

PAPER 1: ADVANCED ACCOUNTING
MAY 2000

Answer all questions.
Working notes should form part of the answer.
Make suitable assumptions wherever necessary.

Question 1

The Balance Sheet of Sun Ltd., and Moon Ltd., as on 31-3-2000 are given below:

(20 Marks)

Liabilities	Sun Ltd. Rs.	Moon Ltd., Rs.	Assets	Sun Ltd., Rs.	Moon Ltd., Rs.
Share capital (Rs.10)	1,20,000	1,00,000	Fixed assets	44,000	84,000
General Reserve	20,000	36,000	Investment in Moon Ltd., 8,000 shares @ Rs.11	88,000	--
Profit & Loss account	12,000	20,000	Sundry debtors	6,000	15,000
Bills payable	2,000	5,000	Bills receivable	4,000	16,000
Sundry creditors	4,000	7,000	Stock in trade	10,000	40,000
Contingent liability of Sun Ltd., : Bills discounted not yet matured Rs.2,500			Cash at Bank	6,000	13,000
	1,58,000	1,68,000		1,58,000	1,68,000

Shares were purchased on 1.4.1997. when the shares were purchased General Reserve and Profit and Loss Account of Moon Ltd., stood at Rs.30,000 and Rs.16,000 respectively.

Dividends have been paid @ 10% every year after acquisition of shares, first dividend being paid out of pre-acquisition profits. No dividend has been proposed for 1999-2000 as yet and no provision need be made in consolidated Balance Sheet. Sun Ltd., has credited all dividends received to Profit and Loss Account.

On 31-3-200, Bonus shares has been declared by Moon Ltd., 2 1 fully paid share for 5 held, but no effect has been given to that in the above accounts. The Bonus was declared out of profits earned prior to 1-4-1997 from General Reserve.

When the shares were purchased, agreed evaluations of Fixed Assets of Moon Ltd., was Rs.1,08,000 although no effect has been given thereto in accounts.

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Depreciation has been charged @ 10% p.a. on the book value as on 1-4-1997, (on straight line method), there being no addition or sale since then.

Out of current profits Rs.2,000 has been transferred to general reserve every year.

Bills receivable of Sun Ltd., include Rs.2,000 bills accepted by Moon Ltd., and bills discounted by Sun Ltd., but not yet matured include Rs.1,500 accepted by Moon Ltd.,

Sundry creditors of Sun Ltd., include Rs.2,000 due to Moon Ltd., whereas Sundry Debtors of Moon Ltd., include Rs.4,000 due from Sun Ltd. It is found that Sun Ltd., has remitted a cheque of Rs.2,000, which has not yet been received by Moon Ltd.,

Prepare consolidated Balance Sheet as at 31-3-2000 of Sun Ltd., and its subsidiary.

Question 2.

(a) Kuber Ltd., furnishes you with the following Balance Sheet as at 31st March, 2000:

(10 Marks)

(in crores of Rs.)

Sources of funds :

Share capital:

Authorized

100

Issued:

12% redeemable preference shares of Rs. 100 each fully paid

75

Equity shares of Rs.10 each fully paid

25 100

Reserves and surplus :

Capital reserve

15

Share premium

25

Revenue reserves

260 300

400

Funds employed in:

Fixed assts : Cost

100

Less: Provision for depreciation

100 Nil

Investments at cost (market value Rs.400 Cr.)

100

Current assts

340

Less: Current liabilities

40 300

400

The company redeemed preference shares on 1st April, 2000. it also bought back 50 lakh equity shares of Rs.10 each at Rs.50 per share. The payments for the above were made out of the huge Bank balances, which appeared as part of current assts.

You are asked to:

- (i) Pass journal entries to record the above.
- (ii) Prepare Balance Sheet
- (iii) Value equity share on net asset basis.

(b)

- i. Advise P Co. ,Ltd., about the treatment of the following in the Final Statement of Accounts for the year ended 31st March,2000 **(3 Marks)**

A claim lodged with the Railways in March, 1997 for loss of goods of Rs.2,00,000 had been passed for payment in March, 2000 for Rs.1,50,000. No entry was passed in the books of the Company, when the claim was lodged.

- ii. The notes to accounts of X Ltd., for the year 1999-200 include the following: **(3 Marks)**
 "Interest on bridge loan from banks and Financial Institutions and on Debentures specifically obtained for the Company's Fertilizer project amounting to Rs.1,80,80,000 has been capitalized during the year, which includes approximately Rs.1,70,33,465 capitalized in respect of the utilization of loan and debenture money for the said purpose." Is the treatment correct? Briefly comment.

Question 3

Following is the Balance Sheet of D Company on December 31, 1999

(16 Marks)

D company – Balance Sheet as on 31st December, 1999.

Liabilities	Rs.	Assets	Rs
Equity shares of Rs.10 each	10,000	Fixed assets	1,10,000
Additional money received on shares	30,000	Accumulated depreciation	<u>30,000</u> 80,000
Retained earnings	13,250	Accounts receivable	3,000
Bonds	30,000	Inventories	11,000
Accounts payable	11,580	Prepaid expenses	230
		Cash	<u>600</u>
	94,830		94,830

The company did not buy or sell any fixed assets nor issued any shares during 1999. On December 31, 1999, the company's accountant obtained the following ratios and other data based on the 1999 operations.

Current ratio	2.0 times
Acid –test ratio	0.8 times
Turnover of average inventory	5.0 times
Turnover of average receivables	25.0 times
Equity ratio	58.8%
Debt ratio	41.2%
Times interest earned	6.0 times
Percentage of profit after / tax on sales	7.0%
Gross margin percentage	52.0%
Book value per share	Rs.58.80
Market value per share	Rs.64.00
Earnings per share	Rs.8.75
Dividend yield	5.0%
Corporate Income Tax rate	30%
Depreciation rate	4% on original cost

Required : Use the above data to prepare the Company's Balance Sheet on December 31, 1999 and Income statement for the year ending on December 31, 1999.

Question 4

Enterprise Ltd., has 2 divisions A and B.

Division A has been making constant profits while division B has been invariably suffering losses.

On 31st March, 2000 the division-wise Balance Sheet was :

	(Rs. in crores)		
	A	B	Total
Fixed assets cost	250	500	750
Depreciation	<u>225</u>	<u>400</u>	<u>625</u>
	25	100	125
Current assets :	200	500	700
Less: Current liabilities	<u>25</u>	<u>400</u>	<u>425</u>
	175	100	275
	<u>200</u>	<u>200</u>	<u>400</u>
Financed by:			
Loan funds	--	300	300
Capital: Equity Rs.10 each	25	--	25
Surplus	<u>175</u>	<u>--100</u>	<u>75</u>
	200	200	400

Division B along with its assets and liabilities was sold for Rs.25 crores to Turnaround Ltd., a new company, who allotted 1 crore equity shares of Rs.10 each at a premium of Rs.15 per share to the members of Enterprise Ltd., in full settlement of the consideration, in proportion to their shareholding in the company.

- (a) Assuming that there are no other transactions, you are asked to: **(10 Marks)**
- Pass journal entries in the books of Enterprise Ltd.,
 - Prepare the Balance Sheet of Enterprise Ltd., after the entries in (i).
 - Prepare the Balance Sheet of Turnaround Ltd.,
- (b) Shri Rustom, who holds 5,000 equity shares of Enterprise Ltd., wants to be explained the impact on net asst value of his investments as a result of the above reconstruction. **(6 Marks)**

Question 5

Examine the following schedule prepared by K Ltd.,

K Ltd.,

Schedule of funds provided by operations for the year ended 31st July, 1999.

	(Rs.'000)	(Rs.'000)
Sales	32,760	
Add decrease in bills receivable	1,000	
Less increase in accounts receivable	(626)	
Inflow from operating revenues		33,134
Cost of goods sold	18,588	
Less decrease in inventories	(212)	
Add decrease in trades payable	81	18,457
Wages and salaries	5,284	
Less increase in wages payable	(12)	5,272
Administrative exp.	3,066	
Add increase in prepaid expenses	11	3,077
Property taxes		428
Interest expenses	532	
Add amortization of premium on bonds payable	20	552
Outflow from operating expenses		27,786
From operations		5,348
Rent income	207	
Add increase in unearned rent	3	210
Income tax	1,330	5,558
Less increase in deferred tax	50	1,280
Funds from operations		4,278

Required :

- What is the definition of funds shown in the schedule? **(1 Mark)**
- What amount was reported as gross margin in the income statement? **(2 Marks)**
- How much cash was collected from the customers? **(2 Marks)**
- How much cash was paid for the purchases made? **(2 Marks)**
- As a result of change in inventories, did the working capital increase or decrease and by what amount? **(2 Marks)**
- How much rent was actually earned during the year? **(2 Marks)**
- What was the amount of tax expenses reported on the income statement? **(1 Mark)**
- Can you reconcile the profit after tax with the funds provided by the operations? **(4 Marks)**

Question 6**(10 Marks)**

- i. Devine Public Health Hospital runs only an intensive care unit. For this purpose, it has hired a building at a rent of Rs.10,000 per month. The unit has undertaken to bear the cost of repairs and maintenance charges.

The unit consisted of 50 beds and 5 more beds can be safely accommodated, when the situation demands at a charge of Rs.5 per bed per day.

During the year 1998-99, it revealed that only for 120 days in the year, the unit had full capacity of 50 patients per day and for another 80 days, it had on an average 40 beds only occupied per day. The total hire charges for the extra beds incurred for the whole year amount to Rs.4,000.

Expert doctors from out station were engaged and the fees were paid on the basis of the number of patients attended and time spent by them and on an average, it worked out to Rs.20,000 per month in 1998-99. The other expenses for the year were as under:

Permanent staff:

- 4 Supervisors at a salary of Rs.500 per month.
- 8 Nurses , each at a salary of Rs.300 per month.
- 4 ward boys each at a salary of Rs.150 per month.

	Rs.
Repairs and maintenance	7,200
Cost of food supplied to patients	88,000
Laundry charges	56,000
Medicine supplied	70,000
Cost of Oxygen, X-ray other than directly borne for treatment of patients	1,08,000
Janitor and other services for them	25,000
Administration charges allocated to the unit	99,100

The unit has recovered an overall amount of Rs.100 per day on an average from each patient. The cost of Janitor and other services is variable as it is related to number of patient- days.

Prepare a Revenue statement for the year 1998-99 and indicate the profit per patient day made by the unit. also workout the number of patient days required by the unit to break even.

Pass journal entries for the next year, if the unit receives (a) donated medicines and medicinal supplies of Rs.25,000j and (b) medicine expenses of Rs.85,000 for the year includes Rs.5,000 donated supplies.

- ii. Following data relate to Bearing Ltd.,

(6 Marks)

	(Rs.'000)	
	Opening Rs.	Closing Rs.
(a) Net long term borrowing	25,000	28,000
Creditors	15,000	5,000
Bank overdraft	6,000	10,600
Taxation	2,000	2,000
Cash	(9,000)	(14,800)
	39,000	30,800
(b) Share capital and reserves from current cost balance sheet	74,000	94,000
Proposed dividend	1,160	1,312
	74,160	95,312
(c) Current cost adjustment depreciation		3,400
Fixed assts disposal		3,600
Cost of sales adjustment		3,240
Monetary working capital adjustment		2,240
		12,480

Compute :

- (i) Gearing adjustment ratio
- (ii) Current cost adjustment after abating gearing adjustment.