Intermediate Course: Group – I **(Mock Test Series : 1)**
DATE: 17.07.2024 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

PAPER 1 : ADVANCE ACCOUNTING

1. **The question paper comprises two parts, Part I and Part II.**
2. **Part I comprises Case Scenario based Multiple Choice Questions (MCQs).**
3. **Part II comprises questions which require descriptive type answers.**

PART I – CASE SCENARIO BASED MCQs (30 MARKS)
PART - I IS COMPULSORY

Q. 1 to Q. 3 :
CASE SCENARIO
An Entity has acquired a heavy machinery at a cost of ₹ 100 Lakhs (with no breakdown of the component parts). The estimated useful life is 10 years. At the end of the 6th year, one of the major components, the Turbine, requires replacement, as further maintenance is uneconomical. The remainder of the Machine is perfect and is expected to last for the next 4 years. The cost of a New Turbine is ₹45 Lakhs. Assume SLM Depreciation and appropriate Discount Rate is 5%.

1. Current Carrying Amount of Turbine to be derecognized =
   (a) 13.43 Lakhs
   (b) 33.58 Lakhs
   (c) 20.15 Lakhs
   (d) Cannot be estimated

2. New Carrying Amount of PPE after Replacement =
   (a) 13.43 Lakhs
   (b) 33.58 Lakhs
   (c) 20.15 Lakhs
   (d) 71.57 Lakhs

3. Carrying Amount of PPE before Replacement at the end of Year 6=
   (a) 10 Lakhs
   (b) 40 Lakhs
   (c) 20 Lakhs
   (d) 57 Lakhs

Multiple Choice Question [3 MCQ of 2 Marks Each : Total 6 Marks]

Q. 4 to Q. 6 :

Net Profit for Previous Year	₹ 22 Lakhs
Net Profit for Current Year	₹ 33 Lakhs
No. of Shares before Rights Issue	1,10,000
Fair Value of Share before Rights	₹ 270
Rights Issue Ratio	One of Every Four
Rights Issue Price	₹ 180
Date of Exercising Rights	31.07.2021

4. Theoretical Ex-Rights Fair Value / Price:
   (a) 220
   (b) 270
   (c) 252
   (d) 180

5. Weighted Average Number of Shares (WANES) Outstanding during the period =
   (a) 1,30,951.33
   (b) 1,31,951.33
   (c) 1,03,951.33
   (d) 1,30,900.00

6. Adjusted EPS for Previous Year
   (a) 25.20
   (b) 27.20
   (c) 18.67
   (d) 20.00

Multiple Choice Question [3 MCQ of 2 Marks Each : Total 6 Marks]

Q. 7 to Q. 9 :
Following is the summarized Balance Sheet of Competent Limited as on 31st March, 2013:

Assets	**Rs.**	**Assets**	**Rs.**
Equity Shares of Rs. 10		Fixed Assets	46,50,000
each fully paid up	12,50,000	Current Assets	30,00,000
Revenue reserve	15,00,000		
Securities Premium	2,50,000		
Profit & Loss Account	1,25,000		
Secured Loans:			
12% Debentures	18,75,000		
Unsecured Loans	10,00,000		
Current maturities of long			
term borrowings	16,50,000		
Total	76,50,000	Total	76,50,000

The company wants to buy back equity shares of Rs. 10 each, on 1st April, 2013 at Rs. 20 per share. Buy back of shares is duly authorized by its articles and necessary resolution has been passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available shown as part of Current Assets.

7. By using the shares outstanding test the number of share can be bought back
   (a) 24,000
   (b) 25,000
   (c) 39,062
   (d) None of the above

8. On the basis of all three tests determine maximum number of share that can be bought back
   (a) 39,062
   (b) 28,750
   (c) 27,750
   (d) 27,967

9. By using the resources test determine the number of share that can be bought back
   (a) 38,062
   (b) 39,062
   (c) 42,952
   (d) 25,000

Multiple Choice Question [3 MCQ of 2 Marks Each : Total 6 Marks]

Q. 10 & Q. 11 :

X Ltd purchased a Property, Plant and Equipment 4 years ago for ₹ 150 Lakhs and depreciates it at 10% p.a. on Straight Line Method. At the end of the fourth year, it has revalued the Asset at ₹ 75 Lakhs and has written off the Loss on Revaluation to the Profit and Loss Account. However, on the date of Revaluation, the Market Price is ₹ 67.50 Lakhs and expected Disposal Costs are ₹ 3 Lakhs. Value in use is estimated at ₹ 60 Lakhs.

10. Recoverable Amount =
    - (a) 90 Lakhs
    - (b) 60 Lakhs
    - (c) 75 Lakhs
    - (d) 64.50 Lakhs

11. Impairment Loss =
    - (a) 90 Lakhs
    - (b) 60 Lakhs
    - (c) 10.50 Lakhs
    - (d) 64.50 Lakhs

Multiple Choice Question [2 MCQ of 2 Marks Each : Total 4 Marks]

12. From the given information, you are required to compute the Deferred Tax Assets(DTA) and Deferred Tax Liability (DTL) for CBDT Ltd as on 31st March 2021. The tax rate applicable is 35%.

    The Company has charged Depreciation of Rs. 7,42,900 in its Books of Accounts while as per Income Tax computation, the Depreciation available to the Company is Rs. 8,65,400.

    The Company has made Provision for Doubtful Debts for Rs. 54,300 during the year. The Company has debited Share Issue Expenses of Rs. 6,23,500 which will be available for deduction under the Income Tax Act from the next year. The expenses of Rs. 7,84,500 has been charged to Profit and Loss Account which are disallowed under the Income Tax Act.

    The Company has made Donation of Rs. 2,00,000 which has been debited to Profit and Loss Account and only 50% thereof will be allowed as deduction as per Income Tax Law.
    - (a) DTA Rs. 2,18,225, DTL. Rs. 42,875
    - (b) DTA Rs. 2,18,225, DTL Rs. 42,857
    - (c) DTA Rs. 2,18,252 DTL. Rs. 42,875
    - (d) None of these

(2 Marks)

13. Books of T Ltd. revealed the following information:

Opening inventory	₹ 6,00,000
Purchases during the year	₹ 34,00,000
Sales curing the year	₹ 48,00,000

    At year end, the value of inventory as per physical stock-taking was ₹3,25,000. The company's gross profit on sales has remained constant at 25%. The management of the company suspects that some inventory might have been pilfered by a new employee. What is the estimated cost of missing inventory?
    - (a) ₹ 75,000
    - (b) ₹ 25,000
    - (c) ₹ 1,00,000
    - (d) ₹ 1,50,000

(2 Marks)

14. GAYATHRI Ltd. purchased 1500 shares of SAVITHA Ltd. in December, 2011 at ₹ 100 each and paid brokerage at 1%. In September, 2012 Savitha Ltd. issued bonus shares at one share for every three held by the Shareholders. If Gayathri Ltd. sold 1,000 shares in March, 2013 at ₹110 per share and paid a brokerage of 1%, what would be the carrying cost of investment in Savitha Ltd. after the sale of shares as per AS-13?
(a) ₹75,750
(b) ₹41,500
(c) ₹42,700
(d) None of the above

(2 Marks)

15. Identity which of the statements are correct.
(i) In case an associate has made a provision for proposed dividend (i.e. dividend declared after the reporting period but it pertains to that reporting year) in its financial statements, the investor's share of the results of operations of the associate should be computed without taking into consideration the proposed dividend.
(ii) In case an associate has made a provision for proposed dividend (i.e. dividend declared after the reporting period but it pertains to that reporting year) in its financial statements, the investor's share of the results of operations of the associate should be computed after taking into consideration the proposed dividend.
(iii) The potential equity shares of the investee held by the investor should not be taken into account for determining the voting power of the investor.
(iv) The potential equity shares of the investee held by the investor should be taken into account for determining the voting power of the investor.
(a) Statement (i) and (iii).
(b) Statement (ii) and (iv).
(c) Statement (i) only.
(d) Statement (iii) only.

(2 Marks)

PART II - DESCRIPTIVE QUESTIONS (70 MARKS)

QUESTIONS NO. 1 IS COMPULSORY
ANSWER ANY FOUR QUESTIONS FROM THE REMAINING FIVE QUESTIONS

Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates. Working Notes should form part of the answer.

Question 1:

(a) Karna Ltd., an Indian Company, has the following foreign currency transactions during the financial year 2022-23:
(i) On 1st July, 2022, imported goods from Try Ltd., a German based company, amounting to Rs. 30,96,000.
(ii) On 1st October, 2022, imported plant and machinery from Lucy Ltd., a German based company, for € 18,500. The amount was paid on the date of import itself. (Ignore depreciation).
(iii) On 1st December, 2022, exported good on credit to Cream Ltd., a German based company, amounting to Rs. 50,40,000.
All the above transactions were recorded in the books of account at the prevailing exchange rate on the date of the transactions. Ignore taxes and duty on the above transactions.
Payment due from Cream Ltd. and payment due to Try Ltd. is outstanding as on 31st March, 2023.

Rate of exchange between reporting currency (Rs.) and foreign currency (€) on different dates are as under:

On 1st July, 2022	1 € = Rs. 86
On 1st October, 2022	1 € = Rs. 88
On 1st December, 2022	1 € = Rs. 84
On 31st March, 2023	1 € = Rs. 90

You are required, as per AS-11:

(i) To show value at which above items will appear in Balance sheet as on 31st March, 2023;

(ii) To calculate the amount of gain/loss on each of above transactions on account of exchange differences, if any.

(4 Marks)

(b) Panna Limited purchased software from Agate Limited for a period of 5 years and capitalized the cost. It provided you the following information:

Cost of software	Rs. 57,60,000.
Expected Life cycle of the software	5 years

The software was amortised at Rs. 6,40,000 per annum in first three years based on economic benefits derived from the software. After three years, it was found that the software may be used for another 5 years from then. So, Panna Limited got it renewed after expiry of five years for 3 more years.

The net cash flows from the software during these 5 years were expected to be as follows:

Year 1	Rs. 23,04,000
Year 2	Rs. 29,44,000
Year 3	Rs. 28,16,000
Year 4	Rs. 25,60,000
Year 5	Rs. 21,76,000

You are required to calculate the amortization cost of the software for each of the years.

(3 Marks)

(c) Raman Limited and Naman Limited decided to amalgamate and form a new company Rana Limited as on 31st March, 2023 and provided you the following information:

Particulars	**As on 31st March,2023**		**Revalued Figures for Amalgamation**	
	Raman Limited (Rs.)	**Naman Limited (Rs.)**	**Raman Limited (Rs.)**	**Naman Limited (Rs.)**
Equity shares of Rs. 10 each	6,72,000	2,52,000		
10% Preference Shares of Rs. 100 each	3,36,000	1,68,000		
Reserves and Surplus	5,44,240	2,65,480		
Trade Payables	84,000	1,76,000	80,640	1,68,960
Property, Plant and Equipment	7,69,000	4,36,400	10,58,100	5,20,100
Goodwill	1,62,000	-	1,62,000	-
Inventories	1,89,000	1,17,600	2,78,620	2,06,780
Trade Receivables	2,81,000	1,47,000	2,47,140	1,38,180
Cash & Cash Equivalents	2,35,240	1,60,480		

The purchase consideration is to be satisfied as follows:

(i) By issue of 4 Preference Shares of Rs. 100 each in Rana Limited @ Rs. 85 paid up and at a premium of Rs. 30 per share for every 3 preference shares held in both the companies.

(ii) By issue of 5 Equity shares of Rs. 10 each in Rana Limited @ Rs. 7 paid up and at a premium of Rs. 5 per share for every 3 equity shares held in both the companies.

(iii) In addition, necessary cash should be paid to equity shareholders of both the companies as required to adjust the rights of shareholders of both the companies in accordance with the intrinsic value of the shares of both the companies.

You are required to compute the purchase consideration for both the companies.

(3 Marks)

(d) Joy Ltd. purchased 20,000 kilograms of Raw Material @ Rs. 20 per kilogram during the year 2020-21. They have furnished you with the following further information for the year ended 31st March, 2021:

Particulars	**Units**	**Amount (Rs.)**
Opening Inventory:		
Finished Goods	2,000	1,00,000
Raw Materials	2,200	44,000
Direct Labour		3,06,000
Fixed Overheads		3,00,000
Sales	20,000	11,20,000
Closing Inventory:		
Finished Goods	2,400	
Raw Materials	1,800	

The plant has a capacity to produce 30,000 units of finished product per annum. However, the actual production of finished products during the year 2020-21 was 20,400 units. Due to a fall in the market demand, the price of the finished goods in which the raw material has been utilized is expected to be sold @ Rs. 40 per unit. The replacement cost of the raw material was Rs. 19 per kilogram.

You are required to ascertain the value of closing inventory as at 31st March, 2021 as per AS 2.

(4 Marks)

Question 2:

(a) Following is the Balance Sheet of Tourma Limited as at 31st March,2023:

Particulars	**Notes**	**Rs. in lakhs**
Equity and Liabilities		
1. Shareholders' funds		
A. Share Capital	1	24.00
B. Reserves and Surplus	2	(9.10)
2. Non-current liabilities		
A. Long-term borrowings	3	3.20
3. Current liabilities		
A. Trade Payables		1.15
B. Short Term Borrowings – Bank Overdraft		1.40
C. Other current liabilities	4	0.32
D. Short term provisions	5	0.42
Total		21.39
Assets		
1. Non-current assets		
A. Property, Plant and Equipment	6	7.80
B. Intangible Assets	7	1.70
C. Non-Current Investments	8	1.80
2. Current Assets		
A. Inventory		5.12

B. Trade receivables		4.32
C. Cash and cash equivalents		0.65
Total		21.39

Notes to Accounts:

			Rs. in lakhs
1	**Share Capital**		
	Equity share capital		
	16,000 Equity Shares of Rs. 100 each		16.00
	8,000 6% Preference Shares of Rs. 100 each		8.00
			24.00
2	**Reserves and Surplus**		
	Debit balance of Profit and loss Account		(9.10)
			(9.10)
3	**Long-term borrowings**		
	3,200 10% Debentures		3.20
			3.20
4	**Other current liabilities**		
	Interest payable on debentures		0.32
			0.32
5	**Short term provisions**		
	Provision for taxation		0.42
			0.42
6	**Property, Plant and Equipment**		
	Plant & Machinery		5.00
	Furniture & Fixture		2.80
			7.80
7	**Intangible Assets**		
	Patents & Copyrights		1.70
			1.70
8	**Non-current Investments**		
	Investments (Market Value Rs. 1,10,000)		1.80
			1.80

As on 1st April,2023, the following scheme of reconstruction was finalized for which necessary resolution was passed and approvals were obtained from appropriate authorities. Accordingly, it was decided that:

(i) Each equity share is to be sub-divided into ten fully paid-up equity shares of Rs. 10 each. After sub-division, each shareholder shall surrender to the company 40 % of his holding, for the purpose of reissue to trade payables as necessary.

(ii) Preference shareholders would give up 30% of their capital and 12% Debentures (face value Rs. 100 each) shall be issued to them for balance holdings.

(iii) The company would issue additional 12% Debentures (face value Rs. 100 each) for Rs. 4,00,000 for meeting its working capital requirement and final settlement of Bank Overdraft at 90% of the amount.

(iv) Existing debenture holders would accept Furniture & Fixture in full settlement of their dues.

(v) Trade payables claim shall be reduced to 70%, it is to be settled by the issue of equity shares of Rs. 10 each out of shares surrendered.

(vi) The shares surrendered and not re-issued shall be cancelled.

(vii) The taxation liability is to be settled at 50,000.

(viii) Investments value to be reduced to market price.

(ix) Balance of profit and loss account is to be written off.

(x) The value of inventories is to be increased by Rs. 32,000 and provision for Doubtful Debts is to be created at 5% of Trade Receivables.

You are required to:

(i) Pass necessary journal entries in the books of account of Tourma Limited.

(ii) Prepare Balance Sheet of the company after internal reconstruction.

(10 Marks)

(b) A Ltd. a UK based company entered into a joint venture with B Ltd. in India, wherein B Ltd. will import the goods manufactured by A Ltd. on account of joint venture and sell them in India. A Ltd. and B Ltd. agreed to share the expenses & revenues in the ratio of 5:4 respectively whereas profits are distributed equally. A Ltd. invested 49% of total capital but has equal share in all the assets and is equally liable for all the liabilities of the joint venture. Following is the trial balance of the joint venture at the end of the first year:

Particulars	Dr. (Rs.)	Cr. (Rs.)
Purchases	9,00,000	
Other Expenses	3,06,000	
Sales		13,05,000
Property, Plant and Equipment	6,00,000	
Current Assets	2,00,000	
Unsecured Loans		2,00,000
Current Liabilities		1,00,000
Capital		4,01,000

Closing inventory was valued at Rs. 1,00,000.

You are required to prepare the Consolidated Financial Statement.

(4 Marks)

Question 3:

(a) Jolly Industries of Delhi is a trader in spices. It has a branch at Jalandhar to which Head office invoice goods at 20% on sales. The Jalandhar branch sells spices both on cash and credit. Branch remit all the cash received to Head Office Bank account, thus all expenses of branch are also directly paid from head office.

From the following information given, Prepare Branch Accounts in the Head office ledger using Stock and Debtors Method.

Branch does not maintain any books of account, but send fortnightly returns to Head office.

	Rs.
Stock at Jalandhar Branch as on 1st April, 2022 (Cost Price)	1,00,000
Sundry Debtors at Jalandhar as on 1st April, 2022	1,10,000
Cash received from Debtors	3,45,000
Bad debts during the year	9,500
Discount allowed to Debtors	5,500
Goods received from Head Office at Invoice Price	6,00,000
Returns to Head office at Invoice Price	60,000
Normal loss of goods during transport (Out of Goods sent by H.O. to Branch)	12,000
Sales returns at Jalandhar Branch	11,000
Salaries and staff welfare expenses at Branch	54,000
Rent and taxes at Branch	9,000
Other Office Expenses	2,500
Sundry Debtors at Branch as at 31st March 2023	1,55,000
Stock at Jalandhar as on 31st March, 2023 (Cost Price)	1,20,000

Credit sales at Branch are four times of the cash Sales at Branch.

(10 Marks)

(b) Give four examples of activities that do not necessarily satisfy criterion (a) of paragraph 3 of AS 24, but that might do so in combination with other circumstances.

(4 Marks)

Question 4:

Consider the following summarized balance sheets:

	A Ltd. (As on 31st March, 2017)	**B Ltd. (As on 31st December, 2016)**		**A Ltd. (As on 31st March, 2017)**	**B Ltd. (As on 31st December, 2016)**
	Rs.	**Rs.**		**Rs.**	**Rs.**
Share Capital			Fixed Assets	6,50,000	4,05,000
(Shares of Rs. 10 each)	10,00,000	5,00,000	Investment:		
Reserves and Surplus	4,50,000	2,05,000	40,000 Shares in B Ltd. 1,000	8,00,000	—
Secured Loan:			Debentures in B Ltd.	1,50,000	—
13% Debentures (Rs. 100 each)	—	3,00,000	Current Assets:		
Current Liabilities:			Inventory	2,00,000	3,50,000
Trade payables	3,80,000	80,000	Trade Receivables	1,50,000	2,65,000
Other liabilities	2,00,000	40,000	Cash and Bank	80,000	1,05,000
	20,30,000	11,25,000		20,30,000	11,25,000

On 5th January 2017, certain inventory of B Ltd. costing Rs. 20,000 were completely destroyed by fire. The insurance company paid 75% of the claim.

On 20th January, 2017, A Ltd. sold goods to B Ltd. costing Rs. 1,50,000 at an invoice price of cost plus 20%.

50% of those goods were resold by B Ltd. to A Ltd. within 31st March, 2017 (these were then sold by A Ltd. to a third party before 31st March, 2017). As on 31st March, 2017, B Ltd. owes Rs. 60,000 to A Ltd. In respect of those goods. Pre- acquisition profits of B Ltd. were Rs. 75,000. Prepare consolidated balance sheet as on 31st March, 2017 after making necessary adjustments in the balance sheet of B Ltd.

(14 Marks)

Question 5:

(a) On the basis of the following information prepare a Cash Flow Statement for the year ended 31st March, 2023 (Using direct method):

(i) Total sales for the year were Rs. 796 crores out of which cash sales amounted to Rs. 524 crores.

(ii) Receipts from credit customers during the year, totalled Rs. 268 crores.

(iii) Purchases for the year amounted to Rs. 440 crores out of which credit purchase was 80%.
Balance in creditors as on
1.4.2022 Rs. 168 crores
31.3.2023 Rs. 184 crores

(iv) Suppliers of other consumables and services were paid Rs. 38 crores in cash.

(v) Employees of the enterprises were paid 40 crores in cash.

(vi) Fully paid 9% Preference shares of the face value of Rs. 64 crores were redeemed. Equity shares of the face value of Rs. 40 crores were allotted as fully paid up at premium of 20%.

(vii) 10% Debentures of Rs. 40 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.

(viii) Rs. 52 crores were paid by way of income tax.

(ix) A new machinery costing Rs. 50 crores was purchased in part exchange of an old machinery. The book value of the old machinery was Rs. 26 crores.

Through the negotiations, the vendor agreed to take over the old machinery at a higher value of Rs. 30 crores. The balance was paid in cash to the vendor.

(x) Investment costing Rs. 36 cores were sold at a loss of Rs. 4 crores.

(xi) Dividends totalling Rs. 30 crores was also paid.

(xii) Debenture interest amounting Rs. 4 crore was paid.

(xiii) Non-cash expenditure incurred during the current year was 1.2 crores.

(xiv) Dividends declared during the current year was 15% on equity share capital (ESC = Rs. 120 crores).

(xv) On 31st March 2022, Balance with Bank and Cash on hand totalled Rs. 4 crores.

(8 Marks)

(b) The management of Loyal Ltd. contends that the work in process is not valued since it is difficult to ascertain the same in view of the multiple processes involved. They opine that the value of opening and closing work in process would be more or less the same. Accordingly, the management had not separately disclosed work in process in its financial statements. Comment in line with Schedule III.

(4 Marks)

(c) What are the methods of internal reconstruction generally followed by companies?

(2 Marks)

Question 6:

(a) X Ltd. is having a plant (asset) carrying amount of which is Rs. 100 lakhs on 31.3.20X1. Its balance useful life is 5 years and residual value at the end of 5 years is Rs. 5 lakhs. Estimated future cash flow from using the plant in next 5 years are:

For the year ended on	Estimated cash flow (Rs. in lakhs)
31.3.20X2	50
31.3.20X3	30
31.3.20X4	30
31.3.20X5	20
31.3.20X6	20

Calculate "value in use" for plant if the discount rate is 10% and also calculate the recoverable amount if net selling price of plant on 31.3.20X1 is Rs. 60 lakhs.

(2 Marks)

(b) Hello Limited belongs to the manufacturing industry. The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of Rs. 12 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to Rs. 4 lakhs instead of Rs. 10 lakhs. The average remaining life of the employees is estimated to be 6 years. You are required to advise the company on the following items from the viewpoint of finalization of accounts, taking note of the mandatory accounting standards.

(2 Marks)

(c) Akshar Ltd. installed a new Plant (not a qualifying asset), at its production facility, and incurred the following costs:

- Cost of the Plant (as per supplier's invoice): Rs. 30,00,000
- Initial delivery and handling costs: Rs. 1,00,000
- Cost of site preparation: Rs. 2,00,000
- Consultant fee for advice on acquisition of Plant: Rs. 50,000
- Interest charges paid to supplier against deferred credit: Rs. 1,00,000

- Estimate of Dismantling and Site Restoration costs: Rs. 50,000 after 10 years (Present Value is Rs. 30,000)
- Operating losses before commercial production: Rs. 40,000

The company identified motors installed in the Plant as a separate component and a cost of Rs. 5,00,000 (Purchase Price) and other costs were allocated to them proportionately. The company estimates the useful life of the Plant and those of the Motors as 10 years and 6 years respectively and SLM method of Depreciation is used.

At the end of Year 4, the company replaces the Motors installed in the Plant at a cost of Rs. 6,00,000 and estimated the useful life of new motors to be 5 years. Also, the company revalued its entire class of Fixed Assets at the end of Year 4. The revalued amount of Plant as a whole is Rs. 25,00,000. At the end of Year 8, the company decides to retire the Plant from active use and also disposed the Plant as a whole for Rs. 6,00,000.

There is no change in the Dismantling and Site Restoration liability during the period of use. You are required to explain how the above transaction would be accounted in accordance with AS 10.

(4 Marks)

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

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

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

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

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

(4 Marks)

(e) Explain the objective of “Accounting Standards” in brief. State the advantages of setting Accounting Standards.

(2 Marks)

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