

2007**COMMERCE****Group-I****(Accounting & Control)****(Advanced Financial Accounting and
Contemporary Issues in Accounting)****PAPER-X***Full Marks : 100**Time : 4 hours**The figures in the right-hand margin indicate full marks.**Candidates are required to give their answers in their
own words as far as practicable.**Illustrate the answers wherever necessary.***First Half***(Financial Accounting)**[Marks : 50]*

Answer Q. No. 1 and any other two from the rest.

1. The Balance Sheets of H. Ltd. and S. Ltd. are as follows on 31st December, 2006.

| Liabilities | H. Ltd. Re. | S. Ltd. Rs. |
|-----------------------------|------------------------|------------------------|
| Share Capital (Rs. 10 each) | 1,50,000 | 1,00,000 |
| General Reserve | 20,000 | 36,000 |
| Profit and Loss A/c | 22,000 | 10,000 |
| Creditors | 16,000 | 12,000 |
| | 2,08,000 | 1,58,000 |

(Turn Over)

| Assets | H. Ltd. Rs. | S. Ltd. Rs. |
|------------------------------------|------------------------|------------------------|
| Fixed Assets | 74,000 | 84,000 |
| Investment in S. Ltd. | | |
| 8,000 shares at Rs. 11 each | 88,000 | |
| Others Assets | 46,000 | 74,000 |
| | 2,08,000 | 1,58,000 |

Creditors of S. Ltd. includes Proposed Dividend of Rs. 10,000 for 2006. When the shares were purchased General Reserve and Profit and Loss A/c stood at Rs. 30,000 and Rs. 16,000 respectively. Dividends have been paid at 10% every year after acquisition of shares, first dividend being paid out of Pre-acquisition profits. Shares were purchased on 1.1.2004. on 31.12.2006. Bonus dividend has been declared @ 1 fully paid share for 10 held, and no effect has been given to that in the above accounts.

The bonus was declared out of profits earned prior to 1.1.2004 from **normal reserve**. H. Ltd. has credited all dividends received to Profit and Loss A/c.

When the shares were purchased, agreed valuation of fixed assets in S. Ltd. **was Rs.** 1,08,000, although no effect has been given thereto in accounts. Depreciation has been charged @ 10% p.a. on the book **value as on** 1.1.2004, there being no additional purchase **or sales** since then. Out of current profits Rs. 2,000. has been transferred to General Reserve every year.

Draft a consolidated Balance Sheet as at 31st December, 2006. Detail workings must be shown. 20

OR

1. The following is the **Balance Sheet** of Trymore **Engineering Company Ltd.** as at **31** st March, 2007.

Balance Sheet as on 31 .03.2007

| Liabilities | Amount | Assets | Amount |
|--|---------------|--------------------------------|---------------|
| | Rs. | | Rs. |
| Paid-up Capital : | | Goodwill | 80,000 |
| 3,000 Equity Shares of Rs. 100 each fully paid | 3,00,000 | Plant and Machinery | 2,00,000 |
| | | Patents | 40,000 |
| 2,000 6% Cumulative | | Sundry Fixed Assets | 30,000 |
| Preference Shares of | | Investment | 2,00,000 |
| Rs. 100 each fully paid | 2,00,000 | (Market Value Rs. 1,50,000) | |
| 10% Deben- | | Stock | 1,00,000 |
| tures 2,50,000 | | Sundry Debtors | |
| <i>Add</i> : Interest | | More than 6 months | 25,000 |
| due thereon <u>50,000</u> | 3,00,000 | Others | 1,25,000 |
| Sundry Creditors | 3,50,000 | Cash and Bank | |
| (unsecured) | | Balance | 50,000 |
| | | Profit & Loss A/c | 3,00,000 |
| | 11,50,000 | | 11, 50,000 |

Note : Preference dividends are in 'arrears for 5 years.

The company feels that the worst is over and that a suitable reconstruction scheme will enable the company to regain the lost position in the market.

It is found that the Plant and Machinery. is worth Rs. 1,60,000, Patents are worth Rs. 30,000 and Sundry Fixed Assets are worth Rs. 20,000, Stocks valuing Rs. 25,000 are obsolete, and cannot be sold. Debtors outstanding for more than 6 months are irrecoverable. The decline in the market value of investments is of a permanent nature.

As the Financial Advisor of the Company you are required to suggest an appropriate scheme of Reconstruction and draw up the Balance Sheet of the Company after putting your scheme into effect. 20

2. (a) Write any two duties of an official liquidator in case of compulsory liquidation.
- (b) The following particulars were extracted. from the books of National Ltd. on 1st April, 2007 on which day a winding up order was made

Rs.

Equity Share Capital

| | |
|--|----------|
| 20,000 Shares of Rs. 10 each, Rs. 5 paid up | 1,00,000 |
| 14% Preference Share Capital 20,000 shares of Rs. 10 each, fully paid | 2,00,000 |
| 14% First Mortgage Debentures, secured by a floating charge upon the whole of the assets of the company, exclusive of the uncalled capital | ,50,000 |
| Fully secured creditors (Value of securities, Rs. 35,000) | 30,000 |
| Partly secured creditors (Value of securities Rs. 10,000) | 20,000 |
| Preferential creditors for rates, taxes, wages etc. | 6,000 |
| Bills payable | 1,00,000 |
| Unsecured creditors | 70,000 |
| Bank overdraft. | 10,000 |
| Bills Receivable in hand | 15,000 |
| Bills discounted | 40,000 |

(one bill for Rs. 10,000 known to be bad)

(Contd.)

| | Rs. |
|-------------------------------------|------------|
| Book Debts - Good | 10,000 |
| Doubtful | 7,000 |
| (estimated to produce 50%) | |
| - Bad | 6,000 |
| Land and Building | 1,50,000 |
| (estimated to produce Rs. 1,00,000) | |
| Stock in trade | 50,000 |
| (estimated to produce Rs. 40,000) | |
| Machinery, Tools | 5,000 |
| (estimated to produce Rs. 2,000) | |
| Cash in hand | 100 |

Prepare a statement of affairs as regards creditors and contributories. 2+13

3. The following balances as at 31st March, 2007 have been extracted from. the books of New Insurance Co. Ltd., which . carries out only Fire Insurance Business. In workings only specific items are to be mentioned in their respective schedule.

(Rs. in Crores)

| | |
|--|-----------------|
| Claims less reinsurances | 2,500 |
| Provision for Unexpired risks on 31.3.2006 | 2,000 |
| Premiums less reinsurances | 4,500 |
| Commission on | |
| Direct business | 350 |
| Reinsurance accepted | 150 |
| Reinsurance ceded | 200 |
| Claims outstanding on 1.4.2006 | 50 |
| Bad debts | 10 |
| | <i>(Contd.)</i> |

| (Rs. in Crores) | |
|---|-------|
| Expenses of Management | 895 |
| Share Capital (shares of Rs. 10 each) | 5,000 |
| General Reserve | 2,000 |
| Cash in hand and at Bank | 3,060 |
| Investments | 5,500 |
| Furniture & Equipments | 200 |
| Sundry Creditors | 500 |
| Investment Reserve | 100 |
| Agents' Balances (Debit) | 510 |
| Building | 1,080 |
| Deposit with Reserve Bank of India | 1,270 |
| Profit and Loss Appropriation Account on 1.4.2006 | 800 |
| Amounts due from other insurers | 250 |
| Interest, dividend and rent (Fire) | 626 |

Prepare Revenue Account, Profit and Loss Account and Balance Sheet after taking into consideration the following :

- (i) Claims outstanding on 31.3.2007 were Rs. 100 crore.
- (ii) Provision for taxation is to be made at 35%.
- (iii) The company's directors propose a dividend @ 10% on Share Capital after transfer of Rs. 150 crore to General Reserve. Dividend tax is payable @ 11%.

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4. On 1st April, 2005, National Ltd. issued 8,000, 8% Mortgage Debentures of Rs. 150 each at par, the interest being payable half yearly on 1st April and 1st October. According to the terms of the issue, the debenture holders had the option of getting the debentures converted into

equity shares of Rs. 100 each at a premium of Rs. 50 each on 1st October, 2006. The company had the right to buy at any time its debentures in the open market for cancellation.

On 1st February, 2006 the company purchased 1,000 debentures at Rs. 148 cum-interest, the debentures being cancelled immediately. On 1st October, 2006 holders of 3,000 debentures exercised their option, getting their debentures converted into equity shares.

The company closed its books of account every year on 31st December. You are required to show journal entries for all the transactions relating to debentures during 2005 and 2006. Also show the relevant portions of the 'Liabilities' side of the balance sheet of the company as on 31st December, 2006. 15

5. (a) From the following information, prepare Profit and Loss Account of United Bank of India Ltd. for the period ended on 31st March, 2007. Workings should form part of your answer.

| | (Rs. '000) |
|---|------------|
| Interest . on Loans | 300 |
| Interest on Fixed Deposits | 275 |
| Commission | 10 |
| Exchange and Brokerage | 20 |
| Salaries and Allowances | 150 |
| Discount on Bills (gross) | 152 |
| Interest on cash-credit | 240 |
| Interest on temporary overdraft in Current Account | 30 |
| Interest on Savings Bank Deposits | 87 |
| | (Contd.) |

(Rs. '000)

| | |
|---|----|
| Postage, Telegram and Stamps | 10 |
| Printing and Stationery | 20 |
| Sundry Expenses | 10 |
| Rent | 15 |
| Taxes and Licences | 10 |
| Audit Fees | 10 |
| Additional Information | |
| (i) Rebate on Bills Discounted | 30 |
| (ii) Provide for Directors' Fees & Allowances | 30 |
| (iii) Bad Debts | 40 |
| (iv) Provision for Income tax is to be made @ 55% (round off to nearest thousand) | |

- (b) An electricity company laid down a main at a cost of Rs. 5,00,000. Some years later the company laid down an auxiliary main for one-fifth of the length of the old main at a cost of Rs. 1,50,000 and also replaced the rest of the length of the old main at a cost of Rs. 6,00,000. The cost of materials and labour have gone-up by 15%. Sale of old materials realised Rs. 8,000. Old materials valued Rs. 10,000 were used in renewal and those valued at Rs. 5,000 were used in the construction of auxiliary main.

You are required to give the Journal Entries for recording the above transactions. 10+5

Second Half

(*Contemporary Issues in Accounting*)

[Marks 50]

Answer Q. **No. 6 and** . any two from the rest

6. Answer *any four* of the following : 5x4
- (a) Explain the importance of Value Added reporting in **present industrial environment**.
- (b) It is said, that, under condition of changing price levels, financial statements prepared under conventional accounting method is inadequate, if not misleading. Do you agree with this statement ? Give reasons.**
- (c) Briefly explain the Accounting Standard setting procedure in India, followed by ASB.
- (d) Define and explain the term 'back log depreciation' in the context of Inflation Accounting. Write down the accounting treatment of back log depreciation under Current Cost Accounting.
- (e) Write a short note on 'principle of conservatism.'**
- (f) "Roots of accounting theory can be found in three theories" – **Explain.**
- (g) Under what circumstances would the reducing balance method of depreciation be more desirable than **straight-line method of depreciation ?**
- (h) Define "Human'.Resource Accounting". What are its objectives ?

7. Write down the important provisions for Accounting of Fixed Assets as per AS-10. What are the assets excluded from the preview • of AS- 10 ?

Narrate down the main disclosures required to be made for accounting of Fixed Assets under this Accounting Standard. 7+3+5

8. Define Environmental Accounting'. What are its scope ?
Mention some costs and benefits relating to Environmental Accounting and reporting. 2+4+9

9. (a) Define Depreciation'. Is depreciation a source of fund ?

- (b) Company X is engaged in manufacturing a certain product. The company's estimated payment of salaries and wages for the next 5 years are 2 lakh, 3 lakh, '4 lakh, 5 lakh & 6 lakh respectively.

The Accounting Rate of Return of the company and the industry to which it belongs for the current year and past 4 years are as follows :

| Current Year | | Past Years | | | |
|--------------------|----|------------|----|----|----|
| | | 1 | 2 | 3 | 4 |
| Company X : | 20 | 15 | 12 | 15 | 10 |
| Industry average : | 15 | 10 | 8 | 20 | 10 |

Assuming a discount rate of 10% calculate the present value of Human Resources of Company X according to Hermanson's Model.

Present value of Re. 1 at 10%

| Year | P.V. Factor | |
|------|--------------|---------|
| 1 | 0.909 | |
| 2 | 0.826 | |
| 3 | 0.751 | |
| 4 | 0.683 | |
| 5 | 0.621 | (2+7)+6 |

10. Strong Ltd. has been preparing Value Added Statements for the last 5 years. The Personnel Manager of the company has suggested that a value added incentive scheme when introduced will motivate employees to better performance. To introduce the scheme, it is proposed that the best index performance (Employees cost to value added) for the last 5 years will be used as the target index for future calculations of the bonus to be earned.

After the **target index is determined**, any actual improvement in the index will be rewarded by declaring bonus between employer and employees in the ratio of 1 : 3. The **bonus is given at the end** of the year, after the profit of the year is determined.

From the following details find out the bonus to be paid to the employees, if any, for the financial year 2006-07:

Value Added Statement for 5 years. (Rs. '000)

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|---------------------------------------|---------|---------|---------|---------|---------|
| Sales | 2,800 | 3,800 | 4,600 | 5,400 | 6,000 |
| <i>Less : Cost of bought in goods</i> | | | | | |
| & Services | 1,280 | 2,000 | 2,500 | 2,800 | 3,200 |
| Added value | 1,520 | 1,800 | 2,100 | 2,400 | 2,800 |

(Contd.)

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|--------------------------|----------------|----------------|----------------|----------------|----------------|
| Employee cost | 650 | 760 | 840 | 984 | 1120 |
| Dividend | 100 | 150 | 200 | 240 | 300 |
| Taxes | 320 | 380 | 420 | •500 | 560 |
| Depreciation | 260 | 310 | 360 | 440 | 560 |
| Debenture interest | 40 | 40 | 40 | 40 | 40 |
| Retained earnings | <u>150</u> | <u>160</u> | <u>240</u> | <u>196</u> | <u>220</u> |
| Added Value | 1520 | 1800 | 2100 | 2400 | 2800 |

**Summarised Income Statement for the year ended
31st March, 2007**

(Rs. '000)

| | |
|-------------------------------------|-----------|
| Sales | 7,500 |
| <i>Less:</i> Cost of material | 2,500 |
| Wages | 700 |
| Production department : | |
| Salary | 200, |
| Expenses | 700 |
| Depreciation | 500 |
| Administrative department | |
| Salary | 300 |
| Expenses | 300 |
| Interest | 40 |
| Depreciation | 200 |
| Selling & Distribution Department : | |
| Salary | 60 |
| Expenses | 200 |
| Depreciation | <u>60</u> |
| | 5,760 |
| Profit | 1,740 |