

PAPER 1: ADVANCED ACCOUNTING
MAY 2003

Answer **all** questions.

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

Question 1

(a) From the Books of Bharati Ltd., following informations are available as on 1.4.2001 and 1.4.2002:

(14 Marks)

- | | Rs. |
|---|----------|
| (1) Equity shares of Rs.10 each outstanding | 1,00,000 |
| (2) partly paid equity shares of Rs.10 each Rs.5 paid | 1,00,000 |
| (3) Options outstanding at an exercise price of Rs.60 for one equity share Rs.10 each. Average Fair value of equity share during both years Rs.75 | 10,000 |
| (4) 10% Convertible preference shares of Rs.100 each. Conversion ratio 2 equity shares for each preference share | 80,000 |
| (5) 12% convertible debentures of Rs.100 conversion ration 4 equity shares for each debenture | 10,000 |
| (6) 10% dividend tax is payable the years ending 31.3.2003 and years ending 31.3.2002 | |
| (7) On 1.10.2002 the partly paid shares were fully paid up. | |
| (8) On 1.1.2003 the company issued 1 bonus share for 8 shares held on that date. | |
- Net profit attributable to the equity shareholders for the years ending 31.3.2003 and 31.3.2002 were Rs.10,00,000.

Calculate:

- (i) Earnings per share years ending 31.3.2003 and 31.3.2002.
 - (ii) Diluted earning per share years ending 31.3.2003 and 31.3.2002.
 - (iii) Adjusted earnings per share and diluted EPS for the year ending 31.3.2002, assuming the same information for previous year, also assume that partly paid shares are eligible for proportionate dividend only.
- (b) Write a note on Accounting issues involved in Environmental Accounting **(6 Marks)**

Question 2

(a) On 31st March, 1996, P Ltd., acquired 1,05,000 shares of Q Ltd., for Rs.12,00,000. The Balance Sheet of Q Ltd., on that date was as under:

(10 Marks)

Liabilities	Rs.	Assets	Rs.
1,50,000 Equity shares of Rs.10 each fully paid	15,00,000	Fixed Assets	10,50,000
Pre-incorporation profits	30,000	Current Assets	6,45,000
Profit and loss account	60,000		
Creditors	1,05,000		
	16,95,000		16,95,000

On 31st March, 2002, the Balance Sheets of two companies were as follows:

Liabilities	P Ltd., Rs.	Q Ltd., Rs.	Assets	P Ltd., Rs.	Q Ltd., Rs.
Equity shares of Rs.10 each fully paid	45,00,000	15,00,000	Fixed Assets	79,20,000	23,10,000
Securities premium	9,00,00	---	1,05,000 equity shares in Q Ltd., at cost	12,00,000	---
Pre-incorporation profits	--	30,000	Current Assets	44,10,000	17,55,000
General reserve	60,00,000	19,05,000			
Profit and loss account	15,75,000	4,20,000			
Creditors	5,55,000	2,10,000			
	1,35,30,000	40,65,000		1,35,30,000	40,65,000

Directors of Q Ltd., made a bonus issue in the ratio of one equity share of Rs.10 each fully paid for every two equity shares held on 31.3.2002.

Calculate as on 31st March, 2002

(i) Cost of Control / Capital Reserve; (ii) Minority interest; (iii) Consolidated Profit and Loss Account in each of the following case

(i) Before issue of bonus shares.

(ii) Immediately after issue of bonus shares.

It may be assumed that bonus shares were issued out of post-acquisition profits by using General Reserve.

Prepare a Consolidated Balance Sheet after the bonus issue.

(b) A Ltd., acquired 25% of shares in B Ltd., as on 31.3.2002 for Rs.3 lakhs. The Balance Sheet of B Ltd., as on 31.3.2002 is given below: **(6 Marks)**

	Rs.
Share capital	5,00,000
Reserves and surplus	5,00,000
Total	10,00,000
Fixed Assets	5,00,000
Investments	2,00,000
Current Assets	3,00,000
	<u>10,00,000</u>

During the year ended 31.3.2003 the following are the additional information available:

(i) A Ltd., received dividend from B Ltd., for this year ended 31.3.2002 at 40% from the Reserves.

(ii) B Ltd., made a profit after loss of Rs.7 lakhs for the year ended 31.3.2003.

(iii) B Ltd., declared a dividend @ 50% for the year ended 31.3.2003 on 30.4.2003.

A Ltd., is preparing consolidated financial statements in accordance with AS-21 for its various subsidiaries. Calculate.:

i. Goodwill if any on acquisition of B Ltd., Shares.

ii. How A Ltd., will reflect the investment value of B Ltd., in the consolidated Financial Statements?

iii. How the dividend received from B Ltd., will be shown in the Consolidated Financial Statements?

Question 3

The following is the Balance Sheets of RS Ltd., and XY Ltd., as on 31.3.2002:

(16 Marks)

			Rs. in '000s		
Liabilities	Rs Ltd., Rs.	XY Ltd., Rs.	Assets	Rs Ltd., Rs.	XY Ltd., Rs.
Share capital:					
Equity shares of Rs.100 each fully paid up	2,000	1,000	Fixed Assets net of depreciation	2,700	850
Reserves and Surplus	800	---	Investments	700	--
10% Debentures	500	---	Sundry Debtors	400	150
Loan from Financial Institutions	250	400	Cash & Bank	250	--
Bank overdraft	---	100	P& Loss A/c	--	800
Sundry creditors	300	300			
Proposed dividend	200	---			
Total	4,050,	1,800	Total	4,050,	1,800

It was decided that XY Ltd., will acquire the business of RS Ltd., for enjoying the benefit of carry forward of business loss. After acquisition, the XY Ltd., will be renamed as XYZ Ltd., the following scheme has been approved for the merger:

- i. XY Ltd., will reduce its shares to Rs.10 and then consolidate 10 such shares in to one share of Rs.100 each (New Share).
- ii. Financial Institutions agreed to waive 15% of the loan of XY Ltd.,
- iii. Shareholder of RS Ltd., will be given one new share of XY Ltd., in exchange of every share held in RS Ltd.,
- iv. RS Ltd., will cancel 20% holding of XY Ltd. Investments were held at Rs. 250 thousands.
- v. After merger the proposed dividend of RS Ltd., will be paid to the shareholders of RS Ltd.,
- vi. Authorized Capital of XY Ltd., will be raised accordingly to carry out the scheme.
- vii. Sundry creditors of XY Ltd., includes payable to RS Ltd., Rs.1,00,000.

Pass the necessary entries to implement the scheme in the books of RS Ltd., and XY Ltd., and prepare a Balance Sheet of XYZ Ltd.,

Question 4

The following is the Balance Sheet of N Ltd., as on 31st March, 2002:

(16 Marks)

Balance Sheet			
Liabilities	Rs.	Assets	Rs.
4,00,000 Equity shares of Rs.10 each fully paid	40,00,000	Goodwill	4,00,000
13.5% Redeemable preference shares of Rs.100 each fully paid	20,00,000	Building	24,00,000
General reserve	16,00,000	Machinery	22,00,000
Profit and loss account	3,20,000	Furniture	10,00,000
Bank loan (Secured against fixed assets)	12,00,000	Vehicles	18,00,000
Bills payable	6,00,000	Investments	16,00,000
Creditors	31,00,000	Stock	11,00,000
		Debtors	18,00,000
		Bank balance	3,20,000
		Preliminary expenses	2,00,000
	1,28,20,000		1,28,20,000

Further information:

- i. Return on capital employed is 20% in similar businesses.
- ii. Fixed assets are worth 30% more than book value. Stock is overvalued by Rs.1,00,000, debtors are to be reduced by Rs.20,000. Trade investments, which constitute 10% the total investments are to be valued at 10% below cost.
- iii. Trade investments were purchased on 1.4.2001. 50% of non-trade investments were purchased on 1.4.2000 and the rest on 1.4.1999. Non-trade investments yielded 15% return on cost.
- iv. In 1999-2000 new machinery costing Rs.2,00,000 was purchased, but wrongly charged to revenue. This amount should be adjusted taking depreciation at 10% on reducing value method.
- v. In 2000-2001 furniture with a book value of Rs.1,00,000 was sold for Rs.60,000.
- vi. For calculating goodwill two years purchase of super profits based on simple average profits of last four years are to be considered. Profits of last four years are as under: 1998-99 Rs.16,00,000, 1999-2000 Rs.18,00,000, 2000-2001 Rs.21,00,000, 2001-2002 Rs.22,00,000.
- vii. Additional depreciation provision at the rate of 10% on the additional value of Plant and Machinery alone may be considered for arriving at normal profit.

Find out the intrinsic value of the equity share. Income tax and Dividend tax are not to be considered.

Question 5

(a) XYZ Ltd., has undertaken a project for expansion of capacity as per the following details: **(8 Marks)**

	Plan	Actual
	Rs.	Rs.
April, 2002	2,00,000	2,00,000
May, 2002	2,00,000	3,00,000
June, 2002	10,00,000	---
July, 2002	1,00,000	---
August, 2002	2,00,000	1,00,000
September, 2002	5,00,000	7,00,000

The company pays to its branches at the rate of 12% p.a. interest being debited on a monthly basis. During the half year company had Rs.10 lakhs overdraft upto 31st July, surplus cash in August and again overdraft of over Rs.10 lakhs from 1.9.2002. the company had a strike during June and hence could not continue the work during June. Work was again commenced on 1st July and all the works were completed on 30th September. Assume that expenditure were incurred on 1st day of each month. Calculate:

(i) Interest to be capitalized.

(ii) Give reasons wherever necessary.

Assume:

a. Overdraft will be less, if there is no capital expenditure.

b. The Board of Directors based on facts and circumstances of the case has decided that any capital expenditure taking more than 3 months as substantial period of time.

(b) Write short notes on any **two** of the following:

(2×4=8 Marks)

i. Books of account required to be maintained by a stock broker.

ii. Corporate social reporting.

iii. Jaggi and Lan model on valuation on group basis of Human Resources.

Question 6

Briefly explain any **four**, as per relevant Accounting Standard / guidance notes:

(4×4=16 Marks)

(a) TVSM Company has taken a Transit Insurance Policy. Suddenly in the year 2002-2003 the percentage of accident has gone upto 7% and wants to recognize insurance claim as revenue in 2002-2003 in accordance with relevant Accounting Standards. Do you agree?

(b) SCL Ltd., sells agriculture products to dealers. One of the condition of sale is that interest is payable at the rate of 2% p.m., for delayed payments. Percentage of interest recovery is only 10% on such overdue outstanding due to various reasons. During the year 2002-2003 the company wants to recognize the entire interest receivable. Do you agree?

(c) HSL Ltd., is manufacturing goods for local sale and exports. As on 31st march, 2003, it has the following finished stocks in the factory warehouse.

i. Goods meant for local sale Rs.100 lakhs (cost Rs.75 lakhs)

ii. Goods meant for exports Rs. 50 lakhs (cost Rs.20 lakhs)

Excise duty is payable at the rate of 16%. The company's Managing Director says that excise duty is payable only on clearance of goods and hence is not a cost. Please advise HSL using guidance note, if any issued on this, including valuation of stock.

(d) SFL Ltd., is a mutual fund. The fund values the investment on "mark to market basis". The Accountant argues since investment are valued on the above basis there is no necessity to disclose depreciation separately in the financial statements. Do you agree?

(e) ABC Ltd., was making provision for non-moving stocks based on no issues for the last 12 months upto 31.3.2002. the company wants to provide during the year ending 31.3.2003 based on technical evaluation:

Total value of stock	Rs. 100 lakhs
Provision required based on 12 months issue	Rs.3.5 lakhs
Provision required based on technical evaluation.	Rs.2.5 lakhs.

Does this amount to change in Accounting Policy ? Can the company change the method of provision?

- (f) XYZ is an export oriented unit and was enjoying tax holiday upto 31.3.2002. No provision for deferred tax liability was made in accounts for the year ended 31.3.2002. While finalizing the accounts for the year ended 31.3.2003, the Accountant says that the entire deferred tax liability upto 31.3.2002 and current years deferred tax liability should be routed through profit and loss account as the relevant Accounting Standard has already become mandatory from 1.4.2001. Do you agree?