SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- ACCOUNTING STANDARDS & ACCOUNTS

Test Code – CIM 8467

BRANCH - () (Date :)

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ANSWER -1

ANSWER –A

Para 8.3 of AS 4 "Contingencies and Events Occurring after the Balance Sheet Date", states that adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. The destruction of warehouse due to earthquake did not exist on the balance sheet date i.e. 31.3.2019. Therefore, loss occurred due to earthquake is not to be recognized in the financial year 2018-2019.

(2 MARKS)

However, according to para 8.6 of the standard, unusual changes affecting the existence or substratum of the enterprise after the balance sheet date may indicate a need to consider the use of fundamental accounting assumption of going concern in the preparation of the financial statements. As per the information given in the question, the earthquake has caused major destruction; therefore, fundamental accounting assumption of going concern is called upon.

(2 MARKS)

Hence, the fact of earthquake together with an estimated loss of Rs. 25 lakhs should be disclosed in the Report of the Directors for the financial year 2018-2019.

(1 MARK)

ANSWER –B

Calculation of Cost of Fixed Asset (i.e. Machinery)

Particulars		Rs.
Purchase Price	Given (Rs. 158,34,000 x 100/112)	1,41,37,500
Add: Site Preparation Cost	Given	1,41,870
Technician's Salary	Specific/Attributable overheads for 3 months (See Note) (45,000 x3)	1,35,000
Initial Delivery Cost	Transportation	55,770
Professional Fees for Installation	Architect's Fees	30,000
Total Cost of Asset		1,45,00,140

(5 MARKS)

ANSWER -2

ANSWER –A

(i) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or as expenses in the period in which they arise.

Accordingly, exchange difference on trade receivables amounting ₹ 23,076 {₹ 5,23,076(US $ 8547* x ₹ 61.20) less ₹ 5,00,000} should be charged to profit & Loss account.

(2 MARKS)

(ii) Calculation of profit or loss to be recognized in the books of Power Track Limited

	₹
Forward contract rate	64.25
Less: Spot rate	(61.50)
Loss on forward contract	2.75
Forward Contract Amount	$ 50,000
Total loss on entering into forward contract = ($ 50,000 × ₹ 2.75)	₹1,37,500
Contract period	6 months
Loss for the period 1st November, 2018 to 31st March, 2019 i.e. 5 months falling in the year 2018-2019	5 months
Hence, Loss for 5 months will be ₹ 1,37,500 $\times \frac{5}{6}$ =	₹ 1,14,583

Thus, the loss amounting to ₹ 1,14,583 for the period is to be recognized in the year ended 31st March, 2019.

(3 MARKS)

ANSWER –B

As per AS 13 (Revised) 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are **made at the lower of cost and carrying amount** at the date of transfer; and where investments are reclassified from current to long term, transfers are made **at lower of cost and fair value** on the date of transfer. **(1 MARK)**

Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs. 12 lakhs in the books.

(ii) In this case also, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs. 5 lakhs in the books.

(iii) In this case, reclassification of current investment into long-term investments will be made at Rs. 7 lakhs as cost is less than its fair value of Rs. 8.5 lakhs on the date of transfer.

(iv) In this case, market value (considered as fair vale) is Rs. 3.8 lakhs on the date of transfer which is lower than the cost of Rs. 4 lakhs. The reclassification of current investment into long-term investments will be made at Rs. 3.8 lakhs.

(4*1 = 4 MARKS)

ANSWER -3

ANSWER –A

As per AS 12 "Accounting for Government Grants", where the government grants are in the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, Central Investment Subsidy Scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

The subsidy received by Samrat Ltd. for setting up its business in a designated backward area will be treated as grant by the government in the nature of promoter's contribution as the grant is given with reference to the total investment in an undertaking i.e. subsidy is 25% of the eligible investment and also no repayment is apparently expected in respect thereof.

(3 MARKS)

Since the subsidy received is neither in relation to specific fixed assets nor in relation to revenue. Thus, the company cannot recognize the said subsidy as income in its financial statements in the given case. It should be recognized as capital reserve which can be neither distributed as dividend nor considered as deferred income.

(2 MARKS)

ANSWER –B

As per para 41 of AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognised when no future economic benefits are expected from its use according to para 87 of the standard. Thus, the manager cannot defer the expenditure write off to future years in the given case.

(4 MARKS)

Hence, the expenses amounting Rs. 40 lakhs incurred on the research and development project has to be written off in the current year ending 31^{st} March, 2019.

(1 MARK)

ANSWER –C

Computation of basic earnings per share

Net profit for the current year / Weighted average number of equity shares outstanding during the year

Rs. 37,50,000 / 5,00,000 = Rs. 7.50 per share

Computation of diluted earnings per share $\frac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity shares}}$

(2 MARKS)

Adjusted net profit for the current year

	Rs.
Net profit for the current year	37,50,000
Add: Interest expense for the current year	4,00,000
Less: Tax relating to interest expense (30% of Rs. 4,00,000)	(1,20,000)
Adjusted net profit for the current year	40,30,000

Number of equity shares resulting from conversion of debentures

= 55,000 Equity shares (given in the question)

Weighted average number of equity shares used to compute diluted earnings per share

= 5,55,000 shares (5,00,000 + 55,000)

Diluted earnings per share = 40,30,000/ 5,55,000 = Rs. 7.26 per share

Note: Conversion of convertible debentures into Equity Share will be dilutive potential equity shares. Hence, to compute the adjusted profit the interest paid on such debentures will be added back as the same would not be payable in case these are converted into equity shares.

(3 MARKS)

ANSWER -4

In the Books of Jyotishikha Traders

Trading Account for the year ended 31.03.2019

	Particulars	Rs.		Particulars	Rs.
To	Opening Stock A/c (Bal. fig.)	1,65,000	By	Sales (W.N.1)	12,50,000
To	Purchases (W.N.2)	9,00,000	By	Closing Stock	65,000
To	Gross profit (12,50,000x25/125)	2,50,000			
		13,15,000			13,15,000

Profit and Loss Account for the year ended 31.03.2019

	Particulars		Rs.		Particulars	Rs.
To	Discount		5,500	By	Gross profit	2,50,000
To	Salaries Expenses	32,000		By	Discount	4,500
To	Office expenses (W.N.3)	37,000				
To	Selling expenses	15,000	84,000			
To	Interest on loan (12% on Rs.1,60,000)		19,200			
To	Bad debts (2% of Rs.2,25,000)		4,500			

To	Loss on sale of Machinery		15,000		
To	Depreciation:				
	Land & Building	25,000			
	Plant &Machinery (W.N 4b)	23,750			
	Office Equipment (W.N. 5)	12,750	61,500		
To	Net profit after tax		64,800		
			2,54,500		2,54,500

(5 MARKS)

Balance sheet as on 31.3.2019

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*
Capital (W.N. 6)	8,95,500		Land and Building (5,00,000-25,000)	4,75,000
Add: Net Profit	64,800	9,60,300	Plant and Machinery (W.N.4a) (3,30,000-21,750)	3,08,250
Creditors for Purchases (W.N. 8)		1,05,500	Office Equipment (85,000-12,750)	72,250
Outstanding expenses		15,000	Debtors less Bad debts (W.N. 7)	2,20,500
Loan from SBI		1,00,000	Stock	65,000
			Bank Balance (W.N. 9)	39,800
		11,80,800		11,80,800

(3 MARKS)

Working Notes:

1. Calculation of Total Sales

	Rs.
Cash Sales	2,50,000
Credit Sales (80% of total sales)	
Cash Sales (20% of total sales)	
Thus total Sales (250000 x 100/20)	12,50,000
Credit Sales (1250000 x 80/100)	10,00,000

2. Calculation of Total Purchases

	Rs.
Credit Purchases	5,40,000
Cash Purchases (40% of total purchases)	
Credit Purchases (60% of total purchases)	
Thus total Purchases (5,40,000 x 100/60)	9,00,000
Cash Purchases 9,00,000 x 40/100)	3,60,000

3. Office Expenses Account

	Rs.		Rs.
To Bank A/c	42,000	By Balance b/d	20,000
To Balance c/d	15,000	By Profit & loss A/c	37,000
	57,000		57,000

4 (a) Plant and Machinery Account

	Rs.		Rs.
To Opening balance	2,20,000	By Sale	40,000
To Purchases	1,50,000	By Closing Balance	3,30,000
	3,70,000		3,70,000

(b) Depreciation calculations on Plant & Machinery

		Rs.
Depreciation on	1,80,000 x 10% (for full year)	18,000
	1,50,000 x 10% x 3/12 (for 3 months)	3,750
	40,000 x 10% x 6/12 (for 6 months)	2,000
		23,750

(c) Sale of Machinery Account

	Amount (Rs.)		*Amount (Rs.)*
To Plant & Machinery	40,000	By Depreciation	2,000
		By Profit and Loss A/c	15,000
		By Bank	23,000
	40,000		40,000

5. Depreciation calculations on Office Equipments

	Rs.
Opening Balance	1,05,000
Less: Closing Balance	85,000
Sale of Office Equipment	20,000
Balance of Office Equipment after sale	85,000
Depreciation @15%	12,750

6. Opening Balance Sheet as on 31.03.2018

	Rs.		Rs.
Creditors	95,000	Land & Building	5,00,000
Creditor for Exp.	20,000	Plant & Machinery	2,20,000
Loan	1,60,000	Office Equipment	1,05,000
Capital (Bal. fig.)	8,95,500	Debtors	1,55,500
		Stock	1,65,000
		Bank	25,000
	11,70,500		11,70,500

7. Sundry Debtors A/c

	Rs.		*Rs.*
To Balance b/d	1,55,500	By Bank	9,25,000
To Sales	10,00,000	By Discount	5,500
		By Bad debts	4,500
		By Bal. c/d	2,20,500
	11,55,500		11,55,500

8. Sundry Creditors A/c

	Rs.		*Rs.*
To Bank	5,25,000	By Balance b/d	95,000
To Discount	4,500	By Purchases	5,40,000
To Balance c/d	1,05,500		
	6,35,000		6,35,000

9. Bank Account

		Rs.			*Rs.*
To	Balance b/d	25,000	By	Creditors	5,25,000
To	Debtors	9,25,000	By	Office Expenses	42,000
To	Cash Sales	2,50,000	By	Salary Expense	32,000
To	Sale of Machinery (W.N. 4c)	23,000	By	Selling Expenses	15,000
To	Sale of equipment	20,000	By	Purchases (cash)	3,60,000
			By	Purchase of Machinery	1,50,000
			By	Bank Loan & Interest	79,200
			By	Balance c/d	39,800
		12,43,000			12,43,000

(7 MARKS)