AS 2 - Inventory

Q4

Cost of Closing Inventory = 284,700

Calculation of Value of Inventory
(As per AS 2)

Particulars	Amount
Total Cost of Inventory	2,84,700
(+/-) Adjustment For 400 Coats	
(-) Cost of 400 Coats @80/-	(32,000)
(+) NRV of 400 defected Coats @ 71.25/- (75 - 5%)	28500
Inventory Value	= 2,81,200

* There is No adjustment For 800 Skirts since Cost (20/-) is Lower than NRV (28 - 5 - 1 = 22/-)

NRV of Skirts ⇒ 28 (Est. SP) − (5 + 1) = 22/-

$$\text{Raw material Cost per unit} = \frac{\text{Total Purchase Cost}}{\text{Total input} - \text{Normal wastage}}$$

$$\text{Fixed OH Rate} = \frac{\text{Total F. OH}}{\text{Actual (or) Normal Capacity}} = \frac{75000}{15000} = 5/-$$

10200

Op Rm 1100	Fg op 1000
Rm pur 10000	(+) Fg 10200
(-) Rm Closg (900)	Produced
Rm Consumed 10200	(-) Closg (1200)
	Sold 10000

1 Rm Consm = 1 kg Fg Prodn

Q5 Calculation of Cost of Rm & FG Per unit

1) Raw material = 100000 / 10000 Kg. = 10/- per kg.

2) Finished Goods :-

Cost of Raw material	10200 × 10/-	102000/-
Labour Cost	Given	76500/-
Fixed Factory OH	10200 × 5/-	51000/-
Total Cost of production of 10200 Kg.	=	229500/-
÷ No. of FG Produced	=	10,200 Kg.
Cost of FG Per Kg	=	22.5/- Per Kg.

Measurement of Inventory

1) Finished Goods :- Cost (or) NRV whichever is Lower

Cost = 22.5/- per Kg.
NRV = 20/- per Kg.

Finished Goods (at NRV) = 1200 Kg. × 20/- = 24000/-

2) Raw Material :- Since FG are measured at NRV (i.e below cost) Hence Raw material shall be measured at lower of Replacement Cost (or) Orig. Cost.

Orig. Cost = 10/-
Replacement Cost = 9.5/-

Value of Raw Material = 9.5 × 900 Kg. = 8550/-

Total Inventory = 24000 + 8550 = 32,550/-

May 24 Exam

As 2

(b) Well Wear Limited is a Textile Manufacturing Company and engaged in the production of Polyester (P) and Nylon (N). While manufacturing the main products, a by-product Fiber (F) is also produced. Details of the cost of production are as under : 7

Purchase of Raw Material for manufacturing process of 30,000 units	₹ 3,50,000
Wages paid	₹ 1,60,000
Fixed overheads	₹ 1,20,000
Variable overheads	₹ 60,000
Output :	
Polyester (P)	12,500 Units
Nylon (N)	10,000 Units
Fiber (F)	3,200 Units
Closing Inventory :	
Polyester (P)	1,600 Units
Nylon (N)	400 Units

SP

Average market price of Polyester and Nylon is ₹ 100 and ₹ 60 per unit respectively, by-product Fiber is sold @ ₹ 40 per unit. There is a profit of ₹ 8,000 on sale of by-product after incurring separate processing expenses of ₹ 10,000 and packing charges of ₹ 9,000. ₹ 5,000 was realized from sale of scrap.

On the basis of the above information, you are required to compute the value of closing inventory of Polyester and Nylon.

Sol) :-

1) Total Cost of production

Raw material	350000
Wages	160000
Variable OH	60,000
Fixed OH	120,000
Total Cost of Joint products	690,000

2) Common Cost of P & N for allocation

Total Cost	= 690000
(-) NRV of By product	= (109000)
Est. Sale 3200 x 40 = 128000	
(-) Est. Sell. exp = (19000)	
(-) Scrap Sale	= (5000)
Net Common Cost	= 576000

Allocation of Cost to P & N (in the ratio of Estimated Sale Value)

Product	Units Produced	SP	Sale value	Cost allocation
P	12500	100/-	1250000	$576000 \times \frac{1250}{1850}$ = 389190
N	10,000	60/-	600000	$576000 \times \frac{600}{1850}$ = 186810
			1850000	

Cost per Unit :-

$$\text{Polyster} = \frac{389190}{12500} = 31.135$$

$$\text{Nylon} = \frac{186810}{10000} = 18.681$$

Since Cost of P & N are lower than their SP (NRV) Hence measured at Cost.

3) Value of Inventory

Polyster =	1600 × 31.135	=	49,816/-
Nylon =	400 × 18.681	=	7472/-
			57,288

AS 7
Construction Contract

Q17

Step 1:- Calculate % of Completion

$$= \frac{\text{Cost incurred till date}}{\text{Total est. Cost of Contract}} \times 100$$

$$= \frac{625 + 1250}{7500 + 8750} \times 100 = 46.15\%$$

Step 2:- Recognition of Contract Revenue, Cost & Profit/Loss

Contract Revenue	12000 × 46.15%	5538
Cost of Contract incurred	625 + 1250	7500
Contract Loss =		1962 Lakhs

Step 3:- Calculation of Foreseeable Loss

When Total Cost expected to exceed total Revenue, then provision for further Loss shall be created immediately.

Total Revenue	12000
(-) Total Cost	16250
Total Loss expected	4250
(-) Loss already recog.	(1962)
provision for Loss	2288

OFU:-

P&L

Cost 7500	Revenue 5538
Provision 2288	
	NL 4250

Step 4:- Amt. due from Customer (or) due to Customer

Cost incurred till date (6250 + 1250)	7500
(+) profit recognised till date	0
(-) Loss recognised till date	(4250)

(1962 + 2188)

Recoverable from Customer	3250
(-) Progress Billing (5500 + 1500)	(7000)
Due to Customer ⇒	3750

Q18

1) Contract Cost Incurred :-

		(in lakhs)
Material Consumed (21 - 4)	=	17
(+) Labour Charges	=	16
(+) Specific Contract Cost	=	5
(+) Sub-Contract Cost	=	7
Cost incurred till date	=	45 lacs.

2) % of Completion :-

$$= \frac{\text{Cost incurred till date}}{\text{Cost incurred (+) further cost}} \times 100$$

$$= \frac{45}{45+35} \times 100 = 56.25\%$$

3) Calculation of Contract Profit/Loss (in lakhs)

Revenue Recognised	85 x 56.25%	47.8125
(-) Cost incurred		45.0000
	Contract profit =	2.8125

Q19 Calculation of Total Contract Revenue

Fixed price	5,00,00,000
(+) Incentives	50,00,000
(+) Esclation Charges on Labour (1.20 Cr. x 25%)	30,00,000
(+) Esclation Charges on Material	40,00,000
Contract Revenue Estimated in 1st yr. 20x1 =	6,20,00,000

In 2nd yr. Revised Estimated Total Revenue

Earlier Revenue Estimated	6,20,00,000
(+) Variations	1,00,00,000
(+) Claims Recoverable	20,00,000
Revised Estimated Total Revenue =	7,40,00,000

AS 10 - PPE

Immediate Cash payment = Cash price Equivalent.

(OR)

If payment is Deferred ⇒ Cost = PV OF future payment (Cash price Eq.)

Actual Payments

0	33	×1
1	33	
2	33	

PV @ 5.36% = 95 approx

Q25

As per AS 10, when Payment For purchase of PPE is Deferred beyond normal Credit period, then Cost OF PPE should be "Cash Price Equivalent".

Cash price Equivalent means "Present value of Future payments".

Given Case:- Actual agreed Amt to be Paid Rs. 1 Crore in 3 installments.

Pv of 33,33,333 @ 5.36 /. P.a is 95,00,000

Hence Cost of PPE (Property) = 95,00,000

Difference between Cost of PPE recognised & actual Contract Value (i.e 1 Crore) shall be transferred to P&L as Interest.

Journal Entry
(Books of Purchaser)

1/4/X1	Property a/c Dr.	95,00,000	
	To Bank a/c		33,33,333
	To Creditor a/c		61,66,667

31/3/X2 Interest @ 5.36 /. on 61,66,667 = 330533

(P&L)	Interest Cost a/c Dr.	330533	
	To Creditor a/c		330533

	Creditor a/c Dr.	33,33,333	
	To Bank a/c		33,33,333

31/03/X3 Interest => 500000 − 330533
=> 169467 (B/F)

o/s 3163867 × 5.36 /.

Interest (P&L) a/c Dr. 169467
To Creditor a/c 169467

Creditors a/c Dr. 33,33,334
To Bank a/c 33,33,334

Q26

WN-1 Cost of New Plant (PPE)

Particulars	Amt.	Remarks
Purchase Invoice price	30,00,000	Part of Cost
(+) Initial delivery & Handling Cost	1,00,000	Directly attribut. Cost
(+) Site preparation	2,00,000	D.A.C
(+) Consultant fees	50,000	D.A.C
(+) Inter. Charges Paid For Deferred Credit	—	PPE is not Qualifying Asset (P&L)
(+) PV of Est. Dismantling Cost	30,000	Part of Cost OF PPE
(+) Operating Losses	—	Not a DAC (P&L)
Total Cost OF PPE =	33,80,000	

WN-2 Components of New Plant

Components	Purchase Cost	Other Charges	Total Cost
Motor (6 yr.)	500,000	63,333	563,333
Other Part (10 yrs)	2500,000	316,667	2816,667
	3000,000	380000	3380,000

380000 is allocated in 1:5

WN-3 Replacement of Component (Motor)

Particulars	Amount
Cost of Old motor	563333
Total Useful life	6 yrs.
CA at end of 4th yr. (Slm Dep)	187778

$\frac{563333}{6} \times 2$

CA of Old motor of 187778 shall be DeRecognised & Loss transfer to P&L.

Cost of New Motor replaced 600000 shall be Capitalised.

WN-4 Revaluation of New plant

Carrying Amt. of Other Part after 4 years (10 yr. Life) = 16,90,000

$(28,16,667 \times \frac{6}{10})$

Motor Component (Book value) = 600000
(at Fair value)

Total CA = 22,90,000

Fair value = 25,00,000

Revaluation Surplus = 2,10,000

* Revaluation reserve of 210000 belongs to Other part Since Motor is already Shown at its Current Market value.

Revised CA of Other part = 19,00,000
(1690000 + 210000)

CA of Motor = 600000

Revised CA at 4th yr. end = 25,00,00

WN-5 Sale of Plant at 8th year end.

Carrying Amt of Other part = 6,33,333

$\frac{1900000}{6} \times 2$

Carrying amt of motor = 120000

$\frac{600000}{5} \times 1$

Carrying Amt at 8th yr.	753333
Sale value	6,00,000
Loss on Sale (P&L)	= 153333

Revaluation Reserves of 210000 shall be transfer to Retained earnings directly.

Q27 Accounting For New Turbine & Replacement

(in lacs)

Particulars	Amount
1) Total Cost at Beginning	1000
2) Useful life	10 yrs.
3) Carrying Amt at 6th yr. end $\frac{1000}{10} \times 4$	400
4) Cost of New Turbine	450
5) Estimate Cost OF OLD Turbine 450×0.630	283.5
6) Carrying Amt of OLD Turbine based on 10 years life $\frac{283.5}{10} \times 4$	113.4
7) Revised Carrying Amt of Asset (after Replacement) (400 + 450 − 113.4)	736.60

Note:- CA of Old Turbine shall be derecognised & loss transfer to P&L.

Cost of New Turbine Shall be added to the CA of PPE.

Q28 1) Calculation of Depreciation

Particulars	Amt.
1) Dep. on Plant sold on 30/6 960000 × 10% × 3/12	24,000
2) Dep. on Remaining Opng Bal. (5630000 − 960000) × 10%	467,000
3) Dep. on Machine purchased on 1/6/22 for 10 months 21,12,000 × 10% × 10/12	176000
4) Dep. on New Machine purchased through exchange on 30/6 1565000 × 10% × 9/12	117375
Total Depreciation for the year	784375

2) Carrying Value As on 31/03/23

1/4/22	Opening Balance	5630,00
1/6/22	Purchase of Machine	21,12,000
30/6/22	Sale of Machine (Carrying amt) 960000 - 24000	(936000)
30/6/22	Purchase of New Machine (Exchange)	15,65000
31/3/23	Depreciation Charged	(784375)
		75,86,625

3) Calculation of Loss

CA of Machine SOLD on 30/6 = 936000

Sale Value = 825000

Loss (transfer to P&L) = 111000

New Machine 1565000
Loss 111000
To Machine 936000
To Bank 740000 (B/F)