

PAPER – 1 : ADVANCED ACCOUNTING

QUESTIONS

1. P and Q have been carrying on same business independently. Due to competition in the market, they decided to amalgamate and form a new company called PQ Ltd.

Following is the Balance Sheet of P and Q as at 31.3.2007:

Liabilities	P Rs.	Q Rs.	Assets	P Rs.	Q Rs.
Capital	7,75,000	8,55,000	Plant & machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000
			Current assets	<u>1,63,500</u>	<u>1,58,600</u>
	<u>13,98,500</u>	<u>14,12,600</u>		<u>13,98,500</u>	<u>14,12,600</u>

Following are the additional information:

- (i) The authorised capital of the new company will be Rs.25,00,000 divided into 1,00,000 equity shares of Rs.25 each.
- (ii) Liabilities of P includes Rs.50,000 due to Q for the purchases made. Q made a profit of 20% on sale to P.
- (iii) P has goods purchased from Q, cost to him Rs.10,000. This is included in the Current asset of P as at 31st March, 2007.
- (iv) The assets of P and Q are to be revalued as under:

	P Rs.	Q Rs.
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

- (v) The purchase consideration is to be discharged as under:
 - (a) Issue 24,000 equity shares of Rs. 25 each fully paid up in the proportion of their profitability in the preceding 2 years.
 - (b) Profits for the preceding 2 years are given below:

	P Rs.	Q Rs.
1 st year	2,62,800	2,75,125
II nd year	<u>2,12,200</u>	<u>2,49,875</u>
Total	<u>4,75,000</u>	<u>5,25,000</u>

- (c) Issue 12% preference shares of Rs.10 each fully paid up at par to provide income equivalent to 8% return on capital employed in the business as on 31.3.2007 after revaluation of assets of P and Q respectively.

You are required to:

- (i) Compute the amount of equity and preference shares issued to P and Q.
- (ii) Prepare the Balance Sheet of P & Q Ltd. immediately after amalgamation.

2. The following information has been extracted from the Books of 'X' Limited group (as at 31st December, 2006):

	X Ltd. Rs.	Y Ltd. Rs.	Z Ltd. Rs.		X Ltd. Rs.	Y Ltd. Rs.	Z Ltd. Rs.
Share capital				Fixed Assets Less			
(Fully paid equity shares of Rs.10 each)	8,00,000	6,00,000	4,00,000	Depreciation	4,20,000	3,76,000	5,22,000
Profit and Loss Account	2,10,000	1,90,000	1,28,000	Investment at Cost	6,30,000	4,00,000	---
Dividend received:				Current Assets	1,20,000	60,000	40,000
From Y Ltd. in 2005	60,000						
From Y Ltd. in 2006	60,000						
From Z Ltd. in 2006		36,000					
Current Liabilities	<u>40,000</u>	<u>10,000</u>	<u>34,000</u>				
	<u>11,70,000</u>	<u>8,36,000</u>	<u>5,62,000</u>		<u>11,70,000</u>	<u>8,36,000</u>	<u>5,62,000</u>

All the companies pay dividends of 12 percent of paid-up share capital in March following the end of the accounting year. The receiving companies account for the dividends in their books when they are received.

'X' Limited acquired 50,000 equity shares of Y Ltd. on 31st December, 2004.

'Y' Limited acquired 30,000 equity shares of Z Ltd. on 31st December, 2005.

The detailed information of Profit and Loss Accounts is as follows:

	X Ltd. Rs.	Y Ltd. Rs.	Z Ltd. Rs.
Balance of Profit and Loss Account on 31 st December, 2004 after dividends of 12% in respect of calendar year 2004, but excluding dividends received	86,000	78,000	60,000
Net profit earned in 2005	<u>1,20,000</u>	<u>84,000</u>	<u>56,000</u>
	2,06,000	1,62,000	1,16,000
Less – Dividends of 12% (paid in 2006)	<u>96,000</u>	<u>72,000</u>	<u>48,000</u>
	1,10,000	90,000	68,000
Net profit earned in 2006 (Before taking into account proposed dividends of 12% in respect of calendar year 2006)	<u>1,00,000</u>	<u>1,00,000</u>	<u>60,000</u>
	<u>2,10,000</u>	<u>1,90,000</u>	<u>1,28,000</u>

Taking into account the transactions from 2004 to 2006 and ignoring taxation, you are required to prepare:

- The Consolidated Balance Sheet of X Limited group as at 31st December, 2006.
- The Consolidated Profit and Loss Account for the year ending 31st December, 2006.
- Cost of control.
- Minority shareholders interest.

3. The following is the Profit and Loss Account of F Ltd. from which you are required to prepare a gross value added statement and reconcile the same with profit before taxation.

	Rs. in ('000)
Sales	28,500
Other Income	<u>750</u>
	<u>29,250</u>
Expenditure	
Operating Cost	25,600
Excise Duty	1,700
Interest on Bank Overdraft	100
Interest on 12% Debentures	<u>1,150</u>
	<u>28,550</u>

	Rs. in ('000)
Profit before Depreciation	700
Less: Depreciation	<u>250</u>
Profit before tax	450
Tax Provision	<u>270</u>
Net Profit after tax	180
Less: Transfer to Replacement Reserve	<u>30</u>
	150
Less: Dividend	<u>50</u>
Retained Profit	<u>100</u>

Note:

- Sales are net after deducting discounts, returns, and sales tax.
 - Operating Cost includes Rs. ('000) 10,200 as wages, salaries and other benefits to employees.
 - Bank Overdraft is a temporary source of finance.
 - Provision for tax includes Rs. ('000) 70 for deferred tax.
4. The Balance Sheet of ABC Ltd. as at 31st March, 2007 was as follows:

Liabilities	Rs.	Assets	Rs.
Equity Shares (Rs. 10)	5,00,000	Goodwill	1,00,000
General Reserves	2,50,000	Equipment at cost	9,00,000
Profit and Loss Account	1,00,000	Stock	3,50,000
12% Debentures	3,00,000	Debtors	1,50,000
Provision for depreciation on equipment	1,50,000	Bank	75,000
Staff welfare fund	40,000	Advertisement	Suspense
Proposed Dividend	75,000	Account	
Sundry Creditors	<u>1,85,000</u>		<u>25,000</u>
	<u>16,00,000</u>		<u>16,00,000</u>

You are required to calculate the value of an equity share on net assets basis. The following further information is available:

- A fair return (after-tax) on capital employed for this type of business is 18%.

- (ii) Equipment to be revalued at Rs. 8,00,000.
 - (iii) Stocks are considered to have a net realizable value of Rs. 3,30,000.
 - (iv) Goodwill in this type of business is normally valued at 3 years' super profits.
 - (v) Included in the debtors is a balance of Rs. 10,000 which may be irrecoverable.
 - (vi) Profits for the last three years (before interest and taxes) are: 2006–2007 – Rs. 5,40,000; 2005–2006 – Rs. 5,10,000; 2004–2005 – Rs. 5,50,000;
 - (vii) Company profits are taxed at 40%.
5. Omega Co. Ltd. started its business on 1st April, 2003. On 31st March, 2006, its balance sheet in a summarized form was as follows:

Liabilities	Rs.	Assets	Rs.
Share Capital:		Fixed Assets (cost less depreciation)	30,00,000
10,000, 14% Pref. shares of Rs. 100 each, fully paid	10,00,000	Current Assets	40,00,000
3,00,000 Equity shares of Rs. 10 each, fully paid	30,00,000	Preliminary Expenses	50,000
Profit prior to Incorporation	25,000		
Profit & Loss Account	5,50,000		
13% Debentures	5,00,000		
Sundry Creditors	18,00,000		
Provision for Income tax	<u>1,75,000</u>		
	<u>70,50,000</u>		<u>70,50,000</u>

The company is yet to declare its maiden (first) dividend. A revaluation reveals that the fixed assets as on 31st March, 2006 of worth Rs. 32,00,000. Calculate the intrinsic worth of the two classes of shares. Ignore corporate dividend tax.

6. Find out the average capital employed of ND Ltd. from its Balance sheet as at 31st March, 2006:

Liabilities	(Rs. in lakhs)	Assets	(Rs. in lakhs)
Share Capital:		Fixed Assets:	
Equity shares of Rs.10 each	50.00	Land and buildings	25.00
9% Pref. shares fully paid up	10.00	Plant and machinery	80.25
Reserve and Surplus:		Furniture and fixture	5.50
General reserve	12.00	Vehicles	5.00
Profit and Loss	20.00	Investments	10.00
Secured loans:		Current Assets:	
16% debentures	5.00	Stock	6.75
16% Term loan	18.00	Sundry Debtors	4.90
Cash credit	13.30	Cash and bank	10.40
Current Liabilities and Provisions:		Preliminary expenses	0.50
Sundry creditors	2.70		
Provision for taxation	6.40		
Proposed dividend on:			
Equity shares	10.00		
Preference shares	<u>0.90</u>		
	<u>148.30</u>		<u>148.30</u>

Non-trade investments were 20% of the total investments.

Balances as on 1.4.2005 to the following accounts were:

Profit and Loss account Rs.8.70 lakhs, General reserve Rs.6.50 lakhs.

7. Alpha Co. provides you with the following information:

Equity	Rs. 100 lakhs
8% Secured Loans	Rs. 20 lakhs
10% Unsecured Loans	Rs. 30 lakhs
Profit after tax	Rs. 15,83,000
Rate of Tax	40%
Normal Bank Rate	12%

You are required to calculate EVA for Alpha Co.

8. Indian Engineering and Technological Institute, an autonomous body furnishes the following information:

On 1.4.2006, unutilised restricted Government (Capital) balance is Rs.40,00,000; unutilised unrestricted Government Grant (Revenue) balance is Rs.9,00,000; Institute's own corpus fund is Rs.25,00,000. Besides, a private endowment fund of Rs.18,50,000 is there on that date. The entire endowment fund is in Fixed deposit with a bank fetching interest of 9.5% p.a. half-yearly transferred on 30th September and 31st March to a current account meant for scholarship and awards. The said current account has a balance of Rs.1,37,500. Apart from this, total Cash and Bank Balance as on 1.4.06 is Rs.85,00,000.

Following transactions took place during the year 2006-07:

- (1) Salary paid out of own fund is Rs.65,00,000.
- (2) Salary to the research Associates of a Government sponsored research scheme is Rs.4,00,000 paid out of unrestricted Government Grant.
- (3). Cost of renovation of the administrative building borne out of the Institute's own fund is Rs.4,75,000. The renovation work was completed on 21st November, 2006 which was also the date of payment. Book value of the building was Rs.38,00,000 on 1.4.06. The rate of depreciation is 5% p.a. calculated at full year's rate if the asset exists for a period exceeding 6 months, and at half-year's rate in other cases. The same principle is followed by the Institute in all cases of depreciation.
- (4) Tuition fees were received Rs.85,00,000.
- (5) Scholarships and awards of Rs.1,43,000 were given on 9th December, 2006.
- (6) A Laboratory building was under construction for the last two years. Balance of Capital Work-in-progress on 1.4.06 was Rs.28,00,000. The work has been completed on 25th May, 2006. Final payment was made earlier on 29.4.2006. Total expenditure comes to Rs.37,00,000. Rate of depreciation on the Laboratory building is 5%. The entire expenditure will be spent from the restricted Govt. (Capital) Grant on certain conditions attached by the Govt. The Institute follows the principles of AS-12 in the case of use of revenue and capital grant. Since certain conditionality will apply over a period of time, it is decided that deferred income method will be followed.

Show the following Ledger accounts:

- (i) Restricted Government Grant (Capital) A/c.
- (ii) Unrestricted Government Grant (Revenue) A/c.
- (iii) Current A/c of Endowment and Scholarship.
- (iv) Cash and Bank A/c.

9. (a) "The content of corporate social report is essentially based on social objectives." Discuss.
 (b) Enumerate the major heads identified for corporate social reporting purposes.
10. Mahindra Finance Ltd. is a non-banking finance company. The extracts of its balance sheet are given below:

Liabilities	Amount	Assets	Amount
Paid up equity share capital	100	Leased out Assets Investment:	800
Free Reserves	500	In shares of subsidiaries and	
Loans	400	group companies	100
Deposits	400	In debentures of subsidiaries	
		and group companies	100
		Cash and Bank balances	200
		Deferred Expenditure	200
	<u>1,400</u>		<u>1,400</u>

You are required to compute Tier – I Capital of Mahindra Finance Ltd. according to NBFC Prudential Norms (RBI) Directions 1998.

11. Write short note on "Non-Performing Assets" as per NBFC Prudential Norms (RBI) directions.
12. What books of account are required to be maintained by a Stock Broker? Explain in brief.
13. What capital adequacy requirements are required to be followed by a Merchant Banker? Write in brief.
14. Describe the special features of accounting for Educational Institutions?
15. Briefly describe the method of valuation of human resources as suggested by Jaggi and Lau.
16. (a) Explain currency options related to foreign exchange.
 (b) Define the term 'Beta' in the context of Economic Value Added.
17. Differentiate between Indian AS and IAS on the issue of revenue recognition.
18. A buyer buys a stock option of New Light Company Limited on 30th August, 2006 with a strike price of Rs.150 per unit to be expired on September 30, 2006. The premium is Rs.10 per unit and the market lot is of 100. The margin to be paid is Rs.60 per unit.

Show, how the transactions will appear in the books of the seller, when the option is settled in cash and the Index price is Rs.160 per unit.

Questions on Accounting Standards

19. Write short notes on:
- (a) Accounting for investment by a holding company in subsidiaries.
 (b) Impairment of asset and its application to inventory.
20. Classify the following as "Timing Difference" and "Permanent Difference".
- (i) Interest on loans payable to Scheduled Banks not paid during current year but accounted as an expenditure in the books.
 (ii) Difference in Depreciation rates as per Income Tax and as per Books.
 (iii) Unabsorbed losses.
 (iv) Revaluation Reserve.
21. (a) Disclosure requirements as regards to the investor, where the associate has contingent liabilities.
 (b) Write short note on Treatment of borrowing costs.

22. Classify the following under operating, financing and investing activity as per AS 3 (Revised)
- Interest and dividends received by financial institutions .
 - Redemption of preference share capital.
 - Receipt from trade debtors.
 - Payment for acquisition of long term assets.
 - Payment to employees.
 - Dividend paid to shareholders.
 - Acquisition of equity or debt securities.
23. (a) Explain the nature of classification and disclosure requirements in the Statement of profit and loss account of an entity in case of disposal of long-term investment of a trading entity in accordance with AS 13.
- (b) What basic criteria is used for classification of leases into Operating Lease and Finance Lease?
24. Mr. 'X' as a contractor has just entered into a contract with a local municipal body for building a flyover. As per the contract terms, 'X' will receive an additional Rs.2 crore if the construction of the flyover were to be finished within a period of two years of the commencement of the contract. Mr. X wants to recognize this revenue since in the past he has been able to meet similar targets very easily.
- Is X correct in his proposal? Discuss.
25. A Company has an inter-segment transfer pricing policy of charging at cost less 10%. The market prices are generally 25% above cost. Is the policy adopted by the company correct?
26. From the following information of a company having two primary segments, prepare a statement classifying the same under appropriate heads:

		(Rs. in lakh)
Segment Revenue	A	27,050
Segment Revenue	B	3,280
Inter Segment Revenue	A	50
Segment Profit	A	4,640
Segment Profit	B (Loss)	197
Dividend Income		285
Interest expenses		35
Tax Provision		1,675
Capital Expenditure	A	1,300
Capital Expenditure	B	16
Non Cash Expenses (excluding depreciation)		
Segment	A	114
Segment	B	16
Liabilities	A	3,430
Liabilities	B	770
Other Liabilities		2,200
Assets	A	19,450
Assets	B	2,700
Other Assets		6,550
Depreciation	A	110
Depreciation	B	15

27. P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a listed company and regularly supplies goods to P Ltd. The management of R Ltd. has not disclosed its relationship with P Ltd.

How would you assess the situation from the viewpoint of AS -18 on Related Party Disclosures?

28. Lessee Ltd. took a machine on lease from Lessor Ltd., the fair value being Rs.7,00,000. The economic life of the machine as well as the lease term is 3 years. At the end of each year Lessee Ltd. pays Rs.3,00,000. Guaranteed Residual Value (GRV) is Rs.22,000 on expiry of the lease. Implicit Rate of Return (IRR) is 15% p.a. and present value factors at 15% are 0.869, 0.756 and 0.657 at the end of first, second and third years respectively.

Calculate the value of machine to be considered by Lessee Ltd. and the interest (Finance charges) in each year.

29. Garden Ltd. acquired fixed assets viz. plant and machinery for Rs.20 lakhs. During the same year it sold its furniture and fixtures for Rs.5 lakhs. Can the company disclose, net cash outflow towards purchase of fixed assets in the cash flow statement as per AS-3?
30. ABC Ltd. gave 50,000 equity shares of Rs.10 each (fully paid up) in consideration for supply of certain machinery by X & Co. The shares exchanged for machinery are quoted on Bombay Stock Exchange (BSE) at Rs.15 per share, at the time of transaction. In the absence of fair market value of the machinery acquired, how the value of machinery would be recorded in the books of the company?

31. A Ltd. had acquired 80% share in the B Ltd. for Rs. 25 lacs. The net assets of B Ltd. on the day are Rs. 22 lacs. During the year A Ltd. sold the investment for Rs. 30 lacs and net assets of B Ltd. on the date of disposal was Rs. 35 lacs. Calculate the profit or loss on disposal of this investment to be recognised in consolidated financial statement.

32. Ultra Ltd. has provided the following information.

Depreciation as per accounting records =Rs. 2,00,000

Depreciation as per tax records =Rs. 5,00,000

Unamortized preliminary expenses as per tax record = Rs. 30,000

There is adequate evidence of future profit sufficiency. How much deferred tax asset/liability should be recognized as transition adjustment? Tax rate 50%.

33. The accounting year of X Ltd. ends on 30th September, 2006 and it makes its reports quarterly. However for the purpose of tax, year ends on 31st March every year. For the Accounting year beginning on 1-10-2005 and ends on 30-9-2006, the quarterly income is as under:-

1 st quarter ending on 31-12-2005	Rs. 200 crores
2 nd quarter ending on 31-3-2006	Rs. 200 crores
3 rd quarter ending on 30-6-2006	Rs. 200 crores
4 th quarter ending on 30-9-2006	Rs. 200 crores
Total	Rs. 800 crores

Average actual tax rate for the financial year ending on 31-3-2006 is 20% and for financial year ending 31-3-2007 is 30%. Calculate tax expense for each quarter.

34. During 2004, an enterprise incurred costs to develop and produce a routine, low risk computer software product, as follows:

	Amount (Rs.)
Completion of detailed programme and design	25,000
Coding and Testing	20,000
Other coding costs	42,000
Testing costs	12,000

Product masters for training materials	13,000
Duplication of computer software and training materials, from product masters (2,000 units)	40,000
Packing the product (1,000 units)	11,000

What amount should be capitalized as software costs in the books of the company, on Balance Sheet date?

35. Ergo Industries Ltd. gives the following estimates of cash flows relating to fixed asset on 31-12-2005. The discount is 15%.

Year	Cash Flow (Rs. In lakhs)
2006	4000
2007	6000
2008	6000
2009	8000
2010	4000
Residual value at the end of 2010	= Rs. 1000 lakhs
Fixed Asset purchased on 1-1-2003	= Rs. 40,000 lakhs
Useful life	= 8 years
Net selling price on 31-12-2010	= Rs. 20,000 lakhs

Calculate on 31-12-2005:

- Carrying amount at the end of 2005
 - Value in use on 31-12-2005
 - Recoverable amount on 31-12-2005
 - Impairment loss to be recognized for the year ended 31-12-2005
 - Revised carrying amount
 - Depreciation charge for 2006
36. An unquoted long term investment is carried in the books at a cost of Rs. 2 lakhs. The published accounts of the unlisted company received in May, 2006 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than Rs. 20,000. How will you deal with this in preparing the financial statements of R Ltd. for the year ended 31st March, 2006?
37. PRM Ltd. obtained a loan from a bank for Rs. 50 lakhs on 30-04-2005. It was utilized as follows:

Particulars	Amount (Rs.in lakhs)
Construction of a shed	50
Purchase of a machinery	40
Working Capital	20
Advance for purchase of truck	10

Construction of shed was completed in March 2006. The machinery was installed on the same date. Delivery truck was not received. Total interest charged by the bank for the year ending 31-03-2006 was Rs.18 lakhs. Show the treatment of interest.

38. Net profit for the current year Rs. 1,00,00,000
- No. of equity shares outstanding 50,00,000
- Basic earnings per share Rs. 2.00

No. of 12% convertible debentures of Rs. 100 each	1,00,000
Each debenture is convertible into 10 equity shares	
Interest expense for the current year	Rs. 12,00,000
Tax relating to interest expense (30%)	Rs. 3,60,000
Compute Diluted Earnings Per Share.	

39. On 1st December, 2005, Vishwakarma Construction Co. Ltd. undertook a contract to construct a building for Rs. 85 lakhs. On 31st March, 2006 the company found that it had already spent Rs. 64,99,000 on the construction. Prudent estimate of additional cost for completion was Rs. 32,01,000. What amount should be charged to revenue in the final accounts for the year ended 31st March, 2006 as per provisions of Accounting Standard 7 (Revised)?
40. A Ltd. purchased fixed assets costing Rs. 3,000 lakhs on 1.1.2006 and the same was fully financed by foreign currency loan (U.S. Dollars) payable in three annual equal instalments. Exchange rates were 1 Dollar = Rs. 40.00 and Rs. 42.50 as on 1.1.2006 and 31.12.2006 respectively. First instalment was paid on 31.12.2006. The entire difference in foreign exchange has been capitalized.

You are required to state, how these transactions would be accounted for.

SUGGESTED ANSWERS/HINTS

1. (i) Calculation of amount of equity shares issued to P and Q

Profits of	P Rs.	Q Rs.
I st year	2,62,800	2,75,125
II nd year	<u>2,12,200</u>	<u>2,49,875</u>
Total	<u>4,75,000</u>	<u>5,25,000</u>
No. of shares to be issued = 24,000 equity shares in the proportion of the preceding 2 years' profitability		
24000 × 475/1000	11,400 equity shares	
24000 × 525/1000		12,600 equity shares

Calculation of amount of 12% Preference shares issued to P and Q

	P Rs.	Q Rs.
Capital employed (Refer working note 1)	8,40,000	9,24,000
8% return on capital employed	67,200	73,920
12% Preference shares to be issued $\left[67,200 \times \frac{100}{12} \right]$	Rs. 5,60,000	
$\left[73,920 \times \frac{100}{12} \right]$		Rs. 6,16,000

Total Purchase Consideration

	P Rs.	Q Rs.
Equity Shares	2,85,000	3,15,000
12% Preference shares	<u>5,60,000</u>	<u>6,16,000</u>
Total	<u>8,45,000</u>	<u>9,31,000</u>

(ii) Balance Sheet of PQ Ltd. (after amalgamation)

Liabilities	Rs.	Assets	Rs.
Authorised share capital:		Fixed assets:	
1,00,000 Equity Share of Rs.25 each	<u>25,00,000</u>	Goodwill (W.N.1)	14,000
Issued and subscribed share capital:		Plant and Machinery	12,00,000
24,000 Equity Shares of Rs.25 each	6,00,000	Building	14,23,000
1,17,600 12% Preference shares of Rs.10 each	11,76,000	Current Assets (W.N.2)	2,70,100
(All of the equity and preference shares have been issued for consideration other than cash)			
Current Liabilities (W.N. 3)	<u>11,31,100</u>		
	<u>29,07,100</u>		<u>29,07,100</u>

Working Notes:

1. Goodwill

	P Rs.	Q Rs.
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000
Current assets	<u>1,63,500</u>	<u>1,58,600</u>
	14,63,500	14,81,600
Less: Current liabilities	<u>6,23,500</u>	<u>5,57,600</u>
Net assets taken (capital employed)	8,40,000	9,24,000
Less: Purchase consideration	<u>8,45,000</u>	<u>9,31,000</u>
Goodwill	<u>5,000</u>	<u>7,000</u>
Total purchased goodwill		12,000
Add: Unrealized profit of Rs.10,000 @ 20% = Rs.2,000 is adjusted from current assets and from goodwill (since P & L A/c is not given)		<u>2,000</u>
Total Goodwill		<u>14,000</u>

2. Current Assets

	P Rs.	Q Rs.
Balances before amalgamation	1,63,500	1,58,600
Less: Liabilities of P due to Q	-	50,000
Less: Unrealized Profit on stock i.e. Rs.10,000 x 20%	<u>2,000</u>	
Total	<u>1,61,500</u>	<u>1,08,600</u>
Grand Total		<u>2,70,100</u>

3. Current Liabilities

	P Rs.	Q Rs.
Balances before amalgamation	6,23,500	5,57,600
Less: Liabilities of P due to Q	<u>50,000</u>	-
Total	<u>5,73,500</u>	<u>5,57,600</u>
Grand Total		<u>11,31,100</u>

2. (i) Consolidated Balance Sheet of X Ltd. and its subsidiaries Y Ltd. and Z Ltd.

as on 31st December, 2006

Liabilities	Rs.	Assets	Rs.
Share Capital:		Fixed Assets:	
80,000 Equity shares of Rs.10 each fully paid	8,00,000	Goodwill [Refer (iii)]	18,000
Minority Interest [Refer (iv)]	2,47,167	Other Fixed Assets less depreciation	13,18,000
Reserves and Surplus:		Current Assets, Loans and Advances:	
Profit and Loss Account [Refer (ii)]	3,04,833	Current Assets	2,20,000
Current Liabilities and Provision:			
Current Liabilities	84,000		
Proposed Dividend:			
X Ltd.	96,000		
Minority Interest [Refer (iv)]	24,000		
	<u>15,56,000</u>		<u>15,56,000</u>

(ii)

Consolidated Profit and Loss Account

for the year ending 31st December, 2006

(in Rs.)

Particulars	X Ltd.	Y Ltd.	Z Ltd.	Adjust-ments	Total	Particulars	X Ltd.	Y Ltd.	Z Ltd.	Adjust-ments	Total
To Dividend (paid for 2005)	96,000	72,000	48,000	96,000	1,20,000	By Balance b/d	2,06,000	1,62,000	1,16,000	-	4,84,000
To Minority Interest	-	39,167	32,000	-	71,167	By Dividend received in 2005 (for 2004)	60,000	-	-	-	60,000
To Capital Reserve (Cost of Control)	-	65,000	51,000	-	1,16,000	By Dividend received in 2006 (for 2005)	60,000	36,000	-	96,000	-
To Investments Accounts						By Profit for the year	1,00,000	1,00,000	60,000	-	2,60,000
(Dividend received out of capital profit)	60,000*	36,000*	-	-	96,000						
To Proposed Dividend	96,000	-	-	-	96,000						
To Balance c/d	<u>1,74,000</u>	<u>85,833</u>	<u>45,000</u>	<u>--</u>	<u>3,04,833</u>						
	<u>4,26,000</u>	<u>2,98,000</u>	<u>1,76,000</u>	<u>96,000</u>	<u>8,04,000</u>		<u>4,26,000</u>	<u>2,98,000</u>	<u>1,76,000</u>	<u>96,000</u>	<u>8,04,000</u>

Notes:*

- (1) X Ltd. receives from Y Ltd., dividend amounting to Rs.60,000 for the year 2004 in the year 2005 for shares acquired in 2004. It is a capital profit, therefore it has been transferred to cost of control to reduce the cost of investment.
- (2) Y Ltd. receives a dividend of Rs.36,000 from Z Ltd. for the year 2005 in the year 2006. The shares were acquired by Y Ltd on 31st December, 2005. The entire amount is therefore, a capital profit and hence transferred to cost of control to reduce the cost of investment.

(iii) Cost of Control:

	Rs.	Rs.
Cost of Investment in Y Ltd. on 31 st December 2004	6,30,000	
Less: Dividend of the year 2004 received in 2005 out of Pre-acquisition profit	<u>60,000</u>	5,70,000
Cost of Investment in Z Ltd.	4,00,000	
Less: Dividend of the year 2005 received in 2006 out of Pre-acquisition Profit	<u>36,000</u>	<u>3,64,000</u>
		9,34,000
Less: Paid up value of shares in Y Ltd.	5,00,000	
Paid up value of shares in Z Ltd.	3,00,000	
Capital Profits in Y Ltd. (Refer W.N. 2)	65,000	
Capital Profits in Z Ltd. (Refer W.N. 2)	<u>51,000</u>	<u>9,16,000</u>
Goodwill		<u>18,000</u>
(iv) Minority shareholders' interest:	Y Ltd.	Z Ltd.
	Rs.	Rs.
Share Capital (Y Ltd. – 1/6 and Z Ltd. – 1/4)	1,00,000	1,00,000
Capital Profits (Refer W.N. 2)	13,000	17,000
Revenue Profits (Refer W.N. 2)	<u>26,167</u>	<u>15,000</u>
	<u>1,39,167</u>	<u>1,32,000</u>
Total (1,39,167 + 1,32,000)		2,71,167
Less: Minority shareholders' share of proposed dividend (shown separately in the Balance Sheet)		
($\frac{1}{6}$ of Rs.72,000 + $\frac{1}{4}$ of Rs.48,000)		<u>24,000</u>
Balance		<u>2,47,167</u>

Working Notes:

1. Shareholding Pattern	Number of shares	share of holding
In Y Ltd.		
X Ltd.	50,000	5/6
Minority Interest	10,000	1/6
In Z Ltd.		
Y Ltd.	30,000	3/4
Minority Interest	10,000	1/4
2. Analysis of Profits	Pre -acquisition	Post - acquisition
	Capital Profit	Revenue Profit
Z Ltd.	Rs	Rs.
Balance on 31 st December, 2005 after dividend for 2005 (1,16,000 – 48,000)	68,000	-
Profit for the year ending 31 st December, 2006 before proposed dividends for 2006	<u>—</u>	<u>60,000</u>
	<u>68,000</u>	<u>60,000</u>

Share of Y Ltd. (3/4)	51,000	45,000
Minority Interest (1/4)	<u>17,000</u>	<u>15,000</u>
Y Ltd.		
Balance on 31 st December, 2004	78,000	-
Profit for the year 2005 after payment of dividend for 2005 (84,000 – 72,000)	<u>—</u>	12,000
Profit for the year 2006 (before payment of dividend of the year 2006)	—	1,00,000
Revenue Profit from Z Ltd.	<u>—</u>	<u>45,000</u>
	<u>78,000</u>	<u>1,57,000</u>
Share of X Ltd. (5/6)	65,000	1,30,833
Share of Minority Shareholders' Interest (1/6)	<u>13,000</u>	<u>26,167</u>

Note: This problem has been solved by following 'direct approach'.

3.

Value added statement of F Ltd.

	Rs. '(000)	Rs. '(000)	%
Sales		28,500	
Less: Cost of materials and services			
Operating cost	15,400		
Excise Duty	1,700		
Interest on overdraft	<u>100</u>	<u>17,200</u>	
Value added by manufacturing and trading activities		11,300	
Add: Other Income		<u>750</u>	
Total Value added		<u>12,050</u>	
Application of Total Value added			
A To Pay employees			
Wages, salaries and other benefits		10,200	84.65
B To Pay Government			
Corporation Tax		<u>200</u>	<u>1.60</u>
C To Pay Providers of capital			
Interest on 12% Debentures	1,150		
Dividend	<u>50</u>	1,200	9.60
D To Provide for maintenance and expansion of company			
Depreciation	250		
Replacement Reserve	30		
Deferred Tax	70		
Retained Profit	<u>100</u>	<u>450</u>	<u>4.15</u>
		<u>12,050</u>	<u>100.00</u>

Percentage of each group to total value added may not be given

Reconciliation between Total Value Added and Profit before Taxation

	Rs. ('000)	Rs. ('000)
Profit before tax		450
Add: Depreciation	250	
Wages, salaries	10,200	
Debenture Interest	<u>1,150</u>	<u>11,600</u>
Total Value Added		<u>12,050</u>

Note:

- (i) Deferred Tax can also be shown as 'To Pay Government'.
- (ii) Bank Overdraft is temporary and therefore interest thereon is taken as part of cost of material and services.

4. (i) Computation of average capital employed

	Rs.	Rs.
Sundry Assets:		
Equipment	8,00,000	
Stock	3,30,000	
Debtors (1,50,000 – 10,000)	1,40,000	
Bank	<u>75,000</u>	13,45,000
Less: Outside Liabilities:		
Sundry Creditors	1,85,000	
12% Debentures	<u>3,00,000</u>	<u>4,85,000</u>
Trading tangible capital employed		<u>8,60,000</u>

(ii) Computation of Average annual maintainable super profit

	Rs.
Average annual profit for the last 3 years before interest and taxes	
Rs. (5,40,000 + 5,10,000 + 5,50,000)/3 years	5,33,333
Less: Interest (Rs. 3,00,000 × 12% × 3 years) / 3 years	<u>36,000</u>
	4,97,333
Less: Income tax @ 40% of Rs. 4,97,333	<u>1,98,933</u>
Average annual maintainable profit	2,98,400
Less: Normal return on capital employed (18% of Rs. 8,60,000)	<u>1,54,800</u>
Average annual maintainable super profit	<u>1,43,600</u>

(iii) Goodwill = Rs. 1,43,600 × 3 years = Rs. 4,30,800.

(iv) Computation of net assets available to equity shareholders

	Rs.
Trading tangible capital employed	8,60,000
Add: Goodwill	<u>4,30,800</u>
Net Assets available to equity shareholders	<u>12,90,800</u>

(v) Value of each equity share on net assets basis

$$= \frac{\text{Net assets available to equity shareholders}}{\text{Number of equity shares}}$$

$$= \frac{\text{Rs. 12,90,800}}{50,000 \text{ shares}}$$

$$= \text{Rs. 25.816 per equity share}$$

Working Notes:

- (i) Staff welfare fund is an appropriation of profits and not an outside liability.
- (ii) Advertisement suspense is a fictitious asset and therefore not included in sundry assets.

5.	Rs.	Rs.
Net assets of the company		
Fixed Assets		32,00,000
Current Assets		<u>40,00,000</u>
		72,00,000
Less: 13% Debentures	5,00,000	
Sundry Creditors	18,00,000	
Provision for Income Tax	<u>1,75,000</u>	<u>24,75,000</u>
		<u>47,25,000</u>
Alternatively, net assets may be calculated as follows:-		
Preference Share Capital		10,00,000
Equity Share Capital		30,00,000
Profit Prior to Incorporation		25,000
Profit & Loss Account		5,50,000
Appreciation in the value of Fixed Assets		<u>2,00,000</u>
		47,75,000
Less: Preliminary Expenses		<u>50,000</u>
		<u>47,25,000</u>
Preference Shares:		
Preference Share Capital		10,00,000
Add: Dividend @ 14% for 3 years		<u>4,20,000</u>
		<u>14,20,000</u>

$$\begin{aligned} \text{Value of one preference share} &= \text{Rs. } \frac{14,20,000}{10,000} \\ &= \text{Rs. 142} \end{aligned}$$

Equity Shares:

Net assets remaining, after satisfying preference shareholders' claim =

$$\text{Rs. 47,25,000} - \text{Rs. 14,20,000} = \text{Rs. 33,05,000.}$$

$$\begin{aligned} \text{Value of one equity share} &= \text{Rs. } \frac{33,05,000}{3,00,000} \\ &= \text{Rs. 11.02} \end{aligned}$$

6. Computation of Average Capital employed

	(Rs. in Lakhs)	
Total Assets as per Balance Sheet		148.30
Less: Preliminary Expenses	0.50	
Non-trade investments (20% of Rs. 10 lakhs)	<u>2.00</u>	<u>2.50</u>
		145.80
Less: Outside Liabilities:		
16% Debentures	5.00	
16% Term Loan	18.00	
Cash Credit	13.30	
Sundry Creditors	2.70	
Provision for Taxation	<u>6.40</u>	<u>45.40</u>
Capital Employed as on 31.03.2006		100.40
Less: ½ of profit earned:		
Increase in reserve balance	5.50	
Increase in Profit & Loss A/c	11.30	
Proposed Dividend	<u>10.90</u>	
	27.70 X 50 %	<u>13.85</u>
Average capital employed		<u>86.55</u>

7. Cost of capital = $\{[\text{Interest} \times (1 - \text{Effective Tax Rate})] / \text{Debt}\} \times 100$

∴ Cost of secured loan = $\{[1.60 \text{ lakhs} \times (1 - 0.40)] / 20 \text{ lakhs}\} \times 100$
= 4.8%

Cost of unsecured loan = $\{[3 \text{ lakhs} \times (1 - 0.40)] / 30 \text{ lakhs}\} \times 100$
= 6%

Cost of equity = 12% (given)

Weighted Average Cost

Funds		Cost after tax	Weights**	Weighted cost
Equity	100 lakhs	12%	0.667	8.0%
Secured loan	20 lakhs	4.8%	0.133	0.6%
Unsecured loan	<u>30 lakhs</u>	6%	0.200	<u>1.2%</u>
	<u>150 lakhs</u>			<u>9.8%</u>

Weighted Average cost of capital = Capital Employed* × Weighted Average Cost

= 150 lakhs × 9.8%

= 14.7 lakhs

∴ Economic Value Added = Rs. 15,83,000 – Rs. 14,70,000 = Rs. 1,13,000

**100/150; 20/150; 30/150

*Opening balances are not given for calculation of average capital employed.

8. Restricted Govt (Capital) Grant A/c

Dr.				Cr.			
Rs.				Rs.			
31.3.07	To	Income and Expenditure A/c - Grant against Laboratory Building (recognised to the extent of amount spent)	37,00,000	1.4.06	By	Balance b/d	40,00,000
	To	Balance c/d	<u>3,00,000</u>				
			<u>40,00,000</u>				<u>40,00,000</u>
				1.4.07	By	Balance b/d	3,00,000

Unrestricted Govt (Revenue) Grant A/c

			Rs.				Rs.
31.3.07	To	Income & Expenditure A/c (salary paid to Research Associates)	4,00,000	1.4.06	By	Balance b/d	9,00,000
	To	Balance c/d	<u>5,00,000</u>				
			<u>9,00,000</u>				<u>9,00,000</u>
				1.4.07	By	Balance b/d	5,00,000

Current A/c of Endowment and Scholarship

			Rs.				Rs.
1.4.06	To	Balance b/d	1,37,500	9.12.06	By	Scholarship & awards	1,43,000
30.9.06	To	Interest on Fixed Deposit (9.5% of Rs.18,50,000 for 6 months)	87,875	31.3.07	By	Balance c/d	1,70,250
31.3.07	To	Interest on Fixed Deposit (9.5% of Rs.18,50,000 for 6 months)	87,875				
			<u>3,13,250</u>				<u>3,13,250</u>
1.4.07	To	Balance b/d	1,70,250				

Cash and Bank A/c

			Rs.				Rs.
1.4.06	To	Balance b/d	85,00,000	29.4.06	By	Capital WIP (37,00,000 –28,00,000)	9,00,000
31.3.07	To	Tuition fee	85,00,000*	21.11.06	By	Administrati ve Building A/c	4,75,000

* Besides Unrestricted Govt. Grant, Tuition fee is also one of the primary source of income for unrestricted fund account. But, here in the question, unrestricted govt. grant account is asked to be prepared, therefore it is assumed that tuition fee has been credited to unrestricted fund account other than unrestricted govt. grant account.

		31.3.07	By	Salary	65,00,000
		31.3.07	By	Salary to Research Associates	4,00,000
		31.3.07	By	Balance c/d	87,25,000
				<u>1,70,00,000</u>	<u>1,70,00,000</u>
1.4.07	To	Balance b/d			87,25,000

9. (a) The content of Corporate Social Report is essentially based on the social objectives. Brummet identified five areas wherein social objectives can be traced out, namely, Net Income Contribution, Human Resource Contribution, Public Contribution, Environmental Contribution and Product or Service Contribution.

In view of the social objectives, the importance of earning objective is not understated, rather attainment of social objectives is dependent on earning objective. A sick business entity becomes liability to the society and sustains social costs instead of generating social benefits.

Human Resource Contribution is the indicator of the impact of organisational activities (viz. pay and allowances, perks and incentives, recruitment, training and development, placement, promotion and transfer, welfare measure, etc.) on people of the organisation. Public Contribution is the indicator of general philanthropy in the cultural and social welfare programmes and contribution to national exchequer by way of tax and duties. ..

Industrial activity is supposed to consume irreplaceable resources and produces solid wastes. By this process it pollutes air and water, causes noise and spoils the environment. These are termed as negative social effects. The corporate social objective is the abatement of such negative effect. It is covered by environmental contribution.

Lastly, the Product or Service Contribution covers the qualitative aspects of the organisation's product or service. It includes quality guarantee, redressal of customers' grievances, honest exposure in advertisement etc.

Although Brummet covered wide range of objectives, still these are not essentially exhaustive. Social objectives are determined by socio-economic conditions of a country. It is difficult to set universal list of social objectives to be pursued by the corporate sector. For example, in India, regional imbalance, unemployment, reservation for weaker sections of the population, scarcity of foreign exchange, energy deficit, population pressure and illiteracy are some of the widely accepted socio-economic problems. And obviously the general expectation is that the corporate sector will positively contribute to such socio-economic problems. Since the socio-economic problems of a country change over time or the priority attached to a problem shifts. Brummet's over simplified set of contributions should be suitably moulded to fit in the perspective of socio-economic problems of a country.

- (b) Considering the major socio-economic problems of the country, eight major heads may be identified for Social Reporting purposes:
- I. Employment Opportunities.
 - II. Foreign Exchange Transactions
 - III. Energy Conservation.
 - IV. Research and Development.
 - V. Contribution to Government Exchequer.
 - VI. Social Projects
 - VII. Environmental Control.
 - VIII. Consumerism.

- I. Creation of employment opportunities during the year may be classified into opportunities in India and opportunities abroad. In India employment may be created either by expansion/diversification in backward or other areas. However, employment protection by absorption of sick units may also be treated as employment opportunities. Moreover, the corporate enterprise may create new openings abroad by adopting foreign projects. In all such cases, quantitative information needs to be disclosed giving break-up of SC/ST persons, physically handicapped persons, women and other workers appointed during the year. Tax advantage or subsidy received for establishing industrial units in backward areas or absorption of sick units should be disclosed properly. If the corporate enterprise follows human resource accounting system, it may show human assets created during the year and costs incurred for such purpose.
- II. In view of the scanty foreign exchange reserve, it is desirable to disclose foreign exchange transactions in details. Foreign exchange inflows occur by exports or earnings from foreign projects. Also saving in foreign exchange is equivalent to foreign exchange inflows. An enterprise can save foreign exchange by import substitution and replacement of foreign technology/technician. Foreign exchange outflows are caused by purchase of raw materials/spares, plant and machinery capital repayment, payment of dividend and interest. It is desirable to report inflows and outflows for each currency separately and a summary statement in Indian currency. Any tax advantage/export subsidy received for foreign exchange earnings should be disclosed as an item of social cost.
- III. Energy purchased/generated and energy consumed per unit of standard product are to be reported along with consumption norm of the industry. Energy Audit Reports prepared by BICP may be followed for industry norms wherever applicable. Positive/negative variation in energy consumption should be reported along with reasons therefor.
- IV. Recurring/non-recurring cost incurred for research and development is to be reported along with results. If possible, effect of research and development activities may be quantified in terms of cost saved/profit added. Any tax advantage/subsidy received is to be reported as social cost incurred along with the generation of social benefits from research and development.
- V. Contribution to Government exchequer by way of sales tax, income tax, excise, custom and other duties needs to be reported as an item of social benefits.
- VI. Contribution to social projects may be further classified into direct involvement of corporate enterprise and donations to different organisations. Social projects like construction of road, establishment of school, college, research institute, hospital, stadium, etc. may be earmarked along with the categories of beneficiaries and cost involved.

In case of donation to any organisation, the nature of the organisation may be stated along with the tax advantage received by way of such donations.

(Contribution of the corporate enterprise for development of sports and games, cultural matters and self-employment programmes may be reported as creation of social benefit).
- VII. Negative social effect caused by the corporate enterprise may be quantified stating use of irreplaceable resources and nature of pollution caused. Action taken and cost involved for pollution control should be reported as an item of social benefit.
- VIII. Failures in terms of complaints received against improper quality, poor service etc. may be reported under social costs. Action taken and cost involved for undertaking quality control and customers' service should be reported under social benefits.

10. Statement Showing Computation of Tier-I Capital

		(Rs. in lakhs)
Paid up Equity Capital		100
Free Reserve		<u>500</u>
	(A)	600
Deduct deferred expenditure	(B)	<u>200</u>
	(C)	<u>400</u>
Investments		
In shares of subsidiaries and Group Companies		100
In Debenture of subsidiaries and Group Companies		<u>100</u>
		<u>200</u>
10% (C)	(D)	<u>40</u>
Excess of Investment over 10% of (C) = (E)		<u>160</u>
Tier-I Capital [(C + E)]		<u>240</u>

11. "Non-Performing Asset" as per NBFC Prudential Norms (RBI) directions means:

- (i) An asset, in respect of which, interest has remained past due for six months;
- (ii) A term loan inclusive of unpaid interest, when the instalment is overdue for more than six months of which interest amount remained past due for six months;
- (iii) A bill which remained overdue for six months;
- (iv) The interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/advances that remained overdue for a period of six months;
- (v) Any dues on account of sales of assets or services rendered or reimbursement expenses made, which remained overdue for a period of six months;
- (vi) The lease rental and hire purchase instalment, which has become overdue for a period of more than twelve months;
- (vii) In respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities made available to borrower /beneficiary when anyone of the credit facilities becomes NPA.

However, an NBFC may classify each such account on the basis of record of recovery as regards hire purchase and lease transactions.

12. Every stock broker is required to maintain the following books of account and records as per Rule 15 of the Securities Contracts (Regulation) Rules, 1957 and Regulation 17 of the SEBI (Stock Brokers and Sub-Brokers) Rules, 1992:

- (a) Register of transactions (Sauda book)/Daily transaction list;
- (b) Clients ledger;
- (c) General ledger;
- (d) Journals;
- (e) Cash book;
- (f) Bank Pass Book;
- (g) Documents register/Inward-outward register showing full particulars of shares and securities received and delivered;
- (h) Members' contract book showing details of all contracts entered into by him with other members of the stock exchange or counterfoils or duplicates of memos of confirmation issued to such other members;

- (i) Counterfoils or duplicates of contract notes issued to clients;
- (j) Written consent of clients in respect of contracts entered into as principals;
- (k) Margin deposit book;
- (l) Register of accounts of sub-brokers;
- (m) An agreement with a sub-broker specifying the scope of authority and responsibilities of the stock broker and such sub-brokers.

In addition to the above statutory requirements, stock brokers are also required to maintain scripwise clientwise list in respect of scripts of specified group, client upla statement, duplicate copies of self-certificates submitted on monthly basis, copies of margin statements downloaded by the stock exchange, copies of valan balance sheet (Form 31), details of spot delivery transactions, client data base and broker client agreement, copy of registration certificate of each sub-broker issued by SEBI, copies of the power of attorney/board resolution authorising directors and employees and copies of pool account statements.

13. Merchant banking in India started with management of public issues and loan syndication and has been gradually covering activities like project counselling portfolio management, investment counselling and mergers and amalgamation of the corporate firms. A 'merchant banker' has been defined under the Securities and Exchange Board of India (Merchant Banker) Rules, 1992 as "any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities as manager, consultant, advisor or rendering corporate advisory service in relation to such issue management." Merchant bankers are the specialized agency which manage the capital issues. They are also called the managers to the issue.

Every merchant banker shall keep and maintain the following books of account, records and documents as per Regulation 14:

- (a) a copy of balance sheet as at the end of the each accounting period;
- (b) a copy of profit and loss account for that period;
- (c) a copy of the auditor's report on the accounts for that period;
- (d) a statement of financial position.

The capital adequacy requirement specified in regulation 7 shall not be less than the net worth of the person making the application for grant of registration.

Category	Minimum Amount Rs.
Category I (Merchant bankers who carry on activity of the issue management, which will, inter alia, consist of preparation of prospectus and other information relating to the issue, determining financial structure, tie up of financiers and final allotment and refund of subscriptions; and act as advisor, consultant, manager, underwriter, portfolio manager)	5,00,00,000
Category II (Merchant bankers who act as advisor, consultant, co-manager, underwriter, portfolio manager)	50,00,000
Category III (Merchant bankers who act as underwriter, advisor, consultant to an issue)	20,00,000
Category IV (Merchant bankers who act only as advisor or consultant to an issue)	NIL

14. **Special Features of Accounting for Educational Institutions:** An educational institution is generally not run for profit. Its administrators, as custodians of public funds, are accountable of their proper expenditure for educational purpose. The marked difference between commercial accounting and that for educational institutions is that the former places emphasis on proper ascertainment of profits, while the latter is more generally concerned with exercising control over expenditure so as to conform to the stipulated norms and to the academic objectives of the institution to which it relates.

In the case of institutions like colleges and universities, separate ledgers are maintained for each fund. Funds may be broadly classified into two categories - Revenue Funds and Specific Funds. Revenue Funds may be further classified as Unrestricted Fund and Restricted Fund. Specific Funds are Endowment Funds, Annuity and Life Income Funds, Development Funds etc. Separate balance sheet is prepared for each fund and a statement of activity (popularly known, as Income and Expenditure Account) is prepared for only revenue funds- both restricted and unrestricted. Finally, each individual balance sheet is consolidated to get a general balance sheet of the institution as a whole.

Revenue Funds- Restricted and Unrestricted: Revenue funds essentially record normal revenue transactions. However, the use of revenue fund may be restricted or unrestricted. In the case of restricted funds, income is recognised to the extent of expenditure incurred. The accounting basis of the unrestricted fund is the accrual method as used for commercial entities.

There may be transfers out of revenue funds to specific funds and vice-versa. Some transfers are mandatory and some are non-mandatory.

Both mandatory and non-mandatory transfers are reported separately in the financial statements of the revenue funds.

Specific Funds: Specific funds are earmarked for well defined purposes. Contributions and transfers are directly credited to respective fund balances. Expendable resources are transferred to revenue funds except for capital outlay and debt retirement which are accounted for in development or asset fund and loan fund respectively. For the specific funds no statement of income is prepared. However a statement is prepared showing the movements in fund balances. The features of certain important specific funds are discussed below.

- (a) **Endowment Funds:** Incomes from these funds usually are transferred to another fund where it may be expended. Interest revenue out of such fund is accrued at the end of accounting year. The fund is usually invested in some securities and such investment is valued at cost price. If the income out of such investment is available for unrestricted purposes it is recognised in the unrestricted fund. On the other hand if the income is to be used for some specific purpose it is transferred to that specific fund. The only time, the investment income is recognised in the endowment fund is when the terms of agreement specify that the income must be added to the endowment principal.
- (b) **Loan Funds:** Loan funds account for resources that may be loaned to faculty or staff. No revenue or expense accounts are used in the loan fund. All transactions affecting fund balance are recorded directly to fund balance. Interest on loan is credited to the fund balance on accrual basis. Investment income is also accrued. Administration and collection costs relating to granting and recovery of loans are directly charged to this fund. Any bad debt or provision for doubtful loans are also charged to this fund.
- (c) **Annuity and Life Income Funds:** These funds account for resources that are given to a not for profit organisation provided that the organisation agrees to make periodic payments to a designated recipient. In the case of annuity funds, the amount of periodic payment is fixed whereas payments vary with the amount of income earned in the case of life income funds.
- (d) **Development Funds:** These funds are utilised for developmental purposes like acquisition of building and equipments, major repairs to fixed assets etc. Separate fund may be maintained for each developmental activity. Alternatively a combined development fund may be maintained to account for all acquisitions and/or construction of fixed assets. Any

expenditure incurred for the purpose of construction or acquisition of building, laboratory etc. are met out of this fund and the asset is recognised in the general balance sheet. Consequently that portion of the fund which has been utilised for the acquisition or construction of the asset should be transferred to unrestricted fund. Depreciation on these fixed assets should be shown as part of operating expenses of unrestricted revenue fund.

To sum up the following statements are to be prepared to get a consolidated picture the organisation as a whole:

- (a) Income and Expenditure Account for revenue funds.
 - (b) Statement showing changes in fund balances.
 - (c) Balance Sheet of individual funds.
 - (d) General Balance Sheet.
15. Jaggi and Lau suggested a model for valuation of human resources. According to them, proper valuation of human resources is not possible unless the contributions of individuals as a group are taken into consideration. A group refers to homogeneous employees whether working in the same department or division of the organization or not. An individual's expected service tenure in an organization is difficult to predict, but on a group basis, it is relatively easy to estimate the percentage of people in a group likely to leave the organization in future. This model attempts to calculate the present value of all existing employees in each rank. Such present value is measured with the help of the following steps:
- (i) Ascertain the number of employees in each rank.
 - (ii) Estimate the probability that an employee will be in his rank within the organization on terminated/promoted in the next period. This probability will be estimated for a specified time-period.
 - (iii) Ascertain the economic value of an employee in a specified rank during each time period.
 - (iv) The present value of existing employees in each rank is obtained by multiplying the above three factors and applying an appropriate discount rate.

Jaggi and Lau tried to simplify the process of measuring the value of human resources by considering a group of employees as basis of valuation. But in the process they ignored the exceptional qualities of certain skilled employees. The performance of a group may be seriously affected in the event of exit of a single individual.

16. (a) Currency Options give the client the right, but not the obligation, to buy/sell a specific amount of currency at a specific price on a specific date. Currency options provide a tool for hedging foreign exchange risk arising out of the firm's operations. Currency options enable the business house to remove downside risk without limiting the upside potential. Options can be put option or call option. A put option is a contract that specifies the currency that the holder has the right to sell. A call option is a contract that specifies the currency that the holder has the right to buy.
- (b) Beta is a relative measure of volatility that is determined by comparing the return on a share to the return on the stock market. In simple terms, greater the volatility, more risky the share and higher the Beta. If a company is affected by the macroeconomic factors in the same way as the market is, then the company will have a Beta of one and will be expected to have returns equal to the market. A company having a Beta of 1.2 implies that if stock market increases by 10% the company's share price will increase by 12% (i.e., $10\% \times 1.2$) and if the stock market decreases by 10% the company's share price will decrease by 12%. Beta is a statistical measure of volatility and is calculated as the Covariance of daily return on stock market indices and the return on daily share prices of a particular company divided by the Variance of the return on daily Stock Market indices. While considering market index a broad based index like S & P 500 should be considered.

For the companies, which are not listed in stock exchanges, beta of the similar industry may be considered after transforming it to un-gearred beta and then re-gearing it according to the

debt equity ratio of the company. The formula for un-gearing and gearing beta is shown below:

Un-geared Beta = Industry Beta / [1+ (1- Tax Rate)(Industry Debt Equity Ratio)]

17.	Position under IAS / IFRS	Position under Indian AS
Revenue recognition	Revenue from sale of goods cannot be recognized if entity retains continuing managerial ownership or effective control over the sold goods. In case of revenue from rendering of services, IAS 18 allows only percentage of completion method. Under IAS 18, payments received in advance for goods yet to be manufactured cannot be recognized as revenue until such goods are delivered to the buyer.	Under AS 9, such stipulation is not there. AS 9 allows both completed service contract method and percentage of completion method. AS 9 permits recognition when the goods are manufactured, identified and ready for delivery in such cases.

18. In the Books of Seller

		Dr. Amount Rs.	Cr. Amount Rs.
At the time of inception:			
30 th August	Equity Stock Option Margin A/c (100 x Rs.60)	Dr. 6,000	
	To Bank A/c		6,000
	(Being the initial Margin paid on option)		
	Bank A/c (100 x Rs.10)	Dr. 1,000	
	To Equity Stock Option		1,000
Premium A/c	(Being the premium on option collected)		
At the time of final settlement:			
	Bank A/c	Dr. 6,000	
	To Equity Stock Option Margin A/c		6,000
	(Being margin on equity stock option received back on exercise/expiry of option).		
	Option is settled in cash		
30 th September	Profit & Loss A/c [(160 – 150) x 100]	Dr. 1,000	
	To Bank A/c		1,000
	(Being difference in index price and strike price i.e. loss on exercise of option paid in cash)		
	Equity Stock Option Premium A/c	Dr. 1,000	
	To Profit & Loss A/c		1,000
	(Being premium on option recognized as income)		

19. (a) Investments by a holding company in the shares of its subsidiary company are normally considered as long term investments. Indian holding companies show investment in subsidiary just like any other investment and generally classify it as trade investment. As per AS 13 'Accounting for Investments', investments are classified as long term and current investments. A current investment is an investment that by its nature is readily realizable and is intended to be held for more than one year from the date of acquisition. A long term investment is one that is not a current one.

Costs of investment include besides acquisition charges, expenses such as brokerage, fees and duties. If an investment is acquired wholly or partly by an issue of shares or other securities, the acquisition cost is determined by taking the fair value of the shares/securities issued. If an investment were to be acquired in exchange – part or whole – for another asset, the acquisition cost of the investment is determined with reference to the value of the other asset exchanged. Dividends received out of incomes earned by a subsidiary before the acquisition of the shares by the holding company and not treated as income but treated as recovery of cost of the assets (investment made in the subsidiary). The carrying cost for current investment is the lower of cost or fair/market value whereas investment in the shares of the subsidiary (treated as long term) are carried normally at cost.

- (b) The objective of AS 28 'Impairment of Assets' is to prescribe the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and this Statement requires the enterprise to recognize an impairment loss. This standard should be applied in accounting for the impairment of all assets, other than (i) inventories (AS 2, Valuation of Inventories); (ii) assets arising from construction contracts (AS 7, Accounting for Construction Contracts); (iii) financial assets, including investments that are included in the scope of AS 13, Accounting for Investments; and (iv) deferred tax assets (AS 22, Accounting for Taxes on Income). AS 28 does not apply to inventories, assets arising from construction contracts, deferred tax assets or investments because other accounting standards applicable to these assets already contain specific requirements for recognizing and measuring the impairment related to these assets.
20. Classification of the items into timing and permanent differences is as under :-
- (i) Interest paid to bank is a timing difference.
 - (ii) Difference in depreciation rates is a timing difference.
 - (iii) Unabsorbed losses is a timing difference.
 - (iv) Revaluation Reserve is a permanent difference.
21. (a) Paragraph 21 of Accounting Standard 23 on Accounting for Investments in Associates says that where the associate has a contingent liability, the investor has to disclose the following in the consolidated financial statements in accordance with AS 4:-
- Its share of the contingencies and capital commitments of an associate for which it is also contingently liable; and
 - those contingencies that arise because the investor is severally liable for the liabilities of the associate.
- (b) According to AS 16, borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds. Borrowing costs may include: (i) interest and commitment charges on bank borrowings and other short-term and long-term borrowings; (ii) amortization of discounts or premiums relating to borrowings; (iii) amortization of ancillary costs incurred in connection with the arrangement of borrowings; (iv) finance charges in respect of assets acquired under finance leases or under other similar arrangements; and (v) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Borrowing costs that are directly attributable to

the acquisition, construction or production of a qualifying asset* should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred. The capitalization of borrowing costs as part of the cost of a qualifying asset should commence when the conditions specified in AS 16 are satisfied.

22. Operating activity – (i), (iii), (v)

Financing activity – (ii), (vi)

Investing activity – (iv), (vii)

23. (a) As per AS 13, in case of disposal of a long-term investment, the difference between the carrying amount and net disposal proceeds should be charged / credited to profit and loss account.

Also, AS 5 requires that all items of income and expense, which are recognized in a period, should be included in the determination of net profit or loss for the period. It also requires separate disclosure of the nature and amount of such items of income and expense within profit or loss from ordinary activities, which by their size, nature or incidence require disclosure to explain the enterprise's performance for the period.

Since the company is a trading entity (i.e. in commodities), disposal of long-term investments falls in the category of special items (as per AS 5). Hence, its nature and amount should be disclosed separately. This disclosure will also comply with AS –13.

- (b) Leases are classified based on the extent to which risks and rewards incident to ownership of a leased asset lie with the Lessor or the Lessee.

Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return due to changing economic conditions.

Rewards may be represented by the expectation of profitable operation over the economic life of the asset and of gain from appreciation in value or realisation of residual value.

A lease is called a Finance Lease if it transfers substantially all the risks and rewards incident to ownership. Title may or may not eventually be transferred. A lease is called an Operating Lease if it does not transfer substantially all the risks and rewards incident to ownership.

24. According to para 14 of AS 7 (Revised) 'Construction Contracts', incentive payments are additional amounts payable to the contractor if specified performance standards are met or exceeded. For example, a contract may allow for an incentive payment to the contractor for early completion of the contract. Incentive payments are included in contract revenue when: (i) the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and (ii) the amount of the incentive payment can be measured reliably. In the given problem, the contract has not even begun and hence the contractor (Mr. X) should not recognize any revenue of this contract.

25. AS 17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements. Hence, the enterprise can have its own policy for pricing inter-segment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if, followed consistently.

* A qualifying asset is an asset that necessarily takes a substantial period of time¹ to get ready for its intended use or sale.

26.			(Rs. in lakhs)	(Rs. in lakhs)
I	Segment Revenue	A	27,050	
	Inter segment		<u>50</u>	
			27,100	
		B	<u>3,280</u>	30,380
	Less: Inter segment Revenue			<u>50</u>
				<u>30,330</u>
II	Segment Results			
	A (Profit)		4,640	
	B (Loss)		<u>197</u>	
	Operating Profit		4,443	
	Interest expenses		(35)	
	Dividend Income		285	
	Tax Provision		<u>(1,675)</u>	
	Profit after tax		<u>3018</u>	
III	Other Information			
(a)	Segment Assets	A	19,450	
		B	<u>2,700</u>	
			22,150	
	Unallocated Assets		<u>6,550</u>	
			<u>28,700</u>	
(b)	Segment liabilities	A	3,430	
		B	<u>770</u>	
			4,200	
	Unallocated liabilities		<u>2,200</u>	
			<u>6,400</u>	
(c)	Capital expenditure	A	1,300	
		B	<u>16</u>	
			<u>1,316</u>	
(d)	Depreciation	A	110	
		B	<u>75</u>	
			185	
	Non Cash expenses	A	114	
		B	<u>16</u>	
			<u>130</u>	

27. P Ltd. has direct economic interest in R Ltd to the extent of 14%, and through Q Ltd. in which it is the majority shareholder, it has further control of 12% in R Ltd. (60% of Q Ltd's 20%). These two taken together (14% + 12%) make the total control of 26%.

AS 18 defines related party as one that has at any time during the reporting period, the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Here, Control is defined as ownership directly or indirectly of more than one-half of the voting power of an enterprise; and

Significant Influence is defined as participation in the financial and/or operating policy decisions of an enterprise but not control of those policies.

In the present case, control of P Ltd. in R Ltd. directly and through Q Ltd., does not go beyond 26%. However, significant influence may be exercised as an investing party (P Ltd.) holds, directly or indirectly through intermediaries 20% or more of the voting power of the R Ltd.

As R Ltd. is a listed company and regularly supplies goods to P Ltd. Hence, related party disclosure, as per AS 18, is required.

28. Value of machine will be lower of the fair value or present value (PV) of Minimum Lease Payment (MLP).

PV of MLP

Year	MLP Rs.	PV at 15%	PV Amount Rs.
1	3,00,000	0.869	2,60,700
2	3,00,000	0.756	2,26,800
3	3,22,000 (considering residual value)	0.657	<u>2,11,554</u>
			<u>6,99,054</u>

PV of MLP being lower than the fair value, value of machine will be taken as Rs.6,99,054.

Calculation of interest (finance charges)

Year		Liability Rs.	Interest at 15% Rs.	Principal Rs.	Lease rental Rs.
		6,99,054	1,04,858	1,95,142	3,00,000
1 st	Less: Principal	<u>1,95,142</u>		(Rental –Interest)	
		5,03,912	75,587	2,24,413	3,00,000
2 nd	Less: Principal	<u>2,24,413</u>		(Rental-Interest)	
		2,79,499	42,501	2,79,499	3,22,000*
			(Lease rental–Principal)	*(including residual value)	
3 rd	Less: Principal	<u>2,79,499</u>			
		<u>Nil</u>			

29. According to Para 21 of AS 3 (Revised) 'Cash Flow Statements', an enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis. Acquisition and disposal of fixed assets is not prescribed in para 22 and 24 of the standard. Hence, the company cannot disclose net cash flow in respect of acquisition of plant and machinery and disposal of furniture and fixtures.
30. As per paragraph 22 of AS 10 'Accounting for Fixed Assets', fixed asset acquired in exchange for shares or other securities in the enterprise should be recorded at its fair market value, or the fair market value of the securities issued, whichever is more clearly evident. Since, the market value of the shares exchanged for the asset is more clearly evident, the company should record the value of machinery at Rs.7,50,000. (i.e., 50,000 shares × Rs.15 per share being the market price)

31. Calculation of Profit/Loss on disposal of investment in subsidiary

Particulars	Rs.	Rs.
Net Assets of B Ltd. on the date of disposal		3,500,000
Less: Minority Interest (35 lacs x 20%)		700,000
A Ltd.'s Share in Net Assets		<u>2,800,000</u>
Proceeds from the sale of Investment		3,000,000
Less: A Ltd.'s share in net assets		<u>2,800,000</u>
		200,000
Less: Goodwill in the Consolidated Financial Statement		
Cost of investment	2,500,000	
Less: A Ltd.'s Share in net asset on the date (22 lacs x 80%)	1,760,000	740,000
Loss on sale of investment		<u>540,000</u>

32. Calculation of difference between taxable income and accounting income

Particulars	Amount (Rs.)
Excess depreciation as per tax (5,00,000 – 2,00,000)	3,00,000
Less: Expenses provided in taxable income	<u>30,000</u>
Timing difference	<u>2,70,000</u>

Tax expense is more than the current tax due to timing difference.

Therefore deferred tax liability = 50% x 2,70,000 = Rs. 1,35,000

33. Calculation of tax expense

1 st quarter ending on 31-12-2005	200×20%	Rs. 40 lakhs
2 nd quarter ending on 31-3-2006	200×20%	Rs. 40 lakhs
3 rd quarter ending on 30-6-2006	200×30%	Rs. 60 lakhs
4 th quarter ending on 30-9-2006	200×30%	Rs. 60 lakhs

34. As per para 44 of AS-26, costs incurred in creating a computer software product should be charged to research and development expense when incurred until technological feasibility/asset recognition criteria has been established for the product. Technological feasibility/asset recognition criteria has been established upon completion of detailed programme design or working model. In this case, Rs. 45,000 would be recorded as an expense (Rs. 25,000 for completion of detailed program design and Rs. 20,000 for coding and testing to establish technological feasibility/asset recognition criteria). Cost incurred from the point of technological feasibility/asset recognition criteria until the time when products costs are incurred are capitalized as software cost (Rs. 42,000 + Rs. 12,000 + Rs.13,000) Rs. 67,000.

35. Calculation of value in use

Year	Cash Flow	Discount as per 15%	Discounted cash flow
2006	4000	0.870	3480
2007	6000	0.756	4536
2008	6000	0.658	3948
2009	8000	0.572	4576
2010	4000	0.497	1988

Value in use = Rs. 18528 lakhs

Calculation of carrying amount:

Original cost = Rs. 20,000 lakhs

Depreciation for 3 years = $[(40,000-1000) \times 3/8] = \text{Rs. } 14,625$

Carrying amount on 31-12-2005 = $[40,000-14,625] = \text{Rs. } 25,375$

Recoverable amount = Rs. 20,000 lakhs

Impairment Loss = $\text{Rs. } (25,375-20,000) = \text{Rs. } 5,375$ lakhs

Revised carrying amount = $\text{Rs. } (25,375-5,375) = \text{Rs. } 20,000$ lakhs

Depreciation Charge for 2006 = $(20,000-1000)/5 = \text{Rs. } 3,800$

36. As it is stated in the question that financial statements for the year ended 31st March, 2006 are under preparation, the views have been given on the basis that the financial statements are yet to be completed and approved by the Board of Directors.

Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. Para 17 of AS 13 'Accounting for Investments' states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. On these bases, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of long term investment to Rs. 20,000 in the financial statements for the year ended 31st March, 2006.

37. Qualifying Asset as per AS-16 = Rs. 50 lakhs (construction of a shed)

Borrowing cost to be capitalized = $18 \times 50/120 = \text{Rs. } 7.5$ lakhs

Interest to be debited to Profit or Loss account = $\text{Rs. } (18 - 7.5)$ lakhs

= Rs. 10.5 lakhs

38. Adjusted net profit for the current year $(1,00,00,000 + 12,00,000 - 3,60,000) = \text{Rs. } 1,08,40,000$

No. of equity shares resulting from conversion of debentures: 10,00,000 Shares

No. of equity shares used to compute diluted EPS: $(50,00,000 + 10,00,000) = 60,00,000$ Shares

Diluted earnings per share: $(1,08,40,000/60,00,000) = \text{Rs. } 1.81$

39. Rs.

Cost incurred till 31 st March, 2006	64,99,000
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Prudent estimate of additional cost for completion	<u>32,01,000</u>
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Total cost of construction	97,00,000
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Less: Contract price	<u>85,00,000</u>
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Total foreseeable loss	<u>12,00,000</u>
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According to para 35 of AS 7 (Revised 2002), the amount of Rs. 12,00,000 is required to be recognized as an expense.

Contract work in progress = $\frac{\text{Rs. } 64,99,000 \times 100}{97,00,000} = 67\%$

Proportion of total contract value recognized as turnover as per para 21 of AS 7 (Revised) on Construction Contracts.

40. As per para 13 of AS 11 (Revised 2003) 'The Effects of Changes in Foreign Exchange Rates', exchange differences arising on the settlement of monetary items or on reporting an enterprise's

monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or expenses in the period in which they arise. Thus exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets are recognized as income or expense.

Calculation of Exchange Difference:

$$\text{Foreign currency loan} = \frac{\text{Rs. 3,000 lakhs}}{\text{Rs. 40}} = 75 \text{ lakhs US Dollars}$$

$$\begin{aligned} \text{Exchange difference} &= 75 \text{ lakhs US Dollars} \times (42.50 - 40.00) \\ &= \text{Rs. 187.50 lakhs} \end{aligned}$$

(including exchange loss on payment of first instalment)

Therefore, entire loss due to exchange differences amounting Rs. 187.50 lakhs should be charged to profit and loss account for the year.

APPENDIX

ACCOUNTING STANDARDS

Accounting Standard (AS) 15 (revised 2005) on 'Employee Benefits' comes into effect in respect of accounting periods commencing on or after April 1, 2006. AS 15 (revised 2005) was originally published in March, 2005 issue of the ICAI's Journal 'The Chartered Accountant'. Subsequently, the ICAI, in January 2006, made limited revision to AS 15 (revised 2005) primarily with a view to bring the disclosure requirements of the standard relating to the defined benefit plans in line with the corresponding International Accounting Standard (IAS) 19, Employee Benefits; to clarify the application of the transitional provisions; and to provide relaxation/exemption to the small and medium-sized enterprises (SMEs). The limited revision has been duly incorporated by the ICAI in AS 15 (revised 2005), which has been published in the 'The Chartered Accountant', March 2006 (page nos. 1354 to 1385).

Note: AS 1 to AS 29 [including AS 15 (Revised 2005)] are applicable for November, 2007 Examination

ACCOUNTING STANDARDS INTERPRETATIONS

The authority of the Accounting Standards Interpretations (ASI) is the same as that of the Accounting Standard to which it relates. The contents of the ASI are intended for the limited purpose of the Accounting Standard to which it relates. ASI is intended to apply only to material items. The Institute of Chartered Accountants of India has, so far, issued 30 ASIs and has also revised some of the existing ASIs. These interpretations are available at the institute's website www.icai.org. The same can also be seen from the Compendium of the Accounting Standards (as on July 1, 2006).

GUIDANCE NOTES

Guidance Notes are primarily designed to provide guidance to members of ICAI on matters which may arise in the course of their professional work and on which they may desire assistance in resolving issues which may pose difficulty. In recent years several Guidance Notes on accounting aspects have been issued promptly responding to the need for accounting guidance on contemporary issues, which arise due to amendments in laws and other developments related to economic reforms in the country. The council of the Institute of Chartered Accountants of India has, so far issued 23 Guidance Notes* till July 1, 2006. The list of the relevant Guidance Notes is given under "Applicability of various

* Two guidance notes are under the process of revision.

publications for Final Examination” at the end of this RTP. For the text of the applicable Guidance Notes, the students are advised to refer the July, 2006 edition of “Compendium of Guidance Notes–Accounting”.

Announcement

Withdrawal of the Announcement issued by the Council on ‘Treatment of exchange differences under Accounting Standard (AS) 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates vis-à-vis Schedule VI to the Companies Act, 1956’

1. The Council of the Institute of Chartered Accountants of India had issued an Announcement on ‘Treatment of exchange differences under Accounting Standard (AS) 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates vis-à-vis Schedule VI to the Companies Act, 1956’, which was published in the November 2003 issue of ‘The Chartered Accountant’ (pp. 497)
2. Subsequent to the issuance of the above Announcement, the Ministry of Company Affairs (now known as the Ministry of Corporate Affairs) issued the Companies (Accounting Standards) Rules, 2006, by way of Notification in the Official Gazette dated 7th December, 2006. As per Rule 3(2) of the said Rules, the Accounting Standards shall come into effect in respect of accounting periods commencing on or after the publication of these accounting standards under the said Notification.
3. AS 11, as published in the above Government Notification, carries a footnote that “it may be noted that the accounting treatment of exchange differences contained in this Standard is required to be followed irrespective of the relevant provisions of Schedule VI to the Companies Act, 1956”.
4. In view of the above footnote to AS 11, the Council of the Institute of Chartered Accountants of India has decided at its 269th meeting held on July 18, 2007, to withdraw the Announcement on ‘Treatment of exchange differences under Accounting Standard (AS) 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates vis-à-vis Schedule VI to the Companies Act, 1956’, published in ‘The Chartered Accountant’ of November 2003. Accordingly, the accounting treatment of exchange differences contained in AS 11 notified as above is applicable and not the requirements of Schedule VI to the Act, in respect of accounting periods commencing on or after 7th December, 2006.