J.K. SHAH®
CLASSES
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FINAL CA
MAY '19
REVISION NOTES
Financial Reporting

Part - XIII

HUMAN RESOURCE ACCOUNTING

Q.1. From the following information in respect Exe Ltd., calculate the total value of human capital by following Lev and Schwartz model :

DISTRIBUTION OF EMPLOYEES OF EXE LTD.

Age	No	Unskilled Av. annual earnings (₹ '000)	No.	Semi-skilled Av. annual earnings (₹ '000)	No.	Skilled Av. annual earnings (₹ '000)
30 – 39	70	3	50	3.5	30	5
40 – 49	20	4	15	5	15	6
50 – 54	10	5	10	6	5	7

Apply 15% discount factor.

Q.2. From the following details, compute the total value of human resources of skilled and unskilled group of employees according to Lev and Schwartz (1971) model:

	Skilled	Unskilled
i. Annual average earning of an employees till the retirement age.	60,000	40,000
ii. Age of retirement	65 years	60 years
iii. Discount rate	15%	15%
iv. No. of employees in the group	30	40
v. Average Age	62 years	60 years

Q.3. A company has a capital base of ₹ 1 crore and has earned profits to the tune of ₹ 11 lakhs. The Return on Investment (ROI) of the particular industry to which the company belongs is 12.5%. If the services of a particular executive are acquired by the company, it is expected that the profits will increase by ₹ 2.5 lakhs over and above the target profit.

Determine the amount of maximum bid price for that particular executive and the maximum salary that could be offered to him.

VALUE ADDED STATEMENT

Q. 1. Prepare a Gross Value Added Statement from the following Profit and Loss Account of Strong Ltd. Show also the reconciliation between Gross Value Added and Profit before Taxation :

Profit & Loss Account for the year ended 31st March, 2012

Income	Notes	Amount (₹ in lakhs)	Amount (₹ in lakhs)
Sales			610
Other Income			25
			635
Expenditure			
Production & Operational Expenses	1	465	
Administration Expenses	2	19	
Interest and Other Charges	3	27	
Depreciation		14	
			525
Profit before Taxes			110
Provision for Taxes			16
			94
Balance as per Last Balance Sheet			7
			101
Transferred to :			
General Reserve		60	
Proposed Dividend		11	
			71
Surplus Carried to Balance Sheet			30
			101

Notes :

1. <u>Production & Operational Expenses</u>

Production & Operational Expenses	(₹ in lakhs)
Increase in Stock	112
Consumption of Raw Materials	185
Consumption of Stores	22
Salaries, Wages, Bonus & Other Benefits	41
Cess and Local Taxes	11
Other Manufacturing Expenses	94
	465

2. Administration expenses include inter-alia audit fees of ₹ 4.80 lakhs, salaries & commission to directors ₹ 5 lakhs and provision for doubtful debts ₹ 5.20 lakhs.

3.	Interest and Other Charges:	**(₹ in lakhs)**
	Working Capital Loans from Bank	8
	On Fixed Loans from IDBI	12
	Debentures	7
		27

Q. 2. From the following Profit & Loss Account of Brightex Co. Ltd., prepare a gross value added Statement for the year ended 31.3.2012.

Show also the reconciliation between gross value added and profit before taxation.

Income	**Notes**	**(₹ '000)**	**(₹ '000)**
Sales		6,240	
Other Income		55	6,295
Expenditure :			
Production and operational expenses	1	4,320	
Administration expenses (Factory)	2	180	
Interest & Other Changes	3	624	
Depreciation		16	5,140
Profit before Tax			1,155
Provision for Tax			55
			1,100
Balance as per Last Balance Sheet			60
			1,160
Transferred to fixed assets replacement reserve		400	
Dividend paid		160	560
Surplus carried to Balance Sheet			**600**

Notes:

1. Production & Operational expenses

Consumption of raw materials	3,210
Consumption of stores	40
Local tax	8
Salaries to administrative staff	620
Other manufacturing expenses	442
	4,320

2. Administration expenses include salaries and commission to directors 5

3. Interest and other charges include :

(a)	Interest on bank overdraft (Overdraft it of temporary nature)	109
(b)	Fixed Loans from I.C.I.C.I.	51
(c)	Working Capital loan from I.F.C.I.	20
(d)	Excise duties amount to one-tenth of total value added by manufacturing and trading activities.	

Q. 3. The following is the Profit and Loss Account of Galaxy Ltd. for the year ended 31.3.2012. Prepare a Gross Value Added Statement of Galaxy Ltd. and show also the reconciliation between Gross Value Added and Profit before taxation.

Profit and Loss Account for the year ended 31.3.2012

	Notes	Amount (₹ in lakhs)	
Income :			
Sales		----	890
Other Income		----	55
		----	945
Expenditure :			
Production and Operational Expenses	(a)	641	----
Administration Expenses (Factory)	(b)	33	----
Interest	(c)	29	----
Depreciation		17	720
Profit before taxes		----	225
Provision for taxes	(d)	----	30
Profit after tax		----	195
Balance as per last Balance Sheet		----	10
		----	**205**
Transferred to General Reserve		45	----
Dividend Paid		95	----
		140	----
Surplus carried to Balance Sheet		65	----
		205	**----**

Notes :

(a) Production and Operational Expenses

	₹ in Lakhs
Consumption of raw materials	293
Consumption of stores	59
Salaries, Wages, Gratuities etc. (Admn.)	82
Cess and Local Taxes	98
Other manufacturing expenses	109
	641

(b) Administration expenses include salaries, commission to Directors ₹ 9.00 lakhs Provision for doubtful debts ₹ 6.30 lakhs.

	₹ in lakhs
(c) Interest on loan from ICICI Bank for working capital	9
Interest on loan from ICICI Bank for fixed loan	10
Interest on loan from IFCI for fixed loan	8
Interest on Debentures	2
	29

(d) The charges for taxation include a transfer of ₹ 3.00 lakhs to the credit of Deferred Tax Account.

(e) Cess and Local taxes include Excise Duty, which is equal to 10% of cost bought - in material.

Q. 4. Trust Me Ltd. had been preparing VA Statements for the past five years. The Personnel Manager of the Company has suggested that a Value Added Incentive Scheme when introduced will motivate employees to better performance. To introduce the scheme, it is proposed that best index performance, i.e. Employee Cost to Added Value for the last five years, will be used as the Target Index for future calculations of the bonus to be earned.

After the Target Index is determined, any actual improvement in the index will be awarded, the Employer and Employee sharing any such Bonus in the ratio 1 : 2. The Bonus is given at the end of the year, after the Profit for the year is determined. From the following details, find the bonus to be paid to the employees, if any for Year 6.

Value Added Statements for 5 years (₹ 000's)

Years	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	2,800	3,800	4,600	5,200	6,000
Less : Bought in Goods & Services	1,280	2,000	2,500	2,800	3,200
Value Added	**1,520**	**1,800**	**2,100**	**2,400**	**2,800**
Application of Value Added :					
Employee Cost	650	760	840	984	1,120
Dividend	100	150	200	240	300
Taxes	320	380	420	500	560
Depreciation	260	310	360	440	560
Debenture Interest	40	40	40	40	40
Retained Earnings	150	160	240	196	220
Total Application of VA	**1,520**	**1,800**	**2,100**	**2,400**	**2,800**

Profit & Loss Account for the Year 6 (in ₹ 000's)

Particulars	Amt.	Particulars	Amt.
To Cost of Materials	2,500	By Sales	7,300
To Wages	700		
To Production Overheads -			
Salaries of Production Staff	200		
Production Expenses	700		
Depreciation on Machinery	500		
To Administration Overheads -			
Salaries of Administration Staff	300		
Office Expenses	300		
To Selling Overheads -			
Salaries of Sales Staff	60		
Sales Office Expenses	200		
To Interest on Debentures and Loans	40		
To Net Profit before tax	1,800		
Total	**7,300**	**Total**	**7,300**

Major differences between Ind AS & IAS/IFRS

STANDARD NO.	AREA	Ind AS	IAS/IFRS
Ind AS 1 & IAS 1	Classification in case of breach of a loan condition	It states that where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity need not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements, not to demand payment as a consequence of the breach	It requires that in case of a loan liability which was classified as non-current, if any condition of the loan agreement is breached on the reporting date, such loan liability should be classified as current(even if the breach is rectified after the balance sheet date)
	Classification of Expenses in Financial Statements	Requires only nature-wise classification of expenses	Allows classification based on either their nature or their function
Ind AS 7 & IAS 7	In case of other than financial entities, classification of interest paid and interest and dividends received	As items of financing activity and investing activity respectively	Option available to classify as operating activity
	Classification of Dividend Paid	Financing Activity	Option available to classify as operating activity
Ind AS 10 & IAS 10	Rectification of any breach after the end of the reporting period	Adjusting Event	Non-Adjusting Event

Major differences between Ind AS & IAS/IFRS

STANDARD NO.	AREA	Ind AS	IAS/IFRS
Ind AS 17 & IAS 17	Accounting of Lease Rentals in case of Operating Lease	If there is periodic rent escalation in line with the expected inflation so as to compensate the lessor for expected inflationary cost increases, the rentals shall not be straight-lined	Requires all lease rentals to be charged to P&L on straight-lined basis unless some other basis is more representative of the time pattern of the user's benefit, even if the payments to the lessor are not on that basis
Ind AS 21 & IAS 21	Treatment in case of Foreign Currency Loan taken to Acquire a FA/for any other purpose	It does not apply to long term foreign currency monetary items recognised in financial statements before the beginning of first Ind AS financial reporting period	No such provision
Ind AS 28 & IAS 28	Accounting in Investor's Financial Statements	Excess of the investor's share of the net fair value of the associate's identifiable assets & liabilities over the cost of investment is transferred to Capital Reserve	Excess of the investor's share of the net fair value of the associate's identifiable assets & liabilities over the cost of investment is recognised in P&L
Ind AS 33 & IAS 33	Disclosure of EPS	Required in Stand Alone as well as Consolidated Financial Statements	Required only in Consolidated Financial Statements
Ind AS 40 & IAS 40	Valuation	Only Cost Model	Cost or Fair Value Model
Ind AS 103 & IFRS 3	Bargain Purchase Gain	Arising on business combination to be recognised in Other Comprehensive Income & accumulated in equity as Capital Reserve	Arising on business combination to be recognised in profit or loss as income