

CA INTER – ADVANCED ACCOUNTS
WEEKLY TEST 2 – SUGGESTED ANSWERS

Answer 1. (14 Marks)

Journal Entries in books of Sustain Limited

			₹	₹
1.	Bank Account Dr. To Equity Share Capital Account (Balance of ₹ 2 per share on 25,000 equity shares called up)		50,000	50,000
2.	Equity Share Capital (₹ 10) Account To Equity Share Capital (₹ 5) Account To Capital Reduction Account (Reduction of equity shares of ₹ 10 each to shares of ₹ 5 each as per reconstruction scheme)		7,50,000	3,75,000 3,75,000
3.	8 % Cumulative Preference Share Capital (₹ 10) A/c Dr. To 9% Cumulative Preference Share Capital (₹ 7.5) A/c To Capital Reduction A/c (Being Preference shares of ₹ 10 each reduced by ₹ 2.5 each per share by changing the rate of dividend from 8% to 9% and the balance transferred to Capital Reduction A/c.)		3,00,000	2,25,000 75,000
4.	Capital Reduction A/c Dr. To Preference share dividend payable A/c (Being arrear of Preference share dividend payable for one year)		48,000	48,000
5.	Preference share dividend payable A/c Dr. To Equity Share Capital (₹ 5) A/c		48,000	48,000

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	(Being Equity Shares of ₹ 5 each issued against arrears of 2 years Preference Share dividend) (W.N.1)			
6	10% Debentures Account	Dr.	2,50,000	
	Interest on Debentures Outstanding A/c	Dr.	25,000	
	Trade payables Account	Dr.	50,000	
	To Mr. X			3,25,000
	(The total amount due to X, transferred to his account)			
7	Bank Account	Dr.	20,000	
	To Mr. X			20,000
	(The amount paid by X under the reconstruction scheme)			
8	Mr. X		3,45,000	
	To 12% Debentures Account			1,82,500
	To Capital Reduction A/c			1,62,500
	(The cancellation of 50% of the total debt of Mr. X and the issue of 12% new debentures for the balance amount as per the reconstruction scheme)			
9	10% Debentures A/c	Dr.	2,00,000	
	Interest on Debentures Outstanding A/c		20,000	
	To 9% Cumulative Preference Share capital A/c			1,32,000
	To Capital Reduction A/c			88,000
	(Being 9% preference share capital issued to 10% debenture-holders for 60% of their claims. The balance is transferred to capital reduction account as per the reconstruction scheme)			
10	Provision for Tax A/c	Dr.	1,00,000	
	Capital Reduction A/c		20,000	
	To Bank A/c			1,20,000
	(Being payment of tax liability in full settlement)			
11	Trade payables A/c (1,30,000-50,000)	Dr.	80,000	

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	Capital reduction A/c		20,000	
	To Inventory A/c			1,00,000
	[Being settlement of creditors by giving inventory]			
12	Capital reduction A/c	Dr.	1,84,600	
	To Investment A/c			30,000
	To Provision for bad debt A/c (2,30,000 x 2%)			4,600
	To Plant & Machinery (7,50,000x 20%)			1,50,000
	(Investment brought to their market value, Plant & machinery is written down by 20% & Provision for Bad debts of 2% created under the scheme of reconstruction)			
13	Bank A/c	Dr.	2,00,000	
	To 12% debentures A/c			2,00,000
	(New 12 % debentures issued to pay off bank overdraft and maintain cash balance)			
14.	Bank Overdraft	Dr.	65,000	
	To Bank A/c			65,000
	(Bank overdraft paid)			
15.	Capital reduction A/c	Dr.	4,27,900	
	To Goodwill A/c			60,000
	To Profit and loss A/c			2,50,000
	To Inventory			20,000
	To Capital reserve A/c			97,900
	[Being goodwill and profit and loss account (Dr. bal.), balance inventory; and balance of capital reduction account transferred to capital reserve]			

Notes to accounts

		₹
1.	Share Capital	
	Equity share capital	

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Issued, subscribed and paid up 84,600 equity shares of ₹ 5 each each (75,000+9,600)	4,23,000
47,600, 9 % Cumulative Preference Shares of ₹ 7.50 each (30,000+17,600)	3,57,000
Total	7,80,000

Working note

1. Calculation of the number of equity shares issued for 2 years arrear of preference share dividend

$$3,00,000 \times 8\% \times 2 = 48,000$$

$$\text{Equity share of ₹ 5 per share issued} = 48,000/5 = 9,600 \text{ shares}$$

2. Cash & bank Account

To Uncalled capital	50,000	By Bank Overdraft	65,000
To Mr. X	20,000	By Tax	1,20,000
To 12% Debentures A/c (bal. fig.)	2,00,000	By Balance C/d	<u>85,000</u>
	<u>2,70,000</u>		<u>2,70,000</u>

3. The new face value of preference share is $10 - 2.5 = ₹ 7.5$

Calculation of Number of 9% Preference shares issued in consideration of reduction:

$$1,32,000/7.5 = 17,600$$

Answer 2. (Marks 5)

Calculation of Cost for Closing Inventory

Particulars	Rs
Cost of Purchase (40,400 x 12)	4,84,800
Direct Labour	3,23,200
Fixed Overhead $3,15,000 \times 40,400/45,000$	2,82,800
Cost of Production	<u>10,90,800</u>
Cost of Closing Inventory per unit (10,90,800/40,400)	Rs. 27
Net Realisable Value per unit	Rs. 22

Since Net Realisable Value is less than cost, Closing inventory will be valued at Rs. 22.

As NRV of the finished goods is less than its cost, relevant raw materials will be valued at replacement cost i.e. Rs. 11.50

Therefore, value of Closing Inventory: Finished Goods (4,200 x 22) - Rs. 92,400

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Raw Materials (4000 x 11.50) =Rs. 46,000

Total =Rs. 1,38,400

Answer 3. (Marks 7)

(1)

- (i) Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired.
- (ii) These costs are not to be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- (iii) The costs to be incurred by the company are in the nature of costs of relocating or reorganising operations of the company and do not meet the requirement of AS 10 (Revised)
- (iv) Therefore, these costs cannot be capitalized.

(2) Computation of cost of land

Particulars		₹	₹
Purchase Price	250 hectares x ₹ 25,000 per hectares		62,50,000
Stamp Duty and Registration Charges	5% of ₹ 65,50,000		3,12,500
Legal and Consultancy Fees			4,75,000
Demolition Expenses (Net of Salvage Income)	₹ 12,60,000 x (100/105)	37,85,000 (12,00,000)	25,85,000
Cost of Land			96,22,500