

CHAPTER 9
Exercise

Every alternate question has been solved for you. You need to worked the unsolved problems & you can take help from the solved problems (related examples) if you are having any doubts.

1 Shivali Oil Fields Limited:

There are two ways of answering it –

Answer 1

The matching concept suggests that the expenses for a given period should be matched with the corresponding revenue for the same period. Accordingly, if the management has considered the total revenue in the same period it has to account for the total expenses on accrual basis.

Answer 2

The above problem is related to AS 29 on contingent liabilities, provisions, and contingent assets. In this problem, there is a present obligation as a result of a past obligating event - The construction of the oil rig creates an obligation under the terms of the license to remove the rig and restore the seabed and is thus an obligating event. At the balance sheet date, however, there is no obligation to rectify the damage that will be caused by extraction of the oil.

An outflow of resources embodying economic benefits in settlement is most likely.

Conclusion –

A provision is recognized for the best estimate of ninety per cent of the eventual costs that relate to the removal of the oil rig and restoration of damage caused by building it. These costs are included as part of the cost of the oil rig. The ten per cent of costs that arise through the extraction of oil are recognized as a liability when the oil is extracted.

3 Bijli Investments Limited:

We have to refer to AS 29 to sort this case.

Is it a present obligation as a result of a past obligating event?

No, there is no obligation because no obligating event (retraining) has taken place. Hence, No provision is recognized. However, the fact that the compliance with financial services regulations was still pending, should be disclosed in the Directors report.

5 Bholenath and DJ Baba:

We provide solution to the first part of the question. We expect the readers to come out with the responses for the second part i.e., accounting standards (if any)

Bholenath
Balance Sheet as on March 31, 20X1 (Amount in Rs.)

ASSETS			Liabilities and Owners Equity		
<i>Current Assets:</i>			<i>Current Liabilities:</i>		
Cash	40,000		Cash Credit Facility	135,900	
Accounts Receivable	75,000		Provision for Dividends	15,000	
Inventory	78,000		Provision for Taxes	18,000	
Loan to Director	2,000		Creditors	36,000	
Current Assets		195,000	Current Liabilities		204,900
<i>Plant and Machinery</i>			<i>Long term loans</i>		
Plant and equipment	200,000		Long term loans		50,000
Less: Accumulated depreciation	25,000	175,000	<i>Owner(s) equity</i>		
Investments (at cost)		27,000	Owner(s) Capital	90,100	
Preliminary Expenses not written down		15,000	Retained earnings	67,000	157,100
Total assets		412,000	Total Liabilities and Owners Equity		412,000

Note:

1. The Contributed Capital (Owners Equity) includes (a) Partly Paid up 17800 shares @ Rs 5 = Rs 89000; (b) Partly Paid up 200 shares @ Rs 1 = Rs 200; (c) Advance towards First Call 180 shares @ Rs 5 = Rs 900
2. It is assumed that the bank cash credit facility is being used to the extent needed i.e., only the difference in the balance sheet (Liabilities side) has been taken as the amount utilized from the bank CC Limit instead of the whole permissible limit of Rs five lakhs.

“Suggested Solutions to Exercises” in Financial Accounting for Management by Ramachandran & Kakani
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Bholenath
Income Statement for March 31, 2002 (Amount in Rs.)

Sales	400,000
Less: Materials Consumed	240,000
Gross Profit	160,000
Less: Operating Expenses	86,000
Less: Depreciation	25,000
Less: Preliminary Expenses Written Off	5,000
Extraordinary Items (Profit on Sale of Asset)	200,000
Profit Before Tax	244,000
Less: Proposed Tax	21,000
Profit After Tax	223,000
Less: Proposed Dividends	180,000
Balance Carried to Balance Sheet (i.e., added to Retained Earnings)	43,000

Bholenath
Balance Sheet as on March 31, 20X2 (Amount in Rs.)

ASSETS			Liabilities and Owners Equity		
<i>Current Assets:</i>			<i>Current Liabilities:</i>		
Cash	40,000		Cash Credit Facility	0	
Accounts Receivable	100,000		Provision for Dividends	180,000	
Inventory	78,000		Provision for Taxes	21,000	
Loan to Director	100,000		Creditors	45,000	
Current Assets		318,000	Current Liabilities		246,000
<i>Plant and Machinery</i>			<i>Long term loans</i>		
Plant and equipment	425,000		Long term loans		
Less: Accumulated depreciation	50,000	375,000	<i>Owner(s) equity</i>		
Investments (at cost)		27,000	Owner(s) Capital	180,000	
			Share Premium	44,625	
Preliminary Expenses not written down		10,000	Retained earnings	110,000	334,625
Total assets		730,000	Total Liabilities and Owners Equity		730,000

Note:

- GFA (2nd Year) = GFA (1st Year) + Purchases – Disposals → 200000 + 255000 – 30000 (we presume that the sold asset was not depreciated and hence its book value and gross value were same)
- The Contributed Capital (Owners Equity) includes (a) Fully paid up 17850 shares @ Rs 10 = Rs 178500; (b) Partly Paid up 150 shares @ Rs 10 = Rs 1500 (as share premium is not paid)
- We assume that the company had taken a fresh long term loan worth Rs 99,375 (from the available line of term loan) – hence, it is assumed that the bank cash credit facility is not needed.

We present the Funds Flow Statement and Statement of Change in Working Capital in the traditional pattern.

Bholenath
Funds Flow Statement (all figures in Rs)

Sources of Funds	Amount
Funds from Operations	53000
Extraordinary Income (Sale of Fixed Asset)	230000
Increase in Long Term Liabilities	99375
Issue of Equity Capital (including Premium)	134525
Total	516900
Applications of Funds	
Investment in Fixed Assets	255000
Proposed Dividend	180000
Total	
Increase in Working Capital	81900

- Funds from Operations = PAT + Depreciation + Preliminary Expenses written off – Other Income = 223000 + 25000 + 5000 – 200000 = Rs 53000

Bholenath
Statement of Changes in Working Capital (all figures in Rs Crores)

Changes in Current Assets	
Increase in Accounts Receivable	25000
Increase in Loans & Advances	98000
Total	123000
Changes in Current Liabilities	
Increase in Creditors	9000
Decrease in Cash Credit Facility	(135900)
Increase in Provisions	168000
Total	41100
Net Change in Working Capital	81900