

## Star Rating

On the basis of Maximum marks from a chapter

Nil

On the basis of Questions included every year from a chapter

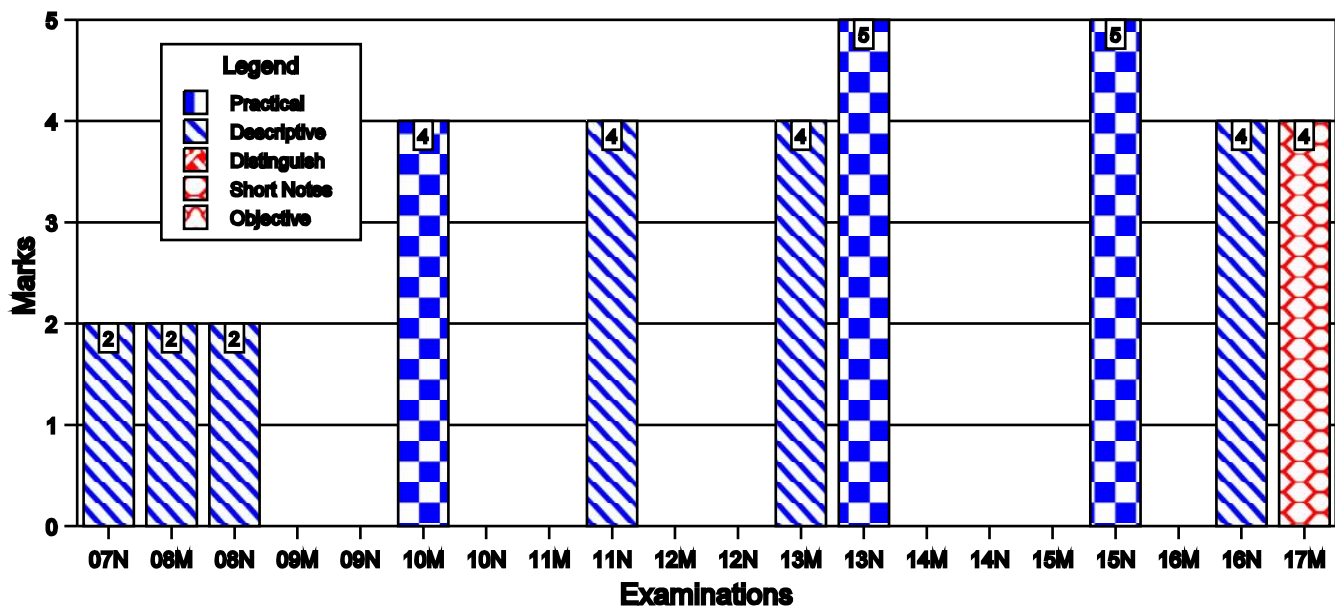
Nil

On the basis of Compulsory questions from a chapter

☆☆☆

<b>CHAPTER</b>	<b>Framework for Preparation and Presentation of Financial Statements</b>
<b>1</b>	
<b>THIS CHAPTER COMPRISES OF</b>	
<p>☞ Introduction    ☞ Status and Scope of Framework    ☞ Components          ☞ Objectives    ☞ Qualitative Characteristics    ☞ Elements and measurement of elements of Financial Statement    ☞ Fundamental Accounting Assumptions    ☞ Capital Maintenance.</p>	

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



## SHORT NOTES

2017 - May [7] (a) Write short note on main elements of Financial Statements. (4 marks)

**DESCRIPTIVE QUESTIONS**

2007 - Nov [5] Answer the following :

- (x) What is meant by Accounting estimate? Give two examples for accounting estimate. (2 marks)

Answer :

The result of many business activities are generally uncertain, because of uncertainties in business activities. Many of the financial statement items are not measured with precision but measured on the basis of estimates. This is called accounting estimates.

On account of such uncertainties, managements makes various estimates and assumption of assets, liabilities, incomes and expenses as on the date of preparation of the financial statements.

Such process of estimation involves judgements, which is based on the latest information available.

For e.g. –

- (i) estimation of Bad debts
- (ii) estimation of useful life of depreciable asset

2008 - May [5] Answer the following :

- (vi) “One of the characteristics of financial statements is neutrality” – Do you agree with this statement? (2 marks)

Answer :

Qualitative characteristics are the attributes that make the information provided in the financial statement useful to users. One of the characteristics of financial statement is neutrality. According to it, to be reliable, the information contained in the financial statement must be neutral. It should be free from any sort of bias. Financial statements are not neutral, if, by the selection or presentation of information, they influence the making of a decision or judgement in order to achieve a predetermined result or outcome.

2008 - Nov [5] Answer the following:

- (x) Give the four qualitative characteristics which the financial statements should observe. (2 marks)

**Answer :**

The financial statements should have the following qualitative characteristics:

- (i) Understandability
- (ii) Relevance
- (iii) Reliability
- (iv) Comparability.

2011 - Nov [7] Answer the following:

(e) What are the qualitative characteristics that improve the usefulness of information provided in the financial statements? (4 marks)

**Answer :**

<p><b>Qualitative characteristics are those attributes which make the information provided in the financial statement useful to the users.</b></p> <p><b>The principal qualitative characteristics are as follows:</b></p>		
1.	<b>Understandable</b>	The basic quality of financial statement is that it is understandable by the user. However to understand, the user is expected to have basic knowledge of business and accounting.
2.	<b>Relevance</b>	The informations provided in the financial statement will loose its importance if it is not relevant. An information is relevant when it influences the decision of users while evaluating the past, present and future.
3.	<b>Materiality</b>	The information provided in a financial statement is relevant only if it is material. Materiality provides a threshold rather than being a primary qualitative characteristic.
4.	<b>Reliability</b>	The financial statement loses its purpose if it is not reliable. Thus it should be error free and unbiased showing the true and fair picture.
5.	<b>Neutrality</b>	The financial statement should be neutral. It should not be a manipulated statement.

6.	<b>Completeness</b>	The financial statement should be complete in all respect within the boundary of materiality and cost. An omission can cause information misleading.
7.	<b>Substance over form</b>	The purpose of financial statement is to provide information. It should be thus presented in accordance with their substance and economic reality and not merely their legal form.
8.	<b>Comparability</b>	The measurement and display of information should be consistent in order to make it comparable over times to come.

2013 - May [7] Answer the following:

- (e) What are the qualitative characteristics of the financial statements which improve the usefulness of the information furnished therein? (4 marks)

Answer:

*Please refer 2011 - Nov [7] (e) on page no. 15*

2016 - Nov [7] (c) Explain in brief, the alternative measurement bases, for determining the value at which an element can be recognized in the Balance Sheet or Statement of Profit and Loss. (4 marks)

Answer:

Measurement is the process of determining money value at which an element can be recognised in the balance sheet or statement of profit and loss. The framework recognises four alternative measurement bases for the purpose. These basis relate explicitly to the valuation of assets and liabilities. The valuation of income or expenses, i.e. profit is implied, by the value of change in assets and liabilities.

Measurement basis are as follows:

1. Historical cost
2. Current cost
3. Realisable value
4. Present value

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

**PRACTICAL QUESTIONS**

2010 - May [1] Answer the following:

(ix) From the following information, calculate the amount of Sundry Debtors as on 31.3.2010:

Balance as on 1.4.2009 is ₹ 50,000.

Bad debts are 2% and discount to the customers is given @ 1% of the opening balance of Sundry Debtors.

Returns from the customers are ₹ 3,000.

Cash received from Debtors is ₹ 2,30,000.

Cash received from Debtors in transit is ₹ 14,000.

Cash Sales are ₹ 5,00,000.

Credit Sales are ₹ 2,50,000.

(2 marks)

Answer :

**Computation of Sundry Debtors as on 31.03.2010**

<i>Particulars</i>	₹	₹
Sundry debtors as on 01.04.2009		50,000
Add : Credit sales		<u>2,50,000</u>
		3,00,000
Less : Cash received from debtors	2,30,000	
Cash received from debtors in transit*	14,000	
Returns from the customers	3,000	
Bad debts @ 2% of ₹ 50,000	1,000	
Discount to the customers @ 1% of ₹ 50,000	500	
		2,48,500
Sundry debtors as on 31.03.2010		51,500

\* It is assumed that information for cash in transit has already been received.

2010 - May [1] Answer the following:

(x) Closing stock for the year ending on 31.3.2010 is ₹ 50,000 which includes stock damaged in a fire in 2008-09. On 31.3.2009 the estimated net realisable value of the damaged stock was ₹ 12,000. The revised estimate of net realisable value included in closing stock of 2009-10 is ₹ 4,000. Find the value of Closing stock to be shown in Profit and Loss account for the year 2009-10. (2 marks)

**Answer:**

The fall in estimated net realisable value of damaged stock ₹ 8,000 is the effect of change in accounting estimate. As per AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the effect of a change in accounting estimate should be classified using the same classification in the statement of profit and loss as was used previously for the estimate.

Therefore, the value of closing stock for the year 2009-10 will be as follows:

Particulars	₹
Closing Stock (including damaged goods)	50,000
Less : Revised value of damaged goods	(4,000)
Closing stock (excluding damaged goods)	46,000

2013 - Nov [1] {C} (d) (i) Vasudha Ltd. provides following information:

Raw Material stock holding period	:	3.5 months
Work-in progress holding period	:	1 month
Finished goods holding period	:	4.5 months
Debtors collection period	:	6 months

You are required to compute the operating cycle of Vasudha Ltd. What would happen if the trade payables of the company are paid in 14 months- whether these should be classified as current or non-current liabilities (21 marks)

**Answer:**

As per Schedule III of the Companies Act, 2013, "An operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents".

Therefore, operating cycle of Vasudha Ltd. will be computed as under:

Raw material stock holding period + WIP holding period + finished goods holding period + Debtor collection period = 3.5 + 1 + 4.5 + 6 = 15 months. A liability shall be classified as current when it is expected to be settled in the company's normal operating cycle. Since the operating cycle of Vasudha Ltd. is 15 months, trade payables expected to be paid in 14 months should be treated as a current liability.

2013 - Nov [1] {C} (d) (ii) The management of Kshitij Ltd. contends that the work in progress is not valued since it is difficult to ascertain the same in view of the multiple processes involved. They opine that the value of opening and closing work in progress would be more or less the same. Accordingly, the management had not separately disclosed the work in progress in its financial statements. Comment in line with Schedule III (2 marks)

**Answer:**

Schedule III to the Companies Act, 2013 does not require to disclose in the statement of profit and loss, the amounts for which WIP have been completed at the beginning and at the end of the accounting period. Therefore, the non-disclosure in the financial statements by the company may not amount to violation of Schedule III if the differences between opening and closing WIP are not material.

2015 - Nov [1] {C} Answer the following:

(c) Balance Sheet of Anurag Trading Co. on 31<sup>st</sup> March, 2014 is given below:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	50,000	Fixed Assets	69,000
Profit and Loss A/c	22,000	Stock in Trade	36,000
10% Loan	43,000	Trade Receivables	10,000
Trade Creditors	18,000	Deferred Expenditure	15,000
		Bank	3,000
	1,33,000		1,33,000

**Additional Information :**

- (i) Remaining life of fixed assets is 5 years with even use. The net realizable value of fixed assets as on 31<sup>st</sup> March, 2015 was ₹ 64,000.
- (ii) Firm's sales and purchases for the year 2014-15 amounted to ₹ 5 lacs and ₹ 4.50 lacs respectively.

- (iii) The cost and net realizable value of the stock were ₹ 34,000 and ₹ 38,000 respectively.
- (iv) General Expenses for the year 2014-15 were ₹ 16,500.
- (v) Deferred Expenditure is normally amortized equally over 4 years starting from F.Y. 2013-14 i.e. ₹ 5,000 per year.
- (vi) Out of debtors worth ₹ 10,000, collection of ₹ 4,000 depends on successful re-design of certain product already supplied to the customer.
- (vii) Closing trade payable is ₹ 10,000, which is likely to be settled at 95%.
- (viii) There is pre-payment penalty of ₹ 2,000 for Bank loan outstanding. Prepare Profit & Loss Account for the year ended 31<sup>st</sup> March, 2015 by assuming it is not a Going Concern. (5 marks)

Answer:

**Profit and Loss Account of Anurag Trading Co.**  
**for the year ended 31<sup>st</sup> March, 2015**  
**(Assuming business is not a going concern)**

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



## Similarly Asked Questions\*

No.	Category	Question	Marks	Frequency
1	Descriptive	<p>Answer the following :</p> <p>What are the qualitative characteristics of the financial statements which improve the usefulness of the information furnished therein?</p> <p>08 - Nov [5] (x), 11 - Nov [7] (e), 13 - May [7] (e)</p>	2, 4, 4	3 Times

## Table Showing Marks of Compulsory Questions

Year	12 N	13 M	13 N	14 M	14 N	15 M	15 N	16 M	16 N	17 M
Practical			5				5			
Total			5				5			

\* This table contains the Similarly Asked Questions. Please pay more attention to such question.