SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- ACCOUNTING STANDARDS AND ADVANCED ACCOUNTS

Test Code – CIM 8712

BRANCH - () (Date :)

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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

		Dr. Rs.	**Cr. Rs.**
Equity Share Capital (Rs. 100) A/c	Dr.	10,00,000	
To Share Surrender A/c			5,00,000
To Equity Share Capital (Rs. 10) A/c			5,00,000
(Subdivision of 10,000 equity shares of Rs. 100 each into 1,00,000 equity shares of Rs. 10 each and surrender of 50,000 of such subdivided shares as per capital reduction scheme)			
12% Debentures A/c	Dr.	1,50,000	
Accrued Interest A/c	Dr.	18,000	
To Reconstruction A/c			1,68,000
(Transferred 75% of the claims of the debentureholders to reconstruction account in consideration of which 12% preference shares are being issued out of share surrender account as per capital reduction scheme)			
Trade payables A/c	Dr.	72,000	
To Reconstruction A/c			72,000
(Transferred claims of the trade payables to reconstruction account, 50% of which is being clear reduction and equity shares are being issued in consideration of the balance)			
Share Surrender A/c	Dr.	5,00,000	
To 12% Preference Share Capital A/c			1,00,000
To Equity Share Capital A/c			36,000
To Reconstruction A/c			3,64,000
(Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as a per scheme and the balance in share surrender account is being transferred to reconstruction account)			
Reconstruction A/c	Dr.	6,04,000	
To Profit and Loss A/c			6,00,000
To Capital Reserve A/c			4,000
(Adjusted debit balance of profit and loss account			

against the reconstruction account and the balance
in the latter is being transferred to capital reserve)

(5*1 = 5 MARKS)

Balance Sheet of Revise Limited (and reduced) as on...

Particulars			Note No.	Rs.
I.	**Equity and Liabilities**			
(1)	**Shareholder's Funds**			
	(a) Share Capital		1	6,36,000
	(b) Reserves and Surplus		2	4,000
(2)	**Non-Current Liabilities**			
	(a) Long-term borrowings		3	50,000
(3)	**Current Liabilities**			
	(a) Other current liabilities		4	6,000
	(b) Short-term provisions		5	24,000
	Total			**7,20,000**
II.	**Assets**			
(1)	**Non-current assets**			
	(a)	Fixed assets		
	(i)	Tangible assets	6	1,00,000
(2)	**Current assets**			
	(a)	Current investments		
	(b)	Inventories		3,20,000
	(c)	Trade receivables		2,70,000
	(d)	Cash and cash equivalents		30,000
	Total			**7,20,000**

Notes to Accounts

		Rs.
1.	**Share Capital**	
	Equity Share Capital	
	Issued Capital : 53,600 Equity Shares of Rs. 10 each	5,36,000
	Preference Share Capital	
	Preference Shares	1,00,000
	(Of the above shares all are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares without payment being received in cash)	
		6,36,000

2.	**Reserve and Surplus**	
	Capital Reserve	4,000
3.	**Long-term borrowings**	
	Unsecured Loans	
	12% Debentures	50,000
4.	**Other current liabilities**	
	Accrued interest	6,000
5.	**Short-term provisions**	
	Provision for Income-tax	24,000
6.	**Tangible assets**	
	Machineries	1,00,000

(5 MARKS)

ANSWER - 2

1. Journal Entries in the books of Platinum Ltd.

			Rs.	Rs.
	Bank A/c (1,00,000 x Rs. 10)	Dr.	10,00,000	
	To Equity share capital A/c			10,00,000
	(Being money on final call received)			
	Equity share capital (Rs. 50) A/c	Dr.	75,00,000	
	To Equity share capital (Rs. 40) A/c			60,00,000
	To Capital Reduction A/c			15,00,000
	(Being conversion of equity share capital of Rs. 50 each into Rs. 40 each as per reconstruction scheme)			
	Bank A/c	Dr.	12,50,000	
	To Equity Share Capital A/c			12,50,000
	(Being new shares allotted at Rs. 40 each)			
	Trade payables A/c	Dr.	12,40,000	
	To Equity share capital A/c			7,50,000
	To Bank A/c (4,90,000 x 70%)			3,43,000
	To Capital Reduction A/c			1,47,000
	(Being payment made to trade payables in shares or cash to the extent of 70% as per reconstruction scheme)			
	8% Debentures A/c	Dr.	3,00,000	

		12% Debentures A/c Dr.	4,00,000	
		To Shiv A/c		7,00,000
		(Being cancellation of 8% and 12% debentures of Shiv)		
		Bank A/c Dr.	1,00,000	
		To Shiv A/c		1,00,000
		(Being new debentures subscribed by Shiv)		
		Shiv A/c Dr.	8,00,000	
		To 15% Debentures A/c		6,00,000
		To Capital Reduction A/c		2,00,000
		(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)		
		8% Debentures A/c Dr.	1,00,000	
		12% Debentures A/c Dr.	2,00,000	
		To Ganesh A/c		3,00,000
		(Being cancellation of 8% and 12% debentures of Ganesh)		
		Ganesh A/c Dr.	3,00,000	
		To 15% Debentures A/c		2,50,000
		To Capital Reduction A/c		50,000
		(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)		
		Land and Building Dr.	9,14,000	
		(51,84,000 – 42,70,000)		
		Inventories Dr.	30,000	
		To Capital Reduction A/c		9,44,000
		(Being value of assets appreciated)		
		Outstanding expenses A/c Dr.	10,60,000	
		To Bank A/c		10,60,000
		(Being outstanding expenses paid in cash)		

	Capital Reduction A/c Dr.	33,41,000	
	To Machinery A/c		1,30,000
	To Computers A/c		1,20,000
	To Trade receivables A/c		1,09,000
	To Goodwill A/c		22,00,000
	To Profit and Loss A/c (Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance, goodwill and downfall in value of other assets)		7,82,000
	Capital Reserve A/c Dr.	5,00,000	
	To Capital Reduction A/c (Being debit balance of capital reduction account adjusted against capital reserve)		5,00,000

(13*1 = 13 MARKS)

Balance Sheet (as reduced) as on 31.3.2019

	Particulars	*Notes*	*Rs.*
	Equity and Liabilities		
1	**Shareholders' funds**		
a	Share capital	1	80,00,000
2	**Non-current liabilities**		
a	Long-term borrowings	2	8,50,000
	Total		**88,50,000**
	Assets	3	
1	**Non-current assets**		
a	Property, Plant and Equipment		
	Tangible assets		63,04,000
2	Current assets		
a	Inventories		3,50,000
b	Trade receivables		9,81,000
c	Cash and cash equivalents		12,15,000
	Total		**88,50,000**

Notes to accounts

			Rs.
1.	**Share Capital**		
	2,00,000 Equity shares of Rs. 40		80,00,000
2.	**Long-term borrowings**		
	Secured		
	15% Debentures (assumed to be secured)		8,50,000

3.	**Tangible assets**		
	Land & Building	51,84,000	
	Machinery	7,20,000	
	Computers	4,00,000	63,04,000

(3 MARKS)

Working Notes:

1. Cash at Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	2,68,000	By Trade Creditors A/c	3,43,000
To Equity Share capital A/c	10,00,000	By Outstanding expenses A/c	10,60,000
To Equity Share Capital A/c	12,50,000	By Balance c/d (bal. fig.)	12,15,000
To Shiv A/c	1,00,000		
	26,18,000		26,18,000

2. Capital Reduction Account

Particulars	*Rs.*	*Particulars*	*Rs.*
To Machinery A/c	1,30,000	By Equity Share Capital A/c	15,00,000
To Computers A/c	1,20,000	By Trade Creditors A/c	1,47,000
To Trade receivables A/c	1,09,000	By Shiv A/c	2,00,000
To Goodwill A/c	22,00,000	By Ganesh A/c	50,000
To Profit and Loss A/c	7,82,000	By Land & Building	9,14,000
		By Inventories	30,000
		By Capital Reserve A/c	5,00,000
	33,41,000		33,41,000

(2*2 = 4 MARKS)

ANSWER – 3

ANSWER – A

The term "Accrual" has been explained in the AS 1 on Disclosure of Accounting Policies, as "Revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate"

Reasons for Accrual Basis of Accounting

1. Accrual basis of accounting, attempts to record the financial effects of the transactions, events, and circumstances of an enterprises in the period in which they occur rather than recording them in the period(s) in which cash is received or paid by the enterprise.
2. Receipts and payments of the period will not coincide with the buying producing or selling events and other economic events that affect entity performance.
3. The goal of Accrual basis of accounting is to follow the matching concept of income and expenditure so that reported net income measures an enterprise's performance during a period instead of merely listing its cash receipts and payments.
4. Accrual basis of accounting recognizes assets, liabilities or components of revenues and expenses for amounts received or paid in cash in past, and amounts expected to be

received or paid in cash in the future.

5. Important point of difference between accrual and accounting based on cash receipts and outlay is in timing of recognition of revenues, expenses, gains and losses.

(5 MARKS)

ANSWER – B

According to AS 4 on 'Contingencies and Events Occurring after the Balance Sheet Date', adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. However, adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. "Contingencies" used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur.

(i) Fire has occurred after the balance sheet date and also the loss is totally insured. Therefore, the event becomes immaterial and the event is non- adjusting in nature.

(ii) The contingency is restricted to conditions existing at the balance sheet date. However, in the given case, suit was filed against the company's advertisement by a party on 10th April for amount of Rs. 20 lakhs. Therefore, it does not fit into the definition of a contingency and hence is a non-adjusting event.

(5 MARKS)

ANSWER – 4

ANSWER – A

As per AS 11 "The Effects of Changes in Foreign Exchange Rates", an enterprise may enter into a forward exchange contract to establish the amount of the reporting currency required, the premium or discount arising at the inception of such a forward exchange contract should be amortized as expenses or income over the life of the contract.

Forward Rate	62.50
Less: Spot Rate	(Rs. 60.75)
Premium on Contract	Rs. 1.75
Contract Amount US$ 5,00,000	
Total Loss (5,00,000 x 1.75)	Rs. 8,75,000

Contract period 5 months

3 months falling in the year 2017-18; therefore loss to be recognized in 2017-18 (8,75,000/5) x 3 = Rs. 5,25,000. Rest Rs. 3,50,000 will be recognized in the following year 2018-19.

(5 MARKS)

ANSWER – B

As per AS 13 'Accounting for Investments', the accounting standard is not applicable to Bank, Insurance Company, Mutual Funds. In this case Z Bank is a bank, therefore, AS 13 does not apply to it. For banks, the RBI has issued separate guidelines for classification and valuation of its investment and Z Bank should comply with those RBI Guidelines/Norms. Therefore, though Z Bank has not followed the provisions of AS 13, yet it would not be said as non-compliance since, it is complying with the norms stipulated by the RBI.

(5 MARKS)