

PAPER – 1 : ADVANCED ACCOUNTING
MAY 2002

Answer **all** the questions.

Question 1**(20 Marks)**

The Balance Sheet of Tinsplate Manufacturing Company as on 31.3.2001 is as under:

Liabilities	Rs.	Assets	Rs.
Share Capital:		Fixed Assets:	
Equity shares	1,00,000	Plant and Machinery at cost	2,50,000
14% Preference Shares	50,000	Less: Depreciation on cost	80,000
General Reserve	20,000		1,70,000
12% Debentures	30,000	Current Assets:	
Creditors	50,000	Stock in trade	30,000
		Sundry Debtors	40,000
		Bank	10,000
	2,50,000		2,50,000

The following additional particulars are available:

- Additional plant costing Rs. 50,000 have been installed on 1.4.2001, but the payment was made on 31.3.2002.
- The Fixed Assets Turnover Ratio on the basis of cost of fixed assets would be 1.5.
- The Stock Turnover Ratio would be 14.4 calculated in the basis of average stock.
- The break-up of cost as a percentage of sales would be as follows:

Material	40%
Labour	25%
Manufacturing Expenses	10%
Depreciation	5%
Office and Selling Expense	10%
Profit	10%
	100%
- Debtors would be $\frac{1}{9}$ th of sales.
- Creditors would be $\frac{1}{5}$ th of material consumed.
- In March, 2002, a dividend of 10% on Equity Capital would be paid.
- Rs.25,000, 12% Debentures have been issued on 1.4.2001.
- Provisions for Income-tax to be made at 50% of the profits.

Prepare the Forecast Balance Sheet as on 31.3.2002 and show the following resultant ratios:

- Current Ratio
- Fixed Assets/Net Worth Ratio
- Debt Equity Ratio.

Make appropriate assumptions, if necessary.

Question 2

A Limited is a holding company and B Limited and C Limited are subsidiaries of A Limited. Their Balance Sheets as on 31.12.2000 are given below:

	A Ltd.	B Ltd.	C Ltd.		A Ltd.	B Ltd.	C Ltd.
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Share Capital	1,00,000	1,00,000	60,000	Fixed Assets	20,000	60,000	43,000
Reserves	48,000	10,000	9,000	Investments:			
Profit & Loss Account	16,000	12,000	9,000	Shares in B Ltd.	95,000		
C Ltd. Balance	3,000			Shares in C Ltd.	13,000	53,000	

Sundry Creditors	7,000	5,000	Stock in trade	12,000		
A Ltd. Balance		7,000	B Ltd. Balance	8,000		
			Sundry Debtors	26,000	21,000	32,000
			A Ltd. Balance			3,000
	1,74,000	1,34,000	78,000	1,74,000	1,34,000	78,000

The following particulars are given:

1. The Share Capital of all companies is divided into shares of Rs.10 each.
2. A Ltd. held 8,000 shares of B Ltd. and 1,000 shares of C Ltd.
3. B Ltd. held 4,000 shares of C Ltd.
4. All these investments were made on 30.6.2000.
5. On 31.12.1999, the position was as shown below:

	B Ltd. Rs.	C Ltd. Rs.
Reserve	8,000	7,500
Profit and Loss Account	4,000	3,000
Sundry Creditors	5,000	1,000
Fixed Assets	60,000	43,000
Stock in trade	4,000	35,500
Sundry Debtors	48,000	33,000

6. 10% dividend is proposed by each company.
 7. The whole of stock in trade of B Ltd. as on 30.6.2000 (Rs.4,000) was later sold to A Ltd. for Rs.4,400 and remained unsold by A Ltd. as on 31.12.2000.
 8. Cash-in-transit from B Ltd. was Rs.1,000 as at the close of business.
- You are required to prepare the Consolidated Balance Sheet of the group as on 31.12.2000.
(16 marks)

Question 3

- a. What are the advantages of setting Accounting Standard?
- b. Answer the following questions by quoting the relevant Accounting Standard:
 1. During the year 2001-2002, a medium size manufacturing company wrote down its inventories to net realizable value by Rs.5,00,000. Is a separate disclosure necessary?
 2. A Limited company has been including interest in the valuation of closing stock. In 2001-2002, the management of the company decided to follow AS 2 and accordingly interest has been excluded from the valuation of closing stock. This has resulted in a decrease in profits by Rs.3,00,000. Is a disclosure necessary? If so, draft the same.
 3. A company signed an agreement with the Employees Union on 1.9.2001 for revision of wages with retrospective effect from 30.9.2000. This would cost the company an additional liability of Rs. 5,00,000 per annum. Is a disclosure necessary for the amount paid in 2001-02? **(4+12=16 Marks)**

Question 4

- (a) How would you describe 'Development Funds' maintained by Not-for-Profit Organisations?
- (b) Henri Management institute furnishes you the following information in respect of Development Fund for the year 2001-2002:

	Rs. in Lakhs
Government grants received for construction of Buildings	50
Private grants for acquisition of Land	30
Transfer from unrestricted fund for purchase of Furniture	10
Income from fixed deposits (Fixed deposit for one year-Rs.40 lakhs)	2
Cost of Land	10
Advance payment made for acquisition of further Land	5
Furniture purchased	1
Payment made to contractors for construction of Buildings	12

Prepare a statement of changes in balances of Development Fund for the year 2001-2002 and a Balance Sheet for the Development Fund as on 31st March, 2002. **(6 + 10 = 16 marks)**

Question 5

A Ltd. agreed to take over B Ltd. as on 1st October, 2001. No Balance Sheet of B was prepared on that date: Balance Sheets of A and B as at 31st March, 2001 were as follows:

	A Rs.	B Rs.		A Rs.	B Rs.
Share Capital: In equity shares of Rs.10 each fully paid up	15,00,000	10,00,000	Fixed Assets	12,50,000	8,75,000
Reserves and Surplus:			Current Assets:		
Reserve	4,15,000	2,56,000	Stock	2,37,500	1,87,500
Profit and Loss	1,87,500	1,50,000	Debtors	3,90,000	2,56,000
Creditors	93,750	75,000	Bank	2,93,750	1,50,000
			Miscellaneous Expenditure:		
			Preliminary expenses	25,000	12,500
	21,96,250	14,81,000		21,96,250	14,81,000

Additional information available:

- For the six months period from 1st April, 2001, A made a profit of Rs.4,20,000 after writing off depreciation at 10% per annum on its fixed assets.
- For the same period, B made a net profit of Rs.2,04,000 after writing off depreciation at 10% p.a. on its fixed assets.
- Both the companies paid on 1st August, 2001, equity dividends of 15%. Tax at 10% on such payments was also paid by each of them.
- Goodwill of B was valued at Rs. 1,20,000 on the date of take-over; stock of B, subject to an abnormal item of Rs.7,500 to be fully written off, would be appreciated by 25% for purpose of take-over.
- A to issue to B's shareholders fully paid equity shares of Rs.10 each, on the basis of the comparative intrinsic values of the share on the take-over date.

Draft the Balance Sheet of A after absorption of B. All workings are to form part of your answer. **(16 Marks)**

Question 6

From the following Profit and Loss Account of X Limited, prepare Gross Value Added Statement and show the reconciliation between Gross Value Added and Profit before taxation: **(16 Marks)**

Profit and Loss Account for the year ended 31st March, 2002

	(Rs. in lakhs)	(Rs. in lakhs)
Income		
Sales		800
Other Income		50
		<u>850</u>
Expenditure		
Production and Operational Expenses	600	
Administrative Expenses	30	
Interest and Other charges	30	
Depreciation	20	680
Profit before taxes		<u>170</u>
Provision before taxes		30
		<u>140</u>

Balance as per last Balance Sheet	10
	<u>150</u>
Transferred to:	
General Reserve	80
Proposed Dividend	20
Surplus carried to Balance Sheet	10
	<u>150</u>
Break-up of some of the Expenditure is as follows:	
Production and Operational Expenses:	
Consumption of Raw Materials and Stores	320
Cess and Local Taxes	20
Other Manufacturing Expenses	200
Salaries, Wages and Bonus	60
	<u>600</u>
Administrative Expenses:	
Audit Fee	6
Salaries and Commission to Directors	8
Provision for Doubtful Debts	6
Other Expenses	10
	<u>30</u>
Interest and other charges:	
On Working Capital Loans from Bank	10
On Fixed Loans from ICICI	15
On Debentures	5
	<u>30</u>
