Skillshort

Self-Study Preparation Pack

CSEET

Paper 2: Fundamentals of Accounting (subjective)

Mock Test 1 – Full Paper with Detailed Solutions

ICSI CSEET pattern (as in June 2026): 100 marks · 3 hours (+15 min reading) · Q1 compulsory + any five of Q2–Q8 · Original Skillshort questions

Time: 3 hours | Max marks: 100 | Solutions follow the question paper

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This subject pack has 6 parts

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Prepared by Skillshort for self-study. Original explanations and questions; not an official ICAI/ICMAI/ICSI publication. Items marked VERIFY should be checked against the latest official material.

Question Paper

Instructions: Question No. 1 is **compulsory**. Attempt **any five** of the remaining seven questions. Working notes should form part of the answer. Make suitable assumptions where necessary and state them. Financial year ends on 31 March. Time allowed: 3 hours. Maximum marks: 100.

QUESTION Question 1 (compulsory)

(a) Nova Ltd. purchased Machine A on 1 April 2023 for ₹5,00,000 and Machine B on 1 October 2024 for ₹2,00,000. On 30 September 2025 Machine A was sold for ₹2,80,000 and Machine C was purchased on 1 January 2026 for ₹3,00,000. Depreciation is charged @ 20% p.a. on the written down value method. Prepare the Machinery Account for 2023-24, 2024-25 and 2025-26. (8 marks)

(b) State the purposes for which the securities premium account may be applied under Section 52 of the Companies Act, 2013. (4 marks)

(c) On 31 March 2026 the cash book of Mehta Traders showed a debit balance of ₹48,500. From the following, prepare a bank reconciliation statement: (i) cheques issued but not presented ₹12,000; (ii) cheques deposited but not credited ₹8,400; (iii) bank charges ₹350 not entered in the cash book; (iv) interest credited by bank ₹1,200; (v) dividend ₹2,500 collected by the bank directly; (vi) a cheque of ₹1,800 deposited was dishonoured, not recorded in the cash book; (vii) a customer deposited ₹3,000 directly into the bank; (viii) insurance premium ₹2,200 paid by the bank on standing instruction. (8 marks)

QUESTION Question 2

(a) Explain the fundamental accounting assumptions of going concern, consistency and accrual. (6 marks)

(b) The trial balance of Mr. Kapoor did not agree and the difference was put to a suspense account. The following errors were found: (i) sales book overcast by ₹1,500; (ii) furniture purchased for ₹8,000 debited to purchases account; (iii) ₹2,500 paid to Ravi posted to Rani's account; (iv) discount allowed ₹300 posted to the customer's account but not to the discount account; (v) rent paid ₹4,000 posted to rent account as ₹400. Pass rectifying entries and prepare the suspense account. (6 marks)

(c) Distinguish between capital expenditure and revenue expenditure. (4 marks)

QUESTION Question 3

(a) A and B are partners sharing profits 3 : 2 with fixed capitals of ₹4,00,000 and ₹3,00,000. The deed provides: interest on capital @ 8% p.a.; salary to B ₹4,000 per month; commission to A @ 10% of the net profit after charging such commission; interest on drawings @ 10% p.a. A withdrew ₹15,000 at the **beginning of each quarter** and B withdrew ₹10,000 at the **end of each month**. Net profit before the above adjustments for 2025-26 was ₹3,85,000. Prepare the Profit and Loss Appropriation Account. (8 marks)

(b) X and Y (3 : 2) dissolved their firm on 31 March 2026, when the balance sheet showed: creditors ₹60,000; bank loan ₹40,000; capitals X ₹1,00,000 and Y ₹60,000; cash ₹10,000; debtors ₹50,000; stock ₹70,000; furniture ₹30,000; machinery ₹1,00,000. Debtors realised ₹46,000, stock ₹63,000 and machinery ₹92,000; X took over the furniture at ₹25,000. Creditors were paid ₹58,000 in full settlement and the bank loan was paid. Realisation expenses were ₹3,000. Prepare the Realisation Account, Partners' Capital Accounts and Cash Account. (8 marks)

QUESTION Question 4

(a) Star Ltd. invited applications for 40,000 equity shares of ₹10 each at a premium of ₹2, payable ₹3 on application, ₹5 on allotment (including premium) and ₹4 on first and final call. Applications were received for 60,000 shares. Applications for 10,000 shares were rejected and the rest were allotted pro rata; excess application money was adjusted towards allotment. Mr. R, who had applied for 1,000 shares, failed to pay allotment and call money. His shares were forfeited and 600 of them were reissued at ₹8 per share fully paid. Pass journal entries. (12 marks)

(b) Distinguish between shares and debentures. (4 marks)

QUESTION Question 5

From the following trial balance of Mr. Sanjay as on 31 March 2026, prepare the Trading and Profit and Loss Account for the year and the Balance Sheet as on that date. (16 marks)

Debit	₹	Credit	₹
Opening stock	60,000	Capital	2,04,000
Purchases	4,20,000	Sales	7,20,000
Returns inward	10,000	Returns outward	8,000
Wages	36,000	Creditors	70,000
Carriage inward	6,000	12% bank loan (taken 1 October 2025)	1,00,000
Salaries	72,000	Provision for doubtful debts	4,000
Rent	30,000	Commission received	6,000
Insurance	9,600	Discount received	2,000
Office expenses	14,400		
Advertisement	18,000		
Bad debts	3,000		
Debtors	1,20,000		
Furniture	50,000		
Machinery	2,00,000		
Cash at bank	41,000		
Drawings	24,000		
Total	**11,14,000**	**Total**	**11,14,000**

Adjustments: (1) closing stock ₹85,000; (2) salaries outstanding ₹6,000 and rent outstanding ₹2,500; (3) insurance prepaid ₹2,400; (4) depreciate machinery and furniture @ 10%; (5) write off further bad debts ₹2,000 and maintain a provision for doubtful debts @ 5% on debtors; (6) provide interest on the bank loan; (7) commission received includes ₹1,000 received in advance; (8) goods costing ₹5,000 taken by Mr. Sanjay for personal use were not recorded.

QUESTION Question 6

(a) From the following Receipts and Payments Account of Sunshine Club for the year ended 31 March 2026 and the information given, prepare the Income and Expenditure Account for the year and the Balance Sheet as on 31 March 2026. (12 marks)

Receipts: balance b/d (cash) ₹15,000; subscriptions ₹1,20,000 (including ₹8,000 for 2024-25 and ₹5,000 for 2026-27); general donations ₹20,000; entrance fees ₹10,000; sale of old furniture (book value ₹6,000) ₹4,000; interest on investments ₹6,000. **Payments:** salaries ₹54,000; rent ₹18,000; sports equipment purchased (1 April 2025) ₹40,000; electricity ₹9,000; printing and stationery ₹7,000; balance c/d (cash) ₹47,000.

Additional information: (1) on 1 April 2025 the club had sports equipment ₹60,000, furniture ₹30,000, 8% investments ₹1,00,000, subscriptions outstanding ₹8,000 and salaries outstanding ₹2,000; (2) subscriptions outstanding for 2025-26 are ₹6,000; (3) salaries outstanding on 31 March 2026 ₹3,000; (4) depreciate sports equipment @ 20% and furniture @ 10%; (5) donations and entrance fees are treated as revenue.

(b) Distinguish between a Receipts and Payments Account and an Income and Expenditure Account. (4 marks)

QUESTION Question 7

(a) Elite Ltd. decided to redeem its 10,000 10% preference shares of ₹100 each at a premium of 10%. For this purpose it issued 4,000 equity shares of ₹100 each at a premium of 10%. The company had a general reserve of ₹5,00,000, securities premium (existing) ₹20,000 and surplus in the statement of profit and loss ₹1,50,000. The new issue was fully subscribed and paid, and the preference shares were redeemed. Pass journal entries, using the general reserve before the surplus. (8 marks)

(b) A and B share profits 3 : 2. C is admitted for a 1/4 share, which he takes from A and B in their old ratio. C brings ₹1,50,000 as capital and ₹40,000 as his share of goodwill in cash. Goodwill of ₹10,000 already appears in the books. Half of the goodwill premium is withdrawn by the partners. Calculate the new ratio and pass journal entries. (8 marks)

QUESTION Question 8

(a) What are books of original entry? Name them and state the type of transactions recorded in each. (5 marks)

(b) A machine purchased on 1 April 2023 for ₹4,00,000 was depreciated @ 15% p.a. WDV. From 1 April 2025 the company decided to change to the straight line method, with a remaining useful life of 8 years and a residual value of ₹20,000. Calculate depreciation for 2025-26 and state the accounting treatment. (5 marks)

(c) What are accounting estimates? Give four examples and explain how a change in estimate is treated. (6 marks)

Solutions and Working Notes

SOLUTION Q1(a) Machinery Account (WDV @ 20%)

Date	Particulars	₹	Date	Particulars	₹
01-04-2023	To Bank (Machine A)	5,00,000	31-03-2024	By Depreciation	1,00,000
			31-03-2024	By Balance c/d	4,00,000
01-04-2024	To Balance b/d	4,00,000	31-03-2025	By Depreciation (A 80,000 + B 20,000)	1,00,000
01-10-2024	To Bank (Machine B)	2,00,000	31-03-2025	By Balance c/d (A 3,20,000 + B 1,80,000)	5,00,000
01-04-2025	To Balance b/d	5,00,000	30-09-2025	By Depreciation (A, 6 months)	32,000
01-01-2026	To Bank (Machine C)	3,00,000	30-09-2025	By Bank (sale of A)	2,80,000
			30-09-2025	By Profit and Loss (loss on sale)	8,000
			31-03-2026	By Depreciation (B 36,000 + C 15,000)	51,000
			31-03-2026	By Balance c/d (B 1,44,000 + C 2,85,000)	4,29,000

Working: A: 5,00,000 − 1,00,000 − 80,000 = 3,20,000; depreciation to 30-09-2025 = 3,20,000 × 20% × 6/12 = 32,000; WDV on sale 2,88,000; loss = 2,88,000 − 2,80,000 = **8,000**. B: 2,00,000 × 20% × 6/12 = 20,000 (2024-25); 1,80,000 × 20% = 36,000 (2025-26). C: 3,00,000 × 20% × 3/12 = 15,000. Totals for each year: debit = credit (5,00,000; 6,00,000; 8,00,000).

SOLUTION Q1(b) Uses of securities premium (Sec 52)

(1) Issue of fully paid **bonus shares**; (2) writing off **preliminary expenses**; (3) writing off expenses of, commission paid or discount allowed on any issue of securities or debentures; (4) providing for the **premium payable on redemption** of preference shares or debentures; (5) **buy-back** of own shares or securities under Sec 68.

SOLUTION Q1(c) Bank reconciliation statement as on 31 March 2026

Particulars	₹	₹
Balance as per cash book (Dr)		48,500
Add: cheques issued but not presented	12,000	
interest credited by bank	1,200	
dividend collected by bank	2,500	
direct deposit by customer	3,000	18,700
		67,200
Less: cheques deposited but not credited	8,400	
bank charges	350	
cheque dishonoured	1,800	
insurance paid on standing instruction	2,200	12,750
Balance as per pass book (Cr)		**54,450**

SOLUTION Q2(a) Fundamental accounting assumptions

Going concern: the enterprise is assumed to continue in operation for the foreseeable future, with no intention or need to liquidate – so assets are shown at cost less depreciation, not at break-up value. **Consistency:** the same accounting policies are followed from one period to another, so that results are comparable; a change is made only if required by law or an accounting standard or for better presentation, and is disclosed. **Accrual:** revenues and costs are recognised when they are earned or incurred (not when cash is received or paid) and recorded in the period to which they relate. If any assumption is not followed, the fact must be **disclosed**.

SOLUTION Q2(b) Rectification entries

No.	Entry	Dr ₹	Cr ₹
(i)	Sales A/c Dr / To Suspense A/c	1,500	1,500
(ii)	Furniture A/c Dr / To Purchases A/c	8,000	8,000
(iii)	Ravi A/c Dr / To Rani A/c	2,500	2,500
(iv)	Discount allowed A/c Dr / To Suspense A/c	300	300
(v)	Rent A/c Dr / To Suspense A/c (4,000 − 400)	3,600	3,600

Suspense A/c: Dr – To Difference in trial balance (balancing) 5,400 · Cr – By Sales 1,500, By Discount allowed 300, By Rent 3,600 = 5,400. The suspense account had a **debit balance of ₹5,400** and is now closed. Errors (ii) and (iii) do not affect the trial balance.

SOLUTION Q2(c) Capital vs revenue expenditure

Basis	Capital expenditure	Revenue expenditure
Purpose	Acquire or improve fixed assets; increase earning capacity	Maintain the business; day-to-day running
Benefit	Long-term (more than one year)	Current year only
Treatment	Shown as an asset in the balance sheet (depreciated)	Charged to the trading / P&L account
Recurrence	Non-recurring	Recurring
Example	Purchase of machinery, installation	Wages, rent, repairs

SOLUTION Q3(a) Profit and Loss Appropriation Account for 2025-26

Dr	₹	Cr	₹
To Commission to A (W1)	35,000	By Net profit b/d	3,85,000
To Interest on capital – A 32,000; B 24,000	56,000	By Interest on drawings – A 3,750; B 5,500	9,250
To Salary to B (4,000 × 12)	48,000		
To Profit – A (3/5) 1,53,150; B (2/5) 1,02,100	2,55,250		
Total	**3,94,250**	**Total**	**3,94,250**

W1 Commission = 3,85,000 × 10 ÷ 110 = **35,000**. **W2** A's drawings 15,000 × 4 = 60,000 at the beginning of each quarter → average period 7.5 months: 60,000 × 10% × 7.5/12 = **3,750**. B's drawings 10,000 × 12 = 1,20,000 at the end of each month → 5.5 months: 1,20,000 × 10% × 5.5/12 = **5,500**. With fixed capitals, these items go to the partners' **current accounts**.

SOLUTION Q3(b) Dissolution of X and Y

Realisation A/c

Dr	₹	Cr	₹
To Debtors	50,000	By Creditors	60,000
To Stock	70,000	By Bank loan	40,000
To Furniture	30,000	By Cash – debtors 46,000, stock 63,000, machinery 92,000	2,01,000
To Machinery	1,00,000	By X's capital (furniture)	25,000
To Cash – creditors paid	58,000	By Loss – X 15,000; Y 10,000	25,000
To Cash – bank loan paid	40,000		
To Cash – expenses	3,000		
Total	**3,51,000**	**Total**	**3,51,000**

Partners' Capital A/cs: X – balance 1,00,000 less furniture 25,000 less loss 15,000 = cash paid **60,000**; Y – balance 60,000 less loss 10,000 = cash paid **50,000**.

Cash A/c: Dr – balance 10,000 + realisation 2,01,000 = 2,11,000 · Cr – creditors 58,000 + bank loan 40,000 + expenses 3,000 + X 60,000 + Y 50,000 = **2,11,000**.

SOLUTION Q4(a) Journal of Star Ltd.

Particulars	Dr ₹	Cr ₹
Bank A/c Dr – application money (60,000 × 3) / To Equity Share Application A/c	1,80,000	1,80,000
Equity Share Application A/c Dr 1,80,000 / To Equity Share Capital (40,000 × 3) 1,20,000 / To Equity Share Allotment (excess on pro-rata) 30,000 / To Bank (refund 10,000 × 3) 30,000	1,80,000	1,80,000
Equity Share Allotment A/c Dr (40,000 × 5) / To Equity Share Capital 1,20,000 / To Securities Premium 80,000	2,00,000	2,00,000
Bank A/c Dr / To Equity Share Allotment A/c (W1)	1,66,600	1,66,600
Equity Share First and Final Call A/c Dr (40,000 × 4) / To Equity Share Capital	1,60,000	1,60,000
Bank A/c Dr / To First and Final Call A/c (1,60,000 − 3,200)	1,56,800	1,56,800
Equity Share Capital A/c Dr (800 × 10) 8,000 + Securities Premium A/c Dr (800 × 2) 1,600 / To Allotment 3,400 / To Call 3,200 / To Share Forfeiture 3,000	9,600	9,600
Bank A/c Dr (600 × 8) 4,800 + Share Forfeiture A/c Dr 1,200 / To Equity Share Capital (600 × 10)	6,000	6,000
Share Forfeiture A/c Dr / To Capital Reserve (W2)	1,050	1,050

W1 Pro-rata ratio = 50,000 applied : 40,000 allotted = 5 : 4. R applied 1,000 → allotted 800; paid 1,000 × 3 = 3,000, of which 2,400 for application and **600 excess** adjusted to allotment. R's allotment due 800 × 5 = 4,000 − 600 = **3,400 unpaid**; call unpaid 800 × 4 = **3,200**. Allotment received = 2,00,000 − 30,000 − 3,400 = **1,66,600**.

W2 Forfeited amount on 800 shares = 3,000 (2,400 + 600); for 600 reissued = 3,000 × 600/800 = 2,250; less discount on reissue 1,200 → **1,050** to capital reserve. Balance in forfeiture A/c for 200 shares not reissued = **750**.

SOLUTION Q4(b) Shares vs debentures

Basis	Shares	Debentures
Nature	Part of ownership capital	Acknowledgement of debt (borrowed capital)
Return	Dividend – appropriation of profit, not fixed for equity	Interest – fixed, a charge against profit
Voting rights	Equity shareholders vote	No voting rights
Security	Unsecured	Usually secured by a charge on assets
Repayment	Only on winding up or buy-back (except redeemable preference shares)	Redeemed after a fixed period
Priority on winding up	After creditors and debenture holders	Before shareholders

SOLUTION Q5 Final accounts of Mr. Sanjay

Trading and Profit and Loss Account for the year ended 31 March 2026

Dr	₹	Cr	₹
To Opening stock	60,000	By Sales 7,20,000 – returns 10,000	7,10,000
To Purchases 4,20,000 – returns 8,000 – drawings 5,000	4,07,000	By Closing stock	85,000
To Wages	36,000		
To Carriage inward	6,000		
To Gross profit c/d	2,86,000		
Total	**7,95,000**	**Total**	**7,95,000**
To Salaries 72,000 + 6,000	78,000	By Gross profit b/d	2,86,000
To Rent 30,000 + 2,500	32,500	By Commission received 6,000 − 1,000	5,000
To Insurance 9,600 − 2,400	7,200	By Discount received	2,000
To Office expenses	14,400		
To Advertisement	18,000		
To Bad debts and provision (W1)	6,900		
To Depreciation – machinery 20,000; furniture 5,000	25,000		
To Interest on loan (1,00,000 × 12% × 6/12)	6,000		
To Net profit transferred to capital	1,05,000		
Total	**2,93,000**	**Total**	**2,93,000**

W1 Bad debts 3,000 + further 2,000 + new provision 5% × (1,20,000 − 2,000) = 5,900 − old provision 4,000 = **6,900**.

Balance Sheet as on 31 March 2026

Liabilities	₹	Assets	₹
Capital 2,04,000 + net profit 1,05,000 − drawings 24,000 − goods 5,000	2,80,000	Machinery 2,00,000 − 20,000	1,80,000
12% bank loan 1,00,000 + interest due 6,000	1,06,000	Furniture 50,000 − 5,000	45,000
Creditors	70,000	Debtors 1,18,000 − provision 5,900	1,12,100
Outstanding salaries	6,000	Closing stock	85,000
Outstanding rent	2,500	Cash at bank	41,000
Commission received in advance	1,000	Prepaid insurance	2,400
Total	**4,65,500**	**Total**	**4,65,500**

SOLUTION Q6(a) Sunshine Club

Income and Expenditure Account for the year ended 31 March 2026

Expenditure	₹	Income	₹
To Salaries 54,000 − 2,000 + 3,000	55,000	By Subscriptions (W1)	1,13,000
To Rent	18,000	By Donations	20,000
To Electricity	9,000	By Entrance fees	10,000
To Printing and stationery	7,000	By Interest 6,000 + accrued 2,000	8,000
To Loss on sale of furniture (6,000 − 4,000)	2,000		
To Depreciation – sports equipment 20% × 1,00,000	20,000		
To Depreciation – furniture 10% × 24,000	2,400		
To Surplus transferred to capital fund	37,600		
Total	**1,51,000**	**Total**	**1,51,000**

W1 Subscriptions received 1,20,000 − for 2024-25 8,000 − for 2026-27 5,000 + outstanding for 2025-26 6,000 = **1,13,000**.

W2 Opening capital fund = cash 15,000 + sports equipment 60,000 + furniture 30,000 + investments 1,00,000 + subscriptions outstanding 8,000 − salaries outstanding 2,000 = **2,11,000**.

Balance Sheet as on 31 March 2026

Liabilities	₹	Assets	₹
Capital fund 2,11,000 + surplus 37,600	2,48,600	Sports equipment 1,00,000 − 20,000	80,000
Subscriptions received in advance	5,000	Furniture 24,000 − 2,400	21,600
Salaries outstanding	3,000	8% investments	1,00,000
		Interest accrued	2,000
		Subscriptions outstanding	6,000
		Cash	47,000
Total	**2,56,600**	**Total**	**2,56,600**

SOLUTION Q6(b) R&P vs I&E

Basis	Receipts and Payments A/c	Income and Expenditure A/c
Nature	Summary of the cash book (real account)	Like a profit and loss account (nominal account)
Basis	Cash basis	Accrual basis
Items	Capital and revenue receipts and payments, of any year	Only revenue items of the current year
Balance	Opening and closing cash/bank	Surplus or deficit
Non-cash items	Not shown (e.g., depreciation)	Shown

SOLUTION Q7(a) Journal of Elite Ltd.

Particulars	Dr ₹	Cr ₹
Bank A/c Dr / To Equity Share Capital 4,00,000 / To Securities Premium 40,000 (issue of 4,000 shares at ₹110)	4,40,000	4,40,000
10% Preference Share Capital A/c Dr 10,00,000 + Premium on Redemption A/c Dr 1,00,000 / To Preference Shareholders A/c	11,00,000	11,00,000
Securities Premium A/c Dr 60,000 + Surplus (P&L) Dr 40,000 / To Premium on Redemption A/c	1,00,000	1,00,000
General Reserve A/c Dr 5,00,000 + Surplus (P&L) Dr 1,00,000 / To Capital Redemption Reserve A/c	6,00,000	6,00,000
Preference Shareholders A/c Dr / To Bank A/c	11,00,000	11,00,000

Working: CRR = nominal value redeemed 10,00,000 − nominal value of fresh issue 4,00,000 = **6,00,000** (general reserve 5,00,000 + surplus 1,00,000). Premium on redemption 1,00,000 is met from securities premium (20,000 existing + 40,000 new = 60,000) and the balance 40,000 from the surplus. Surplus used in total = 1,40,000 (of 1,50,000 available). The premium received on the fresh issue is **not** counted for CRR.

SOLUTION Q7(b) Admission of C

New ratio: C gets 1/4; remaining 3/4 shared 3 : 2 → A 9/20, B 6/20, C 5/20 = **9 : 6 : 5**. Sacrificing ratio = old ratio 3 : 2.

Particulars	Dr ₹	Cr ₹
A's Capital Dr 6,000 + B's Capital Dr 4,000 / To Goodwill A/c (existing goodwill written off in old ratio)	10,000	10,000
Bank A/c Dr / To C's Capital 1,50,000 / To Premium for Goodwill 40,000	1,90,000	1,90,000
Premium for Goodwill A/c Dr / To A's Capital 24,000 / To B's Capital 16,000	40,000	40,000
A's Capital Dr 12,000 + B's Capital Dr 8,000 / To Bank (half withdrawn)	20,000	20,000

SOLUTION Q8(a) Books of original entry

Books in which transactions are **first recorded** in chronological order before posting to the ledger: (1) **Cash book** – cash and bank receipts and payments; (2) **Purchases book** – credit purchases of goods; (3) **Sales book** – credit sales of goods; (4) **Purchases returns (returns outward) book**; (5) **Sales returns (returns inward) book**; (6) **Bills receivable book** – bills received from debtors; (7) **Bills payable book** – bills accepted in favour of creditors; (8) **Journal proper** – all other transactions such as opening and closing entries, adjustment and rectification entries, credit purchase or sale of assets.

SOLUTION Q8(b) Change from WDV to SLM

Carrying amount on 1 April 2025 = 4,00,000 × 0.85 × 0.85 = **2,89,000** (depreciation 60,000 in 2023-24 and 51,000 in 2024-25). SLM depreciation from 2025-26 = (2,89,000 − 20,000) ÷ 8 = **₹33,625 per year**. Under AS 10, a change in the depreciation method is a **change in accounting estimate**: it is applied **prospectively** from the date of change, without recalculating past depreciation, and the effect is disclosed.

SOLUTION Q8(c) Accounting estimates

An **accounting estimate** is an approximation of an amount where precise measurement is not possible, made using judgement based on the latest reliable information. **Examples:** provision for doubtful debts; useful life and residual value of assets (depreciation); provision for warranty claims; net realisable value of obsolete inventory; provision for gratuity or other employee benefits; provision for tax. **Change in estimate:** when circumstances change or new information arises, the estimate is revised; the effect is included in the profit or loss of the **period of change** (and future periods, if affected) – it is **not** a prior-period item and not a change in accounting policy. The nature and amount of a material change is disclosed.