Company Accounts and Cost & Management Accounting **222**

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

Time allowed : 3 hours *Maximum marks : 100*

Total number of questions : 8 *Total number of printed pages : 9*

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 Accounting Standards are formulated by the Institute of Chartered Accountants of India.

   (ii) In case the minimum subscription is not received, the company must return the amount so realised within 120 days from the date of issue of prospectus.

   (iii) In internal reconstruction, the share capital is refunded to the shareholders.

   (iv) In the event of amalgamation of companies, the existence of the amalgamating companies continue.

   (v) In firm underwriting, the underwriter has a right to get the shares allotted to it as per underwriting agreement, even if the issue has been oversubscribed.

   (2 marks each)

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

   (i) Called-up capital of company is --

   (a) Amount stated in the memorandum of association

   (b) Amount of shares issued to public for subscription

   (c) Amount of shares issued otherwise than cash

   (d) Portion of subscribed capital which the applicants are required to pay on subscription.

   (ii) Preference shares are those --

   (a) Which have preference in voting right

   (b) Can claim the dividend even if there is loss in the company

   (c) Entitled to receive the dividend at a fixed rate prior to equity shares

   (d) Entitled to receive the arrears of dividend in the absence of any provision in articles of association.

(iii) Issue of shares can be done at a discount by the public company if --

(a) At least one year has elapsed since the date of its incorporation

(b) At least one year has elapsed since the date of commencement of its business

(c) It is by a new company

(d) New class of shares are issued by old company.

(iv) Debentures of a company are also considered as --

(a) A loan capital of a company on interest

(b) Short-term borrowings

(c) Non-refundable deposits

(d) Amount refundable at the time of winding-up.

(v) Profit prior to incorporation is --

(a) Capital profit

(b) Distributable profit amount to shareholders

(c) To be credited to profit and loss account

(d) Amount payable to vendor.

(1 mark each)

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

(i) The subscription list for public issue should not be kept open for more than _____ days.

(ii) The accounts of a company shall be presented in general meeting at the end of every financial year but not exceeding fifteen months, which may be extended to _____ months with special permission of the Registrar of Companies.

(iii) After nationalisation of Life Insurance Corporation of India, the policy holders get ________ percentage of the profit of LIC by way of bonus.

(iv) In case of marine insurance ________ of net profit is to be kept as reserve for unexpired risk.

(v) No banking company can pay directly or indirectly commission, brokerage, discount or remuneration in any form on issue of shares in excess of _______ of the paid-up value of shares.

(1 mark each)

2. (a) On 1st January, 2008, Manish Ltd. had outstanding in its books 1,000, 12% debentures of Rs.500 each. In accordance with the agreement, the directors purchased debentures in the open market for immediate cancellation as follows :

1st March, 2008 : Rs.50,000 at Rs.490 (*cum-interest*)

1st August, 2008 : Rs.1,00,000 at Rs.501.25 (*cum-interest*)

15th December, 2008 : Rs.25,000 at Rs.492.50 (*ex-interest*)

Debentures interest is payable on 30th June and 31st December each year. Pass necessary journal entries for the above transaction.

(6 marks)

(b) What are the basic features of 'accounting software' ?

(3 marks)

(c) Laxmi Udyog Ltd., incorporated on 1st May, 2008, received certificate to commence business on 31st May, 2008. They had acquired the business from Mittal & Co. with effect from 1st January, 2008. The purchase consideration was Rs.15,00,000 of which Rs.3,00,000 was to be paid in cash and Rs.12,00,000 in the form of fully paid-up shares. The company also issued shares for Rs.12,00,000 for cash. Machinery costing Rs.7,50,000 was then installed. Assets acquired from Mittal & Co. were — Machinery : Rs.9,00,000; Stock : Rs.1,80,000; and Patents : Rs.1,20,000. During the year 2008, the total sales were Rs.54,00,000. The sales per month in the first half-year were one-half of what they were in the later half-year. The net profit of the company after charging the following expenses was Rs.3,00,000. Depreciation : Rs.1,62,000; Audit fees : Rs.22,500; Directors' fees : Rs.75,000; Preliminary expenses : Rs.18,000; Office expenses : Rs.1,17,000; Selling expenses : Rs.1,08,000; and Interest to vendor upto 31st May, 2008 : Rs.7,500.

Ascertain the pre-incorporation and post-incorporation amount of profit.

(6 marks)

3. (a) What are the desirable conditions for internal re-construction ?

(3 marks)

(b) Under section 209(6) of the Companies Act, 1956, who are the persons responsible for keeping the books of account of the company ?

(3 marks)

(c) The following particulars are available of Sorabji Ltd. :

(i) Capital : 45,000, 6% preference shares of Rs.100 each fully paid-up; and 45,000 equity shares of Rs.10 each fully paid-up.

(ii) External liabilities : Rs.7,50,000.

(iii) Reserves and surplus : Rs.3,50,000.

(iv) Annual average profit after tax : Rs.8,50,500.

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

(vi) Company transfers every year Rs.1,00,000 to reserves.

Calculate the fair value of shares assuming that out of the total assets, assets worth Rs.35,000 are fictitious.

(9 marks)

4. (a) What are 'bonus shares' ? In what circumstances, bonus shares can be issued ?

(3 marks)

(b) What is the role of 'merchant bankers' in the capital market ?

(3 marks)

(c) From the following balance sheets, prepare a consolidated balance sheet of Ram Ltd., and its subsidiary Shyam Ltd. Shares were acquired on 1st October, 2007 :

Balance Sheets as on 31st March, 2008

	Ram Ltd. (Rs.)	*Shyam Ltd.* (Rs.)
Liabilities		
Share capital	30,00,000	6,00,000
General reserves	4,00,000	--
Profit and loss account	6,00,000	2,10,000
Sundry creditors	5,00,000	1,90,000
	45,00,000	10,00,000
Assets		
Land and building	24,00,000	4,00,000
Plant and machinery	4,00,000	4,00,000
Current assets	11,60,000	2,00,000
Investments (5,400 shares of Rs.100 each in Shyam Ltd.)	5,40,000	--
	45,00,000	10,00,000

The profit and loss account of Shyam Ltd. has a credit balance of Rs.90,000 on 1st April, 2007.

(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) Time and motion study determines the time spent on each job by an efficient worker.

   (ii) Per unit cost remains constant in variable overheads.

   (iii) Abnormal loss or profit does not affect the cost of production in process costing.

   (iv) The formula for operating profit ratio is --

$$\frac{\text{Operating profit} \times 100}{\text{Net profit}}$$

   (v) The decision for minimum stock level is based on economic order quality.

(2 marks each)

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

   (i) Cost accounting is part of --
   - (a) Financial accounting
   - (b) Responsibility accounting
   - (c) Inflation accounting
   - (d) Management accounting.

   (ii) Batch costing is a part of --
   - (a) Process costing
   - (b) Operating costing
   - (c) Marginal costing
   - (d) Specific costing.

   (iii) The standard price of material is based on --
   - (a) First-in-first-out method
   - (b) Average price method
   - (c) Notional price method
   - (d) Last-in-first-out method.

   (iv) If a worker saves the time more than 50% of standard time, he earns more bonus --
   - (a) Under Halsey plan
   - (b) Under Rowan plan
   - (c) Taylor's differential piece rate plan
   - (d) Emerson's efficiency plan.

(v) In unit costing, amount realised from the sale of scrap during production is deducted from —

(a) Prime cost

(b) Works cost

(c) Cost of production

(d) Selling cost.

(1 mark each)

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

(i) The difference between the selling price and variable cost is known as ________ in marginal costing.

(ii) The cost incurred to keep the worker satisfied and to discourage from leaving the job is known as _______ cost.

(iii) A budget which is related to specific activities of business, such as production, sales, *etc.*, is known as ________ budget.

(iv) Cost accounting and financial accounting both are not similar but they are ________ to each other.

(v) The allotment of proportion of items/expenses to the cost centre or cost unit is called as _________ items/expenses.

(1 mark each)

6. (a) The following cost information relate to a production department of Solar Ltd. for a particular period for an output of 4,000 units :

	Rs.
Direct material	36,000
Direct wages	48,000
Direct expenses	6,000
Selling overheads (50% fixed and 50% variable)	3,200
Works overheads (60% variable and 40% fixed)	12,000
Administration overheads (100% fixed)	8,800
Distribution overheads (50% fixed and 50% variable)	1,600

It has estimated to manufacture 10,000 units next year. An increase of 10% in material price and 5% in wages rate is expected next year, otherwise no change is anticipated. Profits desired on sales is 20% on selling price. Find out the total cost of production and estimated selling price per unit.

(6 marks)

(b) The following are the ratios extracted from the balance sheet of a company as on 31st March, 2008 :

Current ratio	2.50
Liquidity ratio	1.50
Stock turnover ratio (based on cost of goods sold)	6
Fixed assets turnover (based on sales)	2
Gross profit as percentage of sales	20%
Debt collection period	2 months
Working capital	Rs.3,00,000
Shareholders capital	Rs.5,00,000
Reserves and surplus	Rs.2,50,000

Draw up the balance sheet of the company.

(9 marks)

7 (a) The following particulars of Soni & Co. relate to the year ending 31st March, 2008 for 30 workers :

	Rs.
Basic wages	50,000
Dearness allowance	25,000
Night shift allowance	9,600
Overtime allowance	7,000
PF deposit	12,000
ESI contribution	2,808
Recovery towards house rent	10,200
Recoveries against supply of goods	16,000
Expenditure for employees' amenities	4,730

PF is paid in equal share by the employer and employee. Contribution to ESI is in proportion of 7:5 by the employer and employee respectively. The workers are entitled to 5% of the total days worked as leave on full pay. The number of days worked in a year are 300. Normal idle time is 5%. Assuming that all the items are evenly spread over all the days in a year, find out total wages, total cash payment to workers and per hour per labour wages. The daily working hours are 8.

(6 marks)

(b) Fleet Company has a maximum capacity of 2,20,000 units per year. Normal capacity is regarded as 1,80,000 units per year. Variable manufacturing costs are Rs.11 per unit. Fixed factory overheads are Rs.5,40,000 per year. Variable selling costs are Rs.3 per unit, while fixed selling costs are Rs.2,52,000 per year. Sale price is Rs.20 per unit.

(i) What is the break-even point expressed in rupee sale ?

(ii) Calculate the number of sales units required to earn a target net profit of Rs.42,000 after income-tax, assuming income-tax rate to be 30%.

(iii) How many units must be sold to earn a net income of 10% of sales ?

(6 marks)

(c) "Master budget is a summary budget in which all functional budgets are summed up." Elucidate the statement.

(3 marks)

8. (a) Manohar Ltd. has the following balances as on 1st January, 2008 :

		Rs.
Fixed assets	Rs.12,00,000	
Less : Depreciation	Rs. 4,20,000	7,80,000
Bank balances		70,000
Current assets (except bank balances)		5,00,000
Current liabilities		2,00,000
Capital (shares of Rs.100 each)		6,00,000

The company made the following estimates for 2008 :

(i) The profit would be Rs.1,10,000 after depreciation of Rs.1,20,000.

(ii) The company will acquire fixed assets costing Rs.2,00,000 after selling one machine for Rs.40,000, costing Rs.1,00,000 on which depreciation provided amounted to Rs.70,000.

(iii) Current assets and current liabilities other than bank balance at the end of the year 2008 are expected to be Rs.5,90,000 and Rs.2,60,000 respectively.

The company will pay dividend (tax-free) of 10%. The rates of tax being 25%.

Ascertain the bank balance/overdraft of Manohar Ltd. at the end of the year 2008.

(6 marks)

(b) Delight Ltd. undertook a contract for Rs.2,50,000 on 1st April, 2008. On 31st March, 2009 when the accounts were closed the following details about the contract were gathered :

	Rs.
Material purchased	50,000
General expenses	5,000
Material in hand (as on 31st March, 2009)	12,500
Work certified	1,00,000
Cash received	75,000
Wages paid	22,500
Plant purchased	25,000
Wages outstanding (as on 31st March, 2009)	2,500
Work uncertified	7,500
Depreciation on plant	2,500

The contract contained escalation clause which is as follows :

"In the event of price of material and rates of wages increase by more than 5%, then the contract price would be increased accordingly by 25% of the rise in the cost of material and wages beyond 5% in each case." It was found that since the date of signing the agreement, the price of material and wages rates increased by 25%. The effect of above clause was not considered at the time of valuing the work certified. Prepare the contract account after considering the above escalation clause.

(6 marks)

(c) What are the limitations of 'responsibility accounting' ?

(3 marks)

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