SUGGESTED SOLUTION

INTERMEDIATE MAY 2019 EXAM

SUBJECT- ACCOUNTS AND FM

Test Code - CIM 8101

BRANCH - () (Date : //)

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Answer 1:

Ledger Accounts in the Books of Girish Transport Ltd are as under -

1. Rickshaw A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
01.01.15	To NCR Motors A/c	1,80,000	31.12.15 31.12.15	By Depreciation (l,80,000x 20%) By balance c/d	36,000 1,44,000
	Total	**1,80,000**		**Total**	**1,80,000**
01.01.16	To balance b/d	1,44,000	31.12.16	By Depreciation (l,44,000x 20%) By NCR Motors (WN 2) By Loss on Takeover (WN 3) By balance c/d (b/f)	28,800 58,800 18,000 38,400
	Total	**1,44,000**		**Total**	**1,44,000**
01.01.17	To balance b/d	38,400	31.12.17	By Depreciation (38,400x 20%) By balance c/d (b/f)	7,680 30,720
	Total	**38,400**		**Total**	**38,400**

Date	Particulars	Rs.	Date	Particulars	Rs.
01.01.15 31.12.15 31.12.15	To Bank A/c To Bank A/c [50,000 + 15,000] To balance c/d (b/f)	30,000 65,000 1,00,000	01.01.15 31.12.15	By Rickshaw A/c By Interest A/c [1,80,000 - 30,000]x 10%	1,80,000 15,000
	Total	**1,95,000**		**Total**	**1,95,000**
31.12.16 31.12.16	To Rickshaw A/c To balance c/d	58,800 51,200	01.01.16 31.12.16	By balance b/d By Interest A/c [1,00,000 x 10%]	1,00,000 10,000
		1,10,000			**1,10,000**
31.12.17	To Bank A/c (Note)	56,320	01.01.17 31.12.17	By balance b/d By Interest A/c [51,200 x 10%]	51,200 5,120
	Total	**56,320**		**Total**	**56,320**

Note: It is assumed that the balance amount is settled along with interest, on 31.12.2017.

Working Notes:1. Valuation of Rickshaw

Particulars	**Value as per Purchaser**	**Value as per Vendor**
Depreciation Rate	20% WDV	30% WDV
Value of Rickshaw [60,000 x 3] Less: Depreciation for the year 2015 Value of Rickshaw as on 31.12.2015 Less: Depreciation for the year 2016	1,80,000 (36,000) 1,44,000 (28,800)	1,80,000 (54,000) 1,26,000 (37,800)
Value of Rickshaw as on 31.12.2016 Less: Value of Rickshaws repossessed [1,15,200 x 2/3]	1,15,200 (76,800)	88,200
Price of the Remaining Rickshaw [1,15,200 x 1/3]	38,400	

Less: Depreciation for the year 2017	(7,680)	
Value of Rickshaw as on 31.12.2017	30,720	

2. Takeover Value of Rickshaws repossessed: 2/3 x Rs. 88,200 = Rs. 58,800

3. Loss on Takeover = Book Value of Rickshaws Repossessed Rs. 76,800 (-) Takeover Value Rs. 58,800 = Rs. 18,000.

Answer 2:
(A)

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, 2017 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in April, 2017 (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 31st March 2017. 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%) for the year ended 31st March, 2017.

(B)

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

	Rs.
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 × Rs. 2.75)	Rs.1,37,500
Contract period	6 months
Loss for the period 1st November, 2016 to 31st March, 2017 i.e. 5 months falling in the year 2016-2017	5 months
Hence, Loss for 5 months will be Rs. 1,37,500 × $\frac{5}{6}$ =	Rs. 1,14,583

Thus, the loss amounting to Rs. 1,14,583 for the period is to be recognized in the year ended 31st March, 2017.

Answer 3:
(A)

Price revision was effected during the current accounting period 2016-2017. As a result, the company stands to receive Rs. 15 lakhs from its customers in respect of sales made from 1st January, 2017 to 31st March, 2017. If the company is able to assess the ultimate collection with reasonable certainty, then additional revenue arising out of the said price revision may be recognised in 2016-2017.

(B)

No. of Bonus Issue 20,00,000 x 2 = 40,00,000 shares

Earnings per share for the year 2017 = Rs.6000000 / (2000000 + 4000000) = Rs.1.00

Adjusted earnings per share for the year 2016 = Rs.1800000 / (2000000 + 4000000) = Rs.0.30

Answer 4:

Sohna Food and Beverages Ltd.

Projected Profitability Statement at 80% capacity

Units to be produced (36,000/60 x 80) = 48,000 packets

A.	**Cost of Sales:**			**(Rs.)**
	Raw material	Rs. 4 x 48,000	=	1,92,000
	Wages	Rs. 2 x 48,000	=	96,000
	Overheads(Variable)	Rs. 2 x 48,000	=	96,000
	Overheads (Fixed)	Rs. 1 x 36,000	=	36,000
				4,20,000
B.	**Profit**	Rs. 3.25x 48,000	=	1,56,000
C.	**Sale value**	Rs. 12x48,000	=	5,76,000

Alternatively

If we assume the movement in stock levels, because of increase in capacity, i.e., from 60% to 80%, the profitability statement will be as follows:

Units to be produced (36,000/60 x 80) 48,000 packets

A. Cost of goods sold:

		Rs.
Raw Material	(4 x 48,000)	1,92,000
Wages	(2 x 48,000)	96,000
Overheads (Variable)	(2 x 48,000)	96,000
Overheads (Fixed)	(1 x 36,000)	.36,000
		4,20,000
Less : Increase in stock of Materials + WIP + Finished goods (Refer to working note)		18,000
Adjusted cost of sales		4,02,000
B. Profit		1,62,000
C. Sales	(12 x 47,000)*	5,64,000

* Opening Stock + production - closing stock = 3,000 + 48,000-4,000= 47,000

Working Note:

Capacity		60%		80%
Number of units of production		36,000		48,000
	Cost/Unit	**Rs.**		**Rs.**
Raw material stock (I month)	4	12,000		16,000
WIP Stock:				
Material (1 month) .	4	12,000		16,000
Wages (1/2 month)	2	3,000		4,000
Variable overheads (1/2 month)	2	3,000		4,000
Fixed overheads (1/2 month)	1	1,500	(0.75)	1,500
Finished goods (1 month)	9	27,000	(8.75)	35,000
		58,500		76,500
Increase in Stock				18,000

Working Notes:

Cost of Sales-average per month

	Per annum	**Per month**
Raw material	1,92,000	16,000
Wages .	96,000	8,000
Overheads (Variable)	96,000	8,000
Overheads (Fixed)	36,000	3,000
	4,20,000	35,000
Profit	1,56,000	13,000
Sale value	5,76,000	48,000

Projected Statement of Working Capital at 80% capacity

Current Assets			
Raw material (48000/12 x 4)		16,000	
Work in process		25,500	
Materials (48,000 x 4 x 1/12)	16,000		
Wages (48,000 x 2 x 1/24)	4,000		
Variable overheads (48,000 x 2 x 1/24)	4,000		
Fixed overheads (48,000 x 0.75 x 1/24)	1,500		
Finished goods (48,000 x 8.75 x 1/12)		35,000	
		76,500	
Sundry debtors		96,000	
		1,72,500	
Cash balance		19,500	(A) 1,92,000
Less: Current Liabilities:			

Creditors for goods (48,000 x 4 x 3/12)		48,000	
Creditors for expenses (48,000 x 4.75 x 1/12)		19,000	(B) 67,000
Net working capital (A)-(B)			1,25,000

Note:

(i) Since wages and overheads payments accrue evenly, it is assumed that they will be in process for half a month in average,

(ii) Fixed overheads per unit = Rs. 36000/48000=Rs. 0.75.

Answer 5:

(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:

(i) During the year inventory has been valued at factory cost, against the practice of valuing it at prime cost as was the practice till last year. This has been done to take cognisance of the more capital intensive method of production on account of heavy capital expenditure during the year. As a result of this change, the year-end inventory has been valued at Rs. 50 crores and the profit for the year is increased by
Rs. 20 crores.

(ii) In view of the heavy capital intensive method of production introduced during the year, the company has decided to change the method of providing depreciation from reducing balance method to straight line method. As a result of this change, depreciation has been provided at Rs. 27 crores which is lower than the charge which would have been made had the old method and the old rates been applied, by Rs. 18 crores. To that extent, the profit for the year is increased.

(iii) 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.

(iv) The company has decided to provide Rs. 10 crores for the permanent fall in the value of investments which has taken place over the period of past five years. The provision so made has reduced the profit disclosed in the accounts by Rs. 10 crores.

(B)

Computation of earnings per share

	Earnings *Rs.*	*Shares*	*Earnings/Share* *Rs.*
Net profit for the year 2017	12,00,000		
Weighted average no. of shares during year 2017		5,00,000	
Basic earnings per share			2.40
Number of shares under option		1,00,000	
Number of shares that would have been issued at fair value (100,000 x 15.00)/20.00		(75,000)	
Diluted earnings per share	12,00,000	5,25,000	2.29

Note: The earnings have not been increased as the total number of shares has been increased only by the number of shares (25,000) deemed for the purpose of the computation to have been issued for no consideration.

To the extent that partly paid shares are not entitled to participate in dividends during the reporting period they are considered the equivalent of warrants or options.