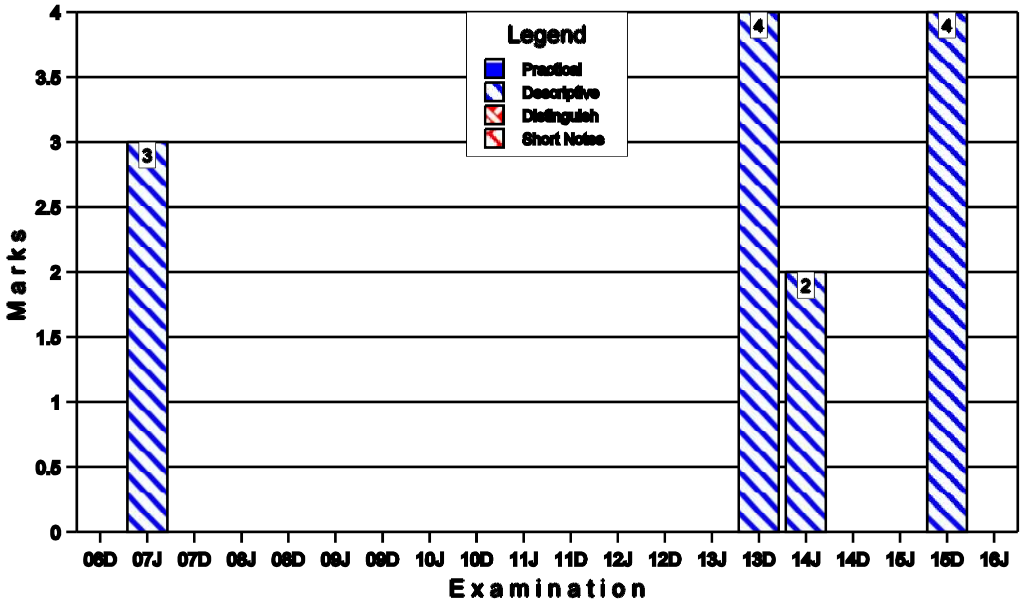
1 Conceptual Framework for Preparation and Presentation of Financial Statements

This Chapter Includes	
• Conceptual Framework for Preparation and Presentation of Financial Statements;	• Financial Statements: Meaning, Objective, Components, Frame Work; • Users and their Information Needs;

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



Questions of December - 2007 are from CMA Stage I and from December - 2008 onwards are from CMA Gr. II New Course.

DESCRIPTIVE QUESTIONS

2007 - June [1] {C} (c) State the components of financial statement. (2 marks)

(e) State with reasons whether the following statements are True or False:

(i) Accounting principle is general rule followed in preparation of financial statements. (1 mark)

Answer :

(c) Following are the components of Financial Statements:

(a) Profit & loss Statement
(b) Balance sheet
(c) Cash flow statement
(d) Notes to Accounts

Answer:

(e) (i) True, Accounting principles are Body of Doctrines commonly associated with the theory and procedures of Accounting serving as an explanation of current practices and a guide for preparation of Financial Statement.

2013 - Dec [2] (c) (i) What are the characteristics of a liability? (4 marks)

Answer:

Characteristics of a Liability :

(i) Normally liability arises from present obligation. But future obligation may also create liability if they are irrevocable. A forward contract to buy goods is irrevocable; therefore, gain or loss on such contract is evaluated and recognized as an asset or a liability.

(ii) Liabilities result from past transactions or other past events. Even an irrevocable future obligation arises from past transactions or commitment (event) only.

(iii) Normally liabilities are measurable in money terms. Sometimes liabilities are estimated which are termed as provisions. Framework defines the term liability broadly that includes provisions.

(iv) Statement of liability means giving up resources embodying economic benefits. Liabilities are settled in any of the following ways :

– payment cash or transfer of other assets;
– provision of services;
– replacement by a new obligation;
– conversion of an obligation into equity;
– extinguished by way of waiver from the creditors.

2014 - June [1] {C} Answer the following:

(a) State the two main accounting assumptions, on which financial statements are prepared and presented. (2 marks)

Answer:

Accounting Assumption: Underlying assumptions for the preparation and presentation of financial statements are accrual and going concern. Under **accrual assumption**, the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the books of account and reported in the financial statements of the periods to which they relate. It helps in performance measurement in a better manner and identifying the financial position appropriately.

Under **going concern assumption**, the financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Therefore, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis. In case going concern basis could not be used, the entity shall disclose the basis used as well.

2015 - Dec [2] (a) Answer the following:

(ii) What are the characteristics of a Liability? (4 marks)

Answer:

Characteristics of a Liability:

(i) Normally liability arises from present obligation. But future obligation may also create liability if they are irrevocable. A forward contract to buy goods is irrevocable; therefore, gain or loss on such contract is evaluated and recognized as an asset or a liability.

(ii) Liabilities result from past transactions or other past events. Even an irrevocable future obligation arises from past transactions or commitment (events) only.

(iii) Normally liabilities are measurable in money terms. Sometimes, liabilities are estimated which are termed as provisions. Frame work defines the term liability broadly that includes provisions.

(iv) Settlement of liability means giving up resources embodying economic benefits. Liabilities are settled in any of the following ways:
- payment cash or transfer of other assets;
- provision of services (services are rendered or to be rendered)
- replacement by a new obligation;

- conversion of an obligation into equity;
- extinguished by way of waiver from the creditors.

Table Showing Marks of Compulsory Questions										
Year	11 D	12 J	12 D	13 J	13 D	14 J	14 D	15 J	15 D	16 J
Descriptive						2				
Total						2				