

PAPER – 1: ADVANCED ACCOUNTING
MAY 1998

Answer all questions.

Working notes should form part of the answer.

Question 1.

Given below are the condensed Balance Sheets of Lambakadi Ltd. for two years and the statement of Profit and Loss for one year:

	(Figures in Rs. Lakhs)	
As at 31 st March	1998	1997
Share Capital		
In equity shares of Rs. 100 each	150	110
10% Redeemable preference shares of Rs.100 each	10	40
Capital redemption reserve	10	-
General Reserve	15	10
Profit and loss account balance	30	20
8% debentures with convertible option	20	40
Other term loans	15	30
	250	250
Fixed assets less depreciation	130	100
Long term investments	40	50
Working Capital	80	100
	250	250

Statement of profit and Loss for the year ended 31st March, 1998

	(Figures in Rs. Lakhs)	
Sales		600
Less : Cost of sales		400
		<u>200</u>
Establishment charges	30	
Selling and distribution expenses	60	
Interest expenses	5	
Loss on sale of equipment (Book value Rs.40 lakhs)	15	110
Interest income	4	
Dividend income	2	
Foreign Exchange gain	10	
Damages received for loss of reputation	14	30
		<u>120</u>
Depreciation		50
		<u>70</u>
Taxes		30
		<u>40</u>
Dividends		15
Net profit carried to Balance Sheet		<u>25</u>

You are informed by the accountant that ledgers relating to debtors, creditors and stock for both years were seized by the income-tax authorities and it would take atleast two months to obtain copies of the same. However he is able to furnish the following data:

	(Figures in lakhs)	
	1998	1997
Dividend receivable	2	4
Interest receivable	3	2

Cash on hand and with bank	7	10
Investments maturing within two months	3	2
	15	18
Interests payable	4	5
Taxes payable	6	3
	10	8
Current ratio	1.5	1.4
Acid test ratio	1.1	0.8

It is also gathered that debenture-holders owing 50% of the debentures outstanding as on 31.3.97 exercised the option for conversion into equity shares during the financial year and the same was put through.

You are required to prepare a direct method cash flow statement for the financial year, 1998 in accordance with para 18(a) of Accounting Standards (AS) 3 revised. **(20 marks)**

Question 2.

From the following Balance Sheets of a group of companies and the other information provided, draw up the consolidated Balance Sheet as on 31.3.98. Figures are in Rupees Lakhs:

Balance Sheet as on 31.3.98

	X	Y	Z		X	Y	Z
Share capital (in shares of Rs.100 each)	300	200	100	Fixed assets less depreciation	130	150	100
Reserves	50	40	30	Cost of Investment in Y Ltd.	180	-	
Profit and Loss Balance	60	50	40	Cost of Investment in Z Ltd.	40	-	-
Bills payable	10	-	5	Cost of Investment in Z Ltd.	-	80	-
Creditors	30	10	10	Stock	50	20	20
Y Ltd balance	-	-	15	Debtors	70	10	20
Z Ltd balance	50	-	-	Bills receivable	-	10	20
				Z Ltd balance	-	10	-
				X Ltd balance	-	-	30
				Cash and bank balance	30	20	10
	500	300	200		500	300	200

- X Ltd holds 1,60,000 shares and 30,000 shares respectively in Y Ltd. and Z Ltd.; Y Ltd. holds 60,000 shares in Z Ltd. These investments were made on 1.7.97 on which date the position was as follows:

	Y Ltd.	Z Ltd.
Reserves	20	10
Profit and loss account	30	16

- In December 1997 Y Ltd. invoiced goods to X Ltd for Rs.40 lakhs at cost plus 25%. The closing stock of X Ltd. includes such goods valued at Rs.5 lakhs.
- Z Ltd sold to Y Ltd. an equipment costing Rs.24 lakhs at a profit of 25% on selling price on 1.1.98. Depreciation at 10% per annum was provided by Y Ltd. on this equipment.
- Bills payable of Z Ltd. represent acceptances given to Y Ltd. had discounted bills worth Rs.3 lakhs.
- Debtors of X Ltd. include Rs. 5 lakhs being the amount due from Y Ltd.
- X Ltd proposes dividend at 10%.

(20 Marks)

Question 3

In preparing the financial statements of R Ltd. for the year ended 31st March, 1998, you come across the following information. State with reasons, how you would deal with them in the financial statements:

- (a) An unquoted long term investment is carried in the books at a cost of Rs.2 lakhs. The published accounts of the unlisted company received in May, 1998 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than Rs.20,000.

- (b) The company invested Rs.100 lakhs in April, 1998 in the acquisition of another company doing similar business, the negotiations for which had started during the financial year.
- (c) There was a major theft of stores valued at Rs.10 lakhs in the preceding year which was detected only during the current financial year (97-98). **(15 marks)**

Question 4

The following are the Balance Sheets of Big Ltd. and Small Ltd. for the year ending on 31st March, 1998.

(Figures in Crores of Rupees):

	Big Ltd.	Small Ltd.
Equity share capital- in equity shares of Rs.10 each	50	40
Preference share capital- in 10% preference shares of Rs.100 each	-	60
Reserves and surplus	200	150
Loans-Secured	100	100
Total funds	350	350
Applied for fixed assets at cost less depreciation	150	150
Current assets less Current liabilities	200	200
	350	350

The present worth of fixed assets of Big Ltd. is Rs.200 crores and that of Small Ltd. is Rs.429 crores. Goodwill of Big Ltd. is Rs. 40 crores and of Small Ltd. is 75 crores.

Small Ltd. absorbs Big Ltd. by issuing equity shares at par in such a way that intrinsic net worth is maintained.

Goodwill account is not to appear in the books. Fixed assets are to appear at old figures.

(a) Show the Balance Sheet after absorption.

(b) Draft a statement of valuation of shares on intrinsic value basis and prove the accuracy of your workings.

(15 marks)

Question 5

On 31st March, 1988, when the general price index was say 100, Forward Ltd. purchased fixed assets of Rs. 1 crore. It had also permanent working capital of Rs.40 lakhs. The entire amount required for purchase and permanent working capital was financed by 10% redeemable preference share capital. Forward Ltd. wants to maintain its physical capital.

On 31st March, 1988, the company had reserves of Rs.1.75 crores. The general price index on this day was 200. The written down value of fixed assets was Rs.10 lakhs and they were sold for Rs.1.5 crores. The proceeds were utilized for redemption of preference shares.

On the same day (31st March, 1988) the company purchased a new factory for Rs. 10 crores. The ratio of permanent working capital to cost of assets is to be maintained at 0.4 : 1.

The company raised the additional funds required by issue of equity shares.

Based on the above information (a) Quantify the amount of equity capital raised and (b) Show the Balance Sheet **(15 Marks)**

Question 6

(a) What are the main limitations of financial statements?

(8 Marks)

(b) State the possible objections to segmental reporting.

(7 Marks)