

PAPER – 1 : ADVANCED ACCOUNTING

Answer all questions.

Working notes should form part of the answer.

Question 1

The Balance Sheets of three companies Angle Ltd., Bolt Ltd., and Canopy Ltd., as at 31st December, 2007 are given below:

Liabilities	Angle Ltd. Rs.	Bolt Ltd. Rs.	Canopy Ltd. Rs.
Share capital (Equity shares of Rs.100 each)	15,00,000	10,00,000	6,00,000
Reserves	2,00,000	1,25,000	75,000
Profit and Loss A/c	5,00,000	2,75,000	2,50,000
Sundry creditors	2,00,000	2,50,000	1,00,000
Bills payable	-	-	50,000
Angle Ltd.	-	1,00,000	80,000
	<u>24,00,000</u>	<u>17,50,000</u>	<u>11,55,000</u>
Goodwill	2,50,000	5,80,000	4,50,000
Plant and Machinery	4,00,000	2,50,000	3,25,000
Furniture and Fittings	2,00,000	1,50,000	1,40,000
Shares in-			
Bolt Ltd. (7,500 shares)	9,00,000	-	-
Canopy Ltd. (1,000 shares)	1,50,000		
Canopy Ltd. (3,500 shares)	-	5,20,000	-
Stock in trade	1,00,000	1,50,000	1,60,000
Sundry debtors	1,40,000	70,000	70,000
Bills receivable	50,000	20,000	-
Due from-			
Bolt Ltd.	1,20,000	-	-
Canopy Ltd.	80,000	-	-
Cash in hand	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
Total	<u>24,00,000</u>	<u>17,50,000</u>	<u>11,55,000</u>

(a) All shares were acquired on 1st July, 2006.

(b) On 1st January, 2006, the balances were:

	Angle Ltd. Rs.	Bolt Ltd. Rs.	Canopy Ltd. Rs.
Reserves	1,00,000	1,00,000	50,000
Profit and Loss account	50,000	(50,000)Dr.	30,000
Profit during 2006 were earned evenly over the year	3,00,000	2,50,000	1,00,000

- (c) Each company declared a dividend of 10% in the year 2007 on its shares out of Profits for the year 2006; Angle Ltd. and Bolt Ltd. have credited their Profit and Loss account with the dividends received.
- (d) The increase in reserves in case of Angle Ltd., Bolt Ltd., and Canopy Ltd., was effected in the year 2006.
- (e) All the bills payable appearing in Canopy Ltd.'s Balance Sheet were accepted in favour of Bolt Ltd., out of which bills amounting Rs.30,000 were endorsed by Bolt Ltd., in favour of Angle Ltd.
- (f) Stock with Bolt Ltd. includes goods purchased from Angle Ltd., for Rs.18,000. Angle Ltd., invoiced the goods at cost plus 20%.

Prepare consolidated Balance Sheet of the group as at 31st December, 2007. Working should be part of the answer. Ignore taxation including dividend distribution tax, disclose minority interest as per AS 21. (20 Marks)

Answer

Consolidated Balance Sheet of Angle Ltd. and its subsidiaries

Bolt Ltd and Canopy Ltd

as at 31st December, 2007

Liabilities	Rs.	Assets	Rs.
Share Capital	15,00,000	Goodwill	
(Equity shares of Rs.100 each)		Angle Ltd. 2,50,000	
Minority Interest (W.N. 6)		Bolt Ltd. 5,80,000	
Bolt Ltd.	3,97,396	Canopy Ltd. <u>4,50,000</u>	12,80,000
Canopy Ltd.	<u>2,31,250</u>	Add: Cost of control(W.N.7)	<u>1,55,833</u>
	6,28,646		14,35,833
Reserves	2,16,927	Plant & Machinery	
(2,00,000+14,844+2,083)		Angle Ltd.	4,00,000
Profit and Loss Account (W.N.4)	7,62,260	Bolt Ltd.	2,50,000
		Canopy Ltd.	<u>3,25,000</u>
			9,75,000
Sundry Creditors		Furniture & Fittings	
Angle Ltd. 2,00,000	5,50,000	Angle Ltd.	2,00,000
Bolt Ltd. 2,50,000		Bolt Ltd.	1,50,000
Canopy Ltd. <u>1,00,000</u>		Canopy Ltd.	<u>1,40,000</u>
			4,90,000
Bills Payable	50,000	Stock-in-Trade	
Less: Mutually held	<u>50,000</u>	Angle Ltd.	1,00,000
		Bolt Ltd.	1,50,000
		Canopy Ltd.	<u>1,60,000</u>

	4,10,000	
Less: Provision for unrealised Profit	<u>3,000</u>	4,07,000
Sundry Debtors		
Angle Ltd.	1,40,000	
Bolt Ltd.	70,000	
Canopy Ltd.	<u>70,000</u>	2,80,000
Bills Receivable		
Angle Ltd.	50,000	
Bolt Ltd.	<u>20,000</u>	
	70,000	
Less: Mutually held	<u>50,000</u>	20,000
Cash-in-hand		
Angle Ltd.	10,000	
Bolt Ltd.	10,000	
Canopy Ltd.	<u>10,000</u>	30,000
Cash-in-Transit / Dues from Bolt Ltd. (W.N. 8)		<u>20,000</u>
	<u>36,57,833</u>	<u>36,57,833</u>

Disclosure of Minority Interest in accordance with AS 21

Amount of Equity attributable to minorities on the date of Investment ie. 1.7.2006

	Bolt Ltd	Canopy Ltd.
Share capital	2,50,000	1,50,000
Share in Capital Reserve as on 1.1.06	25,000	12,500
Share in Capital Profits as on 1.1.06	(12,500)	7,500
Share in Capital Profits for the period 1.1.06 to 30.6.06	<u>31,250</u>	<u>12,500</u>
	<u>2,93,750</u>	<u>1,82,500</u>
Total amount of Equity attributable to minorities	4,76,250	

Disclosure in accordance with AS 21

Minority Interest as on 31.12.2007

Amount of equity as on the date of Investment ie. 1.7.2006	4,76,250
Add: Movement in equity and proportionate share of Profit less dividend from the date of Investment upto 31.12.07	<u>1,52,396</u>
	<u>6,28,646</u>

Working Notes:

1. Ascertainment of Profits for the year 2007

	Angle Ltd.	Bolt Ltd.	Canopy Ltd.
	Rs.	Rs.	Rs.
Balance as on 1 st January, 2006	50,000	(50,000)	30,000
Add: Profits earned during 2006	<u>3,00,000</u>	<u>2,50,000</u>	<u>1,00,000</u>
	3,50,000	2,00,000	1,30,000
Less: Dividend Declared	<u>1,50,000</u>	<u>1,00,000</u>	<u>60,000</u>
	2,00,000	1,00,000	70,000
Less: Transfer to Reserve	<u>1,00,000</u>	<u>25,000</u>	<u>25,000</u>
	1,00,000	75,000	45,000
Profit for the year 2007 (Balancing Figure)	<u>4,00,000</u>	<u>2,00,000</u>	<u>2,05,000</u>
Balance as on 31 st December, 2007	<u>5,00,000</u>	<u>2,75,000</u>	<u>2,50,000</u>

2. Undistributed profits for the year 2006

	Bolt Ltd.	Canopy Ltd.
	Rs.	Rs.
Profits for the year 2006	2,50,000	1,00,000
Less: Dividends declared	<u>1,00,000</u>	<u>60,000</u>
	1,50,000	40,000
Less: Transfer to Reserves	<u>25,000</u>	<u>25,000</u>
	<u>1,25,000</u>	<u>15,000</u>

3. Analysis of Profits

	Capital Profits	Revenue Reserve	Revenue Profits
	Rs.	Rs.	Rs.
Canopy Ltd.			
Reserves as on 1 st January, 2006	50,000		
Transfer to Reserve in the year 2006 $[(75,000-50,000)/2]$	12,500	12,500	
Profit & Loss Account			
Balance as on 1 st January, 2006	30,000		
Profit for 2006 remaining undistributed $[(1,00,000-25,000-60,000)/2]$	7,500		7,500
Profit for the year 2007 $(2,50,000-30,000-15,000)$	<u> </u>	<u> </u>	<u>2,05,000</u>
(A)	1,00,000	12,500	2,12,500

Minority Interest [$\frac{1}{4}$ th of (A)]	<u>25,000</u>	<u>3,125</u>	<u>53,125</u>
	75,000	9,375	1,59,375
Share of Angle Ltd. [$\frac{1}{6}$ th of (A)]	<u>16,667</u>	<u>2,083</u>	<u>35,417</u>
Share of Bolt Ltd.	<u>58,333</u>	<u>7,292</u>	<u>1,23,958</u>
Bolt Ltd.			
Reserves as on 1 st January, 2006	1,00,000		
Transfer to Reserves 2006 [(1,25,000-1,00,000)/2]	12,500	12,500	
Profit & Loss Account - Balance (Dr.) as on 1 st January, 2006	(50,000)		
Undistributed Profits for 2006 [(2,50,000-25,000-1,00,000)/2]	62,500		62,500
Share in profits of Canopy Ltd.	58,333	7,292	1,23,958
Profit for the year, 2007 (2,75,000+50,000-1,25,000)	<u> </u>	<u> </u>	<u>2,00,000</u>
(B)	1,83,333	19,792	3,86,458
Less: Minority Interest [$\frac{1}{4}$ th of (B)]	<u>45,833</u>	<u>4,948</u>	<u>96,615</u>
Share of Angle Ltd.	<u>1,37,500</u>	<u>14,844</u>	<u>2,89,843</u>
4. Consolidated Profit and Loss Account of Angle Ltd.			
			Rs.
Profit & Loss Account balance as on 31.12.2007			5,00,000
Add: Share in revenue profits of Canopy Ltd.			35,417
Share in revenue profits of Bolt Ltd.			<u>2,89,843</u>
Less: Pre-acquisition dividend			8,25,260
Angle Ltd. $\frac{1}{2}$ (Rs. 75,000 +Rs. 10,000)		42,500	
Bolt Ltd. ($\frac{1}{2}$ of Rs. 35,000)		<u>17,500</u>	<u>60,000</u>
			7,65,260
Less: Unrealised Profit in Closing Stock (20/120 $\times$ 18,000)			<u>3,000</u>
			<u>7,62,260</u>
5. Consolidated Reserves of Angle Ltd.			
			Rs.
Reserves as on 31.12.2007			2,00,000
Add: Share in revenue reserves of Canopy Ltd.			2,083
Add: Share in revenue reserves of Bolt Ltd.			<u>14,844</u>
			<u>2,16,927</u>
6. Minority Interest			
	Bolt Ltd.	Canopy Ltd.	
	Rs.	Rs.	
Share Capital	2,50,000	1,50,000	
Share of Capital Profits	45,833	25,000	

Share of Revenue Reserves	4,948	3,125
Share of Revenue Profits	<u>96,615</u>	<u>53,125</u>
Total	<u>3,97,396</u>	<u>2,31,250</u>
Grand total		<u>6,28,646</u>
7. Cost of Control/Goodwill		
	Rs.	Rs.
Cost of investments (9,00,000+1,50,000+5,20,000)		15,70,000
Less: Dividend Attributable to Pre-Acquisition Profits for 6 months i.e. [(75,000+45,000)/2]		<u>60,000</u>
		15,10,000
Less: Face value of Shares		
Bolt Ltd.	7,50,000	
Canopy Ltd.	4,50,000	
Capital Profits		
Bolt Ltd.	1,37,500	
Canopy Ltd.	<u>16,667</u>	<u>13,54,167</u>
Goodwill		<u>1,55,833</u>
8 Cash in Transit /Dues from Bolt Ltd.		
	Rs.	Rs.
(i) Due to Angle Ltd.		
From Bolt Ltd.	1,20,000	
From Canopy Ltd.	<u>80,000</u>	2,00,000
(ii) Due by Angle Ltd.		
To Bolt Ltd.	1,00,000	
To Canopy Ltd.	<u>80,000</u>	<u>1,80,000</u>
		<u>20,000</u>

Question 2

The following are the Balance Sheets of Andrew Ltd. and Barry Ltd., as at 31.12.2007:

Andrew Ltd.

(in Rs.'000s)

Liabilities		Assets	
Share capital		Fixed assets	3,400
3,00,000 Equity shares of Rs.10 each	3,000	Stock (pledged with secured loan creditors)	18,400

10,000 Preference shares of Rs.100 each	1,000	Other Current assets	3,600
		Profit and Loss account	16,600
General reserve	400		
Secured loans (secured against pledge of stocks)	16,000		
Unsecured loans	8,600		
Current liabilities	13,000		
	<u>42,000</u>		<u>42,000</u>

Barry Ltd.

(in Rs.'000s)

Liabilities		Assets	
Share capital		Fixed assets	6,800
1,00,000 Equity shares of Rs.10 each	1,000	Current assets	9,600
General reserve	2,800		
Secured loans	8,000		
Current liabilities	4,600		
	<u>16,400</u>		<u>16,400</u>

Both the companies go into liquidation and Charlie Ltd., is formed to take over their businesses.

The following information is given:

- (a) All Current assets of two companies, except pledged stock are taken over by Charlie Ltd. The realisable value of all Current assets are 80% of book values in case of Andrew Ltd. and 70% for Barry Ltd. Fixed assets are taken over at book value.
- (b) The break up of Current liabilities is as follows:

	Andrew Ltd. Rs.	Barry Ltd. Rs.
Statutory liabilities (including Rs.22 lakh in case of Andrew Ltd. in case of a claim not having been admitted shown as contingent liability)	72,00,000	10,00,000
Liability to employees	30,00,000	18,00,000

The balance of Current liability is miscellaneous creditors.

- (c) Secured loans include Rs.16,00,000 accrued interest in case of Barry Ltd.

- (d) 2,00,000 equity shares of Rs.10 each are allotted by Charlie Ltd. at par against cash payment of entire face value to the shareholders of Andrew Ltd. and Barry Ltd. in the ratio of shares held by them in Andrew Ltd. and Barry Ltd.
- (e) Preference shareholders are issued Equity shares worth Rs.2,00,000 in lieu of present holdings.
- (f) Secured loan creditors agree to continue the balance amount of their loans to Charlie Ltd. after adjusting value of pledged security in case of Andrew Ltd. and after waiving 50% of interest due in the case of Barry Ltd.
- (g) Unsecured loans are taken over by Charlie Ltd. at 25% of Loan amounts.
- (h) Employees are issued fully paid Equity shares in Charlie Ltd. in full settlement of their dues.
- (i) Statutory liabilities are taken over by Charlie Ltd. at full values and miscellaneous creditors are taken over at 80% of the book value.

Show the opening Balance Sheet of Charlie Ltd. Workings should be part of the answer.

(16 Marks)

Answer

Balance sheet of Charlie Ltd. as at 31st December, 2007

		(in Rs. '000s)	
Liabilities	Rs.	Assets	Rs.
Share Capital		Goodwill (W.N.4)	9,470
Authorised		Other Fixed Assets (3,400 + 6,800)	10,200
Shares of Rs.10 each		Current Assets(2,880 + 6,720)	9,600
Issued, subscribed & Paid up:		Cash at Bank	2,000
7,00,000 equity shares of Rs.10	7,000		
each, fully paid up (W.N. 5)			
(of the above 5,00,000 shares			
have been issued for			
consideration other than cash)			
Secured loans (1,280 + 7,200)	8,480		
Unsecured Loans (25% of 8,600)	2,150		
Current Liabilities			
(7,200 + 1,000 + 4,000 +1,440))	13,640		
	<u>31,270</u>		<u>31,270</u>

Working Notes:

1. Value of miscellaneous creditors taken over by Charlie Ltd. (in Rs. '000s)
- | | | |
|------------------------|-------------|------------|
| | Andrew Ltd. | Barry Ltd. |
| | Rs. | Rs. |
| Given in balance sheet | 13,000 | 4,600 |

Less: Statutory liabilities	5,000	1,000
Liability to employees	<u>3,000</u>	<u>1,800</u>
Miscellaneous creditors	<u>5,000</u>	<u>1,800</u>
80% thereof	<u>4,000</u>	<u>1,440</u>
2. Value of total liabilities taken over by Charlie Ltd.		
	Andrew Ltd.	Barry Ltd.
	Rs.	Rs.
Current liabilities		
Statutory liabilities	7,200	1,000
Liability to employees	3,000	1,800
Miscellaneous creditors (W.N.1)	<u>4,000</u>	<u>1,440</u>
Secured loans		
Given in Balance sheet	16,000	8,000
Interest waived	-	<u>800</u>
Value of Stock	<u>14,720</u>	
(80% of Rs.184 lakhs)	1,280	
Unsecured Loans		
(25% of Rs. 86 lakhs)	<u>2,150</u>	-
	<u>17,630</u>	<u>11,440</u>
3. Assets taken over by Charlie Ltd.		
	Andrew Ltd.	Barry Ltd.
	Rs.	Rs.
Fixed Assets (Assumed on book value basis)	3,400	6,800
Current Assets 80% and 70% respectively of book value	<u>2,880</u>	<u>6,720</u>
	<u>6,280</u>	<u>13,520</u>
4. Goodwill / Capital Reserve on amalgamation		
Liabilities taken over (W.N. 2)	17,630	11,440
Equity shares to be issued to Preference Shareholders	<u>200</u>	-
	A 17,830	11,440
Less: total assets taken over (W.N. 3)	B <u>6,280</u>	<u>13,520</u>
	A-B 11,550	(2,080)
	Goodwill	Capital Reserve
Net Goodwill	9,470	

5. Equity shares issued by Charlie Ltd.

		Number
(i) For Cash		200000
For consideration other than cash		
(ii) In Discharge of Liabilities to Employees	4,80,000	
(iii) To Preference shareholders	<u>20,000</u>	<u>5,00,000</u>
		<u>7,00,000</u>
Value of shares	Rs.10x 7,00,000= Rs. 70 Lakhs	

Question 3

- (a) From the following information of Beta Ltd. calculate Earning Per Share (EPS) in accordance with AS-20:

		(Rs.)
	Year	Year
	31.3.08	31.3.07
1. Net profit before tax	3,00,000	1,00,000
2. Current tax	40,000	30,000
Tax relating to earlier years	24,000	(13,000)
Deferred tax	<u>30,000</u>	<u>10,000</u>
3. Profit after tax	<u>2,06,000</u>	<u>73,000</u>
4. Other information:		
(a) Profit includes compensation from Central Government towards loss on account of earthquake in 2005 (non-taxable)	1,00,000	NIL
(b) Outstanding convertible 6% Preference shares 1,000 issued and paid on 30.9.2006. Face value Rs.100, Conversion ratio 15 equity shares for every preference share.		
(c) 15% convertible debentures of Rs.1,000 each total face value Rs.1,00,000 to be converted into 10 Equity shares per debenture issued and paid on 30.6.2006.		
(d) Total no. of Equity shares outstanding as on 31.3.2008, 20,000 including 10,000 bonus shares issued on 1.1.08, face value Rs.100.		

- (b) From the following details in respect of loan funds of Excellent School of Management for 2007-08, prepare a statement showing changes in fund balance during the year:

	Rs.
Fund balance at the end of the year	30,30,000
Loan fund matching grant from revenues funds	30,000
Private and Government grants	11,00,000

Other transfers from unrestricted revenue funds	1,50,000
Interest on loans	60,000
Investment income	35,000
Loan cancellations and write offs	15,000
Refunded to grantors	60,000
Administrative and Collection costs	25,000
	(8 + 8 = 16 Marks)

Answer

(a) Calculation of Earning Per Share (EPS) of Beta Ltd.

	Rs. Year ended 31.3.08	Rs. Year ended 31.3.07
1. A Earning after extra ordinary items (2,06,000 – 6,000) (73,000 – 3,000)	2,00,000	70,000
B. No. of Equity Shares	20,000	20,000
C. Basic Earnings Per share [A/B]	10.00	3.50
A. Earning before extra ordinary items	1,00,000	70,000
B. No. of Equity Shares	20,000	20,000*
C. Basic Earnings Per share [A/B]	5.00	3.50
2. Tax Rate applicable		
40,000 + 30,000/2,00,000	35%	
30,000 + 10,000/1,00,000		40%
3. A. Dividend on Weighted Average Preference Shares	6,000	3,000
B. Incremental shares	15,000	7,500
C. EPS on Incremental Shares [A/B]	0.40	0.40
	(dilutive)	(dilutive)
4. Convertible Debentures		
A. Increase in earnings		
$(1,00,000 \times \frac{15}{100} \times .65)$	9,750	

* Since the bonus issue is without consideration, the issue is treated as if it had occurred prior to the beginning of the year 2007.

	$1,00,000 \times \frac{15}{100} \times .60 \times \frac{9}{12}$	6,750
B. Increase in shares	1,000	750
C. Increase in EPS [A/B]	9.75	9.00
	(Anti dilutive)	(Anti dilutive)

It is anti-dilutive as it increases the EPS from continuing ordinary operations (Para 39, AS 20)

<u>Calculation of Diluted EPS</u>	Year ended 31.3.08 Rs.	Year ended 31.3.07 Rs.
A. Profit from continuing ordinary activities before Preference Dividend	1,06,000	73,000
No. of ordinary equity shares	20,000	20,000
Adjustment for dilutive potential of 6% convertible pref. shares	<u>15,000</u>	<u>7,500</u>
B. Total no. of shares	<u>35,000</u>	<u>27,500</u>
C. Diluted EPS from continuing ordinary operations [A/B]	3.02	2.65
D. Profit including extra ordinary items	2,06,000	73,000
E. Adjusted No. of shares	35,000	27,500
F. Diluted EPS including extra ordinary items [D/E]	5.88	2.65

Disclosure of EPS in accordance with AS 20 in the Profit and Loss Account

<u>Earning per share (Face value Rs.100)</u>	31.3.08 (Rs.)	31.3.07 (Rs.)
Basic EPS from continuing ordinary operations	5.00	3.50
Diluted EPS from continuing ordinary operations	3.02	2.65

(b) **Excellent School of Management**
Statement of Changes - Loan Funds

	Rs.
(i) Fund Balance at the beginning of the year (Balancing Figure – Refer Working Note)	17,55,000
(ii) Additions during 2007-08	
Private and Government Grants	11,00,000
Interest on loans	60,000
Investment Income	<u>35,000</u>
	<u>11,95,000</u>

(iii)	Deductions during 2007-08	
	Loan cancellations and write offs	15,000
	Refunded to Grantors	60,000
	Administrative and Collection Costs	<u>25,000</u>
		<u>1,00,000</u>
(iv)	Transfer from other funds during 2007-08	
	Loan fund Matching Grant	30,000
	Other transfers from unrestricted Revenue Funds	<u>1,50,000</u>
		<u>1,80,000</u>
(v)	Net Additions [(ii)- (iii)+ (iv)]	12,75,000
(vi)	Fund Balance at the end of the year	30,30,000
	Working Note:	
	Fund Balance at the end of the year	30,30,000
	Less: Net Additions	<u>12,75,000</u>
	Fund Balance at the beginning of the year	<u>17,55,000</u>

Question 4

- (a) From the following Profit and Loss account of New Mode Reporting Ltd., prepare a gross value added statement for the year ended 31st December, 2007. Show also the reconciliation between GVA and Profit before taxation:

Profit and Loss Account			
		Rs.'000s	Rs.'000s
Income			
Sales		12,480	
Other income		<u>110</u>	12,590
Expenditure			
Production and Operational expenditure		8,640	
Administrative expenses		360	
Interest and other charges		1,248	
Depreciation		<u>32</u>	<u>10,280</u>
Profit before tax			2,310
Less: Provision for tax			<u>110</u>
Profit after tax			2,200
Add: balance as per last Balance Sheet			<u>120</u>
			2,320

Less: Transfer to Fixed assets replacement Reserve	800	
Dividend paid	<u>320</u>	<u>1,120</u>
Surplus carried to Balance Sheet		<u>1,200</u>

Additional information:

- (i) Production and Operational expenses consists of

	Rs.
Consumption of Raw materials	64,20,000
Consumption of Stores	80,000
Local tax	16,000
Salaries to Administrative staff	12,40,000
Other Manufacturing expenses	8,84,000

- (ii) Administrative expenses include salaries and commission to directors – Rs.10,000

- (iii) Interest and other charges include-

	Rs.
(a) Interest on bank overdraft (overdraft is of temporary nature)	2,18,000
(b) Fixed loan from SIDBI	1,02,000
(c) Working capital loan from IFCI	40,000
(d) Excise duties	?

- (iv) Excise duties amount to one-tenth of total value added by manufacturing and trading activities.

- (b) Anisshit Finance Ltd. is a non-banking finance company. It makes available to you the costs and market price of various investments held by it as on 31.3.2008:

		(Figures in Rs. Lakhs)	
		Cost	Market Price
Scripts:			
A.	Equity Shares-		
	A	60.00	61.20
	B	31.50	24.00
	C	60.00	36.00
	D	60.00	120.00
	E	90.00	105.00
	F	75.00	90.00
	G	30.00	6.00

B.	Mutual funds-		
	MF-1	39.00	24.00
	MF-2	30.00	21.00
	MF-3	6.00	9.00
C.	Government securities-		
	GV-1	60.00	66.00
	GV-2	75.00	72.00
(i)	Can the company adjust depreciation of a particular item of investment within a category?		
(ii)	What should be the value of investments as on 31.3.2008?		
(iii)	Is it possible to off-set depreciation in investment in mutual funds against appreciation of the value of investment in equity shares and government securities?		

(10 + 6= 16 Marks)

Answer

(a) New Mode Reporting Ltd.
Value Added Statement
for the year ended 31st December, 2007

		(Figures in Rs.'000)	
Sales			12,480
Less:	Cost of Materials and Services:		
	Production and Operational Expenses (8,640 – 16-1,240)	7,384	
	Administrative Expenses (360 – 10)	350	
	Interest on Bank Overdraft	218	
	Interest on Working Capital Loan	40	
	Excise Duties (Refer to working note)	360	
	Other/miscellaneous charges (888 – 360)	<u>528</u>	8,880
	Value added by manufacturing and trading activities		<u>3,600</u>
Add:	Other Income		<u>110</u>
	Gross value added from operations		<u>3,710</u>

Application of Gross Value Added

	Rs. in '000	Rs.in'000	%
To Pay Employees:			
Salaries to Administrative Staff		1240	33.42
To Pay Directors:			
Salaries and Commission		10	0.27
To Pay Government:			

	Local Taxes	16		
	Income Tax	<u>110</u>	126	3.40
To	Pay Providers of Capital:			
	Interest on Fixed Loan	102		
	Dividend	<u>320</u>	422	11.37
To	Provide for maintenance and expansion of the company:			
	depreciation	32		
	Fixed Assets Replacement Reserve	800		
	Retained Profit (1200 – 120)	<u>1080</u>	<u>1912</u>	<u>51.54</u>
			<u>3,710</u>	<u>100.00</u>

Reconciliation between Gross Value added and Profit Before Taxation

			Rs.in'000
Profit before Tax			2,310
Add Back: Depreciation	32		
Salaries to Administrative Staff	1240		
Directors' Salaries and Commission	10		
Interest on Fixed Loan	102		
Local Tax	<u>16</u>		<u>1400</u>
Total value added			<u>3710</u>

Working Note:

Calculation of excise duty	Rs.'000	Rs.'000
Interest and other charges		1,248
Less: Interest on bank overdraft	218	
Interest on SIDBI loan	102	
Interest on IFCI loan	<u>40</u>	<u>360</u>
Excise duty and other charges		<u>888</u>

Assuming that these other /miscellaneous charges will be deducted for arriving at the value added, the excise duty will be calculated as follows:-

Let Excise Duties be denoted by - E

Then, other charges = 888 - E

Excise duty are $\frac{1}{10}$ th of value added

Hence $E = \frac{1}{10} [12,480 - \{7,384 + 350 + 218 + 40 + E + (888 - E)\}]$

$= \frac{1}{10} [12,480 - 8,880]$

$= \frac{1}{10} \times 3,600 = 360$

Other/miscellaneous charge $888 - 360 = \text{Rs.}528$

The above solution has been given accordingly.

Alternatively, if other/miscellaneous charges are considered as application of value added (i.e., not deducted for deriving the value added), calculation of Excise Duties (E) will be as follows:

$$E = \frac{1}{10} [12,480 - (7,384 + 350 + 218 + 40 + E)]$$

$$E = \frac{1}{10} \times (4,488 - E)$$

$$11E = 4,488$$

$$E = \text{Rs.} 408$$

And thus other/miscellaneous charges will be Rs.888 – 408 = Rs.480

Gross Value added in this case will be Rs. 4,080 + 110 (Other income) = Rs.4,190

And accordingly, application part will be prepared after taking other/miscellaneous charges.

- (b) (i) Quoted current investments for each category shall be valued at cost or market value, whichever is lower. For this purpose, the investments in each category shall be considered scrip-wise and the cost and market value aggregated for all investments in each category. If the aggregate market value for the category is less than the aggregate cost for that category, the net depreciation shall be provided for or charged to the profit and loss account. If the aggregate market value for the category exceeds the aggregate cost for the category, the net appreciation shall be ignored. Therefore, depreciation of a particular item of investments can be adjusted within the same category of investments.
- (ii) Value of Investments as on 31.3.2008

Type of Investment	Valuation Principle	Value Rs.in lakhs
Equity Shares (Aggregated)	Lower of cost or market Value	406.50
Mutual Funds	NAV (Market value, assumed)	54.00
Government securities	Cost	135.00
		<u>595.50</u>

As per para 14 of AS 13 "Accounting for Investments", the carrying amount for current investments is the lower of cost and market price. Sometimes, the concern of an enterprise may be with the value of a category of related current investments and not with each individual investment, and accordingly, the investments may be computed at the lower of cost and market value computed categorywise.

- (iii) Inter category adjustments of appreciation and depreciation in values of investments cannot be done. It is not possible to offset depreciation in investment in mutual funds against appreciation of the value of investments in equity shares and Government securities.

Question 5

- (a) Golden Eagle Ltd., has been successful jewellers for the past 100 years and sales are against cash only. The company diversified into apparels. A young senior executive was put in charge of Apparels business and sales increased 5 times. One of the conditions for sales that dealers can return the unsold stocks within one month of the end of season. Sales return for the year was 25% of sales. Suggest a suitable Revenue Recognition Policy with references to AS-9.
- (b) Discuss the concept of Cost v/s Fair value with reference to Indian Accounting Standards.
- (c) Why Human Resources Asset is not recognised in the Balance sheet?
- (d) A company has a scheme for payment of settlement allowance to retiring employees. Under the scheme, retiring employees are entitled to reimbursement of certain travel expenses for class they are entitled to as per company rule and to a lump-sum payment to cover expenses on food and stay during the travel. Alternatively employees can claim a lump sum amount equal to one month pay last drawn.

The company's contentions in this matter are:

- (i) Settlement allowance does not depend upon the length of service of employee. It is restricted to employee's eligibility under the Travel rule of the company or where option for lump-sum payment is exercised, equal to the last pay drawn.
- (ii) Since it is not related to the length of service of the employees, it is accounted for on claim basis.

State whether the contentions of the company are correct as per relevant Accounting Standard. Give reasons in support of your answer. (4 x 4= 16 Marks)

Answer

- (a) As per AS 9 "Revenue recognition", revenue recognition is mainly concerned with the timing of recognition of revenue in statement of profit and loss of an enterprise. The amount of revenue arising on a transaction is usually determined by the agreement between the parties involved in the transaction. When uncertainties exist regarding the determination of the amount, or its associated costs, these uncertainties may influence the timing of revenue recognition.

In the case of the Jewellery Business the company is selling for cash and returns are negligible. Hence, revenue can be recognized on sales. On the other hand, in Apparels Industry, the dealers have a right to return the unsold goods within one month of the end of the season. In this case, the company is bearing the risk of sales return and therefore, the company should not recognize the revenue to the extent of 25% of its sales. The company may disclose suitable revenue recognition policy in its financial statements separately for both Jewellery and Apparels business.

(b) Cost vs. Fair value

Cost basis: The term cost refers to cost of purchase, costs of conversion on other costs incurred in bringing the goods to its present condition and location. Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

Fair value: Fair value of an asset is the amount at which an enterprise expects to exchange an asset between knowledgeable and willing parties in an arm's length transaction.

Indian Accounting Standards are generally based on historical cost with a very few exceptions:

AS 2 "Valuation of Inventories" – Inventories are valued at net realizable value (NRV) if cost of inventories is more than NRV.

AS 10 "Accounting for Fixed Assets" – Items of fixed assets that have been retired from active use and are held for disposal are stated at net realizable value if their net book value is more than NRV.

AS 13 "Accounting for Investments" – Current investments are carried at lower of cost and fair value. The carrying amount of long term investments is reduced to recognise the permanent decline in value.

AS 15 "Employee Benefits" – The provision for defined benefits is made at fair value of the obligations.

AS 26 "Intangible Assets" – If an intangible asset is acquired in exchange for shares or other securities of the reporting enterprise, the asset is recorded at its fair value, or the fair value of the securities issued, whichever is more clearly evident.

AS 28 "Impairment of Assets" – Provision is made for impairment of assets.

On the other hand IFRS and US GAAPs are more towards fair value. Fair value concept requires a lot of estimation and to the extent, it is subjective in nature.

(c) Although human beings are considered as the prime mover for achieving productivity, and are placed above technology, equipment and money, the conventional accounting practice does not assign significance to the human resources. Human resources are not recognized in balance sheet as there are no measurement criteria for recognition of human resources. Human resource accounting is at developing stage and no accounting principles have been established for valuation of human assets. Costs incurred on human resources are recognised as expenses in profit and loss account. Leading public sector units like OIL, BHEL, NTPC and SAIL etc. have started reporting human resources in their annual reports as additional information.

- (d) The present case falls under the category of defined benefit scheme under Para 49 of AS 15 (Revised) "Employee Benefits". The said para encompasses cases where payment promised to be made to an employee at or near retirement presents significant difficulties in the determination of periodic charge to the statement of profit and loss. The contention of the Company that the settlement allowance will be accounted for on claim basis is not correct even if company's obligation under the scheme is uncertain and requires estimation. In estimating the obligation, assumptions may need to be made regarding future conditions and events, which are largely outside the company's control. Thus,
- (1) Settlement allowance payable by the company is a defined retirement benefit, covered by AS 15 (Revised).
 - (2) A provision should be made every year in the accounts for the accruing liability on account of settlement allowance. The amount of provision should be calculated according to actuarial valuation.
 - (3) Where, however, the amount of provision so determined is not material, the company can follow some other method of accounting for settlement allowances.

Question 6

- (a) XYZ Ltd., with a turnover of Rs.35 lakhs and borrowings of Rs.10 lakhs during any time in the previous year, wants to avail the exemptions available in adoption of Accounting Standards applicable to companies for the year ended 31.3.2008. Advise the management the exemptions that are available as per Companies (AS) Rules, 2006.

If XYZ is a partnership firm is there any other exemptions additionally available. (8 Marks)

- (b) Briefly explain any two of the following terms:

- (i) IFRS
- (ii) NACAS
- (iii) Convergence of Accounting Standards with IFRS. (2x4= 8 Marks)

Answer

- (a) XYZ Ltd. is a small and medium sized enterprise (SME) company as per Companies (AS) Rules, 2006. The following relaxations and exemptions are available.
1. AS 3 "Cash Flow Statements" is not mandatory.
 2. AS 17 "Segment Reporting" is not mandatory.
 3. SMEs are exempt from some paragraphs of AS 19 "Leases".
 4. SMEs are exempt from disclosures of diluted EPS (both including and excluding extraordinary items).
 5. SMEs are allowed to measure the 'value in use' on the basis of reasonable estimate thereof instead of computing the value in use by present value technique under AS 28 "Impairment of Assets".

6. SMEs are exempt from disclosure requirements of paragraphs 66 and 67 of AS 29 "Provisions, Contingent Liabilities and Contingent Assets".
7. SMEs are exempt from certain requirements of AS 15 "Employee Benefits".
8. Accounting Standards 21, 23, 27 are not applicable to SMEs.

If XYZ is not a company, it will be treated as a level III enterprise instead of level II enterprise; XYZ Ltd. will be exempt from requirements of AS 18 "Related Party Disclosures" and AS 24 "Discontinuing Operations".

- (b) (i) IFRS: The term IFRS refers to the International Financial Reporting Standards issued by International Accounting Standard Board (IASB). It also encompasses the International Accounting Standards (IAS) issued by the International Accounting Standard Committee (IASC). Interpretations of IASs and IFRSs are developed by the International Financial Reporting Interpretations Committee (IFRIC). IFRIC is the new name for the Standing Interpretations Committee (SIC) approved by the IASC Foundation Trustees in March 2002. IFRS includes these interpretations also.
- (ii) NACAS: Under Section 210 A of the Companies Act 1956, the Central Government, by notification, has constituted a committee to advise the Central Government on the formulation of accounting policies and accounting standards for adoption by companies or class of companies specified under the Act. Based on the recommendations of NACAS, the Central Government has notified AS 1 to AS 7 and AS 9 to AS 29 in Dec. 2006 in the form of Companies (Accounting Standards) Rules, 2006.
- (iii) Convergence of Accounting Standards with IFRS: In general, convergence of Accounting Standards (AS) with International Financial Reporting Standards (IFRS) means to achieve harmony with IFRS. The term convergence can be considered as "to design and maintain national accounting standards in a way that financial statements prepared in accordance with national AS are in convergence with IFRS". IAS I require financial statements to comply with all requirements of IFRS. This does not mean that IFRS should be adopted word by word. The local standard setters can add disclosure requirements or can remove some requirements which do not create non compliance with IFRS. Thus, convergence with IFRS means adoption of IFRS with exceptions wherever necessary.