MAY 2010

FINAL
GROUP-I PAPER-1
ADVANCED ACCOUNTING

Roll No...............................

Total No. of Questions—6]

[Total No. of Printed Pages—10

Time Allowed—3 Hours

Maximum Marks—100

RPG

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.

Working notes should form part of the answer.

Wherever necessary suitable assumptions may be made by the candidates.

Marks

1. The summarized Balance Sheets of Kush Ltd. and Shuk Ltd. as at 31st March, 2010 are as follows : 20

(Figures in lakhs)

Liabilities	Kush Ltd. Rs.	Shuk Ltd. Rs.	Assets	Kush Ltd. Rs.	Shuk Ltd. Rs.
Share Capital :			Plant at Costless		
Equity Shares of			Depreciation	86.4	72.9
Rs. 10 each	216.0	108.0	Furniture, Fixtures		
Share Premium	32.4	—	& Fittings	23.4	7.2
Capital Reserve			Stock at Cost	18.0	13.5
on 1.04.09	—	7.2	Debtors	73.8	47.6
General Reserve			Trade Investment	—	2.7
on 1.04.09	13.5	9.0	Goodwill at Cost	45.0	13.6
Profit & Loss A/c	70.2	21.6	Investment :		
Creditors	29.7	19.7	8.64 lakhs Shares of		
			Shuk Ltd. at Cost	97.2	—
			Balance at Bank	18.0	8.0
	361.8	165.5		361.8	165.5

Marks

Additional information :

(1) On 1st April, 2009 Kush Ltd. acquired from the shareholders of Shuk Ltd. 8.64 lakhs shares of Rs. 10 each in Shuk Ltd. and allotted in consideration thereof 6.48 lakhs of its own shares of Rs. 10 each at a premium of Rs. 5 per share.

(2) The consideration for the shares of Shuk Ltd. was arrived at inter-alia by valuing certain assets of Shuk Ltd. on 1st April, 2009 as under :

(i) Plant at Rs. 90 lakhs

(ii) Furniture, Fixtures & Fittings at Rs. 8 lakhs

(iii) No value on Trade Investment and Goodwill.

No adjustments were made in the books of accounts of Shuk Ltd. in respect of the above valuation.

During 2009-10 there was no purchase or sale of these Assets. It is desired that such adjustments should however be made in the Consolidated Accounts.

(3) The figures for Plant and Furniture-Fixtures and Fittings at 31.3.2010 shown in the Balance Sheet are after providing depreciation for 2009-10 at the rates of 10 per cent per annum and 20 per cent per annum respectively, on the Book values as at 1.04,09.

(4) The Profit and Loss Account of Shuk Ltd. showed a Credit balance of Rs. 27 lakhs on 1.04.09. A dividend of 10% was paid in January, 2010 for the year 2008-09. This dividend was credited to Profit and Loss A/c of Kush Ltd.

(5) The following point was not considered in making out the accounts :

In the year expenses at Rs. 4,500 per month were incurred by Kush Ltd. on behalf of Shuk Ltd. It was by mistake debited to Profit and Loss Account of Kush Ltd. and nothing has been done in the accounts of Shuk Ltd.

(6) The stock of Shuk Ltd. included Rs. 4.5 lakhs of goods received from Kush Ltd. invoiced at cost plus 25 per cent.

 Marks

(7) Debtors of Shuk Ltd. include Rs. 3.5 lakhs due from Kush Ltd. whereas Creditors of Kush Ltd. include Rs. 3.1 lakhs due to Shuk Ltd., the difference being represented by a cheque in transit.

You are required to consolidate the accounts of the two companies and prepare a Consolidated Balance Sheet of Kush Ltd. and its subsidiary as at 31st March, 2010.

2. (a) The Summarized Balance Sheet of 'Janmejay' Private Ltd. as on 31.03.2010 is as under : 10

Liabilities	Amount Rs.	Assets		Amount Rs.
Share Capital :		Fixed Assets :		
Equity Shares of		Goodwill		1,75,000
Rs. 10 each	5,00,000	Leasehold Property :	1,60,000	
8% Preference Shares of		(–) Depreciation	70,000	90,000
Rs. 10 each fully paid	2,00,000	Plant & Machinery	2,50,000	
Reserve & Surplus :		(–) Depreciation	25,000	2,25,000
General Reserve	1,00,000	Investment at cost		4,00,000
Profit & Loss A/c	2,20,250	Current Assets :		
Current Liabilities :		Stock at cost		82,500
Bank Loan	1,00,000	Sundry Debtors		40,500
Sundry Creditors	49,750	Balance at Bank		1,57,000
	11,70,000			11,70,000

A holder of 10,000 of the Equity Shares in the company has agreed to sell these shares at a value based on the above Balance Sheet, but subject to adjustment of the valuation of the following :

(1) The leasehold property was acquired on 1.4.2000 and at the Balance Sheet date the lease has a further six years to run. The cost should be written off over the term of the lease by equal annual charges. To date Rs. 7,000 per annum had been written off.

Marks

(2) In 2007-08, goods costing Rs. 6,000 were purchased and have been included since that date at cost in the Stock lists. The goods were valueless on the Balance Sheet date.

(3) An expense Creditor Rs. 3,750 of the current year has been omitted from being recorded in the books.

(4) A General Reserve of 10 per cent on total Debtors, after specific provision for Doubtful Debts, has been made for the First time in the current year accounts.

(5) Goodwill is to be valued at two years' purchase of the average Profits, after the above adjustments, of three years 2007-08; 2008-09; and 2009-10, such profits being those available for dividend for Equity shareholders.

(6) The profits of the company as shown by the accounts before appropriations and before providing for preference dividends were as follows :

Year	Rupees
2007-08	80,400
2008-09	92,900
2009-10	89,650

You are required to compute the total consideration due to the Vending Shareholder.

(b) From the following data compute the Economic Value Added : 6

Share Capital	Rs.	1,600 crores
Long-term Debt	Rs.	320 crores
Interest	Rs.	32 crores
Reserve and Surplus	Rs.	3,200 crores
Profit before Interest and Tax	Rs.	1,432 crores
Tax Rate		30%
Beta Factor		1.05
Market Rate of Return		14%
Risk Free Rate		10%

Marks

3. (a) Modern Cars Ltd. is engaged in the business of manufacture of electric Passenger Cars. The Company requires you to determine the value of its goodwill also showing the leverage effect on goodwill. Its Balance Sheet is as on 31.03.2010 is as under : 10

Balance Sheet of Modern Cars Ltd. as at 31st March, 2010

Liabilities	Rs. (Lakh)	Assets	Rs. (Lakh)	Rs. (Lakh)
Share Capital :		Gross Fixed Assets	1,500	
(Equity Shares of		Less : Depreciation till date	500	1,000
Rs. 10 each)	1,500	Investments :		
General Reserve	500	Non-trade	300	
12% Term Loan from bank	500	Trade	90	390
Creditors	210	Current Assets :		
Provision for Tax	10	Overseas Debtors (1$=INR 42)	420	
Proposed Dividend	140	Indian Debtors	400	820
		Stock in Trade		350
		Cash and Bank Balances		300
	2,860			2,860

Additional information :

The closing exchange rate for the U.S. dollar was INR 48. Income from Non-trade Investments was a loss for the year ended 31.03.2010 owing to write down of cost of acquisition by 4%. There was no other transaction under Non-trade Investments during the year.

Current Year depreciation charged on historical cost was Rs. 100 lakhs. Current cost of Fixed assets is determined at Rs. 2,000 lakhs.

While Current cost of Closing Stock is Rs. 367 lakhs, that of the opening stock was Rs. 200 lakhs against its historical cost of Rs. 148 lakhs. The market value of Non-trade Investments at the year end was Rs. 300 lakhs. The Overseas debtors made settlements in U.S. $ only.

Marks

The Industry Average rate of return on current cost of capital employed is 12% on long-term debt and 15% on equity. The opening balance in General reserve was Rs. 150 lakhs. While prevailing tax rate is 30% such rate is expected to decline by 5%.

Using the above information you are required to arrive at value of the goodwill of the company under equity and long-term fund approaches and also show the leverage effect on Goodwill.

(b) Aakshaya Ltd. has given a 12.50% fixed rate loan to its subsidiary Shaya Ltd. Aakshaya Ltd. measures this loan at an amortised cost of Rs. 2,50,000. Aakshaya Ltd. has plans to hive off the receivable at a later stage and as a measure to safeguard against fall in value of its due enters into a pay-fixed, received floating interest rate swap to convert the fixed interest receipts into floating rate receipts. Aakshaya Ltd. designates the swap as a Hedging instrument in a fair value hedge of the Loan Asset. 6

Over the following months market interest rates increase and Aakshaya Ltd. earns interest income of Rs. 25,000 on the loan and Rs. 1,000 as net interest payments on the swap. The Fair value of the Loan Asset decreases by Rs. 5,000 while that of the interest rate swap increases by 5,000. You are informed that all conditions required for the Hedge Accounting are satisfied. You are required to pass Journal Entries, with suitable narrations, in the books of Aakshaya Ltd. to record the above transactions.

4. (a) Perrotte Ltd. has the following Capital Structure as on 31.03.2009 : 8

Particulars	(Rs. in crores)	
(1) Equity Share Capital (Shares of Rs. 10 each fully paid)	—	330
(2) Reserves and Surplus		
General Reserve	240	—
Share Premium Account	90	—
Profit & Loss Account	90	—
Infrastructure Development Reserve	180	600
(3) Loan Funds		1,800

Marks

The Shareholders of Perrotte Ltd. have on the recommendation of their Board of Directors approved on 12.09.2009 a proposal to buy back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.

The prevailing market value of the company's shares is Rs. 25 per share and in order to induce the existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% over market.

You are also informed that the Infrastructure Reserve is created to satisfy Income-tax Act requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the Loan funds of the company were either Rs. 1,200 crores or Rs. 1,500 crores.

Assuming that the entire buy back is completed by 09.12.2009, show the accounting entries in the company's books in each situation. Narrations should form part of your answer.

(b) Friendly Ltd. granted Rs. 100 lakhs as loan to its employees on 1st January, 2009 at a concessional rate of interest of 4 per cent per annum on the condition that the loan is to be repaid in five equal annual instalments alongwith interest thereon. You are informed that the prevailing lending rate for such risk profiles is 10% p.a. You are required to find out at what value the loan should be recognised initially and the amount of annual amortization till closure thereof. Show Journal Entries with appropriate narrations that will be recorded in the company's Books in the year 2009. 8

[Present value of an Indian Rupee at a discount rate of 10 per cent per annum will be .9090, .8263, .7512, .6829 and .6208 which is to be adopted for purposes of calculation].

Marks

5. (a) A plant was acquired 15 years ago at a cost of Rs. 5 crores. Its accumulated depreciation as at 31st March, 2009 was Rs. 4.15 crores. Depreciation estimated for the Financial year 2009-10 is Rs. 25 lakhs. Estimated Net Selling Price as 31st March, 2009 was Rs. 30 lakhs, which is expected to decline by 20 per cent by the end of the next Financial year. 8

Its value in use has been computed at Rs. 35 lakhs as of 1st April, 2009, which is expected to decrease by 30 per cent by the end of the Financial year.

(i) Assuming that other conditions for applicability of the impairment Accounting Standard are satisfied, what should be the carrying amount of this plant as at 31st March, 2010 ?

(ii) How much will be the amount of write off for the financial year to end on 31st March, 2010 ?

(iii) If the plant had been revalued ten years ago and the current reserves against this plant were to be Rs. 12 lakhs, how would you answer to questions (i) and (ii) above change ?

(iv) If the value in use was zero and the enterprise were required to incur a cost of Rs. 2 lakhs to dispose of the plant, what would be your response to questions (i) and (ii) above ?

(b) 'Suram' Ltd. wants to re-classify its Investment in accordance with AS-13. Decide on the treatment to be given in each of the following cases : 4

(1) A portion of Current Investments purchased for Rs. 20 lakhs to be reclassified as Long-term Investments, as the company has decided to retain them. The market value as on the date of Balance Sheet was Rs. 25 lakhs.

(2) Another portion of Current Investments purchased for Rs. 15 lakhs has to be re-classified as Long-term Investments. The market value of these investments as on the date of Balance Sheet was Rs. 6.5 lakhs.

(3) Certain Long-term Investments no longer considered for holding purposes have to be re-classified as Current Investments. The Original cost of these was Rs. 18 lakhs but they had been written down to Rs. 12 lakhs to recognise permanent decline as per AS-13.

Marks

(c) On 1st December, 2009, "Sampath" Construction Company Limited undertook a contract to construct a building for Rs. 108 lakhs. On 31st March, 2010 the company found that it had already spent Rs. 83.99 lakhs on the construction. A Prudent estimate of additional cost for completion was Rs. 36.01 lakhs. 4

What is the provision for foreseeable loss, which must be made in the Final Accounts for the year ended 31st March, 2010 based on AS-7 on "Accounting for Construction Contracts."

6. (a) From the following data in respect of an employer kindly calculate the total value of Human Capital under 'Lev and Schwartz' Model : 12

Distribution of Employees

	Unskilled		Semi-skilled		Skilled	
Age Group	No.	Average Annual earning Rs.	No.	Average Annual earning Rs.	No.	Average Annual earning Rs.
30–39	100	18,000	60	36,000	40	84,000
40–49	50	30,000	30	48,000	20	1,20,000
50–54	30	36,000	20	60,000	10	1,80,000

Retirement age is 55 years. Apply discount factor of 20%. In calculation of total value of Human factor the lowest value of each class should be taken. Annuity factor @ 20 per cent.

for 5 years	2.991
for 10 years	4.192
for 15 years	4.675
for 20 years	4.870
for 25 years	4.948

Marks

(b) Refiners and Projects Limited is a company in the oil and gas sector. It undertakes extensive research and development work as part of its operations. It has till the end of the financial year 31 March, 2008 spent Rs. 592.23 crores on research expenses. 4

The development of a new process was completed in the accounting year 2008-2009 after incurring an expenditure of Rs. 322.26 crores. In the accounting year 2009-2010, the company implemented the new process resulting in a post tax saving of Rs. 100 crores in the first year of operation and savings of Rs. 80 crores per annum thereafter for the next four years.

The cost of capital to the company is 12 per cent.

Kindly indicate how you will, in the background of accounting standards prescribed, proceed to record the transactions in the books of accounts of the company.

You are given to understand that the research expenses shown above do not include any general or selling and administrative expenses.

The present value discounted at 12 per cent of a Rupee can be adopted at .893, .797, .712, .636 and .567 for the purposes of calculation.