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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.*

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) The forfeited shares can be re-issued at a discount, but it cannot exceed the amount already realised at the time of forfeiture on such shares.

(ii) Cumulative preference shareholders can have the voting rights only, if the dividend has not been paid for more than two years.

(iii) Profit prior to incorporation can be used by the company for payment of dividend.

(iv) It is legally compulsory for every company registered under the Companies Act, 1956 to maintain its financial accounts on the basis of double account system.

(v) In case of firm underwriting, the underwriter has a right to get the allotment of that number of shares which has been firmly underwritten by him, though the issue has been oversubscribed by the public.

(2 marks each)

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

(i) Subject to the permission of the Central Government, the maximum allowable discount on equity shares is :

(a) 10%

(b) 8%

(c) 9%

(d) 5%.

(ii) Profit on cancellation of own debentures is transferred to :

(a) Profit and loss account

(b) Profit and loss appropriation account

(c) General reserve

(d) Capital reserve.

(iii) Interim dividend is always shown in :

(a) Profit and loss account

(b) Profit and loss appropriation account

(c) Asset side of balance sheet

(d) Liabilities side of balance sheet.

(iv) When shares are forfeited, the share capital account is debited by :

(a) Nominal value of the shares

(b) Called-up amount

(c) Paid-up amount

(d) None of these.

(v) The balance of sinking fund investment account after the realisation of investment is transferred to :

(a) Profit and loss account

(b) Profit and loss appropriation account

(c) Debentures account

(d) Sinking fund account.

(1 mark each)

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

(i) The person who failed to pay the call-money is liable to pay the interest on calls-in-arrears at a rate not exceeding ________ per annum from the due date money called for payment upto the date of actual payment.

(ii) The maximum rate of commission to underwriters for underwriting the shares is ________ for amounts upto Rs.5 lakh.

(iii) The maximum limit for managerial remuneration for all managerial personnel in a public limited company (except the fees for attending the meetings) is ________ per cent of net profit.

(iv) It is obligatory on the part of company to transfer to reserves of the company not less than _________ of current profit, if the proposed dividend exceeds 20% of paid-up capital.

(v) In case of fire insurance ________ of net premium is to be kept as minimum reserve against unexpired risk.

(1 mark each)

2. (a) "Accounting standards are formulated in conformity with the provisions of the applicable laws, customs, usages and business environment of a country." Comment.

(5 marks)

OR

Write a note on 'objectives of financial reporting'.

(5 marks)

(b) Following are the balance sheets of H. Ltd. and its subsidiary S. Ltd. as at 31st March, 2007 :

Liabilities	*H. Ltd.*	*S. Ltd.*
	(Rs.)	*(Rs.)*
Equity share capital :		
Shares of Rs.10 each fully paid	6,00,000	2,00,000
General reserve	3,40,000	80,000
Profit and loss account	1,00,000	60,000
Creditors	70,000	35,000
	11,10,000	3,75,000
Assets		
Plant and machinery	3,90,000	1,35,000
Furniture	80,000	40,000
80% Shares in S. Ltd. (*at cost*)	3,40,000	—
Stock	1,80,000	1,20,000
Debtors	50,000	30,000
Cash at bank	70,000	50,000
	11,10,000	3,75,000

Additional information :

(i) Profit and loss account of S. Ltd. stood at Rs.30,000 on 1st April, 2006 whereas general reserve stood at Rs.80,000 even on this date.

(ii) H. Ltd. acquired 80% shares in S. Ltd. on 1st October, 2006.

(iii) S. Ltd.'s plant and machinery which stood at Rs.1,50,000 on 1st April, 2006 was considered worth Rs.1,80,000 as on 1st October, 2006, this figure is to be considered while consolidating the balance sheets.

You are required to prepare consolidated balance sheet as at 31st March, 2007.

(10 marks)

3. The balance sheet of a company as at 31st March, 2007 was as under :

Liabilities	*Rs.*
30,000 Equity shares of Rs.10 each	3,00,000
8% Cumulative preference shares of Rs.100 each	2,00,000
Securities premium	90,000
Unsecured loans (from directors)	50,000
Sundry creditors	3,00,000
Outstanding expenses (including directors' remuneration of Rs.20,000)	70,000
	10,10,000

Assets	
Goodwill	50,000
Plant	3,00,000
Loose tools	10,000
Debtors	2,50,000
Stock	1,50,000
Cash	10,000
Bank	35,000
Preliminary expenses	5,000
Profit and loss account	2,00,000
	10,10,000

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

(i) Equity shares to be converted into shares of Rs.2 each and equity shareholders agreed to surrender 90% of their holdings.

(ii) Preference shareholders agreed to forego arrears of preference dividend for three years in lieu thereof the rate of dividend to be increased to 9%.

(iii) Directors agreed to forego their loans and remuneration.

(iv) Creditors agreed to reduce their claims by 1/5th in consideration of their getting new shares worth Rs.35,000.

(v) Assets are valued as under :

Plant : Rs.2,60,000; Loose tools : Rs.2,000; Debtors : Rs.2,35,000 and Stock : Rs.1,30,000.

(vi) Reconstruction expenses amount to Rs.10,000.

(vii) To provide working capital, existing shareholders subscribed for 50,000 equity shares of Rs.2 each.

Pass necessary journal entries and prepare post reconstruction balance sheet.

(15 marks)

4. (a) Distinguish between 'pooling of interest method' and 'purchase method' in the context of amalgamation.

(5 marks)

OR

A gas company rebuilds its works at cost of Rs.15,00,000. The works which had originally cost Rs.6,00,000 is completely replaced. In making new works, old material of Rs.50,000 was reused and some old material was sold for Rs.20,000. The cost of material, labour and overhead is 100%, 50% and 25% respectively higher now than when the old works were built. The ratio of material, labour and overhead may be taken as 6:3:1 respectively.

Pass the necessary journal entries.

(5 marks)

(b) Beta Ltd. proposed to purchase the business run by Akram on 31st March, 2007. Goodwill for the purpose is agreed to be valued at three years' purchase of weighted average of past four years' profits. The appropriate weights to be used and profits for these years were :

Year	*Weight*	*Profit* (*Rs.*)
2003-04	1	20,200
2004-05	2	24,800
2005-06	3	20,000
2006-07	4	30,000

On scrutiny of accounts, the following matters were revealed :

(i) On 1st December, 2005, a major overhauling was made in respect of the plant incurring Rs.6,000 which was charged to revenue. The said amount is agreed to be capitalised for goodwill calculation subject to adjustment of yearly depreciation of 10% per annum on reducing balance method.

(ii) The closing stock for the year 2004-05 was overvalued by Rs.2,400.

(iii) To cover the management cost, an annual charge of Rs.4,800 should be made for the purpose of valuation of goodwill.

Compute the value of goodwill of the business of Akram.

(10 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) Standard cost is also known as pre-determined cost of production.

   (ii) Production cost of goods sold and cost of goods sold are synonyms.

   (iii) The ABC analysis is based upon the money value in the total investment of material.

   (iv) Budgeting and forecasting are used inter-changeably, as such there is no difference between the two.

   (v) The break-even point is calculated after adding the profit to fixed cost.

   (2 marks each)

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

   (i) Under the high wage plan, a worker is paid —

   (a) At a higher time rate than the usual rate

   (b) According to his efficiency

   (c) At a double rate for overtime

   (d) Normal wages plus bonus.

   (ii) The term 'economic batch quantity' is used in relation to —

   (a) Operating costing

   (b) Batch costing

   (c) Process costing

   (d) Unit costing.

   (iii) A budget that gives a summary of all the functional budgets and projected profit and loss account is known as —

   (a) Capital budget

   (b) Flexible budget

   (c) Master budget

   (d) Discretionary budget.

   (iv) Period costs are —

   (a) Variable costs

   (b) Fixed costs

   (c) Prime costs

   (d) Overhead costs.

(v) Cost of labour turnover is —

(a) Preventive cost

(b) Direct cost

(c) Fixed cost

(d) Non-controllable cost.

(1 mark each)

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

(i) No profit on uncompleted contracts is taken to profit and loss account, if the value of work-in-progress is less than _________ of contract price.

(ii) Quantitative record of receipts, issue and balance items of material in stores are entered in ___________.

(iii) The system of standard costing and budgetary control have the common objectives, but both are ____________.

(iv) Amount realised from the sale of scrap which is relevant with manufacturing process be reduced from _______ cost.

(v) The difference between the actual sales and sales proceed at break-even point is known as _________.

(1 mark each)

6. (a) What do you mean by 'zero base budgeting' (ZBB). Explain in brief.

(5 marks)

OR

"Costing is a reality and pricing is a policy." Comment.

(5 marks)

(b) Summarised information extracted from the books of a company relating to year ended 31st March, 2008 :

— Factory overheads (actual) Rs.60,000 of which 60% are fixed.

— Selling and distribution overheads (actual) Rs.12,000 of which 50% are fixed.

— Administration overheads (actual) Rs.18,000 are constant for all practical purposes.

— Material and wages costs are Rs.2,00,000 and Rs.1,00,000 respectively.

— Sales (20,000 units) are Rs.4 lakh.

— Normal output during the year was expected to be 16,000 units.

— There is no opening and closing stock of finished product.

On the basis of information given above, you are required to —

(i) Ascertain the actual amount of profit.

(ii) Prepare a cost sheet and find out estimated profit assuming that the overheads are absorbed in cost on the basis of normal production.

(iii) Reconcile the above profits by preparing a statement of reconciliation.

(10 marks)

7. (a) Write a note on 'perpetual inventory system'.

(5 marks)

OR

Rajesh manufactured stools, chairs and tables. The material and wages costs are reported as follows :

	Stool	*Chair*	*Table*
Material *(Rs. per unit)*	36	60	440
Wages *(Rs. per unit)*	48	40	120
Unit produced	600	300	60

The factory overheads are *Rs.* 60,000.

You are required to determine the works cost of each type of furniture after assuming that one table is equivalent to 4 stools; and 2 chairs are equivalent to one table for the purpose of allocation of factory overheads.

(5 marks)

(b) The following are the summarised balance sheets of Gamma Ltd. as at 31st March, 2006 and 31st March, 2007 :

Liabilities	*31.03.2006 (Rs.)*	*31.03.2007 (Rs.)*
Share capital	4,50,000	4,50,000
General reserve	3,00,000	3,10,000
Profit and loss account	56,000	68,000
Creditors	1,68,000	1,34,000
Provision for taxation	75,000	10,000
Mortgage loan	—	2,70,000
	10,49,000	12,42,000
Assets		
Plant and machinery	4,00,000	3,20,000
Investments	50,000	60,000
Inventory	2,40,000	2,10,000
Debtors	2,10,000	4,55,000
Cash at bank	1,49,000	1,97,000
	10,49,000	12,42,000

Additional information :

(i) Investments costing Rs.8,000 were sold during the year for Rs.8,500.

(ii) Provision for taxation made during the year was Rs.9,000.

(iii) During the year, a part of plant and machinery costing Rs.10,000 was sold for Rs.12,000, the profit was included in profit and loss account.

(iv) Dividend paid during the year amounted to Rs.44,080.

You are required to prepare cash flow statement in new format as per Accounting Standard (Revised) by indirect method.

(10 marks)

8. (a) Distinguish between 'imputed costs' and 'common costs'.

(5 marks)

OR

2,400 Units are introduced into a process at a cost of Rs.36,000. The total additional expenditure incurred in the process is Rs.21,600. Of the units introduced, 10% are normal loss in course of manufacturing. The sale price of lost units is Rs.15 each. Due to abnormal causes, only 1,920 units could be produced. You are required to prepare the process account showing the abnormal loss.

(5 marks)

(b) Anjali Ltd. has provided the following abridged balance sheet as at 31st March, 2008 :

Liabilities	*Rs.*
Share capital	5,00,000
Fixed liabilities	2,50,000
Current liabilities	2,50,000
	10,00,000
Assets	
Fixed assets	6,00,000
Liquid assets	3,00,000
Stock in trade	1,00,000
	10,00,000

From the above, you are required to comment upon the following by calculating test ratios on :

(i) Long term solvency of the company; and

(6 marks)

(ii) Short term solvency of the company.

(4 marks)

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