Problem 64

ABC changed its accounting policy for inventory in 2016-2017. Prior to the change, inventoryhad been valued using the first in first out method (FIFO) . However, it was felt that in order to match current practice and to make the financial statements more relevant and reliable a weighted average valuation model should be used.

The effect of the change on the valuation of inventory was as follows:

- 31st March, 2015 - Increase of Rs. 10 million
- 31st March, 2016 - Increase of Rs. 15 million
- 31st March, 2017- Increase of Rs. 20 million

Profit or loss under the FIFO valuation model are as follows: Rs. in million

	2016-2017	**2015-2016**
Revenue	324	296
Cost of sales	(173)	(164)
Gross profit	151	132
Expenses	(83)	(74)
Profit	68	58

Retained earnings at 31st March, 2015 were Rs. 423 million.

Present the change in accounting policy in the profit or loss and produce an extract of the statement of changes in equity in accordance with Ind AS 8.

Answer:

Profit or loss under weighted valuation are as follows: Rs. In million

	2017	**2016 (Restated)**
Revenue	324	296
Cost of sales	(168)	(159)
Gross profit	**156**	**137**
Expenses	(83)	(74)
Profit	**73**	**63**

Statement of changes in equity (extract) Rs. in million

	Retained earnings	Retained earnings (Original)
At 1st April, 2015	423	423
Change in inventory valuation policy	10	-
At 1st April, 2015 (Restated)	433	-
Profit for 2015-2016	63	58
At 31st March, 2016	496	481
Profit for 2016-2017	73	68
At 31st March, 2017	569	549

Problem 65:

1. During 20X2, Beta Ltd. discovered that some products that had been sold during 20X1 were incorrectly included in inventory at March 31, 20X1 at Rs.6,500.

2 Beta's accounting records for 20X2 show sales of Rs. 1,04,000, cost of goods sold of Rs.86,500 (including Rs. 6,500 for the error in opening inventory), and income taxes of Rs. 5,250.

3. In 20X1, Beta Ltd. reported:

- Sales of Rs. 73,500
- Cost of goods sold of Rs. 53,500
- Profit before income taxes of Rs. 20,000
- Income taxes of Rs. 6,000
- Profit of Rs. 14,000

4. 20X1 opening retained earnings was Rs. 20,000 and closing retained earnings was Rs. 34,000.

5. Beta's income tax rate was 30 per cent for 20X2 and 20X1. It had no other income or expenses.

6. Beta Ltd. had Rs. 5,000 of share capital throughout, and no other components of equity except for retained earnings. Its shares are not publicly traded and it does not disclose earnings per share.

You are required to prepare relevant extract from the statement of profit and loss and statement of changes in equity. Also what should be disclosed in the notes.

Ans:-

Extract from the statement of profit and loss **(Amount in Rs.)**

	20X2	Restated 20X1
Sales	104,000	73,500
Cost of goods sold	(80,000)	(60,000)
Profit before income taxes	24,000	13,500
Income taxes	(7,200)	(4,050)
Profit	16,800	9,450

Statement of changes in equity **(Amount in Rs.)**

	Share Capital	Retained Earnings	Total
Balance as at March 31, 20X0	5,000	20,000	25,000
Profit for the year ended March 31, 20X1, as restated	9,450		9,450
Balance as at March 31, 20X1	5,000	29,450	34,450
Profit for the year ended March 31, 20X2		16,800	16,800
Balance as at March 31, 20X2	5,000	46,250	51,250

Extract from the notes:

Some products that had been sold in 20X0-20X1 were incorrectly included in inventory at March 31, 20X1 at Rs. 6,500. The financial statements of March 31, 20X1 have been restated to correct this error. The effect of the restatement on those financial statements is as summarised above. There is no effect in March 31, 20X2.

Problem 66:

ABC Ltd. is trading company in Laptops. On 31st March 20X2 company has 50 laptops which were purchased at Rs. 45,000 each. Company has considered the same price for calculation of closing inventory. On 15th April 20X2, advanced version of same series of laptops is introduced in the market. Therefore, the price of the current laptops crashes to Rs. 35,000 each. Company does not want to value the stock as Rs. 35,000 as the event of reduction took place after the 31st March 20X2 and the reduced prices were not applicable as on 31st March 20X2.

Comment

Answer:

As per Ind AS 10, the decrease in the net realizable value of the stock after reportingperiod should be considered as adjusting event.

Problem 67:

XYZ Ltd. was formed to secure the tenders floated by a telecom company for publication of telephone directories. It bagged the tender for publishing directories for Pune circlefor 5 years. It has made a profit in 2013-2014, 2014-2015, 2015-2016 and 2016-2017. It bid in tenders for publication of directories for other circles – Nagpur, Nashik, Mumbai, Hyderabadbut as per the results declared on 23rd April, 2017, the company failed to bag any of these. Its only activity till date is publication of Pune directory. The contract for publication of directories for Pune will expire on 31st December 2017. The financial statements for the F.Y. 2016-17 have been approved by the Board of Directors on July 10, 2017.

Whether it is appropriate to prepare financial statements on going concern basis?

Answer:

With regard to going concern basis to be followed for preparation of financial statements, Ind AS 10 provides as follows:

"14 An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

15 Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting."

In accordance with the above, an entity needs to change the basis of accounting if the effect of deterioration in operating results and financial position is so pervasive that management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

In the instant case, since contract is expiring on 31st December 2017 and it is confirmed on 23rd April, 2017, i.e., after the end of the reporting period and before the approval ofthe financial statements, that no further contact is secured, implies that the entity's operations are expected to come to an end. Accordingly, if entity's operations areexpected to come to an end, the entity needs to make a judgement as to whether it has any realistic possibility to continue or not. In case, the entity determines that it has no realistic alternative of continuing the business, preparation of financial statements for 2016-17 and thereafter on going concern basis may not be appropriate.

Problem 68:

Mac Ltd. purchased goods on credit from Toy Ltd. for INR 580 lakhs for export. The export order was cancelled. Mac Ltd. decided to sell the same goods in the local market with a price discount. Toy Ltd. was requested to offer a price discount of INR 10%. Toy Ltd. wants to adjust the sales figure to the extent of the discount requested by Mac Ltd. Discuss whether such a treatment in the books of Toy Ltd. is justified as per the provisions of the relevant Ind AS.

Also, Toy Ltd. entered into a sale deed for its Land on 15th March, 20X1. But registration was done with the registrar on 20th April, 20X1. But before registration, is it possible to recognize the sale and the gain at the balance sheet date? Give reasons in support of your answer.

Answer:

Toy Ltd. had sold goods to Mac Ltd on credit worth for INR 580 lakhs and the sale was completed in all respects. Mac Ltd.'s decision to sell the same in the domestic market at a discount does not affect the amount recorded as sales by Toy Ltd.

The price discount of 10% offered by Toy Ltd. after request of Mac Ltd was not in the nature of a discount given during the ordinary course of trade because otherwise the same would have been given at the time of sale itself. However, there appears to be an uncertainty relating to the collectability of the debt, which has a risen subsequent to sale. Therefore, it would be appropriate to make a separate provision to reflect the uncertainty relating to collectability rather than to adjust the amount of revenue originally recorded. Hence such discount should be charged to the Statement of Profit and Loss and not shown as deduction from the sales figure.

With respect to sale of land, both sale and gain on sale of land earned by Toy Ltd. shall be recognized in the books at the balance sheet date. In substance, the land was transferred with significant risk & rewards of ownership to the buyer before the balance sheet date and what was pending was merely a formality to register the deed. The registration post the balance sheet date only confirms the condition of sale at the balance sheet date as per Ind AS 10 “Events after the Reporting Period.”

Problem no 69 – Are the below mentioned cases adusting or non-adjusting events?

1. A case is going on between ABC & Co and sales tax department on claiming the exemption for ceratin goods for the financial year 2011-2012. The court has issued the order on 15th April and rejected the company claim. The Company is liable to pay additional tax. **ADJUSTING**
2. Company has 100 finished cars on 31st March 2012, which is having a cost of Rs 400000 each. On 30/April/2012 before accounts are approved new government rules bring down the NRV

of the car to Rs 300000 each under the new pollution control norms. It was expected as on 31^{st} March that such new rules will be made soon. **ADJUSTING**

3. A has purchased a new machinery during the year 2011-2012. The asset was finally installed and made ready for use on 15^{th} March 2012. However the vendor has not submitted the final bills as of 31^{st} March. The bills were subsequently submitted on 10/April/2012. **ADJUSTING**
4. ABC Ltd. has announced its Interim results for Quarter 1, ending 30th June 20X2 on 5th July Jul 20X2. However, till that time the AGM for the year 20X1-20X2 was not held. The accounts for 20X1-20X2 were approved by the board of directors on 15th July 20X2.
5. ABC Ltd. is in the legal suit with the excise department. Company gets a court order in its favour, on 15th April 20X2, which resulted into reducing the excise liability as on 31st March 20X2. The management has not considered the effect of the transaction as the event is favourable to the company. Company's view is favourable events after the reporting date should not be considered as it would hamper the realization concept of accounting. **ADJUSTING**
6. ABC td. is trading company in Laptops. On 31st March 20X2 company has 50 laptops which e purchased at 45,000 each. Company has considered the same price for calculation of closing inventory. On 15th April 20X2, advanced version of same series of laptops is introduced in the market. Therefore, the price of the current laptops crashes to 35,000 each. Company does not want to value the stock as 35,000 as the event of reduction took place after the 31st March 20X2 and the reduced prices were not applicable as on 31st March 20X2. Comment **ADJUSTING**
7. JCB manufactures and sales earth moving machines. The machines are dispatched on 25th March 20X2 for exports. The machines reached the customer on 15th April 20X2. The details of the price of sale, foreign exchange rate etc. are available on 4th April 20X2. The accounts were approved by the management on 15th May 20X2. Shall company consider it as the sale of 20X1-20X2 and adjust the accounts for the information received on 4th April or not? **DEPENDS ON CONTRACT BUT LARGELY ADJUSTING**