



CA INTERMEDIATE
SUBJECT- Accounting Standards &
Accounts

Test Code – CIM 8717
(Date :)

(Marks - 40)

TOPICS : AS- 1, 2, 5, 9, 11 & 20, Redemption of Redeemable Preference Shares

NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.

(2) NEW QUESTION SHOULD BE ON NEW PAGE

QUESTION NO.1

(5*2 = 10 MARKS)

- A. ABC Ltd. was making provision for non-moving inventories based on no issues for the last 12 months up to 31.3.2019.

The company wants to provide during the year ending 31.3.2020 based on technical evaluation:

Total value of inventory	Rs. 100 lakhs
Provision required based on 12 months issue	Rs. 3.5 lakhs
Provision required based on technical evaluation	Rs. 2.5 lakhs

Does this amount to change in Accounting Policy? Can the company change the method of provision?

- B. Rau Ltd. purchased a plant for US\$ 1,00,000 on 01st February 2016, payable after three months. Company entered into a forward contract for three months @ Rs. 49.15 per dollar. Exchange rate per dollar on 01st Feb. was Rs. 48.85. **How will you recognize the profit or loss on forward contract in the books of Rau Ltd.?**

QUESTION NO.2

(5*2 = 10 MARKS)

- A. From the following information given by Sampark Ltd., **Calculate Basis EPS and Diluted EPS as per AS 20 :**

	Rs.
Net Profit for the current year	2,50,00,000
No. of Equity Shares Outstanding	50,00,000
No. of 12% convertible debentures of Rs.100 each	50,000
Each debenture is convertible into 8 Equity Shares	
Interest expense for the current year	6,00,000
Tax saving relating to interest expense (30%)	1,80,000

- B. Fashion Limited is engaged in manufacturing of readymade garments. They provide you the following information on 31st March, 2019:
- (i) On 15th January, 2019 garments worth Rs. 4,00,000 were sent to Anand on consignment basis of which 25% garments unsold were lying with Anand as on 31st March, 2019.

- (ii) Garments worth Rs. 1,95,000 were sold to Shine boutique on 25th March, 2019 but at the request of Shine Boutique, these were delivered on 15th April, 2019.
- (iii) On 1st November, 2018 garments worth Rs. 2,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods up to 31st December, 2018 and no approval or disapproval received for the remaining goods till 31st March, 2019.

You are required to advise the accountant of Fashion Limited, the amount to be recognised as revenue in above cases in the context of AS 9.

QUESTION NO.3

(10 MARKS)

The capital structure of Chand Ltd. consists of 20,000 Equity Shares of Rs.10 each fully paid up and 1,000 8% Redeemable Preference Shares of Rs.100 each fully paid up (issued on 1.4.20X1).

Undistributed reserve and surplus stood as: General Reserve Rs. 80,000; Profit and Loss Account Rs. 20,000; Investment Allowance Reserve is Rs. 10,000 out of which Rs. 5,000 is not free for distribution as dividend; Cash at bank amounted to Rs. 98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve and surplus, subject to the conditions that a sum of Rs. 20,000 shall be retained in general reserve and which should not be utilized.

Pass Journal Entries to give effect to the above arrangements and **also show how the relevant items will appear in the Balance Sheet of the company** after the redemption carried out.

QUESTION NO.4

(5*2 = 10 MARKS)

- A. The Board of Directors of a Company decide to issue minimum number of equity shares of Rs. 9 to redeem Rs. 5,00,000 preference shares. The maximum amount of divisible profits available for redemption is Rs. 3,00,000. Calculate the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. **Also determine the number of shares if the company decides to issue shares in multiples of Rs.50 only.**
- B. The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2019. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard;
 - (i) Provision for doubtful debts was created @ 2% till 31st March, 2018. From the Financial year 2018-2019, the rate of provision has been changed to 3%.
 - (ii) During the year ended 31st March, 2019, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.

- (iii) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.
- (iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of Rs. 20,000 per month. Earlier there was no such scheme of pension in the organization.
- (v) During the year ended 31st March, 2019, there was change in cost formula in measuring the cost of inventories.