

**PAPER 1: ADVANCED ACCOUNTING
NOVEMBER 2004**

Answer **all** questions.

Working notes should form part of the answer.

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

Question 1

The following are the summarized Balance Sheets of PD Co., Ltd., and SD Co., Ltd., as on 31.03.2004.

	(16Marks)	
Liabilities	PD Co. Ltd., Rs.	SD Co. Ltd., Rs.
Share capital: Authorized	70,00,000	30,00,000
Issued and subscribed capital: Equity shares of Rs.10 each fully paid	50,00,000	20,00,000
Capital reserve	5,00,000	3,10,000
Revenue reserve	8,50,000	75,000
Profit and loss account	4,00,000	2,80,000
Sundry creditors	2,50,000	2,25,000
Bills payable	1,00,000	10,000
Total	71,00,000	29,00,000
Assets		
Land and buildings	20,00,000	15,20,000
Plant and machinery	20,00,000	8,00,000
Furniture	5,00,000	1,60,000
Investments	16,10,000	---
Stock	3,40,000	1,00,000
Sundry debtors	3,60,000	2,00,000
Bills receivable	50,000	40,000
Bank	2,40,000	80,000
Total	71,00,000	29,00,000

PD Ltd., acquired 80% shares of SD Ltd., on 30.9.2003 at a cost of Rs. 18,10,000. On 1.10.2003 SD Ltd., declared and paid dividend on Equity shares. PD Ltd., appropriately adjust its share of dividend in Investment Account.

On 1.4.03, the Capital Reserve and Profit and Loss Account stood in the books of SD Ltd., at Rs.50,000 and Rs.2,75,000 respectively.

Land and Buildings standing in the books of SD Ltd., at Rs.16,00,000 on 1.4.03, revalued at Rs.20,00,000 on 1.10.93. Furniture, which stood in the books at Rs.2,00,000 on 1.4.03 revalued at Rs.1,50,000 on 1.10.03. In both the cases the effect have not been given in the books.

SD Ltd., bought an item of machinery from PD Ltd., on hire purchase basis. The following are the balances in respect of this machinery in the books on 31.03.2004:

	Rs.
Instalment due	20,000
Instalment not due	8,000
Hire purchase stock reserve	1,600

The above items stood included under appropriate heads in Balance Sheet.

Prepare a consolidated Balance Sheet of PD Ltd., and its subsidiary SD Ltd., as at 31.3.2004, complying with the requirements of AS- 21.

Question 2

The following is the Profit and Loss Account of Galaxy Ltd., for the year ended 31.3.2004. Prepare a Gross Value Added Statement of Galaxy Ltd., and show also the reconciliation between Gross Value Added and Profit before taxation: **(16 Marks)**

Profit and loss account for the year ended 31.3.2004.

	Notes	Amount (Rs. in lakhs)
Income :		
Sales		-- 890
Other income		-- 55
Expenditure :		
Production and operational expenses	(a)	641 ---
Administration expenses (Factory)	(b)	33 ---
Interest	(c)	29 --
Depreciation		17 720
Profit before taxes		-- 225
Provision for taxes	(d)	-- 30
Profit after tax		-- 195
Balance as per last Balance Sheet		-- 10
		205
Transferred to General Reserve		45 --
Dividend paid		95 --
		140 --
Surplus carried to Balance Sheet		65 --
		205 --

Notes :

	Rs.
(a) Production and Operational expenses	293
Consumption of Raw Materials	59
Consumption of stores	82
Salaries , wages, Gratuities etc., (Admn.)	98
Cess and Local taxes	98
Other manufacturing expenses	109
	641
(b) Administration expenses include salaries commission to Directors Rs.9.00 lakhs. Provision for doubtful debts Rs.6.30.	
(c) Interest on loan from ICICI Bank for working capital	9
Interest on loan from ICICI Bank for fixed loan	10
Interest on loan from IFCI for fixed loan	8
Interest on Debentures	2
	29
(d) The charges for taxation include a transfer of Rs.3.00 lakhs to the credit of Deferred Tax amount.	
(e) Cess and local taxes include Excise Duty, which is equal to 10% of cost of bought-in material.	

Question 3

The Capital structure of M/s. XYZ Ltd., on 31st March, 2003 was as follows:

(16 Marks)

		Rs.
Equity Capital	18,000 shares of Rs.100 each	18,00,000
12% Preference Capital	5,000 shares of Rs.100 each	5,00,000
12% Secured Debentures		5,00,000
Reserves		5,00,000

Profit earned before interest and taxes during the year	7,20,000
Tax rate	40%

Generally the return on equity shares of this type of Industry is 15%

Subject to:

- The profit after tax covers Fixed Interest and Fixed Dividends at least 4 times.
- The Debt Equity ratio is at least 2.
- Yield on shares is calculated at 60% of distributed profits and 10% of undistributed profits.

The Company has been paying regularly an Equity dividend of 15%

The risk premium for Dividends is generally assumed at 1%.

Find out the value of Equity shares of the company.

Question 4

(a) X Co., Ltd., supplied the following information. You are required to compute the basic earning per share:

(8 Marks)

(Accounting year 1-1-2002 – 31.12.2002)

Net profit	: Year 2002: Rs.20,00,000
	: Year 2003: Rs.30,00,000
No. of shares outstanding prior to right issue	: 10,00,000 shares
Right Issue	: One new share for each four outstanding i.e., 2,50,000 shares.
	Right issue price – Rs.20
	Last date of exercise rights – 31.3.2003.
Fair rate of one equity share immediately prior to exercise right on 31.3.03.	: Rs.25

(b) A Ltd., Leased a machinery to B Ltd., on the following terms:

(8 Marks)

	(Rs. in lakhs)
Fair value of the machinery	20.00
Least term	5 years
Lease rental per annum	5.00
Guaranteed residual value	1.00
Expected residual value	2.00
Internal rate of return	15%

Depreciation is provided on Straight line method @ 10% per annum. Ascertain unearned financial Income and necessary entries may be passed in the books of the lessee in the first year.

(c) The following particulars are stated in the Balance Sheet of M/s. Exe Ltd., as on 31.03.2003: (4 Marks)

	(Rs. in lakhs)
Deferred Tax Liability (Cr.)	20.00
Deferred Tax Assets (Dr.)	10.00

The following transactions were reported during the year 2003-04:

(i)	Tax Rate	50%
(ii)	Depreciation - As per Book	50.00
	Depreciation - For Tax purposes	30.00
	There were no addition to Fixed Assets during the year.	
(iii)	Items disallowed in 2002-03 and allowed for Tax purposes in 2003-04.	10.00
(iv)	Interest to Financial Institutions to accounted in the books on accrual basis, but Actual payment was made on 30.9.2004	20.00
(v)	Donations to Private Trusts made in 2003-04	10.00
(vi)	Share issue expenses allowed under 35(D) of the I.T.Act, 1961 for the year	

- (vii) 2003-04 (1/10th of Rs.50.00 lakhs incurred in 1999-2000) 5.00
- (viii) (vii) Repairs to Plant and Machinery Rs.100.00 lakhs was spread over the period 2003-04 and 04-05 equally in the books. However the entire expenditure was allowed for Income Tax Purposes.

Question 5

- (a) From the following details of Loan Fund of Kanpur Institute of Technology for the year 2003-2004, you are required to prepare a statement showing changes in the Loan Fund Balance: **(4 Marks)**

	Rs.
Fund balance as on 1.4.03	25,00,000
Grants from the Government and society	12,00,000
Grants from Revenue Fund	50,000
Other transfer from Unrestricted fund	70,000
Investment income	60,000
Interest on loan	40,000
Refund of Granters	25,000
Bad debts written off	15,000
Administration and collection costs	25,000

- (b) Mr. Investor buys a stock option of ABC Co., Ltd., in July 2003 with a strike price on 30.7.2003 Rs. 250 to be expired on 30.8.04. the premium is Rs.20 per unit and the market lot is 100. the margin to be paid is Rs.120 per unit. **(12 Marks)**

Show the accounting treatment in the books when:

- the option is settled by delivery of the asset, and
- the option is settled in cash and the Index price is Rs.260 per unit.

Question 6

Write short notes on the following :

(4×4= 16 Marks)

- "Non-performing Assets" as per NBSC prudential norms (RBI) directions.
- Some key differences between IAS, USGAAP and India AS with respect to
 - Fixed assets
 - Changes in Accounting Policy and Prior period items.
- Environmental accounting.
- Advantages and disadvantages of setting Accounting standards.