SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- ACCOUNTING STANDARDS

Test Code – CIM 8533

BRANCH - () (Date :)

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ANSWER 1 (A)

(i) Raw material are carried at cost till its replacement cost is more than cost

Cost of R.M. = 800 units x 140 = Rs. 1,12,000

(ii) Work in progress is carried at lower its cost or Net realizable value

Cost = 650 units x 310 = Rs. 2,01,500

Net realizable value

Expected Selling Price - 350

(-) Cost to complete (50)

Net realizable value 300

Net realizable value - 650 units x 300 = 1,95,000

Value of Work in progress = 1,95,000

(iii) Finished goods are carried at cost or Net realizable value whichever is lower

Cost = 1800 units x 360 = Rs. 6,48,000

NRV = 1800 units x 350 = Rs. 6,30,000

Value of total inventory

Raw Material	1,12,000
(+) Work in progress	1,95,000
(+) Finished goods	6,30,000
	9,37,000

(5 MARKS)

ANSWER 1 (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 31.3.17.

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, 2017.

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, 2017 in the books of Fashion Ltd.

(5 MARKS)

ANSWER 2 (A)

According to **AS 16 'Borrowing costs'**, qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use. As per the standard, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred. Capitalization of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.

The treatment of interest by Zen Bridge Construction Ltd. can be shown as:

	Qualifying Asset	Interest to be capitalized Rs. in crores	Interest to be charged to Profit & Loss A/c Rs. in crores	
Construction of hill road*	Yes	1.25		1.6/64 x 50
Purchase of equipment and machineries	No		0.15	1.6/64 x 6
Working capital	No		0.10	1.6/64 x 4
Purchase of vehicles	No		0.025	1.6/64 x 1
Advance for tools, cranes etc.	No		0.025	1.6/64 x 1
Purchase of technical know-how	No	____	0.05	1.6/64 x 2
Total		1.25	0.35	

***Note:** It is assumed that construction of hill road will normally take more than a year (substantial period of time), hence considered as qualifying asset.

(5 MARKS)

ANSWER 2 (B)

As per **AS 29, 'Provisions, Contingent Liabilities and Contingent Assets'**, a provision should be recognized when

(a) an enterprise has a present obligation as a result of a past event;
(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
(c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognized.

In the given situation, since, the directors of the company are of the opinion that the claim can be successfully resisted by the company, therefore there will be no outflow of the resources. Hence, no provision is required. The company will disclose the same as contingent liability by way of the following note :

"Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed copyrights and is seeking damages of Rs. 200 lakhs. However, the directors are of the opinion that the claim can be successfully resisted by the company."

(5 MARKS)

ANSWER 3 (A)

Journal Entries in the Books of ABC Ltd.

Date	Particulars	Rs. (Dr.)	Rs. (Cr.)
Jan. 01, 2017	Bank Account (5,00,000 x 68.50) Dr.	342,50,000	
	To Foreign Loan Account		342,50,000
Mar. 31, 2017	Foreign Exchange Difference Account Dr.	5,00,000	
	To Foreign Loan Account [5,00,000 x (69.50 – 68.50)]		5,00,000
Jul. 31, 2017	Foreign Exchange Difference Account [5,00,000 x (70 – 69.5)] Dr.	2,50,000	
	Foreign Loan Account Dr.	347,50,000	
	To Bank Account		350,00,000

(5 MARKS)

ANSWER 3 (B)

As per para 13 of **Accounting Standard (AS) 22, Accounting for Taxes on Income",** deferred tax in respect of timing differences which originate during the tax holiday period and reverse during the tax holiday period, should not be recognized to the extent deduction from the total income of an enterprise is allowed during the tax holiday period as per the provisions of sections 10A and 10B of the Income – tax Act. Deferred tax in respect of timing differences which originate during the tax holiday period but reverse after the tax holiday period should be recognized in the year in which the timing differences originate. However, recognition of deferred tax assets should be subject to the consideration of prudence. For this purpose, the timing differences which originate first should be considered to reverse first.

Out of Rs. 1,000 lakhs depreciation, timing difference amounting Rs. 400 lakhs (Rs. 50 lakhs × 8 years) will reverse in the tax holiday period and therefore, should not be recognized. However, for Rs. 600 lakhs (Rs. 1,000 lakhs – Rs. 400 lakhs), deferred tax liability will be recognized for Rs. 240 lakhs (40% of Rs. 600 lakhs) in first year. In the second year, the entire amount of timing difference of Rs. 2,000 lakhs will reverse only after tax holiday period and hence, will be recognized in full. Deferred tax liability amounting Rs. 800 lakhs (40% of Rs. 2,000 lakhs) will be created by charging it to profit and loss account and the total balance of deferred tax liability account at the end of second year will be Rs. 1,040 lakhs (240 lakhs + 800 lakhs).

(5 MARKS)

ANSWER 4 (A)

(i) According to **AS 18 'Related Party Disclosures'**, parties are considered to be related if at any time during the reporting period, one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Hence, Mr. Sumit a relative of key management personnel should be identified as related party as at the closing date i.e. on 31.3.2018 as he received remuneration for his services in the company from1st April,2017 to 30th June, 2017and this period comes under the reporting period.

(ii) As per provision of AS 18, the transactions only for the period in which related party relationships exist need to be reported.

Hence, transactions of the entity with its associate company for the first quarter ending 30.06.2017 only are required to be disclosed as related party transactions. Transactions of the entire year need not be disclosed as related party transactions and transactions for the period (after 1st July) in which related party relationship did not exist need not be reported.

Hence transaction of sale of goods with the associate company for first quarter ending 30th June, 2017 for Rs. 50 Lakhs only are required to be disclosed as related party transaction on 31.3.18.

(5 MARKS)

ANSWER 4 (B)

Computation of theoretical ex-rights fair value per share

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights} + \text{Total amount received from exercise of rights}}{\text{Number of shares outstanding prior to exercise} + \text{number of shares issued in the exercise}}$$

$$\frac{(\text{Rs. }21.00 \text{ x } 5{,}00{,}000 \text{ shares}) + (\text{Rs. }15.00 \text{ x } 1{,}00{,}000 \text{ shares})}{5{,}00{,}000 \text{ shares} + 1{,}00{,}000 \text{ shares}}$$

Theoretical ex-rights fair value per share = Rs. 20.00

Computation of adjustment factor

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex} - \text{rights value per share}}$$

$= \frac{\text{Rs.}(21.00)}{\text{Rs.}(20.00)} = 1.05$

	Year 2015-16	Year 2016-17
EPS for the year 2015-16 as originally reported: (Rs. 11,00,000/5,00,000 shares)	Rs. 2.20	
EPS for the year 2015-16 restated for rights issue: [Rs. 11,00,000/ (5,00,000 shares x 1.05)]	Rs. 2.10	
EPS for the year 2016-17 including effects of rights issue $\frac{\text{Rs.}15,00,000}{(5,00,000 \times 1.05 \times 2 / 12) + (6,00,000 \times 10 / 12)}$		Rs. 2.55

(5 MARKS)

ANSWER 5 (A)

As per **AS 13 'Accounting for Investments'**, if the shares are purchased with an intention to hold for short – term period then investment will be shown at the realizable value. In the given case, shares purchased on 31st October, 2016, will be valued at Rs. 3,75,000 as on 31st March, 2017.

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 31st March, 2014) shall continue to be shown at cost as on 31st March, 2017 i.e., Rs. 5,00,000 and Rs. 2,25,000 respectively, though their realizable values have been increased.

Thus the shares, gold and silver will be shown at Rs. 3,75,000, Rs. 5,00,000 and Rs. 2,25,000 respectively and hence, total investment will be valued at Rs. 11,00,000 in the books of account of M/s Active Builders for the year ending 31st March, 2017 as per provisions of AS 13.

Alternative Solution:

(1) This question relates to AS 13 (Revised), "Accounting for Investments".

(2) As per AS 13, if the shares purchased with an intention to be sold within 12 months then such shares will be valued at cost or Fair Value whichever is lower i.e. Rs.3,75,000 on 31/3/2017.
If the shares are purchased with an intention to hold for a period of more than 12 months then such shares will be valued at cost unless the decline is other than temporary i.e. Rs. 4,50,000 on 31/3/2017.

(3) Unless otherwise specified, it is assumed that Gold and Silver are purchased with an intention to hold for a period of more than 12 months then such investments will be valued at cost unless the decline is other than temporary i.e. Rs. 5,00,000 and Rs. 2,25,000 respectively.

(5 MARKS)

ANSWER 5 (B)

Determination of Nature of Lease

Present value of unguaranteed residual value at the end of 3rd year

$$= \text{Rs. } 50,000 \times 0.7513$$

= Rs. 37,565

Present value of lease payments = Rs. 5,00,000 – Rs. 37,565

= Rs. 4,62,435

The percentage of present value of lease payments to fair value of the equipment is

(Rs. 4,62,435/ Rs. 5,00,000) $\times$ 100 = 92.487%.

Since, lease payments substantially covers the major portion of the fair value; the lease constitutes a finance lease.

Calculation of Unearned Finance Income

Annual lease payment = Rs. 4,62,435/ 2.4868 = Rs. 1,85,956 (approx.)

Gross investment in the lease

= Total minimum lease payments + unguaranteed residual value

= (Rs. 1,85,956 $\times$ 3) + Rs. 50,000

= Rs. 5,57,868 + Rs. 50,000 = Rs. 6,07,868

Unearned finance income = Gross investment – Present value of minimum lease payments and unguaranteed residual value

= Rs. 6,07,868 – Rs. 5,00,000 = Rs. 1,07,868 **(5 MARKS)**