

2021

FINANCIAL ACCOUNTING-III — HONOURS

Fifth Paper

(A-31-A)

(Accounting & 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

Answer the following questions.

1. Prepare a comparative income statement from the following information of HCT Ltd.: 5

	2019 (₹)	2020 (₹)
Sales	16,00,000	20,00,000
Cost of goods sold	9,60,000	12,40,000
Selling and Admn. exp.	1,60,000	2,20,000
Other Income	20,000	60,000
Income Tax	1,50,000	1,80,000

Or,

Briefly mention the three uses of Common Size Statement Analysis. 5

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

Cash from operation before tax (₹)	1,10,000
Depreciation charged (₹)	15,000
Interest paid (₹)	8,000

Balances relating to current assets and liabilities are —

	<u>Opening (₹)</u>	<u>Closing (₹)</u>
Debtors	11,000	9,000
Inventory	21,000	24,000
Accrued Expense	13,000	10,000
Creditors	15,000	9,000
Cash and Bank	24,000	21,000

Please Turn Over

Group-B

Answer the following questions.

3. On 01.04.2020, RS Ltd. held 800, 10% Debentures of BECO Ltd. The cost price was ₹ 97 each and the nominal value was ₹ 100 each. Interest on the debentures becomes due on 30th June and 31st December every year.

On 01.05.2020 it purchased 700 debentures cum-interest at ₹ 97.50 each. On 01.08.2020, it sold 1200 debentures cum-Interest at ₹ 99.50 each.

Prepare Investment Account for the year ended 31.03.2021 (Workings should be the part of the answer).

(Assume that the prices given above are after adjustment for applicable brokerage and the company follows Weighted Average method for stock valuation). 10

Or,

ARCO Ltd. was formed by taking over the existing business of BIRD Bros. with effect from 01.04.2020. But the company was incorporated on 01.07.2020. No entries were made relating to the transfer till 31.03.2021. On that date, the following balances were found to determine the net profit:

Gross Profit — ₹ 3,60,000; Carriage Outwards — ₹ 25,400; Travellers' Commission — ₹ 20,000; Office Expenses — ₹ 49,000; Rent and Rates — ₹ 72,000; Directors' Fees — ₹ 17,000; Depreciation on Fixed Assets — ₹ 51,000; Debenture Interest — ₹ 8,600; Audit Fees — ₹ 5,200; Partners' remuneration — ₹ 9,000.

Other information:

- (i) GP ratio was constant per month
(ii) 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. 10

4. Calculate Goodwill as per (a) 5 years' purchase of Super Profit Method and (b) Capitalisation of Average Profits method from the following information: 10

- (i) Capital employed ₹ 6,30,000
(ii) Normal Rate of Return 10%

(iii) Net profits before tax (Tax Rate 50%):

Year 1: ₹ 1,05,000; Year 2: ₹ 1,45,000; Year 3: ₹ 1,75,000; Year 4: ₹ 2,00,000; Year 5: ₹ 1,50,000

(iv) Non-trading income ₹ 5,000 and Debenture Interest ₹ 10,000 on an average included in the Profit & Loss A/c.

(v) Fixed Assets revalued by ₹ 20,000 more than the existing book value of the assets.

Or,

The following particulars of Jupiter Co. Ltd. are available:

Fixed Assets ₹ 5,80,000; Goodwill ₹ 50,000; Current Assets ₹ 1,80,000; Discount on issue of Debentures ₹ 10,000; 5% Debentures ₹ 1,00,000; Current Liabilities ₹ 1,30,000. The net profit after tax for three years were: 2009 ₹ 51,600; 2010 ₹ 52,000; 2011 ₹ 51,650 of which 20% was placed to reserve and fair rate of return on investments is 10%. Issued capital was 40,000 equity shares of ₹ 10 each fully paid up.

Compute the value of the company's shares by:

(a) The Assets Backing Method; (b) the Yield Method.

5+5

5. (a) Explain in brief, the capital maintenance concept in accounting.

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(b) Write a note on Fair Value Accounting.

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Group-C

Answer the following questions.

6. The statement of assets and liabilities of Mind Ltd. and its subsidiary Tree Ltd. as at 31.03.2021 stood as follows:

Particulars	Notes No.	Mind Ltd. Amount(₹)	Tree Ltd. Amount(₹)
I. Equity and Liabilities			
1. <i>Equity Shareholder's Fund:</i>			
(a) Share Capital	1	12,00,000	3,00,000
(b) Reserves and Surplus	2	13,00,000	6,00,000
2. <i>Non-Current Liabilities:</i> 8% Debentures		3,00,000	—
3. <i>Current Liabilities :</i> Trade Payable		3,00,000	80,000
TOTAL		31,00,000	9,80,000
II. Assets:			
1. <i>Non-Current Assets:</i>			
(a) Property, Plant and Equipment	3	16,00,000	5,00,000
(b) Non-Current Investment (Shares in Tree Ltd.)		8,00,000	—
2. <i>Current Assets</i>	4	7,00,000	4,80,000
TOTAL		31,00,000	9,80,000

Notes to the Financial Statements

1. Share Capital

Authorised: Equity shares of ₹10 each.

Issued, Subscribed and Fully Paid:

Mind Ltd.
Amount (₹)

20,00,000

12,00,000

Tree Ltd.
Amount (₹)

6,00,000

3,00,000

2. Reserves and Surplus:

General Reserve

Balance of Profit & Loss (Cr.)

8,00,000

5,00,000

13,00,000

4,00,000

2,00,000

6,00,000

	<u>Mind Ltd.</u> Amount (₹)	<u>Tree Ltd.</u> Amount (₹)
3. Property, Plant and Equipment:		
Tangible Assets	5,00,000	2,00,000
Intangible Assets	4,00,000	2,00,000
Capital work-in-progress	7,00,000	1,00,000
	16,00,000	5,00,000
4. Current Assets:		
Inventory	4,00,000	1,50,000
Trade Receivables	1,75,000	2,35,000
Cash and Cash Equivalents	1,25,000	95,000
	7,00,000	4,80,000

Other information:

- (i) Mind Ltd. acquired 20,000 Equity Shares of Tree Ltd. on 01.04.2020 at cost of ₹ 8 lakhs and immediately after acquisition Mind Ltd. received dividend @ 40% on equity share for the year 2019-2020. Mind Ltd. has credited its share of dividend to Profit & Loss Account.
- (ii) Balance of Profit & Loss and General Reserves of Tree Ltd. stood at ₹ 3,50,000 and ₹ 1,00,000 as on 01.04.2020 respectively.
- (iii) Trade payables of Tree Ltd. include ₹ 25,000 due to Mind Ltd.
- (iv) The stock of Tree Ltd. includes goods worth ₹ 40,000 purchased from Mind Ltd. The cost of the goods is ₹ 25,000.

You are required to prepare a Consolidated Balance Sheet of Mind Ltd. and its subsidiary Tree Ltd. as at 31.03.2021.

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7. The Balance Sheets of Root Ltd. and Fruit Ltd. as on 31.03.2021 are given below:

Particulars	<u>Root Ltd.</u> Amount (₹)	<u>Fruit Ltd.</u> Amount (₹)
I. Equity and Liability:		
1. <i>Shareholders' Funds:</i>		
Equity Shares of 10 each	20,00,000	12,00,000
Reserves and Surplus	5,00,000	3,00,000
2. <i>Non-Current Liabilities:</i>		
10% Debentures	6,00,000	4,00,000
3. <i>Current Liabilities:</i>		
Short term Loan	—	3,00,000
Trade Payable	2,50,000	1,50,000
TOTAL	33,50,000	23,50,000
II. Assets		
1. <i>Non-Current Assets:</i>		
Property, Plant and Equipment	10,00,000	9,00,000
Intangible Assets	12,00,000	8,00,000
2. <i>Current Assets:</i>		
Inventory	5,15,000	4,00,000
Trade Receivables	4,00,000	2,20,000
Cash and Cash Equivalents	2,35,000	30,000
	33,50,000	23,50,000

The companies decide to amalgamate on 01.04.2021 and form Flower Ltd. on the following terms:

- (i) All Assets and Current Liabilities of the old companies are taken over by the Flower Ltd. The net worths of Root Ltd. and Fruit Ltd. have been determined at ₹ 36 lakhs and ₹ 18 lakhs respectively.
- (ii) The purchase considerations have been discharged by issuing sufficient numbers of Equity Shares of ₹ 10 each at a premium of ₹ 50 each.

Show the Journal Entries in the books of Flower Ltd. and the Opening Balance Sheet of Flower Ltd. 15

Or,

The Balance Sheet of Mass Ltd. as on 31.03.2021 is as under:

	Amount (₹)
I. Equity and Liability	
1. <i>Shareholders' Funds:</i>	
(a) Share Capital – 40000 Equity Shares of ₹ 100 each.	40,00,000
(b) Reserves and Surplus:	
Statement of Profit & Loss	(15,00,000)
2. <i>Non-current Liabilities:</i>	
10% Debentures	12,00,000
3. <i>Current Liabilities:</i>	
Interest Due on Debentures	2,40,000
Term Loan	6,00,000
Trade Payables	5,00,000
	50,40,000
II. Assets	
1. <i>Non-current Assets:</i>	
(a) Property, Plant and Equipment	
(i) Tangible Assets	33,00,000
(ii) Intangible Assets (Goodwill)	6,00,000
2. <i>Current Assets:</i>	
(a) Inventories	5,00,000
(b) Trade Receivables	6,00,000
(c) Cash and Cash Equivalents	40,000
	50,40,000

The following scheme of reconstruction has been passed and approved by the Court:

- (i) The Equity Shares are to be subdivided into shares of ₹ 10 each and each shareholder shall surrender 80% of his/her holdings.
- (ii) The company issues 100000 Equity Shares of ₹ 10 each at a premium of ₹ 5 each.
- (iii) 50% of 10% Debentures are redeemed.
- (iv) The claims of Trade Payables are to be reduced by 40%.
 - (a) Outstanding Interest on Debenture is paid off.
 - (b) The surrendered shares are cancelled.
- (v) The Capital Reduction A/c should be utilised to write off Tangible Assets as maximum as possible after writing off intangible assets and accumulated losses.
- (vi) Expenses of reconstruction are ₹ 50,000.

You are required to prepare journal entries and a Balance Sheet after effecting the scheme in the books of Mass Ltd. (Narration not required). 15

8. The Balance Sheet of Sun Ltd. as on 31st March 2019 and 2020 are given below:

Particulars	31.03.2019 (₹)	31.03.2020 (₹)
Equity and Liability:		
1. <i>Shareholders' Fund:</i>		
Share capital	4,00,000	5,00,000
Capital Reserve	—	20,000
General Reserve	1,80,000	2,10,000
Profit & Loss Account	80,000	1,20,000
2. <i>Non-Current Liabilities:</i>		
Debentures	3,00,000	2,00,000
3. <i>Current Liabilities:</i>		
Creditors	1,30,000	1,20,000
Provision for Income Tax	80,000	60,000
TOTAL	11,70,000	12,30,000
Assets:		
1. <i>Non-Current Assets:</i>		
(a) Fixed Assets at cost	10,00,000	10,00,000
Less: Depreciation	(2,60,000)	(3,10,000)
(b) Investments	1,10,000	90,000
2. <i>Current Assets:</i>	3,20,000	4,50,000
TOTAL	11,70,000	12,30,000

During the year ended 31st March, 2020 the company:

- (i) Sold one machine for ₹ 40,000 the cost of which was ₹ 80,000 and the depreciation provided on it was ₹ 30,000.
- (ii) Provide ₹ 1,00,000 as depreciation.
- (iii) Redeem the debentures at ₹ 105.
- (iv) Sold some investment at a profit which was credited to Capital Reserve.
- (v) Decided to write off the fixed assets (fully depreciated) costing ₹ 20,000.
- (vi) Decided to value opening stock at cost which was valued previously at cost less 10%. The opening stock according to books was ₹ 63,000. The closing stock was correctly valued at cost.

Prepare statement of sources and application of funds for the year ended 31.03.2020 showing changes in working capital.

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Or,

- (a) What are the advantages and limitations of Fund Flow Statement?
- (b) Distinguish between Fund Flow Statement and Cash Flow Statement.

5+10

9. (a) Following figures are related to XYZ Ltd.:

(i) G.P. Ratio	20%
(ii) Current Ratio	2·5
(iii) Liquid Ratio	1·5
(iv) Stock Turnover Ratio (Cost of sales to closing stock)	6 times
(v) Fixed Assets to Net Worth	0·80
(vi) Average Debt Collection Period	2 months
(vii) Reserve to share capital	0·50
(viii) Net Working Capital	₹ 3,00,000

Based on the above information you are required to prepare the Balance Sheet of the company as on 31.12.2020.

(b) State the limitations of Ratio Analysis.

12+3
