

**PAPER 1: ADVANCED ACCOUNTING
NOVEMBER 2003**

Answer all questions.

Working notes should form part of the answer.

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

Question 1

(a) The Balance Sheet of Sun Ltd., and Moon Ltd., as on 31-3-2000 are given below: **(16 Marks)**

Liabilities	C Ltd., Rs.	D Ltd., Rs.	Assets	C Ltd., Rs.	D Ltd., Rs.
Equity shares of Rs.100 each fully paid	45,00,000	15,00,000	Fixed assets	30,00,000	1,50,000
General Reserve	4,00,000	3,00,000	Investment 3,000 shares in D Ltd.,	4,50,000	--
Profit & Loss account	7,34,000	30,000	9,000 shares in C Ltd.,	---	15,00,000
14% Debentures	--	9,00,000	Debtors	8,70,000	4,50,000
Current liabilities	6,00,000	2,70,000	Stock	14,70,000	6,30,000
			Bank balance	4,74,000	2,70,000
	62,34,000	30,00,000		62,34,000	30,00,000

Stock of C Ltd., includes goods worth Rs.3,00,000 purchased from D Ltd., which made a profit of 20% on selling price. As on 31.3.2003, C Ltd., owes to D Ltd., Rs.1,20,000. C Ltd., absorbs D Ltd., on the basis of the intrinsic value of the shares of both companies as on 31st March, 2003. Before absorption C Ltd., has declared a dividend of 12%. Dividend tax is 10%.

Show the Balance Sheet of C Ltd., after the absorption of D Ltd., and the working for the number of shares issued.

(b) PQR Ltd.'s accounting year ends on 31st March. The company made a loss of Rs.2,00,000 for the year ending 31.3.2001. For the year ending 31.3.2002 and 31.3.2003, it made profits of Rs.1,00,000 and Rs.1,20,000 respectively. It is assumed that the loss of a year can be carried forward for eight years and tax rate is 40%. By the end of 31.3.201, the company feels that there will be sufficient taxable income in the future years against which carry forward loss can be set off. There is no difference between taxable income and accounting income except that the carry forward loss is allowed in the years ending 2002 and 2003 for tax purposes. Prepare a statement of profit and loss for the years ending 2001, 2002 and 2003.

(4Marks)

Question 2

(a) The Balance Sheets of R Ltd., for the years ended on 31.3.2000, 31.3.2001 and 31.3.2002 are as follows:

(16 Marks)

	31.3.2000	31.3.2001	31.3.2002
Liabilities	Rs.	Rs.	Rs.
3,20,000 Equity shares of Rs.10 each fully paid	32,00,000	32,00,000	32,00,000
General reserve	24,00,000	28,00,000	32,00,000
Profit and Loss account	2,80,000	3,20,000	4,80,000
Creditors	12,00,000	16,00,000	20,00,000
	70,80,000	79,20,000	88,80,000
Assets			
Goodwill	20,00,000	16,00,000	12,00,000
Building and Machinery (less: Dp.)	28,00,000	32,00,000	32,00,000

	31.3.2000	31.3.2001	31.3.2002
Stock	20,00,000	24,00,000	28,00,000
Debtors	40,000	3,20,000	8,80,000
Bank Balance	2,40,000	4,00,000	8,00,000
	70,80,000	79,20,000	88,80,000

Actual valuation were as under:

	31.3.2000	31.3.2001	31.3.2002
Building and Machinery	36,00,000	40,00,000	44,00,000
Stock	24,00,000	28,00,000	32,00,000
Net profit (including opening balance) after writing off depreciation and goodwill, tax provision and transfer to General Reserve	8,40,000	28,00,000	32,00,000

Capital employed in the business at market values at the beginning of 1999-2000 was Rs.73,20,000, which included the cost of goodwill. The normal annual return on Average Capital employed in the line of business engaged by R Ltd., is 12 ½%.

The balance in the General reserve account on 1st April, 1999 was Rs.20 lakhs.

The goodwill shown on 31.3.2000 was purchased on 1.4.1999 for Rs.20,00,000 on which date the balance in the Profit and Loss account was Rs.2,40,000. Find out the average capital employed each year.

Goodwill is to be valued at 5 years purchase of super profits (Simple average method). Also find out the total value of the business as on 31.3.2002.

(b) What is economic value added and how is it calculated ? Discuss.

(4 Marks)

Question 3

(a) On the basis of the following income statement pertaining to Brite Ltd., you are required to prepare:

(15 Marks)

- Gross value added statements; and
- Statement showing reconciliation of gross value added with Profit before taxation.

Profit and loss account of Brite Ltd., for the year ended 31st March, 2003. Rs in thousands

Income		
Sales less returns	15,27,956	
Dividends and interest	130	
Miscellaneous income	474	
	(A)	<u>15,28,560</u>
Expenditure :		
Production and operational expenses:		
Decreases in inventory of finished goods	26,054	
Consumption of raw materials	7,40,821	
Power and lighting	1,20,030	
Wages, salaries and bonus	3,81,760	
Staff welfare expenses	26,240	
Excise duty	14,540	
Other manufacturing expenses	<u>32,565</u>	13,42,010
Administrative expenses:		
Director's remuneration	7,810	
Other administrative expenses	<u>32,640</u>	40,450
Interest on :		
9% Mortgage debentures	14,400	

Long term loan from financial inst.	10,000	
Bank overdraft	100	24,500
Depreciation on fixed assets		50,600
	(B)	14,57,560
Profit before taxation (A)-(B)		71,000
Provision for income tax @ 35.875%		25,470
Profit after taxation		45,530
Balance of account as per last Balance Sheet		6,300
		51,830
Transferred to :		
General reserve 40% of Rs.45,530	18,212	
Proposed dividend @ 22%	22,000	
Tax on distributed profits @ 12.81%	2,818	43,030
Surplus carried to Balance Sheet		8,800

(b) What are derivatives and what are its characteristics ?

(5 Marks)

Question 4

(a) J Ltd., purchased machinery from K Ltd., on 30.9.2001. The price was Rs.370.44 lakhs after charging 8% Sales-tax and giving a trade discount of 2% on the quoted price. Transport charges were 0.25% on the quoted price and installation charges come to 1% on the quoted price.

A loan of Rs.300 lakhs was taken from the Bank on which interest at 15% per annum was to be paid.

Expenditure incurred on the trial run was materials Rs.35,000, wages Rs.25,000 and overheads Rs.15,000.

Machinery was ready for use on 1.12.2001. However it was actually put to use only on 1.5.2002. Find out the cost of the machine and suggest the accounting treatment for the expenses incurred in the interval between the dates 1.12.2001 to 1.5.2002. The entire loan amount remained unpaid on 1.5.2002.

(b) State, how you will deal with the following matters in the accounts of U Ltd., for the year ended 31st March, 2003 with reference to Accounting Standards: **(2×4=8 Marks)**

- The company finds that the stock sheets of 31.3.2002 did not include two pages containing details of inventory worth Rs.14.5 lakhs.
- The company had spent Rs.45 lakhs for publicity and research expenses on one of its new consumer product, which was marketed in the accounting year 2002-2003, but proved to be a failure.

Question 5

(a) A University receives two grants – one from the Ministry of Human Resources to be used for Aids Research. One grant is for Rs.45,00,000, which includes Rs.3,00,000 to cover indirect expenses incurred in administering the grant. The second grant of Rs.35,00,000 received from a reputed Trust is to be used to set up a centre to conduct seminars on aids related matters from time to time. During the year, it also received Rs.5,00,000 worth of equipment donated by a well wisher to be used for aids research. During the year 2001-2002, the University spent Rs.32,25,000 of the government grant and incurred Rs.3,00,000 overhead expenses. Rs.28,00,000 were spent from the grant received from the Trust.

Show the necessary Journal Entries.

(5Marks)

(b) On 1st December, 2002, Vishwakarma Construction Co., Ltd., undertook a contract to construct a building for Rs.85 lakhs. On 31st March, 2003 the company found that it had already spent Rs.69,99,000 on the construction. Prudent estimate of additional cost for completion was Rs.32,01,000. what is the additional provision for foreseeable loss, which must be made in the final accounts for the year ended 31st March, 2003 as per provisions of Accounting Standard 7 on “Accounting for construction Contracts”?

(5 Marks)

- (c) While preparing its final accounts for the year ended 31st March, 2003 a company made a provision for bad debts @ 5% of its total debtors. In the last week of February, 2003 a debtor for Rs.2 lakhs had suffered heavy loss due to a earthquake; the loss was not covered by any insurance policy. In April, 2003 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2003? **(5 Marks)**

Question 6

Write short notes on any **two** of the following:

(2×5=10 Marks)

- (a) Annuity and life income funds
- (b) Opportunity cost (HRA)
- (c) Earning value (equity shares).