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INTERMEDIATE M'19 EXAM

SUBJECT- AS , ACCOUNTS AND ADVANCED ACCOUNTS

Test Code – CIM 8154

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

1. Goodwill = 3 years' purchase of 5 years' Average Profits, computed as under -

Year end 31 Mar	Actual Profits	Salary (not to be paid in future)	Int on Non-Trading Invt	Abnormal Profits / (Losses)	Adjusted Profits
2013	25,000	750 x 12 = 9,000	5,000	Abnormal Profits = 40,000	25,000 + 9000 - 5,000 - 40,000 = (11,000)
2014	12,500	9,000	5,000	-	12,500 + 9,000 - 5,000 = 16,500
2015	(2,500)	9,000	5,000	Loss due to Strike = 20,000	(2500) + 9,000 - 5,000 + 20,000 = 21,500
2016	35,000	9,000	5,000	-	35,000 + 9,000 - 5,000 = 39,000
2017	30,000	9,000	5,000	-	30,000 + 9,000 - 5,000 = 34,000
				Total	**1,00,000**

Average Profits: $\frac{1,00,000}{5}$ = Rs.20,000 So, Goodwill = Rs. 20,000 x 3 = Rs. 60,000

Hence, Cash brought in by R towards Goodwill (l/4th Share) = 60,000 x ¼ = Rs. 15,000.

(3 MARKS)

2. Sacrificing Ratio of P & Q on R's Admission

	Old Share	New Share	Sacrificing Share	Gaining Share
P	$\frac{3}{5}$	$\frac{1}{2}$	$\frac{3}{5}-\frac{1}{2}=\frac{12-10}{20}=\frac{2}{20}$	
Q	$\frac{2}{5}$	$\frac{1}{4}$	$\frac{2}{5}-\frac{1}{4}=\frac{8-5}{20}=\frac{3}{20}$	
R		$\frac{1}{4}$		$\frac{1}{4}$

So, the Goodwill of Rs. 15,000 brought in by R will be credited to P and Q in the ratio 2:3, i.e. Rs. 6,000 and Rs. 9,000.

(2 MARKS)

3. Cash A/c for the period 01.04.2017 to 31.03.2018 (to compute Closing Cash Balance on 31.03.2018)

Particulars	**Rs.**	**Particulars**	**Rs.**
To balance b/d To R's Capital A/c-Cash for Capital & Goodwill To Interest Income on Investment To Decrease in Stock (20,000 - 15,000) To Trading Profits	5,000 30,000 5,000 5,000 50,000	By Drawings (1,000 x 12 months x 3 Partners) By Machinery (60,000 - 54,000) By Furniture (10,000 - 5,000) By Increase in Debtors (30,000 - 21,000) By Decrease in Creditors (40,000 - 20,000) By balance c/d (balancing figure)	36,000 6,000 5,000 9,000 20,000 19,000
Total	**95,000**	**Total**	**95,000**

(3 MARKS)

Dr. 4. Profit and Loss Account of the Firm for the year ended 31.03.2018 Cr.

Expenses		**Rs.**	**Incomes**	**Rs.**
To Depreciation			By Net Profits b/d	50,000
- Machinery (60,000 x 10%)	6,000		By Interest Income (50,000 x 10%)	5,000
- Furniture (10,000 x 5%)	500	6,500		
To Int. on Q's Loan (15,000 x 6%)		900		
To Profit tfr to Capital A/c [2:1:1]				
- P 23,800				
- Q 11,900				
- R 11,900		47,600		
Total		**55,000**	**Total**	**55,000**

(2 MARKS)

5. Partners' Capital Account for the period 01.04.2017 to 31.03.2018

Particulars	**P**	**Q**	**R**	**Particulars**	**P**	**Q**	**R**
To Drawings (1,000 x 12)	12,000	12,000	12,000	By balance b/d	50,000	30,000	-
To P's Capital A/c	-	-	6,000	By Reserves(20,000 in 3:2)	12,000	8,000	-
To Q's Capital A/c	-	-	9,000	By R's Capital A/c	6,000	9,000	-
To Balance c/d	79,800	46,900	14,900	By Bank (15,000+15,000)	23,800	11,900	30,000
				By Profit & Loss A/c (WN 4)			11,900
Total	**91,800**	**58,900**	**41,900**	**Total**	**91,800**	**58,900**	**41,900**

(3 MARKS)

6. Balance Sheet of the Partnership Firm as on 31.03.2018

Capital and Liabilities	Rs.		Properties and Assets	Rs.
Partners' Capitals-			Fixed Assets:	
- P	79,800		Machinery (60,000 less Deprn 6,000)	54,000
- Q	46,900		Furniture (10,000 less Deprn 500)	9,500
- R	14.900	1,41,600	Investments	50,000
Q's Loan + Interest thereon			Current Assets: Stock	15,000
= 15,000 + 900		15,900	Debtors	30,000
Current Liabilities: Creditors		20,000	Cash (WN 4)	19,000
Total		**1,77,500**	**Total**	**1,77,500**

(2 MARKS)

7. Distribution of Shares on Conversion into Company

Particulars	P	Q	R	Total
(a) Capital Balance as per WN 5	79,800	46,900	14,900	1,41,600
(b) Ratio	$\frac{1}{2}$	$\frac{1}{4}$	$\frac{1}{4}$	
(c) Distribution of Capital for Shares, based on Total Captal Rs. 1,41,600	70,800	35,400	35,400	
(d) Amount to be withdrawn / (contributed) by Partners = (a - b)	9,000	11,500	(20,500)	

(2 MARKS)

8. Balance Sheet of the Company as on 01.04.2018

Particulars as at 1st April			Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES:**				
(1)	Shareholders' Funds: Share Capital		1	1,41,600	
(2)	Non-Current Liabilities:			-	
(3)	Current Liabilities:				
	(a)	Short-Term Borrowings - Q's Loan + Interest thereon		15,900	
	(b)	Trade Payables (Sundry Creditors)		20,000	
		Total		**1,77,500**	
II	**ASSETS**				
(1)	Non-Current Assets				
	(a)	Fixed Assets: Tangible Assets	-		
		Machinery 54,000 + Furniture 9,500		63,500	
	(b)	Non-Current Investments		50,000	
(2)	Current Assets:				
	(a)	Inventories - Stock-in-Trade		15,000	

(b)	Trade Receivables - Sundry Debtors	30,000	
(c)	Cash and Cash Equivalents - Cash in Hand	19,000	
	Total	**1,77,500**	

Notes to the Balance Sheet:

Note 1: Share Capital

Particulars	**This Year**	**Prev. Yr**
Authorised:.......Equity Shares of Face Value Rs.......each		
........Preference Shares of Face Value Rs......each		
Issued, Subscribed & Paid Up: ....Equity Shares of Rs......each		
Fully Paid Up		
[All the above Shares issued for consideration other than		
Cash, in takeover of Business.]	1,46,000	
Total	**1,46,000**	

(3MARKS)

ANSWER-3

1. Determination of Surplus received by Liquidator from Receiver

Receipts from Sale of	**Rs.**	**Payments towards -**	**Rs.**
Land and Buildings	1,60,000	Debenture Interest (1,50,000 x 13% x 6/12)	9,750
Sundry Current Assets	2,00,000	Income Tax Arrears	25,000
		Expenses of Receiver Given	1,950
		Mortgage Loan Given	70,000
		Debentureholders	1,50,000
		Balance Surplus handed over to Liquidator (bal. fig.)	1,03,300
Total	**3,60,000**	**Total**	**3,60,000**

(2.5 MARKS)

2. Liquidator's Final Statement of Account

Receipts	**Rs.**	**Payments**	**Rs.**	**Rs.**
Surplus received from Receiver(WN 1)	1,03,300	Remuneration to Liquidator (1,50,000 x 2%)		3,000
Sundry Assets realised	1,50,000	Costs of Liquidation		3,000
Calls on Contributories:		Unsecured Creditors:		
From 5,000 Partly Paid Shares at Rs.1.38 per Share (WN 3)	6,900	Trade Creditors	38,000	
		Directors (for Bank OD paid)	30,000	68,000
		Preference Shareholders:		
		Share Capital	1,50,000	
		Arrears of Dividend (2 years)	30,000	1,80,000

		Equity Shareholders: (paid to Holders of 10,000 Fully Paid Shares at Rs.0.62 each) (WN 3)		6,200
Total	**2,60,200**	**Total**		**2,60,200**

(4 MARKS)

3. Calls from Holders of Partly Paid Shares

	Particulars	**Rs.**
(a)	Total Receipts before considering Call Money (1,03,300 + 1,50,000)	2,53,300
(b)	Total Payments before final payment to Equity Shares	2,54,000
(c)	Surplus / (Deficit) from above before Calls made on Equity Shares (a - b) (+ve = Surplus, -ve = Deficit)	(700)
(d)	Notional Call on 5,000 Partly Paid Shares at Rs. 2 each	10,000
(e)	Surplus Cash Balance after Notional Call (c + d)	9,300
(f)	Number of Shares deemed fully paid (10,000 + 5,000)	15,000
(g)	Hence, Refund on Fully Paid Shares (e ÷ f) = Rs.9,300 ÷ 15,000 Shares	Rs.0.62
(h)	Therefore, Required Call on Partly Paid Shares = Notional Call Rs.2.00 – Refund Rs. 0.62	Rs. 1.38

(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.)