

- ADVANCED ACCOUNTING
- THEORY QUESTIONS
- BULLET POINTS FOR REVISION

Chapter 2 – COMPANY ACCOUNTS
Chapter – 2, Unit 1 – Statutory Financial Statements

Question: 1

What are the limitation of Financial Statements?

Answer: 1

- (a) Financial statements provide mostly historical data since its elements like assets & liabilities etc are measured mostly using historical cost.
- (b) In India financial statements are prepared recognizing legal form of the transactions and ignoring the substance.
- (c) They are essentially based on going concern assumption, the applicability of which may sometimes be highly illogical & misleading.
- (d) They don't reflect and include a cash flow report to explain movement of cash.
- (e) They are over generatised as sometimes interests of different sectors may be conflicting in nature.
- (f) It can't be understood by all.
- (g) It doesn't show all information at one place as they may also be given in notes & explanation.
- (h) It different companies follow different accounting policies comparison becomes different.

Question: 2

What are the advantages of Vertical Financial Statements?

Answer: 2

- (a) Financial position can be readily comprehended by a layman.
- (b) Profit & loss A/c. clearly shows amount of Trading / Non Trading profit earned during the year, previous year B/F figures and appropriation proposed by directors.
- (c) It clearly shows amount of debt by shareholders equity and correspondence position of assets regegrated into FA and WC.

Chapter – 2, Unit 3 – Best Presented Accounts

Question: 1

What are the conditions for entry to the annual competition for the Best Presented Accounts?

Answer: 1

- (a) The entities are divided into 4 categories:-
 - (i) Category I – Includes all non financial public/joint sector companies an also non financial statutory corporations.
 - (ii) Category II – It includes all non financial private / joint sector.
 - (iii) Category III – Include financial institutions, banks and financial companies in both public, private & joint sectors.
 - (iv) Category IV – it includes entities like Port Trusts, Municipal Corporation, Public Utilities not reqd under the Company Accounts, Co.-operative solution.

- (b) Awards are as follows:-
Category I - A silver (First) shield & one plaque (2nd highly commended)
Category II - - do -
Category III - A silver shield for Best Present Accounts
Category IV - A plaque for the Best Presented Accounts.
- (c) Accounts should relate to any day between 1st April and 31st March of next year.
- (d) Six copies of the specified documents has to be sent before the specified date.
- (e) Cyclostyled copies of Accounts & Reports wont be accepted except far those covered under category IV.
- (f) Decision taken by the panel of judges appointed by the institute in their regard will be final.

Question: 2

Important factors generally considered for the Award of shields and plaque for the Best Presented Accounts.

- (a) Compliance with the legal requirements in the preparation and presentation of financial statements as specified by the relevant statutory
- (b) Basic quality of Accounts as judged from the qualification of auditors in their reports etc & compliance with reference to other AS, SAP, Guidance Notes etc given by the ICAI.
- (c) The nature quality of information presented in the accounts to make the disclosure meaningful.
- (d) How information one directors report and / or chairman's statements.
- (e) The quality of printing and general presentation.

Chapter – 2, Unit –4 Accounting for Amalgamations.

Question: 1

Define the term Amalgamation.

Answer: 1

Amalgamation is blending of two or more existing undertakings into one undertaking, the shareholders of each blending company becoming substantially the shareholders in the company which is to carry blended undertakings. There may be (shareholders in the company) amalgamation either by the transfer of 2 or more undertakings to an existing company. The term amalgamation contemplates not only state of things in which too companies are so joined as to form a new company but also the absorption & blending of one by the other.

Question: 2

Explain the types of Amalgamation.

Answer: 2

Basically there are 2 types of Amalgamation namely

- (i) Amalgamation in the nature of merger where there is genuine pooling not merely in Assets & Liabilities but also in share holders interests of business of these companies. The following conditions are a pre requisite.
- (a) All assets & liabilities of transferor company become after amalgamation assets & liabilities of the transferee company respectively.

- (b) Shareholder holder holding not < 90% of the FV of the equity shares of the transferor Co. become equity share holder of the transferee Co. after amalgamation.
 - (c) The consideration for the amalgamation is discharged by the transferee wholly by issue of equity shares, except that cash may be paid in respect of any fractional shares.
 - (d) The business of transferor is intended to be carried on after the annual generation by the transferee company.
 - (e) All assets and liabilities are to be taken over at Book Values except to ensure uniformity of Accounting policies.
- (ii) Amalgamation in the nature of purchases. Those amalgamations which don't satisfy any one or more of the conditions specified in (a) through (c) above are known as Amalgamation in the nature of purchases.

Question: 3

List down the methods of Accounting for Amalgamation.

Answer : 3

- (a) The pooling of Interests Methods and
- (b) The Purchase method.

Chapter – 2, Unit – 5 Corporate Restructuring

Question: 1

What are the different methods of Restructuring?

Answer : 1

Restructuring can be broadly classified into:

- (a) **External Restructuring**:- This uniform is further classified into → (I) Asset Based (Portfolio) restructuring and (ii) Financial or Capital restructuring.
- (b) **Internal Restructuring**:- This is twin is further divided into (I) portfolio restructuring and (ii) Organisational restructuring.

Its to be noted that Asset Based restructuring is of vital importance as it includes the following:-

- (1) Mergers and Acquisitions (M & A)
- (2) Divestitures and Asset – Swap.
- (3) Demergers or spin-offs.

Chapter 3 – Unit 2 – Valuation of Business

Question: 1

What is the need for valuation of Business?

Answer: 1

The following represent the need for business valuation –

- (a) In Merger & Take overs valuation of business plays a key role for setting the purchase consideration and value of proportion that is taken over respectively.
- (b) In the case of sale of business it's needed to fix up the bargaining limit.
- (c) At the time of liquidation it's needed to determine the amount which the shareholders would get on liquidation.

Question: 2

What valuation box should you adopt while valuing a business as going concern?

Answer: 2

Under the going concern approach it is important to understand what benefit the business is able to generate in future out of its existing stock of exists although value of existing assets is not ignored by the accountants.

Question: 3

What are the different valuation method under a going concern concept?

Answer: 3

- (i) Historical cost valuation
- (ii) Current cost valuation
- (iii) Economic valuation
- (iv) Asset valuation

Question: 4

Explain briefly the relative advantage and disadvantages of valuation of business following economic valuation or

- (i) Capitalisation of future maintainable Profit
- (ii) P.V of future earnings
- (iii) PV of future cash flows.

Answer: 4

The following are the advantage & disadvantage of the above mentioned methods of economic valuation.

Advantage:-

- (i) Its may logical and based on scientific principle.
- (ii) If inputs are accurate then it can provide very accurate results.
- (iii) Its simple to calculate and easy to understand.

Disadvantage:-

- (i) Difficulties involved in estimating future cash flows.
- (ii) Subjectivity involved in choice of the future period for which cash flows to be estimated.
- (iii) Subjectivity is involved in the selection of discount rate.

Question: 5

Why does valuation of business differ if done in isolation compared to that when done in combination of another business? What is meant by value of control?

Answer: 5

- (a) Main difference between the value of a business in isolation & that of a combination of another business is the value of voting control.
- (b) The value of control is the present value of the change in cash flows which will be realised – from exercising control.
- (c) Controlling interests enable the owner of that interest to arrange the affairs of the business in a way that best suits his own circumstances.

Chapter – 3 Unit – 3 Valuation of Goodwill

Question: 1

Define goodwill & distinguish between purchased & interested G/W.

Answer: 1

In the words of Lord Macnaughton (In IRC Vs Muller 1991) – “Goodwill is a thing very easy of disoule, very difficult to define. In the benefit and advantage of the good name, reputation & connection of a business. In the attractive force which bring in customers. Its one thing which distinguishes an old established business from a new business at its first start.”

- It can arise to two ways. It could be either generate internally or he inherent to the business known as inherent goodwill.
- It may also be acquired while purchasing any concern in the excess of fair value of the purchase consideration over the fair value of the separable net assets acquired.

Question: 2

Describe briefly the contributing factor of goodwill.

Answer: 2

Inherent & Purchased Goodwill	Purchased goodwill only
(a) Superior Management Team	Market dominance
(b) O/s Sales manage or organisation	Economic of seals, (Production, Advantage etc.)
(c) Weakness in the management of competitor	Cost solving
(d) Effective advertisement	Cost of financing
(e) Secret or patented manufacturing	Fiscal advantages
(f) Good labour relations	Strong liquid resources
(g) O/S credit rating	Preliminary expense savings
(h) Good public image	Ability to guarantee suppliers
(i) Favourable tax conditions	Ability to guarantee market
(j) Discovery of talent or resources	Cost of acquisition
(k) Excellent reputation for quality and reliability of products	Opinion of acquirer's directors as to future policy of acquires.

Question: 3

Discuss various methods of goodwill valuation.

Answer: 3

Basically there are two accounting methods for goodwill valuation namely capitalisation method of super profit method. A third method called annuity method is a refine mat of the super profit method of goodwill valuation.

- (a) **Capitalisation method**: - Future maintainable profit is capitalised applying normal rate of return to arrive at the normal capital employed goodwill is excess of normal capital employed over the actual capital employed.

Goodwill = Normal capital employed – Actual closing capital employed

Normal Capital Employed $\Rightarrow$ FMP / Normal rate of return.

- (b) **Super profit Method**: - Excess of FMP over normally expected profit is called super profit. Here G/W is taken as the aggregate super profit of the future years for which super profit is expected to be maintained.

G/W = Super Profit x No. of years

Where Super Profit = FMP – (Actual Capital Employed x Normal Rate of Return).

- (c) **Annuity Method**: - Since Super Profit is expected to arise as different future time periods it would be apt to discount using appropriate discount factor future values of super profits and arrive at the present value.

Goodwill $\Rightarrow$ Super Profit x No. of years

No. of years is to be calculated wrt appropriate discount rate and no. of years correspondingly.

Question: 4

How do you find out capital employed for goodwill valuation? Would you prefer 'Long term Fund' to 'shareholders fund' approach?

Answer: 4

For goodwill valuation capital employed is calculated using: -

CE $\Rightarrow$ Net Worth – Non trading assets. Here generally shareholders Fund approach is preferred because the lenerage advantage has been taken into considerations where in use of lower amount of owned fund results in higher return due to usage of borrowed funds advantageously.

Chapter – 3, Unit – 4 Valuation of Shares

Question: 1

What factors have to be considered for valuation of shares under Net Assets Basis?

Answer: 1

- (a) Value of tangible fixed asset should be taken at current cost.
- (b) Value of intangible should also be taken at their current cost.
- (c) Investments like shares & securities regularly traded to market price should be taken as current value of investments & wrt others book value after making adjustments for known losses/gains should be taken.
- (d) Inventories consisting of FG @ Market price & others at cost following a conservative approach.
- (e) Sundry Debtors must be taken at Net realiable value after making proper allowance for bad & doubtful debts.
- (f) Development expenses and miscellaneous expenditure & loss are not considered.

Question: 2

What other special factors are to be considered while doing valuation of equity shares?

Answer: 2

- (a) Importance of the size of the block of shares – wrt control.
- (b) Restricted transferability as contained in the Articles of Association except in certain cases.
- (c) Dividends and valuation also pay an important role is companies paying high dividends @ a steady rates with high share prices enjoy the confidence of the public and vice versa as prices are lived to the rise factor primarily.
- (d) Bonus & rights issue: - When such issue are announced shares values go up generally.

Question: 3

What are the factors to be considered for valuation of preference shares?

Answer: 3

The following factors are generally considered.

- (a) Risk free rate & small risk premium ie Marked expectation rate
- (b) Ability of the company to pay dividend on a regular basis.
- (c) Ability of the company to redeem preference share capital.

Chapter – 4, Unit – 1 Holding Company Accounts legal Requirements in India

Question: 1

Briefly discuss the requirements of sec 212 of the Companies Act wrt disclosure of information regarding investment in subsidiaries.

Answer: 1

The holding company as v/s 212 is required to attach to its balance sheet the following documents in respect of each of its subsidiaries.

- (i) A copy of the Balance Sheet of the company
- (ii) A copy of its profit & loss account
- (iii) A copy of the report of its Board of directors.
- (iv) A copy of the report of its auditors.
- (v) A statement of the holding Co.'s interest in the subsidiary as specified in section 212(3).
- (vi) Statement referred to in Sec. 212(5).
- (vii) The report if any referred to in Section 212(6).
- (viii) If for any reason the Board of directors is unable to obtain information on any of the matters required, a report in writing to that effect should be attached along with the Balance sheet.

Chapter – 4, Unit – 2 Accounting for Investments

Question: 1

What are the methods for Accounting of Investment of explain them Briefly?

Answer: 1

When consolidated as well as separate financial statements are prepared then basically there are two methods namely the equity method and the cost method.

(a) **Equity Method:-**

- (i) The investment is initially recorded at cost.
- (ii) The carrying amount is increased / decreased to recognise the investors share of the profits or losses of the investee after the date of acquisition.
- (iii) Distribution received from the investee reduce the carrying amount of the investment.
- (iv) Adjustments to the carrying amount may also be necessary for alterations in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been included in the income statement.

(b) **Cost Method:-**

- (i) Investments in the shares of subsidiary are shown at cost.

- (ii) Holding Company recognises income from investments in subsidiary only if the distribution from the accumulated net profit of the investee represents income earned subsequent to the date of acquisition to it.
- (iii) Distributions received in excess of such profits are considered as recovery of investment & recorded as reduction in cost of investment.

Chapter – 4, Unit – 3 Consolidated Financial Statements

Question: 1

What are the main advantages of consideration?

Answer: 1

The following are the advantages: -

- (i) The users of accounts can get an overall picture of the holding company and its subsidiaries.
- (ii) Intrinsic share value of the holding Co. can be calculated directly.
- (iii) Consolidated Financial Statements provide information for identifying revenue profit for determining return on investment.
- (iv) CFS shows the Minority interest of outside shareholders which can be used as the statutory point of bargaining at the time of acquisitions of a subsidiary.
- (v) The overall financial health of the Holding Co. can be judged using consolidated financial statements.

Question: 2

What are the procedures to be undertaken for consolidation?

Answer: 2

The following are the consolidation procedures: -

- (i) The financial statements of the parent & its subsidiaries are combined on a line by line basis by adding together like items of assets, liabilities etc.
- (ii) Carrying amount of the parent's investment in each subsidiary & the parent position of equity of each subsidiary are eliminated.
- (iii) Inter group transactions, including sales, dividend expenses are eliminated in full.
- (iv) Unrealised losses resulting from intragroup transactions that are deducted in arriving at the carrying amount are also eliminated unless cost can be recovered.
- (v) Similar to above unrealised profits included in the carrying amount of assets, such as investing & fixed assets are eliminated in full.
- (vi) Minority Interest in the net income of consolidated subsidiaries are identified and adjusted against the income of the group to arrive at the net income attributable to the owners of the parent.
- (vii) Minority interest in the Net Assets are identified separately from liabilities & the parent shareholders' equity.

Chapter - 5 FINANCIAL REPORTING FOR FINANCIAL INSTITUTIONS

Question: 1

Explain in brief what you understand by 'Mutual Fund'?

Answer: 1

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- (a) Mutual Fund is a fund established in the form of trust to raise monies by sale of units to public under one or more schemes for investing in securities including Money Market instruments.
- (b) It is typically promoted by a sponsor, who appoints a trustee, AMC and custodian.
- (c) Mutual Fund should be registered with the SEBI.
- (d) The AMC manages the funds of the Mutual Fund.

Question: 2

Write short notes on Money Market Instruments.

Answer: 2

Money Market instruments include commercial papers, commercial bills, Treasury bills, government securities having an unexpired maturity up to one year, call or notice money, certificate of deposit, usance bills, and any other instrument as specified by the RBI from time to time:

Question: 3

Write short notes on Regulation of SEBI (Mutual Funds) Regulation 1996.

Answer: 3

Under Regulation 50 – Act Asset Management company shall maintain and keep proper books of account, records and documents, for each scheme so as to explain its transaction & disclose at any part of time the financial position of each scheme and in particular give a true and fair view of the state of affairs of the fund & intimate to the Board the place where such books of account, records and documents are maintained.

Question: 4

Briefly explain the Annual Reporting procedures for Mutual Funds.

Answer: 4

- (i) Regulation 51 provides for all schemes the year ending shall be on 31st March of each year.
- (ii) Scheme wise annual reports in detailed or abridged form to be advertised in local newspaper less than 6 months from the date of closure of relevant accounting year.
- (iii) The contents should include:-
 - (a) Report of Board of Trustees on operations fund wise & future outlook.
 - (b) Balance sheet and revenues account
 - (c) Auditors report
 - (d) Brief statement of Board of Trustees on liabilities & responsibility of trustees, investment objective of each scheme etc.
 - (e) If scheme permits investment partly / wholly in shares / Debenture etc. whose value can fluctuate then a special statement to that effect.
- (iv) Statement giving relevant perspective historical per unit statistics.
- (v) Statement that unit holders / investors can get a copy of annual report etc on the payment of prescribed fee.

Question: 5

Explain the provisioning for NBFCs.

Answer: 5

The provisioning for Non Banking Finance Companies may be done the following.

- (a) Loans & advances and other credit facilities including bills purchased and discounted.
- (b) Leased assets and Assets on Hire Purchase.

- (a) With reference to loans & Advances etc.

Particulars	Provision Required
(i) Loss Assets	- 100% of the outstanding
(ii) Doubtful Assets	- 100% of the unsecured position and upto 1 year – 20% of the Secured portion 1 year – 3 year – 30% of the Secured portion
(iii) Sub-standard Assets	- 10% on Total outstanding.

- (b) With reference to Leased and HP assets:

- (i) **General Provision**: - Total dues reduced by Finance charges not credit to P & L account and carried forward and depreciated value of the underlying asset.

Asset first hand – Cost and depreciation @ 20% SLM

Asset second hand – Cost of acquisition @ 20% SLM

- (ii) **Additional Provision**:-

	Provision
(a) Amount overdue < 12 months	- nil
(b) Sub standard assets	
More than 12 months but < 24 months	- 10% of Net Book Value
(c) Doubtful Assets	
More than 24 months but < 36 months	- 40% of Net Book Value
More than 36 months but < 48 months	- 70% of Net Book Value
(d) Loss Assets	
More than 48 months	- 100% of Net Book Value

Note: On expiry of a period of 12 months of the due date of the best installment of HP or leased asset, the entire net book value shall be fully provided for.

Question: 6

Explain the provisions with reference to Merchant Bankers.

Answer: 6

- (a) As per Regulation 7 the capital adequately requirement of the merchant bankers shall not be < the Net worth of the person making the application for grant of registration.

		Min Requirement
(i) Category I	Merchant Banker who carries on issue management the preparation of prospectus and other information relating to issue, determining financial structure, tie of financiers, final allotment & refund of subscription, and act as advisor, consultant, manager, UW, portfolio manager	5 Crores
(ii) Category II	Merchant Bankers who act as advisor,	50 lacs

	consultant, Co.-manager, underwrite etc.	
(iii) Category III	Merchant Bankers who act as under writers advisors & consultants to the issue	20 lacs
(iv) Category IV	Merchant banker who act as consultant to issue	NIL

- (b) Regulation 14 Stipulates the maintenance of books & records, Balance Sheet, P & L a/c, Auditor's report, statement of financial position to be filed every year and the place where its kept must be specified it should be presented for a minimum of 5 years.
- (c) Regulation 28 stipulates Disclosures of information like responsibility in the management of issue, change of information previously furnished which have a bearing on the certificate granted, Names of body corporate who issue he was managed, particulars of breach of capital adequacy as in regulation 7 and others.
- (d) The merchant bankers has a duty to asset the inspecting authority appointed by SEBI in all ways.

Question: 7

Explain the provision with regard to stock brokers.

Answer: 7

- (a) The stock brokers have to maintain the following books as prescribed in Rule 15 of securities contract. (Regulation) Rules 1957 & Rule 17 of SEBI (Stock & sub brokers) Rules 1992.
- (b) Some of the above are Register of transactions, chanta ledger, general ledger, journal, Cash book, Bank pass book, Document in / out register for securities received and declined, members contract book, counterfoils / duplicate of contract notes issued to clients, margin deposit books agreement with sub brokers, Registered of sales brokers etc.
- (c) Apart from above the additional request are scripwise, charterise list in respect of scrips of specified group, chanta upto statement, copies of margin statement, duplicate copies of self certificates submitted monthly, copies of value Balance Sheet, Details of spot delivery transactions entered into; chanta database & broker chanta agreement, copies of pool act statement etc.
- (d) The place where books are kept has to be intimated to SEBI, & the same has to be kept for a minimum period of 5 years.
- (e) They have a duty to assist authorities appointed by SEBI with regard to investigation into book of accounts & affairs of the brokers.
- (f) Failure to comply / contravention may lead to cancellation of registration or suspension of registration for certain period after enquiry.

Chapter – 6 DEVELOPMENTS IN ACCOUNTING

Question: 1

What is a value added statement? Why such statement is needed?

Answer: 1

Valued Added Statement shows value added where is the wealth a reporting entity has been able to create through the collecture effort of capital, management and employees. In economic terms VA is the market price of the output of an enterprise

less the price of the goods and services acquired by transfer from other firms. VA can provide a useful measure in gauging performance and activity of the reporting entity.

Question: 2

State the advantages of Net Value Added over gross value added.

Answer: 2

Net value added is arrived at the deducting depreciation from gross value added and is preferred over the latter because:-

- (i) Wealth creation / VA will be overstated if no provision for wearing off of fixed assets or loss in value of assets made as new assets are created.
- (ii) NVA is a firmer base for calculating productivity bonus as it gives recognition for depreciation when additional capital investment is made which results in Increase of productivity thus helping employees.
- (iii) The concept of matching demands that depreciation be deducted along with bought in costs to derive Net Value Added.

Question: 3

What are the advantages of Value Added Statement?

Answer: 3

- (i) Reporting on Value Added improves the attitude of employees towards their employing companies.
- (ii) It is helpful in introduction of a scheme of Bonus linked to production on the basis of Value Added / Payroll Ratio.
- (iii) VA based ratios are useful diagnostic & productive tools and facilitate intra and interfirm comparisons.
- (iv) VA provides a good measure of the size & importance of the company.
- (v) VA statement links a company's financial accounts to National Income where company's VA is its contribution to National Income.
- (vi) VA is built on the basic conceptual foundation which are currently accepted in Balance Sheet and income statement.

Question: 4

What are the limitations of Value Added Statements?

Answer: 4

Although VA Statement have a lot of advantages they suffer from the following limitations:-

- (i) Concept of showing VA as applied to several interest groups is being questioned by several academicians as shareholders fear entire risk.
- (ii) It can in no case be a substitute for the traditional profit & loss account or income statement.
- (iii) They also suffer from a temporary criticism of not being standardised.

Question: 5

What is meant by VA or Economic Value Added?

Answer: 5

It's a residual income measure of financial performance and it's the operating profit after taxation less a charge for the capital, equity as well as debt used in the business. It is a management tool to focus managers on the impact of their decisions in increasing shareholders' wealth as they involve taking both strategic and operational decisions.

Question: 6

What is corporate social Reporting? (CSR)

Answer: 6

- (i) Corporate social reporting is the information communicate with reference to discharge of social responsibility of the corporate entity.
- (ii) Stereophases that the responsibility to report publicity is separate from & broader than the legal obligation to report.
- (iii) The same arises from the custodial role. Played in the community by economic entity.

Question: 7

Explain briefly 5 possible areas identified by Brummet where in social objectives can be traced out.

Answer: 7

The following are the areas where in social objectives can be traced out:-

- (i) Net Income – the economic objectives is of primary importance.
- (ii) Human Resource – it shows organisation strength, employee development & benefit programme and payment of taxes & duties.
- (iii) Public – Use of resources, pollution, other etc.
- (iv) Product / service contribution – Covers quality aspect, customers focus, guarantee of quality, redressal of consumer grievance, honest exposure in advertisements etc.
- (v) Environment as a whole.

Question: 8

What is the present status of C.S.R, in India?

Answer: 8

It was seen as early as 1979 – 80 where corporate where TISCO and others like NTPC, MRL, Cement Corporation of India, MMTC, ONGC, etc had published, social Balance Sheet. General response towards CSR is not much significant in India. But in most of the cases a special mention in the directors' report is seen.

Question: 9

List out the Major heads under CSR.

Answer: 9

The following are the Major heads under CSR.

- (i) Employment opportunities.
- (ii) Environment control – Factors the tree implantation, Pollution control norms stipulated by pollution control Board, methods by which waste is disposed off etc.
- (iii) Foreign exchange transaction – For savings by import / subsidy.

- (iv) Energy conservation.
- (v) Research and development
- (vi) Contribution to government exchanger
- (vii) Social projects like schools, Roads etc.
- (viii) Consumerism.

Question: 10

What is Human Resource Accounting and trace the need for HRA?

Answer: 10

- (i) It's the process of identifying & measuring data about Human resource and communicating this information to interested parties.
- (ii) Its necessity arose primarily due to the growing concern for Human Resource Management in the industry since 1960's.
- (iii) Behavioural suentosts criticism on Accountants that Value of Human resources were ignored resulted in a handicap for effective management.

Question: 11

List out the various models of HRA

Answer: 11

- (a) **Lost Based Models:-**
 - (i) Capitalisation of Historical cost – by R. Likest
 - (ii) Replacement cost – by Flamholtz.
- (b) **Economic Value Models:-**
 - (i) Opportunity costs model – by Heleimian of Jones
 - (ii) Discounted wages & Salaries Model – by Lev & Schwartz
 - (iii) Stochastic process with service rewards – by Flamholtz (1971)
 - (iv) Valuation on group basis – by Jaggi and Lau.

Question: 12

Comment upon the Lev Schwartz Model.

Answer: 12

- (i) This model involves determining the value of Human Resources as the present value of the future estimated earnings of the employee discounted by the rate of Return on Investment.
- (ii) In this model wages & Salaries are taken as surrogate for the value of Human assets.
- (iii) Thus it provides a measure of future estimated cost.
- (iv) It ignored the effect of an individuals knowledge and skills.
- (v) The possibility of an employee & probability of them leaving the organisation other than by means of death / retirement was not taken up.
- (vi) It ignores the probability of people making role changes in their career.

Question: 13

What is meant by Environment Accounting and explain its significance?

Answer: 13

- (i) It's a faithful attempt to identify and long to light resources exhaled and the costs rendered reciprocally to the environment by a business corporate.

- (ii) It includes recording of environment elements, valuation of natural resources, measuring the income & costs relating to them, provision for depreciation etc.

Significance:

- (iii) It is useful for discarding how natural resources are a variable in country and then ascertaining cost & benefits arising therefrom.
- (iv) It measures individual development, social welfare and fulfillment of social responsibility of companies.
- (v) It also focuses on environmental protections on a global arena.

Chapter – 7 ACCOUNTING FOR NOT FOR PROFIT ORGANISATIONS

Question: 1

Explain in brief the concept of fund theory.

Answer: 1

- (i) Fund theory is based on the equation Assets = Restriction on assets
- (ii) Here the Balance Sheet is considered as an inventory statement of assets and those restrictions applicable to assets.
- (iii) Revenues represent an asset increase into the fund that are completely free of equity restrictions other than residual equity.
- (iv) Residual equity represents a final restriction on the assets & establishes the equality of assets and equity.
- (v) Expenses represent release of service for designated purpose specified is the objective of the fund.

Question: 2

What are the special features of Accounting for educational institutions?

Answer: 2

- (i) Primarily funds are classified into revenue funds & specific funds for which separately ledgers are maintained for individual funds.
- (ii) Revenue funds may be further classified into unrestricted and restricted funds and special funds as endowment funds, Annuity and life income fund, development funds, loan funds etc.
- (iii) Revenue funds generally record revenue transaction and are received for meeting operating expenses.
- (iv) Restricted funds are those on which other externally or by governing bodies designating restrictions for specific purpose restrictions are imposed.
- (v) Revenue is recognised to the extent of expenditure, generally unrestricted funds are used for carrying out primary function.
- (vi) Transfer of funds from Revenue to specific and vice versa if under a legal binding agreement are mandatory & other arising out of discretionary decisions of governing bodies are non mandatory.
- (vii) Specific Funds: are those earmarked for well defined purposes, expendable resources are transferred to revenue except capital outlay to debt retirement which are accounted for in the respective fund accounts separately.
- (viii) **Endowment funds**: - They account for resources that are not expended currently in principal is preserved in the income arising therefore may be restricted / unrestricted and be expended. Decrease in fund balance occurs only from termination of endowment or transmission to other funds as in the agreement. They can be subclassified as perpetual & Term Endowment funds.

- (ix) **Loan Funds**:- They are resources that may be loaned to faculty or staff. It is intended to be revolving as outstanding are closed fresh loans one given interested is collected of rates cheaper than market rate and the same is adjusted against administration expenses / Baddility / Losses. All transactions are accounted in the fund a/c itself and on accrual basis only.
- (x) **Annuity and life income funds**:- They account for those funds given to an organisation provided it agrees to make periodic payments to a designated receipient. Its of two types either Annuity fund wherein specific payments for a specific period is made to a beneficiary or life income fund where income is distributes to beneficiary as long as they live & on their death it should be used as per the agreement previously entered into.
- (xi) **Development Fund**: - Either separate accounts can be maintained for separate development activity or combindly. Sources furthers fund is government or private grants, income from investments, transfers etc. if assets is fully recognised amount is transferred from here to unrestricted fund account and the asset is recognised, in the Balance Sheet. Depreciation on fully compiled asset can be shown as an operating expense.
- (xii) Finally the following are prepared is Income / Expenditure A/c for revenues funds, statement showings changes in fund balance. Balance Sheet of Individual funds and general balance sheet.

Question: 3

What are the special features for Accounting for Hospital & Health Organisations?

Answer: 3

- (i) Basically the Funds in these types of organisation are broadly classified into two namely general fund unrestricted and restricted. It's the primary operating fund and most of the revenue transaction occurs in this fund.
- (ii) The restricted funds account for assets received for donors etc on which certain restrictions have been imposed. They are sub classified into development Funds, endowment fund & other specific purpose fund. (For individual description please refer previous answer)
- (iii) Operating revenue is form Bed Rent, seat rent, consultation fee etc. and revenue also includes donated supplies wherein after consumption balance is shown as inventory in the Balance Sheet.
- (iv) Uncollectable amount from patient & other losses etc are also charged to revenue account.

Chapter – 7 ACCOUNTING FOR NET FER PROFIT ORGANISATION.

Question: 1

What is fund accounting? What are its advantage?

- (a) Essentially invalues preparation of financial statements fund wise, &
- (b) Consolidation of these statement to represent the financial results/ position of the eigush as a whole.

Question: 2

What are the funds an educational institution generally maintain? Explain each briefly.

Answer: 2

Educational Institutional

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Revenue Funds		Specific Funds		
Restricted fund	Unrestricted fund	Endowment Fund	Annuity and life Income funds	Development funds
Account for reserves whose use is restricted by the donor.	Accounts for the reserves that may be expended to carry out the primary purposes of the institution.	Account for resources that may not be expend currently.	Account for resources that are given to a net for profit organisation agrees to make periodic payments to a designated recipient.	Funds utilisation devotional purpose govt a payments / gifts income & gains of investments of unutilised funds & transfers.
In addition, governing body of the egar may designate monies for specific purpose.	Accrual method of accounting.	Income out of this fund is usually available either for a restricted after a general purpose.	A periodic payments, specified amount specified period of time.	Any asset bought out of this fund reganised in the Balance Sheet.
Revenue is reorganised to the extent of resources expanded.	Major source and tuition and other fees from students, unrestricted govt. grants etc.	Gifts, investment income application of principal & transfer from other funds.	LIF distribute their Inc. to the individual as long as they live.	Fund utilised should be transferred to unrestricted fund only when asset fully acquired.

Question: 3

Concept of mandatory and non-mandatory transfers.

Answer: 3

Mandatory Transfers:

- Transfers out of revenue funds to other funds.
- As a result of binding legal agreements & pant agreements.
- Reported separately in the financial statement of revenue funds.

Non-Mandatory Transfers:

- Are discretionary transfers specified by the governing board for a variety of purposes.
- May also be made from specific funds to the revenue funds.

Question: 4

Special features of accounting for hospitals and other health organisations

Answer: 4

- Two major fund classes:

General fund	Restricted
Primary opening fund and most revenue transactions occur in this fund.	Accounts for assets received from donors or other third parties with imposed

	restrictions.
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- (b) k
- (1) General fund accounts for the resources received and expended in the primary health care mission of hospital.
 - (2) Depreciation is in opening expenses.
 - (3) Includes both operating revenues and non operating revenues.
 - (4) Unconvertible patient service revenue is deducted from gross patient service revenue.
 - (5) Charging of seat rent and other fees from patients accumulated in pay cibus.
 - (6) Accommodation in general ward free.
- (c) Donated supplies are incl. In the operating revenue @ fair values and shown as inventory. Appropriate expense is charged when such supplies are used.

Question: 5

Treatment:

Donated supplies:

- (a) Are included in the opening revenue @ fair values.
- (b) Are shown as inventory.
- (c) Appropriate expense is charged when such supplies are used.

Donated equipments:

- (a) Are directly added to general fund balance and recognised as asset in the general fund Balance Sheet.
- (b) Depreciation are shown as opening expenses in the general fund include expenses account.
- (c) Equipment having life less than one year is charged off in the same year.

Cash Donations are either restricted or unrestricted Accordingly it will be accounted for

Question: 6

Why the Traditional Incomes Expenses Account is alternatively called the statement of Activity?

Answer: 6

- (1) Primary opening statement is the statement of activity which accounts for revenues and expenses and the resultant surplus / deficit.
- (2) In case of other not for profit entities the major source of revenue is the membership fees and no other major source of income.

Question: 7

Treatment of Life Membership fee:

Answer: 7

- (a) The lumpsum is determined in such a manner that the income from such contribution is more or less equal to the annual membership fees.
- (b) Directly credited to Life Membership Fund.
- (c) Life Member Fund is simultaneously invested in outside securities.
- (d) Income from such inv. Is credited to unrestricted opening fund,

- (e) When a life member expires on membership terminated:
 - (1) Proportionate fund balance is transferred from life membership fund to unrestricted opening fund.
 - (2) Corresponding investment major may not be sold.