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CBSE Class 12 · Accountancy

Financial Statements of a Company

10 most probable questions for Boards 2027

Q1. 1 mark · Multiple choice

Financial statements are formal annual reports through which a company's management communicates financial information to:
(a) only its employees.
(b) its owners and various external parties.
(c) only its creditors.
(d) only the tax authorities.

Answer

(b) its owners and various external parties — financial statements communicate financial information to owners and external parties such as investors, tax authorities, government and employees.

Q2. 2 marks · Short answer

Name the four major classifications under which equity and liabilities are presented in a company's balance sheet.

Answer

1. Shareholders' funds include share capital, reserves and surplus, and money received against share warrants.
2. Share application money pending allotment is shown separately.
3. Non-current liabilities include long-term borrowings, deferred tax liabilities (net), and other long-term liabilities.
4. Current liabilities form the fourth major classification.

Q3. 3 marks · Medium answer

Explain what is disclosed as Surplus and how a reserve represented by specifically earmarked investments is described.

Answer

1. Surplus is the balance in the statement of profit and loss; allocations and appropriations are disclosed, including dividend, bonus shares, and transfers to or from reserves.
2. A debit balance in the statement of profit and loss is shown as a negative figure under Surplus.
3. A reserve specifically represented by earmarked investments is termed a "Fund".

Q4. 4 marks · Long answer

Explain how preliminary expenses and discount on issue of debentures are written off, including the order in which preliminary expenses are charged.

Answer

Preliminary expenses and discount on issue of debentures are written off according to their respective accounting treatments.
1. Preliminary expenses are written off completely in the year in which they are incurred.
2. The amount is first written off against the securities premium balance. For example, if preliminary expenses are ₹40,000 and securities premium is ₹20,000, ₹20,000 is charged against securities premium.
3. Any amount remaining after using securities premium is written off from the Statement of Profit and Loss. In the example, the remaining ₹20,000 is charged to the Statement of Profit and Loss.
4. Borrowing costs, including discount on issue of debentures, are written off in the same year in which the debentures are issued.
Thus, preliminary expenses are charged first to securities premium, while debenture discount is written off in its year of issue.

Q5. 5 marks · Long answer

Explain how the change in inventories of finished goods, work-in-progress and stock-in-trade is determined. Describe the items included in employee benefits expense and distinguish finance costs from other financial expenses such as bank charges. (5 marks)

Answer

1. Basis of inventory change — X: Opening inventory of finished goods, work-in-progress and stock-in-trade forms one balance; Y: closing inventory of the same categories forms the other balance. The change is the difference between opening and closing inventory, conventionally calculated as opening inventory less closing inventory.
2. Employee-benefit items — X: Salary, wages and leave encashment are expenses incurred on employees; Y: staff welfare and related employee expenses are also included under employee benefits expense. Employee benefits may be further categorised into direct and indirect expenses.
3. Classification of financial expenses — X: Interest charges during the year on borrowings are shown as Finance Costs, and only the interest cost is included; Y: bank charges and other financial expenses are shown under Other Expenses.

Q6. 6 marks · Very long answer

A company has preliminary expenses that remain unamortised and a discount on debentures issued during the year. Explain the write-off treatment for both items and identify the balance-sheet heading under which the illustrated balance sheet presents the discount on issue of debentures.

Full answer on SmartKalike: https://smartkalike.com/cbse/class-12/accountancy/financial-statements-of-a-company

Q7. 1 mark · Multiple choice

Which set comprises the financial statements identified in the textbook?
(a) Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement
(b) Trial Balance, Cash Book, and Journal
(c) Ledger, Bank Reconciliation Statement, and Trial Balance
(d) Statement of Profit and Loss and Cash Book only

Full answer on SmartKalike: https://smartkalike.com/cbse/class-12/accountancy/financial-statements-of-a-company

Q8. 2 marks · Short answer

Name the three components of shareholders' funds shown in the balance sheet.

Full answer on SmartKalike: https://smartkalike.com/cbse/class-12/accountancy/financial-statements-of-a-company

Q9. 3 marks · Medium answer

A company has preliminary expenses of ₹42,000 and a securities premium balance of ₹27,000. Calculate the preliminary expenses to be written off from the statement of profit and loss after using the securities premium balance first.

Full answer on SmartKalike: https://smartkalike.com/cbse/class-12/accountancy/financial-statements-of-a-company

Q10. 4 marks · Long answer

Explain the items included under (a) Other Income, (b) Cost of Materials, and (c) Purchase of Stock-in-trade in the Statement of Profit and Loss.

Full answer on SmartKalike: https://smartkalike.com/cbse/class-12/accountancy/financial-statements-of-a-company

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