CA INTERMEDIATE

SUBJECT- Accounting Standards

Test Code – CIM 8703

(Date :)

(Marks - 50)

TOPICS : AS 9, 11, 13, 26, 10, 2, 12, 7 & 5

NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.
(2) NEW QUESTION SHOULD BE ON NEW PAGE

QUESTION NO.1

A. A Ltd. has got the license to manufacture particular medicines for 10 years at a license fee of Rs. 200 lakhs. Given below is the pattern of expected production and expected operating cash inflow:

Year	Production in bottles (in lakhs)	Net operating cash flow (Rs. in lakhs)
1	300	900
2	600	1,800
3	650	2,300
4	800	3,200
5	800	3,200
6	800	3,200
7	800	3,200
8	800	3,200
9	800	3,200
10	800	3,200

Net operating cash flow has increased for third year because of better inventory management and handling method.

You are required to determine the amortization method in line with AS 26.

(5 MARKS)

B.

Particulars		Kg.	Rs.
Opening Inventory:	Finished Goods	1,000	25,000
	Raw Materials	1,100	11,000
Purchases		10,000	1,00,000
Labour			76,500
Overheads (Fixed)			75,000
Sales		10,000	2,80,000
Closing Inventory:	Raw Materials	900	
	Finished Goods	1200	

The expected production for the year was 15,000 kg of the finished product. Due to fall in market demand the sales price for the finished goods was Rs. 20 per kg and the replacement cost for the raw material was Rs. 9.50 per kg on the closing day. **You are required to calculate the closing inventory as on that date.** **(5 MARKS)**

QUESTION NO.2

A.

(I) AXE Limited purchased fixed assets costing \$ 5,00,000 on 1st Jan. 2018 from an American company M/s M&M Limited. The amount was payable after 6 months. The company entered into a forward contract on 1st January 2018 for five months @ Rs. 62.50 per dollar. The exchange rate per dollar was as follows :

On 1st January, 2018 Rs. 60.75 per dollar

On 31st March, 2018 Rs. 63.00 per dollar

You are required to state how the profit or loss on forward contract would be recognized in the books of AXE Limited for the year ending 2017-18, as per the provisions of AS 11.

(II) Assets and liabilities and income and expenditure items in respect of integral foreign operations are translated into Indian rupees at the prevailing rate of exchange at the end of the year. The resultant exchange differences in the case of profit, is carried to other Liabilities Account and the Loss, if any, is charged to revenue. **You are required to comment in line with AS 11 .** **(6 MARKS)**

B. Viva Ltd. received a specific grant of Rs. 30 lakhs for acquiring the plant of Rs. 150 lakhs during 2014- 15 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet and was not deducted from the cost of plant. During 2017-18, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was Rs. 21 lakhs and written down value of plant was Rs. 105 lakhs. **What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2017-18 in profit and loss account?** **(4 MARKS)**

QUESTION NO.3

A. Given below are the following information of B.S. Ltd.

(i) Goods of Rs. 50,000 were sold on 18-03-2018 but at the request of the buyer these were delivered on 15-04-2018.

(ii) On 13-01-2018 goods of Rs. 1,25,000 are sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-03-2018.

(iii) Rs. 1,00,000 worth of goods were sold on approval basis on 01-12-2017. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-01-2018 and no approval or disapproval received for the remaining goods till 31-03-2018.

You are required to advise the accountant of B.S. Ltd., with valid reasons, the amount to be recognized as revenue for the year ended 31st March, 2018 in above cases in the context of AS-9.

(6 MARKS)

B. **Explain whether the following will constitute a change in accounting policy or not as per AS 5**.

(i) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.

(ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of Rs. 20,000 per month. Earlier there was no such scheme of pension in the organization.

(4 MARKS)

QUESTION NO.4

A. On 31st March 2017, a business firm finds that cost of a partly finished unit on that date is Rs. 530. The unit can be finished in 2017-18 by an additional expenditure of Rs. 310. The finished unit can be sold for Rs. 750 subject to payment of 4% brokerage on selling price. **The firm seeks your advice regarding the amount at which the unfinished unit should be valued as at 31st March, 2017 for preparation of final accounts**. Assume that the partly finished unit cannot be sold in semi finished form and its NRV is zero without processing it further.

(5 MARKS)

B. Preet Ltd. is installing a new plant at its production facility. It has incurred these costs:

1.	Cost of the plant (cost per supplier's invoice plus taxes)	Rs. 50,00,000
2.	Initial delivery and handling costs	Rs. 4,00,000
3.	Cost of site preparation	Rs. 12,00,000
4.	Consultants used for advice on the acquisition of the plant	Rs. 14,00,000
5.	Interest charges paid to supplier of plant for deferred credit	Rs. 4,00,000
6.	Estimated dismantling costs to be incurred after 7 years	Rs. 6,00,000
7.	Operating losses before commercial production	Rs. 8,00,000

Please advise Preet Ltd. on the costs that can be capitalised in accordance with AS 10 (Revised).

(5 MARKS)

QUESTION NO.5

A. Omega Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13. **State the values, at which the investments have to be reclassified in the following cases:**

(i) Long term investments in Company A, costing Rs. 8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to *Rs.* 6.5 lakhs to recognize a permanent decline in value. The fair value on date of transfer is Rs. 6.8 lakhs.

(ii) Current investment in Company C, costing Rs. 10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is Rs. 12 lakhs.

(iii) Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these investments was Rs. 18 lakhs but had been written down to Rs. 12 lakhs to recognize permanent decline as per AS 13.

(5 MARKS)

B. (i) AP Ltd., a construction contractor, undertakes the construction of commercial complex for Kay Ltd. AP Ltd. submitted separate proposals for each of 3 units of commercial complex. A single agreement is entered into between the two parties. The agreement lays down the value of each of the 3 units, i.e. Rs. 50 Lakh Rs. 60 Lakh and Rs. 75 Lakh respectively. Agreement also lays down the completion time for each unit.

Comment, with reference to AS- 7, whether AP Ltd., should treat it as a single contract or three separate contracts.

(ii) On 1st December, 2017, GR Construction Co. Ltd. undertook a contract to construct a building for Rs. 45 lakhs. On 31st March, 2018, the company found that it had already spent Rs. 32.50 lakhs on the construction. Additional cost of completion is estimated at Rs.15.10 lakhs. **What amount should be charged to revenue in the final accounts for the year ended 31st March, 2018 as per provisions of AS-7?**

(5 MARKS)