

PAPER – 1 : ADVANCED ACCOUNTING

*Answer **all** questions.*

Wherever appropriate, suitable assumption(s) should be made by the candidates.

Working notes should form part of the answer.

Question 1

- (i) *The closing capital of Mr. B as on 31.3.2010 was Rs.4,00,000. On 1.4.2009 his capital was Rs.3,50,000. His net profit for the year ended 31.3.2010 was Rs.1,00,000. He introduced Rs.30,000 as additional capital in February, 2010. Find out the amount drawn by Mr. B for his domestic expenses.*
- (ii) *A machinery costing Rs.20 lakhs has useful life for 5 years. At the end of 5 years its scrap value would be Rs.2 lakhs. How much depreciation is to be charged in the books of the company as per Accounting Standard 6?*
- (iii) *A, B and C are partners; A became insolvent on 15.4.2010. The capital account balance of partner B is on the debit side. Partner B is solvent. Should partner B bear the loss arising on account of the insolvency of partner A?*
- (iv) *In Raj Co. Ltd., theft of cash of Rs.2 lakhs by the cashier in January, 2010 was detected in May, 2010. The accounts of the company were not yet approved by the Board of Directors of the company.

Whether the theft of cash has to be adjusted in the accounts of the company for the year ended 31.3.2010. Decide.*
- (v) *What do you mean by the term firm underwriting?*
- (vi) *Goverdhan Ltd. has equity capital of Rs.20,00,000 consisting of fully paid equity shares of Rs.10 each. The net profit for the year 2009-10 was Rs.30,00,000. It has also issued 18,000, 10% convertible debentures of Rs.50 each. Each debenture is convertible into five equity shares. The tax rate applicable is 30%. Compute the diluted earnings.*
- (vii) *The liquidator of a company is entitled to a remuneration of 2% on assets realized and 3% on the amount distributed to unsecured creditors. The assets realized Rs.10,00,000. Amount available for distribution to unsecured creditors before paying liquidator's remuneration is Rs.4,12,000. Calculate liquidator's remuneration if the surplus is insufficient to pay off unsecured creditors, in toto.*
- (viii) *The Maduri Municipal Corporation replaces part of its existing water mains with larger mains at the cost of Rs.1,50,00,000. The original cost of laying the old main was Rs.30,00,000 and the present cost of laying those mains would be three times the original cost. Calculate the amount to be capitalized.*

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- (ix) The life fund of a life assurance company was Rs.8,64,80,000 as on 31.3.2010. The interim bonus paid during the intervaluation period was Rs.14,80,000. The periodical actuarial valuation determined the net liability at Rs.7,42,50,000. Surplus brought forward from the previous valuation was Rs.85,00,000. Calculate the net profit for the valuation period.
- (x) X Ltd. was incorporated on 1.8.2009 to take over the running business of M/s Kumar Bros. with assets from 1.4.2009. The accounts of the company were closed on 31.3.2010.
- The average monthly sales during the first four months of the year (2009-10) was twice the average monthly sales during each of the remaining eight months.
- Calculate time ratio and sales ratio. (10 × 2 = 20 Marks)

Answer

(i) Computation of drawings during the year

	Rs.
Opening capital as on 01.04.2009	3,50,000
Add: Net profit	<u>1,00,000</u>
	4,50,000
Add: Additional capital introduced in February, 2010	<u>30,000</u>
	4,80,000
Less: Closing capital as on 31.3.2010	<u>(4,00,000)</u>
Drawings by Mr. 'B' during the year 2009 – 2010	<u>80,000</u>

(ii) Calculation of depreciation as per Straight Line Method

	Rs.
Cost of machinery	20,00,000
Less: Scrap value at the end of its useful life (i.e. after 5 years)	<u>(2,00,000)</u>
Amount to be written off during the useful life of the machinery	<u>18,00,000</u>
Useful life of the machinery	5 years
Depreciation to be provided each year (Rs. 18,00,000 / 5 years)	Rs.3,60,000

- (iii) According to *Garner vs Murray* Rule, if a solvent partner is having a debit balance in his capital account, then he cannot be called upon to bear the loss on account of the insolvency of the other partner. Hence, 'B' needs not bear the loss due to insolvency of partner 'A'.

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- (iv) As per para 13 of AS 4 (revised), 'Contingencies and Events Occurring After the Balance Sheet Date', assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date.

Though the theft, by the cashier Rs.2,00,000, was detected after the balance sheet date (before approval of financial statements) but it is an additional information materially affecting the determination of the cash amount relating to conditions existing at the balance sheet date. Therefore, it is necessary to make the necessary adjustments in the financial statements of the company for the year ended 31st March, 2010 for recognition of the loss amounting Rs. 2,00,000.

- (v) 'Firm underwriting' signifies a definite commitment to take up a specified number of shares irrespective of the number of shares subscribed for by the public. In such a case, unless it has been otherwise agreed, the underwriter's liability is determined without taking into account the number of shares taken up 'firm' by him, i.e. the underwriter is obliged to take up:
1. the number of shares he has applied for 'firm'; and
 2. the number of shares he is obliged to take up on the basis of the underwriting agreement.

(vi) Calculation of diluted earnings

	Rs.
Interest on debentures @ 10% for the year (18,000 debentures x Rs.50 x 10%)	90,000
Less: Tax on interest @ 30%	<u>(27,000)</u>
	63,000
Add: Net profit for the year 2009-2010	<u>30,00,000</u>
Diluted earnings	<u><u>30,63,000</u></u>

(vii) Calculation of liquidator's remuneration:

	Rs.
Liquidator's remuneration on assets realised (Rs.10,00,000 x 2 /100)	20,000
Liquidator's remuneration on payment to unsecured creditors (Rs.4,12,000 x 3/103)	<u>12,000</u>
Total liquidator's remuneration	<u><u>32,000</u></u>

(viii) Calculation of amount to be capitalised

	Rs.
Total cost of new Main	1,50,00,000
Less : Estimated present cost of replacement (Rs.30,00,000 x 3)	<u>(90,00,000)</u>
Amount to be capitalized	<u><u>60,00,000</u></u>

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(ix) Valuation Balance Sheet as on 31.3.2010

	Rs.		Rs.
To Net liability as per actuarial valuation	7,42,50,000	By Life fund as per Balance Sheet	8,64,80,000
To Surplus (Bal.fig.)	<u>1,22,30,000</u>		
	<u>8,64,80,000</u>		<u>8,64,80,000</u>

Calculation of net profit for the valuation period

	Rs.
Surplus as per the valuation balance sheet	1,22,30,000
Add: Interim bonus distributed	<u>14,80,000</u>
	1,37,10,000
Less: Surplus at the beginning of the period	<u>(85,00,000)</u>
Net profit for the valuation period	<u>52,10,000</u>

(x) Time ratio:

Pre-incorporation period (1.4.2009 to 1.8.2009) = 4 months
 Post incorporation period (1.8.2009 to 31.3.2010) = 8 months
 Time ratio = 4 : 8 or 1 : 2

Sales ratio:

Average monthly sale before incorporation was twice the average sale per month of the post incorporation period. If weightage for each post-incorporation month is x, then

$$\begin{aligned} \text{Weighted sales ratio} &= 4 \times 2x : 8 \times 1x \\ &= 8x : 8x \text{ or } 1 : 1 \end{aligned}$$

Question 2

ABC Ltd. took over a running business with effect from 1st April, 2009. The company was incorporated on 1st August, 2009. The following Profit and Loss Account has been prepared for the year ended 31.3.2010:

	Rs.		Rs.
To Salaries	48,000	By Gross profit	3,20,000
To Stationery	4,800		

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To Travelling expenses	16,800		
To Advertisement	16,000		
To Miscellaneous trade expenses	37,800		
To Rent (office buildings)	26,400		
To Electricity charges	4,200		
To Director's fee	11,200		
To Bad debts	3,200		
To Commission to selling agents	16,000		
To Audit fee	6,000		
To Debenture interest	3,000		
To Interest paid to vendor	4,200		
To Selling expenses	25,200		
To Depreciation on fixed assets	9,600		
To Net profit	<u>87,600</u>		
	<u>3,20,000</u>		<u>3,20,000</u>

Additional information:

- (a) Total sales for the year, which amounted to Rs.19,20,000 arose evenly upto the date of 30.9.2009. Thereafter they spurted to record an increase of two-third during the rest of the year.
- (b) Rent of office building was paid @ Rs.2,000 per month upto September, 2009 and thereafter it was increased by Rs.400 per month.
- (c) Travelling expenses include Rs.4,800 towards sales promotion.
- (d) Depreciation include Rs.600 for assets acquired in the post incorporation period.
- (e) Purchase consideration was discharged by the company on 30th September, 2009 by issuing equity shares of Rs.10 each.

Prepare the Profit and Loss Account in columnar form showing distinctly the allocation of expenses between pre and post incorporation periods. (16 Marks)

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Answer

**Profit and Loss Account of ABC Ltd.
for the year ended 31.3.2010**

<i>Particulars</i>	<i>Pre-incorporation period</i> <i>Rs.</i>	<i>Post-incorporation period</i> <i>Rs.</i>	<i>Particulars</i>	<i>Pre-incorporation period</i> <i>Rs.</i>	<i>Post-incorporation period</i> <i>Rs.</i>
To Salaries (1:2)	16,000	32,000	By Gross profit (1:3)	80,000	2,40,000
To Stationery (1:2)	1,600	3,200			
To Advertisement (1:3)	4,000	12,000			
To Travelling expenses (W.N.3)	4,000	8,000			
To Sales promotion expenses (W.N.3)	1,200	3,600			
To Misc. trade expenses (1:2)	12,600	25,200			
To Rent (office building) (W.N.2)	8,000	18,400			
To Electricity charges (1:2)	1,400	2,800			
To Director's fee	-	11,200			
To Bad debts (1:3)	800	2,400			
To Selling agents commission (1:3)	4,000	12,000			
To Audit fee (1:2)	2,000	4,000			
To Debenture interest	-	3,000			
To Interest paid to vendor (2:1) (W.N.4)	2,800	1,400			
To Selling expenses (1:3)	6,300	18,900			
To Depreciation on fixed assets (W.N.5)	3,000	6,600			
To Capital reserve (Bal.Fig.)	12,300	-			
To Net profit (Bal.Fig.)	-	75,300			
	<u>80,000</u>	<u>2,40,000</u>		<u>80,000</u>	<u>2,40,000</u>

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Working Notes:

Pre incorporation period = 1st April, 2009 to 31st July, 2009

i.e. 4 months

1. Sales ratio

Let the monthly sales for first 6 months (i.e. from 1.4.2009 to 30.09.09) be = x

Then, sales for 6 months = 6x

Monthly sales for next 6 months (i.e. from 1.10.09 to 31.3.2010) = $x + \frac{2}{3}x = \frac{5}{3}x$

Then, sales for next 6 months = $\frac{5}{3}x \times 6 = 10x$

Total sales for the year = 6x + 10x = 16x

Monthly sales in the pre incorporation period = Rs.19,20,000/16 = Rs.1,20,000

Total sales for pre-incorporation period = Rs.1,20,000 x 4 = Rs.4,80,000

Total sales for post incorporation period = Rs.19,20,000 – Rs.4,80,000 = Rs.14,40,000

Sales Ratio = 4,80,000 : 14,40,000

= 1 : 3

2. Rent

		Rs.
Rent for pre-incorporation period (Rs.2,000 x 4)		8,000 (pre)
Rent for post incorporation period		
August,2009 & September, 2009 (Rs.2,000 x 2)	4,000	
October,2009 to March,2010 (Rs.2,400 x 6)	<u>14,400</u>	18,400 (post)

3. Travelling expenses and sales promotion expenses

	Pre Rs.	Post Rs.
Traveling expenses Rs.12,000 (i.e. Rs.16,800- Rs.4,800) distributed in 1:2 ratio	4,000	8,000
Sales promotion expenses Rs.4,800 distributed in 1:3 ratio	1,200	3,600

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4. Interest paid to vendor till 30th September, 2009

	<i>Pre Rs.</i>	<i>Post Rs.</i>
Interest for pre-incorporation period $\left(\frac{\text{Rs.4,200}}{6} \times 4 \right)$	2,800	
Interest for post incorporation period i.e. for August, 2009 & September, 2009 = $\left(\frac{\text{Rs.4,200}}{6} \times 2 \right)$		1,400

5. Depreciation

	<i>Pre Rs.</i>	<i>Post Rs.</i>
Total depreciation 9,600		
Less: Depreciation exclusively for post incorporation period <u>600</u>		600
<u>9,000</u>		
Depreciation for pre-incorporation period $\left[9,000 \times \frac{4}{12} \right]$	3,000	
Depreciation for post incorporation period $\left[9,000 \times \frac{8}{12} \right]$	<u> </u>	<u>6,000</u>
	<u>3,000</u>	<u>6,600</u>

Question 3

The following balances have been extracted at the end of March, 2010, from the books of an electricity company:

	<i>Rs.</i>		<i>Rs.</i>
Share capital	4,00,00,000	Consumer deposit	1,60,00,000
Fixed assets	10,00,00,000	Tariffs and dividend control reserve	40,00,000
Depreciation reserve on fixed assets	1,20,00,000	Development reserve	32,00,000
Reserve fund (invested in 8% Government securities at par)	2,40,00,000	12% Debentures	80,00,000
Contingency reserve invested in 7% state loan	48,00,000	Loan from State Electricity Board	1,00,00,000

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Amount contributed by consumers towards cost of fixed asset	8,00,000	Intangible assets	32,00,000
		Current assets (monthly average)	60,00,000

The company earned a profit of Rs.1,12,00,000 (after tax in 2009-2010). Show how the profits have to be dealt with by the company assuming the bank rate was 10%. All workings should form part of your answer. (16 Marks)

Answer

1. Calculation of capital base

	Rs.	Rs.
Fixed assets	10,00,00,000	
Less : Consumers' contribution towards fixed assets	<u>(8,00,000)</u>	9,92,00,000
Intangible assets		32,00,000
Current assets (monthly average)		60,00,000
Investment against contingency reserve		<u>48,00,000</u>
		11,32,00,000
Less: Depreciation reserve	(1,20,00,000)	
Loan from State Electricity Board	(1,00,00,000)	
12% Debentures	(80,00,000)	
Development reserve	(32,00,000)	
Consumers' deposit	(1,60,00,000)	
Tariffs and dividend control reserve	<u>(40,00,000)</u>	<u>(5,32,00,000)</u>
Capital base		<u>6,00,00,000</u>

2. Calculation of reasonable return:

	Rs.
12% [i.e. bank rate 10% + 2%] on Rs. 6,00,00,000	72,00,000
8% on Reserve fund investment [8% on Rs. 2,40,00,000]	19,20,000
½ % on Loan from State Electricity Board [½% on Rs.1,00,00,000]	50,000
½ % on Debentures [½ % on Rs. 80,00,000]	40,000
½ % on Development reserve [½% on Rs. 32,00,000]	<u>16,000</u>
Reasonable return	<u>92,26,000</u>

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3. Statement showing calculation of surplus

	Rs.
Clear profit	1,12,00,000
Less: Reasonable return	<u>(92,26,000)</u>
Surplus	19,74,000
Less: 20% of reasonable return	<u>(18,45,200)</u>
Balance credited to consumers' benefit account	<u>1,28,800</u>

4. Statement showing disposal of surplus

	Rs.
Allocation of surplus upto 20% reasonable return	18,45,200
Less: 1/3 of Rs. 18,45,200 i.e. Rs. 6,15,066 limited to 5% of reasonable return (i.e. 5% of Rs. 92,26,000) at the disposal of the company	<u>(4,61,300)</u>
	13,83,900
1/2 of the balance credited to Tariffs and Dividend Control Reserve	<u>(6,91,950)</u>
Balance credited to consumer's benefit account	<u>6,91,950</u>

5. Statement showing disposal of profit

	Rs.
Amount at the disposal of the company (Rs.92,26,000 + Rs.4,61,300)	96,87,300
Amount to be credited to Consumer's Benefit Account (Rs.1,28,800 + Rs.6,91,950)	8,20,750
Amount to be transferred to Tariffs and Dividend Control Reserve	<u>6,91,950</u>
	<u>1,12,00,000</u>

Question 4

Siva Ltd. has two departments X and Y. From the following particulars prepare departmental trading accounts and general profits and loss account for the year ending 31st March, 2009:

	Department X Rs.	Department Y Rs.
Opening stock (at cost)	80,000	48,000
Purchases	3,68,000	2,72,000
Carriage inward	8,000	8,000
Wages	48,000	32,000
Sales	5,60,000	4,48,000

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<i>Purchased goods transferred</i>		
<i>By department Y to X</i>	40,000	-
<i>By department X to Y</i>	-	32,000
<i>Finished goods transferred</i>		
<i>By department Y to X</i>	1,40,000	-
<i>By department X to Y</i>	-	1,60,000
<i>Return of finished goods</i>		
<i>By department Y to X</i>	40,000	-
<i>By department X to Y</i>	-	28,000
<i>Closing stock</i>		
<i>Purchased goods</i>	18,000	24,000
<i>Finished goods</i>	96,000	56,000

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 25% of the closing finished stock with each department represents finished goods received from the other department.

(16 Marks)

Answer

**Departmental Trading Account in the books of Siva Ltd.
for the year ended 31st March 2009**

<i>Particulars</i>	<i>Department X Rs.</i>	<i>Department Y Rs.</i>	<i>Particulars</i>	<i>Department X Rs.</i>	<i>Department Y Rs.</i>
To Opening stock	80,000	48,000	By Sales	5,60,000	4,48,000
To Purchases	3,68,000	2,72,000	By Transfers:		
To Carriage inward	8,000	8,000	Purchased goods	32,000	40,000
To Wages	48,000	32,000	Finished goods	1,20,000*	1,12,000*
To Transfers:			By Closing stock:		
Purchased goods	40,000	32,000	Purchased goods	18,000	24,000
Finished goods	1,12,000	1,20,000	Finished goods	96,000	56,000
To Gross profit c/d	<u>1,70,000</u>	<u>1,68,000</u>			
	<u>8,26,000</u>	<u>6,80,000</u>		<u>8,26,000</u>	<u>6,80,000</u>

* Net transfers of finished goods by
Department X to Y = Rs.1,60,000 – Rs.40,000 = Rs.1,20,000
Department Y to X = Rs.1,40,000 – Rs.28,000 = Rs.1,12,000

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**Profit and Loss A/c
for the year ended 31st March, 2009**

<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Provision for unrealized profit included in closing stock		By Gross profit b/d	
Department X (W.N. 3)	7,200	Department X	1,70,000
Department Y (W.N. 3)	3,500	Department Y	1,68,000
To Net profit	<u>3,27,300</u>		
	<u>3,38,000</u>		<u>3,38,000</u>

Working Notes:

1. Calculation of rates of gross profit margin on sales

	<i>Department X</i>	<i>Department Y</i>
Sales	5,60,000	4,48,000
Add: Transfer of finished goods	<u>1,60,000</u>	<u>1,40,000</u>
	7,20,000	5,88,000
Less: Return of finished goods	<u>(40,000)</u>	<u>(28,000)</u>
	<u>6,80,000</u>	<u>5,60,000</u>
Gross Profit	1,70,000	1,68,000
Gross profit margin =	$\frac{1,70,000}{6,80,000} \times 100 = 25\%$	$\frac{1,68,000}{5,60,000} \times 100 = 30\%$

2. Finished goods from other department included in the closing stock

	<i>Department X</i>	<i>Department Y</i>
Stock of finished goods	96,000	56,000
Stock related to other department (25% of finished goods)	24,000	14,000

3. Unrealized profit included in the closing stock

Department X = 30% of Rs. 24,000 = Rs. 7,200

Department Y = 25% of Rs. 14,000 = Rs. 3,500

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Question 5

- (a) Amar, Akbar and Antony are in partnership. The following is their Balance Sheet as at March 31, 2010 on which date they dissolved their partnership. They shared profit in the ratio of 5:3:2.

Liabilities	Rs.	Assets	Rs.
Creditors	80,000	Plant and machinery	60,000
Loan A/c – Amar	20,000	Premises	80,000
Capital A/cs - Amar	1,00,000	Stock	60,000
Akbar	30,000	Debtors	1,20,000
Antony	<u>90,000</u>		<u> </u>
	<u>3,20,000</u>		<u>3,20,000</u>

It was agreed to repay the amounts due to the partners as and when the assets were realised, viz.

April 15, 2010	Rs.60,000
May 1, 2010	Rs.1,46,000
May 31, 2010	Rs.94,000

Prepare a statement showing how the distribution should be made under maximum loss method and write up the cash account and partners' capital accounts.

- (b) From the following information, prepare cash flow statement of A (P) Ltd. as at 31st March, 2010 by using indirect method:

Balance Sheet

	2009 Rs.	2010 Rs.
Liabilities:		
Share capital	12,00,000	12,00,000
Profit and loss account	8,50,000	10,00,000
Long term loans	10,00,000	10,60,000
Creditors	3,50,000	4,00,000
	<u>34,00,000</u>	<u>36,60,000</u>
Assets:		
Fixed assets	17,00,000	20,00,000
Investment in shares	2,00,000	2,00,000
Stock	6,80,000	7,00,000

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Debtors	7,20,000	6,60,000
Cash	60,000	70,000
Bills receivable	40,000	30,000
	<u>34,00,000</u>	<u>36,60,000</u>

Income Statement for the year ended 31st March, 2010

	Rs.
Sales	40,80,000
Less: Cost of sales	<u>(27,20,000)</u>
Gross profit	13,60,000
Less: Operating expenses:	
Administrative expenses	(4,60,000)
Depreciation	<u>(2,20,000)</u>
Operating profit	6,80,000
Add: Non-operating incomes (dividend received)	<u>50,000</u>
	7,30,000
Less: Interest paid	<u>(1,40,000)</u>
Profit before tax	5,90,000
Less: Income-tax	<u>(2,60,000)</u>
Profit after tax	<u>3,30,000</u>

Statement of Retained Earnings

	Rs.
Opening balance	8,50,000
Add: Profit	<u>3,30,000</u>
	11,80,000
Less: Dividend paid	<u>(1,80,000)</u>
Closing balance	<u>10,00,000</u>

(8 + 8 = 16 Marks)

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Answer

(a) Statement showing distribution of cash by 'Maximum Loss Method'

	<i>Creditors</i>	<i>Amar's loan</i>	<i>Amar</i>	<i>Akbar</i>	<i>Antony</i>
	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>
Balance due	80,000	20,000	1,00,000	30,000	90,000
On 15 th April 2010, realised Rs.60,000					
Paid to creditors	<u>(60,000)</u>	—	—	—	—
Balance due	20,000	20,000	1,00,000	30,000	90,000
On 1 st May, 2010, realised Rs.1,46,000					
Paid to creditors (Rs.20,000)	(20,000)	—	—	—	—
Paid Amar's loan (Rs.20,000)	—	<u>(20,000)</u>	—	—	—
Balance due (1)	Nil	Nil	1,00,000	30,000	90,000
Balance <u>Rs.1,06,000</u>					
Maximum loss (1,00,000+30,000+90,000-1,06,000) =Rs.1,14,000 shared in Profit & Loss ratio 5:3:2			<u>(57,000)</u>	<u>(34,200)</u>	<u>(22,800)</u>
			43,000	(4,200)	67,200
Akbar's deficiency shared by Amar & Antony in capital ratio 100:90			<u>(2,210)</u>	<u>4,200</u>	<u>(1,990)</u>
Cash paid [2]			<u>40,790</u>	—	<u>65,210</u>
Balance due (3) [1-2]			59,210	30,000	24,790
On 31 st May 2010, realised Rs.94,000					
Maximum Loss [59,210+30,000+24,790-94,000]= Rs.20,000 shared in 5:3:2			<u>(10,000)</u>	<u>(6,000)</u>	<u>(4,000)</u>
Cash paid (4)			<u>49,210</u>	<u>24,000</u>	<u>20,790</u>
Loss on realisation * (3-4)			<u>10,000</u>	<u>6,000</u>	<u>4,000</u>

* It is assumed that realisation from assets on 31st May, 2010, is the final realisation and no further cash is expected to be received.

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Cash Account

	<i>Rs.</i>		<i>Rs.</i>
To Realization Account	60,000	By Creditors Account	60,000
To Realization Account	1,46,000	By Creditors Account	20,000
To Realization Account	94,000	By Amar's Loan Account	20,000
		By Amar's Capital Account	40,790
		By Antony's Capital Account	65,210
		By Amar's Capital Account	49,210
		By Akbar's Capital Account	24,000
		By Antony's Capital Account	<u>20,790</u>
	<u>3,00,000</u>		<u>3,00,000</u>

Partners' Capital Accounts

	<i>Amar Rs.</i>	<i>Akbar Rs.</i>	<i>Antony Rs.</i>		<i>Amar Rs.</i>	<i>Akbar Rs.</i>	<i>Antony Rs.</i>
To Cash	40,790	-	65,210	By Balance b/d	1,00,000	30,000	90,000
To Cash	49,210	24,000	20,790				
To Realization account (loss)	<u>10,000</u>	<u>6,000</u>	<u>4,000</u>				
	<u>1,00,000</u>	<u>30,000</u>	<u>90,000</u>		<u>1,00,000</u>	<u>30,000</u>	<u>90,000</u>

**(b) Cash Flow Statement of A (P) Ltd.
for the year ended 31st March 2010**

		<i>Rs.</i>	<i>Rs.</i>
(i)	Cash flows from operating activities		
	Profit before tax	5,90,000	
	Adjustments for		
	Depreciation	2,20,000	
	Interest	1,40,000	
	Dividend	<u>(50,000)</u>	
	Operating profit before working capital changes	90,00,000	
	Add: Decrease in bills receivable	10,000	
	Decrease in debtors	60,000	
	Increase in creditors	<u>50,000</u>	

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		10,20,000	
	Less: Increase in stock	<u>(20,000)</u>	
	Cash generated from operations	10,00,000	
	Less: Tax paid	<u>(2,60,000)</u>	
	Cash flow from operating activities		7,40,000
(ii)	Cash flows from investing activities		
	Purchase of fixed assets [20,00,000+2,20,000-17,00,000]	(5,20,000)	
	Dividend on investments	<u>50,000</u>	
	Cash used in investing activities		(4,70,000)
(iii)	Cash flows from financing activities		
	Long term loan taken	60,000	
	Interest paid	(1,40,000)	
	Dividend paid	<u>(1,80,000)</u>	
	Cash used in financing activities		<u>(2,60,000)</u>
	Net increase in cash during the year		10,000
	Add: Opening cash balance		<u>60,000</u>
	Closing cash balance		<u>70,000</u>

Question 6

- (a) A Ltd. purchased fixed assets costing Rs.6,000 lakhs on 1.1.2009. This was financed by foreign currency loan (U.S. Dollars) payable in three annual equal instalments. Exchange rates were 1 Dollar = Rs.40 and Rs.45 as on 1.1.2009 and 31.12.2009 respectively. First instalment was paid on 31.12.2009.

You are required to state, how these transactions would be accounted for?

- (b) X Limited has provided depreciation as per accounting records of Rs.8,00,000 and as per tax records same is Rs.14,00,000. Unamortised preliminary expenses as per tax records is Rs.11,200. There is adequate evidence of future profit sufficiency. How much deferred tax asset/liability should be recognised. Tax rate is 40%.
- (c) X Ltd. has its financial year ended 31.3.2009, fifteen law suits outstanding, none of which has been settled by the time the accounts are approved by the directors. The directors have estimated that the probable outcomes as below:

Result	Probability	Amount of Loss Rs.
For first ten cases:		
Win	0.6	----

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Loss-low damages	0.3	90,000
Loss-high damages	0.1	2,00,000
For remaining five cases:		
Win	0.5	----
Loss-low damages	0.3	60,000
Loss-high damages	0.2	1,00,000

The directors believe that the outcome of each case is independent of the outcome of all the others.

Estimate the amount of contingent loss and state the accounting treatment of such contingent loss.

- (d) From the following information find out the amount of provision to be shown in the Profit and Loss account of a Commercial Bank:

Assets	Rs. in lakhs
Standard	4,000
Sub-standard	2,000
Doubtful upto one year	900
Doubtful more than one year but upto three years	400
Doubtful more than three years	300
Loss assets	500

Doubtful assets are considered as fully secured.

(4 x 4 = 16 Marks)

Answer

- (a) As per para 13 of AS 11 (Revised) 'The Effects of Changes in Foreign Exchange Rates', exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or as an expense in the period in which they arise. Thus, exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets are recognised as income or expenses.

Calculation of exchange difference:

$$\text{Foreign Exchange Loan} = \frac{\text{Rs. 6,000}}{\text{Rs. 40}} = \text{US \$ 150 lakhs}$$

$$\text{Exchange Difference} = \text{US \$ 150 lakhs} \times (45 - 40) = \text{Rs. 750 lakhs.}$$

Loss due to exchange difference amounting Rs. 750 lakhs should be charged to profit and loss account for the year ended 31st December, 2009.

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- (b) As per AS 22 'Accounting for Taxes on Income', Deferred tax should be recognised for all the timing differences, subject to the consideration of prudence in respect of deferred tax assets. In the present case the timing difference i.e. difference between taxable income and accounting income will be calculated as:

	Rs.
Excess depreciation as per tax records (Rs.14,00,000 – Rs. 8,00,000)	6,00,000
Less : Expenses not amortised as per tax records	<u>11,200</u>
Timing difference	<u>5,88,800</u>

As tax expense is more than the current tax due to timing difference of Rs. 5,88,800, therefore, deferred tax liability amounting Rs. 2,35,520 (40% of Rs.5,88,800) should be recognized.

- (c) According to AS 29 'Provisions, Contingent Liabilities and Contingent Assets', contingent liability should be disclosed in the financial statements if following conditions are satisfied:

- (i) There is a present obligation arising out of past events but not recognized as provision.
- (ii) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- (iii) The possibility of an outflow of resources embodying economic benefits is also remote.
- (iv) The amount of the obligation cannot be measured with sufficient reliability to be recognized as provision.

In this case, the probability of winning first 10 cases is 60% and for remaining five cases is 50%. In other words, probability of losing the cases is 40% and 50% respectively. According to AS 29, we make a provision if the loss is probable. As the loss does not appear to be probable and the probability or possibility of an outflow of resources embodying economic benefits is not remote rather there is reasonable possibility of loss, therefore, disclosure by way of note of contingent liability amount may be calculated as under:

$$\begin{aligned}\text{Expected loss in first ten cases} &= [\text{Rs. } 90,000 \times 0.3 + \text{Rs. } 2,00,000 \times 0.1] \times 10 \\ &= [\text{Rs. } 27,000 + \text{Rs. } 20,000] \times 10 \\ &= \text{Rs. } 47,000 \times 10 = \text{Rs. } 4,70,000 \\ \text{Expected loss in remaining five cases} &= [\text{Rs. } 60,000 \times 0.3 + \text{Rs. } 1,00,000 \times 0.2] \times 5 \\ &= [\text{Rs. } 18,000 + \text{Rs. } 20,000] \times 5\end{aligned}$$

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$$= \text{Rs. } 38,000 \times 5 = \text{Rs. } 1,90,000$$

$$\text{Total contingent liability} = \text{Rs. } 4,70,000 + \text{Rs. } 1,90,000$$

$$= \text{Rs. } 6,60,000.$$

(d) Computation of amount of provision for a Commercial Bank

<i>Assets</i>	<i>Amount Rs. in lakhs</i>	<i>Provision %</i>	<i>Provision Rs. in lakhs</i>
Standard	4,000	0.40	16
Sub-standard	2,000	10	200
Doubtful upto one year	900	20	180
Doubtful over one year upto three years	400	30	120
Doubtful more than three years	300	100	300
Loss assets	500	100	<u>500</u>
Total provision to be made			<u>1,316</u>

Note: It is assumed that sub-standard assets are also fully secured.