PCE
GROUP I-PAPER
ADVANCED ACCOUNTING

MAY 2010

Roll No...............................

Total No. of Questions—6]

[Total No. of Printed Pages—8

Time Allowed—3 Hours

Maximum Marks—100

HBN

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, his answers in Hindi will not be valued.

Answer **all** questions.

Wherever appropriate, suitable assumptions should be made by the candidate.

Working notes should form part of the answer.

Marks

1. Answer **all** questions : 10×2=20

(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.

Marks

(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.

(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.

Marks

2. ABC Ltd. took over a running business with effect from 1st April, 2009. The company was incorporated on 1st August, 2009. The following P & L A/c has been prepared for the year ended 31.3.2010 : 16

Dr.	Rs.	Cr.	Rs.
To Salaries	48,000	By Gross profit	3,20,000
To Stationery	4,800		
To Travelling expenses	16,800		
To Advertisement	16,000		
To Misc. trade exp.	37,800		
To Rent (office buildings)	26,400		
To Electricity charges	4,200		
To Director's fees	11,200		
To Bad debts	3,200		
To Commission to selling Agents	16,000		
To Audit fees	6,000		
To Debenture interest	3,000		
To Int. paid to vendors	4,200		
To Selling expenses	25,200		
To Depreciation on fixed assets	9,600		
To Net profit	87,600		
	3,20,000		3,20,000

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.

Marks

(e) Purchase consideration was discharged by the company on 30th September, 2009 by issuing equity shares of Rs. 10 each.

Prepare the P & L A/c in columnar form showing distinctly the allocation of expenses between pre and post incorporation periods.

3. The following balances have been extracted at the end of March, 2010, from the books of an electricity company : 16

	Rs.		Rs.
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% debenture	80,00,000
		Loan from State Electricity Board	1,00,00,000
Contingency reserve invested in 7% state loan	48,00,000	Intangible assets (monthly average)	32,00,000
Amount (Contributed by consumers towards cost of fixed asset)	8,00,000	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 answers.

4. Siva Ltd. has two departments X and Y. From the following particulars prepare departmental trading accounts and general profit and loss account for the year ending 31st March, 2009 : 16

	Dept. X Rs.	Dept. 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

	Dept. X Rs.	Dept. Y Rs.
Purchased goods transferred		
By Dept. Y To X	40,000	—
By Dept. X to Y	—	32,000
Finished goods transferred		
By Dept. Y to X	1,40,000	—
By Dept. X to Y	—	1,60,000
Return of finished goods		
By Dept. Y to X	40,000	—
By Dept. X to Y	—	28,000
Closing stock		
Purchased goods	18,000	24,000
Finished goods	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.

5. (a) Amar, Akbar and Antony are in partnership. The following is their Balance Sheet as at March 31, 2010 on which date they dissolve partnership. The share Profit in the ratio of 5 : 3 : 2 : 8

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

Marks

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 Partner's capital account.

(b) From the following information, prepare cash flow statement of A (P) Ltd. as at 31st March, 2010 by using indirect method : 8

Balance Sheet

Liabilities	2009 Rs.	2010 Rs.
Share capital	12,00,000	12,00,000
Profit & Loss A/c	8,50,000	10,00,000
Long Term Loans	10,00,000	10,60,000
Creditors	3,50,000	4,00,000
	34,00,000	36,60,000
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
Debtors	7,20,000	6,60,000
Cash	60,000	70,000
Bills Receivable	40,000	30,000
	34,00,000	36,60,000

Marks

Income Statement for the year ended 31st March, 2010

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

Statement of Retained Earnings

	Rs.
Opening balance	8,50,000
Add : Profit	3,30,000
	11,80,000
Less : Dividend paid	1,80,000
Closing balance	10,00,000

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. 4

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

Marks

(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%. 4

(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 : 4

Result	Probability	Amount of Loss Rs.
For first ten cases :		
Win	0.6	—
Lose-low damages	0.3	90,000
Lose-high damages	0.1	2,00,000
For remaining five cases :		
Win	0.5	—
Lose-low damages	0.3	60,000
Lose-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 : 4

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.