



J.K. SHAH[®]
TEST SERIES
Evaluate Learn Succeed

SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- ACCOUNTS & ADVANCED ACCOUNTS

Test Code – CIM 8554

BRANCH - () (Date :)

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

Tel : (022) 26836666

ANSWER : 1

(a)

Revenue Statement
for the year ended 31st March, 2019

| | Singapore dollar | | Singapore dollar |
|---|------------------|---------------------|------------------|
| To Opening Stock | 12,000.00 | By Sales | 47,058.82 |
| To Purchases | 31,372.55 | By Closing stock | 30,000.00 |
| To Wages | 21,960.78 | (15,60,000/52) | |
| To Gross profit b/d | <u>11,725.49</u> | | |
| | <u>77,058.82</u> | | <u>77,058.82</u> |
| To Rent, rates and taxes | 14,117.65 | By Gross profit c/d | 11,725.49 |
| To Sundry Expenses | 6,274.51 | By Net loss b/d | 13,466.67 |
| To Depreciation on computers (Singapore dollar 12,000 × 0.4) | <u>4,800.00</u> | | |
| | <u>25,192.16</u> | | <u>25,192.16</u> |

(4 MARKS)

Balance Sheet of Delhi Branch
as on 31st March, 2019

| <i>Liabilities</i> | | Singapore dollar | <i>Assets</i> | | Singapore dollar | Singapore dollar |
|----------------------|--------------------|------------------|--------------------|-------------------|------------------|------------------|
| Singapore Office A/c | 59,897.43 | | Computers | 12,000.00 | | |
| Less: Net Loss | <u>(13,466.67)</u> | 46,430.76 | Less: Depreciation | <u>(4,800.00)</u> | | 7,200.00 |
| Sundry creditors | | 11,538.46 | Closing stock | | | 30,000.00 |
| Bills payable | | 9,230.77 | Sundry debtors | | | 15,384.61 |
| | | | Bank balance | | | 10,000.00 |
| | | | Bills receivable | | | 4,615.38 |
| | | <u>67,199.99</u> | | | | <u>67,199.99</u> |

(2 MARKS)

Working Note:

M/s Rani & Co. Delhi Branch Trial Balance in (Singapore \$)
as on 31st March, 2019

| | | | <i>Conversion</i> | <i>Dr.</i> | <i>Cr.</i> |
|---------------------------------|--------------|--------------|---------------------------------|---------------------|---------------------|
| | | | rate per Singapore dollar | Singapore dollar | Singapore dollar |
| | | | () | | |
| Stock on 1.4.18 | 6,00,000.00 | | 50 | 12,000.00 | - |
| Purchases and sales | 16,00,000.00 | 24,00,000.00 | 51 | 31,372.55 | 47,058.82 |
| Sundry Debtors and Creditors | 8,00,000.00 | 6,00,000.00 | 52 | 15,384.61 | 11,538.46 |
| Bills of exchange | 2,40,000.00 | 4,80,000.00 | 52 | 4,615.38 | 9,230.77 |
| Wages | 11,20,000.00 | | 51 | 21,960.78 | - |
| Rent, rates and taxes | 7,20,000.00 | | 51 | 14,117.65 | - |

| | | | | | |
|----------------------|-------------|--|----|-------------|-------------|
| Sundry Expenses | 3,20,000.00 | | 51 | 6,274.51 | – |
| Computers | 6,00,000.00 | | – | 12,000.00 | – |
| Bank balance | 5,20,000.00 | | 52 | 10,000.00 | – |
| Singapore office A/c | | | – | | 59,897.43 |
| | | | | 1,27,725.48 | 1,27,725.48 |

(4 MARKS)

ANSWER : 2

(a) On the basis of the information, in respect of hire purchase and leased assets, additional provision shall be made as under:

| <i>(Rs. in crore)</i> | | |
|--|---|-------|
| a) Where hire charges are overdue upto 12 months | Nil | – |
| b) Where hire charges are overdue for more than 12 months but up to 24 months | 10% of the net book value 10% x 2,000 | 200 |
| (c) Where hire charges are overdue for more than 24 months but upto 36 months | 40 percent of the net book value 40% x 1,250 | 500 |
| (d) Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months | 70 percent of the net book value 70% x 600 | 420 |
| (e) Where hire charges or lease rentals are overdue for more than 48 months | 100% of net book value (100% x 100) | 100 |
| | Total | 1,220 |

(5*1 = 5 MARKS)

(B) Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017

| | Particulars | Note No. | Rs. In Lakhs |
|-----------|-------------------------------|----------|--------------|
| I. | Equity and Liabilities | | |
| 1. | Shareholders' Funds | | |
| | (a) Share Capital | 1 | 19,000 |
| | (b) Reserves and Surplus | 2 | 5,620 |
| 2. | Minority interest | 3 | 3,400 |
| 3. | Current Liabilities | | |
| | (a) Trade payables | 4 | 2,623 |
| | Total | | 30,643 |
| II | Assets | | |

| | | | |
|----------|-------------------------------|---|--------|
| 1 | Non Current Assets | | |
| | Fixed Assets | | |
| | (i) Tangible Assets | 5 | 17,435 |
| 2 | Current Assets | | |
| | (a) Inventories | 6 | 6,632 |
| | (b) Trade Receivables | 7 | 4,842 |
| | (c) Cash and Cash equivalents | 8 | 1,734 |
| | | | 30,643 |

Notes to Accounts

| | | Rs. in lakhs | |
|-----------|---|--------------|--------|
| 1. | Share Capital | | |
| | Issued, Subscribed and Paid up (1,500 lakh Equity Shares of Rs. 10 each fully paid up) | | 15,000 |
| | 400 lakh Preference Shares of Rs. 10 each fully paid up | | 4,000 |
| | | | 19,000 |
| 2. | Reserves and Surplus | | |
| | Credit Balance of Profit & Loss Account | 2,750 | |
| | Less : Capital Receipt wrongly credited (Dividend @ 10% on Rs. 4500 Lakh Equity Shares) | 450 | |
| | Add : Share in Y Ltd. Revenue Profit (Working Note i) | 825 | |
| | | 3,125 | |
| | Less : Unrealised Profit (Working Note iv) | 30 | 3,095 |
| | Capital Reserve (Working Note iii) | 25 | |
| | General Reserve | 2,500 | 2,525 |
| | | | 5,620 |
| 3. | Minority interest | | |
| | 100 Lakh Preference Shares of Rs. 10 fully paid up | 1,000 | |
| | 150 Lakh Equity Shares of Rs. 10 each fully paid up | 1,500 | 2,500 |
| | Share in Revenue Profits (Working Note i) | 275 | |
| | Share in Capital Profit (Working Note ii) | 625 | 900 |
| | | | 3,400 |
| 4. | Trade Payables | | |
| | X Ltd. | 1,646 | |
| | Y Ltd. | 1,027 | |
| | | 2,673 | |
| | Less : Mutual owing | 50 | 2,623 |
| 5. | Tangible Assets | | |
| | Land and Building | | |
| | X Ltd. | 3,550 | |
| | Y Ltd. | 1,510 | 5,060 |
| | Plant & Machinery | | |

| | | | |
|-----------|------------------------------------|-------|--------|
| | X Ltd. | 5,275 | |
| | Y Ltd. (Working note v) | 4,500 | 9,775 |
| | Furniture & Fixtures | | |
| | X Ltd. | 1,945 | |
| | Y Ltd. | 655 | 2,600 |
| | | | 17,435 |
| 6. | Inventories | | |
| | X Ltd. | 4,142 | |
| | Y Ltd. | 2,520 | |
| | | 6,662 | |
| | Less : Unrealized Profit | (30) | 6,632 |
| 7. | Trade Receivables | | |
| | X Ltd. | 3,010 | |
| | Y Ltd. | 1,882 | |
| | | 4,892 | |
| | Less : Mutual Owing | 50 | 4,842 |
| 8. | Cash & Cash Equivalents | | |
| | X Ltd. | 1,174 | |
| | Y Ltd. | 560 | 1,734 |

(8 MARKS)

Working Notes

(i) Calculation of Revenue Profits

Y's Ltd. Profit & Loss Account

| | Rs. In Lakh | | Rs. in Lakh |
|--------------------|-------------|---------------------------------------|-------------|
| To Equity Dividend | | By Balance b/d | 650 |
| 10% of 6,000 lakh | 600 | By Net profit for the year (Bal Fig.) | 1,200 |
| To balance c/d | 1,250 | | |
| | 1,850 | | 1,850 |

Depreciation provided on Plant & Machinery

| | |
|---|-------|
| Balance as on 1 st April, 2016 | 4,000 |
| Less Balance as 31 st March 2017 | 3,600 |
| | 400 |
| Hence rate of Depreciation = $400/4000 \times 100$ | 10% |
| Net Profit for the year ended 31 st March 2017 | 1,200 |
| Less : Additional Depreciation | 100 |
| Revenue Profit | 1,100 |
| X Ltd.'s share = $1100 \times 450/600$ | 825 |
| Y Ltd' share = $1100 \times 150/600$ | 275 |

(ii) Calculation of Capital Profits

| | |
|--|-------|
| Profit & Loss Balance on on 1 st April, 2016 | 650 |
| Less : Dividend Paid | 600 |
| | 50 |
| Add : General Reserve as on 1 st April, 2016 | 1,450 |
| Add : Profit on Revaluation of Plant & machinery | 1,000 |
| Capital profit | 2,500 |
| X Ltd's Share in Capital Profit = $2,500 \times 450/600$ | 1,875 |
| Y Ltd's Share in Capital Profit = $2,500 \times 150/600$ | 625 |

(iii) Calculation of Capital Reserve

| | |
|---|-------|
| Paid up value of 450 Lakh equity shares | 4,500 |
| Add : Share in Capital Profits | 1,875 |
| | 6,375 |
| Amount Paid to acquire the 450 Lakh Equity Shares | 6,800 |
| Less : Dividend received out of Pre acquisition profits | 450 |
| | 6,350 |
| Capital Reserve = $6,375 - 6,350$ | 25 |

(iv) Unrealized Profit

Rs. 150 Lakh $\times 25/125^* = 30$ lakh

(v) Plant & Machinery of Y Ltd.

| | | |
|--|-------|-------|
| Balance as on 31 st March, 2017 | | 3,600 |
| Add : Addition due to revaluation | 1,000 | |
| Less : Depreciation on additional Value of Plant & Machinery @ 10% | 100 | 900 |
| | | 4,500 |

* Rs. 150 lakh considered as cost to Y Ltd.

(7 MARKS)

ANSWE R : 3

(A)

- (i) In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2018. Subsequently in 2018-19, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year.
- (ii) As per AS 5, 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. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous policy, will not be treated as change in an accounting policy.
- (iii) Change in useful life of furniture from 5 years to 3 years is a change in estimate and is not a change in accounting policy.

- (iv) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy.
- (v) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

(5 MARKS)

- (B)** AS 16 clearly states that capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Therefore, interest on the amount that has been used for the construction of the building up to the date of completion (January, 2019) i.e. Rs. 18 lakhs alone can be capitalized. It cannot be extended to Rs. 25 lakhs.

(5 MARKS)

- (C)** As per AS 17 if primary format of an enterprise for reporting segment information is business segments, it should also report segment revenue from external customers by geographical area based on the geographical location of its customers, for each geographical segment whose revenue from sales to external customers is 10 per cent or more of enterprise revenue. Accordingly, for the purposes of disclosing secondary segment information, PK Ltd. is not required to disclose segment revenue from export sales to UK, since that segment does not meet the 10 per cent or more of enterprise revenue threshold. However, other secondary segment information as per AS 17 should be disclosed in respect of this segment if the thresholds prescribed in the AS 17 are met.

(5 MARKS)

- (D)** A provision should be recognized only when an enterprise has a present obligation arising from a past event or obligation. In the given case, there is no present obligation but a future one, therefore no provision is recognized as per AS 29.

The cost of overhauling aircraft is not recognized as a provision because it is a future obligation and the incurring of the expenditure depends on the company's decision to continue operating the aircrafts. Even a legal requirement to overhaul does not require the company to make a provision for the cost of overhaul because there is no present obligation to overhaul the aircrafts. Further, the enterprise can avoid the future expenditure by its future action, for example by selling the aircraft. However, an obligation might arise to pay fines or penalties under the legislation after completion of five years. Assessment of probability of incurring fines and penalties depends upon the provisions of the legislation and the stringency of the enforcement regime. A provision should be recognized for the best estimate of any fines and penalties if airline continues to operate aircrafts for more than five years.

(5 MARKS)