

PAPER 1:ADVANCED ACCOUNTING
MAY 2004

Answer **all** questions.

Working notes should form part of your answer wherever applicable, suitable assumptions should be made by the candidate.

Question 1

On the basis of the following information, calculate the value of goodwill of Gee Ltd., at three years purchase of super profits, if any, earned by the company in the previous four completed accounting years. **(16 Marks)**
 Balance sheet of Gee Ltd., as at 31st March, 2004

Liabilities	Rs. In lakhs	Assets	Rs. In lakhs
Share Capital: Authorized	7,500	Good will	310
<u>Issued and Subscribed:</u>	5,000	Land and Building	1,850
5 Crore equity shares of Rs.10 each, fully paid up			
Capital Reserve	260	Machinery	3,760
General Reserve	2,543	Furniture and fixture	1,015
Surplus i.e, credit balance of Profit & Loss Account (appropriation) A/c	477	Patents and trade marks	32
Trade creditors	568	9% Non-trading investments	600
Provision for Taxation (net)	22	Stock	873
Proposed Dividend for 2002-2003	750	Debtors	614
		Cash in hand and at bank	545
		Preliminary expenses	20
	9,620		9,620

The profit before tax of the four years have been as follows:

Year ended 31 st March	Profit before tax in lakhs of Rupees
2000	3,190
2001	2,500
2002	3,108
2003	2,900

The rate of income tax for the accounting year 1999-2000 was 40%. Thereafter it has been 38% for all the years so far. But for the accounting year 2003-2004 it will be 35%.

In the accounting year 1999-2000, the company earned an extraordinary income of Rs.1 crore due to a special foreign contract. In August, 2000 there was an earthquake due to which the company lost property worth Rs.50 lakhs and the insurance policy did not cover the loss due to earthquake or riots.

9% non-trading investments appearing in the above mentioned balance sheet were purchased at par by the company on 1st April, 201.

The normal rate of return for the industry in which the company is engaged is 20%. Also note that the company's shareholders, in their general meeting have passed a resolution sanctioning the directors an additional remuneration of Rs.50 lakh every year beginning from the accounting year 2003-2004.

Question 2

On 31st March, 2004 the Balance Sheet of H Ltd., and its subsidiary S Ltd.,, stood as follows: **(16 Marks)**

Liabilities	H Ltd., (Rs. In lakhs)	S Ltd., (Rs. In lakhs)
Share capital: Authorized	15,000	6,000
Issued and subscribed:	12,000	4,800
Equity shares of Rs.10 each, fully paid up		
General Reserve	2,784	1,380
Profit and Loss Account	2,715	1,620
Bills payable	372	160
Sundry creditors	1,461	854
Provision for Taxation	855	394
Proposed Dividend	1,200	--
Total	21,387	9,208
Assets:		
Land & Buildings	2,718	--
Plant & Machinery	4,905	4,900
Furniture & Fittings	1,845	586
Investments in shares in S Ltd.,	3,000	--
Stock	3,949	1956
Debtors	2,600	1,363
Cash and bank balances	1,490	204
Bills receivable	360	199
Sundry Advances	520	---
Total	21,387	9,208

The following information is also provided to you:

- H Ltd., purchased 180 lakh shares in S Ltd., on 1st April, 2003 when the balance to General Reserve and Profit and Loss Account of S Ltd., stood at Rs.3,000 lakh and Rs.1,200 lakh respectively.
- On 4th July, 2003 S Ltd., declared a dividend @ 20% for the year ended 31st March, 2003 H Ltd., credited the dividend received by it to its Profit and Loss Account.
- On 1st January, 2004 S Ltd., issued 3 fully paid up shares for every 5 shares held as bonus shares out of balance to its general reserve as on 31st March, 2003.
- On 31st March, 2004 all the bills payable in S Ltd.,’s balance sheet were acceptances in favour of H Ltd., But on that date, H Ltd., held only Rs.45 lakh of these acceptances in hand, the rest having been endorsed
- On 31st March, 204 S Ltd.,’s stock included goods which it had purchased for Rs.100 lakh from H Ltd., which made a profit @ 25% on cost.

Prepare a Consolidated Balance Sheet of H Ltd., and its subsidiary S Ltd., as at 31st March, 2004 bearing in mind the requirements of AS 21.

Question 3

The Balance Sheet of Z Ltd., as at 31st March, 2003 is given below. In it, the respective shares of the company's two divisions namely S Division and W Division in the various assets and liabilities have also been shown. **(20 Marks)**

	(All amounts in Crores of Rupees)		
	S Division	W Division	Total
Fixed Assets:			
Cost	875	249	
Less : Depreciation	<u>360</u>	<u>81</u>	
Written Down Value	<u>515</u>	<u>168</u>	683
Investments			97
Net current Assets:			
Current Assets:	445	585	
Less: Current Liabilities	<u>270</u>	<u>93</u>	
	<u>175</u>	<u>492</u>	<u>667</u>
			<u>1,447</u>
Financed by:			
Loan funds		15	417
Own funds:			
Equity share capital: Shares of Rs.10 each			345
Reserves and surplus			<u>685</u>
			<u>1,447</u>

Loan funds included, *inter alia*, Bank Loans of Rs.15 crore specifically taken for W Division and Debentures of the paid up value of Rs.125 crore redeemable at any time between 1st October, 2002 and 30th September, 2003.

On 1st April, 2003 the company sold all of its investments for Rs.102 crore and redeemed all the debentures at par, the cash transactions being recorded in the Bank Account pertaining to S Division.

Then a new company named Y Ltd., was incorporated with an authorized capital of Rs.900 crore divided into shares of Rs.10 each. All the assets and liabilities pertaining to W division were transferred to the newly formed company; Y Ltd., allotting to Z Ltd., its shareholders its two fully paid equity shares of Rs.10 each at par for every fully paid equity share of Rs.10 each held in Z Ltd., as discharge of consideration for the division taken over.

Y Ltd., recorded in its books the fixed assets at Rs.218 crore and all other assets and liabilities at the same values at which they appeared in the books of Z Ltd.,

You are required to:

- (i) Show the journal entries in the books of Z Ltd.,
- (ii) Prepare Z Ltd.,'s Balance Sheet immediately after the demerger and the initial Balance Sheet of Y Ltd., (Schedules in both cases need not be prepared).
- (iii) Calculate the intrinsic value of one share of Z Ltd., immediately before the demerger and immediately after the demerger; and
- (iv) Calculate the gain, if any, per share to the shareholder of Z Ltd., arising out of the demerger.

Question 4

- (a) ABC Ltd., was incorporated on 1/5/2003 to take over the business of DEF and Co. from 1/1/2003. The Profit and Loss Account as given by ABC Ltd., for the year ending 31/12/2003 is as under:

Profit and Loss Account			
	Rs		Rs
To Rent and Taxes	90,000	By Gross Profit	10,64,000
To Salaries including Manager's salary of Rs.85,000	3,31,000	By Interest on Investments	36,000
To Carriage Outwards	14,000		
To Printing & Stationery	18,000		
To Interest on Debentures	26,000		
To Sales Commission	30,800		
To Bad Debts (related to sales)	91,000		
To Underwriting Commission	26,000		
To Preliminary Expenses	28,000		
To Audit Fees	45,000		
To Loss on Sale of Investments	11,200		
To Net Profit	<u>3,90,000</u>		
	<u>11,00,000</u>		<u>11,00,000</u>

Prepare a statement showing allocation of pre-incorporation and post-incorporation profits after considering the following information .

- G.P ratio was constant throughout the year.
 - Sales for January and October were $1\frac{1}{2}$ times the average monthly sales while sales for December were twice the average monthly sales..
 - Bad debts are shown after adjusting a recovery of Rs. 7,000 of Bad debt for a sale made in July, 2000.
 - Manager's salary was increased by Rs.2,000 p.m. from 1/5/2003.
 - All investments were sold in April, 2003.
- (b) A company has given counter guarantees of Rs.2.25 crores to various banks in respect of the guarantees given by the said banks in favour of Government authorities. Outstanding counter guarantees as at the end of financial year 2003-2004 were Rs.1.95 crores. How should this information be shown in the Financial Statements of the Company. **(4 Marks)**

Question 5

- (a) As at end of the financial year ending on 31st December, 2003, a company finds that there are twenty law suits outstanding which have not been settled till the date of approval of accounts by the Board of Directors. The possible outcome as estimated by the Board is as follows: **(4 Marks)**

	Probability	Loss (Rs.)
In respect of five cases (win)	100%	--
Next ten cases (win)	60%	--
Lose (Low Damages)	30%	1,20,000
Lost (high damages)	10%	2,00,000
Remaining five cases		
Win	50%	--
Lose (Low Damages)	30%	1,00,000
Lost (high damages)	20%	2,10,000

Outcome of each case is to be taken as a separate entity. Ascertain the amount of contingent loss and the accounting treatment in respect thereof.

- (b) Z Ltd., presents the following information for the year ending 31/3/2002 and 31/3/2003 from which you are required to calculate the Deferred Tax Assets/Liability and state how the same should be dealt with as per relevant accounting standard. **(6 Marks)**

	31/3/2002	31/3/2003
	Rs.(lakhs)	Rs.(lakhs)
Depreciation	4010.10	4023.54
Unabsorbed carry forward business loss and depreciation allowance	2016.60	4110.00
Disallowance U/s. 43/B of Income Tax Act, 1961	518.35	611.45
Deferred Revenue Expenses	4.88	--
Provision for Doubtful Debts	282.51	294.35
Z Ltd., had incurred a loss of Rs.504 lakhs for the year ending 31/3/2003 before providing for Current Tax of Rs.26.00 lakhs.		

- (c) From the following information taken from the books of F Ltd., relating to staff and community benefits, prepare a statement classifying the various items under the appropriate heads. **(6 Marks)**

	Rs.
Environmental improvements	20,10,000
Medical facilities	45,00,000
Training Programmes	10,25,000
Generation of Job Opportunities	60,75,000
Municipal Taxes	10,70,000
Increase in cost of living in the vicinity due to thermal power station	16,55,000
Concessional transport, water supply	11,25,000
Extra work put in by staff and officer for drought relief	18,50,000
Leave encashment and leave Travel benefits	52,00,000
Educational facilities for children of staff members	21,60,000
Subsidized canteen facilities	14,40,000
Generation of business	25,00,000

Question 6

(4×4=16 Marks)

- Briefly describe the progress made by India so far in the field of human resource accounting.
- What do you mean by restricted funds and unrestricted funds as found in the books of account of non-for-profit organizations?
- Distinguish between mandatory transfers and non-mandatory transfers made by a college in its books of account.
- Explain currency options related to foreign exchange.