Roll No.…………………

Time allowed : 3 hours *Maximum marks : 100*

Total number of questions : 8 *Total number of printed pages : 8*

NOTE : *All working notes should be shown distinctly***.**

PART – A

(Answer Question No.1 which is compulsory and any two of the rest from this part.)

1. (a) State, with reasons in brief, whether the following statements are true or false :

(i) The shares which can be issued to shareholders for no payment are called rights shares.

(ii) Partly paid-up preference shares cannot be redeemed.

(iii) As per SEBI guidelines, an amount equal to 50% of the debentures issued must be transferred to debenture redemption reserve account before redemption begins.

(iv) Accounting standards standardise diverse accounting policies.

(v) Prepaid expenses and deferred revenue expenses are the same.

(2 marks each)

(b) Write the most appropriate answer from the given options in respect of the following :

(i) The balance of debenture redemption fund investment account after the realisation of investment is transferred to —

(a) Profit and loss account
(b) Profit and loss appropriation account
(c) Debenture account
(d) Debenture redemption fund account.

(ii) Carriage outwards should be divided between pre-incorporation and post-incorporation periods —

(a) In time ratio
(b) In weighted time ratio
(c) In sales ratio
(d) None of the above.

(iii) Fair value method of valuation of shares is considered most appropriate because, it is based on —

(a) Earnings
(b) Net assets
(c) Earnings and net assets
(d) None of the above.

(iv) On re-issue of forfeited shares, balance in shares forfeited account is transferred to —

(a) Share capital account
(b) Capital reserve account
(c) Securities premium account
(d) Profit and loss account.

(v) Accounting Standard–26 relates to —

(a) Impairment of assets
(b) Intangible assets
(c) Earnings per share
(d) Interim financial reporting.

(1 mark each)

(c) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :

(i) Shares are issued at premium under section _______ of the Companies Act, 1956.

(ii) International Accounting Standards/International Financial Reporting Standards are issued by the _________.

(iii) Deffered tax assets are shown under the head _________ in the balance sheet of a company.

(iv) _________ expenses refer to those expenses incidental to the creation and flotation of a company.

(v) The minority shareholders' share of pre-acquisition losses of subsidiary company shall be deducted from the amount of _________.

(1 mark each)

2. (a) The following are the balance sheets of H Ltd. and S Ltd. as at 31st March, 2013 :

				H. Ltd. (₹)	*S. Ltd.* (₹)
I	*EQUITY AND LIABILITIES*				
	(1)	Shareholders' Funds			
		(a)	Share capital (₹100 each)	5,00,000	2,00,000
		(b)	Reserves and surplus		
			General reserve (1.4.2012)	1,00,000	60,000
			Surplus (Profit & Loss a/c)	1,40,000	90,000
	(2)	Current Liabilities			
			Trade payables	80,000	90,000
			TOTAL	8,20,000	4,40,000
II	*ASSETS*				
	(1)	Non-current assets			
		(a)	Fixed assets		
			(i) Tangible assets	3,60,000	2,20,000
			(ii) Goodwill	40,000	30,000
		(b)	Investments *(1,500 shares in S. Ltd.)*	2,40,000	—
	(2)	Current assets			
		(a)	Inventories	1,00,000	90,000
		(b)	Trade receivables	20,000	75,000
		(c)	Cash	60,000	25,000
			TOTAL	8,20,000	4,40,000

The profit and loss account of S Ltd. showed a balance of ₹53,000 on 1st April, 2012. A dividend of 15% was paid on 15th October, 2012 for the year 2011-12. Corporate tax @15% was also paid on the dividend. The dividend was credited by H Ltd. in its profit and loss account. H Ltd. acquired the shares on 1st October, 2012. The trade payables of S. Ltd. include ₹20,000 for goods supplied by H. Ltd. The stock of S Ltd. includes goods to the value of ₹8,000 which were supplied by H Ltd. at a profit of 33−% on cost. Prepare a consolidated balance sheet.

(9 marks)

(b) Star Ltd. was incorporated on 1st July, 2012 to acquire a running business *w.e.f.* 1st April, 2012. The accounts for the year ended 31st March, 2013 disclosed the following :

(i) There was a gross profit of ₹3,00,000.

(ii) The sales for the year amounted to ₹12,00,000 of which ₹2,40,000 were for the first six months.

(iii) The expenses debited to profit and loss account included —

Directors' fees — ₹15,000
Bad debts — ₹3,600
Advertising — ₹12,000 (under a contract amounting to ₹1,000 per month)

(iv) Salaries and general expenses ₹64,000.

(v) Preliminary expenses written-off ₹5,000.

(vi) Donation to a political party given by the company ₹5,000.

Prepare a statement showing the amount of profit made before and after incorporation.

(6 marks)

3. (a) The following particulars are available in relation to Indu Ltd. :

(i) Capital : 450, 6% preference shares of ₹100 each fully paid-up and 4,500 equity shares of ₹10 each fully paid.

(ii) External liabilities ₹7,500.

(iii) Reserves and surplus ₹3,500.

(iv) The average normal profit (after tax) but before transfer to general reserve, *i.e.* 10% earned every year by the company is ₹8,505.

(v) The normal rate of profit earned on the market value of fully paid-up equity shares of the same type of company is 9%.

Calculate the fair value of shares assuming that out of the total assets worth ₹350 are fictitious.

(7 marks)

(b) Firm underwriting is a definite commitment by the underwriters. Explain.

(4 marks)

(c) Extract from the trial balance of ABC Ltd. as on 31st March, 2013 is as under :

Account	*Dr. (₹)*	*Cr. (₹)*
Advance income tax 2011-12	1,10,000	—
Advance income tax 2012-13	1,15,000	—
Provision for income tax 2011-12	—	1,00,000

Adjustments :

(i) The income tax assessment of 2011-12 completed during the year showed gross tax demand of ₹1,20,000 but no effect has been given for this in the accounts.

(ii) Provision for income tax is to be made for ₹1,05,000 for 2012-13.

Show the journal entries and the relevant extract in the final accounts.

(4 marks)

4. (a) X Ltd. having sufficient balance to the credit of profit and loss account decides as follows :

(i) To redeem 4,000, 11% redeemable preference shares of ₹100 each fully paid-up at a premium of 5%.

(ii) Capital redemption reserve arising as a result of redemption be utilised in allotting the unissued shares of the company as fully paid equity shares of ₹10 each by way of bonus to its members.

Show the journal entries for the redemption of preference shares and bonus issue.

(5 marks)

(b) Discuss when a joint stock company can pay dividend out of capital profits.

(5 marks)

(c) Following balances appeared in the books of Global Textiles Ltd. as on 31st March, 2012 :

20% Debentures	₹1,00,000
Debentures redemption reserve	₹1,18,000
Debentures redemption fund investment	₹1,20,000

On 1st June, 2012, the investments were sold for ₹1,23,000 and debentures were redeemed together with accrued interest. Interest on debentures up to 31st March, 2012 had been paid.

Make necessary journal entries for the above transactions in the books of the company.

(5 marks)

PART – B

(Answer Question No.5 which is compulsory and any two of the rest from this part.)

5. (a) State, with reasons in brief, whether the following statements are true or false :

(i) Job card is used for recording the 'in' and 'out' time of the workers on the job.

(ii) Simultaneous equation method is not an algebraic method.

(iii) Cash flow statement shows receipts and payments of cash.

(iv) Unchanged fixed costs should not be considered in a make or buy decision.

(v) Cost-volume-profit relationship is a more comprehensive term than break-even analysis.

(2 marks each)

(b) Write the most appropriate answer from the given options in respect of the following :

(i) Batch costing method is applicable where —

(a) Similar articles are produced in batches

(b) Articles are produced in mass scale

(c) Mass production is undertaken in batches

(d) None of the above.

(ii) When margin of safety is 20% and P/V ratio is 60%, the profit will be —
- (a) 30%
- (b) 33 − %
- (c) 12%
- (d) None of the above.

(iii) Traditional budgeting is accounting oriented whereas zero base budgeting is —
- (a) Activity oriented
- (b) Decision oriented
- (c) Event oriented
- (d) None of the above.

(iv) Which of the following is variable cost or variable expense —
- (a) Depreciation on machinery
- (b) Interest on capital
- (c) Direct materials
- (d) Rent, rates and taxes.

(v) Cost-volume-profit analysis is based on several assumptions. Which of the following is not one of those assumptions —
- (a) The sales mix of the product is constant
- (b) Inventory quantities change during the year
- (c) The behavior of both revenue and cost is linear throughout the relevant range
- (d) Factor prices, *e.g.* material prices and wage rates remain unchanged.

(1 mark each)

(c) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :

(i) If the work certified is 50% or more of contract price, the formula for ascertaining the profit to be transferred to profit and loss account is ___________.

(ii) Material losses due to abnormal reasons should be transferred to ___________.

(iii) Contribution earned after reaching break-even point is ___________ of the firm.

(iv) Flexible budget recognises the difference between fixed, variable and ___________ costs.

(v) ___________ are that portion of the process loss which can be converted into a finished product by incurring more material and labour expenses.

(1 mark each)

6. (a) What is the profit to be recognised as per AS-7 in the current period having regards to the following data :

Contract price	₹99,00,000
Cumulative figures :	
To end of previous period–profit recognised	₹2,25,000
To end of current period–total costs	₹49,50,000
Cost of work certified	₹36,00,000
Estimated future costs to completion	₹27,00,000
Estimated rectification cost	10% of contract price.

(7 marks)

(b) Flexible budget is more useful, elastic and practical. Explain.

(4 marks)

(c) Explain the relevance of 'key factor' in decision making.

(4 marks)

7. (a) From the information given below, calculate machine hour rate for the Machine No. 30 :

Cost of machine	₹12,00,000
Estimated scrap value	₹50,000
Estimated working life	16,000 hours
Time required for maintenance	250 hours
Productive working hours	2,200 hours per year
Setting-up time	5%
Cost of repair	₹1,60,000 per year
No. of operators after 2 machines	2 persons
Wages of operator	₹20,000 per month
Chemicals required	₹12,500 per month
Overheads chargeable to this machine	₹22,500 per month
Insurance premium	1% per year

Power 20 units per hour @ ₹5.00 per unit.

(5 marks)

(b) The cause and effect relationship is essential while forming and establishing the accounting ratios. Comment.

(4 marks)

(c) The management of Sunshine Ltd. wants to have an idea of the profit lost/foregone as a result of labour turnover last year. Last year sales accounted to ₹66,00,000 and the P/V ratio was 20%. The total number of actual hours worked by the direct labour force was 3.45 lakh. As a result of the delays by the personnel department in filling up vacancies due to labour turnover, 75,000 potentially productive hours were lost. The actual direct labour hours included 30,000 hours attributable to training new recruits, out of which half of the hours were unproductive. The cost incurred consequent upon labour turnover revealed the following analysis :

	₹
Settlement cost due to leaving	27,420
Recruitment cost	18,725
Selection cost	12,750
Training cost	16,105

Assuming that the potential production loss due to labour turnover could have been sold at prevailing prices, ascertain the profit forgone/lost last year on account of labour turnover.

(6 marks)

8. (a) Following are the balance sheets of X Ltd. for two years :

				As on 31.3.2012	*As on 31.3.2011*
(I)	*EQUITY AND LIABILITIES*				
	(1)	Shareholders' Funds			
		(a)	Share Capital		
			Equity share capital	6,00,000	4,20,000
		(b)	Reserves and Surplus		
			Reserves	2,80,000	2,00,000
			Surplus (P&L)	60,000	70,000
	(2)	Current Liabilities			
		(a)	Short-term borrowings		
			Bank overdraft	75,000	—
		(b)	Trade payables	8,00,000	5,75,000
			Trade payables for expenses	13,000	25,000
		(c)	Short-term provisions		
			Provision of taxation	1,00,000	80,000
			Proposed dividend	72,000	50,000
			TOTAL	20,00,000	14,20,000
II.	*ASSETS*				
	(1)	Non-current assets			
		(a)	Fixed assets		
			Tangible assets before depreciation	8,10,000	7,00,000
			Less: Depreciation	(2,50,000)	(1,80,000)
			Tangible assets after depreciation	5,60,000	5,20,000
			Investments	20,000	70,000
	(2)	Current assets			
		(a)	Inventories	8,20,000	5,10,000
		(b)	Trade receivables	5,70,000	2,80,000
			Bills receivables	30,000	24,000
		(c)	Bank	—	16,000
			TOTAL	20,00,000	14,20,000

The profit for the year ended 31st March, 2012 as per profit and loss account after providing depreciation amounted to ₹2,42,000 which was further adjusted as follows :

		₹
Surplus (P&L as per last balance sheet)		70,000
Add : Profit after depreciation		2,42,000
		3,12,000
Less :		
Loss on investment	5,000	
Provision for taxation	95,000	
Transfer to reserve	80,000	
Proposed dividend	72,000	2,52,000
Balance of profit		60,000

You are informed that :

(i) The sales and purchases for the year ended 31st March, 2012 amounted to ₹60,00,000 and ₹45,00,000 respectively.

(ii) In arriving at the profit, the cost of sales and administrative and selling expenses were deducted.

Prepare a cash flow statement as per AS-3 *(revised)*.

(10 marks)

(b) A company makes 1,500 units of a product for which the profitability statement is given below :

	₹	₹
Sales		1,20,000
Direct material	30,000	
Direct labour	36,000	
Variable overheads	15,000	
Total variable overheads	81,000	
Fixed Cost	16,800	
Total Cost		97,800
Profit		22,200

After the first 500 units of production, the company has to pay a premium of ₹6 per unit towards overtime labour. The premium so paid has been included in the direct labour cost of ₹36,000 given above. You are required to compute the break-even point.

(5 marks)