Roll No. ....

NOV 2011

Total No. of Questions – **7**

PCE
GROUP 1-PAPER
ADVANCED ACCOUNTING

Total No. of Printed Pages – **12**

Time Allowed – **3** Hours

Maximum Marks – **100**

OCM

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 has not opted for Hindi medium, his/her answers in Hindi will not be valued.

Question No. **1** is compulsory.

Attempt any **five** questions from the remaining **six** questions.

Working notes should form part of the answer.

Wherever necessary, suitable assumptions may be made by the candidate.

Marks

1. (a) A building costing ₹ 12,00,000 is depreciated for three years on straight line basis, assuming 10 years working life and ₹ 2,00,000 residual value. At the beginning of fourth year, the building was revalued upwards by ₹ 3,00,000. Residual value also revalued upwards by ₹ 1,00,000. The remaining useful life was reassessed at 10 years. Find depreciation to be charged for the fourth year onwards. **4×5 =20**

Marks

(b) A accepted following several bills falling due on different dates, now desires to have these bills cancelled and to accept a new bill for the whole amount payable on the average due date :

S. No.	Date of Bill	Amount (₹)	Usance of Bill
1.	1st February 2011	4,00,000	1 month
2.	14th February 2011	6,00,000	3 months
3.	2nd March, 2011	7,50,000	2 months
4.	10th March, 2011	5,00,000	4 months
5.	18th March, 2011	9,00,000	1 month

From above, find the average due date, on which A can pay the whole amount.

(c) From the information given below, find out the amount of provision to be shown in the Profit and Loss Account of a Commercial Bank :

Assets	₹ (In Lakhs)
Standard	4,500
Sub-standard	3,000
Doubtful for more than three years (Fully Secured)	250
Loss Assets	750

(d) ABC (P) Limited ordered 10,000 kg. of certain material at ₹ 100 per kg. The purchase price includes Excise Duty ₹ 10 per kg., in respect of which full CENVAT credit is admissible. Freight, Loading and Unloading incurred amounted to ₹ 40,800. Normal Transit Loss is 2%. The enterprise actually received 9760 kg. and consumed 9500 kg. Determine cost of inventory and allocation of material cost as per AS-2 "Valuation of Inventory".

Marks

2. XYZ (P) Limited was incorporated on 01-08-2010 to take over the business of M/s. Rank & Co. from 01-04-2010. The Profit & Loss Account as given by XYZ (P) Limited for the year ending 31-03-2011 is as under : **16**

Profit & Loss Account for the year ending 31-03-2011

Dr. Cr.

Particulars	₹	Particulars	₹
To Advertisement	99,000	By Gross Profit B/d	9,45,000
To Audit Fee	15,000	By Interest on Investment	16,000
To Bad Debts (Related to Sales)	27,000		
To Depreciation	21,000		
To Discount	9,000		
To Interest on Debentures	80,000		
To Preliminary Expenses	12,000		
To Rent	1,40,000		
To Salaries	4,48,000		
To Underwriting Commission	20,000		
To Net Profit	90,000		
	9,61,000		**9,61,000**

Prepare Profit & Loss Account showing allocation of Pre-Incorporation and Post-Incorporation profits after considering the following information :

(1) G.P. Ratio was constant throughout the year.

(2) Sales for August 2010 to November 2010 were 1½ times the average monthly sales while for December 2010 to March 2011 were 2 times the average sales.

(3) Company had to occupy additional space from 01st December 2010 for which rent was ₹ 5,000 per month.

(4) Bad Debts are shown after adjusting a recovery of ₹ 9,000 of Bad Debts for a sale made in July 2010.

(5) Salary of one Manager was increased by ₹ 2,000 P.M. from August 2010. Salary of other employees remains unchanged.

(6) All Investments were sold in May 2010 at a profit of ₹ 27,000. Profit on Sale of Investment inadvertently included to Sales and ultimately to Gross Profit.

Marks

3. Crystal Company Limited decided to reconstruct its business as it has accumulated huge losses. The following is the Balance Sheet of the company as on 31-03-2011 before reconstruction : **16**

Balance Sheet as on 31-03-2011

Liabilities	₹	Assets	₹
3,00,000 Equity Shares of ₹ 10 each fully paid up	30,00,000	Goodwill	5,20,000
		Patents	1,50,000
1,60,000, 6% Preference Shares of ₹ 10 each fully paid up	16,00,000	Land & Building	17,00,000
		Plant & Machinery	2,00,000
6% Debentures (Secured against Land & Building)	15,00,000	Investments (at Cost)	2,20,000
		Sundry Debtors	17,40,000
Bank Overdraft	5,80,000	Stock	17,00,000
Sundry Creditors	12,00,000	Profit & Loss A/c	18,50,000
Provision for Income Tax	2,00,000		
	80,80,000		**80,80,000**

Following scheme of Reconstruction approved by all interested parties and Court :

(1) All Equity Shares are reduced to ₹ 3 each and Preference Shares to ₹ 7 each.

(2) Debenture holders agree to take over a part of Land and Building, Book value of which is ₹ 7,00,000, towards their 50% claim. Rate of interest of balance 50% debentures increased to 9%.

(3) Goodwill and Patent will be written off.

(4) 10% of Sundry Debtors to be provided for bad debts.

(5) Stock to be written off by ₹ 2,60,000.

(6) 50% of balance Land & Building sold for ₹ 6,00,000 and remaining Land & Building valued at ₹ 6,00,000.

(7) Investments to be sold for ₹ 2,00,000.

(8) There are pending contracts amounting to ₹ 10,00,000. These contracts are to be cancelled on payment of penalty @ 5% of pending contract amount.

(9) The Income Tax Liability of the company is settled at ₹ 3,06,000. Provision for Income Tax will be raised accordingly.

(10) 1/3 of Sundry Creditors decided to forgo their claim.

(11) After making all the above adjustments, balance amount available through scheme, will be utilised to write off the value of Plant & Machinery to that extent.

You are required to pass the Journal Entries and Draw up Balance Sheet of the company after reconstruction.

4. (a) From the following particulars as provided by M/s. Thirumala & Co., prepare Debtors Ledger Adjustment A/c and Creditors Ledger Adjustment A/c. in General Ledger for the year ending 31st March, 2011 : 8

	₹
Opening Balance as on 01-04-2010 of Sundry Debtors	2,40,000
Opening Balance as on 01-04-2010 of Sundry Creditors	2,77,500
Cash Purchases	3,66,300
Credit Purchases	14,65,200
Cash Sales	4,22,400
Credit Sales	16,89,600
Cash paid to Creditors	11,18,100
Bills Payable accepted	3,50,900
Discount allowed by Creditors	4,800
Sundry charges debited by creditors	7,200
Cash received from Debtors	12,17,300
Bills Receivable received	4,17,700
Discount allowed to Debtors	7,750
Bad Debts	6,700
Bad Debts Recovered, written off during earlier Financial Year	12,800
Provision for Doubtful Debts	38,500
Return Inwards	13,150
Return Outwards	9,000

Marks

(b) The premise of Green Limited was partially destroyed by fire on March 01, 2011 and as a result, the business was practically disorganized up to August 31, 2011. The company is insured under a loss of profits policy for ₹ 6,60,000, having an indemnity period of 6 months. **8**

From the information given below, find out claim under the policy :

	₹
Actual Turnover from March 01, 2011 to August 31, 2011	3,20,000
Turnover from March 01, 2010 to August 31, 2010	9,60,000
Turnover from March 01, 2010 to February 28, 2011	24,00,000
Net Profit for last Financial Year	3,60,000
Insured Standing Charges for last Financial Year	2,40,000
Uninsured Standing Charges for last Financial Year	20,000
Turnover for the last Financial Year	20,00,000

The company incurred additional expenses amounting to ₹ 40,000 immediately after fire, which reduced the loss in turnover. Otherwise turnover during the period of dislocation would have been only amounting to ₹ 2,20,000. The saving in Insured Standing Charges in consequences of the fire amounted to ₹ 10,800.

There had been a considerable increase in trade since the date of the last annual accounts and it has been agreed that an adjustment of 10% be made in respect of the upward trend in turnover. Assume that, trend adjustment is required on total amount of annual turnover.

Marks

5. (a) P, Q and R were partners sharing profits and losses in the ratio of 2 : 2 : 1. R wants to retire from partnership on 31-3-2011 and S wants to join the partnership on the same date, to which both P & Q agreed. The Balance Sheet of the partnership firm as on 31-03-2011 and other information were as detailed below : 10

Balance Sheet as on 31-03-2011

Liabilities	₹	Assets	₹
Partner's Capital A/c		Fixed Assets	6,00,000
P	4,80,000	Stock in Hand	2,00,000
Q	3,20,000	Sundry Debtors	2,80,000
R	2,40,000	Cash at Bank	1,60,000
General Reserve	40,000	Cash in Hand	40,000
Sundry Creditors	2,00,000		
	12,80,000		**12,80,000**

P, Q and S agrees to share profits and losses in equal ratio in future. Value of goodwill is taken to be ₹ 1,80,000. Fixed Assets are revalued upwards by ₹ 1,20,000 and Stock by ₹ 40,000. A debtor from whom ₹ 20,000 was due, become insolvent. No amount will be received from him in future and same is not recorded in the books and balance sheet as above. Claim of R will be settled in full. P, Q and S agree to make their capital proportionate to their new profit sharing ratio. Balance amount receivable from / payable to partners will be paid to partners / brought in by partners immediately. All these transactions viz., claim of R and amount receivable / payable to partners will be routed through bank only. New partners also want to maintain ₹ 3,20,000 bank balance for working capital requirement. However they don't want to show goodwill in the books of accounts.

Prepare :

(i) Revaluation Account

(ii) Capital Accounts of Partners and

(iii) Balance Sheet of the Firm as newly constituted.

(b) From the following figures of Fire Insurance division of a General Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2011 :

	Direct Business ₹	Re-Insurance ₹
Claims paid during the year	70,05,000	10,50,000
Claims payable		
1st April 2010	11,44,500	1,30,500
31st March 2011	12,18,000	79,500
Claims received	–	3,45,000
Claims receivable		
1st April 2010	–	97,500
31st March 2011	–	1,69,500
Expenses of management (includes ₹ 52,500 Surveyor's Fee and ₹ 67,500 Legal Expenses for settlement of claims)	3,45,000	

6. (a) Following is the Balance Sheet of Happy Limited as on March 31, 2011 : 8

Balance Sheet as on 31-3-2011

Liabilities	₹	Assets	₹
Authorised share capital 2,00,000 Equity shares of ₹ 10 each	20,00,000	Fixed Assets	20,00,000
Issued and subscribed share capital		Investments	4,40,000
2,00,000 Equity shares of ₹ 10 each, ₹ 7 paid up	14,00,000	Current Assets, Loans & Advances	5,60,000
Reserves and Surplus			
Capital Reserve (Profit on sale of Fixed Assets)	1,30,000		
Securities Premium (Includes ₹ 20,000 received otherwise than in cash)	90,000		
General Reserve	2,40,000		
Profit & Loss A/c	5,20,000		
Secured Loans			
12% Fully Convertible Debentures @ ₹ 100 each	4,00,000		
Current Liabilities and Provisions	2,20,000		
	30,00,000		**30,00,000**

Marks

On April 01, 2011, company has made final call @ ₹ 3 on 2,00,000 Equity Shares and received complete call money by April 30, 2011.

The company wants to issue Bonus Shares to its shareholders @ one share for every four shares held.

12% Debentures are convertible into equity shares of ₹ 10 each fully paid on June 01, 2011. Necessary resolutions were passed and requisite legal requirements were complied with. For issue of Bonus Shares it was decided that Reserves and Surpluses, other than Profit and Loss A/c, should be first capitalised.

Prepare Balance Sheet as on May 15, 2011, date on which all the formalities related to the Issue of Bonus Shares completed. For the purpose of preparation of Balance Sheet, assume that, Balance Sheet items as on March 31, 2011, which are not effected by issue of Bonus Shares as above, remains unchanged as on May 15, 2011. Also pass necessary Journal Entries in the books of the company related to issue of Bonus Shares, for the period from April 01, 2011 to May 15, 2011.

(b) The Income & Expenditure Accounts of Neo Sports Club for the year ending March 31, 2011 is as follows : 8

Expenditure	₹	Income	₹
To Salaries	7,20,000	By Subscription	9,00,000
To Depreciation	90,000		
To Bank Interest	38,400		
To Audit Fee	20,000		
To Insurance	9,000		
To Surplus transferred to Balance Sheet	22,600		
	9,00,000		**9,00,000**

Following adjustments made while preparing Income & Expenditure A/c. as above :

(1) Subscription outstanding as on 31-03-2010 amounting to ₹ 72,000 and as on 31-03-2011 amounting to ₹ 90,000.

(2) Subscription received in advance as on 31-03-2010 amounting to ₹ 54,000 and as on 31-03-2011 amounting to ₹ 32,400.

(3) Salary outstanding as on 31-03-2010 amounting to ₹ 55,000 and as on 31-03-2011 amounting to ₹ 60,000.

(4) Audit Fee is same for F.Y. 2009-10 and F.Y. 2010-11. As a standard practice, Audit Fee of one F.Y. paid during next F.Y., after completion of audit.

(5) A loan amounting to ₹ 3,20,000 taken from bank by Club on 01-10-2009. Interest on loan is payable @ 12% p.a. Interest of one F.Y. paid on April 01 of next F.Y. No amount of principal repaid by Club till 31-03-2011.

(6) Assets of club as on 31-03-2010 were as under :

Land at cost	₹ 10,00,000
Building at WDV (Original Cost ₹ 7,00,000)	₹ 6,65,000
Sports Equipments WDV (Original Cost ₹ 5,00,000)	₹ 4,50,000

(7) Depreciation on Building to be provided @ 5% on straight line basis. There is no addition to Building during F.Y. 2010-11.

(8) Depreciation on Sports Equipments to be provided @ 10% on straight line basis. Fresh sports equipments purchased during F.Y. 2010-11 on 01-10-2010.

(9) Insurance paid on October 01 during each F.Y. and remains valid till September 30 of next F.Y. Prepaid Insurance as on 31-03-2010 was ₹ 4,200.

(10) Cash & Bank Balance as on 31-03-2011 amounting to ₹ 1,56,000 and as on 31-03-2010 amounting to ₹ 1,59,400.

Prepare Receipts and Payments A/c for the year ending on March 31, 2011.

Marks

7. Answer any **four** of the following : 4×4 =16

(a) List out assets to which AS 6 "Depreciation Accounting" will not be applicable.

(b) Mr. Y bought a forward contract for three months of US \$ 2,00,000 on 1st December 2010 at 1 US \$ = ₹ 44.10 when the exchange rate was 1 US \$ = ₹ 43.90. On 31-12-2010 when he closed his books, exchange rate was 1 US \$ = ₹ 44.20. On 31st January, 2011 he decided to sell the contract at ₹ 44.30 per Dollar. Show how the profits from the contract will be recognized in the books of Mr. Y.

(c) Briefly explain advantages of using Customised Accounting Package.

(d) Books of India Limited could not recover ₹ 8 lakhs from a debtor. The company is aware that the debtor is in great financial difficulty. The accounts of the company were finalized for the year ended 31-3-2011 by making a provision at 20% of the amount due from the said debtor.

The debtor became bankrupt in April, 2011 and nothing is recoverable from him. Do you advise the company to provide for the entire loss of ₹ 8 lakhs in the Books of Accounts for the year ended 31st March, 2011.

(e) On April 01, 2008, ABC & Associates acquired a Motor Car on hire purchase from MC & Co. The terms of the contract were as follows :

(i) Cash price of Motor Car was ₹ 2,10,000.

(ii) ₹ 70,000 were to be paid on signing of the contract and balance in two equal annual installments plus interest, to be paid at the beginning of the onward financial years i.e. on April 01, 2009 and so on.

Marks

(iii) Interest chargeable on the outstanding balance was @ 12% p.a.

(iv) Depreciation @ 10% p.a. to be written-off using written down value method.

You are required to prepare Motor Car A/c in the books of ABC & Associates from April 01, 2008 to March 31, 2011.
