SUGGESTED SOLUTION

INTERMEDIATE M'19 EXAM

SUBJECT- AS AND ACCOUNTS

Test Code – CIM 8065

(Date :)

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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

Trading and Profit and Loss Account of Mr. Shiv Kumar

for the year ended 31st March, 2017

	Rs.		Rs.
To Opening inventory (balancing figure)	80,000	By Sales (3,20,000*× 100/80)	4,00,000
To Purchases (1,92,000x100/80)	2,40,000	By Closing inventory	40,000
To Gross profit c/d @ 30% on sales	1,20,000		
	4,40,000		**4,40,000**
To Miscellaneous expenses (Rs. 80,000 – Rs. 8,000 + Rs. 10,000)	82,000	By Gross profit b/d	1,20,000
To Depreciation:		By Miscellaneous receipts	20,000
Building Rs. 36,000		By Net loss transferred to Capital A/c (b.f.)	25,840
Furniture Rs. 7,800			
(Rs.6,800+ Rs.1,000)			
Motor Car Rs. 16,000	59,800		
To Loss on sale of furniture	11,000		
To Bad debts	8,000		
To Provision for doubtful debts	5,040		
	1,65,840		**1,65,840**

*Total Sales (80,000 x $\frac{100}{20}$) - Cash Sales (80,000) **(5 MARKS)**

Balance Sheet of Mr. Shivkumar as on 31st March, 2017

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Capital as on 1st April, 2016		7,16,000	Building	3,20,000	
Profit and Loss A/c	40,000		Add : Addition during the year	40,000	
Opening balance				3,60,000	
			Less : Provision for depreciation	(36,000)	3,24,000
Less : Loss for the year	(25,840)	14,160	Furniture	60,000	
Sundry Creditors		1,12,000	Less : Sold during the year	(20,000)	
Bills Payable		16,000		40,000	
Outstanding Salary		10,000	Add : Addition during the year	28,000	
				68,000	
			Less : Depreciation	(6,800)	61,200

			Motor Car (at cost)	80,000	
			Less : Depreciation	(16,000)	64,000
			Inventory in trade		40,000
			Sundry Debtors	2,52,000	
			Less : Provision for doubtful debts @ 2%	(5,040)	2,46,960
			Bills receivable		28,000
			Cash in hand and at bank		1,04,000
		8,68,160			**8,68,160**

(5 MARKS)

Working Notes:

(i) Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	1,60,000	By Cash/Bank A/c	2,00,000
To Sales A/c (credit)	3,20,000	By Bills Receivable A/c	20,000
		By Bad debts A/c	8,000
		By Balance c/d (bal. fig.)	2,52,000
	4,80,000		**4,80,000**

(ii) Sundry Creditors Account

	Rs.		Rs.
To Cash/Bank A/c	1,84,000	By Balance b/d	1,20,000
To Bills Payable A/c	16,000	By Purchases A/c	1,92,000
To Balance c/d (bal. fig.)	1,12,000		
	3,12,000		**3,12,000**

(iii) Bills Receivable Account

	Rs.		Rs.
To Balance b/d	32,000	By Cash/ Bank A/c(bal. fig.)	24,000
To Sundry Debtors A/c	20,000	By Balance c/d	28,000
	52,000		**52,000**

(iv) Bills Payable Account

	Rs.		Rs.
To Cash/Bank A/c(bal. fig.)	28,000	By Balance b/d	28,000
To Balance c/d	16,000	By Sundry Creditors A/c	16,000
	44,000		**44,000**

(1*4=4 MARKS)

(v) Furniture Account

	Rs.		Rs.
To Balance b/d	60,000	By Bank/Cash A/c	8,000
To Bank A/c (b.f.)	28,000	By Depreciation A/c (on furniture sold)	1,000
		By Profit and loss A/c (loss on sale) (20,000 – 1,000 – 8,000)	11,000
		By Depreciation A/c (68,000 x 10%)	6,800
		By Balance c/d (68,000 – 6,800)	61,200
	88,000		**88,000**

(2 MARKS)

(vi) Cash/Bank Account

	Rs.		Rs.
To Balance b/d	1,80,000	By Misc. trade expenses A/c	80,000
To Miscellaneous receipts A/c	20,000	By Purchases A/c	48,000
To Sundry debtors A/c	2,00,000	By Furniture A/c	28,000
To Sales A/c	80,000	By Sundry creditors A/c	1,84,000
To Furniture A/c (sale)	8,000	By Bills payable A/c	28,000
To Bills receivable A/c	24,000	By Building A/c (3,60,000 – 3,20,000)	40,000
		By Balance c/d	1,04,000
	5,12,000		**5,12,000**

(2 MARKS)

(vii) Opening Balance Sheet of Mr. Shivkumar as on 31st March, 2016

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital (balancing figure)	7,16,000	Building	3,20,000
Profit and loss A/c	40,000	Furniture	60,000
Sundry Creditors	1,20,000	Motor car	80,000
Bills Payable	28,000	Inventory in trade	80,000
Outstanding salary	8,000	Sundry Debtors	1,60,000
		Bills Receivable	32,000
		Cash in hand and at bank	1,80,000
	9,12,000		**9,12,000**

(2 MARKS)

ANSWER-3

Investment Account of Gopal

For the year ended 31.3.2016

(Script: 15% Debentures in Ritu Industries Ltd.)

(Interest payable on 30th June and 31st December)

Date	Particulars	Nominal Value Rs.	Interest Rs.	Cost Rs.	Date	Particulars	Nominal Value Rs.	Interest Rs.	Cost Rs.
1.04.15	To Balance A/c	2,00,000	7,500	2,10,000	30.06.15	By Bank A/c	-	22,500	
1.05.15	To Bank A/c	1,00,000	5,000	1,02,000	1.11.15	By Bank A/c	1,20,000	6,000	1,14,600
30.11.15	To Bank A/c	80,000	5,000	76,800	1.11.15	By Profit & Loss A/c	-	-	11,400
31.12.15	To Profit & Loss A/c			20,000	31.12.15	By Bank A/c	80,000	6,000	1,04,000
31.03.16	To Profit & Loss A/c		37,250		31.12.15	By Bank A/c	-	13,500	-
	(Bal. fig.)				31.12.15	By Bank A/c	-	6,750	-
					31.3.16	By Bal. c/d	1,80,000	-	1,78,800
		3,80,000	54,750	4,08,800			3,80,000	54,750	4,08,800

(6.5 marks)

Working Notes:

(i) Accrued Interest as on 1st April, 2015 = Rs. 2,00,000 x $\frac{15}{100} \times \frac{3}{12}$ = Rs.7500

(ii) Accrued Interest as on 1.5.2015 = Rs. 1,00,000 x $\frac{15}{100} \times \frac{4}{12}$ = Rs.5000

(iii) Cost of Investment for purchase on 1st May = Rs. 1,07,000 – Rs. 5,000 = Rs. 1,02,000

(iv) Interest received as on 30.6.2015 = Rs. 3,00,000 x $\frac{15}{100} \times \frac{6}{12}$ = Rs.22500

(v) Accrued Interest on debentures sold on 1.11.2015

= Rs. 1,20,000 x $\frac{15}{100} \times \frac{4}{12}$

= Rs.6000

(vi) Accrued Interest = Rs. 80,000 x $\frac{15}{100} \times \frac{5}{12} = Rs. 5000$

(vii) Accrued Interest on sold debentures 31.12.2015 = Rs. 80,000 x$\frac{15}{100} \times \frac{6}{12} = Rs. 6000$

(viii) Sale Price of Investment on 31st Dec. = Rs. 1,10,000-Rs. 6,000 = Rs. 1,04,000

(ix) Loss on sale of debenture on 01.11.2015

Sale Price of debenture	114600
Less : Cost Price of debenture $\frac{210000}{200000} \times Rs. 120000$	126000
Loss on sale	11400

(x) Accrued interest as on 31.12.2015 = Rs. 1,80,000 x $\frac{15}{100} \times \frac{6}{12} = Rs. 13500$

(xi) Accrued Interest = Rs. 1,80,000 x$\frac{15}{100} \times \frac{3}{12} = Rs. 6750$

(xii) Cost of investment as on 31st March = Rs. 1,02,000 + Rs. 76,800 = Rs. 1,78,800

(xiii) Profit on debentures sold on 31st December

= Rs. 1,04,000 –(Rs. 2,10,000x800/2,000) =Rs. 20,000 **(13*0.5=3.5 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.)