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SUBJECT- ACCOUNTING STANDARDS, ADVANCED ACCOUNTS & ACCOUNTS

Test Code – CIM 8555 M

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

Amount of provision to be made is as under :

Asset Funded			**(Rs. in crore)**
Computers	a. Where hire charges are overdue upto 12 months	Nil	-
Televisions	b. Where hire charges are overdue for more than 12 months but upto 24 months	10% of the net book value 10% × 4,950	495
Washing Machines	c. Where hire charges are overdue for more than 24 months but upto 36 months	40% of the net book value 40% × 2,530	1,012
Refrigerators	d. Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months	70% of the net book value 70% × 1,328	929.60
Air Conditioners	e. Where hire charges or lease rentals are overdue for more than 48 months	100 % of the net book value 305 × 100%	305
		Total	2,741.60

(5 MARKS)

ANSWER -2

ANSWER –A

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 –B

The term "Accrual" has been explained in the AS 1 on Disclosure of Accounting Policies, as "Revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate"

Reasons for Accrual Basis of Accounting

1. Accrual basis of accounting, attempts to record the financial effects of the transactions, events, and circumstances of an enterprises in the period in which they occur rather than recording them in the period(s) in which cash is received or paid by the enterprise.
2. Receipts and payments of the period will not coincide with the buying producing or selling events and other economic events that affect entity performance.
3. The goal of Accrual basis of accounting is to follow the matching concept of income and expenditure so that reported net income measures an enterprise's performance during a period instead of merely listing its cash receipts and payments.
4. Accrual basis of accounting recognizes assets, liabilities or components of revenues and expenses for amounts received or paid in cash in past, and amounts expected to be received or paid in cash in the future.
5. Important point of difference between accrual and accounting based on cash receipts and outlay is in timing of recognition of revenues, expenses, gains and losses.

(5 MARKS)

ANSWER -3

ANSWER –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 –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 31st 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 $\dfrac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity shares}}$

(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

ANSWER –A

Calculation of provision required on advances as on 31st March, 2018:

	Amount Rs. in lakhs	Percentage of provision	Provision Rs. in lakhs
Standard assets	13,400	.40	53.60
Sub-standard assets	670	10	670
Secured portions of doubtful debts			
up to one year	160	20	32
one year to three years	45	30	13.5
more than three years	20	50	10
Unsecured portions of doubtful debts	48	100	48
Loss assets	24	100	24
			851.10

(5 MARKS)

ANSWER - B

(i) Calculation of Interest and Cash Price

No. of installments	Outstanding balance at the end after the payment of installment	Amount due at the time of installment	Outstanding balance at the end before the payment of installment	Interest	Outstanding balance at the beginning
[1]	*[2]*	*[3]*	*[4] = 2 +3*	*[5] = 4 x 10/110*	*[6]4-5*
3rd	-	5,50,000	5,50,000	50,000	5,00,000
2nd	5,00,000	4,90,000	9,90,000	90,000	9,00,000
1st	9,00,000	4,20,000	13,20,000	1,20,000	12,00,000

Total cash price = Rs. 12,00,000+ 6,00,000 (down payment) = Rs. 18,00,000.

(3 MARKS)

(ii) In the books of Amandeep

Cars Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2016	To Fair Value Motors A/c	18,00,000	31.3.2017	By Depreciation A/c	4,50,000
				By Balance c/d	13,50,000
		18,00,000			18,00,000
1.4.2017	To Balance b/d	13,50,000	31.3.2018	By Depreciation A/c	3,37,500
				By Balance c/d	10,12,500
		13,50,000			13,50,000
1.4.2018	To Balance b/d	10,12,500	31.3.2019	By Depreciation A/c	2,53,125
				By Fair Value Motors A/c (Value of 1 Car taken over after depreciation for 3 years @ 40% p.a.) [9,00,000 — (3,60,000+2,16,000+ 1,29,600)]	1,94,400
				By Loss on surrender transferred to Profit and Loss A/c (Bal. fig.)	1,85,288
				By Balance c/d ½(10,12,500—2,53,125)	3,79,687
		10,12,500			10,12,500

(7 MARKS)