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CA INTERMEDIATE NOV'19

SUBJECT- ACCOUNTS AND ADVANCED ACCOUNTS

Test Code – CIM 8386

BRANCH - () (Date :)

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ANSWER 1(A)

(i)	**Loss for the year ended, 31st March, 2018**	**(Rs. in Lakhs)**
	Amount of foreseeable loss	
	Total cost of construction (6,250 + 1,250 + 8,750)	16,250
	Less : Total contract price	(12,000)
	Total foreseeable loss to be recognised as expense	4,250

According to AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

Loss for the year ended, 31st March, 2018 amounting Rs. 4,250 will be recognized.

(ii)	**Contract work – in – progress as on 31.3.18**	**(Rs. in lakhs)**
	Contract work – in – Progress i.e. cost incurred to date are Rs. 7,500 lakhs :	
	Work certified	6,250
	Work not certified	1,250
		7,500

(iii) Proportion of total contract value recognized as revenue

Cost incurred till 31.3.18 is 46.15% (7,500/16,250 × 100) of total costs of construction.

Proportion of total contract value recognized as revenue :

46.15% of Rs. 12,000 lakhs = Rs. 5,538 lakhs

(iv) Amount due from / to customers at year end

(Contract costs + Recognized profits – Recognised Losses) – (Progress payments received + Progress payments to be received)

= (7,500 + Nil – 4,250) – (5,500 + 1,500) Rs. in lakhs

= [3,250 – 7,000] Rs. in lakhs

Amount due to customers = Rs. 3,750 lakhs **(5 MARKS)**

ANSWER 1(B)

As per AS 11 on 'The Effects of Changes in Foreign Exchange Rates', all foreign currency transactions should be recorded by applying the exchange rate on the date of transactions. Thus, goods purchased on 1.1.2017 and corresponding creditor would be recorded at Rs. 11,25,000 (i.e. $ 15,000 × Rs. 75)

According to the standard, at the balance sheet date all monetary transactions should be reported using the closing rate. Thus, creditors of US $ 15,000 on 31.3.2017 will be reported at Rs. 11,10,000 (i.e. $ 15,000 × Rs. 74) and exchange profit of Rs. 15,000 (i.e. 11,25,000 – 11,10,000) should be credited to Profit and Loss account in the year 2016 – 17.

On 7.7.2017, creditors of $ 15,000 is paid at the rate of Rs. 73. As per AS 11, exchange difference on settlement of the account should also be transferred to Profit and Loss account. Therefore, Rs. 15,000 (i.e. 11,10,000 – 10,95,000) will be credited to Profit and Loss account in the year 2017 – 18.

(5 MARKS)

ANSWER 2(A)

Basic Earnings per share (EPS) =

$$= \frac{Net\ Profit\ attributable\ to\ equity\ shareholders}{Weighted\ average\ number\ of\ equity\ shares\ outstanding\ during\ the\ year}$$

$$= \frac{21{,}96{,}000}{4{,}57{,}500\ Shares\ (as\ per\ working\ note)}$$ = Rs. 4.80 per share

Working Note :

Calculation of weighted average number of equity shares

As per AS 20 'Earnings Per Share', partly paid equity shares are treated as a fraction of equity share to the extent that they were entitled to participate in dividend relative to a fully paid equity share during the reporting period. Assuming that the partly paid shares are entitled to participate in the dividend to the extent of amount paid, weighted average number of shares will be calculated as follows :

Date	No. of equity shares	Amount paid per share	Weighted average no. of equity shares
	Rs.	Rs.	
1.4.2016	6,00,000	5	6,00,000 × 5/10 × 5/12 = 1,25,000
1.9.2016	5,40,000	10	5,40,000 × 7/12 = 3,15,000
1.9.2016	60,000	5	60,000 × 5/10 × 7/12 = 17,500
Total weighted average equity shares			4,57,500

(5 MARKS)

ANSWER 2(B)

As per para 13 of Accounting Standard (AS) 22, Accounting for Taxes on Income", deferred tax in respect of timing differences which originate during the tax holiday period and reverse during the tax holiday period, should not be recognized to the extent deduction from the total income of an enterprise is allowed during the tax holiday period as per the provisions of sections 10A and 10B of the Income – tax Act. Deferred tax in respect of timing differences which originate during the tax holiday period but reverse after the tax holiday period should be recognized in the year in which the timing differences originate. However, recognition of deferred tax assets should be subject to the consideration of prudence. For this purpose, the timing differences which originate first should be considered to reverse first.

Out of Rs. 1,000 lakhs depreciation, timing difference amounting Rs. 400 lakhs (Rs. 50 lakhs × 8 years) will reverse in the tax holiday period and therefore, should not be recognized. However, for Rs. 600 lakhs (Rs. 1,000 lakhs – Rs. 400 lakhs), deferred tax liability will be recognized for Rs. 240 lakhs (40% of Rs. 600 lakhs) in first year. In the second year, the entire amount of timing difference of Rs. 2,000 lakhs will reverse only after tax holiday period and hence, will be recognized in full. Deferred tax liability amounting Rs. 800 lakhs (40% of Rs. 2,000 lakhs) will be created by charging it to profit and loss account and the total balance of deferred tax liability account at the end of second year will be Rs. 1,040 lakhs (240 lakhs + 800 lakhs).

(5 MARKS)

ANSWER 3(A)

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled :

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i) : 25% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 3,00,000 (75% of Rs. 4,00,000)for the year ended on 31.3.17. In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (ii) : The sale is complete but delivery has been postponed at buyer's request. Fashion Ltd. Should recognize the entire sale of Rs. 1,95,000 for the year ended 31st March, 2017.

Case (iii) : In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting Rs. 2,50,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting Rs. 7,45,000 (3,00,000 + 1,95,000 + 2,50,000) will be recognized for the year ended 31st March, 2017 in the books of Fashion Ltd.

(5 MARKS)

ANSWER 3(B)

Determination of Nature of Lease

Present value of unguaranteed residual value at the end of 3rd year

= Rs. 50,000 $\times$ 0.7513

= Rs. 37,565

Present value of lease payments = Rs. 5,00,000 – Rs. 37,565

= Rs. 4,62,435

The percentage of present value of lease payments to fair value of the equipment is

(Rs. 4,62,435/ Rs. 5,00,000) $\times$ 100 = 92.487%.

Since, lease payments substantially covers the major portion of the fair value; the lease constitutes a finance lease.

Calculation of Unearned Finance Income

Annual lease payment = Rs. 4,62,435/ 2.4868 = Rs. 1,85,956 (approx.)

Gross investment in the lease

= Total minimum lease payments + unguaranteed residual value

= (Rs. 1,85,956 $\times$ 3) + Rs. 50,000

= Rs. 5,57,868 + Rs. 50,000 = Rs. 6,07,868

Unearned finance income = Gross investment – Present value of minimum lease payments and unguaranteed residual value

= Rs. 6,07,868 – Rs. 5,00,000 = Rs. 1,07,868 **(5 MARKS)**

ANSWER 4(A)

As per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date.

A debtor for Rs. 20,00,000 suffered heavy loss due to earthquake in the last week of February, 2017 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in April, 2017 (after the balance sheet date) is only an additional information related to the condition existing on the balance sheet date.

Accordingly, full provision for bad debts amounting Rs. 20,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March, 2017. Since the company has already made 5% provision of its total debtors, additional provision amounting Rs. 19,00,000 shall be made (20,00,000 × 95%) for the year ended 31st March, 2017.

(5 MARKS)

ANSWER 4(B)

According to AS 16 'Borrowing costs', qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use. As per the standard, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred. Capitalization of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.

The treatment of interest by Zen Bridge Construction Ltd. can be shown as:

	Qualifying Asset	Interest to be capitalized Rs. in crores	Interest to be charged to Profit & Loss A/c Rs. in crores	
Construction of hill road*	Yes	1.25		1.6/64 x 50
Purchase of equipment and machineries	No		0.15	1.6/64 x 6
Working capital	No		0.10	1.6/64 x 4
Purchase of vehicles	No		0.025	1.6/64 x 1
Advance for tools, cranes etc.	No		0.025	1.6/64 x 1
Purchase of technical know-how	No	____	0.05	1.6/64 x 2
Total		1.25	0.35	

***Note:** It is assumed that construction of hill road will normally take more than a year (substantial period of time), hence considered as qualifying asset.

(5 MARKS)

ANSWER 5(A)

(i) When Net Realizable Value of the Chemical Y is Rs. 800 per unit

NRV is greater than the cost of Finished Goods Y i.e. Rs. 660 (Refer W.N.)

Hence, Raw Material and Finished Goods are to be valued at cost.

Value of Closing Stock :

	QTY.	Rate (Rs.)	Amount (Rs.)
Raw Material X	1,000	440	4,40000
Finished Goods Y	2,400	660	15,84,000
Total Value of Closing Stock			20,24,000

(ii) When Net Realizable value of the Chemical Y is Rs. 600 per unit

NRV is less than the cost of Finished Goods Y i.e. Rs. 660. Hence, Raw Material is to be valued at replacement cost and Finished Goods are to be valued at NRV since NRV is less than the cost.

Value of Closing Stock :

	Qty.	Rate(Rs.)	Amt. (Rs.)
Raw Material X	1,000	300	3,00,000
Finished Goods Y	2,400	600	14,40,000
Total Value of Closing Stock			17,40,000

Working Note :

Statement showing cost calculation of Raw Material X and Chemical Y

Raw Material X	**Rs.**
Cost Price	380
Add : Freight Inward	40
Unloading charges	20
Cost	440
Chemical Y	**Rs.**
Materials Consumed	440
Direct Labour	120
Variable overheads	80
Fixed overheads (Rs. 4,00,000/20,000 units)	20
Cost	660

(5 MARKS)

ANSWER 5(B)

As per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets', a provision should be recognized when

(a) an enterprise has a present obligation as a result of a 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.

If these conditions are not met, no provision should be recognized.

In the given situation, since, the directors of the company are of the opinion that the claim can be successfully resisted by the company, therefore there will be no outflow of the resources. Hence, no provision is required. The company will disclose the same as contingent liability by way of the following note :

"Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed copyrights and is seeking damages of Rs. 200 lakhs. However, the directors are of the opinion that the claim can be successfully resisted by the company."

(5 MARKS)