BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

PROFESSIONAL COMPETENCE COURSE

GROUP – I

Model Test Paper – BOS/PCC/ Advanced Accounting – 2/2007

Time : 3 hours *Maximum Marks : 100*

PAPER – 1 : ADVANCED ACCOUNTING

*Answer **all** questions.*

1. The following are the Balance Sheets of RS Ltd. and XY Ltd. as on 31.3.2006:

Rs. in '000s

Liabilities	*RS Ltd.*	*XY Ltd.*	*Assets*	*RS Ltd.*	*XY Ltd.*
	Rs.	*Rs.*		*Rs.*	*Rs.*
Share Capital:			Fixed Assets net of		
Equity Shares of Rs. 100 each fully paid up	2,000	1,000	depreciation	2,700	850
			Investments	700	–
Reserves and Surplus	800	–	Sundry Debtors	400	150
10% Debentures	500	–	Cash and Bank	250	–
Loan from Financial Institutions	250	400	Profit and Loss Account	–	800
Bank Overdraft	–	100			
Sundry Creditors	300	300			
Proposed Dividend	200	—			
Total	4,050	1,800	Total	4,050	1,800

It was decided that XY Ltd. will acquire the business of RS Ltd. for enjoying the benefit of carry forward of business loss. After acquisition, XY Ltd. will be renamed as XYZ Ltd. The following scheme has been approved for the merger:

(i) XY Ltd. will reduce its shares to Rs. 10 and then consolidate 10 such shares into one share of Rs. 100 each (New Share).

(ii) Financial institutions agreed to waive 15% of the loan of XY Ltd.

(iii) Shareholders of RS Ltd. will be given one new share of XY Ltd. in exchange of every share held in RS Ltd.

(iv) RS Ltd. will cancel 20% holding of XY Ltd. Investments were held at Rs. 250 thousands.

(v) After merger the proposed dividend of RS Ltd. will be paid to the shareholders of RS Ltd.

(vi) Authorised Capital of XY Ltd. will be raised accordingly to carry out the scheme.

(vii) Sundry creditors of XY Ltd. includes payable to RS Ltd. Rs. 1,00,000.

Pass the necessary entries to implement the scheme in the books of RS Ltd. and XY Ltd. and prepare a Balance Sheet of XYZ Ltd. *(20 Marks)*

2. (a) From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2007 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.3.2007

	Rs. '000		*Rs.'000*
Balance on 1.4.2006	50	Payment to Suppliers	2,000
Issue of Equity Shares	300	Purchase of Fixed Assets	200
Receipts from Customers	2,800	Overhead expense	200
Sale of Fixed Assets	100	Wages and Salaries	100
		Taxation	250
		Dividend	50
		Repayment of Bank Loan	300
		Balance on 31.3.2007	150
	3,250		3,250

(b) Department X sells goods to Department Y at a profit of 25% on cost and to Department Z at 10% profit on cost. Department Y sells goods to X and Z at a profit of 15% and 20% on sales, respectively. Department Z charges 20% and 25% profit on cost to Department X and Y, respectively.

Department Managers are entitled to 10% commission on net profit subject to unrealised profit on departmental sales being eliminated. Departmental profits after charging Managers' commission, but before adjustment of unrealised profit are as under :

	Rs.
Department X	36,000
Department Y	27,000
Department Z	18,000

Stock lying at different departments at the end of the year are as under :

	Dept. X *Rs.*	*Dept. Y* *Rs.*	*Dept. Z* *Rs.*
Transfer from Department X	—	15,000	11,000
Transfer from Department Y	14,000	—	12,000
Transfer from Department Z	6,000	5,000	—

Find out the correct departmental Profits after charging Managers' commission

(6 +6 = 12 Marks)

3. (a) Ajay, Vijay, Ram and Shyam are partners in a firm sharing profits and losses in the ratio of 4 : 1 : 2 : 3. The following is their Balance Sheet as at 31st March, 2006 :

Liabilities		*Rs.*	*Assets*	*Rs.*
Sundry Creditors		3,00,000	Sundry Debtors	3,50,000
Capital A/cs :			Less: Doubtful Debts	50,000
Ajay	7,00,000			3,00,000
Shyam	3,00,000	10,00,000	Cash in hand	1,40,000
			Stocks	2,00,000
			Other Assets	3,10,000
			Capital A/cs:	
			Vijay	2,00,000
			Ram	1,50,000
		13,00,000		13,00,000

On 31st March, 2006, the firm is dissolved and the following points are agreed upon:

Ajay is to takeover sundry debtors at 80% of book value

Shyam is to takeover the stocks at 95% of the value and

Ram is to discharge sundry creditors.

Other assets realise Rs. 3,00,000 and the expenses of realisation come to Rs.30,000.

Vijay is found insolvent and Rs. 21,900 is realised from his estate.

Prepare Realisation Account and Capital Accounts of the partners. Show also the Cash A/c.

The loss arising out of capital deficiency may be distributed following the decision in Garner vs Murray.

(b) On 1st December, 2005, Vishwakarma Construction Co. Ltd. undertook a contract to construct a building for Rs. 85 lakhs. On 31st March, 2006 the company found that it had already spent Rs. 64,99,000 on the construction. Prudent estimate of additional cost for completion was Rs. 32,01,000. What amount should be charged to revenue in the final accounts for the year ended 31st March, 2006 as per provisions of Accounting Standard 7 (Revised)?

(c) A fire occurred in the premises of Agni on 25th August, 2006 when a large part of the stock was destroyed. Salvage was Rs. 15,000. Agni gives you the following information for the period of January 1, 2006 to August 25th, 2006:

(a) Purchases Rs. 85,000.

(b) Sales Rs. 90,000

(c) Goods costing Rs. 5,000 were taken by Agni for personal use.

(d) Cost price of stock on January 1, 2006 was Rs. 40,000

Over the past few years, Agni has been selling goods at a consistent gross profit margin of 33-1/3%.

The insurance policy was for Rs. 50,000. It included an average clause.

Agni asks you to prepare a statement of claim to be made on the insurance company. *(12+5+4=21 Marks)*

4. (a) From the following receipts and payments account of Mumbai Club, prepare income and expenditure account for the year ended 31.12.2006 and its balance sheet as on that date:

Receipts	*Rs.*	*Payments*	*Rs.*
Cash in hand	4,000	Salary	2,000
Cash at bank	10,000	Repair expenses	500
Donations	5,000	Purchase of furniture	6,000
Subscriptions	12,000	Misc. expenses	500
Entrance fees	1,000	Purchase of investments	6,000
Interest on investments	100	Insurance premium	200
Interest received from bank	400	Billiard table	8,000
Sale of old newspaper	150	Paper, ink etc.	150
Sale of drama tickets	1,050	Drama expenses	500
		Cash in hand (closing)	2,650
		Cash at bank (closing)	7,200
	33,700		33,700

Information:

1. Subscriptions in arrear for 2006 Rs. 900 and subscriptions in advance for 2006 Rs.350.
2. Insurance premium outstanding Rs. 40.
3. Misc. expenses prepaid Rs. 90.
4. 50% of donation is to be capitalized.
5. Entrance fees are to be treated as revenue income.
6. 8% interest has accrued on investment for five months.
7. Billiard table costing Rs. 30,000 was purchased during the last year and Rs. 22,000 were paid for it.

(b) Calculate Average Due date from the following information:

Date of the bill	*Term*	*Amount Rs.*
August 10, 2004	3 months	6,000
October 23, 2004	60 days	5,000
December 4, 2004	2 months	4,000
January 14, 2005	60 days	2,000
March 08, 2005	2 months	3,000

(10 +5= 15 Marks)

5. Answer any ten of the following (Give adequate reasoning or working notes in support of your answer) :

(i) All significant accounting policies adopted in preparation and presentation of financial statements must be disclosed. State whether the statement is true or false.

(ii) A, B and C share profits and losses in the proportion of 6/14, 5/14 and 3/14 respectively: They agreed to take D into partnership and give him 1/8th share. Compute new profit sharing ratio between A B, C and D.

(iii) As per the decision in Garner vs. Murray the loss on account of insolvency of a partner should be borne by the solvent partners in their profit sharing ratio. State the validity of the statement.

(iv) M/s Dogra & Co. installed a machinery for Rs. 5,00,000 on 1.1.2000. They were charging deprecation on straight line basis taking useful life of the machine as 10 years. In December, 2006 they found that the machine became obsolete which could not be used. The machine can fetch only Rs. 50,000. Classify this loss into capital or revenue.

(v) During 2005, subscription received in cash in Rs. 42,000. It includes Rs. 1,600 for 2004 and Rs. 600 for 2006. Also Rs. 3,000 has still to be received for 2005. Calculate amount to be credited to income and Expenditure Account in respect of subscription.

(vi) The company deals in two products, A and B, which are neither similar nor interchangeable. At the time of closing of its account for the year 2005-06, the Historical Cost and Net Realizable Value of the items of closing stock are determined as follows:

Items	*Historical Cost (Rs. in lakhs)*	*Net Realisable Value (Rs. in lakhs)*
A	40	28
B	16	24

What will be the value of Closing Stock?

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

Year	*SLM (Rs. in lakhs)*	*W.D.V. (Rs. in lakhs)*
1	7.80	21.38
2	7.80	15.80
	15.60	37.18
3	7.80	6.38

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 two years?

(viii) A Ltd. take over B Ltd. on April 01, 2007 and discharges consideration for the business as follows:

(a) Issued 42,000 fully paid equity shares of Rs. 10 each at par to the equity shareholders of B Ltd.

(b) Issued fully paid up 15% preference shares of Rs. 100 each to discharge the preference shareholders (Rs. 1,70,000) of B Ltd. at a premium of 10%.

(c) It is agreed that the debentures of B Ltd. (Rs. 50,000) will be converted into equal number and amount of 13% debentures of A Ltd.

Calculate the amount of purchase consideration.

(x) ABC Ltd. is constructing a fixed asset. Following are the expenses incurred on the construction:

Materials	Rs. 10,00,000
Direct Expenses	Rs. 2,50,000
Total Direct Labour	Rs. 5,00,000

(1/10th of the total labour time was chargeable to the construction)

Total office & administrative expenses	Rs. 8,00,000
(5% is chargeable to the construction)	
Depreciation on the assets used for the construction of this assets	Rs. 10,000

Calculate the cost of fixed assets.

(xi) In Account current, red-ink interest is treated as negative interest. Judge the validity of the statement. *(10 x 2= 20 Marks)*

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

(i) X Ltd. entered into an agreement to sell its immovable property included in the Balance Sheet at Rs.10 lacs to another company for Rs.15 lacs. The agreement to sell was concluded on 28th February, 2006 and the sale deed was registered on 1st May, 2006. Comment with reference to AS 4.

(ii) A Pharma Company spent Rs. 33 lakhs during the accounting year ended 31st March, 2006 on a research project to develop a drug to treat "AIDS". Experts are of the view that it may take four years to establish whether the drug will be effective or not and even if found effective it may take two to three more years to produce the medicine, which can be marketed. The company wants to treat the expenditure as deferred revenue expenditure. Comment.

(iii) Distinguish between Receipt and Payment and Income and Expenditure account.

(iv) Explain 'Classification of Advances' in the case of a Banking Company.

(v) State the different types of Leases contemplated in Accounting Standard 19 and discuss briefly. *(4x3 =12 Marks)*