CA INTERMEDIATE

SUBJECT- Accounting Standards & Accounts

Test Code – CIM 8704
(Date :)

(Marks - 50)

TOPICS : AS 13, 2, 7, 5 & Company Final Accounts

NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS
(2) NEW QUESTION SHOULD BE ON NEW PAGE

QUESTION NO.1

A. Omega Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13. **State the values, at which the investments have to be reclassified in the following cases:**

(i) Long term investments in Company A, costing Rs. 8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to *Rs.* 6.5 lakhs to recognize a permanent decline in value. The fair value on date of transfer is Rs. 6.8 lakhs.

(ii) Current investment in Company C, costing Rs. 10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is Rs. 12 lakhs.

(iii) Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these investments was Rs. 18 lakhs but had been written down to Rs. 12 lakhs to recognize permanent decline as per AS 13.

(5 MARKS)

B. (i) AP Ltd., a construction contractor, undertakes the construction of commercial complex for Kay Ltd. AP Ltd. submitted separate proposals for each of 3 units of commercial complex. A single agreement is entered into between the two parties. The agreement lays down the value of each of the 3 units, i.e. Rs. 50 Lakh Rs. 60 Lakh and Rs. 75 Lakh respectively. Agreement also lays down the completion time for each unit.

Comment, with reference to AS- 7, whether AP Ltd., should treat it as a single contract or three separate contracts.

(ii) On 1st December, 2017, GR Construction Co. Ltd. undertook a contract to construct a building for Rs. 45 lakhs. On 31st March, 2018, the company found that it had already spent Rs. 32.50 lakhs on the construction. Additional cost of completion is estimated at Rs.15.10 lakhs. **What amount should be charged to revenue in the final accounts for the year ended 31st March, 2018 as per provisions of AS-7?**

(5 MARKS)

QUESTION NO.2

A. On 31st March 2017, a business firm finds that cost of a partly finished unit on that date is Rs. 530. The unit can be finished in 2017-18 by an additional expenditure of Rs. 310. The finished unit can be sold for Rs. 750 subject to payment of 4% brokerage on selling price. **The firm seeks your advice regarding the amount at which the unfinished unit should be valued as at 31st March, 2017 for preparation of final accounts**.

Assume that the partly finished unit cannot be sold in semi finished form and its NRV is zero without processing it further.

(5 MARKS)

B. **Explain whether the following will constitute a change in accounting policy or not as per AS 5**.

(i) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.

(ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of Rs. 20,000 per month. Earlier there was no such scheme of pension in the organization.

(5 MARKS)

QUESTION NO.3

Shweta Ltd. has the Authorised Capital of Rs. 15,00,000 consisting of 6,000 6% Preference shares of Rs. 100 each and 90,000 equity Shares of Rs. 10 each. The following was the Trial Balance of the Company as on 31st March, 2018 :

Particulars	**Dr.**	**Cr.**
Investment in Share at cost	1,50,000	
Purchases	14,71,500	
Selling Expenses	2,37,300	
Inventory as at the beginning of the year	4,35,600	
Salaries and Wages	1,56,000	
Cash on Hand	36,000	
Interim Preference dividend for the half year to 30th September	18,000	
Bills Receivable	1,24,500	
Interest on Bank overdraft	29,400	
Interest on Debentures upto 30th Sep (1st half year)	11,250	
Debtors	1,50,300	
Trade payables		2,63,550
Freehold property at cost	10,50,000	
Furniture at cost less depreciation of Rs. 45,000	1,05,000	
6% Preference share capital		6,00,000
Equity share capital fully paid up		6,00,000
5% mortgage debentures secured on Freehold properties		4,50,000
Income tax paid in advance for the current year	30,000	
Dividends		12,750
Profit and Loss A/c. (opening balance)		85,500
Sales (Net)		20,11,050
Ban overdraft secured by hypothecation of stocks and receivables		4,50,000
Technical knowhow fees at cost paid during the year	4,50,000	
Audit fees	18,000	
Total	**44,72,850**	**44,72,850**

You are required to **<u>prepare the Profit and Loss Statement</u>** for the year ended 31st March, 2018 and **<u>the Balance sheet</u>** as on 31st March, 2018 as per Schedule III of the Companies Act, 2013 after taking into account the following –

1. Closing Stock was valued at Rs. 4,27,500.
2. Purchases include Rs. 15,000 worth of goods and articles distributed among valued customers.
3. Salaries and Wages include Rs. 6,000 being Wages incurred for installation of Electrical fittings which were recorded under “Furniture”.
4. Bills Receivable include Rs. 4,500 being dishonoured bills. 50% of which had been considered irrecoverable.
5. Bills Receivable of Rs. 6,000 maturing after 31st March were discounted.
6. Depreciation on Furniture to be charged at 10% on Written Down Value.
7. Investment in shares is to be treated as non – current investments.
8. Interest on debentures for the half year ending on 31st March was due on that date.
9. Provide Provision for taxation Rs. 12,000.
10. Technical Knowhow Fees is to be written off over a period of 10 years.
11. Salaries and wages include Rs. 30,000 being Director’s Remuneration.
12. Trade receivables include Rs. 18,000 due for more than six months.

(20 MARKS)

QUESTION NO.4

A. The following is the Draft Profit & Loss A/c of Harsha Ltd., the year ended 31st March, 20X1:

		Rs.			Rs.
To	Administrative, Selling and		By	Balance b/d	28,61,750
”	distribution expenses Directors fees	41,12,710 6,73,900	“	Balance from Trading A/c	201,26,825
” ”	Interest on debentures Managerial remuneration	1,56,200 14,26,750	“	Subsidies received from Govt.	13,69,625
”	Depreciation on fixed assets	26,12,715			
”	Provision for Taxation	62,12,500			
”	General Reserve	20,00,000			
”	Investment Revaluation				
	Reserve	62,500			
”	Balance c/d	71,00,925			
		243,58,200			243,58,200

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was Rs.28,76,725. You are required to **<u>calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.</u>**

(5 MARKS)

B. The following extract of Balance Sheet of X Ltd. (a non-investment company) was obtained:

Balance Sheet (Extract) as on 31st March, 2019

Liabilities	*Rs.*
Authorized capital:	
15,000, 14% preference shares of Rs. 100	15,00,000
1,50,000 Equity shares of Rs. 100 each	1,50,00,000
	1,65,00,000
Issued and subscribed capital:	
15,000, 14% preference shares of Rs. 100 each fully paid	15,00,000
1,20,000 Equity shares of Rs. 100 each, Rs. 80 paid-up	96,00,000
Capital reserves (Rs. 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,25,000

You are required to compute Effective Capital as per the provisions of Schedule V to the Companies Act, 2013.

(5 MARKS)