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INTERMEDIATE M'19 EXAM

SUBJECT- AS AND ACCOUNTS

Test Code - CIM 8120

(Date :)

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ANSWER-1

ANSWER-A

(i) In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2016. Subsequently in 2016-17, 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.

ANSWER-B

	Rs. in crore
Cost of construction of bridge incurred upto 31.3.18	4.00
Add: Estimated future cost	6.00
Total estimated cost of construction	10.00
Contract Price (12 crore x 1.05)	12.60 crore

Stage of completion

Percentage of completion till date to total estimated cost of construction

= (4/10) X 100 = 40%

Revenue and Profit to be recognized for the year ended 31st March, 2018 as per AS 7

Proportion of total contract value recognized as revenue = Contract price x percentage of completion

=Rs. 12.60 crore x 40% = Rs. 5.04 crore

Profit for the year ended 31st March, 2018 = Rs. 5.04 crore less Rs. 4 crore = 1.04 crore

ANSWER-2

ANSWER-A

As per para 3.2 to AS 16 'Borrowing Costs', a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Further, Explanation to the above para states that what constitutes a substantial period of time primarily depends on the facts and circumstances of each case. However, ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case. In estimating the period, time which an asset takes, technologically and commercially, to get it ready for its intended use or sale is considered.

It may be implied that there is a rebuttable presumption that a 12 months period constitutes substantial period of time.

Under present circumstances where construction period has reduced drastically due to technical innovation, the 12 months period should at best be looked at as a benchmark and not as a conclusive yardstick. It may so happen that an asset under normal circumstances may take more than 12 months to complete. However, an enterprise that completes the asset in 8 months should not be penalized for its efficiency by denying it interest capitalization and vice versa.

The substantial period criteria ensures that enterprises do not spend a lot of time and effort capturing immaterial interest cost for purposes of capitalization.

Therefore, if the factory is constructed in 8 months then it shall be considered as a qualifying asset. The interest on borrowings for the same shall be capitalised although it has taken less than 12 months for the asset to get ready to use.

ANSWER-B

Calculation of segment result

Segments	*A*	*B*	*C*	*Total*
	Rs.	*Rs.*	*Rs.*	*Rs.*
Directly attributed revenue	5,00,000	3,00,000	1,00,000	9,00,000
Enterprise revenue (allocated in 5 : 4 : 2 basis)	50,000	40,000	20,000	1,10,000
Revenue from transactions with other segments				
Transaction from B	1,00,000		50,000	1,50,000
Transaction from C	10,000	50,000		60,000
Transaction from A		25,000	1,00,000	1,25,000

Total segment revenue as per AS 17 (A)	6,60,000	4,15,000	2,70,000	13,45,000
Operating expenses	3,00,000	1,50,000	75,000	5,25,000
Enterprise expenses (allocated in 5 : 4 : 2 basis)	35,000	28,000	14,000	77,000
Expenses on transactions with other segments				
Transaction from B	75,000		30,000	1,05,000
Transaction from C	6,000	40,000		46,000
Transaction from A	______	18,000	82,000	1,00,000
Total segment expenses as per AS 17 (B)	4,16,000	2,36,000	2,01,000	8,53,000
Segment result (A-B)	2,44,000	1,79,000	69,000	4,92,000

ANSWER-3

ANSWER-A

Para 3 of AS 24 "Discontinuing Operations" explains the criteria for determination of discontinuing operations. According to Paragraph 9 of AS 24, examples of activities that do not necessarily satisfy criterion (a) of paragraph 3, but that might do so in combination with other circumstances, include:

(i) Gradual or evolutionary phasing out of a product line or class of service;

(ii) Discontinuing, even if relatively abruptly, several products within an ongoing line of business;

(iii) Shifting of some production or marketing activities for a particular line of business from one location to another; and

(iv) Closing of a facility to achieve productivity improvements or other cost savings.

An example in relation to consolidated financial statements is selling a subsidiary whose activities are similar to those of the parent or other subsidiaries.

ANSWER-B

AS 17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements. Hence, the enterprise can have its own policy for pricing inter - segment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter -segment transfer pricing policy adopted by the company is correct if followed consistently.

ANSWER-4

Journal Entries

		(Rs.) Dr.	(Rs.) Cr.
2006 Jan 1	Bank Dr. To 9% Debenture Applications & Allotment Account (Being application money on 20,000 debentures @ Rs. 100 per debenture received)	20,00,000	20,00,000
	9% Debentures Applications & Allotment Account Dr. To 9% Debentures Account (Being allotment of 20,000 9% Debentures of Rs.100 each at par)	20,00,000	20,00,000
(i) 2008 Jan. 1	9% Debenture Account Dr. Loss on Redemption of Debentures Account Dr. To Bank (Being redemption of 2,000 9% Debentures of Rs.100 each by purchase in the open market @ Rs.101 each)	2,00,000 2,000	2,02,000
" "	Profit & Loss Account Dr. To Loss on Redemption of Debentures Account (Being loss on redemption of debentures being written off by transfer to Profit and Loss Account)	2,000	2,000
(ii) 2011Jan. 1	9% Debentures Account Dr. To Sundry Debenture holders (Being Amount payable to debenture holders on redemption debentures for Rs.6,00,000 at par by draw of a lot)	6,00,000	6,00,000
" "	Sundry Debenture holders Dr. To Bank (Being Payment made to sundry debenture holders for redeeming debentures of	6,00,000	**6,00,000**

	Rs.6,00,000 at par)		
(iii) 2012 Jan. 1	Own Debentures Dr. To Bank (Being purchase of own debentures of the face value of Rs.4,00,000 for Rs.3,95,600)	3,95,600	3,95,600
2013 "	9% Debentures Dr. To Own Debentures To Profit on Cancellation of Own Debentures Account (Being Cancellation of own debentures of the face value of Rs.4,00,000 purchased last year for Rs.3,95,600)	4,00,000	3,95,600 4,400
" "	Profit on Cancellation of Own Debentures Account Dr. To Capital Reserve Account (Being transfer of profit on cancellation of own debentures to capital reserve)	4,400	4,400
(iv) 2016Jan. 1	9% Debentures Account Dr. Premium on Redemption of Debentures Account Dr. To Sundry Debenture holders (Being amount payable to holders of debentures of the face value of Rs. 8,00,000 on redemption at a premium of 2% as per resolution of the board of directors)	8,00,000 16,000	8,16,000
" "	Sundry Debenture holders Dr. To Bank Account (Being payment to sundry debenture holders)	8,16,000	8,16,000
" "	Profit & Loss Account Dr. To Premium on Redemption of Debentures Account (Being utilization of a part of the balance in Securities Premium Account to write off premium paid on	16,000	16,000

	redemption of debentures)		

ANSWER-5

Spices Ltd.

Balance Sheet as on 01.04.2018

Particulars	**Note No.**	**Figures as at the end of current reporting period**
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,10,000
(b) Reserves and Surplus	2	91,000
(2) Non-Current Liabilities		
(a) Long-term borrowings - Unsecured Loans		28,000
(3) Current Liabilities		
(a) Short-term borrowings		19,000
Total		2,48,000
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets		72,000
(2) Current assets		
(a) Cash and cash equivalents		98,000
(b) Other current assets		78,000
Total		2,48,000

Notes to Accounts

		Rs.
1 **Share Capital**		
11,000 Equity Shares of Rs. 10 each		1,10,000
(Out of above, 2000 shares issued to debentures holders who opted for conversion into shares)		
2 **Reserve and Surplus**		
General Reserve	38,000	
Add: Debenture Redemption Reserve transfer	35,000	
	73,000	
Add: Profit on sale of investments	22,000	
	95,000	
Less: Premium on redemption of debentures (1,200 x Rs. 5)	(6,000)	89,000
Securities Premium Account (2,000 x Rs. 1)		2,000
		91,000

Working Notes:

(i) **Calculation of number of shares to be allotted** — **Rs.**

Total number of debentures	1,200
Less: Number of debentures not opting for conversion	(200)
	1000
40% of 1,000	400

Redemption value of 400 debentures (400 x Rs. 55) Rs. 22,000

Number of Equity Shares to be allotted 22,000/11 = 2,000 shares of Rs. 10 each

(ii) **Calculation of cash to be paid** — **Rs.**

Number of debentures	1,200
Less: Number of debentures to be converted into equity shares	(400)
	800

(iii) Cash and Bank Balance

	Rs.
Balance before redemption	86,000
Add: Proceeds of investments sold	56,000
	1,42,000
Less: Cash paid to debenture holders	(44,000)
	98,000