Paper 10: Advanced Financial Accounting

Max. marks 100 Time allowed – 3 hrs.

Attempt Q. 1 & 5 others from the rest.

Q. 1 The A & Co. Ltd. Acquired 80% of both classes of shares in B & Co. as at 1/4/04 at a total cost of Rs.5,60,00,000. The Balance Sheets at 31/3/04, when accounts of both the companies were prepared & audited were as follows:-

A & Co. Ltd.

Particulars	**Amt. In Rs.**
1500000 Shares of Rs.50/- each	7,50,00,000
Creditors (x)	75,00,000
General Reserve	4,75,00,000
P & L A/c (z)	4,00,00,000
	17,00,00,000
Land & Building	5,15,00,000
Plant & Machinery	1,50,00,000
Debtors	1,40,00,000
Stock (y)	1,70,00,000
Investments	5,60,00,000
Cash	1,65,00,000
	17,00,00,000

(x) Includes Rs.30,00,000/- for purchases from the B & Co. on which the later Co. made a profit of Rs.7,50,000/-.

(y) Includes Rs.15,00,000 /- stock at cost purchased from B & Co., part of Rs.30,00,000/- purchases.

(z) Includes dividend at the rate of 16% p.a. from the B & Co. The dividend was for the year ending 31/3/03.

B & Co. Ltd.

Particulars	**Amt. In Rs.**
1,00,000 6% Pref. Shares of Rs.100/- each	1,00,00,000
30,00,000 Equity Shares of Rs.5/- each	1,50,00,000
Creditors	80,00,000
General Reserve as at 1/4/04	10,00,000
P & L A/c	1,80,00,000
	5,20,00,000
Land & Building	1,50,00,000

Plant & Machinery	1,35,00,000
Stock	1,01,00,000
Debtors	79,00,000
Cash	55,00,000
	5,20,00,000

(Note: The balance on P & L A/c at 1/4/03 was Rs.80,00,000/-, out of which dividend @ 16% was paid on equity shares. The dividend in respect of preference shares is still payable)

Prepare Consolidated Balance Sheet as on 31/3/04. Ignore tax. **(20 marks)**

Q. 2 From the following balances of Asian General Insurance Co. Ltd., as on 31/12/03, prepare I) Fire Revenue A/c, II) Marine Revenue A/c & III) P & L A/c

(Rs. In 000's)

Bad debts - Fire	5,000
Bad dents – Marine	12,000
Auditors' fee	1,200
Directors' fee	5,000
Share Transfer fee (cr.)	800
Bad debts recovered	1,200
Fire Fund (1/1/03)	2,50,000
Marine Fund (1/1/03)	8,20,000
Claims paid & outstanding - Fire	1,80,000
Claims paid & outstanding - Marine	3,80,000
Commission paid - Fire	30,000
Commission paid - Marine	54,000
Addl. Reserve on 1/1/03 - Fire	50,000
Survey expenses - Fire	10,000
Depreciation	35,000
Interest, Dividend etc. recd	14,000
Difference in exchange (cr.)	300
Misc. receipts	5,000
Profit on sale of land	60,000
Fire premium less re-insurance	6,00,000
Marine premium less re-insurance	10,80,000
Management exp. - Fire	1,45,000
Management exp. - Marine	4,00,000
Commission earned on re-insurance ceded - Fire	10,000
Commission earned on re-insurance ceded - Marine	20,000

In addition to usual reserves, additional reserve in case of Fire Insurance is to be created by 5% of net premiums. (16 marks)

Q.3 Mr. X, who keeps his books by Single Entry System gives you the following information:

Summary of Cash Book

To Balance at Bank	4,35,000	By Drawings	7,52,000
To Sundry Debtors	38,40,000	By Creditors	27,10,000
To Bills Receivable	12,00,000	By Bills Payable	9,30,000
To Commission recd.	1,50,000	By Wages	12,00,000
To Cash Sales	8,60,000	By Salaries	6,50,000
		By Rent & Taxes	4,40,000
		By Insurance	80,000
		By Carriage inward	25,000
To Balance c/f	3,35,000	By Advertising	33,000
	68,20,000		**68,20,000**

Particulars of other assets & liabilities

	1/4/03	**31/3/04**
Stock	18,70,000	23,40,000
Debtors	12,00,000	14,00,000
Creditors	9,00,000	1,50,000
Bills Receivables	4,00,000	5,00,000
Bills Payable	1,00,000	20,000
Furniture	60,000	60,000
Building	12,00,000	12,00,000

A provision of Rs.1,45,000 is required for doubtful debts & depreciation @ 5% is to be written off on building & furniture. Rs.3,00,000 are outstanding for wages & Rs.1,20,000 for salaries. Insurance has been prepaid to the extent of Rs.25,000. Legal expenses are outstanding to the extent of Rs.70,000.

Prepare P & L A/c and Balance Sheet. **(16 marks)**

Q. 4 From the following details, ascertain the value of claim under a Loss of Profits policy:

Indemnity Period – 6 months; Value of Policy – Rs. 30,00,000 Date of Fire – 1/4/03; Dislocation upto 1/8/03

Rs.

Sales for 2002 Accounting year	1,20,00,000
Net Profit for 2002	13,00,000
Standing charges for 2002 (all covered)	17,00,000
Sales from 1/4/02 to 33/3/03	1,60,00,000
Sales from 1/4/03 to 1/8/83	15,00,000
Sales from 1/4/02 to 1/8/02	50,00,000

There was a clear 10% upward trend in business. **(16 marks)**

Q.5 Mr. Eknath intends to invest Rs.33,000 in equity shares of A Ltd. and seeks your advice as to the maximum number of shares he can expect to acquire based on a fair value of the shares to be determined by you. The following information is available:-

Issued & Paid-up Capital	Rs.
6% Pref. Shares of Rs.100 each	5,50,00,000
Equity shares of Rs.10 each	3,50,00,000

Average net profit of the business is Rs.75,00,000. Expected normal yield is 8% in case of such equity shares. It is observed that the net assets on revaluation are worth Rs.70,00,000 more than the amounts at which they are stated in the books.

Goodwill is to be calculated at 5 years purchase of super profits, if any (ignore Income Tax)

Q. 6 What are (a) Consolidated Fund; (b) Contingency Fund and (c) Public Account ? Discuss.**(16 marks)**

Q. 7 Elaborate significant provisions of International Accounting Standard 23 regarding Capitalisation of Borrowing Costs. **(16 marks)**

Q. 8 The Balance Sheet of the two companies as at 30th Sept., 03 were as below:

(Rs. in hundreds)

Liabilities	P. Ltd.	Q. Ltd.	Assets	P. Ltd.	Q. Ltd.
Equity Shares			Fixed Assets	6,00,000	4,00,000
Capital in shares of			Stock	1,60,000	1,20,000

Rs.100 each	10,00,000	6,00,000	Debtors	2,80,000	1,80,000
Reserves	80,000	40,000	Cash & Bank	2,40,000	70,000
P & L A/c	1,20,000	80,000	Misc. Expenses	20,000	10,000
Sundry Creditors	1,00,000	60,000			
	13,00,000	7,80,000		13,00,000	7,80,000

Q. Ltd. has been taken over by P. Ltd. as on 1st Jan., 04. No Balance Sheets of the companies were prepared as at that date. But it is estimated that Q. Ltd. made a profit of Rs.50,00,000 in the period, after charging 10% p.a. depreciation on fixed assets. Profits of P. Ltd. during that period on the same basis, were Rs.90,00,000.

Both the Companies declared and paid a dividend of 10% on their capitals in Nov., 03. Purchase consideration is to be satisfied by P. Ltd. at par after revaluing goodwill and fixed assets of Q. Ltd. at Rs.40,00,000 (Book value Rs. nil) and at a premium of Rs.30,00,000 over Book value respectively.

Prepare the Balance Sheet of P. Ltd. as at 1st Jan., 04 after absorption of Q. Ltd. (16 marks)