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Roll No.........................

Time allowed : 3 hours *Maximum marks : 100*

Total number of questions : 8 *Total number of printed pages : 11*

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 correct or incorrect :

(i) A public company can issue the prospectus for inviting applications for subscription of shares before getting the certificate of incorporation.

(ii) The called-up capital can also be called as reserve capital.

(iii) If the calls on shares are not paid within the stipulated period, the shares are deemed to have been forfeited without any notice by the company to shareholders.

(iv) Interest on debentures are to be paid only out of profits.

(v) Loss prior to incorporation can be written off only against the capital profits of the company.

(2 marks each)

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

(i) When the proposed dividend is 14% of the paid-up capital, the amount to be transferred to reserves is —

(a) 2.5% of current year's profit

(b) 5% of current year's profit

(c) 7.5% of current year's profit

(d) 10% of current year's profit.

(ii) The balance of the forfeited shares account after the re-issue of the forfeited shares is transferred to —

(a) General reserve

(b) Capital redemption reserve

(c) Capital reserve

(d) Dividend equalisation reserve.

(iii) If a company has contingent liabilities, they appear in the —

(a) Balance sheet

(b) Directors' report

(c) Notes on account to balance sheet

(d) Chairman's report.

(iv) Preliminary expenses should include the —

(a) Cost of preparation of the feasibility report

(b) Cost of preparation of the project report

(c) Accountant's and valuer fees for reports, certificates, *etc.*

(d) Consultancy fees payable for engineering services in connection with business.

(v) Issue of bonus shares by the subsidiary company out of capital profits will —

(a) Decrease cost of control

(b) Increase cost of control

(c) Have no effect on cost of control

(d) None of the above.

(1 mark each)

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

(i) When debentures are redeemed out of profit, an amount equal to 50% of the nominal value of debentures redeemed is transferred to ____________.

(ii) Goodwill or capital reserve arises only when the amalgamation is in the nature of ____________.

(iii) Reserve for unexpired risks is created as ____________ of the net premium income in case of marine insurance.

(iv) Under double account system, depreciation is not credited to the assets account but is shown as an accumulated fund in ____________.

(v) Interim dividend can be declared by the directors without any approval of ____________.

(1 mark each)

2. (a) As on 31st March, 2008, advances of Bhavana United Bank Ltd. have been classified as follows :

Particulars	*(Rs. in '000)*
Standard assets	4,33,800
Sub-standard assets	62,000
Secured portion of doubtful assets :	
— Upto one year	18,000
— One year to three years	12,000
— More than three years	2,000
Unsecured portion of doubtful assets	10,800
Loss assets	4,600

Calculate the amount of provision to be made by the bank against the above mentioned advances.

(6 marks)

(b) On 31st March, 2008, the balance sheet of Gagan Ltd. was as follows :

Liabilities	*Rs.*	*Assets*	*Rs.*
40,000, 6% Redeemable preference shares of Rs.10 each fully paid	4,00,000	Sundry assets	8,40,000
		Cash at bank	3,00,000
20,000 Equity shares of Rs.10 each fully paid	2,00,000		
Securities premium	50,000		
Profit and loss account	2,50,000		
General reserve	30,000		
Sundry creditors	2,10,000		
	11,40,000		11,40,000

By the terms of their issue, the preference shares were redeemable at a premium of 5% on the following 1st April and it was decided to arrange this, as far as possible, out of the company's resources subject to leaving a balance of Rs.12,000 to remain to the credit of the profit and loss account. It was also decided to raise the balance of funds required by the issue of sufficient number of equity shares at a premium of 10%. Show the necessary journal entries.

(6 marks)

(c) Write a short note on 'significance of accounting standards'.

(3 marks)

3. (a) As on 31st March, 2008, the following balances appeared in the books of a company :

8% Debentures Rs.1,50,000; debenture sinking fund Rs.1,62,000 which was invested in the following securities :

	Rs.
Rs.20,000, 7% Debentures	15,542
Rs.70,000, 5% Government loan	54,968
300, 6% Preference shares of Rs.100 each	25,230
Rs.65,000, $3\frac{1}{2}$% Government loan	66,260

On 30th September, 2008, above investments were sold net as follows :

3 % Government loan at par, 7% debentures at a discount of 20%, 6% preference shares at a premium of 2% and 5% government loan at Rs.91.

On 30th September, 2008, the company redeemed its debentures at a premium of 8%. The interest on debentures had only been paid upto 31st March, 2008. Draw up debenture sinking fund account and debenture sinking fund investment account.

(6 marks)

(b) The balance sheet of Strong Ltd. as at 31st March, 2008 was as under :

Liabilities	*Rs.*
Share capital in equity shares of Rs.10 each	3,00,000
General reserve	50,000
Profit and loss account	85,000
Creditors	42,000
Bills payable	60,000
	5,37,000

Assets	
Goodwill	70,000
Land and building	1,00,000
Plant and machinery	1,00,000
Stock	40,000
Debtors	1,35,000
Bills receivable	30,000
Cash balance	62,000
	5,37,000

On 1st July, 2007, Heavy Ltd. purchased 12,000 equity shares in Strong Ltd. for Rs.1,70,000. On 1st April, 2007, the profit and loss account of Strong Ltd. showed a credit balance of Rs.40,000, out of which a dividend of 15% on the existing share capital was paid in September, 2007. In September, 2007, Strong Ltd., out of its general reserve, also issued bonus shares of one fully-paid equity share for every two equity shares held. On the basis of above information, ascertain --

(i) Capital profit;

(ii) Goodwill or capital reserve; and

(iii) Minority interest.

(6 marks)

(c) Mention the advantages of computerised accounting.

(3 marks)

4. (a) The paid-up share capital of a company consists of 1,000, 5% preference shares of Rs.100 each, and 20,000 equity shares of Rs.10 each. In addition to a fixed dividend of 5%, the preference shareholders are also entitled to participate in the profits upto 4% of their paid-up capital after payment of a dividend of 10% on the equity shares, any surplus profit being available to equity shareholders.

The annual profit of company is Rs.50,000 after providing for depreciation and taxation, and it is considered necessary to transfer Rs.3,000 per annum to reserve fund. The normal return expected on preference shares is 8% and that on equity shares is 10%.

You are required to work out the value of each preference share and equity share of the company on the basis of dividend rate method. Assume there is no corporate dividend tax.

(6 marks)

(b) Dildoll Ltd. has been experiencing difficulties. Its balance sheet as on 31st March, 2008 is as follows :

Liabilities	*Rs.*
Share capital :	
Authorised, issued and subscribed : 12,000, 7% cumulative preference shares of Rs.100 each	12,00,000
2,20,000 Equity shares of Rs.10 each	22,00,000
Securities premium	3,20,000
Creditors	3,20,000
	40,40,000

Assets	*Rs.*
Buildings	19,00,000
Machinery	6,40,000
Goodwill	2,40,000
Stock	2,80,000
Debtors	1,80,000
Preliminary expenses	1,00,000
Profit and loss account	7,00,000
	40,40,000

Dividend on preference shares is in arrear from 1st April, 2005.

The following terms were settled under a duly approved capital reduction scheme :

(i) Preference shares to be reduced to Rs.80 each and equity shares to Rs.5 each fully paid.

(ii) One fully paid-up Rs.5 equity share to be issued for every Rs.10 of preference share dividend arrears.

(iii) The authorised share capital to be restored to its original figure.

(iv) Goodwill, preliminary expenses and debit balance of profit and loss account to be written off. Securities premium account may be utilised for this purpose.

(v) Building to be written down to Rs.14,80,000.

You are required to pass the necessary journal entries. Ignore dividend distribution tax.

(6 marks)

(c) Distinguish between 'marked applications' and 'unmarked applications'.

(3 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 correct or incorrect :

(i) A management accountant is mainly responsible for collection of data.

(ii) Sunk cost is not relevant for decision making.

(iii) 'Escalation clause' in a contract provides that contract price is fixed.

(iv) Transfer prices are used in a cost centre.

(v) Cost centre and responsibility centre are homogeneous in case of responsibility accounting.

(2 marks each)

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

(i) Depreciation on machinery is an example of —

(a) Opportunity cost

(b) Controllable cost

(c) Sunk cost

(d) Committed cost.

(ii) If the activity level is increased from 60% to 70%, the fixed cost —

(a) Will increase by 10%

(b) Will decrease by 10%

(c) Per unit cost will increase by 10%

(d) Per unit cost will decrease.

(iii) Job costing method is generally applied for —

(a) Oil refinery

(b) Printing press

(c) Paint manufacturer

(d) Wallpaper manufacturer.

(iv) Absorption means —

(a) Charging of overheads to cost centres

(b) Charging of overheads to cost units

(c) Charging of overheads to service department only

(d) Both (a) and (b).

(v) The most fundamental responsibility centre affected by the use of market-based transfer pricing is —

(a) Revenue centre

(b) Cost centre

(c) Profit centre

(d) Production centre.

(1 mark each)

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

(i) ____________ assets turnover ratio indicates that assets are not properly utilised.

(ii) When actual overheads are less than absorbed overheads, the difference between the two is called ____________.

(iii) Main objective of expenses centre is ____________ in case of responsibility accounting.

(iv) The process of physical verification of stores throughout the year is known as ___________.

(v) In Emerson's efficiency plan, no bonus is payable unless efficiency exceeds ___________ %.

(1 mark each)

6. (a) A workman executes a piece of work in 120 hours as against 150 hours allowed to him. His hourly rate is Rs.25 and he gets a dearness allowance of Rs.100 per day of 8 hours work in addition to his wages. What earning will a workman receive under the following incentive schemes :

(i) Halsey premium plan, 50% bonus to workers;

(ii) Rowan plan; and

(iii) Emerson's efficiency plan ?

(6 marks)

(b) A company produces a machine and sells it at Rs.30,000. An increase of 20% in the cost of material, 10% in labour and 10% in overheads cost is anticipated. The only figures available are material cost 50% of cost of sales, labour cost 30% of cost of sales and overheads cost 20% of cost of sales.

The anticipated increased cost in relation to the present sales price would cause a 30% decrease in the amount of the present gross profit. What should be the selling price of the machine to give same percentage of gross profit as before ?

(6 marks)

(c) In a brass foundry, the standard mix consists of 60% of copper and 40% of zinc. The standard loss of production is 30%. Standard mix and yield were :

— Copper 60 kgs. @ Rs.5 per kg.

— Zinc 40 kgs. @ Rs.10 per kg.

— Standard yield 70 kgs.

The actual mix and yield were —

— Copper 80 kgs. @ Rs.4.50 per kg.

— Zinc 70 kgs. @ Rs.8 per kg.

— Actual yield 115 kgs.

Calculate material cost variance, material mix variance and material yield variance.

(3 marks)

7. (a) Delhi Adarsh School has a total of 150 students in 5 classes of 30 students each. The school plans for a picnic around the city. A private transport operator has agreed to lease out the buses for taking the students. Each bus will have a

maximum capacity of 50 (excluding 2 seats reserved for teachers). The school will employ two teachers for each bus paying them an allowance of Rs.150 per teacher. The following are the other cost estimates :

Breakfast	Rs.15 per student
Lunch	Rs.30 per student
Tea, *etc.*	Rs.9 per student
Entrance fees at zoo	Rs.6 per student
Hire charges	Rs.1,950 per bus
Special permit fee	Rs.450 per bus
Block entrance fee at planetarium	Rs.750
Prizes to students for games	Rs.750

You are asked to prepare flexible budget estimates for the total cost at 30, 60, 90, 120 and 150 students. Also find out average cost per student at these levels.

(6 marks)

(b) From the following information provided by Pure White Ltd., draw up its balance sheet :

Current liabilities	1.0
Current assets	2.5
Liquidity ratio	1.5
Stock turnover ratio (cost of sales/closing stock)	6 times
Fixed assets turnover (bases on sales)	2 times
Gross profit ratio	20%
Average collection period	2 months
Working capital	Rs.3,00,000
Shareholders capital	Rs.5,00,000
Reserves and surplus	Rs.2,50,000

(6 marks)

(c) Describe the main objectives of cost accounting.

(3 marks)

8. (a) From the following information, calculate the gearing adjustment required under current cost accounting method :

	Opening Balance *(Rs.)*	*Closing Balance* *(Rs.)*
Convertible debentures	5,00,000	6,00,000
Bank overdraft	1,00,000	1,50,000
Cash	40,000	50,000
Paid-up share capital	7,00,000	8,00,000
Reserves	1,00,000	1,50,000

Other informations :	*Rs.*
— Cost of sales adjustment	50,000
— Monetary working capital adjustment	40,000
— Depreciation adjustment	10,000
— Total of adjustments	1,00,000

(6 marks)

(b) As on 1st April, 2007 and 31st March, 2008, the balance sheets of Ramesh were as follows :

Liabilities	*1.04.2007* *(Rs.)*	*31.03.2008* *(Rs.)*
Creditors	40,000	44,000
Mrs. Ramesh's loan	25,000	—
Loan from Union Bank	40,000	50,000
Capital	1,25,000	1,53,000
	2,30,000	2,47,000
Assets		
Cash	10,000	7,000
Debtors	30,000	50,000
Stock	35,000	25,000
Machinery	80,000	55,000
Land	40,000	50,000
Building	35,000	60,000
	2,30,000	2,47,000

During the year, a machine costing Rs.10,000 (accumulated depreciation Rs.3,000) was sold for Rs.5,000. The balance of provision for depreciation against machinery as on 1st April, 2007 was Rs.25,000, and on 31st March, 2008 it was Rs.40,000. Net profit for the year 2007-08 amounted to Rs.45,000.

You are required to prepare the cash flow statement as per Accounting Standard–3 (Revised).

(6 marks)

(c) The ratio of variable cost to sales is 60%. The break-even-point occurs at 80% of sales. Fixed costs are Rs.2,00,000. Find the sales capacity and the sales at break-even-point. Also determine profit at 90% and 100% sales capacity.

(3 marks)

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