

Roll No.....

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 8

Total number of printed pages : 10

NOTE : All working notes should be shown distinctly.

P A R T – 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 correct or incorrect :

- (i) Accounting Standards (AS) are formulated by International Accounting Standard Board.
- (ii) A joint stock company cannot purchase its own shares.
- (iii) If the rate of dividend declared by a company is 22%, then under the Companies (Transfer of Profits to Reserves) Rules, 1975 the percentage of profits to be transferred to reserves should be 10%.
- (iv) The law limits the commission in case of issue of shares to 10% of the issue price of shares and in case of debentures to 5% or such lower rate as is provided in the articles of association.
- (v) Contingent liabilities relating to outsiders must be shown on the liability side of the consolidated balance sheet.

(2 marks each)

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

- (i) According to the provisions of section 198 of the Companies Act, 1956, maximum limit on the total managerial remuneration payable by public company is _____ of net profits.
- (ii) A company must pay the dividends within _____ days of its declaration.
- (iii) Preliminary expense is a _____ asset.
- (iv) Discount on the issue of debenture is a _____ loss.
- (v) If the purchase price of the debenture includes the interest for the expired period, it is known as _____.

(1 mark each)

- (c) Gaurav Ltd. had issued 12%, Rs.10,00,000 debentures @ Rs. 100 each in the past. For the purpose of redemption, it maintains a debenture redemption fund with an annual contribution of Rs.90,000. On 1st April, 2008, the fund stood at Rs.4,50,000 represented by 6%, Rs.5,00,000 government loan.

On 31st March, 2009, Rs.2,00,000 government loan was sold @ Rs.93.50 and the proceeds were utilised to purchase debentures for cancellation @ Rs.85 each. Assume that Rs.20,000 debentures have been redeemed out of capital and the balance with face value of Rs.1,80,000 has been redeemed out of debenture redemption fund account.

Prepare debenture account, debenture redemption fund account and debenture redemption fund investment account.

(5 marks)

2. (a) Write short notes on **any two** of the following :
- (i) Accounting Standard-10 : Accounting for fixed assets
 - (ii) Issue of shares at a discount
 - (iii) Taxation on distributed profits.

(3 marks each)

- (b) Following are the abridged balance sheets of Harry Ltd. and Say Ltd. as on 31st March, 2009 :

<i>Liabilities</i>	<i>Hary Ltd.</i>	<i>Say Ltd.</i>
	<i>(Rs.)</i>	<i>(Rs.)</i>
Equity share capital (<i>Rs.100 each</i>)	10,00,000	5,00,000
General reserve	1,00,000	1,70,000
Profit and loss account	1,60,000	1,30,000
Current liabilities	4,40,000	2,00,000
	17,00,000	10,00,000
 <i>Assets</i>		
Fixed assets	4,80,000	2,50,000
Investment in shares of Say Ltd.	5,00,000	—
Current assets	7,20,000	7,50,000
	17,00,000	10,00,000

Additional information :

- (i) On 1st July, 2008, Hary Ltd. acquired 3,000 shares in Say Ltd. The reserves and surplus position of Say Ltd. as on 1st April, 2008 was as under :
- | | |
|---------------------------|-------------|
| General reserve | Rs.2,50,000 |
| Profit and loss a/c (Cr.) | Rs.1,20,000 |
- (ii) On 1st October, 2008, Say Ltd. issued one equity share for every four shares held as bonus shares out of general reserve. No entry has been made in the books of Say Ltd. for issue of bonus shares.
- (iii) On 30th September, 2008, Say Ltd. declared a dividend out of pre-acquisition profits @ 25% on Rs.4,00,000, its capital on that date. Hary Ltd. credited the dividend to its profit and loss account.
- (iv) Say Ltd. owed Hary Ltd. Rs.50,000 for purchase of stock from Hary Ltd. The entire stock is held by Say Ltd. on 31st March, 2009. Hary Ltd. made a profit of 25% on cost.

Prepare a consolidated balance sheet of Hary Ltd. and its subsidiary Say Ltd. as on 31st March, 2009.

(9 marks)

3. (a) Abridged balance sheet of Rama Ltd. as on 31st March, 2009 is as follows :

<i>Liabilities</i>	<i>Rs.</i>
Share capital	6,00,000
Reserves and surplus	50,000
Bank overdraft	10,000
Creditors	60,000
Provision for taxation	1,10,000
Proposed dividend	60,000
	<hr/>
	8,90,000
	<hr/> <hr/>
<i>Assets</i>	
Fixed assets	3,70,000
Current assets	5,20,000
	<hr/>
	8,90,000
	<hr/> <hr/>

The net profits of the company after deducting working expenses but before providing for taxation were as under :

<i>Year</i>	<i>Rs.</i>
2006-07	3,18,000
2007-08	3,40,000
2008-09	3,12,000

On 31st March, 2009, fixed assets were at Rs.4,50,000. Sundry debtors on the same date included Rs.10,000 which is irrecoverable. Having regard to the type of business, a 10% return on average capital employed is considered as reasonable. Ascertain the value of goodwill on the basis of three years purchase of annual super profits. Also calculate goodwill by capitalisation of average maintainable profits. Depreciation on fixed assets is charged @ 10% per annum and the rate of tax is 30%.

(6 marks)

- (b) Following is the profit and loss account of Azad Ltd. for the year ended 31st March, 2009 :

	<i>Rs.</i>
To Office and administrative expenses	3,10,000
To Selling and distribution expenses	1,92,000
To Directors' fees	39,500
To Managerial remuneration	1,70,000
To Interest on debentures	18,500
To Donation to charitable trust	15,000
To Compensation for breach of contract	27,000
To Depreciation on fixed assets	3,12,000
To Investment revaluation reserve	12,500
To Provision for taxation	7,40,000
To General reserve	2,50,000
To Balance c/d	8,46,500
	<u>29,33,000</u>
By Balance b/d	3,43,200
By Gross profit b/d	24,15,000
By Subsidies	1,39,300
By Interest on investment	9,500
By Transfer fees	1,000
By Profit on sale of machinery (W.D.V. Rs.30,000)	25,000
	<u>29,33,000</u>

Additional information :

- Original cost of the machinery sold was Rs.40,000.
- Depreciation on fixed assets as per Schedule XIV of the Companies Act, 1956 was Rs.3,42,000.

You are required to calculate managerial remuneration in the following situations :

- (i) when there is only whole-time director;
- (ii) when there are two whole-time directors; and
- (iii) when there are two whole-time directors, a managing director and a part-time director.

(6 marks)

- (c) Differentiate between 'shares' and 'debentures'.

(3 marks)

4. (a) Jolly Ltd. has the following balance sheet as on 31st March, 2008 :

<i>Liabilities</i>	<i>Rs.</i>
<i>Share capital :</i>	
Issued, subscribed and fully paid-up (10,000 equity shares of Rs.100 each)	10,00,000
5,000 Preference shares of Rs.100 each	5,00,000
Capital reserve	1,00,000
Securities premium account	1,00,000
General reserve	2,00,000
Profit and loss account	1,00,000
Current liabilities	10,00,000
	30,00,000
 <i>Assets</i>	
Fixed assets	22,00,000
Current assets	8,00,000
	30,00,000

The preference shares are to be redeemed at 10% premium. Fresh issue of equity shares is to be made to the extent it is required under the Companies Act, 1956 for the purpose of this redemption. The shortfall in funds for the purpose of the redemption after utilising the proceeds of the fresh issue are to be met by taking a bank loan. Show journal entries.

(6 marks)

- (b) Silver Ore Co. Ltd. was formed on 1st April, 2007 with an authorised capital of Rs.6,00,000 in shares of Rs.10 each. Of these, 52,000 shares had been issued and subscribed but there were calls-in-arrears on 100 shares. From the following trial balance as on 31st March, 2008, prepare the trading and profit and loss account and the balance sheet :

	Rs.	Rs.
Cash at bank	1,05,500	—
Share capital	—	5,19,750
Plant	40,000	—
Sale of silver	—	1,79,500
Mines	2,20,000	—
Promotional expenses	6,000	—
Interest on fixed deposit upto 31 st December	—	3,900
Dividend on investment less 22% tax	—	3,200
Royalties paid	10,000	—
Railway track and wagons	17,000	—
Wages of miners	74,220	—
Advertising	5,000	—
Carriage on plant	1,800	—
Furniture and buildings	20,900	—
Administrative expenses	28,000	—
Repairs	900	—
Coal and oil	6,500	—
Cash	530	—
Investments in shares of Tin Mines	80,000	—
Brokerage on Tin Mines	1,000	—
6% Fixed deposit in Syndicate Bank	89,000	—
	<u>7,06,350</u>	<u>7,06,350</u>

Depreciate plant and railway track and wagons by 10%, furniture and building by 5%. Write off one-third of the promotional expenses. Value of silver on 31st March, 2008 was Rs.15,000. On 10th December, 2007, the directors forfeited 100 shares of which only Rs.7.50 per share had been paid. Ignore corporate dividend tax.

(9 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) At break-even point, the company earns only marginal profit.
- (ii) Fixed cost per unit remains fixed.
- (iii) Liquidity ratios measure long-term solvency of a concern.
- (iv) Rent on owned building is included in cost accounts.
- (v) Job costing can be used in industries using standard costing.

(2 marks each)

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

- (i) Inflated price method of valuing material issue is suited when _____.
- (ii) Abnormal wastage _____ part of cost of production.
- (iii) _____ in a contract provides that the contract price would be suitably enhanced on the happening of a specified contingency.
- (iv) Direct material + direct labour + factory overheads = _____.

(1 mark each)

- (c) Distinguish between **any two** of the following :

- (i) 'Bin card' and 'stores ledger'.
- (ii) 'Fixed cost' and 'variable cost'.
- (iii) 'Absorption costing' and 'marginal costing'.

(3 marks each)

6. (a) A company has provided you the following details :

<i>Liabilities</i>	31.12.2007 (Rs.)	31.12.2008 (Rs.)
Share capital	70,000	74,000
Debentures	12,000	6,000
Reserve for doubtful debts	700	800
Trade creditors	10,360	11,840
Profit and loss a/c	10,040	10,560
	1,03,100	1,03,200

<i>Assets</i>	<i>31.12.2007</i> (Rs.)	<i>31.12.2008</i> (Rs.)
Cash	9,000	7,800
Debtors	14,900	17,700
Stock	49,200	42,700
Land	20,000	30,000
Goodwill	10,000	5,000
	<u>1,03,100</u>	<u>1,03,200</u>

Additional information –

- Dividend paid Rs.3,500; and
- Land was purchased for Rs.10,000.

Prepare a cash flow statement as per Accounting Standard-3 (Revised).

(6 marks)

- (b) Lookahead Ltd. produces and sells a single product. Sales budget for the calendar year 2009 for each quarter is as under :

<i>Quarter</i>	<i>No. of Units to be Sold</i>
I	12,000
II	15,000
III	16,500
IV	18,000

The year 2009 is expected to open with an inventory of 4,000 units of finished product and close with an inventory of 6,500 units.

Production is customarily scheduled to provide for two-thirds of the current quarter's demand plus one-third of the following quarter's demand. Thus production anticipates sales volume by about one month. The standard cost details for one unit of the product is as follows :

- Direct materials 10 Kgs. @ 50 paise per kg.
- Direct labour 1 hour 30 minutes @ Rs.4 per hour.
- Variable overheads 1 hour 30 minutes @ Re.1 per hour.
- Fixed overheads 1 hour 30 minutes @ Rs.2 per hour based on a budgeted production volume of 90,000 direct labour hours for the year.

Answer the following –

- (i) Prepare a production budget for the year 2009 by quarters, showing the number of units to be produced.

(3 marks)

(ii) If the budgeted selling price per unit is Rs.17, what would be the budgeted profit for the year as a whole ?

(3 marks)

(iii) In which quarter of the year the company is expected to break-even ?

(3 marks)

7. (a) Material-A is used as follows :

Minimum usage	-	500 units per week
Maximum usage	-	1,500 units per week
Normal usage	-	1,000 units per week
Ordering quantities	-	1,600 units
Delivery period	-	4-6 weeks

Calculate –

(i) Maximum level.

(2 marks)

(ii) Minimum level.

(2 marks)

(iii) Ordering level.

(2 marks)

(b) On 1st July, 2007, Delux Ltd. undertook a contract for Rs.5,00,000. On 30th June, 2008 when the accounts were closed, the following details about the contract were gathered :

	Rs.
Material purchased	1,00,000
Wages paid	45,000
General expenses	10,000
Plant purchased	50,000
Materials on hand (30.6.2007)	25,000
Wages accrued (30.6.2008)	5,000
Work certified	2,00,000
Cash received	1,50,000
Work uncertified	15,000
Depreciation of plant	5,000

The above contract has an escalation clause which reads as follows :

“In the event of prices of materials and rates of wages increase by more than 5%, the contract price would be increased accordingly by 25% of the rise in the cost of materials and wages beyond 5% in each case.”

It was found that since the date of signing the agreement, the prices of materials and wage rates increased by 25%. The value of the work certified does not take into account the effect of the above clause.

Prepare the contract account.

(6 marks)

(c) Differentiate between 'Halsey wage plan' and 'Rowan wage plan'.

(3 marks)

8. From the following information, prepare the projected trading and profit and loss account for the next financial year ending 31st March, 2009 and the projected balance sheet as on that date :

Gross profit ratio	25%
Net profit to equity capital	10%
Stock turnover ratio	5 times
Average debt collection period	2 months
Creditors velocity	3 months
Current ratio	2
Proprietary ratio (Fixed assets to capital employed)	80%
Capital gearing ratio (Preference shares and debentures to total long-term funds)	30%
General reserve and profit and loss to equity shareholders' fund	20%
Preference share capital to debentures	2

Cost of sales consists of 40% for materials and balance for wages and overheads. Gross profit is Rs.6,00,000.

(15 marks)

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