

# Paper 1 :Advanced Accounting

Answer all questions.

Working notes should form part of the answer.

Wherever necessary suitable assumptions may be made by the candidates.

## Question No.1

The draft Balance Sheet of 3 Companies as at 31<sup>st</sup> March, 2007 are below :

{16 Marks}  
( In Rs.000's)

|                                      | Morning Ltd.  | Evening Ltd.  | Night Ltd.    |
|--------------------------------------|---------------|---------------|---------------|
| <b>Liabilities</b>                   |               |               |               |
| Share Capital-shares of Rs. 100 each | 40,000        | 20,000        | 10,000        |
| Reserves                             | 1,800         | 1,000         | 900           |
| P/V A/c (1.4.06)                     | 1,500         | 2,000         | 800           |
| Profit for 2006-07                   | 7,000         | 3,800         | 1,800         |
| Loan from Morning Ltd.               | -             | 5,000         | -             |
| Creditors                            | 2,500         | 1,000         | 1,400         |
|                                      | <u>52,800</u> | <u>32,800</u> | <u>14,900</u> |
| <b>Assets</b>                        |               |               |               |
| Investments:                         |               |               |               |
| 1,60,000 shares in Evening           | 18,000        | -             | -             |
| 75,000 shares in Night               | 8,000         | -             | -             |
| Loan to Evening Ltd.                 | 5,000         | -             | -             |
| Sundry assets                        | 21,800        | 32,800        | 14,900        |
|                                      | <u>52,800</u> | <u>32,800</u> | <u>14,900</u> |

Following additional information is also available :

- Dividend is proposed by each company at 10%
- Stock transferred by Night Ltd., to Evening Ltd., fully paid for was Rs. 8 lacs on which the former made a Profit of Rs. 3 lacs. On 31<sup>st</sup> March, 2007, this was in the inventory of the latter.
- Loan referred to is against 8% interest. Neither Morning Ltd., nor Evening Ltd., has considered the interest.
- Reserves as on 1.4.2006 of Evening Ltd., and Night Ltd., were Rs. 8,00,000 and Rs. 7,50,000 respectively.
- Cash-in-transit from Evening Ltd., to Morning Ltd., was Rs. 1,00,000 as on 31.3.2007.
- The shares of the subsidiaries were all acquired by Morning Ltd., on 1<sup>st</sup> April, 2006.

Prepare consolidated Balance Sheet as on 31<sup>st</sup> March, 2007. Workings should be part of the answer.

## Question No.2.

The Balance Sheets of Strong Ltd., and Weak Ltd., as on 31.03. 2007 are as below:

(16 Marks)

| Balance Sheet as on 31.03.2007      |                  |                  |                                  |                  |                  |
|-------------------------------------|------------------|------------------|----------------------------------|------------------|------------------|
| Liabilities                         | Strong Ltd., Rs. | Weak Ltd., Rs    | Assets                           | Strong Ltd., Rs  | Weak Ltd., Rs.   |
| Equity Share Capital (Rs. 100 each) | 50,00,000        | 30,00,000        | Fixed Assets other than Goodwill | 30,00,000        | 20,00,000        |
| Reserve                             | 4,00,000         | 2,00,000         | Stock                            | 8,00,000         | 6,00,000         |
| P/L A/c                             | 6,00,000         | 4,00,000         | Debtors                          | 14,00,000        | 9,00,000         |
| Creditors                           | 5,00,000         | 3,00,000         | Cash & Bank                      | 12,00,000        | 3,50,000         |
|                                     |                  |                  | Preliminary Expenses             | 1,00,000         | 50,000           |
|                                     | <u>65,00,000</u> | <u>39,00,000</u> |                                  | <u>65,00,000</u> | <u>39,00,000</u> |

Strong Ltd., takes over Weak Ltd., on 01.07.07 No Balance Sheet of Weak Ltd., is available as on that date. It is however estimated that Weak Ltd., earns estimated profit of Rs.2,00,000 after charging proportionate depreciation @ 10% p.a. on fixed assets, during April-June, 2007.

Estimated profit of Strong Ltd., during these 3 months is Rs. 4,00,000 after charging proportionate depreciation @ 10% p.a on fixed assets.

Both the companies have declared and paid 10% dividend within this 3 months's period. Goodwill of Weak Ltd., is valued at Rs. 2,00,000 and fixed Assets are valued at Rs. 1,00,000 above the estimated book value. Purchase consideration is to be satisfied by Strong Ltd., by shares at par.

Ignore Income-tax.

You are required to calculate the following :

- (i) No. of shares to be issued by Strong Ltd., to Weak Ltd., against purchase consideration;
- (ii) Net Current Assets of Strong Ltd., and Weak Ltd., as on 01.07.2007;
- (iii) P/L A/c balance of the Strong Ltd., as on 01.07.2007;
- (iv) Fixed Assets as on 01.07.2007;
- (v) Balance Sheet of Strong Ltd., as on 01.07.2007 after take over of Weak Ltd.

### Question No.3 (a)

(8 Marks)

Shivaji Ltd., purchased Fixed assets worth Rs. 90,00,000 on 1<sup>st</sup> April, 2002. The life of the assets is 10 years and they are to be depreciated on straight line basis. The assets were revalued on 1<sup>st</sup> April, 2004 when 50% of the assets was assessed at 10% less than the book value, and the remaining assets were revalued at 15% higher than book value. The assets were ultimately sold on 1.4.2006 for Rs. 54,80,000. Excess depreciation on revaluation, if any, should be charged to Revaluation Reserve.

Show Fixed Assets A/c, Depreciation A/c and Revaluation Reserve A/c, supported by workings wherever necessary.

### Question No.3 (b)

(12 Marks)

The Balance Sheet of Domestic Ltd., as on 31<sup>st</sup> March, 2007 is as under:

(All figures are in lacs)

| Liabilities                                                 | Rs.          | Assets                                                   | Rs.          |
|-------------------------------------------------------------|--------------|----------------------------------------------------------|--------------|
| Equity Shares Rs.10 each                                    | Rs. 3,000    | Goodwill                                                 | 744          |
| Reserves (including provision for taxation of Rs. 300 lacs) | 1,000        | Premises and Land at cost                                | 400          |
| 5% Debentures                                               | 2,000        | Plant and Machinery                                      | 3,000        |
| Secured loans                                               | 200          | Motor Vehicles (purchased on 1.10.06)                    | 40           |
| Sundry Creditors                                            | 300          | Raw materials at cost                                    | 920          |
| Profit & Loss A/c                                           |              | Work-in-progress at cost                                 | 130          |
| Balance From previous B/S                                   | 32           | Finished Goods at cost                                   | 180          |
| Profit for the year (After taxation)                        | 1,100        | Book Debts                                               | 400          |
|                                                             |              | Investment meant for replacement of Plant and Machinery) | 1,600        |
|                                                             |              | Cash at Bank and                                         | 192          |
|                                                             |              | Cash in hand                                             |              |
|                                                             |              | Discount on Debentures                                   | 10           |
|                                                             |              | Underwriting Commission                                  | 16           |
|                                                             | <u>7,632</u> |                                                          | <u>7,632</u> |

The resale value of Premises and Land is Rs. 1,200 lacs and that of Plant and Machinery is Rs.2,400 lacs. Depreciation @ 20% is applicable to Motor Vehicle. Applicable depreciation on Premises and Land is 2%, and

that on Plant and Machinery is 10%. Market value of the Investments is Rs. 1,500 lacs. 10% of book debts is bad. In a similar company the market value of equity shares of the same denomination is Rs. 25 per share and in such company dividend is consistently paid during last 5 year @ 20%. Contrary to this, Domestic Ltd., is having a marked upward or downward trend in the case of dividend payment.

Past 5 years' profits of the company were as under:

|         |                           |
|---------|---------------------------|
| 2001-02 | Rs. 67 lacs               |
| 2002-03 | (-) Rs. 1,305 lacs (loss) |
| 2003-04 | Rs. 468 lacs              |
| 2004-05 | Rs. 546 lacs              |
| 2005-06 | Rs. 405 lacs              |

The unusual negative profitability of the company during 2002-03 was due to the lock out in the major manufacturing unit of the company which happened in the beginning of the second quarter of the year 2001-02 and continued till the last quarter of 2002-03.

Value the Goodwill of the Company on the basis of 4 year's purchase of the Super Profit.

(Necessary assumption for adjustment of the Company's inconsistency in regard to the dividend payment, may be made by the examinee.)

#### Question No.4(a)

(8 Marks)

Indian Engineering and Technological Institute, an autonomous body furnished the following information:

On 1.4.2006, unutilized restricted Govt. Grant (Capital) balance is Rs. 40,00,000; unutilized unrestricted Govt. Grant (Revenue) balance is Rs. 9,00,000; Institute's own corpus fund is Rs. 25,00,000. Besides, a private endowment fund of Rs. 18,50,000 is there on that date. The entire endowment fund is in Fixed deposit with a bank fetching interest of 9.5% p.a. half-yearly transferred on 30<sup>th</sup> September and 31<sup>st</sup> March to current account meant for scholarship and awards. The said current account has a balance of Rs. 1,37,500. Apart from this, total Cash and Bank Balance as on 1.4.06 is Rs. 85,00,000.

Following transactions took place during the year 2006-07 :

- (1) Salary paid out of own fund is Rs. 65,00,000.
- (2) Salary to the Research Associates of a Govt. Sponsored research scheme is Rs. 4,00,000 paid out of unrestricted Govt. Grant.
- (3) Cost of renovation of the administrative building borne out of the Institute's own fund is Rs. 4,75,000. The renovation work was completed on 21<sup>st</sup> November, 2006 which was also the date of payment. Book value of the building was Rs. 38,00,000 on 1.4.06. The rate of depreciation is 5% p.a. calculated at full year's rate if the asset exists for a period exceeding 6 months, and at half-year's rate in other cases. The same principle is followed by the Institute in all cases of depreciation.
- (4) Tuition fees were received Rs. 85,00,000.
- (5) Scholarships and awards of Rs. 1,43,000 were given on 9<sup>th</sup> December, 2006.
- (6) A laboratory building was under construction for the last two years. Balance of Capital Work-in-progress on 1.4.06 was Rs. 28,00,000. The work has been completed on 25<sup>th</sup> May, 2006. Final payment was made earlier on 29.4. 2006. Total expenditure comes to Rs. 37,00,000. Rate of depreciation on the Laboratory building is 5%. The entire expenditure will be spent from the restricted Govt. (Capital) Grant on certain conditions attached by the Govt. The Institute follows the principles of AS-12 in the case of use of revenue and capital grant. Since certain conditionality will apply over a period of time, it is decided that deferred income method will be followed.

Show the following Ledger accounts:

- (i) Restricted Government Grant (Capital) A/c
- (ii) Unrestricted Government Grant (Revenue) A/c
- (iii) Current A/c of Endowment and Scholarship
- (iv) Cash and Bank A/c.

**Question No.4(b)****(8 Marks)**

Value Added Ltd., furnishes the following Profit and Loss A/c :

Profit and Loss A/c for the year ended 31<sup>st</sup> March, 2007

| <b>Income</b>                                     | Notes | Rs.('000)     |
|---------------------------------------------------|-------|---------------|
| Turnover                                          | 1     | 29,872        |
| Other Income                                      |       | 1,042         |
|                                                   |       | <u>30,914</u> |
| <b>Expenditure</b>                                |       |               |
| Operating Expenses                                | 2     | 26,741        |
| Interest on 8% Debenture                          |       | 987           |
| Interest on Cash Credit                           | 3     | 151           |
| Excise duty                                       |       | 1,952         |
|                                                   |       | <u>29,831</u> |
| <b>Profit before depreciation</b>                 |       | 1,083         |
| Less Depreciation                                 |       | 342           |
| Profit before tax                                 |       | 741           |
| Provision for tax                                 | 4     | 376           |
| Profit after tax                                  |       | 365           |
| Less Transfer to Fixed assets Replacement Reserve |       | 65            |
|                                                   |       | 300           |
| Less Dividend paid                                |       | 125           |
| <b>Retained Profit</b>                            |       | <u>175</u>    |

Notes:

- (1) Turnover is based on invoice value and net of Sales tax.
- (2) Salaries, wages and other employee benefits amounting to Rs. 14,761 ('000) are included in operating expenses.
- (3) Cash Credit represents a temporary source of finance. It has not been considered as a part of capital.
- (4) Transfer of Rs.54 ('000) to the credit of deferred tax account is included in provision for tax.

Prepare value added statement for the year ended 31<sup>st</sup> March, 2007 and Reconcile total value added with profit before taxation.

**Question 5(a)****(6 Marks)**

Arrange and redraft the following Cash Flow Statement in proper order keeping in mind the requirements of AS-3 :

|                                | Rs. (in lacs) | Rs. (in lacs) |
|--------------------------------|---------------|---------------|
| Net Profit                     |               | 60,000        |
| Add: Sale of Investments       |               | 70,000        |
| Depreciation on Assets         |               | 11,000        |
| Issue of Preference Shares     |               | 9,000         |
| Loan raised                    |               | 4,500         |
| Decrease in Stock              |               | <u>12,000</u> |
|                                |               | 1,66,500      |
| Less: Purchase of Fixed Assets | 65,000        |               |
| Decrease in Creditors          | 6,000         |               |
| Increase in Debtors            | 8,000         |               |
| Exchange gain                  | 8,000         |               |
| Profit on sale of investments  | 12,000        |               |
| Redemption of Debenture        | 5,700         |               |

|                                      |       |          |
|--------------------------------------|-------|----------|
| Dividend paid                        | 1,400 |          |
| Interest paid                        | 945   | 1,07,045 |
|                                      |       | <hr/>    |
|                                      |       | 59,455   |
| Add opening cash and cash equivalent |       | 12,341   |
| Closing cash and cash equivalent     |       | <hr/>    |
|                                      |       | 71,796   |

**Question No.5(b)**

**(4 Marks)**

P Ltd., has 60% voting right in Q Ltd., has 20% voting right in R Ltd. Also, P Ltd., Directly enjoys voting right of 14% in R Ltd., is a listed company and regularly supplies goods to P Ltd., The management of R Ltd., has not disclosed its relationship with P Ltd.

How would you assess the situation from the view point of AS-18 on Related Party Disclosures?

**Question No.5(c)**

**(6 Marks)**

Lessee Ltd., took a machine on lease from Lessor Ltd., the fair value being Rs. 7,00,000. the economic life of the machine as well as the lease term is 3 years. At the end of each year Lessee Ltd., pays Rs. 3,00,000. Guaranteed Residual Value (GRV) is Rs. 22,000 on expiry of the lease. Implicit Rate of Return (IRR) is 15% p.a. and present value factors at 15% are 0.869, 0.756 and 0.657 at the end of first, second and third years respectively.

Calculate the value of machine to be considered by Lessee Ltd., and the interest (Finance charges) in each year.

**Question No.6 : Write short notes on the following**

- |                                                      |         |
|------------------------------------------------------|---------|
| (a) The concept of Materiality                       | 6 Marks |
| (b) Maintenance of Books of Account by Stock Brokers | 5 Marks |
| (c) Human Resources Accounting.                      | 5 Marks |