

Roll No.

Total No. of Questions – 7

Total No. of Printed Pages – 11

Time Allowed – 3 Hours

Maximum Marks – 100

MAY 2012

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

Question No. 1 is compulsory.

Attempt any **five** questions from the remaining **six** questions.

Wherever necessary suitable assumption may be made by the candidates.

Working Notes should form part of the answer.

1. Answer the following questions : Marks
4×5
=20
5
- (a) A company had deferred research and development cost of ₹ 450 Lakhs. Sales expected in the subsequent years are as under :

Years	Sales (₹ in Lakhs)
1	1200
2	900
3	600
4	300

You are asked to suggest how should research and development cost be charged to Profit and Loss Account assuming entire cost of ₹ 450 Lakhs is development cost. If at the end of 3rd year, it is felt that no further benefit will accrue in the 4th year, how the unamortized expenditure would be dealt with in the accounts of the Company ?

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- (b) ABC Limited purchased a machinery for ₹ 25,00,000 which has estimated useful life of 10 years with the salvage value of ₹ 5,00,000. On purchase of the assets Central Government pays a grant for ₹ 5,00,000. Pass the journal entries with narrations in the books of the company for the first year, treating grant as deferred income. 5
- (c) From the following information, compute the amount of provisions to be made in the Profit and Loss Account of a Commercial Bank for the year ending on 31-03-2012 5

Assets (Category of Advances)	₹ in Lakhs
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Standard Advances	7,000
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Sub-standard Advances	3,500
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(Includes secured exposures ₹ 1,000 Lakhs and

balance unsecured exposures ₹ 2,500 Lakhs

includes ₹ 1,500 Lakhs in respect of infrastructure

loan accounts where escrow accounts are available)

Doubtful advances – unsecured portion	1,500
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Doubtful advances –secured portion	
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- for doubtful upto 1 year	500
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- for doubtful more than 1 year and upto 3 years	600
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- for doubtful more than 3 years	300
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Loss Advances	200
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- (d) (i) Explain the concept of 'Weighted average number of equity shares outstanding during the period'. 5

State how would you compute, based on AS-20, the weighted average number of equity shares in the following case :

		No. of Shares
1 st April, 2011	Balance of Equity Shares	4,80,000
31 st August, 2011	Equity shares issued for cash	3,60,000
1 st February, 2012	Equity shares bought back	1,80,000
31 st March, 2012	Balance of equity shares	6,60,000

- (ii) Compute adjusted earning per share and basic earning per share based on the following information :

Net Profit 2010-11 ₹ 11,40,000

Net Profit 2011-12 ₹ 22,50,000

No. of equity shares outstanding 5,00,000

Until 31st December, 2011

Bonus issue on 1st January, 2012,

1 equity share for each equity share

outstanding as at 31st December, 2011

2. Ajay Enterprise, a Partnership firm in which A, B and C are three partners sharing profits and losses in the ratio of 4 : 3 : 3. The balance sheet of the firm as on 31st December, 2011 is as below : 16

Liabilities	₹	Assets	₹
A's Capital	15,000	Factory Building	24,160
B's Capital	7,500	Plant & Machinery	16,275
C's Capital	15,000	Debtors	5,400
B's Loan A/c	4,500	Stock	12,390
Sundry Creditors	16,500	Cash at Bank	275
	58,500		58,500

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On balance sheet date all the three partners have decided to dissolve their partnership. Since the realization of assets was protracted, they decided to distribute amounts as and when feasible and for this purpose they appoint C who was to get as his remuneration 1% of the value of the assets realized other than cash at Bank and 10% of the amount distributed to the partners.

Assets were realized piece-meal as under :

First instalment ₹ 18,650

Second instalment ₹ 17,320

Third instalment ₹ 10,000

Last instalment ₹ 7,000

Dissolution expenses were provided for estimated amount of ₹ 3,000

The creditors were settled finally for ₹ 15,900

Prepare a statement showing distribution of cash amongst the partners by 'Higher Relative capital method'.

3. (a) Following is the Balance Sheet of M/s Competent Limited as on 31st March, 2012 :

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Liabilities	₹	Assets	₹
Equity Shares of ₹ 10 each fully paid	12,50,000	Fixed Assets	46,50,000
Revenue Reserve	15,00,000	Current Assets	30,00,000
Securities Premium	2,50,000		
Profit & Loss Account	1,25,000		
<u>Secured Loans :</u>			
12% Debentures	18,75,000		
Unsecured Loans	10,00,000		
Current Liabilities	16,50,000		
Total	76,50,000	Total	76,50,000

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The company wants to buy back 25,000 equity shares of ₹ 10 each, on 1st April, 2012, at ₹ 20 per share. Buy back of shares is duly authorized by its articles and necessary resolution passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available as a part of Current Assets.

Comment with your calculations, whether buy back of shares by company is within the provisions of the Companies Act, 1956. If yes, pass necessary journal entries towards buy back of shares and prepare Balance Sheet after buy back of shares.

(b) The following balances appeared in the books of Paradise Ltd on 1-4-2011 :

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- (i) 12% Debentures - ₹ 7,50,000
- (ii) Balance of Sinking Fund ₹ 6,00,000
- (iii) Sinking Fund Investment ₹ 6,00,000 represented by 10% ₹ 6,50,000 secured bonds of Government of India.

Annual contribution to the Sinking Fund was ₹ 1,20,000 made on 31st March each year. On 31.3.2012, balance at bank was ₹ 3,00,000 before receipt of interest. The company sold the investment at 90%, for redemption of debentures at a premium of 10%, on the above date.

You are required to prepare the following accounts for the year ended 31st March, 2012 :

- (1) Debentures Account
- (2) Sinking Fund Account
- (3) Sinking Fund Investment Account
- (4) Bank Account
- (5) Debenture Holders Account

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4. Given below balance sheet of Vasudha Ltd and Vaishali Ltd as at 31st March, 2012. 16
(Amount in ₹)

Liabilities	Vasudha Ltd.	Vaishali Ltd.	Assets	Vasudha Ltd.	Vaishali Ltd.
Issued Share Capital :			Factory Building	2,10,000	1,60,000
Equity Shares of ₹ 10 each	5,40,000	4,03,300	Debtors	2,86,900	1,72,900
General Reserves	1,01,000	65,000	Stock	91,500	82,500
Profit & Loss A/c	66,000	43,500	Goodwill	50,000	35,000
Sundry Creditors	44,400	58,200	Cash at Bank	98,000	1,09,590
			Preliminary Expenses	15,000	10,010
Total	7,51,400	5,70,000	Total	7,51,400	5,70,000

Goodwill of the Companies Vasudha Ltd. and Vaishali Ltd. is to be valued at ₹ 75,000 and ₹ 50,000 respectively. Factory Building of Vasudha Ltd is worth ₹ 1,95,000 and of Vaishali Ltd ₹ 1,75,000. Stock of Vaishali Ltd has been shown at 10% above of its cost.

It is decided that Vasudha Ltd will absorb Vaishali Ltd without liquidating later, by taking over its entire business by issue of shares at the Intrinsic Value.

You are required to draft the balance sheet of the two companies after putting through the scheme.

5. (a) A Commercial Bank has the following capital funds and assets. Segregate the capital funds into Tier-I and Tier-II Capitals. Find out the risk-adjusted and risk weighted assets and capital adequacy ratio : 8

(₹ in Crore)

Capital Funds :

Paid up Equity Share Capital	750
Statutory Reserve	150
Share Premium	150
Capital Reserve (of which ₹ 40 Crore were due to revaluation of assets and balance due to sale)	90

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Assets :

Cash Balance with RBI	60
Claims on Banks	170
Other Investments	2,300

Loan and Advances :

Guaranteed by Government of India / State Government	400
Granted to Staff of bank, fully covered by Super Annuation	
Benefits and mortgage of Flat / House	50
Other Loans and Advances	6,170
Premises, Furniture and Fixtures, Other Assets	3,925
Intangible Assets	15

Off-Balance Sheet items :

Acceptance, Endorsements and Letter of Credit, Guarantees and Other obligations	1,550
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- (b) M/s Mars Electricity Company laid down a Main at a cost of ₹ 40,00,000 in 2008. During 2011 company laid down an auxiliary Main for one-fourth of the old Main at a cost of ₹ 15,00,000. It also replaced the rest of the length of the old Main at a cost of ₹ 45,00,000. The cost of material and labour gone up by 15%. Sale of old materials realized ₹ 1,00,000. Old materials valued at ₹ 1,50,000 were used in auxiliary Main and those valued at ₹ 1,00,000 were used in replacement of the old Main. Show the Journal entries for recording the above transactions along with required workings.

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6. An Indian Company Moon Star Limited has a branch at Verginia (USA). The Branch is a non-integral foreign operation of the Indian Company. The trial balance of the Branch as at 31st March, 2012 is as follows :

Particulars	US \$	
	Dr.	Cr.
Office equipments	48,000	
Furniture and Fixtures	3,200	
Stock (April 1, 2011)	22,400	
Purchases	96,000	
Sales	—	1,66,400
Goods sent from H.O.	32,000	
Salaries	3,200	
Carriage inward	400	
Rent, Rates & Taxes	800	
Insurance	400	
Trade Expenses	400	
Head Office Account	—	45,600
Sundry Debtors	9,600	
Sundry Creditors	—	6,800
Cash at Bank	2,000	
Cash in Hand	400	
	2,18,800	2,18,800

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The following further informations are given :

- (1) Salaries outstanding \$ 400.
- (2) Depreciate office equipment and Furniture & Fixtures @10% p.a. at written down value.
- (3) The Head Office sent goods to Branch for ₹ 15,80,000.
- (4) The Head Office shown an amount of ₹ 20,50,000 due from Branch.
- (5) Stock on 31st March, 2012 - \$ 21,500.
- (6) There were no transit items either at the start or at the end of the year.
- (7) On April 1, 2010 when the fixed assets were purchased the rate of exchange was ₹ 43 to one \$. On April 1, 2011, the rate was ₹ 47 per \$. On March 31, 2012, the rate was ₹ 50 per \$. Average Rate during the year was ₹ 45 to one \$.

Prepare :

- (a) Trial balance incorporating adjustments given converting dollars into rupees.
- (b) Trading, Profit and Loss Account for the year ended 31st March, 2012 and Balance Sheet as on date depicting the profitability and net position of the Branch as would appear in the books of Indian Company for the purpose of incorporating in the main Balance Sheet.

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

- (a) On 1st April 2012, a company offered 100 shares to each of its 400 employees at ₹ 25 per share. The employees are given a month to accept the shares. The shares issued under the plan shall be subject to lock-in to transfer for three years from the grant date i.e. 30th April, 2012. The market price of shares of the company on the grant date is ₹ 30 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 28 per share.

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Upto 30th April, 2012, 50% of employees accepted the offer and paid ₹ 25 per share purchased. Nominal value of each share is ₹ 10. Record the issue of shares in the books of the company under the aforesaid plan.

- (b) Tiger Motor Car Limited signed an agreement with its employees union for revision of wages on 01.07.2011. The revision of wages is with retrospective effect from 01.04.2008. The arrear wages up to 31.03.2011 amounts to ₹ 40,00,000 and that for the period from 01.04.2011 to 01.07.2011 amount to ₹ 3,50,000. In view of the provisions of AS 5 "Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies", decide whether a separate disclosure of arrear wages is required while preparing financial statements for the year ending 31.03.2012. 4
- (c) An airline is required by law to overhaul its aircraft once in every five years. The Pacific Airlines which operates aircrafts does not provide any provision as required by law in its final accounts. Discuss with reference to relevant Accounting Standard 29. 4
- (d) X Ltd. sold JCB Machine having WDV of ₹ 50 Lakhs to Y Ltd for ₹ 60 Lakhs and the same JCB was leased back by Y Ltd to X Ltd. The lease is operating lease. 4

Comment according to relevant Accounting Standard if

- (i) Sale price of ₹ 60 Lakhs is equal to fair value.
- (ii) Fair value is ₹ 50 Lakhs and sale price is ₹ 45 Lakhs.
- (iii) Fair value is ₹ 55 Lakhs and sale price is ₹ 62 Lakhs.
- (iv) Fair value is ₹ 45 Lakhs and sale price is ₹ 48 Lakhs.

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- (e) Cashier of A-One Limited embezzled cash amounting to ₹ 6,00,000 during March, 2012. However same comes to the notice of company management during April, 2012 only. Financial statements of the company is not yet approved by the Board of Directors of the company. With the help of provisions of AS 4 "Contingencies and Events Occurring after the Balance Sheet Date" decide, whether the embezzlement of cash should be adjusted in the books of accounts for the year ending March, 2012 ?

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What will be your reply, if embezzlement of cash comes to the notice of company management only after approval of financial statements by the Board of Directors of the company ?

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