CA INTERMEDIATE

SUBJECT- ACCOUNTING STANDARDS AND ADVANCED ACCOUNTS

Test Code – CIM 8712

(Date :)

(Marks - 50)

TOPIC : AS 1, 4, 11 & 13, Internal Reconstruction

NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.

(2) NEW QUESTION SHOULD BE ON NEW PAGE

QUESTION NO.1 **(10 MARKS)**

The Summarised Balance Sheet of Revise Limited as at 31st March, 20X1 was as follows :

Liabilities	Rs.	Assets	Rs.
Authorised and subscribed capital:		Fixed Assets :	
10,000 Equity shares of		Machineries	1,00,000
Rs. 100 each fully paid	10,00,000	Current assets :	
Unsecured Loans :		Inventory	3,20,000
12% Debentures	2,00,000	Trade receivables	2,70,000
Accrued interest	24,000	Bank	30,000
Current liabilities		Profit and loss accou	6,00,000
Trade payables-	72,000		
Provision for income tax	24,000		
	13,20,000		**13,20,000**

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from appropriate authorities. Accordingly, it was decided that:

(a) Each share is sub-divided into ten fully paid up equity shares of Rs. 10 each.

(b) After sub-division, each shareholder shall surrender to the company 50% of his holding, for the purpose of re-issue to debenture holders and trade payables as necessary.

(c) Out of shares surrendered, 10,000 shares of Rs. 10 each shall be converted into 12% preference shares of Rs. 10 each, fully paid up.

(d) The claims of the debenture-holders shall be reduced by 75 per cent. In consideration of the reduction, the debenture holders shall receive preference shares of Rs. 1,00,000 which are converted out of shares surrendered.

(e) Trade payables claim shall be reduced to 50 per cent, it is to be settled by the issue of equity shares of Rs. 10 each out of shares surrendered.

(f) Balance of profit and loss account to be written off.

(g) The shares surrendered and not re-issued shall be cancelled.

You are required to show the journal entries giving effect to the above and the resultant Balance Sheet.

QUESTION NO.2 **(20 MARKS)**

Platinum Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the draft Balance Sheet of the company as on 31st March, 2019 before reconstruction:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Share Capital			
50,000 shares of Rs. 50		Goodwill	22,00,000
each fully paid up	25,00,000	Land & Building	42,70,000
1,00,000 shares of Rs. 50		Machinery	8,50,000
each Rs. 40 paid up	40,00,000	Computers	5,20,000
Capital Reserve	5,00,000	Inventories	3,20,000
8% Debentures of Rs. 100 each	4,00,000	Trade receivables	10,90,000
12% Debentures of Rs. 100 each	6,00,000	Cash at Bank	2,68,000
Trade payables	12,40,000	Profit & Loss Account	7,82,000
Outstanding Expenses	10,60,000		
Total	1,03,00,000	Total	1,03,00,000

Following is the interest of Mr. Shiv and Mr. Ganesh in Platinum Limited:

	Mr. Shiv	Mr. Ganesh
8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Total	7,00,000	3,00,000

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

(1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of Rs. 40 each.

(2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for Rs.12,50,000.

(3) Trade payables are given option of either to accept fully paid equity shares of Rs. 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade payables for Rs. 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.

(4) Mr. Shiv agrees to cancel debentures amounting to Rs. 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agrees to subscribe further 15% Debentures in cash amounting to Rs. 1,00,000.

(5) Mr. Ganesh agrees to cancel debentures amounting to Rs. 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.

(6) Land & Building to be revalued at Rs. 51,84,000, Machinery at Rs. 7,20,000, Computers at Rs. 4,00,000, Inventories at Rs. 3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.

(7) Outstanding Expenses are fully paid in cash.

(8) Goodwill and Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

<u>You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction</u>.

QUESTION NO.3 **(5*2 = 10 MARKS)**

A. What do you mean by 'Accrual' in reference to AS-1? Also, specify any three reasons for 'Accrual Basis of Accounting'.

B. With reference to AS 4 "Contingencies and events occurring after the balance sheet date", state whether the following events will be treated as contingencies, adjusting events or non-adjusting events occurring after balance sheet date in case of a company which follows April to March as its financial year.

(i) A major fire has damaged the assets in a factory on 5th April, 5 days after the year end. However, the assets are fully insured and the books have not been approved by the Directors.

(ii) A suit against the company's advertisement was filed by a party on 10 th April, 10 days after the year end claiming damages of Rs. 20 lakhs.

QUESTION NO.4 **(5*2 = 10 MARKS)**

A. AXE Limited purchased fixed assets costing $ 5,00,000 on 1st Jan. 2018 from an American company M/s M&M Limited. The amount was payable after 6 months. The company entered into a forward contract on 1st January 2018 for five months @ Rs. 62.50 per dollar. The exchange rate per dollar was as follows :

On 1st January, 2018 Rs. 60.75 per dollar

On 31st March, 2018 Rs. 63.00 per dollar

<u>You are required to state how the profit or loss on forward contract would be recognized in the books of AXE Limited for the year ending 2017-18, as per the provisions of AS 11.</u>

B. Z Bank has classified its total investment on 31-3-2018 into three categories (a) held to maturity (b) available for sale (c) held for trading as per the RBI Guidelines.

‘Held to maturity’ investments are carried at acquisition cost less amortized amount.

‘Available for sale’ investments are carried at marked to market. ‘Held for trading’ investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored.

<u>You are required to comment whether the policy of the bank is in accordance with AS 13?</u>