

May 2008
Advanced Accounting
Answer all questions

Question No 1:

16 Marks

Astha Ltd acquired 80% of both classes of shares in Birat ltd. On 1.4.2007 the draft Balance Sheets of two companies on 31st March, 2008 were as follows –

Liabilities	Astha	Birat	Assets	Astha	Birat
Share capital:			Plant & Machinery	2,060	600
Equity shares of Rs.10 each, fully paid up	3,000	600	Furniture & Fixtures	600	540
14% Preference Shares of Rs.100 each, fully paid	–	400	Investments:		
General reserve	1,900	40	Equity shares of Birat Ltd	1,920	–
Profit and loss Account	1,600	720	Preference shares of Birat Ltd	320	–
Creditors	300	320	Stock	680	404
			Debtors	560	316
			Cash at Bank	660	220
TOTAL	6,800	2,080	TOTAL	6,800	2,080

Note: Contingent liability - Astha Ltd: Claim for damages lodged by a contractor against the company pending in a law suit – Rs.1,55,000

Additional Information:

- General reserve balance of Birat ltd. was the same as on 1.4.2007.
- The balance in profit and loss account of Birat ltd on. 1.4.2007 was 3,20,000, out of which dividend of 16% p.a. on the then equity capital of Rs.6,00,000 was paid for the year 2006 – 07.
- The dividend in respect of Preference Shares of Birat Ltd for the year 2007 – 08 was still payable as on 31.3.2008.
- Astha Ltd credited its Profit and Loss account for the dividend received by it from Birat Ltd for the year 2006-2007.
- Sundry Creditors of Astha ltd. included an amount of Rs.1,20,000 for purchases from Birat Ltd, on which the later company made a loss of Rs.10,000.
- Half of the above goods were still with the closing stock of Astha ltd. as at 31.3.2008.
- At the time of Acquisition of Astha Ltd, while determining the price to be paid for the shares in Birat ltd. It was considered that the value of Plant and Machinery was to be increased by 25% and that of Furniture and Fixtures reduced to 80%. There was no transaction of purchase or sale of these assets during the year. The directors wish to give effect to these revaluations in the Consolidated Balance Sheet.
- The directors of Astha ltd. are of opinion that disclosure of its contingent liability will seriously prejudice the company's position in dispute with the contractor.

Prepare Consolidated Balance Sheet as at 31st March 2008, assuming the rate of depreciation charged as 25% p.a. and 10% p.a. on Plant and Machinery and Furniture and Fixtures respectively. Workings should be part of the answer.

Question No.2:**16 Marks**

T Ltd and V Ltd propose to amalgamate. Their balance sheet as at 31st March 2008 were as follows –

Liabilities	T Ltd	V Ltd	Assets	T Ltd	V Ltd
Share capital:	15,00,000	6,00,000	Fixed assets		
Equity shares of Rs.10 each			Less: Depreciation	12,00,000	3,00,000
General reserve	6,00,000	60,000	Investments (face value of Rs.3 Lakhs, 6% Tax Free GP notes)	3,00,000	—
Profit and loss account	3,00,000	90,000	Stock	6,00,000	3,90,000
Creditors	3,00,000	1,50,000	Debtors	5,10,000	1,80,000
			Cash and bank balances	90,000	30,000
TOTAL	27,00,000	9,00,000	TOTAL	27,00,000	9,00,000

Their Net profits (after taxation) were as follows –

Year	T Ltd	V Ltd
2005-06	3,90,000	1,35,000
2006-07	3,75,000	1,20,000
2007-08	4,50,000	1,68,000

Normal trading profit may be considered as 15% on closing capital invested. Goodwill may be taken as 4 years' purchase of average super profits. The stock of T Ltd. and V Ltd. are to be taken at Rs.6,12,000 and Rs.4,26,000 respectively for the purpose of amalgamation. W Ltd is formed for the purpose of amalgamation of two companies.

- Suggest a scheme of capitalization of W. Ltd. and ratio of exchange of shares; and
- Draft the opening balance sheet of W. Ltd.

Question No 3(a):

- ABC Ltd. grants 1000 employees stock options on 1.4.2004 at Rs.40, when the market price is Rs.160. The vesting period is 2½ years and the maximum exercise period is one year. 300 unvested options lapse on 1.5.2006. 600 options are exercised on 30.6.2007. 100 vested options lapse at the end of the exercise period.

(10 Marks)

Pass necessary journal entries giving suitable narrations.

Question No. 3(b)**6 Marks**

- From the following data, compute the Net Assets value of each category of equity shares of Smith limited.

Shareholder's Funds	10,000 'A' Equity shares of Rs.100 each, fully paid
	10,000 'B' Equity shares of Rs.100 each, Rs.80 paid up
	10,000 'C' Equity shares of Rs.100 each, Rs.50 paid up
Retained Earnings	Rs.9,00,000.

(6 Marks)

Question No 4

- (a) X. Ltd began construction of a new building on 1st January 2007. It obtained Rs.1,00,000 special loan to finance the construction of the building on 1st January 2007 at an interest rate of 10%. The company's other outstanding two non-specific loans were – **(10 Marks)**

Amount	Rate of interest
Rs.5,00,000	11%
Rs.9,00,000	13%

The expenditure that were made the building project were as follows:

January, 2007	Rs.2,00,000
April, 2007	Rs.2,50,000
July, 2007	Rs.4,50,000
December, 2007	Rs.1,20,000

Building was completed by 31st December, 2007. Following the principles of AS-16 'borrowing cost' calculate the amount of interest to be capitalized and pass one journal entry for capitalizing the cost and borrowing cost in respect of the building.

Question No 4**6 Marks**

- (b) From the following information of steel India limited for the year ended 31st March 2008, prepare their social balance sheet as on that date –

1. A specialist has valued their human assets at Rs.828 lakhs.
2. Their investments were classified as – (Rs. in Lakhs)

Asset	Residential	Hospital	School	Welfare
Building	17.00	1.00	1.40	0.80
Equipments	2.80	1.00	1.00	–

3. Water, electricity and gas supply systems totaled Rs.1 lakh.
4. Their net owned funds were Rs.26 lakhs.

Question No 5

- (a) UK International Ltd is developing a new production process. During the financial year ending 31st March 2007, the total expenditure incurred was Rs.50 lakhs. This process met the criteria for recognition as an intangible asset on 1st December 2006. Expenditure incurred till this date was Rs.22 lakhs. Further expenditure incurred on the process for the financial year ending 31st March 2008 was Rs.80 Lakhs. As at 31st March 2008, the recoverable amount of know-how embodied in the process is estimated to be Rs.72 Lakhs.

This includes estimates of future cash outflows as well as inflows. You are required to calculate–

- (a) Amount to be charged to profit and loss account for the year ending 31st March, 2007 and carrying value of intangible assets as on that date.
- (b) Amount to be charged to Profit and loss account and carrying value of intangibles as on 31st March, 2008. Ignore Depreciation. **(5 Marks)**

- (b) Sky hospital – a non – profit seeking entity receives medicines Worth Rs.5,00,000 by way of donations from a donor. During the year its issues of all medicines totals Rs.16,00,000. the closing inventory of donated medicines is Rs.1,00,000. Show relevant summary journal entries in the books of the hospital in respect of the above. **(5 Marks)**
- (c) Mini Limited took a factory premises on lease on 01.04.2007 for Rs.2,00,000 per month. The lease is an operating lease. During March 2008, Mini Limited relocates its operation to a new factory building. The lease on the old factory premises continues to live upto 31.12.2010. The lease cannot be cancelled and cannot be sub-let to another user. The Auditor insists that lease rent of balance 33 months up to 31.12.2010 should be provided in the accounts for the year ending 31.3.2008. Mini Limited seeks your advice. **(5 Marks)**
- (d) A Cosmetic articles producing company provides the following information – **(5 Marks)**

Particulars	Cold Cream	Vanishing Cream
January 2006 – September 2006 per month	2,00,000	2,00,000
October 2006 – December 2006 per month	1,00,000	3,00,000
January 2007 – March 2007 per month	—	4,00,000

The Company has enforced a gradual change in product line on the basis of an overall plan. The Board of Directors of the Company has passed a resolution in March, 2006 to this effect. The Company follows calendar year as its accounting year. Should this be treated as a Discontinuing Operation? Give reasons in support of your answer.

Question No 6(a)

- (a) What are the advantages of preparation of value added (VA) Statements? **(6 Marks)**
- (b) How are capital expenditure not represented by any specific or tangible assets dealt in financial statements? **(5 Marks)**
- (c) One of important factors generally considered for awarding shields and plagues in India for 'Best presented accounts' is that the information presented in the accounts make useful disclosures. What are actually looked into in this regard? **(5 Marks)**