

2018

FINANCIAL ACCOUNTING – III – HONOURS**Fifth Paper**

(A – 31 – A)

(Accounting and Finance Group)**Full Marks – 100***The figures in the margin indicate full marks**Candidates are required to give their answers in their own words as far as practicable***Group – A**

1. With the help of following information for the year ended 31.03.2017, prepare a Common-size Income Statement. 5

Particulars	Small Bros.
Office and Selling and Distribution Expenses	₹ 60,000
Other Income	₹ 20,000
Total Cost of Sales : 75% of Net Sales	—
Net Profit before Tax	₹ 1,20,000

Or

- Briefly mention the names of three parties interested in Financial Statement Analysis with their information need. 5

2. Calculate Fund from Operation before tax from the information given below : 5

Cash from operation before tax	₹ 92,000
Depreciation charged	₹ 17,000
Interest paid	₹ 10,000

Balances relating to current assets and liabilities are —

	<u>Opening</u>	<u>Closing</u>
Debtors	₹ 15,000	₹ 13,000
Inventory	₹ 11,000	₹ 14,000
Accrued Expense	₹ 4,000	₹ 3,000
Creditors	₹ 3,000	₹ 7,000
Cash and Bank	₹ 12,000	₹ 9,000

Group – B

3. T. Ltd bought and sold 6% Govt. Bonds as follows, interest being payable on 31st March and 30th September each year :

2017	
March 1	Bought ₹ 12,000 @ ₹ 90.875 ex-interest, brokerage ₹ 30
June 15	Sold ₹ 5,000 @ ₹ 92.625 cum-interest, brokerage ₹ 13
August 1	Bought ₹ 6,000 @ ₹ 91.375 ex-interest, brokerage ₹ 8
September 1	Sold ₹ 4,000 @ ₹ 93.125 ex-interest, brokerage ₹ 5
December 1	Bought ₹ 6,000 @ ₹ 94.125 cum-interest, brokerage ₹ 15.

Prepare Investment Account in the books of T. Ltd. for the year ended on 31.12. 2017. (Workings should be the part of the answer).

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Or

Retro Ltd. was formed by taking over the existing business of Zed Bros. with effect from 01.04.2016. But the company was incorporated on 01.07.2016. No entries were made relating to the transfer till 31.03.2017. On that day, the following balances were found to determine the net profit :

Gross Profit – ₹96,000; Carriage Outwards – ₹3,200; Travellers' Commission – ₹8,000; Office Expenses – ₹9,000; Rent and Rates – ₹18,000; Directors' Fees – ₹7,000; Depreciaton on Fixed Assets – ₹15,000; Debenture Interest – ₹5,600; Audit fees – ₹2,400; Partners' remuneration – ₹6,000; Share transfer fees received ₹1,000. Other information :

- GP ratio was constant per month
 - Monthly sales in May, June, September and December were double the average monthly sales for the remaining months.
- Show the pre and post incorporation profit.

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4. From the following information of K. Ltd. and P. Ltd., you are required to calculate the value of equity shares when

- shares are bought in a small lot; and
- shares are bought for controlling interest.

	K Ltd.	P Ltd.
	₹	₹
Equity shares of ₹ 10 each	16,00,000	20,00,000
10% Preference shares of ₹ 100 each	12,00,000	8,00,000
Profit after tax	6,00,000	6,00,000

Assume that the market expectation is 16% and 90% of the profits available to equity shareholders are distributed to them.

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Or

From the following information calculate the value of goodwill as on 31.03.17 :

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- Equity Share Capital (₹ 10) Rs. 4,00,000.
- 10% Pref. Shares Capital ₹ 1,00,000.
- Reserve & Surplus ₹ 90,000.
- 9% Debenture ₹ 1,00,000.
- Depreciation fund ₹ 60,000.
- Creditors ₹ 70,000.

[Turn Over]

- Market Value of Assets is ₹ 90,000 more than the book value and non-trade investment included in assets ₹ 1,30,000.
- Profits for last three years after 40% tax were :
2014-15 : ₹ 84,000, 2015-16 : 1,08,000 and 2016-17 : ₹ 1,05,000 respectively.
- Non-trade income of ₹ 14,400 (before tax) is included in the amount of profit for 2015-16 only.
- Fair Return on Capital Employed in this type of business is estimated at 12%.
- Goodwill is to be valued on the basis of 4 years purchase of Super Profit.
(Take simple average profit)

5. (a) Explain in brief, the capital maintenance concept in accounting. 5
(b) Write a note on Fair Value Accounting. 5

Group – C

6. The Statement of assets and liabilities of H. Ltd and its subsidiary S. Ltd as at 31.03.2017 stood as follows :

	H.Ltd (₹)	S.Ltd (₹)
I. Equity and Liability :		
1. Shareholders' Fund :		
(a) Equity Share Capital (₹ 10 each fully paid)	5,00,000	1,50,000
(b) Reserves and Surplus :		
General Reserve	2,00,000	1,30,000
P & L Balance	2,50,000	1,00,000
2. Non-current Liabilities :	—	—
3. Current Liabilities :		
Trade Payable	2,80,000	1,70,000
Total	12,30,000	5,50,000
II. Assets :		
1. Non-current Assets :		
(a) Fixed Assets :		
Tangible : Land and Building	5,00,000	2,20,000
Plant and Machinery	2,00,000	1,00,000
(b) Non-current Investment		
Investment in Shares (including shares in S.Ltd.)	1,80,000	—
2. Current Assets :		
Inventory	1,60,000	1,40,000
Trade Receivables	1,60,000	80,000
Cash and Cash equivalents	30,000	10,000
Total	12,30,000	5,50,000

The following information is also available :

- H. Ltd. acquired 12,000 Equity Shares of S. Ltd. on 01.07.16 at a cost of ₹1,50,000 and immediately after acquisition, H. Ltd. received dividend on equity shares @ 20% for the year 2015-16. H. Ltd. credited its share of dividend to Profit & Loss A/c.
- On 01.04.2016, balance of General Reserve of S. Ltd. was ₹70,000 and the balance of Profit & Loss was ₹ 40,000.
- Debtors of H. Ltd. include ₹20,000 for goods sold to S Ltd. at cost plus 25%; half the goods are still in stock. S Ltd. remitted ₹ 5,000 to H. Ltd. which H. Ltd received on 11.04.2017.

You are required to prepare the Consolidated Balance Sheet of H. Ltd. with its subsidiary S. Ltd. as at 31.03.2017.

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7. Following are the liabilities and assets of K. Ltd and T. Ltd as on 31.03.2017 :

	K.Ltd (₹)	T.Ltd (₹)
I. Equity and Liability :		
1. Shareholders' Fund :		
(a) Equity Share of ₹ 10 each fully paid	2,00,000	3,00,000
9% Preference shares of ₹10 each fully paid	1,00,000	1,40,000
(b) Reserves and Surplus :		
General Reserve	80,000	40,000
Profit & Loss balance	46,000	25,000
2. Non-current Liabilities :		
8% Debentures	80,000	50,000
3. Current Liabilities :		
Trade Payable	24,000	45,000
Total	5,30,000	6,00,000
II. Assets :		
1. Non-current Assets :		
(a) Fixed Assets :		
Tangible : Plant and Machinery	1,90,000	3,30,000
Furniture	68,000	44,000
(b) Non-current Investment	42,000	26,000
2. Current Assets :		
Inventory	80,000	65,000
Trade Receivables	1,21,000	1,11,000
Cash and Cash equivalents	29,000	24,000
Total	5,30,000	6,00,000

On 01.04.2017, K. Ltd. decided to absorb T. Ltd. on the following terms:

- K. Ltd. will issue 4 equity shares of ₹ 10 each fully paid against 5 equity shares of T. Ltd. In addition, they are to be issued ₹ 80,000 10% Debentures at par.
- Preference shareholders of T. Ltd. are to get sufficient 12% Preference shares of K. Ltd. to earn same amount of dividend as before.
- 8% Debentures are to be discharged by issue of 1,000 equity shares and ₹30,000 10% Debentures in K. Ltd.
- Shares of K. Ltd. are to be issued at ₹ 15 per share.
- Plant and Machinery of T. Ltd. to be valued at ₹ 3,10,000.

You are required to :

- (a) Ascertain the purchase consideration
- (b) Show the Realisation Account in the books of T. Ltd. and
- (c) Pass necessary journal entries in the books of K. Ltd.

4+5+6

Or

Following are the liabilities and assets of Weak Ltd as on 31.03.2017 :

		(₹)
I. Equity and Liability :		
1. Shareholders' Fund :		
(a)	Equity Share of ₹ 10 each fully paid	12,00,000
	8% Preference shares of ₹ 10 each fully paid	5,00,000
(b)	Reserves and Surplus :	
	Accumulated Loss	(8,00,000)
2. Non-current Liabilities :		
	10% Debentures	6,00,000
3. Current Liabilities :		
	Trade Payable (Creditors)	3,00,000
	Total	18,00,000
II. Assets :		
1. Non-current Assets :		
(a)	Fixed Assets :	
	Tangible : (Building ₹ 6,00,000; Plant and Machinery ₹ 4,00,000)	10,00,000
	Intangible (Goodwill)	2,00,000
(b)	Non-current Investment	—
2. Current Assets :		
	Inventory	3,00,000
	Trade Receivables (Debtors)	2,50,000
	Cash and Cash equivalents	50,000
	Total	18,00,000

Note : Preference dividends are in arrear for two years.

Due to heavy accumulated losses, overvaluation of assets and non-disclosure of some liabilities, the company prepared the following scheme of reconstruction and it was approved by the Court :

(a) Equity shares are to be converted into shares of ₹5 each, ₹3 paid-up, ₹2 to be immediately called for acquiring cash.

(b) 8% Preference Shares are to be converted into 10% Preference Shares of ₹5 each, fully paid. 50% of arrear dividend is to be foregone by them and balance to be satisfied by issue of sufficient equity shares of ₹5 each, fully paid.

(c) 10% Debentures are to be converted into sufficient 12% Debentures to earn same amount of interest as before, the debenture holders agreed to forego the accrued interest of 2016-17 which had not been recorded in the books.

(d) An unrecorded claim of ₹90,000 is to be paid off immediately.

(e) Reconstruction expenses are to be written off. Actual expense amounted to ₹10,000.

(f) Accumulated losses and Goodwill are to be written off and the balance of sum made available by the scheme is to be used to write down the Plant and Machinery.

You are required to pass necessary journal entries (without narration) to give effect to the above scheme and also to prepare the Balance Sheet of the company after reconstruction.

11+4

8. Prepare a Fund Flow statement of X Ltd from the following :

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	31.12.2016 (₹)	31.12.2017 (₹)
I. Equity and Liabilities :		
1. Shareholders' Fund		
(a) Share Capital	12,00,000	16,00,000
(b) Reserve and Surplus	8,40,000	11,00,000
2. Non-current Liabilities :		
(a) Long-term borrowings (Debentures)	8,00,000	5,60,000
3. Current Liabilities :		
(a) Trade Payables (Sundry Creditors)	4,80,000	5,36,000
(b) Short-term Provisions (Provision for tax)	4,80,000	4,84,000
Total	38,00,000	42,80,000
II. Assets :		
1. Non-current Assets :		
(a) Fixed Assets : Tangible Assets	22,80,000	26,40,000
(b) Non-current Investment (Trade Investment)	4,00,000	3,20,000
2. Current Assets :	11,20,000	13,20,000
(including inventory)		
	38,00,000	42,80,000
Notes to Accounts :	31.12.16	31.12.17
	₹	₹
1. Reserve and Surplus		
(a) Capital Reserve	—	40,000
(b) General Reserve	6,80,000	8,00,000
(c) Balance in Statement of Profit & Loss	1,60,000	2,60,000
	8,40,000	11,00,000
2. Fixed Assets : Tangible Assets		
(a) At cost	32,00,000	38,00,000
Less Depreciation	9,20,000	11,60,000
	22,80,000	26,40,000

[Turn Over]

Additional Information :

- (a) Sold one machine for ₹1,00,000. the cost of the machine was ₹ 2,56,000 and the depreciation provided for it amounted to ₹ 1,40,000.
- (b) Provide ₹3,80,000 on depreciation.
- (c) Redeemed 30% Debentures @ ₹103.
- (d) Some Trade Investments sold at profit and the profit was credited to Capital Reserve.
- (e) Decide to value the stock at cost. whereas previously the practice was to value stock at cost less 10%. The stock according to books on 31.12.16 was ₹ 2,16,000; the stock on 31.12.17 ₹ 3,00,000 was correctly valued at cost.

Or

- (a) From the following Summary Cash A/c of Torsha Ltd. prepare Cash Flow Statement for the year ended 31.03.18 in accordance with AS 3(Revised) using the direct method. The Company does not have any cash equivalents.

Summary Cash A/c for the year ended 31.3.18

	Rs.'000		Rs.'000
Balance (1.4.17)	50	Payment to Suppliers	2,000
Issue of equity shares	200	Purchase of computers	200
Issue of Preference shares	100	Overhead expense	200
Receipts from customers	2,800	Wages and Salaries	100
Sale of furniture	100	Taxation	250
		Dividend	50
		Repayment of Bank Loan	300
		Balance (31.03.18)	150
	3,250		3,250

- (b) Distinguish between Fund Flow Statement and Cash Flow Statement.

12+3

9. With the following ratios and further information given below, prepare a Trading Account, Profit & Loss Account for the year ended on 31.12.17 and a Balance Sheet of Mrs. Banerjee as on that date.

- (a) Gross Profit ratio = $33\frac{1}{3}\%$
- (b) Net Profit = 25% of Turnover
- (c) Stock Turnover ratio = 10 times
- (d) Current liabilities/ External liabilities = $\frac{1}{4}$
- (e) Fixed Assets/ Closing capital = $\frac{5}{4}$
- (f) Closing capital/ External liabilities = $\frac{1}{2}$
- (g) Fixed Assets/ Current Assets = $\frac{5}{7}$
- (h) Fixed Assets = Rs. 20,00,000
- (i) Closing stock = Rs. 2,20,000 which is 10% more than the opening

stock.

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