

PAPER – 1 : ADVANCED ACCOUNTING
NOVEMBER 1997

Answer all questions

Question 1

The Balance Sheet of A Ltd. as at 31st March, 1996 and the consolidated Balance Sheet of A Ltd., and its subsidiary B Ltd. as at 31st March, 1997 were as follows: (Rs. in Lakhs)

Liabilities	As at 31.3.96	As at 31.3.97
Equity Share Capital (of Rs. 10 per Share)	500.0	675.0
Reserves and Surplus	850.0	1,175.0
Term loans	300.0	425.0
Minority Interest	-	175.0
Creditors	275.0	600.0
Bank Overdraft	-	67.5
	<u>1,925.0</u>	<u>3,117.5</u>
Assets		
Goodwill	-	50.0
Land and Buildings	650.0	650.0
Plant and Machinery	625.0	1,617.5
Stock	275.0	375.0
Debtors	225.0	420.0
Cash	150.0	5.0
	<u>1,925.0</u>	<u>3,117.5</u>

Further information:

A Ltd. had acquired 75% of the equity shares of B Ltd. on 01.09.96. At that date, the Assets and Liabilities of B Ltd. were:

	(Rs. In lakhs)
Fixed Assets	625
Stock	75
Debtors	100
Cash	125
Term Loans	125
Creditors	200

A Ltd. had paid Rs. 500 lakhs to acquire the shares in B Ltd. This was made up of an issue of shares valued at 437.5 lakhs. Balance consideration was met from cash. The premium on the issue of shares stood included in the reserves.

Depreciation charged in the consolidated accounts amounted to Rs. 125 lakhs, as to building Rs. 25 lakhs and as to plant and machinery Rs. 100 lakhs.

A Ltd. paid an interim dividend of Rs. 50 lakhs on 01.03.97. On the same date B Ltd. paid an interim dividend of Rs. 25 lakhs.

Prepare a consolidated statement of sources and application of funds with relevant workings. **(20 marks)**

Question 2

The Balance Sheet of X Ltd. are as follows:

	(Rs. In lakhs)	
Liabilities	As at 31.03.96	As at 31.03.97
Share Capital	1,000.0	1,000.0
General Reserve	800.0	850.0
Profit and Loss Account	120.0	175.0
Term Loans	370.0	330.0
Sundry Creditors	70.0	90.0

Provision for Tax	22.5	25.0
Proposed Dividend	200.0	250.0
	2,582.5	2,720.0
Assets		
Fixed Assets and Investments (Non-trade)	1,600.0	1,800.0
Stock	550.0	600.0
Debtors	340.0	220.0
Cash and Bank	92.5	100.0
	2,582.5	2,720.0

Other information:

1. Current cost of fixed assets excluding non-trade investments on 31.3.96 Rs. 2,200 lakhs and on 31.3.97 Rs. 2,532.8 lakhs.
2. Current cost of stock on 31.3.96 Rs. 670 lakhs and on 31.3.97 Rs. 750 lakhs.
3. Non-trade investments in 10% government securities Rs. 490 lakhs.
4. Debtors include foreign exchange debtors amounting to \$70,000 recorded at the rate of \$1 = Rs.17.50, but the closing exchange rate was \$1 = Rs.21.50.
5. Creditors include foreign exchange creditors amounting to \$1,20,000 recorded at the rate of \$1 = Rs.16.50, but the closing exchange rate was \$1 = Rs.21.50.
6. Profit included Rs. 120 lakhs being government subsidy which is not likely to recur.
7. Rs. 247 lakhs being the last instalment of R and D cost were written off the profit and loss account. The expenditure is not likely to recur.
8. Tax rate during 96-97 was 50% effective future tax rate is estimated at 40%.
9. Normal rate of return is expected at 15%.

Based on the information furnished, Mr. Iral, a director, contends that the company does not have any goodwill. Examine his contention. **(20 Marks)**

Question 3

A firm of contractors obtained a contract for construction of bridges across river Revathi. The following details are available in the records kept for the year ended 31st March, 1997:

	(Rs.in lakhs)
Total Contract Price	1,000
Work Certified	500
Work not Certified	105
Estimated further cost to completion	495
Progress Payment Received	400
To be Received	140

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS-7 "Accounting for Construction Contracts" issued by your institute. **(15 marks)**

Question 4

The Balance Sheet of 'S' Ltd. and 'H' Ltd. as on 30th June, 1997 were as follows:

	(Rs. In crores)	
Liabilities	'S' Ltd.	'H' Ltd.
Equity Share Capital	80	25
Reserves and Surplus	400	75
10% 25 lakhs Debentures of Rs. 100 each	-	25
Other Liabilities	120	-
	600	125

Assets

Fixed Assets at cost	200		75	
Less : Depreciation	<u>100</u>	100	<u>50</u>	25
Investments in 'H' Ltd: 2 crores equity shares of Rs. 10 each at cost	32			
10% 25 lakhs Debentures of Rs. 100 each at cost	<u>24</u>	56		
Current Assets	800		300	
Less: Current Liabilities	<u>356</u>	<u>444</u>	<u>200</u>	<u>100</u>
	600		125	

In a scheme of absorption duly approved by the court, the assets of 'H' Ltd. were taken over at an agreed value of Rs. 130 crores. The liabilities were taken over at par. Outside shareholders of 'H' Ltd. were allotted equity shares in 'S' Ltd. at a premium of Rs. 90 per share in satisfaction of their claims in 'H' Ltd. for purposes of recording in the books of 'S' Ltd. Fixed assets taken over from 'H' Ltd were revalued at Rs. 40 crores.

The scheme was put through on 1st July, 1997.

- (a) Give journal entries in the books of 'S' Ltd. to record the transactions.
 (b) Show the Balance Sheet of 'S' Ltd. after absorption of 'H' Ltd.

(15 marks).

Question 5

Zero Limited commenced its business on 1st April, 1996. 2,00,000 equity shares of Rs.10each at par and 12.5% debentures at the aggregate value of Rs.2,00,000 were issued and fully taken up. The proceeds were utilized as under:

Fixtures and equipments	Rs. 16,00,000
(Estimated Life 10 years, no Scrap Value)	
Goods purchased for Resale at Rs.200 per Unit	Rs. 6,00,000

The goods were entirely sold by 31st March, amounted to Rs. 60,000, goods sold were replaced at a cost of Rs.7,20,000, the number of units purchased being the same as before. A payment of Rs. 40,000 to a supplier was outstanding as on 31st March, 1997.

The replaced goods remained entirely in stock on 31st March, 1997.

Replacement cost as at 31st March, 1997 was considered to be Rs. 280 per unit.

Replacement cost of fixtures and equipments (depreciation on straight line basis) was Rs. 20,00,000 as at 31st March, 1997.

Draft the Profit and Loss Account and Balance Sheet on replacement cost (entry value) basis and on historical cost basis.

(15 Marks)

Question 6

Write short notes on:

- (a) Special features of accounting for non-profit entities (other than Hospitals and Educational Institutions). **(6 Marks)**
 (b) Capital market information-P/E ratio, yield ratio and market value/book value of shares. **(9 Marks)**