

PAPER 1: ADVANCED ACCOUNTING
MAY 1999

Answer **all** questions.

Working notes should form part of the answer.

Question 1

Ksha Ltd., and Yaa Ltd., are two companies. On 31st March, 1999 their Balance Sheets were as under: (Rs. in crores)

	Ksha Ltd.,		Yaa Ltd.,	
Sources of funds:				
Share capital:				
Authorized:	500		500	
Issued : Equity shares of Rs.10 each fully paid up	300		200	
Reserves and surplus:				
Capital reserves	40		20	
Revenue reserves	700		425	
Surplus	10	750	5	450
Owners' funds	1,050		650	
Loan funds	250		350	
	1,300		1,000	
Funds employed in :				
Fixed assets :				
Cost	1,000		700	
Less: Deprn.	400	600	300	400
Net current assets:				
Current Assets	2,000		1,500	
Less: Current liabilities	1,300	700	900	600
	1,300		1,000	

Ksha Ltd., has 2 divisions – very profitable division S and loss making division B. Yaa Ltd., similarly has 2 divisions – very profitable division B and loss making division A.

The two companies decided to reorganize. Necessary approvals from creditors and members and sanction by High Court have been obtained to the following scheme:

1. Division B of Ksha Ltd., which has fixed assets costing Rs.400 crores (Written down value Rs.160 crores). Current assets Rs.900 crores, Current liabilities Rs.750 crores and loan funds of Rs.200 crores is to be transferred at Rs.125 crores to Yaa Ltd.,
2. Division A of Yaa Ltd., which has fixed assets costing Rs.500 crores (Depreciation Rs.200 crores), Current Assets Rs.800 crores, current liabilities Rs.700 crores, and loan funds Rs.250 crores is to be transferred at Rs.140 crores to Ksha Ltd.,
3. The difference in the two considerations is to be treated as loan carrying interest at 15% per annum.
4. The directors of each of the companies revalued the fixed assets taken over as follows:
 - i. Division A of Yaa Ltd., taken over : Rs.325 crores.
 - ii. Division B of Ksha Ltd., taken over: Rs.200 crores.

All the other assets and liabilities are recorded at the Balance Sheet values.

- (a) The directors of both the companies ask you to prepare the Balance Sheets after reconstruction (showing the corresponding figures before reconstruction). **(16 Marks)**
- (b) Master Richie Rich, who owns 50,000 equity shares of Ksha Ltd., and 30,000 equity shares of Yaa Ltd., wants to know whether he has gained or lost in terms of net asset value of equity shares on the above reorganization. **(4 Marks)**

Question 2

AB Ltd., and MB Ltd., decide to amalgamate and to form a new company AM Ltd.,. The following are their Balance Sheet as at 31-3-1998:

(16 Marks)

Liabilities	AB Ltd.,	MB Ltd.,	Assets	AB Ltd.,	MB Ltd.,
Share capital (Rs.100) each	10,00,000	6,00,000	Fixed Assets:	7,50,000	2,00,000
General Reserve	1,00,000	50,000	Investments:	3,50,000	--
			1500 share in MB		
Investment Allowance	40,000	30,000	4,000 share in AB	--	5,00,000
Reserve					
12% Debentures (Rs.100 each)	3,00,000	1,00,000	Current assets	4,00,000	1,00,000
Sundry creditors	60,000	20,000			
	<u>15,00,000</u>	<u>8,00,000</u>		<u>15,00,000</u>	<u>8,00,000</u>

Calculate the amount of purchase consideration for AB Ltd., and draw up the balance sheet of AM Ltd., after considering the following:

- Assume amalgamation is in the nature of purchase.
- Fixed assets of AB Ltd., are to be reduced by Rs.50,000 and that of MB Ltd., are to be taken at Rs.3,00,000.
- 12% debentureholders of AB Ltd., and MB Ltd., are discharged by AM Ltd. By issuing such number of its 15% debentures of Rs.100 each so as to maintain the same amount of interest.
- Shares of AM Ltd., are of Rs.100 each.

Also show, how the investment allowance reserve will be treated in the Financial Statement assuming the Reserve will be maintained for 3 years.

Question 3**(16 Marks)**

Azad Ltd., and Bharat Ltd., are partners of Azad Bharat & Co., a partnership firm. The following financial statement is furnished to you by the partnership firm.

(Rs. in crores)

Sources of funds:	31-3-1999		31-3-1998	
Fixed Capitals:				
Azad Ltd.,	60		40	
Bharat Ltd.,	<u>40</u>	100	<u>30</u>	70
Current account balances:				
Azad Ltd.,	6		5	
Bharat Ltd.,	<u>4</u>	10	<u>5</u>	10
		110		80
Loan from India Ltd.,		<u>40</u>		<u>50</u>
Total		<u>150</u>		<u>130</u>
Funds employed in:				
Fixed assets:				
Cost	50		40	
Less: Depreciation	<u>20</u>	30	<u>18</u>	22
Investments		33		30
Current assets:				
Inventory	25		40	
Customers' dues	110		90	
Cash / Bank balances	5		10	
Advances	<u>7</u>		<u>10</u>	
	147		150	
Less :Current liabilities:				
Creditors	53		64	
Bank overdraft caused by reconciliation	<u>7</u>		<u>8</u>	

	60	72
	87	78
Total	<u>150</u>	<u>130</u>

You are further informed that during the year:

- Investments costing Rs.2 crores were sold for Rs.1.5 crores.
- Depreciation for the year amounted to Rs.3 crores.
- Fixed assets purchased and put to use during the year amounted to Rs.12 crores.
- Amount realized on sale of fixed assets included profit of Rs.0.25 crores.
- (i) Advances include "tax payments" net of "provisions for tax" of Rs.3 crores on 31-3-98 refund of Rs.0.70 crore was received on completion of the assessment. There is no appeal preferred in respect of the refund.
(ii) Tax assessment was completed for 2 years ended 31-3-1997 for which tax payments net of provision for tax appeared at Rs.0.80 crore as part of Rs.3 crores on 31-3-1998. refund of Rs.0.70 crore was received on completion of the assessment. There is no appeal preferred in respect of the refund.
- Firm's "total income" under the Income Tax Act, 1961 is Rs.5 crores and is credited to partners' current accounts in the profit sharing ratio of 3:2.

The partners ask you to prepare statements of :

- Changes in working capital
- Source and application of funds
- Cash flow.

Question 4.

(16 Marks)

The draft Balance Sheets of A Ltd., and its American subsidiary B Inc. as at 31st December, 1998 are:

	A Rs.	B \$
Fixed Assets	18,00,000	20,000
Investments in B Inc. at cost	16,00,000	--
Stocks	12,00,000	30,000
Debtors	24,00,000	60,000
Cash and Bank	8,00,000	10,000
	<u>78,00,000</u>	<u>1,20,000</u>
Represented by		
Share capital in equity shares	30,00,000	30,000
Profit and Loss Account	20,00,000	40,000
Loan	12,00,000	20,000
Trade Creditors	6,00,000	10,000
Taxation	10,00,000	20,000
	<u>78,00,000</u>	<u>1,20,000</u>

A Ltd., acquired 80% of shares in B Inc. on 1st January, 1995, when the profit and loss account showed a balance of \$ 20,000.

The Exchange rate prevalent during the relevant dates were:

1 st January, 1995	1 \$ = Rs.30
1 st January, 1998	1 \$ = Rs.36
31 st December, 1998	1 \$ = Rs.42

A decided to amortize goodwill, if any, over a period of eight years.

Required.

Prepare the consolidated Balance Sheet of A Ltd., and its subsidiary at 31st December, 1998.

Question 5.

(16 Marks)

From the following Profit & Loss Account of Bightex Co., Ltd., prepare a gross value added statement for the year ended 31-12-1998:

Show also the reconciliation between gross value added and profit before taxation.

Profit & Loss Account for the year ended 31-12-1998			
Income	Notes	(Rs.'000)	(Rs.'000)
Sales			6,240
Other income			55
			<u>6,295</u>
Expenditure :			
Production and operational expenses	1	4,320	
Administration expenses (Factory)	2	180	
Interest & other charges	3	624	
Depreciation		16	5,140
			<u>1,155</u>
Profit before tax			55
Provision for tax			<u>1,100</u>
			60
Balance as per Balance Sheet			<u>1,160</u>
Transferred to fixed assets replacement reserve		400	
Dividend paid		160	560
			<u>600</u>
Surplus carried to Balance Sheet			

Notes:

1. Production & Operation expenses :

Consumption of raw materials	3,210
Consumption of stores	40
Local tax	8
Salaries to administrative staff	620
Other manufacturing expenses	442
	<u>4,320</u>

2. Administration expenses include salaries and commission to directors

3. Interest and other charges include:

(a) Interest on Bank overdraft (Overdraft is of temporary nature)	109
(b) Fixed loan from I.C.I.C.I	51
(c) Working capital loan from I.F.C.I.	20
(d) Excise duties amount to one –tenth of total value added by manufacturing and trading activities.	

Question 6

(a) A Limited Company closed its accounting year on 30-6-98 and the accounts for that period were considered and approved by the board of directors on 20th August, 1998. The company was engaged in laying pipe line for an oil company, deep beneath the earth. While doing the boring work on 1-9-98 it had met a rocky surface for which it was estimated that there would be an extra cost to the tune of Rs.80 lakhs. You are required to state with reasons, how the event would be dealt with in the financial statements for the year ended 30-6-98. **(3 Marks)**

(b) X Co., Ltd., has obtained an Institutional Loan of Rs.680 lakhs for modernization and renovation of its plant & machinery. Plant & Machinery acquired under the modernization scheme and installation completed on 31-3-98 amounted to Rs.520 lakhs, 30 lakhs has been advanced to suppliers for additional assets and the balance loan of Rs.130 lakhs has been utilized for working capital purpose. The total interest paid for the above loan amounted to Rs.68 lakhs during 1997-98.

You are required to state how the interest on the institutional loan is to be accounted for in the year 1997-98. **(4 Marks)**

- (c) Y co., Ltd., used certain resources of X Co., Ltd., In return X Co., Ltd., received Rs.10 lakhs and Rs.15 lakhs as interest and royalties respectively from Y Co., Ltd., during the year 1997-98.

You are required to state whether and on what basis these revenues can be recognized by X Co., Ltd.,

(3 Marks)

- (d) A Ltd., purchased fixed assets costing Rs.3,000 lakhs on 1-1-98 and the same was fully financed by foreign currency loan (U.S.Dollars) payable in three annual equal instalments. Exchange rates were 1 Dollar = Rs.40.00 and Rs.42.50 as on 1-1-98 and 31-12-98 respectively. First installment was paid on 31-12-98. The entire difference in foreign exchange has been charged to revenue for the year 1998. **(3 Marks)**

- (e) A Limited Company finds that the stock sheets as on 31-3-97 had included twice an item the cost of which was Rs.20,000.

You are asked to suggest, how the error would be dealt with in the accounts of the year ended 31-3-99.

(3 Marks)