

**PAPER 1: ADVANCED ACCOUNTING
MAY 1997**

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

Question 1

X Ltd., purchases its raw materials from Y Ltd., and sells goods to Z Ltd.,. In order to ensure regular supply of raw materials and patronage for finished goods, X Ltd., through its wholly owned subsidiary, X Investments Ltd., acquires on 31st December, 1996, 51% of equity capital of Y Ltd., for Rs.15 crores and 76% of equity capital of Z Ltd., for Rs.30 crores. X investments Ltd., was floated by X Ltd., in 1990 from which date it was wholly owned by X Ltd.,

(15 Marks)

The following are the Balance Sheet for the four companies as on 31st December, 1996 —

(Rs. In crores)	X Ltd.,		X investment Ltd.,		Y Ltd.,		Z Ltd.,	
Share capital:								
Equity (fully paid) Rs.10 each	25		5		10		15	
Reserves & Surplus	75	100	20		25	15	25	20
Loan funds:								
Secured	15		--		5		20	
Unsecured	10	25	50		50	10	15	35
Total sources		125		75		40		70
Fixed Assets:								
Cost	60		--		15		30	
Less: Deprn.	35	25	--		7	8	17	13
Investments at Cost in fully paid Equity Shares of :								
X investments Ltd.,		5		--	--	--	--	--
Y Ltd.,		--		15	--	--	--	--
Z Ltd.,		--		30	--	--	--	--
Other companies (Market value Rs.116 cr.)		--		29	--	--	--	--
Net current assets:								
Current assets	105		1		96		200	
Current liabilities	10	95	--		1	64	32	143
		125		75		40		70

There are no inter company transactions outstanding between the companies.

You are asked to prepare consolidated balance sheet as at 31st December, 1996 in vertical form. Also comment on the group balance sheet with the help of various ratios. Show your working.

Question 2

Ashwin Ltd., commenced manufacture of scooters on 1.4.95 with a paid up capita of Rs.100 lakhs. The company had obtained a license to manufacture 2000 vehicles per annum. For the year ended 31.3.96 the company produced 1500 vehicles and sold 1250 vehicles at a price of Rs.24,000 per vehicle. The operating statements of the company revealed the following information and ratios:

(20Marks)

Information :

- (a) Capital : The company raised an additional capital of Rs.50 lakhs on 1.2.96.
- (b) dividend : The company paid an interim dividend at 10% on 31.10.95. a further dividend of 10% was provided out of the profits on 31.3.96. No dividend was payable on the additional capital raised.
- (c) Loan : A long term loan of Rs.100 lakhs at 20% rate of interest was obtained on 1.4.95. this loan is to be paid in five annual equal instalments. The company paid the interest as well as the first installment of Rs.20 lakhs on 31.3.96.
- (d) Cash Balance : The cash on hand and at Bank on 31.3.96 was Rs.6 lakhs.

- (e) Investment : The company invested a sum of Rs.100 lakhs in Government Bonds on 1.6.95, carrying an interest of 12%. The interest was received at the end of every month. All monies were duly received.
- (f) Cost of Production : Cost of production consisted of Raw Materials, Direct labour, Manufacturing overheads and Depreciation, Direct Labour was 35% of the production cost.
- (g) Total Assets : The total assets (Net fixed assets, Investments and Current assets) of the company as on 31.3.96 equaled the Sales Turnover of the year.
- (h) Finished Goods : The finished goods were valued on the basis of full production cost.

Ratios :

Current ratio	2
Debtors turnover	6 times
Creditors turnover	6 times
Interest coverage ratio	47 times
Debt service coverage ratio	1.75 times
Profit after tax	10% of sales turnover
Raw materials turnover	4 times
(Based on closing stock)	

You are required to:

Prepare the Profit and Loss Account for the year ended 31.3.96 and the Balance Sheet as on that date.

- Note.** (1) Indicating your figures in lakhs.
(2) All working notes must form part of your answer.

Question 3

Yogesh Ltd., showed the following performance over 5 years ended 31st March 3, 2007: **(15 Marks)**

Ended 31 st March	* Net profit before tax Rs.		Prior period adjustments Rs.	Remarks
1993	4,00,000	(-)	1,00,000	Relating to 1991-92
1994	3,50,000	(-)	2,50,000	Relating equally to 1991-92 and 1992-93
1995	6,50,000	(+)	1,50,000	Relating to 1993-94
1996	5,50,000	(-)	1,75,000	Relating to 1993-94
1997	6,00,000	(-)	1,00,000	Relating to 1993-94
		(+)	25,000	Relating to 1995-96

* Net profit before tax is after debiting or crediting the figures of loss(-) or Gains(+) mentioned under the columns for the prior period adjustments.

The net worth of the business as per the balance sheet of 31st March, 1992 is Rs.6,00,000 backed by 10,000 fully paid equity shares of Rs. 10 each. Reserves and Surplus constitute the balance net worth. Yogesh Ltd., has not declared any dividend till date.

You are required to value equity shares on:

- (a) Yield basis as on 31.3.1997 : Assuming:
- 40% rate of tax
 - Anticipated after tax yield of 20%
 - Differential weightage of 1 to 5 being given for the five years starting on 1.4.92 for the actual profits of the respective years.
- (b) Net asset basis as per corrected Balance Sheet for each of the six years ended 31.3.97.
Looking to the performance of the company over the 5 years period, would you invest in the company?

Question 4

The following is the Balance Sheet of Diverse Ltd., having an authorized capital of Rs.1,000 Cr. as on 31st March, 1997. **(20 Marks)**

(Rs. in crores)	Rs.	Rs.
Sources of funds:		
Shareholders' funds:		
Share capital		
Equity shares of Rs.10 each fully paid in cash	250	
Reserves and surplus (Revenue)	750	1,000
Loan funds:		
Secured against:		
(a) Fixed Assets Rs.300 Cr.		
(b) Working capital Rs.100 Cr.	400	
Unsecured :	600	1,000
		<u>2,000</u>
Employment of funds:		
Fixed assets:		
Gross block	800	
Less : Depreciation	200	600
Investments at cost (Market value Rs.1,000 Cr.)		400
Net current assets:		
Current assets	3,000	
Less: Current liabilities	2,000	1,000
		<u>2,000</u>

Capital Commitments : Rs.700 crores.

The company consists of 2 divisions:

- (i) Established division whose gross block was Rs.200 crores and net block was Rs.30 crores; current assets were Rs.1,500 crores and working capital was Rs.1,200 crores; the entire amount being financed by shareholder's funds.
- (ii) New project division to which the remaining fixed assets, current assets and current liabilities related

The following scheme of reconstruction was agreed upon:

- (a) Two new companies Sunrise Ltd., and Khajana Ltd., are to be formed. The authorized capital of Sunrise Ltd., is to be Rs.1,000 crores. The authorized capital of Khajana Ltd., is to be Rs. 500 crores.
- (b) Khajana Ltd., is to take over investments at Rs.800 crores and unsecured loans at balance sheet value. It is to allot equity shares of Rs.10 each at part to the members of Diverse Ltd., in satisfaction of the amount due under the arrangement.
- (c) Sunrise Ltd., is to take over the fixed assets and net working capital of the new project division along with the secured loans and obligation for capital commitments for which Diverse Ltd., is to continue to stand guarantee at book values. It is to allot one crore equity shares of Rs.10 each as consideration to Diverse Ltd., Sunrise Ltd., makes an issue of unsecured convertible debentures of Rs.500 crores carrying interest at 15% per annum and having a right to convert into equity shares of Rs.10 each at par on 31.3.2002. this issue was made to the members of Sunrise Ltd., as a right who grabbed the opportunity and subscribed in fully.
- (d) Diverse Ltd., is to guarantee all liabilities transferred to the 2 companies.

- (e) Diverse Ltd., is to make a bonus issue of equity shares in the ratio of one equity share for every equity share held by making use of the revenue reserves.

Assume that the above scheme was duly approved by the Honorable High Court and that there are no other transactions. Ignore taxation.

You are required to:

- (i) Pass journal entries in the books of Diverse Ltd., and
- (ii) Prepare the Balance Sheets of the three companies giving all the information required by the Companies Act, 1956 in the manner so required to the extent of available information.

Question 5

A factory went into commercial production on 1st April, 1997. It uses as its raw materials product X on which excise duty of Rs.30 per kg. is paid and product Y on which excise duty of Rs.20 per kg. is paid. On 31st March, 1997 it had stock of 20,000 kgs. of X and 15,000 kgs. of Y which it had purchased at an all inclusive price of Rs.150 per kg. for X and Rs.120 per kg. for Y. The suppliers of X and Y are to receive payment on 15th May, 1997.

During April 1997, the factory manufactured 40,000 units of the end product for which the consumption of material X was 60,000 kgs and material Y was 45,000 kgs. The excise duty on the end product is Rs.60 per unit. 30,000 units of the end product were dispatched, 8,000 units were kept in bonded warehouse and balance 2,000 kgs were kept in finished goods godown.

During the month of factory purchased 50,000 kgs of X at Rs.145 per kg. (inclusive of excise duty of Rs.30 per kg) on credit of 60 days and 50,000 kgs. of Y at Rs.110 per kg.(inclusive of excise duty of Rs.20 per kg.) on credit of 45 days.

The cost of “converting” the raw materials into finished product amounts to Rs.150 per unit of end product of which Rs.100 is “Cash cost” paid immediately and Rs.50 represents non- cash charge for depreciation. There is no work in process.

Sales are effected at Rs.750 per unit in respect of credit transactions and at Rs.700 per unit in respect of cash transactions. 20% of dispatches were in respect of cash transactions while the balance 80% were in respect of credit transactions(one month credit).

You are required to:

- (a) (i) Calculate modvat credit available, modvat credit availed of and balance in modvat credit as on 30th April, 1997. **(3 Marks)**
- (ii) Show the necessary ledger accounts in respect of modvat. **(2 Marks)**
- (b) Value the inventory of: **(3 Marks)**
 - (i) raw material
 - (ii) finished goods in bonded warehouse.
 - (iii) finished goods in finished goods godown on “First in first out” principle.
- (c) Show the ledger accounts of customers, suppliers and Bank, assuming that the necessary Bank balance is available at the start of the month to meet “Cash” expenses of that month. **(3 Marks)**
- (d) Calculate the working capital as on 30th April, 1997. **(2 Marks)**
- (e) State the impact of “MODVAT” on working capital requirement of the factory as on 30th April, 1997. **(2 Marks)**

Question 6

1. Monetary working capital adjustment. **(5 Marks)**
2. Effect of uncertainties on Revenue Recognition. **(10 Marks)**