

LKAS 08

Accounting Policies, Changes in Accounting Estimates and Errors

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Accounting Standards

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B.Sc. (Accounting) Sp. Hons., ACA, ACMA (SL), SAT, CIMA Passed Finalist, MBA PIM-USJP, Gold Medal Winner for the Most Outstanding Student in University of Sri Jayewardenepura Accounting Batch 2014. Chief Executive Officer and Lecturer of JMC

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LKAS 08 - Accounting Policies, Changes in Accounting Estimates and Errors

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Examples for Accounting Policies

- Subsequent measurement of property, plant and equipment
- Inventory formulas (FIFO, WAC)
- Capitalisation of borrowing cost on qualifying assets
- Subsequent measurement of investment property
- Subsequent measurement of intangible assets
- Charging of research expenses to Statement of Profit or Loss

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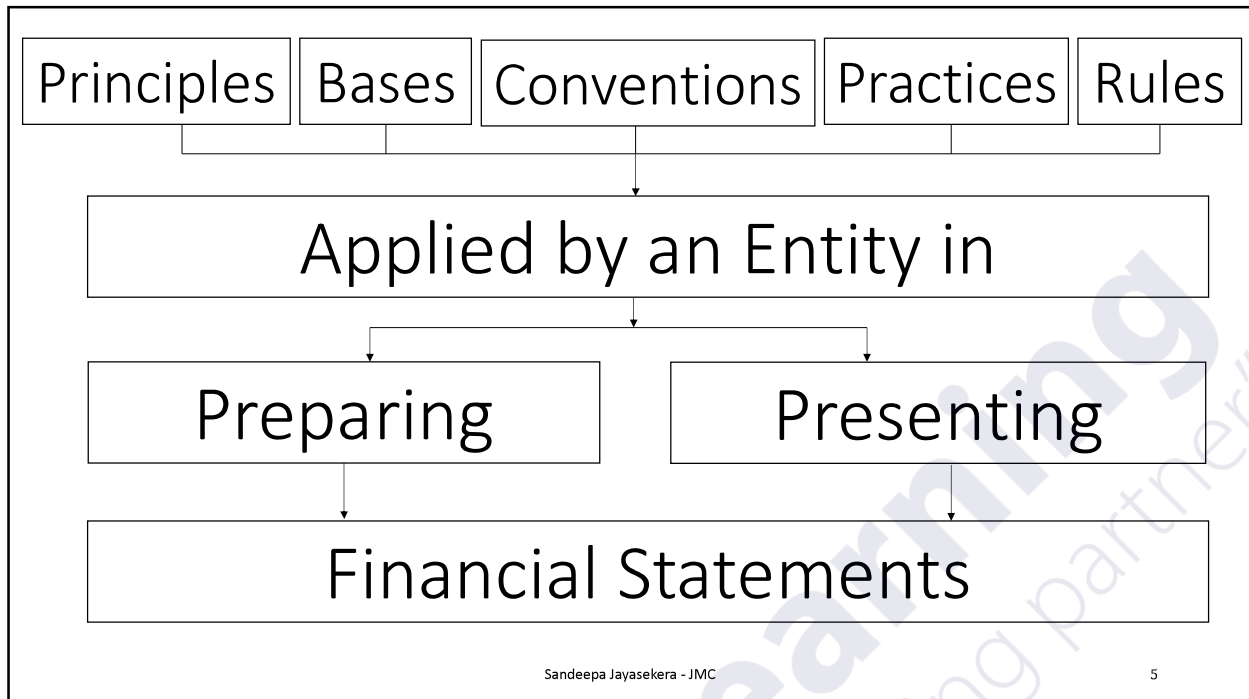
What is an Accounting Policy?



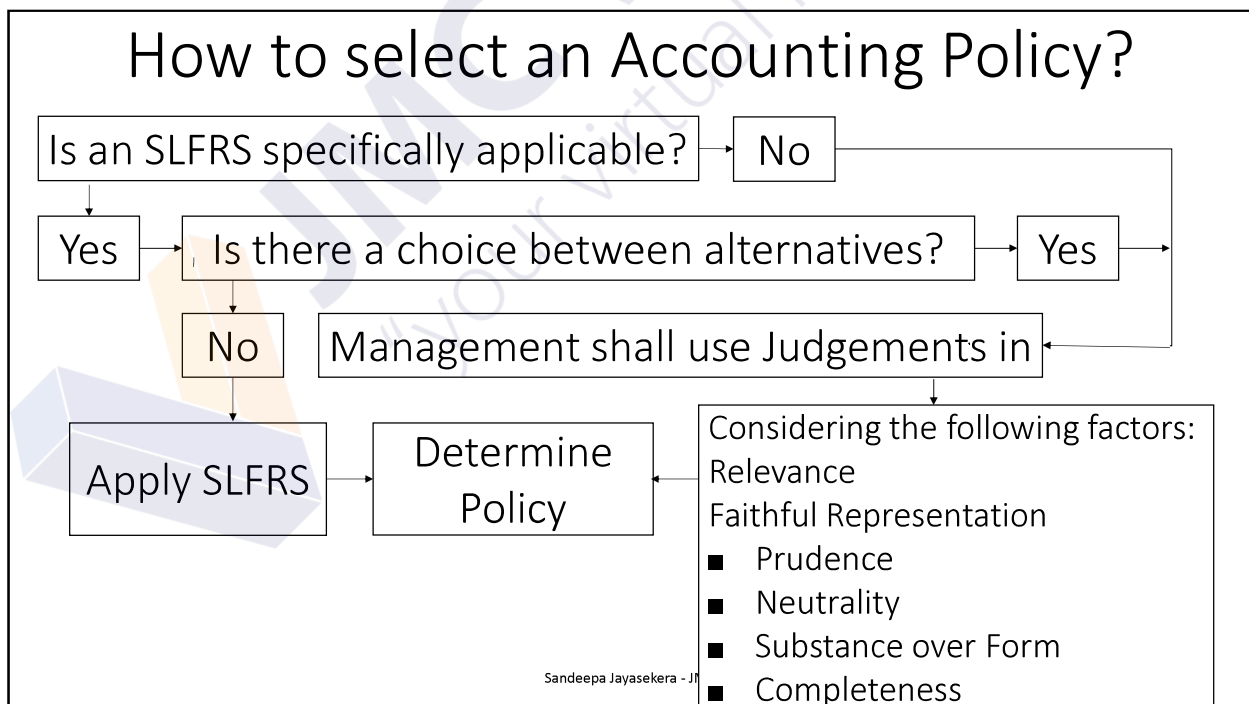
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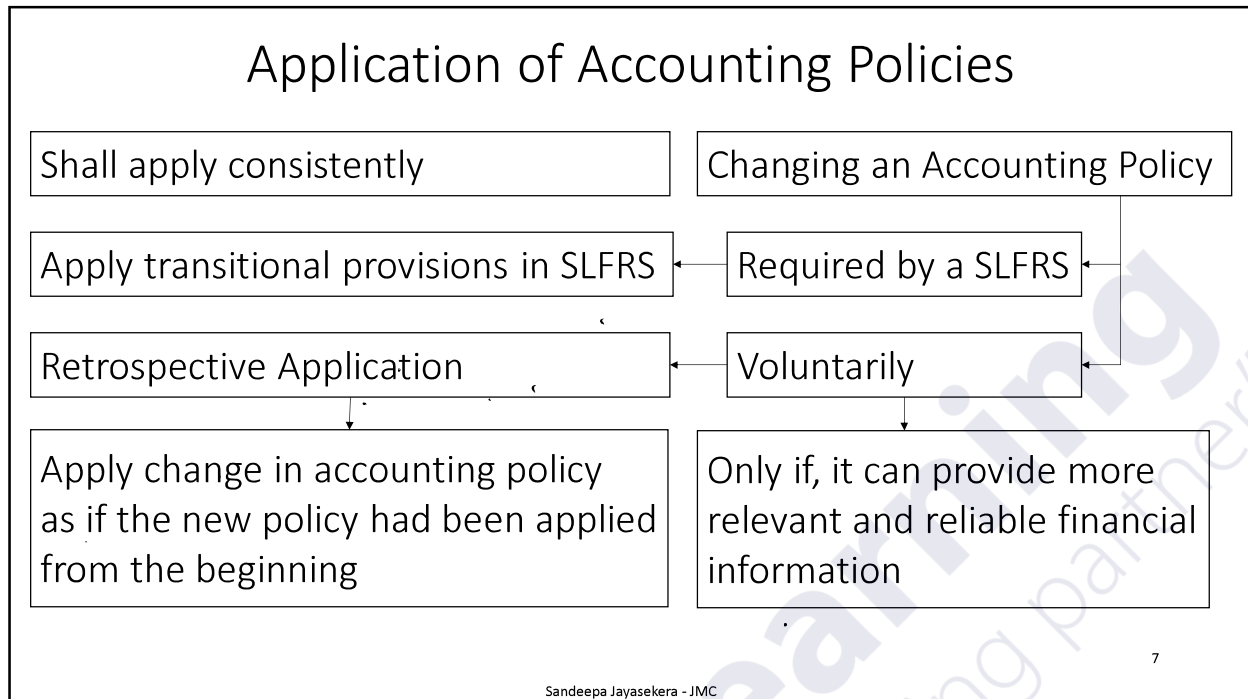
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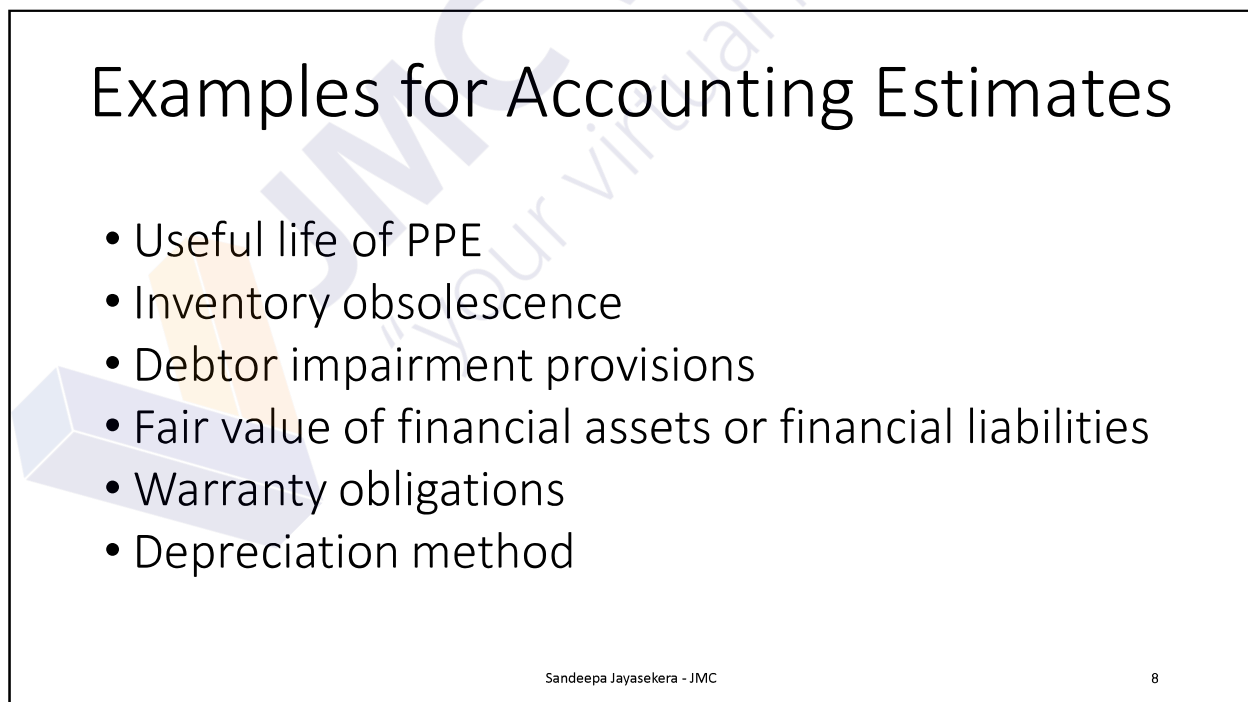
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What is an Accounting Estimate?



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Accounting Estimate is

Management Judgements used

In measuring value of Assets and Liabilities
using Latest available

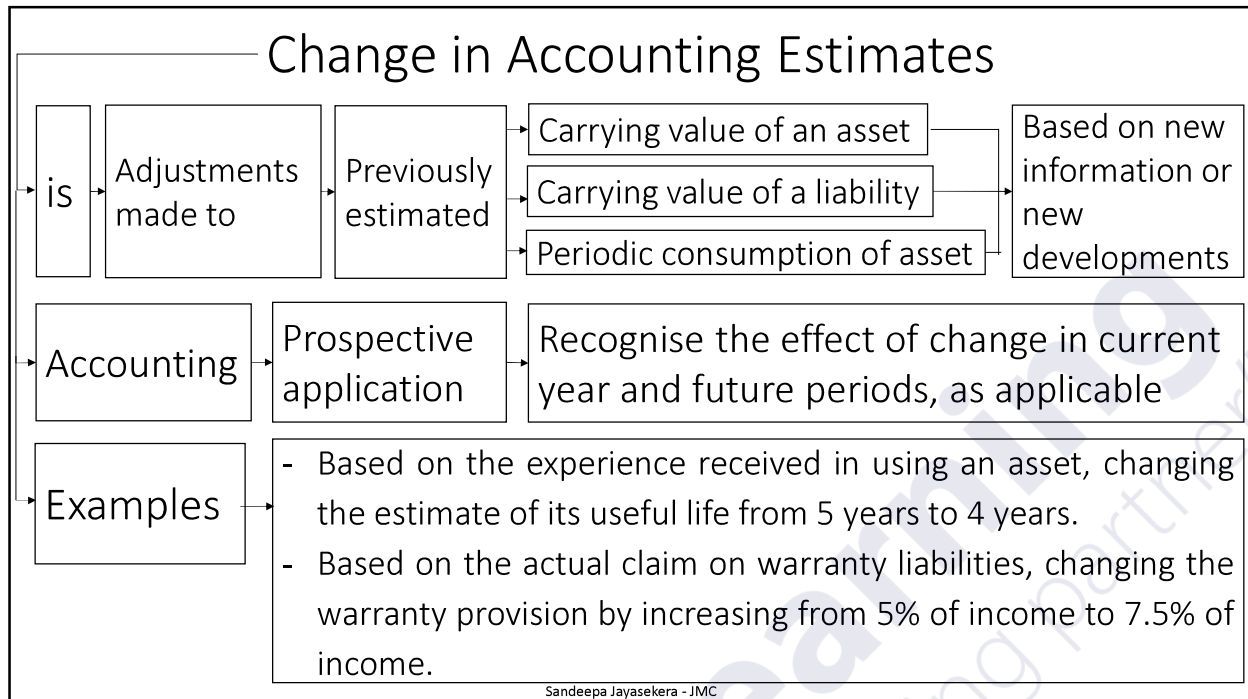
Information

Conditions

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Question 01

Abdul Ltd. purchased a machine worth Rs. 1,000,000/- on 01/01/2020, where its useful lifetime was estimated as 10 years.

Based on the experience gained from the use of machines, the useful lifetime was estimated again on 01/01/2021 and changed as 8 years.

Calculate the depreciation for the years 2020 and 2021, assuming financial year ends on 31/12.

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Answer 01

Depreciation for Year 2020

Depreciation for Year 2021

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Question 02

Vijini Ltd. sells mobile phones. A one year warranty is given for each mobile phone sold.

Total sales for year 2020 was Rs. 2,500,000/- and 2% of sales was provided as warranties.

Actual warranty payment in relation to sales was Rs. 75,000/-.

Account for warranties, using ledger accounts.

(Financial year ends on 31/12.)

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Answer 02

Warranty expense for 2020

Warranty under-provision in 2020

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Answer 02

Warranty expense

Warranty provision

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Answer 02

Cash

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Question 03

(a) The following information has been given in relation to **SRL Ltd.** for the year ended 31st March 2018.

The company has reviewed the useful life of Plant and Machinery on 01st April 2017. As per the review it was decided to change the remaining useful life time of the Plant and Machinery from 3 years to 8 years from 01st April 2017. Cost and accumulated depreciation of Plant and Machinery as at 01st April 2017 were Rs.8,000,000/- and Rs.3,200,000/- respectively.

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Question 03

You are required to:

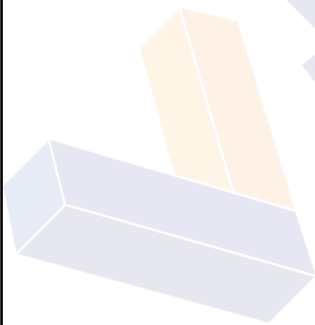
Explain the accounting treatment for the year ended 31st March 2018 for the above instance as per the LKAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. (04 marks)

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Answers



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Examples for Accounting Errors

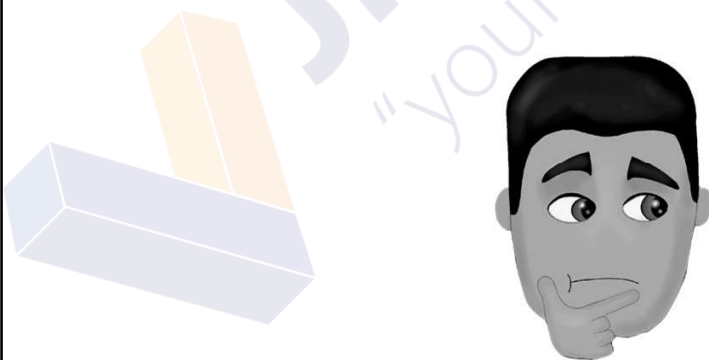
- Mathematical errors
- Oversight (an unintentional failure to notice or do something)
- Printing mistakes
- Mistakes in applying policies
- Misinterpretation of facts
- Frauds

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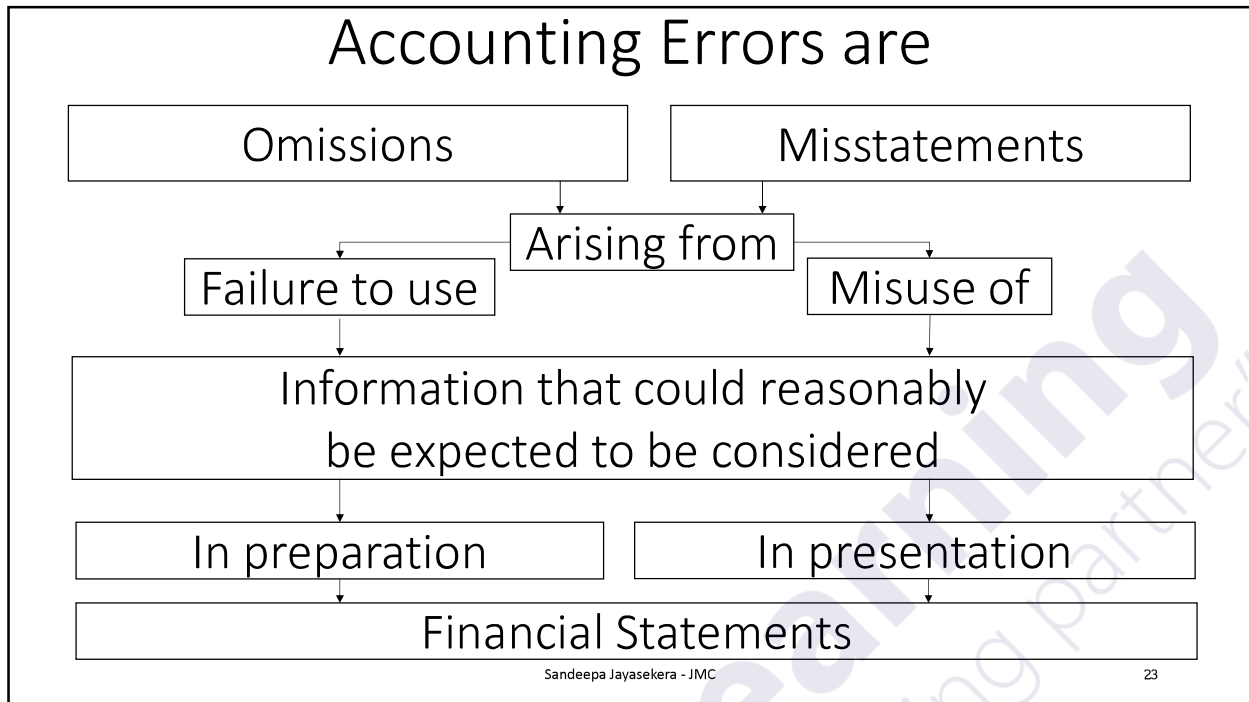
What are Accounting Errors?



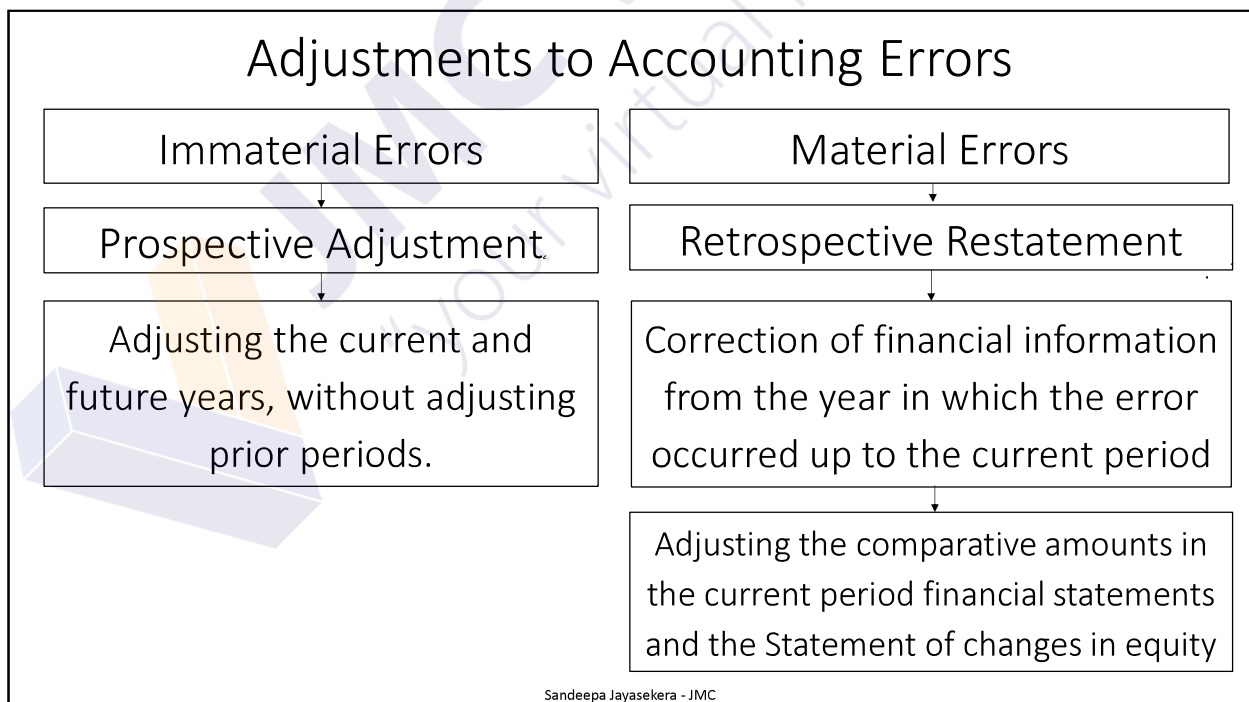
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Question 04

A stock of goods sold by Sajidha Ltd. was erroneously included in the closing stock as at 31/03/2020. The stock was valued at Rs. 10,000/-. Retained Earnings as at 01/04/2019 was Rs. 100,000/- and Stated Capital was Rs. 700,000/-.

Assume there is no impact on income tax, due to this error. Financial statements prior to adjusting the error is set out below.

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Question 04

	2020/21	2019/20
Sales	200,000	150,000
Cost of Sales	(150,000)	(120,000)
Profit before tax	50,000	30,000
Tax	(10,000)	(5,000)
Profit after tax	40,000	25,000

Demonstrate how the error would be corrected in the Financial Statements for the year 2020/2021.

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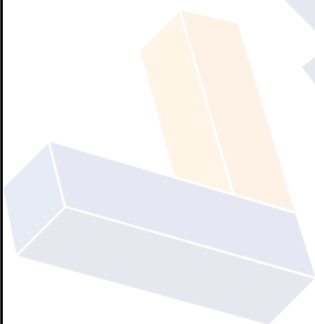
Answer

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Answer



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Question 05

The Finance Manager of **Githmi Ltd.** has found the following incidents occurred during the year ended 31st March 2019:

- (a) **Githmi Ltd.** had introduced a new accounting system SAP B1 with effect from 01st April 2018 and accounting policy of valuing inventory has been changed at that date. Up to 31st March 2018, the company has valued its inventory on FIFO basis, as per the new accounting system inventory is to be valued on WAC basis.

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Question 05

It was noticed that stocks have been overvalued by Rs. 6.7 million than stock value shown in the financial statements as at 31st March 2018 due to the change in accounting policy of inventory valuation.

- (b) Assistant Accountant of **Githmi Ltd.** has failed to account for depreciation in last financial year (2017/18) in respect of office equipment of Rs. 500,000/- acquired on 31st December 2017. The company depreciates office equipment at cost on the straight-line-basis and useful life of the office equipment is 5 years.

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Question 05

You are required to:

Explain the impact of the above two instances on the financial statements for the year ended 31st March 2019 if **Githmi Ltd.** as per LKAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors.

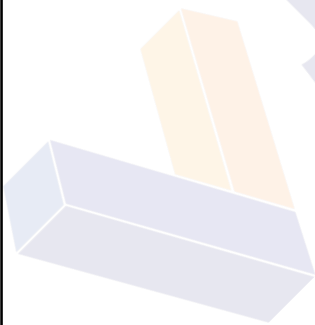
(05 marks)

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Answers



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