

**GUJARAT NATIONAL LAW UNIVERSITY
GANDHINAGAR**

Course: Advanced Accounting
Semester-III (Batch: 2013-18)



End Term Examination: Oct-Nov. 2014

Date: 30th October, 2014

Duration: 3 hours

Max. Marks: 50

Instructions:

- Read the questions properly and write the answers in the given answer book.
- The respective marks for each question are indicated in-line.
- Do not write any thing on the question paper.
- Indicate correct question numbers in front of the answers.
- No questions or clarifications can be sought during the exam period, answer as it is, giving reason, if any.
- **Use of simple calculator is allowed.**

Part-A

Answer **all** the questions

Marks

Q.1 Following is the Balance Sheet of Zeta Ltd. as on 31st March 2011.

(10)

Liabilities	Amount	Asset	Amount
1,00,000 Equity shares of Rs 10 each, fully paid up	10,00,000	Machinery	8,70,000
3,00,000, 12% Preference share of Rs 100 each, fully paid up	3,00,000	Furniture	1,00,000
11% Debentures	3,00,000	Patents & Copyright	40,000
Interest outstanding on debentures	33,000	Investment (Market Value 27,500)	32,500
Loan from bank (Including interest due)	86,400	Stock	3,00,000
Creditors	54,500	Debtors	2,19,500
		Bank	1,11,900
		P&L	1,00,000
Total	<u>17,73,900</u>		<u>17,73,900</u>

The following scheme of reconstruction has been agreed upon and duly approved by the court.

- (a) The existing equity shares are to be converted into equal number of fully paid equity shares of Rs. 7 each. The equity shareholders also agreed to take up 50,000 new equity shares of Rs. 7 each, the total amount being brought by them immediately.
- (b) The preference shareholders agreed to accept 85% of their capital amount by way of redemption of all the preference shares in cash.
- (c) The debenture holders agreed to give up their claim to outstanding interest in consideration of the rate of interest on debentures being increased to 13.5%.
- (d) Bank agreed to waive its claim to outstanding interest amounting to Rs. 6,400, provided, the balance of loan of Rs. 80,000 is paid off immediately.
- (e) Investments are to appear at market value.
- (f) Patent and copyright are to be written off completely.
- (g) Machinery is to be written down to the extent possible after writing off all the losses.

Pass journal entries necessary to implement the above mentioned scheme and prepare the Balance Sheet of the company after reconstruction.

- Q.2 Mr. Chandra is a professional lawyer who recently started his independent practice. The Receipts and Payments Account for the year ending 31.3.2014 is as follows. (10)

Receipts	Rs.	Payments	Rs.
To Balance b/d	7,00,000	By Rent	10,000
To Fees from clients	3,00,000	By Salary to assistants	50,000
To Honorarium from counseling sessions	20,000	By Purchase of journals	2,000
To Income from filling tax returns	4,000	By Purchase of law books	8,000
To Sale of old magazines	1,000	By Investment in Commercial Real Estate	4,00,000
To Interest	5,000	By Drawings	10,000
To Gifts from clients	50,000	By Furniture	1,00,000
To Honorarium from skill development talks	40,000	By Computer	80,000
To Honorarium as official receiver	10,000	By Balance c/d	4,70,000
Total	11,30,000	Total	11,30,000

Balance sheet as on 31.3.2013

Liabilities	Rs.	Assets	Rs.
Capital	12,00,000	Furniture	3,00,000
Loans	90,000	Law Books	2,00,000
Outstanding Salary to Assistants	10,000	Investments in Shares	1,00,000
		Cash	7,00,000
Total	13,00,000	Total	13,00,000

Additional Information:

- Rs.20,000 is accrued as fees from clients and Rs.10,000 is outstanding salary to assistants.
- He sold a piece of furniture at a gain of Rs.5,000 which had a book value (after depreciation) of Rs.20,000 on 31.3.2014.
- He paid for annual subscription to Bar Council an amount of Rs.5,000 which includes Rs.300 for the next year.
- The professional is using a part of his personal building as his office. He intends to use it as his residence from the next year. The purchase value of the part of his personal building used for office purposes is Rs.30,00,000. Fair rental value of the same part of the building is Rs.30,000 per year.
- The investment in the commercial real estate is for shifting the office from his personal building. He makes a provision of Rs.50,000 for furnishing the upcoming office building.
- He received Rs.20,000 as dividend on the investment in shares.

You are required to prepare Profit & Loss Account and Balance Sheet of the profession of Mr. Chandra in accordance with the provisions of section 44AA of Income Tax Act, 1961.

- Q.3 Hire Limited agreed to acquire the business of Fire Limited as on March 31, 2014. The summarized balance sheet of Fire Limited on that date was as under: (10)

Particulars	Debit (Rs)	Credit (Rs)
Share Capital in fully paid shares of Rs. 10 each		4,50,000
Goodwill	75,000	
Land & Building	3,00,000	
Plant & Machinery	1,80,000	
Profit & loss account		82,500
General Reserve		1,20,000
6% Debentures		75,000
Sundry debtors and Creditors	27,000	15,000
Stock as at March 31, 2014	1,26,000	
Workmen's compensation fund		7,500
Cash & bank	42,000	
Total	7,50,000	7,50,000

Further Information:

The acquisition was agreed as under:

1. Cash payment equivalent to Rs. 3.75 for every share of Rs. 10 in Fire Limited.
2. Issue of 67,500 Rs. 10 shares fully paid, in Hire Limited having an agreed value of Rs. 15 per share.
3. Issue of such an amount of fully paid 5% debentures of Hire Limited as is sufficient to discharge the 6% debentures of Fire Limited at a premium of 20 per cent.

While arriving at the agreed consideration, the directors of Hire Limited valued land & building at Rs. 6,00,000, plant & machinery at Rs. 3,00,000, stock at Rs. 84,000, debtors at their book value subject to an allowance of 5 per cent to cover doubtful debts. The cost of liquidation was Rs. 3,500 which was borne by Fire limited.

On the date of acquisition, Fire Limited had a liability towards a workman for compensation against an injury, the amount ascertained and settled were Rs. 4,500.

Hire Limited also issued to the public 5000 shares of Rs. 10 each at Rs. 15 per share. The shares were fully subscribed and paid up.

You are required to draft journal entries and prepare the necessary ledger accounts in the books of both the companies.

Part-B

Answer any two questions

- Q.4 "Internal Reconstruction is the alternative; every distressed company would try before contemplating about winding up." Elucidate the statement and state under which circumstances, stakeholders like unsecured and secured creditors, preference and equity shareholders etc. will agree to the scheme of capital reduction? How is the scheme different from buy back of shares and stock split? Does the scheme inherently have something to offer to profit or loss making entities alike? (10)

- Q.5 a. State the various accounting entries to be passed in the books of the vendor company in the event of its business being taken over by another company. (5+5=10)
 b. State the conditions that need to be satisfied for treating the 'amalgamation' as 'Amalgamation in the nature of merger'.
- Q.6 "Almost two third of financial frauds are Financial Statements or reporting fraud committed by top management". What are the red flags which trigger suspicion in the mind of a forensic accountant while examining books of accounts? Discuss preventive, detective and corrective forensic accounting measures to curb such a menace. (10)
- Q.7 The Income and Expenditure Account of ABC Club for the year ended on 31.03.2014 is as follows. (10)

Particulars	Amt.	Particulars	Amt.
To Salaries of Staff	2,000	By Subscriptions	3,000
To Club Maintenance Expenses	300	By Interest	500
To Depreciation	1,600	Deficit of Income over Expenditures	900
To Electricity Charges	400		
To Stationery	100		
Total	4,400	Total	4,400

Consider the following additional information.

Balances	01.04.2013	31.03.2014
Subscription received in advance	30	40
Accrued Subscriptions	20	10
Prepaid Salary	15	25
Outstanding Salary	45	35
Assets	6,000	7,200
Stock of Stationery	100	100
Cash	1,200	-
Long term Donations	1,000	1,500

Prepare Receipts & Payments Account and for the year ended 31.03.2014 and Balance Sheet as on 31.03.2014
