Sreeram Coaching Point
Advanced Accounting Nov. 2008

Roll No..............................

Total No. of Questions—6]

[Total No. of Printed Pages—8

Time Allowed—3 Hours

Maximum Marks—100

APJ

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answer **all** questions.

Working notes should form part of the answer.

Wherever necessary suitable assumptions may be made by the candidates.

Marks

1. The Balance Sheet of three companies Angle Ltd., Bolt Ltd. and Canopy Ltd. as at 31st December, 2007 are given below : 20

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
Total	24,00,000	17,50,000	11,55,000

Assets	Angle Ltd. Rs.	Bolt Ltd Rs.	Canopy Ltd. Rs.
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	10,000	10,000	10,000
Total	24,00,000	17,50,000	11,55,000

(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 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%.

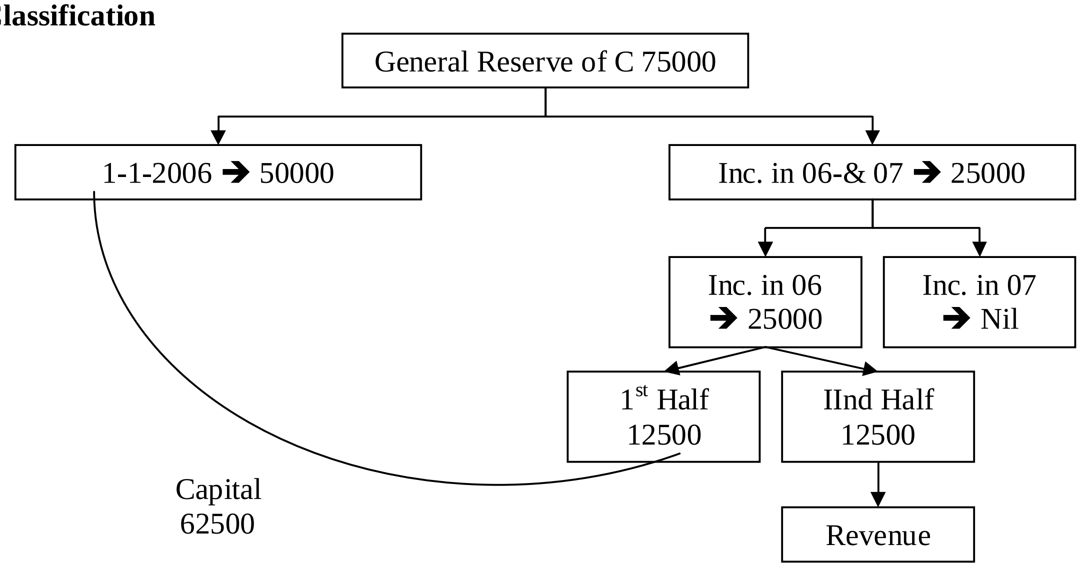
Prepare consolidated Balance Sheet of the group as at 31st December, 2007. Working should be part of the answer. Ignore taxation including dividend distribution tax disclosure minority interest as per AS-21.

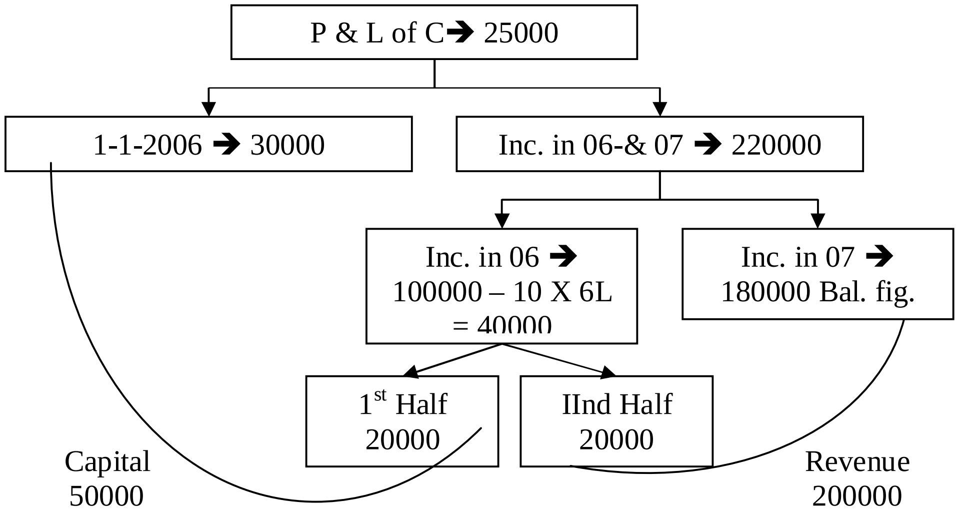
Solution to Question No. 1

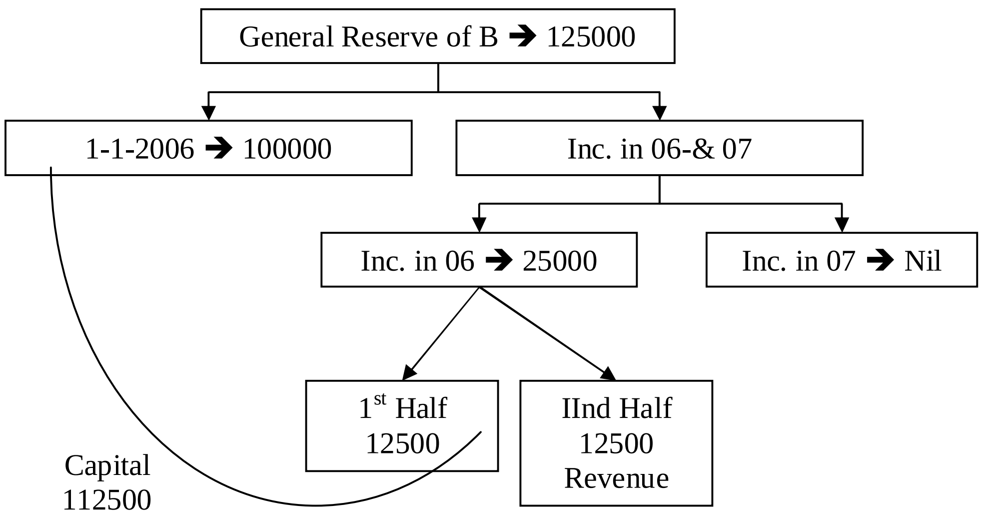
DOA	:	1.7.2006
DOC	:	31.12.2007
Prior	:	6m Ist half of 06
Post	:	6m IInd half of 06
	:	12m of 07

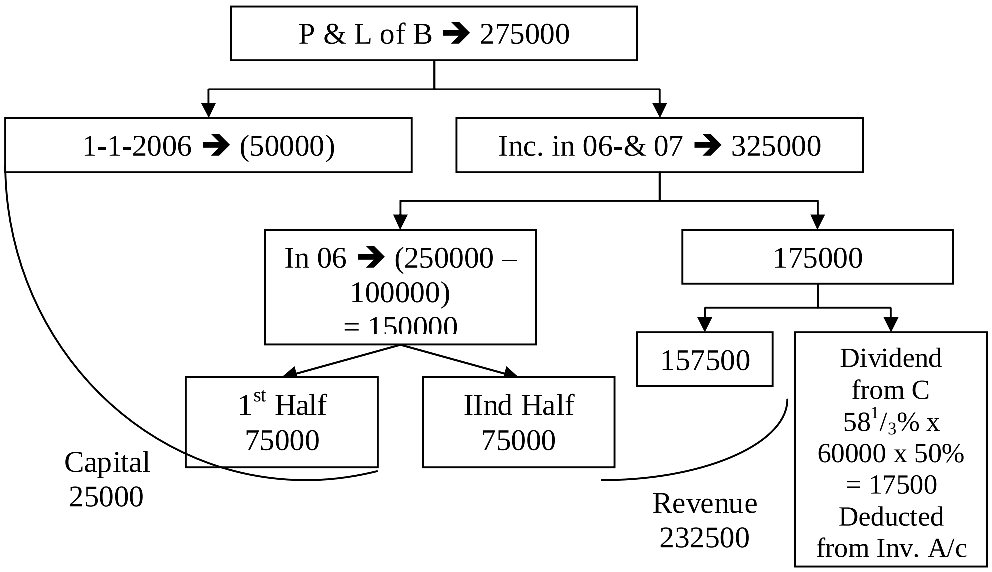
%			MI
A in B		7500/10000 = 75%	25%
A in C	1000/6000 = $16\frac{2}{3}\%$	75%	25%
B in C	3500/6000 = $58\frac{1}{3}\%$		

Classification




P & L of C → 25000
1-1-2006 → 30000
Inc. in 06-& 07 → 220000
Inc. in 06 → 100000 – 10 X 6L = 40000
Inc. in 07 → 180000 Bal. fig.
1st Half 20000
IInd Half 20000
Capital 50000
Revenue 200000


General Reserve of B → 125000
1-1-2006 → 100000
Inc. in 06-& 07
Inc. in 06 → 25000
Inc. in 07 → Nil
1st Half 12500
IInd Half 12500 Revenue
Capital 112500



Stock Reserve	
Transfer Price	18000
Markup on Transfer Price	$^1/_6$
Stock Reserve	3000
Type	Down Stream
To be adjusted in P & L	3000
In Minority Interest	Nil

Chart A	**75% A**	**$16^2/_3$%**	**Minority Interest**	
	B	**$58^1/_3$% C**	**B 25%**	**C 25%**
i) Capital profit (direct Method)				
GR	112500	62500		
P & L	25000	50000		
	137500	**112500**		
Less: 25% MI	-34375	-28125	34375	28125
	103125	**84375**		
ii) Revenue Reserve (Indirect Method)	12500	12500		
TR $58^1/_3$% ←	+7292	-7292		
	19792	**5208**		
Less: 25% MI	4948	3125	4948	3125
	14844	**2083**		
iii) Revenue	232500	200000		

Profit (Indirect Method)				
TR $58^{1}/_{3}$% ←	+116667	-116667		
	349167	**83333**		
Less: 25% MI	87292	50000	87292	50000
	261875	**33333**		
iv) ESC	1000000	600000		
Less: MI	250000	150000	250000	150000
	750000	**450000**	**376615**	**231250**

Chart B Goodwill/Capital Reserve			
Investments by A on B		900000	
Less Pre-acquisition dividend – 75% x 10% x 10L x 50%		37500	862500
Investment by A on C		150000	
Less: Pre-acquisition dividend – $16^{2}/_{3}$% x 10% x 6L x 50%		5000	145000
Investments by B on C		520000	
Less: Pre-acquisition dividend		17500	502500
			1510000
Less: NV of B	750000		
NV of C	450000	1200000	
CP of B	103125		
CP	84375	187500	1387500
Goodwill			**122500**

Chart C	
Consolidated General Reserve	
General Reserve of A	200000
Add Share from B	14844
Add Share from C	2083
	216927

Consolidated profit and loss A/c			
P & L of A			500000
Add share of RP from B			261875
Add share of RP from C			33333
Less Pre-acquisition received by A			**795208**
From B	37500		
From C	5000	42500	
Stock Reserve		3000	45500
			749708

Chart D			
	Stock	**Bills Receivable**	**Bills Payable**
A	100000	50000	Nil

B	150000	20000	Nil
C	160000	Nil	50000
	410000	**70000**	**50000**
Less Stock Reserve	3000	-	-
Mutual Owings	-	50000	50000
	407000	**20000**	**Nil**

Remittances in transit of Rs. 20,000 [120000 – 100000] shall be shown in the assets side in CFS.

Consolidated Balance Sheet as on 31/12/07

Liabilities		Rs.	Assets		Rs.
Equity share capital		**1500000**	Goodwill		
Consolidated GR		**216927**	A	250000	
Consolidated P & L		**749708**	B	580000	
Sundry Creditors			C	450000	
A	200000		On Consolidation	122500	**1402500**
B	250000		Plant & Machinery		
C	100000	**550000**	A	400000	
Minority Interest			B	250000	
B	376615		C	325000	**975000**
C	231250	**60786**	Furniture & Fittings		
			A	200000	
			B	150000	
			C	140000	**490000**
			Stock (Chart D)		**407000**
			Sundry Debtors		
			A	140000	
			B	70000	
			C	70000	**280000**
			Bills Receivable (Chart D)		**20000**
			Remittances in Transit (Note in D)		**20000**
			Cash		
			A	10000	
			B	10000	
			C	10000	**30000**
		3624500			**3624500**

Notes to students:

1. Capital profit of C Ltd., can either be treated under direct method or indirect method.

2. Pre acquisition dividend is the dividend attributable for the 1st six months of 2006.

2. The following are the Balance Sheets of Andrew Ltd. and Barry Ltd. as at 31.12.2007 : 16

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

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		
	16,400		16,400

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.

Solution to Question No. 2

Balance sheet of C Ltd

Rs. in '000

Liabilities			Assets		
Equity Share Capital			Goodwill (BF)		9470
For cash	2000		Fixed Assets		
PC (other than cash)	200		A	3400	

Employees liabilities	4800	7000	B	6800	10200
Secured Loan			Other Current Assets		
A (16000-80% x 18400)	1280		A Other than Stock and Cash 80% x 23600 B 70% x 9600	 2880 6720	 9600
B (80000 – 1600 + 50% x 1600)	7200	8480	Cash (for shares)		2000
Un-secured Loan (25% x 8600)		2150			
Current Liabilities (Working Note)		13640			
		31270			**31270**

Working Note 1	
A	
As in B/S	13000
Add: Contingent liabilities	2200
	15200

	Statutory lia	Employee's	Misc Crs.
	7200	3000	5000
T/O	100%	100%	80%
AS	SL	ESC	CL
New Value	7200	3000	4000

B → 4600

	Statutory lia	Employee's	Misc Crs.
	1000	1800	1800
T/O	100%	100%	80%
AS	SL	ESC	CL
New Value	1000	1800	1440

	SL	**Misc Crs**	**Total**
A	7200	4000	11200
B	1000	1440	2440
	8200	5440	13640

Note:

1. Contingent liability (not part of the balance sheet total) is also taken over by C Ltd
2. Purchase consideration is the equity capital issued to preference share holders.
3. Shares allotted for cash can not be taken as part of purchase consideration.
4. Balancing figure is taken up as goodwill.

Marks

3. (a) From the following information of Beta Ltd. calculate Earning Per Share (EPS) in accordance with AS-20 : 8

		YE 31.3.08 (Rs.)	YE 31.3.07 (Rs.)
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	30,000	10,000
3.	Profit after tax	2,06,000	73,000
4.	Other information :		
	(a) Profit includes compensation from Central Government towards loss on account of earlier awake 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 bonus shares issued on 1.1.08 of 10,000 shares, 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 : 8

	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

Solution to Question No. 3 (a)

Working Note 1	**(Rs. '000)**			
	31-3-08		**31-3-07**	
Profit before tax and extra ordinary Items		200		100
Less: Tax expenses				
Current tax	40		30	
Deferred tax	30	70	10	40
Profit after tax		130		60
Tax rate	70/200 = 35%		40/100 = 40%	
Less: Prior period item – tax		24		(13)
Profit after tax & prior period item		106		73
Add: Compensation from Government Grand for earthquake occurred in 2005 (tax free)		100		Nil
Net income after all adjustment		206		73
Preference dividend @ 6% on 1L		6	(Pro rata)	3
Net income attributable to ESH		200		70

Working Note 2 Ranking for Dilution		
Convertible PS	**31-3-08**	**31-3-07**
Pref. Dividend (6% x 1L)	6000	3000
WANES influence	15000	7500
Impact in EPS	6500/15000 = 0.40	040
Convertible Debentures		
Interest after tax 15% x 1L x 65%	9750	6750 (Pro rata for 9 months)
WANES influence	10000	7500
Impact in EPS	0.975	0.90
Convertible Preference Share is the most dilutive instrument in both the years.		

Working Note 3 WANES		**As Previous year**
	31-3-08	**31-3-07**
No. of Equity shares (Opening)	10000	10000
Bonus issue (adjusted to prior years to have matching effect)	10000	10000
Basic	20000	20000

Basic EPS		**As Previous year**
	31-3-08	**31-3-07**
NP attributable to ESH (excluding extra-ordinary item (200 -100)	100	70

WANES	20	20
EPS – Basic	Rs. 5	3.50 (adjusted EPS)

Dilutive EPS						
	31-3-2008			**31-3-2007**		
	Earnings	**WANES**	**EPS**	**Earnings**	**WANES**	**EPS**
Basic earnings	100000	25000	5	70000	20000	3.5
Add: Pref Dividend	6000	15000		3000	7500	
	106000	35000	3.03 Dilution	73000	27500	2.6 Dilution
Add: Convertible Debenture Interest after tax	9750	10000		6750	7500	
	115750	45000	2.75 Dilution	79750	35000	2.85 Dilution

In case EPS and diluted EPS are to be ascertained for 31-3-07 in the capacity as Current Year then the answer shall be
EPS – Basic 70000/10000 = Rs. 7 Diluted ES 79750/25000 = 3.19

Notes to Students:

1. For want of information regarding tax rate, it is assumed that tax rates are the average rates of 2008 and 2007 @ 35% and 40% respectively.

2. Question is silent regarding diluted EPS; however an attempt is made for the computation of diluted EPS.

3. Mater related to the year ending 31-3-2007 is taken as previous year for 31-3-2008

Solution to Question No. 3 (b)
Working Note:

Loan Fund A/c

Opening Balance (Balancing Figure)		1755	Loan cancellation	15	
Transfer from Revenue fund	30		Refunded	60	
Private & Govt. Grand	1100		Admn. Cost	25	100
Other transfers	150		Closing Balance		3030
Interest on Loan	60				
Investment Interest	35				
		1375			
		3130			**3130**

	Statement of Changes in Loan Fund Balances	
A	Fund balance at the beginning of the year	1755
B	**Additions during 2007-08**	
	Private and governments grants	1100
	Investment Income	35
	Interest on Loans	60
		1195
C	**Deductions during 2007/08**	
	Refund to grantors	60
	Administrative and collection costs	25
	Loan cancellations and write- offs	15
		100
D	**Transfers from other funds**	
	Mandatory	-
	Loan fund matching grant	30
	Non-mandatory	-
	Other transfers from unrestricted revenue funds	150
		180
E	Net Additions (B – C + D)	**1275**
F	Fund balance at the end of the year (A + E)	**3030**

Notes:

1. Opening balance is missing information.

2. Interest on loan is an item of income.

Marks

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 : 10

Profit and Loss Account

	Rs. '000s	Rs.'000s
Income		
Sales	12,480	
Other income	110	12,590
Expenditure		
Production and Operational expenditure	8,640	
Administrative expenses	360	
Interest and other charges	1,248	
Depreciation	32	10,280
Profit before tax		2,310
Less Provision for tax		110
Profit after tax		2,200
Add balance as per last Balance Sheet		120
		2,320
Less Transfer to Fixed assets replacement Reserve	800	
Dividend paid	320	1,120
Surplus carried to Balance Sheet		1,200

Additional information :

(i) Production and Operation expenses consists of

	Rs.
Consumption of Raw materials	6,42,000
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.

Marks

(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) Anischit Finance Ltd. is a non-banking finance company. It makes available to you the costs and market price of various investments held by it. (Figures in Rs. lakhs) as on 31.3.2008 : 6

Scrips :	Cost	Market Price
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 ?

Solution to Question No. 4 (a)

New Mode Reporting Ltd		
Gross value added statement for the year ending 31/12/2007		
	Rs. In 000s	Rs. in 000s
Sales		12480
Less: Cost of bought in material and services	7384	
(8640-16-1240)		
Administrative expenses	350	
(360-10)		
Interest on BOD	218	
Interest on Working capital[IFCI]	40	
Excise Duty (refer WN)	360	
Other expenses(888-360)	528	8880
Value added by manufacturing and trading services		3600
Add: Other Income		110
		3710

Application of value added				%
To pay employees				
Salaries to administrative staff			1240	33.42%
To pay directors				
Salaries and commission to directors			10	0.27%
To pay Government				
Local tax		16		
Provision of tax		110	126	3.40%
To pay Providers of capital				
Interest on Fixed loan SIDBI		102		
Dividend		320	422	11.37%
To provide for maintenance and expansion of co				
Depreciation		32		
Fixed Assets Replacement Reserve		800		
Retained Profit	=1200-120	1080	1912	51.54%
			3710	100%

Reconciliation between Gross value added and Profit before taxation			
Profit before tax			2310
Add:	Depreciation	32	
	Salaries to administrative staff	1240	
	Director's Remuneration	10	
	Interest on Fixed Loan	102	
	Local tax	16	1400
Gross value added			3710

Working notes:		
Interest and other charges		1248
Less: Interest on BOD	218	
Fixed loan interest	102	
Working capital loan from IFCI	40	360
Balancing figure		888

- This balancing figure alone cannot be construed as Excise duty.

- Excise duty is a part of 888 and the balance can be regarded as miscellaneous operating expenses.

- Application of GVA is Rs.3710 with other income being a part of it for Rs.110, leaving value added by manufacturing and trading services to Rs.3600.

- Excise duty is 10% of 3600 and therefore it is 360 and the balance is for other misc expenses for Rs.528.

General assumption:

- ✓ Excise duty is considered for the sake of simplicity as an item deducted from sales. It can alternatively be taken as part of application of GVA.

- ✓ The other alternative approach would rather bring about multiple computations is avoided in this problem.

Other miscellaneous expenses also is taken up as an item deducted from sales. It can also be taken up as part of application of GVA.

Solution to Question No. 4(b)

(i) Yes. Company can adjust fall in the value (in the name of depreciation) of a particular item of investment within the same category, if they are current investments.

(ii) Rs in Lacs

	Cost	Market Price
Equity shares		
A	60	61.2
B	31.5	24
C	60	36
D	60	120
E	90	105
F	75	90
G	30	6
	406.5	442.2

Mutual Funds		
MF1	39	24
MF2	30	21
MF3	6	9
	75	54
Government securities		
GV1	60	66
GV2	75	72
	135	138

Category	Value (Rs. In Lacs)
Equity Shares	406.5 Cost is lower than Market value
Mutual funds	54 Market value is lower than the cost
Government Securities	135 (cost is lower)

(iii) Between various categories, depreciation **CANNOT** be adjusted.

Marks

5. (a) Golden Eagle Ltd. has been a 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. 4

(b) Discuss the concept of Cost v/s Fair value with reference to Indian Accounting Standards. 4

(c) Why Human Resources Asset is not recognised in the Balance Sheet ? 4

(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. 4

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.

Solution to Question No. 5 (a)

When Right of Return Exists if the enterprise sells its product but gives the buyer the right to return the product, revenue from the sale transaction shall be recognized at time of sale only if all the following conditions are fulfilled:

(i) Price is fixed and determinable at the date of sale;
(ii) The buyer has paid the seller or is obligated to pay the seller and the obligation is not contingent or resale of the product;

(iii) The buyer's obligation would not change in the event of physical destruction or damage of the goods or theft;

(iv) In case the buyer acquires the goods for resale, there is economic substance apart from that provided by the seller;

(v) The seller does not have significant obligations for future performance relating to resale of the goods;

(vi) The amount of future return can be reasonably estimated.

In case all of the above conditions are not met, goods with customer should be treated as part of inventory. Revenue should be recognized only when privilege to return substantially expires or the above mentioned conditions are met, whichever is earlier.

In case specific identification of sale with right of return, a reasonable estimate can be made to reflect estimated return.

Solution to Question No. 5 (b)

For accounting measurement generally four measurement principles are followed:

- Historical cost
- Current Cost
- Realizable value
- Present value

Financial statements are generally prepared following historical cost, of course, other measurement bases are also followed as per their suitability.

Although various elements of corporate financial statements are mostly measured following the historical cost valuation base, and the financial statements are popularly called as historical cost statements, in true sense, no single valuation base is exclusively used for the preparation and presentation of financial statements. Also truth and fairness of the financial statements are largely dependent on the appropriate choice of the valuation base.

Fair value basis of accounting is not vogue except in a few cases in AS.

Solution to Question No. 5 (c)

Many people pointed out that it is very difficult to value human resources. Some others have cautioned that people are sensitive to the value others place on them. A machine never reacts to an over or under-valuation of its capacity, but an employee will certainly react to such distortion. Conventionally human resources are treated just as any other services purchased from outside the business unit. As a result conventional balance sheets fail to reflect the value of human assets and hence distort the value of the business.

Solution to question No: 5(d)

When employees are entitled to reimbursement of expenses or claim lump sum amount towards settlement to retiring employees, employer's obligation in either case is usually uncertain and requires estimation. In estimating the obligation, assumptions may need to be made regarding future conditions and events which are largely outside the employer's control.

The cost of post employment benefits to an employer results from receiving services from the employees who are entitled to receive such benefits. Consequently, the cost of employee benefits is accounted for in the period during which these services are rendered. Accounting of employee benefit cost only when employees retire or receive benefit payments (as per pay as you go basis or claim basis) does not achieve the objective of allocation of those costs to the periods in which the services are rendered.

Therefore the company's contention is not correct.

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. Advice the management the exemptions that are available as per Companies (AS) Rules, 2006. 8

If XYZ is a partnership firm is there any other exemptions additionally available.

(b) Briefly explain any **two** of the following terms : 2×4=8

(i) IFRS

(ii) NACAS

(iii) Convergence of Accounting Standards with IFRS.

Solution to Question No.6(a)

XYZ company is a SMC company as defined in AS rules no 2 (f) of the companies act.

The exemptions applicable for Small and Medium sized company (SMC) are as follows:

(a) Need not disclose certain information and this fact shall be conveyed by way of a note to financial statement.

(b) If XYZ becomes a non-SMC, then the previous year's information need not be disclosed, but the information of this fact shall be disclosed by way of a note.

(c) In case XYZ opts not to avail exemptions applicable to SMC for any or some of the ASs, it shall disclose the AS in respect of which it has availed the exemption.

(d) In case XYZ desires to disclose the information not required to be disclosed pursuant to the exemptions availed, it shall disclose that information in compliance with the relevant accounting standard.

(e) XYZ may opt for availing certain exemptions from compliance with the requirements prescribed in an Accounting Standard. Provided that such a partial exemption and disclosure shall not be permitted to mislead any person or public.

If XYZ is a partnership firm, the applicability of this Act cannot be extended at all. The question of application of AS to such firms will not arise and therefore there is no room for exemptions as well as additional exemptions.

Solution to Question No. 6 (b) (i) Short notes on IFRS

1. To bring harmony in the financial reporting all over the world in the backdrop of globalization, International Financial Reporting Standards (IFRS) are released from time to time by IASB(International Accounting Standards Board) located at London

Solution to Question No. 6 (b) (ii) Short notes on NACAS

1. The central government is empowered by virtue of Sec 210A(a) to establish National Advisory committee on Accounting Standards (NACAS) which would advise on the formulation and laying down of accounting policies and accounting standards for adoption by companies or class of companies under the act.

2. Since ICAI is presently doing the effective mechanism of the objective of the government, NACAS may not be effective in the future.

Solution to Question No. 6 (b) (iii) Short notes on Convergence of IFRS

The new IFRS replaces the older IAS and ICAI had taken up the project of harmonizing all AS with IFRS by 2011 for reporting and presentation.