MAY 2010

PE- II
GROUP-I PAPER-1
ACCOUNTING

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

Total No. of Questions—6]

[Total No. of Printed Pages—8

Time Allowed—3 Hours

Maximum Marks—100

LML

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, his answers in Hindi will not be valued.

Answer **all** questions.

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

Working notes should form part of the answer.

Marks

1. Lokesh, who keeps books by single entry, had submitted his Income-tax returns to Income-tax authorities showing his incomes to be as follows : 16

		Rs.
Year ending March 31, 2005	=	33,075
Year ending March 31, 2006	=	33,300
Year ending March 31, 2007	=	35,415
Year ending March 31, 2008	=	61,875
Year ending March 31, 2009	=	54,630
Year ending March 31, 2010	=	41,670

The Income-tax officer is not satisfied as to the accuracy of the incomes returned. You are appointed as a consultant to assist in establishing correctness of the incomes returned and for that purpose you are given the following information :

(a) Business liabilities and assets at March 31, 2004 were :

Creditors : Rs. 32,940, Furniture & Fittings : Rs. 22,500, Stock : Rs. 24,390 (at selling price which is 25% above cost), Debtors : Rs. 11,025, Cash at Bank and in hand Rs. 15,615.

Marks

(b) Lokesh owed his brother Rs. 18,000 on March 31, 2004. On February 15, 2007 he repaid this amount and on April 1, 2009, he lent his brother Rs. 13,500.

(c) Lokesh owns a house which he purchased in 1999 for Rs. 90,000 and a car which he purchased in October, 2005 for Rs. 33,750. In January , 2009, he bought debentures in X Ltd. having face value of Rs. 40,000 for Rs. 33,750.

(d) In May, 2009 a sum of Rs. 13,500 was stolen from his house.

(e) Lokesh estimates that his living expenses have been 2004-05 — Rs. 13,500; 2005-06 — Rs. 18,000; 2006-07 — Rs. 27,000; 2007-08, 2008-09 and 2009-2010 — Rs. 31,500 p.a. exclusive of the amount stolen.

(f) On March 31, 2010 business liabilities and assets were : Creditors Rs. 37,800, Furniture, Fixtures and Fittings Rs. 40,500, Stock Rs. 54,330 (at selling price with a gross profit of 25%), Debtors Rs. 26,640, Cash-in-Hand and at Bank Rs. 29,025.

From the information submitted, prepare statements showing whether or not the incomes declared by Lokesh are correct.

2. (a) From the following particulars of Mr. X of Mumbai for the year ended on 31.3.2010, prepare a statement of affairs and also ascertain deficiency as on that date : 8

	Rs.
Unsecured creditors	1,96,100
First mortgage on freehold premises	1,50,000
Second mortgage on freehold premises	40,000
Freehold premises (estimated to realise Rs. 1,80,000)	2,40,000
Bank O/D secured on investments	21,400
Investments (estimated to realise Rs. 24,000)	30,000
Cash on hand	100
Cash at bank	200
Trade Debtors (estimated to realise Rs. 28,300)	32,000
Income-tax due	13,400
Wages due to 10 employees	1,000
Rent (one month's) due to local authority	5,300
Furniture (estimated to realise Rs. 14,000)	21,000
Machinery (estimated to realise Rs. 13,000)	28,000
Stock (estimated to realise Rs. 12,860)	25,860
Capital as on 1.4.2009	81,160
Trading loss (for the year ended on 31.3.2010)	92,900
Drawings for the year ended on 31.3.2010	30,300
Other losses	8,000

Marks

(b) The following scheme of reconstruction has been approved for Win Limited : 8

(i) The shareholders to receive in lieu of their present holding at 1,00,000 shares of Rs. 10 each the following :

(a) New fully paid Rs. 10 Equity shares equal to 3/5th of their holding.

(b) 10% Preference shares fully paid to the extent of 1/5th of the above new Equity shares.

(c) Rs. 40,000, 8% Debentures.

(ii) An issue of Rs. 1 lakh 10% first debentures was made and allotted, payment for the same being received in cash forthwith.

(iii) Goodwill which stood at Rs. 1,40,000 was completely written off.

(iv) Plant and machinery which stood at Rs. 2,00,000 was written down to Rs. 1,50,000.

(v) Freehold property which stood at Rs. 1,50,000 was written down by Rs. 50,000.

You are required to draw up the necessary Journal entries in the Books of Win Limited for the above reconstruction. Suitable narrations to Journal entries should form part of your answer.

3. (a) From the following Balance Sheets of Mr. Zen, prepare a Cash flow statement as per AS-3 for the year ended 31.3.2010 : 8

Balance Sheets of Mr. Zen

Liabilities	As on 1.4.2009 Rs.	As on 31.3.2010 Rs.
Zen's Capital A/c	10,00,000	12,24,000
Sundry creditors	3,20,000	3,52,000
Mrs. Zen's loan	2,00,000	—
Loan from Bank	3,20,000	4,00,000
	18,40,000	19,76,000

Marks

Assets	As on 1.4.2009 Rs.	As on 31.3.2010 Rs.
Land	6,00,000	8,80,000
Plant and machinery	6,40,000	4,40,000
Stock	2,80,000	2,00,000
Debtors	2,40,000	4,00,000
Cash	80,000	56,000
	18,40,000	19,76,000

Additional information :

A machine costing Rs. 80,000 (accumulated depreciation there on Rs. 24,000) was sold for Rs. 40,000. The provision for depreciation on 1.4.2009 was Rs. 2,00,000 and on 31.3.2010 was Rs. 3,20,000. The net profit for the year ended on 31.3.2010 was Rs. 3,60,000.

(b) Following is the extract of the Balance Sheet of S.T.B. Ltd. a listed company as at March 31, 2010 : 8

	Rs.
Authorised Capital :	
40,000, 12% Preference shares of Rs. 10 each	4,00,000
4,00,000 Equity shares of Rs. 10 each	40,00,000
	44,00,000
Issued and Subscribed Capital :	
32,000, 12% Preference shares of Rs. 10 each fully paid	3,20,000
3,60,000 Equity shares of Rs. 10 each fully paid-up	36,00,000
Reserves and Surplus :	
Revaluation reserves	80,000
General reserve	5,00,000
Capital reserve	3,00,000
Securities premium	1,00,000
Profit & Loss (Cr.)	7,00,000
Secured Loan :	
12% partly convertible debentures @ Rs. 100 each	20,00,000

Marks

On April 30, 2010, the company decided to capitalise its reserves by way of Bonus at the rate 1 : 4. Securities premium of Rs. 1,00,000 includes a premium of Rs. 20,000 for shares issued pursuant to a scheme of amalgamation. Capital reserve includes Rs. 1,60,000, being profit on sale of Plant and Machinery. 20% of 12% Debentures are convertible into Equity shares of Rs. 10 each fully paid on April 30, 2010.

State with reason on the following :

(i) Whether Revaluation Reserve be capitalised ?

(ii) How much amount of Capital reserve can be capitalised ?

(iii) How much amount of 'Securities Premium A/c' can be capitalised ?

(iv) Are the convertible debentureholders entitled to Bonus shares ?

(v) The minimum number of Equity shares to be issued by way of Bonus as on 30th April, 2010.

(vi) What should be the minimum amount of authorised capital, if the decision to issue Bonus shares gets implemented ?

4. (a) Moon Tara Electricity Company provides you the following information : 8

Particulars	Rs. (in lakhs)
Fixed Assets (Cost)	200
Depreciation Reserve on Fixed Assets	50
Customer's contribution towards Fixed Assets	1
Intangible Assets	6
Intangible Assets written-off	1
Average of Current Assets (Including Debtors worth Rs. 2 lakhs)	22
5% Contingency Reserve Investments	10
4.5% Reserve Fund Investments	50
Loans from Electricity Board	30
Loans from Approved Institutions	10
8% Debentures	20
Development Reserve	10
Security Deposit	55
Tariff and dividend Control Reserve	4
Licensee's A/c	1
Net Profit before interest on Debentures for the year ended March 31, 2010	8.88
Reserve Bank Rate	5%

Marks

Required, to calculate :

(i) Capital Base

(ii) Reasonable Return

(iii) Surplus and statement showing the disposal of profits

(iv) Statement showing disposal of surplus.

Taxation may be ignored.

(b) Mr. Purohit furnishes the following details relating to his holding in 8% Debentures (Rs. 100 each) of P Ltd., held as Current assets : 8

1.4.2009	Opening balance — Face value Rs. 1,20,000, Cost Rs. 1,18,000
1.7.2009	100 Debentures purchased ex-interest at Rs. 98
1.10.2009	Sold 200 Debentures ex-interest at Rs. 100
1.1.2010	Purchased 50 Debentures at Rs. 98 cum-interest
1.2.2010	Sold 200 Debentures ex-interest at Rs. 99

Due dates of interest are 30th September and 31st March.

Mr. Purohit closes his books on 31.3.2010. Brokerage at 1% is to be paid for each transaction. Show Investment account as it would appear in his books. Assume FIFO method. Market value of 8% Debentures of P Limited on 31.3.2010 is Rs. 99.

5. (a) (i) Find out the income to be recognised at Good Bank Limited for the year ended 31.3.2010 in respect of Interest on advances (Rs. in lakhs) as detailed below : 4

	Performing Assets		N.P.A.	
	Interest earned Rs.	Interest received Rs.	Interest earned Rs.	Interest received Rs.
Term loan	240	160	150	10
Cash credits and overdrafts	1,500	1,240	300	24
Bills purchased and discounted	300	300	100	40

Marks

(ii) Magnum Assurance Co. Ltd. has the following balances as on 31st March, 2010 : 4

	Lakh Rs.
Life Assurance Fund	3,800
Net Liability as per Valuation	3,000
Interim Bonus paid on 1st October, 2009	500

You are required to show :

(a) Valuation Balance Sheet as on 31st March, 2010

(b) Distribution statement as on 31st March, 2010.

(b) Mr. P, Q and R are partners of Keel & Co., sharing Profits and Losses in the ratio of 2 : 2 : 1. The Balance Sheet of the firm as on 31.3.2010 is given below : 8

Balance Sheet of Keel & Co. as at 31.3.2010

Liabilities		Rs.	Assets	Rs.
Capital A/cs			Plant and machinery	4,00,000
Mr. P	3,60,000		Furniture and fixtures	1,00,000
Mr. Q	2,00,000		Sundry debtors	1,60,000
Mr. R	1,60,000	7,20,000	Stock	1,40,000
P's Loan A/c		60,000	Cash at Bank	80,000
Sundry creditors		80,000		
General reserve		20,000		
		8,80,000		8,80,000

On 1.4.2010 Mr. P retired and the following revaluations were agreed upon. One creditor of Rs. 4,000 waived his claim. Plant and Machinery to be reduced by 5% so also furniture and fittings. A provision for Bad debts at $2^1/_2$% to be provided on Sundry debtors. Stock is to be valued at Rs. 1,60,000. The new Profit sharing ratio between Q and R will be equal. The continuing partners decided that the values of Assets and Liabilities are not to be altered. Mr. P is to be paid off with the amount required to pay off Mr. P being brought in by Mr. Q and Mr. R equally. Prepare the necessary accounts and a Balance Sheet of Keel & Co. after Mr. P's retirement.

Marks

6. Answer the following :

(a) You are required to value the inventory per kg of finished goods consisting of : 5

	Rs. per kg
Material cost	200
Direct labour	40
Direct variable overhead	20

Fixed production charges for the year on normal working capacity of 2 lakh kgs is Rs. 20 lakhs. 4,000 kgs of finished goods are in stock at the year end.

(b) Supriya Ltd. received a grant of Rs. 2,500 lakhs during the last accounting year (2008-09) from government for welfare activities to be carried on by the company for its employees. The grant prescribed conditions for its utilization. However, during the year 2009-10, it was found that the conditions of grants were not complied with and the grant had to be refunded to the government in full. Elucidate the current accounting treatment, with reference to the provisions of AS–12. 5

(c) What are two main objectives of maintaining farm accounts ? Explain the peculiar features of Farm accounting. 5

(d) S.T.B. Ltd. makes provision for expenses worth Rs. 7,00,000 for the year ending March 31, 2009, but the actual expenses during the year ending March 31, 2010 comes to Rs. 9,00,000 against provision made during the last year. State with reasons whether difference of Rs. 2,00,000 is to be treated as prior period item as per AS–5. 5