

MOCK TEST PAPER – 1
FINAL COURSE: GROUP – I
PAPER – 1: FINANCIAL REPORTING
SUGGESTED ANSWERS/HINTS

1. (a) As per para 23 of AS 10 'Accounting for Fixed Assets', subsequent expenditure relating to an item of fixed asset should be added to its book value only if it increases the future benefits from the existing asset beyond its previously assessed standard of performance. In the instant case, the subsequent expenditure on buying new rope costing ₹ 8.60 crores, did not increase the future benefits from the assets beyond their previously assessed level of performance. Therefore the cost of replacement of rope should be charged to revenue. Hence, the accounting treatment done by the company by charging the cost of new rope to repairs and maintenance is correct.

However, as per para 24 of the standard, material item retired from active use and held for disposal should be stated at the lower of their net book value and net realisable value and shown separately in the financial statements. On this basis, old rope should be written down to its net realisable value, until its final disposal. Therefore, the accounting treatment accorded by the company by showing it as an item of asset and charging it with depreciation every year is incorrect.

- (b) According to AS 28 "Impairment of Assets", an impairment loss on a revalued asset is recognised as an expense in the statement of profit and loss. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset, to the extent, that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset.

<i>Impairment Loss and its treatment</i>	<i>₹</i>
Current carrying amount (including revaluation amount of ₹ 14 lakhs)	27,30,000
Less: Current recoverable amount	<u>(12,00,000)</u>
Impairment Loss	<u>15,30,000</u>
Impairment loss charged to revaluation reserve	14,00,000
Impairment loss charged to profit and loss account	1,30,000

After the recognition of an impairment loss, the depreciation (amortization) charge for the asset should be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

In the given case, the carrying amount of the asset will be reduced to ₹ 12,00,000

after impairment. This amount is required to be depreciated over remaining useful life of 3 years (including current year). Therefore, the depreciation for the current year will be ₹ 4,00,000.

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

(d) 1. **Computation of Net Assets**

<i>Particulars</i>	<i>₹</i>
Tangible Fixed Assets (as per valuation)	6,20,000
Other Assets (as per agreement)	<u>1,30,000</u>
Total Assets	7,50,000
Less: Sundry Creditors	(80,000)
10% Debentures	<u>(70,000)</u>
Net Assets	<u>6,00,000</u>

2. **Settlement of Purchase Consideration**

<i>Particulars</i>	<i>₹</i>
Average annual profits (before debenture interest)	90,000
Less: Debenture interest	<u>(7,000)</u>
Average annual profits (after debenture interest)	<u>83,000</u>
Capitalisation @ 10%	8,30,000
Less: Net assets as calculated above	<u>(6,00,000)</u>
Excess to be settled by shares	<u>2,30,000</u>
Issue by Great Ltd.	
- 12% Debentures (for the net assets)	2,30,000
- Equity shares (for the excess portion)	<u>6,00,000</u>
Total purchase consideration	<u>8,30,000</u>

2. **Consolidated Balance Sheet of Plus Ltd. and its subsidiary Minus Ltd.**
as on 31st March, 2013

Particulars	Note No.	Minority Obligation		
		Nil	₹ 1,00,000	₹ 2,00,000
		₹	₹	₹
I. Equity and Liabilities				
(1) Shareholder's Funds				
(a) Share Capital		25,00,000	25,00,000	25,00,000
(b) Reserves and Surplus	1	23,60,000	24,60,000	25,20,000
(2) Minority Interest		-	(1,00,000)	(1,60,000)
(3) Non-current liabilities				
Long term borrowings	2	9,00,000	9,00,000	9,00,000
(4) Current Liabilities				
(a) Trade payables		13,00,000	13,00,000	13,00,000
(b) Short term borrowings	3	27,00,000	27,00,000	27,00,000
Total		97,60,000	97,60,000	97,60,000
II. Assets				
(1) Non-current assets				
Fixed assets				
Tangible assets		45,00,000	45,00,000	45,00,000
Intangible assets	4	2,60,000	2,60,000	2,60,000
(2) Current assets				
(a) Inventories		27,00,000	27,00,000	27,00,000
(b) Trade receivables		23,00,000	23,00,000	23,00,000
Total		97,60,000	97,60,000	97,60,000

Notes to Accounts

		Minority Obligation		
		Nil	₹ 1,00,000	₹ 2,00,000
		₹	₹	₹
1. Reserves and surplus				
General Reserve (a)		16,00,000	16,00,000	16,00,000

	Profit and Loss Account:			
	Plus Ltd.	14,00,000	14,00,000	14,00,000
	Less: Loss in Minus Ltd. (W.N.1)	<u>(4,80,000)</u>	<u>(4,80,000)</u>	<u>(4,80,000)</u>
		9,20,000	9,20,000	9,20,000
	Less: Loss to the extent not borne by Minority, adjusted against Group Profits	<u>(1,60,000)</u>	<u>(60,000)</u>	<u>-</u>
	(b)	<u>7,60,000</u>	<u>8,60,000</u>	<u>9,20,000</u>
	(a) + (b)	<u>23,60,000</u>	<u>24,60,000</u>	<u>25,20,000</u>
2.	Long term borrowings			
	8% Debentures of Plus Ltd.	5,00,000	5,00,000	5,00,000
	8% Debentures of Minus Ltd.	<u>4,00,000</u>	<u>4,00,000</u>	<u>4,00,000</u>
		<u>9,00,000</u>	<u>9,00,000</u>	<u>9,00,000</u>
3.	Short term borrowings			
	Bank overdraft of Plus Ltd.	20,00,000	20,00,000	20,00,000
	Bank overdraft of Minus Ltd.	<u>7,00,000</u>	<u>7,00,000</u>	<u>7,00,000</u>
		<u>27,00,000</u>	<u>27,00,000</u>	<u>27,00,000</u>
4.	Intangible assets			
	Goodwill (W.N.3)	2,60,000	2,60,000	2,60,000

Working Notes:

1. Analysis of profits of Minus Ltd. as on 31.03.2013

		Pre-acquisition	Post-acquisition
		₹	₹
Profit and loss account as on 31.3.2013	(10,00,000)	<u>(2,00,000)</u>	<u>(8,00,000)</u>
Holding (Plus Ltd. - 60%)		(1,20,000)	(4,80,000)
Minority Interest (Minus Ltd. - 40%)		(80,000)	(3,20,000)

2. Calculation of minority interest [40%]

	₹
Share capital	2,40,000
Capital (pre-acquisition) loss [WN 1]	(80,000)
Revenue (post-acquisition) loss: [WN 1]	<u>(3,20,000)</u>
	<u>(1,60,000)</u>

3. Calculation of cost of control

		₹
Cost of Investments		5,00,000
Less: Share capital	3,60,000	
Less: Capital profit	<u>(1,20,000)</u>	<u>(2,40,000)</u>
Goodwill		<u>2,60,000</u>

3. (a) Balance Sheet of Better Ltd. as on 31st March, 2012

Particulars	Note No.	After reconstruction	Before reconstruction
		(₹ in crores)	(₹ in crores)
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital	1	300	300
(b) Reserve and Surplus	2	800	750
(2) Non-Current Liabilities			
Long-term borrowings	3	315	250
(3) Current Liabilities		1,250	1,300
Total		2,665	2,600
II. Assets			
(1) Non-current assets			
(a) Fixed assets			
Tangible assets	4	765	600
(2) Current assets		1,900	2,000
Total		2,665	2,600

Notes to Accounts

Particulars		After reconstruction	Before reconstruction
		(₹ in crores)	(₹ in crores)
1. Share Capital			
Authorised:			
50 crores equity shares of ₹10 each		<u>500</u>	<u>500</u>
Issued and subscribed:			

	30 crores equity shares of ₹ 10 each fully paid up		300		300
2.	Reserves and surplus				
	Capital reserves	40		40	
	Add: Capital profit on reconstruction [WN 1(ii & iii)]	50		-	
	Revenue reserves	700		700	
	Surplus	<u>10</u>	800	<u>10</u>	750
3.	Long term Borrowings				
	Best Ltd. (Interest @ 15% p.a.) [WN 1(i)]	15			
	Others	<u>300</u>	315		250
4.	Fixed assets				
	Gross block	925		1,000	
	Less: Depreciation	<u>(160)</u>		<u>(400)</u>	
	Net block		765		600

Best Ltd.

Balance Sheet as at 31st March, 2012

Particulars	Note No.	After reconstruction	Before reconstruction
		(₹ in Crores)	(₹ in Crores)
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital	1	200	200
(b) Reserves and Surplus	2	465	450
(2) Non-Current Liabilities			
Long-term borrowings		300	350
(3) Current Liabilities		950	900
Total		1,915	1,900
II. Assets			
(1) Non-current assets			
Fixed assets			
Tangible assets	3	300	400

(2) Current assets			
(a) Short term loans and advances	4	15	-
(b) Other current assets		1,600	1,500
Total		1,915	1,900

Notes to Accounts

Particulars		After reconstruction		Before reconstruction	
		(₹ in Crores)		(₹ in Crores)	
1. Share Capital					
Authorized:					
50 crores equity shares of ₹ 10 each			<u>500</u>		<u>500</u>
Issued and subscribed:					
30 crores equity shares of ₹ 10 each fully paid up			200		200
2. Reserves and surplus					
Capital reserves	20			20	
Add: Capital profit on reconstruction [WN 1(ii)]	<u>15</u>	35		-	20
Revenue reserves		425			425
Surplus		<u>5</u>		<u>5</u>	
		<u>465</u>		<u>450</u>	
3. Tangible assets:					
Gross block	400			700	
Less: Depreciation	<u>(100)</u>			<u>(300)</u>	
Net block		300			400
4. Short term loans and advances					
Loan to Better Ltd.[WN 1(i)]		15			----

(b) Net asset value of Master Win's holdings

	<i>Pre-reorganisation (₹)</i>	<i>Post-reorganisation (₹)</i>	<i>Change (Gain) (₹)</i>
Net asset value of one equity share: (Refer to working notes)			
Better Ltd.	35.00	36.67	1.67
Best Ltd.	32.50	33.25	0.75
Net asset value of equity shares owned by Master Win			
Better Ltd. (50,000 shares)	17,50,000	18,33,500	83,500
Best Ltd. (30,000 shares)	<u>9,75,000</u>	<u>9,97,500</u>	<u>22,500</u>
	<u>27,25,000</u>	<u>28,31,000</u>	<u>1,06,000</u>

Master Win has gained in terms of net asset value of his holdings as indicated in the last column.

Working Notes:

(1) Better Ltd.

(₹ in crores)

	<i>Pre-re- organisation figures (a)</i>	<i>Sale of division B (b)</i>	<i>Purchase of division D of Best Ltd. (c)</i>	<i>Post-re- organisa- tion figures (d) = (a) – (b) + (c)</i>
(i) Fixed assets:				
Cost	1,000	400	325	925
Depreciation	<u>(400)</u>	<u>(240)</u>	—	<u>(160)</u>
Written down value (I)	<u>600</u>	<u>160</u>	<u>325</u>	<u>765</u>
Current assets	2,000	900	800	1,900
Current liabilities	<u>(1,300)</u>	<u>(750)</u>	<u>(700)</u>	<u>(1,250)</u>
Net current assets (II)	<u>700</u>	<u>150</u>	<u>100</u>	<u>650</u>

Funds employed [(I) + (II)]	1,300	310	425	1,415
Loan funds:				
Others (III)	(250)	(200)	(250)	(300)
Best Ltd. (balance payable on transfer of divisions i.e. ₹ 140 – ₹ 125) (IV)				(15)
Net worth (I + II – III – IV)	<u>1,050</u>	<u>110</u>	<u>175</u>	<u>1,100</u>

Calculation of Profit / (Loss) on Division sale and purchase

		(₹ in crores)
(ii)	Sale of division B	
	Transfer price	125
	Cost of the division (₹160 + ₹ 150 – ₹ 200)	<u>(110)</u>
	Capital Profit	<u>15</u>
(iii)	Purchase of division D of Best Ltd.	
	Agreed value of assets less liabilities taken over ₹ (325 + 800-700 – 250)	175
	Less: Transfer price	<u>(140)</u>
	Capital Profit	<u>35</u>
(iv)	Pre-reorganisation net worth	1,050
	Add: Capital profit on	
	Sale 15	
	Acquisition <u>35</u>	<u>50</u>
	Post-reorganisation net worth	<u>1,100</u>

No. of equity shares	30 crores
Net asset value of equity share:	₹
Pre-reorganisation	1,050/30 = 35.00
Post-reorganisation	1,100/30 = 36.67 (rounded off)

(2) Best Ltd.

(i)

(₹ in crores)

	<i>Pre-re- organisation figures</i>	<i>Sale of division D</i>	<i>Purchase of division B of Better Ltd.</i>	<i>Post-re- organisation figures</i>
	(a)	(b)	(c)	(d) = (a) – (b) + (c)
Fixed assets:				
Cost	700	500	200	400
Depreciation	<u>(300)</u>	<u>(200)</u>	—	<u>(100)</u>
Written down value (I)	<u>400</u>	<u>300</u>	<u>200</u>	<u>300</u>
Current assets	1,500	800	900	1,600
Current liabilities	<u>(900)</u>	<u>(700)</u>	<u>(750)</u>	<u>(950)</u>
Net current assets (II)	<u>600</u>	<u>100</u>	<u>150</u>	<u>650</u>
Funds employed [(I) + (II)]	1,000	400	350	950
Loan funds—others (III)	<u>(350)</u>	<u>(250)</u>	<u>(200)</u>	<u>(300)</u>
	650	150	150	650
Better Ltd. (balance on account of transfers of divisions) (IV)	—	—	—	15
	—	—	—	—
Net worth (I + II – III + IV)	<u>650</u>	<u>150</u>	<u>150</u>	<u>665</u>

(ii)

(₹ in crores)

	<i>Purchase of division B of Better Ltd.</i>		<i>Sale of division D</i>
Value of assets less liabilities (Value to Best Ltd.)	150	(200 + 900 – 750 – 200)	150
Less: Transfer Price	<u>(125)</u>		<u>(140)</u>
Capital Profit/(Capital Loss)	<u>25</u>		<u>(10)</u>

(iii)

(₹ in crores)

Pre-reorganisation net worth		650
Add: Capital profit - on acquisition	25	

- Sale	(10)	15
Post-reorganisation net worth		<u>665</u>
No. of equity shares	20 crores	
Net asset value of equity share:	₹	
Pre-reorganisation	650/20 = 32.50	
Post-reorganisation	665/20 = 33.25	

4. (a) **Computation of probable market price based on actual dividend**

Actual dividend per share	₹ 25
Adjusted yield (W.N.3)	17.98%
Market price for shares of ₹100 paid up	₹139.04
Market price for shares of ₹80 paid up	₹111.23

Working Notes:

1. **Asset backing position of Prosperous Ltd**

Particulars	₹
Tangible fixed assets	17,20,000
Government securities	1,50,000
Current assets	<u>11,30,000</u>
Total assets	30,00,000
Less: Liabilities	
12% Debentures	(4,00,000)
Current liabilities and provisions	<u>(8,00,000)</u>
Net assets	18,00,000
Less: Preference share capital	<u>(6,00,000)</u>
Net assets available to equity share holders	<u>12,00,000</u>

$$\text{Ratio of net asset to equity share capital} = \left[\frac{12,00,000}{8,00,000} \times 100 \right] = 150\%$$

2. **Payout ratio**

Particulars	₹
Profit available for distribution	
Profit before tax	8,00,000
Less: Tax @ 50%	<u>(4,00,000)</u>

Profit after tax	<u>4,00,000</u>
Total dividend paid	
Preference shareholders (14% of ₹ 6,00,000)	84,000
Equity shareholders (25% of ₹ 8,00,000)	<u>2,00,000</u>
Total dividend paid	<u>2,84,000</u>
Pay-out ratio $\left[\frac{2,84,000}{4,00,000} \times 100 \right]$	71%

3. Computation of adjusted yield

	<i>Asset backing ratio</i>	<i>Pay-out ratio</i>
Representative Company	250%	50%
Prosperous Ltd. (W.N.1 and 2)	150%	71%
Variation	100%	(21%)
Degree of variation	$\left[\frac{100}{250} \times 100 \right]$ =40%	$\left[\frac{(21)}{50} \times 100 \right] =$ (42%)
Nature of adjustment to yield	May increase	May decrease
Quantum of adjustment (Assuming 100% variance = 1% risk)	0.40	(0.42)

Adjusted yield = 18% + 0.40% - 0.42% = 17.98%

(b)

Gross Value Added Statement of Addition Ltd. for the year ended 31st March, 2013

	<i>₹ in lakhs</i>	<i>₹ in lakhs</i>
Sales		5,010
Less: Cost of raw materials, stores and other services consumed	2,720	
Administrative expenses	125	
Interest on loan from bank for working capital	<u>35</u>	<u>2,880</u>
Value added by manufacturing and trading activities		2,130
Add: Other income		<u>130</u>
Total value added		<u>2,260</u>

Application of Value Added

	₹ in lakhs	₹ in lakhs	%
To pay employees			
Wages, salaries and bonus		610	26.99
To pay directors			
Salaries and commission to Directors		60	2.66
To pay Government			
Local taxes including cess	220		
Income tax	<u>280</u>	500	22.12
To pay providers of capital			
Interest on debentures	200		
Preference dividend	100		
Equity dividend	<u>300</u>	600	26.55
To provide for the maintenance and expansion of the company:			
Depreciation	370		
Transfer to general reserve	100		
Retained profit ₹ (60 – 40) lakhs	<u>20</u>	<u>490</u>	<u>21.68</u>
		<u>2,260</u>	<u>100</u>

5. Tiny Ltd. became a subsidiary of Huge Ltd. on 1st April 2011 when 51% thereof was acquired. The holding–subsidiary relationship continued till 30th September 2012 and from 1st October, 2012 the relationship between the two companies will change to Associate. As per para 24 of AS 21, “Consolidated Financial Statements”, the carrying value of the investment at the date it ceases to be subsidiary is regarded as cost thereafter. Accordingly, if the nature of the investee changes to that of an associate, the carrying amount of the investment in Consolidated Financial Statements of the investor, as on date it ceases to be a subsidiary, would be considered as cost of investment in the associate. Goodwill or capital reserve arising on account of the change in the nature of the investment will be computed as on the date of such change. Accordingly, when a part of the investment takes the form of an investment in an associate, the results of operations of the subsidiary will be included in the Consolidated Statement of Profit and Loss for the period from the beginning of the period until it ceased to be a subsidiary.

Ascertainment of Gain or Loss on the Disposal of the part of the Investment in Tiny Ltd.

		₹
Proceeds received on sale of 25.5% holdings in Tiny Ltd.		1,25,00,000
Net assets of Tiny Ltd. on the date of disposal	3,95,00,000	
Less: Minority's interest in Tiny Ltd. on the date of disposal	<u>(1,93,55,000)</u>	
Share of Huge Ltd. in net assets	2,01,45,000	
Less: Capital reserve on acquisition (Refer W.N.)	<u>(16,00,000)</u>	
Total value of investment in consolidated financial statements of Huge Ltd.	<u>1,85,45,000</u>	
Less: Carrying value of investment disposed off		<u>(92,72,500)</u>
Profit on sale of 25.5% of investment		<u>32,27,500</u>

Carrying Value of the Investment retained in the Consolidated Financial Statements

		₹
Total value of investment in consolidated financial statements of Huge Ltd.	1,85,45,000	
Less: Carrying value of investment disposed off	<u>(92,72,500)</u>	
Carrying Value of the investment retained in consolidated financial statements including capital reserve		<u>92,72,500</u>
This amount of ₹ 92,72,500 would be used to apply the equity method of accounting as specified in AS 23		
Goodwill / Capital Reserve arising on the Carrying Value of Unsold Portion of the Investment		₹
Carrying value of 25.5% holdings in Tiny Ltd. as on 1 st October, 2012		92,72,500
Less: Share in value of equity of Tiny Ltd., as at date of investment when subsidiary relationship is transformed to an associate (3,95,00,000 x 25.5%)		<u>(1,00,72,500)</u>
Capital reserve arising on such investment under equity method as per AS 23		<u>(8,00,000)</u>

Working Note:

Calculation of Goodwill / Capital Reserve on the Date of Acquisition of Shares in Tiny Ltd.

	₹
Net assets on acquisition date (₹ 1,96,00,000 – ₹ 16,00,000)	<u>1,80,00,000</u>
51% thereof	91,80,000
Less: Cost of investment	<u>(75,80,000)</u>
Capital reserve on acquisition	<u>16,00,000</u>

6. (a) Notes on Share Capital to the financial statements for the year ended 31st March, 2013

	Current year ended on 31 st March, 2013
Authorised Share Capital	
1,00,000 Equity shares (previous year 80,000) of ₹10 each	<u>10,00,000</u>
Issued, Subscribed and Paid-up Share Capital	
90,000 Equity shares (previous year 70,000) of ₹10 each	9,00,000
Less: Calls unpaid on 100 equity shares of ₹10 each	<u>(500)</u>
	<u>8,99,500</u>

Reconciliation of shares outstanding at the beginning and at the end of the reporting period

	Current year ended on 31 st March, 2013	
	Number of shares	₹
Equity shares at the commencement of the period	70,000	7,00,000
Shares issued under the right issue	5,000	50,000
Shares issued to the public during the year	5,000	50,000
Shares issued on exercise of Employee Stock Option	<u>10,000</u>	<u>1,00,000</u>
Equity shares at the end of the period	<u>90,000</u>	<u>9,00,000</u>

Rights, preferences and restrictions attached to equity shares

The company has a single class of equity shares. Accordingly, all equity shares rank equally with regard to dividends and share in the company's residual assets.

The equity shares are entitled to receive dividend as declared from time to time. Failure to pay any amount called up on shares may lead to forfeiture of the shares. On winding up of the company, the holders of equity shares will be entitled to receive the residual assets of the company.

- (b) Since the exercise price varies depending on the outcome of a performance condition that is not a market condition, the effect of that performance condition (i.e. the possibility that the exercise price might be ₹40 and the possibility that the exercise price might be ₹30) is not taken into account when estimating the fair value of the stock options at the grant date. Instead, the enterprise estimates the fair value of the stock options at the grant date under each scenario and revises the transaction amount to reflect the outcome of that performance condition at the end of every year based on the information available at that point of time.

Calculation of compensation expenses to be charged every year

Year	Calculation	Compensation expenses for the period (₹)	Cumulative compensation expense (₹)
1	10,000 options × ₹ 16 × 1/3	53,333	53,333
2	(10,000 options × ₹ 16 × 2/3) – ₹ 53,333	53,334	1,06,667
3	(10,000 options × ₹ 12 × 3/3) – ₹ 1,06,667	13,333	1,20,000

7. (a) Para 10 of AS 16 'Borrowing Costs' states "to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings." The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Hence, in the above case, treatment of accountant of Style Ltd. is incorrect. The amount of borrowing costs capitalized for the financial year 2011-12 should be calculated as follows:

	₹ in crores
Actual interest for 2011-12 (11% of ₹ 150 crores)	16.50
Less: Income on temporary investment from specific borrowings	(3.50)
Borrowing costs to be capitalized during year 2011-12	13.00

(b)

Topic	Indian Accounting Standards	IFRS / IAS	US GAAPs
Investment property	Treated as a long-term investment and is carried at cost less impairment. Revaluation of such property is not applicable.	IFRS gives the choice of measuring the investment property at depreciated cost or fair value, with changes in fair value recognized in the income statement. Regular revaluations should be made so that the carrying amount does not differ materially from fair value	Treated the same as for other properties (depreciated cost). Industry-specific guidance applies to investor entities (for example investment entities)
Property, plant and equipment	Historical cost is used. Revaluations are permitted, however, frequency of revaluation has not been mentioned. On revaluation, an entire class of assets is revalued, or assets to be revalued are selected on systematic basis.	Historical cost or revalued amounts are used. On opting revaluation option, regular valuations of entire classes of assets are required.	Historical cost is used; revaluations are not permitted.

(c) Calculation of Economic Value Added

	₹
Net Operating Profit After Tax	25,00,000
Less: Cost of capital employed (Refer W.N.)	<u>(6,00,000)</u>
Economic Value Added	<u>19,00,000</u>

Economic value added is greater than zero. Therefore, the company qualifies for the loan.

Working Note:

Calculation of Cost of Capital employed	₹
Average total assets	75,00,000
Less: Average current liabilities	<u>(15,00,000)</u>
Capital employed	<u>60,00,000</u>
Cost of capital = Capital employed x Weighted average cost of capital $= ₹ 60,00,000 \times \frac{10}{100} = ₹ 6,00,000$	

(d) At the inception

Computation of fair value of Liability Component

	₹
Present value of 20 half yearly interest payments of ₹ 50, discounted @ 11% ($₹ 50 \times 11.9504$)	597
Present value of ₹ 1,000 due in ten years, discounted @ 11% compounded half yearly ($₹ 1,000 \times 0.343$)	<u>343</u>
Fair value of liability component	<u>940</u>

Computation of Equity Component

	₹
Issue proceeds from convertible debenture	1,000
Less: Fair value of liability component	<u>(940)</u>
Fair value of Equity Component	<u>60</u>

Journal Entries

	Debit (₹)	Credit (₹)
Cash/Bank A/c Dr.	1,000	
To Liability component		940
To Equity component		60
(Being issue of debentures recorded at fair values)		

- (e)** Human Resource Accounting (HRA) is an attempt to identify, quantify and report investments made in human resources of an organization. Leading public sector units like OIL, BHEL, NTPC and SAIL etc. have started reporting human resources

in their annual reports as additional information. Although human beings are considered as the prime mover for achieving productivity, and are placed above technology, equipment and money, the conventional accounting practice does not assign significance to the human resource. Human resources are not thus recognized as 'assets' in the Balance Sheet. While investments in human resources are not considered as assets and not amortised over the economic service life, the result is that the income and expenditure statement comprising current revenue and expenditure gives a distorted picture of the real affairs of the organization.

Accountants have been severely criticized by the Behavioural Scientists for their failure to value human resources, as this has come out as a handicap for effective management.

Human resource accounting provides scope for planning and decision making in relation to proper manpower planning. Also, such accounting can bring out the effect of various new rules, procedures and incentives relating to work force, and in turn, can act as an eye opener for modifications of existing statutes and laws.