J.K. SHAH®
TEST SERIES
Evaluate Learn Succeed

SUGGESTED SOLUTION

INTERMEDIATE M'19 EXAM

SUBJECT- AS AND ADVANCED ACCOUNTS

Test Code – CIM 8064

(Date :09.09.2018)

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

Tel : (022) 26836666

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

In the Books of Vayu Ltd.

Realisation Account

	Rs.		**Rs.**
To Sundry Assets To Preference Shareholders (Premium on Redemption) To Equity Shareholders (Profit on Realisation)	5,70,000 10,000 50,000	By Retirement Gratuity Fund By Trade payables By Hari Ltd. (Purchase Consideration)	20,000 80,000 5,30,000
	6,30,000		**6,30,000**

Equity Shareholders Account

	Rs.		**Rs.**
To Equity Shares of Hari Ltd.	4,20,000	By Share Capital By General Reserve By Realisation Account (Profit on Realisation)	3,00,000 70,000 50,000
	4,20,000		**4,20,000**

Preference Shareholders Account

	Rs.		Rs.
To 9% Preference Shares of Hari Ltd.	1,10,000	By Preference Share Capital By Realisation Account (Premium on Redemption of Preference Shares)	1,00,000 10,000
	1,10,000		**1,10,000**

Hari Ltd. Account

	Rs.		**Rs.**
To Realisation Account	5,30,000	By 9% Shares Equity By Preference Shares	1,10,000 4,20,000
	5,30,000		**5,30,000**

(0.5*4 = 2 MARKS)

In the Books of Hari Ltd.

Journal Entries

		Dr. Rs.	Cr. Rs.
Business Purchase A/c	Dr.	5,30,000	
To Liquidators of Vayu Ltd. Account			5,30,000
(Being business of Vayu Ltd. taken over)			
Goodwill Account	Dr.	50,000	
Building Account	Dr.	1,50,000	
Machinery Account	Dr.	1,60,000	
Inventory Account	Dr.	1,57,500	
Trade receivables Account	Dr.	1,00,000	
Bank Account	Dr.	20,000	
To Retirement Gratuity Fund Account			20,000
To Trade payables Account			80,000
To Provision for Doubtful Debts Account			7,500
To Business Purchase A/c			5,30,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Vayu Ltd. A/c	Dr.	5,30,000	
To 9% Preference Share Capital A/c			1,10,000
To Equity Share Capital A/c			4,00,000
To Securities Premium A/c			20,000
(Being Purchase Consideration satisfied as above).			

(0.5*3=1.5 MARKS)

Balance Sheet of Hari Ltd. (after absorption) as at 31st March, 20X1

Particulars			Notes	Rs.
	Equity and Liabilities			
1.	**Shareholders' funds**			
	A.	Share capital	1	16,10,000
	B.	Reserves and Surplus	2	90,000
2.	**Non-current liabilities**			
	A	Long-term provisions	3	70,000
3.	**Current liabilities**			
	A.	Trade Payables		2,10,000
	B.	Short term provision		7,500
	Total			**19,87,500**
	Assets			
1.	**Non-current assets**			
	A	Fixed assets		
		Tangible assets	4	11,10,000
		Intangible assets	5	1,00,000
2.	**Current assets**			
	A.	Inventories		4,07,500
	B.	Trade receivables	6	3,00,000
	C.	Cash and cash equivalents		70,000

	Total	19,87,500

Notes to accounts

		Rs.
1.	**Share Capital**	
	Equity share capital	
	1,40,000 Equity Shares of Rs. 10 each fully paid	14,00,000
	(Out of above 40,000 Equity Shares were issued in consideration other than for cash)	
	Preference share capital	
	2,100 9% Preference Shares of Rs. 100 each	2,10,000
	(Out of above 1,100 Preference Shares were issued in consideration other than for cash)	
	Total	**16,10,000**
2.	**Reserves and Surplus**	
	Securities Premium	20,000
	General Reserve	70,000
	Total	**90,000**
3.	**Long-term provisions**	
	Gratuity fund	70,000
	Total	**70,000**
4.	**Short term Provisions**	
	Provision for Doubtful Debts	7,500
5.	**Tangible assets**	
	Buildings	4,50,000
	Machinery	6,60,000
	Total	**11,10,000**
6.	**Intangible assets**	
	Goodwill	1,00,000
	Total	**1,00,000**
7.	**Trade receivables**	**3,00,000**

Working Notes:

Purchase Consideration:	**Rs.**
Goodwill	50,000
Building	1,50,000
Machinery	1,60,000
Inventory	1,57,500
Trade receivables	92,500
Cash at Bank	20,000
	6,30,000
Less: Liabilities:	
Retirement Gratuity	(20,000)

Trade payables	(80,000)
Net Assets/ Purchase Consideration	5,30,000
To be satisfied as under:	
10% Preference Shareholders of Vayu Ltd.	1,00,000
Add: 10% Premium	10,000
1,100 9% Preference Shares of Hari Ltd.	1,10,000
Equity Shareholders of Vayu Ltd. to be satisfied by issue of 40,000	
Equity Shares of Hari Ltd. at 5% Premium	4,20,000
Total	**5,30,000**

(6.5 MARKS)

ANSWER-3

ANSWER-A

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

Particulars	Computation	Rs.
Value of Shares issued by Anu Ltd.	Rs. 15 x 4,50,000 Shares	67,50,000
Cash paid	Rs. 2.5 x 3,00,000 Shares	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 To Shares of Anu Ltd – settlement To Cash - settlement	50,000 67,50,000 7,50,000	By balance C/d By Realisation A/c (W.N.4a) By General Reserve (transfer) By Profit & Loss A/c (transfer) By Export Profit Reserve A/c (transfer)	30,00,000 31,00,000 50,000 5,50,000 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)

As per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment 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.

A debtor for Rs. 20,00,000 suffered heavy loss due to earthquake in the last week of February, 2017 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in April, 2017 (after the balance sheet date) is only an additional information related to the condition existing on the balance sheet date.

Accordingly, full provision for bad debts amounting Rs. 20,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2017. Since the company has already made 5% provision of its total debtors, additional provision amounting Rs. 19,00,000 shall be made (20,00,000 x 95%) for the year ended 31st March, 2017.

ANSWER-B

(5 MARKS)

		Year 2015-16 (Rs.)	Year 2016-17 (Rs.)
(i)	EPS for the year 2015-16 as originally reported = Net profit for the year attributable to equity share holder / weighted average number of equity shares outstanding during the year Rs. 35,00,000/ 15,00,000 shares	2.33	
(ii)	EPS for the year 2015-16 restated for the right issue Rs. 35,00,000/15,00,0000 shares x 1.08	2.16	

(iii)	EPS for the year 2016-17 (including effect of right issue) Rs. 45,00,000 / [(15,00,000x1.08 x 4/12) + (20,00,000x8/12)]		2.40

Working Notes:

1. **Computation of theoretical ex-rights fair value per share =**

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights+total amount received from exercise}}{\text{Number of shares outstanding prior to exercise + number of shares issued in the exercise}}$$

[(Rs. 35 x15,00,000) + (Rs. 25 x 5,00,000)] / (15,00,000 + 5,00,000) = Rs. 32.5

2. **Computation of adjustment factor**

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}}$$

= Rs. 35 /32.50 = 1.08 (approx.)