SUGGESTED SOLUTION

IPCC MAY 2017EXAM

ACCOUNTS AND ADVANCED ACCOUNTS

Test Code - I M J 7 1 3 1

BRANCH - (MULTIPLE) (Date : 18.12.2016)

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Answer-1 (a) :

As per para 5 of AS 2 on 'Valuation of Inventories', inventories should be valued at the lower of cost and net realizable value. Inventories should be written down to net realizable value on an item-by-item basis in the given case.

Items	*Historical Cost (Rs.in lakhs)*	*Net Realisable Value (Rs.in lakhs)*	*Valuation of closing stock (Rs.in lakhs)*
A	40	28	28
B	32	32	32
C	16	24	16
	88	84	76

Hence, closing stock will be valued at Rs.76 lakhs. **(5)**

Answer-1 (b) :

Statement showing the amount to be charged to Revenue as per AS 7

	Rs.*in crores*
Cost of construction incurred upto 31.03.2014	120
Add: Estimated future cost	45
Total estimated cost of construction	165
Degree of completion (120/165 x 100)	72.73%
Revenue recognized (72.73% of 150)	109 (approx)
Total foreseeable loss (165 – 150)	15
Less: Loss for the current year (120 – 109)	11
Loss to be provided for	4

Profit and Loss Account (Extract) **(3)**

	Rs.*in crores*		Rs.*in crores*
To Construction Costs	120	By Contract Price	109
To Provision for loss	4	By Net loss	15
	124		124

(2)

Answer-2 (a) :

Calculation of Cost of Fixed Asset (i.e. Machine)

Particulars		Rs.
Purchase Price	Given	52,78,000
Add: Sales Tax at 4%	Rs.52,78,000x4%	2,11,120
Site Preparation Cost	Given	47,290
Technician's Salary	Specific/Attributable overheads for 2 months (See Note)	30,000
Initial Delivery Cost	Transportation	18,590
Professional Fees for Installation	Architect's Fees	10,000
Total Cost of Asset		55,95,000

(i) Interest on Bank Overdraft for earlier payment of invoice is not relevant under AS 10.

(ii) Internally booked profits should be eliminated in arriving at the cost of Fixed Assets.

(iii) It has been assumed that the purchase price of Rs.52,78,000 excludes amount of sales tax. (5)

Answer-2 (b) :

As per AS 9, 'Revenue Recognition', revenue from sale of goods should be recognised when:

a. the seller has transferred the property in the goods to the buyer for a consideration and the transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer and the seller retains no effective control of the goods transferred; and (1)

b. no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods. (1)

In the present case, the goods, as well as the risks and rewards of ownership have been transferred to the Steel plants. Since, the invoice raised by Abhishek Ltd. is for the full price (though it receives only 90% of the invoice value in the year of sale and 10% is kept as 'Retention Money'), Abhishek Ltd. should recognise revenue at the full invoice price, i.e., 100% of the sales price. The company should make a separate provision for the balance 10% amount to reflect the uncertainty rather than to adjust the amount of revenue originally recorded. (2)

Therefore, the practice adopted of recognising only 90% of sales price as revenue by Abhishek Ltd. is not in consonance with AS 9. (1)

Answer-3 (a) :

As per AS 13 'Accounting for Investments', for investment in shares - if the investment is purchased with an intention to hold for short-term period then it will be shown at the realizable value of Rs.2,25,000 as on 31st March, 2015. (1.5)

If equity shares are acquired with an intention to hold for long term period then it will continue to be shown at cost in the Balance Sheet of the company. However, provision for diminution shall be made to recognize a decline, if other than temporary, in the value of the investments. (1.5)

As per the standard, investment acquired for long term period shall be shown at cost. Gold and silver are generally purchased with an intention to hold it for long term period until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 1st March, 2009) shall continue to be shown at cost as on 31st March, 2015 i.e., Rs.4,00,000 and Rs.2,00,000 respectively, though their realizable values have been increased. (2)

Answer-3 (b) :

As per para 13 of AS 4, assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date. (1)

Though the theft, by the cashier Rs. 6,00,000, was detected after the balance sheet date (before approval of financial statements) but it is an additional information materially affecting the determination of the cash amount relating to conditions existing at the balance sheet date. Therefore, it is necessary to make the necessary adjustments in the financial statements of the company for the year ended 31st March, 2016 for recognition of the loss amounting Rs.6,00,000. (2)

If embezzlement of cash comes to the notice of company management only after approval of financial statements by board of directors of the company, then the treatment will be done as per the provisions of AS 5. This being extra-ordinary item should be disclosed in the statement of profit and loss as a part of loss for the year ending March, 2016. The nature and the amount of prior period items should be separately disclosed on the statement of profit and loss in a manner that its impact on current profit or loss can be perceived. (2)

Answer-4 (a) :

As per AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", the change in amount of staff welfare provision amounting. (1)

Rs. 2,50,000 is neither a prior period item nor an extraordinary item. It is a change in estimate, which has been occurred in the year 2015 - 16. (1)

As per the provisions of the standard, normally, all items of income and expense which are recognized in a period are included in the determination of the net profit or loss for the period. This includes extraordinary items and the effects of changes in accounting estimates. However, the effect of such change in accounting estimate should be classified using the same classification in the statement of profit and loss, as was used previously, for the estimate. (3)

Answer-4 (b) :

As per para 39 of AS 11 'Changes in Foreign Exchange Rates", in recording a forward exchange contract intended for trading or speculation purpose, the premium or discount on the contract is ignored and at each balance sheet date, the value of contract is marked to its current market value and the gain or loss on the contract is recognised. Since the forward contract was for speculation purposes the premium on forward contract i.e. the difference between the spot rate and the forward contract rate will not be recorded in the books. Only when the forward contract is sold the difference between the forward contract rate and sale rate will be recorded in the Profit & Loss Account. (2.5)

	Rs.
Sale rate	44.30
Less: Contract rate	(44.10)

(1.5)

Contract Amount US$ 2,00,000 Total profit (2,00,000 x 0.20) =Rs. 40,000

(1)

Answer-5 (a) :

As per para 11 of AS 19 "Leases", the lessee should recognize the lease as an asset and a liability at the inception of a finance lease. Such recognition should be at an amount equal to the fair value of the leased asset at the inception of lease. However, if the fair value of the leased asset exceeds the present value of minimum lease payment from the standpoint of the lessee, the amount recorded as an asset and liability should be the present value of minimum lease payments from the standpoint of the lessee.

(1.5)

Value of machinery

In the given case, fair value of the machinery is Rs. 7,00,000 and the net present value of minimum lease payments is Rs. 6,99,054*. As the present value of the machine is less than the fair value of the machine, the machine will be recorded at value of Rs. 6,99,054.

(1)

Calculation of finance charges for each year

Year	*Finance charge*	*Payment*	*Reduction in outstanding liability Rs.*	*Outstanding liability*
1st year beginning	-	-	-	6,99,054
End of 1st year	1,04,858	3,00,000	1,95,142	5,03,912
End of 2nd year	75,587	3,00,000	2,24,413	2,79,499
End of 3rd year	41,925	3,00,000	2,58,075	21,424**

(1.5)

*Present value of minimum lease payments:

Annual lease rental x PV factor + Present value of guaranteed residual value

= Rs. 3,00,000 x (0.869 + 0.756 + 0.657) + Rs. 22,000 x (0.657)

= Rs. 6,84,600 + Rs. 14,454 = Rs. 6,99,054.

**The difference between this figure and guaranteed residual value (Rs. 22,000) is due to approximation in computing the interest rate implicit in the lease.

(1)

Answer-5 (b) :

Basic Earnings per share (EPS) =

$$\frac{\text{Net profit attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$$

$$= \frac{33,00,000}{13,20,000 \text{ Shares (as per working note)}} = \text{Rs.}2.5 \text{ per share}$$

Working Note:

Calculation of weighted average number of equity shares

As per para 19 of AS 20 'Earnings Per Share', partly paid equity shares are treated as a fraction of equity share to the extent that they were entitled to participate in dividend relative to a fully paid equity share during the reporting period. Assuming that the partly paid shares are entitled to participate in the dividend to the extent of amount paid, weighted average number of shares will be calculated as follows (2)

Date	*No. of equity shares*	*Amount paid per share*	*Weighted average no. of equity Shares*
	Rs.	Rs.	Rs.
1.4.2015	18,00,000	5	18,00,000 x 5/10 x 5/12 = 3,75,000
1.9.2015	14,40,000	10	14,40,000 x 7/12 = 8,40,000
1.9.2015	3,60,000	5	3,60,000 x 5/10 x 7/12 = 1,05,000
		Total shares	13,20,000