SUGGESTED SOLUTION

INTERMEDIATE M'19 EXAM

SUBJECT- AS AND ADVANCED ACCOUNTS

Test Code - CIM 8204

BRANCH - () (Date :)

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ANSWER-1

		Dr.Rs.	Cr.Rs.
Equity Share Capital (Rs. 100) A/c	Dr.	10,00,000	
To Share Surrender A/c			5,00,000
To Equity Share Capital (Rs. 10) A/c			5,00,000
(Subdivision of 10,000 equity shares of Rs. 100 each into 1,00,000 equity shares of Rs. 10 each and surrender of 50,000 of such subdivided shares as per capital reduction scheme)			
12% Debentures A/c	Dr.	1,50,000	
Accrued Interest A/c	Dr.	18,000	
To Reconstruction A/c			1,68,000
(Transferred 75% of the claims of the debentureholders to reconstruction account in consideration of which 12% preference shares are being issued out of share surrender account as per capital reduction scheme)			
Trade payables A/c	Dr.	72,000	
To Reconstruction A/c			72,000
(Transferred claims of the trade payables to reconstruction account, 50% of which is being clear reduction and equity shares are being issued in consideration of the balance)			
Share Surrender A/c	Dr.	5,00,000	
To 12% Preference Share Capital A/c			1,00,000
To Equity Share Capital A/c			36,000
To Reconstruction A/c			3,64,000
(Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as a per scheme and the balance in share surrender account is being transferred to reconstruction account)			
Reconstruction A/c	Dr.	6,04,000	
To Profit and Loss A/c			6,00,000
To Capital Reserve A/c			4,000
(Adjusted debit balance of profit and loss account against the reconstruction account and the balance in the latter is being transferred to capital reserve)			

(5*1 = 5 MARKS)

Balance Sheet of Revise Limited (and reduced) as on...

Particulars		**Note No.**	**Rs.**
I.	**Equity and Liabilities**		
(1)	**Shareholder's Funds**		
	(a) Share Capital	1	6,36,000
	(b) Reserves and Surplus	2	4,000
(2)	**Non-Current Liabilities**		
	(a) Long-term borrowings	3	50,000
(3)	**Current Liabilities**		
	(a) Other current liabilities	4	6,000
	(b) Short-term provisions	5	24,000
	Total		**7,20,000**
II.	**Assets**		
(1)	**Non-current assets**		
	(a) Fixed assets		
	(i) Tangible assets	6	1,00,000
(2)	**Current assets**		
	(a) Current investments		
	(b) Inventories		3,20,000
	(c) Trade receivables		2,70,000
	(d) Cash and cash equivalents		30,000
	Total		**7,20,000**

Notes to Accounts

		Rs.
1.	**Share Capital**	
	Equity Share Capital	
	Issued Capital : 53,600 Equity Shares of Rs. 10 each	5,36,000
	Preference Share Capital	
	Preference Shares	1,00,000
	(Of the above shares all are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares without payment being received in cash)	
		6,36,000

2.	**Reserve and Surplus**	
	Capital Reserve	4,000
3.	**Long-term borrowings**	
	Unsecured Loans	
	12% Debentures	50,000
4.	**Other current liabilities**	
	Accrued interest	6,000
5.	**Short-term provisions**	
	Provision for Income-tax	24,000
6.	**Tangible assets**	
	Machineries	1,00,000

(5 MARKS)

ANSWER-2

ANSWER-A

Calculation of amount of provision to be made in the Profit and Loss Account

Classification of Assets	**Amount of Advances (Rs. in lakhs)**	**% age of provision**	**Amount of provision (Rs. in lakhs)**
Standard assets	20,000	0.40	80
Sub-standard assets	16,000	15	2,400
Doubtful assets:			
For one year (secured)	6,000	25	1,500
For two to three years (secured)	4,000	40	1,600
For more than three years (unsecured)	1,400	100	1,400
(secured)	600	100	600
Non-recoverable assets (Loss assets)	1,500	100	1,500
Total provision required			9,080

(5 MARKS)

ANSWER-B

According to **AS 12 on Accounting for Government Grants,** the amount refundable in respect of a grant related to a **specific fixed asset** (if the grant had been credited to the cost of fixed asset at the time of receipt of grant) should be recorded by increasing the book value of the asset, by the amount refundable. Where the book value is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

		(Rs. in lakhs)
1st April, 2014	Acquisition cost of machinery (Rs. 500 – Rs. 100)	400.00
31st March, 2015	*Less*: Depreciation @ 20%	(80)
1st April, 2015	Book value	320.00
31st March, 2016	*Less*: Depreciation @ 20%	(64)
1st April, 2016	Book value	256.00
31st March, 2017	*Less*: Depreciation @ 20%	(51.20)
1st April, 2017	Book value	204.80
2nd April, 2017	*Add*: Refund of grant	100.00
	Revised book value	304.80

Depreciation @ 20% on the revised book value amounting Rs. 304.80 lakhs is to be provided prospectively over the residual useful life of the asset.

(5 MARKS)

ANSWER-3

ANSWER-A

Table showing calculation of deferred tax asset / liability

Particulars	*Amount*	*Timing difference*	*Deferred tax*	*Amount @ 50%*
	Rs.			*Rs.*
Excess depreciation as per tax records (Rs. 5,50,000 – Rs. 2,50,000)	3,00,000	Timing	Deferred tax liability	1,50,000
Unamortised preliminary expenses as per tax records	40,000	Timing	Deferred tax asset	(20,000)
Net deferred tax liability				1,30,000

Net deferred tax liability amounting Rs. 1,30,000 should be recognized as transition adjustment.

(5 MARKS)

ANSWER-B

Accounting Standard 2 "Valuation of Inventories" states that **inventories should be valued at lower of historical cost and net realizable value.** The standard states, "at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods are often valued at net realizable value at certain stages of production."

Terry Towels do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the **closing inventory of finished goods (Fancy terry towel) should have been valued at lower of cost and net realizable value and not at net realizable value.** Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing inventory of inventories of finished goods is not correct.

(5 MARKS)

ANSWER-4

ANSWER-A

(i)	**Loss for the year ended, 31st March, 2018**	*(Rs. in lakhs)*
	Amount of foreseeable loss	
	Total cost of construction (6,250 + 1,250 + 8,750)	16,250
	Less: Total contract price	(12,000)
	Total foreseeable loss to be recognised as expense	4,250

According to AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately.

Loss for the year ended, 31st March, 2018 amounting Rs. 4,250 will be recognized.

(ii)	**Contract work-in-progress as on 31.3.18**	*(Rs. in lakhs)*
	Contract work-in-progress i.e. cost incurred to date are Rs. 7,500 lakhs:	
	Work certified	6,250

	Work not certified	1,250
		7,500

(iii) Proportion of total contract value recognised as revenue

Cost incurred till 31.3.18 is 46.15% (7,500/16,250 ? 100) of total costs of construction.

Proportion of total contract value recognised as revenue:

46.15% of Rs. 12,000 lakhs = Rs. 5,538 lakhs

(iv) Amount due from/to customers at year end

(Contract costs + Recognised profits – Recognised Losses) – (Progress payments received + Progress payments to be received)

= (7,500 + Nil – 4,250) – (5,500 + 1,500) Rs. in lakhs

= [3,250 – 7,000] Rs. in lakhs Amount due to customers

= Rs. 3,750 lakhs **(5 MARKS)**

ANSWER-B

Following will be the treatment in the given cases:

(i) When sale price of Rs. 24 lakhs is equal to fair value, A Ltd. should immediately recognise the profit of Rs.4 lakhs (i.e. 24 – 20) in its books.

(ii) When fair value is Rs. 20 lakhs & sale price is Rs. 24 lakhs then profit of Rs. 4 lakhs is to be deferred and amortised over the lease period.

(iii) When fair value is Rs. 22 lakhs & sale price is Rs. 25 lakhs, profit of Rs. 2 lakhs (22 - 20) to be immediately recognised in its books and balance profit of Rs.3 lakhs (25-22) is to be amortised/deferred over lease period.

(iv) When fair value of leased machinery is Rs. 25 lakhs & sale price is Rs. 18 lakhs, then loss of Rs. 2 lakhs (20 – 18) to be immediately recognised by A Ltd. in its books provided loss is not compensated by future lease payment.

(v) When fair value is Rs. 18 lakhs & sale price is Rs. 19 lakhs, then the loss of Rs. 2 lakhs (20-18) to be immediately recognised by A Ltd. in its books and profit of Rs. 1 lakhs (19-18) should be amortised/deferred over lease period.

(5*1 = 5 MARKS)

ANSWER-5

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.

(5 MARKS)

ANSWER-B

As per **AS 29, 'Provisions, Contingent Liabilities and Contingent Assets’,** a provision should be recognized when

(a) an enterprise has a **present obligation** as a result of a past event;

(b) it is probable that an **outflow of resources embodying economic benefits** will be required to **settle the obligation**; and

(c) a **reliable estimate** can be made of the amount of the obligation. If these conditions are not met, no provision should be recognized.

In the given situation, since, the directors of the company are of the opinion that the claim can be successfully resisted by the company, therefore there will be no outflow of the resources. Hence, no provision is required. The company will disclose the same as contingent liability by way of the following note:

“Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed copyrights and is seeking damages of Rs. 200 lakhs. However, the directors are of the opinion that the claim can be successfully resisted by the company.”

(5 MARKS)