

COURSE: B.COM (H.)

SEMESTER: VI

PAPER: FINANCIAL REPORTING AND ANALYSIS

QUESTION BANK

Q1. Write short notes on the Advantages and disadvantages of setting of Accounting Standards.

Q2. (a) Briefly indicate the items, which are included in the expression “borrowing cost” as explained in AS 16.

(b) Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to Accounting Standard 3(AS 3) revised. (c) Write short note on Effect of Uncertainties on Revenue Recognition.

Q3. Sagar Limited belongs to the engineering industry. The Chief Accountant has prepared the draft accounts for the year ended 31.03.09. You are required to advise the company on the following items from the viewpoint of finalisation of accounts, taking note of the mandatory accounting standards. (a) An audit stock verification during the year revealed that the opening stock of the year was understated by Rs. 3 lakhs due to wrong counting. (b) The company purchased on 01.04.08 a special purpose machinery for Rs. 25 lakhs. It received a Central Government Grant for 20% of the price. The machine has an effective life of 10 years. (c) The company undertook a contract for building a crane for Rs. 10 lakhs. As on 31.03.09 it incurred a cost of Rs. 1.5 lakhs and expects that there will be Rs. 9 lakhs more for completing the crane. It has received so far Rs. 1 lakh as progress payment.

Q4. A firm of contractors obtained a contract for construction of bridges across river Mahanadi. The following details are available in the records kept for the year ended 31st March, 2009. (Rs. in lakhs) Total Contract Price 1,000 Work Certified 500 Work not Certified 105 Estimated further Cost to Completion 495 Progress Payment Received 400 To be Received 140 The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS 7 (Revised) issued by ICAI.

Q5. In preparing the financial statements of R Ltd. for the year ended 31st March, 2009, you come across the following information. State with reasons, how you would deal with them in the financial statements : (a) An unquoted long term investment is carried in the books at a cost of Rs. 2 lakhs. The published accounts of the unlisted company received in May, 2009 showed that

the company was incurring cash losses with declining market share and the long term investment may not fetch more than Rs. 20,000. (b) The company invested 100 lakhs in April, 2009 in the acquisition of another company doing similar business, the negotiations for which had started during the financial year. (c) There was a major theft of stores valued at Rs. 10 lakhs in the preceding year which was detected only during current financial year (2008-09). As it is stated in the question that financial statements for the year ended 31st March, 2009 are under preparation, the views have been given on the basis that the financial statements are yet to be completed and approved by the Board of Directors.

Q6. (a) A Limited Company closed its accounting year on 30.6.09 and the accounts for that period were considered and approved by the board of directors on 20th August, 2009. The company was engaged in laying pipe line for an oil company deep beneath the earth. While doing the boring work on 1.9.2009 it had met a rocky surface for which it was estimated that there would be an extra cost to the tune of Rs. 80 lakhs. You are required to state with reasons, how the event would be dealt with in the financial statements for the year ended 30.6.09.

(b) X Co. Ltd., has obtained an Institutional Loan of Rs. 680 lakhs for modernisation and renovation of its plant & machinery, Plant & machinery acquired under the modernisation scheme and installation completed on 31.3.09 amounted to Rs. 520 lakhs, 30 lakhs has been advanced to suppliers for additional assets and the balance loan of Rs. 130 lakhs has been utilized for working capital purpose. The total interest paid for the above loan amounted to Rs. 62 lakhs during 2008-09. You are required to state how the interest on the institutional loan is to be accounted for in the year 2008-09.

(c) Y Co. Ltd., used certain resources of X Co. Ltd. In return X Co. Ltd. received Rs. 10 lakhs and Rs. 15 lakhs as interest and royalties respective from Y Co. Ltd. during the year 2008-2009. You are required to state whether and on what basis these revenues can be recognised by X Co. Ltd.

(d) A Ltd. purchased fixed assets costing Rs. 3,000 lakhs on 1.1.09 and the same was fully financed by foreign currency loan (U.S. Dollars) payable in three annual equal instalments. Exchange rates were 1 Dollar = Rs. 40.00 and Rs. 42.50 as on 1.1.09 and 31.12.09 respectively. First instalment was paid on 31.12.09. The entire difference in foreign exchange has been capitalized. You are required to state, how these transactions would be accounted for.

(e) A Limited Company finds that the stock sheets as on 31.3.08 had included twice an item the cost of which was Rs. 20,000. You are asked to suggest, how the error would be dealt with in the accounts of the year ended 31.3.09

Q7. (i) Advise P Co. Ltd. about the treatment of the following in the Final Statement of Accounts for the year ended 31st March, 2009. A claim lodged with the Railways in March, 2006 for loss of goods of Rs. 2,00,000 had been passed for payment in March, 2009 for Rs. 1,50,000. No entry was passed in the books of the Company, when the claim was lodged.

(ii) The notes to accounts of X Ltd. for the year 2008-09 include the following : “Interest on bridge loan from banks and Financial Institutions and on Debentures specifically obtained for the Company’s Fertiliser Project amounting to Rs. 1,80,80,000 has been capitalized during the year, which includes approximately Rs. 1,70,33,465 capitalised in respect of the utilization of loan and debenture money for the said purpose.” Is the treatment correct?

Briefly comment.

Q8. State with reference to accounting standard, how will you value the inventories in the following cases :

(i) Raw material was purchased at Rs. 100 per kilo. Price of raw material is on the decline. The finished goods in which the raw material is incorporated is expected to be sold at below cost. 10,000 kgs. of raw material is on stock at the year end. Replacement cost is Rs. 80 per kg.

(ii) In a production process, normal waste is 5% of input. 5,000 MT of input were put in process resulting in a wastage of 300 MT. Cost per MT of input is Rs. 1,000. The entire quantity of waste is on stock at the year end. (iii) Per kg. of finished goods consisted of : Material cost Rs. 100 per kg. Direct labour cost Rs. 20 per kg. Direct variable production overhead Rs. 10 per kg. Fixed production charges for the year on normal capacity of one lakh kgs. is Rs. 10 lakhs. 2,000 kgs. of finished goods are on stock at the year end.

Q. 9. Answer the following questions by quoting the relevant Accounting Standard :

(i) During the year 2008-2009, a medium size manufacturing company wrote down its inventories to net realisable value by Rs. 5,00,000. Is a separate disclosure necessary?

(ii) A Limited company has been including interest in the valuation of closing stock. In 2008-2009, the management of the company decided to follow AS 2 and accordingly interest has been excluded from the valuation of closing stock. This has resulted in a decrease in profits by Rs. 3,00,000. Is a disclosure necessary? If so, draft the same.

(iii) A company signed an agreement with the Employees Union on 1.9.2008 for revision of wages with retrospective effect from 30.9.2008. This would cost the company an additional liability of Rs. 5,00,000 per annum. Is a disclosure necessary for the amount paid in 2008-09 ?

Q. 10. Briefly explain, as per relevant Accounting Standard :

(a) TVSM company has taken a Transit Insurance Policy. Suddenly in the year 2008-2009 the percentage of accident has gone up to 7% and the company wants to recognise insurance claim as revenue in 2008-2009 in accordance with relevant Accounting Standards. Do you agree?

(b) SCL Ltd. sells agriculture products to dealers. One of the condition of sale is that interest is payable at the rate of 2% p.m., for delayed payments. Percentage of interest recovery is only

10% on such overdue outstanding due to various reasons. During the year 2008-2009 the company wants to recognise the entire interest receivable. Do you agree?

(c) ABC Ltd. was making provision for non-moving stocks based on no issues for the last 12 months upto 31.3.2008. The company wants to provide during the year ending 31.3.2009 based on technical evaluation : Total value of stock Rs. 100 lakhs Provision required based on 12 months issue Rs. 3.5 lakhs Provision required based on technical evaluation Rs. 2.5 lakhs Does this amount to change in Accounting Policy? Can the company change the method of provision?

(d) XYZ is an export oriented unit and was enjoying tax holiday upto 31.3.2008. No provision for deferred tax liability was made in accounts for the year ended 31.3.2008. While finalising the accounts for the year ended 31.3.2009, the Accountant says that the entire deferred tax liability upto 31.3.2008 and current year deferred tax liability should be routed through Profit and Loss Account as the relevant Accounting Standard has already become mandatory from 1.4.2007.

Do you agree?