

**PAPER 1: ADVANCED ACCOUNTING
NOVEMBER 1999**

Answer **all** questions.
Working notes should form part of the answer.

Question 1

On 1st November, 1998 Yash Ltd., was incorporated with an authorized capital of Rs.1,000 crores. It issued to its promoters equity capital of Rs.50 crores which was paid for in full. On that day it purchased the running business of Vijay Ltd., for Rs.200 crores and allotted at par equity capital of Rs.200 crores in discharge of the consideration. The net assets taken over from Vijay Ltd., were valued as follows: Fixed assets Rs.150 crores. Inventory Rs.10 crores, Customers' dues Rs.70 crores and Creditors Rs.30 crores.

Yash Ltd., carried on business and the following information is furnished to you:

(a) Summary of cash / Bank transactions (for year ended 31st October, 1999)

	Rs. in Cr.	Rs. in Cr.
Equity capital raised:		
Promoters (as shown above)	50	
Others	250	300
Collections from customers		4,000
Sale proceeds of fixed assets (cost Rs.18 Cr.)		20
		<u>4,320</u>
Payments to suppliers	2,000	
Payments to employees	700	
Payments to expenses	500	3,200
Payments to suppliers of Fixed Assets:		
Instalment Due	600	
Interest	50	650
Tax payment		270
Dividend		50
Closing cash / bank balance		<u>50</u>
		<u>4,320</u>

(b) On 31st October, 1999 Yash Ltd., 's assets and liabilities were:

	Rs. in Cr.
Inventory at cost	15
Customers at dues	400
Prepaid expenses	10
Advances to suppliers	40
Amounts due to suppliers of goods	260
Amounts due to suppliers of fixed assets	750
Outstanding expenses	30

(c) Depreciation for the year under:

- i. Companies Act, 1956 Rs.180 Cr.
- ii. Income Tax Act, 1961 Rs.200 Cr.

(d) Provide for tax at 38.5% of "total income". There are no disallowables for the purpose of income taxation. Provision for tax is to be rounded off.

Yash Ltd., asks you to prepare:

- (i) Revenue statement for the year ended 31st October, 1999 and
- (ii) Balance Sheet as on 31st October, 1999, from the above information.

(20 Marks)

Question 2.**(16 Marks)**(a) Balance Sheet as at 31st March, 1999

	(Rs. in Cr.)	
	1999	1998
	Rs.	Rs.
Sources of funds:		
Equity share capital	100	60
Preference share capital	--	20
Share premium	80	--
Other reserve and surplus	160	100
Owner's funds	340	180
Loan funds	10	70
	350	250
Funds employed in:		
Fixed Assets :		
Cost	500	350
Less : Depreciation	300	250
	200	100
Investment at cost		
In subsidiary (wholly owned)	--	60
Net current assets:	150	90
	350	250
Details of Net Current Assets:		
Inventory	20	15
Customers dues	135	60
Cash / Bank	15	35
Advances	30	60
	200	170
Creditors	40	60
Tax provision in excess of payment	10	20
	50	80
	150	90

- (b) During the year, the subsidiary merged into Andaz Ltd.,. The subsidiary had only fixed assets on the date of its merger and their written down value was Rs.90 crores. These were taken over at Rs.90 crores.
- (c) Fixed assets costing Rs.40 crores and written down value of Rs.15 crores were sold for Rs.10 crores.
- (d) Andaz Ltd., made a right equity issue of Rs.40 crores at an issue price of three times the par value. Preference shares were redeemed at part out of this right issue.
- (e) Details of tax assessments.

	(Rs. in corers)	
	31-3-99	31-3-98
	Rs.	Rs.
Net tax provision		
Asstt. Yr. 1999-2000	10	0
1998-1999	---	9
1997-1998	---	6
1996-1997	---	5
	10	20

The tax liability for the various assessment years was settled by payment of Rs.4 Cr. for A.Y.1996-97, Rs.4.5 Cr. for A.Y.1997-98 and Rs.9 Cr. for A.Y.1998-99 on receipt of assessment order. Advance tax and tax deduction at source totaled to Rs.30 Cr.

- (f) Preference dividend of Rs.3 Cr. and equity dividend of Rs. 30 Cr. were paid. Interest paid on loans amounted to Rs.10.5 Cr.

- i. Statement of changes in working capital.
- ii. Statement of sources and application of funds.
- iii. Statement of cash flows.

Question 3**(16 Marks)**

Maxi Mini Ltd., has 2 division – Maxi and Mini. The Balance Sheet as at 31st October, 1999 was as under:

	Maxi division	Mini division	Total (Rs.in Crores)
Fixed Assets:			
Cost	600	300	900
Depreciation	500	100	600
W.D.V	100	200	300
Net current assets:			
Current assets	400	30	700
Less: Current liabilities	100	100	200
	300	200	500
Total	400	400	800
Financed by:			
Loan funds (Secured by a charge on fixed assets)	---	100	100
Own funds:			
Equity capital (fully paid up Rs.10 shares)			50
Reserved and surplus			650
	?	?	700
Total	400	400	800

It is decided to form a new company Mini Ltd., to take over the assets and liabilities of Mini division.

Accordingly Mini Ltd., was incorporated to take over at Balance Sheet figures the assets and liabilities of that division. Mini Ltd., is to allot 5 Cr. equity shares of Rs.10 each in the company to the members of Maxi Mini Ltd., in full settlement of the consideration. The members of Maxi Mini Ltd., are thereof to become members of Mini Ltd., as well without having to make any further investment.

- (a) you are asked to pass journal entries in relation to the above in the books of Maxi Mini Ltd., and Mini Ltd. Also show the Balance Sheets of the 2 companies as on the morning of 1st November, 1999, showing corresponding previous year's figures.
- (b) The directors of the 2 companies ask you to find out the net asset value of equity shares pre and post demerger.
- (c) Comment on the impact of demerger on "shareholders wealth".

Question 4**(16 Marks)**

History Ltd., set up a factory on 1st January, 1980 at a cost of Rs.100 crores financed 50% by debentures, 30% by preference capital and 20% by equity capital. By 31st December, 1989 the debentures were repaid and preference capital redeemed. The net asset value per rupee of equity investment made on 1st January, 1980 as on 31-12-1989 was Rs.8 of which 10% was in fixed assets and the balance 90% was in net working capital.

On 1st January, 1990 the company made a rights issue of equity shares at a premium of 50% in the ratio of 1:1; it also made a rights issue of equity shares at a premium of 200% to the tune of 80% of equity capital after the rights issue. The entire proceeds of rights and public issue were earmarked for capital expenditure.

On 31st December, 198 the net asset value of one rupee of equity capital based on the position as on 1-1-1980 was Rs.41 of which only 1% was in fixed assets and the balance was in net working capital.

You are informed that:

- (i) Capital expenditure was made only in 1980 and 1990.
- (ii) Re. 1 of 1980 is equal to Rs.3 of 1990 and Rs.15 of 1999.

History Ltd., asks you to:

- Prepare Balance Sheets as on 1st January, 1980, 31st December, 1989 to 31st December, 1990, 31st December, 1998.
- Work out the retained profit over the period 1st January, 1980 to 31st December, 1998 under the concept of physical capital maintenance.

Question 5

(16 Marks)

War Ltd., purchased on 31st March, 1997, 48,000 shares in Peace Ltd., at 50% premium over face value by issue of 8% debentures at 20% premium. The balance sheets of War and Peace Ltd., as on 31-3-1997; the date of purchase were as under:

Liabilities	War Ltd., Rs.	Peace Ltd., Rs.	Assets	War Ltd., Rs.	Peace Ltd., Rs.
Share capital (Rs.10)	10,50,000	6,00,000	Fixed assets	6,50,000	2,00,000
General reserve	1,20,000	40,000	Stock in trade	3,00,000	1,80,000
Profit and loss account	80,000	--	Sundry debtors	3,20,000	2,00,000
Sundry creditors	1,00,000	60,000	Cash in hand	60,000	30,000
			Preliminary expenses	20,000	10,000
			P/L Account	--	80,000
	13,50,000	7, 00,000		13,50,000	7, 00,000

Particulars of War Ltd,

- Profit made:

1997-1998 Rs.1,60,000

1998-1999 Rs.2,00,000

- The above profit was made after charging depreciation of Rs.60,000 and Rs.40,000 respectively.
- Out of profit shown above every year Rs.20,000 had been transferred to general reserve.
- 10% dividend had been paid in both the years.
- It has been decided to write down investment to face value of shares in 10 years and to provide for share of loss to subsidiary.

Particulars of Peace Ltd.,

The company incurred losses of Rs.40,000 and Rs.60,000 in 1997-98 and 1998-99 after charging depreciation of 10% p.a. of the book value as on 1-4-1997.

Prepare consolidated Balance Sheet as at 31-3-1999, of war Ltd., and its subsidiary.

Question 6

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- Explain the term "Backlog depreciation in the context of inflation accounting". (3+5 Marks)
- Prepare a statement showing the amount of depreciation under "Current Cost Accounting" (CCA) method for each of the four years as well as the backlog depreciation for a certain item of the asset from the following details.

Cost of machine	Rs.50,000
Estimated life	4 years
Residual value	Nil
Inflation factor	10% p.a.

Assume straight line method of depreciation.

- Enumerate the major heads identified for Corporate social reporting purposes.

(8 Marks)