J.K. SHAH® TEST SERIES

Evaluate Learn Succeed

SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- Accounting Standards & Accounts

Test Code – CIM 8704

BRANCH - () (Date :)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.

Tel : (022) 26836666

NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.
(2) INTERNAL WORKING NOTES SHOULD ALSO BE CONSIDERED.
(3) NEW QUESTION SHOULD BE ON NEW PAGE

ANSWER -1

ANSWER –A

As per AS 13 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer. And where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer. Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs. 6.5 lakhs in the books.

(ii) In this case, reclassification of current investment into long-term investments will be made at Rs. 10 lakhs as cost is less than its market value of Rs. 12 lakhs.

(iii) In this case, the book value of the investment is Rs. 12 lakhs, which is lower than its cost i.e. Rs. 18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at Rs. 12 lakhs.

(5 MARKS)

ANSWER –B

(i) As per AS 7 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

(a) separate proposals have been submitted for each asset;

(b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) the costs and revenues of each asset can be identified.

Therefore, Mr. AP Ltd. is required to treat construction of each unit as a separate construction contract as the above-mentioned conditions of AS 7 are fulfilled in the given case.

(ii)

	Rs. in lakhs
Cost of construction incurred till date	32.50
Add: Estimated future cost	15.10
Total estimated cost of construction	47.60

Percentage of completion till date to total estimated cost of construction

$$= (32.50/47.60) \times 100 = 68.28\%$$

Proportion of total contract value recognized as revenue for the year ended 31st March, 2018 per AS 7 (Revised)

= Contract price x percentage of completion

= Rs. 45 lakh x 68.28% = Rs. 30.73 lakhs.

	(Rs. in lakhs)
Total cost of construction	47.60
Less: Total contract price	(45.00)
Total foreseeable loss to be recognized as expense	2.60

According to of AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

(5 MARKS)

ANSWER -2

ANSWER –A

Valuation of unfinished unit

	Rs.
Net selling price	750
Less: Estimated cost of completion	(310)
	440
Less: Brokerage (4% of 750)	(30)
Net Realisable Value	410
Cost of inventory	530
Value of inventory (Lower of cost and net realisable value)	410

(5 MARKS)

ANSWER –B

As per AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy.

(i) Accordingly, introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy.

(ii) Similarly, the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial will not be treated as a change in an accounting policy.

(5 MARKS)

ANSWER -3

Statement of profit and Loss of Shweta Ltd. for the year ended 31st March, 2018

	Particulars	**Note**	**Rs.**
I	Revenue from Operations		20,11,050
II	Other income (Divided income)		12,750
III	Total Revenue (I & II)		20,23,800

IV	Expenses :		
	(a) Purchases (14,71,500 – Advertisement Expenses 15,000)		14,56,500
	(b) Changes in Inventories of finished Goods /Work in progress (4,35,600 – 4,27,500)		8,100
	(c) Employee Benefits expense	9	1,20,000
	(d) Finance costs	10	51,900
	(e) Depreciation & Amortization Expenses [10% of (1,05,000 + 6,000)]		11,100
	(f) Other Expenses	11	3,47,550
	Total Expenses		19,95,150
V	Profit before exceptional, extraordinary items and tax (III – IV)		28,650
VI	Exceptional items		-
VII	Profit before extra ordinary items and tax (V – IV)		28,650
VIII	Extraordinary items		-
IX	Profit before tax (VII – VIII)		28,650
X	Tax expense :		
	Current Tax		12,000
XI	Profit / Loss for the period (after tax)		16,650

(7 MARKS)

Balance sheet of Shweta Ltd. as on 31st March, 2018

	Particulars as on 31st March	**Note**	
I			
(1)	**Shareholders' funds :**		
	(a) Share Capital	1	12,00,000
	(b) Reserves and surplus	2	66,150
(2)	**Non current liabilities :**		
	Long term borrowings	3	4,50,000
(3)	**Current Liabilities :**		
	(a) Short term borrowings	4	4,50,000
	(b) Trade payables		2,63,550
	(c) Other current liabilities	5	29,250
	Total		**24,58,950**
II	**ASSETS**		
(1)	**Non – current Assets**		
	(a) Property, Plant & Equipment		
	(i) Tangible assets	6	11,49,900
	(ii) Intangible assets	7	4,05,000
	(b) Non current investments (Shares at cost)		1,50,000
	Current Assets :		
	(a) Inventories		4,27,500

	(b) Trade receivables	8	2,72,550
	(c) Cash and Cash equivalents – Cash on hand		36,000
	(d) Short term loans and advances – Income tax		
	(paid 30,000 – Provision 12,000)		18,000
	Total		**24,58,950**

Note : There is a Contingent liability for Bills receivable discounted with Bank Rs. 6,000.

*** Alternatively Provision for tax can be shown as short term provision on the liability side.**

(6 MARKS)

Notes to accounts

				(Rs.)
1.	**Share Capital**			
	Authorized			
	90,000 Equity shares of Rs. 10 each		9,00,000	
	6,000 6% Preference shares of Rs. 100 each		6,00,000	15,00,000
	Issued, subscribed & called up			
	60,000, Equity Shares of Rs. 10 each		6,00,000	
	6,000 6% Redeemable Preference shares of 100 each		6,00,000	12,00,000
2.	**Reserves and Surplus**			
	Balance as on 1st April, 2017		85,500	
	Add: surplus for current year		16,650	1,02,150
	Less : Preference Dividend			36,000
	Balance as on 31st March, 2018			66,150
3.	**Long Term Borrowings**			
	5% Mortgage Debentures (Secured against Freehold Properties)			4,50,000
4.	**Short Term Borrowings**			
	Secured Borrowings : Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables)			4,50,000
5.	**Other Current liabilities**			
	Interest Accrued and due on Borrowings (5% Debentures)		11,250	
	Unpaid Preference Dividends		18,000	29,250
6.	**Tangible Fixed assets**			
	Furniture			
	Furniture at Cost Less depreciation Rs. 45,000 (as given in Trial Balance		1,05,000	
	Add : Depreciation		45,000	
	Cost of Furniture		1,50,000	
	Add: Installation charge of Electrical Fittings wrongly included under the heading Salaries and Wages		6,000	
	Total Gross block of Furniture A/c.		1,56,000	
	Accumulated Depreciation Account : Opening Balance – given in Trial Balance	45,000		

	Depreciation for the year : On Opening WDV at 10% i.e. (10% × 1,05,000)	10,500		
	On additional purchase during the year at 10% i.e. (10% × 6,000)	600		
	Less : Accumulated Depreciation		56,100	99,900
	Freehold property (at cost)			10,50,000
				11,49,900
7.	**Intangible Fixed Assets**			
	Technical Knowhow		4,50,00	
	Less : Written off		45,000	4,05,000
8.	**Trade Receivables**			
	Sundry Debtors (a) Debt outstanding for more than six months		18,000	
	(b) Other Debts(refer Working Note)		1,34,550	
	Bills receivable (1,24,500 – 4,500)		1,20,000	2,72,550
9.	**Employee benefit expenses**			
	Amount as per Trial Balance		1,56,000	
	Less : Wages incurred for installation of electrical fittings to be capitalised		6,000	
	Less : Directors' Remuneration shown separately		30,000	
	Balance Amount			120000
10.	**Finance Costs**			
	Interest on bank overdraft		29,400	
	Interest on debentures		22,500	51,900
11.	**Other Expenses**			
	Payment to the auditors		18,000	
	Director's remuneration		30,000	
	Selling expenses		2,37,300	
	Technical knowhow written of (4,50,000/10)		45,000	
	Advertisement (Goods and Articles Distributed)		15,000	
	Bad Debts (4,500 × 50%)		2,250	3,47,550

NOTE : Presentation for Schedule 6 might differ, but final answer of Schedule 6 need to be consider

(6 MARKS)

Working Note

Calculation of Sundry Debtors – Other Debts

Sundry Debtors as given in Trial Balance	1,50,300
Add Back : Bills Receivables Dishonoured	4,500
	1,54,800
Less : Bad Debts written off – 50% Rs. 4,500	(2,250)
Adjusted Sundry Debtors	1,52,550
Less : Debts due for more than 6 months (as per information given)	(18,000)
Total of other Debtors i.e. Debtors outstanding for less than 6 months	1,34,550

(1 MARK)

ANSWER -4

ANSWER -A

Calculation of net profit u/s 198 of the Companies Act, 2013

	Rs.	*Rs.*
Balance from Trading A/c		201,26,825
Add: Subsidies received from Government		13,69,625
		214,96,450
Less: Administrative, selling and distribution expenses	41,12,710	
Director's fees	6,73,900	
Interest on debentures	1,56,200	
Depreciation on fixed assets as per Schedule II	28,76,725	(78,19,535)
Profit u/s 198		**136,76,915**

Maximum Managerial remuneration under Companies Act, 2013 = 11% of

Rs. 136,76,915= Rs. 15,04,461.

(5 MARKS)

ANSWER -B

Computation of Effective Capital

	Rs.
Paid-up share capital-	
15,000, 14% Preference shares	15,00,000
1,20,000 Equity shares	96,00,000
Capital reserves (excluding revaluation reserve)	45,000
Securities premium	50,000
15% Debentures	65,00,000
(A)	1,76,95,000
Investments	75,00,000
Profit and Loss account (Dr. balance)	15,25,000
(B)	90,25,000
Effective capital **(A–B)**	86,70,000

(5 MARKS)