

PAPER 1: ADVANCED ACCOUNTING
NOVEMBER 2001

Answer all questions

Working notes should form part of the answer

Make suitable assumptions wherever necessary

Question 1

- (a) Akash Limited commenced manufacturing personal computers on 01.04.2000 with an equity capital of Rs.5,00,000 in shares of Rs.10 each. The following details were gathered from the accounting records of the company for the year ended 31.03.2001:

Current ratio	2
Working capital to sales	8 times
Net fixed assets to sales	4 times
Credit sales	75%
Gross profit ratio	30%
Net profit ratio	10%
Interest coverage ratio	5 times
Debtors coverage ratio	6 times
Stock turnover ratio (based on closing stock)	7 times
Long term debt / Equity ratio	1:2
Provision for Income Tax	33 1/3%
Proposed dividend (assume that it is not taxable)	20%
Investments as on 31.3.2001	Rs.1,50,000
Selling and distribution expenses (50% was outstanding as on 31.03.2001)	Rs.1,00,000
Depreciation rate (Depreciation was not part of cost of goods sold)	20%

You are required to prepare:

- (i) The Profit and loss statement for the year ended 31.03.2001. **(8 Marks)**
(ii) The Balance Sheet of the company as at that date. **(8 Marks)**

- (b) From the following information comment on the cash position of CANDID Limited: **(4 Marks)**

	Absolute cash ratio	Cash position to total assets ratio	Cash internal
CANDID Limited	0.5	14%	30 days
Industry average	0.6	12%	25 days

Question 2

- (a) R Limited (the Lessee) acquired a machinery on lease from S Limited (the Lessor) on January 1, 2000. The lease term covers the entire economic life of the machinery i.e. 3 years. The fair value of the machinery on January 1,2000 is Rs.3,50,000. The lease agreement requires the lessee to pay an amount of Rs.1,50,000 per year beginning December 31,2000. the lessee has guaranteed a residual value of Rs.11,400 on December 31,2002 to the lessor. The lessor however estimates that the machinery will have a salvage value of only Rs.10,000 on December 31, 2002. The implicit rate of interest is 15% p.a. Compute the value of machinery to be recognized by the lessee and also the finance charges every year on the basis of the AS 19. P.V.Factor of 15% in three years is 2.283. **(8 Marks)**
- (b) X Limited sold to Y Limited goods having a sales value of Rs.25 lakhs during the financial year ended 31.03.2001. Mr.A, the Managing Director and Chief Executive of X limited owns nearly 100 per cent of the capital of Y limited. The sales were made to Y limited at the normal selling price of X limited. **(8 Marks)**

The Chief Accountant of X limited does not consider that these sales should be treated any differently from any other sale made by the company despite being made to a controlled company, because the sales were made at normal and, that too, at arms' length prices.

Discuss the above issue from the new point of AS 18.

Question 3

The summarized Balance Sheets of A Ltd., and its subsidiary B Ltd., as on 31.3.2001 are as follows: **(16 Marks)**

	A Ltd., Rs.	B Ltd., Rs.
Shares of Rs.10 each	1,00,00,000	20,00,000
Reserves and surplus	1,40,00,000	60,00,000
Secured loans	40,00,000	---
Current liabilities	60,00,000	20,00,000
	3,40,00,000	1,00,00,000
Fixed assets	1,20,00,000	35,00,000
Investment in B Ltd.,	7,40,000	---
Sundry debtors	70,00,000	10,00,000
Inventories	60,00,000	50,00,000
Cash and Bank	82,60,000	5,00,000
	3,40,00,000	1,00,00,000

A Ltd., holds 76% of the paid up capital of B Ltd., The balance shares in B Ltd., are held by a Foreign Collaborating Company. A memorandum of understanding has been entered into with the foreign company providing for the following:

- The shares held by the foreign company will be sold to A Ltd., The price per share will be calculated by capitalizing the yield at 16%. Yield, for this purpose, would mean 40% of the average of pre-tax profits for the last 3 years, which were Rs.35 lakhs, Rs.44 lakhs and Rs.65 lakhs.
- The actual cost of shares to the foreign company was Rs.2,40,000 only. The profit that would accrue to them would be taxable at an average rate of 30%. The tax payable be deducted from the proceeds and A Ltd., will pay it to the Government.
- Out of the net consideration, 50% would be remitted to the foreign company immediately and the balance will be an unsecured loan repayable after one year. It was also decided that A Ltd., would absorb B Ltd., simultaneously by writing down the Fixed Assets of B Ltd., by 5%. The Balance Sheet figures included a sum of Rs.1,50,000 due by B Ltd., to A Ltd.,

The entire arrangement was approved by all concerned for giving effect to on 1.4.2001.

You are required to show the Balance Sheet of A Ltd., as it would appear after the arrangement is put through on 1.4.2001.

Question 4

The summarized Balance Sheets of A limited and B limited are as follows:

(16 Marks)

	A Ltd., Rs.	B Ltd., Rs.
Sources of funds:		
Share capital in equity shares of Rs.10 each	2,00,000	50,000
Reserves	20,000	5,000
Profit and loss account as on 1 st January, 2000	30,000	10,000
Profit for the year	8,000	8,000
Add Dividends from B Ltd.,	4,000	---
Less Dividends paid	---	(5,000)
Creditors	30,000	20,000
	2,92,000	88,000
Application of funds:		
Fixed Assets	2,00,000	80,000
Current Assts	32,000	8,000
Shares in B Ltd., at cost – 3,000 shares	60,000	---

2,92,000	88,000
----------	--------

A limited had acquired 4,000 shares in B limited at Rs.20 each on 1st January, 2000 and sold 1,000 of them at the same price on 1st October, 2000. the sale is cum dividend. An interim dividend of 10% was paid by B limited on 1st July, 2000.

Draft the consolidated Balance Sheet as at 31st December, 2000

Question 5

The Balance Sheets of O Ltd., and P Ltd., as on 31st March, 2000 are as under:

(16 Marks)

Liabilities			Assets	Rs.(in lakhs)	
	O	P		O	P
Equity shares f Rs.10 each	25.00	50.00	Fixed asserts	110.00	50.00
Reserves	131.00	29.25	Investments	16.25	25.00
12% Debentures	11.00	5.50	Current Assets	40.25	3.25
Creditors	8.00	2.75	Miscellaneous expenditure	8.50	9.25
	175.00	87.50		175.00	87.50

Investment of O Ltd., represent 1,25,000 shares of P Ltd., Investments of P Ltd., are considered worth Rs.30 lakhs.

P Ltd., is taken over by O Ltd., on the basis of the intrinsic value of shares in their respective books of account.

Prepare a statement showing the number of shares to be allotted by O Ltd., to P Ltd., and the Balance Sheet of O Ltd., after absorption of P Ltd.,

Question 6

- (a) Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to Accounting Standard 3, (AS-3) revised. (8 Marks)
- (b) From the following Summary Cash Account of X Ltd., prepare Cash Flow Statement for the year ended 31st March, 2001 in accordance with AS-3 (Revised) using the direct method. The Company does not have any cash equivalents. (8 Marks)

Summary of Cash Account for the year ended 31.3.2001

	Rs.'000		Rs.'000
Balance on 1.4.2000	50	Payment to Suppliers	2,000
Issue of Equity Shares	300	Purchase of Fixed Assts	200
Receipts from Customers	2,800	Overhead expenses	200
Sale of fixed assets	100	Wages and salaries	100
		Taxation	250
		Dividend	50
		Repayment of Bank loan	300
		Balance on 31.3.2001	150
	3,250		3,250