

MGT401 (FINANCIAL ACCOUNTING – II)

MID TERM NOTES

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1 Types of Business Entities

MCQs:

1. What is the main objective of profit-oriented entities?

- a) Social Welfare
- b) Earning Profit
- c) Educational Services
- d) Charity

Answer: b) Earning Profit

2. In a Sole Proprietorship, who bears the risks and returns of the business?

- a) Multiple Owners
- b) Board of Directors
- c) Single Owner
- d) Government

Answer: c) Single Owner

3. Under the Separate Entity Concept, how is the business treated for accounting purposes?

- a) Dependent on Owners
- b) Independent of Owners
- c) Joint Entity with Owners
- d) Owned by Shareholders

Answer: b) Independent of Owners

4. What is the main characteristic of a Limited Company regarding liability?

a) Unlimited Liability

b) Joint Liability

c) Limited Liability

d) No Liability

Answer: c) Limited Liability

5. **What type of company restricts the right of shareholders to transfer their shares to outsiders?**

a) Public Limited Company

b) Single Member Company

c) Private Limited Company

d) Limited Liability Company

Answer: c) Private Limited Company

6. **How many shareholders are typically allowed in a Private Limited Company?**

a) 20

b) 50

c) 100

d) Unlimited

Answer: b) 50

7. **What is the key feature of a Single Member Company?**

a) Multiple Shareholders

b) Only one Shareholder

c) No Shareholders

d) Unlimited Shareholders

Answer: b) Only one Shareholder

8. What distinguishes Public Listed Companies from Public Unlisted Companies?

- a) Number of Shareholders
- b) Profit Distribution
- c) Share Trading on Stock Exchanges
- d) Shareholder Restrictions

Answer: c) Share Trading on Stock Exchanges

9. In which type of company are shares not traded on any stock exchange?

- a) Private Limited Company
- b) Public Listed Company
- c) Public Unlisted Company
- d) Single Member Company

Answer: c) Public Unlisted Company

10. What is the primary purpose of non-profit-oriented entities?

- a) Profit Generation
- b) Social Welfare
- c) Stock Trading
- d) Shareholder Benefits

Answer: b) Social Welfare

11. Which act governs the formation and regulations of Partnership Firms?

- a) Companies Ordinance 1984
- b) Partnership Act 1932
- c) Separate Entity Act 1950

d) Business Entities Act 2000

Answer: b) Partnership Act 1932

12. What concept forms the basis of accounting principles, treating business independently from owners?

- a) Joint Entity Concept
- b) Separate Entity Concept
- c) Limited Liability Concept
- d) Non-Profit Concept

Answer: b) Separate Entity Concept

13. Which type of company has its liability limited by the memorandum to the amount unpaid on the shares?

- a) Limited Liability Company
- b) Private Limited Company
- c) Company Limited by Shares
- d) Single Member Company

Answer: c) Company Limited by Shares

14. In a Public Limited Company, what is the minimum number of shareholders required?

- a) One
- b) Two
- c) Three
- d) Five

Answer: c) Three

15. What is the term used for companies whose shares are traded on stock exchanges?

a) Private Listed Companies

b) Public Listed Companies

c) Stocked Companies

d) Unlisted Companies

Answer: b) Public Listed Companies

16. Which type of company requires special permission from SECP to operate as a non-profit entity?

a) Public Limited Company

b) Private Limited Company

c) Limited Liability Company

d) Non-Profit Company

Answer: b) Private Limited Company

17. What is the maximum number of shareholders allowed in a Single Member Company?

a) 1

b) 2

c) 3

d) 5

Answer: a) 1

18. Which ordinance allows the formation of non-profit-oriented companies?

a) Companies Ordinance 1984

b) Partnership Ordinance 1978

c) Non-Profit Entities Ordinance 2005

d) SECP Ordinance 1990

Answer: a) Companies Ordinance 1984

19. What does a Private Limited Company need to do before selling shares to an outsider?

- a) Seek Approval from SECP
- b) Offer Shares to Existing Members
- c) Restrict Share Transfer
- d) All of the Above

Answer: d) All of the Above

20. Which type of company allows for the dispensation of the phrases "Private Limited" or "Limited"?

- a) Public Limited Company
- b) Single Member Company
- c) Non-Profit Company
- d) Limited Liability Company

Answer: c) Non-Profit Company

Q&A:

1. **What is the main goal of profit-oriented or commercial entities?**

A: The main goal is to earn profit for the owners of the business.

- ## 2. Define Sole Proprietorship.

A. Sole Proprietorship is a type of business owned by a single individual where ownership, risks, and returns rest with that individual.

- ### 3. How are partnership firms and agreements governed?

A: Partnership firms and agreements are governed by the Partnership Act 1932.

- 4. Explain the concept of joint and several liability in partnerships.**

5. What is the main difference between companies and other business entities?

6. What are the main types of non-profit-oriented entities?

7. What is the basis of accounting principles mentioned in the lecture?

8. **Define Limited Liability** in the context of a limited company.

9. What is a "Company Limited by Shares"?

10. Explain the concept of "Private Limited Companies."

11. What does "Single Member Companies" refer to?

12. Define "Public Limited Companies."

13. What distinguishes "Public Listed Companies" from others?

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14. Describe "Limited Companies not formed for Profit."

A: These are non-profit-oriented companies permitted by the Companies Ordinance; they don't distribute profits among shareholders.

15. What special permission is required for non-profit-oriented companies?

A: They need special permission from SECP and are allowed to dispense with the phrases "Private Limited" or "Limited."

16. What is the primary goal of profit-oriented entities?

A: The main aim of profit-oriented entities is to earn profit for the owners of the business.

17. Define Sole Proprietorship and its ownership structure.

A: Sole Proprietorship is a type of business owned by a single individual. Ownership and risks rest with a single owner, and all assets and liabilities belong to the owner.

18. What legal agreement governs Partnership Firms, and what is the liability of partners in a firm?

A: Partnership Firms are governed by the Partnership Act 1932. All partners in a firm are jointly and severally liable to the liabilities of the firm, including the utilization of personal properties in case of bankruptcy.

19. How are companies different from sole proprietorships and partnerships?

A: Companies, formed under the Companies Ordinance 1984, are separate legal entities with limited liability, a characteristic not present in sole proprietorship and partnership structures.

20. Define Non-Profit Oriented Entities and provide examples.

A: Non-profit oriented entities are businesses where the main purpose is not profit but providing benefits to the public. Examples include NGO's, Trusts, and Societies.

21. What is the basis of accounting principles, and what does the Separate Entity Concept imply?

29. What is the significance of Section 42 in the Companies Ordinance regarding non-profit companies?

A: Section 42 allows the formation of non-profit-oriented companies, indicating that these companies will not distribute profits among shareholders. They are also allowed to dispense with the phrases "Private Limited" or "Limited."

2 Formation of Companies and Meetings

MCQs:

1. What are the three major types of companies mentioned in the lecture?

- A) Sole Proprietorship, Partnership, Corporation
- B) Public Limited, Private Limited, Limited Liability
- C) Companies Limited by Shares, Companies Limited by Guarantee, Unlimited Companies
- D) Small, Medium, Large Companies

Answer: C) Companies Limited by Shares, Companies Limited by Guarantee, Unlimited Companies

2. In a "Company Limited by Shares," what is the liability of the members limited to?

- A) Their personal assets
- B) The amount of share capital they have contributed
- C) Unlimited liability

D) Total assets of the company

Answer: B) The amount of share capital they have contributed

3. **What does Section 15 of the Companies Ordinance 1984 state?**

- A) The formation of public companies only
- B) The procedure for winding up a company
- C) The types of companies and their formation
- D) The rules for conducting general meetings

Answer: C) The types of companies and their formation

4. **What is the purpose of a Memorandum of Association?**

- A) Lays down general rules of business
- B) Defines the limits of business activities
- C) Records the proceedings of meetings
- D) Outlines the annual financial statements

Answer: B) Defines the limits of business activities

5. **Which section of the Companies Ordinance 1984 specifies the contents of the Memorandum of Association for a company limited by shares?**

- A) Section 15
- B) Section 16
- C) Section 17
- D) Section 18

Answer: B) Section 16

6. **What is the purpose of an Annual General Meeting (AGM)?**

- A) To discuss day-to-day operations

B) To conduct extraordinary resolutions

C) To present the annual report to shareholders

D) To decide on the company's name change

Answer: C) To present the annual report to shareholders

7. **How often should a company hold its Annual General Meeting (AGM) according to the Companies Ordinance 1984?**

A) Every 6 months

B) Once in every calendar year

C) Every 2 years

D) Once in every financial quarter

Answer: B) Once in every calendar year

8. **What is the notice period required for an Extraordinary General Meeting (EOGM)?**

A) 7 days

B) 14 days

C) 21 days

D) 30 days

Answer: C) 21 days

9. **What is the purpose of an Ordinary Resolution in a general meeting?**

A) To discuss extraordinary matters

B) To pass routine business decisions

C) To make changes in the Memorandum of Association

D) To decide on the company's winding up

Answer: B) To pass routine business decisions

10. When is a Special Resolution required in a general meeting?

- A) For routine matters
- B) For day-to-day operations
- C) For extraordinary matters requiring a $\frac{3}{4}$ majority
- D) For routine matters requiring a simple majority

Answer: C) For extraordinary matters requiring a $\frac{3}{4}$ majority

11. Which of the following is NOT a matter taken through the passage of a Special Resolution?

- A) Change in the name of the company
- B) Reduction of share capital
- C) Routine business decisions
- D) Voluntary winding up of the company

Answer: C) Routine business decisions

12. What does an Unlimited Company share in common with a partnership?

- A) Limited liability
- B) Separate legal entity
- C) Formation procedure
- D) Unlimited liability

Answer: D) Unlimited liability

13. What is the significance of the Certificate of Incorporation?

- A) It signifies the completion of the AGM
- B) It marks the "date of birth" of the company
- C) It is required for a Special Resolution

D) It is a part of the Memorandum of Association

Answer: B) It marks the "date of birth" of the company

14. When can private limited companies start business after receiving the Certificate of Incorporation?

A) After 7 days

B) Immediately

C) After fulfilling certain conditions

D) After 30 days

Answer: B) Immediately

15. What is the primary purpose of the Statutory Meeting?

A) To pass ordinary resolutions

B) To present the annual report

C) To discuss extraordinary matters

D) To produce a report on the company's performance

Answer: D) To produce a report on the company's performance

16. Who can summon an Extraordinary General Meeting (EOGM)?

A) Any shareholder

B) Only the directors

C) Shareholders with 10% voting power

D) Only the company secretary

Answer: C) Shareholders with 10% voting power

17. What is the minimum notice period for an Annual General Meeting (AGM)?

A) 7 days

B) 14 days

C) 21 days

D) 30 days

Answer: C) 21 days

18. Which section of the Companies Ordinance 1984 specifies the requirements for an Annual General Meeting (AGM)?

A) Section 146

B) Section 157

C) Section 158

D) Section 15

Answer: C) Section 158

19. What does an Ordinary Resolution require for passage in a general meeting?

A) Simple majority

B) Unanimous consent

C) $\frac{3}{4}$ majority

D) 50% + 1 majority

Answer: A) Simple majority

20. When is the first Annual General Meeting (AGM) required to be held after incorporation?

A) Within 6 months

B) Within 12 months

C) Within 18 months

D) Within 24 months

Answer: C) Within 18 months

Q&A:

1. **What are the three major types of companies mentioned in the lecture?**

Answer: Companies Limited by Shares, Companies Limited by Guarantee, Unlimited Companies

2. **According to Section 15 of the Companies Ordinance 1984, how many persons are required to associate for forming a public company?**

Answer: Any three or more persons

3. **What does "limited by shares" mean in the context of a company's liability?**

Answer: The liability of members is limited to the amount unpaid on the shares they hold.

4. **In a company limited by guarantee, what do shareholders guarantee in case of winding up?**

Answer: Shareholders guarantee to contribute a specific amount to repay the liabilities of the company.

5. **How does the liability of members in an unlimited company compare to that in a partnership?**

Answer: In an unlimited company, the liability of members is unlimited, similar to a partnership.

6. **What is the first step in the formation of companies, as per the lecture?**

Answer: Checking the availability of the company name from SECP.

7. **What is the significance of the Certificate of Incorporation?**

Answer: It marks the "date of birth" of the company.

8. **When can private limited companies start their business after receiving the Certificate of Incorporation?**

Answer: They can start business immediately.

9. **What conditions do public limited companies have to fulfill before starting their business after receiving the Certificate of Incorporation?**

Answer: Change in the name and objects of the company, alteration of articles, reduction of share capital, creation of reserve capital, making the liability of directors unlimited, and voluntary winding up.

19. How is a Special Resolution passed, and what majority is required?

Answer: It requires a majority of not less than $\frac{3}{4}$ of members entitled to vote, and a notice of 21 days is required for the meeting.

20. What is the maximum gap allowed between two Annual General Meetings (AGMs)?

Answer: The gap should not be more than 15 months.

3 Relationships between Companies

MCQs:

1. What does the term "Related Party" mean according to the Companies Ordinance 1984?

- A. Any business entity
- B. Any entity with a significant influence
- C. An entity that can control or influence financial decisions
- D. A subsidiary company

Answer: C. An entity that can control or influence financial decisions

2. According to IAS 24, when is a party related to an entity?

- A. Only if it has direct control over the entity
- B. If it has significant influence over the entity
- C. If it is a subsidiary of the entity
- D. Both B and C

Answer: D. Both B and C

3. Which of the following is not considered a Related Party as per the Companies Ordinance 1984?

- A. Associates
- B. Entities under common management
- C. Independent suppliers
- D. Key management personnel

Answer: C. Independent suppliers

4. In the context of Related Parties, what is "significant influence"?

- A. Full control over financial decisions
- B. The ability to participate but not control financial and management affairs
- C. Owning more than 50% shares
- D. Joint control over the entity

Answer: B. The ability to participate but not control financial and management affairs

5. How are Associated Undertakings defined in the Companies Ordinance 1984?

- A. Entities with joint control
- B. Entities with common management
- C. Entities with significant influence
- D. Entities with interconnected operations

Answer: B. Entities with common management

6. According to IAS 28, what is an "associate" in terms of significant influence?

- A. Any business entity
- B. An enterprise with 10% ownership
- C. An enterprise with significant influence

D. A subsidiary company

Answer: C. An enterprise with significant influence

7. How is "control" defined in IAS 27 concerning subsidiary companies?

- A. Owning more than 20% shares
- B. Owning more than 50% shares
- C. Joint control over financial policies
- D. Direct control over financial and operating policies

Answer: B. Owning more than 50% shares

8. What is the condition for a company to be termed as a "subsidiary" according to the Companies Ordinance 1984?

- A. Owning more than 30% shares
- B. Owning more than 50% shares
- C. Having joint control over financial policies
- D. Having common management

Answer: B. Owning more than 50% shares

9. In IAS 27, what is the definition of "control" in relation to an enterprise?

- A. Owning more than 30% shares
- B. Owning more than 50% shares
- C. Significant influence over financial policies
- D. Joint control over operating policies

Answer: B. Owning more than 50% shares

10. What is the term for a subsidiary owned more than 50% but less than 100% by the holding company?

- A. Wholly Owned Subsidiary

- B. Partially Owned Subsidiary
- C. Virtually Wholly Owned Subsidiary
- D. Jointly Owned Subsidiary

Answer: B. Partially Owned Subsidiary

11. When is a subsidiary termed as a "Wholly Owned Subsidiary"?

- A. When the holding company owns more than 50% shares
- B. When the holding company owns exactly 50% shares
- C. When the holding company owns 100% shares
- D. When the holding company has joint control

Answer: C. When the holding company owns 100% shares

12. What is the purpose of creating a Virtually Wholly Owned subsidiary?

- A. To maintain control over financial decisions
- B. To fulfill the minimum shareholder requirement
- C. To establish joint control
- D. To achieve significant influence

Answer: B. To fulfill the minimum shareholder requirement

13. How is "significant influence" determined when the investor holds less than 20% of the voting power?

- A. It is presumed that there is significant influence
- B. It is presumed that there is no significant influence
- C. Significant influence is always present
- D. Significant influence is determined by the number of shareholders

Answer: B. It is presumed that there is no significant influence

14. According to IAS 28, what does an entity need to have to be considered an "associate"?

- A. 30% ownership
- B. Significant influence
- C. Joint control
- D. Common management

Answer: B. Significant influence

15. What does "control" mean according to IAS 27 in the context of subsidiary companies?

- A. Joint control over financial policies
- B. The power to govern financial and operating policies
- C. Significant influence over financial decisions
- D. Ownership of more than 30% shares

Answer: B. The power to govern financial and operating policies

16. In the context of Related Parties, what information needs to be disclosed in financial statements?

- A. Only names of related parties
- B. Accounting policy for related party transactions and transactions at an arm's length price
- C. Only the nature of related party transactions
- D. Only the financial impact of related party transactions

Answer: B. Accounting policy for related party transactions and transactions at an arm's length price

17. Which condition makes two companies associated according to the Companies Ordinance 1984?

- A. Joint control

B. Common management

C. Ownership of more than 20% shares by a person in both companies

D. Both B and C

Answer: D. Both B and C

18. What does "associated undertakings" mean according to the Companies Ordinance 1984?

A. Entities with significant influence

B. Entities under common control

C. Entities with interconnected operations

D. Entities with joint control

Answer: B. Entities under common control

19. How is "significant influence" defined in the context of IAS 28?

A. Control over financial and operating policies

B. The ability to participate but not control financial and management affairs

C. Owning more than 30% shares

D. Joint control over financial policies

Answer: B. The ability to participate but not control financial and management affairs

20. In what circumstances is a person deemed to be an "associated person" according to the Companies Ordinance 1984?

A. If the person owns more than 30% shares

B. If the person owns more than 10% shares and is deemed significant

C. If the person is a director in two different companies

D. If the person has joint control over an entity

Answer: B. If the person owns more than 10% shares and is deemed significant

Q&A:

1: What is the definition of Related Parties in the Companies Ordinance 1984?

A: Related parties, in relation to a company, means an entity which has the ability to control the company or exercise significant influence over the company in making financial and operating decisions or vice versa.

2: According to the Companies Ordinance 1984, who are considered Related Parties?

A: Related parties include entities that control or are controlled by the reporting company, associates, individuals with significant influence, key management personnel, entities with substantial voting power influence, and others as specified in the ordinance.

3: In the context of Related Parties, what does "significant influence" mean according to International Accounting Standards (IAS) 24?

A: Significant influence includes having the ability to control, be controlled by, or be under common control with the entity, having an interest that gives significant influence, being an associate, a joint venture member, or a close family member of key management personnel.

4: What information needs to be disclosed in financial statements regarding transactions with Related Parties?

A: Financial statements should disclose the accounting policy for recording related party transactions and ensure that all transactions are recorded at an arm's length price.

5: How does the Companies Ordinance 1984 define Associated Companies?

A: Associated companies are defined as two or more companies interconnected by ownership, common management, control, or if one is the subsidiary of another.

6: According to International Accounting Standard 28, how is an associate defined?

A: An associate, as per IAS 28, is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

7: What is the definition of "significant influence" in the context of IAS 28?

A: Significant influence is the ability to participate but not control the financial and management affairs of the enterprise. It is presumed if the investor holds 20% or more of the voting power, unless demonstrated otherwise.

8: How is control defined according to IAS 27?

A: Control is defined as the power to govern the financial and operating policies of an enterprise to obtain benefits from its activities. This includes having more than fifty percent of profits or bearing more than fifty percent of losses.

9: When is a company considered a subsidiary as per the Companies Ordinance 1984?

A: A company is considered a subsidiary if the other company holds more than 50% of its shares or has the power to appoint more than 50% of its directors.

10: Define "Types of Subsidiaries" in the context of direct and indirect subsidiaries.

A: Direct subsidiaries have a direct ownership relationship, while indirect subsidiaries are linked through an intermediary. Wholly owned subsidiaries have 100% ownership, and partially owned subsidiaries have ownership between 50% and 100%.

11: What is the difference between Wholly Owned and Partially Owned Subsidiaries?

A: Wholly Owned Subsidiaries are owned 100% by the holding company, while Partially Owned Subsidiaries have ownership between 50% and 100%.

12: Explain the concept of Virtually Wholly Owned subsidiary.

A: A Virtually Wholly Owned subsidiary occurs when the holding company owns marginally less than 100% shares, typically to meet the minimum shareholder requirement without compromising control.

13: Why might a company create a Virtually Wholly Owned subsidiary?

A: This is often done to meet the minimum number of shareholders requirement in legal structures, like having at least two shareholders in a Private Limited Company.

14: How does International Accounting Standard 27 define subsidiary?

A: An enterprise is a subsidiary of another if the investor enterprise can control the subsidiary.

15: What conditions define associated companies according to the Companies Ordinance 1984?

A: Associated companies are interconnected through ownership, common management, control, or if one is the subsidiary of another.

16: How is associated person defined in the Companies Ordinance 1984?

A) International Financial Reporting Standards (IFRS)

B) Companies Ordinance 1984

C) International Accounting Standards (IAS)

D) Both B and C

Answer: B) Companies Ordinance 1984

2. **Which schedule of the Companies Ordinance 1984 provides disclosure requirements for non-listed companies?**

A) 1st Schedule

B) 4th Schedule

C) 5th Schedule

D) 2nd Schedule

Answer: C) 5th Schedule

3. **Who issues International Accounting Standards?**

A) International Accounting Standards Board (IASB)

B) Securities and Exchange Commission of Pakistan (SECP)

C) Government of Pakistan

D) Ministry of Finance

Answer: A) International Accounting Standards Board (IASB)

4. **When should the first annual accounts of a company be prepared?**

A) Within 6 months of incorporation

B) Within 12 months of incorporation

C) Within 18 months of incorporation

D) Within 24 months of incorporation

Answer: C) Within 18 months of incorporation

5. Which financial statement should directors lay before the Annual General Meeting?

- A) Income and Expenditure Account
- B) Profit and Loss Account
- C) Balance Sheet
- D) Both B and C

Answer: D) Both B and C

6. What needs to be disclosed in the financial statements of a company according to general requirements?

- A) Name of the entity
- B) Date of the balance sheet
- C) Currency of presentation
- D) All of the above

Answer: D) All of the above

7. Which schedule provides information on fixed assets in financial statements?

- A) Assets Schedule
B) Depreciation Schedule
C) Fixed Asset Schedule
D) Liability Schedule

Answer: C) Fixed Asset Schedule

8. What is included in tangible fixed assets?

- A) Goodwill
- B) Patents

C) Buildings

D) Intangible Assets

Answer: C) Buildings

9. **What does IAS 1 require regarding comparative information in financial statements?**

A) It is not required

B) To be disclosed for the previous period

C) To be disclosed for the next period

D) To be disclosed only if it is convenient

Answer: B) To be disclosed for the previous period

10. **Which column in the fixed asset schedule shows the rate of depreciation applied to asset categories?**

A) Fifth column

B) Sixth column

C) Eighth column

D) Tenth column

Answer: B) Sixth column

11. **What does the Written Down Value (WDV) represent in the fixed asset schedule?**

A) Opening cost brought forward

B) Year end accumulated depreciation

C) Cost at the start of the financial year

D) Depreciation for the year

Answer: D) Depreciation for the year

12. **Which financial statement should directors lay before the Annual General Meeting?**

- A) Income and Expenditure Account
- B) Profit and Loss Account
- C) Balance Sheet
- D) Both B and C

Answer: D) Both B and C

13. What governs the preparation and presentation of financial statements?

- A) International Financial Reporting Standards (IFRS)
- B) Companies Ordinance 1984
- C) International Accounting Standards (IAS)
- D) Both B and C

Answer: B) Companies Ordinance 1984

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- B) 4th Schedule
- C) 5th Schedule
- D) 2nd Schedule

Answer: C) 5th Schedule

15. Who issues International Accounting Standards?

- A) International Accounting Standards Board (IASB)
- B) Securities and Exchange Commission of Pakistan (SECP)
- C) Government of Pakistan
- D) Ministry of Finance

Answer: A) International Accounting Standards Board (IASB)

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- B) Within 12 months of incorporation
- C) Within 18 months of incorporation
- D) Within 24 months of incorporation

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- C) Balance Sheet
- D) Both B and C

Answer: D) Both B and C

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- A) Name of the entity
- B) Date of the balance sheet
- C) Currency of presentation
- D) All of the above

Answer: D) All of the above

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D) Liability Schedule

Answer: C) Fixed Asset Schedule

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A) Goodwill

B) Patents

C) Buildings

D) Intangible Assets

Answer: C) Buildings

Q&A:

1: What governs the preparation and presentation of financial statements?

Answer: The preparation and presentation of financial statements are governed by the Companies Ordinance 1984 (4th and 5th Schedule) and International Accounting Standards (IAS) or International Financial Reporting Standards (IFRS).

2: What is the main objective of International Accounting Standards (IAS)?

Answer: The main objective of IAS is to prescribe the basis for the presentation of general-purpose financial statements, ensuring comparability with the entity's own previous periods and with the financial statements of other entities.

3: What does the 4th Schedule of the Companies Ordinance 1984 provide for?

Answer: The 4th Schedule of the Companies Ordinance 1984 provides disclosure requirements for Listed Companies.

4: According to IAS – 1, to whom do the general-purpose financial statements prepared in accordance with IASs cater?

Answer: IAS – 1 applies to all general-purpose financial statements prepared in accordance with IASs, intended to meet the needs of users who are not in a position to demand reports tailored to their specific needs.

5: What is the responsibility of the directors concerning the annual accounts of a company?

Answer: The directors of every company are responsible for preparing the annual accounts of the company.

6: When should the first annual accounts of a company be prepared?

Answer: The first annual accounts of the company should be prepared within eighteen (18) months of the incorporation of the company.

7: In addition to annual accounts, what other accounts are listed companies required to prepare?

Answer: Listed companies are required to prepare Quarterly and Half Yearly accounts in addition to annual accounts.

8: What are the general requirements for the presentation of financial statements?

Answer: The general requirements for the presentation of financial statements include disclosing the name of the entity, date of the balance sheet, currency used, and reporting period if it is less or more than one year.

9: According to Clause 6 of Part I of Fourth Schedule, what is required for financial statements laid before the company?

Answer: Clause 6 of Part I of Fourth Schedule requires that, except for the first financial statements laid before the company, financial statements shall also give the corresponding figures for the immediately preceding financial year.

10: How are fixed assets classified according to the Companies Ordinance 1984 and International Accounting Standards (IAS)?

Answer: According to the Companies Ordinance 1984, fixed assets are classified as Property, Plant, and Equipment. According to IAS, they are classified as Intangible Assets.

11: What are the disclosure requirements for fixed assets?

Answer: The disclosure requirements for fixed assets include depreciation method used, useful lives or depreciation rates used, gross carrying amount, and accumulated depreciation at the beginning and end of the period, among others.

12: What is the purpose of the Fixed Asset schedule in financial statements?

Answer: The Fixed Asset schedule in financial statements provides a detailed breakdown of fixed assets, additions, disposals, accumulated costs, depreciation, and written down value.

Answer: The depreciation charge for the year is allocated to cost of sales, selling and marketing expenses, and general and administrative expenses.

Answer: The disclosure of revalued assets includes the basis used for revaluation, effective date, involvement of an independent valuer, nature of indices used, and the carrying amount that would have been included in the financial statements at cost.

Answer: For revalued assets, IAS requires disclosure of the basis used for revaluation, effective date, involvement of an independent valuer, nature of indices used, carrying amount, and revaluation surplus.

Answer: IAS distinguishes between tangible and intangible fixed assets, including categories such as land, buildings, plant and machinery, furniture and fittings, goodwill, patents, copyrights, trademarks, and others.

Answer: Disclosing the carrying amount of temporarily idle property, plant, and equipment provides information about assets that are not actively in use during the period.

Answer: The financial statement discloses leased assets transferred to owned assets, including the details of the transfer and any changes in their status.

Answer: The Fixed Asset schedule provides information on the rate of depreciation applied, accumulated depreciation at the beginning, adjustments due to disposals or transfers, depreciation for the year, and accumulated depreciation at the end of the year.

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Answer: The depreciation charge for the year is allocated among different expenses, including cost of sales, selling and marketing expenses, and general and administrative expenses.

5 Property, Plant and Equipment

MCQs:

1. **What does IAS 16 primarily govern?**

- a. Revenue recognition
- b. Property, plant, and equipment
- c. Intangible assets
- d. Financial instruments

Answer: b

2. **When should IAS 16 be followed for accounting purposes?**

- a. Only when dealing with biological assets
- b. Only when mineral rights are involved
- c. Unless another International Accounting Standard dictates otherwise
- d. Always, without exception

Answer: c

3. **According to IAS 16, what does "property, plant, and equipment" refer to?**

- a. Only buildings
- b. Tangible non-current assets
- c. Intangible assets
- d. Current assets

Answer: b

4. Which of the following is not covered by IAS 16?

- a. Biological assets related to agricultural activity
- b. Mineral rights and reserves
- c. Current assets
- d. Property, plant, and equipment used to develop assets mentioned in (a) and (b)

Answer: c

5. What is the cost of an asset according to IAS 16?

- a. Fair value at acquisition
- b. Historical cost
- c. Cash or cash equivalent paid at acquisition
- d. Both a and c

Answer: d

6. What is residual value?

- a. The fair value of an asset
- b. The net amount expected at the end of the asset's useful life
- c. The initial cost of an asset
- d. The market value of an asset

Answer: b

7. How is fair value defined in IAS 16?

- a. Market value at a specific date
- b. The cost at which the asset was acquired
- c. Replacement cost
- d. The highest selling price within the last year

Answer: a

8. What does the carrying amount of an asset represent?

- a. Historical cost
- b. Fair value
- c. Cost less accumulated depreciation and impairment losses
- d. Replacement cost

Answer: c

9. When is subsequent expenditure on an asset capitalized?

- a. Always
- b. When it is probable that future economic benefits will flow to the enterprise
- c. When it is incurred
- d. Only for major components

Answer: b

10. Which criterion must be satisfied for the initial recognition of property, plant, and equipment?

- a. The entity expects to obtain future economic benefit from the asset
- b. The asset has a high market value
- c. The entity is willing to take risks associated with the asset
- d. Both a and c

Answer: d

11. What does the cost of property, plant, and equipment include?

- Purchase price only
- Import duties only

- c. All costs incurred in bringing the asset to working condition for its intended use
- d. Professional fees only

Answer: c

12. In case of exchange of dissimilar assets, how is the cost of the new asset measured?

- a. Fair value of the asset given up
- b. Fair value of the asset received
- c. Fair value of the asset given up plus cash transferred
- d. Carrying value of the old asset

Answer: c

13. What is the carrying amount of an asset after revaluation according to IAS 16?

- a. Historical cost
- b. Fair value at the date of revaluation
- c. Fair value less accumulated depreciation
- d. Cost less accumulated depreciation and impairment loss

Answer: b

14. How is depreciation defined in IAS 16?

- a. A decrease in the fair value of an asset
- b. A systematic allocation of depreciable amount over the asset's estimated useful life
- c. The cost of an asset
- d. The expected disposal value of an asset

Answer: b

15. When are repairs and maintenance costs recognized as an expense?

- a. Always

b. When they improve the condition of the asset

c. When they restore the economic benefits from the originally assessed standard of performance

d. Both a and c

Answer: d

16. What is the depreciable amount of an asset?

a. Historical cost

b. Expected disposal value

c. Cost or other amount substituted for cost less expected disposal value

d. Replacement cost

Answer: c

17. How is the useful life of an asset determined?

a. The number of production units expected

b. The estimated number of years the enterprise expects to use the asset

c. Both a and b

d. The fair value of the asset

Answer: c

18. What is the treatment of land and buildings in terms of depreciation?

a. Both land and buildings are depreciated

b. Only land is depreciated

c. Only buildings are depreciated

d. Neither land nor buildings are depreciated

Answer: d

19. What is the purpose of depreciation according to IAS 16?

- a. To increase the carrying amount of an asset
- b. To systematically allocate depreciable amount over an asset's useful life
- c. To account for changes in fair value
- d. To calculate the historical cost of an asset

Answer: b

20. How is an asset carried subsequent to initial measurement according to IAS 16?

- a. At cost only
- b. At fair value only
- c. Either at cost or at a revalued amount
- d. Both a and b

Answer: c

Q&A:

1. What standard governs the recording, classification, and reporting of Property, Plant, and Equipment (PPE)?

Answer: IAS 16 – Property Plant and Equipment.

2. What is the scope of IAS 16?

Answer: IAS 16 should be followed when accounting for PPE unless another International Accounting Standard requires a different treatment.

3. According to IAS 16, what are the criteria for recognizing property, plant, and equipment?

Answer: The enterprise expects to obtain future economic benefit from the asset, and the value of the asset can be measured reliably.

4. What are the two criteria for the initial recognition of property, plant, and equipment?

5. When is an asset recognized according to the criterion of future economic benefits?

6. How is the cost of an asset determined under IAS 16?

7. What does residual value represent for an asset?

8. Define fair value according to IAS 16.

9. How is the carrying amount of an asset calculated?

10. What is impairment loss according to IAS 16?

11. What are the key activities involved in the recording of Property, Plant, and Equipment?

12. When is subsequent expenditure added to the carrying cost of an asset?

13. Give an example of subsequent expenditure that can be capitalized.

Answer: Modification of an item of plant to extend its useful life or capacity

14. How is the cost of an item of Property, Plant, and Equipment measured when exchanged for similar assets?

Answer: At the carrying value of the old asset.

15. When is an asset carried at a revalued amount under IAS 16?

Answer: Subsequent to initial measurement, an asset is carried at a revalued amount if the entity chooses to revalue it, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.

16. Define depreciation according to IAS 16.

Answer: It is a systematic allocation of depreciable amount of an asset over its estimated useful life.

17. How are land and buildings treated concerning depreciation?

Answer: Land normally has an unlimited life and is not depreciated, while buildings, having a limited life, must be depreciated.

18. What is the purpose of depreciation under IAS 16?

Answer: It is to systematically allocate depreciable amount over an asset's estimated useful life.

19. What is the depreciable amount of an asset?

Answer: It is its cost or other amount substituted for cost (revalued) amount less its expected disposal value.

20. How is the useful life of an asset determined according to IAS 16?

Answer: It is the number of years over which an enterprise expects to use the asset or the number of production or similar units expected to be obtained from the asset.

6 Revaluation of Assets

MCQs:

1. **What is the primary benchmark treatment for recognizing property, plant, and equipment according to IAS 16?**

- A) Revalued Amount
- B) Cost less Accumulated Depreciation
- C) Depreciated Replacement Cost
- D) Fair Value

Answer: B) Cost less Accumulated Depreciation

2. **When a revaluation of assets is generally carried out?**

- A) Annually
- B) Whenever market conditions change
- C) When there is a significant difference between fair value and carrying value
- D) Only when required by tax regulations

Answer: C) When there is a significant difference between fair value and carrying value

3. **What is the primary reason for revaluing the whole class of assets to which an item belongs?**

- A) To increase the carrying value
- B) To maintain consistency in financial statements
- C) To disclose a mixture of costs and values
- D) To satisfy regulatory requirements

Answer: B) To maintain consistency in financial statements

4. **What is the alternative treatment allowed by IAS 16 for recording property, plant, and equipment?**

- A) Historical Cost
- B) Market Value

C) Revalued Amount

D) Depreciated Replacement Cost

Answer: C) Revalued Amount

5. **Who is required to conduct the revaluation of assets according to International Accounting Standard IAS 16?**

A) Company directors

B) Any qualified individual

C) Independent valuers

D) Internal auditors

Answer: C) Independent valuers

6. **How should an increase in the value of an asset be treated after a revaluation?**

A) Credited to the income statement

B) Debited to the revaluation reserve

C) Transferred to retained earnings

D) Recognized as an expense

Answer: B) Debited to the revaluation reserve

7. **When is a revaluation loss charged to the profit and loss account?**

A) At the time of revaluation

B) When the asset is disposed of

C) When the fair value exceeds the carrying value

D) When there is a decrease in the value of an asset

Answer: D) When there is a decrease in the value of an asset

8. **What is the purpose of the "Surplus on Revaluation of Fixed Assets Accounts" according to Section 235?**

- A) Set-off or reduction of deficits
- B) Distribution as dividends
- C) Adjustment of profits
- D) Transfer to retained earnings

Answer: A) Set-off or reduction of deficits

9. According to IAS 16, how should the depreciation of revalued assets be provided?

- A) Based on the original cost
- B) Based on the revalued amount
- C) At irregular intervals
- D) Only when realized through disposal

Answer: B) Based on the revalued amount

10. Which method of restating the carrying amount involves eliminating accumulated depreciation?

- A) Gross Carrying Value Method
- B) Net Carrying Value Method
- C) Accumulated Value Method
- D) Elimination Method

Answer: B) Net Carrying Value Method

11. What happens to the revaluation surplus when an asset is disposed of?

- A) Transferred to income statement
- B) Transferred to retained earnings
- C) Eliminated entirely
- D) Distributed as dividends

Answer: B) Transferred to retained earnings

12. How a revaluation surplus is realized when an asset is being depreciated?

- A) Transferred to income statement
- B) Credited to revaluation reserve
- C) Recognized as income in the income statement
- D) Distributed to shareholders

Answer: C) Recognized as income in the income statement

13. What is the consequence of default in complying with Section 235 of the Companies Ordinance?

- A) Criminal charges
- B) Fine and liability for company losses
- C) Asset forfeiture
- D) License revocation

Answer: B) Fine and liability for company losses

14. Which example represents the second method of restating the carrying amount after revaluation?

- A) Gross carrying amount is restated
- B) Accumulated depreciation is eliminated
- C) Net carrying amount is adjusted
- D) Depreciation is charged prospectively

Answer: B) Accumulated depreciation is eliminated

15. What is the primary purpose of the "Revaluation Surplus" account?

- A) Distribution to shareholders
- B) Realization of surplus

C) Adjustment of deficits

D) Transfer to income statement

Answer: B) Realization of surplus

16. When is a revaluation surplus realized in the case of an asset being used by the enterprise?

A) At the time of revaluation

B) Only when the asset is sold

C) As the asset is used

D) After the asset is fully depreciated

Answer: C) As the asset is used

17. What is the impact of an upward revaluation on the depreciation charge?

A) Decreases depreciation

B) Increases depreciation

C) No impact on depreciation

D) Changes depreciation method

Answer: B) Increases depreciation

18. In the second method of restating carrying amount, what happens to accumulated depreciation?

A) Accumulated depreciation is increased

B) Accumulated depreciation is eliminated

C) Accumulated depreciation is reduced

D) Accumulated depreciation is transferred to income statement

Answer: B) Accumulated depreciation is eliminated

19. What happens to the revaluation surplus if there is a revaluation decrease that exceeds the previous increase?

- A) Transferred to income statement
- B) Recognized as an expense
- C) Carried forward as a reserve
- D) Distributed as dividends

Answer: B) Recognized as an expense

20. How often should a review of the useful life of property, plant, and equipment be carried out according to IAS 16?

- A) Every two years
- B) Annually
- C) When there is a significant change in market conditions
- D) Only when required by regulatory authorities

Answer: B) Annually

Q&A:

1. Why is it important to have professionally qualified valuers for the revaluation of assets?

Answer: Professionally qualified valuers are required to ensure the accuracy and reliability of asset valuations.

2. What is the benchmark treatment for recognizing fixed assets according to IAS 16?

Answer: The benchmark treatment is to carry property, plant, and equipment at Cost less Accumulated Depreciation and any Accumulated Impairment Losses.

3. Explain the concept of revaluation surplus.

Answer: Revaluation surplus is the increase in the value of an asset after revaluation. According to IAS 16, this increase is credited to a revaluation surplus, a part of owners' equity.

- 4. Under what circumstances is a revaluation loss charged to the profit and loss account?**

Answer: A revaluation loss is charged to the profit and loss account in the period in which the revaluation is carried out.

5. What is the allowed alternative treatment for recording property, plant, and equipment according to IAS 16?

Answer: The allowed alternative treatment is to record property, plant, and equipment at its Revalued Amount less Accumulated Depreciation and any Accumulated Impairment Losses.

- 6. How is a revaluation decrease treated in the financial statements?**

Answer: A revaluation decrease is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in surplus in respect of the same asset.

7. **What is the frequency recommended for the review of the useful life of property, plant, and equipment?**

Answer: A review of the useful life should be carried out at least each financial year-end, and the depreciation charge should be adjusted if expectations have changed significantly from previous estimates.

- 8. Explain the treatment of revaluation surplus when it is realized.**

Answer: Revaluation surplus is transferred to retained earnings when realized, either on the retirement or disposal of the asset. The amount realized is the difference between depreciation based on the revalued carrying amount and depreciation based on the asset's original cost.

- 9. What is the effect of revaluation on the depreciation charge?**

Answer: An upward revaluation increases the depreciation charge, and part of the revaluation surplus is realized as the asset is used, which is transferred to retained earnings.

- 10. Who can conduct the revaluation, according to International Accounting Standard IAS 16?**

Answer: IAS 16 requires that revaluation should be carried out by professionally qualified valuers.

11. What is the purpose of revaluing all assets within a class at the same time?

Answer: Revaluing all assets within a class at the same time prevents selective revaluation of certain assets and ensures consistency in financial statements.

12. Explain the difference between depreciation and impairment.

Answer: Depreciation is the systematic allocation of the depreciable amount of an asset over its estimated useful life, while impairment is a fall in the value of an asset beyond the company's control, resulting in its recoverable amount being less than its carrying value.

13. When is a revaluation loss charged to the profit and loss account?

Answer: A revaluation loss is charged to the profit and loss account in the period in which the revaluation is carried out.

14. What is the treatment of a revaluation surplus in equity?

Answer: A revaluation surplus is credited directly to equity under the heading of Revaluation Surplus.

15. How the realization of revaluation surplus is determined when an asset is being depreciated?

Answer: The realization of revaluation surplus when an asset is being depreciated is the difference between depreciation charged on the revalued amount and the (lower) depreciation that would have been charged on the asset's original cost.

16. What is the purpose of restating the carrying amount of an asset after revaluation?

Answer: Restating the carrying amount after revaluation is done to reflect the new revalued amount and adjust the depreciation charge accordingly.

17. What are the two methods provided by IAS 16 for restating the carrying amount of an asset after revaluation?

Answer: The first method involves restating the gross carrying value along with accumulated depreciation, and the second method involves eliminating accumulated depreciation against the gross carrying value.

18. Under what circumstances can the surplus on revaluation of fixed assets be applied or utilized?

19. What is the effect of a fall in the value of an asset on its carrying value?

20. Who is defined as an "expert" according to the Companies Ordinance 1984?

7 Property, Plant & Equipment and Borrowing Cost

MCQs:

- a) Only the carrying amount
- b) Measurement basis, depreciation method, useful lives or rates
- c) Only acquisitions through business combinations
- d) None of the above

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2: In the sample provided, how are tangible fixed assets stated?

- a) Revalued amount
- b) Historical cost
- c) Fair value
- d) Net realizable value

Answer: b) Historical cost

3: Which depreciation method is mentioned for operating fixed assets in the sample?

- a) Double Declining Balance
- b) Sum-of-the-Years-Digits
- c) Straight Line
- d) Units of Production

Answer: c) Straight Line

4: What is included in the reconciliation of the carrying amount at the beginning and end of the period?

- a) Additions and disposals only
- b) Depreciation and net exchange differences
- c) Acquisitions through business combinations
- d) All of the above

Answer: d) All of the above

5: When are comparative figures required for reconciliation?

- a) Always
- b) Only for additions
- c) Only for disposals

d) Not required

Answer: d) Not required

6: What is the purpose of disclosing the selection of the depreciation method and estimated useful lives?

- a) To confuse users
- b) To comply with regulations
- c) To provide information for comparison
- d) None of the above

Answer: c) To provide information for comparison

7: When should an enterprise disclose a change in an accounting estimate related to property, plant, and equipment?

- a) Only if it has a material effect
- b) In every financial statement
- c) Only when there is a decrease in useful life
- d) Never

Answer: a) Only if it has a material effect

8: What information is disclosed when property, plant, and equipment are stated at a revalued amount?

- a) Only the revaluation surplus
- b) Basis used, effective date, valuer involvement
- c) Carrying amount if not revalued
- d) All of the above

Answer: d) All of the above

9: How are gains or losses from the retirement or disposal of assets recognized?

- a) As extraordinary items
- b) Included in profit and loss account
- c) Ignored in financial statements
- d) Deducted from depreciation

Answer: b) Included in profit and loss account

10: What happens when property, plant, and equipment are exchanged for a similar asset?

- a) Gain or loss is recognized
- b) Cost of acquired asset equals carrying amount of the disposed asset
- c) Both a and b
- d) None of the above

Answer: c) Both a and b

11: When should capitalization of borrowing costs begin?

- a) When borrowing costs are incurred
- b) When activities necessary for asset preparation are in progress
- c) When assets are ready for use
- d) Only in the construction phase

Answer: b) When activities necessary for asset preparation are in progress

12: What does a qualifying asset refer to under IAS 23?

- a) Any asset with a positive net present value
- b) An asset that takes a substantial period to be ready for use
- c) Any asset acquired using borrowed funds
- d) An asset with a high market value

Answer: b) An asset that takes a substantial period to be ready for use

13: When is the capitalization of borrowing costs suspended?

- a) During temporary delays
- b) When sustainable technical or administrative work is taking place
- c) If active development is suspended for an extended period
- d) All of the above

Answer: d) All of the above

14: When should capitalization of borrowing costs cease?

- a) When the asset is ready for use
- b) When activities necessary for asset preparation are complete
- c) At the end of the financial year
- d) Only when the construction phase is over

Answer: b) When activities necessary for asset preparation are complete

15: What does the capitalization rate represent in the context of borrowing costs?

- a) The interest rate charged by the lender
- b) The weighted average of borrowing costs applicable to outstanding borrowings
- c) The market interest rate
- d) The inflation-adjusted interest rate

Answer: b) The weighted average of borrowing costs applicable to outstanding borrowings

16: Under the benchmark treatment of IAS 23, how are borrowing costs treated?

- a) Capitalized only
- b) Expensed in the period incurred
- c) Capitalized and expensed
- d) Ignored in financial statements

Answer: b) Expensed in the period incurred

17: What is the key criterion for borrowing costs to be eligible for capitalization?

- a) They should be significant
- b) They should be directly attributable to the asset
- c) They should be incurred during the construction phase
- d) They should result in a lower interest rate

Answer: b) They should be directly attributable to the asset

18: When is the commencement of capitalization of borrowing costs?

- a) When the asset is acquired
- b) When borrowing costs are incurred
- c) When activities necessary for asset preparation begin
- d) At the end of the financial year

Answer: c) When activities necessary for asset preparation begin

19: What does a qualifying asset include?

- a) All assets on the balance sheet
- b) Assets ready for use or sale
- c) Assets that take a substantial period to get ready for intended use
- d) Assets acquired with borrowed funds

Answer: c) Assets that take a substantial period to get ready for intended use

20: Under the allowed alternative treatment, what is disclosed if borrowing costs are capitalized?

- a) Only the amount of borrowing costs capitalized
- b) The policy adopted for borrowing costs

c) Both a and b

d) Nothing is disclosed

Answer: c) Both a and b

Q&A:

1: What information should be disclosed for each class of property, plant, and equipment in the financial statements?

Answer: The financial statements should disclose the measurement basis, depreciation method, useful lives or depreciation rates, and a reconciliation of the carrying amount at the beginning and end of the period, including additions, disposals, and other relevant movements.

2: How are tangible fixed assets, such as land and capital work in progress, stated in the financial statements according to the sample information provided?

Answer: Tangible fixed assets like land and capital work in progress are stated at cost less accumulated depreciation.

3: According to the sample information, how is depreciation on operating fixed assets provided?

Answer: Depreciation on operating fixed assets is provided on a straight-line basis. Rates of depreciation, disclosed in note 5, are designed to write off the cost over the estimated useful lives of the assets.

4: What is the treatment of major renewals and improvements to property, plant, and equipment, according to the information provided?

Answer: Major renewals and improvements are capitalized. Gains and losses on disposals are determined by comparing the sale proceeds with the carrying value and are included in the profit and loss account for the year.

5: How is the reconciliation of the carrying amount at the beginning and end of the period presented in the financial statements?

Answer: The reconciliation is presented in the form of a schedule or table called the "Fixed Assets Schedule," showing additions, disposals, and acquisitions through business combinations, revaluations, impairment losses, depreciation, net exchange differences, and other movements.

6: According to the information, are comparative figures required for the reconciliation of the carrying amount?

Answer: No, comparative figures are not required for the reconciliation.

7: What does the term "Fixed Assets Schedule" refer to, as mentioned in the information?

Answer: The "Fixed Assets Schedule" is a schedule or table used to present the reconciliation of the carrying amount of property, plant, and equipment at the beginning and end of the period.

8: In the sample financial statement, how are assets subject to finance lease presented?

Answer: Assets subject to finance lease are presented separately, indicating their cost, accumulated depreciation, and net carrying amount.

9: According to the disclosure requirements, what information should be disclosed about impaired property, plant, and equipment?

Answer: Information on impaired property, plant, and equipment should be disclosed under IAS 36, Impairment of Assets.

10: What is the treatment of retirement and disposal of property, plant, and equipment according to the information provided?

Answer: Gains or losses arising from the retirement or disposal of property, plant, and equipment should be determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset, recognized as income or expense in the income statement.

11: When does capitalization of borrowing costs begin, according to the information on IAS 23?

Answer: Capitalization of borrowing costs begins when expenditures on assets are being incurred, borrowing costs are being incurred, and activities necessary to prepare the asset for its intended use are in progress.

12: What is a qualifying asset, as defined by IAS 23?

Answer: A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

13: Under the benchmark treatment of IAS 23, how are borrowing costs treated?

Answer: Under the benchmark treatment, borrowing costs are treated as an expense in the period they are incurred, regardless of how the loan is used.

14: According to IAS 23, when should capitalization of borrowing costs be suspended?

Answer: Capitalization of borrowing costs should be suspended if active development of the asset is suspended for an extended period.

15: What information is required to be disclosed regarding borrowing costs under the benchmark treatment of IAS 23?

Answer: If the benchmark treatment is used, the enterprise is only required to disclose the policy adopted for borrowing costs.

16: What is a qualifying asset, as per IAS 23?

Answer: A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use.

17: Under the allowed alternative treatment, when are borrowing costs eligible for capitalization?

Answer: Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are eligible for capitalization under the allowed alternative treatment.

18: According to IAS 23, when should capitalization of borrowing costs cease?

Answer: Capitalization of borrowing costs should cease when substantially all activities necessary to prepare an asset for its intended use or sale are complete.

19: What are the disclosure requirements related to borrowing costs under IAS 23?

Answer: The disclosure requirements include the accounting policy adopted for borrowing costs, the amount of borrowing costs capitalized during the period, and the capitalization rate used to determine the amount of borrowing costs eligible for capitalization.

20: What is a qualifying asset, and what are examples provided by IAS 23?

Answer: A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Examples provided by IAS 23 include inventories requiring substantial time for sale, manufacturing plants, power generation facilities, and investment properties.

8 Intangible Assets – Companies Ordinance 1984

MCQs:

1. **What are the classifications of intangible assets under the Companies Ordinance 1984?**

A: Goodwill, Patent, Copyrights, Trademarks and Designs, Others (to be specified).

2. **According to the Fourth Schedule, what disclosure requirements are needed for intangible assets?**

A: Original cost or the amount of valuation, additions, deductions, and aggregate amounts written off or provided for depreciation or amortization.

3. **How does the International Accounting Standard 38 define an intangible asset?**

A: An identifiable non-monetary asset without physical substance held for use in production or supply of goods or services, for rentals to others, or for administrative purposes.

4. **What are some examples of intangible resources mentioned in the lecture?**

A: Scientific or technical knowledge, design and implementation of new processes, licenses, intellectual property, market knowledge, trademarks.

5. **When should an intangible asset be recognized according to the International Accounting Standard 38?**

A: If future economic benefits attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably.

6. **How is the cost of an intangible asset measured when acquired separately?**

A: Purchase price, including any duties and non-refundable taxes, and any directly attributable expenditure on preparing the asset for its intended use.

7. **What is the criteria for recognizing internally generated goodwill?**

A: Internally generated goodwill should not be recognized as an asset.

8. **What is the classification of expenditure related to intangible assets that do not meet the recognition criteria?**

A: It should be expensed as incurred.

9. **When should subsequent expenditure on an intangible asset be recognized as an expense?**

A: Unless it is probable to generate future economic benefits and can be measured reliably.

10. **What phases are used to assess whether an internally generated asset meets the criteria for recognition?**

A: Research phase and development phase.

11. **When should research costs be recognized as an expense?**

A: When incurred, as they do not meet the criteria for recognition as an intangible asset.

12. **What are examples of development costs?**

A: Design, construction and testing of pre-production prototypes, design of tools involving new technology, operation of a pilot plant.

13. **How is the amortization period determined for intangible assets?**

A: Systematically over the best estimate of its useful life, with a presumption that the useful life cannot exceed 20 years.

14. **What is the benchmark treatment for measuring intangible assets after initial recognition?**

A: Cost less accumulated amortization and any accumulated impairment loss.

15. **Under the allowed alternative treatment, when can an intangible asset be revalued?**

A: When there is an active market for that type of asset, and the entire class of intangible assets of that type is revalued at the same time.

16. **What is the treatment for revaluation surplus when an intangible asset is revalued upwards?**

A: It should be credited directly to equity under the heading of a revaluation surplus.

17. **When is an increase in revaluation recognized as income?**

A: If it is a reversal of a revaluation decrease that was previously charged against income.

18. What happens when the carrying amount of an intangible asset is revalued downwards?

A: The amount of the downward revaluation should be charged as an expense against income.

19. What should an enterprise do at each financial year-end regarding the amortization method and useful life of intangible assets?

A: Review them.

20. Q: How does the International Accounting Standard 38 handle subsequent expenditure on intangible assets?

A: It should be recognized as an expense unless it is probable to generate future economic benefits and can be measured reliably.

Q&A:

1: What is the classification of intangible assets according to the Fourth Schedule of the Companies Ordinance 1984?

A: The classification includes Goodwill, Patent, Copyrights, Trademarks and Designs, and Others (to be specified).

2: According to the Fourth Schedule, what are the disclosure requirements related to intangible assets?

A: The disclosure requirements include the original cost or the amount of valuation, additions and deductions since the previous balance sheet date, and the aggregate amount written off, provided, or retained up to the date of the balance sheet.

3: How does International Accounting Standard 38 define an intangible asset?

A: An intangible asset is an identifiable Non-Monetary Asset without physical substance held for use in production or supply of goods or services, for rentals to others, or for administrative purposes. It must be controlled by the enterprise as a result of past events, and the enterprise should expect future economic benefits to flow from it.

4: What is the objective of International Accounting Standard 38?

A: If an intangible asset in a class cannot be revalued due to no active market, it should be carried at its cost less any accumulated amortization and impairment losses. Revaluations should be made to prevent selective revaluations.

9 Intangible Assets – IAS 38 & Investment in Associates

MCQs:

1. **What information should financial statements disclose for each class of intangible assets under IAS 38?**

- a) Only the gross carrying amount
- b) Useful lives or amortization rates, amortization method, and carrying amount at the end of the period
- c) Only the accumulated amortization
- d) None of the above

Answer: b) Useful lives or amortization rates, amortization method, and carrying amount at the end of the period

2. **In the reconciliation of carrying amount for intangible assets, which of the following is not required to be disclosed?**

- a) Retirements and disposals
- b) Net exchange differences arising on translation
- c) Comparative information
- d) Amortization recognized during the period

Answer: c) Comparative information

3. **When can an enterprise aggregate or disaggregate classes of intangible assets for disclosure purposes?**

- a) Always aggregate for simplicity

- b) Only when required by local regulations
- c) Based on management's preference
- d) When it results in more relevant information for users

Answer: d) When it results in more relevant information for users

4. What is the key criterion for determining significant influence over an investee under IAS 28?

- a) Control
- b) Ownership percentage
- c) Ability to participate but not control
- d) Voting power

Answer: c) Ability to participate but not control

5. Under IAS 28, what ownership percentage is presumed to indicate significant influence?

- a) 10%
- b) 15%
- c) 20%
- d) 25%

Answer: c) 20%

6. What is the primary evidence of significant influence in an associate according to IAS 28?

- a) Ownership percentage
- b) Representation on the board of directors
- c) Control over financial affairs
- d) Voting power

Answer: b) Representation on the board of directors

7. How is income from an investment recorded under the cost method?

- a) As a reduction in the carrying amount of the investment
- b) As income to the extent of distributions from accumulated net profits
- c) As a direct increase in equity
- d) Only when the investment is sold

Answer: b) As income to the extent of distributions from accumulated net profits

8. When should the equity method be discontinued according to IAS 28?

- a) When there is a change in management
- b) When the investor holds less than 20% voting power
- c) When the associate comes under severe long-term restrictions
- d) When the investee faces financial difficulties

Answer: c) When the associate comes under severe long-term restrictions

9. What is disclosed separately when the equity method is used for accounting investments in associates?

- a) Only investments in associates
- b) Share of Profits/Losses and Share of extraordinary items
- c) Only Share of Profits/Losses
- d) Only Share of extraordinary items

Answer: b) Share of Profits/Losses and Share of extraordinary items

10. When is an impairment loss recognized for an investment in an associate under IAS 36?

- a) Annually
- b) Only when the investment is sold

- c) When there is an indication of impairment
- d) When the associate faces bankruptcy

Answer: c) When there is an indication of impairment

11. What should financial statements disclose about associated companies under IAS 28?

- a) Only the proportion of ownership interest
- b) Method used for accounting investments
- c) Significant associates and their ownership proportions
- d) All of the above

Answer: d) All of the above

12. Under IAS 38, what is included in the reconciliation of carrying amount for intangible assets?

- a) Retirements and disposals
- b) Additions indicating those from internal development and through business combinations
- c) Net exchange differences arising on translation
- d) All of the above

Answer: d) All of the above

13. When is the equity method used for accounting investments in associates according to IAS 28?

- a) Always
- b) Only for short-term investments
- c) Only for long-term investments
- d) Unless held exclusively with a view to disposal in the near future

Answer: d) Unless held exclusively with a view to disposal in the near future

14. What do the financial statements disclose if intangible assets are carried at a revalued amount?

- a) Only the effective date of revaluation
- b) Carrying amount of revalued assets and revaluation surplus
- c) Classifications under benchmark treatment
- d) Only the amount of revaluation surplus at the end of the period

Answer: b) Carrying amount of revalued assets and revaluation surplus

15. When should the cost method be applied for investments in associates under IAS 28?

- a) Always
- b) When the investee faces financial difficulties
- c) When the investment is made for a long term
- d) Only when required by local regulations

Answer: b) When the investee faces financial difficulties

16. What is the definition of an associate according to IAS 28?

- a) A subsidiary of the investor
- b) An enterprise in which an investor has control
- c) An enterprise in which an investor has significant influence
- d) A joint venture of the investor

Answer: c) An enterprise in which an investor has significant influence

17. How is significant influence presumed under IAS 28?

- a) 15% ownership
- b) 20% ownership
- c) 25% ownership

d) 30% ownership

Answer: b) 20% ownership

18. When should the cost method be used for investments in associates under IAS 28?

- a) When the investment is made for a short period
- b) Always
- c) When the investment is made for a long term
- d) Only when required by local regulations

Answer: a) When the investment is made for a short period

19. What should be disclosed separately when the equity method is used for accounting investments in associates?

- a) Only investments in associates
- b) Share of Profits/Losses and Share of extraordinary items
- c) Only Share of Profits/Losses
- d) Only Share of extraordinary items

Answer: b) Share of Profits/Losses and Share of extraordinary items

20. What is the primary evidence of significant influence in an associate according to IAS 28?

- a) Ownership percentage
- b) Representation on the board of directors
- c) Control over financial affairs
- d) Voting power

Answer: b) Representation on the board of directors

Q&A:

1: What are the disclosure requirements for intangible assets in financial statements according to IAS 38?

A: The disclosure requirements for intangible assets according to IAS 38 include information on useful lives, amortization rates, amortization method, gross carrying amount, accumulated amortization, and details of additions, retirements, revaluations, impairment losses, and exchange differences.

2: How should a class of intangible assets be defined, and when is disaggregation into smaller classes recommended?

A: A class of intangible assets is a grouping of assets of a similar nature and use. Disaggregation is recommended when it provides more relevant information for financial statement users.

3: Under what circumstances should an enterprise disclose the nature and effect of a change in an accounting estimate related to intangible assets?

A: Disclosure is required when there is a material change in the amortization period, amortization method, or residual values of intangible assets.

4: What information should be disclosed for intangible assets acquired through government grants?

A: The disclosure should include the fair value initially recognized, carrying amount, treatment (benchmark or alternative), existence of restrictions, carrying amount pledged as security, and commitments for acquisition.

5: If intangible assets are carried at a revalued amount, what information should be disclosed?

A: For revalued intangible assets, disclosure should include the effective date of revaluation, carrying amount of revalued assets, carrying amount under benchmark treatment, and changes in the revaluation surplus.

6: How is research and development expenditure disclosed in financial statements?

A: Financial statements should disclose the aggregate amount of research and development expenditure recognized as an expense during the period.

7: What information is encouraged, but not required, for disclosure regarding intangible assets?

A: Encouraged disclosures include a description of fully amortized assets still in use and a brief description of significant intangible assets not recognized due to criteria or acquisition/generation timing.

8: According to the Companies Ordinance 1984, when are two persons or companies considered associated?

A: Two persons or companies are considered associated if they are partners in a single enterprise or if one holds ten percent holding in a single company.

9: How does IAS 28 define an associate and significant influence?

A: An associate is an enterprise in which an investor has significant influence, defined as the ability to participate but not control financial and management affairs.

10: What is the presumption of significant influence in IAS 28, and how is it determined?

A: If an investor controls twenty percent voting power in the investee, it is presumed to have significant influence unless proven otherwise.

11: What are the two methods for the recognition of investments in associated companies?

A: The cost method and equity method are two methods for recognizing investments in associated companies.

12: Under the cost method, how is income from the investment reflected in the income statement?

A: Under the cost method, income from the investment is reflected in the income statement only to the extent of distributions received from the investee's accumulated net profits.

13: When is the equity method applied for accounting investments in associates?

A: The equity method is applied for long-term investments, and it should be discontinued if significant influence ceases or if the associate faces severe long-term restrictions.

14: What disclosures are required when using the equity method for investments in associates?

A: Disclosures include investments in associates (balance sheet), share of profits/losses (income statement), and share of extraordinary/prior period items (income statement/reserves).

15: How are impairment losses handled in investments in associates?

A: Impairment losses in investments in associates are recognized according to IAS 36, generally for each cash associate individually.

16: What happens when an investor's share of losses in an associate equals or exceeds the carrying amount of the investment?

A: In such cases, the investor usually discontinues including its share of further losses, and the investment is reported at nil value.

17: What disclosures are required for associated companies, including proportion of ownership interest and accounting method?

A: Disclosures include a listing and description of significant associates, proportion of ownership interest, proportion of voting power, and the method used for accounting.

18: What should be disclosed when using the equity method for investments in associates?

A: When using the equity method, the financial statements should separately disclose investments in associates (balance sheet), share of profits/losses (income statement), and share of extraordinary/prior period items (income statement/reserves).

19: Under what circumstances should an enterprise disclose the nature and effect of a change in an accounting estimate related to investments in associates?

A: Disclosure is required when there is a material change in the accounting estimate related to investments in associates, such as changes in amortization period, method, or residual values.

20: What information should be disclosed for intangible assets amortized over a period of more than 20 years?

A: Disclosure should include the reasons for rebutting the presumption of a useful life, describing the factors that played a significant role in determining the asset's useful life.

10 Other Non-Current Assets

MCQs:

1. **What additional heads are prescribed for noncurrent/long-term assets in the Fourth Schedule to the Companies Ordinance 1984?**
 - a) Current Liabilities
 - b) Long-Term Liabilities
 - c) Long-Term Loans and Advances
 - d) Current Assets

Answer: c) Long-Term Loans and Advances

2. **How should long-term loans and advances be classified in financial statements?**

- a) Secured and unsecured
- b) Current and noncurrent
- c) Good and bad
- d) Material and immaterial

Answer: a) Secured and unsecured

3. **What information must be disclosed for loans and advances to subsidiary companies?**

- a) Only the name of the borrower
- b) Amount, terms, and collateral security details
- c) Only the aggregate amount outstanding
- d) None of the above

Answer: b) Amount, terms, and collateral security details

4. **How should provisions for bad or doubtful loans and advances be shown in financial statements?**

- a) As an addition under each sub-head
- b) As a deduction under each sub-head
- c) As a separate line item
- d) In the footnotes only

Answer: b) As a deduction under each sub-head

5. **When disclosing loans and advances due for payment after twelve months, what should be indicated separately?**

- a) Outstanding for periods exceeding two years
- b) Outstanding for periods exceeding three years

- c) Outstanding for periods exceeding five years
- d) Outstanding for periods exceeding one year

Answer: b) Outstanding for periods exceeding three years

6. What is excluded from the scope of IAS-2 regarding inventories?

- a) Work in progress under construction contracts
- b) Financial instruments
- c) Livestock, agriculture, and forest products
- d) All of the above

Answer: d) All of the above

7. How does IAS-2 define inventories?

- a) Goods held for resale
- b) Assets held for sale, in production, or as materials/supplies
- c) Finished goods only
- d) Raw materials only

Answer: b) Assets held for sale, in production, or as materials/supplies

8. What is Net Realizable Value (NRV)?

- a) Purchase cost minus selling price
- b) Selling price minus completion costs
- c) Selling price minus costs of completion and necessary sale costs
- d) Market value minus historical cost

Answer: c) Selling price minus costs of completion and necessary sale costs

9. Which items are excluded from the scope of IAS-2 regarding inventories?

- a) Work in progress under construction contracts

- b) Financial instruments
- c) Livestock, agriculture, and forest products
- d) All of the above

Answer: d) All of the above

10. What is the fundamental accounting assumption related to inventories?

- a) Matching principle
- b) Consistency principle
- c) Materiality principle
- d) Going concern assumption

Answer: a) Matching principle

11. According to IAS-2, how should inventories be measured?

- a) Cost only
- b) Net realizable value only
- c) Lower of cost and net realizable value
- d) Historical cost only

Answer: c) Lower of cost and net realizable value

12. What comprises the cost of inventories under IAS-2?

- a) Purchase price only
- b) Costs of conversion only
- c) Other costs in bringing inventories to their location and condition
- d) Both b and c

Answer: d) Both b and c

13. Which costs are included in the cost of purchase of inventories?

- a) Purchase price plus import duties and other taxes
- b) Purchase price minus trade discounts
- c) Storage costs
- d) Administrative overheads

Answer: a) Purchase price plus import duties and other taxes

14. Which costs should be recognized as an expense and not included in the cost of inventories?

- a) Abnormal amounts of wasted materials, labor, or other production costs
- b) Storage costs
- c) Administrative overheads not incurred to bring inventories to their location and conditions
- d) All of the above

Answer: d) All of the above

15. How should the cost of inventories be recognized for items not normally interchangeable?

- a) FIFO or Weighted Average Method
- b) Specific identification only
- c) LIFO method only
- d) Average cost method only

Answer: a) FIFO or Weighted Average Method

16. What is the recommended benchmark treatment for assigning the cost of inventories under IAS-2?

- a) FIFO method
- b) LIFO method
- c) Specific identification

d) FIFO or Weighted Average Method

Answer: d) FIFO or Weighted Average Method

17. Which is an allowed alternative method for measuring the cost of inventories under IAS-2?

- a) FIFO method
- b) LIFO method
- c) Specific identification
- d) LIFO or FIFO Method

Answer: d) LIFO or FIFO Method

18. How is the cost of inventories calculated under the Last in First out (LIFO) method?

- a) Based on the oldest costs first
- b) Based on the newest costs first
- c) Based on specific identification
- d) Based on the average costs

Answer: b) Based on the newest costs first

19. What does the measurement of inventories at lower of cost and net realizable value mean?

- a) Always use historical cost
- b) Use the lower of historical cost and market value
- c) Use the higher of historical cost and market value
- d) Use net realizable value only

Answer: b) Use the lower of historical cost and market value

20. In IAS-2, what costs are considered for the measurement of inventories at net realizable value?

- a) Selling costs only
- b) Costs of completion and necessary sale costs
- c) Both a and b
- d) None of the above

Answer: c) Both a and b

Q&A:

1. **What are the additional heads prescribed for noncurrent/long-term assets in the Fourth Schedule to the Companies Ordinance 1984?**

Answer: The additional heads are Long Term Loans and Advances, and Long Term Deposits, Prepayments, and Deferred Costs.

2. **In financial statements, how should long-term loans and advances be classified?**

Answer: Long-term loans and advances should be classified as secured and unsecured.

3. **What information must be disclosed for loans and advances to subsidiary companies?**

Answer: Information includes the name of each borrower, amount, terms, particulars of collateral security, and the maximum aggregate amount outstanding.

4. **How should provisions for bad or doubtful loans and advances be treated in financial statements?**

Answer: Provisions, if any, should be shown as a deduction under each sub-head.

5. **How should loans and advances due for payment after twelve months be shown in financial statements?**

Answer: They should be shown separately, indicating outstanding for periods exceeding three years and others.

6. **What information should be disclosed for each loan in financial statements?**

Answer: Information includes the rate of interest, installments or period of repayment, details of security, and any other material terms.

7. **What items need to be disclosed separately under Long Term Deposits, Prepayments, and Deferred Costs?**

Answer: Long Term Deposits, Long Term Prepayments, and Deferred Costs need to be disclosed separately.

8. **How should the basis for amortization or write-off be stated for material items of prepayments and deferred costs?**

Answer: The basis for amortization or write-off should be stated for each material item.

9. **According to IAS-2, what are the types of Stock in Trade / Stores?**

Answer: Types include Raw Material, Finished Goods, Semi-Finished Goods, Work in Process, Machinery Spares, Tools, Other Consumable Stock, and Goods Purchased and Held for Resale.

10. **How should inventories be measured according to IAS-2?**

Answer: Inventories should be measured at the lower of cost and net realizable value.

11. **Define Net Realizable Value according to IAS-2.**

Answer: Net Realizable Value is the estimated selling price in the ordinary course of business less the estimated costs of completion and necessary sale costs.

12. **What is excluded from the scope of IAS-2 regarding inventories?**

Answer: Items excluded include work in progress under construction contracts, financial instruments, and livestock, agriculture, forest products, and mineral ores.

13. **What costs are considered in the cost of inventories under IAS-2?**

Answer: The cost of inventories includes costs of purchase, costs of conversion, and other costs incurred in bringing inventories to their location and condition.

14. **Which costs are included in the costs of purchase of inventories?**

Answer: Costs of purchase include purchase price plus import duties and other taxes, transport, handling, and any other cost directly attributable to acquisition.

15. **What costs should not be included in the cost of inventories under IAS-2?**

Answer: Costs not included are abnormal amounts of wasted materials, storage costs (except necessary in production), administrative overheads not for bringing inventories to location, and selling costs.

16. How should the cost of inventories be recognized for items not normally interchangeable?

Answer: Specific identification of their individual costs or using the FIFO or Weighted Average Method.

17. What is the recommended benchmark treatment for assigning the cost of inventories under IAS-2?

Answer: The recommended treatment is using FIFO or Weighted Average Method.

18. What is an allowed alternative method for measuring the cost of inventories under IAS-2?

Answer: An allowed alternative is measuring the cost using the LIFO method.

19. According to IAS-2, how should the cost of inventories of items not normally interchangeable be assigned?

Answer: It should be assigned by using specific identification of their individual costs.

20. What is the fundamental accounting assumption related to inventories and revenues?

Answer: The assumption is that costs incurred for goods remaining unsold at year-end must be carried forward in the balance sheet and matched against future revenues to achieve the accruals principle.

11 Inventories

MCQs:

1. What does IAS 2 define as inventories?

- A. Assets held for investment purposes
- B. Assets held for sale or in the production process
- C. Assets used for administrative purposes
- D. Assets in the form of cash or cash equivalents

Answer: B. Assets held for sale or in the production process

2. Under IAS 2, inventories can include:

- A. Only finished goods
- B. Only raw materials
- C. Goods held for sale, goods in production, and materials for production or services
- D. Only goods held for sale

Answer: C. Goods held for sale, goods in production, and materials for production or services

3. Which method of stock valuation assumes that the first items purchased are the first to be sold?

- A. Last in First out (LIFO)
- B. First in First out (FIFO)
- C. Weighted Average
- D. Specific identification of cost

Answer: B. First in First out (FIFO)

4. When may inventories be written down to net realizable value?

- A. When the selling price has increased
- B. When the estimated cost to complete and sell them has decreased
- C. If the inventories are damaged, obsolete, or if their selling price has declined
- D. Only when required by tax regulations

Answer: C. If the inventories are damaged, obsolete, or if their selling price has declined

5. **Which financial statement recognizes the carrying amount of inventories when sold as an expense?**
- A. Balance Sheet
 - B. Income Statement
 - C. Cash Flow Statement
 - D. Statement of Changes in Equity

Answer: B. Income Statement

6. **What is the primary purpose of recognizing expenses related to inventories in the period in which the related revenue is recognized?**
- A. To increase assets
 - B. To match costs with associated revenues
 - C. To reduce liabilities
 - D. To comply with tax regulations

Answer: B. To match costs with associated revenues

7. **Which method of cost measurement takes into account normal production values and is regularly reviewed and revised?**
- A. Standard Costs
 - B. Retail Method
 - C. FIFO

D. LIFO

Answer: A. Standard Costs

8. **Which costs are included in the cost of inventories to the extent that they are incurred in bringing the inventories to their present location and condition?**

- A. All costs, regardless of relevance
- B. Only production costs
- C. Only direct costs
- D. Only costs necessary in the production process

Answer: D. Only costs necessary in the production process

9. **Under IAS 02, when are borrowing costs included in the cost of inventories?**

- A. Always
- B. Only in limited circumstances as identified in IAS 23
- C. Never
- D. Only for specific industries

Answer: B. Only in limited circumstances as identified in IAS 23

10. **What is a key disclosure requirement under IAS 02 related to inventories?**

- A. Disclosure of the CEO's salary
- B. Disclosure of marketing expenses
- C. Disclosure of the accounting policy adopted for inventories
- D. Disclosure of the company's social responsibility initiatives

Answer: C. Disclosure of the accounting policy adopted for inventories

11. **What information is useful to financial statement users regarding inventories?**

- A. CEO's personal assets

B. Total number of employees

C. Carrying amounts held in different classifications of inventories

D. Office furniture and equipment details

Answer: C. Carrying amounts held in different classifications of inventories

12. In a perpetual inventory system, how is the receipt of inventory recorded?

A. Debited to Purchases Account

B. Debited to Stock Account

C. Credited to Material Consumption Account

D. Credited to Sales Account

Answer: B. Debited to Stock Account

13. What is the primary difference between periodic and perpetual inventory systems?

A. Periodic systems record each inventory transaction in detail

B. Perpetual systems do not record opening and closing stock

C. Periodic systems do not record individual issues in the General Ledger

D. Perpetual systems do not include valuation policies

Answer: C. Periodic systems do not record individual issues in the General Ledger

14. Which statement is true regarding trade discounts in the cost of inventory?

A. Trade discounts are added to the cost of inventory

B. Trade discounts are recorded separately from the cost of inventory

C. Trade discounts are deducted from the cost of inventory

D. Trade discounts are only applicable to finished goods

Answer: B. Trade discounts are recorded separately from the cost of inventory

15. What does the Retail Method in inventory valuation consider?

- A. Specific identification of cost
- B. Normal production values
- C. Total selling price of inventories and deducts an average profit margin
- D. Last in First out (LIFO)

Answer: C. Total selling price of inventories and deducts an average profit margin

16. Which costs are excluded from the cost of inventories and recognized as expenses in the period incurred?

- A. All production costs
- B. Selling costs
- C. Administrative overheads
- D. Storage costs

Answer: B. Selling costs

17. What does the perpetual inventory system record as the value assigned to every issue?

- A. Retail value
- B. Historical cost
- C. Replacement cost
- D. Selling price

Answer: B. Historical cost

18. In which type of business would you typically find the classification of "Work in Process" in inventories?

- A. Retail business
- B. Trading concern
- C. Manufacturing concern

D. Service provider

Answer: C. Manufacturing concern

19. What is included in the cost of inventories of a service provider?

A. Costs of sales and general administrative personnel

B. Only labour costs

C. All indirect costs

D. Costs of raw materials

Answer: A. Costs of sales and general administrative personnel

20. What is the purpose of a cost of goods sold statement in production concerns?

A. To determine the CEO's salary

B. To calculate taxes payable

C. To evaluate the effectiveness of marketing strategies

D. To show the cost flow from opening raw material to cost of goods sold

Answer: D. To show the cost flow from opening raw material to cost of goods sold

Q&A:

1. What is the primary purpose of IAS 2 regarding inventories?

- IAS 2 defines inventories as assets held for sale, in the process of production, or in the form of materials. What is the primary purpose of IAS 2 in relation to these inventories?

2. How does IAS 2 define the accounting treatment for inventories under the historical cost system?

- Explain the key aspects of the accounting treatment for inventories as outlined by IAS 2 under the historical cost system.

3. Why is the cost value of inventory recognized as an asset until related revenues are recognized?

- According to IAS-2, the cost value of inventory is recognized as an asset until the related revenues are recognized. Why is this treatment necessary?

4. When may part or all of the cost of inventories be expensed?

- Under what circumstances, as per IAS-2, can part or all of the cost of inventories be expensed?
- 5. **How does IAS 2 address the fundamental accounting assumption of accruals in relation to inventories?**
 - Explain how IAS 2 ensures that costs for unsold goods at the year-end are carried forward in the balance sheet and matched against future revenues.
- 6. **What are the commonly used methods for the valuation of stock within an organization?**
 - Provide an overview of the commonly used methods for the valuation of stock as mentioned in the lecture.
- 7. **Under IAS 2, what are the two treatments commonly used for selecting valuation methods, and what do they entail?**
 - Explain the two commonly used treatments for selecting valuation methods under IAS 2 and the details of each treatment.
- 8. **In what situations does IAS 2 allow the measurement of inventories using the LIFO method?**
 - Describe the situations in which IAS 2 allows the measurement of inventories using the Last In First Out (LIFO) method.
- 9. **Why may the cost of inventories be written down to net realizable value, and when is this estimation done?**
 - Elaborate on the circumstances under which the cost of inventories may be written down to net realizable value and when the estimation of Net Realizable Value (NRV) is performed.
- 10. **Explain the treatment of materials and supplies held for use in the production of inventories in the context of declining material prices.**
 - How does IAS 2 advise on the treatment of materials and supplies when a decline in their price indicates that the cost of finished products will exceed net realizable value?
- 11. **What is the significance of recognizing the carrying amount of inventories as an expense when they are sold, according to IAS 2?**
 - Discuss the significance of recognizing the carrying amount of inventories as an expense in the period in which they are sold, as per IAS 2.
- 12. **How does IAS 2 address the allocation of inventories to other asset accounts?**
 - Explain the provision of IAS 2 regarding the allocation of inventories to other asset accounts, such as inventory used as a component of self-constructed property, plant, or equipment.
- 13. **Briefly describe the two techniques mentioned by IAS 2 for the measurement of cost.**
 - Provide a brief overview of the two techniques mentioned by IAS 2 for the measurement of cost: Standard Costs and Retail Method.
- 14. **What types of costs are included in the cost of inventories, and how are these costs reviewed and revised?**
 - Describe the types of costs included in the cost of inventories and the process of reviewing and revising these costs, as mentioned in the lecture.
- 15. **Explain the concept of "Other Costs" in the context of inventories.**

- Clarify the inclusion of "Other Costs" in the cost of inventories, specifically addressing their relevance to bringing inventories to their present location and condition.
16. **Provide examples of costs excluded from the cost of inventories and recognized as expenses.**
- Give examples of costs that are excluded from the cost of inventories and are recognized as expenses in the period in which they are incurred, as per the lecture.
17. **Under what circumstances are borrowing costs included in the cost of inventories?**
- Discuss the circumstances, as identified in the allowed alternative treatment in IAS 23, under which borrowing costs are included in the cost of inventories.
18. **What are the disclosure requirements outlined in IAS 02 regarding inventories?**
- Outline the key disclosure requirements as per IAS 02, including the accounting policy adopted, carrying amounts, reversals of write-downs, and differences under benchmark and alternative treatments.
19. **Why is information about the carrying amounts held in different classifications of inventories considered useful to financial statement users?**
- Explain the significance of providing information about the carrying amounts held in different classifications of inventories and why this is considered useful to financial statement users.
20. **Differentiate between perpetual and periodic inventory systems, and explain the accounting treatment of inventories in each system.**
- Provide a detailed differentiation between perpetual and periodic inventory systems, and describe the accounting treatment of inventories in each system, as presented in the lecture.

12 Valuation of Inventories

MCQs:

1. **What are the main methods of stock valuation mentioned in the lecture?**
- A) First in First Out (FIFO)
 - B) Last in First Out (LIFO)
 - C) Weighted Average
 - D) Specific Identification Method
 - E) All of the above

Answer: E) All of the above

2. **In the Specific Identification Method, when is it needed to properly match sales revenue with the cost of goods sold?**

- A) When units are identical
- B) When each unit is unique
- C) When units are homogeneous
- D) When units are in separate piles

Answer: B) When each unit is unique

3. **Which method assigns the oldest purchase costs to the cost of goods sold?**

- A) FIFO
- B) LIFO
- C) Weighted Average
- D) Specific Identification

Answer: A) FIFO

4. **Under FIFO, what happens to the most recent costs?**

- A) They are assigned to cost of goods sold
- B) They remain in inventory
- C) They are averaged with older costs
- D) They are discarded

Answer: B) They remain in inventory

5. **What is the effect of using LIFO during periods of rising prices?**

- A) Higher reported profits
- B) Lower reported profits
- C) No impact on profits

D) No impact on taxes

Answer: B) Lower reported profits

6. Which inventory valuation method is regarded as the most conservative?

A) FIFO

B) LIFO

C) Weighted Average

D) Specific Identification

Answer: B) LIFO

7. What is the conceptual advantage of the FIFO method?

A) Lower income taxes

B) Higher net income

C) Valuation at recent purchase cost

D) Lower cost of goods sold

Answer: C) Valuation at recent purchase cost

8. Which method is best suited to inventories of high-priced, low-volume items?

A) FIFO

B) LIFO

C) Weighted Average

D) Specific Identification

Answer: D) Specific Identification

9. What does the Average Cost method avoid the shortcomings of?

A) FIFO

B) LIFO

C) Specific Identification

D) Weighted Average

Answer: C) Specific Identification

10. What is a shortcoming of the Average Cost method?

A) Concealing changes in replacement costs

B) Difficulty in tracking specific items

C) Higher income taxes

D) Overstating profits

Answer: A) Concealing changes in replacement costs

11. Under which method is inventory valued at current replacement cost?

A) LIFO

B) FIFO

C) Weighted Average

D) Specific Identification

Answer: B) FIFO

12. What is the main reason for the popularity of the LIFO method?

A) Higher reported profits

B) Lower income taxes

C) Conservative asset valuation

D) Lower cost of goods sold

Answer: B) Lower income taxes

13. Which method assigns actual purchase costs to specific units of merchandise sold or in inventory?

A) FIFO

B) LIFO

C) Weighted Average

D) Specific Identification

Answer: D) Specific Identification

14. What does the Specific Identification method parallel?

A) Average cost

B) Current market conditions

C) Physical flow of merchandise

D) Replacement cost

Answer: C) Physical flow of merchandise

15. What is the logical choice when each item in the inventory is unique?

A) FIFO

B) LIFO

C) Weighted Average

D) Specific Identification

Answer: D) Specific Identification

16. During periods of rising prices, what might a company report by using FIFO instead of LIFO?

A) Lower profits

B) No change in profits

C) Higher profits

D) Same profits as LIFO

Answer: C) Higher profits

17. What does an inventory valuation method affect, except for income taxes?

- A) Total costs incurred
- B) Profitability on paper
- C) Physical flow of merchandise
- D) Replacement cost

Answer: B) Profitability on paper

18. How does the inventory method impact income taxes?

- A) Increases income taxes
- B) Reduces income taxes
- C) No impact on income taxes
- D) Increases profits

Answer: B) Reduces income taxes

19. What is the effect of using LIFO on reported profits during rising prices?

- A) Higher profits
B) Lower profits
C) No impact on profits
D) Same as FIFO

Answer: B) Lower profits

20. What is the effect of using FIFO on gross profits during periods of rising prices?

- A) Lower gross profits
- B) Higher gross profits
- C) No impact on gross profits

D) Gross profits become negative

Answer: B) Higher gross profits

Q&A:

1: What are the methods of stock valuation discussed in the lecture?

A: First in First Out (FIFO), Last in First Out (LIFO), Weighted Average, Specific Identification Method.

2: What is the requirement for applying the discussed valuation methods?

A: The units to which the assumption is applied should be homogeneous in nature.

3: In the FIFO method, which costs are transferred to the cost of goods sold? A: Oldest purchase costs.

4: What is the conceptual advantage of the FIFO method regarding inventory valuation?

A: Inventory is valued at recent purchase cost, closely approximating its current replacement cost.

5: Under the LIFO method, what costs are assigned to the cost of goods sold?

A: Most recently purchased inventory costs.

6: Why is the LIFO method considered conservative in inventory pricing?

A: It values inventory based on the company's "oldest" inventory acquisition costs.

7: What is the primary reason for the popularity of the LIFO method?

A: It results in lower taxable income, especially in situations of rising prices.

8: How does the Weighted Average method calculate the average cost?

A: Total cost divided by the total number of units.

9: What is the specific identification method best suited for?

A: High-priced, low-volume items with unique characteristics.

10: Why does the specific identification method have an intuitive appeal?

A: It assigns actual purchase costs to specific units of merchandise sold or in inventory.

11: What shortcoming is associated with the average cost method?

A: Changes in current replacement costs are concealed as they are averaged with older costs.

12: How does the specific identification method handle identical units in inventory?

A: It may produce misleading results by implying differences in value that may not exist.

13: During a period of rising prices, how might FIFO impact reported profits compared to LIFO?

A: FIFO may result in higher reported profits due to assigning lower costs to the cost of goods sold.

14: Does the choice of inventory method affect the total costs incurred in purchasing or manufacturing inventory?

A: No, it only affects the allocation of costs between the inventory account and the Cost of goods sold account.

15: What does the inventory method impact in terms of performance, except for income taxes?

A: It affects the allocation of costs between the inventory account and the Cost of goods sold account.

16: How does the inventory method impact income taxes?

A: It can reduce income taxes owed, especially in situations where it lowers taxable income.

17: What is the effect of the LIFO method on the valuation of the asset inventory over time?

A: It may understate the current replacement cost of inventory as it is based on "oldest" acquisition costs.

18: What is the key advantage of the LIFO method for income tax purposes?

A: It usually results in lower taxable income, particularly in situations of rising prices.

19: How does the specific identification method handle unique items in inventory?

A: It is the logical choice for items like valuable paintings, custom jewelry, and most real estate.

20: How does the FIFO method impact profits during a period of rising prices?

A: It tends to overstate profits as it assigns lower (older) costs to the cost of goods sold and higher (more recent) costs to goods remaining in inventory.

13 Current Assets, Fourth Schedule - Companies Ordinance 1984

MCQs:

1. What are the categories of current assets according to the Fourth Schedule of Companies Ordinance 1984?

- A) Fixed Assets
- B) Intangible Assets
- C) Current Liabilities
- D) Stocks / Inventory, Raw Material, Finished Goods, etc.

Answer: D) Stocks / Inventory, Raw Material, Finished Goods, etc.

2. How should current assets be classified under sub-heads according to the Fourth Schedule?

- A) Randomly
- B) Alphabetically
- C) Appropriately to the company's affairs
- D) According to the company's incorporation date

Answer: C) Appropriately to the company's affairs

3. Which method is not a method of stock valuation mentioned in the lecture?

- A) First in First Out (FIFO)
- B) Last in First Out (LIFO)

C) Random Selection

D) Weighted Average

Answer: C) Random Selection

4. **What should be disclosed if the basis of valuation involves departure from recognized accounting principles?**

A) The director's favorite method

B) The reasons and financial impact

C) Only the financial impact

D) Nothing needs to be disclosed

Answer: B) The reasons and financial impact

5. **What is not included in trade debts according to the lecture?**

A) Amounts due for goods sold

B) Amounts due for services rendered

C) Loans and advances

D) Amounts due for purchase of assets

Answer: C) Loans and advances

6. **How should good and doubtful debts be stated in the financial statements?**

A) Only good debts should be stated

B) Combined without distinction

C) Separately

D) Ignored

Answer: C) Separately

7. **What does the term "Cash in transit" refer to in the context of cash and bank balances?**

A) Cash being transported between banks

B) Cash in hand

C) Cash with third parties

D) Cash in a secure transit box

Answer: A) Cash being transported between banks

8. **What should be disclosed if the directors believe that the current assets have a value less than stated?**

A) Nothing, it's the director's discretion

B) Disclosure of the fact and their estimates

C) A formal complaint to the auditors

D) Immediate adjustment in financial statements

Answer: B) Disclosure of the fact and their estimates

9. **What does "Net realizable value" mean in the context of stores and spares?**

A) The total cost of all items

B) The value after deducting discounts

C) The value after deducting depreciation

D) The selling price less any costs to complete and sell

Answer: D) The selling price less any costs to complete and sell

10. **Which method is used for valuing stores in transit according to the lecture?**

A) Net Realizable Value

B) Invoice Value

C) Weighted Average

D) FIFO

Answer: B) Invoice Value

11. How are trade debtors classified in the notes to the accounts?

- A) Only as secured or unsecured
- B) Good and doubtful, with further details
- C) Alphabetically
- D) According to the director's preference

Answer: B) Good and doubtful, with further details

12. What should be separately stated for advances, receivables, prepayments, and other receivables in the notes?

- A) Only the total amount
- B) Only advances
- C) Material items
- D) Nothing needs to be stated

Answer: C) Material items

13. If there were no advances given to the directors, what should be disclosed?

- A) Nothing, it's not relevant
- B) A formal apology
- C) Explicit mention of no advances to directors
- D) Immediate adjustment in financial statements

Answer: C) Explicit mention of no advances to directors

14. What is the purpose of stating the maximum aggregate amount in disclosures?

- A) To show off the company's wealth
- B) For transparency and reference

C) It's a legal requirement

D) To confuse the readers

Answer: B) For transparency and reference

15. What is the purpose of showing provision for doubtful debts in the financial statements?

A) To increase the reported profits

B) To decrease the reported profits

C) To reflect the true value of assets

D) For legal compliance

Answer: B) To decrease the reported profits

16. If a current asset has a value less than stated, what should the directors disclose?

A) Their disappointment

B) The fact, their estimates, and reasons for higher values

C) Nothing, it's not a concern

D) File a legal case against auditors

Answer: B) The fact, their estimates, and reasons for higher values

17. How are general stores and spares valued in the notes to the accounts?

A) At the highest possible value

B) At the lowest possible value

C) Lower of cost or net realizable value

D) According to the director's preference

Answer: C) Lower of cost or net realizable value

18. What does "Available for sale" mean in the context of investments?

A) Not for sale

B) Held for sale

C) Held for personal use

D) A gift from a friend

Answer: B) Held for sale

19. What should be disclosed about investments in the notes to the accounts?

A) Only the total value

B) Names of directors holding shares

C) Market value and details

D) Nothing, it's confidential

Answer: C) Market value and details

20. How is the market value of investments presented in the notes?

A) As an estimate

B) As a specific amount

C) As per the director's preference

D) As a range of values

Answer: B) As a specific amount

Q&A:

1. What are the categories of current assets according to the Fourth Schedule of Companies Ordinance 1984?

- A: The categories of current assets include Stocks/Inventory, Raw Material, Finished Goods, Work in Process, General Stores/Spares, Tools, Marketable Securities, Loans and Advances, and Cash and Bank Balances.

2. How should current assets be classified under sub-heads?

- A: Current assets should be classified under sub-heads appropriate to the company's affairs, distinguishing, where applicable, items such as General Stores and spare parts and Loose tools Moulds/Dies.
3. **What are the methods of stock valuation mentioned in the lecture?**
- A: The methods of stock valuation include First in First Out (FIFO), Last in First Out (LIFO), Specific identification of cost, and Weighted Average.
4. **When should the basis of valuation be stated for stock-in-trade, and what are the possible bases?**
- A: The basis of valuation for stock-in-trade should be stated. Possible bases include "cost," "net realizable value," or "cost or net realizable value, whichever is lower."
5. **What should be disclosed if the basis of valuation involves departure from recognized accounting principles?**
- A: If the basis of valuation involves departure from recognized accounting principles, the reasons and financial impact should be shown in the Financial Statements.
6. **How are trade debts classified in terms of "good" and "doubtful or bad" debts?**
- A: Trade debts are classified into debts considered good and debts considered doubtful or bad, which are separately stated.
7. **How should "debts considered good" be further distinguished?**
- A: Debts considered good should be distinguished between those that are secured and those for which the company holds no security other than the debtor's personal security.
8. **What information should be disclosed about loans and advances in the financial statements?**
- A: Information about loans and advances due for repayment within twelve months, distinguishing well and doubtful or bad debts, should be disclosed.
9. **What should be separately shown in the financial statements regarding cash and bank balances?**
- A: Cash and bank balances should be distinguished between cash in hand, cash in transit, and balance with banks, indicating the nature thereof (e.g., on current or deposit account).
10. **In case of provision for diminution in the value of a current asset, how should it be presented in the financial statements?**
- A: Provision for diminution in the value of or loss in respect of any current asset should be shown as a deduction from the gross amount of the respective assets.
11. **When should directors disclose their opinion about the realized value of current assets?**
- A: Directors should disclose their opinion if, on realization in the ordinary course of the company's business, a current asset has a value less than the amount stated in the financial statements.
12. **What information should be disclosed if directors believe that current assets have a value less than stated?**
- A: Directors should disclose the fact, their estimates of the realizable value, and the reasons for assigning higher values in the balance-sheet.

13. **How are stores and spares valued, and what is the method of cost calculation mentioned?**

- A: Stores and spares are valued at the lower of cost or net realizable value. Cost is calculated using the weighted average method.

14. **What items are included in the category of stores and spares?**

- A: Most items of stores and spares are of interchangeable nature, can be used as machine spares or consumed as stores. They include items that may result in fixed capital expenditure but are not distinguishable.

15. **What is the disclosure regarding trade debtors and associated undertakings in the notes to the accounts?**

- A: The maximum aggregate amount at the end of any month during the year from associated undertaking is disclosed in the notes to the accounts.

16. **How are advances, receivables, prepayments, and other receivables classified in the notes to the accounts?**

- A: They are classified as advances considered good, with further details including executives' and other employees' advances, and suppliers of goods considered good with details of security deposits and prepayments.

17. **What information is disclosed in the notes regarding cash and bank balances?**

- A: The notes include details of cash at bank, current accounts, saving accounts, and cash in hand.

18. **How are investments presented in the notes, specifically "Available for sale" investments?**

- A: Investments available for sale are presented in the notes with details, including the number of ordinary shares and their face value.

19. **What is the market value disclosure for investments in the notes?**

- A: The market value of the mentioned securities is disclosed in the notes as of a specific date.

20. **What should be disclosed about the valuation of stores and spares in the policy note?**

- A: The policy note discloses that stores and spares are valued at the lower of cost or net realizable value, and cost is calculated using the weighted average method. Stores in transit are valued at invoice value.

14 Presentation and Disclosure of Assets in Balance Sheet

MCQs:

1. **Which International Accounting Standard (IAS) deals with the presentation of financial statements?**

- A. IAS 16 – Property Plant and Equipment

B. IAS 01 – Presentation of Financial Statements

C. IAS 23 – Borrowing Costs

D. IAS 38 – Intangible Assets

Answer: B

2. Under which category of fixed assets “Freehold Land” would be classified?

A. Leasehold Assets

B. Surplus on Revaluation

C. Property Plant and Equipment

D. Capital Work in Progress

Answer: C

3. What is the accumulated depreciation on "Building on Freehold Land" as of July 01?

A. Rs. 52,495

B. Rs. 1,127

C. Rs. 53,525

D. Rs. 21,503

Answer: A

4. Which fixed asset had an addition of Rs. 1,070,000 during the year?

A. Plant and Machinery

B. Tools and Equipment

C. Furniture and Fixture

D. Office Equipment

Answer: A

5. What is the depreciation rate for "Tools and Equipment"?

- A. 5%
- B. 10%
- C. 20%
- D. 15%

Answer: C

6. How is depreciation charged for the year of purchase and the year of disposal?

- A. Full year's depreciation in both years
- B. No depreciation in both years
- C. Full year's depreciation in the year of purchase and no depreciation in the year of disposal
- D. No depreciation in the year of purchase and full year's depreciation in the year of disposal

Answer: C

7. What is the total depreciation charged for the year on all fixed assets?

- A. Rs. 27,532
- B. Rs. 30,417
- C. Rs. 28,757
- D. Rs. 830

Answer: B

8. How are gains and losses on the disposal of fixed assets treated?

- A. Included in the balance of cost
- B. Recorded in a separate account
- C. Taken to the profit and loss account

D. Added to the revaluation surplus

Answer: C

9. What does the "Surplus on Revaluation" include in the closing balance?

A. Surplus on Revaluation of Land

B. Surplus on Revaluation of Building

C. Both A and B

D. Revaluation charge

Answer: C

10. How is the surplus on revaluation of building transferred to retained earnings?

A. Added

B. Deducted

C. Multiplied

D. Divided

Answer: B

11. What is the mode of disposal for the company-owned vehicle sold to an employee?

A. Sale outside the organization

B. Gift to an employee

C. Employee Car Scheme

D. Lease to an employee

Answer: C

12. How is the surplus on revaluation of land treated for depreciation purposes?

A. Deducted from depreciation

B. Added to depreciation

C. Ignored in depreciation calculation

D. Treated as an expense

Answer: C

13. What is included in the "Capital Work In Progress" during the year?

A. Rs. 500,000

B. Rs. 200,000

C. Rs. 700,000

D. Rs. 1,000,000

Answer: B

14. What is the total amount transferred to "Building on Free Hold Land" during the year?

A. Rs. 700,000

B. Rs. 500,000

C. Rs. 200,000

D. Rs. 1,000,000

Answer: A

15. Under which IAS is the revaluation of assets discussed?

A. IAS 16 – Property Plant and Equipment

B. IAS 23 – Borrowing Costs

C. IAS 38 – Intangible Assets

D. IAS 36 – Impairment of Assets

Answer: A

16. How is the cost of freehold land presented in the financial statements?

- A. Historical cost
- B. Revalued amount
- C. Market value
- D. Current replacement cost

Answer: B

17. What does the depreciation charge on leased assets affect?

- A. Profit and loss account
- B. Accumulated depreciation
- C. Revaluation surplus
- D. Retained earnings

Answer: A

18. Where is the depreciation charged on leased assets recorded?

- A. Profit and loss account
- B. Surplus on Revaluation
- C. Retained earnings
- D. Capital work in progress

Answer: A

19. How is depreciation charged on assets acquired under a finance lease?

- A. Straight-line method
- B. Diminishing balance method
- C. Sum-of-the-years-digits method
- D. Units-of-production method

Answer: B

20. What is the reason for capitalizing major renewals and improvements?

- A. To reduce expenses
- B. To increase profits
- C. To match expenses with revenues
- D. To reflect the fair value of assets

Answer: C

Q&A:

1: What are the IAS that affect the recognition, presentation, and disclosure of fixed assets in financial statements?

- **Answer:** The IAS that affect the recognition, presentation, and disclosure of fixed assets are IAS 01, IAS 16, IAS 23, IAS 36 (not included in the syllabus), and IAS 38.

2: Provide an example of fixed assets along with their balances as of July 01.

- **Answer:** Freehold Land: Rs. 22,088, Building on Freehold Land: Rs. 75,328, Plant and Machinery: Rs. 588,050, Tools and Equipment: Rs. 6,287, Furniture and Fixture: Rs. 5,449, Office Equipment: Rs. 15,850, Vehicles: Rs. 28,062.

3: What is the accumulated depreciation for Building on Freehold Land as of July 01?

- **Answer:** Rs. 52,495.

4: Explain the treatment of Capital Work in Progress in the financial statements.

- **Answer:** Capital Work in Progress is shown at cost, and during the year, an addition of Rs. 200,000 was incurred, resulting in a total of Rs. 700,000 transferred to Building on Freehold Land.

5: How is the surplus on revaluation of assets disclosed in the financial statements?

- **Answer:** The surplus on revaluation of assets is disclosed separately for Land and Building. The closing balance is shown after deducting the amount transferred to Retained Earnings.

6: What is the basis for revaluing Land and Building, and how is the surplus calculated?

- **Answer:** Land is revalued based on market value, and the Building is revalued based on discounted current replacement cost. The surplus is the difference between the revalued amount and the carrying value.

7: Provide details about the disposal of the vehicle (Honda Civic LXS-834).

- **Answer:** The vehicle was sold to an employee, Mr. M. A. Asif, under the company's employment scheme. The cost was Rs. 1,000,000, accumulated depreciation was Rs. 488,000, and the written-down value was Rs. 512,000.

8: How is depreciation charged on assets, and what is the rate for Building on Freehold Land?

- **Answer:** Depreciation is charged on the diminishing balance method. The rate for Building on Freehold Land is 5%.

9: How are assets categorized in the Fixed Asset schedule, and what information does it provide?

- **Answer:** Assets are categorized as Freehold and Leasehold. The schedule provides details on cost, accumulated depreciation, written-down value, and depreciation for each asset category.

10: Explain the treatment of assets subject to leasehold in the Fixed Asset schedule.

- **Answer:** Assets subject to leasehold are shown separately, and depreciation is applied based on the diminishing balance method.

11: How are gains and losses on the disposal of fixed assets accounted for?

- **Answer:** Gains and losses on the disposal of fixed assets are taken to the profit and loss account.

12: What is the treatment for capital work-in-progress during the year?

- **Answer:** An addition of Rs. 200,000 was incurred during the year, and the total amount of Rs. 700,000 was transferred to Building on Freehold Land.

13: Explain the allocation of depreciation between cost of sales, administrative and general expenses, and selling and marketing expenses.

- **Answer:** Depreciation of Rs. 30,417 is allocated between cost of sales (Rs. 28,757), administrative and general expenses (Rs. 830), and selling and marketing expenses (Rs. 830).

14: How is depreciation charged for assets acquired under a finance lease?

- **Answer:** Depreciation for assets acquired under a finance lease is charged over the useful life of the asset on the diminishing balance method.

15: What is the disclosure policy for property, plant, and equipment in the financial statements?

- **Answer:** The disclosure policy includes details on fixed capital expenditure, depreciation, revaluation of assets, and the treatment of capital work-in-progress.

16: How are major renewals and improvements to fixed assets treated in the financial statements?

- **Answer:** Major renewals and improvements are capitalized, and the assets they replace are retired.

17: Explain the disclosure of surplus on revaluation in the financial statements.

- **Answer:** Surplus on revaluation is disclosed separately for Land and Building, showing the opening balance, additions during the year, and the closing balance.

18: What is the basis for charging depreciation on assets in the company?

- **Answer:** Depreciation is charged on the diminishing balance method, and the rates vary for different asset categories.

19: How is maintenance and repair expense for fixed assets treated in the financial statements?

- **Answer:** Maintenance and repair expenses are charged to income as and when incurred.

20: Explain the treatment of assets disposed of during the year, using the example of the vehicle costing Rs. 1,000,000.

- **Answer:** The vehicle was sold to an employee at book value. The cost was Rs. 1,000,000, accumulated depreciation was Rs. 488,000, and the written-down value was Rs. 512,000. The entire amount was recognized as revenue in the venture's consolidated financial statements.

15 Long Term Investments, Presentation and Disclosure

MCQs:

1. What are the two main categories of Long Term Investments mentioned in the lecture?

- A) Equity and Debt
- B) Subsidiary and Joint Ventures
- C) Investment in Associated Undertaking and Other Investments
- D) Short-term and Long-term

Answer: C) Investment in Associated Undertaking and Other Investments

2. According to IAS 27, how should investments in subsidiaries, associates, and jointly controlled entities be accounted for in the parent's individual financial statements?

- A) Only at cost
- B) Only in accordance with IAS 39
- C) Either at cost, in accordance with IAS 39, or using the equity method
- D) Only using the equity method in accordance with IAS 28

Answer: C) Either at cost, in accordance with IAS 39, or using the equity method

3. What is a direct subsidiary according to the lecture?

- A) A company with more than 50% shares of another company
- B) A company holding less than 50% shares of another company
- C) A company holding more than 50% shares of another company
- D) A company with no shares in another company

Answer: C) A company holding more than 50% shares of another company

4. What is the term used for a subsidiary where the holding company owns 100% shares of the subsidiary company?

- A) Indirect Subsidiary
- B) Partially Owned Subsidiary
- C) Virtually Wholly Owned Subsidiary
- D) Wholly Owned Subsidiary

Answer: D) Wholly Owned Subsidiary

5. According to IAS 28, what is significant influence?

- A) Control over financial and management affairs
- B) Ownership of more than 50% shares
- C) Ability to participate but not control
- D) Complete control over an enterprise

Answer: C) Ability to participate but not control

6. How are long-term investments recorded according to IAS 28?

- A) Using the cost method
- B) Using the equity method
- C) At fair value
- D) Both A and B

Answer: B) Using the equity method

7. In which exceptional circumstance can an investor not use the equity method for investments in associates?

- A) When the investor is wholly-owned
- B) When the investment is held for trading
- C) When the investor's debt or equity instruments are not traded in a public market

D) Both A and B

Answer: D) Both A and B

8. What is a Joint Venture according to the lecture?

A) A merger of two companies

B) A contractual arrangement where two or more parties undertake an economic activity subject to joint control

C) A subsidiary company

D) A wholly-owned subsidiary

Answer: B) A contractual arrangement where two or more parties undertake an economic activity subject to joint control

9. How are investments in jointly controlled entities accounted for under the Benchmark Treatment?

A) Proportionate Consolidation

B) Equity method

C) Cost method

D) Fair value method

Answer: A) Proportionate Consolidation

10. According to IAS 31, what is the Allowed Alternative Treatment for accounting for an investment in a jointly controlled entity?

A) Proportionate Consolidation

B) Fair value method

C) Equity method

D) Cost method

Answer: C) Equity method

11. What should a venturer disclose when reporting its interest in a joint venture under the Equity Method?

- A) Information about contingent liabilities
- B) Listing and description of interests in significant joint ventures
- C) Method used to recognize its interests
- D) All of the above

Answer: D) All of the above

12. According to IAS 32 and 39, what are the two classifications of Other Long Term Investments?

- A) Held to maturity investments and Available for sale investments
- B) Equity and Debt
- C) Short-term and Long-term
- D) Subsidiary and Joint Ventures

Answer: A) Held to maturity investments and Available for sale investments

13. What is the required treatment in group accounts for a Subsidiary according to the lecture?

- A) Fair value accounting
- B) Equity accounting
- C) Full consolidation
- D) Cost method

Answer: C) Full consolidation

14. How is an Associate accounted for in group accounts?

- A) Fair value accounting
- B) Equity accounting

C) Proportionate Consolidation

D) Cost method

Answer: B) Equity accounting

15. What is the term used for an investment in a jointly controlled entity operating under severe long-term restrictions?

A) Benchmark Treatment

B) Allowed Alternative Treatment

C) Virtually Wholly Owned subsidiary

D) Exception

Answer: B) Allowed Alternative Treatment

16. According to the lecture, when should the use of the equity method be discontinued for an investment in associates?

A) When the investor ceases to have significant influence

B) When the associate comes under severe long-term restrictions

C) Both A and B

D) Neither A nor B

Answer: C) Both A and B

17. What should be disclosed according to IAS 28 about investments in associates for which there are published price quotations?

A) Fair value

B) Summarized financial information

C) Nature and extent of restrictions

D) Both A and B

Answer: D) Both A and B

18. In what circumstances can a venturer not use the equity method for its interests in joint ventures?

- A) The venture is wholly-owned
- B) The venture's debt or equity instruments are traded in a public market
- C) The venture ceases to have joint control
- D) Both A and B

Answer: D) Both A and B

19. What is the treatment for Other Investments that do not meet the definitions of Subsidiary, Associate, or Joint Venture?

- A) Cost method
- B) Fair value method
- C) Proportionate consolidation
- D) Equity method

Answer: A) Cost method

20. According to the lecture, what is included in the accounting records of a venturer when it contributes cash or other resources to a jointly controlled entity?

- A) Recognized in the venture's separate financial statements as an investment
- B) Shown as revenue in the venture's consolidated financial statements
- C) Recognized as a liability in the venture's balance sheet
- D) Both A and B

Answer: A) Recognized in the venture's separate financial statements as an investment

Q&A:

1: How are Long Term investments classified, and what are the categories under which they are classified?

A: Long Term investments are classified into Investment in Associated Undertaking and Other Investments.

2: What are the possible types of investments in an associated undertaking?

A: Investments in an associated undertaking can be in Subsidiary Companies, Associated Companies, and Interest in Joint Ventures.

3: Which standards govern the Measurement, Presentation, and Disclosure of Long Term Investments?

A: The standards governing Long Term Investments are IAS 27, IAS 28, IAS 31, IAS 32, and IAS 39.

4: In the parent's individual financial statements, what are the three ways investments in subsidiaries, associates, and jointly controlled entities can be accounted for?

A: Investments in subsidiaries, associates, and jointly controlled entities can be accounted for either at cost, in accordance with IAS 39, or using the equity method in accordance with IAS 28.

5: What disclosures are required in Consolidated Financial Statements regarding the relationship between the parent and a subsidiary when the parent does not own more than half of the voting power?

A: Disclosures should include the nature of the relationship and reasons why ownership does not constitute control.

6: Explain the concept of a direct and indirect subsidiary with an example.

A: In the example provided, Company A is a direct subsidiary of Company B, and Company B is a direct subsidiary of Company C. Company A is also an indirect subsidiary of Company C.

7: What information is required in the financial statements of a subsidiary with a reporting date different from that of the parent?

A: The reporting date of the financial statements of a subsidiary and the reasons for using a different reporting date or period should be disclosed.

8: How are Wholly Owned and Partially Owned Subsidiaries differentiated?

A: If the holding company owns more than 50% but less than 100% shares of the subsidiary, it is termed as a Partially Owned Subsidiary. If the holding company owns 100% shares, it is a Wholly Owned Subsidiary.

9: What is the definition of an Associate according to IAS 28?

A: An Associate is an enterprise in which an investor has significant influence and is neither a subsidiary nor a joint venture of the investor.

10: How is significant influence evidenced in the context of an Associate?

A: Significant influence is usually evidenced through representation on the board of directors, participation in the policy-making process, material transactions, interchange of managerial personnel, and provision of technical information.

11: What are the two methods for the recognition of investment in associated companies?

A: The two methods are the Cost method and the Equity method.

12: When should the Equity method be discontinued for an investment in associates?

A: The Equity method should be discontinued if the investor ceases to have significant influence or if the associate comes under severe long-term restrictions.

13: What are the exceptional circumstances in which the Equity method is not used for investments in associates?

A: An investor may not use the Equity method if the investment is acquired and held exclusively for disposal within 12 months or if the investor is a wholly-owned subsidiary and its debt or equity instruments are not traded in a public market.

14: What disclosures are required under IAS 28 regarding investments in associates?

A: Disclosures include fair value of investments, summarized financial information, explanations for the use or non-use of the equity method, reporting date differences, nature and extent of restrictions, unrecognized share of losses, and information on associates not accounted for using the equity method.

15: Define a Joint Venture according to the provided lecture.

A: A Joint Venture is a contractual arrangement where two or more parties undertake an economic activity subject to joint control.

16: What are the two treatments for accounting for an investment in jointly controlled entities under IAS 31?

A: The two treatments are Benchmark Treatment (Proportionate consolidation) and Allowed Alternative Treatment (Equity method of accounting).

17: Explain Proportionate Consolidation and its two formats.

B) Associated Companies

C) Interest in Joint Ventures

D) All of the above

Answer: D) All of the above

3. What is the key characteristic of Held to Maturity investments?

A) Specific maturity date and intent to hold until maturity

B) Intent to sell in the short term

C) Lack of maturity date

D) Fair value measurement

Answer: A) Specific maturity date and intent to hold until maturity

4. Examples of Long Term Investments include:

A) Short-term Finance Certificates

B) Certificates of Investments

C) Defense Saving Certificates

D) All of the above

Answer: D) All of the above

5. Under the equity method of accounting, how is an equity investment initially recorded?

A) Fair value

B) Amortized cost

C) At cost

D) Fair value less accumulated depreciation

Answer: C) At cost

6. **How are distributions (dividends) received from an investee accounted for under the equity method?**

- A) Recorded as revenue
- B) Reduce the carrying amount of the investment
- C) Recorded as a liability
- D) Ignored for accounting purposes

Answer: B) Reduce the carrying amount of the investment

7. **Under proportionate consolidation, what does the balance sheet of the venturer include?**

- A) Only its share of the assets it controls
- B) Only its share of the liabilities for which it is jointly responsible
- C) Both its share of assets and liabilities it controls jointly
- D) None of the above

Answer: C) Both its share of assets and liabilities it controls jointly

8. **How is amortized cost calculated for Held to Maturity investments?**

- A) Straight-line method
- B) Effective interest method
- C) Declining balance method
- D) Historical cost method

Answer: B) Effective interest method

9. **What is Fair Value in the context of Available for Sale investments?**

- A) Historical cost
- B) Market value
- C) Book value

D) Amortized cost

Answer: B) Market value

10. What is the primary objective of IAS 32 in relation to Financial Instruments?

A) Recognition of financial instruments

B) Measurement of financial instruments

C) Disclosure of information about financial instruments

D) All of the above

Answer: C) Disclosure of information about financial instruments

11. What does IAS 32 define as a Financial Instrument?

A) Any physical asset

B) An agreement giving rise to a Financial Asset and Financial Liability

C) Shares only

D) Loans and receivables

Answer: B) An agreement giving rise to a Financial Asset and Financial Liability

12. Which of the following is specifically excluded from Financial Assets according to IAS 32?

A) Physical Assets

B) Prepaid Expenses

C) Trade Receivables

D) All of the above

Answer: D) All of the above

13. What is the main purpose of the disclosures required by IAS 32?

A) Recognition of financial instruments

- B) Enhancement of financial statement users' understanding
- C) Measurement of financial instruments
- D) All of the above

Answer: B) Enhancement of financial statement users' understanding

14. What does IAS 32 encourage issuers to provide regarding financial instruments?

- A) Detailed financial statements
- B) Monetary disclosures only
- C) Narrative commentary by issuers
- D) None of the above

Answer: C) Narrative commentary by issuers

15. How are Available for Sale investments initially recognized?

- A) Fair value
- B) Amortized cost
- C) Historical cost
- D) Market value

Answer: A) Fair value

16. What is the treatment of surplus/deficit arising from re-measurement of Available for Sale investments?

- A) Recognized in profit and loss account
- B) Recognized in equity through statement of changes in equity
- C) Recorded as a liability
- D) Ignored for accounting purposes

Answer: B) Recognized in equity through statement of changes in equity

17. How is Investment in Subsidiary accounted for according to the lecture?

- A) Fair value
- B) Historical cost
- C) Amortized cost
- D) Market value

Answer: B) Historical cost

18. What is the basis for measuring Investments held to maturity?

- A) Fair value
- B) Amortized cost
- C) Historical cost
- D) Market value

Answer: B) Amortized cost

19. How are Investments held for trading classified and measured?

- A) Fair value
- B) Amortized cost
- C) Historical cost
- D) Market value

Answer: A) Fair value

20. In the context of Long Term Investments, what does the term "Proportionate Consolidation" refer to?

- A) Recognition of proportional profits only
- B) Inclusion of both assets and liabilities jointly controlled in the balance sheet
- C) Recognition of proportional losses only

D) Ignored for accounting purposes

Answer: B) Inclusion of both assets and liabilities jointly controlled in the balance sheet

Q&A:

1. **What are the two main categories of Long Term Investments mentioned in the lecture?**
 - Long Term investments are categorized into Investment in Associated Undertaking and Other Investments.
2. **What can Investment in associated undertaking include?**
 - It can be an investment in Subsidiary Companies, Associated Companies, or Interest in Joint Ventures.
3. **How are Held to Maturity investments defined?**
 - Held to Maturity investments are those with a specific maturity date, and the management intends and has the ability to hold them until maturity.
4. **What is excluded from Investments held to maturity?**
 - Investments held to maturity do not include those designated as available for sale or those meeting the definition of loans and receivables.
5. **Can you provide examples of Long Term Investments?**
 - Examples include Term Finance Certificates, Certificates of Investments, and Defense Saving Certificates.
6. **Under the equity method, how is an equity investment initially recorded?**
 - An equity investment is initially recorded at cost under the equity method.
7. **How are distributions (dividends) received from an investee treated under the equity method?**
 - Distributions received reduce the carrying amount of the investment under the equity method.
8. **What does Proportionate Consolidation involve?**
 - Proportionate Consolidation includes the venture's share of jointly controlled assets and liabilities in the balance sheet and share of income and expenses in the income statement.
9. **How is amortized cost calculated for Held to Maturity investments?**
 - Amortized cost is calculated using the effective interest method, which discounts estimated future cash receipts through the expected life of the financial instrument.
10. **Define Fair Value in the context of Available for Sale investments.**
 - Fair Value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.
11. **What are the disclosure requirements for Subsidiary, Associate, and Interest in Joint Venture?**

- Disclosure requirements include information about the extent and nature of financial instruments, terms and conditions affecting cash flows, and accounting policies and methods adopted.
- 12. **What does IAS 32 aim to achieve in relation to Financial Instruments?**
 - IAS 32 aims to enhance financial statement users' understanding of the significance of financial instruments and assist in assessing future cash flows.
- 13. **Are physical assets included in Financial Assets according to IAS 32?**
 - No, physical assets are specifically excluded from Financial Assets under IAS 32.
- 14. **What does IAS 32 encourage issuers to provide regarding financial instruments?**
 - IAS 32 encourages issuers to provide narrative commentary, enabling users to understand management's attitude to risk.
- 15. **How are Available for Sale investments initially recognized, and how are they measured subsequently?**
 - Available for Sale investments are initially recognized at cost and measured at subsequent reporting dates at fair value.
- 16. **What is the treatment of surplus/deficit arising from re-measurement of Available for Sale investments?**
 - Surplus/deficit arising from re-measurement is taken to profit and loss under Available for Sale investments.
- 17. **How is Investment in Subsidiary accounted for?**
 - Investment in Subsidiary is accounted for at cost from the date when control commences until the date when control ceases.
- 18. **What is the basis for measuring Investments held to maturity?**
 - Investments held to maturity are measured at amortized cost.
- 19. **How are Investments held for trading classified and measured?**
 - Investments held for trading are classified as held for trading and measured at fair values, with resulting gains or losses recognized directly in the profit and loss account.
- 20. **What does IAS 32 cover, and which investments are covered under IAS 32 and 39?**
 - IAS 32 mainly covers Financial Instruments, and investments not covered by IAS 27, 28, and 31 are covered under IAS 32 and 39 as Financial Instruments.

17 Risks & Disclosure under IAS 32 and 39 & Long Term Loans and Advances

MCQs:

1. What does IAS 32 and 39 primarily focus on?
 - a. Revenue recognition
 - b. Financial instruments

c. Employee benefits

d. Inventory valuation

Answer: b

2. In financial instruments, shares (equity instruments) are considered:

a. Financial assets of the investee company

b. Financial liabilities of the investor

c. Both financial assets and liabilities

d. Neither financial assets nor liabilities

Answer: c

3. Which of the following is specifically excluded from financial assets?

a. Physical assets

b. Prepaid expenses

c. Trade receivables

d. Both a and b

Answer: d

4. What types of financial risk are discussed in the context of financial instruments?

a. Market risk, credit risk, liquidity risk, and interest rate risk

b. Operational risk, political risk, legal risk, and business risk

c. Technology risk, environmental risk, social risk, and economic risk

d. Market risk, credit risk, liquidity risk, and cash flow risk

Answer: a

5. Currency risk in financial instruments is related to:

a. Fluctuations in market interest rates

- b. Changes in market prices
- c. Changes in foreign exchange rates
- d. Changes in cash flows

Answer: c

6. What is liquidity risk in financial instruments?

- a. Difficulty in raising funds
- b. Fluctuations in cash flows
- c. Changes in market prices
- d. Changes in foreign exchange rates

Answer: a

7. The purpose of disclosures required by IAS 32 is to enhance understanding of:

- a. Market trends
- b. Financial instruments
- c. Income and expenses
- d. Employee benefits

Answer: b

8. What does IAS 39 apply to?

- a. Only specific types of financial instruments
- b. All entities and all types of financial instruments except those specifically excluded
- c. Only investments in subsidiaries
- d. Only recognized financial assets

Answer: b

9. When should an entity de-recognize a financial asset?

- a. When the fair value increases
- b. When contractual rights to cash flows expire
- c. When there is a probable inflow of resources
- d. When the fair value decreases

Answer: b

10. What is the purpose of recognizing a financial liability under IAS 39?

- a. To increase assets
- b. To discharge contractual obligations
- c. To enhance financial position
- d. To decrease liabilities

Answer: b

11. In the context of Long Term Loans and Advances, what is considered in the disclosure checklist?

- a. Revenue recognition
- b. Classification of inventory
- c. Loans and advances to related parties
- d. Employee benefits

Answer: c

12. How are long-term loans to related parties disclosed in the balance sheet?

- a. Shown as current assets
- b. Shown under long-term liabilities
- c. Shown separately with details
- d. Not disclosed separately

Answer: c

13. In the case of ABC Ltd, what was the purpose of the long-term loan given in 2000?

- a. Purchase of inventory
- b. Renovation of manufacturing facility
- c. Employee benefits
- d. Settlement of debts

Answer: b

14. What is the rate of interest on House Building loans according to the provided information?

- a. 7.5%
- b. 9%
- c. 5%
- d. 10%

Answer: b

15. What is the maximum aggregate amount due from executives at the end of any month during the year?

- a. Rs. 7,612 thousand
- b. Rs. 3,680 thousand
- c. Rs. 5,000,000
- d. Rs. 7,350 thousand

Answer: a

16. Long-term advances in the context of Long Term Loans and Advances have been given for:

- a. Inventory purchase

b. Capital work in progress

c. Settlement of debts

d. Employee benefits

Answer: b

17. How are long-term advances considered by the company?

a. Bad

b. Doubtful

c. Good

d. Unsettled

Answer: c

18. What is the purpose of loans to employees in the provided information?

a. Purchase of physical assets

b. Settlement of debts

c. Secured against charge on the asset for which loans are given

d. For employee benefits

Answer: c

19. What is encouraged by the standard for enhancing understanding of financial instruments?

a. Monetary disclosures only

b. Narrative commentary by issuers

c. Avoidance of disclosure

d. Full disclosure of all transactions

Answer: b

Answer: b

- ## Q&A:

A: Liquidity Risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments, possibly due to the inability to sell a financial asset quickly at close to its fair value.

7. How does the company mitigate Credit Risk, and what does it represent?

A: The Company mitigates Credit Risk by applying credit limits to customers and obtaining collaterals. Credit Risk represents the accounting loss that would be recognized if counterparties failed to perform as contracted.

8. What is encouraged by IAS 32 for enhancing understanding of financial instruments, besides specific monetary disclosures?

A: Narrative commentary by issuers is encouraged by IAS 32 to provide insight into management's attitude toward risk and current transactions involving financial instruments.

9. Explain the concept of Fair Value of Financial Instruments.

A: The Fair Value of Financial Instruments is determined on the basis of objective evidence at each reporting date, and it reflects the carrying value of all financial assets and liabilities in the financial statements.

10. What does Liquidity Risk Management involve, and what does management closely monitor?

A: Liquidity Risk Management involves monitoring the company's inability to raise funds. Management closely monitors the company's liquidity and cash flow position, including balance sheet liquidity ratios and concentrations of debtors and creditors.

11. According to IAS 39, when should an entity de-recognize a financial asset?

A: An entity should de-recognize a financial asset when the contractual rights to the cash flows from the financial asset expire or when it transfers substantially all the risks and rewards of ownership to another party.

12. Provide an example of an initial recognition of a financial instrument according to IAS 39.

A: An entity entering into a forward contract to buy a specific quantity of iron at a specified price on a specified date is an example of an initial recognition of a financial instrument under IAS 39.

13. What does the Disclosure Checklist for Long Term Loans and Advances include?

A: The Disclosure Checklist includes showing loans and advances separately, distinguishing between considered good and bad, classification, loans and advances to related parties, and other relevant details.

14. Explain the purpose of the long-term loan given to ABC Ltd in 2000.

A: The long-term loan of Rs. 5,000,000 given to ABC Ltd in 2000 was for the renovation of its manufacturing facility. It is repayable in 20 equal quarterly installments with a markup rate of 7.5% per annum.

15. How loans to employees are secured, and against what are they secured?

A: Loans to employees are secured against a charge on the asset for which the loan is given and a lien on retirement benefits.

16. What do Long Term Advances represent, and to whom have they been given?

A: Long Term Advances represent capital work in progress and have been given to suppliers and contractors.

17. How does IAS 39 differ from the recognition criteria in the Framework and other standards?

A: IAS 39 applies to all entities and all types of financial instruments except those specifically excluded. It differs from the recognition criteria in the Framework by recognizing items when there is a probable inflow or outflow of resources and the item has a cost or value that can be measured reliably.

18. Explain the concept of De-recognition of financial instruments.

A: De-recognition is the removal of a previously recognized financial instrument from an entity's balance sheet. An entity should de-recognize a financial asset when the contractual rights to the cash flows expire or when it transfers substantially all the risks and rewards of ownership to another party.

19. What information is required in the Notes to the Accounts regarding Long Term Loans - Considered Good?

A: The Notes to the Accounts include details about related parties, such as ABC Ltd, and loans to employees. It provides information on the amount, purpose, and terms of repayment.

20. What is the purpose of Long Term Advances, and how are they considered by the company?

A: Long Term Advances have been given to suppliers and contractors for capital work in progress and are considered good by the company.

18 Long Term Deposits and Prepayments & Current Assets

MCQs:

1. **What is the primary purpose of the disclosure related to Long Term Deposits and Prepayments?**

- A) To confuse stakeholders
- B) To hide financial information
- C) To provide transparency and detailed information
- D) To avoid legal obligations

Answer: C

2. **According to the disclosure, what are Long Term Advances mainly given for?**

- A) Employee salaries
- B) Capital work in progress
- C) Short-term investments
- D) Executive bonuses

Answer: B

3. **How are Long Term Advances classified in the financial statements?**

- A) Unsecured
- B) Good and Unsecured
- C) Doubtful
- D) Both A and B

Answer: B

4. What is the primary criterion for classifying an asset as a current asset?

- A) Expected to be realized in the normal course of operations
- B) Held for trading purposes
- C) Cash or cash equivalent not restricted in use
- D) All of the above

Answer: D

5. How are current and non-current assets presented on the balance sheet according to IAS?

- A) Based on liquidity
- B) Based on alphabetical order
- C) Randomly
- D) Based on profitability

Answer: A

6. Which of the following is an example of a current asset?

- A) Land
- B) Machinery
- C) Inventory
- D) Copyrights

Answer: C

7. What should be disclosed in the category of Trade Debts?

- A) Only secured debts
- B) Only doubtful debts

C) Good and doubtful or bad debts

D) Only interest-free debts

Answer: C

8. **In the context of Investments, what are "Held to Maturity," "Available for Sale," and "Held for Trading" examples of?**

A) Current assets

B) Non-current assets

C) Liabilities

D) Provisions

Answer: B

9. **What does the term "Provisions if any" refer to in the context of financial statements?**

A) Financial liabilities

B) Potential losses or obligations

C) Cash reserves

D) Current assets

Answer: B

10. **In the extracts of Current Assets, what category does "Stock and Stores-in-transit" belong to?**

A) Stores and Spares

B) Stock in Trade

C) Short Term Investments

D) Trade Debts

Answer: A

11. According to the Notes to the Accounts, what does "Stores" include?

- A) Raw materials
- B) Spares
- C) Loose tools
- D) All of the above

Answer: D

12. Which type of investments are mentioned under "Quoted" in the extracts?

- A) Held to Maturity
- B) Available for Sale - Associated Undertakings
- C) Held for Trading
- D) Provisions

Answer: B

13. How are Trade Debts categorized in terms of security?

- A) Secured
- B) Unsecured
- C) Both A and B
- D) None of the above

Answer: C

14. What is the purpose of "Current portion of loans to employees"?

- A) Securing long-term loans
- B) Employee retirement benefits
- C) Short-term investments
- D) Paying dividends

Answer: B

15. What does "Considered Good and Secured" refer to in the context of Advances?

- A) High interest rates
- B) Employee salaries
- C) Low risk and collateral provided
- D) Doubtful debts

Answer: C

16. What do "Letters of credit-margin deposits" represent in the category of Deposits?

- A) Long-term investments
- B) Short-term liabilities
- C) Collateral for loans
- D) Provisions

Answer: C

17. What is the major portion of the "Cash at Bank" balance invested in?

- A) Real estate
- B) Long-term bonds
- C) Different banks with mark-up
- D) Stocks

Answer: C

18. What is the significance of the time period used in defining current assets?

- A) Determining the profitability
- B) Assessing liquidity
- C) Calculating depreciation

D) Estimating future earnings

Answer: B

19. For companies with a longer operating cycle, what can be said about certain current assets?

- A) They are more liquid
- B) They are less liquid
- C) They have higher market value
- D) They are not disclosed

Answer: B

20. What should the user of financial statements recognize for companies with a longer operating cycle?

- A) Longer liquidity
- B) Shorter operating cycles
- C) Less relevance of operating cycle information
- D) Certain current assets are less liquid

Answer: D

Q&A:

1: What are the main components of Long Term Deposits and Prepayments disclosed in the financial statements?

- Answer: The main components include Long Term Advances (Unsecured), Security Deposits, and Prepayments.

2: How are Long Term Advances classified, and what is their purpose according to the company's disclosure?

- Answer: Long Term Advances are classified as "Considered Good," and they are given to suppliers and contractors for capital work in progress, as mentioned in the company's disclosure.

3: What is the significance of disclosing material items separately in the context of Long Term Deposits and Prepayments?

- Answer: Any material items in Long Term Deposits and Prepayments should be disclosed separately to provide transparency and clarity in financial reporting.

4: In the context of Current Assets, what criteria determine whether an asset should be classified as a current asset or a non-current asset?

- Answer: An asset is classified as a current asset if it is expected to be realized in the normal course of the entity's operating cycle, held for trading purposes, or is a cash or cash equivalent asset not restricted in its use.

5: How does the company classify assets as current or non-current, and what considerations are highlighted in the IAS regarding this classification?

- Answer: The company classifies assets based on the operating cycle. The IAS emphasizes providing information on the operating cycle, and if there is a clearly defined operating cycle, assets should be disclosed accordingly.

6: What assets are included in the category of non-current assets according to the provided information?

- Answer: Non-current assets include tangible, intangible, operating, and financial assets of a long-term nature.

7: According to the disclosure, what items are suggested to be classified under current assets in the balance sheet?

- Answer: Suggested classifications for current assets include stores, spares, and loose tools, stock in trade, trade debts, loans and advances, trade deposits, short-term prepayments, and others.

8: Provide examples of items categorized under "Stores and Spares" in the balance sheet extracts.

- Answer: Examples include stores, spares, loose tools, oil and lubricants, and civil stores.

9: What types of investments are disclosed under the category of "Quoted" in the investments section of the balance sheet extracts?

- Answer: Quoted investments include those that are "Available for Sale - Associated Undertakings" such as A Ltd and B Ltd.

10: According to the balance sheet extracts, what constitutes the "Current Assets" section, and provide examples of items listed under it.

- Answer: The Current Assets section includes stores and spares, stock in trade, short-term investments, trade debts, loans, advances, deposits, prepayments, and other receivables. Examples include stores and spares, stock in trade, and short-term investments.

11: Explain the disclosure related to "Trade Debts" in the context of Current Assets.

- Answer: Trade debts include amounts considered good and doubtful, and there is a provision for doubtful debts. These relate to the normal business of the company and are interest-free.

12: What does the company consider as "Advances: Unsecured - considered good" in the context of current assets?

- Answer: Advances: Unsecured - considered good include amounts given to employees, suppliers, custom duty, income tax, and sales tax.

13: Provide information about the balances under "Cash at Bank" in the "Cash and Bank Balances" section of the balance sheet extracts.

- Answer: Cash at Bank includes current accounts in Pak Rupee and savings accounts in Pak Rupee and Foreign Currency.

14: What is the major portion of the balance under "Savings accounts" used for in the "Cash and Bank Balances" section?

- Answer: The major portion of the balance under savings accounts is invested in three different banks, earning mark-up together with current account facilities.

15: Explain the time period used in defining current assets and mention a circumstance where the operating cycle might extend beyond one year.

- Answer: The time period used is one year or the length of the operating cycle, whichever is longer. Some businesses, such as those selling merchandise on long-term installment contracts or manufacturing products with a long cycle, may have an operating cycle longer than one year.

16: According to the provided information, what is the purpose of disclosing the aggregate amount due by CEO, directors, and executives in the financial statements?

- Answer: The disclosure of the aggregate amount due by CEO, directors, and executives is intended to provide transparency regarding the company's financial relationships with its key personnel.

17: In the context of investments, what are the categories mentioned under which investments can be classified?

- Answer: Investments can be classified as held to maturity, available for sale, and held for trading, as indicated in the information provided.

18: Provide examples of items listed under "Other Receivables" in the suggested classification of current assets.

- Answer: Examples include financial assets (IAS 32 and 39), tax refunds due from government, and other miscellaneous receivables.

19: What does the company consider as "Considered Good and Secured" under "Loans, Advances, Deposits, Prepayments, and Other Receivables" in the context of current assets?

- Answer: Considered good and secured includes the current portion of loans to employees secured against employee retirement benefits and advances given to employees, suppliers, custom duty, income tax, and sales tax.

20: Explain the purpose of disclosing the maximum aggregate amount due from associated companies during the year in the context of current assets.

- Answer: The disclosure of the maximum aggregate amount due from associated companies is made to provide users of financial statements with information about the extent of financial transactions and relationships with associated entities during the year.