PCC MAY 2008

ACCOUNANCY

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

Answer **all** questions.

Wherever applicable appropriate, suitable assumptions should be made by the candidate.

Working notes should form part of the answer.

Marks 20

1. A. B and C are partners of the firm ABC & Co., sharing profits and losses in the ratio of 5: 3: 2.
Following is the Balance Sheet of the firm as at 31.3.2008:

Balance Sheet as at 31.3.2008

Liabilities	Rs.	Assets	Rs.
Partners Capital A/cs:		Goodwill	1,00,000
A	4,50,000	Building	10,50,000
B	1,30,000	Machinery	6,50,000
C	1,70,000	Furniture	2,15,000
Investment fluctuation reserve	1,00,000	Investments (Market value Rs.75,000)	60,000
Contingency reserve	75,000	Stock	6,50,000
Long-term loan	15,00,000	Sundry debtors	6,95,000
Bank overdraft	2,20,000	Advertisement suspense	25,000
Sundry creditors	8,00,000		
	34,45,000		34,45,000

It was decided that B would retire from the partnership on 1.4.2008 and D would be admitted as a partner on the same date. Following adjustments are agreed amongst the partners for the retirement/admission

(i) Goodwill is to be valued at Rs. 5,00,000, but the same will not appear as an Asset in the books of the firm.

(ii) Building and Machinery are to be revalued at Rs. 10,00,000 and Rs. 5,20,000 respectively.

(iii) Investments are to be taken over by B at the market value.

(iv) Provision for doubtful debts to be maintained at 20% on sundry debtors.

(v) The Capital of the reconstituted firm will be Rs. 10,00,000 to be contributed by the partners A, C and D in their new Profit Sharing ratio of 2:2:1.

(vi) Surplus funds if any will be used to pay the bank overdraft.

(vii) Amount due to retiring partner B will be transferred to his loan account.

Prepare:

(i) Revaluation Account;

(ii) Capital Accounts of the partners; and

(iii) Balance Sheet of the firm after reconstitution.

2. Following are the summarised Balance Sheets of A Ltd. and B Ltd. as at 31.3.2008 : 16

Particulars	A Ltd.	B Ltd.
Share Capital : Equity shares 10 each (fully paid up)	10,00,000	6,00,000
Share premium	2,00,000	-
General reserve	3,00,000	2,50,000
Profit and Loss account	1,80,000	1,60,000
10% debentures	5,00,000	-
Secured loan	-	3,00,000
Sundry creditors	2,60,000	1,70,000
	24,40,000	14,80,000
Land and Building	9,00,000	4,50,000
Plant and Machinery	5,00,000	3,80,000
Investment (5,000 shares of B Ltd.)	80,000	-
Stock	5,20,000	3,50,000
Debtors	4,10,000	2,60,000
Cash at bank	30,000	40,000
	24,40,000	14,80,000

The companies agree on a scheme of amalgamation on the following terms:

(i) A new company is to be formed by name AB Ltd.

(ii) AB Ltd. to take over all the assets and liabilities of the existing companies.

(iii) For the purpose of amalgamation, the shares of the existing companies are to be valued as under

A Ltd. = Rs. 18 per share

B Ltd. = Ks. 20 per share

(iv) A contingent liability of A Ltd. of Rs. 60,000 is to be treated as actual existing liability.

(v) The shareholders of A Ltd. and B Ltd. are to be paid by issuing sufficient number of shares of AB Ltd. at a premium of Rs. 6 per share.

(vi) The face value of shares of AB Ltd. are to be of Rs. 10 each.

You are required to :

(i) Calculate the purchase consideration (i.e. number of shares to be issued to A Ltd. and B Ltd.).

(ii) Pass journal entries in the books of A Ltd. for the transfer of assets and liabilities.

(iii) Pass journal entries in the books of AB Ltd. for acquisition of A Ltd. and B Ltd.

(iv) Prepare the Balance Sheet of AB Ltd.

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3. (a) On 11.11.2007 the premises of Rocky Ltd. was destroyed by fire. The following information is made available:

	Rs.
Stock as on 1.4.2006	3,75,000
Purchase from 1.4.2006	5,20,000
Sales from 1.4.2006 to 31.3.2007	8,55,000
Stock as on 31.3.2007	2,00,000
Purchase from 1.4.2007	3,41,000
Sales from 1.4.2007 to 11.11.2007	4,35,500

In valuing the stock on 31.3.2007, due to damage 50% of the value of the stock which originally cost Rs. 22,000 was written off.

In June, 2007 about 50% of this stock was sold for Rs. 5,500 and the balance of obsolete stock is expected to realise the same price (i.e. 50c'o of the original cost).

The gross profit ratio is to be assumed as uniform in respect of other sales. Stock salvaged from fire amounts to Rs. 11,500.

Compute the value of stock lost in fire.

(b) From the following prepare General Ledger Adjustment account in Debtors Ledger and Debtors Ledger adjustment in General Ledger:

	Rs.
Balance as on 1.4.2008	
Debit balances in Debtors Ledger	2,46,200
Credit balances in Debtors Ledger	3,400
Transactions during the month of April, 2008	
Credit sales	9,74,900
Sales return	21,700
Cash received from debtors	8,62,100
Discount allowed to debtors	39,200
Bills receivable received from debtors	51,200
Bills receivable dishonoured	3,500
Bills payable given to suppliers	27,000
Credit balances in Debtors Ledger on 30.4.2008	5,200

Marks 16

4. Following is the Receipts and Payments Account of Mayur Club for the year ended 31st March, 2008:

Receipts	**Rs.**	**Payments**	**Rs.**
Opening balance (1.4.2007)		Payments:	
Cash on hand	39,100	Sports materials	3,04,500
Cash at bank	50,000	Salaries	3,15,000
Receipts:	1,70,000	Equipment purchased on	
Subscriptions		1.10.2007	60,000
For the year 2006-07	18,000	Bank fixed deposit on 31.3.2008	
For the year 2007-08	9,63,000	Rent	1,50,000
For the year 2008-09	4,500	Ground maintenance	1,48,500
Interest on bank		Insurance	22,120
Fixed deposits @ 10%	45,000	Stationery	38,400
		Sundry expenses	3,450
		Closing balance as on 31.3.2008	5,880
		Cash on hand	
		Cash at bank	
			31,750
			40,000
	11,19,600		11,19,600

Following additional information is provided to you;

(i) The Club has 220 members. The annual subscription is Rs. 4,500 per member.

(ii) Depreciation to be provided on Furniture at 10% p.a. and on Sports equipment at 15% p.a.

(iii) On 31st March, 2008, stock of sports material in hand (after member: use during the year) is valued at Rs. 78,000 and stock of stationery at Rs. 3,150. Rent for 1 month is outstanding. Unexpired insurance amounts to Rs. 9,600

(iv) On 31st March, 2007 the Club had the following Assets

	Rs.
Furniture	2,70,000
Sports equipment	1,80,000

Bank fixed deposit	4,50,000
Stock of stationery	1,500
Stock of sports material	73,500
Unexpired insurance	8,400
Subscription in arrear	22,500

Note: There was no liability on 31.3.2007.

You are required to prepare

(i) Income and Expenditure Account; and

(ii) Balance Sheet as at 31st March, 2008.

5. Answer any **eight** out of the following : 8X2=16

(i) Mr. A advanced Rs. 30,000 to Mr. B on 1.4.2008. The amount is repayable in 6 equal monthly instalments commencing from 1..5.2008. Compute the average due date for the loan.

(ii) A company sold 25% of the goods on cash basis and the balance on credit basis. Debtors are allowed 2 months credit and their balance as on 31.3.2008 is Rs. 1,40,000. Assume that the sale is uniform through out the year. Calculate the total sales of the company for the year ended 31.3.2008.

(iii) In a concern, the opening provision for doubtful debts is Rs. 51,000. During the year a sum of Rs. 10,000 was written off as bad debt. The closing balance of sundry debtors amounts to Rs. 6,30,000. It was decided that 10% of the debtor is to be maintained as provision. Calculate the closing balance towards provision for doubtful debts and pass journal entry for giving effect to the provision maintained.

(iv) How would you record a non-monetary grant received from the Government as per AS-12?

(v) What is the accounting entry to be passed as per AS-10 for the following situations:

(a) Increase in value of fixed asset by Rs. 50,00,000 on account of revaluation.

(b) Decrease in the value of fixed asset by Rs. 30,00,000 on account of revaluation.

(vi) "One of the characteristics of financial statements is neutrality" – Do you agree with this statement?

(vii) An industry borrowed Rs. 40,00,000 for purchases of machinery on 1.6.2007. Interest on loan is 9% per annum. The machinery was put to use from 1.1.2008. Pass journal entry for the year ended 31.3.2008 to record the borrowing cost of loan as per AS-16.

(viii) What is Account Current?

(ix) Domestic Assurance Co. Ltd. received Rs. 5,90,000 as premium on new policies and Rs. 1,20,000 as renewal premium. The company received Rs.90,000 towards reinsurance accepted and paid Rs. 70,000 towards reinsurance ceded. How much will be credited to Revenue Account towards premium?

(x) A loan outstanding of Rs. 50,00,000 has DICGC cover. The loan guaranteed by DICGC is assigned a risk weight of 50%. What is the value of Risk adjusted asset?

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

(a) When can an item quality to be a prior period item as per AS-5?

(b) Ram & Co. acquired a motor lorry on hire-purchase basis. It has to make cash down payment of Rs. 1,00,000 at the beginning. The payments to be made subsequently are Rs. 2,63,000; Rs. 1,85,000 and Rs. 1,14,000 at the end of first year, second year and third year respectively. Interest charged is @ 14% per annum. Calculate the cost price of motor lorry and interest paid in each instalment.

(c) Explain Garner v/s Murray rule applicable in the case of partnership firms. State when is this rule not applicable.'

(d) Albert Ltd. issued 50,00,000 Equity shares of Rs. 10 each. The whole issue was underwritten by A, B and C as below:

A 15,00,000 shares

B 25,00,000 shares

C 10,00,000 shares

Applications were received for 48,50,000 shares of which the marked applications were as follows:

A 12,00,000 shares

B 25,00,000 shares

C 8,50,000 shares

Calculate the number of shares to be taken up by the underwriters.

(e) Explain the factors to be considered before selecting the pre=packaged accounting software.

(f) What are the items that are to be excluded in determination of the cost of inventories as per AS-2?