of which is exhausted in the period in which it is incurred, is known as revenue expenditure. A revenue expenditure neither results in the acquisition of an asset, nor is it incurred to increase the revenue earning capacity of an existing asset. It is, in fact, incurred to retain the original revenue earning capacity of an asset. As such, the expenditure is of a revenue nature.

DISTINGUISH BETWEEN

1994 - Nov [6] Distinguish between the following:

(1) Capital Receipts and Revenue Receipts. (5 marks)

Answer:

Capital Receipt: These are the money received from the activities other than normal business activities e.g. Issue of shares and debentures, sale of fixed assets. Such receipts are of non-recurring nature. They do not affect profit and are shown as a liability or as a reduction from the assets.

Revenue Receipt: These are the money received in the course of normal business activities. e.g. Sales, interest, dividend, etc. Such receipts are of recurring nature and for general purpose. They are shown on the credit side of profit & loss A/c.

1996 - Nov [6] Distinguish between the following:
(a) Capital Expenditure and Revenue Expenditure (5 marks)
Answer:
Please refer 1994 - Nov [6] (1) on page no. 95.

1997 - May [6] Distinguish between the following:
(4) Capital Expenditure and Revenue Expenditure. (5 marks)
Answer:
Please refer 1994 - Nov [6] (1) on page no. 95.

1998 - May [6] Briefly explain the differences between on the following:
(b) Capital Receipts and Revenue Receipts. (5 marks)
Answer:
Please refer 1994 - Nov [6] (1) on page no. 95.

2001 - Nov [6] Briefly explain the differences between on the following:
(d) Capital Expenditure and Revenue Expenditure. (5 marks)
Answer:
Please refer 1994 - Nov [6] (1) on page no. 95.

2006 - Nov [6] Distinguish between the following:
(iv) Capital Receipts v/s Revenue Receipts. (5 marks)
Answer:
Please refer 1994 - Nov [6] (1) on page no. 95.

CHAPTER	
1	**Theoretical Framework**
Unit: 5	**Contingent Assets and Contingent Liabilities**

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

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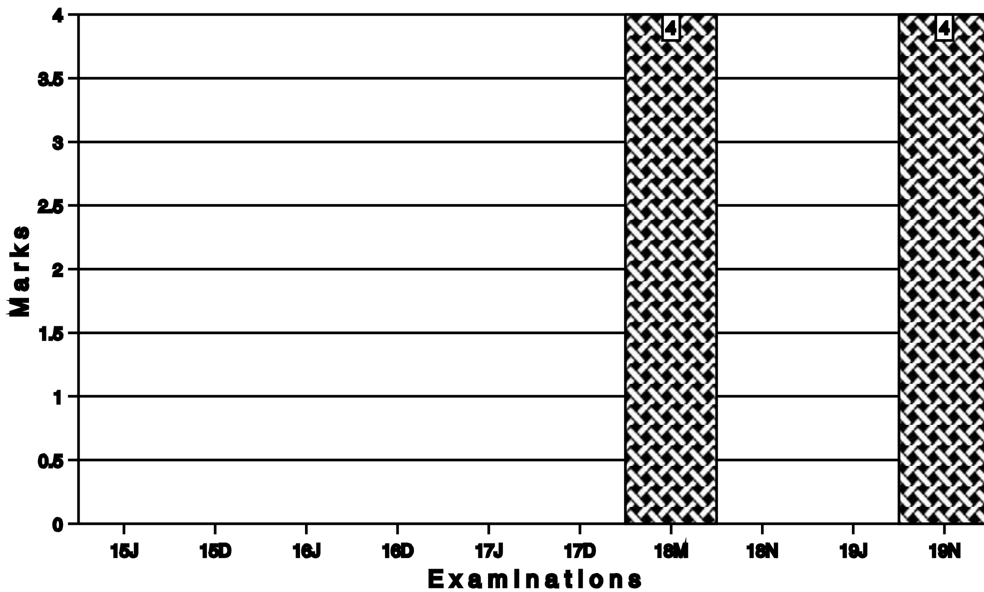

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SELF STUDY QUESTIONS

Q1.What are Contingent Assets?

Answer:

A potential economic benefit or a possible asset which arises from the past events but the existence of which will be confirmed on happening or non-happening of one or more future events which are beyond the control of the enterprise. As per AS-29,

Asset to be qualified as contingent must have following characteristics:

- **Possible Asset:** Asset should arise out of past events.
- Existence to be confirmed on occurrence or non-occurrence of one or more future events.
- The dependent future events are beyond the control of the enterprise. These assets are not recognised in financial statements as a matter of prudence and is disclosed in the Director's report.

Q2. What are Contingent Liabilities?

Answer:

According to AS 29, Accounting Standard on Provision, Contingent Liabilities and Contingent Assets.

A contingent liability is-

(a) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or

(b) a present obligation that arises from past events but is not recognised because:

  (i) it is not probable that an outflow or resources embodying economic benefits will be required to settle the obligations:
  or

  (ii) a reliable estimate of the amount of the obligation cannot be made.

Q3. Distinguish between Contingent Liabilities and Liabilities?
Answer:

Basis	Contingent Liabilities	Liabilities
1. Meaning	Possible obligation that arises out of past events and confirmed by one or more future events.	Present financial obligation arising out of past events resulting in outflow of resources.
2. Measurement	Cannot be measured with sufficient reliability.	Can be measured with sufficient reliability.
3. Disclosure	Is disclosed by way of foot note at the end of Balance Sheet as per AS-29.	Forms the part of Balance Sheet.
4. Examples	Unacknowledged debts, statutory liabilities in dispute, bills discounted, etc.	Amount due to creditors, tax due, payment of wages to workers, etc.

Q4. Distinguish between Contingent Liabilities and Provisions?
Answer:

Basis	Contingent Liabilities	Provisions
1. Meaning	Possible obligation arising out of past events and confirmed by occurrence of one or more future events, hence cannot be measured with sufficient reliability.	Liability which can be measured using substantial degree of estimation.
2. Recognition	Is not recognised due to uncertainty.	Is recognised in books of accounts as a reliable estimate can be made.

3. Disclosure	Is disclosed by way of foot note as per AS 29.	Is debited to Profit and Loss A/c after adjusting expense paid, addition, deletion as required.
4. Examples	Pending litigation, third party guarantees, etc.	Provision for doubtful debts, provision for

Questions for Practice and Conceptual Clarity only (The questions below have been given for building the basics and increasing knowledge of the students)

MULTIPLE CHOICE QUESTIONS

1. Present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation, is termed as:
   (a) Provision
   (b) Liability
   (c) Contingent Liability
   (d) None of the above
2. Contingent asset is not recognized in the financial statements on the basis of _____ accounting concept:
   (a) Prudence
   (b) Materiality
   (c) Substance over form
   (d) Going concern
3. Contingent assets usually arise from unplanned or other unexpected events:
   (a) True
   (b) False
   (c) Partly True
   (d) None

4. Provision for contingencies are not made in respect of _____ since they do not relate to situation existing at the balance sheet date:
   (a) Unspecified business risk
   (b) Certain business risk
   (c) Specified business risk
   (d) Uncertain business risk
5. Which of the following is not a contingent liability?
   (a) Uncalled liability on partly paid shares
   (b) Claims against the company not acknowledged as debts
   (c) Arrears of cumulative fixed dividends
   (d) Debts included in debtors which are doubtful in nature
6. Contingent Liabilities are shown:
   (a) As current liability
   (b) As Capital fund
   (c) As footnotes to balance sheet
   (d) As Reserves
7. 'Workmen Compensation under Dispute' is an example of:
   (a) Contingent Liability
   (b) Contingent Asset
   (c) Current Liability
   (d) Current Asset
8. Bill discounted with a bank is ____.
   (a) Contingent liability
   (b) Current liability
   (c) Current Asset
   (d) None of these
9. Which of the following is not a contingent liability?
   (a) Claims against the firm not acknowledged as debts.
   (b) Guarantees given in respect of third parties.
   (c) Amount due to trade creditors which is not disputed.
   (d) Bills discounted from bank.
10. Income tax demand, disputed by a company is _______.
   (a) Contingent liability
   (b) Current liability

(c) Long term liability
(d) None of these.

11. Contingent liability if becomes probable then it is __________.
    (a) Provided for in the books of A/c
    (b) Provided in Director's report
    (c) Shown in notes to accounts
    (d) None of these.
12. ________ appear as a footnote below the balance sheet.
    (a) Fictitious assets
    (b) Contingent liabilities
    (c) Current liabilities
    (d) Current assets
13. Which of the following is not a contingent liability?
    (a) Claims against enterprises not acknowledge as debts
    (b) Guarantees given in respect of the third parties
    (c) Liabilities in respect of bills dishonoured
    (d) Penalty imposed by Excise officer for violation of a provision of the Central Excise Act.
14. Which of the following is not a difference between a provision and contingent liability?
    (a) A provision meets the recognition criteria whereas a contingent liability fails to meet the same.
    (b) Provision is a present liability of uncertain amount whereas contingent liability is a possible obligation which arises from past event.
    (c) Provision can't be measured whereas contingent liability can be accurately measured.
    (d) None of the above.
15. In which of the following cases, accounting estimates are needed?
    (a) Employee benefit obligations
    (b) Impairment of losses
    (c) Inventory obsolescence
    (d) All of the above.

16. A contingent asset is:
    (a) Usually disclosed in the Financial Statements
    (b) Usually disclosed in the notes to accounts
    (c) Usually disclosed in the report of the approving authority
    (d) Not disclosed any where
17. Present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation is termed as:
    (a) Provisions
    (b) Liability
    (c) Contingent Liability
    (d) Contingent Assets
18. When outflow of resources to settle the obligation is not probable or the amount expected to be paid to settle the liability cannot be measured with sufficient reliability, it is called ______.
    (a) Provision
    (b) Contingent liability
    (c) Secured loan
    (d) Unsecured loan
19. A company has filed a legal suit against its competitor company claiming ₹ 50 lakhs for in- fringement of patent. However, the outcome of the legal suit is uncertain. The claim may be treated as:
    (a) Income
    (b) Contingent asset
    (c) Provision
    (d) Contingent liability.

ANSWER

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

SHORT PRACTICE QUESTIONS

1. Write short notes on:
   (a) Contingent liability
   (b) Provisions
2. Differentiate between:
   Contingent liability and liability

PAST YEAR QUESTIONS AND ANSWERS

OBJECTIVE QUESTIONS

1995 - May [5] State with reasons whether the following statement is True or False:

(d) Contingent liability is an ascertained liability but its amount and due date are indeterminate. (1.5 marks)

Answer:

False: Contingent liability is an unascertained liability and its amount and due date are also indeterminate. A contingency is defined as a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events.

SHORT NOTES

1998 - Nov [6] Write short note on the following:

(iv) Contingent liability. (5 marks)

Answer:

Accounting Standard (AS) 29 on 'Provisions, Contingent Liabilities and Contingent Assets' defines contingent liability as

- a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise, or
- a present obligation that arises from past events but it is not recognised because
  (a) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

  or

  (b) a reliable estimate of the amount of the obligation cannot be made.

A contingent liability should not be recongnised but only disclosed. Also contingent liability should be periodically reviewed by the enterprise.

2001 - May [6] Briefly explain the following:

(d) Contingent Liability. (5 marks)

Answer:

Please refer 1998 - Nov [6] (iv) on page no. 105

2005 - May [6] Write short note on the following:

(iii) Contingent liability. (5 marks)

Answer:

Please refer 1998 - Nov [6] (iv) on page no. 105

DISTINGUISH BETWEEN

1998 - May [6] Briefly explain the differences between the following:

(a) Contingent Liability and Other Liabilities. (5 marks)

Answer:

Contingent Liability and Other Liabilities: Liability is defined as the financial obligation of an enterprise other than owner's fund. They may be classified into current liabilities and long-term liabilities. Creditors, bills payable and outstanding expenses are examples of current liabilities whereas debentures and term loans from banks and financial institutions are examples of long-term liabilities.

Guidance Note on Terms Used in Financial Statements defines contingent liability as "an obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non-occurrence of one or more uncertain future events." Contingent liability may be in respect of bills discounted, pending suits etc. Thus, it is not an actual liability and as such it is not recorded in the balance sheet. It is simply mentioned by way of foot note to the balance sheet.

2018 - May [1] {C} (b) Differentiate between Provision and Contingent Liability. (4 marks)

Answer:

Difference between Provision and Contingent Liability

	Provision	Contingent Liability
1.	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
2.	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
3.	Provision is recognized when 1. an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and 2. a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
4.	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

2019 - Nov [1] {C} (b) Distinguish between Provision and Contingent Liability. (4 marks)

Answer:

Please refer 2018 - May [1] {C} (b) on page no. 107

CHAPTER	
1	**Theoretical Framework**
Unit: 6	**Accounting Policies**

Self Study Questions

Q1. What do you mean by Accounting Policies?
Answer:

- Accounting policies are principles and methods of applying the various principles in preparation and presentation of entity's financial statements.
- The choice of applying a particular policy required managements judgement on the basis of operating environment of business.
- **Few areas where different accounting policies can be encountered**
  (a) Valuation of inventories
  (b) Calculation of Depreciation
  (c) Calculation of Goodwill
  (d) Valuation of Investments
- For better understanding of financial statements, method adopted must be given in notes to accounts.

Q2. What should be kept is mind while doing Selection of Accounting Policies?
Answer:

- A due care should be given by management while selecting the policy taking into regard the effect on profit statement and performance of business.
- **Characteristics to be considered**
  (a) **Prudence:** Degree of caution for making judgement regarding recording of a particular item of income or expense.

(b) **Substance overform:** Proper judgement to reflect true essence of transaction rather than its legal form.
(c) **Materiality:** Financial statements must disclose material facts which are relevant for decision making.

Q3. When can change in Accounting Policies be made?
Answer:
Any change in policies should only be made if:
1. Change is required by statute for compliance with accounting standard.
2. Change would result is more appropriate presentation of financial statement of the business.

Note: Any change during the year must be disclosed in notes to accounts along with the amount by which financial statements are affected.

Questions for Practice and Conceptual Clarity only (The questions below have been given for building the basics and increasing knowledge of the students)

MULTIPLE CHOICE QUESTIONS

1. A change in Accounting Policy is justified to:
   (a) Comply with Accounting Standard
   (b) Comply with Law
   (c) Ensure more appropriate presentation of Financial Statements
   (d) All of the above
2. Accounting Policies:
   (a) Are prescribed by AS 1
   (b) Are laid down by Law
   (c) Are same for all concerns
   (d) Change from concern to concern

3. Which of the following is one of the major considerations governing the selection and application of accounting policy:
   (a) Prudence
   (b) Materiality
   (c) Substance over form
   (d) All of the above
4. Accounting principles and policies are to be standardised to achieve:
   (a) Transparency
   (b) Consistency
   (c) Comparability
   (d) All of these
5. Which is not an example of an accounting policy:
   (a) Going Concern
   (b) Valuation of Fixed Assets
   (c) Treatment of Retirement Benefits
   (d) Valuation of Inventories
6. As per AS 1 disclosure should form part of:
   (a) The Final Accounts
   (b) The Auditor's Report
   (c) The Director's Report
   (d) The Books of Accounts
7. Selection of an inappropriate accounting policy may lead to :
   (a) Understatement of Performance
   (b) Overstatement of Performance
   (c) Understatement or Overstatement of Financial Position
   (d) None of the above
8. Selection of appropriate accounting policies is not based on:
   (a) Prudence
   (b) Substance over form
   (c) Amount involved
   (d) Materiality.
9. Which of the following is not an example of change in accounting policy?
   (a) Change in method of providing depreciation on fixed assets.
   (b) Change in the method of providing inventory valuation.

(c) Adopting double Entry system of accounting in place of Single Entry.
(d) Change in method of valuation of Investments.

10. The area wherein different accounting policies can be adopted are:
    (a) Valuation of inventories
    (b) Retirement benefits
    (c) Treatment of goodwill
    (d) All of the above.
11. An enterprise has adopted a wrong accounting treatment for valuation of spares and tools. However, proper disclosures are being made in financial statements?
    (a) The disclosure has the effect of rectifying the incorrect valuation.
    (b) This wrong treatment will not effect true and fair view of financial statements.
    (c) This disclosure cannot rectify a wrong or inappropriate treatment adopted by the enterprise.
    (d) Wrong treatment has no relevance as spares and tools are not important to the enterprise.
12. A change in accounting policy is justified:
    (a) To comply with law.
    (b) To ensure more appropriate presentation of the financial statement of the enterprise.
    (c) To comply with accounting standard.
    (d) All of the above.

ANSWER

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

SHORT PRACTICE QUESTIONS

1. What are the main considerations in the selection of Accounting Policies?
2. When is change in accounting policy recommended?

PAST YEAR QUESTIONS AND ANSWER

DESCRIPTIVE QUESTIONS

2005 - Nov [3] (b) Explain the meaning of Accounting Policies. (3 marks)

Answer:

The meaning of Accounting Policies:

Accounting Standard 1 on "Disclosure of Accounting Policies" defines the nature and significance of accounting policies. The accounting policies refer to the specific accounting principles and methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements. There is no single list of accounting policies which are applicable to all circumstances. The accounting policies followed vary from enterprise to enterprise. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable. The management of each enterprise has to select appropriate accounting policies having regard to the nature and circumstances in which the enterprise is operating.

Some of the areas in which different accounting policies may be adopted by different enterprises are:

(a) Methods of depreciation, depletion and amortisation
(b) Valuation of inventories
(c) Valuation of investments.

CHAPTER	
1	**Theoretical Framework**
Unit: 7	**Accounting as a measurement discipline - Valuation Principles, Accounting Estimates**

SELF STUDY QUESTIONS

Q1. What is the Meaning of Measurement?

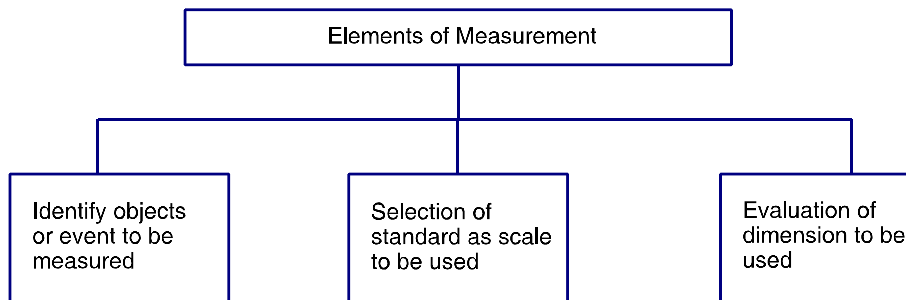
Answer:

Definition: "Measurement is assignment of numbers to objects and events according to rules specifying the property to be measured, the scale to be used and the dimension of the unit".

— Prof. R.J. Chambers

"Measurement is the assignment of a system of ordinal or cardinal numbers to the results of a scheme of inquire or apparatus observations in accordance with logical and mathematical rules."

— Kohler.



Q2. Which Objects or Events are to be measured?

Answer:

- For taking decisions regarding the future prospects of the business, decision makers need suitable information of various business transactions.
- Thus the objects or events to be measured includes measurement of information necessary for decision making.
- The information required can be past and present information which can be relied upon due to its accuracy and future information based on various predictions and logical estimation.

Q3. What is Standard or Scale of measurement?

Answer:

“Standard or Scale of measurement is “money” which can be any currency or denominations. Such as (₹) Rupees; ($) Dollar (£) Pound, etc.

All the transactions and events recorded in financial statement must be measured and presented in monetary currency.

Q4. What should be Dimension of Measurement Scale?

Answer:

Measurement scale should be stable over a time so as to make data comparable of different accounting years.

However money as a measurement scale is unstable due to continuous change in prices, hence having no universal applicability. Hence, cannot be said as an ideal measurement of scale.

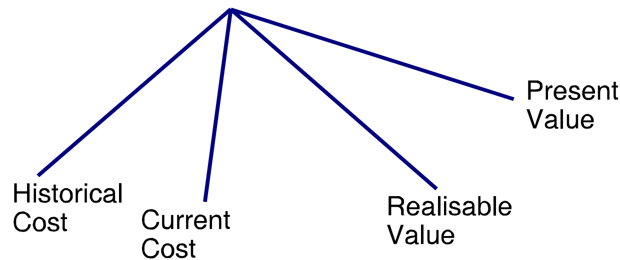
Q5. What do you understand by Accounting as a Measurement Discipline?

Answer:

Measurement is an important aspect of accounting. All the transaction of the business are measured in terms of money and Profit/Loss of the entity is calculated.

Quantitative as well as monetary value of transactions helps to find the financial position of the business and thus measures the performance of the business.

Q6. What are the Valuation Principles?
Answer:



1. **Historical Cost:**
   - It means the cost of acquisition.
   - Assets and liabilities are recorded at the cash or cash equivalent paid/received or fair value of any other consideration paid/received for acquiring the same.
   - This principle does not involve any personal judgement for recording the amount and can easily be cross checked with supporting invoice or other documents.
2. **Current Cost:**
   - It means the cost of asset which will be have to be paid if the same or an equivalent asset is bought currently.
   - Liabilities are carried at undiscounted value as required to settle the obligation.
3. **Realiable Value:**
   - Also known as settlement value, it is the value at which assets are carried at the amount of cash or cash equivalent that can be realised if asset is orderly disposed off.
   - Liabilities are carried at settlement value i.e. undiscounted amount of cash and cash equivalent required to pay them.

4. Present Value:

- This valuation principle considers time value of money.
- As per concept of present value, a unit of money today is more valuable that same unit in future.
- Assets and liabilities are recorded at present discounted value of future net cash inflows/outflows that can be generated/required to pay in the ordinary course of business.
- The process of finding present value for future cash flows is called discounting and process of finding future value for present cash flows is called as compounding.
- As we know Compound Interest rule $A = P(1 + i)^n$ gives the relation between present money and future money in relation to given principal amount.

  Where P = Principal
  A = Amount
  i = interest
  n = time

  So if A, i and n are given, to find P, we can use the following formula.

  $$P = \frac{A}{(1+i)^n}$$

Example 1:

Mr. X purchase machine 1 year age for ₹ 1,25,000.
Useful life = 4 years Salvage Value = Nil
Price of machine increased by ₹ 50,000 in one year.
Annual cash flows accrued at end of

2nd year = 57,000
3rd year = 46,000
4th year = 70,000
Discount Rate = 10%.

Resale value of machine used for 1st year = ₹ 96,000
Find the value of machine as per
(a) Historical Cost
(b) Current Cost

(c) Realisable Value

(d) Present Value

Solution:

(a) Historical Cost [at the end of 1st year]

Purchase Price	=	1,25,000
Less: Value already used $\left[\frac{1,25,000}{4\,years}\right]$	=	31,250
		93,750

(b) Current Cost

Replacement cost of machine [1,25,000 + 50,000]	1,75,000
Less: Value already used $\left[\frac{1,25,000 + 50,000}{4\,years}\right]$	(43,750)
	1,31,250

(c) Realisable value i.e. Resale Value [given] = 96,000

(d) Present Value ⇒ $P = \frac{A}{(1+i)^n}$

(n) Year end	(A) Amount	Discount factor @ 10% p.a.	(A × i) Present Value
1	57,000	.909	51,813
2	46,000	.826	37,996
3	70,000	.751	52,570
			1,42,379

Discount factor = $\frac{1}{(1+i)^n}$

Q7. What do you understand by Measurement and Valuation is Accounts?

Answer:

Valuation principles such as historical cost, current cost, realisable value, present value are the means of valuation of objects, abilities, ideas. Here valuation is on cardinal scale in terms of money.

In economics valuation is in terms of utility which cannot be measured by above principles. Economist use ordinal scales to measure utility.

Q8.What are Accounting Estimates?

Answer:

While preparing financial statements of the enterprise accounting standards are required to be followed. Such standards require certain estimates to be made to be recorded in balance sheet and notes to accounts. These estimates are termed as accounting estimates.

Example: Provision for bad and doubtful debts, provisions for income tax, etc.

Accounting estimates can differ from actual, hence any difference must also to account for in financial statements as per AS-5 few instances where there can be revision in estimates:

- Useful life of business assets
- Value realised from bad and doubtful debts
- Providing for employee benefits etc.

As per AS - 5

1. The effect of a change in accounting estimate should be included in determination of net profit or loss in:
   (a) the period of change, if the change affects the period only; or
   (b) the period of change and future periods, if the change affects both.
2. The effect of change in accounting estimate should be classified using same classification in the statement of profit and loss as was used previously for the estimate.
3. The nature and amount of a change in an accounting estimate which has material effect in the current period, or which in expected to have a material effect in subsequent periods, should be disclosed. If it is impracticable to quantity the amount, this fact should be stated.

Questions for Practice and Conceptual Clarity only (The questions below have been given for building the basics and increasing knowledge of the students)

MULTIPLE CHOICE QUESTIONS

1. In Accounting Money is the:
   (a) Measurement Value
   (b) Scale of Measurement
   (c) Scale of Social Measurement
   (d) Store of Value
2. Money is a measurement scale and has a universal denomination:
   (a) True
   (b) Partly True
   (c) False
   (d) Can't Say
3. Gross Book Value of a Fixed Asset is its:
   (a) Cost less depreciation
   (b) Historical Cost
   (c) Fair Market value
   (d) Realizable value
4. ABC Ltd. purchased a building by paying ₹ 50,00,000 as on 1st April, 2000. On 1st April, 2007 it found that it would cost ₹ 1,50,00,000 to purchase the similar building. This value of ₹ 1,50,00,000 is known as :
   (a) Historical Cost
   (b) Realizable value
   (c) Current Cost
   (d) Present Cost
5. Change in accounting estimate means:
   (a) Differences arising between certain parameters re-estimated during the current period and actual results achieved during the current period

(b) Differences arising between certain parameters estimated earlier and re-estimated during the current period
(c) Differences arising between certain parameters estimated earlier and actual results achieved during the current period
(d) Both (b) and (c).

6. There are _______ generally accepted measurement bases or valuation principles:
   (a) Two
   (b) Three
   (c) Four
   (d) Five
7. All of the following are valuation principles except:
   (a) Historical cost
   (b) Present value
   (c) Future value
   (d) Realizable value
8. Historical cost concept requires the recording of an asset:
   (a) At its Cost Value
   (b) At its Market value
   (c) At its Net Realisable value
   (d) At its Replacement cost
9. Change in Accounting estimate means:
   (a) Difference arising between certain parameters estimated earlier and re- estimated during the current period.
   (b) Difference arising between certain parameters estimated earlier and actual results achieved during current period.
   (c) Differences arising between certain parameters during the current period and actual results achieved during the previous period.
   (d) Both (a) and (b).
10. Change in accounting estimate means:
    (a) Difference arises between certain parameters estimated earlier and re-estimated during the current period.
    (b) Difference arises between certain parameters estimated earlier and actual result achieved during the current period.

(c) Difference arises between certain parameters re-estimated during the current period and actual result achieved during the current period.

(d) Both (a) and (b).

Answer

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

SHORT PRACTICE QUESTIONS

1. What are the valuation principles. Explain briefly.
2. Write shot note on Accounting Estimates.

PAST YEAR QUESTIONS AND ANSWERS

OBJECTIVE QUESTIONS

1999 - Nov [5] State with reason whether the following statement is true or false.

(vii) Current cost gives an alternative measurement base. (2 marks)

Answer:

True: Generally, the value of an asset is determined on the basis of acquisition cost. Current cost is another alternative measurement basis according to which assets are carried at the amount of cash or cash equivalents required to be paid if the same or an equivalent asset has to be acquired currently.

CHAPTER	
1	Theoretical Framework

Unit: 8 — **Accounting Standards**

Self Study Questions

Q1.Write an Introduction on Accounting Standards.

Answer:

The financial accounting process should be carried out under the set guidelines so as to give true and fair view of the affairs of the company. Accounting Standards provide a framework along with standard accounting policies for recording the transactions in the books of accounts so that the financial information presented is in such form which is understandable and comparable with the financial statement of other entities.

According to Kolher:

"Accounting Standards are codes of conduct imposed by custom law or professional bodies for the benefit of public accountants and accountants generally."

Q2. What are the Objectives of Accounting Standards?

Answer:

(a) Harmonising the accounting practices of various entities so as to facilitate inter firm and intra firm comparison of financial statements.

(b) To provide set standards and other disclosure requirements so as to reduce diversified accounting alternatives.

Q3. What are the Benefits and Limitations of Accounting Standards?

Answer:

Benefits:

(a) **Standardisation of alternative accounting treatments:** Uniformity in treatment of transactions.

(b) **Requirements for additional disclosures:** To make accounting statement understandable to the users.

(c) **Comparability of financial statements:** Due to uniform standards followed by all the entities inter firm and intra firm comparison is possible.

Limitations:

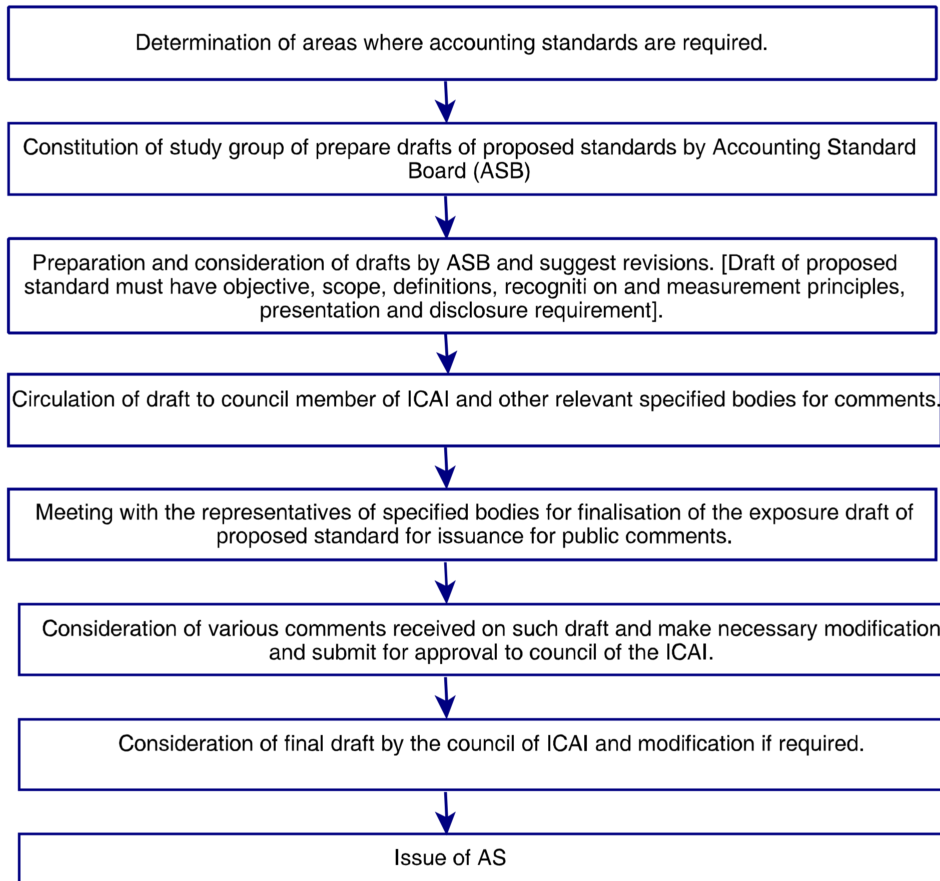
(a) **Difficulties in making choice between different treatments:** Some accounting problems may have multiple solutions along with reasons to recommend them, hence the choice between alternative may be come difficult.

(b) **Restricted Scope:** Accounting Standards are mandatory and hence may avoid initiative for better presentation and disclosure, if such initiative is beyond the ambit of the statute.

Q4. Process of formulation of Accounting Standards in India?

Answer:

Please See Next Page



Q5. List down Accounting Standards in India.

Answer:

Sl. No.	Number of the Accounting Standard (AS)	Title of the Accounting Standard
1.	AS 1	Disclosure of Accounting Policies
2.	AS 2 (Revised)	Valuation of Inventories
3.	AS 3 (Revised)	Cash Flow Statements

4.	AS 4 (Revised)	Contingencies and Events Occurring after the Balance Sheet Date
5.	AS 5 (Revised)	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
6.	AS 6 (pursuant to merging with AS 10, Plant and Equipment w.e.f. 1.4.2017)	Depreciation Accounting
7.	AS 7 (Revised)	Accounting for Construction Contracts
8.	AS 8 (withdrawn pursuant to AS 26 becoming mandatory)	Accounting for Research and Development
9.	AS 9	Revenue Recognition
10.	AS 10	Property, Plant and Equipment
11.	AS 11 (Revised)	The Effects of Changes in Foreign Exchange Rates
12.	AS 12	Accounting for Government Grants
13.	AS 13	Accounting for Investments
14.	AS 14	Accounting for Amalgamations
15.	AS 15 (Revised)	Employee Benefits
16.	AS 16	Borrowing Costs
17.	AS 17	Segment Reporting
18.	AS 18	Related Party Disclosures
19.	AS 19	Leases
20.	AS 20	Earnings Per Share
21.	AS 21	Consolidated Financial Statements
22.	AS 22	Accounting for Taxes on Income

23.	AS 23	Accounting for Investments in Associates in Consolidated Financial Statements
24.	AS 24	Discounting Operations
25.	AS 25	Interim Financial Reporting
26.	AS 26	Intangible Assets
27.	AS 27	Financial Reporting of Interests in Joint Ventures
28.	AS 28	Impairment of Assets
29.	AS 29	Provisions, Contingent Liabilities & Contingent Assets

Questions for Practice and Conceptual Clarity only (The questions below have been given for building the basics and increasing knowledge of the students)

MULTIPLE CHOICE QUESTIONS

1. The Accounting Standards are mandatory for:
   (a) Companies
   (b) Partnership Concerns
   (c) Charitable Organizations
   (d) Sole Proprietorship
2. Accounting Standards refers to specific accounting:
   (a) Principles
   (b) Methods of applying those principles
   (c) Both (a) and (b)
   (d) None

3. Accounting for Property, Plant and Equipment:
   (a) AS 6
   (b) AS 10
   (c) AS 3
   (d) AS 2
4. Accounting Standards _______ the statue:
   (a) Can over-ride
   (b) Cannot over-ride
   (c) May over-ride
   (d) None
5. IASB stands for:
   (a) Indian Accounting Standards Board
   (b) Indian Accounting Standards Bulletin
   (c) International Accounting Standards Bulletin
   (d) International Accounting Standards Board
6. AS - 8 on Accounting for Research and Development:
   (a) Is replaced by AS - 26
   (b) Is applicable only to listed companies
   (c) Is mandatory for Research Institutions
   (d) Is still in use
7. The purpose of Accounting Standards is to:
   (a) Harmonise accounting policies
   (b) Eliminate the non comparability of financial statements
   (c) Improve reliability of financial statements
   (d) All of the above
8. AS 2 is on:
   (a) Disclosure of Accounting Policies
   (b) Valuation of Inventories
   (c) Revenue Recognition
   (d) Depreciation Accounting
9. Which of the following provide framework and accounting policies so that the financial statements of different enterprises become comparable?
   (a) Business standards
   (b) Accounting standards

(c) Market standards
(d) None of the above.

10. Consistency with reference to application of accounting principles refer to the
    (a) All the companies in the same industries should use identical procedures and methods
    (b) Income and assets have not been overstated
    (c) Accounting methods and procedures used have to be consistently applied from year to year
    (d) Any accounting method or procedure can be utilized.
11. Match the following

(A) AS 26	(i) Impairment of Assets
(B) AS 10	(ii) Property, Plant and Equipment
(C) AS 28	(iii) Intangible assets
(D) AS 24	(iv) Accounting for Property, Plant and Equipment

    The Correct alternative is:
    (a) (A)-(iii),(B)-(iv),(C)-(ii),(D)-(i)
    (b) (A)-(ii),(B)-(iv) ,(C)-(i),(D)-(iii)
    (c) (A)- (ii),(B)-(iv) ,(C)-(iii),(D)-(i)
    (d) (A)-(iii),(B)-(iv) ,(C)-(i),(D)-(ii)
12. Certain norms, which are followed by accountants while preparing financial statements in order to reduce the vagueness and chances of misunderstanding by harmonizing the varied accounting practices are
    (a) Accounting Regulations
    (b) Accounting concept
    (c) Accounting Standards
    (d) Accounting Principal
13. All the following are benefits of Accounting Standards except____.
    (a) AS cannot override the statute.
    (b) AS reduce to a reasonable extent confusing variations in the accounting treatments used to prepare financial statements.
    (c) AS may call for disclosure beyond that required by law.
    (d) AS facilitates comparison of financial statements of companies.

14. Match:

1.	Intangible assets	(a)	AS 28
2.	Joint venture	(b)	AS 25
3.	Impairment	(c)	AS 27
4.	Interim	(d)	AS 26

   (a) 1-(d), 2-(b), 3 (c), 4 (a)
   (b) 1 (d), 2 (c), 3 (a), 4 (b)
   (c) 1 (c), 2 (d), 3 (a), 4 (b)
   (d) 1 (d), 2 (c), 3 (b), 4 (a)

15. AS 22 is related with the following:
   (a) Accounting for Taxes on Income
   (b) Discontinuing Operations
   (c) Interim Financial Reporting
   (d) Financial reporting of Interests in Joint Venture

16. Which accounting standard is applicable on, provisions contingent liabilities and contingent assets?
   (a) AS 30
   (b) AS 29
   (c) AS 28
   (d) AS 12

17. The following are the benefits of Accounting Standards except:
   (a) Eliminate confusing variations in accounting treatment.
   (b) Disclosure of Important Information beyond that required by law.
   (c) Facilitate comparison of financial statements by providing valuation norms and standard accounting policies.
   (d) Choice between justified alternative accounting treatments becomes difficult.

Answer

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

SHORT PRACTICE QUESTIONS

1. Briefly explain the process followed for issuing Accounting Standards in India.
2. What are the Limitations of AS.

PAST YEAR QUESTIONS AND ANSWERS

DESCRIPTIVE QUESTIONS

2003 - Nov [6] Briefly explain the following:

(a) What is the objective of 'Accounting Standards'? State the advantage of setting Accounting Standards. (5 marks)

Answer:

Objective and Advantages of Accounting Standards: An Accounting Standard is a selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) formulates Accounting Standards to be established by the Council of the ICAI.

The main objective of Accounting Standards is to establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

The main advantage of setting accounting standards is that the adoption and application of Accounting Standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements.

The other advantages are as follows:

(i) Reduction in variations.

(ii) Disclosure beyond that required by law.

(iii) Facilitates comparison.

2006 - Nov [6] Briefly explain the following:

(v) Advantages of Accounting Standards. (5 marks)

Answer:

Advantages of Accounting Standard: The Accounting Standards seek to describe the accounting principles, the valuation techniques and the methods of applying the accounting principles in the preparation and presentation of financial statements so that they may give a true and fair view. The ostensible purpose of the standard setting bodies is to promote the dissemination of timely and useful financial information to investors and certain other parties having an interest in companies economic performance.

The setting of accounting standards has the following advantages:

(i) Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.

(ii) There are certain areas where important information are not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

(iii) The application of accounting standards would, to a limited extent, facilitate comparison of financial statements of companies situated in different parts of the world and also of different companies situated in the same country. However, it should be noted in this respect that difference in the institutions, traditions and legal systems from one country to another give rise to differences in accounting standards practiced in different countries.

(iv) Adoption of accounting standards in the preparation of financial statements has reduced the chances of manipulations, frauds, insufficient disclosures or the use of inappropriate accounting policies.

CHAPTER	
1	**Theoretical Framework**
Unit: 9	**Indian Accounting Standards**

SELF STUDY QUESTIONS

Q1. What is the Need for convergence towards Global Standards?

Answer:

The nation today is moving towards globalisation of economic activities which are prevalent in different countries.

There arises a need for convergence of accounting practices due to increased demand of comparable financial information of various business organisation across the countries.

The world is now getting smaller and can be seen as one market. For better understanding of the financial reports and consistency in accounting policies followed in preparation and presentation of financial data, there was a need to align into one global accounting language. Single set of accounting requirements if applied globally would increase the comparability of different business organisation all over the world and avoids the costly, requirements for reinstatement of financial statements. If an entity is listed on both foreign as well as in domestic market, then convergence is essential for such entity.

Q2. What do you understand by "International Financial Reporting Standards as Global Standards"?

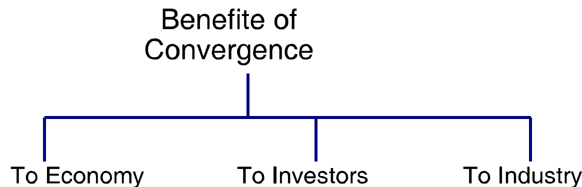
Answer:

- To move towards global reporting, International Accounting Standards Committee (IASC) was formulated to develop International Accounting Standards.

- IASC was a London based group established in June 1973.
- IASC now known an International Accounting Standard Board (IASB) has professional bodies from all around the world including institute of Chartered Accountants of India (ICAI). It has 75 member countries.
- IASC issued International Accounting Standards upto 2001 and word later converted into IASB which issued statements for current and future standards.
- IASB published its standards in a series of pronouncements called as International Financial Reporting Standards (IFRS) which are known to be a 'principle-based' set of standards.
- IFRS at present is being adopted by many nations upto certain extent and is now a compliance requirement for the companies under listing process for statutory reportings, financial reporting obligations, etc.

Q3. What are the Benefits of convergence with IFRS ?

Answer:



Economy:

- Results in growth and development of international trade and business
- Capital formation resulting in creation and maintenance of efficient capital markets
- Promoting Foreign Direct Investment (FDI) in the country.

Investors:

- Investors gets relevant and reliable information as and when required which is also comparable with other organisations of different nations.
- Better understanding of trade and investment opportunities in different markets all over the world.

- Boosts up the confidence of investor group since the financial statements used for investment decisions are accepted globally due to uniform accounting standards followed in its preparation.

Industry:

- Industry can now raise capital from domestic as well as foreign markets resulting in cheaper cost - reduction in burden of financial reporting since the process of preparation of financial statement is simple and accepted globally. Also the cost of reinstatement of financial statement is saved.

Q4. How was Development in Indian Accounting Standards (INDAS)Experienced?

Answer:

First step towards IFRS:

- ICAI in 2014-15 initiated for applicability of IFRS which was later accepted by the Government of India.
- After in depth analysis and discussions, it was decided to converge instead of adopting IFRS already issued by IASB.
- Indian Accounting Standards (INDAS) are formulated in line with IFRS and where essential, departures were made.
- Departure from IFRS were on various basis such as terminology used in law difference economic environment of country and economic environment presumed to be in existence by IFRS.

Q5. What are Indian Accounting Standards (Ind AS)?

Answer:

Ind AS are simply IFRS converged standards formulated by ICAI in consultation with National Advisory Committee on Accounting Standards (NACAS) and issued by Government of India.

Q6. "Government of India – Commitment to IFRS converged Ind AS". Discuss.

Answer:

2014 – Financial Minister of India in his Budget Speech in July, 2014 announced urgently to converge existing AS with IFRS by adopting Ind AS by companies in India.

2015 – MCA issued companies (Indian Accounting Standards) Rules, 2015 vide notification dated 16th Feb, 2015 – a road map to implement Ind AS for companies on voluntary basis [Banking Companies, Insurance Companies and NBFCS were kept out of purview of applicability of Ind AS].

2016 – From 1st April 2016 companies were required to implement Ind AS on mandatory basis.

Separate road maps for implementation of Ind AS were issued for NBFCS and then for Banking Companies and Insurance Companies respectively by Ministry of Corporate Affairs (MCA).

Q7. List down Ind AS.

Answer:

Ind AS	Title of Ind AS
101	First Time Adoption of Indian Accounting Standards
102	Share Based Payment
103	Business Combinations
104	Insurance Contracts
105	Non-current Assets Held for Sale and Discontinued Operations
106	Exploration for and Evaluation of Mineral Resources
107	Financial Instruments: Disclosures
108	Operating Segments
109	Financial Instruments
110	Consolidated Financial Statements
111	Joint Arrangements
112	Disclosure of Interests in Other Entities
113	Fair Value Measurement
114	Regulatory Deferral Accounts
1	Presentation of Financial Statements
2	Inventories

7	Statement of Cash Flows
8	Accounting Policies, Changes in Accounting Estimates and Errors
10	Events after the Reporting Period
11	Construction Contracts
12	Income Taxes
16	Property, Plant and Equipment
17	Leases
18	Revenue
19	Employee Benefits
20	Accounting for Government Grants and Disclosure of Government Assistance
21	The Effects of Changes in Foreign Exchange Rates
23	Borrowing Costs
24	Related Party Disclosures
27	Separate Financial Statements
28	Investment in Associates and Joint Ventures
29	Financial Reporting in Hyper inflationary Economies
32	Financial Instruments: Presentation
33	Earnings per Share
34	Interim Financial Reporting
36	Impairment of Assets
37	Provisions, Contingent Liabilities and Contingent Assets
38	Intangible Assets
40	Investment Property
41	Agriculture

Note: The list o Ind AS given above does not form part of syllabus. It has been given here for the knowledge of students only.

Questions for Practice and Conceptual Clarity only (The questions below have been given for building the basics and increasing knowledge of the students)

MULTIPLE CHOICE QUESTIONS

1. The Government of Indian consultation with ICAI decided to.
   (a) Adopt IFRS (b) Notify IFRS in India
   (c) Converge with IFRS (d) All of these.
2. Beneficiaries of convergence with IFRS includes:
   (a) Economy (b) Investors
   (c) Industry (d) All of these
3. IASC was established in
   (a) 1973 (b) 1997
   (c) 1999 (d) 2001
4. IFRS stands for
   (a) Indian Financial Reporting Standards
   (b) International Financial Reporting Standards
   (c) International Financial Reporting Statements
   (d) International Financial Related Standards

Answer

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

SHORT PRACTICE QUESTIONS

1. Write short note of need of convergence towards global standards.
2. Enumerate the benefits of convergence with IFRS.