PCC - Advanced Accounting Nov. 2008

Total No. of Questions—6] [Total No. of Printed Pages—10

Time Allowed—3 Hours Maximum Marks—100

BDS

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 who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answer **all** questions.

Wherever applicable appropriate, suitable assumptions should be made by the candidate.

Working notes should form part of the answer.

Marks

1. The Balance Sheet of R Ltd., at 31 March, 2008 was as follows : 16

	Rs.		Rs.
Share capital Authorised	14,00,000	Intangibles	68,000
Issued : 64,000 8% cumulative preference shares of Rs. 10 each, fully paid	6,40,000	Freehold premises at cost	1,40,000
		Plant and equipment at cost less depreciation	2,40,000
64,000 Equity share of Rs. 10 each, Rs. 7.5 paid	4,80,000	Investments in shares in Q Ltd. at cost	3,24,000
Loans from directors	60,000	Stocks	2,48,000
Sundry creditors	4,40,000	Debtors	3,20,000
Bank overdraft	2,08,000	Deferred Revenue expenditure	48,000
		Profit & Loss account	4,40,000
	18,28,000		18,28,000

Note : The arrear of Preference dividends amount to Rs. 51,200.

(2)

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A scheme of reconstruction was duly approved with effect from 1 April, 2008 under the conditions stated below :

(a) The unpaid amount on the Equity shares would be called up.

(b) The Preference shareholders would forego their arrear dividends. In addition, they would accept a reduction of Rs. 2.5 per share. The dividend rate would be enhanced to 10%.

(c) The Equity shareholders would accept a reduction of Rs. 7.5 per share.

(d) R Ltd. holds 21,600 shares in Q Ltd. This represents 15% of the Share capital of that company. Q Ltd. is not a quoted company. The average net profit (after tax) of the company is Rs. 2,50,000. The shares would be valued based on 12% capitalization rate.

(e) A bad debt provision at 2% would be created.

(f) The other assets would be valued as under :

	Rs.
Intangibles	48,000
Plant	1,40,000
Freehold premises	3,80,000
Stocks	2,50,000

(g) The Profit and Loss account debit balance and the balance standing to the debit of the deferred Revenue Expenditure account would be eliminated.

(h) The directors would have to take equity shares at the new face value of Rs. 2.5 per share in settlement of their loan.

(i) The Equity shareholders, including the directors, who would receive equity shares in settlement of their loans, would take up two new equity shares for every one held.

(j) The Preference shareholders would take up one new preference share for every four held.

(k) The authorized Share capital would be restated to Rs. 14,00,000.

(l) The new face values of the shares-preference and equity will be maintained at their reduced levels.

(3)

BDS Marks

You are required to prepare :

(i) Necessary Ledger accounts to effect the above; and

(ii) The Balance Sheet of the company after reconstruction.

Solution to Question No. 1

Reconstruction A/c			
To Investment in Q Ltd	11500	By 8% cumulative Preference share capital (Rs 10) (64000x2.50)	160000
To Provision For Baddebts	6400	By Equity Share capital (Rs 10)	480000
To Intangibles	20000	By Freehold Premises	240000
To Plant	100000	By Stock	2000

To P & L A/c	440000		
To Deferred Revenue Expenditure	48000		
To Capital Reserve (Bal. Fig.)	**256100**		
	882000		**882000**

Bank A/c			
To Share Call (64000x2.50)	160000	By Balance B/d	208000
To Equity Share capital (Rs 2.50)	440000	**By Balance C/d (Bal. Fig.)**	**512000**
((64000+(60000/2.5))x2x2.50)			
To 10% cumulative Preference share capital (Rs 7.50) ((64000/4)x7.50)	120000		
	720000		**720000**

Balance Sheet of R Ltd as on 01.04.2008 and Reduced				
Liabilities	**Rs**	**Assets**		**Rs**
Share Capital Authorized	1400000	Fixed Assets		
Issued, Subscribed & Paid up		Intangibles	68000	
80000 10% Cumulative Preference Shares of Rs 7.50 each	600000	Less: Written Off under the scheme of reconstruction	20000	48000
264000 equity shares of Rs 2.50 each	660000	Plant	240000	
(24000 Equity shares issued on settlement of claims against the company)		Less: Written Off under the scheme of reconstruction	100000	140000
Reserves & Surplus		Freehold Premises	140000	
Capital Reserve	256100	Add: Appreciation under the scheme of reconstruction	240000	380000
Current liabilities		Investment in Q Ltd	324000	
Sundry creditors	440000	Less: Written Off under the scheme of reconstruction	11500	312500
		Current Assets		
		Stock	248000	
		Add: Appreciation under the scheme of reconstruction	2000	250000
		Debtors	320000	
		Less: Provision for Baddebts	6400	313600
		Cash at Bank		512000
		Deferred Revenue Expenditure	48000	
		Less: Written Off under the scheme of reconstruction	48000	0
		Profit & Loss Account	440000	
		Less: Written Off under the scheme of reconstruction	440000	0
	1956100			**1956100**

Working Notes:

1. Journal Entries

Share Call A/c Dr	160000	
To Equity Share capital (Rs 10)		160000
(Being final call of Rs 2.50 on Equity shares of Rs 10 is now called up) (64,000 x 2.50)		

Bank A/c Dr	160000	
To Share Call A/c		160000
(Being receipt of final Call of Rs 2.50 on 64,000 Equity Shares)		
8% cumulative Preference share capital (Rs 10)	640000	
To 10% cumulative Preference share capital (Rs 7.50)		480000
To Reconstruction A/c		160000
(Being Conversion of 64,000 8% Cumulative Preference Shares of Rs 10 into 64,000 10% Cumulative Preference Shares of Rs 7.50 with a Reduction Of Rs. 2.50 per share)		
Equity Share capital (Rs 10)	640000	
To Equity Share capital (Rs 2.50)		160000
To Reconstruction A/c		480000
(Being Reduction of Face value of 64,000 Equity shares of Rs 10 into 64,000 Equity shares of Rs 2.50)		
Reconstruction A/c	11500	
To Investment in Q Ltd		11500
(Being valuation of Investment in shares of Q Ltd based on capitalization rate as part of internal Reconstruction Scheme)		
Reconstruction A/c	6400	
To Provision for Bad debts		6400
(being provision for bad debts on debtors created)		
Freehold Premises	240000	
Stocks	2000	
To Intangibles		20000
To Plant		100000
To Reconstruction A/c		122000
(Being appreciation in the value of Freehold premises and stocks and devaluation of Intangibles and Plant as part of internal Reconstruction Scheme)		
Reconstruction A/c	488000	
To P & L A/c		440000
To Deferred Revenue Expenditure		48000
(Being elimination of Debit balance in Profit & Loss A/c and Miscellaneous expenditure as part of internal Reconstruction Scheme)		
Loan from Directors	60000	
To Equity Share capital (Rs 2.50)		60000
(Being conversion of Loan from directors into 24000 Equity Shares of Rs 2.50 each as part of internal Reconstruction Scheme)		
Bank A/c	440000	
To Equity Share capital (Rs 2.50)		440000
(Being 176,000 equity shares of Rs 2.50 each issued @ 2 shares for each 1 share held to existing Equity shareholders) (176000x7.50)		
Bank A/c	120000	
To 10% cumulative Preference share capital (Rs 7.50)		120000
(Being 16,000 10% Cumulative preference shares of Rs 7.50 issued @ 1 shares for each 4 shares held to existing preference share holders) ((64000/4)x7.50)		

Note: Waiver of Preference Dividend does not have any implication so far as journal entry aspect is concerned.

2. **Computation of Value of shares held by R Ltd in Q Ltd**

Shareholding of R Ltd in Q Ltd	=	15%
Net Profit of Q Ltd	=	250000
Capitalization Rate	=	12%
Capital Employed	=	250000/12%
	=	2083333.3333
Value of shares held by R Ltd	=	2083333.3333x15%
	=	**312500**

3. Computation of No. Equity Shares

No. of existing Equity shares	=	64000
Addl. Shares issued to directors	=	24000
	=	88000
New shares issued (2:1)	=	176000
Total No. Of Shares	**=**	**264000**

4. **Computation of No. 10% Cumulative Preference Shares**

No. of existing Preference shares	=	64000
New shares issued (1:4)	=	16000
Total No. Of Shares	=	**80000**

2. (a) The books of Mr. Z showed the following information : 8

	1.1.2007	31.12.2007
	Rs.	Rs.
Bank balance	—	50,000
Debtors	—	87,500
Creditors	—	46,000
Stock	50,000	62,500
Fixed Assets	7,500	9,000

The following are the details of the bank transactions :

	Rs.
Receipt from customers	3,40,000
Payment to creditors	2,80,000
Capital brought in	5,000
Sale of Fixed assets	1,750
Expenses paid	49,250
Drawings	25,000
Purchase of Fixed assets	5,000

Other informations :

(i) Cost of goods sold	2,60,000
(ii) Gross profit 25% on cost of goods sold	—
(iii) Book value of Assets sold	2,500

Prepare Trading, Profit & Loss account for the year ended 31.12.2007 and Balance Sheet as at 31.12.2007.

Marks

(b) Prepare Revenue Account in proper form for the year ended 31st March, 2008, from the following particulars related to Krishna General Insurance Co. for the year ended 2007-2008 : 8

	Related to Direct business (Rs.)	Related to Reinsurrance (Rs.)
Premiums		
Amount received	30,00,000	2,40,000
Receivable at the beginning	1,80,000	24,000
Receivable at the end	2,40,000	36,000
Amount paid	—	3,60,000
Payable at the beginning	—	30,000
Payable at the end	—	42,000
Claims		
Amount paid	18,00,000	1,80,000
Payable at the beginning	60,000	12,000
Payable at the end	1,20,000	18,000
Amount recovered	—	1,20,000
Receivable at the beginning	—	18,000
Receivable at the end	—	12,000
Commission		
Amount paid	72,000	10,800
Amount received	—	14,400
Additional information :		
(i) Interest, dividend and rent received		30,000
(Income-tax in respect of above)		6,000
(ii) Management expenses including Rs. 12,000 related to legal expenses regarding claims		1,32,000

Marks

(iii) Provision for Income tax existing at the beginning of the year was Rs. 1,95,000, the Income-tax actually paid during the year Rs. 1,68,000 and the provision necessary at the year end Rs. 2,07,000.

(iv) The Net Premium Income of the company during the year 2006-2007 was Rs. 24,00,000 on which reserve for unexpired risk @ 50% and additional reserve @ $7\frac{1}{2}$% was created. This year, the balance to be carried forward are 50% of net premium on reserve for unexpected risk and 5% on additional reserve.

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Solution to Question No. 2 (a)

Trading, Profit & Loss A/c of Mr. Z for the year ended 31.12.2007			
To Opening Stock	50000	By sales	325000
To Purchases	272500	By Closing stock	62500
To Gross Profit C/d	**65000**		
	387500		387500
To Expenses	49250	By Gross Profit B/d	65000
To depreciation	1000		
To Loss on sale of Fixed asset	750		
To Net Profit Transferred to Mr. Z's Capital A/c (Bal Fig.)	**14000**		
	65000		**65000**

Balance Sheet of Mr. Z as on 31.12.2007				
Liabilities		Rs	Assets	Rs
Capital of Mr. Z				
Opening capital	169000		Fixed Assets	9000
Add: Addl. Capital	5000			
Add: Net Profit	14000		Stock	62500
	188000			
Less: Drawings	25000	163000	Debtors	87500
Creditors		46000	Bank	50000
		209000		**209000**

Working Notes:

1. **Opening Balance of debtors**

Debtors A/c			
To balance B/d (Bal. Fig.)	**102500**	By Bank	340000
To Sales	325000	By balance C/d	87500
	427500		**427500**

2. Opening Balance of Creditors

Creditors A/c			
To Bank	280000	**By balance B/d (Bal. Fig.)**	**53500**
To balance C/d	46000	By Purchases	272500
	326000		**326000**

3. Opening Balance Of Bank

Bank A/c			
To balance B/d (Bal. Fig.)	**62500**	By Creditors	280000
To Debtors	340000	By expenses	49250
To capital of Mr. Z	5000	By drawings	25000
To Fixed Assets	1750	By Fixed assets	5000
		By balance C/d	50000
	409250		**409250**

4. Depreciation

Fixed Assets A/c			
To balance B/d	7500	By Bank	1750
To bank	5000	By P & L A/c	750
		By Depreciation (Bal. Fig.)	**1000**
		By balance C/d	9000
	12500		**12500**

5. Opening capital of Mr. Z

Opening Statement of Affairs of Mr. Z			
Liabilities	Rs	Assets	Rs
Capital of Mr. Z (Bal. Fig.)	**169000**	Fixed Assets	7500
Creditors	53500	Stock	50000
		Debtors	102500
		Bank	62500
	222500		**222500**

6. **Purchases**

Cost of goods sold = Opening Stock + Purchases - Closing Stock

260000 = 50000+Purchases-62500

Purchases = 272500

Note: It is assumed that all purchases and sales are effected only on credit basis.

Solution to Question No. 2 (b)

Revenue A/c of Krishna General Insurance Co. for the year ended 31.03.2008					
Claims Paid (1800000+180000)	1980000		Balance of fund at the beginning of the year		
Less: Reinsurance received	120000		Reserve for unexpired risk (2400000 x 50%)	1200000	
	1860000		Additional reserve (2400000 x 7.50%)	180000	1380000
Add: Legal Expenditure	12000		Premium Received	3312000	
Add: O/s at the end of the year (120000+18000-12000)	126000		Less: Reinsurance Paid (360000+42000-30000)	372000	2940000
	1998000		Interest, Dividends & rents	30000	
Less: O/s at the beginning of the year (72000-18000)	54000	1944000	Less: TDS	6000	24000
Commission including Reinsurance commission (72000 + 10800)		82800	Commission on reinsurance ceded		14400
Mgt. Expenses (132000-12000)		120000			
Income Tax (168000+207000-195000)		180000			
P & L A/c		**414600**			

Balance of the fund at the end of the year					
Reserve for unexpired risk (2940000 x 50%)	1470000				
Additional reserve (2940000 x 5%)	147000	1617000			
		4358400			**4358400**

1. Premium Received

Direct Business Premium received	=	3000000
Add: Re insurance Premium received	=	240000
Add: Direct Bus Premium O/s at the end	=	240000
Add: Re insurance Premium O/s at the end	=	36000
Less: Direct Business Premium O/s at the beginning	=	(180000)
Less: Re insurance Premium O/s at the beginning	=	(24000)
Premium Received	**=**	**3312000**

3. (a) The Articles of Association of S Ltd. provide the following : 8

(i) That 20% of the Profits of each year shall be transferred to Reserve fund.

(ii) That an amount equal to 10% of equity dividend shall be set aside for Staff bonus.

(iii) That the Balance available for distribution shall be applied :

(a) in paying 14% on cumulative Preference shares.

(b) in paying 20% dividend on Equity shares

(c) one-third of the balance available as additional dividend on Preference shares and 2/3 as additional equity dividend.

A further condition was imposed by the articles viz. that the balance carried forward shall be equal to 12% on Preference shares after making provisions (i), (ii) and (iii) mentioned above. The company has issued 13,000, 14% Cumulative participating preference shares of Rs. 100 each fully paid and 70,000 Equity shares of Rs. 10 each fully paid up.

The profit for the year 2008 was Rs. 10,00,000 and balance brought from previous year Rs. 80,000. Provide Rs. 31,200 for depreciation and Rs. 80,000 for taxation before making other appropriations. Prepare Profit and Loss Appropriations A/c.

(6)

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(b) Wye sells goods on Hire-purchase at cost plus 50% prepare Hire-purchase Trading a/c from the information given below : 8

	Rs.
Stock with customers on hire-purchase price (Opening)	1,62,000
Stock in hand at shop (Opening)	3,24,000
Instalments overdue (Opening)	1,35,000
Purchases during the year	10,80,000
Goods re-possessed (instalments not due Rs. 36,000)	9,000
Stock at shop excluding re-possessed goods (Closing)	3,60,000
Cash received during the year	10,35,000
Instalments overdue (Closing)	1,62,000

The vendor spent Rs. 2,000 on goods re-possessed and then sold it for Rs. 15,000.

Solution to Question No. 3 (a)

Profit & Loss Appropriation A/c			
To Depreciation	31200	By Net Profit	1000000
To Provision For Tax	80000		
To Net profit c/d	888800		
	1000000		**1000000**
To Reserve Fund	177760	By NP b/d	874800
To Staff Bonus	32690	By balance b/d	80000
To 14% Cum Pref Shareholders	275450		
To Equity Shareholders	326900		
To Balance c/d	156000		
	968800		**968800**

Working Notes:

Net Profit for the year			1000000
Less: Depreciation		31200	
Less: Provision for tax		80000	111200
Net profit			888800
Add: Opening balance			80000
Less: Closing balance		(12%x13000x100)	156000
Disposal balance			812800
Less: Reserve fund		(812800x20%)	177760
Less: Staff bonus Straight (140000 x 10%)		14000	
Less: Preference dividend Straight (13000 x 100 x 14%)		182000	
Less: Equity dividend Straight (70000 x 10 x 20%)		140000	513760
Staff Bonus + Preference Dividend + Equity Dividend	=		299040
Staff bonus	=	x	
Preference Dividend + Equity Dividend	=	299040 - x	
Preference Dividend	=	1/3 x [299040-x]	
Equity dividend	=	2/3 x [299040-x]	
Staff bonus is 10% of equity dividend			

X	=	(10/100) x (2/3) x [299040 - X] = 2/30 x (299040 - X)
X x (30/2)	=	299040 - X
15X	=	299040 - X
15X - X	=	299040
X	=	299040/14 = **18690**

Bonus to Staff	= 14000 + 18690	= **32690**	
Equity Dividend	= 140000 + (299040-18690) x 2/3	= 140000 + 199360	= **326900**
Preference Dividend	= 182000 + (299040-18690) / 3	= 182000 + 93450	= **275450**

Solution to Question No. 3 (b)

HP Trading A/c			
To balance B/d		By Stock reserve	54000
HP Stock	162000	By cash A/c [Collection from drs]	1035000
HP Debtors	135000	By Cash[Sale of GR}	15000
To Goods Sold on HP	1566000	By Goods Sold on HP	522000
To Expenses	2000	By balance C/d	
To Stock reserve	210000	HP Stock	630000
To P & L A/c (Bal. Fig.)	**343000**	HP Debtors	162000
	2418000		**2418000**

Working Notes:

1. Goods sold on HP

Cost of Goods Sold on HP = Opening Goods in shop + Purchases-Closing goods in shop
= 324000+1080000-360000 = **1044000**
Goods sold on HP (150% of Cost) =150% x 1044000 = **1566000**

2. Closing HP Stock

HP Stock (Closing) = Opening Hp Stock + Opening Inst due + HP sales - cash Recd - Inst unpaid on Repossessed goods - Closing HP Debtors
= 162000+135000+1566000-1035000-36000-162000
= **630000**

4. (a) 'S' and 'T' were carrying on business as equal partner. Their Balance Sheet as on 31st March, 2008 stood as follows : 8

Liabilities		Rs.	Assets	Rs.
Capital Accounts :			Stock	2,70,000
S	6,40,000		Debtors	3,65,000
T	6,60,000	13,00,000	Furniture	75,000
Creditors		3,27,500	Joint Life policy	47,500
Bank Overdraft		1,50,000	Plant	1,72,500
Bills payable		62,500	Building	9,10,000
		18,40,000		18,40,000

The operations of the business was carried on till 30th September, 2008. S and T both withdrew in equal amounts half the amount of profits made during the current period of 6 months after 10% per annum had been written

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off on Building and Plant and 5% per annum written off on Furniture. During the current period of 6 months, creditors were reduced by Rs. 50,000, Bills payable by Rs. 11,500 and Bank overdraft by Rs. 75,000. The Joint Life policy was surrendered for Rs. 47,500 on 30th September, 2008. Stock was valued at Rs. 3,17,000 and debtors at Rs. 3,25,000 on 30th September, 2008. The other items remained the same as on 31st March, 2008.

On 30th June, 2008 the firm sold its business to ST Ltd. The value of goodwill was estimated at Rs. 5,40,000 and the remaining assets were valued on the basis of the Balance Sheet as on 30th September, 2008. The ST Ltd. paid the purchase consideration in Equity shares of Rs. 10 each. You are required to prepare a Realization A/c and Capital accounts of the partners.

(b) From the following details, calculate consequential loss claim : 8

1. Date of fire : 1st September following;
2. Indemnity period : 6 months;
3. Period of disruption : 1st September to 1st February;
4. Sum insured : Rs. 1,08,900;
5. Sales were Rs. 6,00,000 for preceding financial year ended on 31st March.
6. Net profit for preceding financial year Rs. 36,000 plus insured standing charges Rs. 72,000;
7. Rate of Gross profit 18%;
8. Uninsured standing charges Rs. 6,000;
9. Turnover during the disruption period Rs. 67,500;
10. Annual turnover for 12 months immediately preceding the date of fire Rs. 6,60,000;
11. Standard turnover i.e. for corresponding months (1st September to 1st February) in the year preceding the date of fire Rs. 2,25,000;
12. Increase in the cost of Working capital Rs. 12,000 with a saving of insured standing charges Rs. 4,500 during the disruption period;

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13. Reduced turnover avoided through increase in Working capital Rs. 30,000;
14. Special clause stipulated :
    (a) Increase in rate of G.P. 2%
    (b) Increase in turnover (Standard and Annual) 10%

Solution to Question No. 4 (a)

Realization A/c			
To Stock	317000	By Creditors	277500

To Debtors	325000	By Bills Payable	51000
To Furniture	73125	by ST Ltd	87500
To Plant	163875	by bank (JLP)	47500
To Building	864500	by ST Ltd	1840000
To Joint life policy	47500		
To Partners' cap	**512500**		
	2303500		**2303500**

Capital A/c					
	S	**T**		**S**	**T**
to drawings	43750	43750	by balance b/d	640000	660000
to equity sharecap in st ltd	896250	916250	By Realization	256250	256250
			by P& L Appropriation A/c	43750	43750
	940000	**960000**		**940000**	**960000**

Working Notes:

1. Balancesheet as on 30.09.2008

Balancesheet as on 30.09.2008			
Liabilities	**Rs**	**Assets**	**Rs**
Capital (Bal. Fig.)	**1387500**	Stock	317000
Creditors	277500	Debtors	325000
Bank OD	75000	Furniture	73125
Bills Payable	51000	JLP	47500
		Plant	163875
		Building	864500
	1791000		**1791000**

2. Net Profit

Closing Capital	1387500
(-) Opening capital	1300000
50% of Profits (Net profit-Drawings)	87500
Net Profit (100%)	**175000**

3. Purchase Consideration

Stock	317000
Debtors	325000
Furniture	73125
Plant	163875
Building	864500
Goodwill	540000
Creditors	(277,500)
Bills Payable	(51,000)
ST Ltd (3 months profit)	(87,500)

Bank OD	(27,500)
Purchase Consideration	**1840000**

Notes: It is assumed that liabilities are also taken over by ST Ltd at their book values on 30.09.2008

4. **P&L Appropriation A/c**

P&L Appropriation A/c			
To Partners' capital (S-43750 & T-43750)	87500	By Net Profit b/d	**175000**
To ST Ltd	87500		
	175000		**175000**

5. ST Ltd A/c

ST Ltd A/c			
To Realization	87500	By P&L Appropriation	87500
To Realization	1840000	**By equity share Capital in ST Ltd**	**1840000**
	1927500		**1927500**

6. Equity share Capital in ST Ltd A/c

Equity share Capital in ST Ltd A/c			
By ST Ltd	1840000	**To S's capital**	**896250**
		To T's capital	**916250**
	1840000		**1840000**

7. Bank A/c

Bank A/c			
to realization	47500	by bal b/d	75000
to Realization	**27500**		
	75000		**75000**

8. Capital Ratio

	S	**T**
Capitals	896250	916250
Equity shares in ST Ltd	**896250**	**916250**
	(896250/1840000 x 1840000)	(916250/1840000 x 1840000)

Solution to Question No. 4 (b)

Step 1	**Calculation of Short Sales**	
	Sales during indemnity period of the corresponding months of the previous year	225000
	Add: Trend @ 10%	22500
	Standard Turnover	247500
	Actual Turnover during indemnity period	67500
	Short Sales	180000
Step 2	**Calculation of Gross Profit**	
	Gross Profit Net Profit + Insured Standing Charges (36000 + 72000)	108000

Step 3	**Calculation of Gross Profit Ratio**		
	GP Ratio (108000 / 600000 x 100)	18%	
	Add: Trend @ 2%	2%	
	New GP Ratio	**20%**	
Step 4	**Calculation of Gross Profit On Short Sales**		
	Gross Profit on Short sales (Step 1 x Step 2) 180000 x 20%	**36000**	**➔ I**
Step 5	**Calculation of Adjusted Annual Turnover**		
	Sales during immediate preceding 12 months	660000	
	Add: Trend @ 10%	66000	
	Adj. Annual turnover	726000	
Step 6	**Calculation of GP on Adjusted Annual Turnover (AAT)**		
	GP on Adj. Annual Turnover (Step 3 x Step 5) 726000 x 20%	**145200**	
Step 7	**Calculation of Increased working Expenditure**		
	(Least of 1, 2, 3, & 4 Shall be Taken)		
	1. Actual Expenditure	12000	
	2. (GP on AAT/ (GP on AAT + Uninsured Standing Charges)) x Actual Expenditure 145200 / (145200 + 6000) x 12000	11523.81	
	3. GP on Reduction in turnover Avoided 30000 x 20%	**6000**	**➔ II**
	4. GP on Actual Turnover 67500 x 20%	13500	
Step 8	**Savings In Expenditure**	**4500**	**➔ III**
Step 9	**Preliminary Claim** (I+II-III)	**37500**	
Step 10	**Final Claim (Application of Average Clause)** = (Policy Amt./ GP on AAT) x Pre Claim		
	37500 x 108900 / 145200		**<u>28125</u>**

5. Answer the following : 12×2 =24

(i) The company finds that the stock sheets of 31.3.2007 did not include two pages containing details of inventory worth Rs. 20 lakhs. State, how will you deal with this matter in the accounts of A Ltd. for the year ended 31st March, 2008 with reference to AS 5.

(ii) Mention four Assets, where AS 6 (revised) is not applicable.

(iii) Y Ltd. used certain resources of X Ltd. In return X Ltd. receives Rs. 10 lakhs and Rs. 15 lakhs as interest and royalties respectively, from Y Ltd. during the year 2007-08. State on what basis X Ltd. should recognize their revenue, as per AS 9.

(iv) Mention two categories of investments defined by AS 13 and also State their valuation principles.

(v) X Ltd. sold goods to its associate company for the 1st quarter ending 30.6.2007. After that, the related party relationship ceased to exist. However, goods were supplied as was supplied to any other ordinary customer. Decide whether transactions of the entire year has to be disclosed as related party transaction.

(vi) Consider the following data pertaining to three underwriters, Ajay, Samay and Vijay :

Particulars	Ajay	Samay	Vijay
Shares underwritten	8,000	16,000	24,000
Marked applications	6,000	8,000	11,000

If total applications received are for 44,800 shares, compute the final liability of Vijay.

(9)

BDS Marks

(vii) P, Q and R share Profit and Losses in the ratio of 4 : 3 : 2 respectively. Q retires and P and R decide to share future Profits and Losses in the ratio of 5 : 3. Then immediately H is admitted of 3/10 shares of profits half of which was gifted by P and the remaining share was taken by H equally from P and R. Calculate the new Profit sharing ratio after H's admission and Gain ratio of P and R.

(viii) What is "Fund Based Accounting" under non-profit organisations ?

(ix) In X Bank Ltd., the doubtful asset (more than 3 years) as on 31.3.2008 is Rs. 1,000 lakhs. The value of security (including DICGC 100% cover of Rs. 100 lakhs) is ascertained at Rs. 500 lakhs. How much provision must be made in the books of the Bank towards doubtful assets ?

(x) Give the four qualitative characteristics which the financial statements should observe.

(xi) On 1st April, 'X' purchased 12% debentures in 'M' Ltd. for Rs. 6,50,000. The face value of these debentures were Rs. 6,00,000. Interest on debentures falls due on 30th June and 31st December. Compute the cost of acquisition of debentures.

(xii) Goods worth Rs. 50,000 sent by head office but the branch has received till the closing date goods only Rs. 40,000. Give journal entry in the books of H.O. and branch for goods in transit.

Solution to Question No. 5

i Paragraph 4 of Accounting standard 5 on Net Profit or Loss for the Period, Prior Period Items and changes in accounting policies defines Prior period items as "Income or Expenses which arise in the current period as a result of errors or omissions in the preparation of financial statements of one or more prior Periods"

Rectification of error in stock valuation is affecting current year opening stock as the error arose in the Previous year. Hence Rs 20 Lakhs must be added to the opening stock of 01.04.2007. Rs 20 Lakhs should also be shown as prior period item in the Profit & Loss A/c. Separate disclosure of this item as a prior period item is required as per Paragraph 15 of AS 5.

ii Assets for which AS 6 is not applicable

a. Forests, Plantations and similar regenerative natural resources
b. Expenditure on research and development
c. Live stock
d. Wasting assets including expenditure on the exploration for and extraction of minerals, oils natural gas and similar non regenerative resources

iii As per Paragraph 13 of AS 9 on Revenue Recognition, Revenue arising from the use by others of enterprise resources yielding interest and royalties should only be recognized when no significant uncertainty as to its measurability or collectability exists. These revenues are recognized in the following basis.

a) Interest: On a Time Proportion basis considering the amount outstanding and the rate applicable.
b) Royalty: On an accrual basis in accordance with the terms of relevant agreement.

In this case interest should be recognized in the year to which it pertains, not in the year in which it is received. It is not clear from the question whether the interest of Rs. 10 Lakhs pertains to 2007-08 or to any of the earlier years and received in 2007-08. The Same is the case with Royalty. If both interest and royalty accrue in 2007-08, it should be recognized only in this year. Otherwise it should be recognized in the year of year of accrual.

iv As 13 Accounting for Investments classifies investments as Long-term Investments and Current Investments.

a) Current Investments

Such investment is readily realizable and is intended to be held for not more than one year from the date on which such investment is made. Carrying amount of current investment is the lower of the cost and net realizable value. Any reduction in the realizable value is debited to the Profit & Loss A/c. However if realizable value is increased subsequently the increase in the value of current investment to the extent of the cost is credited to Profit & loss A/c.

b) Long-term Investments

These are investments other than current Investments. It is usually valued at cost. If there is a decline in the value of investment but such decline is not temporary then carrying amount of investment is reduced by the amount of such decline.

v AS 18 - Related party Disclosures is not part of PCC Syllabus

vi

	Ajay	**Samay**	**Vijay**
Liability	8000	16000	24000
Less: Marked applications	(6,000)	(8,000)	(11,000)
	2000	8000	13000
Less: Unmarked applications (8:16:24) (44800-25000=19800)	(3300)	(6600)	(9900)
	(1,300)	1400	3100
Less: Ajay's Excess (16:24)	1300	(520)	(780)
Final Liability	0	880	2320

Final Liability of Vijay = 2320 Shares

vii

H's Share	=	3/10		
P's sacrifice	=	(3/10)x(3/4)	=	9/40
P's New share	=	(5/8)-(9/40)	=	16/40
R's Sacrifice	=	(3/10)x(1/4)	=	3/40
R's new share	=	(3/8)-(3/40)	=	12/40
New ratio of P, R & H	**=**	**16:12:12**		
	=	**4:3:3**		
Old ratio of P, Q & R	=	4:3:2		
New ratio of P & R	=	5:3		
Gaining of P	=	(5/8)-(4/9)	=	13/72
Gaining of Q	=	(3/8)-(2/9)	=	11/72
Gaining ratio of P & R	**=**	**13:11**		

viii Fund based accounting involves preparation of financial statements fund wise. In case of institutions like colleges, schools and universities separate ledgers are maintained for each fund. Fund ledgers are self balancing in nature. A fund may be created for purchase, acquisition or construction of fixed assets or for any specific activities of the organization or both.

ix

	Rs in lakhs	Rs in lakhs
Balance O/s on 31.03.08		1000
Less: realisable Value of securities	(500-100)	400
		600

Less: DICGC cover		100
Unsecured balance		500

Provision required:

100% for unsecured portion		500
50% for secured portion	200	
Less: Covered under DICGC	40	160
((100/500)x100 = 20%)		**660**

Total Provision required = **660**

x

a. Reliability
b. Relevance
c. Comparability
d. Understandability
e. True & fair view

xi

a. If Cost of Rs. 650000 is cum interest

Cost of 12% Debentures	650000
Less: Pre Acquisition period interest	18000
Cost Of Acquisition	**632000**

Interest on debentures for the half year	=	600000x12%x6/12	36000
Date of Acquisition	=	1st April	
Pre acquisition Interest	=	36000x1/2	**18000**

b. If Cost of Rs. 650000 is ex interest

Cost Of Acquisition = 650000

xii

In the books of the Head Office

Branch A/c	Dr	50000	
To Goods Sent to Branch			50000
(Being Goods worth Rs 50,000 issued to Branch)			
Goods in Transit A/c	Dr	10000	
To Branch A/c			10000
(Being Goods worth Rs 10,000 out of those issued for Rs 50,000 is found to be in transit)			

In The Books Of Branch

Goods received from HO A/c	Dr	40000	
To Head Office A/c			40000
(Being Goods worth Rs 40,000 Received from Head office)			

6. Answer any **three** of the following : 4×3=12

(a) From the following information of Great Bank Limited, compute the provisions to be made in the Profit and Loss account :

	Rs. in (lakhs)
Assets	
Standard	20,000
Substandard	16,000
Doubtful	
For one year (secured)	6,000
For two years and three years (secured)	4,000
For more than three years (secured by mortgage of Plant and Machinery Rs. 600 lakhs)	2,000
Non-recoverable Assets	1,500

BDS P. T. O.

(10)

BDS Marks

(b) R had the following bills receivable and bills payable against S. Calculate average due date when the payment can be made or received without any loss or gain of interest to either party.

Bills receivable			Bills payable		
Date of the Bill	Amount (Rs.)	Tenure in months	Date of bill	Amount (Rs.)	Tenure in months
1.6.08	9,000	3	29.5.08	6,000	2
5.6.08	7,500	3	3.6.08	9,000	3
9.6.08	10,000	1	10.6.08	10,000	2
12.6.08	8,000	2	13.6.08	7,000	2
20.6.08	12,000	3	27.6.08	11,000	1

Holiday intervening in the period 15th August, 2008, 16th August, 2008, and 6th September, 2008.

(c)

	Exchange Rate
Goods purchased on 1.1.2007 of US $ 10,000	Rs. 45
Exchange rate on 31.3.2007	Rs. 44
Date of actual payment 7.7.2007	Rs. 43

Ascertain the loss/gain for financial years 2006-07 and 2007-08, also give their treatment as per AS-11.

(d) What are the advantages of customised accounting packages ?

(e) What is B list contributories ?

Solution to Question No. 6 (a)

Particulars	Value	Security	Provision	Unsecure	Provision	Total

					d Amt			Provision
			%	Amount		%	Amount	
Standard Assets	20000	0	0	0	20000	0.40%	80	80
Substandard Assets	16000	0	0	0	16000	10%	1600	1600
Doubtful(< 1 Year)	6000	6000	20%	1200	0	0	0	1200
Doubtful(1-3 Year)	4000	4000	30%	1200	0	0	0	1200
Doubtful(>3 Year)	2000	600	50%	300	1400	100%	1400	1700
NPA	1500	0	0	0	1500	100%	1500	1500
Total Provision required								**7280**

Solution to Question No. 6 (b)

Let 12.07.08 be the O' day

	Bills receivable					Bills Payable				
Sl. No.	**Date**	**Due Date**	**Amt**	**No. of days**	**Product**	**Date**	**Due Date**	**Amt**	**No. of days**	**Product**
1	01.06.08	04.09.08	9000	54	486000	29.05.08	01.08.08	6000	20	120000
2	05.06.08	08.09.08	7500	58	435000	03.06.08	05.09.08	9000	55	495000
3	09.06.08	12.07.08	10000	0	0	10.06.08	13.08.08	10000	32	320000
4	12.06.08	14.08.08	8000	33	264000	13.06.08	14.08.08	7000	33	231000
5	20.06.08	23.09.08	12000	73	876000	27.06.08	30.07.08	11000	18	198000
			46500		**2061000**			**43000**		**1364000**

$$\text{Average due date} = 12.07.08 + \frac{2061000-1364000}{46500-43000}$$

$$= 12.07.08 + 199 = 27.01.2009$$

Rs. 3500 should be paid on 27.01.2009

Solution to Question No. 6 (c)

AS per As 11, all foreign currency transactions should be recorded by applying the exchange rate at the date of transaction. Hence the goods purchased on 01.01.2007 and corresponding Creditors would be recorded at Rs 45 = US $ 1. i.e., 10,000 x 45 = Rs 450,000.

As per As 11 all monetary items should be reported using the closing rate at the Balance sheet Date. Therefore creditors of US $ 10,000 outstanding on 31.03.07 will be reported at 10,000 x 44 = Rs 440,000. Exchange gain of Rs 10,000 (450,000 - 440,000) should be recognized by crediting to Profit & Loss A/c.

As per AS 11 Exchange rate difference on settlement of monetary items should be transferred to Profit & Loss A/c in the year of settlement. 10,000 x 43 = Rs 430,000. Hence Rs 10,000 (440,000 - 430,000) will be credited to Profit & Loss A/c for the year 2007-08.

Solution to Question No. 6 (d)

Advantages of customized accounting package

1. The functional areas that would otherwise have not been covered gets covered.
2. The input screen can be tailor made to match the input documents for ease of data entry
3. The reports can be as per the specification of the organization. Many additional MIS reports can be included in the list of reports.

4. Bar code scanners can be used as input devices suitable for the specific needs of an individual organization.
5. The system can suitably match with the organizational structure of the company

Solution to Question No. 6 (e)

B List Contributories

The shareholders who transferred partly paid shares (otherwise than by operation of law or death) within one year prior to the date of winding up are called B List contributories. They may be called upon to pay an amount (not exceeding amount not called up when the shares were transferred) to pay off such creditors as existed on the date of transfer of shares and cannot be paid out of the funds otherwise available with the liquidator provided that the existing shareholders have failed to pay the amount due on the shares.