SUGGESTED SOLUTION

INTERMEDIATE MAY 2019 EXAM

SUBJECT – ACCOUNTS AND AS

Test Code - CIM 8104

BRANCH - () (Date :)

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Answer 1:

Cash Flow Statement of ABC Ltd. for the year ended 31.3.20X1

Cash Flows From Operating Activities		**Rs.**	**Rs.**
Net Profit		22,40,000	
Add: Adjustment For Depreciation (Rs.7,90,000 – Rs.6,10,000)		1,80,000	
Operating Profit Before Working Capital Changes		24,20,000	
Add: Decrease In Inventories (Rs. 20,10,000 – Rs. 19,20,000)		90,000	
Increase In Provision For Doubtful Debts (Rs. 4,20,000 – Rs.1,50,000)		2,70,000	
		27,80,000	
Less: Increase In Current Assets:			
Trade Receivables (Rs. 30,60,000 – Rs.23,90,000)	6,70,000		
Prepaid Expenses (Rs. 1,20,000 – Rs.90,000)	30,000		
Decrease In Current Liabilities:			
Trade Payables (Rs. 8,80,000 – Rs. 8,20,000)	60,000		
Expenses Outstanding (Rs. 3,30,000 – Rs.2,70,000)	60,000	(8,20,000)	
Net Cash From Operating Activities			19,60,000
Cash Flows From Investing Activities			
Purchase Of Plant & Equipment (Rs. 40,70,000 – Rs. 27,30,000)		13,40,000	
Net Cash Used In Investing Activities			(13,40,000)
Cash Flows From Financing Activities			
Bank Loan Raised (Rs. 3,00,000 – Rs. 1,50,000)		1,50,000	
Issue Of Debentures		9,00,000	
Payment Of Dividend (Rs. 12,00,000 – Rs. 1,50,000)		(10,50,000)	
Net Cash Used In Financing Activities			Nil
Net Increase In Cash During The Year			6,20,000
Add: Cash And Cash Equivalents As On 1.4.20X0			
(Rs. 15,20,000 + Rs. 11,80,000)			27,00,000
Cash And Cash Equivalents As On 31.3.20X1			
(Rs. 18,20,000 + Rs. 15,00,000)			33,20,000

Note : Bad debts amounting Rs.2,30,000 were written off against provision for doubtful debts account during the year. In the above solution, Bad debts have been added back in the balances of provision for doubtful debts and trade receivables as on 31.3.20X1. Alternatively, the adjustment of writing off bad debts may be ignored and the solution can be given on the basis of figures of trade receivables and provision for doubtful debts as appearing in the balance sheet on 31.3.20X1.

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

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**

(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 ` 11,000 (30,000 – 19,000) would be recognized in the books for the year ending 31st March, 2012.

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.

(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%).

Answer 4:

1. Sundry Debtors A/c

Particulars	Rs.	Particulars	Rs.
To balance b/d	1,50,000	By Cash A/c (balancing figure)	20,53,000
To Sales (Credit) (32,00,000 - 11,50,000)	20,50,000	By balance c/d	1,47,000
Total	**22,00,000**	**Total**	**22,00,000**

2. Sundry Creditors A/c

Particulars	Rs.	Particulars	Rs.
To Cash A/c (balancing figure)	7,35,000	By balance b/d	78,000
To balance c/d	83,000	By Purchases (credit) (8,00,000 - 60,000)	7,40,000
Total	**8,18,000**	**Total**	**8,18,000**

3. Unpaid Expenses A/c

Particulars	Rs.	Particulars	Rs.
To Cash A/c	12,48,000	By balance b/d	63,000
To balance c/d	55,000	By Expenses A/c	12,40,000 .
Total	**13,03,000**	**Total**	**13,03,000**

4. Cash Flow Statement for the year ended 31st March 2018

Particulars			Rs.	Rs.
A.	**CASH FLOW FROM OPERATING ACTIVITIES**			
	Cash Sales		11,50,000	
	Collection from Debtors		20,53,000	
			32,03,000	
Less:	Cash Purchases	(60,000)		
	Payment to Creditors	(7,35,000)		
	Expenses Paid	(12,48,000)	(20,43,000)	
	Cash Generated from Operations		**11,60,000**	
Less:	Income Taxes paid (3,30,000 - 22,500)		(3,07,500)	
	Net Cash Flow from / (used in) Operating Activities [A]			**8,52,500**
3.	**CASH FLOW FROM INVESTING ACTIVITIES**			
	Sale of Furniture		12,000	
	Purchase of Machinery (3,10,000 + 20,000)		(3,30,000)	
	Net Cash Flow from / (used in) Investing Activities [B]			**(3,18,000)**
C	**Cash Flow From Financing Activities**			
	Redemption of Preference Shares (10,00,000 + 3%)		(10,30,000)	
	Issue of Equity Shares (60,000 Shares x 12 (10 + 2) each)		7,20,000	
	Dividend Paid: Preference		(40,000)	
	Equity		(1,10,000)	
	Dividend Distribution Tax paid thereon		(22,500)	
	Net Cash Flow from / (used in) Financing Activities [C]			**(4,82,500)**
D.	Net Increase / (Decrease) in Cash or Cash Equivalents		(A + B + C)	52,000
E.	Cash and Cash Equivalents at the beginning of the year			73,000
F.	Cash and Cash Equivalents at the end of the year			1,25,000

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.

(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.