Fin711 2nd GDB SOLVED spring 2013

Mb120400120@vu.edu.pk

www.vchowk.com

Cell=0334-7165488

Alfa Technology Company Limited (ATCPL) manufactures hi-tech products for its high-valued technology clients. The company's year-end is on for the year 2011.Company's CFO is facing with the following matters. Assuming for simplicity, state with reason how these matters should be treated in company's financial statements for the year ended March 31, 2011.

a) Inventory carried at Rs. 2.35 million on March 31, 2011 was sold for Rs. 1.23 million after it had been damaged in a flood, in April 2011.

b) On April 3, 2011, one of ATCPL's corporate customers declared bankrupt. The liquidator announced on March 13, 2011 that 35% of the debt would be paid on liquidation.

c) On May 5, 2011 the government announced a retrospective increase in tax rate applicable to the company.

d) The company declared a final cash dividend of Rs. 5.75 per share on May 10, 2011.

Solution:

a) The decrease in inventory value is due to flood after balance sheet date so it is a **non-adjusting event** and they will not adjust it in balance sheet and financial statements. It shall only be disclosed.

b) Normally companies make provisions for doubtful debt so when the ATCPL's customer declared bankrupt after balance sheet date, it is an **adjusting event** and they have to adjust it in balance sheet and financial statements. So At the balance sheet date, 65% provision shall be made against that debtor.

c) Government Tax rate increase is after balance sheet date so it is a **non-adjusting event** and they will not adjust it in balance sheet and financial statements. It shall only be disclosed.

d) As dividend declared after balance sheet date so they will **not be recognized as liability** at the balance sheet date. They don't meet the criteria of a present **obligation in IAS-37**. It shall be disclosed in the notes to the accounts as following

<u>Proposed Dividend</u>

"**Dividend proposed for the year 2011 is 5.75 per share.**"

(IAS-1 and IAS-10 Requirement)