

C.A. PCC

First Study

Subject: Advance Accounting

Instructions:

- (i) *All questions are compulsory.*
- (ii) *Date of Examination : 04.03.2010*
- (iii) *Total Number of Questions : 6*
- (iv) *Total marks : 100*
- (v) *Total duration : 3 Hours*
- (vi) *Use of two colour pens (black & blue or Black or Pink etc) is NOT allowed. Use only single colour pen.*
- (vii) *Begin answer of the next question in new page.*
- (viii) *Working note should form part of your answer.*

Question 1. The following is the Receipts and Payments Account of Sydney Club for the year ended on 31st March, 20X2:

Receipt	Rs	Payments	Rs
Opening Balances:		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and Stationery	70,000
Subscription Received	2,02,750	Postage	40,000
Entrance Donation	1,00,000	Telephones and Telex	52,000
Interest Received	58,000	Repairs and Maintenance	48,000
Sale of Assets	8,000	Glass and Table Linen	12,000
Miscellaneous Income	9,000	Crockery and Cutlery	14,000
Receipts at:		Garden Upkeep	8,000
Coffee Room	10,70,000	Membership Fees	4,000
Wines and Spirits	5,10,000	Insurance	5,000
Swimming Pool	80,000	Electricity	28,000
Tennis Court	1,02,000	Closing Balances:	
		Cash	8,000
		Bank	2,24,600
Total	21,53,600	Total	21,53,600

The Assets and Liabilities as on 1.4.20X1 were as follows:

Fixed Assets (net): Rs 5,00,000; Stock: Rs 3,80,000; Investment in 12% Tax free Government Securities: Rs 5,00,000; Outstanding Subscription: Rs 12,000; Prepaid Insurance: Rs 1,000; Sundry Creditors: Rs 1,12,000; Subscription received in advance: Rs 15,000. Entrance Donation Received pending membership: Rs 1,00,000; Gratuity Fund: Rs 1,50,000.

The following adjustments are to be made while drawing up the Accounts:

- i) Subscription received in advance as on 31st March, 20X2 was Rs 18,000.
- ii) Outstanding Subscription as on 31st March, 20X2 was Rs 7,000.
- iii) Outstanding Expenses are: Salaries: Rs 8,000 and Electricity: Rs 15,000.
- iv) 50% of the Entrance Donation was to be capitalised. There was no pending membership as on 31st March, 20X2.
- v) The cost of assets sold net as on 1.4.20X1 was Rs 10,000.
- vi) Depreciation is to be provided at the rate of 10% on assets.
- vii) A sum of Rs 20,000 received in October 20X1 as Entrance Donation from an applicant was to be refunded as he had not fulfilled the requisite membership qualifications. The refund was made on 3.6.20X2.
- viii) Purchases made during the year amounted to Rs 15,00,000.
- ix) The value of closing stock was Rs 2,10,000.
- x) The club as a matter of policy charges off to Income and Expenditure Account all purchases made on Account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare an Income and Expenditure Account for the year ended on 31st March, 20X2 and the Balance Sheet as on 31st March, 20X2 along with necessary workings.

(20 Marks)

Question 2 (a)

Mr. Slipshod started business as a provision merchant on 1st January, 1993. He opened a Bank Account for the business with Rs. 25,000 and immediately spent Rs. 12,500 on Fixtures and Fittings. The only records kept were of cash sales which amounted in 1993 to Rs.37,500 and in 1994 to Rs. 45,000. There were no credit sales. The following facts were ascertained:

- (i) All expenses of the business had been met by cheques, and an analysis of the Bank Book showed the following payments in the two years :

	Rs.
Purchases (of which Rs. 37,000 related to 1993)	63,750
Rent and Rates	5,100
Salaries	11,000
Advertising	1,400
Other Expenses	2,880

- (ii) The value of the stock on 31st December, 1994 was Rs. 15,000. No stock was taken on 31st December, 1993, but a uniform rate of gross profit was assumed.

- (iii) Liabilities outstanding at 31st December, 1994 were :

	Rs.
Purchases	7,500
Advertising	500
Other Expenses (Light, Heat, Telephone, etc.)	170

- (iv) Amounts paid in advance at 31st December, 1994 were :

Rates	100
Other Expenses (Insurance)	50

- (v) All business expenses arose equally in two periods.

- (vi) Goods were taken from stock for private consumption, the estimated cost being Rs. 500 in 1993 and Rs. 750 in 1994.

- (vii) Private drawings amounting to Rs. 6,620 were met out of cash receipts and the balance was banked.

- (viii) Private income of Rs. 2,250 had been paid into the Bank. The fixtures and fittings are to be written off over 10 years in equal instalments. On the basis of foregoing information.

You are required to prepare:

- (i) Trading and Profit and Loss Accounts for each of the years 1993 to 1994.
- (ii) Balance sheet at 31st December, 1994.

(8 Marks)

- (b) A company was incorporated on 1st July, 2000 to take over the business of Mr. M as and from 1st April, 2000. Mr. M's Balance Sheet, as at that date, was under:

Liabilities	Rs.	Assets	Rs.
Trade creditors	36,000	Building	80,000
Capital	1,94,000	Furniture and fittings	10,000
		Debtors	90,000
		Stock	30,000
		Bank	<u>20,000</u>
Total	<u>2,30,000</u>	Total	<u>2,30,000</u>

Debtors and Bank balances are to be retained by the vendor and creditors are to be paid off by him. Realization of debtors will be made by the company on a commission of 5% on cash collected. The company is to issue M with 10,000 equity shares of Rs. 10 each, Rs. 8 per share paid and cash of Rs. 56,000.

The company issued to the public for cash 20,000 equity shares of Rs. 10 each on which by 31st March, 2001, Rs. 8 per share was called and paid up except in the case of 1,000 shares on which the third call of Rs. 2 per share had not been realised. In the case of 2,000 shares, the entire face value of the shares had been realised. The share issue was underwritten for 2% commission, payable in shares fully paid up.

In addition to the balances arising out of the above, the following were shown by the books of accounts of the company on 31st March, 2001 :

	Rs.
Discount (including Rs. 1,000 allowed on vendor's debtors)	6,000
Preliminary expenses	10,000
Director's fees	12,000
Salaries	48,000
Debtors (including vendor's debtors)	1,60,000
Creditors	48,000
Purchases	3,20,000
Sales	4,60,000

Stock on 31st March, 2001 was Rs. 52,000. Depreciation at 10% on Furniture and Fittings and at 5% on Building is to be provided. Collections from debtors belonging to the vendor were Rs. 60,000 in the period.

Kindly prepare the Trading and Profit & Loss Account for the period ended 31st March, 2001 of the limited company and its Balance Sheet as at that date.

(8 Marks)

Question 3.

(a) Balance Sheet of CANIC Limited as at 31st March, 20X1:

Liabilities	Rs	Assets	Rs
2,00,000 Equity Shares of		Fixed Assets	11,40,000
Rs 10 each, Rs 5 paid	10,00,000	Patents and Copyrights	80,000
6,000 8% Preference Shares		Investments at cost	65,000
of Rs 100 each	6,00,000	(Market value Rs 55,000)	
9% Debentures	6,00,000	Current Assets:	
Interest accrued on debentures	1,08,000	Stock	4,00,000
Bank of India	1,50,000	Debtors	4,39,000
Interest accrued on Bank overdraft	15,000	Bank	10,000
Current Liabilities:		Profit & Loss Account	4,08,000
Creditors	69,000		
Total	25,42,000	Total	25,42,000

Preference dividend is in arrear for one year:

- i) Preference shareholders to give up their claims, inclusive of dividends, to the extent of 30% and desire to be paid off,
- ii) Debenture-holders agree to give up their claims to interest in consideration of their interest being enhanced to 12%,
- iii) Bank agrees to give up 50% of its interest outstanding in consideration of its being paid off at once,
- iv) Creditors would like to grant a discount of 5% if they are paid immediately,
- v) Balance of Profit & Loss Account, Patents and Copyright and Debtors of Rs 30,000 to be written off.
- vi) Fixed Assets to be written down by Rs 34,000.
- vii) Investments are to reflect their market value.
- viii) To the extent not specifically stated, equity shareholders suffer on reduction of their rights. Cost of reconstruction is Rs 3,350.

Required: Draft journal entries in the books of the company assuming that the scheme has been put through fully with the equity shareholders bringing in necessary cash to pay off the parties and to leave a Balance of Rs 30,000 and prepare the Balance Sheet after reconstruction.

(8 Marks)

(b) MD purchased on 1st March, 20X1 Rs 24,000 5% Bharat Debenture Stock @ 90 cum-interest, interest being payable on 31st March and 30th September each year. Stamp and expenses on purchase amounted to

Rs 20 and brokerage @ 2% was charged on cost; interest for the half-year was received on the due date. On 1st September Rs 10,000 of the stock was sold @ 92 ex-interest less brokerage @ 2%. On 30th September, Rs 8,000 stock was purchased @ 91 ex-interest plus brokerage @ 2% and charges Rs 10. On 1st December, Rs 6,000 stock was sold @ 94 cum interest less brokerage @ 2%. The market price of stock on 31st December was 88 ½%. Show the Investment Account for the year ending on 31st December, 20X1 assuming FIFO Method. Calculation should be made in the multiple of rupee. MD holds the Bharat Debenture Stock as a current asset

(8 Marks)

Question 4. (a) From the following information, prepare a Balance Sheet of CANID Bank Ltd. as on 31st March, 20X2 giving the relevant schedules and also specify at least four important Principal Accounting Policies:

(Rs in lakhs)

Particulars	Dr. (Rs)	Cr. (Rs)
Share Capital (19,80,00 Shares of Rs 10 each)		198.00
Statutory Reserve		231.00
Not Profit Before Appropriation		150.00
Profit and Loss Account		412.00
Fixed Deposit Account		517.00
Savings Deposit Account		450.00
Current Accounts	28.00	520.12
Bills Payable		0.10
Cash Credits	812.10	
Borrowing from other Banks		110.00
Cash on Hand	160.15	
Cash with RBI	37.88	
Cash with other Banks	155.87	
Money at Call	210.12	
Gold	55.23	
Government Securities	110.17	
Premises	155.70	
Furniture	70.12	
Term Loan	792.88	
Total	2,588.22	2,588.22

Additional Information:

Bills for collection	18,10,000
Acceptances and endorsements	14,12,000
Claims against the Bank not acknowledged as debt	55,000
Depreciation charge—Premises	1,10,000
Furniture	78,000

50% of the Term Loans are secured by Government guarantees. 10% of cash credit is unsecured. Also calculate cash reserves required and statutory liquid reserves required.

Note: Cash reserve required 3% of demand and time liabilities; liquid reserves required 30% of demand and time liabilities.

(8 Marks)

(b) Robinhood is a retail trader whose stores has two departments dealing in clothing and sports equipment respectively. The following Trial Balance was extracted from books at 31.12.2001, the accounting year end :

Particulars	Dr. (Rs)	Cr. (Rs)
Sales — Clothing		1,20,000

Sports Equipment		1,60,000
Stock at cost at 1.1.2001 — Clothing	10,000	
Sports Equipment	16,000	
Purchases — Clothing and Sports Equipment	1,92,000	
Establishment Expenses — Clothing	15,000	
Sports Equipment	16,920	
Sales and Administrative Expenses — Clothing	7,400	
Sports Equipment	5,840	
Capital		20,000
Reserve		21,460
Creditors		5,800
Bank Overdraft		2,300
Debtors	8,600	
Building — At cost	20,000	
Provision for Depreciation		800
Furniture — At cost	26,000	
Provision for Depreciation		9,000
Vehicles — At cost	42,000	
Provision for Depreciation		20,400
Total	3,59,760	3,59,760

Additional information —

- i) Gross profit is earned as follows :
Clothing — 1/3rd of sales; Sports equipment — 3/10th of sales.
- ii) Stock is valued at cost on 31.12.2001 :
Clothing Rs 8,000; Sports equipment Rs 14,000
- iii) Amounts prepaid at 31.12.2001 :
Establishment expenses — Clothing Rs 300.
- iv) Amount outstanding on 31.12.2001 :
Sales and administrative expenses — Clothing Rs 200; Sports equipment Rs 700.
- v) The sales staff receive commission in June of each year based on the gross profit earned in their department in the previous financial year:
- vi) Clothing — 2% of gross profit; Sports equipment — 3% of gross profit.
- vii) In June 2001, additional furniture was acquired at a cost of Rs 4,000 was debited to purchases.
- viii) Depreciation is provided annually on fixed assets at the following percentage of the cost of assets held at the relevant accounting year end :
Building — 2%;
Furniture—10%;
Vehicles —20%.
- ix) In August 2001, a motor vehicle which had been bought in January 1997 at a cost of Rs 6,000 was scrapped, the firm did not receive anything for the scrap.
- x) The fixed assets depreciation is apportioned to departments as follows :

	Clothing	Sports Equipment
— Building	1/2	1/2
— Furniture	3/5	2/5
— Vehicles	5/12	7/12

You are required to prepare the Trading and Profit and Loss Account for the year ended 31.12.2001 and the Balance Sheet as on that date.

(8 Marks)

Question 5. Answer the following:

- (i) CSJH Ltd. issued 40,000 shares which were underwritten as –

P : 24,000 shares Q : 10,000 shares and R : 6,000 shares. The underwriters made applications for firm underwriting as under :

P : 3,200 shares; Q 1,200 shares; and R : 4,000 shares. The total subscription excluding firm underwriting (including marked applications) were 20,000 shares.

The marked applications were P 4,000 shares Q 8,000 shares; and R 2,000 shares.

Required : Prepare a statement showing the net liability of underwriters.

(ii) Enumerate two points which the financial statements should disclose in respect of Borrowing Costs as per AS 16.

(iii) Vasudevan, Sunderarajan and Agrawal are in partnership sharing profits and losses in the ratio of 2:3:5. The Balance Sheet of the Partnership as on 31.12.20X2 was as follows:

Liabilities	Rs	Assets	Rs
Vasudevan's Capital	85,000	Sundry fixed assets	5,00,000
Sunderarajan's Capital	3,15,000	Stock	1,00,000
Agrawal's Capital	30,000	Debtors	50,000
Reserves	1,95,000	Bank	5,000
Sundry Creditors	30,000		
	6,55,000		6,55,000

The partnership earned profit Rs 2,00,000 in 20X2 and the partners withdrew Rs 1,50,000 during the year. Normal rate of return 30%. The partners agreed to sell firm to VSA Ltd.

Required: Find out the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose, calculate super profit using average capital employed.

(iv) Ramesh drew upon Vinod several bills of exchange due for payment on different dates as under :

Date of the Bill	Amount Rs.	Tenure of the Bill
1 st June	1,200	3 Months
19 th June	1,600	2 Months
10 th July	2,000	3 Months
27 th July	1,500	3 Months
7 th August	1,800	1 Month
15 th August	2,400	2 Months

Find out average due date on which payment may be made in one single amount.

(v) The Life Assurance Fund of an Insurance Company on 31.3.2002 showed a balance of Rs. 87,76,500. It was later found that the following were not taken into account :

a) Dividend from investments	Rs. 4,80,000
b) Income Tax on above	48,000
c) Bonus in reduction of premium	8,77,500
d) Claims covered under re-insurance	4,23,000
e) Claims indicated but not accepted by Company	7,62,000

Ascertain correct balance of the Fund.

(vi) X, Y and Z are partners. X became insolvent on 15.4.2009. The Capital account balance of partner Y is on the debit side. Partner Y is solvent. Should partner Y bear the loss arising on account of the insolvency

of partner X?

(vii) Following are the statements of interest on advances in respect of performing and non-performing assets of CANIH Bank Ltd. Find out the income to be recognised for the year ended 31st March, 20X2

(Rs in lakhs)

Assets	Interest earned	Interest received
Performing Assets		
Cash credit and overdrafts	1,800	1,060
Term loan	480	320
Bills purchased and discounted	700	550
Non-performing Assets		
Cash credit and overdrafts	450	70
Term loan	300	40
Bills purchased and discounted	350	36

(viii) Ambar Ltd. sells a commercial vehicle to Aditya Ltd. WDV of the vehicle in the books of Ambar Ltd is Rs 20 Lakhs which is sold at a price of Rs 25 lakhs. The same vehicle is leased back to Ambar Ltd. for a lease rent Rs 2 lakh p.a. for 5 yrs resulting in a finance lease. Discuss the treatment of profit in the books of seller lessee?

(8x2 =16 Marks)

Question 6. Answer the following:

(a) A firm of contractors obtained a contract for construction of bridges across river Ganga. The following details are available in the records kept for the year ended 31st March, 2009.

	(Rs. in lakhs)
Total Contract Price	2,000
Work Certified	1,000
Work not Certified	210
Estimated further Cost to Completion	990
Progress Payment Received	800
To be Received	280

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS 7 (Revised) issued by ICAI.

(b) From the following information relating to Y Ltd. Calculate Earnings Per Share (EPS):

	Rs. in crores
Profit before V.R.S. payments but after depreciation	75.00
Depreciation	10.00
VRS payments	32.10
Provision for taxation	10.00
Fringe benefit tax	5.00
Paid up share capital (shares of Rs.10 each fully paid)	93.00

(c) Can machinery spares be capitalised. If yes, then under what circumstances?

(d) Can amortisation period exceed 10 years under AS-26? Also give an example if your answer is in affirmative.

(4x4=16 Marks)

