

Roll No

NOV 2010

PCE
GROUP 1-PAPER
ADVANCED ACCOUNTING

Total No. of Questions – 7

Total No. of Printed Pages – 8

Time Allowed – 3 Hours

Maximum Marks – 100

BMP

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 answers in Hindi will not be valued.

Q. 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.

5 × 4 = 20 Marks

1. (a) NDA Corporation is engaged in research on a new process design for its product. It had incurred an expenditure of ₹ 530 lakhs on research upto 31st March, 09.

The development of the process began on 1st April, 09 and Development phase expenditure was ₹ 360 lakhs upto 31st March, 10 which meets assets recognition criteria.

From 1st April, 10 the company will implement the new process design which will result in after tax saving of ₹ 80 lakhs per annum for the next five years. The cost of capital of company is 10%.

Explain :

- (1) Accounting treatment for research expenses.
- (2) The cost of internally generated intangible assets as per AS 26.
- (3) The amount of amortization of the assets. (The present value of annuity factor of ₹ 1 for 5 years @ 10% – 3.7908.)

- (b) As on 31st March 2010, Strong Bank Ltd. had a balance of ₹ 27 crores in “rebate on bills discounted” account. The bank provides you the following further information.

- (1) During the financial year ending 31st March 2010, Strong Bank Ltd. discounted bills of exchange of 4,000 crores charging interest @ 15% p.a. and the average period of discount being 146 days.
- (2) Bills of Exchange of ₹ 600 crores were due for realization from the acceptors/customers after 31st March 2010, the average period outstanding after 31st March 2010, being 73 days.

You are required to pass necessary Journal entries in the books of Strong Bank Ltd. for the above transactions.

BMP

P.T.O.

- (c) On 20th October, 2009, the godown and business premises of Aman Ltd. were affected by fire. From the salvaged accounting records, the following information is available.

	₹
Stock of goods @ 10% lower than cost as on 31 st March, 09	2,16,000
Purchases less returns (1 – 4 – 09 to 20 – 10 – 09)	2,80,000
Sales less returns (1 – 4 – 09 to 20 – 10 – 09)	6,20,000

Additional Information :

- (1) Sales upto 20th Oct. 09 includes ₹ 80,000 for which goods had not been dispatched.
- (2) Purchases upto 20th Oct. 09 did not include ₹ 40,000 for which purchase invoices had not been received from suppliers, though goods have been received in Godown.
- (3) Past records show the GP rate 25%.
- (4) The value of goods salvaged from fire ₹ 31,000.
- (5) Aman Ltd. has insured their stock for ₹ 1,00,000.

Compute the amount of claim to be lodged to the insurance company.

- (d) On 25th September, 2009, Planet Advertising Limited obtained advertisement rights for world cup hockey tournament to be held in Nov./Dec., 2009 for ₹ 520 lakhs.

They furnish the following information :

- (1) The company obtained the advertisements for 70% of available time for ₹ 700 lakhs by 30th September, 09.
- (2) For the balance time they got bookings in Oct. 09 for ₹ 240 lakhs.
- (3) All the advertisers paid the full amount at the time of booking the advertisement.
- (4) 40% of the advertisements appeared before the public in Nov. 09 and balance 60% appeared in the month of Dec. 09.

You are required to calculate the amount of profit/loss to be recognized for the month November and December, 2009, as per Accounting Standard – 9.

P, Q, R are three doctors who are running a Polyclinic. Their capital on 31st March, 2009 was ₹ 1,00,000 each. They agreed to admit X, Y and Z as partner w.e.f. 1st April, 2009. The terms for sharing Profits & Losses were as follows :

- (a) 70% of the visiting fee is to go to the specialist concerned.
- (b) 50% of the chamber fees will be payable to the individual specialist.
- (c) 40% of operation fees and fees for pathological reports, X-ray and ECG will accrue in favour of the doctor concerned.

(d) Balance of profit or loss is shared equally.

(e) All the partners are entitled for 6% interest on capital employed.

They further agreed that :

(i) X, Y and Z brought in ₹ 20,000 each as goodwill. Goodwill is shared by the existing partners equally.

(ii) X, Y and Z were brought in ₹ 50,000 each as Capital. Each of the original partners also contributed ₹ 50,000 by way of capital.

The receipts for the year after admission of new partners were :

Name of doctors	Particulars	Visiting Fees (₹)	Chamber Fees (₹)	Fees for report, operation etc. (₹)
P	General Physician	1,50,000	2,00,000	
Q	Gynecologist	25,000	1,75,000	1,00,000
R	Cardiologist		1,00,000	75,000
X	Child Specialist	1,00,000	1,50,000	
Y	Pathologist			1,00,000
Z	Radiologist		40,000	2,00,000
	Total	2,75,000	6,65,000	4,75,000

Expenses for the year were as follows :

Particulars	₹
Medicines, injections and other consumables	1,00,000
Printing and Stationery	5,000
Telephone Expenses	5,000
Rent	42,000
Power and Light	10,000
Nurses Salary	20,000
Attendants wages	20,000
Total	2,02,000
Depreciation	
X-Ray Machines	15,000
ECG equipments	5,000
Furniture	5,000
Surgical equipments	5,000
Total Depreciation	30,000

You are requested to :

(i) Pass necessary Journal entries on admission of partners.

(ii) Prepare the Profit and Loss Account of the Polyclinic for the year ended 31st March, 2010.

(iii) Prepare Capital Accounts of all the partners at the end of the Financial year 2009-10. Also show the distribution of profit among partners.

3.

Balance Sheets as on 31st March, 2010

Liabilities	Gee Ltd. ₹	Pee Ltd. ₹	Assets	Gee Ltd. ₹	Pee Ltd. ₹
Equity Share Capital (₹ 10 per share)	25,00,000	15,00,000	Buildings	12,50,000	7,75,000
14% Preference Share Capital (₹ 100 each)	11,00,000	8,50,000	Plant and Machinery	16,25,000	8,50,000
General Reserve	2,50,000	2,50,000	Furniture and Fixtures	2,87,500	1,75,000
Export Profit Reserve	1,50,000	1,00,000	Investments	3,50,000	2,50,000
Investment Allowance Reserve	—	50,000	Stock	6,25,000	4,75,000
Profit and Loss Account	3,75,000	1,25,000	Debtors	4,00,000	4,60,000
15% Debentures (₹ 100 each)	2,50,000	1,75,000	Bills Receivables	50,000	55,000
Trade Creditors	1,50,000	75,000	Cash at Bank	3,62,500	2,60,000
Bills Payables	75,000	1,00,000			
Other Current Liabilities	1,00,000	75,000			
	49,50,000	33,00,000		49,50,000	33,00,000

All the bills receivables of Pee Ltd. were having Gee Ltd's acceptances.

Gee Ltd. takes over Pee Ltd. on 1st April, 2010. The purchase consideration is discharged as follows :

- Issued 1,65,000 equity shares of ₹ 10 each at par to the equity shareholders of Pee Ltd.
- Issued 15% preference shares of ₹ 100 each to discharge the preference shareholders of Pee Ltd. at 10% premium.
- The debentures of Pee Ltd. will be converted into equivalent number of debentures of Gee Ltd.
- The Statutory Reserves of Pee Ltd. are to be maintained for two more years.
- Expenses of amalgamation amounting to ₹ 10,000 will be borne by Gee Ltd.

Show the opening Journal entries and the opening balance sheet of Gee Ltd. as at 1st April, 2010 after amalgamation, on the assumption that the amalgamation is in the nature of the merger.

4. (a) Sunlife General Insurance Company submits the following information for the year ended 31st March 2010 :

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Particulars	Direct Business ₹	Reinsurance ₹
Premium received	65,75,000	9,50,000
Premium paid	—	4,75,000
Claim paid during the year	42,50,000	5,00,000
Claim payable 1 st April, 2009	6,25,000	87,000
31 st March, 2010	7,18,000	60,000
Claims received	—	3,25,000
Claims receivable 1 st April, 2009	—	65,000
31 st March, 2010	—	1,10,000
Expenses of Management	2,30,000	
Commission		
On insurance accepted	1,50,000	11,000
On insurance ceded		14,000

The following additional information is also available :

- (1) Expenses of management includes ₹ 35,000 surveyor's fee and ₹ 45,000 Legal Expenses for settlement of claims.
- (2) Reserve for unexpired risk is to be maintained @ 40%. The balance of reserve for unexpired risk as on 1-4-09 was ₹ 24,50,000.

You are required to prepare the Revenue Account for the year ended 31st March, 2010.

- (b) KG Limited furnishes the following Balance Sheet as at 31st March, 2010.

Liabilities	Amount (₹ in Lakhs)	Assets	Amount (₹ in lakhs)
Equity share capital (fully paid up shares of ₹ 10 each)	1,200	Machinery	1,800
Securities Premium	175	Furniture	226
General Reserve	265	Investments	74
Capital Redemption Reserve	200	Stock	600
Profit & Loss A/c	170	Debtors	260
12% Debentures	750	Cash at bank	740
Sundry Creditors	745		
Other current liabilities	195		
	3,700		3,700

On 1st April 2010, the company announced the buy back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 75 lakhs.

On 5th April 2010, the company achieved the target of buy back. On 30th April, 10 the company issued one fully paid up equity share of ₹ 10 by way of bonus for every four equity shares held by the equity shareholders.

You are required to :

- (1) Pass necessary Journal Entries for the above transactions.
- (2) Prepare Balance Sheet of KG Limited after bonus issue of the shares.

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5. (a) On 1st April 2009 XY Ltd. has 15,000 equity shares of ABC Ltd. at a book value of ₹ 15 per share (face value ₹ 10 per share). On 1st June 2009, XY Ltd. acquired 5,000 equity shares of ABC Ltd. for ₹ 1,00,000 on cum right basis. ABC Ltd. announced a bonus and right issue.

- (1) Bonus was declared, at the rate of one equity share for every five shares held, on 1 July 2009.
- (2) Right shares are to be issued to the existing shareholders on 1st Sept. 2009. The company will issue one right share for every 6 shares at 20% premium. No dividend was payable on these shares.
- (3) Dividend for the year ended 31 – 3 – 2009 were declared by ABC Ltd. @ 20%, which was received by XY Ltd. on 31st Oct. 2009.

XY Ltd.

- (i) Took up half the right issue.
- (ii) Sold the remaining rights for ₹ 8 per share.
- (iii) Sold half of its share holdings on 1st Jan. 2010 at ₹ 16.50 per share. Brokerage being 1%.

You are required to prepare Investment a/c of XY Ltd. for the year ended 31st March 2010 assuming the shares are being valued at average cost.

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- (b) Income and Expenditure Account for the year ended 31st March, 2010 of South Asia Club is given below :

Expenditure	Amount ₹	Income	Amount ₹
To Salaries & wages	47,500	By Subscription	75,000
To Misc. Expenses	5,000	By Entrance fees	2,500
To Audit fees	2,500	By Contribution for Annual Day (After deducting expenses ₹ 7,500)	7,500
To Executive's Honorarium	10,000		
To Sports day exp.	5,000		
To Printing & Stationery	4,500		
To Interest on Bank loan	1,500		
To Depreciation on sports equipment	3,000		
To Excess of income over expenditure	6,000		
	85,000		85,000

Following additional information are also available :

	31-3-2009	31-3-2010
	₹	₹
(1) Subscription received in advance	4,500	2,700
(2) Subscription outstanding	6,000	7,500
(3) Salaries outstanding	4,000	4,500
(4) Sports equipment (After deducting depreciation)	26,000	27,000
(5) Cash in hand on 31-3-10 was ₹ 16,000.		
(6) The club took a 5% loan of ₹ 30,000 from a bank during 2008-09 for which interest was not paid in F.Y. 2009-10.		

Prepare Receipts and Payments A/c of South Asia Club for the year ending 31st March, 2010.

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6. (a) From the following information of M/s Chennai Traders, you are required to prepare Hire Purchase Trading Account to ascertain the profit made during the Financial Year 2009-10.

Chennai Traders sell goods on hire purchase basis at cost plus 25%. The following details are available :

	₹
(1) Instalment not due on 31 st March, 2009	4,50,000
(2) Instalment due and collected during the financial year 2009-10	12,00,000
(3) Instalment due but not collected during the financial year 2009-10 which includes ₹ 15,000 for which goods were repossessed	75,000
(4) Instalment not due on 31 st March, 2010 including ₹ 30,000 for which goods were repossessed.	5,55,000
(5) Instalment collected on repossessed stock	22,500
(6) M/s Chennai Traders valued repossessed stock at 60% of original cost.	

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- (b) A company had 16,000, 12% debentures of ₹ 100 each outstanding as on 1st April, 2009, redeemable on 31st March, 2010. On that day sinking fund was ₹ 14,98,000 represented by 2,000 own debentures purchased at the average price of ₹ 99 and 9% stocks face value of ₹ 13,20,000. The annual instalment was ₹ 56,800.

On 31st March, 2010, the investments were realized at ₹ 98 and the debentures were redeemed. You are required to write up the following accounts for the year ending 31st March 2010.

- (1) 12% debentures account
- (2) Debenture redemption sinking fund account.

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Answer any **four** questions :

4 × 4 = 16

- (a) "While calculating diluted earning per share, effect is given to all dilutive potential equity shares that were outstanding during that period." Explain. Also calculate the diluted earnings per share from the following information :

Net profit for the current year	₹ 85,50,000
No. of equity shares outstanding	20,00,000
No. of 8% convertible debentures of ₹ 100 each	1,00,000
Each debenture is convertible into 10 equity shares	
Interest expenses for the current year	₹ 6,00,000
Tax relating to interest expenses	30%

- (b) Gupta Traders keep their Ledger on the self balancing system. They provide you the following information for the year ended 31st March, 2010 :

	₹
Debtors balance on 1 st April, 2009	1,37,250
Credit sales	68,100
Returns inward	1,200
Returns outward	1,800
Cash received from customers	76,800
Discount received	2,010
Acceptances received	25,500
Bills receivables dishonoured	3,600
Bad debts written off	7,500

You are required to prepare General Ledger Adjustment A/c. in Sales Ledger of Gupta Traders.

- (c) What is employee stock option plan ? Explain the importance of such plans in the modern time.
- (d) A Ltd. purchased a machinery for ₹ 40 lakhs. (Useful life 4 years and residual value ₹ 8 lakhs) Government grant received is ₹ 16 lakhs.
Due to non-compliance of certain condition, the grant becomes refundable in 3rd year to the extent of ₹ 12 lakhs.
Show the Journal Entry to be passed at the time of refund of grant and the value of the fixed assets, if :
(1) the grant is credited to fixed assets.
(2) the grant is credited to Deferred Grant A/c.
- (e) "Recently a growing trend has developed for outsourcing the accounting function." Explain the advantages and disadvantages of outsourcing the accounting functions.