SUGGESTED SOLUTION

INTERMEDIATE M'19 EXAM

SUBJECT- AS AND ADVANCED ACCOUNTS

Test Code – CIM 8063

(Date :09.09.2018)

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ANSWER-1

ANSWER-A

(i) **(2 MARKS)**

Share capital	Non-monetary
Trade receivables	Monetary
Investment in equity shares	Non-monetary
Fixed assets	Non-monetary

(ii) As per AS 11 on 'The Effects of Changes in Foreign Exchange Rates', all foreign currency transactions should be recorded by applying the exchange rate on the date of transactions. Thus, goods purchased on 1.1.2017 and corresponding creditor would be recorded at Rs. 11,25,000 (i.e. $15,000 × Rs. 75)

According to the standard, at the balance sheet date all monetary transactions should be reported using the closing rate. Thus, creditors of US $15,000 on 31.3.2017 will be reported at Rs. 11,10,000 (i.e. $15,000 × Rs. 74) and exchange profit of Rs. 15,000 (i.e. 11,25,000 – 11,10,000) should be credited to Profit and Loss account in the year 2016-17.

On 7.7.2017, creditors of $15,000 is paid at the rate of Rs. 73. As per AS 11, exchange difference on settlement of the account should also be transferred to Profit and Loss account. Therefore, Rs. 15,000 (i.e. 11,10,000 – 10,95,000) will be credited to Profit and Loss account in the year 2017-18. **(3 MARKS)**

ANSWER-B **(5 MARKS)**

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i): 25% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 3,00,000 (75% of Rs. 4,00,000) for the year ended on 31.3.17. In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (ii): The sale is complete but delivery has been postponed at buyer's request. Fashion Ltd. should recognize the entire sale of Rs.1,95,000 for the year ended 31st March, 2017.

Case (iii): In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting Rs. 2,50,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting Rs. 7,45,000 (3,00,000+1,95,000+2,50,000) will be recognized for the year ended 31st March, 2017 in the books of Fashion Ltd.

ANSWER-2

Statement showing underwriters' liability for shares other than shares under-written firm

	X	Y	Z	Total
Gross liability (Issued shares – purchased by promoters, directors etc) (9,00,000 shares in the ratio of 65 : 25 : 10)	5,85,000	2,25,000	90,000	9,00,000
Less: Marked applications	(1,19,500)	(57,500)	(10,500)	(1,87,500)
	4,65,500	1,67,500	79,500	7,12,500
Less : Allocation of unmarked applications (including firm underwriting i.e. 7,00,000) in the ratio 65 : 25 : 10	(4,55,000)	(1,75,000)	(70,000)	(7,00,000)
	10,500	(7,500)	9,500	12,500
Surplus of Y allocated to X and Z in the ratio 65 : 10	(6,500)	7,500	(1,000)	–
Additional shares to be purchased by X & Z	4,000	–	8,500	12,500

	X Rs.	Y Rs.	Z Rs.
Additional Liability for additional shares @ Rs.11	44,000	–	93,500
Underwriting commission payable on Gross Liability (Shares underwritten as Gross liability × Rs.11 × 2%)	(1,28,700)	(49,500)	(19,800)
Net Amount payable	(84,700)	(49,500)	-
Net Amount receivable	-	-	73,700

(4 MARKS)

(ii) Journal Entries

		Dr. Rs.	Cr. Rs.
Bank A/c	Dr.	11,00,000	
To Equity Shares Application A/c			11,00,000
(Being application money received on 1 lakh equity shares purchased by directors etc. @ Rs.11 per share)			
Bank A/c	Dr.	97,62,500	

To Equity Share Application A/c			97,62,500
(Application money received on 8,87,500 equity shares @ Rs.11 per share from general public and underwriters for shares underwritten firm)			
Equity Share Application A/c	Dr.	1,08,62,500	
X' s A/c	Dr.	44,000	
Z' s A/c	Dr.	93,500	
To Equity Share Capital A/c			1,00,00,000
To Securities Premium A/c			10,00,000
(Allotment of 10 lakh equity shares of Rs.10 each at a premium of Rs.1 per share)			
Underwriting commission A/c	Dr.	1,98,000	
To X's A/c			1,28,700
To Y's A/c			49,500
To Z's A/c			19,800
(Amount of underwriting commission payable to X, Y and Z @2% on the amount of shares underwritten)			
Bank A/c	Dr.	73,700	
To Z's A/c			73,700
(Amount received from Z in final settlement)			
X's A/c	Dr.	84,700	
Y's A/c	Dr.	49,500	
To Bank A/c			1,34,200
(Amount paid to X and Y in final settlement)			

(6*1=6 MARKS)

ANSWER-3

ANSWER-A

1. **Purchase Consideration:** **(1 MARK)**

Particulars	Computation	Rs.
Value of Shares issued by Anu Ltd. Cash paid	Rs. 15 x 4,50,000 Shares Rs. 2.5 x 3,00,000 Shares	67,50,000 7,50,000
Total		**75,00,000**

2. **Determination of new 8% Debentures to be issued** **(1 MARK)**

Particulars	Rs.
Amount due to Debenture holders of SRISHTI Ltd = Face Value 5,00,000 + 20% Premium	6,00,000
So, Value of Debentures @ 96% = $\frac{\text{Rs.6,00,000}}{96\%}$	2,62,500

3. **Journal Entries in the books of ANU Ltd (for acquisition of business)**

	Particulars		Debit (Rs.)	Credit(Rs.)
1.	Business Purchase A/c	Dr.	75,00,000	
	To Liquidator of Srishti Ltd A/c			75,00,000
	(Being purchase of business from Srishti Ltd & Consideration due thereon)			
2.	Tangible Fixed Asset A/c Dr. (30,00,000 + 100%)	Dr.	60,00,000	
	Debtors A/c Dr. (given)	Dr.	1,80,000	
	Stock A/c Dr. (given)	Dr.	7,10,000	
	Goodwill A/c Dr. (bal.fig)	Dr.	11,19,000	
	To 9% Debentures A/c (Old)			5,00,000
	To Provision for Bad Debts A/c (5% on Rs. 1,80,000)			9,000
	To Business Purchase A/c			75,00,000
	(Being various assets & liabilities of Srishti Ltd taken over)			
3.	Liquidator of Srishti Ltd A/c	Dr.	75,00,000	
	To Equity Share Capital A/c (4,50,000 Shares at Rs.10)			45,00,000
	To Securities Premium A/c			22,50,000
	To Cash			7,50,000
	(Being allotment of 4,50,000 shares at Rs. 15 each (FV: Rs. 10, Premium: Rs. 5) to Liquidator of Srishti Ltd, in satisfaction of purchase consideration + cash payment.)			
4.	Amalgamation Adjustment Reserve Dr.	Dr.	8,50,000	
	To Export Profit Reserve A/c			8,50,000
	(Being Statutory Reserve to be maintained for 1 more year.)			
5.	9% Debentures A/c (Old) Dr. (FV of Debentures)	Dr.	5,00,000	
	Goodwill A/c Dr. (Premium to Debentureholders)	Dr.	1,00,000	

	Discount on Debentures A/c Dr. (4 % on 6,25,000)	Dr.	25,000	
	To 8% Debentures A/c			6,25,000
	(Being 9% Debenture of Srishti Ltd, settled by issue of 8% Debentures of Anu Ltd.)			
6.	Goodwill A/c	Dr.	50,000	
	To Cash A/c			50,000
	(Being the Liquidation Cost of Srishti Ltd, reimbursed by Anu Ltd partly.)			

(6*1=6 MARKS)

4. LEDGER A/cs IN THE BOOKS OF SRISHTI Ltd

(a) Realisation A/c

Particulars	Rs.	Particulars	Rs.
To Goodwill A/c	5,00,000	By Anu Ltd A/c	75,00,000
To Tangible Fixed Assets A/c	30,00,000	(Purchase Consideration)	
To Stock A/c	10,40,000	By Debentures A/c	5,00,000
To Debtors A/c	1,80,000	By Creditors A/c	1,00,000
To Cash & Bank A/c (Liquidation Expenses, own share)	75,000 2,55,000		
To Cash & Bank A/c (transfer) (See Note below 4d)	31,00,000		
To Profit on Realization (Tfr to Equity Shareholders A/c)			
Total	**81,50,000**	**Total**	**81,50,000**

(2.5 MARKS)

(b) Equity Shareholders A/c

Particulars	Rs.	Particulars	Rs.
To Preliminary Expenses	50,000	By balance C/d	30,00,000
To Shares of Anu Ltd – settlement	67,50,000	By Realisation A/c (W.N.4a)	31,00,000
To Cash - settlement	7,50,000	By General Reserve (transfer)	50,000
		By Profit & Loss A/c (transfer)	5,50,000
		By Export Profit Reserve A/c (transfer)	8,50,000
Total	**75,50,000**	**Total**	**75,50,000**

(2 MARKS)

(c) Anu Ltd A/c

Particulars	Rs.	Particulars	Rs.
To Realisation A/c (Purchase Consideration)	75,00,000	By Equity Shares in ANU Ltd BY Cash A/c	67,50,000 7,50,000
Total	**75,00,000**	**Total**	**75,00,000**

(1 MARK)

(d) Debentures A/c

Particulars	Rs.	Particulars	Rs.
To Realisation A/c - transfer	5,00,000	By balance b/d	5,00,000
Total	**5,00,000**	**Total**	**5,00,000**

Note: Given Cash and Bank Balances of Srishti Ltd is Rs. 2,80,000, out of which it has to pay its own share of Liquidation Expenses Rs. 75,000 less Rs. 50,000 = Rs. 25,000. Hence, Balance Cash and Bank taken over by Anu Ltd = Rs. 2,80,000 less Rs. 25,000 = Rs. 2,55,000. **(1.5 MARKS)**

ANSWER-B

Since there is Inter-Company Shareholding, Simultaneous Equations Method is applied.

Computation of Net Assets

Particulars	Arun	Bhairav
Investment in Equity Shares of B Ltd (1000 / 4000) = 1/4th	1/4th x B	-
Investment in Equity Shares of A Ltd (2000 / 5000) = 2/5th		2/5th x A
Sundry Assets	7,70,000	4,40,000
Less: 10 % Debentures	(2,00,000)	(1,50,000)
Net Assets (Let Intrinsic Value of Arun Ltd and Bhairav Ltd be 'A' & 'B')	A	B

The two equations are: A = 5,70,000 + $\frac{1}{4}$ B......Eqn 1, and B = 2,90,000 + $\frac{2}{5}$ A .....Eqn 2

By substituting value of A from Equation 1 in Equation 2, we get, B = 2,90,000 + $\frac{2}{5}$ (5,70,000+ $\frac{1}{4}$ B)

So, B = 2,90,000 + 2,28,000 + $\frac{1}{10}$ B. B – $\frac{1}{10}$ B = 5,18,000. i.e. $\frac{9}{10}$ B = 5,18,000 B = 5,18,000 x $\frac{10}{9}$

So, B = Rs. 5,75,556 (approx.)

Upon substituting value of B in Equation 1, we get A = 5,70,000 + $\frac{1}{5}$ (5,75,556) = Rs. 7,13,889 (Approx)

(5 MARKS)

ANSWER-4

ANSWER-A **(5 MARKS)**

According to AS 10 on Property, Plant and Equipment, the costs which will be capitalized by ABC Ltd.:

	Rs.
Cost of the plant	31,25,000
Initial delivery and handling costs	1,85,000
Cost of site preparation	4,50,000
Consultants' fees	6,50,000
Estimated dismantling costs to be incurred after 5 years	2,50,000
Total cost of Plant	46,60,000

Note: Operating losses before commercial production amounting to Rs. 3,75,000 will not be capitalized as per AS 10. They should be written off to the Statement of Profit and Loss in the period they are incurred.

ANSWER-B **(5 MARKS)**

Desire Limited amortised Rs. 20,00,000 per annum for the first two years i.e. Rs. 40,00,000. The remaining carrying cost can be amortized during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows:

Year	*Net cash flows Rs.*	*Amortization Ratio*	*Amortization Amount Rs.*
I	-	0.200	20,00,000
II	-	0.200	20,00,000
III	45,00,000	0.225	13,50,000
IV	42,00,000	0.21	12,60,000
V	40,00,000	0.20	12,00,000
VI	38,00,000	0.19	11,40,000
VII	35,00,000	0.175	10,50,000

Total	2,00,00,000	1.000	1,00,00,000

It may be seen from above that from third year onwards, the balance of carrying amount i.e., Rs. 60,00,000 has been amortized in the ratio of net cash flows arising from the product of Desire Ltd.