SUGGESTED SOLUTION

INTERMEDIATE M'19 EXAM

SUBJECT- ADVANCED ACCOUNTS

Test Code – CIM 8062

(Date :09.09.2018)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.

Tel : (022) 26836666

ANSWER-1

1. Future Maintainable Profits (Rs. Lakhs)

Particulars	2014-2015	2015-2016	2016-2017	2017-2018
Profit Before Tax	4,100	2,725	3,200	3,060
Less: Income from Non Trade Investments	(100)	(100)	-	-
Less: Special Income due to Fair	-	(150)	-	-
Add: Abnormal Loss due to Earthquake	-	-	75	-
Less: Revaluation of Stock	-	-	-	(35)
Bad Debts	-	-	-	(20)
Liability for Damages	-	-	-	(5)
Adjusted Net Profit	**4,000**	**2,475**	**3,275**	**3,000**
Average Adjusted Trading Profits = $\frac{4{,}000+2{,}475+3{,}275+3{,}000}{4}$				3,187.50
Less: Additional Remuneration to Directors				70.00
Adjusted Net Profit Before Tax				3,117.50
Less: Income Tax at 40% (Rs. 3,117.50 x 40%)				1,247.00
Future Maintainable Profits				**1,870.50**

(3 MARKS)

2. Effect of Adjustments on Taxation Liability

- Reduction in 2017-2018 Profit = Stock + Bad Debts + Damages = 35 + 20 + 5 = Rs. 60 Lakhs.
- Tax Savings thereon at 35% of Rs. 60 Lakhs = Rs. 21 Lakhs.
- Hence, Revised Provision for Taxation for the year 2017-2018 = 110 (as per Books) - 21 = Rs.89 Lakhs.

Note: It is assumed that the above adjustments are tax deductible during the last financial year itself. **(2 MARKS)**

3. Average Capital Employed (Rs. Lakhs)

Particulars		Rs. Lakhs	Rs. Lakhs
Plant and Machinery	(at Balance Sheet Value)		4,780
Furniture and Fittings	(at Balance Sheet Value)		1,090
Trade Marks & Patents	(at Balance Sheet Value)		20
Stocks	(at Revalued Amount given)		1,230
Debtors	(Rs. 644 Less Rs. 20 Bad Debts)		624
Cash 8i Bank Balances	(at Balance Sheet Value)		1,415
Total Tangible Assets			**9,159**

Less: External Liabilities	Sundry Creditors	1,204	
	Liability for Damages	5	
	Provision for Taxation - as per WN 2	89	(1,298)
Closing Capital Employed			7,861
Less: 50% of Adjusted Post Tax Profit for the year (3,000 - 35% Tax) x 50%			975
Average Capital Employed			**6,886**

(3 MARKS)

4. Computation of Goodwill

	Particulars	**Rs. Lakhs**
	Expected Profit = Future Maintainable Profits as above	1,870
Less:	Normal Profits = Normal Rate of Return x Average Capital Employed = 20% x 6,886	(1,377)
	Super Profit	493
	Goodwill at 4 years purchase of Super Profits	**1,972**

Note: Alternatively, Normal Profits can be computed based on Closing Capital Employed.

(2 MARKS)

ANSWER-2

Statement showing underwriters' liability for shares other than shares under-written firm

	X	Y	Z	Total
Gross liability (Issued shares – purchased by promoters, directors etc) (9,00,000 shares in the ratio of 65 : 25 : 10)	5,85,000	2,25,000	90,000	9,00,000
Less: Marked applications	(1,19,500)	(57,500)	(10,500)	(1,87,500)
	4,65,500	1,67,500	79,500	7,12,500
Less : Allocation of unmarked applications (including firm underwriting i.e. 7,00,000) in the ratio 65 : 25 : 10	(4,55,000)	(1,75,000)	(70,000)	(7,00,000)
	10,500	(7,500)	9,500	12,500
Surplus of Y allocated to X and Z in the ratio 65 : 10	(6,500)	7,500	(1,000)	–
Additional shares to be purchased by X & Z	4,000	–	8,500	12,500

	X Rs.	Y Rs.	Z Rs.
Additional Liability for additional shares @ Rs.11	44,000	–	93,500
Underwriting commission payable on Gross Liability			

(Shares underwritten as Gross liability × Rs.11 × 2%)	(1,28,700)	(49,500)	(19,800)
Net Amount payable	(84,700)	(49,500)	-
Net Amount receivable	-	-	73,700

(4 MARKS)

(ii) Journal Entries

		Dr. Rs.	Cr. Rs.
Bank A/c	Dr.	11,00,000	
To Equity Shares Application A/c			11,00,000
(Being application money received on 1 lakh equity shares purchased by directors etc. @ Rs.11 per share)			
Bank A/c	Dr.	97,62,500	
To Equity Share Application A/c			97,62,500
(Application money received on 8,87,500 equity shares @ Rs.11 per share from general public and underwriters for shares underwritten firm)			
Equity Share Application A/c	Dr.	1,08,62,500	
X' s A/c	Dr.	44,000	
Z' s A/c	Dr.	93,500	
To Equity Share Capital A/c			1,00,00,000
To Securities Premium A/c			10,00,000
(Allotment of 10 lakh equity shares of Rs.10 each at a premium of Rs.1 per share)			
Underwriting commission A/c	Dr.	1,98,000	
To X's A/c			1,28,700
To Y's A/c			49,500
To Z's A/c			19,800
(Amount of underwriting commission payable to X, Y and Z @2% on the amount of shares underwritten)			
Bank A/c	Dr.	73,700	
To Z's A/c			73,700
(Amount received from Z in final settlement)			
X's A/c	Dr.	84,700	

Y's A/c	Dr.	49,500	
To Bank A/c			1,34,200
(Amount paid to X and Y in final settlement)			

(6*1=6 MARKS)

ANSWER-3

ANSWER-A

1. Purchase Consideration: **(1 MARK)**

Particulars	Computation	Rs.
Value of Shares issued by Anu Ltd. Cash paid	Rs. 15 x 4,50,000 Shares Rs. 2.5 x 3,00,000 Shares	67,50,000 7,50,000
Total		**75,00,000**

2. Determination of new 8% Debentures to be issued **(1 MARK)**

Particulars	Rs.
Amount due to Debenture holders of SRISHTI Ltd = Face Value 5,00,000 + 20% Premium	6,00,000
So, Value of Debentures @ 96% = $\frac{\text{Rs.}6{,}00{,}000}{96\%}$	2,62,500

3. Journal Entries in the books of ANU Ltd (for acquisition of business)

	Particulars		Debit (Rs.)	Credit(Rs.)
1.	Business Purchase A/c	Dr.	75,00,000	
	To Liquidator of Srishti Ltd A/c			75,00,000
	(Being purchase of business from Srishti Ltd & Consideration due thereon)			
2.	Tangible Fixed Asset A/c Dr. (30,00,000 + 100%)	Dr.	60,00,000	
	Debtors A/c Dr. (given)	Dr.	1,80,000	
	Stock A/c Dr. (given)	Dr.	7,10,000	
	Goodwill A/c Dr. (bal.fig)	Dr.	11,19,000	
	To 9% Debentures A/c (Old)			5,00,000
	To Provision for Bad Debts A/c (5% on Rs. 1,80,000)			9,000
	To Business Purchase A/c			75,00,000
	(Being various assets & liabilities of Srishti Ltd taken over)			
3.	Liquidator of Srishti Ltd A/c	Dr.	75,00,000	
	To Equity Share Capital A/c (4,50,000 Shares at Rs.10)			45,00,000
	To Securities Premium A/c			22,50,000
	To Cash			7,50,000
	(Being allotment of 4,50,000 shares at Rs. 15 each (FV: Rs. 10, Premium: Rs. 5) to Liquidator of Srishti Ltd,			

	in satisfaction of purchase consideration + cash payment.)			
4.	Amalgamation Adjustment Reserve Dr. To Export Profit Reserve A/c (Being Statutory Reserve to be maintained for 1 more year.)	Dr.	8,50,000	 8,50,000
5.	9% Debentures A/c (Old) Dr. (FV of Debentures) Goodwill A/c Dr. (Premium to Debentureholders) Discount on Debentures A/c Dr. (4 % on 6,25,000) To 8% Debentures A/c (Being 9% Debenture of Srishti Ltd, settled by issue of 8% Debentures of Anu Ltd.)	Dr. Dr. Dr.	5,00,000 1,00,000 25,000	 6,25,000
6.	Goodwill A/c To Cash A/c (Being the Liquidation Cost of Srishti Ltd, reimbursed by Anu Ltd partly.)	Dr.	50,000	 50,000

(6*1=6 MARKS)

4. LEDGER A/cs IN THE BOOKS OF SRISHTI Ltd

(a) Realisation A/c

Particulars	Rs.	Particulars	Rs.
To Goodwill A/c	5,00,000	By Anu Ltd A/c	75,00,000
To Tangible Fixed Assets A/c	30,00,000	(Purchase Consideration)	
To Stock A/c	10,40,000	By Debentures A/c	5,00,000
To Debtors A/c	1,80,000	By Creditors A/c	1,00,000
To Cash & Bank A/c (Liquidation Expenses, own share)	75,000 2,55,000		
To Cash & Bank A/c (transfer) (See Note below 4d)	31,00,000		
To Profit on Realization (Tfr to Equity Shareholders A/c)			
Total	**81,50,000**	**Total**	**81,50,000**

(2.5 MARKS)

(b) Equity Shareholders A/c

Particulars	Rs.	Particulars	Rs.
To Preliminary Expenses	50,000	By balance C/d	30,00,000
To Shares of Anu Ltd – settlement	67,50,000	By Realisation A/c (W.N.4a)	31,00,000
To Cash - settlement	7,50,000	By General Reserve (transfer)	50,000
		By Profit & Loss A/c (transfer)	5,50,000
		By Export Profit Reserve A/c (transfer)	8,50,000
Total	**75,50,000**	**Total**	**75,50,000**

(2 MARKS)

(c) Anu Ltd A/c

Particulars	Rs.	Particulars	Rs.
To Realisation A/c (Purchase Consideration)	75,00,000	By Equity Shares in ANU Ltd BY Cash A/c	67,50,000 7,50,000
Total	**75,00,000**	**Total**	**75,00,000**

(1 MARK)

(d) Debentures A/c

Particulars	Rs.	Particulars	Rs.
To Realisation A/c - transfer	5,00,000	By balance b/d	5,00,000
Total	**5,00,000**	**Total**	**5,00,000**

Note: Given Cash and Bank Balances of Srishti Ltd is Rs. 2,80,000, out of which it has to pay its own share of Liquidation Expenses Rs. 75,000 less Rs. 50,000 = Rs. 25,000. Hence, Balance Cash and Bank taken over by Anu Ltd = Rs. 2,80,000 less Rs. 25,000 = Rs. 2,55,000. **(1.5 MARKS)**

ANSWER-B

Since there is Inter-Company Shareholding, Simultaneous Equations Method is applied.

Computation of Net Assets

Particulars	Arun	Bhairav
Investment in Equity Shares of B Ltd (1000 / 4000) = 1/4th	1/4th x B	-
Investment in Equity Shares of A Ltd (2000 / 5000) = 2/5th		2/5th x A
Sundry Assets	7,70,000	4,40,000
Less: 10 % Debentures	(2,00,000)	(1,50,000)
Net Assets (Let Intrinsic Value of Arun Ltd and Bhairav Ltd be 'A' & 'B')	A	B

The two equations are: A = 5,70,000 + $\frac{1}{4}$ B......Eqn 1, and B = 2,90,000 + $\frac{2}{5}$ A .....Eqn 2

By substituting value of A from Equation 1 in Equation 2, we get, B = 2,90,000 + $\frac{2}{5}$ (5,70,000+ $\frac{1}{4}$ B)

So, B = 2,90,000 + 2,28,000 + $\frac{1}{10}$ B. B – $\frac{1}{10}$ B = 5,18,000. i.e. $\frac{9}{10}$ B = 5,18,000 B = 5,18,000 x $\frac{10}{9}$

So, B = Rs. 5,75,556 (approx.)

Upon substituting value of B in Equation 1, we get A = 5,70,000 + $\frac{1}{5}$ (5,75,556) = Rs. 7,13,889 (Approx)

(5 MARKS)

ANSWER-4

1. Effect of Foreign Exchange Rate Differences in Debtors (Rs. OOOs)

Year	1	2	3
(a) Gain to be correctly considered (i) On re-statement [Debtors x (Year end Rate - Entry Rate)]	750	930	-
(ii) On collection [Debtors x (Year end Rate - Collection Rate)]	-	500	5,270
Total Profit to be considered (i) + (ii)	750	1,430	5,270
(b) Gain wrongly considered [Debtors x (Collection Rate - Entry Rate)]	Nil	1,250	6,200
(c) Net Effect on Profit, i.e. Increase / (Decrease)	750	180	(930)

(2 MARKS)

2. Effect of differences in treatment of Expenses and Incomes 000s)

	Year	1	2	3	4	5
(a)	Expenses: To be considered Actually considered	87	14 87	25 14	54 25	 54
	Net Effect on Profit, i.e. Increase / (Decrease)	(87)	73	(11)	(29)	54
(b)	Income: To be considered Actually Considered	12	35 12	8 35	68 8	 68
	Net Effect on Profit, i.e. Increase / (Decrease)	12	23	(27)	60	(68)
(c)	Net Effect of the above on Profits	(75)	96	(38)	31	(14)

(2 MARKS)

3. Computation of Adjusted Profits of past years (Rs. 000s)

Year	1	2	3	4	5
Net Profit after appropriation of Dividend	19,10	18,50	22,40	20,15	25,25
Add: Proposed Dividend at 20% of Capital	30,00	30,00	36,00	36,00	36,00
Tax Expense for the year (See Note below)	53,20	37,00	63,00	57,00	61,00
Net Profit before Taxes	1,02,30	85,50	1,21,40	1,13,15	1,22,25
Adjustments:					
Effect of change in Stock Valuation (See Note), i.e.					
Reversal of LIFO	(1,21)	(1,31)	(1,42)	-	-
Implementation of FIFO	(15)	21	54		
Effect of change in method of depreciation i.e. WDV Less SLM	(98)	(85)	(100)	(90)	-
Effect of Forex Gain Adjt in Debtors (WN 1)	7,50	1,80	(930)	-	-
Effect of adjt in Expenses / Incomes (WN 2)	(75)	96	(38)	31	(14)
Adjusted Profits Before Tax	**1,06,71**	**86,31**	**1,09,84**	**1,12,56**	**1,22,11**

Note:

- Assuming the effect of stock adjustments given is on Profits, Credit in LIFO Method represents amount already credited to Profit and Loss Account, and therefore to be reversed. Likewise, Debit under FIFO Method, represents amounts to be accounted, therefore, to be debited to Profit and Loss Account (i.e. reduced from Profit and Loss Account)
- Total Tax Expense for the year will be reflected in the Provision for Taxation Account. It is assumed that the balances given in the question reflect the balance for the relevant financial year, after setting off the Advance Tax paid for that year. Hence, Total Tax Expense for the year = Advance Tax Paid + Balance in Provision for Taxation A/c.
- Tax effect consequent of adjustment for uniformity of accounting policies is ignored.

(5 MARKS)

4. Computation of Future Maintainable Profits (Rs. OOOs)

(a) Average Adjusted Profits before Tax = FMP before Tax = $\frac{10,671+8,631+10,984+11,256+12,211}{5}$	10,750.60
(b) Tax Expense at 34% average	3,655.20
(c) Future Maintainable Profits after Tax, for Goodwill Valuation purposes	**7,095.40**

(1 MARK)