SUGGESTED SOLUTION

INTERMEDIATE M'19 EXAM

SUBJECT- AS AND ACCOUNTS

Test Code - CIM 8192

BRANCH - () (Date :)

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

Tel : (022) 26836666

ANSWER-1

Journal Entries

		(Rs.) Dr.	**(Rs.) Cr.**
2006 1 Jan	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 1 Jan.	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)		

(10 MARKS)

ANSWER-2

ANSWER-A

Calculation of interest

	Total (Rs.)	Interest in each instalment (1)	Cash price in each instalment (2)
Cash Price	80,000		
Less : Down Payment	(21,622)	Nil	Rs. 21,622
Balance due after down payment	58,378		
Interest/Cash Price of 1st instalment	-	Rs. 58,378 x10/100 = Rs. 5,838	Rs. 15,400 – Rs. 5,838 = Rs. 9,562
Less : Cash price of 1st instalment	(9,562)		
Balance due after 1st instalment	48,816		
Interest/cash price of 2nd instalment	-	Rs. 48,816 x 10/100 = Rs. 4,882	Rs. 15,400 - Rs. 4,882 = Rs. 10,518
Less: Cash price of 2nd instalment	(10,518)		
Balance due after 2nd instalment	38,298		
Interest/Cash price of 3rd instalment	-	Rs. 38,298 x10/100 = Rs. 3,830	Rs. 15,400 - Rs. 3,830 = Rs. 11,570
Less: Cash price of 3rd instalment	(11,570)		
Balance due after 3rd instalment	26,728		
Interest/Cash price of 4th instalment	-	Rs. 26,728 x10/100 = Rs. 2,672	Rs. 15,400 - Rs. 2,672 = Rs. 12,728
Less : Cash price of 4th instalment	(12,728)		
Balance due after 4th instalment	14,000		
Interest/Cash price of 5th instalment	-	Rs.14,000 x10/100 =Rs. 1,400	Rs. 15400 – Rs. 1,400 = 14,000
Less : Cash price of 5th instalment	(14,000)		
Total	Nil	Rs. 18,622	Rs. 80,000

Total interest can also be calculated as follow:

(Down payment + instalments) – Cash Price = Rs. [21,622+(15400 x 5)] – Rs. 80,000 = Rs.18,622.

(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)