SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- Accounting Standards & Accounts

Test Code – CIM 8717

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

Forward Rate	Rs. 49.15
Less: Spot Rate	(Rs. 48.85)
Premium on Contract	Rs. 0.30
Contract Amount	US$ 1,00,000
Total Loss (1,00,000 x 0.30)	Rs. 30,000

Contract period 3 months

Two falling the year 2016-17; therefore loss to be recognised (30,000/3) x 2 =Rs. 20,000.

Rest Rs. 10,000 will be recognised in the following year.

(5 MARKS)

ANSWER -2

ANSWER-A

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-B

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 31.3.19. 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, 2019.

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, 2019 in the books of Fashion Ltd.

(5 MARKS)

ANSWER – 3

Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Bank A/c	Dr.	25,000	
	To Equity Share Capital A/c			25,000
	(Being the issue of 2,500 Equity Shares of Rs. 10 each at par as per Board's Resolution No…..dated…….)			
	8% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	10,000	
	To Preference Shareholders A/c			1,10,000
	(Being the amount paid on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,10,000	
	To Bank A/c			1,10,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	10,000	
	To Premium on Redemption of Preference Shares A/c			10,000
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)			
	General Reserve A/c	Dr.	60,000	
	Profit & Loss A/c	Dr.	10,000	
	Investment Allowance Reserve A/c	Dr.	5,000	
	To Capital Redemption Reserve A/c			75,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

(5*1 = 5 marks)

Balance Sheet as on ………[Extracts]

		Particulars	Notes No.	Rs.
		EQUITY AND LIABILITIES		
1.	**Shareholders' funds**			
	a	Share capital	1	2,25,000
	b	Reserves and Surplus	2	1,02,000
		Total		?
	ASSETS			
2.	**Current Assets**			
		Cash and cash equivalents (98,000 + 25,000 – 1,10,000)		13,000
		Total		?

Notes to accounts

1.	**Share Capital**	
	22,500 Equity shares (20,000 + 2,500) of Rs.10 each fully paid up	2,25,000
2.	**Reserves and Surplus**	
	General Reserve	20,000
	Capital Redemption Reserve	75,000
	Investment Allowance Reserve	5,000
		1,00,000

Working Note:

No of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed Rs.1,00,000

Less: Profit available for distribution as dividend:

General Reserve: Rs.(80,000-20,000) Rs.60,000

Profit and Loss (20,000 – 10,000 set aside for

adjusting premium payable on redemption of

preference shares) Rs.10,000

Investment Allowance Reserve: (Rs. 10,000-5,000) Rs. 5,000 (Rs. 75,000)

Rs. 25,000

Therefore, No. of shares to be issued = 25,000/Rs.10 = 2,500 shares

(5 marks)

ANSWER – 4

ANSWER - A

Nominal value of preference shares Rs. 5,00,000

Maximum possible redemption out of profits Rs. 3,00,000

Minimum proceeds of fresh issue Rs. 5,00,000 – 3,00,000 = Rs. 2,00,000

Proceed of one share = Rs. 9

Minimum number of shares = $\frac{2,00,000}{9}$ = 22222.22 shares

As fractional shares are not permitted, the minimum number of shares to be issued is 22,223 shares.

If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 22,250. Hence, minimum number of shares to be issued in such a case is 22,250 shares.

(5 Marks)

ANSWER – B

(i) In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2018. Subsequently in 2018-19, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year.

(ii) As per AS 5, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous policy, will not be treated as change in an accounting policy.

(iii) Change in useful life of furniture from 5 years to 3 years is a change in estimate and is not a change in accounting policy.

(iv) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy.

(v) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

(5*1 = 5 Marks)