

SHREE GURU KRIPA'S INSTITUTE OF MANAGEMENT

Reg. No _____

Total No. of Questions – 6

AC1 – IPM – 04

Total No. of Printed Pages – 4

Time Allowed: 3 Hrs

Total Marks – 100

Answer ALL Questions

Wherever appropriate, suitable assumptions should be made by the candidates

All working notes should form part of your answer.

- (1) 10 × 2 = 20 Marks
- (a) What are Accounting Policies?
- (b) State the Disclosure Requirements as per AS – 2?
- (c) What is the basis of Valuation of Long Term Investment as per AS – 13?
- (d) Explain the disclosure requirements as contained in Schedule VI to the Companies Act, 1956 with respect to the Share Capital of a Company.
- (e) Indra Company obtained a Cash Credit Limit of Rs.250 Lakhs from Heavens Bank Ltd. In addition to the primary security of stocks and book debts of the Company, the loan agreement provided for the issue of 1,00,000 7.5% Debentures of a face value of Rs.300 per bond, as Collateral Security. How will this issue of Debentures be treated in the books of Indra Company?
- (f) Vayu Ltd issued 5,000 5% Debentures of Rs.100 each, at a discount of 8%. The debentures were redeemable at par, in five equal annual instalments, commencing from the date of issue. Show for each year, (a) the amount of interest paid to Debenture Holders and (b) the amount of discount on issue of debentures written off to P&L Account. Assume that the issue was made on 1st July of Year 1 and the Company closes its accounts on 31st December every year. Interest is payable half-yearly on 30th June and 31st December every year.
- (g) What are the advantages of Self Balancing System?
- (h) Define Fair Market Value.
- (i) State the features of Packaged Accounting Software
- (j) What is meant by Red Ink Interest?

(2)

16 Marks

Simbu and Arasan had been carrying on business independently. They agree to amalgamate and form a new Company Neptune Ltd. with an Authorised Share Capital of Rs.2,00,000 divided into 40,000 Equity Shares of Rs.5 each.

On 31st December, the respective Balance Sheets of Simbu and Arasan were as follows: (in Rs.)

Particulars	Simbu	Arasan
Fixed Assets	3,17,500	1,82,500
Current Assets	<u>1,63,500</u>	<u>83,875</u>
	4,81,000	2,66,375
Less: Current Liabilities	2,98,500	90,125
Balance representing Capital	1,82,500	1,76,250

Additional Information:

(a) Revalued figures of Fixed and Current Assets were as follows:

Particulars	Simbu	Arasan
Fixed Assets	3,55,000	1,95,000
Current Assets	<u>1,49,750</u>	<u>78,875</u>

(b) The Debtors and Creditors include Rs.21,675 owed by Simbu to Arasan.

The Purchase Consideration is satisfied by issue of the following shares and debentures:

- 30,000 Equity Shares of Neptune Ltd. to Simbu and Arasan in the proportion to the profitability of their respective business based on the Average Net Profit during the last three years which were as follows:

Particulars	Simbu	Arasan
Year before last – Profit	2,24,788	1,36,950
Last Year – (Loss) / Profit	(1,250)	1,71,050
This Year – Profit	1,88,962	1,79,500

- 15% Debentures in Neptune Ltd. at par to provide an income equivalent to 8% Return on Capital Employed in their respective business as on 31st December after revaluation of assets.

Required: (1) Compute the amount of debentures and shares to be issued to Simbu and Arasan; and (2) Prepare the Balance Sheet of Neptune Ltd. showing the position immediately after amalgamation.

(3)

16 Marks

Computer point sells Computers on Hire-purchase basis at cost plus 25%. Terms of Sale are Rs. 5,000 down payment and eight monthly instalments of Rs. 2,500 for each computer.

The following transactions took place during the financial year 2009-10:

- Number of instalments not yet due on 1.4.2009 – 25
- Number of instalments due but not collected as on 1.4.2009 – 5
- During the financial year 240 Computers were sold. Out of the above sold Computers during the year the outstanding position were as follows as on 31.3.2010.
- Instalments not yet due:
 - Eight Instalment on 50 Computers.
 - Six Instalments on 30 Computers.
 - Two instalments on 10 Computers.
- Instalments due but not collected :

Two instalments on 5 Computers during the year. Two Computers on which five instalments were due and two instalments not yet due were repossessed out of Sales effected during current year. Re-possessed stock is valued at 50% of cost. All instalments have been received. You are asked to prepare Hire-purchase Trading Account for the year ending on 31.3.2010.

4(a)

8 Marks

Due to a fire on 1st July, 2010 the entire stock was burnt except some costing Rs. 70,000. The information available from the Books of Accounts saved were as follows:

- (i) The Average Gross Profit was 25% on sales.
- (ii) The stock on 31st December, 2006 valued as per practice at 10% above cost was Rs. 2,20,000.
- (iii) The purchases and sales from 1.1.2010 upto the date of fire were Rs. 3,00,000 and Rs. 6,80,000 respectively.
- (iv) The wages for the period amounted to Rs. 1,44,000.
- (v) The company insured stock for Rs. 1,20,000.
- (vi) The policy had an average clause.

Prepare a statement showing the amount of stock lost by the fire and the amount of claim to be lodged with the insurance company.

(b)

8 Marks

Calculate the Average Due Date from the following information –

Date of the Bill	Term	Amount (Rs.)
August 10, 2010	3 Months	6,000
October 23, 2010	60 Days	5,000
December 4, 2010	2 Months	4,000
January 14, 2011	60 Days	2,000
March 08, 2011	2 Months	3,000

(5)

16 Marks

A, B and C are Partners of the Firm ABC & Co., sharing Profits and Losses in the ratio of 5 : 3 : 2. Following is the Balance Sheet of the Firm as at 31.3.2008:

Balance Sheet as at 31.3.2008

Liabilities	Rs.	Assets	Rs.
Partners Capital A/c's :		Goodwill	1,00,000
A	4,50,000	Building	10,50,000
B	1,30,000	Machinery	6,50,000
C	1,70,000	Furniture	2,15,000
Investment Fluctuation Reserve	1,00,000	Investments (Market value Rs. 75,000)	60,000
Contingency Reserve	75,000	Stock	6,50,000
Long Term Loan	15,00,000	Sundry debtors	6,95,000
Bank Overdraft	2,20,000	Advertisement suspense	25,000
Sundry Creditors	8,00,000		
Total	34,45,000	Total	34,45,000

It was decided that B would retire from the Partnership on 1.4.2008 and D would be admitted as a Partner on the same date. Following adjustments are agreed amongst the Partners for the Retirement / Admission:

1. Goodwill is to be valued at Rs. 5,00,000, but the same will not appear as an asset in the books of the Firm.
2. Building and Machinery are to be revalued at Rs. 10,00,000 & Rs. 5,20,000 respectively.
3. Investments are to be taken over by B at the Market Value.
4. Provision for doubtful debts to be maintained at 20% on Sundry Debtors.
5. The capital of the reconstituted Firm will be Rs. 10,00,000 to be contributed by the Partners A, C and D in their new Profit Sharing ratio of 2 : 2 : 1.
6. Surplus funds if any will be used to pay the Bank Overdraft.
7. Amount due to retiring Partner B will be transferred to his Loan Account.

Prepare:

1. Revaluation Account
2. Capital Accounts of the Partners and
3. Balance Sheet of the Firm after reconstitution.

(6)

4 × 4 = 16 Marks

(a)

On 1st March, Kripalu Ltd purchased Rs.5 Lakhs worth of land for a Factory Site. The Company demolished an old building on the property and sold the material for Rs.10,000. The Company incurred additional cost & realized salvaged proceeds during March as follows:

Legal Fees for purchase contract and recording ownership	Rs.25,000
Title Guarantee Insurance	Rs.10,000
Cost for Demolition of Building	Rs.50,000

Compute the balance to be shown in the Land Account on 31st March Balance Sheet.

(b)

Chandrika Ltd has an equipment purchased 2 years ago for Rs.3,80,000. The residual value of the asset was estimated to be Rs.20,000. The total useful life of the asset when purchased was 12 years. The Company charges Straight Line Method of depreciation. Due to Price Adjustment, the cost of the asset is now increased by Rs.30,000. What is the treatment for the increase in Historical Cost? Advise.

(c) Write short notes on the concept of Prudence.

(d) How should Costs of Purchase be determined as per AS – 2