CA Final Accounts November 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 20

1. The Balance Sheet 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
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 affected 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.

Ans .

1) Date of Acquisition **1.07.2006**

2) Shareholding Pattern : -

Particulars	Number of shares	% of holding
(a) In Canopy Ltd.		
Angle Ltd.	1000 Shares	16.67%
Bolt Ltd.	3500 Shares	58.33%
Minority Interest	1500 Shares	25%
(b) In Bolt Ltd.		
Angle Ltd.	7500 Shares	75%
Minority Interest	2500 Shares	25%

3) Analysis of profit of Canopy Ltd.

1) Reserves

Closing Balance
75,000

On the Date of Acquisition
50000
(Capital Profit)

Subsequent
appropriation
(Revenue Reserve)

12500
(Capital Reserve)

12500
(Revenue Reserve)

2) Profit and Loss A/c

Closing Balance 2,50,000

On the date of
Acquisition
30000
(Capital Profit)

Profit during 2006
1,00,000

Subsequent appropriation
2007 Profit
1,20,000
(Revenue Profit)

40,000
Profit

60,000
Dividend

Pre acquisition
(Capital Profit)
Profit 20,000

Post acquisition
Profit
20,000 (Revenue Profit)

Pre acquisition
dividend
30,000
(Capital Profit)

Post acquisition
dividend
30,000
(Revenue Profits)

AOP Table of Canopy Ltd.

Particulars	Capital Profit	Revenue Reserve	Revenue Profit
Opening balance of capital Profits	50,000	-	
Opening Balance of Revenue Profits	30,000	-	
Share in Capital Profits	12,500	12,500	
Share in Profit & Loss A/c (20,000 + 30,000 + 30,000)	80,000		1,70,000 (1,20,000 + 30,000 + 20,000)
Pre acquisition dividend	(30,000)		
	------------	------------	-------------
	1,42,500	12,500	1,70,000
	-----------	------------	-------------
Angle Ltd. (16.67%)	23755	2084	28339
Bolt Ltd. (58.33%)	83120	7291	99161
Minority Interest (25%)	35625	3125	42500

Analysis of Profits of Bolt Ltd.

1) Reserves

Closing Balance
1,25,000

- On the rate of acquisition
  1,00,000
  (Capital Profits)
- Subsequent appropriation
  25,000
  (Revenue Reserves)
  - 12500
    Capital Profit
  - 12500
    Revenue Reserves

2) Profit and Loss A/c

Closing Balance
2,75,000

- On the date of acquisition
  (50,000)
  (Capital Profit)
- Profit in year
  2,50,000
  - 1,50,000
    - Pre acquisition Profit
      75,000
      (Capital Profit)
    - Post acquisition Profit
      75,000
      (Revenue Profit)
  - 1,00,000
    Dividend
    - Pre acquisition dividend
      50,000
      (Capital Profit)
    - Post acquisition dividend
      50,000
      (Revenue Profit)
- Subsequent appropriation in the year 2007 (75000)
  (Revenue Profit)

AOP Table of Bolt Ltd.

Particulars	Capital Profit	Revenue Reserve	Revenue Profits
Op. Balance of Capital Profits	1,00,000	-	-
Op. Balance of Revenue Profits	(50,000)	-	-
Share in Capital Profits	12,500	12,500	-

Share in Profit and Loss A/c	1,57,500 (50000 + 75000 + 50000 - 17500)	-	2,00,000 (75000 + 50000 + 75,000)
Pre – acquisition dividend	(50,000)	-	-
Transfer from Canopy Ltd.	-	7291	99161
	--------------	---------------	----------------
	170000	19791	299161
Angle's (75%)	127500	14843	224371
Minority Intt. (25%)	42500	4948	74790

Calculation of Minorities Interest

Particulars	**Bolt Ltd.**	**Canopy Ltd.**
Share Capital	2,50,000	1,50,000
Share in Capital Profits	42500	35625
Share in Revenue Reserve	4948	3125
Share in Revenue Profits	74790	42400
	---------	----------
	372238	**231250**
	----------	**---------**
Total		**603488**

Cost of control

Cost of Acquisition Bolt Ltd.	9,00,000
Canopy Ltd.	6,70,000
(1,50,000+ 5,20,000)	
	15,70,000
Less : Pre Acquisition dividend	
Canopy Ltd. (30,000 x 75%)	22,500
Bolt Ltd. (50,000 x 75%)	37,500
	15,10,000
Less : Equity share capital	
Canopy Ltd. (7,500 x 100)	7,50,000
Bolt Ltd. (4,500 x 100)	4,50,000
	3,10,000
Less: Share in capital profit	
Bolt Ltd.	1,27,500
Canopy Ltd.	1,06,875
(23,755 + 83,120)	
	75,625
	======

Consolidated P/L A/c

Angles Ltd's Profit & Loss A/c balance		5,00,000
Add: Share in revenue profits	28,339	
	+ 2,24,371	2,52,710
Less: Pre acquition dividend (5,000 + 37,500) (30,000+ 16.67% + 50,000+ 75%)		42,500
Less: Unrealized Profit (18,000 x 20 / 120)		3,000
		7,07,210
		======

Consolidated
Balance sheet of Angle Ltd.

Liabilities	Amount	Asset	Amount
Equity share capital	15,00,000	Plant & Machinery	9,75,000
Reserves[2,00,000+2084+14843]	2,16,927	Furniture	4,90,000
Profit & Loss A/c	7,07,210	Goodwill	
Minority Interest	6,03,488	[2,50,000+5,80,000+4,50,000+75,625]	13,55,625
Creditors [2,00,000+2,50,000+1,00,000]	5,50,000	Bills Receivable [50,000+20,000-30,000]	40,000
Bills Payable [50,000 – 30,000]	20,000	Cash in transit [1,20,000-1,00,000]	20,000
		Stock in trade [4,10,000- 3,000]	4,07,000
		Sundry Debtors	2,80,000
		Cash in hand	30,000
	35,97,625		35,97,625

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 3,00,000 Equity shares of Rs. 10 each	3,000	Fixed assets	3,400
10,000 Preference shares of Rs. 100 each	1,000	Stock (pledged with secured loan creditors)	18,400
General reserve	400	Other Current assets	3,600
Secured loans (secured against pledge of stocks)	16,000	Profit and Loss account	16,600
Unsecured loans	8,600		
Current liabilities	13,000		
	42,000		42,000

Barry Ltd.

Liabilities		Assets	
Share capital		Fixed assets	6,800
1,00,000 Equity shares of		Current assets	9,600
Rs. 10 each	1,000		
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 vamer—

(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 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.

Ans **Calculation of Goodwill or capital Reserve of Charlie Ltd.**

	Andrew ltd.	Barry ltd.
Fixed Assets	34,00,000	
Current Assets:-		68,00,000
Stock(18400000 – 16000000) 2400000 x 80%	19,20,000	
Other current Assets:-		
(360000 x 80%)	28,80,000	
(960000 x 70%)		67,20,000
	82,00,000	1,35,20,000
Less: Current Liabilities	======	========
Andrew Ltd. / **Barry Ltd.**		
Statutory Liabilities: 50,00,000 (72,00,000-22,00,000) / 10,00,000		
Other miscellaneous Liabilities: 40,00,000 (50,00,000 x 80%) / 14,40,000 (18,00,000 x 80%)	120,00,000	
Employees Liability: 30,00,000 / 18,00,000		
		42,40,000
Less: Unsecured loans(86,00,000 x 25%)	21,50,000	--
Less: Secured loans		
Andrew (1,60,00,000 – 1,28,00,000)	3,20,000	
Barry (80,00,000 - 16,00,000)		72,00,000
	1,44,70,000	1,14,40,000
(A)	**(62,70,000)**	20,80,000
		5,00,000
Equity shares allotted to Andrew & Barry Ltd. In the ratio of(3:1) (B)	15,00,000	
Equity shares allotted to Preference Shareholders (c)	2,00,000	
		15,80,000
Purchase Consideration (A) -(B) -(C)	(79,70,000) **Goodwill**	**Capital Reserve**
Net Consideration (-7970000 + 1580000) = 6390000 Goodwill		

Balance Sheet
of Charlie Ltd.

Liabilities	Amount	Asset	Amount
Equity share capital (30,00,000+18,00,000+20,00,000+2,00,000)	70,00,000	Fixed Assets (34,00,000+68,00,000)	1,02,00,000
		Current Assets (48,00,000+67,20,000)	1,15,20,000
Secured Loans(3,20,000 + 72,00,000)	75,20,000	Goodwill	63,90,000
Unsecured Loans	21,50,000		
Current Liability (90,00,000 + 24,40,000)	1,14,40,000		
	2,81,10,000		**2,81,10,000**

Employees Liabilities are paid of by issue of equity shares equal to the amount of liability
For Andrew Ltd. Employees 300000 equity shares of Rs. 10 each = Rs. 3000000 and
For Barry Ltd. Employees 200000 Equity Shares of Rs. 10 each = Rs. 2000000

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

		(Rs.)	
		YE 31.3.08	YE 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	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.

Ans Basic EPS for the year ended 31st March 2007:-

$$\text{Basic EPS} = \frac{\text{Net profit available to Equity shareholders.}}{\text{Weighted Average no. of Equity shares.}}$$

Net Profit available to equity share holders as on 31.3.07.

$$\text{Basic EPS} = \frac{1{,}00{,}000 - [30{,}000+10{,}000]-3000-7875.\ (\text{W.N.(1)})}{10{,}000\ \ (\text{W.N.(2)})} = \frac{49{,}125}{10{,}000} = 4.9125$$

W.N.(1)
Debenture interest = (1,00,000 x 15%) x 9/12 x 70% = 7,875
Preference dividend = 1,00,000 x 6% x 6/12 = 3,000

W.N.(2). No of Equity shares as on 31.3.08 = 20,000.
10,000 Bonus shares issued on 1.1.08 so as on 31.3.07 No. of Equity Shares =20000–10,000 = 10000 Shares.

$$\text{Basic EPS} = \frac{3{,}00{,}000-[40{,}000+30{,}000] - 6000 - 12{,}000\ (\text{W.N.(3)})}{20{,}000\ \ (\text{W.N.(4)})} = 10.6$$

W.N.(3)
Preference dividend = 1,00,000 x 6% = 6,000
15% convertible Debentures = 1,00,000 x 15% x 80%= 12,000
Tax rate for the year 3,00,000 = Net profit (-) Extraordinary item
= 3,00,000 – 1,00,000 = 2,00,000
Current tax =40,000
So tax rate = 40,000/2,00,000 x 100 =20%

W.N.(4). Weighted average no. of equity shares = 10,000 as on 31.3.07+ 10,000 Bonus shares issued.
= 20,000 shares.
As per AS-20, Bonus shares issued in middle of the year are taken from the beginning of the year.
The per share effect of each of the comestible securities is as follows:-
Convertible preference per share

$$\text{Per share effect} = \frac{\text{Dividends}}{\text{Incremental equity share}} = \frac{6000}{15{,}000} = 0.4/\text{-}\ (\text{W.N.5})$$

(W.N.5)
Dividend on Preference Shares = 1000 x 100 = 1,00,000 x 6% = 6,000
Incremental shares = 1000 x 15 = 15,000

$$\text{Convertible Debentures Per share effect} = \frac{\text{Interest (Net of tax)}}{\text{Incremental shares}} = \frac{(1,00,000 \times 15\%) \times 20\%}{1,000 \text{ (W.N.6)}}.$$

$$= \frac{12,000}{1,000} = 12.$$

Dividend on Preference Shares = 1000 x 100 = 1,00,000 x 6% = 6000

$$\text{Incremental Shares} = \frac{1,00,000}{1,000} = 100 \times 10 = 1000 \text{ shares}$$

Note: - Since the Convertible Preference Shares has the lowest per share effect (Rs. 0.4) , it is the most dilutive and therefore should be assumed to be converted before the convertible debentures which has a higher per Share effect (Rs. 12) If only the preference shares is assumed to be converted the diluted EPS is

$$\text{Diluted EPS} = \frac{\text{Net Income + Preference Dividend}}{\text{WAES + WAPES}}$$

$$\frac{3,00,000 - [40,000 + 30,000] - 12,000\ (1,00,000 \times 15\% \times 80\%)}{(20000 + 15000)\ 35,000} = \frac{2,18,000}{35,000} = 6.2285$$

(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

Ans. **Statement of changes in Loans fund Balances.**

A) Fund balance at the beginning of the year		30,30,000
B) Addition during 2007-08.		
Private and Government grant	11,00,000	
Investment income.	35,000	
Interest on loans.	60,000	11,95,000
C) Reductions during 2007-08.		
Loans cancellations and write offs.	15,000	
Refunded to grantors.	60,000	
Administration & collections costs.	25,000	1,00,000
D) Transfer from other funds.		
Not mandatory-loans fund matching grant from unrestricted fund.	1,50,000	
Mandatory-Loan fund matching grant.	30,000	1,80,000
E) Net Additions. (B-C+D)		12,75,000
F) Fund balance at the end of the year (A + E)		43,05,000

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	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.

(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.

Ans **Gross value added statement of New Mode Reporting Ltd. for the year ended 31.12.07**

	Rs.	Rs.
Sales		1,24,80,000
1) Less: Consumption of raw materials	64,20,000	
Consumption of stores	80,000	
Excise duty (W.N.1)	3,60,000	
Other manufacturing Expenses	8,84,000	
Miscellaneous Expenses(W.N.1)	5,28,000	
2) Administrative Expenses Excluding directors salaries (3,60,000-10,000)	3,50,000	
3) Interest on working capital loan	40,000	
4) Interest on Bank overdraft	2,18,000	88,80,000

Value Added by manufacturing and Trading activities			36,00,000
Add: Other income (Note 2)			1,10,000
Total value Added /Gross value Added			37,10,000
			======
Application of value added			
To Employees – salaries to Administrative Staff			12,40,000
To Directors			10,000
Local tax	16,000		
Income tax	1,10,000		1,26,000
To Providers of capital – Interest on fixed loan		1,02,000	
Dividend		3,20,000	4,22,000
To provide for maintenance and Expansion			
Depreciation		32,000	
Fixed Assets replacement Reserve		8,00,000	
Retained Profit		10,80,000	19,12,000
			37,10,000

Reconciliation of Gross value Added and profit before Taxation.

Profit before Taxation.		23,10,000
Add: Depreciation	32,000	
Interest on fixed loan	1,02,000	
Salaries to Administrative staff to Employees	12,40,000	
Salaries to Directors.	10,000	
Local tax	16,000	14,00,000
Gross value Added		**37,10,000**
		=======

Note (1) : In the Question production & operational expenditure total has been given to be Rs. 86,40,000 but details has been given of Rs. 28,62,000 only. The amount of consumption of material should be Rs. 64,20,000 not Rs. 6,42,000.

Note (2) It is assumed that other Income is Indirect Income .

W.N .(1) Calculation of Excise duty and Miscellaneous Changes.

Interest and other charges		12,48,000
Interest on Bank Overdraft	2,18,000	
Fixed loan from SIDBI	1,02,000	
Working capital loan from IFCI	40,000	3,60,000
		8,88,000
		======

Assuming that the miscellaneous Charges have to be taken for assuming at value Added the Amount of excise duty and miscellaneous Charges are computed as below.

Let excise duty = X

Miscellaneous charges = 8,88,000 – X

X = 1/10[12,48,000-(64,20,000+80,000+8,84,000+3,50,000+40,000+2,18,000+X+(8,88,000 – X)]

X = 1/10(1,24,80,000 – 88,80,000) = X = 3,60,000.

Miscellaneous charges = 8,88,000 – 3,60,000 = 5,28,000.

(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**

	Cost	Market Price
Scrips :		
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	30.00	6.00
G	75.00	90.00

B. Mutual funds —

MF-1	39.00	24.00
MF-2	30.00	21.00
MF-	36.00	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 ?

Ans (i) The company can adjust depreciation of a particulars item of investment within a category as per AS-13. Like equity Shares depreciation can be adjusted within that category. Investments in each category can be considered script wise and the cost and market price can be aggregated for all investments in each category . If the aggregate Market value of investments in less than aggregate in each category the net depreciation shall be provided for or charged to the profit and loss A/c . If the aggregate market value for the category exceeds the aggregate cost of each category , the net appreciation shall be ignored .

(ii)

Scripts	**Cost**	**Market price**	**For Valuation purpose (Cost or Market price whichever is Lower)**
A- 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	445.2	Total value 406.5
B. Mutual funds.			
MF-1	39	24	
MF-2	30	21	
MF-3	6	9	
	75	54	
		Total value	54
C. Government securities.			
GV-1	60	66	
GV-2	75	72	
	135	138	Total value 135

(A+B+C). Total value of investments as on 31.3.08 = 595.5

(iii) No, It cannot be done. It is not possible to off set depreciation in investment in mutual funds against appreciation of the value of investments in Equity shares and government securities. Set off can be done within a category and not between two different category of investments .Depreciation in one category of investments cannot be allowed to be setoff against appreciation in another category.

5. (a) Golden Eagle Ltd. has been a successful jewelers 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 toAS-9.

Ans Revenue from the sale of goods should be recognised when all the following conditions are satisfied :

1) Seller has transferred the ownership of goods to buyer for a price .
2) All significant risk and rewards of ownership have been transferred to buyer.
3) Seller does not retain any effective control of ownership of the transferred goods.
4) There is no significant uncertainty in collection of the amount of consideration (i.e. cash , receivables)

Here ,the condition for sale in the question is that dealers can return the unsold stocks within one month of the end of season . Here the revenue should not be recognised , i.e. , sales should not be recognised till the time of actual sale confirmation received from dealers.

As per AS – 9 , Revenue Recognition , when goods are sold on approval basis revenue should be recognised as per the substance of the agreement of sale or after the reasonable period has expired , i.e. , that particular season . So revenue should not be recognised on sale return , i.e. , 25% of sales and remaining 75% of sales if confirmation about sales to ultimate consumer have been received sales should be recognised as revenue .

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

Ans As per AS – 13 "Investment" , cost of an asset is the historical cost which was paid for acquiring an asset in the past . Fair value of an investment is the value of investment required to be paid to acquire it currently.

Cost of investment includes Brokerage, fees and duties. Fair value is the amount for which an asset could be exchanged between a buyer and a seller, who are knowledgeable and willing; it should be an arm's length transaction .

Long term investments should be carried in financial statements at cost.

Whereas current investments should be carried in financial statement at the lower of cast and fair value.

As per AS – 10 Accounting for Fixed Assets

Cost of fixed assets comprises of purchase price, import duties, non refundable taxes or levies , cost directly attributable in bringing the asset to its working condition , any trade discounts and rebates, exchange fluctuation , etc. However fair market value may be determined by reference to asset given up or asset acquired whichever is ascertainable accurately. It is the price agreed by the parties who are dealing at arm's length with full information and without any compulsion in an open and free market conditions.

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

Ans Human Resource Asset is a non monetary item , it deals with human being whom we can't measure in monetary terms and hence not recognised in the balance sheet. Human Resource provide an enterprise a sustainable competitive advantage through creation of super quality intellectual assets. It has different characteristics like personality , self control , devotion , quality , skill , talent , loyalty , initiatives , but now a days Human Resource Accounting advocate to value and report human resource of an organization . It includes cost of recruitment, training and maintenance of an entity's human assets.

(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.

Ans As per AS-15, defined benefit scheme, especially that promised benefits related to remuneration at a near settlement present significant difficulties in the determination of periodic charges to the statement of profit &loss. The extent of an employer's obligation under such schemes is usually uncertain and requires estimation. In estimating the obligation, assumptions may need to be made regarding future candidates and events which are largely onside the employees control.

(i) On the basis of the above AS-15 settlement allegories payable by company is defined, retirement benefit therefore is covered Under AS-15

(ii) A provision should be made every year in the accounts for the accruing liability an account of settlement allowance. The amount of provision should be calculated according to actuarial valuation.

(iii) Where the amount of provision determined is not material, the company can follow, same other methods of accounting for settlement allowances, provided at is reasonable under the facts and circumstances of the cases and is followed consistently.

6. (a) XYZ Ltd. with a turnover of Rs. 35 lakhs and borrowings of Rs. 10 lakhs 8 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.

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

Ans XYZ Ltd. having a turnover of Rs. 35 lakhs and borrowings of Rs. 10 lakhs is covered under the definition of small and medium companies of companies (Accounting standards) Rules 2006. Since the Turnover of the company doesnot exceed 50 Crores at any time during the immediately preceding Accounting year nor does its borrowings exceeds Rs. 10 Crores in the Accounting year so they are covered under the exemptions provided under the companies (Accounting Standards) Rules 2006 .

Following are the exemptions / relaxations to SMC:-

The SMCs are given the following relaxation in complying the notified accounting standards –

- SMCs need not to prepare cash flow statement as per AS-3 and need not to disclose the segment reporting as AS-17
- The SMCs have been given following relaxation as regards AS-15 "Employee Benefits":
  - SMCs need not comply with AS-15 to extent date deal with recognition and measurement of short-term accumulated compensating absences.
  - Discounting the amount payable after 12 months of balance sheet as regards defined contribution plans and termination benefits.
  - Recognition, measurement and disclosure principles in respect of defined benefit plans and other long-term employee benefits plan. However such enterprises should provide and disclose the accrued liability in respect of defined benefit plan and other long-term employee benefit plan as per actuarial valuation based on projected unit credit method and discount rate based on yield on Government bonds.
- SMCs need not disclose diluted EPS as AS-20 "Earning Per Share".
- SMCs need not comply with disclosure requirements regarding operating leases of AS-19 "Leases" and regarding disclosure for finance lease by the lessor and lessee respectively.
- Value in use has been differently defined for SMCs which provides and alternate to calculate value in use based on a reasonable estimate of future cash flows.

SMCs are exempt from disclosure requirements of AS-29 regarding provisions and its descriptions

(b) Briefly explain any two of the following terms : 2x4=8

(i) IFRS:-

Ans IFRS:- International Accounting standard Board (IASB) is now issuing international financial reporting standards (IFRS) ,IASB has issued the following eight :- IFRS.

IFRS no.	Title	Correspanding Indian GAAP not relevant.
IFRS – 1	First time adoption of IFRS.	Not relevant
IFRS - 2	Share based payments.	-
IFRS – 3	Business combination.	AS-14
IFRS - 4	Insurance contracts.	-
IFRS – 5	Non- current assets held for sale discontinued operation.	Covered by AS-24
IFRS - 6	Exploration for and evaluation of Mineral resources.	-
IFRS – 7	Financial instrument disclosure.	Under preparation
IFRS – 8	Operating segment	AS-17

The ICAI has decided that IFRS should be adopted for public interest entities from accounting period starting on or after 18th April 2011. The ICAI has published concept paper on conversance with IFRS in Indian. This paper gives the roadmap to adopt the IFRS in India by 2011.

(ii) NACAS:- The Institute of Chartered Accountants of India's (ICAI) accounting standards, being followed by the CAs, are set to assume statutory authority soon. The government is planning to notify the National Accounting Standards, as per the recommendations of the **National Advisory Committee on Accounting Standards (NACAS).** The NACAS was set up in 2000, with a view to devising and continuous up gradation of accounting standards. It was decided that till the statutory norms are in place, the ICAI standards would be binding on the CAs.
The ICAI is currently working on revising the norms for accounting meant for real estate developers. Before finalizing the accounting norms, the NACAS had drawn inputs from various stakeholders.
The statutory accounting norms would be helpful to Indian corporates in an era where increasing number of Indian companies are going global and are raising money from overseas markets.

(iii) Convergence of Accounting standards with IFRS:-

International Accounting Standard Board has so far issued forty one accounting standards, large numbers of standards have been revised and twelve IAS have been superseded and deleted. IAS has been given a new number series as IFRS. The total number of IFRS issued till date are eight.
A key moment in the move to IAS/IFRS came on 6th June, 2002 when the European Council-of-_Ministers approved the regulation that would require all EU Companies listed on a regulated market to prepare accounts in accordance with International Accounting Standards for accounting periods beginning on or after 1st January, 2005.
Today the accounting world feels that IAS/IFRS should be common language for accounting, as it is the only set of standards that has been prepared through wide international consultation.

Adoption of IFRS in India

The Institute of Chartered Accountants of India (ICAI) decided that IFRS should be adopted for public interest entities from accounting period starting on or after 1st April, 2011. The ICAI has published concept paper on convergence with IFRS in India. This paper gives the roadmap to adopt the IFRS in India by 2011.
The list of IAS/IFRS and corresponding AS issued by ICAI is given below: