

PAPER 1: ADVANCED ACCOUNTING
MAY 2005

Answer **all** questions.

Working notes should form part of the answer.

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

Question 1

The Balance Sheet of Munna Ltd., on 31st March, 2005 is as under:

(16 marks)

Liabilities	Rs.	Assets	Rs.
Authorized and issued equity share capital 20,000 shares of Rs.100 each	20,00,000	Goodwill	2,00,000
10,000 preference shares (7%) of Rs.100 each	10,00,000	Plant and Machinery	18,00,000
Sundry creditors	7,00,000	Stock	3,00,000
Bank overdraft	3,00,000	Debtors	7,50,000
		Preliminary expenses	1,00,000
		Cash	1,50,000
		P / L Account	7,00,000
	40,00,000		40,00,000

Two year's preference dividend are in arrears. The company had bad time during the last two years and hopes for better business in future, earning profit and paying dividend provided the capital base is reduced.

An internal reconstruction scheme as follows was agreed to buy all concerned:

- (i) Creditors agreed to forego 50% of the claim
- (ii) Preference shareholders withdraw arrear dividend claim. They also agreed to lower their capital claim by 20% by reducing nominal value in consideration of 9% dividend effective after reorganization in case equity shareholder's loss exceeded 50% on the application of the scheme.
- (iii) Bank agreed convert overdraft into term loan to the extent required for making current ration equal to 2:1.
- (iv) Revalued figure for plant and machinery was accepted as Rs.15,00,000.
- (v) Debtors to the extent of Rs.4,00,000 were considered good.
- (vi) Equity shares shall be exchanged for the same number of equity shares at a revised denomination as required after the reorganization.

Show:

- (a) Total loss to be borne by the equity and preference shareholders for the reorganization;
- (b) Shares of loss to the individual classes of shareholders;
- (c) New structure of share capital after reorganization;
- (d) Working capital of the reorganized Co., and
- (e) A proforma Balance Sheet after reorganization.

Question 2

Travels & Tours let has two divisions – “Inland” and “International”. The Balance Sheet as at 31st December, 2004 was as under:

(16 Marks)

Inland	International	Total
(Rs. crores)	(Rs. crores)	(Rs. crores)

Fixed Assets :			
Cost	600	60	1,200
Depreciation	500	200	700
W.D.V. (Written Down Value)	100	400	500
Net Current Assts:			
Current Assets	400	300	700
Less : Current liabilities	200	200	400
	200	100	300
Total	300	500	800
Financed by:			
Loan funds (Secured by a charge on Fixed assts)	--	100	100
Own funds:			50
Equity capital (fully paid up Rs.10 shares)			
Reserves and surplus			650
	?	?	700
Total	300	500	800

It is decided to form a new company "IT Ltd.," for international tourism to take over the assets and liabilities of international division.

Accordingly "IT Ltd.," was formed to take over at Balance Sheet figures the assets and liabilities of international division. "IT Ltd.," is to allot 5 crore equity share of Rs.10 each in the company to the members of "Travels & Tours Ltd.," in full settlement of the consideration. The members of Travels & Tours Ltd., are therefore to become members of "IT Ltd.," as well without having to make any further investment.

- You are asked to pass journal entries in relation to the above in the books of "Travels & Tours Ltd.," and also in "IT Ltd.,". Also show the Balance Sheets of both the companies as on 1st January, 2005 showing corresponding figures, before the reconstruction also.
- The directors of both the companies ask you to find out the net asset value of equity shares pre and post-demerger.
- Comment on the impact of demerger on "shareholders wealth".

Question 3

The Balance Sheets of football Ltd., and its subsidiary Hockey Ltd., as on 31st March, 2005 are as under

(16 Marks)

Liabilities	Football Ltd., Rs.	Hockey Ltd., rs	Assets	Football Ltd., Rs.	Hockey Ltd., rs
Equity shares of Rs.10 each	48,00,000	20,00,000	Goodwill	4,50,000	3,00,000
10% preference shares of Rs.10 each	7,00,000	3,80,000	Plant & Machinery	12,00,000	5,00,000
General reserve	5,50,000	4,20,000	Furniture & Fittings	6,50,000	4,00,000
P/ L A/c	10,00,000	6,00,000	Investments	26,00,000	4,50,000
Bank overdraft	1,20,000	70,000`	Stock	4,50,000	7,20,000

Sundry creditors	4,30,000	4,80,000	Cash at		
			Bank	2,25,000	2,10,000
Bills payable	--	1,60,000	Debtors	9,30,000	7,80,000
			Bills		
			receivable	1,45,000	--
	76,00,000	41,10,000		76,00,000	41,10,000

Details of acquisition of shares by Football Ltd., are as under:

Nature of shares	Nos. acquired	Date of acquisition	Cost of acquisition
Preference shares	14,250	1.4.2002	3,10,000
Equity shares	80,000	1.4.2003	9,50,000
Equity shares	70,000	1.4.2004	8,00,000

Other information:

- On 1.4.2004 profit and loss account and general reserve of Hockey Ltd., had credit balances of Rs.3,00,000 and Rs.2,00,000 respectively.
- Dividend @10% was paid by Hockey Ltd., for the year 203-04 out of its P/L A/c balance as on 1.4.2004. Football Ltd., credited its share of dividend to its P/L A/c.
- Hockey Ltd., allotted bonus shares out of general reserve at the rate of 1 share for every 10 shares held. Accounting thereof has not yet been made.
- Bills receivable of Football Ltd., were drawn upon Hockey Ltd.,
- During the year 2004-05 Football Ltd., purchased goods from Hockey Ltd., for Rs.1,00,000 at a sale price of Rs.1,20,000. 40% of these goods remained unsold at close of the year.
- On 1.4.2004 motor vehicles of Hockey Ltd., were overvalued by Rs.1,00,000. Applicable depreciation rate is 20%.
- Dividends recommended for the year 2004-05 in the holding and the subsidiary companies are 15% and 10% respectively.

Prepare consolidated Balance Sheet as on 31st March, 2005.

Question 4

- (a) Prepare a segmental report for publication in Diversifiers Ltd., from the following details of the company's three divisions and the head office: **(8 Marks)**

	Rs.('000)
Forging shop Division	
Sales to Bright Bar Division	4,575
Other domestic sales	90
Export sales	6,135
	<u>10,800</u>
Bright Bar Division	
Sales to fitting division	45
Export sales to Rwanda	300
	<u>345</u>
Fitting division	
Export sales to Maldives	<u>270</u>

Particulars	Head Office Rs.('000)	Forging Shop Division Rs.('000)	Bright Bar Division Rs.('000)	Fitting Division Rs.('000)
Pre –tax operating result		240	30	(12)
Head office cost reallocated		72	36	36
Interest cost		6	8	2
Fixed assets	75	300	60	180
Net current assets	72	180	60	135
Long term liabilities	57	30	15	180

- (b) An equipment is leased for 3 years and its useful life is 5 years. Both the cost and the fair market value of the equipment are Rs.3,00,000. The amount will be paid in 3 instalments and at the termination of lease lessor will get back the equipment. The un-guaranteed residual value at the end of 3 years is Rs.40,000. The (internal rate of return) IRR of the investment is 10%. The present value of annuity of Re.1 due at the end of 3rd year at 10% IRR is 2.4868. The present value of Re.1 due at the end of 3rd year at 10% rate of interest is 0.7513.

(i) State with reasons whether the lease constitutes finance lease.

(ii) Calculate unearned finance income.

(4 Marks)

- (c) Intelligent Corp. (I-Corp) is dealing in seasonal products. The quarterly sales pattern of the product is given below:

(4 Marks)

Qtr – I	II	III	IV
Ending 31 st March	30 th June	30 th September	31 st December

For the first quarter ending 31st March, 2005 I – Corp, gives you the following information:

	Rs. Crore
Sales	50
Salary and other expenses	30
Advertisement expenses (routine)	02
Administrative and selling expenses	08

While preparing interim financial report for the first quarter “I-Corp.” wants to differ Rs.21 crore expenditure t third quarter on the argument that third quarter is having more sales, therefore third quarter should be debited by higher expenditure. Considering the seasonal nature of business, the expenditure are uniform throughout all quarters.

Calculate the result of first quarter as per AS -25 and comment on the company’s view.

- (d) Top & Top Limited has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment. Having fulfilled all the conditions under the scheme, the company on its investment of Rs.50 crore in capital assets, received Rs.10 crore from the Government in January, 2005 (accounting period being 2004-05). The company wants to treat this receipt as an item of revenue and thereby reduce the losses on profit and loss account for the year ended 31st March, 2005.

Keeping in view the relevant Accounting Standard, discuss whether this action is justified or not.

(4 Marks)**Question 5**

The following Balance Sheet of X Ltd., is given:

(16 Marks)

X Ltd., Balance sheet as on 31 st March, 2005			
Liabilities	Rs.	Assets	Rs.
5,000 shares of Rs.100 each fully paid	50,00,000	Goodwill	4,00,000
Bank overdraft	18,60,000	Land & Building at cost	32,00,000
Creditors	21,10,000	Plant & Machinery at cost	28,00,000
Provision for taxation	5,10,000	Stock	32,00,000
P/L Appropriation A/c	21,20,000	Debtors considered good	20,00,000
	<u>1,16,00,000</u>		<u>1,16,00,000</u>

In 1986 when the company commenced operation the paid up capital was same. The Loss/ Profit for each of the last 5 years was – Yrs.2000-01- Loss (Rs.5,50,000); 2001-02 Rs.9,82,000; 2002-03 Rs.11,70,000; 2003-04 Rs.14,50,000; 2004-05 Rs.17,00,000.

Although Income Tax has so far been paid @ 40% and the above profits have been arrived at on the basis of such tax rate, it has been decided that with effect from the year 2004-05 the Income –tax rate of 45% should be taken into consideration. 10% dividend in 2001-02 and 2002-03 and 15% dividend in 2003-04 and 2004-05 have been paid. Market price of shares of the company on 31st March, 2005 is Rs.125. With effect from 1st April, 2005 Managing Director's remuneration has been approved by the Government to be Rs.8,00,000 in place of Rs.6,00,000. The company has been able to secure a contract for supply of materials at advantageous prices. The advantage has been valued at Rs.4,00,000 per annum for the next five years.

Ascertain goodwill at 3 year's purchase of super profit (for calculation of future maintainable profit weighted average is to be taken).

Question 6.

- (a) Give an account of the growing scope of human capital reporting. **(4×4 =16 Marks)**
- (b) Briefly discuss methods of valuation of intangible assets.
- (c) In order to enhance the level of disclosure by the listed companies, SEBI has amended clause 32 of the listing agreement after amendment what disclosures are required?
- (d) After the HAVOC caused by TSUNAMI, a group of companies undertakes during the period from January, 2005 to March, 2005 various commercial activities, having granted considerable subsidy, along the related cost line. The management intends to highlight the results of such activities while publishing financial statements for the year 2004-05. What is the scope?