

PAPER 1: ADVANCED ACCOUNTING
NOVEMBER 2005

Answer **all** questions.

Working notes should form part of the answer.

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

Question 1

On 31st March, 2004 Bee Ltd., became the holding company of Cee Ltd., and Dee Ltd., by acquiring 450 lakhs fully paid shares in Cee Ltd., for Rs.6,750 lakhs and Rs.240 lakhs fully paid shares in Dee Ltd., for Rs.2,160 lakhs. On that date, Cee Ltd., showed a balance of Rs.2,550 lakhs in General Reserve and a credit balance of Rs.900 lakhs in Profit and Loss Account. On the same date, Dee Ltd., showed a debit balance of Rs.360 lakhs in Profit and loss account while its Preliminary Expenses Account showed a balance of Rs.30 lakhs. **(16 Marks)**

After one year, on 31st March, 2005 the Balance Sheets of three companies stood as follows:

		(All amounts in lakhs of Rupees)		
Liabilities		Bee Ltd.,	Cee Ltd.,	Dee Ltd.,
Fully paid equity shares of Rs.10 each		27,000	7,500	3,000
General reserve		33,000	3,150	--
Profit and Loss A/c		9,000	1,200	750
15 lakh fully paid 9.5% Debentures of Rs.100 each		--	--	1,500
Loans from Cee Ltd.,		--	--	75
Bills payable		--	--	150
Sundry creditors		14,100	2,700	930
		83,100	14,550	6,405
Assets				
Machinery		39,000	7,500	2,100
Furniture and fixtures		6,000	1,500	600
Investments :				
450 lakhs shares in Cee Ltd.,		6,750	--	--
240 lakhs shares in Dee Ltd.,		2,160	--	--
3 lakhs debentures in Dee Ltd.,		294	--	--
Stocks		16,500	3,000	1,500
Sundry debtors		9,000	1,350	1,290
Cash and Bank balances		3,201	1,050	900
Loan to Dee Ltd.,		--	90	--
Bills receivable		195	60	--
Preliminary expenses		--	--	15
	Total	83,100	14,550	6,405

The following points relating to the above mentioned Balance Sheets are to be noted:

- (i) All the bills payable appearing in Dee Ltd.,’s Balance Sheet were accepted in favour of Cee Ltd., out of which bills amounting to Rs.75 lakh were endorsed by Cee Ltd., in favour of the Bee Ltd., and bills amounting to Rs.45 lakh had been discounted by Cee Ltd., with its Bank.
- (ii) On 29th March, 2005 Dee Ltd., remitted Rs.15 lakh by means of a cheque to Cee Ltd., to return part of the loan; Cee Ltd., received the cheque only after 31st March, 2005.

- (iii) Stocks with Cee Ltd., declared and distributed dividend @ 10% for the year ended 31st March, 2004. Bee Ltd., credited the dividend received to its Profit and Loss Account.

You are required to prepare a consolidated Balance Sheet of Bee Ltd., and its subsidiaries Cee Ltd., and Dee Ltd., as at 31st March, 2005.

Question 2

- (a) On the basis of the following Profit and Loss Account of Zed Limited and the supplementary information provided thereafter, prepare Gross Value Added statement of the company for the year ended 31st March, 2005. Also prepare another statement showing reconciliation of Gross Value Added with Profit before Taxation. **(12 Marks)**

Profit and Loss Account of Zed Limited for the year ended 31st March, 2005.

	Amount (Rs. in lakhs)	Amount (Rs. in lakhs)
Income		
Sales		5,010
Other Income		130
		<u>5,140</u>
Expenditure		
Production and Operational Expenses	3,550	
Administrative Expenses	185	
Interest	235	
Depreciation	370	4,340
Profit before taxation		800
Provision for taxation		280
Profit after taxation		<u>520</u>
Credit balance as per last Balance Sheet		40
		<u>560</u>
Appropriations		
Transfer to General Reserve		100
Preference Dividend (Interim) paid		50
Proposed Preference Dividend (Final)		50
Proposed Equity Dividend		300
Balance carried to Balance Sheet		60
		<u>560</u>

Supplementary Information

Production and Operational Expenses consists of :

Raw materials and stores consumed	1,900
Wages, Salaries and Bonus	610
Local Taxes including Cess	220
Other manufacturing expenses	820
	<u>3,550</u>

Administrative expenses consist of :

Salaries and Commission to Directors	60
Audit Fee	24
Provision for Bad and Doubtful Debts	20
Other Administrative Expenses	81
	<u>185</u>

Interest is on :

Loan from Bank for working capital	35
Debentures	200
	<u>235</u>

- (b) The Institute for Global Management Research maintains a combined Development Fund in respect of which the following information is available for the year ended 31st March, 2005:

(8 Marks)

	Rs.
Government Grants received for acquisition of land	60,00,000
Private Grants received for construction of buildings	30,00,000
Foreign Private Grant for purchase of computing equipment	USD 5,00,000
Transfer from unrestricted fund for purchase of furniture	10,00,000
Cost of Assets so far acquired:	
Land	59,00,000
Buildings in progress (payments to Contractors)	15,00,000
Furniture	3,00,000

The USD grant has been received into a Bank account in USA on 29.3.2005 and is expected to be utilized there from for purchases to be made abroad. The rate of exchange on 31.3.05 is 1 USD = Rs.44. You are required to prepare.

- A statement showing changes in the Development Fund for the year ; and
- Balance Sheet of the Development Fund as at 31.3.2005.

Question 3

The following abridged Balance Sheet as at 31st March, 2005 pertains to Glorious Ltd., **(16 Marks)**

Liabilities	Rs. in lakhs	Assets	Rs. in lakhs
Share capital:		Goodwill, at cost	420
180 lakh Equity shares of Rs.10 each, fully paid up	1,800	Other fixed assets	11,166
90 lakh Equity shares of Rs.10 each, Rs.8 paid up	720	Current assets	2,910
150 lakh Equity Shares of Rs.5 each, fully paid up	750	Loans and advances	933
Reserves and surplus	5,628		
Secured loans	4,500		
Current liabilities	1,242		
Provisions	960		
	<u>15,600</u>		<u>15,600</u>

You are required to calculate the following for each one of three categories of equity shares appearing in the above mentioned Balance Sheet.

- (i) Intrinsic value on the basis of book values of Assets and Liabilities including goodwill;
- (ii) Value per share on the basis of dividend yield. Normal rate of dividend in the concerned industry is 15%, whereas Glorious Ltd., has been paying 20% dividend for the last four years and is expected to maintain it in the next few years; and
- (iii) Value per share on the basis of EPS. For the year ended 31st March, 2005 the company has earned Rs.1,371 lakh as profit after tax, which can be considered to be normal for the company. Average EPS for a fully paid share of Rs.10 of a company in the same industry in Rs.2.

Question 4

- (a) Venus Ltd., has an asst, which is carried in the Balance Sheet on 31-3-2005 at Rs.500 lakhs. As at that date the value in use is Rs.400 lakhs and the net selling price Rs.375 lakhs. **(6 Marks)**

From the above data:

- (i) Calculate Impairment Loss.
 - (ii) Prepare Journal Entries for adjustment of impairment loss.
 - (iii) Show, how impairment loss will be shown in the Balance Sheet.
- (b) Himalaya Ltd., in the past three years spent Rs.75,00,000 to develop a Drug to treat Cancer, which was charged to Profit and Loss Account since they did not meet AS-8 criteria for capitalization. In the current year approval of the concerned Govt. Authority has been received. The company wishes to capitalize Rs.75,00,000 and disclose it as a prior period item. It is correct ? Give reason for your views. **(5Marks)**
- (c) Bottom Ltd., entered into a sale deed for its immovable property before the end of the year. But registration was done with registrar subsequent to Balance Sheet date. But before finalization, is it possible to recognize the sale and the gain at the Balance Sheet date? Give your view with reasons. **(5Marks)**

Question 5

- (a) In view of the provisions of Accounting Standard 25 on interim Financial Reporting, on what basis will you calculate, for an interim period, the provision in respect of defined benefit schemes like pension, gratuity etc, for the employees? **(5Marks)**
- (b) Briefly describe the significance of Environmental accounting. **(5Marks)**
- (c) A company has its share capital divided into shares of Rs.10 each. On 1st April, 2004 it granted 10,000 employees' stock options at Rs.40, when the market price was Rs.130. The options were to be exercised between 16th December, 2004 and 15th March, 2005. The employees exercised their options for 9,500 shares only ; the remaining options lapsed. The company closes its books on 31st March every year. Show Journal entries. **(6Marks)**

Question 6

- (a) While closing its books of account on 31st March, 2005 a Non-banking Finance Company has its advances classified as follows: (8Marks)

	Rs. in lakhs
Standard assets	16,800
Sub-standard assets	1,340
Secured positions of doubtful debts:	
- upto one year	320
- one year to three years	90
- more than three years	30
Unsecured portions of doubtful debts	97
Loss assets	48

Calculate the amount of provision, which must be made against the Advances.

- (b) In May, 2004 Speed Ltd., took a Bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2005 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was Rs.18 lakh, whereas the total interest payable to the Bank on the loan for the period till 31st March, 2005 amounted to 25 lakh. **(4 Marks)**

Can Rs.25 lakh be treated as part of the cost of factory building and thus be capitalized on the plea that the loan was specifically taken for the construction of factory building?

- (c) Distinguish between "Timing Differences" and "Permanent Differences" referred to in AS-22 on accounting for Taxes, giving 2 examples of each. **(4 Marks)**