PCE
GROUP 1-PAPER
ADVANCED ACCOUNTING

Roll No. .... **NOV 2012**

Total No. of Questions – 7 Total No. of Printed Pages – 11

Time Allowed – 3 Hours Maximum Marks – 100

LCK

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If candidate who has not opted for Hindi medium, his answers in Hindi medium 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) On 1st December, 2011, BC Co. Ltd. undertook a contract to construct a building of ₹ 21.25 lakhs. On 31st March, 2012 the company found that it had already spent ₹ 16,24,750 on the construction. Prudent estimate of additional cost for completion was ₹ 8,00,250. What amount should be charged to revenue in the final accounts for the year ended 31st March, 2012 ? **5**

(b) A fixed asset is purchased for ₹ 20 lakhs. Government grant received towards it is ₹ 8 lakhs. Residual Value is ₹ 4 Lakhs and useful life is 4 years. Assume SLM depreciation. Asset is shown net of grant. After 1 year, grant becomes refundable to the extent of ₹ 5 Lakhs due to non compliance with conditions. Pass journal entries. **5**

Marks

(c) The closing inventory at cost of a Company amounted to ₹ 9,56,700. The following items were included at cost in the total : 5

(i) 350 Shirts, which had cost ₹ 380 each and normally sold for ₹ 750 each. Owing to a defect in manufacture, they were all sold after the Balance Sheet date at 50% of their normal price. Selling expenses amounted to 5% of the proceeds.

(ii) 700 Trousers, which had cost ₹ 520 each. These too were found to be defective. Selling expenses for the batch totaled ₹ 3800. They were sold for ₹ 950 each.

What should be the closing inventory value, after considering the above items ?

(d) A plant was depreciated under two different methods as under : 5

Year	SLM (₹ In lakhs)	W.D.V. (₹ In lakhs)
1	39.00	106.90
2	39.00	79.00
3	39.00	58.40
4	39.00	43.20
	156.00	287.50
5	39.00	31.90

What should be the amount of resultant surplus/deficiency, if the company decides to switch over from W.D.V. method to SLM method for first four years ? Also, state how will you treat the same in Accounts.

Marks

2. The following are the summarized Balance Sheet of X Ltd. and Y Ltd. as at 31st March, 2012 : 16

(₹ In lakhs)

Liabilities	X Ltd.	Y Ltd.
Fully Paid Equity Shares of ₹ 10 each	10,800	2,700
10% Preference Shares of ₹ 10 each, fully paid up	3,600	–
Capital Reserve	1,800	–
General Reserve	6,300	–
Profit and Loss Account	2,340	–
8% Redeemable debentures of ₹1,000 each	–	900
Trade Creditors	7,263	1,107
Provisions	2,610	279
	34,713	**4,986**
Assets		
Plant and Machinery	12,645	1,404
Furniture and Fixtures	7,200	549
Motor Vehicles	–	153
Stock	7,110	1,332
Sundry Debtors	3,132	711
Cash at Bank	4,626	720
Preliminary Expenses	–	99
Discount on Issue of Debentures	–	18
	34,713	**4,986**

Marks

A new Company XY Ltd. was incorporated with an authorized capital of ₹ 45,000 lakhs divided into shares of ₹ 10 each. For the purpose of amalgamation in the nature of merger, X Ltd. and Y Ltd. were merged into XY Ltd. on the following terms :

(i) Purchase Consideration for X Ltd.'s business is to be discharged by issue of 360 lakhs fully paid 11% preference shares and 2,160 lakhs fully paid equity shares of XY Ltd. to the preference and equity shareholders of X Ltd. in full satisfaction of their claims.

(ii) To discharge purchase consideration for Y Ltd.'s business, XY Ltd. to allot 270 lakhs fully paid up equity shares to shareholders of Y Ltd. in full satisfaction of their claims.

(iii) Expenses on the liquidation of X Ltd. and Y Ltd. amounting to ₹ 18 lakhs are to be borne by XY Ltd.

(iv) 8% redeemable debentures of Y Ltd. to be converted into 8.5% redeemable debentures of XY Ltd.

(v) Expenses on Incorporation of XY Ltd. were ₹ 45 lakhs.

You are required to :

(a) Pass necessary Journal Entries in the books of XY Ltd. to record the above transactions, and

(b) Prepare Balance Sheet of XY Ltd. after merger.

Marks

3 (a) On 31st March, 2011, Upkeep Bank Ltd. had a balance of ₹ 27 crores in 'rebate on bills discounted' account. During the year ended 31st March, 2012, Upkeep Bank Ltd. discounted bills of exchange of ₹ 12,000 crores charging interest @ 18%, per annum the average period of discount being for 73 days. Of these, bills of exchange of ₹ 1,800 crores were due for realisation from the acceptors/customers after 31st March, 2012, the average period outstanding after 31st March, 2012 being 36.5 days. **8**

Upkeep Bank Ltd. asks you to pass journal entries and show the ledger accounts pertaining to:

(i) Discounting of bills of exchange and

(ii) Rebate on bills discounted.

(b) The following particulars are obtained from books of a Z Ltd. for the year ended 31st March, 2012 : **8**

	₹		₹
Cash Sales	75,000	Bills Receivable dishonoured	2,500
Credit Purchases	2,80,000	Returns Inward	10,500
Collection from Debtors	5,00,000	Payment to creditors	2,62,000
Bills Receivable drawn	20,000	Discount allowed by creditors	3,000
Discount Received	5,000	Debtors' cheque returned dishonoured	7,000
Cash Purchases	72,000	Credit Sales	5,25,000
Bills Payable paid	6,500	Bills Receivables collected	10,000

Marks

Recovery of Bad Debts	1,500	Returns outward	3,700
Bills Receivable discounted with Bank	8,000	Bills Receivable endorsed to creditors	7,900
Interest charged on · overdue Customer's Accounts	1,200	Overpayments refunded by suppliers	600
Endorsed Bills Receivable dishonoured	5,500	Bad Debts	1,000
Bills Payable accepted	16,000	<u>Opening Balances</u>	
		Sundry Debtors	78,000
		Sundry Creditors	85,000

You are required to prepare the Total Debtors Account and Total Creditors Account.

4. Mary Sports Club provides the following Receipts & Payments for the year ending 31st March, 2012 : **16**

Receipt and Payment Account

Dr **Cr**

Receipts	**Amount** ₹	**Payments**	**Amount** ₹
To Cash & Bank Balances b/d	36,900	By Municipal Taxes	6,800
To Subscription	57,300	By Salaries	36,000
To Donations (received for meeting capital expenditure)	25,000	By Electricity Charges	2,300

Marks

To Interest on Investments	5,000	By Sports Material	4,000
To Other Income	1,200	By Books for Library	17,000
		By Newspapers	1,425
		By Miscellaneous Expenses	1,235
		By Cash & Bank Balances c/d	56,640
	1,25,400		**1,25,400**

Assets		**As on 31.03.2011**
(1)	Books at Library	22,000
(2)	Furniture & Fixtures	20,000
(3)	Subscription Receivable	7,500
(4)	Investment	75,000
(5)	Accrued Interest on Investment	1,750
(6)	Sports Material	12,000

Assets as on 31.03.2012 are as follows:

(1)	Subscription receivable	17,500
(2)	Accrued Interest on Investments	1,750

Liabilities

		31.03.2011	**31.03.2012**
1.	**Outstanding Expenses**		
(a)	Salaries	4,000	6,000
(b)	Newspapers	350	450
(c)	Municipal Taxes	850	900
(d)	Electricity Charges	1,350	1,500

Depreciation to be provided at the following rates

Furniture and Fixtures @ 10% p.a.

Sports Material @ 25% p.a.

Books at Library @ 10% p.a.

You are required to prepare Mary Sports Club's Opening Balance Sheet as on 01.04.2011, Income and Expenditure Account for the year ended on 31st March, 2012 and Balance Sheet as on that date.

5. (a) On 31st December, 2012 the following balances appeared in the books of Kolkatta Branch of an English firm having its HO office in New York : 8

	Amount in ₹	Amount in ₹
Stock on 1st Jan., 2012	93,600	
Purchases and Sales	6,25,000	9,37,500
Debtors and Creditors	3,06,000	2,04,000
Bills Receivable and Payable	81,600	71,400
Salaries and Wages	40,000	–
Rent, Rates and Taxes	42,500	–
Furniture	36,400	–
Bank A/c	2,27,460	–
New York Account	–	2,39,660
	14,52,560	**14,52,560**

Stock on 31st December, 2012 was ₹ 2,55,000.

Branch account in New York books showed a debit balance of \$5,360 on 31st December, 2012 and Furniture appeared in the Head Office books at \$700.

The rate of exchange on 31st December, 2011 was ₹ 52 and on 31st December, 2012 was ₹ 51. The average rate for the year was ₹ 50.

Prepare in the Head Office books the Profit and Loss A/c and the Balance Sheet of the Branch.

(b) On 1.4.2011, Mr. Sharma purchased 2,000 equity shares of ₹ 100 each in Reliance Ltd @ ₹ 130 each from a Broker, who charged 1% brokerage. He incurred 50 paise per ₹ 100 as cost of shares transfer stamps. On 31.1.2012 Bonus was declared in the ratio of 1:2. Before and after the record date of bonus shares, the shares were quoted at ₹ 135 per share and ₹ 82 per share respectively. On 31.03.2012 Mr. Sharma sold bonus shares to a broker, who charged 1% brokerage. 8

Show the Investment Account for the year ended March 31, 2012 in the books of Mr. Sharma, who held the shares as current assets and closing value of investments shall be made at Cost or Market value whichever is lower.

6. A and B are partners of B & Co. sharing profit and losses in the ratio of 3:1. B and C are partners of C & Co. sharing profit and losses in the ratio of 2:1. On 31st October, 2011, they decided to amalgamate and form a new firm M/s ABC & Co. where in A, B and C would be partners sharing profit and losses in the ratio of 3:2:1. 16

Marks

Their Balance Sheet on that date were as under :

Liabilities	B & Co. ₹	C & Co. ₹	Assets	B & Co. ₹	C & Co. ₹
Due to X & Co.	1,20,000	–	Cash in Hand	30,000	15,000
Due to B & Co.	–	1,50,000	Cash at Bank	45,000	60,000
Other Creditors	1,80,000	1,74,000	Due from C & Co.	1,50,000	–
Reserve	75,000	1,50,000	Due from X & Co.	–	90,000
Capitals			Other Debtors	2,40,000	3,00,000
A	3,60,000	–	Stock	1,80,000	2,10,000
B	2,40,000	3,00,000	Furniture	30,000	9,000
C	–	1,50,000	Vehicles	–	2,40,000
			Machinery	2,25,000	–
			Building	75,000	–
	9,75,000	**9,24,000**		**9,75,000**	**9,24,000**

The amalgamated firm took over the business on the following terms:

(i) Goodwill of B & Co. was worth ₹ 1,80,000 and that of C & Co. ₹ 1,50,000. Goodwill account was not to be opened in the books of the new firm, the adjustments being recorded through Capital Accounts of the partners.

(ii) Building, Machinery and Vehicles were taken over at ₹1,50,000, ₹ 2,70,000 and ₹ 3,00,000 respectively.

(iii) Provisions for doubtful debts has to be carried forward at ₹ 12,000 in respect of debtors of B & Co. and ₹ 15,000 in respect of debtors of C & Co.

Marks

You are required to :

(a) Compute the adjustments necessary for Goodwill.

(b) Pass the journal entries in the books of ABC & Co. assuming that excess/deficit capital (taking C's Capital as base) with reference to share in profits are to be transferred to current accounts.

7. Attempt any **four** : 4

(a)

No. of equity shares outstanding	50,00,000
Basic earnings per share	₹ 2.00
No. of 12% convertible debentures of ₹ 100 each-	1,00,000
Each debenture is convertible into 10 equity shares	
Tax Rate	30%

Compute Diluted Earnings per Share. Working note should form part of the answer.

(b) Differentiate between Amalgamation, Absorption and External Reconstruction. 4

(c) What are the salient features of accounting in computerised environment ? 4

(d) Describe the significance of 'Average Clause' in a fire insurance policy with an example. 4

(e) What are the disadvantages of outsourcing the accounting functions ? 4
