

PCC- NOVEMBER – 2007 (ADVANCED ACCOUNTANCY)

ANSWER ALL QUESTIONS

1. X and Y are partners sharing Profits and Losses in the ratio 3 : 2 . On 30th September, 2006 they admitted Z as partner. The new Profit sharing ratio agreed was 2 : 2 : 1.

At the time of admission Z brought in a fixture valued at Rs.6,000 and a machinery worth Rs.24,000. No accounting entry was passed for the fixture brought in by partner Z in the books of the firm.

Also at the time of admission the valuation of goodwill was made. The value of goodwill of X and Y was decided at Rs.40,000 and value of goodwill of partner Z was fixed at Rs.20,000. No effect was given to the goodwill value in the books of the firm.

On 31.3.2007, it was decided that partner X would retire and the other partners viz., Y and Z would continue the business of the firm by converting it into a company called YZ Ltd., with equal shareholding in the Company.

The partner agreed as below:

- (i) The goodwill of the firm shall be fixed at Rs.80,000. Necessary effect for goodwill value not recorded earlier shall be given. The present goodwill value being Rs.80,000 shall be reflected in the books of the company.
- (ii) All the Assets and Liabilities of the firm shall be taken over by the company.
- (iii) Partner X would take Motor car of the firm at a value of Rs.7,400.
- (iv) A plant owned by the firm is sold for Rs.6,000.
- (v) The profit of the firm upto 30.9.2006 was Rs.44,000.
- (vi) Partner X agreed to leave Rs.90,000 as loan with the firm in return for 12% interest per annum.

Following is the Trial Balance of the firm as on 31.3.2007

Particulars	Dr.	Cr.
Capital Account:		
X	-	80,000
Y	-	50,000
Z	-	24,000
Drawings Account:		
X	22,000	-
Y	20,000	-
Z	9,600	-
Sundry Debtors	70,000	-
Sundry Creditors	-	32,000
Plant (Book value of plant sold Rs.8,000)	46,000	-
Fixtures	14,000	-
Stock	-	24,000
Motor Car	5,400	-
Cash at Bank	34,600	-
Profit and Loss A/c (for the year)	-	59,600

You are required to Prepare:

- (i) Goodwill Adjustment Account
- (ii) Profit and Loss Appropriation Account
- (iii) Partners Capital Accounts
- (iv) Balance Sheet of YZ Ltd. after Conversion.

(20 Marks)

2. Following is the Balance Sheet of ABC Ltd. as at 31st March, 2007:

Liabilities	Amount	Assets	Amount
Share Capital: 2,00,000 Equity Shares of Rs.10 each fully paid up	20,00,000	Plant and Machinery	9,00,000
6,000 8% preference shares of Rs.100 each	6,00,000	Furniture and Fixtures	2,50,000
9% Debentures	12,00,000	Patents and Copyrights	70,000
Bank Overdraft	1,50,000	Investments (at cost)	68,000
Sundry Creditors	5,92,000	(Market value Rs.55,000)	
	45,42,000	Stock	14,00,000
		Sundry Debtors	14,39,000
		Cash and Bank Balance	10,000
		Profit and Loss	4,05,000
			45,42,000

The following scheme of reconstruction was finalized:

- (i) Preference shareholders would give up 30% of their Capital in exchange for allotment of 11% Debentures to them.
- (ii) Debenture holders having charge on Plant and Machinery would accept Plant and Machinery in full settlement of their dues.
- (iii) Stock equal to Rs.5,00,000 in book value will be taken over by Sundry Creditors in full settlement of their dues.
- (iv) Investment value to be reduced to Market price.
- (v) The Company would issue 11% Debentures for Rs.3,00,000 and augment its working capital requirement after settlement of bank overdraft.

Pass necessary Journal Entries in the books of the company. Prepare Capital reduction account and Balance Sheet of the company after internal reconstruction. **(16 Marks)**

3. J Ltd. presents you the following information for the year ended 31st March, 2007:

	(Rs. Lacs)
(i) Net Profit before tax provision	36,000
(ii) Dividend paid	10,202
(iii) Income tax paid	5,100
(iv) Book value of Assets sold	222
Loss on sale of Asset	48
(v) Depreciation debited in P & L account	24,000
(vi) Capital grant received – amortized in P & L Account	10
(vii) Book value of investment sold	33,318
Profit on sale of investment	120
(viii) Interest income from investment credited in P & L A/c	3,000
(ix) Interest expenditure debited in P & L A/c	12,000
(x) Interest actually paid (Financing activity)	13,042
(xi) Increase in working Capital (Excluding cash and Bank Balance).	67,290
(xii) Purchase of fixed assets	22,092
(xiii) Expenditure on construction work	41,688
(xiv) Grant received for Capital projects	18
(xv) Long-term borrowings from Banks	55,866
(xvi) Provision for Income – tax debited in P & L A/c	6,000
Cash and Bank Balance on 1.4.2006	6,000
Cash and Bank Balance on 31.3.2007	8,000

You are required to prepare a Cash flow statement as per AS-3 (Revised). **(16 Marks)**

4. (a) Beta Ltd. having head office at Mumbai has a branch at Nagpur. The Head Office does wholesale trade only at cost plus 80%. The goods are sent to branch at the wholesale price viz., Cost plus 80%. The branch at Nagpur is wholly engaged in retail trade and the goods are sold at cost to H.O. plus 100%.

Particulars	Head Office (Rs.)	Branch (Rs.)
Opening Stock (as on 1.4.2006)	2,25,000	-
Purchases	25,50,000	-
Goods sent to Branch (Cost to H.O. plus 80%)	9,54,000	-
Sales	27,81,000	9,50,000
Office Expenses	90,000	8,500
Selling Expenses	72,000	6,300
Staff Salary	65,000	12,000

You are required to prepare Trading and Profit and Loss Account of the Head Office and Branch for the year ended 31st March, 2007. **(8 Marks)**

- (b) The following information is available in the books of X Bank Limited as on 31st March 2007:

	Rs.
Bills discounted	1,37,05,000
Rebate on Bills discounted (as on 1.4.2006)	2,21,600
Discount received	10,56,650

Details of bills discounted are as follows:

Value of bill Rs.	Due date	Rate of Discount
18,25,000	5.6.2007	12%
50,00,000	12.6.2007	12%
28,20,000	25.6.2007	14%
40,60,000	6.7.2007	16%

Calculate the rebate on bills discounted as on 31.3.2007 and give necessary Journal Entries.

- 5) Answer any **EIGHT** out of the following:

- (i) A, B and C are partners sharing Profits and Losses in the ratio 3 : 2 : 1. B retired from the firm. Partners A and C decided to take his share in 3 : 1 ratio. What is the new ratio of the partners A and C?
- (ii) A Company lodged a claim to insurance company for Rs.5,00,000 in September, 2006. The claim was settled in February, 2007 for Rs.3,50,000. How will you record the short fall in claim settlement in the books of the company.
- (iii) X Ltd. acquired a fixed asset for Rs.50,00,000. The estimated useful life of the asset is 5 years. The salvage value after useful life was estimated at Rs.5,00,000. The State Government gave a grant of Rs.10,00,000 to encourage the asset acquisition. At the end of the second year, the subsidy of the State Government became refundable. What is the fixed asset value after refund of grant/subsidy to the State Government but before amortising the asset value at the end of the second year?
- (iv) What is meant by 'Red-Ink interest' in an Account Current?
- (v) What do you understand by the term 'Firm underwriting'?
- (vi) The closing capital of Mr. A on 31.3.2007 was Rs.1,50,000. On 1.4.2006 his capital was Rs.60,000. During the year he had, drawn Rs.40,000 for domestic expenses. He introduced Rs.25,000 as additional Capital in February, 2007. Find out his net Profit for the year.
- (vii) What is the percentage of NPA provision to be made by banks in respect of fully secured doubtful advances of more than 3 years old?
- (viii) A concern made a net profit of Rs.2,00,000 for the year ended 31.3.2007. The normal rate of return in that type of business is 20%. What is the value of business under "Profit Capitalization Method"?
- (ix) What are the two main methods of accounting amalgamation of Companies?
- (x) What is meant by Accounting Estimate? Give two Examples for accounting estimate.

(8 X 2 = 16 Marks)

- 6) Answer any **FOUR** of the following:
- Mention six areas in which different accounting policies are followed by Companies.
 - What are the advantages of outsourcing the accounting functions?
 - A Company purchased its own 11% debentures in the open market for Rs.50,00,000 face value of the debentures purchased is Rs.52,00,000. The Company cancelled the debentures so purchased.
Pass Journal Entries in the books of the Company for purchased and immediate cancellation of debentures.
 - What are the advantages of Self-balancing Ledger System?
 - List the criteria to be applied for rating an enterprise as Level-enterprises for the purpose of Compliance of Accounting Standard in India.
 - From the following information relating of Y Ltd. Calculate Earnings Per Share (EPS).

Rs. in Crores

Profit before V.R.S Payments but after depreciation	75.00
Depreciation	10.00
VRS Payments	32.10
Provision for taxation	10.00
Fringe benefit tax	5.00
Paid up Share Capital (Share of Rs.10 each fully Paid)	

(4 x 4 = 16 Marks)

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