



BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
PROFESSIONAL COMPETENCE COURSE
GROUP – I

Model Test Paper – BOS/PCC/ Advanced Accounting – 1/2007

Time : 3 hours

Maximum Marks : 100

PAPER – 1 : ADVANCED ACCOUNTING

Answer all questions.

1. The following information relates to the business of Mr. Ashok, who requests you to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2006 and a Balance Sheet as on that date:

(a)	Balance as on 31st	Balance as on 31st
	March, 2005	March, 2006
	Rs.	Rs.
Building	3,20,000	3,60,000
Furniture	60,000	68,000
Motorcar	80,000	80,000
Stocks	–	40,000
Bills payable	28,000	16,000
Cash and Bank balances	1,80,000	1,04,000
Sundry Debtors	1,60,000	–
Bills receivable	32,000	28,000
Sundry Creditors	1,20,000	–

(b) Cash transactions during the year included the following besides certain other items:

	Rs.		Rs.
Sale of old papers and miscellaneous income	20,000	Cash purchases	48,000
Miscellaneous Trade expenses (including salaries etc.)	80,000	Payment to creditors	1,84,000
Collection from debtors	2,00,000	Cash Sales	80,000

(c) Other information:

- (i) Bills receivable drawn during the year amount to Rs. 20,000 and Bills payable accepted Rs. 16,000.
- (ii) Some items of old furniture, whose written down value on 31st March, 2005 was Rs. 20,000 was sold on 30th September, 2005 for Rs. 8,000. Depreciation is to be provided on Building and Furniture @ 10% p.a. and on Motorcar @ 20% p.a. Depreciation on sale of furniture to be provided for 6 months and for additions to Building for whole year.
- (iii) Of the Debtors, a sum of Rs. 8,000 should be written off as Bad Debt and a reserve for doubtful debts is to be provided @ 2%.
- (iv) Mr. Shivkumar has been maintaining a steady gross profit rate of 30% on turnover.
- (v) Outstanding salary on 31st March, 2005 was Rs. 8,000 and on 31st March, 2006 was Rs. 10,000. On 31st March, 2005 Profit and Loss Account had a credit balance of Rs. 40,000.
- (vi) 20% of total sales and total purchases are to be treated as for cash.
- (vii) Additions in Furniture Account took place in the beginning of the year and there was no opening provision for doubtful debts. (20 Marks)

2. (a) Omega Corporation sells computers on hire purchase basis at cost plus 25%. Terms of sales are Rs. 10,000 as down payment and 8 monthly instalments of Rs.5,000 for each computer. From the following particulars prepare Hire Purchase Trading Account for the year 2006.

As on 1st January, 2006 last instalment on 30 computers was outstanding as these were not due up to the end of the previous year.

During 2006 the firm sold 240 computers. As on 31st December, 2006 the position of instalments outstanding were as under :

Instalments due but not collected :

2 instalments on 2 computers and last instalment on 6 computers.

Instalments not yet due :

8 instalments on 50 computers, 6 instalments on 30 computers and last instalment on 20 computers.

Two computers on which 6 instalments were due and one instalment not yet due on 31.12.2006 had to be repossessed. Repossessed stock is valued at 50% of cost. All other instalments have been received.

- (b) The following is an extract from the Trial Balance of Dream Bank Ltd. as at 31st March, 2006:

Rebate on bills discounted as on 1-4-2005	68,259 (Cr.)
Discount received	1,70,156 (Cr.)

Analysis of the bills discounted reveals as follows:

Amount (Rs.)	Due date
2,80,000	June 1, 2006
8,72,000	June 8, 2006
5,64,000	June 21, 2006
8,12,000	July 1, 2006
6,00,000	July 5, 2006

You are required to find out the amount of discount to be credited to Profit and Loss account for the year ending 31st March, 2006 and pass Journal Entries. The rate of discount may be taken at 10% per annum. (8 + 8 = 16 Marks)

3. (a) Mr. A owed Rs. 4,000 on 1st January, 2004 to Mr. X. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

	Rs.
15 January, 2004 Mr. X sold goods to Mr. A	2,230
29 January, 2004 Mr. X bought goods from Mr. A	1,200
10 February, 2004 Mr. A paid cash to Mr. X	1,000
13 March, 2004 Mr. A accepted a bill drawn by Mr. X for one month	2,000

They agree to settle their complete accounts by one single payment on 15th March, 2004. Prepare Mr. A in Account Current with Mr. X and ascertain the amount to be paid. Ignore days of grace.

- (b) On 1.4.2005, Mr. Krishna Murty purchased 1,000 equity shares of Rs. 100 each in TELCO Ltd. @ Rs. 120 each from a Broker, who charged 2% brokerage. He incurred 50 paise per Rs. 100 as cost of shares transfer stamps. On 31.1.2006 Bonus was declared in the ratio of 1 : 2. Before and after the record date of bonus shares, the shares were quoted at Rs. 175 per share and Rs. 90 per share

respectively. On 31.3.2006 Mr. Krishna Murty sold bonus shares to a Broker, who charged 2% brokerage.

Show the Investment Account in the books of Mr. Krishna Murty, who held the shares as current assets and closing value of investments shall be made at Cost or Market value. (6+6 = 12 Marks)

4. (a) The balance sheet of A & B, a partnership firm, as at 31st March, 2006 is as follows.

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Capital accounts:		Goodwill	14,000
A 26,400		Land and building	14,400
B <u>33,600</u>	60,000	Furniture	2,200
Contingency reserve	6,000	Stock	26,000
Sundry creditors	9,000	Sundry debtors	6,400
		Cash at bank	<u>12,000</u>
	<u>75,000</u>		<u>75,000</u>

A & B share profits and losses as 1:2. They agree to admit C (who is also in business on his own) as a third partner from 1.4.2006.

The assets are revalued as under:

Goodwill Rs. 18,000, land and building Rs. 30,000 and furniture Rs. 6,000. C brings the following assets into the partnership: goodwill Rs. 6,000, furniture Rs. 2,800 and stock Rs. 13,600.

Profits in the new firm are to be shared equally by the three partners and the capital accounts are to be so adjusted as to be equal. For this purpose, additional cash should be brought in by the partner or partners concerned.

Prepare the necessary accounts and the opening balance sheet of new firm, showing the amounts of cash, if any, which each partner may have to provide.

- (b) The position of Unfortunate Ltd. on its liquidation is as under:

Issued and paid up Capital:

3,000 11% preference shares of Rs. 100 each fully paid.

3,000 Equity shares of Rs. 100 each fully paid.

1,000 Equity shares of Rs. 50 each Rs. 30 per share paid.

Calls in Arrears are Rs. 10,000 and Calls received in Advance Rs. 5,000. Preference Dividends are in arrears for one year. Amount left with the liquidator after discharging all liabilities is Rs. 4,13,000. Articles of Association of the company provide for payment of preference dividend arrears in priority to return of equity capital. You are required to prepare the Liquidators final statement of account.

- (c) From the following figures appearing in the books 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, 2006 :

	Direct Business	Re-Insurance
	Rs.	Rs.
Claim paid during the year	46,70,000	7,00,000
Claim Payable— 1st April, 2005	7,63,000	87,000
31st March, 2006	8,12,000	53,000
Claims received	—	2,30,000
Claims Receivable—1st April, 2005	—	65,000
31st March, 2006	—	1,13,000
Expenses of Management (includes Rs. 35,000 Surveyor's fee and Rs. 45,000 Legal expenses for settlement of claims)	2,30,000	—

(10+5+ 5= 20 Marks)

5. Answer any **ten** of the following (Give adequate reasoning or working notes in support of your answer) :
- The economic life of an enterprise is artificially split into periodic intervals in accordance with the going concern assumptions. Is the statement true or false?
 - If payment is made on the average due date, it results in loss of interest to creditors. Is the statement true or false?
 - During the year 2005-2006, a medium size manufacturing company wrote down its inventories to net realisable value by Rs. 5,00,000. Is a separate disclosure necessary in final accounts?
 - A, B and C are partners with profit sharing ratio 5:3:2. A wants to retire , B and C agreed to continue at 2:1. Find the profit gaining ratio between B and C.
 - If there appears a sports fund, the expenses incurred on sports activities will be taken to income and expenditure account. State whether the statement is true or false.
 - Joint life policy is taken by the partners in order to provide working capital for the firm. Is the statement true or false?
 - The company finds that the stock sheets of 31.3.2006 did not include two pages containing details of inventory worth Rs. 14.5 lakhs. State, how you will deal with this matter in the accounts of U Ltd. for the year ended 31st March, 2007 with reference to AS 5.
 - Following are the statements of interest on advances in respect of performing and non-performing assets of Madura Bank Ltd. Find out the income to be recognised for the year ended 31st March. 2006.

	<i>(Rs. in lakhs)</i>	
Performing Assets	Interest earned	Interest received
Cash credit and overdrafts	1,800	1,060
Bills purchased and discounted	700	550
Non-performing Assets		
Cash credit and overdrafts	450	70
Bills purchased and discounted	350	36

(ix) Pass journal entries in year 1 in the case of the issue of debentures by ABC Co. Ltd.:

Issued Rs. 1,00,000, 11% debentures at 95% redeemable at the end of 10 years at 102%.

(x) In self balancing system, whenever a balance is transferred from an account in one ledger to that in another, only one entry is recorded through the respective ledger. State whether the statement is true or false.

(xi) Net profit for the current year Rs. 1,00,00,000

No. of equity shares outstanding	50,00,000
Basic earnings per share	Rs. 2.00
No. of 12% convertible debentures of Rs. 100 each	1,00,000
Each debenture is convertible into 10 equity shares	
Interest expense for the current year	Rs. 12,00,000
Tax relating to interest expense (30%)	Rs. 3,60,000

Compute Diluted Earnings Per Share.

(10x 2= 20 Marks)

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

- (i) Explain the salient features of a computerized accounting system in brief.
- (ii) Explain the provisions contained in the Accounting Standard in respect of Revaluation of fixed assets.
- (iii) X Co. Ltd. charged depreciation on its asset on SLM basis. For the year ended 31.3.2006 it changed to WDV basis. The impact of the change when computed from the date of the asset coming to use amounts to Rs. 20 lakhs being additional charge.
Decide how it must be disclosed in Profit and loss account. Also, discuss, when such changes in method of depreciation can be adopted by an enterprise as per AS 6.
- (iv) When Capitalisation of borrowing cost should cease as per Accounting Standard 16?
- (v) List the preferential creditors, who are eligible for preferential payment upon insolvency of an individual. *(4 x 3 = 12 Marks)*