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Part-I - Commercial Audit

Q1: Which of the following most accurately describes the fundamental objective of an independent audit of financial statements?

A. To provide absolute assurance that the financial statements are free from all misstatements, including those resulting from fraud or error.
B. To ensure the financial statements conform precisely with the auditor's understanding of the client's business operations.
C. To enhance the degree of confidence of intended users by expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.
D. To detect all instances of non-compliance with laws and regulations and report them to regulatory authorities.

Correct Answer: C
Explanation: The primary purpose of an audit is to provide **reasonable assurance**, not absolute, and to express an **opinion on the fairness** of financial statements, as per the relevant framework (e.g., IFRS or GAAP).

Q2: Which statement best captures the relationship between materiality and audit risk in an audit engagement?

A. The lower the materiality threshold, the lower the audit risk and the less extensive the auditor's procedures.
B. Materiality is directly proportional to detection risk but inversely related to inherent risk.
C. As materiality decreases, the auditor's required level of assurance increases, leading to more rigorous audit procedures to manage audit risk.
D. Materiality is a qualitative measure and therefore has no impact on audit risk assessment.

Correct Answer: C
Explanation: Lower materiality implies a higher standard for detecting misstatements, thus requiring more substantive work to maintain an acceptable level of audit risk.

Q3: Which of the following combinations correctly reflects the components of the audit risk model?

A. Audit Risk = Control Risk × Inherent Risk × Business Risk
B. Audit Risk = Detection Risk ÷ Control Risk × Audit Evidence
C. Audit Risk = Inherent Risk × Control Risk × Detection Risk
D. Audit Risk = Detection Risk + Sampling Risk + Non-sampling Risk

Correct Answer: C
Explanation: The audit risk model is typically expressed as:
AR = IR × CR × DR,
where IR = Inherent Risk, CR = Control Risk, and DR = Detection Risk.

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Q4: Which of the following is **least likely** to be considered during the planning phase of an audit?

A. Determining the timing of substantive procedures.
B. Identifying areas where analytical procedures may be applied.
C. Evaluating the appropriateness of accounting policies applied in the previous year.
D. Establishing the materiality thresholds for the financial statements as a whole and for performance materiality.

Correct Answer: C
Explanation: While accounting policies are considered during the **audit**, their appropriateness from the **prior year** is not a primary planning activity unless changed or affecting opening balances.

Q5: In designing an audit sample, which of the following considerations is most directly related to ensuring that the results of the sample can be projected to the population?

A. Using a sample size determined solely by budget constraints.
B. Selecting items based on auditor judgment of materiality alone.
C. Ensuring that each sampling unit has a known and non-zero probability of selection.
D. Choosing the sample after performing all substantive procedures.

Correct Answer: C
Explanation: Statistical sampling requires that each item in the population has a **known and non-zero probability** of selection to ensure valid projection of results.

Q6: Which of the following best describes the primary purpose of substantive procedures in an audit?

A. To assess the risk of material misstatement through control testing.
B. To obtain audit evidence about the completeness and accuracy of financial statement assertions.
C. To document the internal control system for future audits.
D. To evaluate whether the client's risk management framework complies with COSO principles.

Correct Answer: B
Explanation: Substantive procedures (tests of details and analytical procedures) are performed to detect **material misstatements** at the assertion level in financial statements.

Q7: Which of the following most accurately reflects the auditor's responsibility when performing analytical procedures as **substantive procedures**?

A. The auditor is only required to compare prior year financials to current year amounts without further inquiry.
B. Analytical procedures used as substantive tests must be based on expectations developed independently and corroborated with detailed transaction-level evidence.
C. When analytical procedures identify significant variances, the auditor must perform no further work if management provides plausible explanations.

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D. Analytical procedures as substantive tests require a higher level of precision and a documented expectation based on reliable data.

Correct Answer: D
Explanation: Substantive analytical procedures require **precise expectations**, developed from **reliable sources**, and any significant variances must be investigated.

Q8: Which of the following statements are consistent with the fundamental principles underlying an audit?

A. The auditor must exercise professional skepticism throughout the audit.
B. The audit provides absolute assurance that financial statements are free of material misstatement.
C. The auditor should plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
D. The auditor is responsible for detecting all instances of fraud and error.

Options:
a) A and C
b) A and B
c) B and D
d) C and D

Correct Answer: a) A and C
Explanation: Auditors provide **reasonable assurance**, not absolute, and must maintain **professional skepticism**.

Q9: Which of the following statements appropriately describe the concept of materiality in auditing?

A. Materiality is determined solely based on quantitative thresholds.
B. Misstatements are considered material if they could influence the economic decisions of users.
C. Materiality may vary depending on the financial statement element under consideration.
D. Performance materiality is always higher than overall materiality.

Options:
a) A and B
b) B and C
c) A and D
d) C and D

Correct Answer: b) B and C
Explanation: Materiality includes **quantitative and qualitative** aspects, and **performance materiality** is usually **lower** than overall materiality.

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Q10: Which of the following combinations best represent the components of audit risk?

A. Inherent risk
B. Control risk
C. Business risk
D. Detection risk

Options:
a) A and B
b) A and D
c) A, B, and D
d) B, C, and D

Correct Answer: c) A, B, and D
Explanation: Audit risk consists of **inherent risk, control risk**, and **detection risk.** Business risk is broader and not part of the audit risk model.

Q11: Which of the following are key components of audit planning?

A. Establishing materiality levels
B. Developing an understanding of the client's business
C. Communicating audit findings to management
D. Assessing risks of material misstatement

Options:
a) A and B
b) A, B, and D
c) B and C
d) A, C, and D

Correct Answer: b) A, B, and D
Explanation: Communicating findings is part of the **reporting phase**, not planning.

Q12: Which of the following statements reflect appropriate considerations when using audit sampling?

A. Every item in the population should have a known chance of being selected.
B. Non-statistical sampling cannot provide sufficient appropriate audit evidence.
C. Sampling helps the auditor make conclusions about the population.
D. Sampling risk increases with sample size.

Options:
a) A and C
b) B and C
c) A and D
d) B and D

Correct Answer: a) A and C
Explanation: Sampling allows generalization to the population. **Non-statistical sampling is valid**. Larger sample sizes **reduce**, not increase, sampling risk.

Q13: Which of the following procedures are considered substantive audit procedures?

A. Performing ratio analysis to identify unusual fluctuations
B. Sending confirmation letters to debtors
C. Testing design and implementation of internal controls
D. Recalculating depreciation expense

Options:
a) A and C
b) A and B
c) B and D
d) C and D

Correct Answer: c) B and D
Explanation: Substantive procedures include **tests of details** (e.g., confirmations, recalculations). Testing controls is part of the **control testing phase**.

Q14: Which of the following statements correctly apply to analytical procedures used as **substantive procedures**?

A. They must be based on reliable data and plausible relationships.
B. Significant differences must be investigated and corroborated.
C. They are only used during the planning stage.
D. They can replace all tests of details if the results are conclusive.

Options:
a) A and B
b) A and C
c) B and D
d) C and D

Correct Answer: a) A and B
Explanation: Analytical procedures can be **used as substantive tests** when appropriate but do **not replace** all tests of details.

Q15: Which of the following are essential components of an effective system of internal control as per COSO framework?

A. Control environment
B. Risk assessment
C. Internal audit function
D. Monitoring activities

Options:
a) A, B, and D
b) A and C
c) B, C, and D
d) A, B, C, and D

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Correct Answer: a) A, B, and D
Explanation: The **five components** of COSO internal control are: Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring Activities. **Internal audit** is not a COSO component but can support monitoring.

Q16: Which of the following statements correctly describe the role and characteristics of internal audit?

A. Internal audit is an independent, objective assurance and consulting activity.
B. Internal auditors are primarily responsible for expressing opinions on financial statements.
C. Internal audit adds value by improving organizational operations.
D. Internal auditors may evaluate the effectiveness of risk management and governance processes.

Options:
a) A, C, and D
b) A and B
c) B, C, and D
d) A, B, C, and D

Correct Answer: a) A, C, and D
Explanation: Internal audit is **not responsible** for expressing financial opinions (that's the role of external/statutory auditors). It supports management by evaluating controls, governance, and risk.

Q17: Which of the following statements best describe features of a statutory audit?

A. It is mandated by applicable laws and regulations.
B. It requires the auditor to express an opinion on the financial statements.
C. It is performed only when management requests it.
D. It involves evaluating compliance with accounting standards and legal requirements.

Options:
a) A, B, and D
b) A and C
c) B, C, and D
d) A, B, C, and D

Correct Answer: a) A, B, and D
Explanation: Statutory audits are **required by law**, involve **an audit opinion**, and **evaluate compliance**. They are **not optional** or based on management request alone.

Q18: Which of the following statements are generally applicable to government audits?

A. They may assess compliance with laws, regulations, and budgetary provisions.
B. They focus solely on the financial performance of private sector entities.
C. They may include performance audits evaluating economy, efficiency, and effectiveness.
D. They are often conducted by supreme audit institutions or national audit offices.

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Options:
a) A, C, and D
b) A and B
c) B, C, and D
d) A, B, C, and D

Correct Answer: a) A, C, and D
Explanation: Government audits include **compliance**, **financial**, and **performance audits** and are conducted by public audit institutions. They do **not** audit **private entities exclusively**.

Q19: Which of the following statements are true regarding the appointment of statutory auditors of a company under the Companies Act, 2013?

A. The first auditor of a company (other than a government company) is appointed by the Board of Directors within 30 days of incorporation.
B. Subsequent auditors are appointed by the members in the annual general meeting (AGM).
C. The term of appointment of a statutory auditor is 5 years, subject to ratification at every AGM.
D. Only a practicing Chartered Accountant or a firm of Chartered Accountants can be appointed as a statutory auditor.

Options:
a) A, B, and D
b) A and C
c) B, C, and D
d) A, B, C, and D

Correct Answer: a) A, B, and D
Explanation: Under the Companies Act, 2013, **ratification at every AGM is no longer required** after the amendment. The rest are correct.

Q20: Which of the following statements correctly describe the provisions regarding appointment of internal auditors under the Companies Act, 2013?

A. Certain classes of companies are mandatorily required to appoint an internal auditor.
B. The internal auditor may be a Chartered Accountant, Cost Accountant, or any other professional as decided by the Board.
C. The internal auditor must be an employee of the company.
D. The internal auditor reports to the shareholders at the AGM.

Options:
a) A and B
b) A, B, and C
c) A and D
d) B, C, and D

Correct Answer: a) A and B
Explanation: Internal auditors **do not need to be employees** and **do not report to shareholders**. They may be outsourced professionals.

Q21: Which of the following correctly reflect the rights, duties, powers, and remuneration aspects of a statutory auditor?

A. The auditor has a right to access all books of accounts and vouchers of the company at all times.
B. The auditor must report on whether the company has maintained proper books of account.
C. The remuneration of the auditor is fixed by the shareholders at the AGM, except for the first auditor.
D. The auditor has the power to attend general meetings and receive notices of the same.

Options:
a) A, B, and D
b) A and C
c) B, C, and D
d) A, B, C, and D

Correct Answer: d) A, B, C, and D
Explanation: All statements are correct. These are core provisions under the Companies Act and auditing standards.

Q22: Which of the following statements are true regarding joint audits and the responsibilities of joint auditors?

A. The division of work among joint auditors is determined mutually and documented.
B. Each joint auditor is responsible only for the work specifically allocated to them.
C. Joint auditors are jointly and severally responsible for all work done unless it is clearly divided and documented.
D. Joint auditors may report separately if they disagree on any matter.

Options:
a) A and B
b) A, C, and D
c) A, B, and C
d) A, B, C, and D

Correct Answer: d) A, B, C, and D
Explanation: All statements are correct as per **SA 299 (Responsibility of Joint Auditors)**.

Q23: Which of the following are true regarding the appointment and role of a branch auditor under the Companies Act, 2013?

A. The branch auditor may be appointed by the Board in consultation with the statutory auditor.
B. A person qualified to be a statutory auditor can be appointed as a branch auditor.
C. The branch auditor submits a report to the statutory auditor of the company.
D. The statutory auditor is not required to consider the branch audit report while forming their main audit opinion.

Options:
a) A, B, and C
b) B and D
c) A, C, and D
d) A, B, C, and D

Correct Answer: a) A, B, and C
Explanation: The statutory auditor **must consider** the branch auditor's report while forming their overall audit opinion. Statement D is incorrect.

Q24: Which of the following statements are true regarding the audit of government companies under **Section 143(5)** of the Companies Act, 2013?

A. The Comptroller and Auditor General of India (CAG) may issue directions to the auditor of a government company.
B. The auditor must submit the audit report directly to the CAG for approval.
C. The CAG may order a supplementary audit in addition to the statutory audit.
D. The auditor must comply with any additional reporting requirements specified by the CAG.

Options:
a) A, C, and D
b) A and B
c) B, C, and D
d) A, B, C, and D

Correct Answer: a) A, C, and D
Explanation: Under Section 143(5), the CAG may **issue directions**, **order a supplementary audit**, and the **auditor must comply**. However, the audit report is **submitted to the company** (not directly to CAG), which then forwards it.

Q25: Which of the following are provisions related to the constitution, powers, and duties of the **Audit Committee** under the Companies Act, 2013 and SEBI (LODR) Regulations?

A. The Audit Committee must have a minimum of 3 directors, with the majority being independent.
B. The Audit Committee is responsible for reviewing the internal control and risk management systems.
C. The Audit Committee can investigate any matter within its scope and seek professional advice.
D. Only executive directors can be members of the Audit Committee.

Options:
a) A, B, and C
b) A and D
c) B, C, and D
d) A, B, C, and D

Correct Answer: a) A, B, and C
Explanation: Audit Committees must include a **majority of independent directors**;

executive directors are generally excluded. The committee has the power to **investigate** and **review controls and risk**.

Q26: Which combination of the following statements correctly reflects the key provisions under the Companies (Cost Records and Audit) Rules, 2014?

Statements:
A. Cost records must be maintained by companies in specified industries with turnover exceeding ₹50 crore.
B. Cost audit reports must be submitted to the Central Government within 180 days of the financial year-end.
C. Only listed companies are required to maintain cost records under these rules.
D. The government can exempt any class of companies from maintaining cost records.

Answer choices:

1. A, B, C
2. A, B, D
3. B, C, D
4. A, C, D

Correct answer: 2) A, B, D

Q27: Which combination of the following best represents the role of audit in detecting and preventing fraud and corruption?

Statements:
A. Evaluation of internal controls to identify weaknesses prone to fraud.
B. Reporting suspicious transactions to relevant authorities.
C. Preparation of financial statements to showcase company performance.
D. Conducting forensic audits when fraud is suspected.

Answer choices:

1. A, B, C
2. A, B, D
3. B, C, D
4. A, C, D

Correct answer: 2) A, B, D

Q28: Which combination of the following functions best describes the role of the Committee on Public Undertakings (COPU)?

Statements:
A. Examining reports of the Comptroller and Auditor General (CAG) relating to public undertakings.
B. Recommending policy changes and improvements to Parliament based on its findings.
C. Approving budgets and financial grants for public sector undertakings.
D. Summoning public undertaking officials for clarifications and testimonies.

Answer choices:

1. A, B, C
2. A, B, D
3. B, C, D
4. A, C, D

Correct answer: 2) A, B, D

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Part-IIA Commercial Laws

Q1: Which combination of the following elements are **essential for a valid contract** under the Indian Contract Act, 1872?

A. Offer and acceptance
B. Free consent of parties
C. Consideration
D. Registration of contract

Answer choices:

1. A, B, C
2. A, B, D
3. B, C, D
4. A, C, D

Correct answer: 1) A, B, C

Q2: Which of the following combinations describe **types of contracts recognized** under the Indian Contract Act, 1872?

A. Void contracts
B. Contingent contracts
C. Contract of sale of goods
D. Contracts of guarantee

Answer choices:

1. A, B, C
2. A, B, D
3. B, C, D
4. A, C, D

Correct answer: 2) A, B, D

Q3: Which combination of the following are **essential elements** in a contract of sale of goods?

A. Transfer of property in goods
B. Agreement between buyer and seller
C. Delivery of goods by seller
D. Price consideration

Answer choices:

1. A, B, C
2. A, B, D
3. B, C, D
4. A, C, D

Correct answer: 2) A, B, D

Q4: Which of the following combinations correctly describe **types of goods** under the Sale of Goods Act?

A. Existing goods
B. Future goods
C. Specific goods
D. Movable immovable goods

Answer choices:

1. A, B, C
2. A, C, D
3. B, C, D
4. A, B, D

Correct answer: 1) A, B, C

Q5: Which of the following are **negotiable instruments** as defined under the Negotiable Instruments Act?

A. Promissory note
B. Bill of exchange
C. Cheque
D. Receipt

Answer choices:

1. A, B, C
2. A, B, D
3. B, C, D
4. A, C, D

Correct answer: 1) A, B, C

Q6: Which of the following are **features of negotiable instruments** under the Act?

A. Transferability
B. Unconditional promise or order to pay
C. Requires registration to be valid
D. Holder in due course has special rights

Answer choices:

1. A, B, C
2. A, B, D
3. B, C, D
4. A, C, D

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Correct answer: 2) A, B, D

Q7: Which of the following are **objectives of the Electricity Act, 2003**?

A. De-licensing generation of electricity
B. Promotion of competition and efficiency
C. Government monopoly in transmission
D. Rationalization of electricity tariffs

Answer choices:

1. A, B, C
2. A, B, D
3. B, C, D
4. A, C, D

Correct answer: 2) A, B, D

Q8: Which of the following are **functions of the Central Electricity Regulatory Commission (CERC)** under the Act?

A. Fixing tariffs for generation and transmission
B. Regulating electricity purchase and procurement
C. Issuing licenses for electricity distribution
D. Settling disputes between generating companies and licensees

Answer choices:

1. A, B, C
2. A, B, D
3. B, C, D
4. A, C, D

Correct answer: 2) A, B, D

Q9: Which of the following are **powers of State Road Transport Corporations** under the Act?

A. Providing passenger and goods transport services
B. Levying road taxes on all vehicles
C. Acquiring, holding and disposing of property
D. Setting transport fares in consultation with State Government

Answer choices:

1. A, B, C
2. A, C, D
3. B, C, D
4. A, B, D

Correct answer: 2) A, C, D

Q10: Which of the following describe **duties of the Road Transport Corporation** under the Act?

A. Efficient management of transport services
B. Promoting private transport services
C. Regulating transport routes and timings
D. Ensuring safety and convenience of passengers

Answer choices:

1. A, B, C
2. A, C, D
3. B, C, D
4. A, B, D

Correct answer: 2) A, C, D

Q11: Which of the following are covered under the Payment of Bonus Act, 1965?

A. Employees drawing salary up to ₹21,000 per month
B. All government employees
C. Workers in factories and establishments employing 20 or more persons
D. Apprentices engaged under the Apprentices Act

Answer choices:

1. A, B, C
2. A, C, D
3. B, C, D
4. A, B, D

Correct answer: 2) A, C, D

Q12: Which of the following are provisions related to bonus payment under the Act?

A. Minimum bonus is 8% of salary or wages
B. Maximum bonus is 20% of salary or wages
C. Bonus is paid only on production bonus basis
D. Bonus is payable annually within eight months after close of accounting year

Answer choices:

1. A, B, C
2. A, B, D
3. B, C, D
4. A, C, D

Correct answer: 2) A, B, D

Q13: Which of the following are **key features** of the Employees Provident Funds Act, 1952?

A. Applicable to establishments with 20 or more employees
B. Provides pension benefits to employees
C. Contribution made by employer only
D. Monthly contribution to employee's provident fund account

Answer choices:

1. A, B, C
2. A, B, D
3. B, C, D
4. A, C, D

Correct answer: 2) A, B, D

Q14: Which of the following are **functions of the Employees Provident Fund Organisation (EPFO)**?

A. Collection of contributions from employers and employees
B. Investment of provident fund balances
C. Settlement of claims and withdrawals
D. Providing health insurance to employees

Answer choices:

1. A, B, C
2. A, B, D
3. B, C, D
4. A, C, D

Correct answer: 1) A, B, C

Advanced Accounting and Cost & Management Accounting

Advance Accounting

Questions

1. Describe the steps involved in analyzing how the accounting concepts of going concern and accrual basis influence the preparation of financial statements. Outline the procedure for identifying potential conflicts between these two concepts in practice.
2. Discuss the relevance and limitations of the Prudence (Conservatism) convention in modern financial reporting under Ind AS.
3. Outline the steps for analyzing the implications of dishonor of a bill due to non-acceptance and non-payment. Describe the procedure for recording such dishonor in the books of both the drawer and the drawee.
4. Outline the steps to analyze the implications of a company's change in inventory valuation method from FIFO to Weighted Average under AS 2.
5. Explain the methodology for calculating insurance claims for loss of stock due to fire. What role does the Average Clause play in determining the claim amount?
6. Describe the steps involved in initially recognizing a right-of-use asset and a lease liability in the books of a lessee? What documents and agreements should an auditor examine while auditing lease transactions under Ind AS 116?
7. Determining the appropriate accounting treatment when a machine becomes idle and is classified as held for sale. Explain the procedure with reference to the relevant provisions of Ind AS 105 and other applicable standards.
8. After 1 year of joint venture, a new partner is admitted, bringing new capital. Walk through the effect on goodwill and profit sharing under proportionate capital method.

9. Prepare a Bank Reconciliation Statement of ABC Ltd. as on 31st March, 2024.

   a) Bank balance as per pass book (Bank book) Rs.26,000.

   b) Cheques deposited into bankRs.21,000of which cheques worth Rs.10,000 collected by bank up to 31st March.

   c) Cheques issued but not presented for payment till 31st march 2009 Rs.12,000.

   d) Bank charges Rs.500 debited in pass book only.

   e) Interest and dividend collected by bank Rs.6,500.

   Insurance premium paid by bank as per standing instructions, Rs.2,800 not recorded in cash book.

10. A Ltd. Offered 1,00,000 equity shares of the nominal value 100 each for public subscription at Rs.120. The amounts payable on the shares were on application Rs.45, on allotment (including premium) Rs.45, on first and final call Rs.30. The actual subscription was only for 90,000 shares. All money payable by shareholders was received except from B, who had taken 1000 shares but failed to pay the final call. His shares were forfeited and re-issued to C at Rs.60 each.

Show journal entries in the books of the company.

11. From the following trial balance and other information, Statement of Profit and Loss for the year ending 31st March 2024 as per Schedule III of Companies Act, 2013.

(In Rs.)

Sl. No.	Particulars	Debit	Credit
1 2	Land and buildings	4,00,000	
3	Trade receivables	1,00,000	2,00,000
4	Trade payables		3,00,000
5	10% Debentures (01/04/2023)		15,00,000
6	Sales		
7 8	Net purchases	10,00,000	
9	Wages and salaries	50,000	
10	Contribution to provident fund	10,000	
	Plant and machinery	2,00,000	
	Goodwill	2,40,000	
	Total	**20,00,000**	**20,00,000**

Adjustments:

- **i** Tax rate 30%
- **ii** Depreciation on plant and machinery at 10% and amortization of goodwill by `24,000.

12. The followings are the Balance Sheets of ABC Ltd., as at March 31st 2023 and 2024

(In Rs.)

Particulars	March 31st 2023	March 31st 2024

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I. **Equity and Liabilities** Equity		
Share Capital	2,00,000	4,00,000
Reserves and Surplus	1,00,000	1,50,000
Long term loans	2,00,000	3,00,000
Current Liabilities	1,20,000	1,70,000
Total	**6,20,000**	**10,20,000**
II. **Assets:**		
Fixed Assets	2,00,000	5,00,000
Non-current investment	1,00,000	1,25,000
Current Assets	2,55,000	3,25,000
Term loans and advances	65,000	70,000
Total	**6,20,000**	**10,20,000**

You are required to prepare a Comparative Balance Sheet.

13. XYZ Ltd., has given the following information:

(In Rs.)

Plant as on 1/4/2023	1,20,000
Plant as on 31/3/2024	1,50,000
Accumulated depreciation on 1/4/2023	60,000
Accumulated depreciation on 31/3/2024	40,000

During the year, a plant costing Rs. 60,000 with accumulated depreciation of Rs.25,000 was sold for Rs.30,000.

Calculate cash flow from investing activities.

14. From the following particulars of A Ltd., prepare Bank Reconciliation Statement as on July 31, 2023.

a. Bank overdraft as per cash book - Rs.10,000.
b. Cheques issued, but not presented for payment - Rs.13,000.
c. Dividend on shares collected by the bank and credited in the pass book - Rs.2,000.
d. Interest on overdraft debited in the pass book only Rs.500.

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e. A cheques deposited into bank, but not collected by the bank Rs.5,000.

f. Direct deposit into bank by a customer Rs.4,000 for which no entry was made in cash book

g. Insurance premium paid directly by the bank understanding order Rs.1,500.

15. From the following Trail Balance, prepare Trading and Profit and Loss Account for the year ending 31-3-2024 and the Balance Sheet as on that date.

In Rs.

Name of the Account	Debit	Credit
Capital		30,000
Drawings	1,760	
Purchases and Sales	8,900	15,000
Stock (on 1-4-2023)	1,200	
Returns	280	450
Wages	800	
Buildings	22,000	
Freight charges	2,000	
Trade expenses	200	
Advertisement	240	
Interest		650
Taxes and Insurance	430	
Debtors and Creditors	6,500	1,200
Bills receivable and bills payable	1,500	700
Cash at bank	1,200	
Cash in hand	190	
Salaries	800	
Total	**48,000**	**48,000**

Adjustments:

a. Stock on 31-3-2024 was valued at Rs.10,000.

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b. Insurance prepaid to the extent of Rs.100.

c. Outstanding salaries Rs.200.

d. Depreciate buildings by 5%.

e. Provide provision for doubtful debts at 5% on debtors.

16. A and B enter into a Joint speculation and purchase an old house with extensive grounds for Rs.8,000, each contributing Rs.4,000. For an agreed fee of Rs.500 A is to manage the disposal of the property. Sale of internal fittings, windows etc. amounted to Rs.1,700. A pays Rs.300 for demolishing the house, materials of which realises Rs.200. Sundry expenses paid by A were Rs.100 and the whole of the land is eventually sold for Rs.9,000. A and B share the net profits equally, A paying B his share by cheque. Record these transactions in A's Journal and show Joint Venture A/c and B's A/c in his ledger.

17. ABC Ltd. is having their Head Office at Delhi and Branch at Chennai. The following are the transactions of the Head Office with Branch for the year ended 31st March, 2024.

(In Rs.)

Stock at Branch as on 01.04.2023	30,800	
Debtors at the Branch as on 01.04.2023	16,500	
Petty Cash as on 01.04.2023	500	
Goods supplied to the Branch		1,51,200
Remittances from Branch:		
Cash Sales	10,500	
Realization of Debtors		1,57,740
Amount sent to Branch:		
Salary	7,440	
Rent	2,400	
Petty Cash	3,000	
Stock at Branch as on 31.03.2024	23,150	
Sundry Debtors at the Branch as on 31.03.2024	50,460	
Petty Cash as on 31.03.2024	750	

Show the Branch Account in the books of the Head Office.

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18. The following balances are extracted from the books of ABC Ltd. as on 31st March 2025:

Particulars	**Amount (₹)**
Equity Share Capital (₹10 each, fully paid)	30,00,000
12% Preference Share Capital (Redeemable)	10,00,000
General Reserve	8,00,000
Profit and Loss A/c (Cr.)	6,50,000
Plant and Machinery	25,00,000
Furniture	3,00,000
Debtors	12,00,000
Inventory (01-04-2024)	10,00,000
Bank	6,00,000
Creditors	5,00,000
Sales	50,00,000
Purchases	35,00,000
Administrative Expenses	3,50,000
Selling Expenses	2,00,000

Adjustments:

1. Closing stock is valued at ₹12,00,000 (Cost ₹11,50,000; NRV ₹12,00,000).
2. Provide for doubtful debts @ 5%.
3. Depreciation: Plant and Machinery @10%, Furniture @15% (WDV).
4. Declare dividend @15% on Equity Shares. Provide DDT @17%.
5. Redeem preference shares at a premium of 10% out of profits.
6. Provide for corporate tax @30%.
7. Transfer 10% of current year's profit to General Reserve.

Required: Prepare:

- **Statement of Profit and Loss**
- **Balance Sheet as per Schedule III (Revised)**

19. XYZ Ltd. provides you with the following Balance Sheets as on 31st March 2024 and 31st March 2025:

Balance Sheet (₹ in lakhs)

Particulars	**31.03.2025**	**31.03.2024**
Equity & Liabilities		
Equity Share Capital	2,000	1,600
10% Preference Share Capital	400	600
Reserves and Surplus	1,800	1,200
12% Debentures	1,000	800
Deferred Tax Liability	100	80
Trade Payables	600	500
Outstanding Expenses	150	100
Provision for Taxation	250	200
Total	6,300	5,080

Particulars	31.03.2025	31.03.2024
Assets		
Fixed Assets (Net)	3,200	2,800
Investments (Long-term)	800	500
Inventory	1,000	900
Trade Receivables	700	580

Particulars	31.03.2025	31.03.2024
Cash and Cash Equivalents	600	300
Total	6,300	5,080

Additional Information:

1. Depreciation charged during the year was ₹400 lakhs.
2. A piece of machinery with WDV ₹200 lakhs was sold for ₹250 lakhs.
3. Investment costing ₹100 lakhs was sold for ₹120 lakhs.
4. A new building was purchased for ₹1,000 lakhs.
5. Equity shares were issued at a premium of 25%.
6. ₹200 lakhs of preference shares were redeemed at par.
7. ₹100 lakhs of debentures were issued at par.
8. Dividend paid during the year was ₹150 lakhs.
9. Tax paid during the year ₹180 lakhs.
10. Operating expenses include amortization of goodwill ₹40 lakhs.

Requirement:

Prepare a Cash Flow Statement for the year ended 31st March 2025 in accordance with AS 3 (Revised) / Ind AS 7 using the Indirect Method.

20. XYZ Ltd. is evaluating the financial health of two potential joint venture partners: PQR Ltd. and LMN Ltd. Both are in the same industry, but management is unsure which company has better financial and operational performance.

Financial Data for FY 2024–25 (₹ in Lakhs):

Particulars	PQR Ltd.	LMN Ltd.
Revenue from Operations	5,000	5,500
Cost of Goods Sold	3,200	3,800

Particulars	PQR Ltd.	LMN Ltd.
Operating Expenses	1,000	900
EBIT	800	800
Interest	200	100
Net Profit Before Tax	600	700
Tax (30%)	180	210
Net Profit After Tax	420	490
Equity Share Capital	1,200	1,000
Reserves and Surplus	800	1,200
Non-Current Assets	2,000	2,200
Inventory	500	600
Debtors	700	600
Cash & Cash Equivalents	300	400
Current Liabilities	900	700
Long-term Borrowings	1,000	500

Required:

A. Calculate the following ratios for both companies:

1. **Current Ratio**
2. **Quick Ratio**
3. **Gross Profit Ratio**
4. **Net Profit Ratio**
5. **ROCE (Return on Capital Employed)**
6. **Debt to Equity Ratio**
7. **Interest Coverage Ratio**
8. **EPS (Assume no preference shares)**

9. **Asset Turnover Ratio (Revenue/Total Assets)**

B. Recommendation Report:

- **Analyze and interpret the strengths and weaknesses of both companies.**
- **Based on the ratios, recommend which company is a better candidate for JV and why, from the perspective of:**
  - **Liquidity**
  - **Solvency**
  - **Profitability**
  - **Operational Efficiency**
  - **Return on Investment**

21. **You are provided the following Receipts and Payments Account of xyz, for the year ended 31st March 2025:**

Receipts and Payments Account

For the Year Ended 31st March, 2025

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d (Cash in Hand)	25,000	By Salaries	2,40,000
To Balance b/d (Bank Balance)	1,50,000	By Stationery	35,000
To Subscriptions	3,80,000	By Medicines	70,000
To Donations (General)	1,20,000	By Honorarium to Doctors	90,000
To Entrance Fees	80,000	By Electricity	30,000
To Life Membership Fees	1,50,000	By Furniture Purchased	1,00,000
To Grant from Government	2,00,000	By Books Purchased	50,000
To Interest on Investments	25,000	By Investments (made on 1.10.2024)	2,00,000
To Sale of Old Newspapers	5,000	By Repairs and Maintenance	15,000
		By Balance c/d (Cash in Hand)	20,000
		By Balance c/d (Bank Balance)	3,85,000

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Receipts	Amount (₹)	Payments	Amount (₹)
Total	11,15,000	Total	11,15,000

Additional Information:

1. **Subscriptions Outstanding**:
   - 1st April 2024: ₹20,000
   - 31st March 2025: ₹25,000
   - Subscriptions received in advance as on 31st March 2025: ₹10,000
2. **Entrance Fees**: To be capitalised to the extent of 50%.
3. **Life Membership Fees**: To be capitalised.
4. **Books** to be depreciated @ 10% p.a. (on closing balance); Furniture @ 10% p.a. (on written down value).
5. **Investments made on 1.10.2024** carry 10% p.a. interest (received for full year).
6. **Outstanding Salaries** as on 31st March 2025: ₹20,000
7. The Capital Fund as on 1st April 2024 was ₹6,00,000 and there were Furniture of ₹1,20,000 and Books of ₹80,000 on that date.

Requirements:

1. **Prepare Income and Expenditure Account** for the year ended 31st March, 2025.
2. **Prepare Balance Sheet** as at 31st March, 2025.

22. Joint Venture with Separate Books

Scenario:

M/s A Ltd. and M/s B Ltd. entered into a joint venture to construct a flyover. A joint bank account is opened, and both parties agree to share profits and losses in the ratio of **3:2**. The following transactions took place:

Initial Capital Contributions:

- A Ltd. contributed ₹10,00,000
- B Ltd. contributed ₹8,00,000

Transactions through Joint Bank Account:

- Purchase of materials: ₹9,00,000
- Labour charges: ₹4,00,000
- Site overheads paid: ₹1,00,000
- Plant purchased: ₹3,00,000 (estimated life 3 years, used for 6 months on this project)

Other Transactions:

- B Ltd. paid ₹1,00,000 directly for consultancy services.
- A Ltd. supplied materials from its stock worth ₹1,50,000.
- Contract completed and ₹22,00,000 received from government and deposited in joint bank.
- At the end of the venture:
  - Unsold material worth ₹1,00,000 was taken over by B Ltd.
  - The plant was taken over by A Ltd. at a mutually agreed value of ₹2,50,000.

Requirements:

1. Prepare **Joint Venture Account**
2. Prepare **Joint Bank Account**
3. Prepare **Co-Venturers' Personal Accounts** (A Ltd & B Ltd)

Cost and Management Accounting

1. Outline the procedures an auditor should follow to evaluate a company's implementation of cost control and cost reduction measures. How can the auditor distinguish between the scope and objectives of each?
2. Describe the steps an auditor should take to assess how a company identifies and applies opportunity cost in decision-making. Provide examples of situations where opportunity cost is most relevant.
3. Explain the audit procedures involved in examining the application of Activity-Based Costing (ABC) in a multi-product manufacturing setup. How should the auditor evaluate the accuracy and relevance of cost drivers?
4. List the steps to be followed by an auditor when verifying the process of variance analysis in a company. How should material and labour variances be examined for performance evaluation?
5. Identify the audit procedures for assessing how a company uses contribution per unit of key factor in product mix decisions under constrained resources. What documentation and calculations should be reviewed?
6. Explain the procedure an auditor should follow to evaluate the preparation and use of flexible budgets in comparison to fixed budgets. How should the auditor assess their relevance in a dynamic business environment?
7. Outline the steps an auditor must take to verify the basis of apportionment of service department costs. Describe how the reciprocal method should be reviewed, including an illustrative example.
8. Describe the audit procedures to examine the relationship between capacity utilization and overhead absorption. How should an auditor assess the impact of under- or over-absorption on cost records and financial statements?
9. What are the procedural responsibilities of a cost auditor under Section 148 of the Companies Act, 2013? Outline the steps to be followed in conducting a cost audit in compliance with the Act.
10. Outline the steps an auditor should take to verify the implementation of life cycle costing in strategic decision-making. What aspects should be reviewed to ensure accurate cost estimation across the product lifecycle?

11. Prepare a Statement of cost from the following:

	Rs.
Raw materials consumed	20,000
Direct wages	12,000
Factory Overheads	1,900
Office over head	15% on works cost
Selling over head	0.37 per unit
Units produced	20,000

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86

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Units Sold	18,000 @ 2.50 each.

1. Given production is 1,00,000 units, fixed costs is Rs 2,00,000 Selling price is Rs 10 per unit and variable cost is Rs 6 per unit. Determine profit using technique of marginal costing.
2. If profit-volume ratio is 25 per cent and sales is Rs. 100,000, calculate the variable cost.

12. **ABC Ltd.** is a manufacturing company that produces a single product, **ZX-9**. The company uses **standard costing system** for cost control and variance analysis. Below are the standard cost details per unit of ZX-9:

Standard Cost Per Unit of ZX-9:

Cost Component	**Quantity**	**Rate (₹)**	**Amount (₹)**
Direct Material A	4 kg	₹50/kg	₹200
Direct Material B	2 kg	₹80/kg	₹160
Direct Labour	5 hours	₹60/hour	₹300
Variable Overhead	5 hours	₹20/hour	₹100
Total Standard Cost			₹760

Actual Production and Cost Data for April 2025:

- Units produced: 2,000 units
- Material A used: 8,500 kg costing ₹4,42,000
- Material B used: 3,800 kg costing ₹3,00,400
- Direct labour hours: 10,500 hours paid at ₹65/hour
- Variable overhead incurred: ₹2,10,000

Additional Information:

1. There was no opening or closing inventory of raw materials or finished goods.
2. The standard loss is **nil**.
3. Assume all overheads are based on labour hours.

Required:

1. **Calculate the following variances:**
   - Material Cost Variance (MCV), Price Variance, Usage Variance for both A and B
   - Labour Cost Variance, Rate Variance, Efficiency Variance
   - Variable Overhead Variance: Expenditure and Efficiency
2. **Reconcile** the standard cost with the actual cost using variances.
3. Based on your analysis, **advise management** on the likely causes and suggest **corrective actions**.

13. ABC Ltd. is engaged in the manufacturing of industrial chemicals. The production process involves three sequential processes: Process 1, Process 2, and Process 3.

For the month of April 2025, the following data relates to each process:

INPUT to Process 1:

- Raw Material: 12,000 units at ₹25 per unit
- Direct Wages: ₹1,50,000
- Overheads: 80% of Direct Wages

Additional Costs:

Particulars	Process 1	Process 2	Process 3
Direct Material	₹60,000	₹40,000	₹30,000
Direct Wages	₹90,000	₹70,000	₹60,000
Overheads	75% of Wages	60% of Wages	50% of Wages

Output & Loss Data:

Particulars	Process 1	Process 2	Process 3
Normal Loss (% of input)	5%	10%	5%
Scrap value/unit of loss	₹5	₹10	₹20
Actual output (units)	11,200	10,000	9,300

- There is no stock at the beginning or end in any process.

Additional Notes:

1. Transfer of output from one process to the next is at cost.
2. Abnormal loss/gain is to be valued at cost.
3. Final output is transferred to Finished Goods A/c from Process 3.

Required:

Part A: Process Accounts

1. **Prepare Process 1, Process 2, and Process 3 Accounts for April 2025.**
2. **Show calculation of:**
   - **Normal Loss**
   - **Abnormal Loss/Gain (if any)**
   - **Cost per unit in each process**

Part B: Analysis & Application

3. **Calculate the overall cost per unit of finished goods.**
4. **If the selling price per unit is ₹120, compute the profit or loss for the month.**
5. **As a Cost Accountant, provide two recommendations to improve process efficiency and reduce cost.**

14. XYZ Ltd. manufactures high-precision CNC machine components. The factory operates under a job-order costing system. The company applies factory overheads based on machine hours and administrative and selling overheads based on a percentage of works cost.

You are provided the following data for **Job No. X-54**:

Particulars	**Amount (₹)**
Direct Materials	2,40,000
Direct Wages	1,60,000
Machine Hours Used	800 hours

Additional Information:

1. Factory Overheads are absorbed @ ₹150 per machine hour.
2. Administrative Overheads are 10% of Works Cost.
3. Selling and Distribution Overheads are 15% of Cost of Production.
4. The company applies a markup of 25% on Total Cost to arrive at the selling price.

5. There was an **under-absorption** of factory overheads by ₹20,000 during the year due to idle time and machine breakdown, which the company wants to apportion over all jobs based on actual machine hours used.

Required:

1. **Compute the total cost and selling price** of Job No. X-54 **before** and **after adjusting** for under-absorption.
2. Show all **working notes clearly**.
3. Provide **analytical comments** on:
   - Effect of under-absorption on costing.
   - Whether the current absorption base (machine hours) is appropriate for factory overheads.

15. XYZ Travels Pvt. Ltd. operates a fleet of luxury AC buses between Delhi and Jaipur (a distance of 270 km). The company runs **6 buses** on a daily round trip. Each bus has a capacity of **40 passengers** (excluding the driver and conductor). The buses operate **25 days a month**.

The company incurs the following monthly costs:

Particulars	Amount (₹)
Driver's Salary per bus per month	28,000
Conductor's Salary per bus per month	22,000
Diesel consumption per km	4 litres
Cost of diesel per litre	₹ 85
Maintenance cost per bus per month	₹ 24,000
Permit and road tax per bus per month	₹ 10,000
Insurance and admin overhead (monthly)	₹ 2,00,000 (Total for all buses)

Other Information:

- **Depreciation** on each bus is ₹ 30,000 per month.
- On average, the buses operate at **80% capacity**.
- There are **2 staff (driver + conductor)** per bus, and they get ₹ 500 per trip as **daily allowance.**
- The company aims to earn a **profit margin of 20%** on the **operating cost**.

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Requirements:

1. Compute the cost per passenger km.
2. Determine the fare per passenger per trip (to ensure the desired profit).
3. Calculate the monthly profit if the fare is ₹ 850 per passenger per trip.

16. **ABC Ltd.** is currently manufacturing and selling a single product. The following information relates to the current operations:

Particulars	Amount (₹) per unit
Selling Price	₹ 200
Direct Material	₹ 50
Direct Labour	₹ 40
Variable Overhead	₹ 30
Fixed Overheads (Total)	₹ 6,00,000 per month
Monthly Production Capacity	15,000 units
Current Sales Volume	10,000 units

The company has received a **special export order** for 4,000 units at ₹ 160 per unit. The order would not affect existing domestic sales. The customer will bear the delivery cost. The company has idle capacity and no additional fixed costs would be incurred.

Additionally, the marketing team has suggested a strategy:

- **Reduce selling price to ₹ 180 per unit** to boost **domestic sales** to 14,000 units.
- The marketing budget will increase by ₹ 1,00,000 for the month if the strategy is adopted.

Required:

(a) Calculate the current monthly **Profit** using marginal costing.

(b) Perform a **differential cost analysis** to assess whether the company should accept the **special export order**.

(c) Evaluate the **marketing strategy** using CVP analysis. Should the company reduce the price and increase sales to 14,000 units?

(d) What is the **break-even point** in units and in sales value under:

(i) Current scenario

(ii) Proposed price reduction strategy

(e) Suggest the best course of action based on your analysis in parts (a) to (d). Justify your answer with relevant figures.

PC 9- Basic Financial Accounting and analysis of Financial Statements- Commercial

Part – I Financial accounting

MCQ

1. The Consistency Convention requires:
A. Same accounting policies to be followed from year to year.
B. Same results to be reported each year.
Options:
A) Only A is correct
B) Both A and B are correct
C) Only B is correct
D) Neither A nor B is correct
Correct Answer: Only A is correct

2. Which of the following are implied by the Money Measurement Concept?
A. Only transactions measurable in monetary terms are recorded.
B. Employee morale and brand value are also recorded in the balance sheet.
Options:
A) Only A is correct
B) Both A and B are correct
C) Only B is correct
D) Neither A nor B is correct

Correct Answer: Only A is correct

3. Which of these reflect the Matching Principle in accounting?
A. Revenues must be matched with related expenses.
B. Income and expenditure must be equal at all times.
Options:
A) Only A is correct
B) Both A and B are correct
C) Only B is correct
D) Neither A nor B is correct
Correct Answer: Only A is correct

4. Which of the following apply to the Full Disclosure Convention?
A. Contingent liabilities must be shown in notes to accounts.
B. All facts affecting the financial position should be disclosed.
Options:
A) Only A is correct
B) Both A and B are correct

C) Only B is correct
D) Neither A nor B is correct
Correct Answer: Both A and B are correct

5. Which of the following is/are considered Accounting Conventions?
A. Convention of Materiality
B. Convention of Consistency
Options:
A) Only A is correct
B) Both A and B are correct
C) Either A or B is correct
D) Neither A nor B is correct
Correct Answer: Both A and B are correct

6. All the following items are classified as fundamental accounting assumptions except

(a) Consistency.

(b) Business entity.

(c) Going concern.

(d) All of the above

Correct answer: Business entity

7. X purchased goods for ₹15,00,000 and sold 4/5th of the goods amounting ₹ 18,00,000 and met expenses amounting ₹ 2,50,000 during the year, 2022. He counted net profit as ₹ 3,50,000. Which of the accounting concept was followed by him?

(a) Entity.

(b) Periodicity.

(c) Matching

Correct Answer: Matching.

8. During the life-time of an entity, accounting provides financial statements in accordance with which basic accounting concept:

(a) Conservatism

(b) Matching

(c) Accounting period

(d) All of the above

Correct Answer: Accounting period

9. Economic life of an enterprise is split into the periodic interval to measure its performance is as per

(a) Entity.

(b) Matching.

(c) Periodicity.

Correct Answer: Periodicity

10. Journal is also called a

(a) A day book

(b) History book

(c) Ledger book

(d) An entry book

Correct Answer: A day book

11. An amount of ₹ 1000 withdrawn by a proprietor for his personal use is debited to office expenses. What will be the rectification entry to correct the error.

(a) Office expenses A/C ....Dr

To Drawings A/C

(b) Capital A/C ....Dr

To Drawings A/C

(c) Drawings A/C ....Dr

To Office Expenses A/C

(d) None of the above

Correct Answer: Drawings A/C ....Dr

To Office Expenses A/c

12. Under which depreciation method does the amount of depreciation expenses remains the same throughout the useful life of a fixed asset?

(a) Reducing balance method

(b) Number of units produced method

(c) Machine hours method

(d) Straight-line method

Correct Answer: Straight-line method

13. Which of the following is the example of the revenue reserve

(a) Profit on redemption of debentures

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(b) Profit on revaluation of fixed

(c) Investment fluctuation fund

(d) Profit on re-issue of forfeited shares

Correct Answer: Investment fluctuation fund

14. Which of the following is the example of capital reserve

(a) Workmen's compensation fund

(b) General reserve

(c) Premium received on the issue of shares or debentures

(d) None of the above

Correct Answer: Premium received on the issue of shares or debentures

15. Provision is created by debiting _______.

(a) Profit and loss account

(b) Trading account

(c) Profit and loss appropriation account

(d) None of the above

Correct Answer: Profit and loss account

16. Which of the following statements are true regarding the Going Concern Concept?

A. It assumes the business will continue operations for the foreseeable future.
B. Assets are valued based on expected liquidation value.

Options:
A) Only A is correct
B) Both A and B are correct
C) Only B is correct
D) Neither A nor B is correct

Correct Answer: Only A is correct

17. Which of the following statements align with the Conservatism Convention?

A. Do not anticipate future profits.
B. Provide for all known liabilities and possible losses.

Options:
A) Only A is correct
B) Both A and B are correct
C) Either A or B is correct
D) Neither A nor B is correct

Correct Answer: Both A and B are correct

18. Which of the following are true about the Accrual Concept?

A. Expenses are recorded when paid, not when incurred.
B. Revenues are recorded when earned, regardless of cash received.

Options:
A) Only A is correct
B) Both A and B are correct
C) Only B is correct
D) Neither A nor B is correct

Correct Answer: Only B is correct

19. Under the Historical Cost Concept, which of the following apply?

A. Assets are shown in the books at purchase price.
B. Assets are revalued each year to reflect current market price.

Options:
A) Only A is correct
B) Both A and B are correct
C) Only B is correct
D) Neither A nor B is correct

Correct Answer: Only A is correct

20. Which of the following statements are valid under the Dual Aspect Concept?

A. Every transaction has at least two effects.
B. The accounting equation is: Assets = Liabilities + Capital.

Options:
A) Only A is correct
B) Both A and B are correct
C) Either A or B is correct
D) Neither A nor B is correct

Correct Answer: Both A and B are correct

21. Which of the following statements regarding depreciation are correct?

A. Depreciation is a non-cash expense charged to Profit & Loss Account.
B. Depreciation reduces the value of an asset over time due to usage or obsolescence.

Options:
A) Only A is correct
B) Both A and B are correct
C) Only B is correct
D) Neither A nor B is correct

Correct Answer: Both A and B are correct

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22. Which of the following distinguish provision from reserve?

A. Provision is made for a known liability or loss; reserve is an appropriation of profit.
B. Provision is shown on the liability side; reserve is shown under assets.

Options:
A) Only A is correct
B) Both A and B are correct
C) Only B is correct
D) Neither A nor B is correct

Correct Answer: Only A is correct
(Explanation: Reserve may be shown on the liability side, not under assets.

23. Identify the correct statement(s) about the purpose of depreciation.

A. To match the cost of asset with the revenue it generates over time.
B. To ensure adequate cash is available to replace the asset.

Options:
A) Only A is correct
B) Both A and B are correct
C) Only B is correct
D) Neither A nor B is correct

Correct Answer: Only A is correct

24. Which of the following are examples of provisions and not reserves?

A. Provision for bad and doubtful debts
B. Provision for taxation

Options:
A) Only A is correct
B) Both A and B are correct
C) Only B is correct
D) Neither A nor B is correct

Correct Answer: Both A and B are correct

25 Which of the following statements about general reserve are true?

A. It is created out of profits as a matter of prudence.
B. It can be used to write off capital losses.

Options:
A) Only A is correct
B) Both A and B are correct
C) Only B is correct
D) Neither A nor B is correct

Correct Answer: Both A and B are correct

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26. Consider the following about secret reserves.

A. These are not shown openly in the balance sheet.
B. Secret reserves are illegal under all circumstances.

Options:
A) Only A is correct
B) Both A and B are correct
C) Only B is correct
D) Neither A nor B is correct

Correct Answer: Only A is correct

27. Depreciation is charged for which of the following reasons?

A. To comply with the accrual and matching principles of accounting.
B. To increase the market value of the asset.

Options:
A) Only A is correct
B) Both A and B are correct
C) Only B is correct
D) Neither A nor B is correct

Correct Answer: Only A is correct

28. Which of the following are characteristics of a provision?

A. It is a charge against profit, not an appropriation.
B. It can be created even in the absence of profit.

Options:
A) Only A is correct
B) Both A and B are correct
C) Only B is correct
D) Neither A nor B is correct

Correct Answer: Both A and B are correct

29. Which of the following are correct in relation to reserves?

A. Specific reserves are created for a defined purpose.
B. Reserves can be created even if there is no profit.

Options:
A) Only A is correct
B) Both A and B are correct
C) Only B is correct
D) Neither A nor B is correct

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Correct Answer: Only A is correct
(Explanation: Reserves are created **from profits**; if no profit, reserves generally can't be created.)

30. State the causes of difference between the balance shown by the passbook and the cashbook in Bank Reconciliation Statement. (5 marks)

(a) Cheques issued but not yet presented for payment in the bank
(b) Cheque paid into the bank for collection but not yet credited/collected by the bank
(c) Cheques paid into the bank for collection but dishonoured by the bank
(d) Interest allowed by the bank
(e) Direct payment into the bank by a customer
(f) Advancement in technology

ANSWER

(1) All of the above	(2) (a) to (f)
(3) (a) to (e)	(4) (a) to (e)

Correct Answer: Only 2 is correct

Descriptive questions

1. What is the sequencing follows for posting journal entries into the ledger. (5 marks)

   ANSWER

   (a) Open (or locate) in the ledger the first account named in the journal entry.
   (b) Enter in the debit column of the ledger account the amount of the debit as shown in the journal.
   (c) Enter the date of the transaction in the date column of the ledger account.
   (d) Enter in journal folio column the number of the journal page from which the entry is being posted.

2. Even if the trial balance agrees, some errors may remain. Do you agree. Explain. (5 marks)

   ANSWER

   In spite of the agreement of the trial balance some errors may remain. These may be of the following types:
   (i) Transaction has not been entered at all in the journal.
   (ii) A wrong amount has been written in both columns of the journal.
   (iii) A wrong account has been mentioned in the journal.
   (iv) An entry has not at all been posted in the ledger.
   (v) Entry is posted twice in the ledger.

3. How errors of omission differ from errors of commission (5 marks)

   ANSWER

ERROR OF OMMISSION	ERROR OF COMMISSION
1. Errors of omission are defined as those errors that result from a partial or complete omission	1. Errors of commission are defined as those errors that occur due to incorrect recording

of a transaction from the account books.	of transactions in the account books.
2. Errors of omission occur due to mistakes on the part of the accountant in recording the transaction.	2. Errors of commission occur due to negligence, carelessness or a lack of knowledge of the accountant involved in recording of transactions.
3. Errors can be rectified in errors of omission by simply rewriting the entry	3. Errors can be rectified in errors of commission by either debiting or crediting the incorrect account and posting to the correct account.
4. In errors of omission, complete omission will result in trial balance agreement, while partial omission will not result in agreement of trial balance.	4. In errors of commission, the trial balance may or may not agree.

4. What are the factors considered for calculation of depreciation? (5 marks)

ANSWER

Factors considered for depreciation

Cost of the Asset: The cost of a fixed asset is determined by adding all the expenses incurred on bringing the asset to usable condition with the purchasing price of that asset. If the cost of the asset is more, the depreciation charged on that asset will also be higher. For example, the company purchased an asset for ₹50,000 and also spend ₹10,000 on its installation. In this case, the cost price to be shown in the books will be 50,000 +10,000 = ₹60,000, and depreciation will be calculated at ₹60,000.

2. Estimated Useful Life: The number of years for which an asset can be effectively used in the business is called its estimated useful life. A machine having more number of useful years will have less yearly depreciation as compared to a machine that has a lesser number of useful years.

3. Estimated Scrap Value: Scrap value is the net realisable value of an asset at the end of its effective life. It is also known as residual value or break-up value. It is deducted from the total cost of the asset at the time of calculating depreciation.

5. What is provision and what are the criteria for recognition of provision. (5 marks)

ANSWER

Provision - A provision is a liability which can be measured only by using a substantial degree of estimation.

Criteria for recognition of provision - According to AS 29, an enterprise must recognize a provision only when three criteria are met: (a) there is a **present obligation** as a result of a past event, (b) it is **probable** that an outflow of economic benefits will be required to settle the obligation, and (c) a **reliable estimate** can be made of the amount of the obligation. If these conditions are not fulfilled, no provision should be recognized.

6. Write short notes on (a) Balance Sheet (b) Closing entries (5 marks)
   (a) **Balance Sheet** - The Balance Sheet is a statement that shows the financial position of the business. It records the assets and liabilities of the business at the end of the accounting period after the preparation of trading and profit and loss accounts. Not-for-Profit' Organisations design Balance Sheet for determining the financial position of the establishment. The preparation of the balance sheet is on the same pattern as of the trade entities. It depicts liabilities and assets as during the end of the year. Assets are depicted on the right-hand side, whereas the liabilities are depicted on the left-hand side.
   (b) **Closing entries** - A journal entry that is made at the end of an accounting period that transfers balances from the temporary accounts to a permanent account is known as closing entries.
7. Distinguish between Receipt and Payment account and Income and Expenditure account (5 marks)

ANSWER

Sl. No.	Receipt and Payment Account	Income and Expenditure Account
1.	Shows cash inflows and outflows	Shows revenue and expenses
2.	Only deals with cash transactions	Deals with both cash and credit transactions
3.	Only short-term transactions	Deals with both short-term and long-term transactions
4	Prepared for short duration	Prepared for a long duration, such as one year
5	Only deals with current assets and current liabilities	Deals with all assets and liabilities

8. What are the types of Joint Stock Company and give a brief description of each type of Joint Stock Company. (5 marks)

ANSWER

Joint Stock Company - A joint stock company is an organisation which is owned jointly by all its shareholders. Here, all the stakeholders have a specific portion of stock owned, usually displayed as a share. Each joint stock company share is transferable, and if the company is public, then its shares are marketed on registered stock exchanges. Private joint stock company shares can be transferred from one party to another party. However, the transfer is limited by agreement and family members

Type of joint stock company

The joint stock company is divided into three different types.

- **Chartered Company** – A firm incorporated by the king or the head of the state is known as a chartered company.

- **Statutory Company** – A company which is formed by a particular act of parliament is known as a statutory company. Here, all the power, object, right, and responsibility are all defined by the act.
- **Registered Company** – An organisation that is formed by registering under the law of the company comes under a registered company.

9. From the following information calculate current ratio (5 marks)

Inventories 50,000
Trade receivables 50,000
Advance tax 4,000
Cash and cash equivalents 30,000
Trade payables 1,00,000
Short-term borrowings (bank overdraft)

ANSWER

Current ratio = Current Assets/ Current liabilities

Current assets = Inventories + Trade receivables + Advance tax + Cash and cash equivalents = ₹ (50,000 + 50,000 + 4,000 + 30,000) = ₹ 1,34,000.

Current liabilities = Trade payables + Short-term borrowings = Rs. 1,00,000 + Rs. 4,000 = Rs. 1,04,000

Current Ratio = Rs.1, 34,000/ Rs.1, 04,000 = 1.29:1

10. What do you mean by principal books of accounts (5 marks)

ANSWER

Principal Books of Accounts – These books provide information for the preparation of Trial Balance and financial statements. Principal Books include:

- Ledger – Ledger is the name given to the book that contains all of the accounts (personal, real, and nominal) in one place
- Cash Book – Cash Book serves as both cash and bank account and balances are entered directly into the trial balance in this instance
- The Cash Book is included in the ledger and it must be treated as the Principal Book

11. What is trial balance? What are the different methods by which trial balance can be prepare (5 Marks)

ANSWER

A Trial Balance is a statement that keeps a record of the final ledger balance of all accounts in a business. It has two columns – debit and credit. Trial Balance is prepared at the end of a year and is used to prepare financial statements like Profit and Loss Account or Balance Sheet.

There are three methods by which you can prepare a Trial Balance. They are as follows:

- Total Method – Total Method records each ledger account's debit and credit columns to the Trial Balance. Both the columns should be equal as this method follows the double-entry bookkeeping method.
- Balance Method – This method uses each ledger account's final debit/credit balance in the Trial Balance. Once the balance figures of all accounts are listed, the Trial Balance

(both on the debit and credit side) helps check the accuracy of all transactions. The Balance Method of preparing Trial Balance is more popular compared to its alternatives.

- Total cum Balance Method – This method is a combination of both the Total Method and Balance Method. The Trial Balance has four columns – two for the credit and debit totals of a ledger account and two for that account's credit/debit balances.

12. What is error of principle and whether it affects trial balance? (3 marks)

Answer: An error of principle occurs when a transaction is recorded in violation of fundamental accounting principles or established company policies, leading to inaccurate financial reporting. Such errors can distort financial statements, affecting the representation of a company's financial health and performance

13. Write short note on bank reconciliation statement (3 marks)

Answer: A BRS or bank reconciliation statement is prepared by a company to compare their bank account balance with the accounting records. It helps identify discrepancies between the two data, such as unrecorded transactions, errors, or fraud. A bank reconciliation statement is an important financial document that helps in tax and financial reporting. It includes details such as deposits, withdrawals and any other transactional activities related to the bank account for a specific period.

14. Distinguish between straight line and written down value method of depreciation. (5 marks)

Answer

Sl.No.	Straight line method	Written down value
1.	It is a method of calculating depreciation where a fixed amount of depreciation is charged to the assets	It is a method of calculating depreciation where there is a fixed rate of interest that is charged to the assets
2.	Differs as the value of depreciation charged is constant	Rate of depreciation charged is constant every year till assets useful life
3.	Fully becomes zero	Does not become zero
4.	Written off completely	Does not get written off completely
5.	Easier to understand and determine depreciation	It is a little more complicated than the straight line method

15. Difference between (i) Specific and general reserve (ii) Capital and revenue reserve (8 marks)

Answer

(a)

Sl. No.	Specific reserve	General reserve
1.	It was established as a free reserve.	It was designed with a specific objective in mind.

2.	It can be utilised as a source of funding anything.	It is used purely for the purpose for which it was designed
3.	It improves the financial situation of the firm's position	It has no effect on the company's financial situation.

(b)

Sl. No	Capital reserve	Revenue reserve
1.	They arise as a result of the company's day-to-day operations.	They are not a result of the company's day-to-day operations.
2.	They are accessible for dividend distribution.	They are not eligible for dividend distribution.
3.	They're made for unique objectives or unforeseeable circumstances.	They're made to fit every situation as a legal necessity or as an example of accounting practice.

16. What are the main features of Income and Expenditure account (8 marks)

ANSWER The main features of Income and Expenditure Account are given below:

a. Income and expenditure account presented by non-trading entities are much like the profit and loss a/c presented by trading entities.
b. It is prepared by stringently following the fundamentals of the double-entry system of bookkeeping or accounting.
c. It is always prepared during the end of the period which normally comprises of 1 year.
d. It decides the surplus or deficit of income over expends of the non-trading entities for the particular year.
e. The surplus or deficit from the income and expenditure account is moved to the capital fund a/c.
f. The Income and expenditure account of only revenue nature are incorporated in this account. Any income and expenditure of capital nature are not comprehended.
g. It is prepared by accountants chosen by the enterprise's management and is audited by an independent auditor.
h. It does not begin with the opening balance, and it follows back the incomes received and expenditures incurred by the non-trading entities during the financial year.
i. The accumulated or accrual concept of accounting is rigidly pursued when it is prepared.

17. What are the various categories of share capital (4 marks)

ANSWER

Various Categories of Share Capital :-

(a) Authorised capital
(b) Issued capital
(c) Unissued capital

(d) Subscribed capital
(e) Called up capital
(f) Paid up capital
(g) Uncalled capital
(h) Reserve capital

18. What are the advantages of ratio analysis (8 marks)

ANSWER

The advantages of ratio analysis is given below-

2. Simplify complex figures and establish relationships: Ratios help in simplifying the complex accounting figures and bring out their relationships. They help summarise the financial information effectively and assess the managerial efficiency, firm's credit worthiness, earning capacity, etc.

3. Helpful in comparative analysis: The ratios are not be calculated for one year only. When many year figures are k
ept side by side, they help a great deal in exploring the trends visible in the business. The knowledge of trend helps in making projections about the business which is a very useful feature.

4. Identification of problem areas: Ratios help business in identifying the problem areas as well as the bright areas of the business. Problem areas would need more attention and bright areas will need polishing to have still better results.

5. Enables SWOT analysis: Ratios help a great deal in explaining the changes occurring in the business. The information of change helps the management a great deal in understanding the current threats and opportunities and allows business to do its own SWOT (Strength-Weakness-Opportunity-Threat) analysis.

6. Various comparisons: Ratios help comparisons with certain bench marks to assess as to whether firm's performance is better or otherwise. For this purpose, the profitability, liquidity, solvency, etc., of a business, may be compared: (i) over a number of accounting periods with itself (Intra-firm Comparison/Time Series Analysis), (ii) with other business enterprises (Inter-firm Comparison/Cross-sectional Analysis) and (iii) with standards set for that firm/industry (comparison with standard (or industry expectations).

19. Write in brief – Cash flow from (a)operating activities (b) financing activities (4 marks)

Answer

(a) Operating activities are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.
(b) Financing activities are activities that result in changes in the size and composition of the owners' capital (including preference share capital in the case of a company) and borrowings of the enterprise.

20. The balance sheets of XYZ Ltd. as on 31st March 2024 and 31st March 2025 are as follows:

Particulars	**31.03.2024 (₹)**	**31.03.2025 (₹)**
Cash	10,000	15,000
Debtors	50,000	40,000
Stock	60,000	70,000
Fixed Assets (Net)	1,00,000	1,10,000
Creditors	30,000	40,000
Long-term Loan	50,000	40,000
Capital	1,40,000	1,35,000

Additional information:

- During the year, machinery costing ₹20,000 was sold at a loss of ₹2,000.
- Depreciation charged on fixed assets during the year was ₹15,000.
- A dividend of ₹10,000 was paid during the year.
- The company earned a net profit of ₹20,000 for the year.

Required:

Prepare the **Cash Flow Statement (Indirect Method)** for the year ended 31st March 2025 (15 marks)

Answer:

Step 1: Calculate Net Profit before Adjustments

Given net profit = ₹20,000

Step 2: Adjustments for Non-Cash and Non-Operating Items:

Particulars	**Amount (₹)**	**Explanation**
Add: Depreciation	15,000	Non-cash expense
Add: Loss on Sale of Machinery	2,000	Loss reduces profit but no cash
Less: Dividend Received (if any)	-	Not given, so no adjustment

Step 3: Changes in Working Capital:

Particulars	Opening (₹)	Closing (₹)	Change	Effect on Cash Flow
Debtors	50,000	40,000	(10,000)	Increase in cash (add)
Stock	60,000	70,000	10,000	Decrease in cash (deduct)
Creditors	30,000	40,000	10,000	Increase in cash (add)

Net Working Capital effect = (-10,000) + 10,000 + 10,000 = ₹10,000 increase in cash

Step 4: Cash Flow from Operating Activities

Particulars	₹
Net profit	20,000
Add: Depreciation	15,000
Add: Loss on sale of machinery	2,000
Add: Decrease in debtors	10,000
Add: Increase in creditors	10,000
Less: Increase in stock	(10,000)
Net Cash from Operating Activities	**47,000**

Step 5: Cash Flow from Investing Activities

Particulars	₹
Sale of machinery (Book value ₹20,000 - Loss ₹2,000 = ₹18,000)	18,000
Purchase of fixed assets (Net change + Depreciation = ₹10,000 + ₹15,000 = ₹25,000)	(25,000)
Net Cash Used in Investing Activities	**(7,000)**

Step 6: Cash Flow from Financing Activities

Particulars	₹
Repayment of long-term loan (₹50,000 - ₹40,000)	(10,000)
Dividend paid	(10,000)

Particulars	₹
Net Cash Used in Financing Activities	**(20,000)**

Step 7: Net Increase in Cash

Particulars	₹
Net increase in cash	47,000 - 7,000 - 20,000 = 20,000
Opening cash balance	10,000
Closing cash balance (given)	15,000

Discrepancy: Since closing cash balance is ₹15,000 but calculation gives ₹30,000, this suggests a missing transaction or an error in assumptions. Usually, adjustments in other areas or opening balances need verification.

21 The summarized Balance Sheets of ABC Ltd. are as follows:

Particulars	31.03.2023 (₹)	31.03.2024 (₹)
Fixed Assets	2,50,000	2,70,000
Current Assets	1,20,000	1,50,000
Capital	2,00,000	2,10,000
Reserves	50,000	60,000
Long-term Loan	40,000	20,000
Current Liabilities	80,000	1,30,000

Additional Information:

- During the year, machinery costing ₹30,000 was purchased.
- Dividend paid was ₹20,000.
- Net profit for the year was ₹50,000.

Required:
Prepare:
a) Schedule of Changes in Working Capital
b) Funds Flow Statement for the year ended 31.03.2024. (15 marks)

Answer:

a) Schedule of Changes in Working Capital

Particulars	31.03.2023 (₹)	31.03.2024 (₹)	Increase/Decrease	Explanation
Current Assets	1,20,000	1,50,000	Increase ₹30,000	Use of funds (application)
Current Liabilities	80,000	1,30,000	Increase ₹50,000	Source of funds
Net Working Capital	40,000	20,000	Decrease ₹20,000	Use of funds

b) Funds Flow Statement

Particulars	₹
Sources of Funds:	
Increase in Current Liabilities	50,000
Increase in Capital and Reserves (2,10,000 + 60,000) - (2,00,000 + 50,000)	20,000
Decrease in Long-term Loan	20,000
Total Sources of Funds	**90,000**

Particulars	₹
Applications of Funds:	
Increase in Fixed Assets	20,000
Increase in Current Assets	30,000
Dividend Paid	20,000
Total Applications of Funds	**70,000**

| **Net increase in Working Capital** (Balancing figure) | 20,000 |

Explanation:

- The company raised ₹90,000 from various sources, mainly by increasing liabilities and capital.
- It applied ₹70,000 on asset purchase and dividend payments.
- The remaining ₹20,000 caused a decrease in net working capital.

22 The Balance Sheets of ABC Ltd. as on 31st March 2023 and 31st March 2024 are given below:

Particulars	**31.03.2023 (₹)**	**31.03.2024 (₹)**
Fixed Assets	3,00,000	3,60,000
Current Assets	1,20,000	1,80,000
Capital	3,00,000	3,30,000
General Reserve	30,000	45,000
Long-term Loan	1,00,000	80,000
Current Liabilities	90,000	1,25,000

Additional information:

- During the year, machinery costing ₹80,000 was purchased.
- A dividend of ₹25,000 was paid.
- The company earned a net profit of ₹60,000.

Required:

a) Prepare the **Schedule of Changes in Working Capital**.
b) Prepare the **Funds Flow Statement** for the year ended 31st March 2024. (15 marks)

Answer:

Schedule of Changes in Working Capital

Particulars	**31.03.2023 (₹)**	**31.03.2024 (₹)**	**Increase/Decrease**	**Nature (Source/Use)**
Current Assets	1,20,000	1,80,000	60,000 Increase	Use of funds (asset ↑)
Current Liabilities	90,000	1,25,000	35,000 Increase	Source of funds (liability ↑)

Net Working Capital:
= Current Assets − Current Liabilities
= 1,20,000 − 90,000 = 30,000 (Opening)
= 1,80,000 − 1,25,000 = 55,000 (Closing)

Net Working Capital Increase = 55,000 − 30,000 = ₹25,000 (Use of funds)

b) Funds Flow Statement

Particulars	₹
Sources of Funds:	
Increase in Capital and Reserves (₹3,30,000 + ₹45,000) - (₹3,00,000 + ₹30,000)	45,000
Increase in Current Liabilities	35,000
Decrease in Long-term Loan (₹1,00,000 – ₹80,000)	20,000
Total Sources of Funds	**1,00,000**

Particulars	₹
Applications of Funds:	
Increase in Fixed Assets (₹3,60,000 – ₹3,00,000)	60,000
Increase in Net Working Capital	25,000
Dividend Paid	25,000
Total Applications of Funds	**1,10,000**

Balancing Figure:

Total applications ₹1, 10,000 – total sources ₹1, 00,000 = ₹10,000 shortfall

This suggests the company may have used cash reserves or short-term borrowings not reflected in balance sheets or some additional financing.

Summary:

Particulars	₹
Sources of Funds	1,00,000
Applications of Funds	1,10,000
Net Decrease in Cash/Funds	(10,000)

Part – II Accounting Standards

MCQ

1. Regarding revaluation of fixed assets under AS 10:
A) Revaluation should be done regularly and consistently.
B) Increase due to revaluation should be credited to revaluation reserve.
C) Decrease in value should be debited to profit and loss account only.
D) Revaluation can be done arbitrarily without professional valuation.

Options:

- Both A and B
- Either C or D
- Neither A nor C
- Both B and D

Answer: Both A and B

2. Government grants related to fixed assets are:
A) Credited to capital reserve.
B) Deducted from the gross value of the asset.
C) Recognized as income in the year of receipt.
D) Deferred and amortized over the useful life of the asset.

Options:

- Both B and D
- Either A or C
- Neither B nor D
- Both A and C

Answer: Both B and D

3. Which statements are correct regarding classification of investments under AS 13?
A) Investments can be classified as current or long-term based on management intention.
B) Current investments are valued at cost or market price, whichever is lower.
C) Long-term investments are valued at market price annually.
D) Dividends from long-term investments are credited to the investment account.

Options:

- Both A and B
- Either C or D
- Neither A nor D
- Both B and C

Answer: Both A and B

4. Which is true regarding impairment of assets under AS 28?
A) An asset is impaired if its carrying amount exceeds recoverable amount.
B) Recoverable amount is the higher of net selling price and value in use.
C) Impairment loss should be reversed if recoverable amount increases later.
D) Impairment losses are ignored if the asset is fully depreciated.

Options:

- Both A and B
- Both B and D
- Either C or D
- Neither A nor C

Answer: Both A and B

5. Under AS 29, provisions are:
A) Recognized when there is a present obligation from past events.
B) Recognized regardless of the likelihood of outflow of resources.
C) Measured reliably.
D) Disclosed in the notes if uncertain.

Options:

- Both A and C
- Both B and D
- Either A or B
- Neither C nor D

Answer: Both A and C

6. In AS-9, the concept of revenue recognition considers which of the following three elements

(a) Sale of goods

(b) Rendering of services

(c) Both (a) and (b)

(d) Only (a)

Correct answer: Both (a) and (b)

7. Revenue arising from the use of enterprise resources (interest, royalties, and dividends) is recognized when:

a) There is no significant uncertainty as to collectability

b) There is no significant uncertainty as to measurability

c) Both (a) and (b)

d) Only when cash is received

Correct Answer: Both (a) and (b)

8. Out of the following which is a Contingent liability as per AS 29

(a) Warranty cost

(b) Guarantee given for loan taken by associate

(c) Provision for gratuity

(d) Future operating cost

Correct Answer: Guarantee given for loan taken by associate

9. A grant given for specific capital assets (e.g., machinery) is considered a:

a) Capital grant

b) Revenue grant

c) Prepaid grant

d) Deferred grant

Correct Answer: Capital grant

10. In AS-13, cost of investment includes

(a) broker, duties and fees

(b) interest, dividend or other receivables

(c) right shares

(d) all of the above

Correct Answer: all of the above

11. X Limited has purchased a computer with various additional software. These are integral parts of the computer. Which of the following are true in the context of AS 26:

(a) Recognise Computer and software as tangible asset

(b) Recognise tangible and intangible separately

(c) Does not recognize the software as an asset

(d) Recognise computer and software as intangible asset.

Correct Answer: **Recognise Computer and software as tangible asset**

12. Which of the following is true regarding accounting policies?
A) Accounting policies should be disclosed in the financial statements.

B) Changes in accounting policies must be disclosed along with reasons.
C) Accounting policies need not be disclosed if they comply with law.
D) Accounting policies are only relevant for large companies.

Options:

- Either A or B
- Both A and B
- Neither C nor D
- Either C or D

Correct Answer: Both A and B

13. Which methods are acceptable under AS 2 for valuing inventories?
A) FIFO (First-In, First-Out)
B) Weighted Average Cost
C) LIFO (Last-In, First-Out)
D) Market price only

Options:

- Both A and B
- Either C or D
- Neither A nor C
- Both B and D

Correct Answer: Both A and B

14. Under AS 4, which events require adjustment in the financial statements?
A) Events that provide evidence of conditions existing at the balance sheet date.
B) Events that arise after the balance sheet date but before approval of financial statements.
C) Events indicative of conditions arising after the balance sheet date.
D) All events after the balance sheet date.

Options:

- Either A or B
- Both A and C
- Neither B nor D
- Both B and D

Correct Answer: Either A or B

15. Which statements are correct under AS 5?
A) Prior period items should be shown separately on the face of the profit and loss account.
B) Changes in accounting policies affecting profit should be adjusted retrospectively.
C) Prior period items can be adjusted in the current year's profit or loss without disclosure.
D) Changes in accounting policies need not be disclosed.

Options:

- Both A and B
- Either C or D
- Neither A nor C
- Both B and D

Correct Answer: Both A and B

16. Which of the following is correct regarding revenue recognition under AS 9?
A) Revenue should be recognized when it is earned and realizable.
B) Revenue from the sale of goods is recognized on delivery.
C) Revenue from services is recognized when services are rendered.
D) Revenue should be recognized only on receipt of cash.

Options:

- Both A and B
- Both A and C
- Either C or D
- Neither B nor D

Correct Answer: Both A and C

Descriptive questions

1. Explain the objective of "Accounting Standards" in brief (8 marks)

ANSWER

The primary objective of Accounting Standards are:

- To provide a standard for the diverse accounting policies and principles.
- To put an end to the non-comparability of financial statements.
- To increase the reliability of the financial statements.
- To provide standards which are transparent for users.
- To define the standards which are comparable over all periods presented.
- To provide a suitable starting point for accounting.
- It contains high quality information to generate the financial reports. This can be done at a cost that does not exceed the benefits.
- For the eradication the huge amount of variation in the treatment of accounting standards.
- To facilitate ease of both inter-firm and intra-firm comparison.

2. Explain the following – (a) Net realisable value (b) Cost of purchase (6 marks)

Answer

(A) Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(B) The costs of purchase consist of the purchase price including duties and taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), freight inwards and other expenditure directly attributable to the acquisition. Trade discounts, rebates, duty drawbacks and other similar items are deducted in determining the costs of purchase.

3. Define –(a) onerous contract (b) Executory contract (6 marks)

Answer

(A) An onerous contract is a formal agreement where the unavoidable costs of fulfilling the contract exceed the economic benefits expected to be received under it, creating a financial burden for one of the parties.

(B) An executory contract is an ongoing agreement where both parties still have significant obligations to perform. It involves future performance by both sides, and the failure of either party to fulfill their duties would constitute a material breach of the contract. Common examples include a lease agreement, a contract for future goods or services, or a mortgage, as both the landlord/seller and tenant/buyer have remaining responsibilities

PC-08

Financial Rules, Basic Principles of Government and Public Works Accounts, Service Rules and Accounting Standards

Questions on IND AS 1: presentation of Financial Statement

Q1. Describe the procedures required to ensure company's financial statements present a true and fair view and comply with IND AS 1.

Q2.How should an auditor evaluate whether items have been appropriately classified as current assets and current liabilities in accordance with the definitions provided in IND AS 1?

Q3. What should an auditor evaluate when assessing whether the general features and presentation principles prescribed under IND AS 1 have been appropriately applied in the financial statements?

Questions on IND AS 2: Inventories

Q1. M/s. Sunshine Ltd., a company manufacturing consumer electronics, with a normal capacity of 4000 units per year and fixed production overhead at Rs. 2,00,000/-. During 2024, M/s. Sunshine Ltd., produced 3200 units of consumer electronics, with the following cost structure.

	Rs.
Raw materials	100
Direct labour	20
Other Direct factory expenses	10
Variable production overheads	15

The closing stock of 200 units of consumer electronics are lying at the end of the year.

a) Compute the value of closing stock as per IND AS2.

b) If in the above case, M/s. Sunshine Ltd produced 5000 units and 200 units are lying in stock, what would be value of closing stock as per IND AS 2?

Q2. Discuss the procedure to be adopted for inventory valuation in compliance to IND AS 2.

Question on IND AS 7: Statement of Cash flows

Q1. What are the component of cash and cash equivalents in the Statement of Cash Flows?

Q2. Following is the balance sheet of ABC Limited for the year ended 31 March, 2024

(Rs. In lacs)

	2024	**2023**
ASSETS		
Non-current assets		
Property, plant and equipment	13000	12500
Intangible assets	50	30

Other financial assets	145	170
Deferred Tax Asset (net)	855	750
Other non-current assets	800	770
Total non-current assets	**14,850**	**14,220**
Current assets		
Financial assets		
Investments	2,300	2,500
Cash and cash equivalents Other current assets	220	460
Investments	195	85
Total current assets	2,715	3,045
Total assets	**17,565**	**17,265**
EQUITY AND LIABILITIES		
Equity		
Equity share capital Other equity	300	300
Equity	12,000	8,000
Total equity	**12,300**	**8,300**
LIABILITIES		
Non-current liabilities **Financial liabilities**		
Long-term borrowings	2,000	5,000
Other non-current liabilities	2,740	3,615
Total non-current liabilities	4,740	8,615
Current liabilities		
Financial liabilities		
Trade payables	150	90
Bank overdraft	75	60
Other current liabilities	300	200
Total current liabilities	525	350
Total liabilities	5,265	8,965
Total equity and liabilities	**17,565**	**17,265**

Additional Information:

i. Profit after tax for the year ended March 31, 2024 – Rs. 4,450 lacs
ii. Interim dividend paid during the year –Rs.450 lacs
iii. Depreciation and amortisation charged in the statement of profit and loss during the current

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year are as under

- Property, Plant and Equipment –Rs.500 lacs
- Intangible Assets -Rs.20 lacs

iv. During the year ended March 31, 2024 two machineries were sold for Rs.70 lacs. The carrying amount of these machineries as on March 31, 2024 is Rs.60 lacs.

v. Income taxes paid during the year Rs.105 lacs

vi. Other non-current / current assets and liabilities are related to operations of ABC Ltd. and do not contain any element of financing and investing activities.

Using the above information of ABC Limited, construct a statement of cash flows under indirect method.

Question on IND AS 8: Accounting Policies, Change in Accounting Estimates and Errors

Q1. A Company want to change the inventory cost formula. Please describe whether change in inventory cost formula should be considered by Company as a change in accounting policy or a change in accounting estimates as per the provision of IND AS 8? Please provide a brief explanation.

Q2. A Company has found that life of the assets is more than what the Company used to considered. How should a company account for a change in the useful life of its Assets under IND AS 8, and would this be classified as a change in accounting policy or a change in accounting estimate?

Q3. Are changes in accounting estimates different from prior period errors? Discuss the distinction between the two and explain their respective implications on the financial statements, as per IND AS 8.

Question on IND AS 10: Events occurring after Reporting Period

Q1. ABC Ltd. is in a legal suit against the GST department. The company gets a court order in its favour on 15th April, 2024, which resulted into reducing the tax liability as on 31st March, 2024. The financial statements for 2023-2024 were approved by the board of directors on 15th May, 2024. The management has not considered the effect of the transaction as the event is favourable to the company. The company's view is that favourable events after the reporting period should not be considered as it would hamper the realisation concept of accounting. Comment on the company's views in the light of Ind AS 10.

Q2. ABC Ltd. received a demand notice on 15th June, 2024 for an additional amount of Rs.28,00,000 from the Excise Department on account of higher excise duty levied by the Excise Department compared to the rate at which the company was creating provision and depositing the same in respect of transactions related to financial year 2023-2024. The financial statements for the year 2023-2024 are approved on 10th August, 2024. In July, 2024, the company has appealed against the demand of Rs.28,00,000 and the company has expected that the demand would be settled at Rs.15,00,000 only. Show how the above event will have a bearing on the financial statements for the year 2023-2024. Whether these events are adjusting or non-adjusting events and explain the treatment as per IND AS 10.

Question on IND AS 16: Property, Plant and Equipment

Q1. Discuss the procedures of verifying fixed assets during the audit.

Q2. B Ltd. owns an asset with an original cost of Rs.2,00,000. On acquisition, management determined that the useful life was 10 years and the residual value would be Rs. 20,000. The asset is now 8 years old, and during this time there have been no revisions to the assessed residual value. At the end of year 8, management has reviewed the useful life and residual value and has determined that the useful life can be extended to 12 years in view of the maintenance program adopted by the company. As a result, the residual value will reduce to Rs. 10,000. Analyze how would the above changes in estimates be accounted by B Ltd. As per IND AS 16.

Q3. ABC Ltd. incurred a loss of ₹154.44 crore due to appropriation of Bank Guarantee by the Ministry of Coal for non-compliance with project milestones. The amount includes ₹118.80 crore (appropriated in July 2019) and ₹35.64 crore (in December 2020). The Company has included the said amount under Capital Work-in-Progress. As per Ind AS 16, can this amount be included in Capital Work-in-Progress, or should it be treated as an abnormal loss under Other Expenses? Explain with reasons as per the provision of IND AS 16.

Question on IND AS 19: Employee Benefit

Q1. How will the following information be presented in the Balance Sheet of ABC Ltd.?

Particulars	Rs. in lakhs
PV of Defined Benefit Obligations	3,500
Fair Value of Plan Assets	3,332

Q2. What is the meaning of Defined Contribution Plan and Defined Benefit Plan under Retirement benefits in an entity? Please explain whether the contribution of employer's share of Provident Fund by a Company is a defined Contribution Plan as per IND AS 19 or not?

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Question on IND AS 20: Accounting for Government Grant and disclosure of Government Assistance

Q1. How does the Company should do the accounting and presentation of different type of government grants in the financial statement as per IND AS 20.

Q2. ABC Ltd. has received the following grants from the Government for its newly started pharmaceutical business:

- 20 lakhs received for immediate start-up of business without any further condition.
- Two acres of land (fair Value: 10 Lakhs) received for set up of plant.
- 2 lakhs received for purchase of machinery of 10 lakhs. Useful life of machinery is 5 years.

Depreciation on this machinery is to be charged on straight-line basis.
How should ABC Ltd. recognize a government grant in accordance with Ind AS 20?

Question on IND AS 36: Impairment of Assets

Q1. A gas holder at Rourkela Steel Plant, commissioned in April 2010 at a cost of ₹100 crores, became non-operational in November 2012 and was not revived. The Company has been charging depreciation on the same considering the useful life of 20 years on Straight line method with no residual value. The carrying amount of the aforesaid assets as on 31 March 2024 was Rs.30 crores. Whether the treatment of Company is correct in line with IND AS 36. Explain with reason.

Q2. A Ltd. purchased an asset of Rs.100 lakh on 1st April, 2022. It has useful life of 4 years with no residual value. Recoverable amount of the asset is as follows:

As on	Recoverable amount (Rs. In lakh)
31st March, 2023	60
31st March, 2024	40
31st March, 2025	28

Calculate the amount of impairment loss or its reversal, if any, on 31st March, 2023, 31st March, 2024 and 31st March, 2025 as per IND AS 36.

Question on IND AS 37: Provisions, Contingent Liabilities and Contingent Assets

Q1. Define the term "Provision" as per IND AS 37. How does it differ from a liability? Explain the conditions that must be satisfied for the recognition of a provision in the financial statements.

Q2. ABC Limited is an automobile component manufacturer. The automobile manufacturer has specified a delivery schedule, non-adherence to which will entail a penalty. As on 31st March, 2023, the reporting date, the manufacturer has a delivery scheduled for June 2024. However, the manufacturer is aware that he will not be able to meet the delivery schedule in June 2024. Determine whether the entity has a present obligation as at 31st March, 2023, requiring recognition of provision.

Question on IND AS 115: Revenue from Contracts with customers

Q1. A Ltd. has recognised unbilled electricity revenue amounting to ₹12 crore as of 31st March 2025 and adjusted this amount against customer accounts. However, the company has not adjusted the cash rebate of ₹1.2 crore offered to customers as per its rebate policy. Considering the revenue recognition requirements under IND AS 115, is this treatment appropriate? Should the cash rebate have been accounted for as a reduction in the transaction price when recognising revenue from customers?

Q2. Astro Communication Services Ltd. Entered into agreement with various customers to provide satellite services. Astro Communication Services Ltd continued providing satellite services to SkyNet Communications in 2020–21 despite no formal agreement due to a pending bank guarantee. As no invoices were raised, revenue of ₹25.44 crore was not accounted. Considering the revenue recognition requirements under IND AS 115, is this treatment appropriate?

Questions on Accounting Standards

Q1. Discuss the conditions of revenue recognition as per IND AS 9 that may be considered by an auditor to ensure the correctness of revenue recognition by the Company.

Q2. In determining the cost of inventories, it is appropriate to exclude certain costs and recognise them as expense in the period in which they are incurred. Please explain the cost to be forming part of inventory cost and cost not forming part of inventory as per Accounting Standard 2.

Q3. XYZ Ltd. Incur borrowing cost for the purpose of construction of a building for its own use. The construction gets completed on March 2024. However, the decoration work is under process which is expected to be completed by March 2025 after which XYZ Ltd. Will be able to start using the said assets for its own use. XYZ. Ltd. Want to capitalize the eligible borrowing cost incurred upto March 2025. Whether the accounting treatment of XYZ Ltd. Is correct in line with Accounting Standard 16, Explain with provisions.

Q4. A ltd. is setting up a manufacturing plant. Construction of plant is completed in August 2024 and the plant is ready for commercial production in November 2024. However, A ltd.

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Commences production in March 2025. When should be A ltd. Start charging depreciation. Explain with relevant provision of Accounting Standard 10.

Q5. Describe the criteria a company apply to distinguish Operating Income, Other Operating Income, and Other Income in its financial statements? How does management ensure these income categories are consistently classified in accordance with applicable accounting standards and disclosures?

Question on Uniform Format of Accounts for Central Autonomous Bodies

Q1. Explain the importance and benefits of having a uniform format of accounts for Central Autonomous Bodies.

Q2. What are the different type of Audit opinion given on annual accounts of Central Autonomous Bodies as per uniform format of Accounts of Central Autonomous Bodies? Please explain briefly?