Advanced Accounts

Question 1 is compulsory

Do any 5 from remaining 6

Max. marks 100 **Max. Time 3 Hours**

Q.1 **(a)** On 1.4.2001 SSP Ltd. received Government grants of `300 lakhs for acquisition of machinery costing `1,200 lakhs. The grant was credited to the cost of the asset. The life of the machinery is 5 years. The machinery is depreciated at 20% on WDV basis. The company had to refund the grant in May 2004 due to non-fulfillment of certain conditions.
How you would deal with the refund of grant in the books of ABC Ltd.?

(b) A company acquired for its internal use a software on 28.01.2012 from the USA for US $ 1,00,000. The exchange rate on that date was ` 59 per USD. The seller allowed trade discount @ 5 %. The other expenditure were :

(i) Import Duty: 25%
(ii) Purchase Tax: 10 %
(iii) Entry Tax: 5 % (Recoverable later from tax department)
(iv) Installation expenses: ` 25,000
(v) Professional fees for Clearance from Customs: ` 20,000
(vi) Cash Discount @ 3% is receivable in normal manner.

Compute the cost of Software to be capitalized.

(c) R Ltd (the lessee) acquired machinery on lease from S Ltd. (the Lessor) on January 1, 2000. The lease term covers the entire economic life of the machinery i.e. 3 years. The fair value of the machinery on January 1, 2000 is `4,50,000. The lease agreement requires the lessee to pay an amount of `1,80,000 per year beginning December 31, 2000. The lessee has guaranteed a residual value of `11,400 on December 31, 2002 to the lessor. The lessor however estimates that the machinery will have a salvage value of only `20,000 on December 31,2002. The implicit rate of interest is 15% p.a. ***Compute*** the value of machinery to be recognized by the lessee and also the finance charges every year on the basis of AS 19. PV Factor of 15% in three years is 2.283.

(d) Rainbow Limited borrowed an amount of `150 crores on 1.4.2008 for construction of boiler plant @ 11% p.a. The plant is expected to be completed in 4 years. Since the weighted average cost of capital is 13% p.a., the accountant of Rainbow Ltd. Capitalized `19.50 crores for the accounting period ending on 31.3.2009. Due to surplus fund, out of `150 crores, an income of `3.50 crores was earned and credited to profit and loss account. ***Comment*** on the above treatment of accountant with reference to relevant accounting standard. [4x5]

Q.2 (a) From the following information ***find out*** the amount of provisions to be shown in the Profit and Loss Account of a Commercial Bank:

Assets	` (In Lakhs)
Standard	4,000
Sub–standard	2,000
Doubtful one year	900
Doubtful three years	400
Doubtful more than three years	300
Loss Assets	500

Sub Standard & doubtful Assets are secured to the extent of 60%. [4]

(b) BP Ltd. went into voluntary liquidation on 31st December, 2008 when their Balance Sheet read as follows:

Liabilities	`
Issued and subscribed capital:	
5,000 10% cumulative preference shares of ` 100 each, fully paid	5,00,000
2,500 equity shares of ` 100 each, ` 75 paid	1,87,500
9,000 equity shares of `100 each, ` 50 paid	4,50,000
15% Debentures secured by a floating charge	2,50,000
Interest outstanding on Debentures	37,500
Creditors	3,18,750
	17,43,750

Assets	
Land and Building	2,50,000
Machinery and Plant	6,25,000
Patents	1,00,000
Stock	1,37,500
Sundry Debtors	2,75,000
Cash at Bank	75,000
Profit and Loss A/c	2,81,250
	17,43,750

Preference dividends were in arrears for 2 years and the creditors included preferential creditors of ` 38,000. By 31.10.09 the assets realized were as follows:

Land and building	` 3,74,000
Stock in Trade	1,56,000
Plant and Machinery	7,12,000
Books Debts	1,91,000
Patents	48,000

Expenses on liquidation is `34,000. The remuneration of the liquidator is 2% of the realization & 3% on disbursements to members were paid. Income tax payable on liquidation is `44,500 (unrecorded). Assuming that the final payments are made on 31.10.2009.

Prepare the Liquidator's Final Statement of Account. [12]

Q.3 The following balances appeared in the books of A Ltd at the beginning of the year:

Sinking Fund Account	`11,74,900
Sinking Fund Investment Account	11,74,900
6% Debentures Account	12,00,000

The trustees have power to purchase, for immediate cancellation, any debenture available at a market price below par, and to realize investments of the sinking fund for this purpose. The said debentures are due for redemption at the end of this year, at a premium of 4%. The under- mentioned transactions took place during the year: (a) First half year's interest on debentures was paid. (b) Immediately after six months debentures of `1,00,000 were purchased at `97,000 from market and cancelled. For this purpose investment of ` 97,500 were sold and `1,05,000 were realized. (c) Interest of `69,500 was received at the end of the year on the investments. (d) Second half yearly interest was paid on 6% debentures. (c) Remaining investments was sold at the end of the year at `11,10,000 and the proceeds were utilized for redemption of debentures. (f) Debentures were fully redeemed at the end of the year.

Prepare the following ledger accounts and show the workings: (i) 6% Debentures Account; (ii) Sinking Fund Investments Account; (iii) Sinking Fund Account; and (iv) Debentures Interest Account. [16]

Q.4 The following were the Balance Sheets of A Ltd and B Ltd as on 31st March, 2004: (` in Lakh)

Liabilities	*A Ltd*	*B Ltd*	*Assets*	*A Ltd*	*B Ltd*
Equity Share Capital (Shares of Rs.10 each)	15,000	6,000	*Goodwill*	---	*200*
			Land & Buildings	6,000	---
Securities Premium	3,000	---	Plant & Machinery	14,000	5,000
Foreign Project Reserve	---	310	Furniture	2,304	140
General Reserve	9,500	3,200	Investment	---	1,560
P & L A/c	2,870	825	Stock	7,862	4,041
12% Deb.	---	1,000	Debtors	2,120	1,020
B/P	120	---	Cash at Bank	1,114	409
Creditors	1,080	463	B/R	---	80
Sundry Provisions	1,830	702	Cost of issue of Deb.	---	50
	33,400	12,500		33,400	12,500

B ltd. holds 100 lacs shares of `10 each in A Ltd. All the B/R held by B Ltd was A Ltd acceptances.

On 1st April 2004, A Ltd. took over B Ltd. It was agreed that to discharge the consideration for the business, A Ltd. would allot three fully paid equity shares of `10 each at `15 for every two shares held in B Ltd. It was agreed that 12% debentures in B Ltd would be redeemed at a premium of 10% by converting into 13% debentures in A Ltd of the denomination. Expenses of amalgamation amounting to Rs.1 lakh were borne by A Ltd. ***You are required to***:

(i) Pass journal entries in the books of A Ltd & B Ltd.
(ii) Prepare Balance Sheet of A Ltd. immediately after the amalgamation. [16]

Q.5 (a) Sardar Limited issued to public 3,50,000 equity shares of Rs.100 each at premium of 10%. `60 per share was payable along with application and the balance on allotment. Alu, Balu and Chalu underwrote the issue in 5:3:2 for a commission of 4 per cent. Applications for 3,20,000 shares were received as per details below:

Underwriter	Firm Applications	Marked Applications	Total
Alu	15,000	1,00,000	1,15,000
Balu	5,000	86,000	91,000
Chalu	8,000	43,500	51,500
Unmarked Applications			62,500
Total			3,20,000

Sardar Limited accordingly made the allotment and received the amounts due from public. The underwriters settled their accounts.

You are required to:-

(i) Prepare a statement showing the liability of the underwriters and
(ii) Journalise the above transactions (including cash) in the books of Sardar Ltd. [8]

(b) A Delhi merchant has a branch at Chennai to which he charges the goods at cost plus 25%. The Chennai Branch keeps its own sales ledger and transmits all cash received to the head office every day. All expenses are paid from the Head Office. The transactions for the branch were as follows:

	`
Stock 1.1.2009	20,000
Debtors 1.1. 2009	12,000
Petty cash 1.1. 2009	1,200
Cash sales (including goods costing Rs.2,000 sold for Rs.2,200)	5,200
Goods sent to branch	35,000
Collection from ledger accounts	38,000
Goods returned to head office	1,500
Bad debts	400
Allowances to customers	350
Returns inwards	750
Cheques sent to branch:	
Rent	1,000
Wages and salaries	2,000
Stock (31.12.09)	25,000
Debtors (")	3,500
Petty cash (including miscellaneous income `50 not remitted on 31.12. 2009.)	150

Prepare the various accounts using stock & debtors system and verify by preparing Branch Trading and Profit and Loss Account for the year ending December 31, 2009, in the books of Head Office.

[8]

Q.6 X, Y and Z are partners sharing profits and losses as 1:2:1. Their Balance Sheet as on 31st March, 2012 is as below:

Liabilities	Amount	Assets	Amount
Partner's Capital:		Goodwill	15,000
X	90,000	Machineries	75,000
Y	60,000	Investments	5,000
Z	10,000	**Current Assets**	
Bills payable	30,000	Cash at bank	5,000
Sundry Creditors	50,000	Debtors	80,000
		Stock	60,000
	2,40,000		**2,40,000**

Repairs `30,000 incurred three years ago was treated as capital expenditure and debited to machinery account. Stocks are under valued by `10,000. Depreciation at 10% p.a. was charged on machinery on diminishing balance. `10,000 collected from debtors was not recorded in books but taken by Z. The accounts are rectified and then XY Ltd. is formed to take over the business. Y is to take the investments at `5,000. X will pay the creditors. Bills payable would be paid by X and Y in their profit sharing ratio. Goodwill and stocks are valued at `12,000 and `42,580 respectively. Debtors are taken at 10% below book value, whereas other assets except cash at bank to be considered at their book values. XY Ltd. is to pay the firm by issue of equity shares of `10 each. Z is insolvent. Y agreed to take 6,000 shares @ Rs.12 and balance taken over by X @ Rs.15. ***Show*** profit and loss adjustment account, realization account and partners' capital accounts in the books of the firm. [12]

(b) X Co. Ltd. supplied the following information. ***You are required to compute*** the basic earning per share:

(Accounting year 1.1.2002 - 31.12.2002)

Net Profit	:	Year 2002: `20,00,000
	:	Year 2003: `30,00,000
No. of shares outstanding prior to Right Issue	:	10,00,000 shares
Right Issue	:	One new share for each four outstanding i.e., 2,50,000 shares.
Right Issue price	-	`20
Last date of exercise rights	-	31.3.2003.
Fair rate of one Equity share immediately prior to exercise of rights on 31.3.2003	:	`25

[4]

Q.7 From the following balances extracted from the books of Bharti Axa General Insurance Company Limited as on 31.3.2000.

You are required to prepare Revenue Accounts in respect of Fire and Marine Insurance business for the year ended 31.3.2000 and a Profit and Loss Account for the same period:

	`		`
Directors' Fees	56,000	Interest received	19,000
Dividend received	1,00,000	Fixed Assets (1.4.1999)	90,000
Provision for Taxation (as on 1.4.1999)	85,000	Income – tax paid during the year	60,000

	Fire	**Marine**
	`	`
Outstanding Claims on 1.4.1999	8,000	7,000
Claims paid	1,00,000	80,000
Reserves for Unexpired Risk on 1.4.1999	2,00,000	1,40,000
Premiums Received	4,50,000	3,30,000
Agent's Commission	40,000	20,000
Expenses of Management	60,000	45,000
Re-insurance Premium (Dr.)	25,000	15,000

The following additional points are also to be taken into account:

(a) Depreciation on Fixed Assets to be provided at 10% p.a.

(b) Interest accrued on investments ` 10,000.

(c) Closing provision for taxation on 31.3.2000 to be maintained at ` 1,24,138.

(d) Claims outstanding on 31.3.2000 were fire Insurance ` 10,000; Marine Insurance ` 15,000.

(e) Premium outstanding on 31.3.2000 were Fire Insurance ` 30,000; Marine Insurance ` 20,000.

(f) Reserve for unexpired risk to be maintained at 50% and 100% of net premiums in respect of Fire and Marine Insurance respectively.

(g) Expenses of management due on 31.3.2000 were ` 10,000 for Fire Insurance and ` 5,000 in respect of Marine Insurance. [10]

(ii) A company made a public issue of 2,00,000 equity shares of `100 each, `50 payable on application & balance on allotment. The entire issue was underwritten by four parties – A, B, C and D in the proportion of 30%, 25%, 25%, and 20% respectively. Under the terms agreed upon, a commission of 2% was payable on the amounts underwritten.

A, B, C and D had also agreed on "firm" underwriting of 4,000, 6,000, Nil and 15,000 shares respectively.

The total subscriptions, excluding firm underwriting, including marked applications were for 1,50,000 shares.

Marked applications received were as under:

A 40,000 C 22,000 B 30,000 D 38,000

Ascertain the liability of the individual underwriter. All working should form part of your answer. [6]