SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- Accounting Standards & Accounts

Test Code – CIM 8716

BRANCH - () (Date :)

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NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.
(2) INTERNAL WORKING NOTES SHOULD ALSO BE CONSIDERED.
(3) NEW QUESTION SHOULD BE ON NEW PAGE

ANSWER -1

ANSWER-A

The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made. In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from Rs. 3.5 lakhs to Rs. 2.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2019-20:

"The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been lower by Rs. 1 lakh."

(5 MARKS)

ANSWER-B

Calculation of Basic Earning Per Share

Basic EPS $= \frac{Net\ Profit\ for\ the\ current\ year}{No.of\ Equity\ Shares}$

$= \frac{2,50,00,000}{50,00,000}$

Basic EPS per share = Rs. 5

Calculation of Diluted Earning Per Share

Diluted EPS = $\frac{Adjusted\ net\ Profit\ for\ the\ current\ year}{Weighted\ average\ no.of\ Equity\ Shares}$

Adjusted net profit for the current year

Net profit for the current year	2,50,00,000
Add: Interest expenses for the current year	6,00,000
Less: Tax saving relating to Tax Expenses	(1,80,000)
	2,54,20,000

No. of equity shares resulting from conversion of debentures: 4,00,000 Shares

Weighted average no. of equity shares used to compute diluted EPS: (50,00,000 + 4,00,000) = 54,00,000 Equity Shares

Diluted earnings per share: (2,54,20,000/54,00,000) = Rs.4.71 (Approx.)

(5 MARKS)

ANSWER -2

ANSWER-A

As per para 5 of AS 2 "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value.

In this case, the cost of inventory is Rs. 5 lakhs. The net realizable value is Rs. 4.95 lakhs (Rs. 5.5 lakhs less cost to make the sale @ 10% of Rs. 5.5 lakhs). So, the closing stock should be valued at Rs. 4.95 lakhs.

(5 MARKS)

ANSWER-B

An enterprise should include the following information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure event (as defined in paragraph 15) occurs:

(a) a description of the discontinuing operation(s);

(b) the business or geographical segment(s) in which it is reported as per AS 17, Segment Reporting;

(c) the date and nature of the initial disclosure event;

(d) the date or period in which the discontinuance is expected to be completed if known or determinable;

(e) the carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled;

(f) the amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period;

(g) the amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense related thereto; and

(h) the amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.

(5 MARKS)

ANSWER -3

Memorandum Trading Account for the period 1st April, 2010 to 31st August, 2010

	Normal Items Rs.	Abnormal Items Rs.	Total Rs.		Normal Items Rs.	Abnormal Items Rs.	Total Rs.
To Opening stock	95,000	5,000	1,00,000	By Sales	2,40,000	2,000	2,42,000
To Purchases (Refer W.N.)	1,56,500	-	1,56,500	By Goods sent to consignee	16,500	-	16,500
To Wages	47,000	-	47,000	By Loss	- 90,000	500	500

To Gross profit @ 20%	48,000	-	48,000	By Closing stock (Bal.fig.)		2,500	92,500
	3,46,500	5,000	3,51,500		3,46,500	5,000	3,51,500

Statement of Claim for Loss of Stock

	Rs.
Book value of stock as on 31.08.2010	92,500
Less: Stock salvaged	(20,000)
Loss of stock	72,500

Amount of claim to be lodged with insurance company = Loss of stock x $\frac{Policy\ value}{Value\ of\ stock\ on\ the\ date\ of\ fire}$

= 72,500 x 60,000/92,500

= Rs. 47,027

(6 MARKS)

Working Note:

Calculation of Adjusted Purchases

	Rs.
Purchases	1,70,000
Less: Drawings	(12,000)
Free samples	(1,500)
Adjusted purchases	1,56,500

(2 MARKS)

ANSWER -4

Computation of the amount of claim for the loss of profit

Reduction in turnover	Rs.
Turnover from 1st Feb. 20X1 to 30th June, 20X1	2,00,000
Add: 15% expected increase	30,000
	2,30,000
Less: Actual Turnover from 1st Feb., 20X2 to 30th June, 20X2	(80,000)
Short Sales	1,50,000
Gross Profit on reduction in turnover @ 30% on Rs. 1,50,000 (see working note 1)	45,000
Add: Additional Expenses	

Lower of

(i) Actual =Rs. 6,700

(ii) Additional Exp. x $\frac{\text{G.P. on Adjusted Annual Turnover}}{\text{G.P. as above + Uninsured Standing Charges}}$

6,700 x $\frac{1,55,250}{1,63,250} = 6,372$

(iii) G.P. on sales generated by additional expenses — not available

Therefore, lower of above is	6,372
	51,372
Less: Saving in Insured Standing Charges	(2,450)
Amount of claim before Application of Average Clause	48,922

Application of Average Clause:

$$\frac{\text{Amount of Policy}}{\text{G.P. on Annual Turnover}} \text{ x Amount of Claim}$$

= $\frac{1,25,000}{1,55,250}$ x 48,922 39,390

Amount of claim under the policy = Rs. 39,390

(8 MARKS)

Working Notes:

(i) Rate of Gross Profit for last Financial Year:

	Rs.
Gross Profit:	
Net Profit	70,000
Add: Insured Standing Charges	56,000
	1,26,000
Turnover for the last financial year	4,20,000

Rate of Gross Profit = $\frac{1,26,000}{4,20,000}$ x 100 = 30%

(ii) Annual Turnover (adjusted):

Turnover from 1st Feb., 20X1 to 31st January, 20X2	4,50,000
Add: 15% expected increase	67,500
	5,17,500
Gross Profit on Rs. 5,17,500 @ 30%	1,55,250
Standing charges not Insured (64,000 – 56,000)	8,000
Gross Profit plus non-insured standing charges	1,63,250

(2*2 = 4 MARKS)