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SUGGESTED SOLUTION

INTERMEDIATE MAY 2019 EXAM

SUBJECT – ACCOUNTS AND AS

Test Code - CIM 8182

BRANCH - () (Date :)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.

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Answer 1:

Journal Entries in the books of Branch

S.No.	Particulars		Dr. (Rs.)	Cr. (Rs.)
1.	Head Office A/c	Dr.	2,800	
	To Income A/c			2,800
	(Being the Income allocated by the Head Office recorded in Branch books)			
2.	Branch P & L A/c	Dr.	1,000	
	To Head Office A/c			1,000
	(Being the Provision on Doubtful Debts on Branch Debtors provided)			
3.	Head Office A/c	Dr.	3,000	
	To Salaries A/c			3,000
	(Being the Salary paid on behalf of HO to the HO Manager)			
4.	Head Office A/c	Dr.	30,000	
	To Cash A/c			30,000
	(Being the expenditure on account of other Branch, recorded in books) [Note: In turn, the HO will debit the other Branch for such expenses]			
5.	No Journal Entry is required in Branch Books, for the remittance of Branch not recorded in the books of HO. It should be recorded as Remittances in Transit in HO Books.	—		-
6.	Expenses A/c	Dr.	75,000	
	To Head Office A/c			75,000
	(Being the Expenses allocated by the Head Office, recorded in Branch books)			
7.	Head Office A/c	Dr.	30,000	
	To Debtors A/c			30,000
	(Being the adjustment of collection from Branch debtors)			
8.	Goods-in-Transit A/c	Dr.	10,000	
	To Head Office A/c			10,000
	(Being goods sent by Head Office, in transit on the closing date) [Note: No entry is required to be passed in the books of the Head Office]			

Note: For S.No.2 - The entry in the Books of HO will be: Branch A/c Dr.

To Provision for Bad Debts A/c

(10 MARKS)

Answer 2:
(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	4,40,000
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.)	Amount (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

(5 MARKS)

Working Note: **(2 MARKS)**

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**

(B)

According to AS 9, sales will be recognized only when following two conditions are satisfied:

(i) The sale value is fixed and determinable.

(ii) Property of the goods is transferred to the customer.

Both these conditions are satisfied only on 27.3.2012 when sales are agreed upon at a price and goods are allocated for delivery purpose. The amount of net profit Rs. 11,000 (30,000 – 19,000) would be recognized in the books for the year ending 31st March, 2012. **(3 MARKS)**

Answer 3:
(A)

As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts:

So far, the company has been providing 2% of sales for meeting "after sales expenses during the warranty period. With the improved method of production, the probability of defects occurring in the products has reduced considerably. Hence, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change, the profit for the year is increased by Rs. 12 crores than would have been the case if the old policy were to continue.

(5 MARKS)

(B)

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, 2016 which was not covered by insurance. This information with its implications was al ready known to the company. The fact that he became bankrupt in April, 2016 (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 31 st March 2016. 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 x 95%). **(5 MARKS)**

Answer 4:

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

Particulars	HO	Branch	Particulars	HO	Branch
To Opening Stock	50,000	NIL	By Sales	3,06,000	1,00,000
To Purchases	3,00,000	NIL	By Goods Sent to Branch	1,08,000	-
To Goods received from HO	-	1,08,000	By Closing Stock (WN 1,2)	1,20,000	18,000
Gross Profit (balancing figure)	1,84,000	10,000			
Total	**5,34,000**	**1,18,000**	**Total**	**5,34,000**	**1,18,000**
To Expenses	90,000	4,000	By Gross Profit	1,84,000	10,000
To Net Profit (balancing figure)	94,000	6,000			
Total	**1,84,000**	**10,000**	**Total**	**1,84,000**	**10,000**

Note : The Closing Stock of the Branch is taken at the Invoice Price, due to the requirement of the question.

(5 MARKS)

2. General Profit and Loss A/c

Particulars	Rs.	Particulars	Rs.
To Stock Reserve on Branch Closing Stock $\left(18,000 \text{ x } \frac{80}{180}\right)$	8,000	By Head Office Rent	94,000
To Net Profit (Balancing figure)	92,000	By Branch Profit	6,000
		By Stock Reserve on Branch Opening Stock	Nil
Total	**1,00,000**	**Total**	**1,00,000**

(2 MARKS)

Working Notes:1. Computation of Branch Closing Stock at Invoice Price

	Particulars	Rs.
	Invoice Value of goods sent to Branch	1,08,000
Less:	Invoice Value of goods sold by Branch (Rs. 1,00,000 x 180 ÷ 200)	(90,000)
	Branch Closing Stock (at Invoice Price)	18,000

2. Computation of Head Office Closing Stock

	Particulars	Rs.
	Opening Stock	50,000
Add:	Purchases	3,00,000
		3,50,000
Less:	Cost of Goods Sold by Head Office (Rs. 3,06,000 x $\frac{100}{180}$)	(1,70,000)
		1,80,000
Less:	Cost of goods sent to Branch (Rs. 1,08,000 x $\frac{100}{180}$)	(60,000)
	Head Office Closing Stock	**1,20,000**

(3 MARKS)

Answer 5:
(A)

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. **(5 MARKS)**

(B)

(i) Interest for the period2016-17

= US $ 10 lakhs x 4% × Rs. 62 per US$ = Rs.24.80 lakhs

(ii) Increase in the liability towards the principal amount

: US 10 lakhs× Rs.(62 - 56) = Rs.60 lakhs

(iii) Interest that would have resulted if the loan was taken in Indian currency

= US $ 10 lakhs × Rs. 56 x 10.5% = Rs. 58.80 lakhs

(iv) Difference between interest on local currency borrowing and foreign currency borrowing
= Rs. 58.80 lakhs- Rs. 24.80 lakhs = Rs. 34 lakhs.

Therefore, out of Rs. 60 lakhs increase in the liability towards principal amount, only Rs. 34 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be Rs. 58.80 lakhs being the aggregate of interest of Rs. 24.80 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of Rs. 34 lakhs.

Hence, Rs. 58.80 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 and the remaining Rs. 26 lakhs (60 - 34) would be considered as the exchange difference to be accounted for as per AS11.

(5 MARKS)