

MGT401 (FINANCIAL ACCOUNTING – II)

FINAL TERM NOTES

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Chapter – 7

Short Term Investment

Sr. No	Chapter outline - Topics
114	114-Short Term Investment - Equity and Debt Instrument
115	115-Measurement Of Investment - Equity Instrument
116	116-Measurement Of Investment - Equity Instrument Practice

Topic Videos 114-116 are mandatory part of this chapter

MCQs:

1. Which of the following types of instruments are short-term investment options?

- a) Equity Instruments
- b) Debt Instruments
- c) Both a) and b)
- d) None of the above

Answer: c) Both a) and b)

2. How financial assets are initially measured when investing in equity instruments?

- a) At cost
- b) At amortized cost

c) At fair value

d) At historical cost

Answer: c) At fair value

3. In normal circumstances, what is considered as the fair value of a financial asset when investing in equity instruments?

a) Transaction price

b) Amortized cost

c) Historical cost

d) Market value on the reporting date

Answer: a) Transaction price

4. What is the treatment of transaction costs incurred in the process of investing in equity instruments?

a) Recognized as income in SOPL

b) Recognized as a liability in the balance sheet

c) Recognized as an expense in SOPL

d) Recognized as an intangible asset

Answer: c) Recognized as an expense in SOPL

5. How is dividend income recognized for equity instruments in the financial statements?

a) Dividend received is recognized as a reduction in the investment's carrying amount

- b) Dividend received is recognized as income in the Statement of Profit or Loss (SOPL)
- c) Dividend income is not recognized until the shares are sold
- d) Dividend received is recognized as a liability in the balance sheet

Answer: b) Dividend received is recognized as income in the Statement of Profit or Loss (SOPL)

6. In Sample Co.'s investment in equity shares of Symbol Ltd., what was the initial measurement of the investment?

- a) Historical cost
- b) Fair value
- c) Market value
- d) Transaction price

Answer: b) Fair value

7. How much did Sample Co. incur as broker's fee for the investment in equity shares of Symbol Ltd.?

- a) Rs. 200,000
- b) Rs. 40,000
- c) Rs. 20,000
- d) Rs. 350,000

Answer: c) Rs. 20,000

8. What was the fair value of Sample Co.'s investment in equity shares of Symbol Ltd. on the reporting date, 31st December 2020?

a) Rs. 200,000

b) Rs. 40,000

c) Rs. 20,000

d) Rs. 350,000

Answer: d) Rs. 350,000

9. How does an increase in fair value of equity instruments affect the Statement of Profit or Loss (SOPL)?

a) It causes a gain (SOPL - Cr.)

b) It causes a loss (SOPL - Dr.)

c) It has no impact on the SOPL

d) It reduces the shareholders' equity

Answer: a) It causes a gain (SOPL - Cr.)

10. What is the impact of a decrease in fair value of equity instruments on the Statement of Profit or Loss (SOPL)?

a) It causes a gain (SOPL - Cr.)

b) It causes a loss (SOPL - Dr.)

c) It has no impact on the SOPL

d) It reduces the shareholders' equity

Answer: b) It causes a loss (SOPL - Dr.)

Q&A:

1. What are the two types of instruments that can be considered for short-term investments?

A: a) Equity Instruments and b) Debt Instruments.

2. How financial assets are initially measured when investing in equity instruments?

A: Each financial asset is initially measured at its fair value.

3. In normal circumstances, what is considered as the fair value of a financial asset when investing in equity instruments?

A: The transaction price is considered as the fair value.

4. How are transaction costs treated when investing in equity instruments?

A: Transaction costs, if any, are recognized as an expense in the Statement of Profit or Loss (SOPL).

5. How is the dividend income recognized for equity instruments?

A: Dividend received during the reporting period is recognized as income in the Statement of Profit or Loss (SOPL).

6. What is the initial measurement of an investment in equity instruments?

A: The initial measurement is done at fair value.

7. What are the subsequent measurement options available for investments in equity instruments?

A: Subsequent measurement at fair value through profit or loss is one of the options.

8. When does Sample Co. recognize the dividend income from its investment in equity shares of Symbol Ltd.?

A: Sample Co. recognizes the dividend income during the reporting period in the year it is received.

9. How much did Sample Co. invest in equity shares of Symbol Ltd.?

A: Sample Co. invested Rs. 400,000 in equity shares of Symbol Ltd.

10. How much transaction cost did Sample Co. incur as a broker's fee for the investment?

A: Sample Co. incurred Rs. 20,000 as a broker's fee.

11. What was the fair value of Sample Co.'s investment in equity shares of Symbol Ltd. on the reporting date, 31st December 2020?

A: The fair value of the investment was Rs. 350,000 on the reporting date.

12. How does an increase in fair value of equity instruments impact the Statement of Profit or Loss (SOPL)?

A: An increase in fair value causes a gain, which is recorded in the SOPL as a credit.

13. How does a decrease in fair value of equity instruments impact the Statement of Profit or Loss (SOPL)?

A: A decrease in fair value causes a loss, which is recorded in the SOPL as a debit.

Chapter – 8

Accounting for fixed Assets

Sr. No	Chapter outline - Topics
117	Accounting for fixed Assets
118	Accounting for fixed Assets revaluation model
119	Revaluation of Land - Practice
120	Revaluation of depreciable assets - Practice
121	Excess depreciation against revalued assets Practice
122	Disposal of revalued assets - Practice
123	Depreciation important points
124	Fixed Assets - Other important concerns
125	Accounting For Fixed Assets - Disclosure Requirements IAS 16
126	Accounting For Fixed Assets - Fixed Assets Schedule

Topic Videos 117-126 are mandatory part of this chapter

MCQs:

1. Which of the following is not a type of non-current asset?

- a) Inventory
- b) Property Plant & Equipment
- c) Investment Property
- d) Intangible Assets

Answer: a) Inventory

2. What is the accounting term for the historical cost of an asset?

- a) Carrying Amount
- b) Fair Value
- c) Depreciation Expense
- d) Residual Value

Answer: a) Carrying Amount

3. What is Accumulated Depreciation also known as?

- a) Provision for Depreciation
- b) Revaluation Surplus
- c) Revaluation Reserve
- d) Residual Value

Answer: a) Provision for Depreciation

4. Under the Cost Model, how is the carrying amount of a fixed asset calculated?

- a) Historical cost + Accumulated Depreciation
- b) Fair Value + Accumulated Depreciation
- c) Historical cost - Accumulated Depreciation

d) Fair Value - Accumulated Depreciation

Answer: c) Historical cost - Accumulated Depreciation

5. What is the fair value of an asset?

a) The price paid to acquire the asset

b) The book value of the asset

c) The amount of accumulated depreciation

d) The price received to sell the asset in an orderly transaction

Answer: d) The price received to sell the asset in an orderly transaction

6. What is the accounting treatment for a revaluation gain in the case of the first-time revaluation?

a) Recognized as income in SOPL

b) Recognized as a Reserve in Equity

c) Recognized as an Expense in SOPL

d) Recognized as a liability in the balance sheet

Answer: b) Recognized as a Reserve in Equity

7. What is the main objective of revaluing assets?

- a) To decrease the carrying amount of assets
- b) To increase the carrying amount of assets
- c) To match the historical cost
- d) To accurately reflect the fair value of assets

Answer: d) To accurately reflect the fair value of assets

8. What is the treatment of revaluation surplus when a revalued asset is disposed of?

- a) Transferred to retained profits
- b) Transferred to a revaluation reserve
- c) Recognized as income in SOPL
- d) Recognized as a liability in the balance sheet

Answer: a) Transferred to retained profits

9. When does depreciation commence for an asset?

- a) When it is acquired
- b) When it is disposed of
- c) When it is available for use
- d) When it is revalued

Answer: c) When it is available for use

10. How is excess depreciation against a revalued asset treated?

- a) Transferred to retained profits
- b) Recognized as income in SOPL
- c) Recognized as a revaluation loss
- d) Credited to the asset's accumulated depreciation

Answer: a) Transferred to retained profits

11. Which of the following are categories of non-current assets?

- a) Property Plant & Equipment
- b) Investment Property
- c) Intangible Assets
- d) All of the above

Answer: d) All of the above

12. What is the initial measurement of non-current assets, such as property, plant, and equipment?

- a) Fair value
- b) Historical cost
- c) Amortized cost
- d) Market value

Answer: b) Historical cost

13. What is the term used for the contra account to fixed assets representing the cumulative amount of depreciation?

a) Asset Reserve

b) Accumulated Depreciation

c) Revaluation Surplus

d) Depreciation Fund

Answer: b) Accumulated Depreciation

14. Which model measures fixed assets at their historical cost less accumulated depreciation and accumulated impairment loss?

a) Fair Value Model

b) Revaluation Model

c) Historical Cost Model

d) Cost Recovery Model

Answer: c) Historical Cost Model

15. Under the revaluation model, how are fixed assets measured?

a) Fair value

b) Historical cost

c) Replacement cost

d) Market value

Answer: a) Fair value

16. What is the treatment for a revaluation gain or loss resulting from the revaluation of fixed assets?

a) Revaluation gains are recognized as income and revaluation losses are recognized as expenses.

b) Revaluation gains and losses are recognized as adjustments to accumulated depreciation.

c) Revaluation gains and losses are presented in the balance sheet as contra accounts to fixed assets.

d) Revaluation gains and losses are disclosed in the notes to the financial statements.

Answer: a) Revaluation gains are recognized as income and revaluation losses are recognized as expenses.

17. Which class of assets might a company choose to apply the revaluation model to, even if other assets are valued using the cost model?

- a) Intangible assets
- b) Investment property
- c) Motor vehicles
- d) Land and buildings

Answer: d) Land and buildings

18. When a revalued asset is disposed of, what happens to the revaluation surplus related to that asset?

- a) It is transferred to a revaluation reserve.
- b) It is transferred to retained earnings.
- c) It is recognized as a gain in the Statement of Profit or Loss.
- d) It is written off as an expense.

Answer: b) It is transferred to retained earnings.

19. Which type of assets is not subject to depreciation due to its indefinite useful life?

- a) Intangible assets
- b) Inventory
- c) Investment property
- d) Land

Answer: d) Land

20. What is the purpose of calculating excess depreciation against a revalued asset?

- a) To reverse the revaluation gain
- b) To adjust the carrying amount of the asset
- c) To transfer it to revaluation surplus
- d) To transfer it to retained profits

Answer: d) To transfer it to retained profits

Q&A:

1. What are some examples of non-current assets?

A: Non-current assets include Property Plant & Equipment, Investment Property, Intangible Assets, and Long Term Investments.

2. How are Property Plant & Equipment categorized as fixed assets?

A: Property Plant & Equipment are considered as Fixed Tangible Assets.

3. What is the purpose of Accumulated Depreciation in accounting for fixed assets?

A: Accumulated Depreciation, also known as Provision for Depreciation, is presented as a deduction from the relevant fixed asset and serves as a contra to the fixed asset.

4. What is the initial measurement basis for fixed assets?

A: The initial measurement of fixed assets is typically at Cost.

5. What are the two subsequent measurement models for fixed assets?

A: The subsequent measurement models are the Cost Model and the Revaluation Model.

6. What is the main objective of revaluation in accounting for fixed assets?

A: Revaluation aims to accurately reflect the fair value of assets.

7. How is the fair value of an asset defined?

A: Fair Value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

8. What is the accounting treatment for a revaluation gain during the first-time revaluation?

A: The revaluation gain is recognized as a Reserve in Equity.

9. What is the first step in accounting for the revaluation of fixed assets?

A: The first step involves calculating the depreciation of the asset till the date of revaluation and transferring the accumulated depreciation account to the asset account.

10. What is the significance of component accounting in accounting for fixed assets?

A: Component accounting requires significant parts or components of an asset to be depreciated separately over their estimated useful life.

11. What happens to the revaluation surplus of a disposed revalued asset?

A: Revaluation surplus of a disposed revalued asset is transferred to retained profits.

12. What disclosure requirements are necessary for accounting for fixed assets?

A: Disclosure requirements include measurement bases, depreciation methods, useful lives, gross carrying amounts, and accumulated depreciation at the beginning and end of the reporting period, among other details.

13. What is the purpose of a Fixed Assets Schedule?

A: A Fixed Assets Schedule provides a comprehensive note covering necessary disclosures and reconciliations required by IAS 16 for fixed assets accounting.

14. What are the different categories of non-current assets?

A: Non-current assets include Property Plant & Equipment, Investment Property, Intangible Assets, and Long Term Investments.

15. What is the primary characteristic of Property Plant & Equipment?

A: Property Plant & Equipment are fixed tangible assets subject to depreciation charges.

16. How Accumulated Depreciation is also referred to?

A: It is also known as Provision for Depreciation.

17. What is the contra nature of Accumulated Depreciation in relation to fixed assets?

A: Accumulated Depreciation is deducted from the relevant fixed asset and serves as a contra to the fixed asset.

18. What is the primary difference between the Cost Model and Revaluation Model in subsequent measurement of fixed assets?

A: The Cost Model is based on historical cost minus accumulated depreciation and impairment loss, while the Revaluation Model uses fair value minus accumulated depreciation and impairment loss.

19. How is fair value defined in the context of asset valuation?

A: Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

20. What are the main accounting issues associated with revaluation of fixed assets?

A: The accounting treatment for gains or losses resulting from revaluation, adjustment of accumulated depreciation and cost of asset, frequency of revaluation, and treatment of Revaluation Surplus.

21. How is a revaluation gain recognized in the financial statements?

A: A revaluation gain is recognized as a Reserve in Equity.

22. What is the treatment for subsequent revaluation gains?

A: Subsequent revaluation gains are recognized as income in the Statement of Profit or Loss (SOPL) up to the amount of any previous revaluation loss; excess is credited to equity as revaluation surplus.

23. In the context of revalued land, why is depreciation not applied?

A: Land is not depreciated due to its indefinite useful life.

24. What is the purpose of calculating excess depreciation against a revalued asset?

A: Excess depreciation is calculated to adjust for the difference between depreciation that would have been charged if the asset hadn't been revalued and actual revalued asset's depreciation.

25. How is the treatment of revaluation surplus for a disposed revalued asset?

A: Revaluation surplus of a disposed revalued asset is transferred to retained profits.

26. What are some important considerations related to depreciation of fixed assets?

A: Depreciation is allocated systematically over an asset's useful life, and any changes in residual value, depreciation method, or useful life are accounted for prospectively. Depreciation method reflects the expected consumption pattern of future economic benefits.

27. What is the distinction between component accounting and spare parts?

A: Component accounting involves depreciating significant parts separately, while spare parts are treated as fixed assets when meeting the definition of PPE, otherwise as inventory.

28. How are gains or losses from disposal of revalued assets recognized?

A: The gain or loss from the disposal of revalued assets is recognized in the Statement of Profit or Loss.

29. What are the key disclosure requirements for fixed assets?

A: Disclosures include measurement bases, depreciation methods, useful lives, carrying amounts, accumulated depreciation, changes due to revaluations, impairments, and other changes.

30. What is the purpose of a Fixed Assets Schedule?

A: A Fixed Assets Schedule provides comprehensive disclosure and reconciliations as required by IAS 16, ensuring compliance with the guidelines for Recognition, Measurement, Presentation, and Disclosure of Tangible Fixed Assets.

Chapter – 9

Accounting For Non-Current Assets

Sr. No	Chapter outline - Topics
127	Accounting For Non-Current Assets - Intangible Assets
128	Intangible Assets - Recognition
129	Intangible Assets - Measurement
130	Cost Of intangible Assets - Practice
131	Internally Generated Intangible Assets
132	Internally Generated Intangible Assets - Research Phase
133	Internally Generated Intangible Assets - Development Phase
134	Research And Development Cost - Practice
135	Development Cost Practice
136	Amortization Of Intangible Assets
137	Amortization Of Intangible Assets - Practice

138	Intangible Assets - Indefinite Useful Life
139	Intangible Assets - Review Of Useful Life

Topic Videos 127-139 are mandatory part of this chapter

MCQs:

1. What are the two basic types of non-current non-financial assets?

- a) Fixed and Current
- b) Tangible and Intangible
- c) Liquid and Illiquid
- d) Short-term and Long-term

Answer: b) Tangible and Intangible

2. How are intangible assets defined?

- a) Identifiable non-monetary assets with physical substance
- b) Identifiable monetary assets without physical substance
- c) Identifiable non-monetary assets without physical substance
- d) Non-identifiable non-monetary assets with physical substance

Answer: c) Identifiable non-monetary assets without physical substance

3. Which of the following criteria must be met for the recognition of an intangible asset?

- a) Separately identifiable and controlled by the entity
- b) Physical substance and separable
- c) Controlled by the entity and has monetary value
- d) Controlled by the entity and generates future economic benefits

Answer: a) Separately identifiable and controlled by the entity

4. When does the amortization of intangible assets with finite useful life begin?

- a) At the start of the entity's financial year
- b) When the asset is acquired
- c) When the amortization pattern starts reflecting economic benefit
- d) After the asset's legal rights expire

Answer: c) When the amortization pattern starts reflecting economic benefit

5. What method is used for the amortization of intangible assets?

- a) Straight-line only
- b) Diminishing balance only
- c) Units of production only
- d) Straight-line, diminishing balance, and units of production

Answer: d) Straight-line, diminishing balance, and units of production

6. What happens when an intangible asset's useful life changes from indefinite to finite?

- a) It is immediately written off as an expense.
- b) It is amortized over its remaining useful life.
- c) It is tested for impairment.
- d) It remains unchanged.

Answer: b) It is amortized over its remaining useful life.

7. Which of the following activities is considered a research activity for internally generated intangible assets?

- a) Designing prototypes
- b) Obtaining new knowledge
- c) Constructing molds
- d) Testing alternatives for materials

Answer: b) Obtaining new knowledge

8. What happens to the costs incurred during the research phase of an internally generated intangible asset?

- a) They are capitalized as part of the asset cost.
- b) They are immediately recognized as an expense.
- c) They are classified as development phase costs.
- d) They are expensed only if the asset is successfully developed.

Answer: b) They are immediately recognized as an expense.

9. When is amortization of intangible assets with indefinite useful life performed?

- a) When the asset is acquired
- b) When the legal rights expire
- c) Annually in accordance with IAS 38
- d) Only when there is an indication of impairment

Answer: d) Only when there is an indication of impairment

10. What is the purpose of reviewing the useful life of an intangible asset that is not being amortized?

- a) To determine if the asset is separable
- b) To assess its fair value
- c) To calculate its carrying amount

d) To determine whether it's indefinite useful life assessment is still valid

Answer: d) To determine whether its indefinite useful life assessment is still valid

11. Which of the following is an example of a non-current asset?

- a) Inventory
- b) Trade Receivable
- c) Intangible Asset
- d) Cash Balances

Answer: c) Intangible Asset

12. What distinguishes an intangible asset from a tangible asset?

- a) Tangible assets have physical substance, while intangible assets do not.
- b) Tangible assets are monetary, while intangible assets are non-monetary.
- c) Tangible assets generate future economic benefits, while intangible assets do not.
- d) Tangible assets are recognized at fair value, while intangible assets are recognized at historical cost.

Answer: a) Tangible assets have physical substance, while intangible assets do not.

13. What is the primary criterion for recognizing an intangible asset?

- a) The asset must have a finite useful life.
- b) The asset must be owned by the entity.

- c) The asset must have physical substance.
- d) The asset must be separately identifiable.

Answer: d) The asset must be separately identifiable.

14. What is the significance of the control criterion for recognizing intangible assets?

- a) It determines the physical presence of the asset.
- b) It indicates the asset's market value.
- c) It assesses the entity's ability to restrict others' access to future economic benefits.
- d) It estimates the impairment loss of the asset.

Answer: c) It assesses the entity's ability to restrict others' access to future economic benefits.

15. When is amortization of an intangible asset with an indefinite useful life required?

- a) Amortization is always required for such assets.
- b) When the asset's fair value exceeds its carrying amount.
- c) When the asset's legal rights expire.
- d) Amortization is not required for assets with indefinite useful life.

Answer: d) Amortization is not required for assets with indefinite useful life.

16. What is the main criterion for determining the amortization method for an intangible asset?

- a) The asset's fair value at the end of its useful life.
- b) The asset's historical cost.
- c) The expected pattern of consuming future economic benefits.
- d) The asset's current market value.

Answer: c) The expected pattern of consuming future economic benefits.

17. Under what circumstances can an intangible asset with an indefinite useful life be amortized?

- a) When its carrying amount exceeds its fair value.
- b) When it is acquired through a business combination.
- c) When its legal rights are not renewable.
- d) It cannot be amortized under any circumstances.

Answer: d) It cannot be amortized under any circumstances.

18. How should an entity account for a change in an accounting estimate regarding the useful life of an intangible asset?

- a) By capitalizing the change in estimate as an intangible asset.

- b) By recognizing the change in estimate as an extraordinary item.
- c) By recognizing the change in estimate as a change in accounting policy.
- d) By applying the change prospectively in accordance with IAS 8.

Answer: d) By applying the change prospectively in accordance with IAS 8.

Q&A:

1. What are the two basic types of non-current non-financial assets?

A: The two basic types of non-current non-financial assets are Tangible and Intangible assets.

2. How are intangible assets defined in accounting?

A: Intangible assets are identifiable non-monetary assets without physical substance.

3. What does it mean for an intangible asset to be identifiable?

A: An intangible asset is identifiable if it is separable and can be sold, transferred, licensed, rented, or exchanged.

4. What are monetary assets in accounting?

A: Monetary assets include money held and assets that will be received in fixed or determinable amounts of money.

5. How are intangible assets different from tangible assets in terms of physical substance?

A: While tangible assets have physical substance, intangible assets either have no physical substance or their value is not determined solely by their physical components.

6. What are the recognition criteria for intangible assets?

A: The recognition criteria for intangible assets include being separately identifiable, controlled by the entity due to past actions, expected future economic benefits, and reliable cost measurement.

7. How does control relate to intangible assets?

A: Control refers to the entity's power to obtain future economic benefits from the asset and restrict others' access to those benefits.

8. How are research phase costs of internally generated intangible assets treated?

A: Costs incurred in the research phase of internally generated intangible assets are expensed immediately.

9. What are the criteria to capitalize development costs of internally generated intangible assets?

A: To capitalize development costs, an entity must demonstrate technical feasibility, intention to complete and use the asset, ability to use or sell it, expected economic benefits, availability of resources, and reliable measurement of costs.

10. How is the amortization of intangible assets with indefinite life handled?

A: Intangible assets with indefinite life are not amortized; instead, they are subject to impairment tests.

11. Which amortization methods are allowed for intangible assets?

A: Amortization methods allowed for intangible assets include straight-line, diminishing balance, and units of production methods.

12. When does amortization of an intangible asset typically commence?

A: Amortization of an intangible asset commences when the asset becomes available for use.

13. How are intangible assets with indefinite useful life reviewed?

A: Intangible assets with indefinite useful life are reviewed each period to determine if they still meet the criteria for an indefinite life assessment.

14. What should be done if the useful life assessment of an intangible asset changes from indefinite to finite?

A: If the useful life assessment changes from indefinite to finite, it should be treated as a change in an accounting estimate in accordance with IAS 8.

15. What should be considered when capitalizing costs of an internally generated intangible asset?

A: Costs directly attributable to the project and incremental to the entity should be capitalized, including materials, staff salaries, and related expenses.

16. What are the two basic types of non-current non-financial assets?

A: Tangible and Intangible.

17. How is an intangible asset defined in accounting?

A: An intangible asset is an identifiable non-monetary asset without physical substance.

18. What criteria must be met for an intangible asset to be recognized and capitalized?

A: The criteria for recognition include being separately identifiable, controlled by the entity due to past actions, expected to provide future economic benefits, and having a reliable measurement of cost.

19. What is the key difference between tangible assets and intangible assets in terms of physical substance?

A: Tangible assets have physical substance, while intangible assets either lack physical substance or their value isn't solely determined by physical attributes.

20. In the context of intangible assets, what is the purpose of the control over the asset?

A: Control refers to the entity's ability to obtain future economic benefits from the asset and restrict others' access to those benefits.

21. When does the amortization of intangible assets with finite useful life begin?

A: Amortization begins when the amortization pattern starts reflecting economic benefits derived from the project/product developed.

22. How are internally generated intangible assets classified during their development phase?

A: Internally generated intangible assets' development phase can be categorized into research phase and development phase.

23. What distinguishes the development phase of internally generated intangible assets?

A: Development is the application of research findings or other knowledge to a plan or design before the start of commercial production or use.

24. How is the amortization method chosen for intangible assets?

A: The amortization method should reflect the expected pattern of consuming future economic benefits.

25. When does amortization of intangible assets typically begin?

A: Amortization commences when the asset is available for use.

26. Can an intangible asset with an indefinite useful life be amortized?

A: No, an intangible asset with an indefinite useful life is not amortized. It is subject to impairment testing.

27. How is the change from an indefinite to a finite useful life assessed for an intangible asset accounted for?

A: It is treated as a change in an accounting estimate and is accounted for in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Chapter – 10

Investment property

Sr. No	Chapter outline - Topics
140	Investment property
141	Investment property - Identification
142	Property Not an Investment property
143	Investment property - identification scenario
144	Apportionment of Investment property
145	Investment property - additional services
146	Investment property - recognition and measurement
147	Transfer to or from Investment property
148	Transfer to or from Investment property - Practice

Topic Videos 140-148 are mandatory part of this chapter

MCQs:

1. Which of the following examples could be classified as investment property?

- a) Land held for short-term capital appreciation
- b) A building leased out under operating leases
- c) Property used for administrative purposes
- d) Property occupied by employees

A: b) A building leased out under operating leases

2. In accounting, which types of properties are generally not classified as investment property?

- a) Properties held for future development and subsequent use as owner-occupied property
- b) Properties held for sale in the ordinary course of business
- c) Properties leased to another entity under a finance lease
- d) All of the above

A: d) All of the above

3. If an entity builds a property with the intention of selling it, and some of the flats are let out to increase the chances of a sale, how should this property be classified?

- a) Investment property
- b) Owner-occupied property
- c) Inventory
- d) Indefinite-use property

A: c) Inventory

4. When might a property be deemed an investment property despite having dual use?

- a) When the property is used for both production and supply purposes
- b) When a significant portion is held by the entity for business use
- c) When the property is leased to another entity under a finance lease
- d) When the property is used for administrative purposes

A: b) When a significant portion is held by the entity for business use

5. Which services would generally classify an investment property as an owner-occupied property due to their significance?

- a) Security and maintenance services provided by the owner of a residential building
- b) Services provided by a hotel to its guests
- c) Administrative services for the lessees of an office building

d) Ancillary services for a commercial building

A: b) Services provided by a hotel to its guests

6. How investment property is initially recognized in accounting?

a) At fair value

b) At cost

c) At market value

d) At historical cost

A: b) At cost

7. What is the key difference between the cost model and the fair value model for investment property?

a) Cost model is based on historical cost, while fair value model is based on current market value.

b) Cost model considers fair value adjustments, while fair value model records depreciation.

c) Cost model records fair value adjustments, while fair value model considers historical cost.

d) Cost model uses fair value, while fair value model uses historical cost.

A: a) Cost model is based on historical cost, while fair value model is based on current market value.

8. What is the main purpose of classifying a property as investment property?

- a) To increase the chances of selling the property
- b) To generate long-term rental income
- c) To earn rental income or capital appreciation
- d) To use the property for administrative purposes

A: c) To earn rental income or capital appreciation

9. Which of the following properties would be classified as investment property?

- a) A building used by the entity for production of goods
- b) A piece of land held for future development and use by the entity
- c) An owner-occupied property undergoing renovations
- d) A property leased to another entity under a finance lease

A: b) A piece of land held for future development and use by the entity

10. What type of property is NOT identified as investment property?

- a) Property leased out under operating leases
- b) Property employed for administrative purposes
- c) Property held for long-term capital appreciation

d) Property used for production of goods or services

A: d) Property used for production of goods or services

11. What action should Sample Co. take regarding the residential property in the given scenario?

a) Present it as investment property

b) Present it as owner-occupied property

c) Classify it as inventory

d) Lease it out for long-term rental income

A: c) Classify it as inventory

12. What is the criterion for deeming a property as investment property for dual use property?

a) Majority of the property's use is for rental income

b) Insignificant portion of the property is used for business

c) It is leased out under one or more operating leases

d) The property cannot be sold or leased separately

A: b) Insignificant portion of the property is used for business

13. In the context of investment property, when are ancillary services considered insignificant?

- a) When they are essential for the property's operation
- b) When they are relatively minor compared to the property's use
- c) When they are provided by third-party contractors
- d) When they are used for capital appreciation purposes

A: b) When they are relatively minor compared to the property's use

14. What is the key difference between the cost model and the fair value model for investment property measurement?

- a) Cost model involves initial measurement at fair value
- b) Fair value model involves subsequent measurement at historical cost
- c) Fair value model involves adjustments to fair value in profit or loss
- d) Cost model involves revaluation of investment property annually

A: c) Fair value model involves adjustments to fair value in profit or loss

In the case of transfer between investment property and owner-occupied property, what is the impact on carrying amount under the cost model?

- a) Carrying amount changes for both properties

- b) Carrying amount remains the same for both properties
- c) Carrying amount changes only for the investment property
- d) Carrying amount changes only for the owner-occupied property

A: b) Carrying amount remains the same for both properties

15. What is required to reclassify a property under construction from inventory to investment property?

- a) The property's physical condition must change
- b) The property must be leased out under an operating lease
- c) The property's fair value must significantly increase
- d) The property's intended use must change to rental income

A: d) The property's intended use must change to rental income

Q&A:

1. What is the definition of investment property?

A: Investment property refers to land and/or buildings held with the intention of earning rental income or achieving capital appreciation, or both.

2. How can investment property be distinguished from owner-occupied property?

A: Investment property is held to earn rental income or for capital appreciation, while owner-occupied property is used for producing goods/services, supplying goods/services, or administrative purposes.

3. What is the purpose of identifying investment property?

A: Investment property is identified based on the intention to earn rental income, achieve capital appreciation, or both, rather than using it for production, supply, administrative purposes, or sale in the ordinary course of business.

4. Give an example of a property that would not be classified as investment property.

A: A property being developed on behalf of third parties, held for future owner-occupied use, or leased to another entity under a finance lease would not be classified as investment property.

5. How should Sample Co. present a property that is let out to tenants before completion?

A: Sample Co. should classify this property as inventory since its intention is to sell the property under construction in the ordinary course of business, and the letting strategy is aimed at increasing chances of selling rather than long-term rental income or capital appreciation.

6. What is the concept of dual use property?

A: Dual use property refers to properties that have portions used for purposes like manufacturing or administration, in addition to rental or capital appreciation. The entity must account for these portions separately.

7. How does the significance of provided services affect the classification of investment property?

A: When ancillary services are relatively insignificant, the property is treated as investment property. Conversely, if services are a significant component, the property might be classified as owner-occupied.

8. What is the primary condition for recognizing investment property as an asset?

A: Investment property is recognized as an asset when it's likely to bring future economic benefits and its costs can be reliably measured.

9. How is investment property measured under the fair value model?

A: Under the fair value model, investment property's carrying amount is adjusted to the current fair value, with changes reported in the profit or loss for the period.

10. Can a property under construction classified as inventory be reclassified as an investment property if its disposal plans change?

A: No, reclassification requires an operating lease agreement; a change in disposal plans alone doesn't warrant reclassification.

11. What is an investment property?

A: An investment property refers to land and/or buildings held with the intention of earning rental income or capital appreciation (or both).

12. How is investment property different from owner-occupied property?

A: Investment property is held for earning rental income or capital appreciation, while owner-occupied property is used for production, supply, administrative purposes, or personal use.

13. How is investment property identified?

A: Investment property includes property (land or building) held for rental income, capital appreciation, or both, rather than for production, supply, administrative purposes, or sale in the ordinary course of business.

14. Give an example of a property that would not qualify as investment property.

A: A property being developed for personal use, property used by employees for business purposes, or property held for sale in the ordinary course of business would not be considered investment property.

15. What is the suggested classification for Sample Co.'s property that is let out to tenants before completion?

A: Sample Co. should classify this property as inventory since it is being let out to increase chances of sale, and it is not held for long-term rental income or capital appreciation.

16. How does dual use property differ from deemed investment property?

A: Dual use property has portions used for different purposes, which should be accounted for separately. Deemed investment property is when an insignificant portion is held for business use within a property.

17. When does a property's provision of insignificant services lead to its classification as investment property?

A: If ancillary services provided by the entity are a minor part of the arrangement, the property is treated as investment property.

18. What is the primary condition for recognizing investment property as an asset?

A: Investment property is recognized as an asset when it is probable that the entity will enjoy future economic benefits from it, and its costs can be reliably measured.

19. How is investment property measured under the fair value model?

A: Investment property under the fair value model is adjusted to its current fair value at each reporting date, with the adjustment reported in the profit or loss.

20. Can a property under construction, initially classified as inventory, be reclassified as an investment property if its disposal plans change?

A: No, a change in disposal plans alone doesn't warrant reclassification. An operating lease agreement would be required for reclassification.

Chapter – 11

Accounting for impairment of Assets

Sr. No	Chapter outline - Topics
149	149-Accounting for impairment of Assets Basic concept
150	150-Accounting for impairment of assets - indicators of impairment
151	151-Measuring recoverable amount
152	152-Accounting Treatment of impairment loss
153	153-Accounting Treatment of Impairment Loss Practice Scenario-1
154	154-Accounting Treatment of Impairment Loss Practice Scenario-2

Topic Videos 149-154 are mandatory part of this chapter

MCQs:

Topic 149 – Accounting for Impairment of Assets – Basic Concept

1. What is the recoverable amount of an asset?

- a) The cost of the asset
- b) The current market value of the asset
- c) The amount at which an asset is presented in the statement of financial position
- d) The value at which an asset can be sold

Answer: b) The current market value of the asset

2. When is an asset considered impaired?

- a) When its carrying amount exceeds its cost
- b) When its recoverable amount is greater than its carrying amount
- c) When its recoverable amount is lesser than its carrying amount
- d) When its value in use is higher than its fair value

Answer: c) When its recoverable amount is lesser than its carrying amount

Topic 150 – Accounting for Impairment of Assets Indication of Impairment

3. What is Stage 1 in the impairment assessment process?

- a) Accounting for impairment losses
- b) Assessment of recoverable amount
- c) Indication of impairment
- d) Accounting for revaluation surplus

Answer: c) Indication of impairment

4. Which of the following is NOT an internal indicator of impairment?

- a) Asset is damaged
- b) Reduction in remaining useful life

- c) Decline in market value of asset
- d) Plans to discontinue or restructure

Answer: c) Decline in market value of asset

Topic 151 – Measuring Recoverable Amount

5. What is the recoverable amount of an asset under Stage 2?

- a) Carrying amount minus accumulated impairment loss
- b) Cost of asset minus accumulated depreciation
- c) Fair value less cost to sell
- d) The higher of fair value less cost to sell and value in use

Answer: d) The higher of fair value less cost to sell and value in use

6. What does "value in use" represent in the context of measuring recoverable amount?

- a) The asset's historical cost
- b) The asset's current market value
- c) Present value of future cash flows from using the asset
- d) The amount paid to acquire the asset

Answer: c) Present value of future cash flows from using the asset

Topic 152 – Accounting Treatment of Impairment Loss

7. How an impairment loss is normally recognized in the financial statements?

- a) Over several reporting periods
- b) As an addition to the asset's carrying amount
- c) Immediately in profit or loss as an expense
- d) Only in the statement of changes in equity

Answer: c) Immediately in profit or loss as an expense

Topic 153 – Accounting Treatment of Impairment Loss Practice Scenario - 1

8. How is an impairment loss calculated?

- a) Carrying amount minus accumulated impairment loss
- b) Fair value minus carrying amount
- c) Carrying amount minus recoverable amount
- d) Accumulated depreciation plus recoverable amount

Answer: c) Carrying amount minus recoverable amount

Topic 154 – Accounting Treatment of Impairment Loss Practice Scenario - 2

9. How is an impairment loss covered by a previously recognized revaluation surplus on the same asset treated?

- a) It's recognized in profit or loss
- b) It increases the carrying amount of the asset
- c) It's recognized in the statement of changes in equity
- d) It's offset against the revaluation surplus

Answer: c) It's recognized in the statement of changes in equity

10. What is the recoverable amount of an asset?

- a) The amount at which the asset was purchased
- b) The current market value of the asset
- c) The carrying amount of the asset
- d) The fair value less costs to sell

Answer: b) The current market value of the asset

11. When is an asset considered impaired?

- a) When its carrying amount is greater than its recoverable amount
- b) When its recoverable amount is greater than its carrying amount

- c) When its carrying amount equals its recoverable amount
- d) When its fair value exceeds its cost

Answer: a) When its carrying amount is greater than its recoverable amount

12. Which of the following is an internal indicator of impairment?

- a) Decline in market value of the asset
- b) Change in technology affecting the entity
- c) Decrease in interest rates
- d) Plans to discontinue or restructure an asset

Answer: d) Plans to discontinue or restructure an asset

13. What is the accounting treatment for impairment loss?

- a) Recognize impairment loss in equity
- b) Defer the recognition of impairment loss to future periods
- c) Recognize impairment loss immediately in profit or loss
- d) Offset impairment loss against revaluation surplus

Answer: c) Recognize impairment loss immediately in profit or loss

14. What is the primary purpose of recognizing impairment loss?

- a) Increase the carrying amount of the asset
- b) Reflect the fair value of the asset
- c) Improve the financial position of the entity
- d) Reflect the true economic value of the asset

Answer: d) Reflect the true economic value of the asset

15. How is impairment loss calculated?

- a) By subtracting fair value from carrying amount
- b) By subtracting carrying amount from recoverable amount
- c) By subtracting carrying amount from fair value
- d) By subtracting revaluation surplus from carrying amount

Answer: b) By subtracting carrying amount from recoverable amount

What is the accounting entry to recognize impairment loss?

- a) Impairment Loss Dr., Accumulated Depreciation Cr.
- b) Accumulated Impairment Loss Dr., Impairment Loss Cr.
- c) Impairment Loss Dr., Accumulated Impairment Loss Cr.
- d) Accumulated Depreciation Dr., Impairment Loss Cr.

Answer: c) Impairment Loss Dr., Accumulated Impairment Loss Cr.

16. When is impairment loss recognized in the financial statements?

- a) At the end of each reporting period
- b) At the end of each financial year
- c) At the end of the asset's useful life
- d) Whenever fair value exceeds carrying amount

Answer: a) At the end of each reporting period

17. What is the recoverable amount of an asset?

- a) The historical cost of the asset
- b) The carrying amount of the asset
- c) The fair value of the asset
- d) The higher of fair value less costs to sell and value in use

Answer: d) The higher of fair value less costs to sell and value in use

18. How is an impairment loss accounted for if an asset has a previously recognized revaluation surplus?

- a) It is recognized in equity

- b) It is offset against accumulated depreciation
- c) It is recognized in the statement of profit or loss
- d) It is recognized as a gain in the statement of financial position

Answer: c) It is recognized in the statement of profit or loss

Q&A:

1. What is the definition of "Carrying Amount"?

A: The amount at which an asset is presented in the statement of financial position or balance sheet.

2. Define "Recoverable Amount."

A: Recoverable Amount is the value that can be obtained by selling an asset or using it within the entity.

3. When is an asset considered impaired?

A: An asset is impaired if its recoverable amount is less than its carrying amount.

4. In a given scenario, if the carrying amount of an asset is Rs. 400 and its recoverable amount is Rs. 280, what is the impairment loss?

A: The impairment loss is Rs. 120 (Carrying amount - Recoverable amount = 400 - 280).

5. What does IAS 36 require an entity to do at the end of each reporting period?

A: IAS 36 requires an entity to assess whether there are any indications that an asset may be impaired.

6. Provide an example of an internal indicator of impairment.

A: An example of an internal indicator is a reduction in the remaining useful life of an asset.

7. What are the two components of recoverable amount in the assessment of impairment?

A: The two components are fair value less costs to sell and value in use.

8. How is the impairment loss recognized in the financial statements?

A: Impairment loss is recognized immediately in the profit or loss as an expense.

9. In a scenario where an asset's recoverable amount is lower than its carrying amount, what is the accounting entry for recognizing the impairment loss?

A: Impairment Loss Dr. (amount of loss), Accumulated Impairment Loss Cr. (amount of loss).

10. If an asset's carrying amount is Rs. 300,000 and its recoverable amount is Rs. 275,000, how much impairment loss should be recognized?

A: An impairment loss of Rs. 25,000 should be recognized.

11. In Scenario 1, what is the carrying amount of the machine immediately before the impairment?

A: The carrying amount is Rs. 204,000.

12. In Scenario 2, how is impairment not covered by a previously recognized revaluation surplus treated?

A: Impairment not covered by a previously recognized revaluation surplus is recognized in the statement of profit or loss.

13. What is the basic concept of impairment in accounting?

A: Impairment in accounting refers to ensuring that an entity's assets are not carried at amounts higher than their recoverable amount, which is the amount that can be recovered by selling the asset or using it.

14. How is the carrying amount of an asset defined?

A: The carrying amount of an asset is the value at which it is presented in the statement of financial position or balance sheet.

15. When is an asset considered impaired?

A: An asset is considered impaired when its recoverable amount is lower than its carrying amount.

16. If an asset's carrying amount is Rs. 400 and its recoverable amount is Rs. 280, what is the impairment loss?

A: The impairment loss is Rs. 120 (Carrying Amount - Recoverable Amount = Rs. 400 - Rs. 280 = Rs. 120).

17. What is the first stage in the process of impairment assessment?

A: The first stage is the indication of impairment, where an entity assesses whether there are any signs that an asset might be impaired.

18. Give an example of an internal indicator of impairment.

A: An internal indicator could be a damaged asset, plans to discontinue or restructure, reduction in remaining useful life, or worse-than-expected performance.

19. What is the primary purpose of an impairment assessment in Stage 2?

A: In Stage 2, the assessment of recoverable amount is conducted to determine whether an asset is impaired and, if so, by how much.

20. What is the basis for measuring recoverable amount in Stage 2?

A: Recoverable amount is measured as the higher of fair value less costs to sell and value in use.

21. How is impairment loss accounted for in Stage 3?

A: In Stage 3, the impaired asset is written down to its recoverable amount, and the impairment loss is recognized as an expense.

22. In which financial statement is the impairment loss typically recognized?

A: The impairment loss is recognized immediately in the statement of profit or loss as an expense.

Chapter – 12

Investment in Non-Current Financial Assets

Sr. No	Chapter outline - Topics
155	Investment in Non-Current Financial Assets
156	Investment in Non-Current Financial Assets - Initial Measurement
157	Investment in Equity Instrument-Practice
158	Investment in Debt Instrument-Practice
159	Financial Asset-Subsequent Measurement
160	Financial Asset-Measurement At FVTPL
161	Financial Asset-Measurement At FVTOCI
162	Financial Asset-Measurement At Amortized Cost

Topic Videos 155-162 are mandatory part of this chapter

MCQs:

1. What is the primary criterion for recognizing an investment in a financial asset?

- a) Contractual arrangement
- b) Fair value
- c) Duration of the investment
- d) Accounting standard requirement

A: a) Contractual arrangement

2. What is the initial measurement of non-current financial assets?

- a) Historical cost
- b) Book value
- c) Fair value minus transaction costs
- d) Market value

A: c) Fair value plus transaction costs

3. Which of the following is included in the transaction cost of an investment?

- a) Fair value
- b) Historical cost
- c) Incremental costs directly attributable to the acquisition

d) Market value

A: c) Incremental costs directly attributable to the acquisition

4. What is the classification of financial assets based on their subsequent measurement methods?

a) Long-term and short-term assets

b) Fair value and historical cost

c) Amortized cost and fair value

d) Market value and book value

A: c) Amortized cost and fair value

5. Which financial asset measurement category applies when the business model is to collect contractual cash flows and sell to manage profitability?

a) FVTPL

b) FVTOCI

c) Amortized Cost

d) Historical Cost

A: b) FVTOCI

6. What does FVTOCI stand for in the context of financial asset measurement?

- a) Fair Value through Transaction Cost Indicator
- b) Fair Value through Other Comprehensive Income
- c) Financial Value through Credit Investigation
- d) Financial Valuation through Capital Investment

A: b) Fair Value through Other Comprehensive Income

7. What is the accounting treatment for transaction costs of financial assets measured at FVTOCI?

- a) Expensed in the statement of profit or loss
- b) Included in the cost of investment
- c) Recognized in other comprehensive income
- d) Deducted from the fair value of the asset

A: b) Included in the cost of investment

8. Which financial asset measurement category requires premeasurement gains or losses to be recognized in other comprehensive income?

- a) FVTPL

b) FVTOCI

c) Amortized Cost

d) Historical Cost

A: b) FVTOCI

9. Which business model is associated with financial assets measured at amortized cost?

a) Hold to collect contractual cash flows and cash flow from sale

b) Hold to collect contractual cash flows and manage profitability

c) Hold for short-term gains d) Hold for market value appreciation

A: a) Hold to collect contractual cash flows and cash flow from sale

10. What is the key component of financial assets classified under amortized cost?

a) Principal amount

b) Fair value

c) Transaction cost

d) Market value

A: a) Principal amount

11. Which type of financial assets are measured at amortized cost?

- a) Assets with business model to collect contractual cash flows
- b) Assets with business model to sell and manage profitability
- c) Assets that do not meet criteria for FVTPL or FVTOCI
- d) Assets with uncertain future cash flows

A: a) Assets with business model to collect contractual cash flows

12. What is the initial measurement for investment in equity or debt instruments?

- a) Fair value b) Historical cost
- c) Book value
- d) Par value

A: a) Fair value

Q&A:

1. What are financial assets?

A: Financial assets give rise to equity instruments or financial liabilities of other entities based on contractual arrangements. These assets are typically long-term investments.

2. When is an investment in a financial asset recognized as an asset?

A: An investment in a financial asset is recognized as an asset when the entity becomes a party to the contractual provisions of the instrument.

3. Give an example of an investment in an equity instrument and the corresponding accounting entry.

A: Example: Buying or subscribing to equity shares of another entity. Accounting Entry: Shares in X Co. Dr., Cash/Bank Cr.

4. Explain the initial measurement of investments in equity or debt instruments.

A: Investments in equity or debt instruments are initially measured at fair value plus transaction costs.

5. What is the significance of the "fair value through profit or loss" (FVTPL) measurement method?

A: FVTPL applies to financial assets that do not meet the criteria for amortized cost or FVTOCI. It is also applied to assets that the entity elects to measure at FVTPL. Remeasurement gains or losses are recognized in the statement of profit or loss.

6. How is the difference between fair value and transaction price treated on day 1 when recognized in profit or loss?

A: The day 1 gain/loss is recognized immediately in the statement of profit or loss if the fair value is evidenced from active markets or observable data.

7. What is the primary classification criterion for measuring financial assets at fair value through other comprehensive income (FVTOCI)?

A: The primary criterion is a business model involving holding to collect contractual cash flows and selling to manage profitability.

8. Describe the business model for measuring financial assets at amortized cost.

A: The business model for measuring financial assets at amortized cost involves holding to collect contractual cash flows, where those cash flows consist solely of principal and interest.

9. How are financial assets measured at FVTOCI treated in the financial statements?

A: Re-measurement gains or losses against fair value adjustments for financial assets measured at FVTOCI are recognized in other comprehensive income.

10. What is the key feature of measuring financial assets at amortized cost?

A: Financial assets measured at amortized cost involve holding for collecting contractual cash flows, where the cash flows comprise only principal and interest.

Topic 155 – Accounting for Investment in Equity or Debt Instruments Non-Current Financial Assets

11. What are financial assets in accounting?

A: Financial assets give rise to equity instruments or financial liabilities of other entities based on contractual arrangements, representing long-term investments.

12. When is an investment in a financial asset recognized as an asset?

A: An investment in a financial asset is recognized as an asset when the entity becomes a party to the contractual provisions of the instrument.

13. Give an example of an investment in equity instruments.

A: Buying or subscribing to equity shares of another entity, recorded as "Shares in X Co. Dr." and "Cash/Bank Cr."

14. How is the initial measurement of a non-current financial asset calculated?

A: Non-current financial assets are initially measured at fair value plus transaction costs.

Topic 156 – Investment in Equity or Debt Instruments Initial Measurement

15. What does FVTPL stand for in accounting?

A: FVTPL stands for "Fair Value through Profit or Loss," which is a measurement category for financial assets.

16. How is the fair value of a financial asset determined at initial recognition?

A: The fair value of a financial asset at initial recognition is normally the transaction price.

17. What should an entity do when the fair value of an asset is evidenced from active markets?

A: Recognize day 1 gain or loss in the statement of profit or loss (SOPL).

Topic 157 – Investment in Equity Instruments Initial Measurement – Practice

18. If transaction costs are incurred during the purchase of an investment, how are they treated?

A8: Transaction costs are included in the cost of investment for those investments measured subsequently at FVTOCI.

Topic 158 – Investment in Debt Instruments Initial Measurement – Practice

19. How is interest income calculated for a loan given to another entity?

A: Interest income is calculated using the effective interest rate method based on the amount due.

Topic 159 – Financial Assets – Subsequent Measurement

20. What are the three subsequent measurement methods for financial assets?

A: The subsequent measurement methods are FVTPL (Fair Value through Profit or Loss), FVTOCI (Fair Value through Other Comprehensive Income), and Amortized Cost.

Topic 160 – Financial Assets Measurement at FVTPL

21. Which financial assets are typically measured at FVTPL?

A: Financial assets that do not meet the criteria for amortized cost or FVTOCI, and those that the entity elects to measure at FVTPL.

Topic 161 – Financial Assets Measurement at FVTOCI

Q12: What is the primary criterion for measuring financial assets at FVTOCI? A12: Financial assets with a business model of holding to collect contractual cash flows and selling to manage profitability are measured at FVTOCI.

Topic 162 – Financial Assets Measurement at Amortized Cost

Q13: What type of contractual cash flows qualify for measurement at amortized cost? A13: Financial assets whose contractual cash flows are solely principal and interest are measured at amortized cost.

Chapter – 13

Revenue from Contracts with Customers

Sr. No	Chapter outline - Topics
163	Revenue From Contracts With Customers
164	Revenue Model - Core Principles and Steps
165	Revenue Recognition
166	Identifying a Contract
167	Identifying a Contract-Practice
168	Identifying separate performance obligation
169	Determining transaction price

170	Allocating transaction price to performance obligation
171	Recognizing revenue when or as the entity satisfies PO

Topic Videos 163-171 are mandatory part of this chapter

MCQs:

Topic 163 - Revenue from Contracts with Customers

1. What is revenue?

- a) Income from extraordinary activities
- b) Income from normal activities
- c) Income from investments
- d) Income from financial activities

Answer: b) Income from normal activities

2. What is a contract in the context of revenue recognition?

- a) An agreement between two parties without any legal enforceability
- b) An agreement between two parties that may or may not be enforceable
- c) An agreement between two or more parties that creates enforceable rights and obligations

d) An informal agreement between two parties

Answer: c) An agreement between two or more parties that creates enforceable rights and obligations

3. Who is considered a customer?

a) Any individual

b) Any entity

c) A person who receives goods or services in exchange for consideration

d) A person who receives goods or services for free

Answer: c) A person who receives goods or services in exchange for consideration

4. What is the accounting treatment for recognizing revenue from a customer?

a) Customer Debit, Revenue Credit

b) Revenue Debit, Customer Credit

c) Cash Debit, Revenue Credit

d) Revenue Debit, Cash Credit

Answer: a) Customer Debit, Revenue Credit

Topic 164 - Revenue from Contracts with Customers Revenue Model

5. What are the core principles for recognizing revenue from contracts?

- a) Recognition based on company preference
- b) Recognition at the time of product delivery
- c) Recognition based on transaction cost
- d) Recognition for transferred products at expected amounts

Answer: d) Recognition for transferred products at expected amounts

6. What is the first step in the revenue recognition model?

- a) Determine transaction price
- b) Identify separate performance obligations
- c) Identify contract with the customer
- d) Allocate transaction price to performance obligations

Answer: c) Identify contract with the customer

7. What does "TP" stand for in the context of revenue recognition?

- a) Total Payment
- b) Transaction Price
- c) Total Profit

d) Total Performance

Answer: b) Transaction Price

Topic 165 - Revenue Recognition - Scenario

8. In the given scenario, Sample Co. sells washing machines and provides after-sale service and detergent. How many separate performance obligations are identified?

- a) 1 b) 2 c) 3 d) 4

Answer: d) 4

9. In the given scenario, how should Sample Co. recognize revenue from the contract with JQ for the year ending on 31 December 20X1?

- a) Recognize revenue immediately after the contract is signed
- b) Recognize revenue when the free handset is delivered
- c) Recognize revenue as monthly telecom services are provided
- d) Recognize revenue when the contract is fully completed

Answer: c) Recognize revenue as monthly telecom services are provided

Topic 166 - Revenue from Contracts with Customers Identifying a Contract

10. What is the primary criterion for applying the revenue model?

- a) Probability of payment
- b) Commercial substance
- c) Profitability of the contract
- d) Length of the contract

Answer: b) Commercial substance

11. In the given scenario, Sample Co. cannot identify each party's rights in the contract with Alpha Co. When should revenue recognition be delayed until?

- a) When the entity's performance is complete
- b) When the contract is fully terminated
- c) When substantially all of the consideration is collected and non-refundable
- d) When Alpha Co. pays the full amount

Answer: c) When substantially all of the consideration is collected and non-refundable

Topic 167 - Identifying a Contract with Customer - Practice

12. In Scenario 2, why does a contract not exist between Sample Electronic Co. and IQ?

- a) The contract is too complex
- b) Sample Electronic Co. has the right to terminate the contract

- c) IQ has the right to return the goods
- d) IQ is not satisfied with the quality of goods

Answer: b) Sample Electronic Co. has the right to terminate the contract

Topic 168 - Identifying a Separate Performance Obligation

13. What is a performance obligation (PO)?

- a) An agreement between parties
- b) A separate entity within a company
- c) A promise to transfer goods or services to a customer
- d) A promise to pay consideration to a supplier

Answer: c) A promise to transfer goods or services to a customer

14. In the given scenario, what are the separate performance obligations identified for Sample Co.?

- a) 2
- b) 3
- c) 4
- d) 5

Answer: b) 3

Topic 169 - Determining Transaction Price

15. What is the transaction price?

- a) The price at which an entity buys goods
- b) The price at which an entity sells goods
- c) The amount of consideration an entity expects to receive in exchange for promised goods or services
- d) The total amount of revenue an entity recognizes over time

Answer: c) The amount of consideration an entity expects to receive in exchange for promised goods or services

16. In the given scenario, Sample Co. has a history of supplying coal, and there is a 90% chance that the coal will be supplied on time. How should Sample Co. determine the transaction price?

- a) Take the maximum amount of consideration
- b) Take the minimum amount of consideration
- c) Take the average of the two possible amounts
- d) Take the most likely amount of consideration

Answer: d) Take the most likely amount of consideration

17. In the given scenario, how should Sample Co. account for the possibility of returns by customers?

- a) Ignore the possibility of returns
- b) Include the possibility of returns in the transaction price estimate
- c) Treat returns as a separate performance obligation
- d) Recognize revenue only after returns are confirmed

Answer: b) Include the possibility of returns in the transaction price estimate

Topic 170 - Allocating Transaction Price to Performance Obligation

18. How should the transaction price be allocated to separate performance obligations?

- a) Equally among all performance obligations
- b) Based on the total cost of each performance obligation
- c) Based on the estimated selling price of each performance obligation
- d) Proportionately based on the relative stand-alone selling price of each performance obligation

Answer: d) Proportionately based on the relative stand-alone selling price of each performance obligation

Topic 171 - Recognizing Revenue "when" or "as" the entity satisfies PO

19. When is control considered to be transferred under the revenue recognition model?

- a) At the time of product delivery

- b) As soon as a contract is signed
- c) When the customer pays the full amount
- d) Either "when" or "as" the entity satisfies performance obligations

Answer: d) Either "when" or "as" the entity satisfies performance obligations

20. In the given scenario, when should Sample Co. recognize revenue for the monthly telecom services provided to JQ?

- a) Immediately after the contract is signed
- b) At the time of delivery of the handsets
- c) Over time, as the monthly services are provided
- d) Only when the full contract is completed

Answer: c) Over time, as the monthly services are provided

Q&A:

1. What is revenue?

A: Revenue is income from ordinary activities.

2. Define a contract.

A: A contract is an agreement between two or more parties that creates enforceable rights and obligations.

3. Who is considered a customer?

A: A customer is a person or entity that receives goods or services in exchange for consideration.

4. What is the accounting treatment for recognizing revenue?

A: Customer account is debited, and revenue account is credited.

5. What are the core principles for recognizing revenue from contracts?

A: The core principles include identifying contracts, performance obligations, determining transaction price, allocating the price, and recognizing revenue when performance obligations are satisfied.

6. What is the first step in the revenue recognition model?

A: The first step is to identify the contract with the customer.

7. What does "TP" stand for in revenue recognition?

A: "TP" stands for Transaction Price.

8. How should Sample Co. recognize revenue from the contract with JQ for the year ending on 31 December 20X1?

A: Sample Co. should recognize revenue over time, as monthly telecom services are provided.

9. What steps should Sample Co. follow to recognize revenue from the contract with JQ?

A: The steps are: Identify contract, identify separate performance obligations, determine transaction price, allocate the price, and recognize revenue.

10. What are the criteria for applying the revenue model?

A: The criteria include the probability of collection, commercial substance, identification of rights, payment terms, and approval by parties.

11. When revenue is recognized if a contract doesn't meet the specified criteria?

A: Revenue is recognized when the entity's performance is complete and substantially all consideration is collected and non-refundable, or when the contract is terminated and consideration received is non-refundable.

12. In Scenario 1, when should revenue be recognized by Sample Co.?

A: Revenue should be recognized on April 10, 20X1, when substantially all consideration has been collected and is non-refundable.

13. In Scenario 2, why doesn't a contract exist between Sample Electronic Co. and IQ?

A: A contract doesn't exist because each party has the right to terminate the contract without compensating the other party.

Identifying a Separate Performance Obligation

14. Define a performance obligation (PO).

A: A performance obligation is a promise in a contract to transfer a good or service to the customer.

15. How many separate performance obligations are identified in the washing machine scenario?

A: Four separate performance obligations are identified.

Determining Transaction Price

16. What is the transaction price?

A: The transaction price is the consideration an entity expects to receive in exchange for promised goods or services.

17. In the coal supply scenario, how should Sample Co. determine the transaction price?

A: Sample Co. should use the "most likely amount" method based on the 90% chance of on-time supply.

Allocating Transaction Price to Performance Obligation

18. How should the transaction price be allocated to separate performance obligations?

A: The transaction price should be allocated on a relative stand-alone selling price basis at the inception of the contract.

Recognizing Revenue "when" or "as" the entity satisfies PO

19. When is control considered transferred under the revenue recognition model?

A: Control is considered transferred either "when" the entity satisfies a performance obligation at a point in time or "as" the entity keeps satisfying the obligation over time.

20. In the JQ telecom contract scenario, when should Sample Co. recognize revenue for the handset and monthly services?

A: Revenue for the handset should be recognized at the point in time when the handset is delivered, and revenue for the monthly services should be recognized over time as the services are provided.

Chapter – 14

Financial statement analysis

Sr. No	Chapter outline - Topics
172	Financial statement analysis
173	Vertical Analysis
174	Horizontal Analysis
175	Ratio Analysis

176	Profitability Ratio
177	177-Liquidity Ratio
178	178-Debt Ratios or Leverage Ratios
179	179-Efficiency Ratios
180	180-Market Ratios or Owner Ratios
181	181-Cash Flow Ratios
182	182-Limitations in Financial Statement Analysis

Topic Videos 172-182 are mandatory part of this chapter

MCQs:

1. Which form of information provides a better assessment of an entity's performance and position?

- a) Absolute form
- b) Relative form
- c) Both forms are equally useful
- d) Neither form is useful

Answer: b) Relative form

2. What is the primary purpose of financial statement analysis?

- a) To provide historical data only
- b) To forecast future performance accurately
- c) To evaluate the ongoing financial performance and position of an entity
- d) To determine tax liabilities

Answer: c) To evaluate the ongoing financial performance and position of an entity

3. In vertical analysis, what base figure is used to express each item in the financial statement as a percentage?

- a) Total assets
- b) Net income
- c) Current assets
- d) Total liabilities

Answer: a) Total assets (balance sheet) or net sales (income statement)

4. Horizontal analysis involves comparing information of one accounting period with which of the following?

- a) The same accounting period in the previous year
- b) The accounting period two years ago

- c) The same information of other accounting periods
- d) The same accounting period in the next year

Answer: c) The same information of other accounting periods

5. Which type of ratio helps in evaluating an entity's debt levels?

- a) Profitability ratios
- b) Liquidity ratios
- c) Debt/leverage ratios
- d) Efficiency ratios

Answer: c) Debt/leverage ratios

6. What type of ratios measure an entity's ability to generate profits relative to revenue, costs, assets, and equity?

- a) Profitability ratios
- b) Liquidity ratios
- c) Debt/leverage ratios
- d) Efficiency ratios

Answer: a) Profitability ratios

7. What does a high-gearred entity indicate in terms of its gearing ratio?

- a) Gearing ratio is above 50%
- b) Gearing ratio is below 50%
- c) Gearing ratio is exactly 50%
- d) Gearing ratio is not relevant to high or low gearing

Answer: a) Gearing ratio is above 50%

8. Which type of ratio is used to measure how well an entity is utilizing its assets and other resources?

- a) Profitability ratios
- b) Liquidity ratios
- c) Debt/leverage ratios
- d) Efficiency ratios

Answer: d) Efficiency ratios

9. Market/owners' ratios are also known by which other name?

- a) Efficiency ratios
- b) Debt/leverage ratios

c) Vertical ratios

d) Investors' ratios

Answer: d) Investors' ratios

10. Cash flow ratios are especially important for evaluating entities in which situation?

a) When cash flows match reported profits

b) When cash flows are less than reported profits

c) When cash flows diverge substantially from reported profits

d) When cash flows are consistently negative

Answer: c) When cash flows diverge substantially from reported profits

Topic 172 – Financial Statement Analysis

11. Which form of information is most commonly used for analytical purposes to assess an entity's performance and position?

a) Absolute form

b) Relative form

c) Comparative form

d) Nominal form

Answer: b) Relative form

12. What is the primary advantage of providing analytical information in relative form?

- a) It is easier to understand for analysts.
- b) It provides a historical perspective.
- c) It eliminates the need for calculations.
- d) It is more accurate than absolute form.

Answer: a) It is easier to understand for analysts.

Topic 173 – Vertical Analysis

13. What is the key focus of vertical analysis?

- a) Comparing results for different entities.
- b) Comparing results for two or more successive periods.
- c) Analyzing liquidity ratios.
- d) Analyzing profitability ratios.

Answer: b) Comparing results for two or more successive periods.

14. In vertical analysis, balance sheet amounts are restated as a percentage of

_____.

- a) Total liabilities
- b) Total equity
- c) Total assets
- d) Net income

Answer: c) Total assets

Topic 174 – Horizontal Analysis

15. What is the main purpose of horizontal analysis?

- a) Comparing results for different entities.
- b) Assessing an entity's liquidity position.
- c) Analyzing an entity's ability to repay long-term obligations.
- d) Analyzing changes in financial data over time.

Answer: d) Analyzing changes in financial data over time.

16. Which type of analysis involves comparing information from one accounting period to the same information from another accounting period?

a) Vertical analysis

b) Chain analysis

c) Index analysis

d) Ratio analysis

Answer: b) Chain analysis

Topic 175 – Ratio Analysis

17. Ratio analysis is used primarily to:

a) Assess an entity's liquidity position.

b) Analyze an entity's revenue.

c) Measure an entity's ability to generate profits.

d) Compare an entity's equity and liabilities.

Answer: c) Measure an entity's ability to generate profits.

18. Which of the following is not a category of financial ratios used in ratio analysis?

a) Liquidity ratios

b) Leverage ratios

c) Efficiency ratios

d) Forecasting ratios

Answer: d) Forecasting ratios

Topic 176 – Profitability Ratios

19. What do profitability ratios measure?

- a) An entity's ability to generate profits relative to revenue, costs, assets, and equity.
- b) An entity's ability to repay obligations.
- c) An entity's ability to manage its liquidity.
- d) An entity's efficiency in using its assets.

Answer: a) An entity's ability to generate profits relative to revenue, costs, assets, and equity.

Topic 177 – Liquidity Ratios

20. What is the primary purpose of liquidity ratios?

- a) Measure an entity's profitability.
- b) Measure an entity's ability to repay obligations.
- c) Measure an entity's efficiency in using its assets.
- d) Measure an entity's market value.

Answer: b) Measure an entity's ability to repay obligations.

Topic 178 – Debt/Leverage Ratios

21. What do leverage ratios measure?

- a) An entity's liquidity position.
- b) An entity's profitability.
- c) The amount of capital that comes from debt.
- d) The efficiency of an entity's operations.

Answer: c) The amount of capital that comes from debt.

Topic 179 – Efficiency Ratios

22. Efficiency ratios are used to measure:

- a) An entity's liquidity.
- b) An entity's profitability.
- c) How well an entity is utilizing its assets and resources?
- d) An entity's debt levels.

Answer: c) How well an entity is utilizing its assets and resources.

Topic 180 – Market/Owners' Ratios

23. What do market ratios evaluate?

- a) An entity's ability to repay obligations.
- b) An entity's liquidity position.
- c) The efficiency of an entity's operations.
- d) The share price of an entity's stock.

Answer: d) The share price of an entity's stock.

Topic 181 – Cash Flow Ratios

24. Cash flow ratios compare cash flows to other elements of an entity's financial statements, especially when:

- a) The entity's reported profits are consistent with its cash flows.
- b) The entity's reported profits are higher than its cash flows.
- c) The entity's reported profits are lower than its cash flows.
- d) The entity has significant long-term obligations.

Answer: c) The entity's reported profits are lower than its cash flows.

Topic 182 – Limitations in Financial Statement Analysis

25. Which of the following is a limitation of financial statement analysis?

- a) Historical information is derived from actual results.
- b) It provides a clear indication of future financial performance.
- c) It accurately reflects the effects of inflation.
- d) Accounting policies and estimates are consistent across entities.

Answer: b) It provides a clear indication of future financial performance.

26. What are the two forms of information used in financial statement analysis?

- a) Comparative and historical
- b) Absolute and relative
- c) Primary and secondary
- d) Current and future

Answer: b) Absolute and relative

27. Why do users mostly prefer analytical information in relative form for assessing an entity's performance and position?

- a) Relative form provides more detailed information
- b) Absolute form is too complex to understand
- c) Relative form allows for better comparison and evaluation

d) Absolute form is only used by experts

Answer: c) Relative form allows for better comparison and evaluation

28. What does vertical analysis restate balance sheet or income statement amounts as a percentage of?

a) Total liabilities

b) Net income

c) Total assets (balance sheet) or net sales (income statement)

d) Current assets

Answer: c) Total assets (balance sheet) or net sales (income statement)

29. What is the primary purpose of horizontal analysis in financial statement analysis?

a) To provide historical data for decision making b) To forecast future performance accurately c)

To evaluate the ongoing financial performance of an entity d) To compare information of one accounting period with another

Answer: d) To compare information of one accounting period with another

30. What is the key purpose of ratio analysis in financial statement analysis?

a) To provide historical data only

b) To predict future financial results accurately

- c) To evaluate the ongoing financial performance and position of an entity
- d) To determine tax liabilities

Answer: c) To evaluate the ongoing financial performance and position of an entity

31. Which type of ratio is used to measure an entity's ability to generate profits relative to revenue, costs, assets, and equity?

- a) Profitability ratios
- b) Liquidity ratios
- c) Debt/leverage ratios
- d) Efficiency ratios

Answer: a) Profitability ratios

32. What do liquidity ratios measure in an entity's financial position?

- a) Ability to generate profits
- b) Ability to repay both short-term and long-term obligations
- c) Amount of capital from debt
- d) Utilization of assets and resources

Answer: b) Ability to repay both short-term and long-term obligations

33. Leverage ratios are used to evaluate an entity's levels of what?

- a) Profit generation
- b) Liquidity
- c) Debt
- d) Asset utilization

Answer: c) Debt

34. Which type of ratio is used to measure how well an entity is utilizing its assets and other resources?

- a) Profitability ratios
- b) Liquidity ratios
- c) Debt/leverage ratios
- d) Efficiency ratios

Answer: d) Efficiency ratios

35. What is the primary purpose of cash flow ratios in financial statement analysis?

- a) To evaluate an entity's profit margins
- b) To assess an entity's liquidity

c) To compare an entity's assets and equity

d) To compare an entity's cash flows to other elements of its financial statements

Answer: d) To compare an entity's cash flows to other elements of its financial statements

Q&A:

- 1. What are the two main forms of information used in financial statement analysis, and why is relative form preferred by users?**

A: The two forms of information are absolute form and relative form. Relative form is preferred by users because it provides a better basis for assessing an entity's performance and position, allowing for effective comparisons and evaluations.

- 2. Explain the concept of vertical analysis in financial statement analysis and how it helps in assessing financial statements.**

A: Vertical analysis involves expressing individual financial statement items as a percentage of a base figure, such as total assets or net sales. This technique helps in assessing the relative importance of different components within the financial statements and allows for comparison across different periods.

- 3. What is the focus of horizontal analysis in financial statement analysis, and why is it important to consider multiple accounting periods for a valid comparison?**

A: Horizontal analysis focuses on analyzing changes in financial data over time, specifically comparing information from one accounting period (comparison period) with another (base period). Considering multiple accounting periods is important to spot actual trends and ensure that the analysis reflects meaningful changes rather than short-term fluctuations.

4. How does ratio analysis contribute to understanding an entity's financial performance, and why is it considered a valuable management tool?

A: Ratio analysis involves calculating various financial ratios to assess an entity's financial performance. It provides key indicators that aid in understanding trends over time and identifying strengths and weaknesses. As a management tool, ratio analysis helps in making informed decisions, formulating strategies, and driving organizational initiatives.

5. Provide examples of different types of profitability ratios and explain their significance in evaluating an entity's financial health.

A: Profitability ratios include profit on sales, return on capital employed, return on owners' equity, and others. These ratios assess an entity's ability to generate profits relative to revenue, costs, and investments. For instance, return on owners' equity indicates the return earned on shareholders' investment.

6. Describe the purpose of liquidity ratios and why managing liquidity is crucial for an entity.

A: Liquidity ratios, such as the current ratio and acid test ratio, measure an entity's ability to meet short-term and long-term obligations. Managing liquidity is crucial to ensure that the entity has sufficient resources to cover its obligations without facing financial distress or liquidity crises.

7. Explain what leverage ratios measure and how an entity's gearing ratio impacts its financial structure.

A: Leverage ratios, including debt to equity and interest coverage ratio, assess the amount of capital that comes from debt. An entity with a high gearing ratio (above 50%) relies heavily on debt financing, which can lead to higher financial risk, while a low gearing ratio indicates lower reliance on debt.

8. What do efficiency ratios evaluate, and why are alternative replacements sometimes used in these ratios?

A: Efficiency ratios, also known as activity ratios, assess how well an entity utilizes its assets and resources. Alternative replacements may be used to provide a more accurate reflection of efficiency, such as using total sales instead of credit sales in the asset turnover ratio.

9. How do market/owners' ratios contribute to evaluating an entity's stock performance, and why are they of interest to investors?

A: Market ratios, including book value per share and price earnings ratio, evaluate an entity's stock performance and attractiveness to investors. Current and potential investors use these ratios to assess the entity's stock price, dividend yield, and earnings potential.

10. Describe the purpose of cash flow ratios in financial statement analysis and explain why they are particularly important for entities with divergent cash flows and reported profits.

A: Cash flow ratios compare cash flows to other elements in the financial statements. These ratios are crucial for entities with divergent cash flows and reported profits, as they provide insights into the entity's ability to withstand declines in operating performance and its capacity to pay dividends to investors.

Topic 172 – Financial Statement Analysis

11. What are the two main forms of information used in financial statement analysis?

A: The two main forms of information used in financial statement analysis are the absolute form and the relative form.

12. Why is analytical information often presented in the relative form for assessing an entity's performance?

A: Analytical information is presented in the relative form to allow for better comparison and evaluation of an entity's performance and position over time.

Topic 173 – Vertical Analysis

13. What is the primary purpose of vertical analysis in financial statement analysis?

A: The primary purpose of vertical analysis is to express balance sheet or income statement amounts as percentages of total assets (balance sheet) or net sales (income statement).

14. How is common size analysis performed in financial statements?

A: Common size analysis involves expressing each item in the financial statement as a percentage of a base figure, such as total assets or net sales.

Topic 174 – Horizontal Analysis

15. What is the focus of horizontal analysis in financial statement analysis?

A: Horizontal analysis focuses on analyzing changes in financial data over time between two or more accounting periods.

16. What is the key principle behind chain analysis in horizontal analysis?

A: Chain analysis involves expressing financial data of one accounting period as a percentage of the data from a previous period to track changes in a chain-like manner.

Topic 175 – Ratio Analysis

17. How does ratio analysis contribute to the understanding of an entity's financial performance?

A: Ratio analysis provides key indicators that help improve the understanding of an entity's financial results and trends over time.

18. What are the main types of ratios used in ratio analysis?

A: The main types of ratios used in ratio analysis are profitability ratios, liquidity ratios, debt or leverage ratios, efficiency ratios, and market or owners' ratios.

Topic 176 – Profitability Ratios

19. How do profitability ratios measure an entity's financial performance?

A: Profitability ratios measure an entity's ability to generate profits relative to different financial aspects, such as revenue, costs, assets, and equity.

Topic 177 – Liquidity Ratios

20. What is the primary focus of liquidity ratios in financial statement analysis?

A: Liquidity ratios assess an entity's ability to meet its short-term and long-term obligations by measuring its available liquid assets.

Topic 178 – Debt/Leverage Ratios

21. What does a high gearing ratio indicate about an entity's capital structure?

A: A high gearing ratio indicates that a significant portion of an entity's capital comes from debt.

Topic 179 – Efficiency Ratios

22. How do efficiency ratios contribute to financial analysis?

A: Efficiency ratios measure how effectively an entity utilizes its assets and resources to generate revenue and manage its operations.

Topic 180 – Market/Owners' Ratios

23. What is the purpose of market ratios in financial statement analysis?

A: Market ratios evaluate an entity's stock performance by assessing share prices and other indicators relevant to investors.

Topic 181 – Cash Flow Ratios

24. Why are cash flow ratios important in financial statement analysis?

A: Cash flow ratios compare cash flows to other financial elements, providing insights into an entity's financial health and its ability to withstand declines in performance.

Topic 182 – Limitations in Financial Statement Analysis

25. What is the primary limitation of financial statement analysis?

A: Financial statement analysis is limited to historical data, which may not accurately predict future performance.

26. How does inflation impact the comparability of financial data across periods?

A: Inflation can distort the comparability of financial data across periods, making it challenging to accurately assess changes in performance.

27. How do differing accounting policies among entities impact financial statement analysis?

A: Different accounting policies for similar transactions can lead to variations in financial data, making comparisons between entities more complex.

28. Why can the interpretation of ratios sometimes be challenging?

A: Interpreting ratios can be difficult because they may not fully capture the underlying reasons for a certain financial outcome, such as external events or strategic decisions.

Chapter – 15

Accounting for Incomplete Records

Sr. No	Chapter outline - Topics
183	Accounting For Incomplete Records
184	Accounting For Small Entities Accounting System
185	Statement Of Profit or Loss
186	Statement Of Affairs
187	Practice-Accounting For Incomplete Records-I
188	Practice-Accounting For Incomplete Record-II
189	Conversion of Single Entry into Double Entry
190	Conversion - Mapping Income Statement With Source Documents

191	Conversion - Mapping Balance Sheet With Source Documents
192	Source Record for Mapping
193	Conversion into Double Entry Practice - Question
194	Conversion into Double Entry Practice - Answer
195	Conversion into Double Entry Missing Information
196	Conversion into Double Entry - Markup and Margin
197	Use of Markup Ratio
198	Use of Margin Ratio
199	Conversion of Margin Into Markup
200	Conversion of Markup Into Margin

Topic Videos 183-200 are mandatory part of this chapter

MCQs:

Topic 183 – Accounting for Incomplete Records

1. Which of the following are forms of accounting phenomena?

- a) Transactions
- b) Events
- c) Conditions

d) All of the above

Answer: d) All of the above

2. Which document provides evidence of a financial transaction?

- a) Voucher
- b) Ledger
- c) Statement of Affairs
- d) Source Document

Answer: a) Voucher

3. What is the key difference between single entry accounting and double entry accounting?

- a) Single entry accounting uses only one account for each transaction.
- b) Double entry accounting records both debit and credit effects of each transaction.
- c) Single entry accounting is used by small entities, while double entry is used by large entities.
- d) Double entry accounting does not involve financial statements.

Answer: b) Double entry accounting records both debit and credit effects of each transaction.

Topic 184 – Accounting System for Small Scale Business Entities

4. **Small scale entities typically have limited resources and fewer transactions. True or False?**

Answer: True

5. **Which of the following financial aspects are typically covered by the accounting system of small scale entities?**

- a) Financial Performance
- b) Financial Position
- c) Taxation matters
- d) All of the above

Answer: d) All of the above

Topic 185 – Statement of Profit or Loss for Small Entities

6. **What is the purpose of the Statement of Profit or Loss for small entities?**
- a) To list all sources of income and expenses
 - b) To calculate net profit for tax purposes
 - c) To calculate the value of the business's assets
 - d) To present the financial position of the business

Answer: b) To calculate net profit for tax purposes

7. What is the key advantage of the "Other Way Round" technique for calculating profit for small entities?

- a) It simplifies the process of trial balance extraction.
- b) It helps in determining the tax liability of the business.
- c) It allows for easy conversion from single entry to double entry.
- d) It is useful when trial balance cannot be extracted.

Answer: d) It is useful when trial balance cannot be extracted.

Topic 186 – Statement of Affairs

8. What is the primary purpose of the Statement of Affairs?

- a) To calculate net profit
- b) To present financial performance
- c) To list all sources of income and expenses
- d) To show balances of assets and liabilities on a specific date

Answer: d) To show balances of assets and liabilities on a specific date

Topic 187 – Accounting for Incomplete Records – Practice (Part A)

9. In accounting for incomplete records, what is the primary difference between the Single Entry system and the Double Entry system?

- a) Single Entry records only cash transactions, while Double Entry records both cash and credit transactions.
- b) Single Entry uses only one account for each transaction, while Double Entry records both debit and credit effects.
- c) Single Entry is used by small entities, while Double Entry is used by large entities.
- d) Single Entry does not require preparation of financial statements, while Double Entry does.

Answer: b) Single Entry uses only one account for each transaction, while Double Entry records both debit and credit effects.

Topic 188 – Accounting for Incomplete Records – Practice (Part B)

10. When converting from single entry to double entry, which financial statements are typically prepared?

- a) Statement of Profit or Loss only
- b) Balance Sheet only
- c) Statement of Profit or Loss and Balance Sheet
- d) Statement of Cash Flows only

Answer: c) Statement of Profit or Loss and Balance Sheet

Topic 189 – Conversion of Single Entry into Double Entry

11. Which accounting system records both cash and credit transactions and maintains bank accounts?

- a) Single Entry Accounting
- b) Double Entry Accounting
- c) Accrual Basis Accounting
- d) Cash Basis Accounting

Answer: b) Double Entry Accounting

Topic 190 – Conversion Mapping Income Statement with source documents

12. What is the purpose of mapping income statement with source documents during conversion from single entry to double entry?

- a) To determine the tax liability of the business
- b) To ensure accurate financial reporting
- c) To calculate the gross profit margin
- d) To extract a trial balance

Answer: b) To ensure accurate financial reporting

Topic 191 – Conversion – Mapping Balance Sheet with source documents

13. Why is mapping balance sheet with source documents important during conversion from single entry to double entry?

- a) To calculate net profit
- b) To determine the tax liability of the business
- c) To ensure accurate financial reporting
- d) To calculate the value of the business's assets

Answer: c) To ensure accurate financial reporting

Topic 192 – Source Record for Mapping

14. Which of the following is NOT a source record used for mapping during conversion from single entry to double entry?

- a) Cash and Bank Book
- b) Trade Receivables Ledger
- c) Trade Payables Ledger
- d) Financial Statements

Answer: d) Financial Statements

Topic 193 – Conversion into Double entry Practice – Question (Part A)

15. What is the purpose of year-end adjustments in conversion from single entry to double entry?

- a) To calculate net profit
- b) To adjust balances of assets and liabilities
- c) To prepare financial statements
- d) To determine the tax liability of the business

Answer: b) To adjust balances of assets and liabilities

Topic 194 – Conversion into Double entry Practice – Answer (Part B)

16. What is the primary outcome of conversion from single entry to double entry accounting?

- a) Extraction of a trial balance
- b) Preparation of financial statements
- c) Calculation of net profit
- d) Determination of tax liability

Answer: b) Preparation of financial statements

Topic 195 – Conversion into Double entry – Missing Information

17. In the process of conversion, what is a common challenge that may arise due to missing information?

- a) Difficulty in extracting a trial balance
- b) Inaccuracy in financial statements
- c) Inability to calculate net profit
- d) Lack of understanding of accounting principles

Answer: a) Difficulty in extracting a trial balance

Topic 196 – Conversion into Double entry – Markup and Margin

18. What is the relationship between markup and margin?

- a) Markup is the same as margin
- b) Margin is the percentage of markup
- c) Markup is the percentage of margin
- d) Margin is the same as markup

Answer: b) Margin is the percentage of markup

Topic 197 – Conversion into Double entry – Use of Markup Ratio

19. A business sells its products at a 30% markup. What is the corresponding gross profit margin?

- a) 30% b) 20% c) 25% d) 33.33%

Answer: d) 33.33%

Topic 198 – Conversion into Double entry – Use of Margin Ratio

20. A business has a gross profit margin of 40%. What is the corresponding markup rate?

- a) 40% b) 50% c) 33.33% d) 25%

Answer: c) 33.33%

Topic 199 – Conversion of Margin Ratio into Markup Ratio

21. A business has a gross profit margin of 20%. What is the corresponding markup rate?

- a) 20% b) 25% c) 40% d) 33.33%

Answer: d) 33.33%

Q&A:

Topic 183 – Accounting for Incomplete Records

1. **What are the forms of accounting phenomena mentioned in the context of accounting for incomplete records?**

A: Transactions, Events, Conditions

2. **Which type of accounting system involves recording each transaction as a single entry?**

A: Single Entry Accounting

3. **In which scale of business entities is single entry accounting mostly used?**

A: Small scale entities

4. **What is the primary difference between cash-based accounting and accrual-based accounting?**

A: Cash-based accounting records transactions when cash is received or paid, while accrual-based accounting records transactions when they occur, regardless of cash flow.

Topic 184 – Accounting System for Small Scale Business Entities

5. **What are the key characteristics of small-scale business entities?**

A: Single owner, Limited resources, Few credit transactions

6. **What are the primary accounting needs of small-scale business entities?**

A: Financial Performance, Financial Position, Taxation matters

Topic 185 – Statement of Profit or Loss for Small Entities

- 7. In a statement of profit or loss for small entities, what is the key difference compared to a regular income statement?**

A: It does not contain Incomes and Expenses

- 8. What is the formula to calculate the Profit for the year in the context of small entities?**

A: Profit for the year = Closing Owners' Equity + Drawings - Opening Owners' Equity - New/Fresh Capital

Topic 186 – Statement of Affairs

- 9. What does the Statement of Affairs represent in accounting?**

A: A statement containing balances of assets and liabilities on a specific date

- 10. How is Net Assets calculated in the context of the Statement of Affairs?**

A: Net Assets = Closing Owners' Equity

Topic 187 – Accounting for Incomplete Records – Practice (Part A)

- 11. In accounting for incomplete records, what key records are used to prepare financial statements?**

A: Statement of Affairs, Cash Book, Trade Receivables, Trade Payables

12. What is the purpose of year-end adjustments in preparing financial statements from incomplete records?

A: To ensure that the financial statements reflect accurate and complete information, including adjustments for inventory, depreciation, bad debts, etc.

Topic 188 – Accounting for Incomplete Records – Practice (Part B)

13. What is the significance of the process of conversion from single entry to double entry in accounting?

A: Conversion helps in achieving accuracy and completeness in recording financial transactions, enabling the preparation of more comprehensive financial statements.

14. What adjustments are typically made in year-end adjustments for conversion from single entry to double entry?

A: Adjustments for inventory count, depreciation, provision for doubtful debts, and accruals/prepayments are made.

Topic 189 – Conversion into Double entry – Missing Information

15. In the context of conversion from single entry to double entry, what challenge might arise due to missing information?

A: Missing information can complicate the process of mapping transactions and may require assumptions or estimations.

Topic 190 – Conversion into Double entry – Markup and Margin

16. How can markup and margin ratios be used in the process of converting single entry records to double entry?

A: Markup and margin ratios help calculate missing information, such as sales or cost of goods sold, based on the known gross profit or margin percentage.

Topic 191 – Conversion into Double entry – Use of Markup Ratio

17. When applying markup ratios, what is the base information that is often considered as 100%?

A: Cost of goods sold (COGS) or cost of goods sold (COS) is considered as 100%.

Topic 192 – Conversion into Double entry – Use of Margin Ratio

18. How can margin ratios be used to calculate the cost of goods sold in the process of converting single entry records to double entry?

A: Margin ratios help calculate the cost of goods sold based on the known gross profit and sales figures.

Topic 193 – Conversion of Margin Ratio into Markup Ratio

19. How can you convert a given margin ratio into a markup rate?

A: Markup rate = (Margin / (100 - Margin)) * 100

Topic 183 – Accounting for Incomplete Records

20. What is the difference between single-entry accounting and double-entry accounting?

Answer: Single-entry accounting and double-entry accounting are two methods used to record financial transactions. In single-entry accounting, only one side of the transaction is recorded, usually in a simple journal or ledger. This method is often used by small businesses or individuals to track cash flow. On the other hand, double-entry accounting records both sides of a transaction, debiting one account and crediting another. This method provides a more complete and accurate picture of a company's financial health, making it easier to create financial statements and analyze performance.

Topic 184 – Accounting System for Small Scale Business Entities

21. What are the key characteristics of small-scale business entities in terms of accounting needs and practices?

Answer: Small-scale business entities are characterized by being single-owner or partnerships with limited resources and a relatively small number of transactions. These entities often lack proper bookkeeping practices and may not maintain a bank account. Their accounting needs mainly focus on assessing financial performance and financial position, along with fulfilling taxation requirements. Typically, their accounting system involves determining assets and liabilities at the beginning and end of the year, tracking cash and non-cash capital introduced and

withdrawn during the year, and calculating the profit for the year using the equation: Closing Owner's Equity + Drawings - Opening Owner's Equity - New/Fresh Capital.

Topic 185 – Statement of Profit or Loss for Small Entities

22. How does the Statement of Profit or Loss for small entities differ from traditional income statements?

Answer: The Statement of Profit or Loss for small entities is similar to a traditional income statement but has some distinct characteristics. Unlike traditional income statements that categorize incomes and expenses, the Statement of Profit or Loss for small entities does not differentiate between incomes and expenses. Despite this difference, the final result in terms of profit or loss is the same as what would be obtained from a traditional double-entry accounting income statement.

Topic 186 – Statement of Affairs

23. What is the purpose of a Statement of Affairs in accounting, and how does it differ from a Balance Sheet?

Answer: A Statement of Affairs is a financial statement that provides a snapshot of an entity's assets and liabilities on a specific date. It is used to calculate the entity's net assets, which is essentially the balance of owner's equity after subtracting all liabilities. The key difference between a Statement of Affairs and a Balance Sheet (Statement of Financial Position) lies in their presentation. A Balance Sheet presents resources (assets) against claims or sources of funds (liabilities and owner's equity) on a specific date, without showing a balancing figure. In

contrast, a Statement of Affairs subtracts all liabilities from assets to determine net assets, providing a single balancing figure.

Topic 187 – Accounting for Incomplete Records – Practice (Part A)

24. How can you prepare a Statement of Profit or Loss for a partnership with incomplete records using the provided information?

Answer: To prepare a Statement of Profit or Loss for a partnership with incomplete records, follow these steps:

- Ascertain the opening and closing balances of Net Assets / Owner's Equity.
- Determine the profit for the year.
- Prepare the partners' current accounts.
- Compile the Statement of Profit or Loss and Balance Sheet.

Topic 188 – Accounting for Incomplete Records – Practice (Part B)

25. How are year-end adjustments treated when converting incomplete records into double-entry accounting?

Answer: In the conversion of incomplete records into double-entry accounting, year-end adjustments are incorporated into the statement of profit or loss to ascertain closing balances of assets and liabilities. These adjustments, such as inventory count, depreciation policy, provision for doubtful debts, accruals, and prepayments, contribute to the accurate determination of financial results and positions. Year-end adjustments play a crucial role in aligning the single-entry accounting data with the double-entry framework.

Topic 189 – Conversion of Single Entry into Double Entry

26. What are the distinguishing features of medium-sized entities in terms of their accounting needs and practices?

Answer: Medium-sized entities are characterized by being sizeable businesses, often run as sole proprietorships or partnerships. They have more available resources compared to small-scale entities and engage in a higher volume of both cash and credit transactions. These entities typically maintain bank accounts and allocate different roles to various personnel. Their accounting needs extend beyond assessing financial performance and financial position to include statements of cash flows and meeting taxation requirements. To fulfill these needs, medium-sized entities use a comprehensive accounting system that includes cash and bank books, trade receivables and payables ledgers, statement of affairs, and year-end adjustments.

Topic 190 – Conversion Mapping Income Statement with Source Documents

27. How can you prepare an income statement (Statement of Profit or Loss) using incomplete records and source documents?

Answer: To prepare an income statement using incomplete records and source documents, follow these steps:

- Collect and organize source records such as cash and bank books, trade receivables ledgers, trade payables ledgers, statement of affairs, and year-end adjustments.

- Extract relevant information from source documents to calculate revenues, costs, and expenses.
- Use suitable techniques, such as mapping, to allocate and match revenue and expense items to their respective periods.
- Compile the income statement by presenting the calculated figures for revenues, costs, and expenses, resulting in the determination of net profit or loss.

Topic 191 – Conversion – Mapping Balance Sheet with Source Documents

28. How can you prepare a balance sheet (Statement of Financial Position) using incomplete records and source documents?

Answer: To prepare a balance sheet using incomplete records and source documents, follow these steps:

- Gather and arrange source records like cash and bank books, trade receivables ledgers, trade payables ledgers, statement of affairs, and year-end adjustments.
- Extract relevant data from source documents to identify assets, liabilities, and equity items.
- Utilize appropriate techniques, such as mapping, to allocate and present assets and liabilities accurately on the balance sheet.
- Compile the balance sheet by presenting the calculated figures for assets, liabilities, and equity, leading to a balanced financial position representation.

Topic 192 – Source Record for Mapping

29. What are the key source records used for mapping financial statements when converting incomplete records into double-entry accounting?

Answer: The primary source records used for mapping financial statements during the conversion of incomplete records into double-entry accounting include: a) Cash and Bank Book b) Trade Receivables Ledger c) Trade Payables Ledger d) Statement of Affairs (Opening) e) Year-end adjustments (e.g., inventory count, depreciation, provisions, accruals, prepayments) These source records provide essential information to reconstruct financial transactions and balances, enabling the creation of accurate financial statements.

Topic 193 – Conversion into Double Entry Practice – Question (Part A)

30. How can you prepare an income statement and balance sheet for a business using incomplete records and year-end adjustments?

Answer: To prepare an income statement and balance sheet for a business with incomplete records and year-end adjustments, follow these steps:

- Review the provided source documents, including the statement of affairs, cash book, trade receivables, trade payables, and year-end adjustments.
- Apply the year-end adjustments, such as reducing inventory, recognizing rent owing, and calculating depreciation.
- Calculate the gross profit or loss by comparing revenue (sales) and cost of goods sold (adjusted for year-end adjustments).
- Prepare the income statement by listing revenues, costs, expenses, and gross profit or loss.

- Calculate the net profit or loss after including other income and expenses.
- Prepare the balance sheet by organizing assets, liabilities, and equity items based on the adjusted data.
- Verify that the balance sheet equation ($\text{Assets} = \text{Liabilities} + \text{Equity}$) is balanced.

Topic 194 – Conversion into Double Entry Practice – Answer (Part B)

31. What is the primary outcome of converting single-entry accounting records into double-entry accounting?

Answer: The main outcome of converting single-entry accounting records into double-entry accounting is to achieve a more comprehensive and accurate representation of financial transactions and balances. While the end goal of both methods is to create financial statements, double-entry accounting provides a more robust framework for capturing the full financial picture of a business. Converting single-entry records involves reconstructing transactions and employing year-end adjustments to align with the principles of double-entry accounting, enabling the extraction of a trial balance and accurate financial statements.

Topic 195 – Conversion into Double Entry – Missing Information

32. How does the absence of complete information impact the conversion of single-entry records into double-entry accounting?

Answer: The absence of complete information can pose challenges when converting single-entry records into double-entry accounting. Missing information, such as credit sales or specific transaction details, can complicate the process of mapping transactions accurately. In such cases,

assumptions or estimations might be required to fill in the gaps. However, these assumptions should be made carefully to ensure the accuracy and integrity of the resulting financial statements.

Topic 196 – Conversion into Double Entry – Markup and Margin

33. How can markup and margin ratios be utilized during the conversion of single-entry records into double-entry accounting?

Answer: Markup and margin ratios can be used as tools to calculate missing information, such as sales or cost of goods sold, during the conversion of single-entry records into double-entry accounting. By applying these ratios, businesses can estimate the missing figures based on known information, like gross profit or sales percentages. This approach helps bridge gaps in data and ensures that financial statements are as accurate and comprehensive as possible.

Topic 197 – Conversion into Double Entry – Use of Markup Ratio

34. How can you convert a given markup ratio into a corresponding sales rate?

Answer: To convert a given markup ratio into a corresponding sales rate, follow this formula:

$$\text{Markup Rate} = (\text{Gross Profit} / \text{Cost of Goods Sold}) * 100$$
For example, if the markup rate is 30% and the cost of goods sold is known, you can calculate the sales rate by using the formula and the given data.

Topic 198 – Conversion into Double Entry – Use of Margin Ratio

35. How can margin ratios be used to determine the cost of goods sold during the conversion of single-entry records into double-entry accounting?

Answer: Margin ratios can be used to calculate the cost of goods sold during the conversion of single-entry records into double-entry accounting by rearranging the margin formula: Cost of Goods Sold = Sales * (1 - Margin) For example, if the sales amount and margin percentage are known, you can calculate the cost of goods sold using the formula and the given data.

Topic 199 – Conversion of Margin Ratio into Markup Ratio

36. How can you convert a given margin ratio into an equivalent markup rate?

Answer: To convert a given margin ratio into an equivalent markup rate, use the following formula: Markup Rate = (Margin / (1 - Margin)) * 100 For instance, if the margin ratio is 0.25 (25%), you can calculate the corresponding markup rate using the formula and the given data.

Chapter – 16

Accounting for Non-Profit Organization

Sr. No	Chapter outline - Topics
201	Accounting for Non-Profit Organization
202	Accounting System for Small NPOs

203	Accounting System for Medium NPOs
204	Income and Expenditure Account
205	Incomes of NPO (Subscription)
206	Incomes of NPO (Membership fee) Practice
207	Incomes and expenditure account practice part-A (Question)
208	Incomes and expenditure account practice part-B (Answer)
209	Incomes and expenditure account practice part-C (Answer)
210	Incomes and expenditure account Large NPO part-A (Question)
211	Incomes and expenditure account Large NPO part-B (Answer)
212	Incomes and expenditure account Large NPO part-C (Answer)

Topic Videos 201-212 are mandatory part of this chapter

MCQs:

Topic 200 – Conversion of Markup Ratio into Margin Ratio

- 1. Sample Co. follows a policy of selling goods at a 30% markup. Calculate its margin rate.**

A) 27% B) 30% C) 33.33% D) 40%

Answer: C) 33.33%

Question 2: If a company has a gross profit margin of 20% and its markup rate is 25%, what would be its cost of goods sold as a percentage of sales? A) 60% B) 75% C) 80% D) 85%

Answer: B) 75%

Topic 203 – Accounting System for Medium NPOs

2. Medium-sized non-profit organizations usually adopt which type of accounting system?

- A) Single Entry Accounting
- B) Double Entry Accounting
- C) Both Single and Double Entry Accounting
- D) Accrual Basis Accounting

Answer: B) Double Entry Accounting

3. What type of financial statements are prepared by medium-sized NPOs?

- A) Income and Expenditure Account
- B) Balance Sheet
- C) Income and Expenditure Account and Balance Sheet
- D) Cash Flow Statement

Answer: C) Income and Expenditure Account and Balance Sheet

Topic 207 – Income and Expenditure Account – Practice

4. In the Income and Expenditure Account of an NPO, the excess of income over expenditure is termed as:

- A) Surplus
- B) Deficit
- C) Gross Profit
- D) Net Income

Answer: A) Surplus

5. Which of the following would NOT be included in the Expenditure section of an Income and Expenditure Account?

- A) Salaries and Wages
- B) Subscription Income
- C) Rent
- D) Printing and Stationary Expenses

Answer: B) Subscription Income

Topic 209 – Income and Expenditure Account – Large NPO – Practice

6. In the Income and Expenditure Account, the net result of all revenue and expense items is:

A) Gross Profit

B) Net Profit

C) Gross Loss

D) Net Loss

Answer: B) Net Profit

7. What is the main purpose of preparing an Income and Expenditure Account for an NPO?

A) To calculate the net worth of the organization

B) To determine the total revenue generated by the organization

C) To assess the overall financial health of the organization

D) To show the surplus or deficit of income over expenditure

Answer: D) To show the surplus or deficit of income over expenditure

Topic 200 – Conversion of Markup Ratio into Margin Ratio

8. Sample Co. follows a policy of selling goods with a 30% markup. What is the corresponding margin rate?

A) 15%

B) 30%

C) 23.08%

D) 42.86%

Answer: C) 23.08%

9. A company sold a product at a 20% markup. What is the equivalent margin rate?

- A) 12.5% B) 25% C) 16.67% D) 20%

Answer: B) 25%

Topic 201 – Accounting for Non-Profit Organizations

10. A non-profit organization's source of income mainly includes:

- A) Trading profits
B) Dividends from investments
C) Charities, donations, subscriptions
D) Loan interest

Answer: C) Charities, donations, subscriptions

11. Not-for-profit organizations are primarily focused on:

- A) Maximizing profits
B) Providing welfare services
C) Investing in stocks
D) Engaging in trading activities

Answer: B) Providing welfare services

Topic 203 – Accounting System for Small NPOs

12. Small non-profit organizations typically follow which accounting system?

- A) Single Entry
- B) Double Entry
- C) Accrual Basis
- D) Cash Basis

Answer: A) Single Entry

13. What type of account summarizes all the receipts and payments made by an NPO during a period?

- A) Trading Account
- B) Income and Expenditure Account
- C) Profit and Loss Account
- D) Cash Book

Answer: B) Income and Expenditure Account

Topic 205 – Incomes of NPO – Practice Subscription Account

14. If an NPO received Rs. 10,000 as subscription during the year, had Rs. 2,000 in arrears, and Rs. 500 in advance, what is the subscription income for the year?

- A) Rs. 10,000
- B) Rs. 7,500
- C) Rs. 7,000
- D) Rs. 9,500

Answer: B) Rs. 7,500

Topic 207 – Income and Expenditure Account – Practice

15. Which financial statement of an NPO includes items like Subscription Fee, Entrance Fee, and Games Competition?

- A) Balance Sheet
- B) Trading Account
- C) Income and Expenditure Account
- D) Statement of Affairs

Answer: C) Income and Expenditure Account

16. Depreciation is included in the Income and Expenditure Account to account for:

- A) Accrued income
- B) Prepaid expenses
- C) Fixed asset value decrease
- D) Stock valuation

Answer: C) Fixed asset value decrease

Topic 210 – Income and Expenditure Account – Large NPO – Practice

17. Large NPOs usually follow which type of accounting system?

- A) Cash Basis
- B) Single Entry
- C) Double Entry
- D) Accrual Basis

Answer: C) Double Entry

Q&A:

Topic 200 – Conversion of Markup Ratio into Margin Ratio

- 1. Sample Co. follows a policy of selling goods at a 25% markup. Calculate its margin rate.**

Answer: The margin rate can be calculated using the formula: $\text{Margin Rate} = (\text{Markup} / (100 + \text{Markup})) * 100$. For a 25% markup: $\text{Margin Rate} = (25 / (100 + 25)) * 100 = (25 / 125) * 100 = 20\%$.

Topic 201 – Accounting for Non-Profit Organizations

2. What is the primary goal of Not for Profit Organizations (NPOs)?

Answer: The primary goal of NPOs is to provide welfare services rather than earning profits. Examples of NPOs include hospitals, libraries, sports clubs, and social work organizations.

3. What is the significance of commercial activities in NPOs?

Answer: Some NPOs engage in small business activities to generate funds for their day-to-day operations. These activities can include operating a stationery shop, a juice shop, or a dispensary.

Topic 202 – Accounting System for Small NPOs

4. Which type of accounting system is generally suitable for small non-profit organizations?

Answer: Small NPOs typically use the single entry accounting system due to their smaller size and fewer transactions.

5. What is the purpose of a "Receipt and Payment Account" in NPOs?

Answer: A "Receipt and Payment Account" is a summary of all the receipts and payments made under different categories within an NPO. It helps in tracking the organization's cash flows.

Topic 203 – Accounting System for Medium NPOs

6. What accounting system do medium-sized NPOs often transition to as they grow?

Answer: Medium-sized NPOs usually transition from single entry accounting to double entry accounting to handle their increased number of transactions and financial complexities.

7. What are the key financial statements prepared by medium-sized NPOs?

Answer: Medium-sized NPOs prepare an Income and Expenditure Account to show their financial performance and a Balance Sheet to display their financial position.

Topic 204 – Income and Expenditure Account

8. Explain the concept of preparing an Income and Expenditure Account on an accrual basis.

Answer: An Income and Expenditure Account is prepared on an accrual basis, where all incomes and expenses are adjusted for opening and closing balances of prepayments and arrears. This approach ensures a more accurate reflection of financial activities.

9. What are the common sources of income for non-profit organizations?

Answer: Non-profit organizations generate income from sources such as subscriptions, donations, entrance fees, locker rents, and membership fees.

Topic 205 – Incomes of NPO – Practice Subscription Account

10. Calculate the subscription income for the year 20X² based on the following information:

- Subscription received during the year 20X²: Rs. 12,000
- Subscription received in advance for 20X³: Rs. 1,600
- Subscription outstanding at the beginning of 20X²: Rs. 2,000
- Subscription outstanding at the closing 20X²: Rs. 700

Answer: Subscription Income for:

$$20X^2 = \text{Rs. } 12,000 + \text{Rs. } 1,600 - \text{Rs. } 2,000 + \text{Rs. } 700 = \text{Rs. } 12,300$$

$$20X^2 = \text{Rs. } 12,300$$

$$X^2 = \text{Rs. } 12,300/20$$

$$X^2 = 615$$

$$X = 24.8$$

Topic 206 – Incomes of NPO – Practice Membership Fee Account

Calculate the membership fee for the year 20X² based on the following information:

- Cash received in the year: Rs. 100,000
- Fee due from the previous year: Rs. 2,000
- Fee received in advance for the next year: Rs. 800
- Fee received towards the next year on March 31, 20X²: Rs. 1,500

- Amount still recoverable for the year 20X2: Rs. 1,700

Answer: Membership Fee for:

$$20X^2 = \text{Rs. } 100,000 + \text{Rs. } 1,500 - \text{Rs. } 1,700 = \text{Rs. } 99,800$$

$$20X^2 = \text{Rs. } 99,800$$

$$X^2 = \text{Rs. } 99,800/20$$

$$X^2 = 4,990$$

$$X = 70.64$$

Topic 200 – Conversion of Markup Ratio into Margin Ratio

- 11. Sample Co. follows the policy to sell goods at a 25% markup. Calculate its margin rate.**

Answer: The margin rate can be calculated using the formula:

$$\text{Margin Rate} = (\text{Markup} / (100 + \text{Markup})) * 100$$

$$\text{For a 25\% markup: Margin Rate} = (25 / (100 + 25)) * 100 = 20\%$$

Topic 201 – Accounting for Non-Profit Organizations

- 12. What is the main characteristic of "Not for Profit" organizations?**

Answer: Not for Profit organizations aim to provide welfare services rather than earning profits.

13. Give an example of a commercial activity that some NPOs might engage in to generate funds.

Answer: One example of a commercial activity for NPOs is running a stationery shop within a mosque or a juice shop within a club.

Topic 201 – Accounting System for Small NPOs

14. What type of accounting system is typically adopted by small non-profit organizations?

Answer: Small NPOs usually adopt the Single Entry Accounting System.

15. Why might small NPOs prefer the Single Entry Accounting System?

Answer: Small NPOs have fewer transactions, and the Single Entry system is simpler and more suitable for their needs.

Topic 203 – Accounting System for Medium NPOs

16. What is the purpose of converting single entry records into double entry for medium-sized NPOs?

Answer: Converting to double entry allows medium NPOs to have better control over their financial transactions and assets.

17. Name two financial statements prepared by medium-sized NPOs.

Answer: Income and Expenditure Account and Balance Sheet.

Topic 204 – Income and Expenditure Account

18. What is the basis on which an Income and Expenditure Account is prepared?

Answer: An Income and Expenditure Account is prepared on an accrual basis, considering all accrued incomes and expenses.

19. Provide an example of an income that an NPO might include in its Income and Expenditure Account.

Answer: Membership fees, donations, and entrance fees are examples of incomes that NPOs include.

Topic 205 – Incomes of NPO – Practice Subscription Account

20. If an NPO receives Rs. 12,000 in subscription income during the year, has Rs. 1,600 in advance for next year, and has Rs. 700 outstanding at the end of the year, what is the subscription income for the year?

Answer: Subscription Income = Rs. 12,000 + Rs. 700 - Rs. 1,600 = Rs. 11,100

Topic 205 – Incomes of NPO – Practice Membership Fee Account

If a club receives Rs. 100,000 in membership fees during the year, has Rs. 2,000 in arrears from the previous year, and receives Rs. 1,500 towards the next year's fee while still having Rs. 1,700 recoverable, what is the membership fee for the year?

Answer: Membership Fee = Rs. 100,000 + Rs. 1,500 - Rs. 1,700 = Rs. 99,800

Topic 207 – Income and Expenditure Account – Practice

21. Prepare an Income & Expenditure Account and Balance Sheet for Sample Health Club based on the provided information.

Answer: The Income & Expenditure Account and Balance Sheet should be prepared following the given information and steps for solving.

Topic 209 – Income and Expenditure Account – Practice (Answer)

22. Provide an example of an expense that an NPO might include in its Income and Expenditure Account.

Answer: Salaries and wages, rent, rates and taxes, printing and stationery expenses, and depreciation are examples of expenses included in an NPO's Income and Expenditure Account.

Topic 210 – Income and Expenditure Account – Large NPO – Practice (Answer)

23. What is the purpose of preparing a Balance Sheet for an NPO?

Answer: The Balance Sheet provides a snapshot of an NPO's financial position at a specific point in time, showing its assets, liabilities, and capital.

Topic 211 – Income and Expenditure Account – Large NPO – Practice (Answer)

24. What is the primary source of income for an NPO, and how is it treated in the Income and Expenditure Account?

Answer: Subscriptions are a primary source of income for NPOs. In the Income and Expenditure Account, subscription income is recorded on an accrual basis, considering subscriptions received, outstanding, and received in advance.

Topic 212 – Income and Expenditure Account – Large NPO – Practice (Answer)

25. What is the significance of the term "Surplus" in the context of an NPO's Income and Expenditure Account?

Answer: The term "Surplus" represents the excess of income over expenditure, indicating that the NPO has generated more revenue than it has spent during the period.