

**PAPER 1: ADVANCED ACCOUNTING
NOVEMBER 2000**

Answer **all** questions.

Working notes should form part of the answer.

Wherever appropriate, suitable assumptions should be made.

Question 1

Exe Limited is a dealer in automobile components. While preparing the financial statements for the year ended 31.03.2000, it was discovered that a substantial portion of the records were missing. However the accountant was able to gather the following data: **(20 Marks)**

Liabilities	Rs.	Assets	Rs.
Authorized, subscribed and paid up share capital(20,000 equity shares of Rs.10 each)	2,00,000	Land	1,20,000
Reserves and surplus		Plant and machinery	
Balance as on 1.4.99	60,000	At cost	?
Add Transfer during the year	?	Less: Depreciation	?
15% loan	?	Current assets	
Current liabilities :		Cash and Bank	?
Proposed dividend	?	Debtors	?
Provision for tax	?	Stock	?
Creditors	?		
	2,00,000		
	?		?

The following are other information:

- Current ratio 2 times
- Cash and Bank 30% of total current assets
- Debtors velocity (sales / debtors) 12 times
- Stock velocity (Cost of goods sold/ stock) 12 times
- Creditors velocity (cost of goods sold / creditors) 25%
- Gross profit / sales 25%
- Proposed dividend 20%
- Tax rate 33 1/3%
- Debt service coverage ratio 1 time
- Interest coverage ratio 3 times interest on the balance of loan outstanding on 1.4.99
- Selling and distribution expenses Rs.1,80,000
- Cost of goods sold does not include Depreciation
- Depreciation rate is 40%

You are required to complete the Balance Sheet as on 31.3.2000 with available information.

Question 2

The summarized Balance Sheets of R Ltd., and P Ltd., for the year ending on 31.3.2000 are as under:

Liabilities	R Ltd., Rs.	P Ltd., Rs.	Assets	R Ltd., Rs.	P Ltd., Rs.
Equity share capital (in shares of Rs.10 each)	24,00,000	12,00,000	Fixed assts	55,00,000	27,00,000
8% preference share capital 9in shares of Rs.10 each)	8,00,000	--	Current Assets	25,00,000	23,00,000
10% preference share capital (in shares of Rs.10 each)	--	4,00,000			

Reserves	30,00,000	24,00,000		
Current liabilities	18,0,000	10,00,000		
	80,00,000	50,00,000	80,00,000	50,00,000

The following information is provided:

- | | R Ltd., Rs. | P Ltd., Rs. |
|---|------------------|------------------|
| (1) (a) Profit before tax | 10,64,000 | 4,80,000 |
| (b) Taxation | 4,00,000 | 2,00,000 |
| (c) Preference dividend | 64,000 | 40,000 |
| (d) Equity dividend | 2,88,000 | 1,92,000 |
| (2) The equity shares of both the companies are quoted in the market. Both the companies are carrying on similar manufacturing operations. | | |
| (3) R Ltd., proposes to absorb P Ltd., as on 31.3.2000. The terms of absorption are as under: | | |
| (a) Preference shareholders of P Ltd., will receive 8% preference shares of R Ltd., sufficient to increase the income of preference shareholders of P Ltd., by 10%. | | |
| (b) The equity shareholders of P Ltd., will receive equity shares of R Ltd., on the following basis: | | |
| (i) The equity shares of P Ltd., will be valued by applying to the earnings per share of P Ltd., 75% of price earnings ratio of R Ltd., based on the results of 1999-2000 of both the companies. | | |
| (ii) The market price of equity shares of R Ltd., is Rs.40 per share. | | |
| (iii) The number of shares to be issued to the equity shareholders of P Ltd., will be based on the above market value . | | |
| (iv) In addition to equity shares , 8% preference shares of R Ltd., will be issued to the equity shareholders of P Ltd., to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 1999-2000. | | |
| (4) The assets and liabilities of P Ltd., as on 31.3.2000 are revalued by professional valuer as under: | | |
| | Increased by Rs. | Decreased by Rs. |
| Fixed Assets | 1,00,000 | --- |
| Current Assets | -- | 2,00,000 |
| Current Liabilities | -- | 40,000 |
| (5) For the next two years, no increase in the rate of equity dividend is expected. | | |

You are required to:

- (i) Set out in detail the purchase consideration. **(10 Marks)**
- (ii) Give the Balance Sheet as on 31.3.2000 after absorption. **(6 Marks)**

Note: Journal entries are not required.

Question 3

The balance sheets of Bat Ltd., and Ball Ltd., as on 31.3.2000 are as follows:

(15 Marks)

Liabilities	Bat Ltd., Rs.	Bal Ltd., Rs.	Assets	Bat Ltd., Rs.	Ball Ltd., Rs.
Share capital (Shares of Rs.10 each)	1,60,000	2,00,000	Investments		
Profit and loss account	50,000	60,000	Shares in Ball Ltd.,	1,96,000	---
Creditors	---	16,000	Debtors	---	1,20,000
			Stock	---	80,000
			Cash at Bank	---	70,000
			Cash in hand	14,000	6,000
	2,10,000	2,76,000		2,10,000	2,76,000

Particulars of Bat Ltd.,

- (1) This company was formed on 1.4.99.
- (2) It acquired the shares of Ball Ltd., as under

Date of acquisition	No. of shares	Cost – Rs.
01.04.1999	8,000	1,10,000
31.07.1999	6,000	86,000

- (3) The shares purchased on 31.7.99 are ex-dividend and ex-bonus from existing holders.
- (4) On 31.7.99 dividend at 10% was received from Ball Ltd., and was credited to profit and loss account.
- (5) On 31.7.99 it received bonus shares from Ball Ltd., in the ratio of one share on every four shares held.
- (6) Bat Ltd. incurred an expenditure of Rs.500 per month on behalf of ball Ltd., and this was debited to the profit and loss account of Bat Ltd., but nothing has been done in the books of Ball Ltd.
- (7) The balance in the profit and loss account as on 31.3.2000 included Rs.36,000 being the net profit made during the year.
- (8) Dividend proposed for 1999-2000 at 10% was not provided for as yet.

Particulars of Ball Ltd.,

- (1) The balance in the profit and loss account as on 31.3.2000 is after the issue of bonus shares made on 31.7.99.
- (2) The net profit made during the year is Rs.24,000 including Rs.6,000 received from insurance company in settlement of the claim towards loss of stock by fire on 30.6.99 (cost Rs.10,800 included in opening stock).
- (3) Dividend proposed for 1999-2000 at 10% was not provided for in the accounts.

Prepare the consolidated Balance Sheet of Bat Ltd., as on 31.3.2000.

Question 4

- (a) M Ltd., Group has three division A, B and C. Details of their turnover, results and net assets are given below: **(8 Marks)**

	(Rs.'000)
Division A	
Sales to B	3,050
Other sales (Home)	60
Export sales	4,090
	7,200
Division B	
Sales to C	30
Export sales to Europe	200
Division C	
Export sales to America	180

	Head office	Divisions		
	Rs.('000)	A ('000)	B ('000)	C ('000)
Operating profit or loss before tax		160	20	(8)
Re-allocated cost from Head Office		48	24	24
Interest costs		4	5	1
Fixed assets	50	200	40	120
Net current assets	48	120	40	90
Long-term liabilities	38	20	10	120

Prepare a segmental report for publication in M Ltd., Group.

- (b) (i) T Ltd., imported fixed assets worth Rs.1,000 lacs on 1.4.1999, when the exchange rate was Rs.40 per US \$. The assets were fully financed by foreign currency loan repayable in five equal annual instalments. As on 31.3.2000, the first instalment was paid at the Exchange rate of Rs.42.
- (ii) The company's fixed assets stood at Rs.3,000 lacs as on 1.4.99. It provides depreciation at 10% per annum under the WDV method. However, it noticed that about Rs.500 lacs worth of non-imported assets acquired on 1.4.99 will be obsolete in 2 years time. It wants to write off these assets over 2 years.
- (iii) A few days after the beginning of the year, the company acquired assets for Rs.500 lacs on which it received a government grant of 10%.

Prepare a schedule as on 31.3.2000 in respect of the above three categories of assets and support the schedule with relevant accounting standards.

Question 5

(16 Marks)

The following details are taken from the books of B Ltd., as at two dates:

	31.3.1999	31.3.2000
	Rs.	Rs.
Cash	5,04,090	4,05,350
Debtors	7,71,800	7,31,500
Short-term investments	11,05,000	8,40,000
Prepaid expenses	12,100	11,550
Stock	9,21,540	10,35,380
Cash surrender value of insurance policies on employees	46,070	53,530
Land	2,50,000	2,50,000
Buildings and Machinery	14,77,780	18,27,820
Debenture discount	43,050	28,670
Total	51,31,430	52,03,800
Creditors	10,30,870	9,56,560,
Outstanding expenses	1,27,070	2,16,630
4% Mortgage debentures	8,20,000	6,85,000
Accumulated depreciation	9,66,180	8,16,330
Allowance for stock loss	20,000	85,000
Reserve for contingencies	10,67,310	13,41,780
Surplus in profit and account	1,00,000	1,02,500
Share capital.	10,00,000	10,00,000
Total	51,31,430	52,03,800

The following further informations are available:

- (i) Premium on Life Insurance Policies was Rs.27,730 of which Rs.16,270 was charged to Profit and Loss account of the year.
- (ii) Net profit for 1999-2000 as per profit and loss account was Rs.4,90,970.
- (iii) A 10% dividend was paid during the year.
- (iv) The allowance for inventory loss was credited by a charge to expense in each year to provide for obsolete items.
- (v) A debit to reserve for contingencies of Rs.1,14,000 was made during the year. This was in respect of settlement of a past tax liability.
- (vi) New machinery was purchased for Rs.3,13,650 and machinery costing Rs.3,26,250 was sold during the year. Depreciation on machinery sold had accumulated to Rs.2,91,050 on the date of sale. It was sold as scrap for Rs.15,000. the remaining increase in fixed assts resulted from construction of a building.

- (vii) The mortgage debentures mature at the rate of Rs.50,000 per year. In addition to the above, the company purchased and retired Rs.85,000 of the debentures at Rs.103. Both the premium on retirement and the applicable discount were charged to Profit and Loss Account.

You are required to prepare a statement showing the sources and applicant of funds for the year 1999-2000.

Note: Schedule of detailed changes in working capital is not required.

Question 6

- (a) State with reference to accounting standard, how will you value the inventories in the following cases :

(3×4=12 Marks)

- (i) Raw material was purchased at Rs.100 per kilo. Price of raw material is on the decline. The finished goods in which the raw material is incorporated is expected to be sold at below cost. 10,000 kg. of raw material is on stock at the year end. Replacement cost Rs.80 per kg.
- (ii) In a production process, normal waste is 5% of input. 5,000 MT of input were put in process resulting in a wastage of 300 MT. Cost per MT of input is Rs.1,000. The entire quantity of waste is on stock at the year end.
- (iii) Per kg of finished goods consisted of:
 - Material cost Rs.100 per kg.
 - Direct labour cost Rs.20 per kg
 - Direct variable production overhead Rs.10 per kg.

Fixed production charges for the year on normal capacity of one lakh kg. is Rs.10 lakhs 2,000 kg of finished goods are on stock at the year end.

- (b) Explain the concept of fund theory and fund based accounting.

(4 Marks)