

MAY 2011

PCE
GROUP 1-PAPER
ADVANCED ACCOUNTING

Roll No.

Total No. of Questions – 7

Total No. of Printed Pages – 11

Time Allowed – 3 Hours

Maximum Marks – 100

GMR

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate has not opted for Hindi medium, his/her answers in Hindi will not be valued.

Question No. 1 is compulsory.

Answer any **five** questions from the remaining **six** questions.

Working notes should form part of the answer.

Wherever necessary, suitable assumptions may be made by the candidate.

	Marks
1. (a) GHI Limited obtained a loan for ₹ 70 lakhs on 15 th April, 2010 from JKL Bank, to be utilized as under :	5×4 =20
Construction of Factory shed	25 Lakhs
Purchase of Machinery	20 Lakhs
Working capital	15 Lakhs
Advance for purchase of Truck	10 Lakhs

In March 2011 construction of the factory shed was completed and machinery which was ready for its intended use installed. Delivery of Truck was received in the next financial year. Total interest ₹ 9,10,000 charged by the bank for the financial year ending 31-03-2011.

Show the treatment of interest under AS 16 and also explain the nature of Assets.

GMR

P.T.O.

- (b) In April, 2010, A Limited issued 18,00,000 Equity shares of ₹ 10 each; ₹ 5 per share was called up on that date which was paid by all the shareholders. The remaining ₹ 5 was called up on 1-9-2010. All the Shareholders (except one having 3,60,000 shares) paid the sum in September 2010. The net profit for the year ended 31-3-2011 is ₹ 33 lakhs after dividend on preference shares and dividend distribution tax of ₹ 6.60 lakhs.

Compute the basic EPS for the year ended 31st March, 2011 as per Accounting Standard 20.

- (c) Moon Limited sold goods worth ₹ 6,50,000 to M/s. Star and Company. M/s. Star and Company asked for trade discount of ₹ 53,000 which was agreed by Moon Limited. The sales was effected and goods were dispatched. After receiving, goods worth ₹ 67,000 was found defective, which was returned immediately by M/s. Star and Company. It made the payment of ₹ 5,30,000 to Moon Limited. Accountant of the company booked the sales for ₹ 5,30,000. Discuss the accounting treatment given by the accountant with reference to Accounting Standard 9

- (d) Base Limited is showing an intangible asset at ₹ 85 lakhs as on 1-4-2011. This asset was acquired for ₹ 112 lakhs on 1-4-2008 and the same was available for use from that date. The company has been following the policy of amortization of the intangible asset over a period of 12 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant accounting standard.

2. XYZ Limited was incorporated for taking over the business of Y from 1st April, 16
2010. The following is the Balance Sheet of Y as on 31st March, 2010.

Liabilities	₹	Assets	₹
Capital	10,08,000	Land and Building	16,00,000
Loans	12,00,000	Plant and Machinery	2,80,000
Creditors	7,12,000	Furniture	2,00,000
		Sundry Debtors	8,40,000
	29,20,000		29,20,000

The company takes over the business with fixed assets and loans on the following terms :

- The fixed assets should be depreciated @ 10%.
- The value of Goodwill is estimated at ₹ 8,00,000.

The company realised ₹ 8,00,000 from Sundry debtors as the agent of the vendor in full settlement and discharged all the trade creditors by paying ₹ 6,80,000 for a commission of 3% on the amount collected and 2% on the amount paid.
(Commission is treated as pre-incorporation profit)

The lenders accepted 10% preference shares of ₹ 100 each in discharge of their loan. After realization of debts and discharge of the liabilities, the total amount due to the vendor was settled by payment of ₹ 54,400 in cash and the balance in shares of fully paid equity shares of ₹ 10 each.

You are required to :

- (i) Compute purchase consideration.
- (ii) Pass Journal Entries in the books of XYZ Limited after taking over the business of Y.
- (iii) Prepare the Balance Sheet of the company as on 1st April, 2010.

3. The following is the Balance Sheet of M/s. Neel and Company as on 31st March, 2009 :

16

Liabilities	₹	Assets	₹
Capital	1,92,000	Building	1,30,000
Loan	60,000	Furniture	20,000
Creditors	1,24,000	Motor car (for business)	36,000
		Stock	80,000
		Debtors	68,000
		Cash in Hand	8,000
		Cash at Bank	34,000
	3,76,000		3,76,000

A riot occurred on the night of 31st March, 2010 in which all books and records were lost. The cashier had absconded with the available cash. The following information is available.

- (i) The sales for the year ended 31st March, 2010 were 20% higher than the previous year's sales. Firm always sells the goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2010 were for cash. There were no cash purchases.
- (ii) On 1st April, 2009, the stock level was raised to ₹ 1,20,000 and stock was maintained at this new level all throughout the year.
- (iii) Collections from Debtors amounted to ₹ 5,60,000 of which ₹ 1,40,000 was received in cash. Business expenses amounted to ₹ 80,000 of which ₹ 20,000 was outstanding on 31st March, 2010 and ₹ 24,000 was paid by cheque.
- (iv) Analysis of the pass book revealed the following for the year ended 31-3-2010 :
- | | |
|--------------------------|------------|
| Payment to creditors | ₹ 5,50,000 |
| Personal Drawing | ₹ 30,000 |
| Cash deposited into Bank | ₹ 2,86,000 |
| Cash withdrawn from Bank | ₹ 48,000 |
- (v) Gross profit as per last year's audited accounts was ₹ 1,20,000.
- (vi) Provide depreciation on Building and Furniture @ 5% and Motor Car @ 20%.
- (vii) The amount defaulcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2010 and the Balance Sheet as on date.

4. (a) From the following information, calculate the amount of Provisions and Contingencies and prepare Profit and Loss Account of 'Hamara Bank Limited' for the year ending 31st March, 2010.

	₹ in lakhs		₹ in lakhs
Interest and discount	4,430	Interest expended	1,360
Other Income	125	Operating Expenses	1,331
Interest accrued on Investments	10		

Additional Information :

- (i) Rebate on bills discounted to be provided for 15
- (ii) Classifications of Advances :
- | | |
|---|-------|
| Standard Assets | 2,500 |
| Sub-Standard Assets | 560 |
| Doubtful Assets not covered by security | 255 |
| Doubtful Assets covered by security | |
| For 1 year | 25 |
| For 2 years | 50 |
| For 3 years | 100 |
| For 4 years | 75 |
| Loss Assets | 100 |
- (iii) Make Tax provisions @ 35% of the profit
- (iv) Profit and Loss Account (Cr.) brought forward from previous year 40

- (b) From the following transactions, draw up an account current by means of product up to 31st December, 2010 to be rendered by X to Y and give the amount of interest charging @ 8% per annum. 8

Date	Particulars	Amount (₹ in thousands)
2010		
July 01	Balance owing by Y	600
July 15	Goods sold to Y	900
Aug 21	Goods bought from Y	700
Aug 23	Cash received from Y	450
Oct. 23	Y accepted X's bill at 3 months	300
Nov. 01	Goods bought from Y	950
Dec. 03	Accepted a bill drawn by Y at 3 months (due date of bill is on Sunday)	400

On 31st December, 2010, X and Y settled their account after considering the interest factor. Show the cash amount received or paid by X on that date.

5. (a) Jaipur Electric Company Limited rebuilt and re-equipped a part of their power house at the cost of ₹ 85 lakhs. The part of the old power house thus superseded originally costed ₹ 50 lakhs, but if erected at the present time would cost 40% more. ₹ 3 lakhs is realized from the sale of old materials. Old materials worth ₹ 6 lakhs are used in the reconstruction and are included in the cost of ₹ 85 lakhs mentioned above. 8

Give necessary Journal Entries for recording the above transactions in the books of the company, indicating the allocations between amount to be capitalized and amount to be written off to Revenue Account.

- (b) From the following information, prepare Cash Flow Statement of Amex Limited for the year ended 31st March, 2010 by using indirect method : 8

Balance Sheets as on :

	31-3-2009 (₹)		31-3-2010 (₹)	
<u>Liabilities</u>				
Share Capital		5,00,000		6,00,000
Reserves		1,50,000		1,80,000
Profit and Loss Account		40,000		65,000
Debentures		3,00,000		2,50,000
Creditors for goods		1,70,000		1,60,000
Provision for Income Tax		60,000		80,000
		12,20,000		13,35,000
<u>Assets</u>				
Gross Block	10,00,000		11,20,000	
Less : Depreciation	3,70,000		4,60,000	
Net Block		6,30,000		6,60,000
Stock in Trade		2,40,000		3,70,000
Book Debts		2,50,000		2,30,000
Cash in hand and at bank		80,000		60,000
<u>Misc Expenditure</u>				
Discount on issue of shares		10,000		7,500
Preliminary Expenses		10,000		7,500
		12,20,000		13,35,000

(9)

GMR

Marks

Profit and Loss Appropriation Account for the year ended 31st March, 2010

Particulars	Debit (₹)	Particulars	Credit (₹)
To Transfer to Reserves	30,000	By Balance b/d	40,000
To Interim Dividend paid	80,000	By Net Profit for current year	1,35,000
To Balance carried to Balance Sheet	65,000		
	1,75,000		1,75,000

6. (a) N Limited has a retail branch at Noida. Goods are sold to customers at cost plus 100%. The wholesale price is cost plus 80%. Goods are invoiced to Noida at wholesale price. From the following particulars, find out the profit made by the Head Office and Noida Branch for the year ended 31st March, 2010 using invoice method. 8

	<u>Head Office</u>	<u>Noida</u>
	₹	₹
Stock on April 1, 2009	50,000	—
Purchases	3,00,000	—
Goods sent to branch (at invoice value)	1,08,000	—
Sales	3,06,000	1,00,000
Expenses	90,000	4,000

Sales at Head Office are made only on wholesale basis and sales at branch are made only to customers. Stock at branch is valued at invoice price.

GMR

P.T.O.

- (b) Rising Sun Limited came up with an issue of 25,00,000 Equity shares of ₹ 10 each at par. 4,00,000 shares were issued to the promoters and balance offered to the public. Issue was underwritten by three underwriters A & Co., B & Co., and C & Co., equally, with firm underwriting of 1,00,000 shares each. Subscription totalled 17,26,000 shares, including the marked forms which were as under :

A & Co. 5,18,000 Shares

B & Co. 5,50,000 Shares

C & Co. 4,72,000 Shares

The underwriters had applied for the number of shares covered by firm underwriting. The amount payable on application and allotment were ₹ 3 & ₹ 2 respectively. The agreed commission is 3%.

You are required to calculate :

- (i) The liability of each underwriter.
- (ii) The amount payable and/or receivable by the underwriters.

7. Answer any **four** questions :

4×4
=16

- (a) A Limited company created a provision for bad and doubtful debts at 5% on debtors in preparing the financial statements for the year 2009-10. Subsequently on a review of the credit period allowed and financial capacity of the customers, the company decided to increase the provision to 10% on debtors as on 31-03-2010. The accounts are not approved by the Board of Directors till the date of decision. While applying the relevant accounting standard, can this revision be considered as an extraordinary item or prior period item ?

- (b) What are the restrictions imposed by the Banking Regulations Act, 1949 on payment of dividend in case of banking companies ?
- (c) In preparing the financial statements of Lotus Limited for the year ended 31st March, 2010 you come across the following information. State with reason, how you would deal with them in the financial statements ?
- (i) An unquoted long term investment is carried in the books at a cost of ₹ 5 lakhs. The published accounts of the unlisted company received in May 2010 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than ₹ 50,000.
- (ii) The Company invested ₹ 50 lakhs in April, 2010 in the acquisition of another company doing similar business, the negotiations for which had just started.
- (d) Enumerate the advantages of computerised accounting.
- (e) On 31st October, 2009, Bharat Construction Co. Ltd. undertook a contract to construct a Flyover for ₹ 215 crores. On 31st March, 2010 company found that its work certified for ₹ 100 crores and work to be certified for ₹ 35 crores. Prudent estimates of additional cost for completion was ₹ 90 crores. What amount should be charged to Revenue in the final accounts for the year ended 31st March, 2010 as per provisions of Accounting Standard 7 (revised).