AKASH
AGARWAL
CLASSES

विद्या परमं बलम्

EDUCATION IS POWER

CMA INTER (G1 PAPER-6)

FINANCIAL ACCOUNTING

Volume-1

HIGHLIGHTS OF THIS BOOK:

- EXHAUSTIVE COVERAGE OF MODULE
- COMPLETE COVERAGE OF NEW SYLLABUS
- QUESTIONS WHICH ARE IMOPRTANT FOR CMA STUDENTS
- LOGICAL ARRANGEMENT OF TOPICS

APPLICABLE FOR JUNE 25 AND ONWARDS EXAMINATION

AS PER NEW SYLLABUS 2022

PROF. HARSH AGARWAL

INDEX

PART A: FUNDAMENTALS OF ACCOUNTS

PART B: ACCOUNTING STANDARDS

FOUR FRAMEWORKS OF ACCOUNTING & ACCOUNTING PRINCIPLES, CONCEPTS AND CONVENTIONS

OBJECTIVE	The term 'framework' refers to 'a structure that forms a support or frame for something'
A. CONCEPTUAL FRAMEWORK	Those concepts provide guidance in selecting transactions, events and circumstances to be accounted for, how they should be recognized and measured, and how they should be summarized and reported Conceptual Framework often plays an important role in the development of Institutional Framework
B. LEGAL FRAMEWORK	Businesses are often controlled by various statutes under which they are formed. For example: Indian Partnership Act, 1932, Limited Liability Partnership Act, 2008
C. INSTITUTIONAL FRAMEWORK	Institutional framework refers to the guidelines issued in form of certain pronouncements by institutions entrusted by the sovereign authorities to oversee the development of the respective field **For example:** Accounting Standards as per Companies (Accounting Standards) Rules, 2021 and Ind ASs under Companies (Indian Accounting Standards) Accounting Standards Board (CASB) of the Institute of Cost Accountants of India
D. REGULATORY FRAMEWORK	The activities of organisations often come under the regulatory ambit of various regulators. In India, there are different regulatory authorities in different segments of financial market, such as **RBI** in money market operations, **SEBI** in capital market operations, **IRDAI** in insurance sector, **PFRDA** in pension funds
GAAP	The practice of record keeping may be practiced differently by different organisations. In order to ensure uniformity and consistency in record keeping, the accounting profession has developed rules, conventions, standards, and procedures which are generally accepted and universally practiced. This common set of rules, conventions, standards, and procedures is referred to as **Generally Accepted Accounting Principles (GAAP).** The GAAPs indicate how to report economic events and are thus, used by organisations in drafting their financial statements. They are to be followed by organisations so that the users of accounting information have an optimum level of consistency in the financial statements they use, when analysing companies for investment purposes.

	In India, financial statements are prepared on the basis of accounting standards issued by the **Institute of Chartered Accountants of India (ICAI)**
ENTITY CONCEPT:	The business enterprise and its owners are **two separate independent** entities. **For example**, if the owner pays his personal expenses from business cash, this transaction can be recorded in the books of business entity. This transaction will take the cash out of business and also reduce the obligation of the business towards the owner
GOING CONCERN CONCEPT	Accounting assumes that business will continue to operate for a longer period of time in future . The going concern concept forms the basis for preparation of Balance Sheet of an organisation.
PERIODICITY OR ACCOUNTING PERIOD CONCEPT	Accounting period concepts assumes that the infinite life of an organisation can be split into smaller periods of equal duration (viz. a quarter, half-year or year). Due to this concept, the operating results are ascertained for a specific period, the financial position is reflected (through the balance sheet) at regular intervals
MONEY MEASUREMENT CONCEPT	A business transaction will always be recoded if it can be expressed in terms of money.
THE ACCRUAL CONCEPT	Income - Accrued Expense - Incurred both cash and credit transactions.
DUAL ASPECT CONCEPT:	This concept assumes that every transaction has a dual effect. For example, goods purchased in cash have two aspects such as 'paying cash' and 'receiving goods'. Such duality of the transaction is commonly expressed in the terms of an equation as: Assets = Liabilities + Capital
MATCHING CONCEPT:	This concept states that the revenues and expenses must be recorded at the same time at which they are incurred. The operating result of an accounting period can be measured only when incomes are compared with the related expenses incurred
REALISATION CONCEPT:	Revenue should be included in the accounting records only when it is realised. Example: Thus, mere getting an order from the customer won't make it eligible to be recognized as revenue
COST CONCEPT	All assets are recorded in the books of accounts at their purchase price.
CONVENTION OF CONSERVATISM	Expect and record all future losses but don't expect and record future gain. Effect 1. Assets are shown at actual amount

	2. Provision are created 3. Stock is valued at cost or Market prices which is less.
CONVENTION OF MATERIALITY	Item is treated as material if it has effect on decisions making of users of accounting information. Eg: Punching machine, stapler is assets by nature, but it is treated as expenses because these items are not material
CONVENTION OF FULL DISCLOSURE	That all material and relevant facts concerning financial statements should be fully disclosed.

CAPITAL AND REVENUE TRANSACTIONS

CAPITAL TRANSACTIONS	Transactions having long-term effect are known as capital transactions
REVENUE TRANSACTION:	Transactions having short-term effect are known as revenue transactions
1. CAPITAL EXPENDITURE	Expenditure incurred on the purchase, alteration or improvement of fixed assets (a) non-recurring in nature. (b) Not regularly (c) Benefits will receive in next few years (d) Shown in the Balance Sheet Assets Side purchase of machinery, construction of a plant
2. REVENUE EXPENDITURE	Expenditure incurred in the running or management of the business • Recurring • Regular • Benefits will receive in same Year Examples: goods for resale, payment of salaries, rent,
EXPENDITURE INCURRED ON ASSET IS CLASSIFIED AS CAPITAL OR REVENUE AS FOLLOWS	1. Expenses incurred before Treated as Capital • All expenses incurred before use of assets. • Added in value of assets • Benefits received for more than one year • If expenses incurred for expansion, increase capacity, performance, reducing operating cost then it is capital expenditure. 2. Expenses incurred after Treated as Revenue • Benefits received in currently. • profit and loss account
RULES FOR DETERMINING CAPITAL EXPENDITURE	• Expenditure incurred for the purpose of acquiring long term assets for use in business to earn profits and not meant for resale • Expenditure is incurred to improve the present condition of a machine or putting an old asset into working condition • If an expenditure is incurred to increase earning capacity of a business • Preliminary expenses incurred before the commencement business
REVENUE EXPENDITURE TREATED AS CAPITAL	1. Repairs to Second Hand Machinery 2. Wages paid to the workers for the construction or installation of fixed asset 3. Preliminary expenses paid in the process of formation of a company

	4. Brokerage, Government Stamp Duty and Legal Expenses paid on the purchase of a property 5. Raw materials and stores are consumed in the making of a fixed asset 6. All the expenditure incurred for the development of mines and plantations
DEFERRED REVENUE EXPENDITURE:	Deferred revenue expenditures represent certain types of assets whose usefulness does not expire in the year of their occurrence but generally expires in the near future These types of expenditures are carried forward and are written off in future accounting periods. E.g. Heavy Advertisement Expenditure on launching a new product Note: After the issuance of AS-26, the expenditures which were recognised as deferred revenue expenditure has to be treated as simple revenue expense.
CAPITAL RECEIPT	Non recurring Generally, it is received from activity which is not regular business activities Example - 1. Loan taken 2. Issue of share, 3. debentures 4. Sale of assets 5. Compensation received from govt
REVENUE RECEIPT	Recurring Generally, it's received on regular basis in regular course of business Example - 1. sale of assets 2. Commission received. 3. Rent received. 4. Interests received
CAPITAL PROFITS	Capital profit is the profit which is earned on the sale of the fixed assets.
CAPITAL LOSS	The loss suffered by a company on the sale of fixed assets is called capital loss
REVENUE PROFIT	The profit which is earned during the ordinary course of business
REVENUE LOSS	The loss suffered by the business in the ordinary course of business is called revenue loss

LETS PRACTICE SOME QUESTION

QUESTION 1:

Classify the following items as capital or revenue expenditure:

(i) An extension of railway tracks in the factory area;

(ii) Wages paid to machine operators

(iii) Installation costs of new production machine;

(iv) Materials for extension to foremen's offices in the factory;

(v) Rent paid for the factory;

(vi) Payment for computer time to operate a new stores control system,

(vii) Wages paid to own employees for building the foremen's offices. Give reasons for your classification.

QUESTION 2:

State with reasons whether the following are Capital Expenditure or Revenue Expenditure:

(i) Expenses incurred in connection with obtaining a license for starting the factory were ` 10,000.

(ii) ` 1,000 paid for removal of stock to a new site.

(iii) Rings and Pistons of an engine were changed at a cost of ` 5,000 to get full efficiency.

(iv) ` 2,000 spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the Plaintiff. The suit was not successful.

(v) ` 10,000 were spent on advertising the introduction of a new product in the market, the benefit of which will be effective during four years.

(vi) A factory shed was constructed at a cost of ` 1,00,000. A sum of ` 5,000 had been incurred for the construction of the temporary huts for storing building materials.

QUESTION 3:

State whether following statements are true or false with reason

1. Any amount spent to minimize the working expenses is revenue expenditure. 2. Expenses incurred on the repairs for the first time on purchase of an old'building are capital expenditure.

3. Subsidy is a received from the government for working capital by a manufacturing concern revenue receipt.

4. Expenses in connection with obtaining a Expenditure. license for running the Cinema Hall is Revenue

5. Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure.

6. Overhauling expenses for the engine of motor car to get better fuel efficiency is expenditure. revenue

7. M/s. XYZ & Co. runs a cafe. They renovated some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 15 to total expenditure incurred was 30,000 and was treated as a revenue expenditure.

8. Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.

9. The nature of business is not an important criterion in separating an between capital and expenditure revenue.

10. Expenditure incurred for major repair of the asset so as to increase its productive capacity is Revenue in nature.

11. Amount spent as belonged to the lawyer's fee to defend a suit claiming that the firm's factory site plaintiff's land is Capital Expenditure.

12. Amount spent for replacement of worn-out part of machine is Capital Expenditure.

13. Legal fees to acquire property is Capital Expenditure.

14. Overhaul expenses of second-hand machinery purchased are Revenue Expenditure.

15. Expense incurred on the repairs and white washing for the first time on purchase of an old building are Revenue Expenses.

16 1,000 paid for removal of Inventory to a new site is a revenue expenditure.

17. Rings and Pistons of an engine were changed at a cost of 5,000 to get fuel efficiency is a revenue expenditure.

18. Money paid to Mahanagar Telephone Nigam Ltd. (MTNL) * 8,000 for installing telephone in the office is a capital expenditure

19. The gain From sale of capital assets need not be added to revenue to ascertain the net profit of a business.

20. Sale of office furniture should be credited to Profit and Loss Account.

21. Cost of imported goods confiscated by Customs Authority for non-disclosure of material facts is capital loss in nature.

QUESTION 4:

Infosys Tech Solutions buys and sells computers as a part of its business. It purchased 20 computers for resale to its customers. cost of each computer is 20,000. It also purchased a computer costing 24,000 for its accountant to be able to maintain the accounting records and printing of invoices. Suggest whether above transactions qualify as capital expenditure or revenue expenditure transactions?

QUESTION 5:

Classify the following expenditures as capital or revenue expenditure:

1, Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.

2. Travelling expenses of the directors for trips abroad for purchase of capital assets.

3. Amount spent to reduce working expenses.

4. Amount paid for removal of stock to a new site.

5. Cost of repairs on second-hand car purchased to bring it into working Condition.

6.10,000 spent as travelling expenses of the directors on trips abroad for purchase of capital assets.

QUESTION 6:

Are the following expenditures capital in nature?

1. M/s ABC & Co. run a restaurant. They renovate some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 10 to 13. The total expenditure was 20,000.

2. M/s New Delhi Financing Co. sold certain goods on installment payment basis. Five customers did not pay installments. To recover such outstanding installments, the firm spent 10,000 on account of legal expenses.

3. M/s Ballav & Co. of Delhi purchased a machinery from M/s Shah & Co. of Ahmedabad. M/s Ballav & Co. spent 40,000 for transportation of such machinery.

QUESTION 7:

State with reasons whether the below items relating to the business of AB Ltd. are capital or revenue receipts?

i. A machine with a book value of R 10 lakh is sold for * 12 lakh.

ii. Premium amounting to1 Lakh received on issue of shares

iii. An amount of 20,000 received from goods sold in cash.

iv. An amount of 5 lac received on the maturity of fixed deposit from bank. Also, an interest of 40,000 was received in addition to the maturity amount of the

V. Amount received from Trade receivables during the year.

QUESTION 8:

State with reason whether the following are capital or revenue expenditure:

i. Freight charges of 12,000 incurred for machinery purchased for ₹ 2,00,000

ii. ₹ 90,000 being expenditure incurred for well-equipped labor welfare Centre.

iii. Compensation of 1,50,00 each paid to three employees who were retrenched.

iv. Purchase of TV set for 30,000 to be installed in the reception hall.

QUESTION 9:

Classify the following expenditures into Capital Expenditure and Revenue Expenditure:

i. Expenses on a foreign tour to purchase a machinery

ii. Annual maintenance fee of a machine

iii. Money spent to reduce working cost

iv. Compensation paid to workers under voluntary retirement scheme

v. Legal expenses to recover dues from customers

vi. Salaries paid to Engineering staff in erecting a machine

QUESTION 10:

Mr. X is owner of a Cinema Hall. He spent a heavy amount for hall, for installation of complete renovation of the air-condition machines and for sitting arrangement with cushion seats. As a result the revenue has been doubled. He also spent for few more doors for emergency exit. State your opinion about the treatment of the entire expenditure

ACCOUNTING CYCLE, ANALYSIS OF TRANSACTION ETC.

ACCOUNTING CYCLE CONSISTS OF THE FOLLOWING SEQUENTIAL STEPS	1. Identifying the Transactions 2. Recording transaction in the Journal: 3. Posting to Ledger 4. Drafting of Unadjusted Trial Balance: 5. Passing of adjustment entries 6. Drafting of Adjusted Trial Balance 7. Closing of books 8. Drafting the Financial Statements
EVENTS & TRANSACTIONS	Transactions are created through events, but all events are not transactions
EVENTS:	Everything that is happening in every moment of human life is an event. Simply stated, any happening is an event. As such, events can be financial (like, purchasing a book, paying cab fare, receiving a cheque etc.) and non-financial (like, visiting a book store, going for morning walk etc.).
TRANSACTIONS:	An accounting transaction is an event which has a monetary impact on the financial position of the organisation. In order to be considered as a transaction, an event has to satisfy the following conditions: 1. It must be measurable in terms of money. 2. It must involve at least two parties. 3. It involves a monetary exchange for a goods or service. 4. It must cause a change in the financial position of the entity
ANALYSIS OF TRANSACTIONS	An organisation enters into various transactions during the course of its operations. These transactions cause changes in financial position of the organisation. Analysis of transactions implies observing the changes in financial position of the organisation caused by the transactions entered into by it during an accounting period. A change in financial position means change in one or more of the five basic elements of accounting, they being: Assets, Liabilities, Capital/ Equity, Expenses, and Revenue.
EXAMPLES	Transaction 1: Mr. Suman De commences his business by investing ` 5,00,000 in cash. Changes brought about by this transaction are: Cash increases in the business by ` 5,00,000; (Element changed: Asset increase) Capital increases by ` 5,00,000 (Element changed: Capital/ Equity increase) Transaction 2: He withdrew cash ` 7,000 for his personal use. Changes brought about by this transaction are: Cash decreases by ` 7,000; (Element changed: Asset decrease)

	Capital decreases by ` 7,000 (Element changed: Capital/ Equity decrease)
CHARTS OF ACCOUNTS	• Chart of Accounts is a financial organizational tool that provides a complete listing of every account in the general ledger of a company, broken down into subcategories. • Chart of Accounts is the driving force behind an and organization's book-keeping accounting systems, and is considered to be the foundation of financial reporting. • The basic purpose of such charting is to organize the accounts and group similar ones together. • This process makes it easier for the users to locate specific accounts. • A well-structured chart of accounts is often the single best and most effective way to raise the financial reporting of an organization to the next level
CODIFICATION STRUCTURE	• It lists specific types of accounts, describes each account, and includes account numbers. • A chart of accounts typically lists asset accounts first, followed by liability and capital accounts, and then by revenue and expense accounts
SETTING UP OF A CHART OF ACCOUNTS	• The first is to define the various accounts to be used by the organization. • Each account should have a number to identify it. • Each chart of accounts typically contains a name, brief description, and an identification code.
ORDERING OF ACCOUNTS	• Balance Sheet Accounts tend to follow a standard that lists the most liquid assets first. • Revenue Accounts and Expense Accounts tend to follow the standard of first listing the items most closely related to the operations of the business. • For example, sales would be listed before non-operating income. In some cases, part of all the expense accounts simply may be listed in alphabetical order
DESIGNING OF CHART OF ACCOUNTS	• The designing of a detailed chart of accounts would typically begin with an initial design which would reflect the major headings of the accounts. • Thereafter, the detailed descriptions of the transaction are added, which may act as future references
ACCOUNTING EQUATION	The accounting equation is a representation of how the three important components of accounting namely Assets, Liabilities and Equity are associated with each other. Assets = Liabilities + Equity

	Expanded Accounting Equation: Assets = Liabilities + Equity or, Assets = Liabilities + [Capital + (Revenue – Expenses) – Drawings] or, Assets + Expenses + Drawings = Liabilities + Capital + Revenue
DOUBLE ENTRY SYSTEM	Double Entry System of Bookkeeping is an accounting system which recognizes the fact that every transaction has two aspects and both aspects of the transaction are recorded in the books of accounts. It is a fundamental concept encompassing accounting and book-keeping in present times. Double entry system records the transactions by understanding them as a Debit item or Credit item. This system is based on the accounting equation and requires: 1. Every business transaction to be recorded in at least two accounts. 2. The total debits recorded for each transaction to be equal to the total credits recorded
FORMAT	Account is prepared in "T" shape. Left side is known as Debit (Dr.) and Right side is known as credit (Cr.)
RULE OF DOUBLE ENTRY	The double-entry accounting system is based on specific rules of debit and credit for recording transactions in the accounts. The rules of debit and credit can be explained by applying two methods
GOLDEN RULES OF DOUBLE ENTRY SYSTEM	1. Personal Accounts: Deals with Natural persons, artificial persons and representative persons. 2. Real Accounts: Deals with Tangible assets and Intangible Assets. 3. Nominal Accounts: Deals with Expenses, losses and Incomes and gains Personal Accounts: "Debit the receiver and Credit the giver" Real Accounts: "Debit what comes in and Credit what goes out." Nominal Accounts: "Debit expenses/losses and Credit Incomes and gains

LETS PRACTICE SOME QUESTION

QUESTION 1:

Classify the following under personal, real and nominal accounts:

i. Patent Rights
ii. Outstanding Rent
iii. Drawings
iv. Live Stock
v. Bank Overdraft
vi. Advertisement
vii. Export duty
viii. Securities and Shares
X Suspense
x. Work-in-progress

QUESTION 2:

Classify the following Accounts into Personal, real and Nominal Accounts. Also state whether it is recorded as asset, liability, expense/loss or revenue:

i. Returns Inward Account
ii. Bad Debt Recovered Account
iii. Interest on Investment Account
iv. Outstanding Rent Account and
V. Capital Work-in-Progress Account

QUESTION 3:

Classify the following accounts into Personal, Real and Nominal accounts:

i. Patent Rights A/c
ii. Drawing A/c
iii. Purchases A/c
iv. Prepaid Insurance A/c
v. Donation A/c
vi. Bank Overdraft A/c

QUESTION 4:

Classify the following Accounts into Personal, Real and Nominal Accounts:

i. Patent Rights a/c
ii. Drawings a/c

iii. Purchase Return a/c
iv. South Sports Club a/c
v. Prepaid Insurance a/c
vi. Charity a/c
vii. Bank Overdraft a/c
viii. Free samples a/c

JOURNAL AND LEDGER

<table>
<tr><td>BOOKS OF ORIGINAL ENTRY</td><td>• A journal is known as books of prime entry or books of original entry in which financial transactions are firstly recorded after their occurrence in chronological order.
• The process of recording transaction in a journal is called as Journalization'.
• The entry made in this book is called a 'Journal Entry'.
• Every entry in the journal is followed by a short summary which is called as Narration.</td></tr>
<tr><td>FOR EXAMPLE:</td><td>Payment of salaries amounts to 20,000
<table>
<tr><td>Date</td><td>Particulars</td><td>LF</td><td>Debit (₹)</td><td>Credit (₹)</td></tr>
<tr><td>DD-MM-yyyy</td><td>salaries A/c Dr</td><td></td><td>20,000</td><td></td></tr>
<tr><td></td><td>To Bank Ac</td><td></td><td></td><td>20,000</td></tr>
</table></td></tr>
<tr><td>SIMPLE JOURNAL ENTRY</td><td>If only two accounts are involved i.e. one account is debited and another account is credited, it is called a Simple journal entry</td></tr>
<tr><td>COMPOUND JOURNAL ENTRY</td><td>if more than two accounts are involved, it is called as compound journal entry.
• two debits and one credit
• two credits and one debit
• two or more debits and two or more credits etc</td></tr>
<tr><td>ADVANTAGES</td><td>• As the day to day transactions are recorded, it is possible to get detailed information
• The nature of transaction and its effect on the financial position or the Business Is determined by recording and analyzing into debit and credit aspect
• Narration of the journal entry explains the recorded transactions.
• It facilitates for preparation of financial statement</td></tr>
<tr><td>LIMITATIONS</td><td>1. Not suitable: When a single journal is maintained, it becomes unsuitable for organizations that enter into a large number of transactions.
2. Complex system: It is not a simple system of recording of transactions
3. Time Factor: The process of journalizing is a time-consuming process
4. Chronological order: t does not facilitate internal control, because in journal transactions are recorded in chronological order</td></tr>
<tr><td>SPECIAL JOURNAL</td><td>A Special Journal is a book of primary entry in which transactions of a specific type viz. credit purchases, credit sales, return inwards etc. are</td></tr>
</table>

	first recorded before being posted in the respective ledger account. These are also referred to as Subsidiary Books
CASH JOURNAL OR CASH BOOK	is a special journal which is maintained for recording all transactions which involve cash, whether cash inflows or cash outflows. It can be prepared in any one of the forms Single Column Cash Book Double Column Cash Book Triple Column Cash Book Petty Cash Book/ Analytical Cash Book
PURCHASE JOURNAL	is a special journal which is used by an organization to record all the credit purchases made by it during an accounting period. It is also known as Purchase Book or Purchase Daybook. Cash purchase of goods shall not be recorded in it. Purchase of assets either on cash or credit shall not be recorded in it.
SALES JOURNAL	is a type of special journal that is used to record credit sale transactions of an organisation. It is also known as Sales Book or Sales Daybook. Cash Sale of goods shall not be recorded in it. Sale of assets either on cash or credit shall not be recorded in it.
PURCHASE RETURN JOURNAL	is the special journal that is used for recording the goods which have been returned by an organisation to its suppliers, for any reason. It is also known as Purchase Return Book or Purchase Daybook..
SALES RETURN JOURNAL	is the special journal that is used for recording the goods which have been returned to an organisation by its customers, for any reason. It is also known as Sales Return Book or Sales Daybook.
BILLS RECEIVABLE JOURNAL	is the special journal which is used to record the details of bills of exchange received by an entity from its customers during an accounting period. It is also known as Bills Receivable Book or Bills Receivable Daybook.
BILLS PAYABLE JOURNAL	is the special journal which is used to record the details of bills of exchange accepted by an entity towards its suppliers during an accounting period. It is also known as Bills Payable Book or Bills Payable Daybook
GENERAL JOURNAL	This is a book of original entry in which those transactions are recorded for which no specific day book is maintained are recorded. In the following section, the important subsidiary books have been discussed. The following transactions in general recorded in Journal Proper: Purchase or sale of assets, Expense accruals, Rectification entries, Adjusting entries ,Opening entries, Transfer Entries and Closing entries.
OPENING ENTRIES	• It is an item which is passed in the Journal Proper or General Ledger. • The purpose of passing this entry is to record the opening balances of the accounts transferred from the previous year to the current Year.

	• All assets should be debited and liabilities should be credited, balance if any in the credit side should be considered as "Capital. • Opening entry will be appears as follows: • All Assets A/c Dr XXX To All Liabilities A/c XXX To Owners Capital A/c XXX
TRANSFER ENTRIES:	In accounting, it is sometimes necessary to transfer an amount or balance of one account to some other account. The journal entries through which the amount of an account are transferred to another account are referred to as Transfer entries. For eg: for transferring balance in drawings account to Capital Account, the below given transfer JE will be recorded in the books of account. Capital A/c Dr XXX To Drawings A/c XXX
CLOSING ENTRIES:	All nominal Accounts should be closed and transferred to trading / profit and loss account at the end of each accounting period.
ADJUSTMENT ENTRIES:	These entries are passed at the time of finalization of accounts for honouring the different generally accepted accounting principles i.e. accounting concepts and accounting conventions.
RECTIFICATION ENTRIES	These entries are passed for correcting the different errors that get committed while recording, posting, casting, balancing etc. in the books of accounts
MISCELLANEOUS ENTRIES	It means entries other than above for which no specific subsidiary books are maintained
LEDGER	• The book of account in which transactions are recorded in respective account, after they have been entered in the journal is called the Ledger. • Ledger is maintained in the form of Accounts. Account is "T" Shape, left side of this is known as "Debit" and Right side is known as "Credit. • Procedure of transferring the information from journal to ledger is known as "Posting" All Asset accounts - Debit balance All Liability Accounts - Credit Balance Capital and owner's equity Accounts - Credit balance Expenses or loss accounts - Debit balance Income or Gain Accounts - Credit balance • After all the transactions of a period get posted in the ledger, the net effect of these transactions is ascertained.

	• This process of ascertaining the net effect of all the transactions posted in a particular ledger account for a period is called Balancing of a ledger account. • It involves totaling both the side of a Account and identifying the difference.
PERSONAL LEDGER	The ledger which contains the personal accounts of the debtors and creditors is called Personal Ledger. It can be further sub-divided into: (a) Debtors'/Customers'/Sales ledger: It contains the personal accounts of all the customers/trade debtors. (b) Creditors'/Suppliers'/Purchase/Bought ledger: It contains the personal accounts of all the suppliers/trade creditors.
IMPERSONAL LEDGER OR GENERAL LEDGER	The ledger which contains the accounts other than those contained in the 'Personal Ledger' is called Impersonal/General Ledger. The types of accounts maintained in this ledger are Real, Nominal and Personal (except Trade Debtors and Trade Creditors).

LETS PRACTICE SOME QUESTION

QUESTION 1:

For the following transactions pass the journal entries and post them in Ledger:

April 1 - Mr. Vikas and Mrs. Vaibhavi who are husband and wife start consulting business by bringing in their personal cash of ` 5,00,000 and ` 2,50,000 respectively.
April 10 - Bought office furniture of ` 25,000 for cash.
April 11 - Opened a Current Account with Bank of BB by depositing ` 1,00,000
April 15 - Paid office rent of ` 15,000 for the month by cheque
April 20 - Bought a motor car for ` 4,50,000 from Millenium Motors by making a down payment of ` 50,000 by cheque and the balance by taking a loan from HH Bank.
April 25 - Vikas and Vaibhabi carried out a consulting assignment for AA Pharmaceuticals and raised a bill for ` 10,00,000 as consultancy fees. AA Pharmaceuticals have immediately settled ` 2,50,000 by way of cheque and the balance will be paid after 30 days. The cheque received is deposited into bank.
April 30 - Salary of a receptionist at the rate ` 5,000 per month and an officer at the rate ` 10,000 per month the salary for the current month is payable to them.

QUESTION 2:

Journalize the following transactions in the books of Mr. shiva.

01.05.2022	Started business with 5,00,000 of which 50% amount was borrowed from SBI and 20% amount was borrowed from his sister Patta
05.05.2022	Purchased goods from Chinu Mart worth 1,60,000 at 25% trade discount and 40% amount paid in cash.
08.05.2022	Sold goods to Satish 60,000 at 20% trade discount and received 4 amount in cash
15.05.2022	Paid to Chinu Mart 69,500 in full settlement of A/c

TRIAL BALANCE

INTRODUCTION	• Preparation of trail balance is third phase of accounting process • Trail balance contains various ledger balances as on a particular date. • If total of debit balances agree with total of credit balances it indicates reasonable accuracy of the accounting work. If two side of a trail balance does not agree it indicates existence of arithmetic errors. • The purpose of Trail Balance is to establish **arithmetical accuracy** of the transactions
FEATURES	1. A trial balance is just a statement, and not an account. 2. It does not form part of the double entry system. 3. It does not appear in the actual books of accounts It is usually prepared as a separate document. 4. It is prepared as on a particular date, and not for a period 5. A trial balance may be prepared at any time, say, on monthly, quarterly, half-yearly or on annual basis. 6. If the books are arithmetically accurate, the total of the debit balances must agree with the total of the credit balances. 7. The agreement of a trial balance is only a prima facie evidence of the arithmetical accuracy of the books of accounts but not a conclusive proof of absolute accuracy. 8. It is a link between book of accounts and financial statements.

LIMITATIONS	• Trial balance can be drafted only when books are maintained under double entry system of book keeping. Therefore, smaller concerns who do not follow double entry system cannot draft the trial balance.
	• The agreement of a trial balance is not a conclusive proof of absolute accuracy of the books of accounts. It is only a prima facie proof. Certain errors do not get disclosed by the trial balance.
	• Few Types of errors not detected by TB: The following errors and omissions not revealed by the trial balance.
	  • Error of Omission or Duplication.
	  • Error of Commission
	  • Errors of Principle
	  • Errors of Original Entry.
	  • Compensating Errors

PREPARATION OF TRIAL BALANCE	**Method 01: Total Method** Under this method, two sides of the accounts are totaled. Total of debit side will be recorded in the debit side of trail balance. Total of credit side will be recorded in the credit side of trail balance

	Method 02: Balance Method Under this method each account in the ledger should be balanced. All accounts with debit balances should be recorded in the debit side of Trail balance. All accounts with credit balances should be recorded in the credit side of Trail Balance. **Method 03: Total and Balance Method** Total of both sides of accounts are written in separate columns along with net balances. Debit balances will be written in debit side and credit balances will be written in credit side of trail balance
PREPARATION OF TRAIL BALANCE	**Step 01:** Balancing of all ledger account **Step 02:** Accounts with debit balances should be recorded in debit side of Trail Balance **Step 03:** Accounts with credit balances should be recorded in credit side of Trail balance **Step 04:** Total of debit balances should be equals to total of credit balances

LETS PRACTICE SOME QUESTION

QUESTION 1:

From the following ledger account balances, prepare a Trial Balance of Mr. Sen for the year ended 31st March, 2023. Capital ` 80,000 ; Sales `10,00,000; Adjusted Purchase ` 8,00,000; Current A/c(Cr) ` 10,000; Petty Cash ` 10,000; Sales Ledger Balance ` 1,20,000; Purchase Ledger Balance ` 60,000; Salaries `24,000; Carriage Inwards ` 4,000; Carriage Outward ` 6,000; Discount Allowed ` 10,000; Building ` 80,000; Outstanding Expenses ` 10,000; Prepaid Insurance ` 2,000 ; Depreciation ` 4,000 ; Cash at Bank ` 80,000 ; Loan A/c (Cr) ` 66,000; Profit & Loss A/c(Cr) `20,000; Bad Debts Recovered ` 2,000 ; Stock at 31.03.2022 ` 1,20,000; Interest Received ` 10,000; Accrued Interest 4,000; Investment 20,000; Provision for Bad Debts (01.04.2021) ` 6,000 ; General Reserve ` 20,000.

QUESTION 2:

The given trial balance of MM Bakery for the quarter January to March, 2023 has been prepared by an intern.

Ledger Accounts	Dr	Cr
Cost of Goods Sold	7,50,000	
Closing Stock		1,20,000
Sundry Debtors		1,80,000
Sundry Creditors		90,000
Fixed assets	1,50,000	
Opening Stock	1,80,000	
Expenses		60,000
Sales		9,00,000
Capital	2,70,000	
	13,50,000	13,50,000

You are the senior accountant of the concern and has been given responsibility to check the same and redraft it if required.

QUESTION 3:

A bookkeeper extracted the following Trial Balance as on 31st March, 2022

Heads of Accounts	Dr. Balance	cr. Balance
Furniture	20,000	
Capital		2,00,000
Debtors	2,00,000	
Stock (1st April 2021)	1,04,000	
Creditors		80,000
Trade expenses	50,000	
Sales		8,58,000
Wages	30,000	
Stock (31st march 2022)	98,000	
Machinery		50,000
Purchases	6,25,000	
Wife's loan to business	50,000	
Discount allowed		4,000
Drawings made by proprietor		45,000
Motor van	60,000	
Total	12,37,000	12,37,000

You are required to:

(i). State the errors giving reasons,

(ii) Redraft the Trial Balance correctly.

QUESTION 4:

Form the following details, prepare an Adjusted Trial Balance as at 31-03-23:

Particulars	Amount	Particulars	Amount
Purchase	65000	Sundry Creditors	35000
Carriage Inward	1000	Plant and Machinery	10000
Wages	6000	Buildings	5000
Salaries	10000	Furnitures	3000
Rent, rates and taxes	1800	Bills Receivable	10000
Insurance	1500	Sundry Debtors	40000
Interest paid	1000	Capital	66000
Sales	95000	Sundry Expenses	5000
Cash and Bank	21500	Opening Stock	21000
Bills Payable	5800		

Notes:

i. Salaries and Wages due to be paid2.000 and 1,000 respectively.

ii. Insurance was paid to the extent of 300 advance.

iii. A sum of 500 to be written off as bad debt out of sundry debtors and a provision of 5% to be created for doubtful debts.

iv. Sundry expenses include 2,000 spent for the personal purpose of the proprietor.

v. Sales for the period include 500 worth of goods (cost price) taken by the proprietor for personal consumption, He has also taken goods worth 1,000 (cost price) for personal consumption which has not recorded in the books.

vi. Depreciation to be provided as follows:

Plant and Machinery	10%
Buildings	5%
Furniture	10%

vii. Closing Stock 20,000.

CASH BOOK, BANK BOOK, BANK RECONCILIATION STATEMENT

CASH BOOK	The book of account that records all cash receipts and cash payments of an organisation is referred to as cash book. The receipts are entered on the debit side, while the payments are recorded in the credit side of the cash book.
FEATURES OF CASH BOOK	• This is the book of account in which only cash transactions are recorded. • All receipts of cash and payments involving cash are recoded in this book of account. • Transactions are recorded in this book in chronological order. • The proforma of the cash book is similar to that of a ledger account i.e. having two sides - Debit side and Credit side. • It is a book of account which is a book of primary entry as-well-as a book of final entry. So, it is referred to as journalized ledger. • Its balance reflect the balance of cash available
1. REGULAR CASH BOOK	The cash book which records all cash and sometimes bank related transactions of an entity is called the Regular Cash Book or simply Cash Book. **Single Column Cash Book**: In this cash book, only one amount column is maintained on each side to record transactions involving liquid cash. This type of cash book is usually maintained by the small organisations which do not have any bank account. **Double Column Cash Book:** In many cases, two amount columns are maintained by organisation on each side of the cash book. This type of a cash book is called Double Column Cash Book. It is a popular practice to add an amount column to each side - the additional column to record the banking transactions entered into by an entity, instead of opening a separate bank account in the ledger. **Triple Column Cash Book:** A Cash book with three amount columns on each side (namely Cash, Bank and Discount columns) is called the Triple Column Cash Book. The discount columns of each side represent separate discount accounts. Specifically, the discount column of the debit side of cash book represent Discount Allowed and that on the credit side represent Discount Received

MULTI-COLUMNAR CASH BOOK	This is a customized form of cash book that is maintained by organisations where huge cash transactions take place under certain fixed heads. Generally, organisations like clubs, schools, colleges etc. maintain this type of cash book
PETTY CASH BOOK	This book of account records only those cash transactions which are not of heavy amount, but the type of transactions are frequently entered into by an entity. The cashier in charge of the petty cash book is known as the Petty Cashier, the cashier of the other group is called the Principal Cashier or Chief Cashier
BANK BOOK	Deviating from the traditional method of keeping an additional column for bank transactions in a double and triple column cash book, today organisations keep a separate subsidiary book similar to cash book to record all receipts and payments made through the bank. This is known as Bank Book or Bank Journal
BANK RECONCILIATION STATEMENT	A statement which is prepared to reconcile the causes of difference between Bank Balance as per Cash Book and bank balance as per Pass Book (bank Statement) is known as Bank Reconciliation Statement. • Bank Reconciliation Statement is prepared to reconcile the causes of difference between Bank Balance as per cash book and Bank balance as per Pass Book. • Preparation of Bank Reconciliation Statement is a prerequisite step before the final accounts are prepared. Modern accounting packages are equipped with automatic reconciliations. • Reasons for Differences between balance as per Cash book and balance as per Pass book: 1. Items appear in Cash Book but not appearing in Pass Book 2. Items appear in Pass Book but not appearing in Cash Book
ITEMS NOT APPEARING IN BANK PASS BOOK:	1. Cheques issued by Business entity but not debited by the Bank 2. Cheques deposited but not credited by the Bank 3. The Bank may by mistake miss out entering the Debit or Credit which results in the difference.
ITEMS NOT APPEARING IN CASH BOOK	1. Bank Interest, Bank Charges etc. 2. Direct Deposits in Bank Account 3. Bills for Collection
REASONS FOR BRS	The following are reasons why a Bank Reconciliation statement should be prepared (Need of BRS): a. It helps to understand the actual Bank Balance b. It helps to identify the mistakes in the cash Book and in the Pass Book

	c. It helps to detect and prevent frauds and errors in recording the Banking transactions d. It helps to incorporate certain expenditures / income debited or credited by bank in its books of account
PREPARATION OF BANK RECONCILIATION STATEMENT	**Without Amended Cash Book Method:** The preparation of Bank Reconciliation Statement can start with any of the available balances viz. balance of cash book (bank column) or balance of pass book. To this logical adjustments must be made of the transactions that has caused the disagreement - either by making addition or subtraction of the relevant items. Once all the items of disagreement gets adjusted, the balances as per the two books should get tallied. **Amended Cash Book Method:** Alternatively, the cash book (amended) can be prepared for ascertaining the correct balance of the cash book (bank column) and thereafter the Bank Reconciliation Statement is to be drafted to reconcile this correct balance of cash book with the balance as per pass book. The following two types of transactions will be recorded in the amended cash book: a) Items which are not recorded in the cash book previously. b) Any errors taken place in the preparation of cash book

LETS PRACTICE SOME QUESTION

QUESTION 1:

Prepare a triple column cash book from the following transactions in the books of Mr.Ratanlal

1.3.2023 Opening cash balance 20,000
Bank balance in S.B.I 26,000
2.3.2023 Purchase of printer in cash 12,000
5.3.2023 Sold goods for cash. 34,000
7.3.2023 Received from Hriday on account 32,000
8.3.2023 A laptop purchase for the personal use of the proprietor by cheque 22,000
10.3.2023 Amount deposited into Bank 31,000
17.3.2023 Mr. Sen settled his account against a gross claim of ` 24 500. 24000
Office rent paid by cheque 2,000
19.3.2023 Cash withdrawn from bank for personal use 3,400
Receive from Mr. Ratul against his account of ` 23000. 22,800

	Goods purchased on credit from Sneha	24,000
24.3.2023	Salaries paid to employees	12,000
	Cheque received from Sandeep and kept in cash box	12,800
25.3.2023	The cheque of Sandeep deposited in the bank account	
	Bank charges shown in the bank statement	300
	Interest received from the savings account of bank	200
28.3.2023	The cheque of Sandeep was returned dishonoured by the bank	
	Amount paid to Sneha in full settlement of her claim	23,700

QUESTION 2:

Prepare an Analytical Petty Cash Book on the Imprest System of Ashutosh, Kolkata from the following transactions:

2023 Jan. 1	Received Cash for Petty Expenses	20,000
Jan. 2	Paid Bus fare	100
Jan. 2	Paid cartage	500
Jan. 3	Paid for postage	1000
Jan. 3	Paid wages for casual labourers	1200
Jan. 4	Paid for stationery.	800
Jan. 4	Paid auto charges	400
Jan. 5	Paid for repairs of chairs	3000
Jan. 5	Paid Bus fare.	200
Jan. 6	Paid Conveyance charges	600
Jan. 6	Paid cartage.	600
Jan. 6	Paid for Stationery	400
Jan. 6	Refreshment to customers	1000

QUESTION 3:

From the following particulars. prepare a Bank Reconciliation Statement for Jaikishan Ltd

i. Balance as per cash book 2,40,000
ii. Cheques issued but not presented in the bank amounts to 1,36,000
iii. Cheques deposited in bank but not yet cleared amounts to Rs. 90,000.
iv. Bank charges amounts to Rs. 300.
v. Interest credited by bank amounts to Rs. 1,250.
vi. The balance as per pass book is Rs. 2,86,950.

QUESTION 4:

Mr. Vakil requests you to ascertain the bank balance as per pass book as on 31.03.2022 from the following details:

i. Balance as per cash book 51,515.

ii. Cheques issued but not presented for payment ₹ 21,000.

iii. Cheques deposited but not credited to the account of Mr. Vakil 18,000.

iv. One cheque worth 7 5,000 deposited by Mr. Vakil was dishonored but was not entered in the cash book.

v. Premium of ₹ 6,000 towards insurance policy was debited by the bank, as per standing instruction.

vi. Fixed deposit interest of ₹ 1,100 was credited by the bank, but not recorded in cash book.

QUESTION 5:

From the following particulars, prepare the Bank Reconciliation Statement of Shri Krishan as on 31st March, 2022

i. Balance as per Pass Book is ₹ 10,000.

ii. Bank collected a cheque of ₹ 500 on behalf of Shri Krishan but wrongly credited it to Shri Kishan's A/c (another customer)

iii. Bank recorded a Cash deposit of ₹ 1,589 as ₹ 1,598

iv. Withdrawal column of the Pass Book under cast by ₹ 100

v. The credit balance of Rs 1,500 as on page 5 of the Pass Book was recorded on page 6 as the debit balance.

vi. The payment of a cheque of Rs 350 was recorded twice in the Pass Book.

vii. The Pass Book showed a credit for a cheque of Rs.1,000 deposited by Shri Kishan(another customer of the Bank).

QUESTION 6:

On 31st March 2017, the Bank Pass Book of Sakshi showed a balance of Rs. 1,50,000 to her credit while balance as per cash book was Rs. 1,12,050. On scrutiny of the two books, she ascertained the following causes of difference:

i. She has issued cheques amounting to Rs. 80,000 out of which only Rs. 32,000 were presented for payment.

ii. A cheque of Rs. 22,000 deposited by her has not been cleared yet.

iii. She received a cheque of Rs. 5,000 which she recorded in her cash book but forgot to deposit in the bank.

iv. Mr. Gupta deposited an amount of Rs. 15,700 in her bank which has not been recorded by her in Cash Book yet.

v. Bank has credit an interest of Rs. 1,500 while charging Rs. 250 as bank charges. Prepare a bank reconciliation statement

QUESTION 8:

From the following particulars ascertain the balance that would appear in the Bank Pass Book of Rahul on 31st December, 2017.

i. The bank overdraft as per Cash Book on 31st December, 2017 Rs. 6,340.

ii. Bank charges of Rs. 400 are debited in the Pass Book only.

iii. Interest on overdraft for 6 months ending 31st December, 2017 Rs. 160 is entered in Pass Book.

iv. Cheques issued but not cashed prior to 31st December, 2017, amounted to Rs. 11,68,000.

v. Cheques paid into bank but not cleared before 31st December, 2017 were for Rs. 22,17,000.

vi. Interest on investments collected by the bank and credited in the Pass Book Rs.12,00,000.

QUESTION 9:

From the following information, prepare a Bank reconciliation statement as at 31st December, 2017 for Messrs New Steel Limited:

Bank overdraft as er Cash Book on 31st December, 2017	2245900
Interest debited by Bank on 26th December, 2017 but no advice received	278700
Cheque issued before 31st December, 2017 but not et resented to Bank	660000
Transport subsidy received from the State Government directly by the Bank but not advised to the company	1425000
Draft deposited in the Bank, but not credited till 31st December, 2017	1350000
Bills for collection credited by the Bank till 31st December, 2017 but no advice received by the company	836000
Amount wrongly debited to company account by the Bank, for which no details are available	7 40,000

QUESTION 10:

The Cash Book of PRARTHANA show 8,364 as the balance at bank as on 31* March, 2022 but you find that this does not agree with the balance as per the Bank Pass Book. On scrutiny. you find the following discrepancies:

a. On 15th March, the payments side of the Cash Book was under cast by 100.

b. A cheque for ₹ 131 issued on 25th March, was recorded in the cash column.

c. One deposit of ₹ 150 was recorded in the Cash Book as if there is not Bank Column therein.

d. On 18th March, the debit balance of ₹ 1,526 as on the previous day, was brought forward as a credit balance.

e. Of the total cheques amounting to ₹ 11,514 drawn in the last week of March, cheques aggregating ₹ 7,815 were encashed on March.

f. Dividends of ₹ 250 collected by the Bank and subscription of 100 paid by it, were not recorded in the Cash Book.
g. One outgoing cheque of R 350 was recorded twice in the Cash Book.
Required: Prepare a Bank Reconciliation Statement as on 31st March, 2022

QUESTION 11:

On comparing the Cash Book of Mr. Saksham with the Bank Pass Book for the year ended 31st March, 2022, following discrepancies were noticed:
i. Out of 82,000 paid in by cheques into the bank on 25th March, cheques amounting to 30,000 were collected on 5th April.
ii. Out of cheques drawn amounting to R 31,200 on 28th March a cheque for ₹ 10,000 was presented on 3rd April.
iii. A cheque for ₹ 4,000 entered in Cash Book but omitted to be banked on 31st March.
iv. A cheque for 2,400 deposited into bank but omitted to be recorded in Cash Book and was collected by the bank on 29th March.
v. A bill receivable for 2,080 previously discounted (discount 80) with the bank had been dishonored but advice was received on 3rd April.
vi. A bill for ₹40,000 was retired/paid by the bank under a rebate of ₹ 600 but the full amount of the bill was credited in the bank column of the Cash Book.
vii. A cheque of 10,000 wrongly credited in the Pass Book on 29th March was reversed on 2nd April.
viii. bank had wrongly debited 20,000 in the account on 31st March and reversed it on10th April, 2022.
ix. A cheque of ₹ 800 drawn on the Savings Account has been shown as drawn on Current Account in Cash Book.
Prepare a Bank Reconciliation Statement as on 31st March, 2022, if the Balance as per Cash Book on 31st March was ₹ 1,58,280

QUESTION 12:

On 31st January, 2022, Sethi's cash book showed a bank overdraft of ` 2,50,000. On comparing with the pass book, the following differences were noted.

(a) Cash and cheques amounting to ` 26,800 were sent to the bank on 27th January, but cheques worth 4600 were credited on 2nd February and one cheque for 900 was returned by them as dishonored on 4th February.

(b) During the month of January, Sethi issued cheques worth ` 33,400 to his creditors. Out of these, cheques worth 27,400 were presented for payment on 5th February.

(c) According to Sethi's standing orders, the bankers have made the following payments during the month of January:

i. Life insurance premium ` 3,840

ii. Television license fee ` 2,400

(d) Sethi's bankers have collected ` 3,000 as dividend on his shares.

(e) Interest charged by the bank ` 2,500

(f) A bill receivable of ` 2,000 discounted with the bank in December, 2021, was dishonored on 31st January, 2022.

You are required to:

(i) Ascertain the amended cash book balance as on 31st January, 2022

(ii) Prepare a Bank Reconciliation Statement from the amended cash book as on 31st January 2022

QUESTION 13:

When you proceed to reconcile the bank account starting with Credit cash book Balance, how is the following dealt with and why?

(i) Cheque issued but not presented for payment.

(ii) Cheque deposited but not yet credited.

(iii) Bank charges charged by the bank not recorded in the cash book.

(iv) Interest allowed by the bank is not recorded in the cash book

QUESTION 14:

Sunder Lal & Sons find that the Bank Balance shown by their Pass Book on 30th November, 2015 is 20,000 (Debit) but the cash Book shows a difference due to the following reasons:

(i) On 05-10-2015 Sunder Lal deposited a cheque for collection Of 1000 and made entry in Cash Book, appears in the Pass Book on 6-12-2015 as 990.

(ii) Cheques issued io parties but not presented for payment till 30-11-2015 are of 525, 835 and 900.

(iii) Cheques deposited for collection but not collected by bankers till 30-11-2015 8,760 and 410.

(iv) Interest on investments collected by bankers on 955 entered in Cash Book on 04-12-2015 on receipt of bank intimation.

(v) Bank charges 90 (dated 27-11-2015) not entered in Cash Book.

(vi) Cheque deposited for collection on 30-11-2015 but returned dishonoured on 06-12-2015 of 945.

You are required to Prepare a Bank Reconciliation Statement as on 30-11-2015 from the foregoing information

RECTIFICATION OF ERRORS

INTRODUCTION	• Accounting errors are the errors committed by persons responsible for recording and maintaining accounts of a business firm in the course of accounting process. • These Errors may be in the form of omitting the transactions to record, recording in wrong books, or wrong account or wrong totaling and so on.
CLASSIFICATION OF ACCOUNTING ERRORS	1. Errors of omission: As per rule, a transaction is to be recorded in books of accounts. however, accountant may not record it at all or record it partially, it is called as errors of omission. A. Complete omission: when a transaction is not all recorded in the books of accounts it is known as complete omission. For example: goods purchased on credit are not recorded in Purchases Book. These kinds of errors will not affect trail balance. B. Partial Omission: when one aspect of the transaction is not recorded in the books, it is called as partial omission. For example: discount allowed to a customer was not posted to Discount A/c in the ledger. Therefore, it affects Trial Balance
ERRORS OF COMMISSION	When the error is committed in the process of recording transaction it is called an error of commission. Error of commission can be of the following types: 1. Errors committed while recording a transaction in the Special Purpose books. For example, purchase of goods from Rakesh on credit is recorded in the Sales Book and not in the Purchases Book. 2. Wrong totaling. for example the total of Sales Day Book is written as Rs.52,500 while it is Rs.52,900. 3. Wrong balancing. 4. Wrong carry forward of balances or total. 5. Wrong Posting
COMPENSATING ERRORS	Two or more errors when committed in such a way that the effect of first error is cancelled out by second error, those errors are called as compensating errors.
ERROR OF PRINCIPLE	This is the basic principle of accounting that the capital income and capital expenditure should be recorded as capital item and revenue income and revenue expenditure should be recorded as revenue item. If transactions are recorded in violation of this principle, it is called error of principle.

ONE SIDED ERROR	• Accounting errors that affect only one side of an account which may be either its debit side or credit side, is called one sided error. • This type of mistake does affect the trial balance
TWO SIDED ERRORS	• The error that affects two separate accounts, debit side of the one and credit side of the other is called two-sided error. • For example, purchase of machinery for Rs. 1000 has been entered in the Purchases Book
BEFORE PREPARATION OF TRAIL BALANCE	One side error - Make correct posting in the corresponding account Two side errors - book a rectification journal entry based on impact analysis
AFTER PREPARATION OF TRAIL BALANCE	One side error - Book a rectification journal entry using impact analysis by making use of Suspense A/c. Two side errors - Book a rectification journal entry based on impact analysis
AFTER PREPARATION OF FINAL ACCOUNTS	One side error - Book a rectification journal entry using impact analysis by making use of Suspense A/c (Nominal accounts are already transferred to Profit and loss account, hence where and all getting a nominal account should be replaced with profit and loss adjustment account) Two side errors- Book a rectification journal entry based on impact analysis (Nominal accounts in the rectification journal entry should be replaced with Profit and loss adjustment A/c). (ii) Suspense Account will be carried forward to the next year; and (iii) Real and Personal Accounts are to be carried forward to the next year.
SUSPENSE ACCOUNT	If the Trial Balance does not agree we cannot prepare final accounts. In order to prepare final account, the difference so appeared in trail balance is to be passed through Suspense Account. When the errors will be located and rectified suspense account will automatically be Nil or closed. The suspense account will appear in the Balance Sheet. When it appears in the debit side of trial balance, the same will appear in the assets side of the Balance Sheet and vice-versa

LETS PRACTICE SOME QUESTION

QUESTION 1:

How would you rectify the following errors in the book of Rama & Co.?

1. The total to the Purchases Book has been undercast by Rs.100.
2. The Returns Inward Book has been undercast by Rs. 50.
3. A sum of Rs. 250 written off as depreciation on Machinery has not been debited to Depreciation Account.
4. A payment of Rs. 75 for salaries (to Mohan) has been posted twice to Salaries Account.
5. The total of Bills Receivable Book Rs. 1,500 has been posted to the credit of Bills Receivable Account.
6 An amount of Rs.151 for a credit sale to Hari, although correctly entered in the Sales Book, has been posted as Rs. 115.
7. Discount allowed to Satish Rs. 25 has not been entered in the Discount Column of the Cash Book. the amount has been posted correctly to the credit of his personal account.

QUESTION 2:

The following errors were found in the book of Ram Prasad & Sons. Give the necessary entries to correct them.

1. Rs. 500 paid for furniture purchased has been charged to ordinary Purchases Account.
2 Repairs made were debited to Building Account for Rs. 50.
3. An amount of Rs.100 withdrawn by the proprietor for his personal use has been debited to Trade Expenses Account.
4. Rs.100 paid for rent debited to Landlord's Account.
5. Salary Rs.125 paid to a clerk due to him has been debited to his personal account.
6. Rs.100 received from Shah & Co. has been wrongly entered as from Shaw & Co.
7. Rs. 700 paid in cash for a typewriter was charged to Office Expenses Account.

QUESTION 3:

Give journal entries to rectify the following:

1. A purchase of goods from Ram amounting to Rs.150 has been wrongly entered through the Sales Book.
2. A Credit sale of goods amounting Rs.120 to Ramesh has been wrongly passed through the Purchase Book.
3. On 31st December, 2016 goods of the value of Rs.300 were returned by Hari Saran and were taken inventory on the same date but no entry was passed in the books.

4. An amount of Rs. 200 due from Mahesh Chand, which had been written off as a Bad Debt in a previous year, was unexpectedly recovered, and had been posted to the personal account of Mahesh Chand.

5. A Cheque for Rs.100 received from Man Mohan was dishonored and had been posted to the debit of Sales Returns Account.

QUESTION 4:

Correct the following errors (i) without opening a Suspense Account and (ii) opening a Suspense Account:

1. The Sales Book has been totaled Rs.100 short.
2. Goods worth Rs.150 returned by Green & Co. have not been recorded anywhere.
3. Goods purchased Rs.250 have been posted to the debit of the supplier Gupta & Co.
4. Furniture purchased from Gulab & Bros, Rs.1,000 has been entered in Purchases Day Book.
5. Discount received from Red & Black Rs.15 has not been entered in the Discount Column of the Cash Book.
6. Discount allowed to G. Mohan & Co. Rs.18 has not been entered in the Discount Column of the Cash Book. The account of G. Mohan & Co. has, however, been correctly posted.

QUESTION 5:

Correct the following errors found in the books of Mr. Dutt. The Trial Balance was out by Rs. 493 excess credit. The difference thus has been posted to a Suspense Account.

1. An amount of Rs.100 was received from D. Das on 31st December, 2015 but has been omitted to enter in the Cash Book.
2. The total of Returns Inward Book for December has been cast Rs.100 short.
3. The purchase of an office table costing Rs. 300 has been passed through the Purchases Day Book.
4. Rs 375 paid for Wages to workmen for making show-cases had been charged to "Wages Account"
5. A purchase of Rs. 67 had been posted to the trade payables' account as Rs 60.
6. A cheque for Rs. 200 received from P. C. Joshi had been dishonored and was passed to the debit of "Allowances Account".
7. Rs 1000 paid for the purchase of a motor cycle for Mr. Dutt had been charged to "Miscellaneous Expenses Account".
8. Goods amounting to Rs.100 had been returned by customer and were taken in to inventory, but no entry in respect there of, was made into the books
9. A Sale of Rs. 200 to Singh &Co. was wrongly credited to their account. Entry was made correctly made in sales book.

QUESTION 6:

The following errors, affecting the account for the year 2015 were detected in the books of Jain Brothers, Delhi:

1. Sale of old Furniture Rs.150 treated as sale of goods.
2. Receipt of Rs. 500 from Ram Mohan credited to Shyam Sunder.
3. Goods worth Rs.100 brought from Mohan Narain have remained unrecorded so far.
4. A return of Rs.120 from Mukesh posted to his debit.
5. A return of Rs. 90 to Shyam Sunder posted as Rs. 9 in his account.
6. Rent of proprietor's residence, Rs. 600 debited to rent A/c.
7. A payment of Rs. 215 to Mohammad Sadiq posted to his credit as Rs.125.
8. Sales Book added Rs. 900 short.
9. The total of Bills Receivable Book Rs. 1,500 left unposted.

You are required to pass the necessary rectifying entries and show how the trial balance would be affected by the errors.

QUESTION 8:

Write out the Journal Entries to rectify the following errors, using a Suspense Account.

1. Goods of the value of Rs.100 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;
2. An amount of Rs.150 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;
3. A sale of Rs. 200 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as Rs. 20;
4. Bad Debts aggregating Rs.450 were written off during the year in the Sales ledger but were not adjusted in the General Ledger; and
5. The total of "Discount Allowed" column in the Cash Book for the month of September, 2015 amounting to Rs. 250 was not posted.

QUESTION 99:

Mr. Roy was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss Account of that year. Next Year, he appointed a Chartered Accountant who examined the old books and found the following mistakes:

1. Purchase of a scooter was debited to conveyance account Rs.3,000.
2. Purchase account was over-cast by Rs.10,000.
3. A credit purchase of goods from Mr. P for Rs.2,000 entered as a sale.
4. Receipt of cash from Mr. A was posted to the account of Mr. B Rs.1,000.
5. Receipt of cash from Mr. C was posted to the debit of his account, Rs.500
6. Rs. 500 due by Mr. Q was omitted to be taken to the trial balance.

7. Sale of goods to Mr. R for Rs.2,000 was omitted to be recorded.
8. Amount of Rs.2,395 of purchase was wrongly posted as Rs.2,593.

Mr. Roy used 10% depreciation on vehicles. Suggest the necessary rectification entries.

QUESTION 10:

The trial balance of Mr. W & H failed to agree and the difference Rs.20,570 was put into suspense pending investigation which disclosed that:

1.Purchase returns day book had been correctly entered and totaled at Rs.6,160, but had been posted to the ledger.
2.Discounts received Rs.1,320 had been debited to discounts allowed.
3.The Sales account had been under added by Rs.10,000.
4. A credit sale of Rs.1,470 had been debited to a customer account at Rs.1,740.
5. A vehicle bought originally for Rs.7,000 four years ago and depreciated to Rs.1,200 had not been sold for Rs.1,500 in the beginning of the year but no entries, other than in the bank account had been passed through the books.,
6. An accrual of Rs.560 for telephone charges had been completely omitted.
7. A maintained bad debt of Rs.1,560 had not been written off and provision for doubtful debts should have been at 10% of Trade receivables which are shown in the trial balance at Rs.23,390 with a credit provision for bad debts at Rs.2,320.
8. Tools provision for bad debts at Rs.2,320. had been inadvertently debited to purchases.
9. The proprietor had withdrawn, for personal use, goods worth Rs.1,960. No entries had been made in the books.

QUESTION 11:

On going through the Trial balance of Ball Bearings Co. Ltd. you find that the debit is in excess by Rs.150. This was credited to "Suspense Account". On a close scrutiny of the books the following mistakes were noticed:

1. The totals of debit side of "Expenses Account" have been cast in excess by Rs. 50.
2. The "Sales Account" has been totaled in short by Rs.100.
3. One item of purchase of Rs.25 has been posted from the day book to ledger as Rs.250.
4. The sale return of Rs.100 from a party has not been posted to that account though the Party's account has been credited.
5. A cheque of Rs.500 issued to the Suppliers' account (shown under Trade payables) towards his dues has been wrongly debited to the a purchases.
6. A credit sale of Rs.50 has been credited to the Sales and also to the Trade receivables Account.

You are required to

1. Pass necessary journal entries for correcting the

2. Show above; how they affect the Profits; and
3. Prepare the "Suspense Account" as it would appear in the ledger

QUESTION 12:

The trial balance of M/s S & CO., on 31st March, 2022 did not agree. In order to close the books, the accountant placed the difference for 12,385 (Dr:) to Suspense Account for necessary adjustments in the next period. On 30h April, 2022 the following errors, arising in 2021-22 were detected:

i. ₹ 1,000 allowed as cash discount to a trade debtor was not debited to the discount account.
ii. Credit sale of 4,850 was posted to the credit of the customer's account as 4,535.
iii. Machinery purchased for ₹ 50,000 in cash was posted to the Purchase Account in the ledger.
iv. Sales Book was overcast by ₹ 2,000 in February, 2022.

Required: (a) Pass the necessary Journal Entries to rectify these errors.
(b) Prepare suspense account in the book of S & CO.

QUESTION 13:

Rectify the following errors assuming that the errors were detected
(a) Before the Preparation of Trial Balance;
(b) After the preparation of Trial Balance and
(c) After the preparation of Final Accounts.
(i) Purchase Plant for ₹ 10,000 wrongly passed through Purchase Account.
(ii) Sales Day Book was cast short by ₹ 1,000.
(iii) Cash paid to Mr. X for ₹ 1,000 was posted to his account as ₹ 100.
(iv) Purchase goods from Mr. T for ₹ 3,500 was entered in the Purchase Day Book as ₹ 500.
(v) Paid salary for ₹ 3,000 wrongly passed through wages account.

QUESTION 14:

A merchant, while balancing his books of accounts notices that the T.B. did not tally. It showed excess credit of ₹1,700. He placed the difference to Suspense A/c. Subsequently he noticed the following errors:

(a) Goods brought from Narayan for ₹ 5,000 were posted to the credit of Narayan's A/c as ₹ 5,500
(b) An item of ₹ 750 entered in Purchase Returns Book was posted to the credit of Pandey to whom the goods had been returned.
(c) Sundry items of furniture sold for ₹ 26,000 were entered in the sales book.
(d) Discount of ₹ 300 from creditors had been duly entered in creditor's A/c but was not posted to discount A/c.

Pass necessary journal entries to rectify these errors. Also show the Suspense A/c.

QUESTION 15:

Pass necessary journal entries to rectify the following errors:

(a) An amount of ₹ 200 withdrawn by owner for personal use was debited to trade expenses.

(b) Purchase of goods of ₹ 300 from Nathan was wrongly entered in sales book.

(c) A credit sale of ₹ 100 to Santhanam was wrongly passed through purchase book.

(d) ₹ 150 received from Malhotra was credited to Mehrotra.

(e) ₹ 375 paid as salary to cashier Dhawan was debited to his personal A/c.

(f) A bill of ₹ 2,750 for extension of building was debited to building repairs A/c

(g) Goods of ₹ 500 returned by Akashdeep were taken into stock, but returns were not posted.

(h) Old furniture sold for ₹ 200 to Sethi was recorded in sales book.

(i) The period end total of sales book was under cast by ₹ 100.

(j) Amount of ₹ 80 received as interest was credited to commission.

QUESTION 16:

The books of accounts of A Co. Ltd. for the year ending 31.3.2023 were closed with a difference of ₹21,510 in books carried forward. The following errors were detected subsequently:

(a) Return outward book was under cast by ₹ 100.

(b) ₹ 1,500 being the total of discount column on the credit side of the cash book was not posted.

(c) ₹ 6,000 being the cost of purchase of office furniture was debited to Purchase A/c.

(d) A credit sale of ₹ 760 was wrongly posted as ₹ 670 to the customers A/c. in the sales ledger.

(e) The Sales A/c was under casted by ₹ 10,000 being the carry over mistakes in the sales day book.

(f) Closing stock was over casted by ₹ 10,000 being casting error in the schedule or inventory.

Pass rectification entries in the next year. Prepare suspense account and state effect of the errors in determination of net profit of last year.

QUESTION 17

The Trial Balance of a concern has agreed but the following mistakes were discovered after the preparation of final Accounts.

(a) No adjustment entry was passed for an amount of ₹2,000 relating to outstanding rent.

(b) Purchase book was overcast by ₹1,000.

(c) ₹ 4,000 depreciation of Machinery has been omitted to be recorded in the book.

(d) ₹ 600 paid for purchase of stationary has been debited to Purchase A/c.

(e) Sales books was overcast by ₹ 1,000.

(f) ₹ 5,000 received in respect of Book Debt had been credited to Sales A/c.

Show the effect of the above errors in Profit and Loss Account & Balance Sheet

DEPRECIATION ACCOUNTING

DEPRECIATION:	• Fixed Assets are purchased in the business for long-term use. During the course of their use, every year a part of fixed assets expires (i.e., is consumed or utilised or lost) due to physical wear and tear, passage of time, obsolescence etc. The gradual decline in the value of a tangible asset is termed as Depreciation. • The purpose of providing for depreciation is to write off cost of fixed assets over their estimated useful life. • It is important to note that depreciation is charged on all fixed assets except freehold land. The reason is that unlike other fixed assets like machinery and furniture, useful life of land (because it has infinite life) is not limited to few years
CHARACTERISTICS OF DEPRECIATION	• Depreciation is a reduction in the book value of fixed assets (except freehold land). • Such reduction in the book value of a fixed asset is permanent, gradual and of continuing nature. • Depreciation is a continuous process i.e. provided every year because the book value is reduced either due to use or with the passage of time. • It occurs gradually unless there is a quick physical deterioration or obsolescence due to technological developments.
DEPRECIATION:	The term 'Depreciation' is a measure of wearing out, consumption or other loss of value of a depreciable asset, arising from use, efflux of time or obsolescence through technology and market changes. It is an allocation of cost of fixed asset as expense over its estimated useful life. Depreciation expense is charged on all tangible fixed assets whose useful life is limited. For example, cost of the machine is written off over its estimated useful life. On the other hand, useful life of freehold land is normally infinite. As a result, it is not depreciated.
AMORTISATION:	Amortisation is a gradual and systematic writing-off of intangible asset over its estimated useful life. For example, patents, purchased goodwill, copyrights are amortised over their useful life being intangible assets.
DEPLETION:	Depletion is the value of wasting asset extracted from quarry, mine, etc. Extraction reduces the available quantity of material.

	For example, extraction of coal from a coal mine is depletion of coal stock. **Depreciation pa** = Depreciable Amount × (Output in current year)/(Total estimated Output in units)
OBJECTIVES AND NECESSITY FOR PROVIDING DEPRECIATION:	i. Correct calculation of cost of production ii. Correct calculation of profits iii. Correct disclosure of fixed assets at reasonable value: iv. Provision of replacement cost v. Maintenance of capital vi. Compliance with technical and legal requirements:
METHODS OF RECORDING (ACCOUNTING) DEPRECIATION	Methods of Recording (Accounting) Depreciation: There are two alternative methods of recording depreciation. 1. When depreciation is charged to the Asset Account 2. When Provision for Depreciation/Accumulated Depreciation Account is opened.
WHEN DEPRECIATION IS CHARGED AGAINST ASSET:	• **For Providing Depreciation:** Depreciation A/c Dr XXX To Asset A/c XXX • **For Transferring Depreciation to Profit and Loss Account** Profit and Loss A/c Dr XXX To Depreciation A/c XXX
WHEN PROVISION FOR DEPRECIATION/ ACCUMULATED DEPRECIATION ACCOUNT IS MAINTAINED	Under this method, Asset should be carried in the books at its historical cost. Depreciation shall be charged to provision for depreciation or accumulated depreciation account. • **For Providing Depreciation:** Depreciation A/c Dr XXX To Provision for Depreciation A/c XXX • **For Transferring Depreciation to Profit and Loss Account:** Profit and Loss A/c Dr XXX To Depreciation A/c XXX
METHODS OF CALCULATING DEPRECIATION	**Straight Line Method:** An equal amount is written off every year during the working life of the asset so as to reduce the cost of asset to nil or its residual value at the end of its useful life.

	Depreciation per annum =(Cost of asset-Scrap value)/(Useful life of asset) **Depreciation %** =(straight Line depreciation per annum)/(Cost of Asset) × 100
REDUCING BALANCE METHOD/ DIMINISHING BALANCE METHOD/ WRITTEN DOWN VALUE METHOD	Depreciation is calculated at a fixed percentage on the written down value of the asset Under this method amount of depreciation will decreases year by year. Hence earlier years suffer to the benefit of later years. **For newly acquired Fixed Asset** = Original Cost × Rate of Depreciation **For existing Fixed Asset** = Opening WDV × Rate of Depreciation
SUM OF YEARS OF DIGITS METHOD	Depreciable Amount = Cost of asset - Scrap value Total of all digits of life of the asset. For example life is 10 years then total sum from 1-10=55 total of digits = $(n(n+1))/2$ **Depreciation for one year** = Depreciable value × (Digit value for current year)/(total of all digits of life of asset)
MACHINE HOUR METHOD	• If it is practicable to keep a record of the actual running hours of each machine, then depreciation may be calculated on the basis of machine hours worked. • **Depreciation Per machine Hour** = (Depreciable value of machinery)/(expected life of machinery in working hours)
PRODUCTION UNITS METHOD	• Depreciable amount = Cost of asset - scrap value • Estimate annual production and estimated total production over the life of the asset • **Depreciation pa** = Depreciable Amount x (Production in current year)/(Total estimated production in units)
PROFIT OR LOSS ON SALE OF ASSETS - METHOD OF DEPRECIATION CALCULATION	A. Where no provision for depreciation account is maintained: WDV of the amount sold will be transferred to 'Assets Disposal Account'. The entries will be as follows: (i) WDV of asset has been transferred to Asset Disposal A/c Asset Disposal A/c Dr. To, Asset A/c

	(ii) In case of Sale of an Asset Cash/Bank A/c Dr. To, Asset Disposal A/c (iii) For depreciation (if any) Depreciation (P & L A/c) Dr. To, Asset Disposal A/c (iv) In case of Profit on Sale of Asset Asset Disposal A/c Dr. To, Profit & Loss A/c (v) In case of Loss on Sale of Asset Profit & Loss A/c Dr. To Asset Disposal A/c
B. ALTERNATIVE APPROACH	In this situations, all adjustments are to be prepared through the assets account. The entries are as follows: (i) In case of Assets sold Cash/Bank A/c Dr. To, Assets A/c (ii) In case of Depreciation Depreciation (Profit & Loss) A/c Dr. To Assets A/c (iii) In case of Profit on Sale Assets A/c Dr. To, Profit & Loss (iv) In case of Loss on Sale Profit & Loss A/c Dr. To, Assets A/c
CHANGE OF METHOD	• The depreciation method used should reflect the pattern in which the future economic benefits of the asset are expected to be consumed by the enterprise. • The depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern

	• Such a change should be accounted for as a change in an accounting estimate in accordance with AS 5. • Depreciation is an Accounting estimate and not accounting policy. • The depreciation method selected should be applied consistently from period to period. Change in depreciation method , if required to match with revenue, should be done prospectively
CHANGE IN USEFUL LIFE OR SCRAP VALUE OF PPE	• Scrap value and useful life of an asset should be reviewed on each balance sheet date • if expectation significantly differs from old estimates, then such changes should result in change in accounting estimate, hence should be adjusted on prospective basis i.e. in current year and future years

LETS PRACTICE SOME QUESTION

QUESTION 1:

On 1st July 2022, X Ltd. purchased a machine for Rs. 2,00,000. On 1st September 2022 it was put to use (installed) and incurred Rs. 25,000 on its installation. But the actual use started on 1 November 2022. Calculate deprecation for 2022-23 and 2023-24. Rate of depreciation 10% p.a. on written down value

QUESTION 2:

A machine is purchased for ₹ 7,00,000. Expenses incurred on its cartage and installation ₹ 3,00,000. Calculate the amount of depreciation @ 20% p.a. according to Straight Line Method for the first year ending on 31st March, 2022 if this machine is purchased on:

(a) 1st April, 2021
(b) 1st July, 2021
(c) 1st October, 2021
(d) 1st January, 2022

QUESTION 3:

On 1.1.2019 a machine was purchased for ₹ 1,00,000 and ₹ 50,000 was paid for installation. Assuming that the rate of depreciation was 10% on Reducing Balance Method, calculate amount of depreciation upto 31.12.2021.

QUESTION 4:

On April 1, 2021 Z Ltd. purchased a Machine for ₹ 5,50,000 and spent ₹ 30,000 on its installation, ₹ 5,000 for freight and cartage and ₹ 10,000 for Insurance Charges. The expected life of the Machine is 5 years, at the end of which the estimated scrap value will be ₹ 46,000.

Calculate the amount of Annual Depreciation under Straight Line Method (SLM).

QUESTION 5:

On 1st April, 2019, N Ltd purchased a second-hand Machine for ₹ 1,20,000 and spent ₹ 30,000 on its renewal. On 1st October, 2020, ₹ 3,000 was spent on repairs. On 30th September, 2021 the Machine was sold for ₹ 75,000. Depreciation is to be provided @ 20 percent per annum according to written down value method.

Prepare Machinery Account reflecting all these transactions assuming Books are closed on31st March each year.

QUESTION 6:

machine costing ₹ 13,75,000 is depreciated on straight line basis assuming 8 years working life and zero residual value. After third year machine's remaining useful life was reassessed at 7 years. Calculate the amount of depreciation charged for 4th year

QUESTION 8:

A machine was purchased for Rs. 30,00,000 having an estimated total working of 24,000 hours. The scrap value is expected to be Rs. 2,00,000 and anticipated pattern of distribution of effective hours is as follows:

Year	
1 -3	3,000 hours per year
4 - 6	2,600 hours per year
7 - 10	1,800 hours per year

Determine Annual Depreciation under Machine Hour Rate Method.

QUESTION 9:

A machine is purchased for Rs. 20,00,000. Its estimated useful life is 10 years with a residual value of Rs. 2,00,000. The machine is expected to produce 1.5 lakh units during its life time. Expected distribution pattern of production is as follows:

Year	Production
1-3	20,000 units per year
4-7	15,000 units per year
8-10	10,000 units per year

Determine the value of depreciation for each year using production units method

QUESTION 10:

M/s Surya took lease of a quarry on 1-1-2013 for Rs. 1,00,00,000. As per technical estimate the total quantity of mineral deposit is 2,00,000 tones. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year	Quantity of mineral extracted
2013	2000 tonnes
2014	10000 tonnes
2015	15000 tonnes

Show the Quarry Lease Account and Depreciation Account for each year from 2013 to 2015.

QUESTION 11:

A Machine costing Rs. 6,00,000 is depreciated on straight line basis, assuming 10 years working life and Nil residual value, for three years. The estimate of remaining useful life after third year was reassessed at 5 years. Calculate depreciation for the fourth year.

QUESTION 12:

The LG Transport company purchased 10 trucks at Rs. 45,00,000 each on 1st April 2014. On October 1st, 2016, one of the trucks is involved in an accident and is completely destroyed and Rs. 27,00,000 is received from the insurance in full settlement. On the same date another truck is purchased by the company for the sum of Rs. 50,00,000. The company write-off 20% on the original cost per annum. The company observe the calendar year as its financial year. Give the motor truck account for two year ending 31 Dec, 2017

QUESTION 13:

S & Co. purchased a machine for ₹ 1,00,000 on 1.1.2019. Another machine costing ₹ 1,50,000 was purchased on 1.7.2020. On 31.12.2021, the machine purchased on 1.1.2019 was sold for ₹ 50,000. The company provides depreciation at 15% on Straight Line Method. The company closes its accounts on 31st December every year.

Prepare - (i) Machinery A/c, (ii) Machinery Disposal A/c and (iii) Provision for Depreciation A/c.

QUESTION 14:

On 1st April, 2019, Som Ltd. purchased a machine for ₹66,000 and spent ₹5,000 on shipping and forwarding charges, ₹7,000 as import duty, ₹1,000 for carriage and installation, ₹500 as brokerage and ₹500 for an iron pad. It was estimated that the machine will have a scrap value of ₹ 5,000 at the end of its useful life which is 15 years. On 1st January, 2020 repairs and renewals of ₹ 3,000 were carried out. On 1st October, 2021 this machine was sold for ₹ 50,000. Prepare Machinery Account for the 3 years.

QUESTION 15:

Entity A purchased an asset on 1st January, 2019 for ₹ 1,00,000 and the asset had an estimated useful life of 10 years and a residual value of nil. On 1st January, 2023, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years. Calculate the amount of depreciation for each year, if company charges depreciation on Straight Line basis.

QUESTION 16:

Ruma Ltd. purchased a plant on 1st April 2015 for rupees 2,40,000. It bought another plant on 1st July 2016 for rupees 160,000On 1st January 2018 Plant bought on 1st April 2015 was sold for Rupees 1,60,000 and a fresh plant was purchased on the same date. Payment of this plant will be made as under.

1st January 2018 rupees 40,000.
1st January 2019 rupees 48,000.
1st January 2020 rupees 44,000.

Payments made in 2019 and 2020 include interest of rupees 8,000 and Rupees 4,000, respectively. Depreciation is charged at 10% pa on the diminishing balance method.

From the above particulars, Find out.

(i) Cost of plant bought on January 1st, 2018.
(ii) Loss on sale of plants.
(iii) Closing balance of plant 2 and plant 3 as on 31-3-2018

QUESTION 17:

A machine is purchased for ₹60,00,000, estimated life of which is 10 years residual value is ₹ 4,00,000. Expected production of the machine is 2,00,000 during its useful life. Production pattern is as follows:

Year	Units
1-2	20,000 per year
3-6	15,000 per year
7-10	25,000 per year

QUESTION 18:

On 1.1.2021 machinery was purchased for ₹ 80,000. On 01.07.2022 additions were made to the amount of ₹ 40,000. On 31.3.2023, machinery purchased on 1.7.2022, costing ₹ 12,000 was sold for ₹ 11,000 and on 30.06.2023 machinery purchased on 01.01.2024 costing ₹ 32,000 was sold for ₹ 26,700. On 1.10.2023, additions were made to the amount of ₹ 20,000. Depreciation was provided at 10% p.a. on the Diminishing Balance Method. Show the Machinery Accounts for three years from 2021-2023. (year ended 31st December).

QUESTION 19:

BHARAT TUSHAR LTD. which depreciates its machinery at i0% p.a on diminishing balance method, had on 1" April, 2021, ₹ 29,160, to the debit of Machinery Account. On 31"March 2022, the company decided to change the method of depreciation to straight line method with effect from 1" April, 2018, the rate of depreciation remaining the same.
Pass the necessary Journal entry on account of change in method of Depreciation

QUESTION 20:

Bharat Ltd. which depreciates its machinery at 10% p.a. straight line basis, had on 1st April, 2021 ₹ 28,000 to the debit of Machinery Account. On 31st March, 2022, the company decided to change the method of depreciation to diminishing balance method with effect from 1st April, 2018 being the date of purchase of machine and the rate of depreciation remaining the same. There was no purchase/sale of machine after 1st April, 2018.
Pass the necessary journal entry on account of change in method of depreciation.

QUESTION 21:

On April 1, 2018 Shubra Ltd. purchased a machinery for 12,00,000. On Oct 1, 2020, a part of the machinery purchased on April 1, 2018 for 80,000 was sold for 45,000 and a new machinery at a cost of 1,58,000 was purchased and installed on the same date. The company has adopted the method of providing 10% p.a. depreciation on the written down value of the machinery.
Required: Show the necessary ledger accounts for the years ended 31st March 2019 to 2021 assuming that

A. Provision for Depreciation Account is not maintained Amount
B. Provision for Depreciation Account is maintained.

QUESTION 22:

Dam td. which depreciates its machinery at 10% p.a, on Diminishing Balance Method, had on 1st January, 2022 9,72,000 on the debit side of Machinery Account. Machinery purchased on 1st January, 2020 for 80,000 was sold for 45,000 on 1st July, 2022 and a new machinery at a cost of 1,50,000 was purchased and installed on the same date, installation charges being 8,000. The company wanted to change the method of depreciation from Diminishing Balance Method to Straight Line Method with effect from 1st January, 2020. Difference of depreciation up to 31st December, 2022 to be adjusted. The rate of depreciation remains the same as before. Prepare the Machinery Account.

QUESTION 23:

M/s. Hot and Cold commenced business on 01.07.2017. When they purchased a new machinery at a cost of 8,00,000. On 01.01.2019 they purchase d another machinery for 6,00,000 and again on 01.10.2021 machinery costing 15,00,000 was purchased. They adopted a method of charging depreciation (@ 20% p.a. on diminishing balance basis. On 01.07.2021, they changed the method of providing depreciation and adopted the method of writing off the Machinery Account at 15% p.a. under straight line method with retrospective effect from 01.07.2017, the adjustment being made in the accounts for the year ended 30.06.2021. The depreciation has been charged on time basis. You are required to calculate the difference in depreciation to be adjusted in the Machinery on 01.07.2021, and show the Machinery Account for the year ended 30.06.2022.

ACCOUNTING TREATMENT OF BAD DEBTS, PROVISION FOR DOUBTFUL DEBTS, PROVISION FOR DISCOUNT ON DEBTORS AND PROVISION FOR DISCOUNT ON CREDITORS

INTRODUCTION:	For any business, purchase and sales are the most regular and main activity. This attracts business connection with lots of people either giving or taking benefits of credit. Debtors refer to those entities who take the benefit of delayed payment and creditors allow credit period to pay later. That means in each case there is a time gap between the date of sale or purchase and the date of recovery of cash or payment of cash
CHARACTERISTICS OF DEPRECIATION	• The amount which is receivable from a person or a concern for supplying goods or services is called Debt. On the basis of the chances of collection from the debtors, debts may be classified into the following three categories: Good debts, Doubtful debts and Bad debts
GOOD DEBTS:	The debts which are not bad i.e., there is neither any possibility of bad debts nor any doubts about its realization, is called good debts. As such, no provision is necessary for it.
DOUBTFUL DEBTS	The debts which will be receivable or cannot be ascertainable at the date of preparing the final accounts (i.e., the debts which are doubtful to realise) is known as doubtful debts. Practically it cannot be treated as a loss on that particular date, as such, it cannot be written off. But, it should be charged against Profit and Loss Account on the basis of past experience of the firm. This is done as per matching principle so that the anticipated loss of the year charged against the revenue of that year
BAD DEBTS	Bad debts are uncollectable or irrecoverable debt or debts which are impossible to collect is called Bad Debts. If it is definitely known that amount recoverable from a customer cannot be realized at all, it should be treated as a business loss and should be adjusted against profit. In short, the amount of bad debt should be transferred to Profit and Loss Account for the current year to confirm the principles of matching. Bad Debts Account is by nature a nominal account. For recording the bad debt in the journal, Bad Debts A/c is debited and Debtors A/c is credited. At the end of an accounting period the total amount of bad debts may be either transferred to Profit & Loss Account or Provision for Doubtful debts A/c as the case may be

PROVISIONS FOR DOUBTFUL DEBTS	The amount charged against the profit by an entity to provide for the possible collection loss from customers is known as Provision for Doubtful Debts. Provision for Doubtful debts account is a credit balance account and it reflected in the Balance Sheet by was of deduction from the balance of Debtors/ Accounts Receivable.
THE ACCOUNTING FOR BAD DEBTS AND PROVISION FOR DOUBTFUL DEBTS	In the 1st year **(a) For Bad Debts** Bad Debts A/c Dr. To, Sundry Debtors A/c **(b) For creating provision for Doubtful Debts** Profit and Loss A/c Dr. To, Provision for Doubtful Debts A/c **(c) For Transferring Bad Debts** Profit and Loss A/c Dr. To, Bad Debts A/c **In Second/ Subsequent Year** **(a) (i) For Bad Debts** Bad Debts A/c Dr. To, Sundry Debtors A/c (ii) Profit and Loss A/c Dr. To, Bad Debts A/c **(b) For provision of Doubtful Debts** **(i) If closing provision is more than the opening provision** Profit and Loss A/c Dr. To, Provision for Doubtful debts A/c **(ii) If Closing Balance is less than opening provision –** Provision for Doubtful Debts A/c Dr. To, Profit and Loss A/c
PROVISIONS FOR DISCOUNT ON DEBTORS	It is a common practice of the suppliers to allow cash discount to its customers for prompt settlement of cash. For such loss, it would be prudent to create a provision. Thus, the provision which is created on Sundry Debtors for allowing discount on receipt of cash in that accounting period is called Provision for Discount on Debtors. It is needless to say that if the customer pays their debts before the due dates, they may claim discounts and that is why it would be prudent to create a separate provision for the amount of discount that might be allowed to debtors for prompt settlement. The provision for discount on

	debtors is made on the basis of past experience and predicting at an estimate rate on the balance of Sundry Debtors. Provision for discount allowed should be calculated at a specified rate on of debtors (i.e. after deducting bad debts and provision for bad debts). The debtors becoming bad are deleted from the list of debtors and the amount is deducted for the amount of gross debtors. The balance remains is all doubtful and hence provision for doubtful debt is maintained on the amount of doubtful debt. When such provision is also deducted from the net debtors the balance remains is expected to be good and are supposed to clear their dues in due time. Therefore a provision for discount allowed is made on such amount
THE ACCOUNTING FOR PROVISION FOR DISCOUNT ON DEBTORS'	The accounting for provision for discount on debtors' as follows: **For the First year:** **(a) (i) For Discount Allowed** Discount Allowed A/c Dr. To, Sundry Debtors A/c **(ii) When Discount Allowed is transferred** Profit & Loss A/c Dr. To, Discount Allowed A/c **(b) For Provision for Discount on Debtors -** Profit & Loss A/c Dr. To, Provision for Disc on Debtors A/c **For the Second/ Subsequent year** **(a) (i) For Discount Allowed** Discount Allowed A/c Dr. To, Sundry Debtor A/c **(ii) For Provision for Discount on Debtors -** Provision for Discount on Debtor A/c Dr. To, Discount Allowed A/c **(b) Next year provision is estimated-** **(i) If new provision is more than old one** Profit and Loss A/c Dr. To, Provision for Discount on Debtor A/c **(ii) If new provision is less than old one** Provision for Discount on Debtor A/c Dr. To, Profit and Loss A/c

RECOVERY OF BAD DEBTS	We know that bad debt is a loss and as such, transferred to current year's Profit and Loss Account, either directly or indirectly. However, if in any case the amount of bad debt is received from any debtor in any succeeding accounting period, the same is referred to as Bad Debt Recovery. This happens to be an item of income for the organisation and as such is credited to Profit and Loss of the year of receipt.
ACCOUNTING	**(a) When bad debts are recovered** Cash/Bank A/c. Dr. To, Bad Debts Recovery A/c. **(b) When the same is transferred** Bad Debts Recovery A/c. Dr. To, Profit & Loss A/c
PROVISION FOR DISCOUNT ON CREDITORS	On the purchase of goods/ services by an entity on credit basis, payment is required to be made at a future date. In such a case, the party to whom amount remains payable is referred to as Creditors or Trade Payables. With the object of ensuring prompt collection, many times discount may be allowed by the suppliers. This option, when availed by the customer happens to be Discount Received for the customer, and is a gain to the paying organisation. In line with discount that is allowed by a seller to its customers, as this anticipated income may accrue in a future accounting period, some organisations may create and maintain a provision for discount received from the creditors. This provision account is known as Provision for Discount Received or Provision for Discount on Creditors However, creation and maintenance of provision on creditors is a violation to the conservatism convention or the doctrine of prudence. Provision for Discount Received A/c Dr. To, Profit & Loss A/c Provision for Discount on Creditors Account is shown in the liabilities-side of Balance Sheet as deduction from the balance of Sundry Creditors.

LETS PRACTICE SOME QUESTION

QUESTION 1:

M/s Adhuna & Co. had a provision for bad debts of ₹13,000 against their book debts on 1st April, 2015. During the year ended 31st March, 2023, ₹8,500 proved irrecoverable and it was desired to maintain the provision for bad debts @ 5% on Debtors which stood at ₹3,90,000 before writing off Bad Debts. Prepare the provision for Bad Debt Account for the year ended March 31, 2023.

QUESTION 2:

On 1st April, 2022 the balance of provision for bad and doubtful debts was ₹13,000. The bad debts during the year 2022-23 were ₹9,500. The sundry debtors as on 31st March, 2023 stood at ₹3,25,000 out of these debtors of ₹2,500 are bad and cannot be realized. The provision for bad and doubtful debts is to be raised to 5% on sundry debtors. You are required to:

(i) Pass necessary adjustment entries for bad debts and its provision on 31st March, 2023.

(ii) Prepare the necessary ledger accounts.

(iii) Show the relevant items in the Profit & Loss Account and Balance Sheet.

QUESTION 3:

A company maintains its provision for bad debts @ 5% and a provision for discount on debtors @ 2%. You are given the following details:

Particulars	2022 (₹)	2023 (₹)
Bad debts	800	1,500
Discount allowed	1,200	500
Sundry debtors (before providing all bad debts and discounts)	60,000	42,000

QUESTION 4:

On 31.12.2022, Sundry Debtors and Provision for Doubtful Debts are ₹50,000 and ₹5,000 respectively. During the year 2023, ₹3,000 are bad and written off on 30.9.2023, an amount of ₹400 was received on account of a debt which was written off as bad last year. On 31.12.2023, the debtors left was verified and it was found that sundry debtors stood in the books were ₹40,000 out of which a customer Mr. X who owed ₹800 was to be written off as bad. Prepare Bad Debt A/c and Provision for Doubtful A/c assuming that some percentage should be maintained for provision for Doubtful debt as it was on 31.12.2023. Also show how the illustration appear in Profit & Loss A/c and Balance Sheet.

QUESTION 5:

On 1st April, 2021 the balance of provision for bad and doubtful debts was 13,000. The bad debts during the year 2021-22 were 9,500. The sundry debtors as on 31st March, 2022 stood at ₹ 3,25,000 out of these debtors of 2,500 are bad and cannot be realized. The provision for bad and doubtful debts is to be raised to 5% on sundry debtors.

i. Pass necessary adjustment entries for bad debts and its provision on 31st March, 2022.
ii. Prepare the necessary ledger accounts.
iii. Show the relevant items in the profit and loss account and Balance Sheet.

QUESTION 6:

On 1st Jan. 2017 provision for Doubtful Debts existed at Rs. 40,000. Trade receivables on 31.12.2017 were Rs. 15,00,000; bad debts totaled Rs. 1,00,000. It is required to write off the bad debts and create a provision equal to 5% of the Trade receivables' balances.

Show how you would compute the amount debited to the Profit and Loss Account.

QUESTION 8:

M/S ADHUNA & CO. had a provision for Bad Debts of 13,000 against 1st their book debts on April, 2021. During the was year ended 31st March, 2022, T8,500 proved irrecoverable and it desired to maintain the provision for bad debts @ 5% on Debtors which stood at 3,90,000 before writing off Bad Debts.

Prepare the provision for Bad Debt Account for the year ended March 31, 2022

QUESTION 9:

The company maintains 10% of debtors as provision towards bad debts. It has routed all bad debts through the provision account. The opening balance of provision as on 01.04.2021 was₹ 68,000 The closing provision i.e., on 31st March, 2022, was92,000. Bad debts written off debited to provision account was 28,000. How much should be debited to Profit & Loss Account towards provision for doubtful debts for the year ended 3 1st March, 2022'

FUNDAMENTALS OF ACCOUNTING MCQ'S

1. ________ concept assumes that the infinite life of an organisation can be split into smaller periods of equal duration.

(a) Accounting Period
(b) Entity
(c) Going concern
(d) None of the above

2. The accounts related to expenses or losses and incomes or gains are called ____________.

(a) Personal Account
(b) Representative Personal Account
(c) Nominal Account
(d) Real Account

3. The accounting equation is presented as:

(a) Assets = Liabilities + Equity
(b) Assets = Liabilities + [Capital + (Revenue - Expenses) - Drawings]
(c) Assets + Expenses + Drawings = Liabilities + Capital + Revenue
(d) All of the above

4. The book of account which records only those cash transactions which are not of heavy amount, but the type of transactions is frequently entered into by an entity is ____________

(a) Triple Column Cash Book
(b) Petty Cash Book
(c) Ledger
f(d) None of the above

5. Which of the following is/ are true regarding Trial Balance?

(a) It is prepared for a particular period.
(b) A trial balance is just a statement.
(c) The agreement of a trial balance is a conclusive proof of absolute accuracy of the books of accounts.
(d) All of the above

6. A resource owned by the business with purpose of using it for generating future profit, is known as ----- ---------------.

(a) Capital
(b) Asset
(c) Liability
(d) Surplus

7. Which of the following transaction is of capital nature?

(a) Commission on purchases
(b) Cost of repairs
(c) Rent of factory
(d) Wages paid for installation of machinery

8. At the end of the accounting year the capital expenditures are shown in the:

(a) assets side of the Balance Sheet.
(b) liabilities side of the Balance Sheet.
(c) debit side of the Profit and Loss A/c.
(d) credit side of the Profit and Loss A/c.

9. Which of the following book is both a journal and a ledger?

(a) Cash Book
(b) Sales Day Book
(c) Bills Receivable Book
(d) Journal Proper

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10. Purchase of a laptop for office use wrongly debited to Purchase Account. It is an error of __________.

(a) Omission
(b) Commission
(c) Principle
(d) Misposting

11. The following account has a credit balance

a. Plant and Equipment A/c
b. Purchase Returns A/c
c. Purchase A/c
d. None of the above

12. The following account has a credit balance

a. Plant and Equipment A/c
b. Loans A/c
C. Purchase A/c
d. None of the above

13. Amount invested by the proprietor in the business should be credited to

a. Proprietor
b. Capital
C. Drawings
d. Cash

14. An obligation which may or may not materialize is a/an

a. Loss
b. Asset
c. Contingent Liability
d. None of the above

15. Under which of the following heads is claims against a Company not acknowledged as debts shown?

a. Unsecured Loan
b. Current Liability
C. Current Assets
d. Contingent Liability

16. Contingent Liability would appear

a. On the liability side
b. On the asset side
C. As a note in Balance Sheet
d. None of the above

17. If an employee of the business files a legal suit on business, it is considered in the books as

a. Legal Expense
b. Liability
C. Contingent Asset
d. Contingent Liability

18. A resource owned by the business with purpose of using it for generating future profit, is known as

a. Capital
b. Asset
c. Liability
d. Surplus

19. Outward Invoice issued is a source document of

a. Purchase Book
b. Sales Book
C. Return Inward Book
d. Return Outward Book

20._____voucher denotes payment of cash.

a. Cash Payment
b. Cash Receipt
C. Bank Payment
d. All of the above

21. A transaction without immediate cash settlement is known as
a. Cash Transaction;
b. Credit Transaction;
C. Deferred Transaction;
d. None of the above.

22.____liabilities represent proprietor's equity, i.e. all those amounts which are entitled to the proprietor
a. External;
b. Debenture;
C. Internal;
d. None of the above.

23. Internal Liability represents.
a. Proprietor's Equity
b. Loans from Banks
C. Debtors
d. None of the above

24. All credit sale of goods are recorded in
a. Cash Book
b. Purchase Book
C. Sales Day Book
d. Bills Receivable Book

25. If any transaction is not recorded in the primary books the same is recorded in
a. Journal Proper
b. Sales Day Book
C. Cash Book
d. None of the above

26. Which of the following is not a Qualitative characteristic of Financial Statement?
a. Cost Principle
b. Understandability
C. Relevance
d. Reliability

27. Discount given in the Sales - Invoice itself is
a. Cash discount
b. Trade discount
c. Rebate
d. Allowance

28. Which of the following book is both a journal and a ledger?
a. Cash Book
b. Sales Day Book
C. Bills Receivable Book
d. Journal Proper

29. Interest received in advance account is a
a. Nominal Account
b. Real Account
C. Artificial Personal Account
d. Representative Personal Account

30. Which of the following is a resource owned by the business with the purpose of using it for generating future profits?
a. Loan from Bank
b. Owner's Capital
C. Trade Mark
d. All of the above

31. Which of the following is a function of journal:
a. Analytical Function
b. Recording Function
c. Historical Function
d. All of the above

32. Chandu & Co.'s Account is a
a. Real Account
b. Nominal Account
C. Representative Personal Account
d. Artificial Personal Accounts

33. Accounts receivable normally has
a. Debit.
b. Credit.
C. Unfavorable.
d. None of the above.

34. Expense Account will always have
a. Debit balance
b. Credit balance
C. Nil
d. None of the above

35. All of the following are functions of Accounting except
a. Decision making
b. Measurement
C. Forecasting
d. Ledger posting

36. Which of the following purpose is served from the preparation of Trial Balance?
a. To check the arithmetical accuracy of the recorded transactions
b. To ascertain the balance of any ledger account
C. To facilitate the preparation of final accounts promptly
d. All of the above.

37.Which of the following is not a feature of Trial Balance
a. It is a list of debit and credit balances which are extracted from various ledger accounts;
b. It does not prove arithmetical accuracy which can be determined by audit;
C. It is not an account. It is only a statement of account;
d. All the transactions are primarily recorded in this book; hence it is the primary book of entry.

38. he accountant of the firm M/s ABC is unable to tally the following trial balance

S. No	Account heads	Debit	Credit
1.	Sales		15,000
2.	Purchases	10,000	
3.	Miscellaneous expenses	2,500	
4.	Salaries		2,500
	Total	12,500	17,500

The above difference in trial balance is due to
a. Wrong placing of sales account
b. Wrong placing of salaries account
C. Wrong placing of miscellaneous expenses account
d. Wrong placing of all accounts

39. A suspense account facilitates the preparation of _____even when the____ has not tallied.

a. Ledgers; Trial balance
b. Financial statements; Trial Balance
C. Trial balance; Financial statements
d. Journal; Trial balance

40. All of the following have debit balance except

a. Wages account
b. Debtors accounts
C. Bills payable account
d. Goodwill

41. Outstanding salary account is

a. Real account
b. Nominal account
C. Personal account
d. None of the above

42. Purchase of a fixed asset on credit basis is recorded in

a. Cash book
b. Purchases book
C. Journal proper
d. None of the above

43. Name the book in which, entries are recorded on the basis of debit notes issued.

a. Sales book
b. Purchase Book
c. Sales Return Book
d. Purchase Return Book

44.Name the book in which, entries are recorded on the basis of credit notes issued.

a. Sales Book
b. Purchase Book
C. Sales Return Book
d. Purchase Return Book

45. Select the correct equation:

a. Owners Equity = Assets + Liabilities
b. Owners Equity + Outside Liabilities = Total Assets
C. Assets + Owner Equity = Outside Liabilities.
d. Outside Equity + Profit Total Assets.

46. Cash in Hand A/c may have.

a. Only debit balance
b. Only credit balance
C. Debt or Credit Balance
d. All of the above

47. The accounts related to expenses or losses and incomes or gains are called

a. Personal Account
b. Representative Personal Account
C. Nominal Account
d. Real Account

48.represents a potential obligation that could be created depending the outcome of an event.

a. Internal Liability
b. Current Liability
C. Contingent Liability
d. Non-current Liability

49. Accounting events can be

a. Internal
b. External
C. Either Internal or External
d. Neither Internal nor External

50. The Full form of GAAP is

a. Generally Accepted Accounting Principles
b. Generally Accepted Accountancy Principles
c. Globally Accepted Accounting Principles
d. Global Accounting Accepted Principles

51. Fundamental accounting assumption is

a. Materiality
b. Business entity
c. Going concern
d. Dual aspect

51. Which of the following Is not a Fundamental Accounting Assumption?

a. Going Concern
b. Consistency
c. Accrual
d. Materiality

52. The business is treated as distinct and separate from its owners on the basis of the

a. Going concern concept
b. Conservatism concept
c. Matching concept
d. Business entity concept

53. Transactions between owner and business are recorded as per

a. periodicity concept
b. Going concern concept
c. Prudence concept
d. Business Entity concept

54. Capital is shown on the liability side because of:

a. Business Entity Concept
b. Conservatism Concept.
c. Accrual Concept
d. Duality Concept.

55. Dual aspect concept in accounting results in the following equation:

a. Capital + Liability= Assets
b. Revenue = Expenses
c. Capital + Profit = Assets
d. Total Assets = Total Liability

56. At the year end, an amount outstanding for electricity consumed during that year will be dealt in the Accounts for the year by following the accounting concept of

a. Realisation
b. Accrual
c. Conservatism
d. None of the above

57. Both cash and credit transactions are recorded, on the basis of

a. Accounting Period Concept
b. Going Concern Concept
c. Business Entity Concept
d. Accrual Concept

58. The concept that business is assumed to exist for an indefinite period and is not established with the objective of closing down is referred to as

a. Money Measurement concept
b. Going Concern concept
c. Full Disclosure concept
d. Dual Aspect concept

59. Payment of 1,00,000 towards salaries and wages results in

a. Increase in equity by 1,00,000.

b. Decrease in equity by 1,00,000
c. Decrease in equity by1,00,000, if it does not include any advance payment of salaries and wages.
d. None of the above.

60. Both total assets and owners' capital are increased by
a. Credit Purchase
b. Retained Earning
c. Bank Loan
d. Drawings

61. X Ltd., purchased goods for 5 lakh and sold 9/10th of the value of goods for 6 lakh Net expenses during the year were 25,000. The company reported its net profit ae z 75,000. Which of the following concept is violated by the company?
a. Realization
b. Conservation
c. Matching
d. Accrual

62. A businessman purchased goods for 25,00,000 and sold 80% of such goods during the accounting year ended 31st March, 2020. The market value of the remaining goods was 4,00,000. He valued the closing stock at cost. He violated the concept of
a. Money measurement
b. Conservatism
c. Cost
d. Periodicity

63. Payment received from Debtor
a. Decreases the Total Assets
b. Increases the Total Assets
c. Results in no change in the Total Assets
d. Increases the Total Liabilities

64. ______ contains the transactions relating to goods that are returned by us to our creditors
a. Return Inward;
b. Return Outward;
c. Sales Daybook;
d. None of the above.

65. The basic principles of ____ concept is that business is assumed to exist for an indefinite period
a. Going Concern;
b. Business Entity;
c. Money Measurement;
d. None of the above.

66. The concept that business is assumed to exist for an indefinite period and is not established with the objective of closing down is referred to as
a. Money Measurement concept
b. Going Concern concept
c. Full Disclosure concept
d. Dual Aspect concept

67. Name the principle involved in the classification of Assets as Fixed and Current
a. Cost Principle
b. Going Concern Principle
c. Matching Principle
d. Prudence Principle

68. If a concern proposes to discontinue its business from March 2023 and decides to dispose off all its assets within a period of 4 months, the Balance Sheet as on March 31, 2023 should indicate the assets at their

a. Historical cost
b. Net realizable value
c. Cost less depreciation
d. Cost price or market value, whichever is lower

69. RPC Ltd. follows the written down value method of depreciating machinery year after year by applying the principle of

a. Comparability
b. Convenience
c. Consistency
d. All of the above.

70. Exception to consistency principle is

a. Cost Principle
b. Going Concern Principle
c. Matching Principle
d. Prudence Principle

71. When stock is valued at cost in one accounting period and at lower of cost and Net realizable value in another accounting period

a. Prudence Principle conflicts with Consistency Principle.
b. Matching Principle conflicts with Consistency principle.
c. Consistency Principle conflicts with Accounting Period Assumption.
d. None of the above

72. A change in accounting policy is justified

a. To comply with accounting standards
b. To ensure more appropriate presentation of the financial statement of the enterprise.
c. To comply with the law.
d. All of the above

73. purchases book records:

a. All cash purchases
b. All credit purchases
c. Credit purchases of goods in trade
d. None of the above

74. Materiality Principle is an exception to the

a. Consistency principle
b. Full disclosure Principle
c. Accounting Period Assumption
d. Prudence Principle

75. The determination of expenses for an accounting period is based on the principle of

a. Objectivity
b. Materiality
c. Matching
d. Entity

76. Which of the following is not a sub-field of accounting?

a. Management accounting
b. Cost accounting
c. Financial accounting
d. Book-keeping

77. It is essential to standardize the accounting principles and policies in order to ensure

a. Transparency
b. Consistency
c. Comparability
d. All of the above

78. State the case where the going concern concept is applied?

a. When an enterprise was set up for a particular purpose, which has been achieved, or to be achieved shortly
b. When a receiver or liquidator has been appointed in case of as a company which is to be liquidated
c. Fixed assets are acquired for use in the business for earning revenues and are not meant for resale
d. When an enterprise is declared sick

79. A purchased a car for 5,00,000, making a down payment of 1,00,000 and signing a 4,00,000 bill payable due in 60 days. As a result of this transaction

a. Total assets increased by 5,00,000.
b. Total liabilities increased by 4,00,000.
c. Total assets increased by 4,00,000.
d. Total assets increased by R 4,00,000 with corresponding increase in liabilities by 4,00,000

80. Fundamental accounting assumptions are

a. Going concern, consistency and accrual.
b. Going concern, consistency and accrual.
c. Going concern, business entity and accounting period.
d. Going concern, matching and consistency.

81. The basic consideration(s) in the distinction between capital and revenue expenditure is/ are

a. Nature of business
b. Effect on revenue generating capacity
c. Purpose of expenses
d. All of the above

82. The outflow of funds to acquire an asset that will benefit the business for more than one accounting period is referred to as

a. Miscellaneous Expenditure
b. Revenue Expenditure
c. Capital Expenditure
d. Deferred Revenue Expenditure

83. An amount spent for replacement of worn-out part of machine is

a. Capital Expenditure
b. Revenue Expenditure
c. Deferred Revenue
d. Capital Loss

84. Which of the following is a Revenue Expenditure?
a. Construction of Factory shed.
b. Sales Tax paid in connection with purchase of Office Equipment.
c. Legal Expenses in connection with defending a title to firm's property.
d. License fees.

85. Wages is classified as
a. Capital Expenditure
b. Revenue expenditure
c. Both (a) and (b)
d. None of the above

86. Wages paid on installation of Machinery is classified as
a. Capital Expenditure
b. Revenue expenditure
c. Both (a) and (b)
d. None of the above

87. A firm of builders spent 4,00,000 for purchasing a plot of land and erected its own office over 1/4th of the site. The remaining area was developed for sale to public. The expenditure incurred for development is:
a. Capital
b. Revenue
c. Deferred Revenue
d. None of the above

88. At the end of the accounting year the capital expenditures are shown in the
a. assets side of the Balance Sheet.
b. liabilities side of the Balance Sheet.
c. debit side of the Profit and Loss A/c.
d.credit side of the Profit and Loss A/c.

89. Which of the following is of capital nature?
a. Commission on purchases
b. Cost of repairs
c. Rent of factory
d. Wages paid for installation of machinery

90. Which of the following is an example of Capital Expenditure?
a. Inventory of raw materials, work-in-progress and finished goods;
b. Insurance premium;
c. Taxes and legal expenses
d. None of the above.

91. Which of the following is/are revenue expenditure?
a. Consumable Stores
b. Taxes and legal expenses
c. Rent of factory building
d. All of Above

92. An amount spent in connection with obtaining a License for starting the factory is
a. Revenue Expenditure
b. Capital Expenditure
c. Pre-paid Expenditure
d. None of the above

93. Amount spent on increasing the seating capacity in the cinema hall is a
a. Capital expenditure
b. Deferred revenue expenditure
c. revenue expenditure
d. None of the above

94. * 2,500 spent on the overhaul of a machine purchased second-hand is

a. Capital expenditure
b. Deferred revenue expenditure
c. Revenue expenditure
d. None of the above

95. Depreciation of fixed assets is an example of_____ expenditure

a. Revenue
b. Deferred revenue
c. Capital
d. None of the above

97. A bad debt recovered during the year is a

a. Capital expenditures
b. Revenue expenditures
c. Capital receipt
d. Revenue receipt

98. K 5,00 was spent by Saroj for addition to machinery in order to increase the production capacity. The amount is

a. Revenue in nature
b. Deferred revenue in nature
c. Capital in nature
d. Liability in nature

99. Amount spent by a publisher for acquiring copyrights is a

a. Capital expenditure
b. Deferred revenue expenditure
c. Revenue expenditure
d. None of the above

100. Mohan runs a restaurant. He renovates some of the old cabins to increase some space. The amount of 15,000 was incurred on renovation. The amount to be charged to profit and loss account

a. nil
b. 1500
c. 10,000
d. None of the above

101. Amount received on sale of fixed asset is a

a. Revenue receipt
b. Capital receipt
c. Both (a) and (b)
d. None of the above

102. The construction of a factory building was completed on 1st April, 2023, at cost of S6 50.000, A sum of { 45,000 had been incurred for the construction of the temporary huts for storing building materials, Insurance premium of 56,500 paid on 5th April, 2023. The capital and revenue expenditure would be

a. Capital Expenditure 57,51,500 and Revenue Expenditure nil
b. Capital Expenditure 56,95,000 and Revenue Expenditure 56,500
c. Capital Expenditure 56,50,000 and Revenue Expenditure * 1,01,500
d. Capital Expenditure 57,23,250 and Revenue Expenditure 28,250

103. Bank Reconciliation Statement is prepared by

a. The bank
b. The auditor
c. The Accountholder
d. All of the above

104. Bank Reconciliation Statement is

a. Ledger Account
b. Part of Cash Book
c. A separate statement
d. A sub-division of Journal

105. Bank Reconciliation Statement is prepared to:

a. rectify the mistakes in pass book.
b. to rectify the mistakes in cash book
c. to arrive at balance as per bank statement.
d. to find the reasons of differences in balance as per Cash Book and Bank Statement.

106. Bank statements are prepared by

a. Banks
b. Customers
c. Auditors
d. Any of the above

107. Favourable balance in bank statement is

a. Credit Balance
b. Debit Balance
c. Bank Overdraft
d. Adjusted cash book balance

108. Overdraft balance in bank statement is.

a. Credit Balance
b. Debit Balance
c. Bank Overdraft
d. Adjusted cash book balance

109. Credit balance in the cash book means

a. Overdraft as per passbook
b. Favoraubl‌e balance as per passbook
c. Both (a) and (b)
d. None of the above.

110. A Cash deposit made by business appears on the bank statement in_____ Column

a. Debit
b. Credit
c. expenses
d. Liability

111. In a Cash Book Debit balance of* 112 brought forward as credit balance of 121, while starting point:

a. 112 to be added
b. 121 to be added
c. 233 to be added
d. 112 to be subtracted

112. The cash book showed an overdraft of 1,500, but the pass book made up to the same date showed that cheques of 100, 50 and 125 respectively had not been presented for payments; and the cheque of 400 paid into account had not been cleared. The balance as per the pass book will be

a. 1,100
b. 2,175
c. 1,625
d. 1,375

113. The Bank Account of Mukesh was balanced on 31st March, 2024. It showed an overdraft 91,000. It was observed that one cheque amounting 20,000 deposited but not collected by bank till 31st March. Bank charges of 500 were also charged by the bank during March but accounted in the book of Mukesh on April 4, 2024. The bank statement of Mukesh shows balance of

a. 70,500
b. 69,500
c. 70,000
d. 50,000

114. Debit balance as per Cash Book of ABC Enterprises as on 31.3.2023 is 1,500. Cheques deposited but not cleared amounts to *100 and Cheques issued but not presented of 150. The bank allowed interest amounting 50 and collected dividend 50 on behalf of ABC Enterprises. Balance as per pass book should be

a. 1,600
b. 1,450
c. 1,850
d. 1,650

115. When preparing a Bank Reconciliation Statement, if you start with a debit balance as per the Cash Book, then cheques issued but not presented within the period are

a. Added
b. Deducted
c. Not required to be adjusted
d. None of the above

116. Under bank reconciliation statement, while adjusting the cash book

a. All the errors and omissions in the cashbook are taken into consideration
b. All the errors and omissions in the passbook are taken into consideration
c. Delays in recording in the passbook due to difference in timing are taken into
d. All of the above

117. A purchase of 1,870 by cheques has been wrongly posted in the cashbook as 1,780.

a. Increasing the bank balance by 90
b. Decreasing the bank balance by 90
c. Increasing the bank balance by 180
d. Decreasing the bank balance by 180

118. In the bank reconciliation statement, when balance as per the cashbook is taken as the starting point, then direct deposits from the customer of * 2,500 in the bank will be

a. Added
b. Subtracted
c. Ignored
d. None of the above

119. Debit balance as per Cash Book of Topsy Enterprise as on 31.3.2024 is * 1,500. Cheques deposited but not cleared amounts to 100 and Cheques issued but not presented of 150. The bank allowed interest amounting 50 and collected dividend 50 on behalf of Topsy Enterprise. After reconciliation, balance as per pass book should be

a. 1,600
b. 1,450
c. 1,650
d. 1,850

120. There was difference in the bank column of cash book and passbook by 2,500. On scrutiny it was found that interest of * 500 charged directly by the bank was not entered in the cash book. The same was adjusted in the cashbook before reconciliation statement. Now, in the bank reconciliation statement, this interest

of 500 is to be

a. Added to the cash book balance
b. Subtracted from the cash book balance
c. Ignored while preparing bank reconciliation statement.
d. None of the above

121. When balance as per cash book (debit balance) as on 31st March is the starting point, what will be the effect while preparing bank reconciliation statement when out of the cheques amounting to 5,000 deposited, Cheques aggregating R 1,500 were credited in March and cheques aggregating 2,000 credited in April and the rest have not been collected?

a. Subtract 2,000.
b. Add 2,000.
c. Subtract 3,500
d. Add3,500

122. A cheque returned by bank marked 'NSF' means

a. Bank can't verify your identity
b. Check has been forged
c. Check can't be cashed being out of date
d. There is not sufficient fund in your account

123. Mr. P issued Cheques worth 15,000 in March, 2024, out of which 10,000 only were presented for payment by 31st March, 2024. While reconciling bank and cash book balance as on 31st March, 2024, how much would be added to balance as per Cash Book to arrive at balance as per Pass Book?

a. 15,000
b. 10,000
c. 5,000
d. 7,500

124. From the following details ascertain the adjusted bank balance as per cash book overdraft as per cash book 80,000; cheque received entered twice in the cash book * 5,000; credit side of bank column cast short by * 500; bank charges amounting to 200 entered twice; cheque issued but dishonoured 2,000.

a. 80,500
b. 85,500
c. 85,000
d. 83,300

125. Depreciation is a process of:

a. apportionment
b. valuation
c. allocation
d. appropriation

126. Which of the following asset generally assumed not to depreciate

a. Machinery
b. Land
c. Building
d. Both (b) and (c)

127. Depreciation charges are

a. Cash Expenses
b. Financial Expenses
c. Non-cash Expense
d. Non-operating Expense

128. Under straight line method, depreciation is calculated on

a. Written down value.
b. Scrap value.
c. Original cost.
d. None of the three.

129._____ is especially suited to mines, oil wells, quarries, sandpits and similar assets of a wasting character.

a. Depletion
b. Depreciation
c. Amortisation
d. Dilapidation

130. The cost of a Fixed Assets of a business has to be written off over its

a. Natural Life
b. Accounting Life
c. Physical Life
d. Estimated Economic Life

131.The estimated value of depreciable asset after its useful life is called

a. Actual Value
b. Book Value
c. Disposal/ Residual Value
d. Current Value

132. Carriage charges paid for a new plant purchased if debited to carriage account would affect

a. Plant Account
b. Carriage account.
c. Plant and carriage accounts.
d. None of the three.

133. The expired portion of capital expenditure is shown in the financial statements as

a. As an income
b. As an expense.
c. As an asset.
d. As a liability.

134. Depreciation starts on a machine from the date:

a. It is purchased
b. It is put to use
c. It is installed
d. Any of the above

135. Sukku Limited purchased a machine on 1st July, 2023 for transit insurance premium paid 25,000 and 8,90,000 and freight and expenses were 40,000 and salvage value after 5 years will be 50,000. Under straight line method for the year ended 31st march 2024 the amount of depreciation will be

a. 1,35,750
b. 1,81,000
c. 1,84,000
d. 1,38,000

136. A second-hand car is purchased for 10,000, the amount of repairs, 1,000 is spent on its 500 is incurred to get the car registered in owner's name and 1,200 is paid as dealer's commission. The amount debited to car account will be

a. 10,000
b. 10,500
c. 11,500
d. 12,700

137. Which of the following is/ are the characteristic/s of depreciation
a. It is a charge against profit.
b. It indicates diminution in service potential.
c. It is an estimated loss of the value of an asset. It is not an actual loss.
d. All of the above.

138.Provision for depreciation Account is created by debiting to
a. Machinery Account
b. Profit & Loss Account
c. Profit & Loss Appropriation Account
d. None of these

139. Which of the following is not a method of charging depreciation?
a. Sinking Fund Method
b. Sum of years Digit Method
c. Working hours Method
d. Asset's Life-cycle Method

140. Which of the following term is most suitable for writing off Patent?
a. Depletion
b. Amortization
c. Depreciation
d. All of the above

141. Purchase Cost of machinery { 7,20,000; Carriage inwards 15,000; Transit insurance 8.000; Installation Charges 25,000; Workshop Rent 25,000; Salvage value and estimated working life & years. On the basis of straight-line method, the amount of 50,000 depreciation for third year will be
a. 96,000
b. 89,750
c. 88,750
d. 91,875

142. Mr. A purchased a machinery costing 1,00,000 on 1st October, 2023. Transportation and installation charges were incurred amounting 10,000 and 4,000 respectively. Market value of the machine was estimated at 1,20,000 on 31st March 2024. While finalising the annual accounts, A values the machinery at 1,20,000 in his books. Which of the following concepts was violated by A?
a. Cost concept
b. Matching concept
c. Realisation concept
d. Periodicity concept

143. In the books of D Ltd, the machinery account showS a debit balance of 60,000 as on April 1, 2023. The machinery was sold on September 30, 2024 for * 30,000. The company Charges depreciation @20% p.a, on diminishing balance method. Profit/ Loss on sale of the Machinery will be
a.13,200 profit
b. 13,200 loss
c. 6,800 profit
d. 6,800 loss

144. An old furniture was purchased for 10,000 it was repaired for 100. The repairs account should be debited by
a. 10,000
b. 10,100
c. 100
d. nil

145. A second-hand car purchased for R 2,00,000 (excluding initial repair cost of * 50,000) is sold for 1,00,000 after 2 years. If depreciation is charged at the rate 20% on WDV, profit or Loss on sale of car is

a. Profit 28,000
b. profit 60,000
c. loss 60,000
d. loss 28,000

146. Original cost of a machine is K1,50,000, residual value 10,000, if depreciation is charged @ 10% per annum under WDV method then depreciation for 3rd year will be

a. 12,240
b. 11,340
c. 12,150
d. 14,000

ACCOUNTING STANDARD – 1 DISCLOSURE OF ACCOUNTING POLICIES

<table>
<tr><td>OBJECTIVE OF AS</td><td>1.To facilitate better understanding of financial statements
2, To facilitate meaningful comparison between financial statements of different enterprises</td></tr>
<tr><td>1. WHAT IS ACCOUNTING POLICY?</td><td>Meaning: The accounting policies refer to the:
• Specific Accounting Rules and
• the methods
adopted by the entity for the preparation and presentation of financial statements.</td></tr>
<tr><td>Examples of Accounting Policies to prepare financial statements:</td><td><table>
<tr><th>Items to be disclosed</th><th>Method of disclosure or valuation</th></tr>
<tr><td>Inventories</td><td>FIFO, Weighted Average etc</td></tr>
<tr><td>Cash Flow Statement</td><td>Direct Method, Indirect Method</td></tr>
<tr><td>Measurement of PPE</td><td>Cost Basis or Revaluation Basis</td></tr>
<tr><td>Measurement of Investments</td><td>Cost Basis or Market Value Basis</td></tr>
<tr><td>Measurement of Revenue from Service Contracts</td><td>% of Completion Method (or) Completed Contract Method</td></tr>
</table></td></tr>
<tr><td>2.IMPORTANT PROVISIONS OF AS 1</td><td>1. All significant Accounting Policies adopted in the preparation and presentation of financial statements should be disclosed.
2. The disclosure of Significant Accounting policies as such should form part of financial statements and the significant accounting policies should normally be disclosed at one place</td></tr>
<tr><td>3.FUNDAMENTAL ACCOUNTING ASSUMPTIONS</td><td>1. Going Concern:
The enterprise is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

2. Consistency:
It is assumed that accounting policies are consistent from one period to another. Improves comparability of financial statements through time.
• Any change in the accounting policy which has Material effect in the current period or in the subsequent period - disclosed to the extent it is ascertainable.
• If the amount is not ascertainable - the fact should be disclosed.</td></tr>
</table>

	3. Accrual: It means that the financial statement is prepared on mercantile system only. Whenever revenues and costs are accrued, that is, recognised as they are earned or incurred and recorded in the financial statements of the periods to which they relate.
IMPORTANT NOTE	If the fundamental accounting assumptions are followed in the financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
4.SELECTION OF ACCOUNTING POLICIES	The primary consideration in the selection of accounting policies by an enterprise is that the financial statements prepared and presented on the basis of such accounting policies should represent a true and fair view of the state of affairs of the enterprise as at the balance sheet date and of the profit or loss for the period ended on that date. 1. Substance over Form: Actual reality or substance of a transaction is more important than just how it looks on paper. 2. Materiality: Financial statements should disclose all 'Material Items'. The items the knowledge of which might influence the decisions of the user of the financial statement. 3. Prudence: When there is uncertainty its better not to recognise potential gains but to make provisions for potential losses in future.
5.CHANGES IN ACCOUNTING POLICIES	An enterprise can change its accounting policies & presentation only when any of the following three conditions are satisfied: 1. Adoption of different accounting policy is required by any statute/law 2. Adoption of different accounting policy is for the purpose of compliance with an accounting standard. 3. It is considered that change would result in more appropriate presentation of financial statements.
6. DISCLOSURE OF CHANGE IN ACCOUNTING POLICY	1. All significant accounting policies adopted should be disclosed. 2. The disclosure should form part of the financial statements. 3. Any change in the accounting policies which has a material effect in the current period should be disclosed along with amount of effect. 4. If fundamental accounting assumptions is not followed, the fact should be disclosed. 5. Disclosure of accounting policies, or changes therein cannot rectify wrong or inappropriate accounting policies followed

LETS PRACTICE SOME QUESTION:

QUESTION 1:

State whether the following statements are True' or 'False'. Also give reason for your answer

a. Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.

b. If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.

C. All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.

d. Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.

e. There is no single list of accounting policies which are applicable to all Circumstances

Solution:

(i)False, as per AS-1 "disclosure of accounting policies", Certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed Disclosure is necessary if they are not followed.

(ii)False, as per AS-1 if the fundamental accounting assumptions, viz. going concern, consistency and accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed

(iii) True, to ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of a financial statement and they should be disclosed at one place.

(iv)False, any change in the accounting policies which has a material effect in the current period which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated

(v)True, as per AS-1, there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enter prises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.

QUESTION 2:

Jivandeep Ltd. had made a right issue in 2021. In the offer document to its members, it had projected a surplus of ` 40 crores during the accounting year to be ended on 31st March 2023. The draft results for the year prepared on the hitherto followed accounting policies and presented for perusal of the Board of Directors showed a deficit of ` 10 crores. The Board, in consultation with the Managing Director, decided on the following:

(i) Value year-end inventory at works cost (`50 crores) instead of the hitherto method of valuation of inventory at Prime Cost (` 30 crores).

(ii) Provide depreciation for the year on straight line basis or account of substantial additions in gross block during the year, instead of on the Reducing Balance Method, which had been hitherto adopted. As a consequence, the charge for depreciation at ` 27 crores is

lower than the amount of ` 45 crones -which would have been provided had the old method been followed-by ` 18 crores.

(iii) Not to provide for "after-sales expenses" during the warranty period. Till the last year, provision at 2% on sales used to be made under the concept of "matching of cost against revenue" and actual expenses used to be charged against the provision. The Board now decided to account for expenses as and when actually incurred. Sales during the year total to ` 600 crores.

(iv) Provide for permanent fall in the value of investment-which fall had taken place over the past 5 years-the provision being ` 10 crores. As chief accountant of the company, you are asked by the Managing Director to draft the Notes on Accounts for inclusion in the annual report for 2022-2023.

Solution:

According to AS 1: "in the case of a change in accounting policies which has a material effect in the current period should be disclosed, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable wholly or in part, the fact should be indicated." Naturally, the Notes on Accounts must disclose the change.

Notes on Accounts

(i) Till last year, it was the practice of valuing inventory at prime cost but during the year the same was valued at works cost. Due to this change the closing inventory was valued at ` 50 crores and, accordingly, profit was increased by ` 20 crores (i.e. ` 50 crores - ` 30 crores) due to the change of the method of valuation.

(ii) During the year the company decided to change the method of providing for depreciation from reducing balance method to straight line method. Due to this change, the amount of depreciation was undercharged i.e., instead of charging ` 45 crores it was charged by ` 27 crores and, as a consequence, the profit was increased by ` 18 crores (i.e., ` 45 crores minus ` 27 crores).

(iii) It was the practice of the company to make provision of @ 2% on sales for 'After-Sales expenses' during the warranty period. It may be assumed that as a result of improved techniques and methods in production the possibility of defects became very rare. Consequently, the company took decision not to make any provision for after -sales expense' during warranty period. As a result of this change, the profit would be increased by `12 crores.

(iv) As a result of permanent fall in the value of investments which took place over the last 5 years the company decided to make provision to the extent of ` 10 crores. Due to this effect the profit would be reduced by ` 10 crores.

QUESTION 3:

Rukmani Ltd. had made a rights issue of shares in 2022. In the offer document to its members, it had projected a surplus of 60 crores during the accounting year ended on 31st March, 2023. The draft results for the year prepared on the hitherto followed accounting policies and presented for perusal of the board of directors, showed a deficit of 15 crores.

The board in consultation with the Managing Director decided on the following:

(i) Value year-end inventory at works cost (75 crores) instead of the hitherto followed method of valuation of inventory at prime cost (45 crores).

(ii) Not to provide for "after sale expenses" during the warranty period. Till the last year, provision at 2% of sale used to be made under the concept of "matching of cost against revenue' and actual expenses used to be charged against the provision. The Board now decided to account for the expenses as and when actually incurred. Sales during the year 900 crores.

(iii) Provide for permanent fall in the value of investments, on which fall had taken place over the past 5 years, the provision being 15 crores. As Chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2022-2023

Solution:

According to AS 1: "in the case of a change in accounting policies which has a material effect in the current period should be disclosed, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable wholly or in part, the fact should be indicated." Naturally, the Notes on Accounts must disclose the change .

Notes on Accounts:

(i) Till last year, it was the practice of valuing inventory at prime cost but during the year the same was valued at works cost. Due to this change the closing inventory was valued at 75 crores and, accordingly, profit was increased by 30 crores (i.e. 75 crores -45 crores) due to the change of the method of valuation.

(ii) It was the practice of the company to make provision of @ 2% on sales for 'After-Sales expenses' during the warranty period. It may be assumed that as a result of improved techniques and methods in production the possibility of defects became very rare. Consequently, the company took decision not to. make any provision for 'after-sales expense' during warranty period. As a result of this change, the -profit. would be increased by 18 crores.

(iii) As a result of permanent fall in the value of investments which took place over the last 5 years the company decided to-make provision to the extent of 15 crores. Due to this effect the profit would be reduced by 15 crores.

QUESTION 4:

Suraj Ltd. was making provision for non-moving inventories based on no issues for the last 12 months up to 31.3.2019 The company wants to provide during the year ending 31.3.2020 based on technical evaluation:

Particulars	Amount
Total value of inventory	100 lakhs
Provision required based on 12 months issue	3.5 lakhs
Provision required based on technical evaluation	2.5 lakhs

Does this amount to change in Accounting Policy? Can the company change the method of provision?

Solution:

The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting Policy. Accounting policy of a company may require that provision for non-moing inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made. In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from 3.5 lakhs to 2.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2019-20:

The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year-end net assets would have been lower by1 lakh."

QUESTION 5:

Explain the methods/criteria for the selection and application of Accounting Policies.

Solution:

The major considerations governing the selection and application of accounting policies are:

Prudence - Generally maker of financial statement has to face uncertainties at the time of preparation of financial statement. These uncertainties may be regarding collectability of recoverable, number of warranty claims that may occur. Prudence means making of estimates that are required under conditions of uncertainty.

Substance over form - It means that transaction should be accounted for in accordance with actual happening and economic reality of the transactions not by its legal form.

Materiality - Financial Statement should disclose all the items and facts which are sufficient enough to influence the decisions of reader or/ user of financial statement.

QUESTION 6:

Explain, in short, the relevant Disclosures of Accounting Policies as per AS 1.

Solution:

As per AS 1, the Disclosures of Accounting Policies are: All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place. Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

If the fundamental accounting assumptions, viz, Going Concern, Consistency and Accruals, are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

QUESTION 7:

HIL Ltd. was making provision for non-moving stocks based on no issues having occurred for the last 12 months upto 31.03.2019. The company now wants to make provision based on technical evaluation during the year ending 31.03.2020. Total value of stock ₹ 120 lakhs Provision required based on technical evaluation ₹ 3.00 lakhs. Provision required based on 12 months no issues ₹ 4.00 lakhs. You are requested to discuss the following points in the light of Accounting Standard (AS)-1:

(i) Does this amount to change in accounting policy?

(ii) Can the company change the method of accounting?

Solution: The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non moving inventories should be made but the basis for making provision will not constitute accounting policy. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made. In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from ₹ 4 lakhs to ₹ 3 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of HIL Ltd. for the year 2019 -18 in the following manner: "The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the value of net assets at the end of the year would have been lower by ₹ 1

ACCOUNTING STANDARD - 10 PROPERTY, PLANT & EQUIPMENT

PROPERTY PLANT AND EQUIPMENT	Any **Tangible item** will be called as PPE if it satisfies the following Conditions: Condition - 1 Held for Use in: 1. Production or Supply of goods and services 2. For Rental to Others 3. For Administrative Purposes Condition - 2 Expected to be Used for **more than 12 Months**
SCOPE OF STANDARD	**This standard does not apply to:** 1. Biological assets related to agricultural activity other than bearer plants. 2. Wasting assets including mineral rights, expenditure on the exploration for and extraction of minerals, oils ,natural gas and similar non-regenerative resources.
BEARER PLANT	a plant that satisfies all the 3 conditions: 1. is used in the production or supply of Agricultural produce 2. is expected to bear produce for more than a period of 12 months 3. Has a remote likelihood of being sold as Agricultural produce Except for incidental scrap sales **Note:** When bearer plants are no longer used to bear produce, they might be cut down and sold as scrap. For example - use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a Bearer Plant. Example of bearer plant is Mango Tree, Coconut Tree etc
RECOGNITION CRITERIA FOR PPE	The cost of an item of PPE should be recognized as an asset if, and only if: (a) It is probable that future economic benefits associated with the item will flow to the enterprise, and (b) The cost of the item can be measured reliably
RESIDUAL VALUE	The residual value of an asset is the estimated amount that an enterprise would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life
USEFUL LIFE	a) the period over which an asset is expected to be available for use by an enterprise ; or

	b) the number of production or similar units expected to be obtained from the asset by an enterprise.
MEASUREMENT AT RECOGNITION OF PPE	An item of property, plant and equipment that qualifies for recognition as an asset should be measured at its cost **COST Includes:** 1. Purchase Price including Import duties and Non-refundable Taxes 2. Any Directly attributable Costs bringing the Asset to its 'location and condition' a) Cost of Employee benefits on construction or acquisition of PPE b) Installation Cost c) Cost of Testing the PPE d) Professional Fees e) Initial delivery Cost etc 3. Decommissioning Restoration and Similar Liabilities This cost is to be estimated using appropriate discounting rate i.e. it should be recognised initially at PV of future outflow **COST Excludes:** 1. Cost of Opening new business such as inauguration cost 2. Startup Costs (i.e. Legal Expenses) 3. Cost of introducing a new product including advertising 4. Initial operating losses 5. Cost of relocating or reorganizing part or all the operations of an enterprises. 6. Administrative and other general overheads 7. Abnormal Cost/Losses (eg. Loss due to strike) 8. Staff Training Costs 9. Income earned from incidental operations eg. Income from Car Park. **NOTE:** Excess of Net Proceeds from Sale of Items produced during testing will be deducted from the Cost of Item of PPE.
MEASUREMENT OF COST	If payment is deferred beyond normal credit terms: Total payment minus Cash price equivalent • is recognised as an interest expense over the period of credit • unless such interest is capitalised in accordance with AS 16 • PPE acquired in Exchange for a Non-monetary Asset or Assets or A combination of Monetary and Non-monetary Assets: • Cost of such an item of PPE is measured at fair value unless:

	• Exchange transaction lacks commercial substance; Or • Fair value of neither the asset(s) received nor the asset(s) given up is reliably measurable
MEASUREMENT AFTER RECOGNITION	An enterprise should choose, • Either Cost model, • Or Revaluation mode as its accounting policy (IND AS 8) and should apply that policy to an entire class of PPE. Any change in Accounting Policy shall have Retrospective effect. **Class of PPE:** A class of PPE is a grouping of assets of a similar nature and use in operations of an enterprise. Examples of separate classes: 1) Land 2) Land and Buildings 3) Machinery 4) Ships 5) Aircraft 6) Motor Vehicles 7) Furniture and Fixtures 8) Office Equipment 9) Bearer plants
COST MODEL	After recognition as an asset, an item of PPE should be carried at: Cost - Any Accumulated Depreciation - Any Accumulated Impairment losses
REVALUATION MODEL	After recognition as an asset, an item of PPE whose fair value can be measured reliably should be carried at a revalued amount. Fair value at the date of revaluation XXX Less: Any subsequent accumulated depreciation XXX Less: Any subsequent accumulated impairment losses (XXX) Carrying value XXX **NOTE:** Revaluation for entire class of PPE If an item of PPE is revalued, the entire class of PPE to which that asset belongs should be revalued.
ACCOUNTING TREATMENT REVALUATION	**REVALUATION** **Increase:** Credited Directly to owner's interests under the heading of Revaluation surplus **Exception:** When it is subsequently Increased (Initially Decreased) Recognised in the statement of profit and loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit and loss

	Decrease: Charged to the statement of profit and loss **Exception:** When it is subsequently Decreased (Initially Increased) Decrease should be debited directly to owner's interests under the heading of Revaluation surplus to the extent of any credit balance existing in the Revaluation surplus in respect of that asset
TREATMENT OF DIFFERENT SUBSEQUENT EXPENDITURE ON PPE	**1. Cost of day to day Servicing**: This cost is directly recognised in the Statement of Profit and Loss because it does not increase the earning efficiency of PPE **2. Replacement of parts of PPE:** Capitalise in the carrying amount of PPE if the recognition criteria are met. (i.e. Future Economic Benefits + Cost Reliable) Examples: a) Aircraft interiors such as seats and galleys may require replacement several times during the life of the air frame. b) Replacing the interior walls of a building, or to make a non-recurring replacement. **3. Regular Major Inspection or Overhaul:** When each major inspection is performed, its cost is recognised in the carrying amount of the item of PPE as a replacement, if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognized.
DEPRECIATION	Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. **Component Method of Depreciation:** Each part of an item of PPE with a cost that is significant in relation to the total cost of the item with significant useful life different from other components should be depreciated separately
ACCOUNTING TREATMENT:	Depreciation charge for each period should be recognized in the Statement of Profit and Loss unless it is included in the carrying amount of another asset for example - • AS 2: Depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories. • AS 26: Depreciation of PPE used for development activities may be included in the cost of an intangible asset. • AS 10: Depreciation of PPE used for construction and development of another self- generated PPE may be included in the cost of self-generated asset

DEPRECIABLE AMOUNT AND DEPRECIATION PERIOD	What is "Depreciable Amount"? Depreciable amount is: Cost of an asset (or other amount substituted for cost i.e. revalued amount) - Residual value
REVIEW OF RESIDUAL VALUE AND USEFUL LIFE OF AN ASSET	Residual value and the useful life of an asset should be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) should be accounted for as a change in an accounting estimate in accordance with AS 5.
COMMENCEMENT OF PERIOD FOR CHARGING DEPRECIATION	Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. (i.e. Ready to use) **Depreciation in Case the asset is Not Working/ lying idle (in case of situations like covid):** Depreciation of an asset ceases, at the earlier of the date that ,the asset is classified as held for sale and the date the asset is de-recognised. Therefore, the asset continues to be depreciated even if it remains idle, unless the asset is fully depreciated. Apart from the above, it may be noted that as per AS 10, one of the factors in determining useful life of an asset is technical or commercial obsolescence. Therefore, even when the asset is idle, the same should be depreciated due to technical or commercial obsolescence and wear and tear during that period.
CESSATION OF DEPRECIATION	I. Depreciation ceases to be charged when asset's residual value exceeds its carrying amount; or II. Depreciation of an asset ceases at the earlier of: • The date that the asset is retired from active use and is held for disposal, and • The date that the asset is derecognized Therefore, depreciation does not cease when the asset becomes idle or is retired from active use (but not held for disposal) unless the asset is fully depreciated.
DEPRECIATION METHOD	The depreciation method used should reflect the pattern in which the future economic benefits of the asset are expected to be consumed by the enterprise. The method selected is applied consistently from period to period unless: • There is a change in the expected pattern of consumption of those future economic benefits; or

	• That the method is changed in accordance with the statute to best reflect the way the asset is consumed.
REVIEW OF DEPRECIATION METHOD:	The depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern NOTE: Such a change should be accounted for as a change in an accounting estimate in accordance with AS 5
IMPAIRMENT	An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. To determine whether an item of property, plant and equipment is impaired, an enterprise applies AS 28, Impairment of Assets. Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up should be included in the statement of profit and loss when the compensation becomes receivable.
RETIREMENTS	Items of PPE retired from active use and held for disposal should be stated at the lower of: • Carrying Amount, and • Net Realisable Value NOTE: Any write-down in this regard should be recognised immediately in the Statement of Profit and Loss.
DE-RECOGNITION	The carrying amount of an item of PPE should be de-recognised: • On disposal • By sale • By entering into a finance lease, or • By donation, or • When no future economic benefits are expected from its use or disposal
	Accounting Treatment: • Gain or loss arising from de-recognition of an item of PPE should be included in the Statement of Profit and Loss when the item is derecognized. • Compensation from third parties for items of PPE that were Impaired, Lost or Given up shall be included in Profit and Loss when such compensation becomes receivable.

	• Gain or loss arising from de-recognition of an item of PPE = Net disposal proceeds (if any) - Carrying Amount of the item
CHANGES IN EXISTING DECOMMISSIONING, RESTORATION AND OTHER LIABILITIES	The cost of property, plant and equipment may undergo changes subsequent to its acquisition or construction on account of changes in liabilities, price adjustments, changes in duties, changes in initial estimates of amounts provided for dismantling, removing, restoration and similar factors and included in the cost of the asset. Such changes in cost should be accounted for as under: If the related asset is measured using the cost model: • Changes in the liability should be added to, or deducted from, the cost of the related asset in the current period. • The amount deducted from the cost of the asset should not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess should be recognised immediately in the statement of profit and loss. If the related asset is measured using the revaluation model: Changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that: • a decrease in the liability should be credited directly to revaluation surplus in the owners' interest, except that it should be recognised in the statement of profit and loss to the extent that it reverses a revaluation deficit on the asset that was previously recognised in the statement of profit and loss; • In the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess should be recognised immediately in the statement of profit and loss. • A change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Any such revaluation should be taken into account in determining the amounts to be taken to the statement of profit and loss and the owners' interest. If are valuation is necessary, all assets of that class should be revalued.
Important Disclosure Requirements	The financial statements should disclose, for each class of property, plant and equipment: • The measurement bases (i.e., cost model or revaluation model) used for determining the gross carrying amount. • The depreciation methods used.

	• The useful lives or the depreciation rates used. • The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period

LETS PRACTICE SOME QUESTION:

QUESTION 1:

Machineries which appeared in the books of Dee Ltd. at ` 86,00,000 has been revalued at ` 90,00,000. The accumulated depreciation associated was ` 28,00,000. The accountant suggested that revaluation should be accounted for by adjusting accumulated depreciation account. You are required to discuss the treatment as per AS 10.

Solution:

The suggestion of the accountant of Dee Ltd. is incorrect. As per AS 10, when fixed assets are revalued upwards, the increase on account of revaluation should be credited to Revaluation Surplus Account

QUESTION 2:

Jay Ltd., a chemical producing company changed a semi-automatic component in an existing machine with a fullyautomatic component incurring ` 85,000. This new component would result in increasing the output by 150%. The component changing exercise required the company to dismantle a part of the machine and also re-erect the same for which the company incurred ` 38,000. How should the costs be treated as per AS 10?

Solution:

Cost of new component: As the new component results in increased output, it would result in increasing the future benefits from the machine. So, the cost incurred ` 85,000 should be capitalised.

Cost of dismantling and re-erection: ` 38,000 incurred towards dismantling and re-erection should be charged to the Statement of Profit and Loss.

QUESTION 3:

Sagar Ltd. has incurred the following costs, Determine if the following costs can be added to the invoiced purchase price and included in the initial recognition of the cost of the item of property, plant and equipment:

1. Import duties paid

2. Shipping costs and cost of road transport for taking the machinery to factory

3. Insurance for the shipping

4. Inauguration costs for the factory
5. Professional fees charged by consulting engineer for the installation process
6. Costs of advertising and promotional activities
7. Administration and other general overhead costs
8. Cost of site preparation.

Solution:

Included in Cost: Point no. 1,2,3,5,8

Excluded from Cost: Point no. 4,6,7

QUESTION 4:

AAC Ltd. is installing a new plant at its production facility. It has incurred these costs:

Cost of the plant (cost per supplier's invoice plus taxes)	**50,00,000**
Initial delivery and handling costs	**4,00,000**
Cost of site preparation	**12,00,000**
Consultants used for advice on the acquisition of the plant	**14,00,000**
Interest charges paid to supplier of plant for deferred credit	**4,00,000**
Estimated dismantling costs to be incurred after 7 years (PV)	**6,00,000**
Operating losses before commercial production	**8,00,000**

Advise AAC Ltd. on the costs that can be capitalized in accordance with AS - 10

Solution:

According to AS-10, these costs can be capitalized:

Particulars	Amount
Cost of the plant	50,00,000
Initial delivery and handling costs	4,00,000
Cost of site preparation	12,00,000
Consultants' fees	14,00,000
Estimated dismantling costs to be incurred after 7 years	6,00,000
	86,00,000

Note: Interest charges paid on "deferred credit terms" to the supplier of the plant (is not a qualifying asset) of 4,00,000 and operating losses before commercial production amounting to 8,00,000 are not regarded as directly attributable costs and thus cannot be capitalized. They should be written off to the income statement in the period in which they are incurred. The current Standard applies the two basic recognition criteria referred to above to All expenditures. If the two basic criteria are satisfied, then the cost should be recognized as an asset. If the cost of the replaced asset was not separately identifiable, then the cost of the replacement can be used as an Indication of the cost of the replaced item, which should be removed from the asset record.

QUESTION 5:

Soham Ltd. intends to set up a solar plant. Soham Ltd. has acquired a dilapidated factory, having an area of 7500 acres at a cost of 70,000 per acre. Alex Ltd. has incurred 50,00,000 on demolishing the old factory building thereon. A sum of 43,57,500 (including 5% Sales Tax) was realized from sale of material salvaged from the site. Alex Ltd. also incurred Stamp Duty and Registration Charges of 5% of Land Value, paid Legal and Consultancy Charges 5,00,000 for land acquisition and incurred 2,00,000 on Title Guarantee Insurance. Compute the value of land acquired

Solution:

Computation of value of land acquired

Particulars		(₹ in lakhs)
Purchase price a@70,000 per acre for 7,500 acres		5,250.00
Stamp duty & registration charges @ 5%		262.50
Legal fees		5.00
Title guarantee insurance		2.00
Demolition expense	50.00	
Less: Sale of salvaged materials (net of tax) (43,57,500x100/105)	(41.50)	8.5
Value of land		5,528

QUESTION 6:

Reliance Limited purchased machinery for 6,80,000 (inclusive of GST of 40,000). Input credit is available for entire amount of GST paid. The company incurred the following other expense for installation.

Cost of preparation of site for installation	**21,200**
Total Labour charge	**56,000**
(200 out of the total of 500 men hours worked, were spent on installation of the machinery)	
Spare parts and tools consumed in installation	**5,000**
Total salary of supervisor	**26,000**
(Time spent for installation was 25% of the total time worked)	
Total administrative expense	**34,000**
(1/10 relates to the plant installation)	
Test run and experimental production expenses	**18,000**
Consultancy charges to architect for plant set up	**11,000**
Depreciation on assets used for installation	**12,000**

The machine was ready for use on 15.01.2021 but was used from 01.02.20021. Due to this delay further expenses of 8,900 were incurred. Calculate the value at which the plant should be capitalized in the books of Reliance Limited.

Solution:

Calculation of Cost of Plant

Particulars		Amount
Purchase Price	Given	6,80,000
Add: Site Preparation Cost	Given	21,200
Labour charges	(56,000x200/500) Given	22,400
Spare part		5,000
Supervisor's Salary	25% of 26,000	6,500
Administrative costs	1/10 of 34,000	3,400
Test run and experimental production charges	Given	18,000
Architect Fees for set up	Given	11,000
Depreciation on assets used for installation	Given	12,000
Total Cost of Asset		7,79,500
Less: GST credit receivable		(40,000)
Value to be capitalized		7,39,500

Note: Further Expenses of 8,900 from 15.01.2021 to 01.02.2021 to be charged to profit and loss A/c as plant was ready for production on 15.01.2021.

QUESTION 7:

Vikas Ltd., a chemical producing company changed a semi-automatic component in an existing machine with a fully-automatic component incurring R 85,000. This new component would result in increasing the output by 150%. The component changing exercise required the company to dismantle a part of the machine and also re-erect the same for which the company incurred 38,000. How should the costs be treated as per AS 10?

Solution:

Cost of new component: As the new component results in increased output, it would result in increasing the future benefits from the machine. So, the cost incurred 85,000 should be capitalised.

Cost of dismantling and re-erection: 38,000 incurred towards dismantling and should be charged to the Statement of re-erection Profit and Loss.

QUESTION 8:

Rahul Ltd. had following assets. Calculate depreciation for the year ended 31st March, 2020for each asset as per AS 10 (Revised):

i. Machinery purchased for 10 lakhs on 1st April, 2015 and residual value after useful life of 5 years, based on 2015 prices is 10 lakhs.

ii, Land for 50 lakhs.

iii. A Machinery is constructed for 5.00,000 for its own use (useful ife is 10 years). Construction is completed on 1st April, 2019, but the company does not begin using the machine until 31st March, 2020.

iv. Machinery purchased on 1st April.2017 for 50,000 with useful life of 5 years and residual value is NIL, On 1st April, 2019, management decided to use this asset for further 2 years only.

Solution:

Computation of amount of depreciation as per AS 10

	Particulars	Amount
(i)	Machinery purchased on 1/4/15 for 10 1lakhs (having residual value of 10 lakhs) Reason: The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost. Therefore, there is no depreciable amount and depreciation is correctly zero	Nil
(ii)	Land (50 lakhs) (considered freehold) Reason: Land has an unlimited useful life and therefore, it is not depreciated.	Nil
(iii)	Machinery constructed for own use (5,00,000/10) Reason: The entity should begin charging depreciation from the date the machine is ready for use i.e. 1st April,2019. The fact that the machine was not used for a period after it was ready to be used is not relevant in considering when to begin charging depreciation	50,000
(iv)	Machinery having revised useful life Reason: The entity has charged depreciation using the straight-line method at 10,000 per annum i.e., (50,000/5 years). On 1st April,2019 the asset's net book value is (50,000 - (10,000 x 2)] i.e., K30,000. The remaining useful life is 2 years as per revised estimate. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of 2 years. Consequently, it should charge depreciation for the next 2 yearS d 15,000 per annum i.e. (30,000/ 2 years).	15,000

QUESTION 9:

ABC Limited provided you the following information for the year ended 31 st March, 2022.

i. The carrying amount of a property at the end of the year amounted to * 2,16,000 (cost/value 2,50,000 and accumulated depreciation R 34,000). On this date the property was revalued and was deemed to have a fair value of 1,90,000. The balance in the revaluation surplus relating to a previous revaluation gain for this property was 20,000.

You are required to calculate the revaluation loss as per AS 10 (Revised) and give its

treatment in the books of accounts.

ii. An asset that originally cost 76,000 and had accumulated depreciation of 62,000 was disposed of during the year for 4,000 cash.

You are required to explain how the disposal should be accounted for in the financial statements as per AS 10 (Revised)

Solution:

(i) As per AS 10, a decrease in the carrying amount of an asset arising on revaluation should be charged to the statement of profit and loss. However, the decrease should be debited directly to owners' interests under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Calculation of revaluation loss and its accounting treatment:

Particulars		Amount
Carrying value of the asset as on 31st March, 2022	A	2,16,000
Revalued amount of the asset	B	(1,90,000)
Total revaluation loss on asset	C=a-b	26,000
Adjustment of previous revaluation reserve	D	(20,000)
Net revaluation loss to be charged to the Profit and loss account	e=c-d	6,000

(ii) AS 10 states that the carrying amount of an item of property, plant and equipment is derecognized on disposal of the asset. It further states that the gain or loss arising from the derecognition of an item of property, plant and equipment should be included in the statement of profit and loss when the item is derecognized. Gains should also not be classified as revenue.

Calculation of loss on disposal of the asset and its accounting treatment.

Particulars		Amount
Original cost of the asset	A	76,000
Accumulated depreciation till date	B	62,000
Carrying value of the asset as on 31st March, 2022	C=a-b	14,000
Cash received on disposal of the asset	D	4,000
Loss on disposal of asset charged to the Profit and loss account	e=c-d	10,000

QUESTION 10:

TATA LtD. is setting up a new refinery outside the city limits. In order to facilitate the construction of the refinery and its operations, TATA Ltd. is required to incur expenditure on the construction/development of railway siding, road and bridge. Though TATA Ltd. incurs (or contributes to) the expenditure on the construction/development, it will not have ownership rights on these items and they are also available for use to other entities and

public at large. Whether TATA Ltd. can capitalize expenditure incurred on these items as property, plant and equipment (PPE)? If yes, how should these items be depreciated and presented in the presented in the financial statements of TATA Ltd.?

Solution:

Paragraph 7 of AS 10 states that the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

a. it is probable that future economic benefits associated with the item will flow to the entity; and

b. the cost of the item can be measured reliably. measure for recognition, i.e., what constitutes an item of property, plant and further, paragraph 9 provides that the standard does not prescribe the unit of equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances.

Paragraph 17, inter alia, states that the cost of an item of property, plant and equipment comprise any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In the given case, railway siding, road and bridge are required to facilitate the construction of the refinery and for its operations. Expenditure on these items is required to be incurred in order to get future economic benefits from the project as a whole which can be considered as the unit of measure for the purpose of capitalisation of the said expenditure even though the company cannot restrict the access of others for using the assets individually. It is apparent that the aforesaid expenditure is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In view of this, even though tata Ltd. may not be able to recognize expenditure incurred on these assets as an individual item of property, plant and equipment in many cases (where it cannot restrict others from using the asset), expenditure incurred may be capitalized as a part of overall cost of the project. From this, it can be concluded that, in the extant case the expenditure incurred on these assets, i.e., railway siding, road and bridge, should be considered as the cost of constructing the refinery and accordingly, expenditure incurred on these items should be allocated and capitalized as part of the items of property, plant and equipment of the refinery.

Depreciation

As per paragraph 45 and 47 of AS 10. if these assets have a useful life which is different from the useful life of the item of property, plant and equipment to which they relate, it should be depreciated separately. However, if these assets have a useful life and the depreciation method that are the same as the useful life and the depreciation method of the item of property, plant and equipment to which they relate, these assets may be grouped in determining the depreciation charge. Nevertheless, if it has been included in the cost of property, plant and equipment as a directly attributable cost, it will be depreciated over the useful lives of the said property, plant and equipment.

The useful lives of these assets should not exceed that of the asset to which it relates.

Presentation

These assets should be presented within the class of asset to which they relate.

QUESTION 11:

Chetan LTD. bought a machine on 30.09.2014 at a price of 248 Lakh after charging 6% GST and giving a trade discount of 1.3% on the quoted price. Transport charges and installation charges were 0.30% and 0.75% respectively on the quoted price. To meet machine, purchase a loan of 240 lakh was taken from the bank on which interest at 12% P.A. was to be paid. Expenditure incurred on trial run was materials, wages and overheads 24,000, R 18,000 and 11,000 respectively. Machine was ready for use on 01.12.2014. However, it was actually put to use only on 01.05.2015. Entire loan amount remains unpaid on 01.05.2015. Required Find the cost of machine as per AS -10.

Solution:

Calculation of Cost of machine (As per AS -10)

Particulars		Amount
Machine cost price (2,48,00,000 × 100/106 × 100/98.70) (Given price related after charging sales tax and trade discount)		2,37,04,383
Less: Trade discount (2,37,04,383 × 1.3/100)		3,08,157
		2,33,96,226
Add: GST (2,33,96,226 × 6/100)		14,03,774
		2,48,00,000
Transport charges (0.30% on 2,37,04,383)		71,113
		2,48,71,113
Installation charges (0.75% on 2,37,04,383		1,77,783
Add: Incurred Expenses for trial run		
Materials	24,000	
Wages	18,000	
Overheads	11,000	53,000
Borrowings costs (Interest) (240 lakh × 0.12 × 2/12)	4,80,000	5,33,000
Total Cost		2,55,81,896

QUESTION 12:

An amusement park has a 'soft' opening to the public, to trial run its attractions. Tickets are sold at a 50% discount during this period and the operating capacity is 80%. The official opening day of the amusement park is three months later. Management claim that the soft opening is a trial run necessary for the amusement park to be in the condition capable of operating in the intended manner. Accordingly, the net operating costs incurred should be capitalised. Comment

Solution:

The net operating costs should not be capitalised, but it should be recognised in the Statement of Profit and Loss. Even though it is running at less than full operating capacity (in this case 80% of operating capacity), there is sufficient evidence that the amusement park is capable of operating in the manner intended by management. Therefore, these costs are specific to the start-up and, therefore, should be expensed as incurred.

QUESTION 13:

Upward revaluation and further Downward: -

31.03.2010 Carrying amount 500000

31.03.2010 Fair Value 650000

31.03.2011 Fair Value Case 1 - 550000 and Case 2 - 450000

Pass Journals

Solution:

Case 1:

31.03.2010

PPE a/c Dr.	150000	
To Revaluation Reserve		150000

31.03.2011

Revaluation Reserve Dr.	100000	
To PPE		100000

Case 2:

31.03.2010

PPE a/c Dr.	150000	
To Revaluation Reserve		150000

31.03.2011

Revaluation Reserve	Dr. 150000	
P/L a/c	Dr. 50000	
To PPE		200000

ACCOUNTING STANDARD - 11 THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATE

OBJECTIVE OF AS 11	1. Treatment of Foreign Currency Transactions 2. Translation of Financial Statements of Foreign Operations (Branch/Subsidiary) 3. Forward Exchange Contracts. (Hedge and Speculation)
NOT APPLICABLE TO	1. This Standard does not specify the currency in which an enterprise presents its financial statements 2. Re- statement of enterprise financial statements from its reporting currency into another currency 3. The presentation in cash flow statement 4. Exchange differences arising from foreign currency borrowings to the extent of adjustment to interest cost.
FOREIGN CURRENCY TRANSACTIONS	Currencies - For the purpose of this AS, there are two types of Currencies (a) Reporting Currency - Any Currency in which Financial Statements are reported. (b) Foreign Currency - Any Currency other than Reporting currency. A Foreign Currency Transaction is a transaction which is denominated in or requires settlement in a foreign currency for example - sale or purchase of goods in Foreign Currency, Borrowings or Lending or Investing in Foreign Currencies etc.
EXCHANGE RATE	The rate at which foreign currency is converted into reporting currency or vice versa
AVERAGE RATE	It is the mean of exchange rate in force during the period. Period may be week, fortnight, months, etc.
FORWARD RATE	Agreed Exchange rate between two parties for exchange of two currencies at a specified future date
CLOSING RATE	Exchange rate at the balance sheet date
FOREIGN OPERATIONS	Operational activities conducted in a country other than the country of the reporting enterprises by the reporting enterprises.
MONETARY ITEMS	Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amount of money. For example -cash, receivable and payable.
NON-MONETARY ITEMS	Non-monetary items are assets and liabilities other than monetary items. For example, fixed assets, inventories, and investment in equity shares.

<table>
<tr><td>FOREIGN CURRENCY TRANSACTIONS</td><td>Transactions denominated in a foreign currency or require settlement in foreign currency are called as Foreign Currency Transactions</td></tr>
<tr><td>INITIAL RECOGNITION OF FOREIGN CURRENCY TRANSACTIONS</td><td>Initial Recognition means first time recording in the books of accounts of Foreign Currency Transaction.
All foreign exchange transactions are converted into reporting currency using Spot exchange rate or approximate rates (i.e., the exchange rate prevailing on the date of Transaction).</td></tr>
<tr><td>TREATMENT OF EXCHANGE DIFFERENCE</td><td>1. Reported at different rate from the rate at which it is initially recorded
2. Transactions are settled at a rate different from the one taken for the reporting in the last financial statement
3. Transaction, monetary or non-monetary item being settled at a rate different from the rate at which it is initially recorded</td></tr>
<tr><td>ACCOUNTING TREATMENT OF CONTINGENT LIABILITY</td><td>Contingent Liability These liabilities are reported at the exchange rate of the balance sheet date.</td></tr>
<tr><td>FOREIGN CURRENCY TRANSACTIONS</td><td>INTEGRAL FOREIGN OPERATION: The activities of which are an integral part of those of the reporting enterprise (i.e. Head Office). An integral foreign operation carries on its business as if it were an extension of the reporting enterprise's operations. (Example - Foreign Branch)
NON-INTEGRAL FOREIGN OPERATION: The business of such branch is carried on in a substantially independent way. (Example - Foreign Subsidiary Co.) A non-integral foreign operation accumulates cash and other monetary items, incurs expenses, generates income and perhaps arranges borrowings, all substantially in its local currency.</td></tr>
<tr><td>TECHNIQUES FOR TRANSLATION</td><td>Integral Foreign Branch:
<table>
<tr><td>Items to be Translated</td><td>Translation at</td></tr>
<tr><td>Monetary Items (such as Debtors/creditors, Cash/Bank, Prepaid/Outstanding expense)</td><td>At Closing exchange rate</td></tr>
<tr><td>Non-Monetary items (such FA, Accumulated depreciation on FA, Investments etc.</td><td>At Cost i.e., at the exchange rate on the date of purchase</td></tr>
<tr><td>Opening Stock</td><td>Opening exchange rate</td></tr>
<tr><td>Closing Stock</td><td>Closing exchange rate</td></tr>
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<tr><td></td><td><table><tr><td>Revenue nature items (Incomes and expenses)</td><td>Average rate</td></tr><tr><td>Goods sent to branch a/c and HO a/c</td><td>Actual balance in HO books</td></tr></table>Any Exchange difference arising on the translation of the Branch Trial Balance should be transferred to Profit & Loss a/c of Branch</td></tr>
<tr><td>(B) NON-INTEGRAL FOREIGN BRANCH:</td><td>1. Balance Sheet items i.e., Assets and Liabilities both Monetary and Non-monetary apply Closing exchange rate.
2. Items of Income and Expenses - At the actual exchange rates on the date of transactions.
However, AS 11 allows average rate subject to materiality.
3. Any Exchange rate difference should be accumulated in a "Foreign Currency Translation Reserve" (FCTR).
4. FCTR shall be accumulated under Reserves & Surplus as a separate line item.
5. FCTR shall be reclassified to Profit and Loss account on Conversion from Non-Integral to Integral FO.
6. FCTR shall be reclassified to Profit and Loss account on sale/dispose of Non-Integral FO. However, if there is no disposal or sale of FO but only carrying amount is written off then no reclassification is allowed.
7. In the case of a partial disposal, only the proportionate share of the related accumulated exchange differences is included in the gain or loss.</td></tr>
<tr><td>HOW TO IDENTIFY NON-INTEGRAL FOREIGN OPERATION?</td><td>The following are indications that a foreign operation is a non-integral foreign operation rather than an integral foreign operation:
I. While the reporting enterprise may control the foreign operation, the activities of the foreign operation are carried out with a significant degree of autonomy from those of the reporting enterprise.
II. Transactions with the reporting enterprise are not a high proportion of the foreign operation's activities.
III. The activities of the foreign operation are financed mainly from its own operations or local borrowings rather than from the reporting enterprise.
IV. Costs of labour, material and other components of the foreign operation's products or services are primarily paid or settled in the local currency rather than in the reporting currency.
V. The foreign operation's sales are mainly in currencies other than the reporting currency.</td></tr>
<tr><td>DISPOSAL OF NON-INTEGRAL FOREIGN OPERATIONS</td><td>Disposal includes:
• Sales ,Liquidation
• Repayment of its share capital by non-integral foreign operation</td></tr>
</table>

	• Abandonment of all or part of the foreign operation by reporting enterprise • Payment of dividend by the non-integral foreign operation if it is treated as return on investment by the reporting enterprise. Treatment of foreign currency translation reserve: • On partial disposal, proportionate foreign currency translation reserve is recognized as income or expenses. • On full disposal, whole foreign currency translation reserve is recognized as income or expenses
	1. **Integral to Non-integral**: • Translation procedure applicable to non-integral shall be followed from the date of change. • Exchange difference arising on the translation of non-monetary assets at the date of re-classification is accumulated in foreign currency translation reserve. 2. **From non-integral to integral** • Translation procedure as applicable to integral should be applied from the date of change • Translated amount of non-monetary items at the date of change is treated as historical cost. • Exchange difference lying in foreign currency translation reserve is not to be recognized as income or expense till the disposal of the operation even if the foreign operation becomes integral.
FORWARD EXCHANGE CONTRACT	A forward contract is an agreement between two parties whereby one parties agrees to buy from or sell to the other party an asset at future date for an agreed price.
ACCOUNTING TREATMENT:	1. Forward Exchange Contracts entered For Managing Risk (Hedging): • Any forward premium/discount should be amortized/recognized over the tenor of contract in the profit and loss a/c. • If the forward contract is cancelled or renewed, the profit or loss arising on cancellation or renewal is recognized in the profit & loss statement for the period. • To minimize the risk due to fluctuation in exchange on the date of the settlement of the transaction is the contract for managing the risk. 2. Forward Exchange Contracts entered for Trading or Speculation: • Here forward premium/discount should be ignored. • At each balance sheet date the value of contract is marked to market, any gain or loss on the contract is recognized immediately.

	• Upon sell of forward contract, any profit or loss to be recognized immediately in the statement of profit & loss.
DISCLOSURE	• An enterprise should disclose 1. Amount of exchange difference included in the net profit or loss. 2. Amount accumulated in foreign exchange translation reserve 3. Reconciliation of opening and closing balance of foreign exchange translation reserve. 4. If the reporting currency is different from the currency of the country in which entity is domiciled, the reason for such difference.

LETS PRACTICE SOME QUESTION:

QUESTION 1:

During the financial year 2022-23, Zeds Ltd., an e-commerce firm entered into a foreign currency transaction relating to fees for technical services paid to a Lucas Ltd., an Atlanta based organisation in the USA. The transaction was for $24,000, which was entered into on 07.12.2022. The payment for the same was made on 20.05.2023. Given that the exchange rates are: on 07.12.2022: $1 = ₹ 73.80; on 01.01.2022: $1 = ₹ 73.95; on 31.03.2023: $1 = ₹ 75.45; on 20.05.2023: $1 = ₹ 76.50.

You are required to:

(a) ascertain the amount at which the transaction would get recognised in the books; and

(b) calculate amount of foreign exchange gain/ loss to be recorded in the financial statement for the years 2022-23 and 2023-24.

Solution: (a) As per AS 11, a foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

∴ Fees for technical services $24,000 would be recorded on 07.12.2022applying the exchange rate existing on that date = 24,000 × ₹ 73.80 = ₹ 17,71,200.

(b) For 2022-23:

On 31.03.2023, Outstanding fess for technical services should be reflected in the balance sheet using the closing rate ($1 = ₹ 75.45) i.e. 24,000 × ₹ 75.45 = ₹ 18,10,800.

∴ Exchange loss to be charged to the Statement of Profit and Loss = ₹ (18,10,800 - 17,71,200) = ₹ 39,600.

(c) For 2023-24:

On 20.05.2023, Outstanding fess for technical services paid should be recognised using the existing rate ($1 =₹ 76.50) i.e. 24,000 × ₹ 76.50 = ₹ 18,36,000.

∴ Exchange loss on settlement to be charged to the Statement of Profit and Loss = ₹ (18,36,000 - 18,10,800)
= ₹ 25,200

QUESTION 2:

Subhash Ltd. purchased a machine costing ₹ 224 lakhs on 1.4.2022 and the same was fully financed by foreign currency loan (US $) payable in three annual equal instalments. Exchange rates were $1 = ₹ 70.00 and ₹ 72.95 as on 1.4.2022 and 31.03.2023 respectively. First instalment was paid on 31.03.2023. The entire difference in foreign exchange has been capitalized. Advice how the exchange gain/ loss should be accounted for by the company

Solution: Cost of machine (in US$) = ₹ 224,00,000/ 70.00 = $3,20,000.

∴ Exchange loss on payment of first instalment = 3,20,000 × ₹ (72.95 - 70.00) = ₹ 9,44,000. This entire loss due to exchange differences amounting ₹ 9,44,000 should be charged to the Statement of Profit and Loss.

QUESTION 3:

Particulars	**Exchange Rate**
Goods purchased on 24.02.2022 of US$ 10000	**₹76.60**
Exchange rate on 31.03.2022	**₹77.00**
Date of actual payment 5.06.2023	**₹77.50**

Calculate the loss / gain for the financial years 2021-22 and 2023-24.

Solution: As per AS-11 all foreign currency transactions should be recorded by applying the exchange rate at the date of transaction. Therefore goods purchased on 24.02.2022 and corresponding creditor would be recorded at ₹76.60 = US$1, i.e. 10,000 × 76.60 = ₹7,66,000

As per AS-11 at the balance sheet date all monetary items should be reported using the closing rate therefore creditors of US$10000 outstanding on 31.3.2023 will reported.

10,000 × ₹77.00 = ₹7,70,000

Exchange loss ₹(7,70,000 - 7,66,000) i.e. ₹4,000 should be debited in profit and loss account for 2021-22.

As per As-11 exchange difference on settlement on monetary items should be transferred to profit and loss account as gain or loss therefore 10000 × ₹77.50 = ₹7,75,000 - ₹7,70,000 = ₹5000 will be debited to profit or loss for the year 2023-24

QUESTION 4:

MM Ltd. purchased fixed assets for US$50 lakhs costing ₹3,825 lakhs on 01.04.2022 and the same was fully financed by the foreign currency loan [i.e. US Dollars] repayment in five equal instalments annually. [Exchange rate at the time of purchase was 1 US Dollar = ₹76.50]. as on 31.03.2023 the first instalment was paid when 1 US Dollar fetched ₹81.50. The entire loss on exchange was included in cost of goods sold etc. MM Ltd. normally provided depreciation on fixed assets at 20% on WDV basis

Solution: In this case AS-11 will be applicable on Accounting for effects of changes in Foreign Exchange rates, as the transaction in foreign currency has been entered into by the reporting enterprises before 01.04.2023. Exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets, should be adjusted in the carrying amount of the respectively fixed assets. The carrying amount of such fixed assets to the extent not already so adjusted or otherwise accounted for, also to be adjusted to account for any increase or decrease in the liability of the enterprise, as expressed in the reporting currency by applying the closing rate, for making payments towards the whole or a part of the cost of the assets or for repayment of the whole or a part of the monies borrowed by the enterprise from any person directly or indirectly, in foreign currency specifically for the purpose of acquiring those assets.

Thus the entire exchange loss due to variation of ₹50 lakhs on 31.03.2023 on payment of US$ 10 lakhs should be added to the carrying amount of fixed assets and not to the cost of goods sold. Further, depreciation on the unamortised depreciable amount should also be provided, in accordance with AS-10.

Calculate Exchange loss:

Foreign currency loan = ₹ 3,825 lakhs /₹ 76.50 lakhs = 50 lakhs US Dollars

Exchange loss on outstanding loan on 31.03.2023 = 40 lakhs US$ x ₹(81.50 - 76.50) = ₹200 lakhs should also be added to cost of fixed asset with corresponding credit to outstanding loan.

Calculation of additional depreciation on account of increase in the depreciable amount of fixed assets: 20% of ₹250 lakhs = ₹50lakhs

QUESTION 5:

AAC Ltd. borrowed US $ 5,00,000 on 01/01/2017, which was repaid as on 31/07/2017. ABC Ltd. prepares financial statement ending on 31/03/2017. Rate of Exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under:

Date	Rate
01/01/2017 1 US$	68.50
31/03/2017 1 US$	69.50
31/07/2017 1 US$	70.00

You are required to pass necessary journal entries in the books of ABC Ltd. as per AS 11.

Solution:

Journal Entries in the Books of AAC Ltd

Date	Particulars	(Dr)	(Cr)
2017			
Jan. 01	Bank Ac (5,00,000 x 68.50) Dr.	3,42,50,000	
	To Foreign Loan A/c		3,42,50,000
Mar. 31	Foreign Exchange Difference A/c Dr.	5,00,000	
	To Foreign Loan Account [5,00,000x (69.50-68.50)]		5,00,000
Jul. 31	Foreign Exchange Difference A/c (5,00,000 x (70-69.5)] Dr.	2,50,000	
	Foreign Loan A/c Dr.	347,50,000	
	To BankA/c		350,00,000

QUESTION 6:

i. Apni Ltd. An company amounting Indian Company to obtained long term loan from XYZ private Ltd., a U.S. 30,00,000. It was recorded at US $1=60.00, taking exchange rate prevailing at the date of transaction. The (31.03.2018) was US exchange rate on balance sheet date $1=62.00.

ii. Trade receivable includes amount receivable from samiksha Ltd., recorded at the prevailing 10,00,000 exchange rate on the date of sales, transaction recorded at US $1 =59.00. The exchange rate on balance sheet date You are (31.03.2018) was US $1 =62.00.

You required to calculate the amount of accounting exchange difference and also explain the treatment needed in the above two cases as per AS 11 in the books of Apni Ltd.

Solution:

Amount of Exchange difference and its Accounting Treatment

Particulars	Foreign Currency Rate	Amount
Long term Loan	₹60 lakhs	
Initial Recognition (30,00,000/60) = US $ 50,000	1 US $ = 60	30,00,000
Rate on Balance sheet date	1 US $= ₹62	
Exchange Difference Loss US$ 50,000 x(62 -60)		1,00,000
Treatment: Credit Loan A/c and Debit Profit and Loss A/c by 1,00,000		
Trade receivables		
Initial Recognition (10,00,000/59) US $ 16,949.152	1 US $= 59	10,00,000
Rate on Balance sheet date	1 US $= 62	
Exchange Difference Gain US$ 16,949.152* x (62-59)		50,847.456
Treatment: Credit Profit and Loss A/c by 50,847.456* And Debit Trade Receivables		

Out of the above four payments only construction of a shed of ₹80 lakhs is a qualifying asset as per AS-16, other three payments are not for the qualifying asset. Therefore, borrowing cost attributable to the construction of a shed should only be capitalized which will be equal to ₹36 lakhs x 80/200 = ₹14.40 lakhs

The balance of ₹21.6 lakhs (₹36 lakhs - ₹14.4 lakhs) should be expensed and debited to Profit and Loss Account.

QUESTION 7:

Aman Limited purchased fixed assets costing $ 5,00,000 on 1st Jan. 2018 from an American company M/s bond Limited. The amount was payable after 5 months. The company entered into a forward contract on 1st January 2018 for five months @ 62.50 per dollar. The exchange rate per dollar was as follows:

On 1st January, 2018 60.75 per dollar

On 31st March, 2018 63.00 per dollar

You are required to state how the profit or loss on forward contract would be recognized in the books of Aman Limited for the year ending 2017-18, as per the provisions of AS 11

Solution:

As per AS 11, Forward exchange contract means an agreement to exchange different currencies at a forward rate. The premium or discount arising at the inception of a forward exchange contract should be amortised as expense or income over the life of the contract

Forward Rate	₹ 62.50
Less: Spot Rate	(₹ 60.75)
Premium on Contract	₹ 1.75
Contract Amount	US$ 5,00,000
Total Loss (5,00,000 x 1.75)	₹ 8,75,000
Contract period	6 months
Loss for the period 1 st January, 2018 to 31st March, 2018 i.e. 5 months falling in the year 2017-2018	3 months
Hence, Loss for 3 months will be (8,75,000 X 3/5)	₹ 5,25,000

Contract period 5 months - out of which 3 months falling in the year 2017-18

The loss amounting to ` 5,25,000 for the period is to be recognised in the year ended 31st March 2018. Rest ` 3,50,000 will be recognised in the following year 2018-19.

QUESTION 8:

On 1st Feb, Entity purchased PPE at $25,000 & Paid immediately

$1 = ₹ 76 (on 1st Feb)

$1 = ₹ 77 (on 31/3)

Apply AS 11.

Solution:

As per AS 11, all foreign Currency Transaction must be recorded & measured at the rate prevailing on transaction date. (SPOT Rate)

Transaction Value in ₹ = $25,000 × 76 = 19,00,000/-

PPE A/c Dr.	19,00,000	
To Bank A/c		19,00,000

ACCOUNTING STANDARD – 12 ACCOUNTING FOR GOVERNMENT GRANT

OBJECTIVE OF AS 12	1. To provide the guidelines for classification of Government Grant. 2. To prescribe the accounting treatment of Government Grant
DEFINITIONS	1. Government Grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. 2. Government here means Central and State Government as well as Local Bodies 3. Government Grant cannot be utilized to Pay Dividend amount to the shareholders. 4. Tax Exemptions, Deductions are not considered as Grant. 5. Government participation in the ownership of the enterprise not under this standard.
RECOGNITION OF GOVERNMENT GRANTS	Recognition of Govt. Grant means recording the Grant either in P&L as Income immediately or any other special treatment as per AS 12. Government grants, including non-monetary grants, should be recognised only when there is reasonable assurance that: (a) The entity will comply with the conditions attaching to them; and (b) The grants will be received. NOTE: Only receipt of grant is not conclusive evidence that condition attaching to the grant have been or will be fulfilled.
NATURE OF INCENTIVE	1. Capital Approach- If incentive is in nature of promoter's contribution- Capital Subsidy 2. Income Approach- If related to revenue- Credited to P&L
ACCOUNTING FOR GOVERNMENT GRANT:	Approaches 1. Capital Approach- Grant is treated as part of shareholder fund • They are given with reference to the total investment in an undertaking, or • By way of contribution towards its total capital outlay and • No repayment is ordinarily expected in the case of such grants. • Since they are not earned but represent an incentive provided by government without related costs.
	2. Income Approach- Grant is taken as income for one or more period

	• Grant are given subject to compliance of condition and cost is incurred to fulfill such condition hence grant is credited to income statement along with associated cost. • In case grants are credited to shareholders' funds, no correlation is done between the accounting treatment of the grant and the accounting treatment of the expenditure to which the grant relates. • This approach is followed when the government grants are not gratuitous in nature • They should therefore be taken to income and matched with the associated costs which the grant is intended to compensate. NOTE: • Accounting of grant should be on the basis of nature of relevant grant. • Grant having characteristic of promoter should be transferred to shareholder fund. • Other grants are transferred to income statement.
MONETARY AND NON MONETARY GRANT	Accounting treatment of government grants 1. Monetary Grant • Capital approach: Grant treated as part of share holders fund Grant is credited to capital reserve • Income approach: Treated as income over one or more years i.e. treated as deferred income, Credited to P & L a/c or deducted from related expenses 2. Non-Monetary Grant • Concessional Rate: Assets are accounted for at their acquisition cost • Free of cost: Assets are recorded at nominal value
PRESENTATION OF GOVERNMENT GRANTS IN FINANCIAL STATEMENTS	Grant related to Specific Fixed Assets: • Primary Conditions: Purchase, Construct or Otherwise acquire such assets • Other Conditions: Type of Asset, Location of Assets, Period during which they are acquired
TYPES AND TREATMENT OF GOVERNMENT GRANTS	1) Grants related to Income (Revenue Nature) Examples: 1. Grant received to pay Salary 2. To Pay for medical facilities of Staff 3. To purchase vaccine for employees Treatment

	(a) (first method) presented as an Income in the statement of profit and loss, either separately or under a general heading such as 'Other income'; 1) Bank a/c Dr To Govt. Grant Income A/c 2) Govt. Grant Income A/c Dr To P&L A/c (b) (Second method) deducted from Specific Expense A/c if grant received for incurring such Expense only: 1) Bank a/c Dr To Govt. Grant A/c (When grant is received) 2) Govt. Grant A/c Dr To Expense A/c (When Exp.is Incurred Grant is deducted from Expense)
	2. Grant for Expenses or Losses already incurred or Grant for immediate financial Support Example.: Grant received by Loss making companies If Un-conditional Grant: Recognise directly to Profit and Loss a/c: 1) Bank A/c Dr. To Govt. Grant Income A/c 2) Govt. Grant Income A/c Dr. To Profit and Loss A/c If Conditional Grant: Deferred and Amortized over the period of fulfillment of conditions (Eg. Transfer to P&L Every year in parts and show un-amortised portion as Liability)
	3. Grant in the form of Promoters' Contribution (just like capital investment) Example: for working in Backward areas Always transferred to Capital Reserve 1) Bank A/c Dr. To Govt. Grant A/c 2) Govt. Grant A/c Dr. To Capital Reserve A/c
	4.Non-Monetary Grant (In Kind) Example: Land received free of cost or at concessional price (a) If acquired at Concessional Price, then Recognise the Grant at Actual Price Paid (acquired cost). Asset A/c Dr.

	To Bank A/c (b) If acquired at free of cost, then Recognise at Nominal Value. Nominal Value may be Rs. 1/- or 10/- Asset A/c Dr. To Capital Reserve A/c (Depreciation should not be charged here)
	5. Grants related to Non-depreciable Assets Example: Cash received for purchase of Land/stock Conditional Grant: If it requires fulfillment of certain obligations then recognise in P&L a/c over the period of fulfilment of obligation. 1) Bank A/c Dr To Def. Govt. Grant A/c 2) Def. Govt. Grant A/c Dr. To P&L A/c (Amortised on systematic basis) Unconditional Grant: If it doesn't require any fulfillment of obligations in the future period then recognise the grant immediately in P&L a/c. Govt. Grant A/c Dr To P&L A/c
	6. Grants related to depreciable assets Example: Cash received to purchase machine/building/vehicle Option 1 - Deferred Income Treat it as Deferred Income: 1) Bank A/c Dr To Def. Govt. Grant A/c DGG a/c shall be recognised in P&L a/c on a systematic basis over the useful life of the asset. 2) Def. Govt. Grant A/c Dr. To P&L A/c (Amortised on systematic basis) Option 2 - Deduction from Cost Should be presented by deducting the grant amount from Carrying Amount and depreciation shall be charged on net carrying amount after deduction. 1) Bank A/c Dr. To Govt. Grant A/c 2) Govt. Grant A/c Dr To PPE A/c

REFUND OF GOVERNMENT GRANTS	1) Government grant become refundable due to non-fulfilment of condition attached to the grant. 2) A government grant that become refundable is treated as an extraordinary item under AS 5.
REFUND OF GOVERNMENT GRANT	1. If Grant was recognised directly in P&L as income: Refund of grant is debited to Profit and loss a/c. 1) G. Grant Refunded A/c Dr. To Bank A/c 2) Profit and Loss A/c Dr. To G. Grant Refunded 2. If Grant was recognised as Deferred Income: Refund of grant will be debited to Deferred Grant A/c to the extent of balance available. Any remaining amount of refund will be debited to Profit and loss a/c. 1) Deferred Grant A/c Dr. Grant Refund Exp. A/c Dr. To Bank A/c 2) Profit and Loss A/c Dr. To G. Grant Refund Exp. 3. If Grant was recognised as reduction from Cost of Asset Refund of grant will be debited to the same Asset A/c Asset A/c Dr. To Bank A/c Calculate Revised Depreciation on Asset for Further Years.
DISCLOSURES	• The accounting policy adopted for government grants including the method of presentation in the financial statement. • The nature and extent of government grant recognised in the financial statement including grants of nonmonetary assets given at a concessional rate or free of cost.

LETS PRACTICE SOME QUESTION:

QUESTION 1:

Apni Limited has received the following Grants from the Government during the year ended 31st March, 2021:

i. 120 Lacs Industrial received as Subsidy from the Central Government for setting up an undertaking in Medak, a notified backward area.

ii. 15 Lacs Grant received from the Central Government on Treatment Plant. installation of Effluent

iii. 25 Lacs workmen received from State Government for providing medical facilities to its during the pandemic. Advise Apni Limited on the treatment of the above Grants in its books of Account in accordance with AS-12 "Government Grants"

Solution:

i. As per AS 12 'Accounting for Government Grants', where the government grants are in the nature of promoters' contribution i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income. In the given case, the subsidy received from the central government for setting up an industrial undertaking in Medak is neither in relation to specific fixed asset nor in relation in revenue. Thus, the amount of * 120 Lacs should be credited to capital reserve.

(Note: Subsidy for setting up an industrial undertaking is considered to be in the nature of promoter's contribution)

ii. As per AS 12 'Accounting for Government Grants', two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives -

The grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Where the grant equals the whole, or virtually the whole, of the cost of the asset, the asset is shown in the balance sheet at a nominal value. Grants related to depreciable asset are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset. In the given case, 15 Lacs was received as grant from the Central Government for installation of Effluent Treatment Plant. Since the grant was received for a fixed asset, either of the above methods can be adopted.

iii. 25 lacs received from State Government for providing medical facilities to its workmen during the pandemic is a grant received in nature of revenue grant. Such grants are generally presented as a credit in the profit and loss statement, either separately or under a general heading such as "Other Income". Alternatively, 25 lacs may be deducted in reporting the related expense i.e., employee benefit expense.

QUESTION 2:

Soham Limited provides you the following information:

i. It received a Government Grant @40% towards the acquisition of Machinery worth 25 Crores.

ii. It received a Capital Subsidy of 150 Lakhs from Government for setting up a Plant costing 300 Lakhs in a notified backward region.

ii. It received 50 Lakhs from Government for setting up a project for supply of arsenic free water in a notified area.

iv. It received Rs5 Lakhs from the Local Authority for providing Corona Vaccine free O charge to its employees and their families.

V. It also received a performance award of Rs 500 Lakhs from Government with a condition of major renovation in the Power Plant within 3 years. Surai Limited incurred 90% Of amount towards Capital expenditure and balance for Revenue Expenditure. State, how you will treat the above in the books of Soham Limited.

Solution:

i. As per AS 12 "Accounting for Govt. Grants", two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives. Under the first alternative, the grant of 10 crores (40% of 25 crores) is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognized the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Under second alternative method, grant amounting 10 crores is treated as deferred income which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

ii. In the given case, the grant amounting 150 lakhs received from the Central Government for setting up a plant in notified backward area may be considered as in the nature of promoters' contribution. Thus, amount of 150 lakhs should be credited to capítal reserve and the plant will be shown at 300 lakhs

iii. 50 lakhs received from Govt. for setting up a project for supply of arsenic free water in notified area should be credited to capital reserve. Alternatively, if it is assumed that the project consists of capital asset only, then the amount of 50 lakhs received from Govt. for setting up a project for supply of arsenic free water should either be deducted from cost of asset of the project concerned in the balance sheet or treated as deferred income which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

iv. 5 lakhs received from the local authority for providing corona vaccine to the employees is a grant received in nature of revenue grant. Such grants are generally presented as a credit in the profit and loss account, either separately or under a general heading 'Other Income'. Alternatively, 5 lakhs may be deducted in reporting the related expense i.e., employee benefit expenses

v. 500 Lakhs will be reduced from the renovation cost of power plant or will be treated as deferred income irrespective of the expenditure done by the entity out of it as it was specifically received for the purpose major renovation of power plant. However, it may be, later on, decided by the Govt. whether the grant will have to be refunded or not due to non-compliance of conditions attached to the grant.

QUESTION 3:

ABC Ltd. has received the following grants from the Government of Delhi for its Newly started pharmaceutical business:

i. 20 lakh received for immediate start-up of using without any condition.

ii. 50 lakh received for research and development of drugs required for the treatment of cardiovascular disease with following conditions:

a. That drugs should be available to the public at 20% cheaper from current market price; and

b. The drugs should be in accordance with quality prescribed by the World Health Organization [WHO)

iii. Two acres of land received for set up of plant

iv. 2 lakh received for purchase of machinery of 10 lakh. Useful life of machinery is 5 years. Depreciation on this machinery is to be charged on straight-line basis.

How should ABC Ltd. recognise the government grants in its books of accounts?

Solution:

ABC Ltd. should recognise the grants in the following manner:

(a) 20 lakhs have been received for immediate start-up of business. This should be recognised in statement of profit and loss immediately as there are no conditions attached to the grant.

(b) 50 lakhs should be recognised in profit or loss on a systematic basis over the periods which the entity recognises as expense the related costs for which the grants are intended to compensate provided that there is reasonable assurance that ABC Ltd. will comply with the conditions attached to the grant.

(c) Land should be recognised at fair value and government grants should be presented in the balance sheet by setting up the grant as deferred income Alternatively, deduct the amount of grant from the cost of the asset.

In the given case, the land is granted at no cost. It will be presented in the books at nominal value.

(d) 2 lakhs should be recognised as deferred income and will be transferred to profit and loss. over the useful life of the asset. In this case 40,000 [2 lakhs/5] should be credited to profit and loss each year over period of 5 years.

Alternatively, ₹ 2,00,000, will be deducted from the cost of the asset and depreciation will be charged on ₹ 8,00,000 (₹ 10,00,000 - ₹ 2,00,000).

QUESTION 4:

Govind Ltd. purchased a Machinery on 1st April, 2016 for 130 lakhs (Useful life is 4Years). Government grant received is K40 lakhs for the purchase of above Machinery. Salvage value at the end of useful life is estimated at R60 lakhs. Govind Ltd. decides to treat the grant as deferred income. You are required to calculate the amount of depreciation and grant to be recognized in profit & loss account for the year ending 31st March, 2017,31st March, 2018, 31st March, 2019&31st March, 2020. Govind Ltd. follows straight line method for charging depreciation

Solution:

As per AS 12 "Accounting for government grants", grants related to depreciable assets, if treated as deferred income are recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

	₹in lakhs
Cost of the Asset	130
Less: Salvage value	(60)
	70
Depreciation per year (70 lakhs / 4)	17.50

₹ 17.50 Lakhs depreciation will be recognized for the year ending 31st March, 2017 to 31st March, 2020. Amount of grant recognized in Profit and Loss account each year: 40 lakhs / 4 years = ₹ 10 Lakhs for the year ending 31st March, 2017 to 31st March, 2020

QUESTION 5:

Vijay Ltd., a start-up purchased on April 1, 2020, a machine worth 44,85,000 in relation to which it received 7,35,000 as grant from Government of India. The company decided to treat this grant as a capital receipt. It is estimated that the realizable value of the machine at the end of its useful life of 4 years will be 15,36,000. During the financial year 2022-23, the grant became refundable as the start-up company failed to comply with

the necessary terms and conditions of the grant. You are required to calculate the amount of depreciation that is to be charged to the statement of profit and loss for the years 2022-23 and 2023-24 given that the company follows straight line method of charging depreciation

Solution:

As per AS 12, the amount refundable in respect of government grant is related to specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. In case the book value of the asset is increased, depreciation is provided on the revised book value.

Calculation of Depreciation for the years 2022-23 and 2023-24

Cost of machine on 01.01.2020	4,485
Less: Grant from Government of India	735
Net cost of machine Estimated useful life	3,750
Estimated useful life	4 years
Depreciation p.a. under straight line method [3,750 - 1,536/4]	553.5
Depreciation charged during 2020-21 and 2021-22 [553.5 × 2]	1,107
Book value of machine on 01.04.2022 [3,750 - 1,107]	2,643
Add: Refund of government grant during 2022-23	735
Revised Book value of machine	3,378
Remaining useful life of machine	2 years
Revised depreciation p.a [3,378 - 1,536/ 2]	921

QUESTION 6:

Abhijeet Ltd. received a grant of 2 crores from the Central Government for the purpose of a special Machinery during 2018-19. The cost of Machinery was 20 crores and had a useful life of 9 years. During 2022-23, the grant has become refundable due to non fulfilment of certain conditions attached to it. Assuming the entire grant was deducted from the cost of Machinery in the year of acquisition. Recommend the accounting treatment to be followed in the year 2022-23.

Solution:

As per AS 12 on Accounting for Government Grants, the amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset. Depreciation on the revised book value is provided prospectively over the residual useful life of the asset. 2 years In the given case, book value of machinery will be increased by

2 crores in the year 2022- 2023. The computations for the depreciation on machinery can be given as:

Particulars	(₹ in Crores)
Cost of machinery	20
Less: Grant received	2
Cost of machinery	18
Useful life of machinery 9 years	
Depreciation per year as per straight line method = 18/9 (Assuming, residual value to be zero)	2
Total depreciation for 4 years (2018-19 to 2021-2022	8
Book value (in year 2022-2023)	10
Add: Grant refunded	2
Revised book value	12
Remaining useful life 5 years	
Revised annual depreciation = 12/5	2.4

Thus book value of machinery will be* 12 crores in the year 2022-2023 and the depreciation amounting 2.4 crores will be charged on machinery. Annual depreciation of 2.4 crores will be charged in the next four years.

QUESTION 7:

On 1st April, 2016, Tata Ltd. received a Government Grant of 60 lakhs for acquisition of machinery costing ₹300 lakhs. The grant was credited to the cost of the asset. The estimated useful life of the machinery is 10 years. The machinery is depreciated @ 10% on WDV basis. The company had to refund the grant in June 2019 due to non- compliance of certain conditions. How the refund of the grant is dealt with in the books of TATA Ltd. assuming that the company did not charge any depreciation for the year 2019-20. Pass necessary Journal Entries for the year 2019-20

Solution:

According to AS 12 on Accounting for Government Grants, the amount refundable in respect of a grant related to a specific fixed asset (if the grant had been credited to the cost of fixed asset at the time of receipt of grant) should be recorded by increasing the book value of the asset, by the amount refundable. Where the book value is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

1st April, 2016	Acquisition cost of machinery	300.00
	Less: Government Grant	60.00
		240.00
31st March, 2017	Less: Depreciation @ 10%	(24.00)
1st April, 2017	Book value	216.00
31st March, 2018	Less: Depreciation @ 10%	(21.60)
1st April, 2018	Book value	194.40
31st March, 2019	Less: Depreciation @ 10%	(19.44)
1st April, 2019	Book value	174.96
1st June, 2019	Less: Depreciation @10% for 2 months	(2.916)
	Book value	172.044
June 2019	Add: Refund of grant*	60.00
Revised book value		232.044

Depreciation @10% on the revised book value amounting to ` 232.044 lakhs is to be provided prospectively over the residual useful life of the machinery. considered refund of grant at beginning of June month and depreciation for two months already charged.

Machinery Account Dr.	60	
To Bank Account		60
Being government grant on asset partly refunded which increased the cost of fixed asset)		
Depreciation Account Dr.	19.337	
To Machinery Account		19.337
Being depreciation charged on revised value of fixed asset prospectively for 10 months)		
Profit & Loss Account Dr.	22.253	
To Depreciation Account		22.253
(Being depreciation transferred to Profit and Loss Account amounting to ` (2.916 + 19.337= 22.253)		

QUESTION 8:

On 1st April 2019 sharukh Limited received Government grant of 300 lakhs for acquisition of a machinery costing 1,500 lacs. The grant was credited to the cost of the asset. The life of the machinery is5 years. The machinery is depreciated at 20% on w.d.v. basis. The company had to refund the grant in May 2022 due to non-fulfillment of certain conditions. Suggest how the management should with the refund of grant in the books of sharukh Limited.

Solution:

Date	Particulars	(₹ in lakhs)
01.04.2019	Cost of machine (adjusting grant)= (1,500-300)	1200
31.03.2020	Depreciation	240
	WDV	960
31.03.2021	Depreciation	192
	WDV	768
31.03.2022	Depreciation	153.60
	WDV	614.40
	Add: Govt. grant	300.00
	Revised book value	914.40

Note 1: Depreciation on revised book value will be provided prospectively over the residual life of the asset.

Note 2: The company can also debit the refund amount of 300 lakhs to DGG A/c if the same account was credited at the time of receipt of the grant.

QUESTION 9:

Suggest two approaches of accounting for government grant.

Solution:

There are two broad approaches which can be adopted for the accounting Government grants. They are: treatment of

a. Capital approach; and

b. Income approach.

It is generally considered appropriate that accounting for Government grant should be based on the nature of the relevant grant. Grants which have the characteristics similar to promoters' those of contribution should be treated under Capital approach, whereas Income approach is considered more appropriate Capital in the case of other grants.

Capital approach:

Under this approach, a grant is treated as part of shareholders' funds. This is credited directly to shareholders' funds.

Income approach: Under this approach, a grant is considered to be an item of income over one or more periods. It should therefore be taken to income and matched with the associated costs which the grant is intended to compensate.

QUESTION 10:

Dee Ltd. received ₹ 80,00,000 from the Central Government as subsidy for setting up a factory in a backward area. How would you treat the transaction in the financial statement of the company?

Solution:

When government grants are in the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in the case of such grants. These are credited directly to shareholders' funds. So, Dee Ltd. should credit the amount of ` 80,00,000 to capital reserve and the same would get reflected in the Balance Sheet.

QUESTION 11:

Z Ltd. has set up its business in designated backward area which entitles it to receive as per a public scheme announced by the Government of India, a subsidy of 25% of the cost of investment. Having fulfilled the conditions laid down under the scheme, the company on its investment of ₹100 lakhs in capital assets during its accounting year ending on 31st March,2023, received a subsidy of ₹ 25 lakhs in January, 2023 from the Government of India. The Accountant of the company would like to record the receipt as an item of revenue and to reduce the losses on the Profit and Loss Account for the year ended 31st March, 2023. Is his action justified

Solution:

As per AS-12, the Government grants related to depreciable fixed assets to be treated as deferred income which should be recognized in the Profit and Loss Account on a systematic and rational basis over the useful life of the asset. Such grants should be allocated to income over the periods and in proportions in which depreciation on those assets is charged. The company has received ₹ 25 lakhs subsidy for investment in capital assets which are depreciable in nature. In view of the provisions under AS-12, the subsidy amount ₹ 25 lakhs received should not be credited to the Profit and Loss Account for the year ended 31st March, 2023. the subsidy should be recognized and credited to the Profit and Loss Account in the proportion of depreciation charge over the life of the subsidized assets.

QUESTION 12:

Explain the treatment of the following: (i) A firm acquired a fixed asset for ₹550 lakhs on which the Government grant received was 40%. (ii) Capital subsidy received from the Central Government for setting up a plant in the notified backward region. Cost of the plant ₹600 lakhs, subsidy received ₹150 lakhs. (iii) ₹125 lakhs received from the local authority for providing medical facilities to the employees.

Solution:

(i) The total cost of the fixed asset is ₹550 lakhs and the grant is 40% i.e., ₹220 lakhs. In the balance sheet, the asset will be shown at the net amount (₹250 lakhs - ₹220 lakhs) i.e., ₹330 lakhs only. This will be depreciated over the life of the asset.

(ii) In this case, the subsidy received for setting up a plant in the notified region, should be treated as a capital subsidy. The amount of subsidy i.e., ₹150 lakhs be added to the Capital Reserves and the plant should be shown at ₹600 lakhs.

(iii) It is a case of revenue grant and should be shown in the profit and loss account. However, if the medical facilities are to be provided over a period of more than one year, it may be treated as deferred income and then taken to Profit and Loss Account on a systematic basis

ACCOUNTING STANDARD - 16 BORROWING COSTS

OBJECTIVE OF AS 16	1. Appreciate the basis for **recognising** borrowing costs. 2. Identify the nature of **specific and general borrowings**, & treatment of related borrowing costs 3. Ensure when to **Commence capitalisation, Suspend capitalisation**, Cease capitalisation
NOT APPLICABLE TO	1. Actual cost of **owners' equity** - including preference share capital and 2. Imputed cost of such equity 3. And such other items **forming part of equity** and not classified as a liability
DEFINITIONS	Borrowing Cost is the: (a) Interest and (b) Other cost that is incurred by an enterprise in connection with borrowing of funds. **The following exclusive points should be considered for the purpose of borrowing cost:** • **Interest on Loans** (Short term or Long term) • If entity has incurred **any ancillary** cost for arrangement for funds, then **amortised part** of such cost should be treated as borrowing cost every year. **Examples:** Brokerage, stamp duty for Loan Agreement etc. • Amortised part of **Discounts/premiums** on issue or redemption of debentures. • Amount of **Interest (finance charges)** which is paid or payable on **lease liability** recognized in accordance with AS 19. • Exchange Difference arising from Foreign Currency Loans to the extent of difference in Interest cost AS 11. **Money borrowed by enterprise for** 1. Purchasing fixed asset 2. Acquiring land 3. Working capital 4. Constructing Building These assets take time to make them **useable or saleable**. Enterprise incur cost on borrowing i.e. interest and other cost Standard deals with accounting of borrowing cost.
MEANING OF QUALIFYING ASSETS	An ASSET that takes **Substantial period of time** to get ready for intended use or sale.

	Note 1: Normally a period of 12 months is considered to be the substantial period of time. However it is not defined, it can be considered as per the judgement of the entity. If question is silent we can assume that asset is taking substantial period. **Examples:** 1. Any tangible fixed assets, which are in construction process or acquired tangible fixed assets, which are not ready for use, such as plant and machinery. 2. Any intangible assets, which are in development phase or acquired but not ready for use such as patent. 3. Investment property. 4. Inventories that require a substantial period to bring them to a saleable value. **Following is not a QA** 1) Inventories routinely manufactured 2) Inventories produced in large quantities on repetitive basis 3) Assets ready for intended use at the time of acquisition
TREATMENT OF BORROWING COSTs	As per AS 16, if borrowed funds are applied to: • Acquisition; (A) • Construction; (C) or • Production (P) of any Qualifying Asset, then borrowing cost on such borrowed funds shall be Capitalized. • Borrowing cost would have been avoided if the expenditure on qualifying asset had not been made • Qualifying asset will give future benefit to enterprise. • Cost to be capitalised can be measured reliably If any borrowing cost is not having any connection with Q.A. than such amount should be transfer to Profit and Loss account.
TYPES OF BORROWINGS & BORROWING COSTS	There can be two types of borrowings which are as follows: - A. **Specific Borrowing:** Loan is taken for specific qualifying asset B. **General Borrowing**: Loan is not for any specific qualifying asset. It can be used for any purpose or for multiple assets.
SPECIFIC BORROWING	Entire borrowing cost shall be capitalized from the date of 1st expenditure on qualifying asset. (i.e. start capitalization of entire borrowing cost from the date of 1st expenditure irrespective of expenses on different dates)

GENERAL BORROWING COST	Capitalization shall be done expenditure wise (i.e. from the date of each expenditure on qualifying asset). To capitalize the borrowing cost we have to calculate weighted average of the borrowing rate (WABR) as under: $\frac{\text{Total Borrowing Cost incurred during the year}}{\text{Total Borrowings O/s during the Year}} \times 100$ Expenditure on QA x WABR (%) x Time Weight **NOTE:** If expenditure on qualifying asset is incurred out of specific as well as general borrowed funds then we shall first use specific borrowings if such borrowing is available on the date of expenditure.
EXPENDITURE TO WHICH CAPITALISATION RATE IS APPLIED	Expenditure Already incurred on QA (including Borrowing cost capitalized till last year) — XXX Add: Expenditure incurred in CY (in Cash or payable) — XXX Less: Progress Payments or Grants received during the CY — (XXX) **Total Expenditure on which WABR shall be applied** — XXX
COMMENCEMENT OF CAPITALISATION:	Start capitalizing Borrowing cost from the later of following dates: a. Date of start of expenditure on A/C/P of Qualifying Asset b. Date of start of incurring interest c. Date when necessary activities started (Such as technical or administrative work prior to commencement of physical contruction)
SUSPENSION OF CAPITALISATION	Capitalization of Borrowing Costs shall be suspended during the extended periods in which Active Development is interrupted. Note: Borrowing costs which are related to the suspension period should be transferred to Profit and loss. However, if necessary activities are interrupted due to unavoidable reason (or) temporary delays is necessary then no need to suspend the capitalization of Borrowing cost. (eg. High water level during construction of bridge)
EXCEPTION	**Capitalization of borrowing cost is not suspended:** 1. During a period when substantial technical and administrative work is being carried out 2. When a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.

CESSATION OF CAPITALISATION	• Capitalization should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. • Cessation to take place in part if construction of qualifying asset is completed in parts and a part is capable of being used separately.
DISCLOSURE	(a) the accounting policy adopted for borrowing costs; and (b) the amount of borrowing costs capitalised during the period

LETS PRACTICE SOME QUESTION:

QUESTION 1:

Entity took a loan of 15,00,000 on 1/4/22 @10% p.a. Interest for the purpose of Building Construction Expenditure on Construction was made on 1/Aug in lumpsum of Rs. 18 lakhs Calculate Capitalisation of Borrowing Cost if Construction is still WIP as on Year End.

Solution: Total Borrowing Cost = 15,00,000 × 10% = 1,50,000 Borrowing Cost Capitalisation shall commence from the date of Expenditure incurred till year end. Therefore, Borrowing Cost to be Capitalised (for 8Months) = 1,50,000 × 8/12 = 1,00,000 Borrowing Cost to be Charged to P&L = 50,000

QUESTION 2:

Entity took a SBI Loan of 25,00,000 @12% p.a. on 1/4/22 for Building Construction: 1/5/22 = 15,00,000 1/Aug/22 = 10,00,000 Construction Completed on 28/Feb/23 Calculate Borrowing Cost to be Capitalised.

Solution: Capitalisation Shall start from 1/May till 28/Feb 1/May = 15,00,000 × 12% × 10/12 = 1,50,000 1/Aug = 10,00,000 × 12% ×10/12* = 1,00,000 Borrowing Capital to be Capitalised = 2,50,000 Borrowing Capital to be transfer to P&L A/c = 3,00,000 - 2,50,000 = 50,000.

QUESTION 3:

T&L Ltd. is a large construction company which is presently involved in the construction of a railway bridge over the Ganga river at Patna. The project cost is ₹ 125 crores, 40% of which is financed by borrowing from Asian Development Bank at an interest of 3%. There has been a delay in the completion of the project, and the project manager of the railway bridge construction site has identified that delay construction of the railway bridge has happened due to high water levels during the monsoon months of July to September. Ms. Sonali Mathur, the accountant of T&L Co. has not suspended the

capitalisation of the borrowing cost and reflected the same in the cost of the qualifying asset. You are required to comment on the treatment

Solution: In this case, the work got suspended due to temporary delay which is a necessary part of the construction process. Capitalisation of borrowing cost would continue during the extended period during which high water levels delay construction of the railway bridge, as such high water levels are common during the monsoon period in the geographic region involved. So, the treatment done by Ms. Mathur, the company accountant is correct.

QUESTION 4:

On 14.08.2022, Pushkar Ltd. obtained a loan from RAR Bank of ₹65 lakhs to be utilised as under:

Purchase of equipment: ₹19,50,000;

Construction of factory shed: ₹26,00,000;

Advance for purchase of delivery vehicle: ₹6,50,000;

Working capital: ₹13,00,000.

In March, 2023 installation of the machinery was completed and also construction of factory shed was completed and the machinery installed. However, the truck was not delivered within 31.03.2023. Total interest charged by the bank for the year ending 31.3.2023 was ₹11.70 lakhs. Discuss how the interest amount would be treated in the financial statements of the company as per AS 16

Solution: In this case, only the factory shed is a Qualifying Asset (QA) as per AS 16. The amount of interest on borrowings and its treatment is presented below:

Particulars	Nature of asset	Interest capitalised	Interest charged to Income Statement
Purchase of equipment	Not a QA		3,51,000 [11.7 × 19.5/65]
Construction of factory shed	QA	4,68,000 [11.7 × 26/65]	
Advance for purchase of delivery vehicle	Not a QA		1,17,000 [11.7 × 6.5/65]
Working capital	Not a QA		2,34,000 [11.7 × 13/65]
Total		4,68,000	7,02,000

QUESTION 5:

	Amount (₹)
Expenditure incurred till 31.03.2023	5,00,000
Interest cost capitalized for the financial year 2022-23 @ 13	26,000
Amount borrowed till 31.03.23 is	2,00,000
Assets transferred to construction during 2023-24	1,00,000
Cash payment during 2023-24	75,000
Progress payment received	3,70,000
New borrowing during 2023-24 @ 13%	2,00,000

Calculate the amount of borrowing cost to be capitalized.

Solution:

Total borrowing cost = 4,00,000 × 13/100 = ₹52,000

	Amount (₹)
Expenditure incurred including previously capitalized borrowing (5,00,000 + 26,000)	5,26,000
Cash payment during 2023-24	75,000
Asset transferred during 2023-24	1,00,000
	7,01,000
Less: Progress payment received	3,70,000
	3,31,000

Money borrowed including previously capitalized interest cost 4,00,000 + 26,000 = 4,26,000

Borrowing cost to be capitalized = $\frac{3,31,000}{4,26,000} \times 52,000 = 40,404$

QUESTION 6:

On 30-04-2023 MMLtd. obtained a loan from the bank for ₹200 lakhs to be utilized as under:

Construction of a shed	₹80 lakhs
Purchase of Machinery	₹60 lakhs
Working Capital	₹40 lakhs
Advance for Purchase of truck	₹20 lakhs

In March 2024 construction of shed was completed and machinery installed. Delivery of truck was not received. Total interest charged by the bank for the year ending 31-03-2024 was ₹36 lakhs. Show the treatment of interest under As-16

Solution:

As per As-16 borrowing cost (interest) should be capitalized if borrowing cost is directly attributable to the acquisition, construction or production of qualifying asset. In other words, asset acquired must be qualifying asset and borrowing cost should be directly attributable to the acquisition, construction or production of qualifying asset.

In the question ₹200 lakhs borrowed from Bank was utilized for -

Construction of a shed	₹80 lakhs
Purchase of Machinery	₹60 lakhs
Purchase of Machinery	₹40 lakhs
Advance for Purchase of truck	₹20 lakhs

Out of the above four payments only construction of a shed of ₹80 lakhs is a qualifying asset as per AS-16, other three payments are not for the qualifying asset. Therefore, borrowing cost attributable to the construction of a shed should only be capitalized which will be equal to ₹36 lakhs x 80/200 = ₹14.40 lakhs

The balance of ₹21.6 lakhs (₹36 lakhs - ₹14.4 lakhs) should be expensed and debited to Profit and Loss Account.

QUESTION 7:

Rohan Limited began construction of a new plant on 1st April, 2021 and obtained a special loan of 20,00,000 to finance the construction of the plant. The rate of interest on loan was 10%.

The expenditure that was incurred on the construction of plant was as follows:

1st April, 2021	**10,00,000**
1st August, 2021	**24,00,000**
1st January, 2022	**4,00,000**

The company's other outstanding non-specific loan was 46,00,000 at an interest rate of 12%

The construction of the plant completed on 31st March, 2022.

You are required to:

a) Calculate the amount of interest to be capitalized as per the provisions of AS 16 "Borrowing Cost"

b) Pass a journal entry for capitalizing the cost and the borrowing cost in respect of the plant.

Solution:

Total expenses to be capitalized for borrowings as per AS 16 "Borrowing Costs":

Particulars	Amount
Cost of Plant (10,00,000 + 24,00,000 + 4,00,000)	38,00,000
Add: Amount of interest to be capitalized (W.N.)	2,84,000
	40,84,000

Journal Entry

Date	Particulars	Amount	Amount
31-03-22	Plant A/c Dr.	40,84,000	
	To Bank A/c		40,84,000
	[Being amount of cost of plant and borrowing cost thereon capitalized]		

Working Note:

Computation of Average Accumulated Expenses:

1st April, 2021	10,00,000× 12/12	10,00,000
1st August, 2021	24,00,000× 8/12	16,00,000
1st January, 2022	4,00,000 × 3/12	1,00,000
		27,00,000

Computation of interest to be capitalized:

		Amount
On specific borrowing	20,00,000 x 10%	2,00,000
On non-specific borrowing	(27,00,000-20,00,000) × 12%	84,000
		2,84,000

QUESTION 8:

Vicky Ltd. began construction of a new factory building on 1st April, 2017. It obtained 2,00,000 as a special loan to finance the construction of the factory building on 1st April 2017 at an interest rate of 8% per annum, Further, expenditure on construction of th non-specific loans were: factory building was financed through other non-specific loans. Details of other outstanding non-specific loans were

Amount	Rate of Interest per annum
4,00,000	9%
500000	12%
300000	14%

The expenditures that were made on the factory building construction were as follows:

Date	Amount

1st April, 2017	300000
31st May, 2017	240000
1st August, 2017	400000
31st December, 2017	360000

The construction of factory building was completed by 31st March, 2018. As per the provisions of AS 16, you are required

a. Calculate the amount of interest to be capitalized.

b. Pass Journal entry for capitalizing the cost and borrowing cost in respect of the factory

Solution:

Computation of average accumulated expenses

	Amount
3,00,000 x 12/ 12	3,00,000
2,40,000 x 10/12	2,00,000
4,00,000 x8/ 12	2,66,667
3,60,000 x3/ 12	90,000

Calculation of average interest rate other than for specific borrowings

Amount of loan	**Rate of interest**	**Amount of interest**
4,00,000	9%	36,000
5,00,000	12%	60,000
3,00,000	14%	42,000
		1,38,000
Weighted average rate of interest (1,38,000/12,00,000) x 100		11.5%

Amount of interest to be capitalized

	Amount
Interest on average accumulated expenses:	
Specific borrowings (2,00,000 x 8%)	16,000
Non-specific borrowings (6,56,667* x 11.5%)	75,517
Amount of interest to be capitalised	91,517

Total expenses to be capitalised for building

	Amount
Cost of building (3,00,000 + 2,40,000+4,00,000 + 3,60,000)	13,00,000
Add: Amount of interest to be capitalized	91,517
	13,91,517

Journal Entry

Date	Particulars	Dr.	Cr
31.3.2018	Building A/c Dr.	13,91,517	
	To Building WIP A/c		13,00,000
	To Borrowing costs A/		91,517
	(Being amount of cost of building and borrowing cost thereon capitalised)		

QUESTION 9:

Advise the management on the amount of borrowing cost to be capitalized as per AS 16 based on the following information.

Particulars	Amount
Expenditure incurred till 31.03.2021	500000
Interest cost capitalized for the financial year 2020-21@ 13%	26000
Amount borrowed till 31.03.2021	200000
Assets transferred to construction during 2021-22	100000
Cash payment during 2021-22	75000
Progress payment received	350000
New borrowing during 2021-22 @ 13%	200000

Solution:

Total borrowing cost -(2,00,000+2,00,000) x 13/100 = R 52,000

Particulars	Amount
Expenditure incurred including previously capitalized borrowing cost (5,00,000 + 26,000)	5,26,000
Cash payment during 2021-22	75,000
Asset transferred during 2021-22	1,00,000
	7,01,000
Less: Progress payment received	3,50,000
	3,51,000

Money borrowed including previously capitalized interest cost = (2,00,000+2,00,000+26,000) = 4,26,000

Borrowing cost to be capitalized = 3,51,000/4,26,000 *52,000 =42,845

QUESTION 10:

XYZ Ltd. has taken a loan of USD 10,000 on April 1, 2023, for a specific project at an interest rate of 5% p.a., payable annually. On April 1, 2023, the exchange rate between the currencies was 45 per USD. The exchange rate, as at March 31, 2024, is 48 per USD. The corresponding amount could have been borrowed by XYZ Ltd. in local currency at an interest rate of 11 per cent per annum as on April1, 2023.

What would be the answer if interest rate was 13% instead of 11%.

Solution:

The following computation would be made to determine the amount of borrowing costs for the purposes of AS 16:

a. Interest for the period = USD 10,000 x 5% x 48/USD = 24,000

b. Increase in the liability towards the principal amount = USD 10,000 x (48 -45) = 30,000

C. Interest that would have resulted if the loan was taken in Indian currency = USD 10,000 x 45 x 11% = 49,500

d. Difference between interest on local currency borrowing and foreign currency borrowing =49,500- 24,000 = 25,500

Therefore, out of R 30,000 increase in the liability towards principal amount, only 25,500 will be considered as the borrowing cost. Thus, total borrowing cost would be 49,500 being the aggregate of interest of 24,000 on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of 25,500.

Thus, 49,500 would be considered as the borrowing cost to be accounted for as per AS 16 and the remaining 4,500 would be considered as the exchange difference to be accounted for as per Accounting Standard (AS) 11, The Effects of Changes in Foreign Exchange Rates. In the above question, if the interest rate on local currency borrowings is assumed to be 13% instead of 11%, the entire exchange difference of 30,000 would be considered as borrowing costs, since in that case the difference between the interest on local currency borrowings and foreign currency borrowings [i.e., R 34,500(58,500- * 24,000)] is more than the exchange difference of 30,000.

Therefore, in such a case, the total borrowing cost would be 54,000 (* 24,000 + 30,000) which would be accounted for under AS 16 and there would be no exchange difference to be accounted for under AS 11 The Effects of Changes in Foreign Exchange Rates'.

ACCOUNTING STANDARD MCQ'S

1. A Company purchased a Machine costing 15 Lakh for its production process. It paid Freight 25,000, Cartage 2,000 and installation charges 18,000. The Company spent an additional amount of 40,000 for testing and preparing the Machine for use. As per AS-10, the amount that should be recorded as the cost of Machine would be:

(a) 1500000
(b) 1525000
(c) 1585000
(d) 1565000

2. For the year ended 31.03.2014 accounting income of DNP Ltd. is 30 lakhs. However, its Taxable income was 20 lakhs only due to timing difference. Tax rate is 30%, The Deferred tax liability will be

(a) 10 lakhs
(b) 3 lakhs
(c) 9 lakhs
(d) 6 lakhs

3. Accounting Standards in India are issued by

(a)Comptroller and Auditor General of India
(b) Reserve Bank of India
(c)The Institute of Accounting Standard of India
(d) The Institute of Chartered Accountants of India

4. Parash Ltd. purchased a machine costing 72 lakh on01.04.20 14 and the same was fully financed by foreign currency loan (US Dollars) payable in two annual equal instalments. Exchange rates were 1 US Dollar =₹57.60 and 60.00 as on 01.04.2014 and 31.03.2015 respectively. First instalment was paid on 31.03.2015. What is the amount of difference to be charged to Profit and Loss Accounts for the year 2014-15 as per AS 11.

5.Any change in the accounting policy relating to inventories which has a material effect in the current or later periods should be disclosed. This is in accordance with the accounting principle of:

(a) Going Concern
(b) Conservatism
(c) Consistency
(d) Disclosure

6. As per AS-1, which of the following is not a Fundamental Accounting Assumptions?

(a) Conservatism
(b) Going Concern
(c) Consistency
(d) Accrual

7. Capitalization of Borrowing Cost

(a) AS 16
(b) AS 12
(c) Both
(d)none

8.Property, Plant and Equipment

(a) AS 16
(b) AS 10
(c) Both
(d)none

9.Exchange difference arising in respect of monetary items is to be recognized as income or expenditure during the year

(a) True
(b) False
(c) Both
(d)none

10. Fundamental Accounting Assumptions

(a) AS 10
(b) AS 1
(c) Both
(d)none

11. Substance over Form

(a) Accounting Policies
(b) Accounting Assumption
(c) Both
(d)none

12. Grant received specifically for a fixed asset is disclosed in the financial statement:

(I) By way of deduction from the gross block of asset

(II) The grant is treated as deferred revenue income and charged off on a systematic basis over the useful life of asset

Which of the following is correct?

(a) Both I and II
(b) Either I or II
(c) Only II
(d) Only I

13. IND-AS are

(a) rule based accounting standard.
(b) principle-based accounting standard.
(c) partially rule based and partially principle based accounting standard.
(d) None of the above

14. Fundamental Assumptions. are always required

(a) True
(b) False
(c) Both
(d)none

15. AS-10 is applicable to which one of the following assets?

(a) Construction Contracts
(b) Live stock
(c) Plantation
(d) Property, Plant and Equipment

16. Any change in the accounting policy relating to inventories which has a material effect in the current or later periods should be disclosed. This is in accordance with tne accounting principle of:

a. Going Concern
b. Conservatism
C. Consistency
d. Disclosure

17.Which one is the correct Fundamental accounting assumptions as per AS 1?

a. Going Concern, Matching and Consistency
B. Accounting Period, Going Concern and Entity Concept
C. Money Measurement, Going Concern and Prudence
d. Going Concern, Consistency and Accruals

18.Which of the following is not a major consideration in selection and application of accounting policies?

a. Prudence
b. Comparability
C. Materiality
d. Substance over form

19. A Company purchased a Machine costing 15 lakh for its production process. It paid Freight R 25,000, Cartage T 2.000 and installation charges 18,000. The Company spent an additional amount of 40,000 for testing and preparing the Machine for use. AS per AS-10 the amount that should be recorded as the cost of Machine would be:

a. 15,45,000
b. 5,25,000
C. 15,85,000
d. 15,65,000

20. MS Lo. purchased a machine costing 1,25,000 for its manufacturing operations and paid shipping costs of 30,000. MGS Spent an additional 12,000 testing and preparing the machine for use. What amount should MGS record as the cost of machine?

a. 1,25,000
b. 1,55,000
C. 1,67,000
d. 42,000

21. Which of the following is/are example/s of costs that are not related to an item of property, plant and equipment?

a. costs of opening a new facility or business
b. costs of conducting business in a new location or with a new class of customer
C. administration and other general overhead costs
d. All of the above

22.AS-10 is not applicable on

a. Biological assets related to agricultural activity
b. Produce on bearer plants
C. Wasting assets
d. All of the above

23. In the case of downward revaluation of an asset, which is for the first time revalued, account is debited.

a. Fixed Asset
b. Revaluation Reserve
C. Profit & Loss account
d. General Reserve

24. The Accounting Standard on the Effect of Changes in foreign exchange rates' is

a. AS -11
b. AS -15
C. AS -18
d. None of these

25. he Foreign Currency receivables as per books of accounts 10,000$ USD= 80, K8,00,000 accounted on 09-Feb-2023.On 31-Mar-2023, The USD= INR 82 then what is the amount of Foreign Currency Receivables to be reported on 31-Mar-2023 balance sheet as Assets.

a. 2,000
b. (2,000)
c.R8,20,000
d. 80,000

26.Which of the following items should be converted to closing rate for the purposes of financial reporting?

a. Items of Property, Plant and Equipment
b. Inventory
C. Trade Payables, Trade Receivables and Foreign Currency Borrowings
d. All of the above

27.If asset of an integral foreign operation is carried at cost, cost and depreciation of tangible fixed asset is translated at

a. Average exchange rate
b. Closing exchange rate
C. Exchange rate at the date of purchase of asset
d. Opening exchange rate

28.When we can recognize government grant in books of account

a. Conditions for receipt of grant should be fulfilled
b. Grants are certain to be received
C. Any of above
d. Both (a) and (b)

29. Grant received in respect of depreciable assets can be

a. Reduced from cost of the asset
b. Credited to deferred grant account
C. Any of above
d. Both (a) and (b)

30. X LtD. has received a grant of 20 crore for purchase of a qualified machine costing 80 Crore. X Ltd has a policy to recognise the grant as a deduction from the cost of the asset expected remaining useful life of the machine is 10 years. Assume that there is no savage Value and the deprecation method is straight-line. The amount of annual depreciation to be charged as an expense in Profit and Loss Statement will be:

a. 10 crore
b. 6crore
C. 2 crore
d. 8 crore

31. Land received as grant should

a. not be recorded in books of account
b. recorded at Actual purchase price of land
C. nominal value
d. any of the above

32. AS -16 Deals with

a. Accounting of Inventory Cost
b. Accounting for transactions in Foreign Currencies
C. Accounting for Depreciation
d. Accounting for Borrowing Costs

33. As per AS 16, all the following are qualifying assets except

a. Manufacturing plants and Power generation facilities
b. Inventories that require substantial period of time
C. Assets those are ready for sale.
d. None of the above

34. X Ltd is commencing a new construction project, which is to be financed by borrowing. The key dates are as follows:

15th May, 2021: Loan interest relating to the project starts to be incurred
2nd June, 2021: Technical site planning commences
19th June, 2021: Expenditure on the project started to be incurred
18th July, 2021: Construction work commences identify the commencement date for Capitalisation under AS 16.

a. 15th May, 2021.
b. 19th June, 2021.
C. 18th July, 2021.
d. 2nd June, 2021

35.Borrowing cost incurred during abnormal period should be

a. Transferred to Profit and Loss A/c
b. Capitalised
C. Any of the above
d. None of the above

36. The effect of timing difference is called as

a. Current Tax
b. Deferred Tax
C. Minimum Tax
d. None of the above

37. Accounting Standard 22 is related to

a. Accounting for Taxes on Income
b. Borrowing Costs
C. Accounting for Governnment Grants
d. Property, Plant and Equipment

38. As per AS 22 on 'Accounting for Taxes on Income', tax expense is:

a. Current tax-deferred tax credited to profit and loss account
B. Current tax + deferred tax charged to profit and loss account
C. Either (a) or (b)
d. Deferred tax charged to profit and loss account

39.For the year ended 31.03.2024 accounting income of DNP Ltd. is 30 lakhs. However its Taxable income was 20 lakhs only due to timing difference. Tax rate is 30%. The Deferred tax liability will be

a. 10 Lakhs
b. 3 Lakhs
C. 9 Lakhs
d. 6 Lakhs