

2019

COMMERCE

Paper : CC-205

(Accounting Theory)

Full Marks : 40

*The figures in the margin indicate full marks.**Candidates are required to give their answers in their own words as far as practicable.*Answer *any two* questions from *each Module*.

Module – I

1. (a) Explain any three inadequacies of Generally Accepted Accounting Principle (GAAP).
 (b) 'Formulation of Accounting Theory under ethical approach puts emphasis on fairness, justice and truth' — Explain with suitable example.
 (c) Explain the problem of political bargaining faced by the standard setter while drafting Accounting Standards. 3+3+4
2. (a) On 1.06.2018 X Ltd. purchased a land for ₹ 2.5 crore (including registration cost of ₹ 20 lakhs) for the purpose of constructing a new factory. Construction work commenced on 01.08.2018. The Company incurred the following costs in relation to construct the factory.

	₹
Preparation and levelling of the land	5,50,000
Purchase of materials for the construction	15,60,000
Costs of the construction workers (per month)	2,50,000
Directly attributable cost on construction of the factory	8,70,000
General overhead costs	6,50,000
Costs of relocating the workers to new factory	3,75,000
Cost of formal opening of the factory	1,50,000

The construction of the factory was completed on 31.03.2019. The estimated useful life of the factory building is 40 years. At the end of the 40 years period, X Ltd. has a legally enforceable obligation to dismantle the factory and restore the site to its original condition. The estimated dismantle cost after 40 years period will be ₹ 2 crore. The applicable rate to this project is 8% and present value of ₹ 1 payable in 40 years time at an annual discount rate of 8% is 0.046.

You are required to compute the cost of the factory as on 31st March, 2019.

Please Turn Over

- (b) Company XYZ, maintaining revaluation model, performed a revaluation of all its plant and machinery at the beginning of 2018-19. The following information relates to one of the machinery.

	Amount (₹ in '000)
Gross carrying amount	400
Accumulated depreciation	160
Net carrying amount	240
Fair value	300

How should the Company account for revaluation of plant and machinery if the company is maintaining the gross carrying value method for disclosure purpose? (Show the journal)

- (c) Define the term 'Net Realisable Value' as per Ind AS 2. 5+3+2
3. (a) How does economic capital differ from accounting capital?
 (b) What are two approaches to determining income? Prove symbolically that the two approaches give us the same results.
 (c) Discuss briefly how the deprival value of assets is determined. 2+(1+3)+4
4. Write short notes on —
 (a) Orderly Transaction as per Ind As 113.
 (b) Accounting of Fixed overhead as per Ind As 2 "Inventories".
 (c) Descriptive and Normative Approaches to Accounting Theory. 3+3+4

Module - II

5. (a) From the following information in respect of ZEST Ltd., Calculate the total value of Human Capital under 'Lev and Schwartz' model.

Distribution of employees

Age	Unskilled		Semi-skilled		Skilled	
	No.	Average Annual Earnings (₹)	No.	Average Annual Earnings (₹)	No.	Average Annual Earnings (₹)
30-39	70	6,00,000	50	7,00,000	30	10,00,000
40-49	20	8,00,000	15	10,00,000	15	12,00,000
50-54	10	10,00,000	10	12,00,000	5	14,00,000

Retirement age is 55 years. Apply discount factor of 18%. In calculation of total value of Human factor, the lowest value of each class should be taken. Annuity factor @ 18%.

5 Years	10 Years	15 Years	20 Years	25 Years
3.1272	4.4941	5.0916	5.3527	5.4669

- (b) What is meant by Balanced Score Card?

6. (a) ZIKKO Ltd. provides the following information as of 31st March, 2019 below :

Sl. No.	Particulars	(₹ in crores)
i	Profit after tax	205.90
ii	Interest	4.85
iii	Equity Share Capital	40.00
iv	Accumulated Surplus	700.00
v	Loans (Long Term)	37.00
vi	Market Capitalisation	2,892.00

Additional Information :

- (i) Risk free rate — 12%.
(ii) Long Term Market Rate (based on BSE Sensex) — 15.50%.
(iii) Effective tax rate for the company — 25%.
(iv) Beta (β) for last five years —

1st Year	2nd Year	3rd Year	4th Year	5th Year
0.48	0.52	0.60	1.10	0.99

Using the above data, you are requested to calculate Economic Value Added of ZIKKO Ltd. as on 31st March, 2019.

- (b) From the following details, compute according to **Lev and Schwartz (1971)** model, the total value of human resources of the employee groups – skilled and unskilled.

Particulars	Skilled	Unskilled
(i) Annual average earnings of an employee till the retirement age	₹ 60,000	₹ 40,000
(ii) Age of retirement	65 years	62 years
(iii) Discount rate	18%	18%
(iv) No. of employees in the group	30	40
(v) Average age	62 years	60 years

6+4

7. (a) What are the steps followed for setting of IFRS?

- (b) Briefly discuss the problems and benefits of application of IFRS.

5+5

8. Write short notes on :

- (a) Difficulties in Interim Reporting.
(b) Harmonization of Accounting Standards.
(c) The Stamp Report (1980).

3+4+3