

Roll No.

MAY 2012

PCE
GROUP - PAPER
ADVANCED ACCOUNTING

Total No. of Questions – 7

Time Allowed – 3 Hours

Total No. of Printed Pages – 8

Maximum Marks – 100

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Answers to questions are to be given in English except in the case of candidates who have opted for Hindi Medium. If a candidate had 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) Z Ltd. purchased a fixed asset for ₹ 75 lakhs, which has the estimated useful life of 5 years with the salvage value of ₹ 7,50,000. On purchase of the asset, government granted it a grant of ₹ 15 lakhs. Pass the necessary journal entries in the books of the company for first two years. | 4×5 =20 5 |
| (b) A Liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for ₹ 25,00,000 against which payment was made as follows : | 5 |
| Liquidation expenses | ₹ 25,000 |
| Secured Creditors | ₹ 10,00,000 |
| Preferential Creditors | ₹ 75,000 |
| The amount due to Unsecured Creditors was ₹ 15,00,000. You are asked to calculate the total Remuneration payable to Liquidator. Calculation shall be made to the nearest multiple of a rupee. | |
| (c) ABC Ltd. wants to re-classify its investments in accordance with AS-13. Decide and state on the amount of transfer, based on the following information : | 5 |
| (1) A portion of Current Investments purchased for ₹ 20 lakhs, to be reclassified as Long Term Investment, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 25 lakhs. | |
| (2) Another portion of current investments purchased for ₹ 15 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was ₹ 6.5 lakhs. | |

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- (3) Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹ 18 lakhs but had been written down to ₹ 12 lakhs to recognize permanent decline as per AS 13.
- (d) An earthquake destroyed a major warehouse of Daya Ltd. on 18.5.2011. The accounting year of the company ended on 31.3.2011. The accounts were approved on 30.6.2011. The loss from earthquake is estimated at ₹ 45 lakhs. State with reasons, whether the loss due to earthquake is an adjusting or non-adjusting event and how the fact of loss is to be disclosed by the company ? **5**
2. Ram Limited and Shyam Limited carry on business of a similar nature and it is agreed that they should amalgamate. A new company, Ram and Shyam Limited, is to be formed to which the assets and liabilities of the existing companies, with certain exceptions, are to be transferred. On 31st March 2011 the Balance Sheets of the two companies were as under : **16**

Ram Limited**Balance Sheet as at 31st March, 2011**

| Liabilities | ₹ | Assets | ₹ |
|---|-----------------|--|-----------------|
| Issued and Subscribed Share Capital : | | Freehold Property, at cost. | 2,10,000 |
| 30,000 Equity Shares of ₹ 10 each, fully paid | 3,00,000 | Plant and Machinery, at cost less Depreciation | 50,000 |
| General Reserve | 1,60,000 | Motor Vehicles, at cost | |
| Profit and Loss Account | 40,000 | Less Depreciation | 20,000 |
| Sundry Creditors | 1,50,000 | Stock | 1,20,000 |
| | | Debtors | 1,64,000 |
| | | Cash at Bank | 86,000 |
| | 6,50,000 | | 6,50,000 |

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Shyam Limited

Balance Sheet as at 31st March, 2011

| Liabilities | ₹ | Assets | ₹ |
|--|----------|---|----------|
| Issued and Subscribed | | Freehold Property, at cost | 1,20,000 |
| Share Capital : | | Plant and Machinery, at cost less Depreciation | 30,000 |
| 16,000 Equity Shares of ₹ 10 each, fully paid | 1,60,000 | Stock | 1,56,000 |
| Profit and Loss Account | 40,000 | Debtors | 42,000 |
| 6% Debentures | 1,20,000 | Cash at Bank | 36,000 |
| Sundry Creditors | 64,000 | | |
| | 3,84,000 | | 3,84,000 |

Assets and Liabilities are to be taken at book-value, with the following exceptions :

- Goodwill of Ram Limited and of Shyam Limited is to be valued at ₹ 1,60,000 and ₹ 60,000 respectively.
- Motor Vehicles of Ram Limited are to be valued at ₹ 60,000.
- The debentures of Shyam Limited are to be discharged by the issue of 6% Debentures of Ram and Shyam Limited at a premium of 5%.
- The Debtors of Shyam Ltd. realised fully and Bank Balance of Shyam Limited are to be retained by the liquidator and the Sundry Creditors of Shyam Ltd. are to be paid out of the proceeds thereof.

You are required to :

- Compute the basis on which shares in Ram and Shyam Limited will be issued to the Shareholders of the existing companies assuming that the nominal value of each share in Ram and Shyam Limited is ₹ 10.
- Draw up a Balance Sheet of Ram and Shyam Limited as of 1st April, 2011, the date of completion of amalgamation.
- Write up Journal entries, including Bank entries, for closing the books of Shyam Limited.

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3. (a) The following particulars are extracted from the Books of the Commercial Bank Ltd. for the year ending 31st March, 2011. 8

| | | |
|-------|--|-------------|
| (i) | Interest and Discounts | 1,98,64,800 |
| (ii) | Rebate on Bills Discounted (balance on 1.4.2010) | 70,080 |
| (iii) | Bills Discounted and purchased | 77,46,400 |

It is ascertained that proportionate discount not yet earned on the Bills Discounted which will mature during 2011-2012 amounted to ₹ 96,860.

Pass the necessary Journal entries with narration adjusting the above and show :

- (a) Rebate on Bills Discounted Account ; and
(b) Interest and Discount Account in the ledger of the Commercial Bank Limited.

- (b) On 1st January, 2011 X's account in Y's ledger showed a debit balance of ₹ 5,000. The following transactions took place between Y and X during the quarter ended 31st March, 2011 : 8

| 2011 | | | ₹ |
|-------|----|--|--------|
| Jan. | 11 | Y sold goods to X | 6,000 |
| Jan. | 24 | Y received a promissory note from X 3 months date | 5,000 |
| Feb. | 01 | X sold goods to Y | 10,000 |
| Feb. | 04 | Y sold goods to X | 8,200 |
| Feb. | 07 | X returned goods to Y | 1,000 |
| March | 01 | X sold goods to Y | 5,600 |
| March | 18 | Y sold goods to X | 9,200 |
| March | 23 | X sold goods to Y | 4,000 |

Accounts were settled on 31st March, 2011 by means of a cheque. Prepare an Account Current to be submitted by Y to X as on 31st March, 2011, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee.

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4. From the following information in respect of a trader, prepare Trading and Profit and Loss Account for the year ended 31st March, 2011 and a Balance Sheet as at that date : 16

31-03-2010 31-03-2011

| (1) Liabilities and Assets | ₹ | ₹ |
|---------------------------------|----------|----------|
| Stock in trade | 1,60,000 | 1,40,000 |
| Debtors for sales | 3,20,000 | ? |
| Bills receivable | - | ? |
| Creditors for purchases | 2,20,000 | 3,00,000 |
| Furniture at written down value | 1,20,000 | 1,27,000 |
| Expenses outstanding | 40,000 | 36,000 |
| Prepaid expenses | 12,000 | 14,000 |
| Cash on hand | 4,000 | 3,000 |
| Bank Balance | 20,000 | 9,500 |

- (2) Receipts and Payments during 2010-2011 :

| | |
|---|-----------|
| Collections from Debtors (after allowing 2½% discount) | 11,70,000 |
| Payments to Creditors (after receiving 2% discount) | 7,84,000 |
| Proceeds of Bills receivable discounted at 2% | 1,22,500 |
| Proprietor's drawings | 1,40,000 |
| Purchase of furniture midway through the year | 20,000 |
| 4% Government securities purchased at 96% on 1-10-2010 | 1,92,000 |
| Expenses | 3,50,000 |
| Miscellaneous Income | 10,000 |

- (3) Sales are effected so as to realize a gross profit of $33\frac{1}{3}\%$ on the sale proceeds.
- (4) Goods, costing ₹ 18,000, were issued as advertisement articles.
- (5) During the year, Bills Receivable of ₹ 2,00,000 were drawn on debtors. Of these, Bills amounting to ₹ 40,000 were endorsed in favour of creditors. Out of this latter amount, a Bill for ₹ 8,000 was dishonoured by the debtor.

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- (6) Capital introduced during the year by the proprietor by cheques was omitted to be recorded in the Cash Book, though the bank balance of ₹ 9,500 on 31st March, 2011 (as shown above), is after taking the same into account.
- (7) Purchases and Sales are made only on credit.
5. (a) On 19th May, 2011, the premises of Shri Garib Das were destroyed by fire, but sufficient records were saved, wherefrom the following particulars were ascertained :

| | ₹ |
|---|----------|
| Stock at cost on 1.1.2010 | 36,750 |
| Stock at cost on 31.12.2010 | 39,800 |
| Purchases less returns during 2010 | 1,99,000 |
| Sales less returned during 2010 | 2,43,500 |
| Purchases less returns during 1.1.2011 to 19.5.2011 | 81,000 |
| Sales less returns during 1.1.2011 to 19.5.2011 | 1,15,600 |

In valuing the stock for the Balance Sheet as at 31st Dec. 2010, ₹ 1,150 had been written off on certain stock which was a poor selling line having the cost ₹ 3,450. A portion of these goods were sold in March, 2011 at a loss of ₹ 125 on original cost of ₹ 1,725. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exceptions, gross profit has remained at a uniform rate throughout. The stock salvaged was ₹ 2,900.

Show the amount of the claim of stock destroyed by fire. Memorandum Trading Account to be prepared for the period from 1-1-2011 to 19-5-2011 for Normal and abnormal items.

- (b) X Ltd. has three departments A, B and C. From the particulars given below compute :

- (a) the values of stock as on 31st Dec. 2011 and
 (b) the departmental results

| | A | B | C |
|--------------------------------------|----------|----------|---------|
| | ₹ | ₹ | ₹ |
| Stock (on 1.1.2011) | 24,000 | 36,000 | 12,000 |
| Purchases | 1,46,000 | 1,24,000 | 48,000 |
| Actual Sales | 1,72,500 | 1,59,400 | 74,600 |
| Gross Profit on normal selling price | 20% | 25% | 33 1/3% |

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- (ii) During the year certain items were sold at discount and these discounts were reflected in the value of sales shown above. The items sold at discount were :

| | Departments | | |
|-----------------------|-------------|-------|-------|
| | A | B | C |
| | ₹ | ₹ | ₹ |
| Sales at normal price | 10,000 | 3,000 | 1,000 |
| Sales at actual price | 7,500 | 2,400 | 600 |

6. Read, Write and Add give you the following Balance Sheet as on 31st March, 2011. 16

| Liabilities | ₹ | Assets | ₹ |
|--------------------------------|---------------|-----------------------------|---------------|
| Read's Loan. | 15,000 | Plant and Machinery at cost | 30,000 |
| Capital Accounts : | | Fixtures and Fittings | 2,000 |
| Read 30,000 | | Stock | 10,400 |
| Write 10,000 | | Debtors 18,400 | |
| Add <u>2,000</u> | 42,000 | Less : Provision <u>400</u> | 18,000 |
| Sundry Creditors | 17,800 | Joint Life Policy | 15,000 |
| Loan on Hypothecation of Stock | 6,200 | Patents and Trademarks | 10,000 |
| Joint Life Policy Reserve | 12,400 | Cash at Bank | 8,000 |
| | <u>93,400</u> | | <u>93,400</u> |

The partners shared profits and losses in the ratio of Read 4/9, Write 2/9 and Add 1/3. The firm was dissolved on 31st March, 2011 and you are given the following information :

- (a) Add had taken a loan from insurers for ₹ 5,000 on the security of Joint Life Policy. The policy was surrendered and Insurers paid a sum of ₹ 10,200 after deducting ₹ 5,000 for Add's loan and ₹ 300 as interest thereon.
- (b) One of the creditors took some of the patents whose book value was ₹ 6,000 at a valuation of 4,500. The balance to that creditor was paid in cash.
- (c) The firm had previously purchased some shares in a joint stock company and had written them off on finding them useless. The shares were now found to be worth ₹ 3,000 and the loan creditor agreed to accept the shares at this value.
- (d) The remaining assets realised the following amounts :

| | ₹ |
|---------------------------------|--------|
| Plant and Machinery | 17,000 |
| Fixtures and Fittings | 1,000 |
| Stock | 9,000 |
| Debtors | 16,500 |
| Patents 50% of their book value | |

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(e) The liabilities were paid and a total discount of ₹ 500 was allowed by the creditors.

(f) The expenses of realisation amounted to ₹ 2,300.

Prepare the Realisation Account, Bank Account and Partners Capital Accounts in columnar form.

7. Answer any **four** of the following :

4×4
=16

| | ₹ | |
|--|-------------|---|
| (a) Net profit for the current year | 2,00,00,000 | 4 |
| No. of equity shares outstanding | 1,00,00,000 | |
| Basic earnings per share | 2.00 | |
| No. of 12% convertible debentures of ₹ 100 each | 2,00,000 | |
| Each debenture is convertible into 10 equity shares. | | |
| Interest expense for the current year | 24,00,000 | |
| Tax relating to interest expense (30%) | 7,20,000 | |
| Compute Diluted Earnings per Share. | | |

(b) A trader purchased goods for ₹ 3,40,000. The opening stock of inventory prior to the said purchases was ₹ 60,000. His sale was ₹ 4,20,000. Find out the closing stock of inventory if the Gross profit margin is 25% on cost. 4

(c) What are the advantages of outsourcing the accounting functions ? 4

(d) Perfect Assurance Co. Ltd. received ₹ 11,80,000 as premium on new policies and ₹ 2,40,000 as renewal premium. The company received ₹ 1,80,000 towards reinsurance accepted and paid ₹ 1,40,000 towards reinsurance ceded. How much will be credited to Revenue Account towards premium ? 4

(e) Computer Point sells computers on Hire Purchase basis at cost plus 25%. Terms of sale are ₹ 10,000 down payment and eight monthly instalments of ₹ 5000 for each computer. Two computers were repossessed for non-payment of instalments and to be valued at 50% of cost price. Compute the value of repossessed computers. 4