L49

inter "alia"

STUDENT NOTES

Question 11: RTP-N21

The draft results of Surya Ltd. for the year ended 31st March, 2020, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of ₹ 10 crores. The board in consultation with the managing director, decided to value year-end inventory at works cost (₹ 50 crores) instead of the hitherto method of valuation of inventory at prime cost (₹ 30 crores). As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2019-2020.

Answer:

***Quote:** As per AS-1: Disclosure of Accountign Policies, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed.*

In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

Accordingly, the notes on accounts should properly disclose the change and its effect.

Conclusion:

***NOTES ON ACCOUNTS** (You can Use your own language)*

"During the year inventory has been valued at factory cost, against the practice of valuing it at prime cost as was the practice till last year. ~~This has been done to take cognizance of the more capital intensive method of production on account of heavy capital expenditure during the year.~~ As a result of this change, the year-end inventory has been valued at ₹ 50 crores and the profit for the year is increased by ₹ 20 crores." In the balance sheet, under the Head Current Assets, the value of Inventory will also go up by 20 crores.

31.3.21

P&L	
10000	

B/S	
	D.E 40000

{ P&L (expenses) Dr. 10000 }
{ To D-exp. 10000 }

1 2 3

STUDENT NOTES

Question 12: RTP-M22

Summarised Balance Sheet of Cloth Trader as on 31.03.2020 is given below:

Equity and Liabilities	Amount (₹)	Assets	Amount (₹)
Proprietor's Capital	3,00,000	Fixed Assets	3,60,000
Profit & Loss Account	1,25,000	Closing Stock	1,50,000
10% Loan Account	2,10,000	Trade receivables	1,00,000
Trade payables	50,000	Deferred Expenses	50,000
		Cash & Bank	25,000
	6,85,000		6,85,000

3,60,000 − 45000 = 315000 Carry Amt

Additional Information is as follows:

1. The remaining life of fixed assets is 8 years. The pattern of use of the asset is even. The net realizable value of fixed assets on 31.03.2021 was ₹ 3,25,000.
2. Purchases and Sales in 2020-21 amounted to ₹ 22,50,000 and ₹ 27,50,000 respectively.
3. The cost and net realizable value of stock on 31.03.2021 were ₹ 2,00,000 and ₹ 2,50,000 respectively.
4. Expenses for the year amounted to ₹ 78,000 which includes interest on 10% loan amount for the year.
5. Deferred Expenses are amortized equally over 5 years.
6. Trade receivables on 31.03.2021 are ₹ 1,50,000 of which ₹ 5,000 is doubtful. Collection of another ₹ 25,000 depends on successful re-installation of certain product supplied to the customer;
7. Closing trade payables are ₹ 75,000, likely to be settled at 10% discount.
8. Cash balance as on 31.03.2021 is ₹ 4,22,000.
9. There is an early repayment penalty for the loan of ₹ 25,000.

You are required to prepare: (Not assuming going concern)

- Profit & Loss Account for the year 2020-21.
- Balance Sheet as on 31st March, 2021.

Going Concern → Not assumed

A → bech dunga → Realisable Value }
L → pay kardunga → Settlement Value (RV) } B/S

I → recognise all today }
E → recognise all today. } P&L

Question 12 :-

In the books of Cloth Trader
(not assuming going concern)

Trading and P&L a/c f.t.y.e. 31.3.21

Opening Stock	150000	Sales	2750000
Purchases	2250000		
Gross Profit	600000	Closing Stock	250000
Depreciation on FA	35000	Gross profit b/d	600000
Expenses (Including Interest)	78000	Discount received from TP	7500
Deferred expenses w.off	50000		
Baddebts : 5000+25000	30000		
Early Repayment Penalty	25000		
Net Profit	389500		

Balance Sheet as on 31.3.21

Prop. Cap. : Op. bal	300000	Fixed Asset (360000 - 35000)	325000
P&L a/c : Op. bal (125000+389500)	514500		
		Trade Receivables (150000-5000-25000)	120000
10% Loan (210000+25000)	235000	Stock	250000
Trade payables (75000-7500)	67500	Deferred Expenses	0
		Cash balance	422000
	1117000		1117000