SUGGESTED SOLUTION

INTERMEDIATE M' 19EXAM

SUBJECT- ACCOUNTS

Test Code - PIN 5042

BRANCH - () (Date :)

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ANSWER-1

ANSWER-A

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 × 95%) for the year ended 31st March, 2017. **(5 MARKS)**

ANSWER-B

According to **AS 10 on Property, Plant and Equipment,** the costs which will be capitalized by ABC Ltd.

	Rs.
Cost of the plant	31,25,000
Initial delivery and handling costs	1,85,000
Cost of site preparation	4,50,000
Consultants' fees	6,50,000
Estimated dismantling costs to be incurred after 5 years	2,50,000
Total cost of plant	46,60,000

Note : Operating losses before commercial production amounting to Rs. 3,75,000 will not be capitalized as per AS 10. They should be written off to the Statement of Profit and Loss in the period they are incurred.

(5 MARKS)

ANSWER-C

As per para 21 of **AS 12, 'Accounting for Government Grants,'** "the amount refundable in respect of a grant related to **specific fixed asset** should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.

(i) In this case the grant refunded is Rs. 15 lakhs and balance in deferred income is Rs. 10.50 lakhs, Rs. 4.50 lakhs shall be charged to the profit and loss account for the year 2017 – 18. There will be no effect on the cost of the fixed assets and depreciation charged will be on the same basis as charged in the earlier years.

(ii) If the grant was deducted from the cost of the plant in the year 2014 – 15 then, para 21 of AS 12 states that the amount refundable in respect of grant which relates to specific fixed assets should be recorded by increasing the book value of the assets, by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Therefore, in this case, the book value of the plant shall be increased by Rs. 15 lakhs. The increased cost of Rs. 15 lakhs of the plant should be amortized over 7 years (residual life). Depreciation charged during the year 2017 – 18 shall be (56 + 15)/7 years = Rs. 10.14 lakhs presuming the depreciation is charged on SLM.

(5 MARKS)

ANSWER-D

(i) When Net Realizable Value of the Chemical Y is Rs. 800 per unit

NRV is greater than the cost of Finished Goods Y i.e. Rs. 660 (Refer W.N.)

Hence, Raw Material and Finished Goods are to be valued at cost.

Value of Closing Stock :

	QTY.	Rate (Rs.)	Amount (Rs.)
Raw Material X	1,000	440	4,40000
Finished Goods Y	2,400	660	15,84,000
Total Value of Closing Stock			20,24,000

(2 MARKS)

(ii) When Net Realizable value of the Chemical Y is Rs. 600 per unit

NRV is less than the cost of Finished Goods Y i.e. Rs. 660. Hence, Raw Material is to be valued at replacement cost and Finished Goods are to be valued at NRV since NRV is less than the cost.

Value of Closing Stock :

	Qty.	Rate(Rs.)	Amt. (Rs.)
Raw Material X	1,000	300	3,00,000
Finished Goods Y	2,400	600	14,40,000
Total Value of Closing Stock			17,40,000

(3 MARKS)

Working Note :

Statement showing cost calculation of Raw Material X and Chemical Y

Raw Material X	**Rs.**
Cost Price	380
Add : Freight Inward	40
Unloading charges	20
Cost	440
Chemical Y	**Rs.**
Materials Consumed	440
Direct Labour	120
Variable overheads	80
Fixed overheads (Rs. 4,00,000/20,000 units)	20
Cost	660

ANSWER-2

ANSWER-A

1. Investments in 8% Convertible Debentures of C Ltd A/c

Date	Particulars	Cost	Int.	Date	Particulars	Cost	Int.
1st Apr	To Bank (WN la)	2,16,000	-	30th Sep	By Bank (3,00,000x8%x $\frac{1}{2}$)	-	12,000
1st July	To Bank (WN lb)	1,10,000	2,000	1st Oct	By Bank (WN 2a)	84,000	-
			10,000	1st Oct	By Loss on Sale (WN lc)	2,933	-
31st Dec	To P&L A/c - Int tfr			1st Dec	By Equity Shares A/c (WN 3)	59,767	-
							733
				1st Dec	By Accrued Interest (WN 4)	1,79,300	3,300
				31st Dec	By bal. c/d (WN 3)		
	Total	**3,26,000**	**16,033**		**Total**	**3,26,000**	**16,033**

(3 MARKS)

2. Investments in Equity Share of C Ltd A/c

Date	**Particulars**	**FV**	**Cost**	**Date**	**Particulars**	**FV**	**Cost**
1st Dec	To Debentures A/c (5,000 ES x Rs. 10)	50,000	59,767	31st Dec	By balance c/d	50,000	59,767
	Total	**50,000**	**59,767**		**Total**	**50,000**	**59,767**

(1 MARK)

Working Notes: **(6 MARKS)**

1. Cost of Debentures:

(a) Purchased on 1st April = Rs. 2,00,000 x $\frac{108}{100}$ = Rs. 2,16,000

(b) Purchased on 1st July:

Total Amount = Rs. 1,00,000 x $\frac{112}{100}$ = Rs. 1,12,000

Interest = Rs. 1,00,000 x 8% x $\frac{3}{12}$ = Rs. 2,000 (for 1st April to 30th June)

So, Cost = 1,12,000 - 2,000 = Rs.1,10,000

2. Sale of Debenture on 1st October

(a) Sale Proceeds = Rs. 80,000 x $\frac{105}{100}$ = Rs. 84,000

(b) Average Cost of Rs. 80,000 Debentures = $\frac{2{,}16{,}000+1{,}10{,}000}{3{,}00{,}000}$ x 80,000 = Rs. 86,933

(c) Loss on Sale = Rs. 86,933 - Rs. 84,000 = Rs. 2,933

3. Conversion into Equity & Balance Sheet Valuation

Note: Cost of Debentures held before conversion = Rs. 3,26,000 - 86,933 = Rs. 2,39,067

Particulars	Cost	Market Value at Year End	B/S Value
25% Converted into Shares	2,39,067 x25% = 59,767	5,000 Shares x Rs. 15 = 75,000	Rs. 59,767
75% held as Debentures	2,39,067x 75% = Rs. 1,79,300	Rs. 2,20,000 Debx75%x $\frac{110}{100}$ =Rs.1,81,500	Rs.1,79,300

4. Accrued Interest on the date 25% Conversion for Oct & Nov = Rs. 2,20,000 Deb x 25% x 8% x $\frac{2}{12}$ = Rs. 733.

5. Accrued Interest on the B/s date for Oct, Nov & Dec = Rs. 2,20,000 Deb x 75% x 8% x $\frac{3}{12}$ = Rs. 3,300.

ANSWER-B

1. Trading Account for the year ended 31st December 2017 (to compute Normal GP Rate)

Particulars	**Normal**	**Abnormal**	**Total**	**Particulars**	**Normal**	**Abnorml**	**Total**
To Opening Stk	1,47,000	-	1,47,000	By Sales	9,74,000	-	9,74,000
To Purchases	(b/f) 7,82,200	13,800	7,96,000	By Closing Stock	(b/f) 1,50,000	9,200	1,59,200
To GP (b/f)	1,94,800	-	1,94,800	By Abn Item w/off	-	4,600	4,600
Total	**11,24,000**	**13,800**	**11,37,800**	**Total**	**11,24,000**	**13,800**	**11,37,800**

Normal Gross Profit Ratio = $\frac{\text{Gross Profit}}{\text{Sales}} = \frac{\text{Rs.}1{,}94{,}800}{\text{Rs.}9{,}74{,}000} = 20\%$

Note:

- Normal Value of Purchases, and Normal Value of Closing Stock are derived as balancing figures from respective Rows.
- Normal GP and Amt written off on Abnormal Item are derived as balancing figure from the respective Columns.

(5 MARKS)

Dr. 2. Memorandum Trading Account (1st Jan 2018 to 31st Mar 2018) Cr.

Particulars		**Rs.**	**Particulars**		**Rs.**
To Opening Stock	1,59,200		By Sales	4,62,400	
Less : Abnormal Item	(9,200)	1,50,000	Less : Abnormal item (6,900 – 500)	(6,400)	4,56,000
To Purchases		3,24,000	By Stock on the date of fire (balancing figure)		1,09,200
To Gross Profit = 20% on Sales		91,200			
Total		**5,65,200**	**Total**		**5,65,200**

(2 MARKS)

3. Statement of Insurance Claim

	Particulars	Rs.
	Value of Normal Stock (WN 2)	1,09,200
Add:	Value of Abnormal Stock (at Original Cost as given) [13,800 - 6,900]	6,900
	Total Value of Stock on 1st Apr 2018	1,16,100
Less :	Salvaged Stock	(11,600)
	Net Loss of Stock	**1,04,500**
	Admissible Claim = Net Claim x $\frac{\text{Policy Amount}}{\text{Value of Stock Lost}} = Rs.1,04,500 \text{ x } \frac{Rs.1,00,000}{Rs.1,16,100}$	
		90,009

(3 MARKS)

ANSWER-3

ANSWER-A

Cash Flow Statement for the year ended 31st March

	Particulars	Rs. Millions	Rs. Millions
A.	**CASH FLOW FROM OPERATING ACTIVITIES**		
	Net Income	3.30	
Add:	Depreciation &Amortisations	0.75	
	Loss on Sale of Assets	1.20	
Less:	Increase in Accounts Receivable	(1.50)	
	Net Cash Flow from / (used in) Operating Activities [A]		**3.75**
B.	**CASH FLOW FROM INVESTING ACTIVITIES**		
	Capital Expenditure	(9.90)	
	Proceeds from Sale of Fixed Assets	1.60	
	Net Cash Flow from / (used in) Investing Activities [B]		**(8.30)**
C.	**CASH FLOW FROM FINANCING ACTIVITIES**		
	Additional Shares issued	6.50	
	Dividend declared (assumed as Dividend Paid during the year)	(0.50)	
	Redemption of Debentures	(2.50)	
	Net Cash Flow from / (used in) Financing Activities [C]		**3.50**
D.	Net Increase / (Decrease) in Cash and Cash Equivalents [A + B + C]		(1.05)
E.	Opening Balance of Cash and Cash Equivalents		1.55
F.	Closing Balance of Cash and Cash Equivalents		0.50

Note: It is assumed that 4.5% Debentures is the only Debt of the Company and is redeemed at the beginning of the reporting period. Hence, Interest Expense on Debt is not considered.

(5 MARKS)

ANSWER-B

A. Trading and Profit and Loss Account for the year ended 31st March

Particulars	**Rs.**	**Particulars**		**Rs.**
To Opening Stock	89,500	By Sales – Cash Sales given	5,09,800	
To Purchases – Credit	4,13,500	- Credit Sales (WN 3)	2,31,900	7,41,700
To Gross Profit c/d (bal.fig.)	3,34,100	By Closing Stock		95,400
Total	**8,37,100**	**Total**		**8,37,100**
To Depreciation		By Gross Profit b/d		3,34,100
- Furniture	4,800			
- Computer	2,430			
- Mobile Phone	2,000			
To Provision for Bad Debts (6,50,000 x 5%)	3,250			
To Salaries (WN 7)	99,300			
To Rent (WN 7)	72,000			
To Insurance (WN 8)	9,900			
To Stationery (WN 8)	1,450			
To Mobile Phone Expenses	9,000			
To Net Profit (Bal.fig.)	1,29,970			
Total	**3,34,100**	**Total**		**3,34,100**

(5 MARKS)

B. Balance Sheet as on 31st March

Capital and Liabilities		**Rs.**	**Properties and Assets**		**Rs.**
Capital			Non-Current Assets :		
Opening Balance	1,97,430		Furniture : 96,000 less 5% Depreciation 4,800		91,200
Add : Net Profits	1,29,970		Computer : 24,300 less : 10% Depreciation 2,430		21,870
Less : Drawings	(1,20,000)	2,07,400	Mobile Phone : 8,000 less 10% Depreciation 2,000		6,000
Current Liabilities :			Current Assets :		
Outstanding Expenses			Stock		95,400

Salaries	8,300		Sundry Debtors	65,000	
Rent	6,000	14,300	Less : Provision at 5%	3,250	61,750
Bills Payable		26,500	Bills Receivable		20,000
Sundry Creditors		76,000	unexpired Insurance		2,500
			Stock of Stationery		250
			Cash in Hand		7,230
			Cash at Bank		18,000
Total		**3,24,200**	**Total**		**3,24,200**

(5 MARKS)

Working Notes: 1. Bank Account (To compute Cash Deposited into Bank)

Particulars	Rs.	Particulars	Rs.
To Cash (bal. fig.)	22,270	By balance b/d (Overdraft Balance b/d)	4,270
		By balance c/d (Closing Balance given)	18,000
Total	**22,270**	**Total**	**22,270**

2.Bills Receivable Account (To compute B/R accepted by Debtors)

Particulars	Rs.	Particulars	Rs.
To balance b/d	15,000	By Cash	65,000
To Debtors (bal. fig.) B/R received	70,000	By balance c/d	20,000
Total	**85,000**	**Total**	**85,000**

3.Sundry Debtors Account (To compute Credit Sales)

Particulars	Rs.	Particulars	Rs.
To balance b/d	55,000	By Bills Receivable (from WN 2)	70,000
To Sales (bal. fig.) Credit Sales	2,31,900	By Cash	1,51,900
		By balance c/d	65,000
Total	**2,86,900**	**Total**	**2,86,900**

(5 MARKS)

ANSWER-4

ANSWER-A

MA (P) Ltd.

Statement showing calculation of profit/losses for pre and post incorporation periods

	Basis of allocation	Pre-inc.Rs.	Post-inc.Rs.
Sales	Sales ratio	26,00,000	2,08,00,000
Less: Cost of goods sold	Sales ratio	18,20,000	1,45,60,000
Salaries	W.N.4	90,000	10,80,000
Depreciation	Time ratio	36,000	1,44,000

Advertisement	Sales ratio	78,000	6,24,000
Discounts	Sales ratio	1,30,000	10,40,000
M.D.'s remuneration	Post-inc	—	90,000
Misc. Office Expenses	Time ratio	24,000	96,000
Rent	W.N.5	90,000	6,30,000
Interest	Time ratio	3,51,000	6,00,000
Net Profit/(Loss)		(19,000)	19,36,000

(2 MARKS)

Working Notes: **(8 MARKS)**

(1) Calculation of Sales ratio:

Let the average sales per month in pre-incorporation period be x. Then the average sales in post-incorporation period are 2x. Thus total sales are (3 × x) +(12 × 2x) or 27x. Ratio of sales will be 3x : 24x or 1:8.

Time ratio is 3 months : 12 months or 1:4

(2) Expenses apportioned on turnover ratio basis are cost of goods sold, advertisement, discounts.

(3) Expenses apportioned on time ratio basis are Depreciation, and misc. officeexpenses.

(4) Ratio for apportionment of Salaries:

If pre-incorporation monthly average is x, for 3 months 3x.

Average for balance 12 months 3x, for 12 months 36x.

Hence ratio for division, 1:12.

(5) Apportionment of Rent:

		Rs.
Total Rent		7,20,000
Additional rent for 9 months (From 1st July 20X2 to31st March, 20X3)	(2,70,000)	
Rent for old premises for 15 months at Rs. 30,000 p.m.		4,50,000

	Pre-inc.	Post-inc.
Old Premises	90,000	3,60,000
Additional rent	___	2,70,000
	90,000	6,30,000

4.Bills Payable Account (To compute B/P accepted and given to Creditors)

Particulars	Rs.	Particulars	Rs.
To Cash	80,000	By balance b/d	22,500
To balance c/d	26,500	By Creditors (bal. fig.) - B/P accepted	84,000
Total	**1,06,500**	**Total**	**1,06,500**

5.Sundry Creditors Account (To compute Credit Purchases)

Particulars	Rs.	Particulars	Rs.
To Cash To Bills Payable (from WN 4) To balance c/d	3,06,000 84,000 76,000	By balance b/d By Purchases (Bal. Fig.)	52,500 4,13,500
Total	**4,66,000**	**Total**	**4,66,000**

6.Cash Account

Particulars	Rs.	Particulars	Rs.
To balance b/d	300	By Creditors	3,06,000
To Sales	5,09,800	By Bills Payable	80,000
To Sundry Debtors	1,51,900	By Salaries	99,000
To Bills Receivable	65,000	By Rent	72,000
		By Insurance Premium	10,000
		By Stationery	1,500
		By Mobile Phone Expenses	9,000
		By Drawings	1,20,000
		By Bank (bal. fig.) (to match with WN 1)	22,270
		By balance c/d	7,230
Total	**7,27,000**	**Total**	**7,27,000**

7. Rent / Salary, i.e. Expenses Outstanding Account (To compute Expense Recognised for the year)

Particulars	Rent	Salary	Particulars	Rent	Salary
To Cash	72,000	99,000	By balance b/d	6,000	8,000
To balance c/d	6,000	8,300	By P&L (bal. fig.)	72,000	99,300
Total	**78,000**	**1,07,300**	**Total**	**78,000**	**1,07,300**

8. Insurance and Stationery Expense Account

(To compute Expense Recognised for the year)

Particulars	Insurance	Stationery	Particulars	Insurance	Stationery
To balance b/d	2,400	200	By P8iL (bal. fig.)	9,900	1,450
To Cash	10,000	1,500	By balance c/d	2,500	250
Total	**12,400**	**1,700**	**Total**	**12,400**	**1,700**

ANSWER-B

1. Branch Stock Account

Particulars	Rs.	Particulars	Rs.
To Goods sent to Branch A/c	60,000	By Branch Debtors A/c	58,000
To Branch Adjustment A/c	27,000	By Branch Bank A/c (from WN 4)	17,000
(balancing figure)		By balance c/d	
		Stock in Transit [(50,000 x 120%) - 54,000]	6,000
		Stock at Branch	6,000
Total	**87,000**	**Total**	**87,000**

(2 MARKS)

2. Branch Debtors Account

Particulars	Rs.	Particulars	Rs.
To Branch Stock A/c	58,000	By Branch Bank A/c - Colin from Debtors (b/f)	37,000
		By Branch P & L A/c (Bad Debts)	200
		By balance c/d	20,800
Total	**58,000**	**Total**	**58,000**

(2 MARKS)

3. Goods sent to Branch Account

Particulars	Rs.	Particulars	Rs.
To Branch Adjustment A/c	10,000	By Branch Stock Account	60,000
(Loading on Goods Sent = 60,000 x $\frac{20}{120}$			
To Whom It May Concern: Purchases	50,000		
Total	60,000	Total	60,000

(1 MARK)

4. Branch Bank Account

Receipts	Rs.	Payments	Rs.
To Bank A/c - Receipt from HO	3,000	By Branch Expenses A/c	12,000
To Branch Debtors A/c - Collection (WN 2)	37,000	By Bank A/c - Remittance to HO	43,000
To Branch Stock A/c - Branch Cash Sales(balancing figure)	17,000	By balance c/d	2,000
Total	**57,000**	**Total**	**57,000**

(2 MARKS)

5. Branch Adjustment Account

Particulars	Rs.	Particulars	Rs.
To Branch P & L A/c - Gross Profit (bal. fig.)	35,000	By Goods Sent to Branch - Loading	10,000
To Stock Reserve on Clg Stk (12,000 x $\frac{20}{120}$)	2,000	By Branch Sales A/c	27,000
Total	**37,000**	**Total**	**37,000**

(1 MARK)

6. Branch Profit and Loss Account

Particulars	Rs.	Particulars	Rs.
To Branch Debtors A/c (Bad Debts) To Branch Expenses A/c To Net Profit (balancing figure)	200 12,000 22,800	By Branch Adjustment A/c (Gross Profit)	35,000
Total	**35,000**	**Total**	**35,000**

(2 MARKS)

ANSWER-5

1. Statement of Distribution of Cash under Maximum Loss Method (inRs.)

	Particulars	Realisation	Creditors	Amar's Loan	Amar	Akbar	Antony	Total
	Balance available / Due	-	80,000	20,000	1,00,000	30,000	90,000	3,20,000
Add:	Cash Realised (15th April)	60,000	-	-	-	-	-	-
Less:	Creditors Paid	(60,000)	(60,000)	-	-	-	-	(60,000)
	Balance available/Due	Nil	20,000	20,000	1,00,000	30,000	90,000	2,60,000
Add:	Cash realised (1st May)	1,46,000	-	-	-	-	-	-
Less:	Creditors/Partner's Loan	(40,000)	(20,000)	(20,000)	-	-	-	(40,000)
	Balance Available/Due	1,06,000	-	-	1,00,000	30,000	90,000	2,20,000
Less:	Maximum Possible Loss (Capital Rs.2,20,000 – Cash Available Rs.1,06,000) allocated in PSR of 5:3:2	-	-	-	(57,000)	(34,200)	(22,800)	(1,14,000)
	Loss to be borne by partners	-	-	-	43,000	(4,200)	67,200	1,06,000
Adj:	Deficiency of Akbar distributed to Amar and Antony in the ratio 10:9	-	-	-	(2,210)	4,200	(1,990)	-
	Cash paid to partners	-	-	-	40,790	--	65,210	1,06,000
	Balance	-	-	-	59,210	30,000	24,790	1,14,000

	Due/Available (Bal. before adjusting Max. Loss less cash paid							
Add:	Cash realised (31st May)	94,000	-	-	-	-	-	-
	Balance Available / Due	-	-	-	59,210	30,000	24,790	1,14,000
	Maximum possible loss (Capital Rs.1,14,000 – Cash available Rs.94,000) allocated in PSR of 5:3:2	-	-	-	(10,000)	(6,000)	(4,000)	(20,000)
	Balance Due	-	-	-	49,210	24,000	20,790	94,000
Less:	Cash Paid	-	-	-	(49,210)	(24,000	(20,790)	(94,000)
	Balance due / loss to be borne	-	-	-	-	-	-	-

(15 MARKS)

2. Partners' Capital Account

Particulars	Amar	Akbar	Antony	Particulars	Amar	Akbar	Antony
To Realisation (Loss) To Bank	10,000 90,000	6,000 24,000	4,000 86,000	By balance b/d	1,00,000	30,000	90,000
Total	**1,00,000**	**30,000**	**90,000**	**Total**	**1,00,000**	**30,000**	**90,000**

(2 MARKS)

3. Cash / Bank Account

Receipts	Rs.	Payments	Rs.
To Realisation A/c		By Sundry Creditors	60,000
- Assets realised on April 15th	60,000	By Sundry Creditors	20,000
- Assets realised on May 1st	1,46,000	By Amar's Loan	20,000
- Assets realised on May 31st	94,000	By Amar's Capital	40,790
		By Antony's Capital	65,210
		By Amar's Capital	49,210
		By Akbar's Capital	24,000
		By Antony's Capital	20,790
Total	**3,00,000**	**Total**	**3,00,000**

(3 MARKS)

ANSWER-6

ANSWER-A

In the books of C Limited

Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Bank A/c	Dr.	2,50,000	
	To Equity Share Capital A/c			2,50,000
	(Being the issue of 25,000 equity shares of Rs. 10 each at par as per Board's resolution No……dated…..)			
	Bank A/c	Dr.	1,00,000	
	To 14% Debenture A/c			1,00,000
	(Being the issue of 1,000 Debentures of Rs. 100 each as per Board's Resolution No…..dated……)			
	12% Redeemable Preference Share Capital A/c	Dr.	3,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	30,000	
	To Preference Shareholders A/c			3,30,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	3,30,000	
	To Bank A/c			3,30,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	30,000	
	To Premium on Redemption of Preference Shares A/c			30,000
	(Being the adjustment of premium on redemption against Profits & Loss Account)			
	Profit & Loss	Dr.	50,000	
	To Capital Redemption Reserve A/c			50,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

(5 MARKS)

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed	Rs. 3,00,000
Less: Proceeds from new issue	(Rs. 2,50,000)
Total Balance	Rs.50,000

ANSWER-B

Ex – right value of the shares = (Cum – right value of the existing shares + Rights shares × Issue Price) / (Existing Number of shares + Number of Right shares)

= (Rs. 360 × 2 Shares + Rs. 180 × 1 Share) / (2 + 1) Shares

= Rs. 900 / 3 shares = Rs. 300 per share.

Value of right = Cum – right value of the share – Ex – right value of the share

= Rs. 360 – Rs. 300 = Rs. 60 per share.

Hence, any one desirous of having a confirmed allotment of one share from the company at Rs. 180 will have to pay Rs. 120 (2 shares × Rs. 60) to an existing shareholder holding 2 shares and willing to renounce his right of buying one share in favour of that person.

(5 MARKS)

ANSWER-C

The Framework for Recognition and Presentation of Financial statements recognizes four alternative measurement bases for the purpose of determining the value at which an element can be recognized in the balance sheet or statement of profit and loss. These bases are: (i)Historical Cost; (ii)Current cost (iii) Realizable (Settlement) Value and (iv) Present Value.

A brief explanation of each measurement basis is as follows:

1. **Historical Cost:** Historical cost means acquisition price. According to this, assets are recorded at an amount of cash or cash equivalent paid or the fair value of the asset at the time of acquisition. Liabilities are generally recorded at the amount of proceeds received in exchange for the obligation.
2. **Current Cost:** Current cost gives an alternative measurement basis. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.
3. **Realizable (Settlement) Value:** As per realizable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in *an orderly disposal*. Liabilities are carried at their settlement values;
   i.e. the undiscounted amount of cash or cash equivalents paid to satisfy the liabilities in the normal course of business.

4. **Present Value:** Under present value convention, assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities under this convention are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.

(5 MARKS)

ANSWER-D

As per para 3.2 to **<u>AS 16 'Borrowing Costs',</u>** 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.

(5 MARKS)