Short notes of B.com III Hons. Finance (Accounting Theory & corporate finance)
(Panjab university Chandigarh)
2013 (by Abhishek garg & Anurag Gupta)

PAPER-II : ACCOUNTING THEORY AND CORPORATION FINANCE of Panjab University

UNIT-I
Evolution of Accounting, Structure of Accounting, Theory Postulates, Principles and Different Theories of Accounting, Accounting Standards (with special reference to India, USA and UK). Corporate Planning and
Promotion : Promotion in India; Corporation growth in India; Corporate Planning and Strategies, Modern Trends in Form of Published Accounts; Disclosures in Financial Reporting.
UNIT-II
Marketing of Securities, Classification of Security Buyers; Methods of Marketing Securities, Underwriting of New Market in India, Security Pattern in India. Project Appraisal Accounting for Risk and Uncertainty in Capital Investment Decisions. Introduction to Contemporary Issues in Accounting; Cash Flow Accounting, Human Resources Accounting, Social Accounting, Accounting for Lease and Hire Purchase.
Practical Work :
(a) To study disclosure in financial reporting in Corporate Sector.
(b) Practical application of HRA.
(c) Project Evaluation.
Note : Non programmable calculator is allowed.

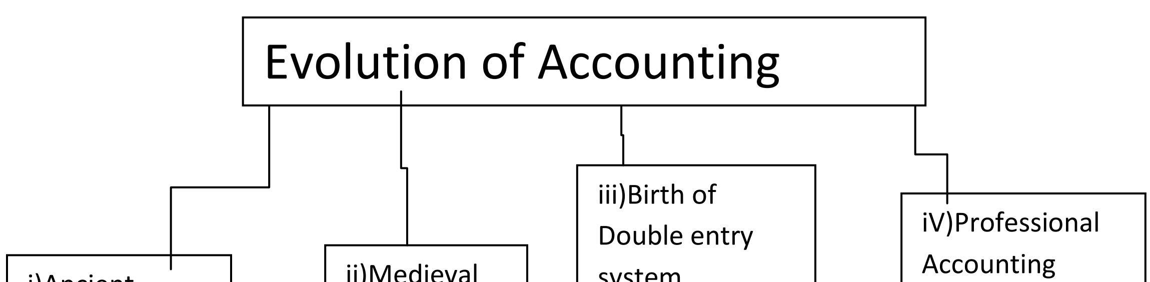
Q) Note on Evolution of Accounting?

Ans-

Introduction

The history of accounting dates back to the earliest days of human agricultural civilization when the need to maintain accurate records of the quantities and relative via of agricultural products first alone.

The development in trade and commerce has been responsible for the growing importance of a methodical accounting work.



i)Ancient Accounting

1) Dawn of man through Luca Pacioli
2) Accounting in Messopotamia, Cirea 3500 B.C
3) Accounting in ancient Egypt, China,Greece & Rome

ii)Birth of double Entry system

1) Luca Pacioli & Summa
2)Pacioli's system- Memorandum, Journal & ledger

I) Ancient Accounting:

1) Dawn of Man through Luca Pacioli

In attempting to explain why double entry bookkeeping developed in 14th century Italy instead of ancient Greece or Rome, accounting scholar A. C. Littleton describes seven "key ingredients" which led to its creation:

- **Private property**: The power to change ownership, because bookkeeping is concerned with recording the facts about property and property rights.
- **Capital:** Wealth productively employed, because otherwise commerce would be trivial and credit would not exist.
- **Commerce:** The interchange of goods on a widespread level, because purely local trading in small volume would not create the sort of press of business needed to spur the creation of an organized system to replace the existing hodgepodge of record-keeping.
- **Credit:** The present use of future goods, because there would have been little impetus to record transactions completed on the spot.
- **Writing:** A mechanism for making a permanent record in a common language, given the limits of human memory.
- **Money:** The "common denominator" for exchanges, since there is no need for bookkeeping except as it reduces transactions to a set of monetary values.
- **Arithmetic:** A means of computing the monetary details of the deal.

2)Accounting In Mesopotamia, circa 3500 B.C.

Five thousand years before the appearance of double entry.
Civilization were flourishing in the Mesopotamian Valley, producing some of the oldest known records of commerce.

In this period all the transactions are not recorded only agreement and contract between the parties are recorded.

The Mesopotamian equivalent of today's accountant was the scribe. His duties were similar, but even more extensive. In addition to writing up the transaction, he ensured that the agreements complied with the detailed code requirements for commercial transactions. Temples, palaces and private firms employed hundreds of scribes, and it was considered a prestigious profession.

3) Accounting In Ancient Egypt, China, Greece and Rome

Governmental accounting in ancient Egypt developed in a fashion similar to the Mesopotamians.
Extensive records were kept, particularly for the network of royal storehouses within which the "in kind" tax payments were kept. Egyptian bookkeepers associated with each storehouse kept meticulous records, which were checked by an elaborate internal verification system. These early accountants had good reason to be honest and accurate, because irregularities disclosed by royal audits were punishable by fine, mutilation or death. Although such records were important, ancient Egyptian accounting never progressed beyond simple list-making in its thousands of years of existence.

II) Medieval Accounting

The medieval era created the conditions for the rapid advance in accounting technology that occurred during the Renaissance.
While accounting under the Roman Empire was prescribed by the centralized legal codes of the time, medieval bookkeeping was localized and centered on the specialized institutions.
The central task of accounting during this era was to
allow the government or property owners to monitor those in the lower portions of the socio-economic "pyramid."

III) Italian Renaissance: Birth of Double Entry Bookkeeping

The innovative Italians of the Renaissance (14th -16th century) are widely acknowledged to be the fathers of modern accounting. They elevated trade and commerce to new levels, and actively sought better methods of determining their profits.

1) Luca Pacioli and The Summa

Luca Pacioli was a true Renaissance man, with knowledge of literature, art, mathematics, business and the sciences.
He accepted the popular belief in the inter-relatedness of these widely varying disciplines and in the special importance of those, such as mathematics and accounting, which exhibit harmony and balance.
Pacioli was about 50 years old in 1494 – just two years after Columbus discovered America – when he returned to Venice for the publication of his fifth book.
The best proof that Pacioli's work was considered potentially significant, even at the time of publication, was the very fact that it was printed on November 10, 1494

2) Pacioli's System: Memorandum, Journal and Ledger

The memorandum, or memorial, was Pacioli’s equivalent of a daybook, for the recording, in chronological order, of business transactions as they occurred.
The journal was the merchant's private account book. Entries consisted of a narrative debit, credit and explanation in one continuous paragraph.

Pacioli's ledger was, of his three books, the most like its modern equivalent. The money and date columns were almost identical to those in modern ledgers, with entries consisting of brief

paragraphs, debits on the left side of a double page (deve dare) and credits on the right (deve avere).

IV) Professional Accounting

1) Scotland - Birthplace of the Modern Profession

It is not unfitting that when we come to deal with the modern profession of accountant, Scotland should occupy the place of priority. It is there that the Chartered Accountant originated, and in Scotland we find the oldest existing societies of public accountants.
In tracing the growth of the profession in Scotland as elsewhere one meets with many difficulties.
There are several instances of members of the Society of Writers to the Signet, the leading Solicitors' Society in Scotland, practising as accountants. Moreover, until comparatively recent times, much accountant's work was done in solicitort's offices.
The profession of an Accountant has long existed in Scotland as a distinct profession of great respectability; that originally the number of those practising it was few but that, for many years back, the number has been rapidly increasing.

2) Professional Accountancy Travels Across the Globe

In 1880, the newly formed Institute of Chartered Accountants in England and Wales brought together all the accountancy organizations in those countries. In addition to the 587 members initially enrolled, an additional 606 members were soon admitted on the basis of their experience. Standards of conduct and examinations for admission to the Institute were drawn up.
Groups of accountants joined together to form professional societies in cities across America. In 1887, the first national accounting society was formed - the American Association of Public Accountants.

3) Into The Twentieth Century and Beyond

The United States was still an infant nation when the American Institute of Certified Public Accountants was formed. The Civil War ended with the U.S. still a predominantly farming-based economy.
Over-capitalization and stock speculation caused financial panics in 1873 and 1893.
American corporations of the early 20th century had no comparable history of losses from stock speculation. Rather, American balance sheets were drafted mainly with bankers in mind.
At the turn of the century, there were at least four types of funds statements in use - those that summarized changes in cash, in current assets, in working capital and overall financial activities.

Q) What do u mean by Accounting concepts & principles?

Ans-

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Introduction

Knowledge Of accounting requires enquiry not only into Accounting method & principles but also the structures or framework of accounting theory from which Accounting method and principles are derived.

Accounting Structures

Accounting Postulates

1. Entity Postulate
2. Going Concern Postulate
3. Unit of Measure Postulate
4. Dual- ASpect Principle

Accounting principles

1)Cost Principle
2) Dual- ASpect Principle
3) Accrual Principle
4) Conservatism Principle
5) Matching Principle
6) Objectivity Principle
7) Consistency Principle
8) Full Disclosure Principle
9) Materiality Principle

Accounting concepts

1) Business entity concept
2) Money measurement concept
3) Going concern concept
4) Accounting period concept
5) Cost concept
6) Dual concept
7) Revenue recognition
8) Matching concept
9) Accrual concept
10) Stable monetary unit concept

Q) What do u mean by accounting standards?

Ans-

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Historical Ba¢kground of Accounting Standards

Accounting standards were not in existence upto the end of 1971 any where in the world. In the beginning of 70.s the advent of MNCs, the need was felt of the some prescribed yardsticks in connection with preparation of accounts, their presentation and reporting mechanism. It all led to the birth of AS. at international level as well as national level. The purpose of AS. was making AS. more identical, comparative reliable, for taking better investment decisions and for better re .

In 1970 standard setting board or committees were active in number of countries such an the U.S.A UK, Canada, Australia, Japan and India. For making identity in the work of committees of so many countries, a body at international level was being needed. Then JASC (International Accounting Standard Committee was established in 1973.

In India, keeping in view the international development in the field of Accountancy, The Institute of Chartered Accountants of India (ICAI) constituted the Accounting standard Board (ASB) in April 1977

Q) Accounting standards -10,2,26,29(contingency)?

Ans- ***AS – 2***

VALUATION OF INVENTORY

Inventories are assets:

(a) held for sale in ordinary course of business;
(b) in the process of production fro such sale (WIP);

(c) *in the form of materials or supplies to be consumed in the production process or in the rendering of services.*

However, this standard does not apply to the valuation of following inventories:

(a) *WIP arising under construction contract (Refer AS – 7);*
(b) *WIP arising in the ordinary course of business of service providers;*
(c) *Shares, debentures and other financial instruments held as stock in trade; and*
(d) *Producers' inventories of livestock, agricultural and forest products, and mineral oils, ores and gases to the extent that they are measured at net realizable value in accordance with well established practices in those industries.*

Inventories should be valued at the lower of cost and net realizable value.

The cost of inventories should comprise

(a) *all costs of purchase*
(b) *costs of conversion*
(c) *other costs incurred in bringing the inventories to their present location and condition.*

The costs of purchase consist of

(a) *the purchase price*
(b) *duties and taxes (other than those subsequently recoverable by the enterprise from the taxing authorities like CENVAT credit)*
(c) *freight inwards and other expenditure directly attributable to the acquisition.*

Trade discounts (but not cash discounts), rebates, duty drawbacks and other similar items are deducted in determining the costs of purchase.

The costs of conversion include direct costs and systematic allocation of fixed and variable production overhead.

Allocation of fixed overheads is based on the normal capacity of the production facilities. Normal capacity is the production, expected to be achieved on an average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance.

__Under Recovery__: Unallocated overheads are recognized as an expense in the period in which they are incurred.

Example: Normal capacity = 20000 units
Production = 18000 units
Sales = 16000 units
Closing Stock = 2000 units
Fixed Overheads = Rs. 60000

Then, Recovery rate = Rs60000/20000 = Rs 3 per unit
Fixed Overheads will be bifurcated into three parts:
*Cost of sales : 16000*3 = 48000*
*Closing stock : 2000 *3 = 6000*

Under recovery : Rs 6000 (to be charged to P/L)

*(Apparently it seems that fixed cost element in closing stock should be 60000/18000*2000 =Rs 6666.67. but this is wrong as per AS-2)*

<u>Over Recovery</u>: In period of high production, the amount of fixed production overheads is allocated to each unit of production is decreased so that inventories.

Example: Normal capacity = 20000 units
Production = 25000 units
Sales = 23000 units
Closing Stock = 2000 units
Fixed Overheads = Rs 60000

Recovery Rate = Rs 60000/20000 = Rs 3 per unit
But, Revised Recovery rate = Rs 60000/25000 = Rs. 2.40 per unit

*Cost of sales : 23000*2.4 = Rs 55200*
*Closing Stock : 2000 *2.4 = Rs. 4800*

<u>Joint or by products:</u>
In case of joint or by products, the costs incurred up to the stage of split off should be allocated on a rational and consistent basis. The basis of allocation may be sale value at split off point or sale value at the completion of production. In case of the by products of negligible value or wastes, valuation may be taken at net realizable value. The cost of main product is then joint cost minus net realizable value of by product or waste.

The other costs are also included in the cost of inventory to the extent they contribute in bringing the inventory to its present location and condition.

Interest and other borrowing costs are usually not included in cost of inventory. However, AS-16 recommends the areas where borrowing costs are taken as cost of inventory.

Certain costs are strictly not taken as cost of inventory.
(a) Abnormal amounts of wasted materials, labour, or other production costs;
(b) Storage costs, unless those costs are necessary in the production process prior to a further production stage;
(c) Administrative overheads that do not contribute to bringing the inventories to their present location and condition; and
(d) Selling and Distribution costs.

Cost Formula:

⇨ *Specific identification method for determining cost of inventories*
Specific identification method means directly linking the cost with specific item of inventories. This method has application in following conditions:
- *In case of purchase of item specifically segregated for specific project and is not ordinarily interchangeable.*
- *In case of goods of services produced and segregated for specific project.*

⇨ *Where Specific Identification method is not applicable*
The cost of inventories is valued by the following methods;
- *FIFO (First In First Out) Method*
- *Weighted Average Cost*

Cost of inventories in certain conditions:

The following methods may be used for convenience if the results approximate actual cost.

- *__Standard Cost:__ It takes into account normal level of consumption of material and supplies, labour, efficiency and capacity utilization. It must be regularly reviewed taking into consideration the current condition.*
- *__Retail Method:__ Normally applicable for retail trade*
  Cost of inventory is determined by reducing the gross margin from the sale value of inventory.

Net Realisable Value means the estimated selling price in ordinary course of business, at the time of valuation, less estimated cost of completion and estimated cost necessary to make the sale.

__Comparison between net realizable value and cost of inventory__

The comparison between cost and net realizable value should be made on item-by-item basis. (In some cases, group of items-by-group of item basis)

For Example:

	Cost	NRV	Inventory Value as per AS-2
Item A	100	90	90
Item B	100	115	100
Total	200	205	~~200~~ 190

__Raw material valuation__
If the finished goods to which raw material is applied, is sold at profit, RAW MATERIAL is valued at cost irrespective of its NRV level being lower to its costs.

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CCOUNTING FOR FIXED ASSETS

initions:

d Asset is an asset held with the intention of being used for the purpose of producing or providing goods or services and is held for sale in the normal course of business. (It is expected to be used for more than one accounting period.)

cost of fixed asset includes:

- *Purchase price*
- *Import Duties and other non-refundable taxes*
- *Direct cost incurred to bring the asset to its working condition*
- *Installation cost*

- *Professional fees like fees of architects*
- *General overhead of enterprise when these expenses are specifically attributable to acquisition/preparation of fixed assets*
- *Any expenses before the commercial production, including cost of test run and experimental production*
- *Any expenses before the asset is ready for use not put to use*
- *Loss on deferred payment arising out of foreign currency liability*
- *Price adjustment, changes in duties and similar factors*

cost of fixed asset is deducted with:

- *Trade discounts and rebates*
- *Sale proceeds of test run production*
- *Amount of government grants received/receivable against fixed assets (See AS- 12)*
- *Gain on deferred payment arising out of foreign currency liability*

❖ *Similarly, historical cost of self constructed fixed assets will include:*
  - *All cost which are directly related to the specific asset*
  - *All costs that are attributable to the construction activity should be allocated to fixed assets*
  - *Any internal profit included in the cost should be eliminated.*

❖ *Any expenses incurred on asset between date of ready for use and put to use is either charged to P&L A/c or treated as deferred revenue expenditure to be amortised in 3-5 years after commencement of production.*

❖ *When fixed asset is acquired in exchange for another asset, the cost of the asset acquired should be recorded*
  - *either at, fair market value*
  - *or at, the net book value of the assets given up*

For this purpose, fair market value may be determined by reference either to the asset given up or to the asset acquired, whichever is more clearly evident.

Fixed asset acquired in exchange for shares or other securities should be recorded at FMV of assets given up or asset acquired, whichever is more clearly evident. (i.e the option of recording the asset at net book value of asset given up is closed)

Fair market value is the price that would be agreed to in an open and unrestricted market between knowledgeable and willing parties dealing at arm's length distance.

❖ *Subsequent expenditures related to an item of fixed asset should be added to its book value only if they increase the future benefits from the existing asset beyond its previously assessed standard of performance.*

❖ *Material items retired from active use and held for disposal should be stated at the lower of their net book value and net realizable value and shown separately. Fixed assets should be eliminated from the financial statements on disposal or when no further benefit is expected from its use and disposal. Profit/loss on such disposal or writing off is recognized in the profit and loss account.*

- ***REVALUATION***

When the fixed assets are revalued, these assets are shown at revalued price. Revaluation of fixed assets should be restricted to the net recoverable amount of fixed asset.

When a fixed asset is revalued, an entire class of assets should be revalued or selection of assets for revaluation should be made on a systematic basis. That basis must be disclosed.

Accounting treatment of revaluation under different situation:

When revaluation is made upward

Fixed Assets A/c Dr

To Revaluation Reserve

When revaluation is made downward

P&L A/c Dr

To Fixed Assets

When revaluation is made upward subsequent to previous upward revaluation

Fixed Assets A/c Dr

To Revaluation Reserve

When revaluation is made downward subsequent to previous upward revaluation

Revaluation Reserve A/c Dr (To the extent of carrying amount of R.R)

P&L A/c Dr (Balancing Figure)

To Fixed assets

When revaluation is made upward subsequent to previous downward revaluation

Fixed assets A/c *Dr*

To P&L A/c *(To the extent of previous downward revaluation)*

To Revaluation Reserve *(Balancing Figure)*

When revaluation is made downward subsequent to previous downward revaluation

P& L A/c *Dr*

To Fixed Assets

Accounting treatment on disposal of Fixed Assets:

On sale of fixed assets

Bank A/c *Dr*

P & L A/c *Dr* *(If Loss)*

To Fixed Assets

To P & L A/c *(If Profit)*

On sale of fixed assets where upward revaluation has taken place

On disposal of a previously revalued item of fixed asset, the difference between net disposal proceeds and the net book value is normally charged or credited to the profit and loss account except that, to the extent such a loss is related to an increase which was previously recorded as a credit to revaluation reserve and which has not been subsequently reversed or utilized, it is charged directly to that account. The amount standing in revaluation reserve following the retirement or disposal of an asset which relates to that asset may be transferred to general reserve.

If Loss		*If Profit*	
Bank A/c	*Dr*	*Bank A/c*	*Dr*
Revaluation Reserve A/c	*Dr*	*To Fixed Assets A/c*	
P& L A/c	*Dr*	*To P/L A/c*	
To Fixed Assets			
Revaluation Reserve A/c	*Dr*	*Revaluation Reserve A/c*	*Dr*
To General Reserve		*To General Reserve*	

- *In the case of fixed assets owned by the enterprise jointly with others, the extent of the enterprise's share in such assets, and the proportion of the original cost, accumulated depreciation and WDV should be stated in the B/S. Alternatively, the pro rata cost of such jointly owned assets may be grouped together with similar fully owned assets with an appropriate disclosure thereof.*

Only purchased goodwill should be recorded in books.

Disclosure:

- *Gross and net book value of fixed assets at the beginning and end of period showing additions and disposals*
- *Revalued amounts substituted for historical costs of fixed assets, the method adopted to compute the same and whether an external valuer was involved.*

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ROVISIONS, CONTIGENT LIABILITIES AND CONTINGENT ASSETS

PROVISION:

A provision is a liability which can be measured only by using a substantial degree of estimation.

Treatment : A provision should be recognized when:

(a) An enterprise has a present obligation as a result of past event
(b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
(c) A reliable estimate can be made of the amount of the obligation.

Present Obligation: An obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered Probable, i.e. more likely than not.

Past Event: A Past event that leads to a present obligation is called an obligating event.

CONTINGENT LIABILITY:

1] A contingent liability is

- *A possible obligation that arises from past events*
- *And; existence of which will be confirmed by the occurrence or non occurrence of future events not wholly within the control of the enterprise*

2] A contingent liability is

- *A present obligation that arises from past events*
- *And; not recognized because of lower probability of outflow of resources or non-availability of reliable estimate*

Possible Obligation: An obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered Not Probable.

Treatment: An enterprise should not recognize a contingent liability.

It should be disclosed in financial statements unless the possibility of outflow is remote.

CONTINGENT ASSETS:

A contingent assets is a possible asset that arises from past events of the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.

Treatment: *An enterprise should not recognize a contingent asset.*

An enterprise should not be disclosed in financial statements.

It may be disclosed in the report of approving authority, where an inflow is probable.

Other Important Issues:

1. *Provisioning is required for only those liabilities that exist at the balance sheet date. (i.e. No provision is required for costs that need to be incurred to operate in future.)*
2. *Where details of a proposed new law have yet to be finalized, an obligation arises only when the legislation is virtually certain to be enacted. For example, huge penalty shall be imposed on the enterprise if the proposed law is enacted. No provisioning is required unless the virtual certainty of the enactment of the law is established.*
3. *Where there are a number of similar obligations (e.g. product warranties) the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole.*
4. *If the reliable estimate of the liability cannot be made, it should be disclosed as a contingent liability.*
5. *Where an enterprise is jointly & severally liable for an obligation:*
   - *Provision should be made for the portion on which enterprise has direct liability.*
   - *The balance amount should be disclosed as contingent liability.*
6. *Gains from the expected disposal of assets should not be taken into account in measuring a provision.*
7. *Reimbursement for expenditure of which provision is created, should be recognized when and only when it is virtually certain that the reimbursement shall be received on settlement of liability.*

   Such Reimbursement may be shown as a net figure in Profit & Loss statement but should be presented in balance sheet as a separate asset (i.e. net provision not to be shown)

8. *A provision should be used only for expenditures for which the provision was originally recognized. Provisions should also be reviewed at each balance sheet date and if no longer required, it should be reversed.*
9. *Provision should not be recognized for future operating losses as it neither meets the criteria of liability nor meets the criteria for recognition of provision.*

RESTRUCTURING:

A restructuring is a program that is planned and controlled by management and materially changes either:

(a) the scope of a business undertaken by an enterprise; or
(b) the manner in which the business is expected.

Restructuring may include the following:

(a) sale or termination of a line of business;
(b) the closure of business location in a region
(c) eliminating a layer of management;

Treatment: A provision for recognition criteria is recognized only when the recognition criteria for provision is met.

A restructuring provision should include only the direct expenditures arising from the restructuring, which are those that are both;

(a) necessarily entailed by the restructuring; and
(b) not associated with the ongoing activities of the enterprise.

Restructuring provision does not include costs like

(a) retraining or relocating continuing staff
(b) marketing expenses
(c) investments in new systems and distribution networks.

Identifiable future operating losses up to the date of a restructuring and gains on disposal of assets (even if it is included as part of restructuring) are not included in provisions.

DISCLOSURES:

The enterprise should disclose for each class of provision:

(a) the carrying amount at the beginning & end of the period
(b) additional provision made during the period
(c) amount used during the period
(d) amount reversed during the period
(e) nature of obligation & and expected time of incurrence
(f) indication about the uncertainties attached to the provisions

The enterprise should disclose for each class of contingent liabilities:

(a) *an estimate of its financial effects*
(b) *an indication of the uncertainties relating to any outflow*
(c) *the possibility of any reimbursement*

Where any of the information required is not disclosed because it is not practicable to do so, that fact should be stated.

In extremely rare cases, disclosures can be expected to seriously harm the enterprise in a dispute with other parties. In such cases, instead of detailed information, general nature of dispute together with the reason of non-disclosures should be disclosed.

Q)Different types of corporate strategies ?

CORPORATE PLANNING AND STRATEGY

STRATEGY-STRATEGY IS A TERM YHAT REFERS TO A COMPLEX WEB OF THOUGHTS , IDEAS,INSIGHTS,EXPERIENCES,GOALS,EXPERTISE,MEMORIES, PERCEPTIONS AND EXPECTATIONS THAT PROVIDES GENERAL GUIDANCE FOR SPECIFIC ACTIONS.

THE WORD "STRATEGY" IS DERIVED FROM THE GREEK WORD "STRATEGOS"; STRATUS(MEANING ARMY) AND "AGO" (MEANING LEADING/ MOVING). THE CONCEPT OF STRATEGY HAS BEEN BORROWED FROM THE MILITARY AND ADAPTED FOR USE IN BUSINESS.STRATEGY IS AN ACTION THAT MANAGRES TAKE TO ATTAIN ONE OR MORE OF ORGNIZATION's GOALS.

CORPRATE PLANNING- FINANCE DEPARTMENTS ARE ALWAYS UNDER PRESSURE, THE MORE SO IN A CLIMATE OF ECONOMIC UNCERTAINITY. INCREASING ACCOUNTABILITY AND SHORTER BUDGETING CYCLRS RESULT IN ORGANIZATIONS SEEKING NEW WAYS TOMANGE THE BUDGETING PROCESS AND DEVELOPING SOLUTIONS THAT MEET THE EXACT NEEDS OF THEIR CLIENTS AS WELL AS MATCH THEIR OWN BUSINESS ATTRIBUTES.

CORPORATE PLANNING IS DEFINED AS THE PROCESS OF DRAWING UP DETAILED ACTION PLANS IN ORDER TO ACHIEVE THE AIMS AND OBJECTIVES OF AN ORGANIZATION. IT TAKES INTO ACCOUNT ORGANIZATIONAL RESOURCES AND THE ENVIRONMENT WITHIN WHICH A COMPANY OPERATES.CORPRATE PLANNING IS THE RESPONSIBILITY OF SENIOR MAMAGEMENT. GOOD CORPORATE PLANNING REDUCE THE COST OF OVERALL BUDGETING PROCESS

AND THE TIME TAKEN TO COMPLETE THE BUDGETING CYCLE,AS WELL AS IMPROVE BOTH DATA INTEGRITY AND SECURITY.

STRATEGIC ALTERNATIVES

We will study two popular generic strategic alternatives
(1)Glueck and Jauch Generic Strategic Alternatives
(2)Michael Porter's Generic Strategies

Glueck and Jauch Generic Strategic Alternatives:

According to the William F Glueck and Lawrence R Jauch there are four generic strategic alternatives:

(1) Stability Strategy:

We know that achieving stability is an important business objective. The stability strategy state that business should focus on their core products and should strive to improves functional efficiency, and also the quality of products. Sometime this type of strategy is called as, 'do nothing' strategy, but it is not d0 nothing' strategy. By formulating this strategy, business wants to achieve unique position for their products in the market, by continuously improving at all fronts- be it quality, customer service, R&D and distribution, etc.
Primarily, this strategy is based on two fundamentals
1. Organization wants to deal in similar products or services and markets
2. Organizations focus on functional performance improvements.

(2) Expansion Strategy:

This is considered one of the most important strategies by business organizations to grow the business exponentially. Profitable business always looks for new avenues for efficient utilization of their profit. Business expansion strategy can be in many forms.
1. Expand business of similar product to new markets
2. Expand business through diversification
3. Expand business through acquisition and mergers

Expand business of existing and similar products to new markets:
This type of expansion is considered as natural expansion of business, as business always wants to enter into new market in order to expand the reach of their product and services. For example, Reliance expansion from textile to petrochemicals and to refinery is an example of this category, and this type of expansion is referred as backward integration
Expand business through diversification:
Business objectives of achieving growth and profitability, some time can not be satisfied through similar products and services. In this situation expansion of business can be achieved by diversifying into different products and services. For example, Reliance expansion from petrochemical and oil business to telecom and retail are examples of diversification
Expand business through acquisition and mergers:
In this strategy, businesses acquire the other related or diversified businesses, or merge themselves with other related or diversified businesses. This type of strategy can give expansion in the shortest possible time but need some time huge amount of money. Acquisition of Corns Steel by TATA Steel

is an example of this category.

(3) Retrenchment Strategy:

Sometime businesses have products or business units which are not performing as per their expectation. In this situation, business may divest such business units from their portfolio, as 'stop loss' strategy. The retrenchment over here is not related to retrenchment of staff but the retrenchment of business unit which is also known as divesting business unit. For example, Govt of India divested IPCL to Reliance and Maruti to Suzuki by selling its controlling stake.

(4)Combination Strategy:

As its name suggests, it is a mix of different strategies which is adopted to develop the best possible portfolio of business. The organizations sometime may divest some business units but at same time use the cash generated through divested business to expand the remaining business through acquisitions and by entering into new markets. This type of strategy is also known as business restructuring.--

Recently,L&T divested its cement business by selling it to Aditya Birla group but at the same time L&Texpanded aggressively in infrastructures development and also entered into new markets.

Michael Porter's Generic Strategies:

According to Porter, strategies allow organizations to gain competitive advantage from three different bases:

- **cost leadership;**
- **differentiation; and**
- **focus**

Porter calls these as base generic strategies:

1) cost Leadership Strategies:

A primary reason for using forward, backward, and horizontal integration Strategies is to gain cost Leadership benefits. But cost leadership generally must be pursued in conjunction with differentiation. Large numbers of cost elements affect the relative attractiveness of generic strategies, including economies or diseconomies of scale achieved, learning and experience curve effects, the percentage of capacity utilization achieved, and linkages with suppliers and distributors Striving to be the low-cost producer in an industry can be especially effective when the market is composed of many price-sensitive buyers. But, some risks of pursuing cost leadership are that competitors may imitate the strategy, thus driving overall industry profits down or that buyer interest may swing to other differentiating features besides price.

2)Differentiation Strategies

Differentiation strategies include offering Products with different features than competitors . Differentiation does not guarantee competitive advantage, especially if standard products sufficiently meet customer needs or if rapid imitation by competitors is possible.

A differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the desired attributes. A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty because consumers may become strongly attached to the differentiation features. Special features that differentiate one's product can include superior service, spare parts availability, engineering design, product performance, useful life, gas mileage, or ease of use.

A risk of pursuing a differentiation strategy is that the unique product may not be valued highly enough by customers to justify the higher price. When this happens, a cost leadership strategy easily will defeat a differentiation strategy. Another risk of pursuing a differentiation strategy is that competitors may develop ways to copy the differentiating features quickly. Firms thus must firms durable sources of uniqueness that cannot be imitated quickly or cheaply by rival firms. Common organizational requirements for a successful differentiation strategy include strong coordination among the R&D and marketing functions and substantial amenities to attract scientists and creative people.

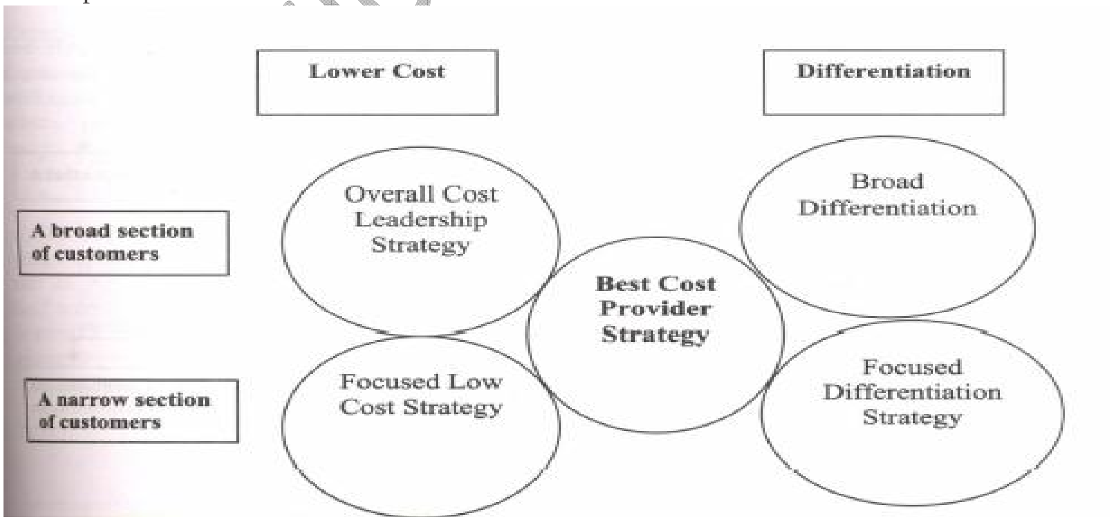
3)Focus Strategies

An organization using a focus strategy may concentrate on a particular group of customers, geographical markets
or on particular product-line segments in order to serve a well-defined but narrow market better than competitors who serve a broader market.
Focus strategies are most effective when consumers have different preferences or requirements and when competitors are not attempting to specialize in the same target segment. Risks of pursuing a focus strategy include the possibility that numerous competitors will recognize the successful focus strategy and copy it.
This is a new and latest strategic alternatives and it is developed by taking the best features from the porter'
three strategic alternatives:

Best Cost Provider Strategy:

Porters strategic alternatives can be divided for two categories of customers:
(I) A broad section of customers
(2) A narrow section of customers
The products can be divided into two categories:
(1)Lower Cost
(2)Differentiation

Based on products and section of customers the organization can select the four types of strategies,
Best cost provider strategy includes the following features:
• This strategy thrusts on more value for money rather than purely cost and differentiation.
• This strategy focuses on a value conscious buyer not the price sensitive or price insensitive buyers.
• This strategy entails lowering cost but at the same time enhancing features and quality e.g. Samsung Products over the years have gain reputation of Value for money products
• This strategy entails selling products of similar (or better) features and quality as rival products but at Lower price.



Q) Profit and loss format?

Ans-

PART II – FORM OF STATEMENT OF PROFIT AND LOSS

Name of the Company : ....

Profit and Loss Statement for the year ended : .... (Rupees in...........)

	Particulars	Note No.	Figures for the Current Reporting Period	Figures for the Previous Reporting Period
I	Revenue from Operations		XXX	XXX
II	Other Income		XXX	XXX
III	**Total Revenue (I + II)**		**XXX**	**XXX**
IV	**Expenses:**			
	Cost of Materials Consumed		XXX	XXX
	Purchases of Stock-In-Trade		XXX	XXX
	Changes in Inventories of Finished Goods / Work-in-Progress and Stock-In-Trade		XXX	XXX
	Employee Benefits Expense			
	Finance Costs			
	Depreciation and Amortization Expense			
	Other Expenses			
	Total Expenses		**XXX**	**XXX**
V	Profit before Exceptional & Extraordinary Items and Tax(III–IV)		XXX	XXX
VI	Exceptional Items		XXX	XXX
VII	Profit before Extraordinary Items and Tax (V –VI)		XXX	XXX
VIII	Extraordinary Items		XXX	XXX
IX	Profit before Tax (VII–VIII)		XXX	XXX
X	Tax Expense:			
	(1) Current Tax		XXX	XXX
	(2) Deferred Tax		XXX	XXX
XI	Profit / (Loss) for the period from Continuing Operations (VII–VIII)		XXX	XXX
XII	Profit / (Loss) from Discontinuing Operations		XXX	XXX
XIII	Tax Expense of Discontinuing Operations		XXX	XXX
XIV	Profit / (Loss) from Discontinuing Operations (After Tax) (XII–XIII)		XXX	XXX
XV	Profit / (Loss) for the period (XI + XIV)		XXX	XXX
XVI	Earnings per Equity Share:			
	(1) Basic		XXX	XXX
	(2) Diluted		XXX	XXX

Q) Balance sheet format?

Ans-

PART I – FORM OF BALANCE SHEET

Name of the Company : ....

Balance Sheet as at : .... (Rupees in...........)

	Particulars	Note	Figures as at the end of Current Reporting Period	Figures as at the end of the Previous Reporting Period
	1	2	3	4
I.	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds**			
	(a) Share Capital			
	(b) Reserves & Surplus			
	(c) Money Received against Share Warrants			
(2)	**Share Application money pending allotment**			
(3)	**Non–Current Liabilities**			
	(a) Long Term Borrowings			
	(b) DTL (Net)			
	(c) Other Long Term Liabilities			
	(d) Long Term Provisions			
(4)	**Current Liabilities**			
	(a) Short Term Borrowings			
	(b) Trade Payables			
	(c) Other Current Liabilities			
	(d) Short Term Provisions			
	TOTAL			
II.	**ASSETS**			
(1)	**Non–Current Assets**			
	(a) Fixed Assets			
	(i) Tangible Assets			
	(ii) Intangible Assets			
	(iii) Capital WIP			
	(iv) Intangible Assets under Development			
	(b) Non–Current Investments			
	(c) DTA (Net)			
	(d) Long Term Loans & Advances			
	(e) Other Non–Current Assets			
(2)	**Current Assets**			
	(a) Current Investments			
	(b) Inventories			
	(c) Trade Receivables			
	(d) Cash & Cash Equivalents			
	(e) Short Term Loans & Advances			
	(f) Other Current Assets			
	TOTAL			

Q) Types of securities buyers?

Ans-

CLASSIFICATON OF SECURITY BUYERS

1. **INDIVIDUAL INVESTORS**
2. **JOINT STOCK COMPANIES**
3. **INSTITUTIONAL INVESTORS**

INDIVIDUAL INVESTORS- THE SAVINGS OF THE INDIVIDUALS ARE THE ULTIMATE SOURCE OF INVESTMENT IN CORPORATE SECURITIES. THE NUMBER OF INDIVIDUAL INVESTORS HAS BEEN INCREASEING OVER TIME. INDIVIDUAL INVESTORS OF SECURITIES MAY BE CLASSIFIED UNDER BROAD CATEGORIES:

REAL INVESTORS

SPECULATORS

INDIVIDUALS AFFILIATED WITH THE ISSUING COMPANY

REAL INVESTORS- THEY ARE THE INDIVIDUALS WHO HAVE SURPLUS OF INCOME OR PAST ACCUMULATED WEALTH AND WHICH THEY WISH TO INVEST FOR MAKING FUTURE INCOME. SUCH INVESTORS WHO ARE NOT AFFILIATED WITH THE ISSUING COMPANY EITHER AS EXISTING SHAREHOLDER OR AS CREDITOR OR CUSTOMER OF THE COMPANY etc. ARE TERMED AS REAL INVESTORS.

SPECULATORS- THERE ARE CERTAIN INVESTORS WHO PURCHASE SECURITIES WITH SPECULATIVE MOTIVES. THEY ARE NOT REAL INVESTORS. THEIR AIM IS TO SELL THE SECURITIES AND MAKE CAPITAL GAINS THROUGH WIDE FLUCTUATIONS IN THE VALUE OF SECURITIES. THERE ARE TWO TYPES OF SPECULATORS NAMELY

BULL- A BULL IS AN OPERATOR WHO EXPECTS A RISE IN PRICE OF SECURITIES IN FUTURE. IN ANTICIPATION OF PRICE RISE HE MAKES PURCHASES OF SHARES AND OTHER SECURITIES WITH THE INTENTION TO SELL AT HIGHER PRICES IN FUTURE.

BEAR- A BEAR ON THE OTHER HAND, EXPECTS PRICE TO FALL IN FUTURE AND SELL SECURITIES AT PRESENT WITH A VIEW TO PURCHASE THEM AT LOWER PRICES IN FUTURE.

INDIVIDUALS AFFILIATED WITH THE ISSUING COMPANY- THE EXISTING COMPANIES USUALLY PREFER TO SELL THEIR FRESH ISSUES TO ITS CUSTOMERS, EMPLOYEES, CREDITORS AND EXISTING SHAREHOLDERS etc. THIS CATEGORY OF INDIVIDUALS INVESTING IN SECURITIES INCLUDES THOSE PERSONS WHO ARE AFFILIATED WITH THE ISSUING COMPANY IN ONE WAY OR THE OTHER.

Short notes of B.com III Hons. Finance (Accounting Theory & corporate finance)
(Panjab university Chandigarh)
2013 (by Abhishek garg & Anurag Gupta)

JOINT STOCK COMPANIES- A JOINT STOCK COMPANY IS A TYPE OF CORPORATION OR PARTNERSHIP INVOLVING TWO OR MORE INDIVIDUALS THAT OWN SHARES OF STOCK IN THE COMPANY. CERTIFICATES OF OWNERSHIP ARE ISSUED BY THE COMPANY IN RETURN FOR EACH FINANCIAL CONTRIBUTION AND THE SHAREHODERS ARE FREE TO TRANSFER THEIR OWNERSHIP INTEREST AT ANY TIME BY SELLING THEIR SHAREHOLDING TO OTHERS.

INSTITUTIONAL INVESTORS- THE INSTITITIONAL INVESTORS HAVE EMERGED AS THE MOST IMPORTANT GROUP OF INVESTORS IN CORPORATE SECURITIES. THEY MAY BE FURTHER CLASSIFIED INTO TWO CATEGORIES:

PRIVATE INSTITUTIONAL INVESTORS- PRIVATE INSTITUTIONAL INVESTORS INCLUDE ON THE ONE HAND INSTITUTIONS SUCH AS LIFE INSURANCE CORPORATION (LIC), INVESTMENTS TRUSTS, U.T.I. WHICH INVESTS THEIR OWN FUNDS AND ON THE OTHER HAND THOSE WHICH INVEST ON BEHALF OF THEIR CLIENTS OR THEIR OWN FUNDS FOR SHORT TERM SUCH AS UNDERWRITERS, ISSUE HOUSES, INVESTMENT BANKERS AND TRUSTEE COMPANIES.

PUBLIC FINANCIAL INSTITUTIONS- THE PUBLIC INSTITUTIONS REPRESENT VARIOUS GOVERNMENT AGENCIES ENGAGED IN PROMOTION AND FINANCING OF BUSINESS ENTERPRISES. THESE INCLUDES IDBI, NIDC, IFC, ICICI, SIDC's, SIIC's etc.

Q)Methods of marketing?

METHODS OF MARKETING OF SECURITIES

1.PUBLIC ISSUE BY PROSPECTUS- THIS IS THE MOST POPULAR METHOD OF RAISING CAPITAL OR MAKETING OF SECURITIES. UNDRE THIS METHOD, A PUBLIC LIMITED COMPANY ISSUES A DOCUMENT CALLED PROSPECTUS CONTAINING INFORMATION ABOUT THE COMPANY AND INVITING PUBLIC TO APPLY FOR SHARES OR DEBENTURES OF THE COMPANIES. IF THE PROMOTERS ARE CONFIDENT OF RAISING THE REQUIRED FUNDS THROUGH PRIVATE CONTACTS, IT MAY ISSUE A STATEMENT IN LIEU OF PROSPECTUS.

2.OFFER FOR SALE- UNDER THIS METHOD, THE ISSUING COMPANIES SELL OR AGREES TO SELL THE SECURITIES FOR SALE TO CERTAIN ISSUE HOUSES OR THE SPECIALISED FINANCIAL INSTITUTIONS AT A FIXED PRICE. THE ISSUE HOUSES OR THE FINANCIAL INSTITUTIONS THEN ISSUE ADVERTISEMENTS MAKING OFFER FOR SALE OF SUCH SECURITIES AT A PRICE HIGHER THAN THE PRICE AT WHICH THEY OBTAIN THE SECURITIES. THE MAIN ADVANTAGES OF THIS METHOD INCLUDE SURETY OF SUCCESS OF ISSUES AND SAVING IN COSTS OF NEW ISSUES. BUT AT THE SAME TIME, THE ISSUE HOUSES MAKE CONSIDERABLE PROFITS BY CHARGING HIGHER PRICES.

3.PLACEMENT METHOD- UNDER THIS METHOD THE SECURITIES ARE SOLD BY THE ISSUING COMPANIES TO CERTAIN INTERMEDIARIES SUCH AS BROKERS, ISSUE HOUSES OR FINANCIAL

INSTITUTIONS etc. SO AS TO BE PRIVATELY PLACED TO THEIR CLIENTS AND ASSOCIATES. THE ISSUING COMPANY MAY ALSO USE THEIR SERVICE FOR PRIVATE PLACEMENT TO CERTAIN INDIVIDUALS OR INSTITUTIONS WITHOUT HAVING SOLD SUCH SECURITIES TO THE INTERMEDIARIES.

4.<u>TENDER METHOD</u>- UNDER THE TENDER METHOD OF MARKETING THE SECURITIES, THE ISSUE PRICE IS NOT PRE DETERMINED LIKE THE OTHER USUAL METHODS OF PUBLIC ISSUES. THE COMPANY ANNOUNCES THE PUBLIC ISSUE WITHOUT INDICATING THE ISSUE PRICE INVITING BIDS FROM VARIOUS INTRESTED PARTIES. THE PARTIES PARTICIPATING IN THE TENDER SUBMIT THEIR MAXIMUM OFFERS INDICATING THE MAXIMUM PRICE THEY ARE WILLING TO PAY AS WELL AS THE NUMBER OF SHARES THEY ARE INTERESTED TO BUY.

5.<u>OVER THE COUNTER PLACEMENT</u>- THE OVER THE COUNTER EXCHANGE BEGAN ITS OPERATIONS IN 1992. IT PERMITS SMALLER COMPANIES TO RAISE FUNDS. A COMPANY MAY PLACE ITS ISSUE THROUGH OTC EXCHANGE. THE PROCEDURE INVOLVED UNDER THIS METHOD IS THAT THE COMPANY WISHING TO RAISE CAPITAL THROUGH OTC EXCHANGE APPOINTS A MEMBER OF THE OTCEI AS SPONSOR. THE SPONSOR APPRAISES THE PROJECT AND VALUES THE SHARES OF THE COMPANY. THE SHARES PROPOSED TO BE OFFERED FOR PUBLIC TRADING BY THE COMPANY ARE PLACED BY THE SPONSOR WITH ITSELF AND OTHER MEMBERS AND DEALERS OF THE OTCEI.

6.<u>RIGHTS ISSUE</u>- RIGHTS ISSUE IS AN INVITATION TO THE EXISTING SHAREHOLDERS TO SUBSCRIBE FOR FUTHER SHARES TO BE ISSUED BY A COMPANY. A RIGHT SIMPLY MEANS AN OPTION TO BUY CERTAIN SECURITIES AT A CERTAIN PRIVILEGED PRICE WITHIN A CERTAIN SPECIFIED PERIOD.

7.<u>BONUS ISSUE</u>- A COMPANY HAVING FREE RESERVES BUILT OUT OF GENUINE PROFITS OR SHARE PREMIUM COLLECTED IN CASH MAY ISSUE BONUS SHARES TO ITS EXISTING SHAREHODERS. USUALLY, THE COMPANIES WHICH HAVE HUGE ACCUMULATED PROFITS AND RESREVES BUT NOT SO GOOD LIQUIDITY POSITION PREFER TO CAPITALISE PROFITS BY THE ISSUE OF BONUS SHARES.

8.<u>BOOK BUILDING</u>- BOOK BUILDING IS THE ANOTHER PROCESS OF MARKETING OF SECURITIES. BOOK BUILDING IS A PROCESS OF ASCERTAINMENT OF PRICE OF A SECURITY IN IPO. A PRICE BAND IS FIXED BY THE COMPANY AND BIDS ARE RECEIVED FROM THE PROSPECTIVE INVESTOR WITH IN THE PRICE BAND. AFTER THE CLOSURE ISSUE PRICE IS ANNOUNCED BY THE COMPANY.

Q) Formats of Cash flow?

Ans-

<u>CASH FLOW ACCOUNTING</u>

CASH PLAYS A VERY IMPORTANT ROLE IN THE ECONOMIC LIFE OF A BUSINESS. A FIRM NEEDS CASH TO MAKE PAYMENT TO ITS SUPPLIERS, TO INCUR DAY- TO- DAY EXPENSES AND TO PAY SALARIES, WAGES, INTEREST AND DIVIDENDS etc. IN FACT, WHAT BLOOD IS TO A HUMAN BODY , CASH IS TO A BUSINESS ENTERPRISE. THUS, MANAGEMENT OF CASH IS VERY ESSENTIAL. THERE SHOULD BE FOCUS ON MOVEMENT OF CASH AND ITS EQUIVALENTS. CASH MEANS, CASH IN HAND AND DEMAND DEPOSITS WITH THE BANK. CASH EQUIVALENT CONSISTS OF BANK OVERDRAFT, CASH CREDIT, SHORT TERM DEPOSITS AND MARKETABLE SECURITIES.

CASH FLOW ACCOUNTING IS DONE THROUGH CASH FLOW STATEMENT WHICH DEALS WITH THE FLOW OF CASH WHICH INCLUDES CASH EQUIVALENTS AS WELL AS CASH. CASH FLOW STATEMENT MAY BE DEFINED AS A SUMMARY OF RECEIPTS AND DISBURSEMENTS OF CASH FOR A PARTICULAR PERIOD OF TIME. IT ALSO EXPLAINS REASONS FOR THE CHANGES IN CASH POSITON OF THE FIRM.

CASH FLOWS ARE CASH INFLOWS AND OUTFLOWS. TRANSACTIONS WHICH INCREASE THE CASH POSITION OF THE ENTITY ARE CALLED AS INFLOWS OF CASH AND THOSE WHICH DECREASE THE CASH POSITION AS OUTFLOWS OF CASH. CASH FLOW STATEMENT REFLECTS THE INFLOW OF REVENUE VS. THE OUTFLOW OF EXPENSES RESULTING FROM OPERATING , INVESTING AND FINANCING ACTIVITIES DURING A SPECIFIC TIME PERIOD.

1. Indirect Method:

The **indirect method** (or reconciliation method) starts with net income and con it to net cash flow from operating activities. In other words, ***the indirect method adjust income for items that affected reported net income but did not affect*** cash. To con net cash flow from operating activities, non-cash charges in the income statement are a back to net income and non-cash credits are deducted.

Format of Cash Flow Statement for the year ended ....

As per Accounting Standard - 3 (Revised)

Particulars		Rs
(i) **Cash flows from operating Activities**		
Net Profit as per Profit and Loss A/c or difference between closing balance and opening balance of Profit and Loss A/c		xxx
Add : Transfer to reserve	xxx	
Proposed dividend for current year	xxx	
Interim dividend paid during the year	xxx	
Provision for tax made during the current year	xxx	
Extraordinary items, if any, debited to Profit and Loss A/c	xxx	xxx
Less : Extraordinary Items, if any, credited to Profit and Loss A/c		
Refund of Tax credited to Profit and Loss A/c	xxx	xxx
A. Net profit before taxation and Extra ordinary items Adjustment for Non-Cash and Non-Operating Items.		
B. Add :		
Depreciation	xxx	
Preliminary expenses	xxx	
Discount on issue of shares and debentures written off	xxx	
Interest on borrowings and debentures	xxx	
Loss on sale of fixed assets	xxx	xxx
C. Less :		
Interest income/received	xxx	
Dividend income received	xxx	
Rental income received	xxx	

Profit on sale of fixed asset	xxx	xxx
D. Operating profits before working capital changes (A + B – C)		xxx
E. Decrease in current assets and increase in current liabilities	xxx	
F. Less: Increase in current assets and decrease in current liabilities	xxx	
G Cash generated from operations (D + E – F)		xxx
H. Less: Income tax paid (Net tax refund received)		xxx
I. extraordinary items Adjusted		xxx
J. Net cash from(used in) operating activities		xxx
(ii) Cash from investing accounting		
Add :		
Proceeds from sale of fixed assets	xxx	
Proceeds from sale of investments	xxx	
Proceeds from sale of intangible assets	xxx	
Interest and dividend received	xxx	xxx
Less :		
Purchase of fixed assets	xxx	
Purchase of investment	xxx	
Purchase of intangible assets like goodwill	xxx	xxx
Advanced extraordinary items (+/–)		xxx
Net cash from (or used in) investing activities		xxx
(iii) Cash flows from financing activities		
Add :		
Proceeds from issue of shares and debentures	xxx	
Proceeds from other long term borrowings	xxx	xxx
Less :		
Final dividend fund	xxx	
Interim dividend fund	xxx	
Interest on debentures and loans paid	xxx	
Repayment of loans	xxx	
Redemption of debenture preference shares	xxx	xxx
Adjust extraordinary items (+/–)		xxx
Net cash from (or used in) financing activities		xxx
(iv) Net increase/Decrease in cash and cash equivalent (i + ii + iii)		xxx
(v) Add : cash and cash equivalents in the beginning of the year		
Cash in hand	xxx	
Cash at bank overdraft	xxx	
Short term deposit	xxx	
Marketable securities	xxx	xxx
cash and cash equivalents at the end of the year		XXX

2. Direct method:

Under the direct method the statement of cash flows reports net cash flow fr operating activities as major classes of operating cash receipts (e.g., cash collected fr customers and cash received from interest and dividends) and cash disbursements (e.g., ca paid to suppliers for goods, to employees for services, to creditors for interest, and government authorities for taxes).

Format for Cash flow Statement for the year ended ....

Particulars		Rs.
(i) Cash flow from operating activities		
A. Operating cash receipts		
Cash sales	xxx	
Cash received from customer's	xxx	
Trading commission received	xxx	
Royalties received	xxx	xxx
B. Less : Operating cash payment		
Cash purchase	xxx	
Cash paid to the supplier	xxx	
Cash paid for business expenses like office expenses, Manufacturing expenses, selling and distribution expenses	xxx	xxx
C. Cash generated from operation (A – B)		xxx
D. Less Income tax paid (Net of tax refund received)		xxx
E. Cash flow before extraordinary items		xxx
F. Adjusted extraordinary items (+/–)/Receipt/payment		xxx
G. Net cash flow from (or used in) operating activities		xxx
(ii) Cash flow from investing activities		xxx
(calculation same as under indirect method)		
(iii) Cash flow from financing activities		xxx
(Calculation same as under indirect method)		
(iv) Net increase/decrease in cash and cash equivalents (i + ii + iii)		xxx
(v) Add cash and cash equivalent in the beginning of the year		xxx
(same as under indirect method)		
(cash under cash equivalent in the end of the year)		xxx

Q) Human resource accounting in India ,Approaches Of human resource accounting?

Ans- ASPECTS/METHODS OF HUMAN RESOURCE ACCOUNTING

There are two major aspects of human resource accounting :

I. Human Resource Cost Accounting (HRCA)
1I. Human Resource Value Accounting (HRVA)

1. Human Resource Cost Accounting (HRCA)

Human resource cost accounting may be defined as the (measurement and reporting) of the cost incurred to acquire and develop people as organisational resources. It deals with accounting for investment
made by an organisations in acquisition and developing human resources as well as the replacement cost of people presently employed. HRCA includes :
(a) Accounting for the costs of personnel activities and functions such as recruitment, selection placement and training.
(b) Accounting for costs of developing people as human assets, also termed as 'Human Asset Accounting' .
The monetary approaches to the measurement of human resource cost may be based upon either historical cost or replacement cost or opportunity cost. These approaches are discussed as below :

(1) Historical Cost Approach

Historical cost approach was developed by Brummet, Flamholtz and Pyle. According to this approach the actual cost incurred on recruiting, selecting, training, placing and developing the human resourse of enterprise are capitalized and written over the expected useful life or human resources. The procedure followed for human resource asset is the same as that of other physical assets. Any amount spent on training
and developing human resource increases its efficiency, hence capitalised. The amortization of human resource
assets is also done in the same way as that of other physical assets. The asset is written off over its use life. If the asset is liquidated prematurely then its underwritten off amount is charged to revenue account.0n
the other hand, if it has a longer life then expected, its amortization is rescheduled,

(2) Replacement Cast Approach

This method was developed by Rensis Likert & Eric G. Flamholtz. The cost of replacing employees is Used as the measure of company's human resources. The human resources of a company are to be valued on The assumption as to what it will cost the concern if existing human resources are required to be replaced with Other persons of equivalent experience and talent. This approach corresponds to the historical cost approach Mentioned earlier except that it allows for changes in the cost of acquiring and developing employees in palace Of taking their historical cost.
In replacement cost approach the costs of recruiting, selecting, training, developing, etc. of new Employees to reach the level of competence of existing employees are measured. Likert has suggested Determination of the value of total human organisation on the basis of the assumption that a similar orgainsation is to be created from scratch."

(3)Opportunity Cost Approach Or Hekimian and Jone's Competitive Bidding Method

This approach has been suggested by Hekimian and Jones. It values human resources on the basis Of the economic concept o opportunity cost. The opportunity cost is linked with scarcity. A human resource
Asset has a value only when it is scarce i.e. its employment in one division is possible and not in another diVISion" The investment centre managers will bid for the scarce employees they need to recruit. These arce" employees come from within the firm and include only those who are the subject of a recruitment request made by an investment centre manager. In other words, employees not considered 'scarce' are not included in the human asset base of the organisation.

II. Human Resource Value Accounting (HRV A)

Another important approach to the evaluation of human resource assets is to calculate their economic

values. This concept is based on the view that difference in present and future earnings of two similar firms earning to the difference in their human organisation. The economic value of the firm can be determined be obtaining the present value of future earnings.
A number of valuation models have been developed for determining the present value of future earnings. Some of the important models have been discussed as below :

i)THE LEV AND SCHWARTZ MODEL

Lev and Schwartz developed an economic model in 1971 for determining the value of human resources in a firm. According to them, the value of human capital embodied in a person of age t is the present value of his remaining future earnings from employment in the form of salaries, wages, etc. the value of human capital 0f a person t years old is given symbolically in the model as:-

$$V_\tau = \sum_{t=\tau}^{T} \frac{I(t)}{(1+r)^{t-\tau}}$$

where,

$V\tau$ = the value of human capital of a person τ years old.
I (t) = the annual earnings of the person up to retirement
r = the discount rate of the cost of capital.
T = the age of retirement.

Lev and Schwartz have taken a hypothetical example to show the computation of value of human capital of a firm. The hypothetical example taken relates to the persons of different age groups and degrees of skill and average annual earnings for each age group and skill group have been ascertained. The present values of future earnings for each group have been determined and the total of such present values has been shown as the firm's value of human resources.

However, the Lev and Schwartz model suffers from the following limitations:
(i) The model does not consider the possibility of leaving a firm by an employee.
(ii) The model ignores the possibilities of promotion of employees.
(iii) It does not consider the contribution of the firm in developing the value of human capital.
In spite of the above limitations, the Lev and Schwartz model is the most popular economic model for determining the value of human resources of a firm.

(2) FLAMHOLTZ MODEL (1971)

According to this model, an individual's value to an organisation is determined by the services he is expected to render to the organisation during the period he is likely to remain with the organisation in various positions or service states. The present value of human resource ma be derived by discounting the realisable value of expected future services at a specified rate.This model involves the following steps :
(i) estimation of period for which an individual is expected to render service to the organisation.
(ii) Identification of various positions or service states that the employee might hold during his service with the organisation.
(iii) Estimation of probable period for which he is expected to hold each possible position or service state.
(iv) Calculation of expected service to be derived from the individual by

$$E(S) = \sum_{i=1}^{n} S_i \, P(S_i)$$

Where S, represents the quantity of services expected to be derived in each state and P (S,) is the probability that the same will be obtained.

(v) Determination of the monetary equivalent value of the expected future services by multiplying the quantity of services with the price and calculation of the income expected to be derived from their use.

(vi) Calculation of present value of expected future services at a predetermined rate

(3)GILESAND ROBINSON'S HUMAN ASSET MULTIPLIER METHOD

In 1972, The Institute of Cost and Management Accountants and The Institute or Personnel Management sponsored Giles and Robinson to produce a report on Human Asset Accounting. They"", Suggested a human asset measurement method known as Human Asset Multiplier. According to this method,

The valuation of human resources should be made in the same way as other business assets on a going concern
basis
calculation of human asset value= remuneration*contribution to success of business

(4) HERMANSON'S UNPURCHASED GOODWILL AND ADJUSTED DISCOUNTED FUTURE WAGE MODEL

Roger H. Hermanson has suggested two models for the measurement of human resources. According to unpurchased goodwill model, the value of human resources of an organisation may be calculated b) capitalising earnings in excess of normal earnings for the industry or the group of companies of which the firm is a part.

The adjusted discounted future wage model uses compensation as a surrogate measure of a person's value to the firm. Compensation means the present value of future stream of wages and salaries to employees of the firm. The discounted future wage stream is adjusted by an 'efficiency ratio' which is the weighted average of the ratio of return on investment of the given firm to all the firms in the economy for a specified period, usually five years. The weights are assigned in the reverse order, i.e. 5 to the current year and l to the proceeding 4th year. Hermanson has used the following formula for calculating efficiency ratio:

$$\text{Efficiency ratio} = 5\frac{RF(0)}{RE(0)} + 4\frac{RF(1)}{RE(1)} + 3\frac{RF(2)}{RE(2)} + 2\frac{RF(3)}{RE(3)} + \frac{RF(4)}{RE(4)}$$

Where, RF is the rate of accounting income on owned assets for the firm for a period of 5 years and, RE is the rate of accounting income on owned assets for all the firms in a economy for the same period.

The efficiency ratio has been criticised as being subjective because of arbitrary weights and restricting period of 5 years.

(5) JAGGI AND LAU MODEL

This model suggests valuation of human assets on a group basis rather than on individual basis.

It has been assumed in this model that the pattern of movement is likely to remain constant overtime and the probabilities determined for one period can be extended to future periods. The computation of human resources of an organisation is done as below

TV = (N) m (T) n (V)

Where, TV represents the current value of all employees in each rank.
N represents the number of employees in each rank.
n represents the time period.
r is the discount rate.
T represents the probability.
V represents the economic value of an employee.

This model tries to simplify the measurement of the value of human resources by taking group of employees as the base.

(6) MORSE NET BENEFIT MODEL (1973)

According to this model, the value of human capital is determined on the basis of the present value of net benefits derived by the organization from the expected future services of the employees.

OBJECTIONS AGAINST HUMAN RESOURCE ACCOUNTING

Some of common objections against human resource accounting are discussed as follows :
(I) There is difference between other assets and human resource. They cannot be valued like other assets.
(2) The methods for valuation of human resources are different from each other.
(3) Human resource asset is not recognised by tax laws. It remains only a theoretical concept.
(4) The factors to be included for valuing human resource accounting are abstract and are not precisely measurable in monetary terms. These valuations lack objectivity.
These objections against human resource accounting are because this concept is new. In due course Of time the opinions will crystalise. It is heartening to note that human resources are disclosed in balance sheets these days.

HUMAN RESOURCE ACCOUNTING IN INDIA

In India, financial statements are prepared under the provisions of Indian Companies Act. 1956. There is no provision in the Act for the disclosure of human resources in the final accounts. The only provision inthe Act is regarding the disclosure of information about the employees getting a remuneration of Rs. 36,000 per annum or more as foot note in Profit and Loss Account. However, leading public sector units like BHEL, SAIL, ONGC, MMTC, HMT, OIL, ACC, NT PC etc. have started reporting valuation of human resources
In their Annual Reports as additional information. Most of these companies have adopted the Lev and Schwartz Model(1971) with suitable modifications. However, they do not follow uniform policies in reporting human resource information as no Internationally Accepted Accounting Standard has yet been evolved and no guidelines are available from the professional bodies also.

Q12) AS-17

Ans-

Segment Reporting (As-17):

Meaning & Objective

An enterprise deals in multiple products/services and operates in different geographical areas. Multiple products/services and its operations in different geographical areas are exposed to different risk and return. Information about multiple products/ service and its operation in different geographical is used to assess the risk and return of multiple products/service and its operation in different geographical area. Disclosure of such information is called segment reporting.
Segment reporting helps users of financial statements.
- To better understand the performance of the enterprise.

- To better assess the risks and returns of the enterprise
- To make more informed judgments about the enterprises as whole.

Segment

17.2 There are two type of segment

17.2-1 Business segment - Segment is made on the basis of products/services which are exposed to different risks and return.

17.2-2 Geographical segment - Segment is made on the basis of its operation in different geographical areas which are exposed to different risks and returns.

In process of identifying the predominant source of risk and returns of the company, internal organisation and management structure of company and system of internal reporting to Board of Directors and chief executive officer provide the best evidence of the predominant source of risks and returns of the company.

Identification of Reportable Segments (Sub Segments)

17.3 Reportable segment is a business segment or a geographical segment identified on the basis of their definitions for which segment information is required to be disclosed by the statement.

Business segment or geographical segment which has been identified as reportable shall be further divided to include sub segments based on the following conditions:

Segment Revenue from sales to external customers and internal transfer is 10% or more than total external and internal revenue of all segments.

Or

10% or more of segment result

(Segment results means: if some segments are in loss then total of loss of all Loss making segments or if some segments are in profit, total profit of all profit making segments. Whichever is higher i.e. total profit or total loss figure in absolute term.)

Or

Segment asset is 10% or more than total assets of all segments

Further, Management may at its discretion choose any segment as reportable segment even if such segment does not fulfill the criteria stated above.

Ensure whether at least 75% of total external revenue should be in the reportable segments.

If 75% of total external revenue is not in the reportable segments, then additional reportable segment should be identified ignoring 10% threshold limits until at least 75% of total external revenue is included in reportable segments.

Reportable segments

17.4 Reportable segments are classified in following two parts for the purpose of disclosure:

1. Primary Reportable Segment.
2. Secondary Reportable Segment.

Disclosure

17.5 The disclosure requirements of primary segments are as under:-

- **I)** Revenue from external customers.
- **II)** Revenue from transactions with other segments
- **III)** Segment result
- **IV)** Cost to acquire tangible and intangible fixed assets.
- **V)** Depreciation and amortization expenses.
- **VI)** Carrying amount of segment assets.
- **VII)** Segment liabilities.

VIII) Non-cash expenses other than depreciation and amortization.

IX) Reconciliation of revenue, result, assets and liabilities.

Q) Compare and contrast USA and UK with regard to procedure for establishing Accounting Standards. What are the difficulties faced by standard setters in establishing the standards.

Ans-

Difficulties in Standard Setting

Difficulties faced in standard setting may vary from country to country as there may be differences in economic, legal, social and accounting environment. However, there are some problems which seem to be common to all standard-setter. They may be listed as follows:

1. Conflict in Accounting Theories. There has been a remarkable growth in accounting theories especially relating to income measurement, asset valuation, capital maintenance. Though much of the developments has taken place abroad, (USA, UK, Canada, Australia etc.), accounting in other countries has also been influenced. While the theorists battled on, the various sectional interests found that the theories could be used to support their own causes and arguments. At present, there is not a single theory in accounting which commands universal acceptance and recognition. There is no best answer to the different terms like profit, wealth, distributable income, value, capital maintenance and so forth. We cannot say what is the best way to measure profit. If the profession truly wishes to be helpful it needs to discover from users, or to suggest to them, what would support their decision making, and then to develop the measured which best reflect those ideas.

The search for an agreed conceptional framework could be regarded as essential to orderly standard setting and a responsible way for the standard-setter act. Also, it could be helpful in distracting critics while getting on with the real issues in accounting problems. Absence of a conceptual framework, i.e., a set of interlocking ideas on accountability and measurement is not conducive to standard setting and improved financial accounting and reporting.

2. **Political Bargaining in Standard Setting**. Earlier, but not so many years ago, accounting could be thought of as an essentially nonpolitical subject. But, today, as the standard setting process reveals, accounting can no longer be thought of as nonpolitical. The numbers that accountants report, have a significant impact on economic behaviour. Accounting rules therefore affect human behavior. The stories conveyed by annual reports confirm or disappoint investor expectations and have the power to move millions (whether of money or persons). For all the bloodless image that accounting may have, people really care about the way the financial score is kept. Hence, the process by which they are made is said to be political. Horngreen writes that:

"The setting of accounting standards is as much a product of political action as of flawless logic or empirical findings. Why? Because the setting of standards is a social decision. Standards place restrictions on behaviour; therefore, they must be accepted by the affected parties. Acceptance may be forced or voluntary or some of both. In a democratic society, getting acceptance is an exceedingly complicated process that requires skilful marketing in a political arena."

Tweedie and Whittington observe: .Accounting standard setting is certainly a political process, responding to pressures from the economic environment and compromising between the conflicting interests of different parties. It is important that standard setters be aware of this and that they be aware of the specific pressures and interests involved. It would be unrealistic to expect to determine standards without such difficulties, and the best way to deal with them is to admit their existence rather than pretending to ignore them."

3. **Difficulties in Definition**. To agree on the scope of accounting and of principles or standards, is admittedly most difficult. Some, for example, equate accounting with public accounting, that is mainly with auditing and the problems of the auditor. Another opinion is that it (accounting) is frequently assumed to have a basis in a private enterprise economy. Some use .principles. as a synonym for .rules or procedure .. The result is that the number of principles become large and most uneven in coverage and in quality. Another group seems to equate .principles. with .convention,. that is, with consensus or agreement. If this is the case, then a principle can be changed if all agree it should be or alternatively, the only propositions that can qualify as principles are those that command consensus or agreement. Such disagreement leads to difficulty in standard setting and further does not make the standards totally acceptable to society.

4. **Pluralism**. The existence of multiple accounting agencies has made the task 01 standard selling more difficult. In India, company financial reporting is influenced by, although in different degrees, by Accounting Standards Board of ICAI Ministry of Law, Justice and Company Affairs, Institute of Cost and Works Accountants of India. No one agency has jurisdiction over the entire area of accounting standards. Similarly in other countries also, there is plurality of accounting bodies. For example, in USA. there are organisations like Securities and Exchange Commission, Financial Accounting Standards Board, American Institute of Certified Public Accountants. In U.K., there are Accounting Standards Board of ICAEW and Companies Acts to deal with accounting matters and financial reporting.

If pluralism were reduced or eliminated, the path toward the goal would be smoother. However, the absence of pluralism is no a necessary condition for agreement on standards developed by a single accounting body. No one would claim that the mere absence of an obstacle constitutes a sufficient condition for success.

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A standard setter has to face many difficulties in standard setting process. In a rational way a standard setting body should first define the objectives of financial accounting .and reporting, identify user groups to be served, and the information which were useful to them before starting the process of standard setting. A standard setting process, i.e., **the process of selecting the appropriate accounting method includes the following important stages**:

1. Identification and Assessment of Theory. The various theories underlying alternative accounting methods should be examined for individual merit and internal consistency. In the light of the conceptual framework, the relevance of the alternative methods to the various users of accounts would be assessed.

2. Research into the Costs and Benefits of Alternative Methods. The role of research would be:

a. to examine the realism of the assumptions underlying the various methods;

b. to .assess, and preferably quantify, the benefits accruing to users resulting from the introduction of eact alternative method; and

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c. to identify the costs and practical difficulties (if implementation by field studies.

3. Choice Between Alternative Methods. The final stage of the process involves the exercise of judgement in the selection of an appropriate accounting policy. The standard-setting body is confronted by a social choice problem similar to that faced by a government in deciding how to allocate public expenditure .and .by which means taxes should be raised to pay for it. A choice may have to be made to favour certain groups of users at the expense of others, as ultimately the amount of information .which can be published is limited. The decision involves the assessment of the benefits accruing to different users of accounts, and the costs associated with these benefits, bearing in mind that some of the users of accounts bear none of the costs. Ideally, the choice would be made from a "neutral" viewpoint, but .neutrality. can be determined in practice only if there exists a.social welfare function for comparing various costs and benefits to different parties in manner which is universally accepted as being "neutral."

Standards Setting In Different Countries

Standards setting or standardisation imply the development, definition and promulgating, acceptance, and enforcement of a written and explicit body of rules relating to measurement and disclosure of information in financial statements.

Prior to the 1970s, few paid much attention to the standard-setting process in accounting. Little research was done on the subject. Beginning in the 1970s, however, it became clear that standard setting was a fascinating process influencing the economic self interests of affected parties. Currently, standard-setting boards or committees are active in a number of countries such as the United States, Canada, United Kingdom, Australia, New Zealand, Japan, the Netherlands, including India ..The purpose of each of these standard-setting organisations is to promote the dissemination of timely and useful financial information to investors and certain other parties having an interest in companies' economic performance.

In the following sections, the process of standard setting in USA, UK and India has been described.

United Kingdom

The first substantial British interest in the area of accounting policy making seems to have been seen in the 1940s. The underlying cause of this concern was discontent with the accounting establishment. The first committee of the Institute of Chartered Accountants of England and Wales (ICAEW) charged with laying down guidelines concerning accounting practice emerged as a by-product of a compromise which allowed Council to continue to be composed of mainly practicing members. However, upto 1960, there was little concern with the process of accounting policy making. There was some evidence of fresh thinking in the 1960sand a research committee was formed in 1964. the strong concern was felt by many academic accountants who suggested research programmes to explore the possibility of setting accounting standards. All these (and other) pressures led the ICAEW to issue a Statement of Intent on Accounting Standards in the 1970s. Subsequently, the Accounting Standards Committee (AS C) was established in 1970.

. The ASC has been replaced by Accounting Standards Board (ASB) in 1990.

In establishing the ASC, the ICAEW stated its intention to advance accounting standards along five lines as follows:

1. Narrowing the areas of difference and variety of accounting practice. This was to be achieved by publishing authoritative statements on best accounting practice.
2. Disclosure of accounting bases. This was to be required when accounts include significant items whose values depend upon judgement.
3. Disclosure of departures from established definitive accounting standards.
4. Wider exposure for major proposals on accounting standards.
5. Continuing programme for encouraging improved accounting standards in legal and regulatory measures

In seeking to meet its terms of reference the ASC set Statements, of Standard Accounting Practice (SSAPs) by a process which entailed effectively four elements: research; drafting; evaluation;. and approval. Similar characteristics determined the preparation of another type of document which was introduced by the ASC, .the Statement of Recommended Practice (SORP). SORPs were designed to apply to matters of less general applicability than SSAPs and could be produced, by the ASC itself or by groups of organizations representing an economic sector. In the case of the latter, if SORPs were judged to have been properly prepared they would be franked by the ASC.

Following a continuing concern that the standard setting process needed a thorough revision the accounting bodies in 1987 set up a review committee, named after its chairman, Sir Ron Bearing, to review procedures for developing and enforcing accounting standards in

Great Britain and Ireland. The Dearing Report recommended the establishment of a new body, the Financial Reporting Council (FRC). This Was to 448 Accounting Theory oversee two independent entities, the Accounting Standards Board (ASB) and the Review Panel. These recommendations were accepted and implemented, with effect from August 1990. The FRC, comprising 20 members, lives guidance to the ASB on priorities, work programme and issues of public concern, and acts as an instrument for promoting good accounting practice. The ASB comprises nine members, including a full-time chairman and technical director. An Urgent Issues Task Force (UITF) is an offshoot of the ASB. Its role is to tackle urgent matters not covered by existing standards. The Review Panel has fifteen members. It is concerned with monitoring the accounts of large companies to note and investigate any departure from accounting standards. In the last resort, the Review Panel may bring civil proceedings against a company which will not revise its accounts in order to give a true and fair view.

In 1991 the ASB published its .Statement of Aims. which stated that it aims to establish And Improve standards of financial accounting and reporting, for the benefit of users, preparers and auditors of financial information. The Board, intends to achieve its aims by:

1. Developing principles to guide it in establishing standards and to provide a framework within which others can exercise judgement in resolving accounting issues.
2. Issuing new accounting standards, or amending existing ones, in response to evolving business practices, new economic developments and deficiencies being identified in current practice.
3. Addressing urgent issues promptly.

U.S.A.

In USA until the early 1930.s accounting evolved in accordance with the best professional judgement of CPAs and managers. Heavy dependence was placed on the leadership of thoughtful practitioners. Then, the Securities and Exchange Compression (SEC) was created in 1934 to administer the Securities Act of 1933 and the Securities Exchange Act of 1934. The Commission is given the responsibility and authority to prescribe accounting standards and rules for reports filed pursuant to the securities acts. Further, the Commission defines the conditions under which public accountants who attest to the statements are considered independent, and disciplines attesting accountants who violate these conditions. In 1936, the American Institute of Certified Public Accountants (AICPA) established a Committee on Accounting Procedure. The AICPA devoted its attention almost entirely to resolving specific accounting problems and topics rather than developing general accounting principles. The Accounting Principles Board (APB) succeeded the Committee on Accounting Procedure of AICPA in 1959. The APB was created partially in response to criticism of the old Committee as being too concerned with putting out brush-fires, as being toowedded to an ad-hoc approach that lacked an overall conceptual framework. In contrast, the APB pronouncements were supposed to sprout from fundamental research that would formulate a grand set of tightly integrated, internally consistent accounting principles. Indeed, the APB commissioned such research, but the APB.s series of 31 opinions was often criticised for being unrelated to any overall framework. Despite the good intention of the APB programme, history repeated itself. The APB approach was-similar to the piecemeal approach of its predecessor. In fact, the Wheat Study Group that gave the APB the kiss of death devoted a section of its report to a negative appraisal of the APB research Programme. Of course, this kind of criticism of the APB. flowed from many other sources. For instance, the academic community and many practitioners flayed the APB because it was working without any accounting objectives or any collection of general principles. In short, observers alleged that there was not enough tidy rationality embedded in the process of accounting policy making. As a result of the criticism of the Accounting Principles Board the Financial Accounting Standards Board was set up in 1972 as a designated organisation in the private sector for establishing standards of financial accounting and reporting in D.S.

ASC (UK) Vs . FASB (USA)

There are two main differences between the positions of the ASC (now ASB) and the FASB.

Firstly, SSAPs issued by ASB must have the approval of the governing councils of all six CCAB bodies before they can take effect. This procedure is not only cumbersome and time consuming, but it raises serious questions about the wisdom of giving veto powers to council members who may not have given much thought to the complex technical issues that ASC members have to grapple with.

The second difference between the ASC.s and the FASB.s position relates to enforcement. As Britain has no body corresponding to the SEC to give the ASC its blessing and authority, the committee has had to look to the stock exchange and the disciplinary powers of the Council over their members for such enforcement power as it has. Members acting as auditors are required to ensure that significant departures from ASC standards in financial statements are disclosed and are justified if their concurrence in the departure is stated or implied. The Stock Exchange makes it condition of listing that, when an auditor qualifies his or her report in respect of a departure from an ASC standard, the company must explain its reasons for the departure to its shareholder. These disciplinary measures have not been entirely successful in giving the ASC the authority that it need to be effective. As yet, enforcement remains an unsolved problem for the ASC24. The authority of the ASC in UK, where there is no SEC to back it, is often flouted, in spite of the qualified audit reports that normally follow when financial statements not in accordance with the Committee.s Statements of Standard Accounting Practice are issued.

For all practical purposes, SSAPs are like the FASB.s statements of Financial Accounting Standards (SF ASs), though, they have been considerably less numerous. In its first 10 years period, 1970-80, the ASC issued 18 standards, whereas the FASB, in its 10 years period, from mid 1973 to mid 1983, issued 72 standards and a number of interpretations in addition. To date, the ASC (ASB) has promulgated 25 standards, and the FASB, 110 standards. The FASB has also issued 38 Interpretations and 6 Statements of Concepts.

Q v. important) Modern trend in published accounts?
Ans-

<u>MODERN TRENDS IN PUBLISHED ACCOUNTS</u>

INDIAN COMPANY LAW 1956 BINDS THE BOARD OF DIRECTORS OF COMPANY TO SHOW PROFIT AND LOSS A/C AND BALANCE SHEET OF COMPANY & AUDITOR's REPORT's COPIES IN ANNUAL GENERAL MEETING OF COMPANY. ALL THESE REPORTS ARE CALLED ANNUAL REPORT OF THE COMPANY. IT IS ALSO COMPULSORY FOR COMPANY TO PUBLISH BOTH IN PRINT AND NOW IN WEBSITE ALSO.

MODERN TRENDS IN FORM OF PUBLISHED A/C's

OR

METHODS OF PRESENTATION

- **DIAGRAMMATIC PRESENTATION**
- **GRAPHICAL PRESENTATION**

DIAGRMMATIC PRESENTATION

DIAGRAMS ARE GENERALLY USED FOR CHARTING CATEGORICAL SERIES ON A PLAIN PAPER SO AS STATISTICAL INFORMATION HAS AT A GLANCE EFFECT UPON THE READERS. SUCH A PRESENTATION MAKES THE DATA MEMORABLE AND UNIVERSALLY APPLICABLE. IT IS FOR THIS REASON DIAGRAMS AND GRAPHS ARE USED BY NEWSPAPERS, MAGAZINES, JOURNALS, ADVERTISEMENTS etc. TO MAKE THE MASS DATA WITHIN THE REACH OF COMMON MAN. DIAGRAMMATIC PRESENTATION INCLUDES-

ONE DIMENSIONAL DIAGRAMS & TWO DIMENSIONAL DIAGRAMS

ONE DIMENSIONAL DIAGRAMS

ONE DIMENSIONAL DIAGRAM IS THE SIMPLEST WAY OF PRESENTING SINGLE FACTOR ON A VERTICAL SCALE OF DIAGRAM. THESE ARE ONE DIMENSIONAL BECAUSE IN THEM ONLY HIEGHT OR LENGTH OF THE BAR MATTERS, WIDTH OF THE BAR IS IMMATERIAL. INSTEAD OF BARS EVEN LINES MAY BE DRAWN, BUT BARS LOOK MORE ATTRACTIVE , THEREFORE, WHEN THERE IS A REASONABLE NUMBER OF ITEMS, BARS MAY BE PREFFERED TO LINES. ONE DIMENSIONAL DIAGRAMS COVERS THE FOLLOWING-

- LINE DIAGRAMS
- BAR DIAGRAMS

LINE DIAGRAMS

THE LINE DIAGRAM IS A VERY SIMPLE WAY TO PRESENTING INDIVIDUAL DATA THROUGH VERTICAL LINES. THESE LINES REPRESENT VALUE, WHERE HIEGHT OF THE LINE IS COMPARABLE. LINES CAN BE SIMPLE LINES WHERE THE THICKNESS OF THE LINE IS MEANINGLESS.

BAR DIAGRAMS

A SIMPLE BAR DIAGRAM IS A DIAGRAM CONSISTING OF A NUMBER OF 'THICK-WIDE LINES-BAR' EACH SHOWING A VALUE OR MAGNITUDE OF SOME VARIABLE. THE WIDTH OF THE BARS IS IMMATERIAL. BESIDES, EQUAL DISTANCE MUST BE KEPT BETWEEN DIFFERENT BARS TO MAKE THEM SYMMETRICAL AND ATTRACTIVE.

TWO DIMENSIONAL DIAGRAMS

AS DISTINGUISHED FRM ONE DIMENSIONAL DIAGRAMS, TWO DIMENSIONAL DIAGRAMS CONSIDER LENGTH AND BREADTH OF THE BARS. THES DIAGRAMS CONSIDER THE TOTAL AREA OF THE DIAGRAM, THEREFORE KNOWN AS 'AREA DIAGRAMS' OR 'SURFACE DIAGRAMS'. TWO DIMENSIONAL DIAGRAMS COVERS THE FOLLOWING-

- RECTANGLES
- SQUARES
- CIRCLES

RECTANGLES

A RECTANGLE IS A TWO-DIMENSIONAL DIAGRAM BECAUSE IT IS BASED ON AREA –PRINCIPLE. SINCE AREA OF THE DIAGRAM IS GIVEN BY THE PRODUCT OF ITS LENGTH AND BREADTH , THEREFORE, TWO VARIABLES ARE REPRESENTED THROUGH SUCH DIAGRAMS.

SQUARES

SQUARES IS AN ALTERNATIVE METHOD TO DRAW TWO-DIMENSIONAL DIAGRAMS WHERE CERTAIN FIGURES IN A SERIES VARY WIDELY IN MAGNITUDE FRM OTHER FIGURES. FOR EXAMPLE , IF ONE FIRM IS HAVING PROFITS OF RS. 1000 AND OTHER IS HAVING RS.12,000, RECTANGULAR BAR DIAGRAMS WILL NOT BE ABLE TO PRESENT THE DATA. ALL THE VALUES ARE TAKEN IN APPROPRIATE SCALE AND SQUARE ROOTS ARE DRAWN. SQUARES ARE DRAWN ON THE HORIZONTAL LINE WITH EQUAL SPACES BETWEEN THEM.

CIRCLES

THE AREA OF CIRCLE IS TAKEN IN PROPORTION TO THE SIDE OF A SQUARE. THEREFORE THE RADIUS OF A CIRCLE IS TAKEN AS EQUAL TO THE SIDE

OF A SQUARE. THUS CIRCLES CAN BE DRAWN FOR ALL THOSE FIGURES FOR WHICH SQUARES ARE TAKEN.

GRAPHICAL PRESENTATION

GRAPHIC PRESENTATION OF INFORMATION IS A GEOMETRIC EXPRESSION OF A BUSINESS INFORMATION. IT IS A PRESENTATION OF THE RELATIVE CHANGE BETWEEN TWO QUANTITIES OF WHICH ONE VARIES AS A RESULT OF CHANGE IN THE OTHER. ONE VARIABLE IS KNOWN AS INDEPENDENT VARIABLE AND THE OTHER VARIABLE WHICH VARIES AS A RESULT OF CHANGE IN INDEPENDENT VARIABLE IS KNOWN AS DEPENDENT VARIABLE.GRAPHICAL PRESENTATION INCLUDES-

TIME SERIES GRAPHS & GRAPHS OF FREQUENCY DISTRIBUTION

TIME SERIES GRAPHS

WHEN A BUSINESS INFORMATION CHANGES WITH THE OCCURRENCE OF TIME, IT IS KNOWN AS TIME SERIES. SUCH SERIES ARE REPRESENTED THROUGH 'TIME SREIES GRAPHS'. TIME SERIES GRAPHS COVERS THE FOLLOWING-

- HORIZONTAL LINE GRAPHS OR HISTORIGRAMS
- NET BALANCE GRAPHS

HORIZONTAL LINE GRAPHS OR HITORIGRAMS

THESE GRAPHS ARE DRAWN ON NATURAL OR ARITHMETIC SCALE, WITH ABSOLUTE VALUES, TAKING TIME ON X-AXIS AND DEPENDENT VARIABLE ON Y-AXIS.SUCH GRAPHS ARE DRAWN FOR TWO KINDS OF TIME SERIES-

- ONE VARIABLE TIME SERIES GRAPHS
- TWO OR MORE VARIABLE TIME SERIES GRAPHS

ONE VARIBLE TIME SERIES GRAPHS

ONE VARIBLE TIME SERIES GRAPHS REPRESENT ONLY ONE VALUE WITH ITS RESPECTIVE TIME.

TWO OR MORE VARIABLE TIME SERIES GRAPHS

TIME SERIES DATA RELATING TO TWO OR MORE RELATED VARIABLE i.e., TWO DEPENDENT VARIABLES RELATING TO SAME TIME PERIOD CAN BE DEPICTED TOGETHER ALONG THE SAME TIME PERIOD , USING THE SAME SCALE.FOR EXAMPLE, THE DATA RELATING YIELD AND SALES IN MILLION TONS DURING DIFFERENT YEARS CAN BE SHOWN IN A SINGLE GRAPH.

NET BALANCE GRAPHS

THIS GRAPH IS SPECIFICALLY DESIGNED TO DEPICT THE DIFFERENCE OR NET BALANCE BETWEEN TWO VARIABLES ALONG THE VERTICAL AXIS AGAINST A GIVEN TIME e.g., DIFFERENCE BETWEEN IMPORTS AND EXPORTS OF A COUNTRY.

GRAPHS OF FREQUENCY DISTRIBUTION

FREQUENCY GRAPHS ARE DESIGNED TO REVEAL CLEARLY THE CHARACTERISTIC FEATURES OF A FREQUENCY DISTRIBUTION. THEY MAKE THE PARTICULAR CHARACTERISTIC OF THE STATISTICAL SERIES PROMINENT AND HELP IN UNDERSTANDING THEM MORE QUICKLY AND EASILY.GRAPHS OF FREQUENCY DISTRIBUTION COVERS THE FOLLOWING-

- HISTOGRAMS
- FREQUENCY POLYGON
- FREQUENCY CURVES
- OGIVES

HISTOGRAMS

A HISTOGRAM IS A SET OF VERTICAL BARS WHOSE AREAS ARE PROPORTIONAL TO THE FREQUENCIES PRESENTED. HISTOGRAM IS THAT GRAPH

WHICH REPRESENTS THE CONTINOUS FREQUENCY DISTIBUTON BY VERTICAL ADJACENT RECTANGLES.

FREQUENCY POLYGON

IT IS PARTICULARLY EFFECTIVE WHEN WE ARE TO COMPARE TWO OR MORE FREQUENCY DISTRIBUTIONS OF DISCRETE OR CONTINUOUS NATURE. A FREQUENCY POLYGON COVERS EXACTLY THE SAME AREA AS IN HISTOGRAM.

FREQUENCY CURVE

A FREQUENCY CURVE IS A GRAPHICAL REPRESENTATION OF A FREQUENCY POLYGON IN A SMOOTHED FORM , THEREFORE KNOWN AS SMOOTHED FREQUENCY CURVE. IT IS A SMOOTH HAND FREQUENCY CURVE DRAWN THROUGH THE VERTICES OF A FREQUENCY POLYGON.

OGIVES

THESE CURVES SHOW A LOWEST OR HIGHEST LIMIT IN THE DISTRIBUTION OF DATA AND STATISTICIANS HAVE USED IT TO LOCATE MEDIAN, QUARTILES AND OTHER POSITIONAL AVERAGES. OGIVES ARE CONTRUCTED FROM CUMULATIVE FREQUENY TABLE, WHICH ARE GENERALLY MADE IN LESS THAN OR MORE THAN FORM.

Q V. important) Disclosures in financial reporting?

Ans-

DISCLOSURES IN FINANCIAL REPORTING

Short notes of B.com III Hons. Finance (Accounting Theory & corporate finance)
(Panjab university Chandigarh)
2013 (by Abhishek garg & Anurag Gupta)

WITHOUT TRANSPARENT, COMPLETE AND TRUTHFUL REPORTING OF FINANCIAL PERFORMANCE OUR MARKETS WILL NOT FUNCTION PROPERLY. THAT IS WHY IT IS SO IMPORTANT THAT ALL ASPECTS OF FINANCIAL REPORTING –THE FINANCIAL STATEMENTS ,THE NOTES,THE PRESIDENT's LETTER AND MANAGEMENT's DISCUSSION AND ANALYSIS- BE READ AND UNDERSTOOD. IT INCLUDES-

1. **FULL DISCLOSURE PRINCIPLE**
2. **NOTES TO FINANCIAL STATEMENTS**
3. **DISCLOSURE ISSUE**
4. **AUDITOR's AND MANAGEMENT's REPORTS**
5. **CURRENT REPORTING ISSUES**

FULL DISCLOSURE PRINCIPLE

THE PROFESSION HAS ADOPTED A FULL DISCLOSURE PRINCIPLE THAT CALLS FOR FINANCIAL REPORTING OF ANY FINANCIAL FACTS SIGNIFICANT ENOUGH TO INFLUENCE THE JUDGEMENT OF AN INFORMED READER. IN SOME SITUATIONS, THE BENEFITS OF DISCLOSURE MAYBE APPARENT BUT THE COSTS UNCERTAIN. IN OTHER INSTANCES, THE COSTS MAYBE CERTAIN BUT THE BENEFITS OF DISCLOSURE NOT AS APPARENT.

NOTES TO FINANCIAL STATEMENTS

NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS OF A BUSINESS ENTERPRISE. HOWEVER, THEY ARE OFTEN OVERLOOKED BECAUSE THEY ARE HIGHLY TECHNICAL AND OFTEN APPEAR IN SMALL PRINT. NOTES ARE EXPLAINING THE ITEMS PRESENTED IN THE MAIN BODY OF THE STATEMENTS. RESTRICTIONS IMPOSED BY FINANCIAL ARRANGEMENTS OR BASIC CONTARCTUAL AGREEMENTS ALSO CAN BE EXPLAINED IN NOTES. ALTHOUGH NOTES MAY BE TECHNICAL AND DIFFICULT TO UNDERSTAND, THEY PROVIDE MEANINGFUL INFORMATION FOR THE USER OF THE FINANCIAL STATEMENTS.

COMPONENTS OF NOTES TO THE FINANCIAL STATEMENTS

ACCONTING POLICIES – ACCONTING PLICIES OF A GIVEN ENTITY ARE THE SPECIFIC ACCOUNTING PRINCIPLES AND METHODS CURRENTLY EMPLOYED AND CONSIDERED MOST APPROPIATE TO PRESENT FAIRLY THE FINANCIAL STATEMENTS OF THE ENTERPRISE. DISCLOSURE OF ACCOUNTING POLICIES SHOULD BE GIVEN AS THE INITIAL NOTE OR IN SEPARATE.

INVENTORY – THE BASIS UPON WHICH INVENTORY AMONTS ARE STATED AND THE METHOD USED IN DETERMINING COST SHOULD BE REPORTED. MANUFACTURERS SHOULD REPORT THE INVENTORY COMPOSITION(FINISHED GOODS, WORK- IN- PROCESS, RAW MATERIALS) EITHER IN THE BALANCE SHEET OR IN A SEPARATE SCHEDULE IN THE NOTES.

CONTINGENCIES AND COMMITMENTS – AN ENTERPRISE MAY HAVE GAIN OR LOSS CONTINGENCIES THAT ARE NOT DISCLOSED IN THE BODY OF THE FINANCIAL STATEMENTS. THESE CONTINGENCIES INCLUDE LITIGATION, DEBT AND OTHER GUARANTEES THAT ARE DISCLOSED IN NOTES.

DISCLOSURE ISSUES

FINANCIAL STATEMENT DISCLOSURES ARE COMMENTS AND EXPLANATIONS LISTED IN A COMPANY's FINANCIAL REPORTS OR PUBLIC FILINGS THAT EXPLAIN CERTAIN ASPECTS OF THE COMPANY's PROCEDURES. SOME INDUSTERIES ARE REQUIRED TO PROVIDE MORE SPECIFIC DISCLOSURES BASED ON THE OPERATIONS OF A BUSINESS.

COMPONENTS OF DISCLOSURE ISSUES

THERE ARE MANY DISCLOSURE ISSUES WHICH A BUSINESS ENTERPRISE MUST DISCLOSE FOR THE TRANSPARENCY IN THE BUSINESS TRANSACTIONS. THE FOLLOWING ARE THE COMPONENTS OF DISCLOSURE ISSUES:

DISCLOSURE OF SPECIAL TRANSACTIONS OR EVENTS- RELATED PARTY TRANSACTIONS, ERRORS AND IRREGULARITIES AND ILLEGAL ACTS.

POST-BALANCE-SHEET EVENTS(SUBSEQUENT EVENTS)- NOTES TO THE FINANCIAL STATEMENTS SHOULD EXPLAIN ANY SIGNIFICANT FINANCIAL EVENTS THAT TOOK PLACE AFTER THE FORMAL BALANCE SHEET DATE, BUT BEFORE IT IS FINALLY ISSUED. THESE EVENTS ARE REFERRED TO AS POST-BALANCE-SHEET EVENTS.

INTERIM REPORTS- ONE FURTHER SOURCE OF INFORMATION FOR THE INVESTOR IS INTERIM REPORTS. INTERIM REPORTS ARE THOSE REPORTS THAT COVER PERIOD OF LESS THAN ONE YEAR.

AUDITOR's AND MANAGEMENT's REPORTS

AUDITOR's REPORT- ANOTHER IMPORTANT SOURCE OF INFORMATION THAT IS OFTEN OVERLOOKED IS THE AUDITOR's REPORT. AN AUDITOR IS AN ACCOUNTING PROFESSIONAL WHO CONDUCTS AN INDEPENDENT EXAMINATION OF THE ACCOUNTING DATA PRESENTED BY A BUSINESS ENTERPRISE. IF THE AUDITOR IS SATISFIED THAT THE FINANCIAL STATEMENTS PRESENT THE

FINANCIAL POSITION IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, AN UNQUALIFIED OPINION IS EXPRESSED.

MANAGEMENT's REPORT:

MANAGEMENT's DISCUSSION AND ANALYS- IT COVERS THREE FINANCIAL ASPECTS OF AN ENTERPRISE's BUSINESS- LIQUIDITY, CAPITAL RESOURCES AND RESULTS OF OPERATIONS.

MANAGEMENT's RESPONSIBILITIES FOR FINANCIAL STATEMENTS- SOME COMPANIES PRESENT A REPORT ON MANAGEMENT's RESPONSIBILITIES, INCLUDING ITS RESPONSIBILITIES FOR, AND ASSESMENT OF, THE INTERNAL CONTROL SYSTEM.

CURRENT REPORTING ISSUES

REPORTING ON FINANCIAL FORECASTS AND PROJECTIONS- IN RECENT YEARS, THE INVESTING PUBLIC's DEMAND FOR MORE AND BETTER INFORMATION HAS FOCUSED ON DISCLOSURE OF CORPORATE EXPECTATIONS FOR THE FUTURE. A FORECAST ATTEMPTS TO PROVIDE INFORMATION ON WHAT IS EXPECTED TO HAPPEN, WHERE AS A PROJECTION MAY PROVIDE INFORMATION ON WHAT IS NOT NECESSARILY EXPECTED TO HAPPEN, BUT MIGHT TAKE PLACE.

INTERNET FINANCIAL REPORTING- MANY COMPANIES ARE USING THE POWER AND REACH OF THE INTRENET TO PROVIDE MORE USEFUL INFORMATION TO FINANCIAL STATEMENT READERS. RECENT SURVEYS INDICATE THAT MOST LARGE COMPANIES HAVE INTERNET SITES AND A LARGE PORTION OF THESE COMPANIES' WEB SITES CONTAIN LINKS TO THEIR FINANCIAL STATEMENTS AND OTHER DISCLOSURES.

Q v. important) Accounting for leases and hire purchases ?
Ans-

ACCOUNTING FOR LEASE AND HIRE PURCHASE

LEASE ACCOUNTING- LEASE IS A CONTRACT BETWEEN A LESSOR, THE OWNER OF THE ASSET, THE USER OF THE ASSET. UNDER THE CONTRACT, THE OWNER GIVES THE RIGHT TO USE THE ASSET TO THE USER OVER AN AGREED PERIOD OF TIME FOR A CONSIDERATION CALLED THE LEASE RENTAL. THE LESSEE PAYS THE RENTAL TO THE LESSOR AS REGULAR FIXED PAYMENTS OVER A PERIOD OF TIME AT THE BEGINNING OF OR AT THE END OF A MONTH, QUARTER, HALF-YEAR OR YEAR.

TYPES OF LEASE

FINANCIAL LEASE- LONG –TERM, NON-CACELLABLE LEASE CONTRACTS ARE KNOWN AS FINANCIAL LEASES. EXAMPLES ARE PLANT, MACHINERY, LAND, BUILDING, SHIPS AND AIRCRAFTS. IN INDIA, FINANCIAL LEASES ARE VERY POPULAR WITH HIGH-COST AND HIGH-TECHNOLOGY EQUIPMENT. FINANCIAL LEASES AMORTIZE THE COST OF THE ASSET OVER THE TERM OF LEASE; THEY ARE, THEREFORE, ALSO CALLED CAPITAL OR FULL- PAYOUT LEASES. MOST FINANCIAL LEASES ARE DIRECT LEASES. THE LESSOR BUYS THE ASSET IDENTIFIED BY THE LESSEE FROM THE MANUFACTURER AND SIGNS A CONTRACT TO LEASE IT OUT TO THE LESSEE. IN FINANCIAL LEASE, THE MAINTAINANCE AND THE INSURANCE ARE NORMALLY THE RESPONSIBILITY OF THE LESSEE. THE LESSEE ALSO BEARS THE RISK OF OBSOLESCENCE . A FINANCIAL LEASE AGREEMENT MAY PROVIDE FOR RENEWAL OF CONTRACT OR PUCHASE OF THE ASSET BY THE LESSEE AFTER THE CONTRACT EXPIRES. FOLLOWING ARE THE **COMPONENTS** OF FINANCIAL LEASE-

LEVERAGED LEASE- LEVERAGED LEASE INVOLVES LESSOR, LESSEE AND FINANCIER. LESSOR (LEASING COMPANY) PROVIDES EQUITY EQUAL TO ABOUT 25 PERCENT OF THE ASSETS COST WHILE THE REMAINING AMOUNT IS PROVIDED BY THE FINANCIER (A BANK OR A FINANCIAL INSTITUTION) ,MAINLY AS LOAN. LEVERAGED LEASE IS A POPULAR METHOD OF FINANCING EXPENSIVE ASSETS.

SALE AND LEASE BACK- THE LESSEE FIRST SELLS ASSET OWNED BY HIM TO THE LESSOR AND THEN LEASES IT BACK FROM THE LESSOR. THIS PROVIDES LIQUIDITY AS WELL AS POSSIBLE TAX GAINS TO THE LESSEE. IT IS AN ARRANGEMENT WHERE THE SELLER OF AN ASSET LEASES BACK THE SAME ASSET FROM THE PURCHASER.

CROSS-BORDER LEASE- IN CASE OF CROSS- BORDER OR INTERNATIONAL LEASE, THE LESSOR AND THE LESSEE ARE SITUATED IN TWO DIFFERENT COUNTRIES. BECAUSE THE LEASE TRANSACTION TAKES PLACE BETWEEN PARTIES OF TWO OR MORE COUNTRIES, IT IS CALLED CROSS-BORDER LEASE. IT INVOLVES RELATIONSHIPS AND TAX IMPLICATIONS MORE COMPLEX THEN THE DOMESTIC LEASE.

OPERATING LEASE- SHORT-TERM, CANCELLABLE LEASE AGREEMENTS ARE CALLED OPERATING LEASES. CONVENIENCE AND INSTANT SERVICES ARE THE HALL-MARKS OF OPERATING LEASES. EXAMPLES ARE: A TOURIST RENTING A CAR, LEASE CONTRACTS FOR COMPUTERS, OFFICE EQUIPMENT, CAR, TRUCKS, HOTEL ROOMS. THE LESSOR IS GENERALLY RESPONSIBLE FOR MAINTENANCE AND INSURANCE. A SINGLE OPERATION LEASE CONTRACT MAY NOT FULLY AMORTIZE THE ORIGINAL COST OF THE ASSET ; IT COVERS A PERIOD CONSIDERABLY SHORTER THAN THE USEFUL LIFE OF THE ASSET. BECAUSE OF THE SHORT DURATION AND THE LEASE OPTION TO CANCEL THE LEASE, THE RISK OF OBSOLESCENCE REMAINS WITH THE LESSOR.

OTHER TYPES OF LEASE :

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CLOSED AND OPEN ENDED LEASE- IN THE CLOSE ENDED LEASE THE ASSETS GETS TRANSFERRED TO THE LESSOR AT THE END. IN THE OPEN ENDE LEASE , THE LESSEE HAS THE OPTION OF PURCHASING THE ASSET AT THE END OF LEASE.

DIRECT LEASE- IT IS A MIX OF OPERATING AND FINANCIAL LEASES ON A FULL PAYOUT BASIS AND PROVIDES FOR THE PURCHASE OPTION TO THE LESSEE.

MASTER LEASE- MASTER LEASE PROVIDES FOR A PERIOD LONGER THAN THE ASSETS LIFE AND HOLDS THE LESSOR RESPONSIBLE FOR PROVIDING EQUIPMENT IN GOOD OPERATING CONDITON DURING THE LEASE PERIOD.

PERCENTAGE LEASE- PERCENTAGE LEASE PROVIDES FOR A FIXED RENT PLUS SOME PERCENT OF THE PREVIOUS YEARS GROSS REVENUE TO BE PAID TO THE LESSOR.

WET AND DRY LEASE- IN THE AIRCRAFT INDUSTRY, WHEN THE LEASE PROVIDES FINANCING AS WELL AS SERVICING AND FUEL, IT IS CALLED WET LEASE. DRY LEASE PROVIDES ONLY FOR FINANCING.

NET, NET, NET LEASE- IN THE TRIPLE NET LEASE THE LESSEE IS OBLIGED TO TAKE CARE OF MAINTENANCE, TAXES AND INSURANCE OF THE LEASED ASSET.

UPDATE LEASE- UPDATE LEASE IS INTENDED TO PROTECT THE LESSEE AGAINST THE RISK OF OBSOLESCENCE. THE LESSOR AGREES TO REPLACE OBSOLETE ASSET WITH NEW ONE AT SPECIFIED RENT.

HIRE PURCHASE ACCOUNTING

HIRE PURCHASE IS A SYSTEM OF ACQUIRING GOODS ON CREDIT WHEREBY THE SELLER OF THE GOODS IS REGARDED AS THE DEALER; THE PURCHASER IS REGARDED AS THE HIRER AND THE FINANCIER AS THE OWNER.

THE OWNERSHIP OF THE GOODS BOUGHT ON HIRE-PURCHASE DOES NOT PASS TO THE HIRER AT THE TIME OF THE HIRE-PURCHASE AGREEMENT OR UPON DELIVERY OF THE GOODS. THE OWNERSHIP OF THE GOODS REMAINS IN THE FINANCIER UNTIL THE HIRER HAS FULLY SETTLED THE PRICE AGREED UPON IN THE HIRE-PURCHASE AGREEMENT.

HIRE-PURCHASE IS COMMONLY CARRIED OUT IN THE FORM OF A TRIANGULAR TRANSACTION. THE DEALER/ SELLER/ VENDOR SELLS THE GOODS TO THE FINANCIER (USUALLY FINANCE OR CREDIT COMPANY), WHICH BECOMES THE OWNER, IN RETURN FOR AN IMMEDIATE PAYMENT, WHICH IS THE CASH PRICE LESS DEPOSIT PAID BY THE BUYER/ CONSUMER, KNOWN AS THE HIRER. THE OWNER THEN HIRES THE GOODS TO THE HIRER UNDER A HIRE-PURCHASE AGREEMENT.

Q) HUMAN RESOURCE ACCOUNTING IN INDIA

IN INDIA, THE FINANCIAL STATEMENTS OF COMPANIES HAVE TO BE PREPARED AS PER THE PROVISIONS OF THE COMPANIES ACT,1956. THE ACT DOES NOT PROVIDE FOR DISCLOSURE OF ANY SIGNIFICANT INFORMATION ABOUT HUMAN RESOURCES EMPLOYED IN A COMPANY EXCEPT THAT THE COMPANIES HAVE TO GIVE BY WAY OF A NOTE TO THE PROFIT AND LOSS ACCOUNT, PARTICULARS OF EMPLOYEES GETTING REMUNERATION OF RS. 6,00,000 PER ANNUM OR MORE.

HUMAN RESOURCE ACCONTING INVOLVES ACCOUNTING FOR THE COMPANY's MANAGEMENT AND EMPLOYEES AS HUMAN CAPITAL THAT PROVIDES FUTURE BENEFITS.

IN VIEW OF THE GROWING IMPORTANCE OF HUMAN RESOUCE ACCOUNTING, MANY CORPORATE ENTERPRISES IN INDIA ARE VOLUNTARILY GIVING INFORMATION ABOUT THEIR HUMAN RESOURCES. THEY NUMBER ABOUT 15 IN ALL AND INCLUDE MANY IMPORTANT PUBLIC SECTOR ENTERPRISES VIZ. BHARAT HEAVY ELECTRICALS LTD. (BHEL) , STEEL AUTHORITY OF INDIA LTD. (SAIL) , MINERALS AND METAL TRADING CORPORATION OF INDIA (MMTC) . AMONG ALL THESE ENTERPRISES BHEL IS THE PIONEER IN THE FIELD OF HUMAN RESOURCE ACCOUNTING.

Q. *Define venture capital. Discuss various steps involved in venture financing.*

The concept of venture capital is a developing concept. It emerged during 1970's in US, during early 1980's in U.K., in mid 1980's in Japan and Canada, and around 1987 in India. The concept of venture capital is the method of business funding of companies who are looking to grow on and expand beyond normal rates of business growth. It is just like ownership of company. In other words, venture capital Is also explained as unsecured risk financing.
The term venture capital fund usually devotes to a mutual fund that provides equity finance on risk capital to little known, unregistered, highly risky, young and private businesses. The venture capital is generally funded to small businesses which are technology oriented or

knowledge intensive. Such young businesses do not have any conventional source of capital because of high risk. The concept of venture capital spread in India when R.S. Bhatt Committee recommended the formation of capital fund in India.

Features of Venture Capital

Venture capital has following features:

1). Investment in high-tech area

The investment by venture capital firms is made in those businesses which are using new technology or producing innovative goods by using new technology. Venture capitalist also gives the entrepreneur the marketing, planning, management skills and technology for the new firm. In other words, VCF makes an investment in those projects which are new and using untried technology, and are promoted by technically or professionally qualified entrepreneurs.

2. Investment size range

The players in venture capital market do not place all their investments in similar size of companies, nor do they all operate within a common range of amount invested.

3)Active involvement

VCF not only invests in equity shareholding, but also participates in the management of affairs of the company. VCF has an active involvement in the business even after making investment. Thus we can say that venture capitalists do not just invest, rather they build companies.

4. Promotes entrepreneurship

VCF encourages and helps the entrepreneur in growing because he has limited resources, the risks are high and gestation period is very long.

5·Return on Venture Capital Fund

Due to long gestation period, returns on venture capital investment are almost nil in

initial periods. Sometimes the gestation period may be as long as 10 years. The investment of venture capital is neither repayable on demand nor transferrable.

6. High-Risk

Venture capital investment is highly risky and the chance of failure is very high because it provides long term funds to highly risky and highly rewardable projects. The technology used in these projects is innovative, untried and unproven.

Sources of Venture Capital

1. The EXIM Bank

Export Import Bank of India set up VCF in 1982 for the purpose of financing and promoting International trade in India. It is the principal institution in the country for promoting the working of entrepreneurs who are engaged in export and import of innovative products. EXIM bank made an entry into VCF by investing in "India Technology Venture Unit Scheme" promoted by UTI. The size of funds is As. 150 crore. Other co-investors are LIC, GIC, New India Assurance, Bank of Baroda and Andhra Bank. The objective of this fund is to make an investment in following sections:

a) Information Technology
b) Internet
c) Media and Entertainment
d) Telecommunication
e) Biotechnology
f) Pharmaceuticals
g) Health care

EXIM bank also finances capital for setting up software development, equity investment in overseas ventures and export product development.

2. IDBI's Venture Fund

This fund was started in 1986 with an initial capital of As. 10 crores. This fund provides venture capital to small and medium sized projects requiring funds between 5 lakhs to 2.5 crores. This fund provides financial assistance from pivot stage and covers almost upto 90% of total investment in case of project requiring less than 50lakhs, and 85% for projects which require capital of more than SO lakhs. This fund provides capital in form of unsecured loans involving minimum legal formalities. IDBI venture fund makes investment in following fields:

a) Electronics
b) Medical equipments
c) Food products
d) Bio-technology
e) Chemicals
f) Computer Software

3. ICICI Venture Funds Management Co. Ltd.

This fund was founded in 1988 as joint venture with UTI. But ICICI purchased the UTI's stake in 1998 and it is now fully owned by ICICI. This fund focuses on restaurant industry, which was earlier largely unorganised but now is getting organised quite fast. VCF got interested
in restaurant industry when. growth levels were exponential. That is why Domino's entered the market and succeeded inspite of competition from Me. Donald and Pizza- Hut.

4. IFCI Venture Capital Fund Ltd.

This fund was set up by IFCI by the name 01 Risk Capital Fund in 1975. In 1988, RCF was converted into a company known as Risk Capital and Technology Finance Corporation Ltd. The name of RCTC was further changed to IFCI Venture Capital Fund Ltd. in 2000. This fund invested in the form of equity and equity linked instruments, which can be converted into prelerence shares or debentures. The focus of this fund is on growth oriented industries such as IT, internet, e-commerce, bio-technology, health care and medical etc.

5. Gujarat Venture Finance Ltd.

This fund is promoted by state level financial institutions. It is widely recognised as leader of venture capital in India. The founder of this fund, Mr. Vishnu Varshney, is considered father of venture capital in India. This fund is a true venture capital company, which focuses on start-ups. This is the second company in India to have experienced a complete investment cycle from start-up financing to exit. The main focus 01 this fund is to build small companies into mature companies, based on innovative technology. This fund has also helped many state level VCF's like Sicom in Maharashtra and Rajasthan Venture Capital Fund. This fund mainly provides assistance in IT sector and bio-technology.

6. SIDBI Venture Fund

SIDBI launched "SME Growth Fund", a new venture capital fund, on 25th October 2004 with a capital of 100 crores. This fund was established with an objective to meet the long term risk capital requirements 01 innovative and technology oriented units in this sector.

7. UTI Venture Fund Management Co.

UTI group started pure venture capital company known as UTI Venture Funds Management Company. This fund has net worth of 700 crores invested in various sectors of company like,

a) Pharma
b) Textiles
c) BPO
d) Innovative technology

8. CAN BANK Venture Capital Fund

This fund was recently launched as Bharat Nirman Fund with a capital of 55 crores.The

CAN BANK VCF aims to fund start-up in manufacturing and services. It has 3 other funds launched in 1989, 1998 and 2001 respectively.

9. INTEL Capital

It is a part of Intel and makes investment out of companies BIS. This fund has investedin companies like TEJA's Networks and Nipuna.

10. Punjab Infotech Fund

This fund was funded by Punjab State Industrial Development Corporate, Punjab State Financial Corporation, Punjab State Electronic Development Corporation and SIDBI. This fund has a capital of Rs. 200 million and it mainly focused on IT sector within Punjab.

11. National Venture Fund for Software and IT Industry

This fund was launched on 10 December, 1999 by Prime Minister of India. It was set up with an initial capital of 100 crore. This fund has been contributed by SIDBI, Government of India, IDBI and Ministry of Communication and IT. The main objective of this fund is to fulfill the financial requirements of software industry and IT industry.

Stages of Venture Finance.

The stages of venture capital financing can be divided into two parts:

A. Early Stage Venture Finance

1. Seed capital

2. Startup stage

3. First round finance

4. Second round finance

B. Later Stage Financing

1. Expansion finance

2. Replacement finance

3. Turn around

4. Bridge Finance: Buy-out and Buy-in

A. Early Stage Venture Finance

1. Seed Capital Stage

Seed capital is relatively a small amount of capital provided to an entrepreneur to prove a concept. The seed capital stage is that stage when entrepreneur has an initial innovative idea having strategic advantage. This stage is most difficult stage to finance because:

a) The entrepreneur's idea is yet to take a definite and commercial shape.

b) He has no business plan.

c) His product has just passed through Rand D stage.

d) There is yet no complete management team.

e) Investment size is relatively small.

f) Return from seed capital does not start to come for 7 to 10 years.

2. Start-up Stage

This stage can be defined as financing to companies for use in product development and initial marketing. Start up investment aims to launch a new business commercially, and can be regarded as primary stage of financing. This is the stage where the entrepreneur is ready to carry out his business plan. The most common feature of this stage is that product is going to be comrnercialised first time, and entrepreneur is in heavy need of funds. Venture Capital Fund analyses the business plan, managerial ability and capacity of entrepreneur before financing this stage. According to various studies, 50% of starting fails in first 2 years. Thus this stage involves high degree of risks; risk of start-up stage is much more as compared to seed capital financing.

3. First Round Finance

This stage involves financing the companies that have completed the product development Stage and required further funds for manufacturing and sales. This is the stage where the entrepreneur is yet to generate profits and will not be able to raise debt due to lack of earnings. Banks also do not finance the entrepreneur because of lack of tangible security. Thus the entrepreneur needs finance to develop market infrastructure, reach the customer and face competition

4. Second Round finance

This stage can be defined as that stage when the business is earning profits, but the profits are not enough to attract investors. The business needs a further dose of finance which may e provided by VCF. This stage may partly be financed in the form of equity and partly in the form of debt. This stage is very critical for entrepreneur because the original VCF may not be interested in investing more. This stage has following features:

a) Business is growing faster.
b) Finance may be needed to avoid liquidation.
c) The product has created market.
d) Sales revenue has started taking place.
e) Cash flow is still negative.
f) Debtors and inventories are increasing.

B. Later Stage Financing

When the business passes through teething troubles, but is still not willing for public issues and needs finance, this is known as later stage financing. This can be discussed as follows:

1. Expansion finance

This is the stage where capital is needed to finance the business. Under this stage, entrepreneur needs finance to face competition and strengthen his market place. Although the business is well established, it still doesn't have any scope of public issues or borrowing from banks. This stage also includes need of finance to acquire new fixed assets or foreign joint ventures.

2. Replacement Finance

This is the stage when VCF purchases shares from the entrepreneur to reduce its holdings in unlisted company

3. Turn around

This is the stage when there is no_involvement of professional investor, and expert advise is missing. Under this stage, the company suddenly runs into the situation of losses or liquidation and badly needs finance to recover itself. This stage is very similar to first round stage. Here VCF plays an active role in recovery of the company.

4. Bridge Finance

Buyouts

It involves the creation of separate business b taking it from its existing owners. Buy out is a very important tool in the hand of venture capital financer to withdraw from venture enterprise.

Buy ins

Bu in occurs when a team of outside management takes both operating and ownership control of target company. This stage is more risky because the incoming new management is unfamiliar with the existing business.

Q. *How would you make an effective venture plan presentation before lenders and investors?*

While presenting your business plans before venture capitalists, the success of plan depends upon how efficiently you present your plans to them. Some of the points to be kept in mind are as under:

1. Be Genuine

The first principle is about genuineness. If the start is misleading, the presentation will never build up cordial and faithful relations. So be genuine in your business talks.

2. Talk

Second requirement of business plan presentation is that more preference should be given to spoken words rather than reading notes and other data. Your presentation may be interrupted at any time, be prepared to go with the flow and adapt to the situation.

3. Pictures and graphics

Presentation slides must be attractive and self explanatory. These should not be filled with words but must be loaded with pictures and graphical data.

4. Demo your product or services

While presenting your business to a venture capitalist, you must give demo of your . product or services to him. The slides should be designed in a manner that they are self explanatory. Avoid using too technical terms; not all investors may understand these aspects.

5. Realistic assumption

Assumptions on which the entire venture capital financing presentation is based should be realistic and reasonable. Assumptions must be in parity with present scenarios.

6. Short and summarised

Presentation should be specific, short and summarised. It must aim at highlighting only the main and important points. A long presentation generally looses the interest of investor and creates a negative impression.

7. Remember your best assets

While preparing the presentation, one must highlight the strengths of organisation and the core performance competence areas. This is the area whereby you can convince the investor and take him in confidence about your venture and growth prospects of your business plan.

8. Don't sell the opportunity, sell yourself

The aim of presentation must not be to sell the particular opportunity, but make the investor interested in your venture and idea. He should look more optimistic in your approach than the business opportunity.

9. Know your plan

Homework must be thoroughly done before any presentation. You must have clarity of each and every action plan so that things may get executed in your favour.
Effective presentation of your business plans makes half the win for your proposal

Try yourself questions

Q1) Note on Evolution of Accounting?

Q2) What do u mean by Accounting concepts & principles?

Q3) What do u mean by accounting standards?

Q4) Accounting standards -10,2,26,29(contingency)?

Q5)Different types of corporate strategies ?

Q6) Profit and loss format?

Q7) Balance sheet format?

Q8) Objectives of financial reporting?

Q9) Techniques Of financial reporting?

Q10) Types of securities buyers?

Q11)Methods of marketing?

Q12) Underwriting in India ?

Q13)Methods of capital budgeting?

Q14) Formats of Cash flow?

Q15) Human resource accounting in India ,Approaches Of human resource accounting?

Q16) Social accounting meaning, Approaches?

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Q17)Types of leases & its Treatment?

Q18)Hire purchase meaning ,Treatment?

Q19)Calculation of interest in hire purchase?

Previous year questions of Panjab University

2013---------------------

SECTION-A

1. Explain the concepts of Prudence and Materiality.
2. What is the importance of financial reporting?
3. Explain Historical Cost Method of Valuation of Human resources.
4. What is the need of listing securities?
5. Explain the term' Venture Capital' .
6. Explain Screenbased Trading.

SECTION-B

7. Over a period of time, so many Theories of Accounting have been promoted and developed. What was the need for proposing different theories ? Is there a theory which is universally acceptable? Explain in brief.

8. Compare and contrast USA and UK with regard to procedure for establishing Accounting Standards. What are the difficulties faced by standard setters in establishing the standards.

9. Explain sustainable growth. Does the relationship between strategic corporate planning and financial planning help the company in achieving sustainable growth.

10. Explain in brief the contents of AS-17 in relation to segment reporting.

SECTION-C

11. What are the indicators of social desirability of the project? Explain the meaning of Social Accounting by describing the benefits of social accounting to various sections.
12. "Capital budgeting is long term planning for making and financing proposed capital outlay." Explain what are the limitations of capital budgeting.

13How would you classify the security buyers? What are the different methods of marketing corporate securities?

14. ABC Ltd. has received an offer to either purchase a building for Rs. 4 Lakhs or take it on-lease for an annual rent of Rs. 40,000. Cost composition of the building includes Rs. 40000 for land. If the building is purchased, renovation will cost another Rs. 60,000. However, if the building is leased, ABC Ltd has agreed to pay the property taxes and insurance and make necessary repairs. It is estimated that annual cost will be as follows:

Repairs and Maintenance - Rs. 12,000

Property Tax-Rs. 8,000

Insurance @ 1.11% (rounded of to nearest 10) to be calculated on the value before renovation and is expected to remain constant at that level.

The building has an estimated life of 20 years and straight line method of depreciation is to be adopted. The salvage value would be equal to demolition cost.

The amount required to purchase and remodel the building will yield 8% Interest free of tax invested in good marketable securities.

You are required to prepare a statement showing the annual saving or extra cost involved if the building is purchased as compared to leasing.

2009---

Section - A

1. Explain any four of the following :

(a) Risk adjusted discount rate

(b) Hire purchase accounting

(c) Categories of security buyers

(d) GMP

(e) Economic approach of theory construction

(f) Inductive approach of accounting theory. . 5x4=20

Section - B

(Attempt 2 Questions)

2.. "Accounting is what accountants do, therefore, a theory of accounting may be extracted from the practices of accountants."

Do you agree? In light of this statement discuss nature of accounting theory. 15

3. Trace in brief the developments in accounting theory during the last century. 15

4. Explain clearly the need for:

(a) Segment reporting

(b) Interim reporting. 15

5. Highlight the changing trends of published accounts in India.
15

Section - C

(Attempt 2 Questions)

6. Write notes on :

(a) Cash flow accounting

(b) Social accounting. 15

7. Write notes on :

(a) Human Resource Accounting

(b) Underwriting in New Market in India. 15
8. (a) Explain accounting standard for lease accounting.
(b) Methods of marketing securities.
9. Discuss the following techniques for decision under risk :
(a) Sensitivity analysis
(b) Decision tree.