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INTERMEDIATE M'19 EXAM

SUBJECT- AS AND ACCOUNTS

Test Code – CIM 8066

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ANSWER-1

ANSWER-A

(i) **(2 MARKS)**

Share capital	Non-monetary
Trade receivables	Monetary
Investment in equity shares	Non-monetary
Fixed assets	Non-monetary

(ii) 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. **(3 MARKS)**

ANSWER-B **(5 MARKS)**

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.

ANSWER-2

A. Trading and Profit & Loss Account for the year ended on 31st March 2018

Particulars		Rs.	Particulars	Rs.
To Opening Stock(given)		80,000	By Sales (balancing figure)	6,08,750
To Purchases(WN 2)	4,56,000			
Less: Stock used for Advt Purposes	9,000	4,47,000		
To Freight Inwards		30,000		
To Gross Profit (See Note)		1,21,750	By Closing Stock	70,000
Total		**6,78,750**	**Total**	**6,78,750**

Note: COGS = Opg Stock + Purchases (Net) + Freight (-) Closing Stock = 80,000 + 4,47,000 + 30,000 - 70,000 = 4,87,000

GP = 20% on Sales = ¼ on Cost = 25% on COGS of 4,87,000 So, GP = 1,21,750. So, Sales = COGS + GP.

(4 MARKS)

A. Profit and Loss Account for the year ended 31st March 2018

Particulars		Rs.	Particulars	Rs.
To Sundry Expenses(WN 5)		92,000	By Gross Profit b/d (from Trading A/c)	1,21,750
To Advertisement		9,000	By Discount Received	8,000
To Discount Allowed:			By Miscellaneous Income	5,000
Debtors	15,000		By Interest on Invts (200 Share x Rs. 100 x	600
Bills Receivable	1,250	16,250	6% x 1/2 year)	
To Depreciation on Furniture(WN 7)		6,500	(Face Value of Invts = Rs.100)	
To Provision for Doubtful Debts (Rs. 72,750 x 2%)		1,455		
To Net Profit(balancing figure)		10,145		
Total		**1,35,350**	**Total**	**1,35,350**

(4 MARKS)

B. Balance Sheet of ABC Enterprises as at 31st March 2018

Capital and Liabilities	Rs.	Properties and Assets	Rs.
Capital (WN 8)	1,07,145	Non-Current Assets: Furniture (WDV) (given) Investments (Face Value = 100)	63,500 19,000
Current Liabilities:		Current Assets: Stock in Trade	70,000
Sundry Creditors	1,50,000	Debtors (WN 3) 72,750	
Outstanding Expenses	18,000	Less: Provn. for Doubtful Debts (1,455) Bills Receivable (WN 6) Interest Receivable on Invts Cash in Hand and at Bank Prepaid Expenses	71,295 17,500 600 26,250 7,000
Total	**2,75,145**	**Total**	**2,75,145**

(4 MARKS)

Working Notes:1. Opening Balance Sheet as at 1st April 2017 (To find out Opening Capital)

Capital and Liabilities	Rs.	Properties and Assets	Rs.
Capital (balancing figure) Current Liabilities: Creditors Outstanding Expenses	1,88,000 1,10,000 20,000	Non-Current Assets: FA - Furniture (WDV) Current Assets: Stock in Trade Sundry Debtors Cash in Hand and at Bank Prepaid Expenses	60,000 80,000 1,60,000 12,000 6,000
Total	**3,18,000**	**Total**	**3,18,000**

2. Sundry Creditors Account (To find out Credit Purchases)

Particulars	Rs.	Particulars	Rs.
To Cash and Bank - Payments made To Discount Received - (4,00,000 - 3,92,000) To Bills Receivable – endorsed To balance c/d - Closing Balance	3,92,000 8,000 20,000 1,50,000	By balance b/d - Opening Balance By Sundry Drs- Endorsed Bill Dishonoured By Purchases (balancing figure)	1,10,000 4,000 4,56,000
Total	**5,70,000**	**Total**	**5,70,000**

3. Sundry Debtors Account (To find out Closing Balance of Debtors)

Particulars	Rs.	Particulars	Rs.
To balance b/d To Sales (from Trading A/c) To Sundry Creditors (Bill dishonoured)	1,60,000 6,08,750 4,000	By Cash and Bank – Collections By Discount Allowed By Bills Receivable - B/R received By balance c/d (balancing figure)	5,85,000 15,000 1,00,000 72,750
Total	**7,72,750**	**Total**	**7,72,750**

4. Cash and Bank Account (To find out Additional Drawings / Introduction of Capital)

Receipts	Rs.	Payments	Rs.
To balance b/d	12,000	By Freight Inwards	30,000
To Sundry Debtors	5,85,000	By Furniture	10,000
To Bills Receivable	61,250	By Investments	19,000
To Miscellaneous Income	5,000	By Expenses	95,000
		By Creditors	3,92,000
		By Drawings	70,000
		By Additional Drawings (balancing figure)	21,000
		By balance c/d	26,250
Total	**6,63,250**	**Total**	**6,63,250**

5. Sundry Expenses Account (To find out Expenses recognised for the year)

Particulars	Rs.	Particulars	Rs.
To balance b/d - Prepaid Exps on 1st April	6,000	By bal. b/d - Outstanding Exps on 1st April	20,000
To Bank - Payments made during the year	95,000	By P&L - transfer(balancing figure)	92,000
To bal. c/d - Outstanding Exp. on 31st March	18,000	By balance c/d - Prepaid Exps on 31st March	7,000
Total	**1,19,000**	**Total**	**1,19,000**

6. Bills Receivable Account (To find out Closing Balance)

Particulars	Rs.	Particulars	Rs.
To Sundry Debtors - B/R received	1,00,000	By Creditors - B/R endorsed	20,000
		By Bank - B/R discounted	61,250
		By Discount on Bills Receivable	1,250
		By balance c/d(balancing figure)	17,500
Total	**1,00,000**	**Total**	**1,00,000**

7. Fixed Assets Account (To compute Depreciation for the year)

Particulars	Rs.	Particulars	Rs.
To balance b/d	60,000	By Depreciation (balancing figure)	6,500
To Bank - FA Purchase during the year	10,000	By balance c/d (given)	63,500
Total	**70,000**	**Total**	**70,000**

8. Capital Account

Particulars	Rs.	Particulars	Rs.
By Drawings (70,000 + WN 4 21,000) By balance c/d(balancing figure)	91,000 1,07,145	By balance b/d (WN 1) By Net Profit for the year	1,88,000 10,145
Total	**1,98,145**	**Total**	**1,98,145**

(8*1=8 MARKS)

ANSWER-3

ANSWER-A

According to AS 4 on 'Contingencies and Events Occurring after the Balance Sheet Date', adjustments 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. However, 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. "Contingencies" used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur.

(i) Fire has occurred after the balance sheet date and also the loss is totally insured. Therefore, the event becomes immaterial and the event is **non- adjusting** in nature.

(ii) The contingency is restricted to conditions existing at the balance sheet date. However, in the given case, suit was filed against the company's advertisement by a party on 10th April for amount of Rs. 20 lakhs. Therefore, it does not fit into the definition of a contingency and hence is a **non-adjusting event**. **(5 MARKS)**

ANSWER-B

Accounting Standard 2 "Valuation of Inventories" states that inventories should be valued at lower of historical cost and net realizable value. The standard states, "at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods are often valued at net realizable value at certain stages of production."

Terry Towels do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing inventory of finished goods (Fancy terry towel) should have been valued at lower of cost and net realizable value and not at net realizable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing inventory of inventories of finished goods is not correct. **(5 MARKS)**

ANSWER-4

ANSWER-A **(5 MARKS)**

According to AS 10 on Property, Plant and Equipment, the costs which will be capitalized by ABC Ltd.:

	Rs.
Cost of the plant	31,25,000
Initial delivery and handling costs	1,85,000
Cost of site preparation	4,50,000
Consultants' fees	6,50,000
Estimated dismantling costs to be incurred after 5 years	2,50,000
Total cost of Plant	46,60,000

Note: Operating losses before commercial production amounting to Rs. 3,75,000 will not be capitalized as per AS 10. They should be written off to the Statement of Profit and Loss in the period they are incurred.

ANSWER-B **(5 MARKS)**

Desire Limited amortised Rs. 20,00,000 per annum for the first two years i.e. Rs. 40,00,000. The remaining carrying cost can be amortized during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows:

Year	*Net cash flows Rs.*	*Amortization Ratio*	*Amortization Amount Rs.*
I	-	0.200	20,00,000
II	-	0.200	20,00,000
III	45,00,000	0.225	13,50,000
IV	42,00,000	0.21	12,60,000
V	40,00,000	0.20	12,00,000
VI	38,00,000	0.19	11,40,000
VII	35,00,000	0.175	10,50,000
Total	2,00,00,000	1.000	1,00,00,000

It may be seen from above that from third year onwards, the balance of carrying amount i.e., Rs. 60,00,000 has been amortized in the ratio of net cash flows arising from the product of Desire Ltd.