Company Accounts, Cost and Management Accounting **262**

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) A company can issue debentures with voting rights.

(ii) The apportionment of profit or loss of the business between pre-incorporation and post-incorporation periods can be done on time basis only.

(iii) Contingent liability in respect of a transaction between holding and subsidiary companies must be shown by way of a footnote in the consolidated balance sheet.

(iv) Debentureholders are not the members of the company.

(v) No dividend is paid on calls-in-advance.

(2 marks each)

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

(i) Interest on debentures is a ___________ against the profits of the company.

(ii) The market value of a share is the product of price-earnings ratio and ___________ .

(iii) Partly paid-up preference shares cannot be ___________ .

(iv) International Financial Reporting Standards are issued by ___________ .

(v) Bonus shares are issued by a company free of charge to its existing shareholders on ___________ basis.

(1 mark each)

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

(i) A company cannot issue redeemable preference shares for a period exceeding —

(a) 5 Years

(b) 10 Years

(c) 15 Years

(d) 20 Years.

(ii) Which one of the following should be deducted from the share capital to find out paid-up share capital —
   (a) Share forfeiture
   (b) Discount on issue of shares
   (c) Calls-in-arrears
   (d) Calls-in-advance.

(iii) At the time of conversion of debentures redeemable at par into equity shares to be issued at discount, the amount to be credited in the equity share capital account shall be —
   (a) Nominal value of debentures only
   (b) Nominal value of debentures plus discount on issue of shares
   (c) Nominal value of debentures minus discount on issue of shares
   (d) None of the above.

(iv) In case a company intends to declare dividend @ 20%, it is required to transfer an amount to general reserve —
   (a) Not less than 10% of current profit
   (b) Not less than 7½% of current profit
   (c) Not less than 5% of current profit
   (d) Not less than 2½% of current profit.

(v) Accounting Standards —
   (a) Harmonise accounting policies
   (b) Eliminate the non-comparability of financial statements
   (c) Improve the reliability of financial statements
   (d) All of the above.

(1 mark each)

2. (a) The following are the balance sheets of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2011 :

Liabilities	*X Ltd.* (₹)	*Y Ltd.* (₹)	*Assets*	*X Ltd.* (₹)	*Y Ltd.* (₹)
Equity shares of ₹10 each	4,00,000	1,00,000	Equipments	2,50,000	95,000
Profit and loss account	50,000	20,000	Investment(9,000 equity shares in Y Ltd. on 1st April, 2010)	1,40,000	—
External liabilities	7,50,000	4,80,000	Other assets	8,10,000	5,05,000
	12,00,000	6,00,000		12,00,000	6,00,000

On 1st April, 2010, profit and loss account of Y Ltd. showed a credit balance of ₹ 8,000 and equipments of Y Ltd. were revalued by X Ltd. at 20% above its book value of ₹ 1,00,000 (but no such adjustment affected in the books of Y Ltd.).

Prepare the consolidated balance sheet as on 31st March, 2011.

(6 marks)

(b) The Underwriters Ltd. agreed to underwrite the new issue of 50,000 equity shares of ₹ 100 each of A Ltd. The agreed commission was 5% payable as 40% in cash and rest in fully paid-up equity shares. The public subscribed for 30,000 shares and the rest had to be taken by the underwriters. These shares were subsequently quoted in the market at 10% discount.
Pass the necessary journal entries in the books of A Ltd.

(6 marks)

(c) Write a brief note on 'buy-back of shares'.

(3 marks)

3. (a) Moon Ltd. was incorporated on 30th September, 2009 to takeover the business of Star Ltd. from 1st April, 2009. The financial accounts for the business for the year ended 31st March, 2010 disclosed the following information :

	₹
Sales from 1-04-2009 to 30-09-2009	1,20,00,000
Sales from 1-10-2009 to 31-03-2010	1,80,00,000
Cost of sales	1,95,00,000
Salaries	15,00,000
Other administrative expenses *(rent and rates)*	4,50,000
Selling expenses	3,00,000
Directors' remuneration	75,000
Depreciation of fixed assets	1,50,000
Interest on debentures	9,000

You are required to prepare the profit and loss account for the year ended 31st March, 2010 showing computation of profit between the periods prior to and after incorporation.

(6 marks)

(b) The balance sheet of Do Well Ltd. as on 31st March, 2010 was as follows :

Liabilities	₹	*Assets*	₹
Share capital in ₹ 10 per share	2,00,000	Freehold property	1,00,000
Profit and loss account	1,20,000	Stock	1,20,000
6% Debentures	1,20,000	Debtors	80,000
Creditors	60,000	Balance at bank	2,20,000
Proposed dividend	20,000		
	5,20,000		5,20,000

At the annual general meeting held on 18th April, 2010 it was resolved :

(i) To declare dividend of 10% for the accounting year ended on 31st March, 2010.

(ii) To issue one bonus share for every 4 shares held out of profit and loss account.

(iii) To give existing shareholders the option to purchase for cash one share for ₹ 15 for every 4 shares held prior to the bonus distribution. This option was accepted by all the shareholders. (On this no bonus share will be given).

(iv) To redeem the debentures at a premium of 3%.

Assuming that the authorised share capital is enough and dividends have been paid in full, pass necessary journal entries and prepare the balance sheet after these transactions are completed. Ignore dividend distribution tax.

(9 marks)

4. (a) Following was the balance sheet of Raman Ltd. as on 31st March, 2011 :

Liabilities		₹	*Assets*	₹
4,000 Equity shares of ₹100 each		4,00,000	Building at cost	60,000
Reserve fund		1,00,000	Furniture	5,000
Profit and loss account (including ₹ 3,00,000 before tax for 2010-11)		4,00,000	Stock (market value)	4,00,000
Depreciation fund :			5% Investments (*at cost*)	3,00,000
Building	15,000		Debtors	3,00,000
Investment	30,000	45,000	Bank	35,000
6% Debentures		1,00,000		
Creditors		45,000		
Provision for doubtful debts		10,000		
		11,00,000		11,00,000

The present value of building is worth ₹ 1,10,000.

Public companies doing similar business show a profit earning capacity of 12% on capital employed on the business. The real value of goodwill may be taken at ₹ 2,00,000. You are required to calculate the yield value of the shares of the company assuming that the tax rate is 35%.

(9 marks)

(b) A company issued 12% debentures of the face value of ₹ 2,00,000 at 10% discount on 1st January, 2010. Debenture interest after deducting tax at source @ 10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of 5 years period at 5% premium.

Pass the necessary journal entries.

(6 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) Issue of shares against the purchase of fixed assets is considered under financing activities in cash flow statement.

(ii) In cost plus contracts, the contractor runs a risk of incurring loss.

(iii) ABC analysis is based on the principle of management by exception.

(iv) A firm with a very high current ratio and very low liquid ratio has very low level of inventory.

(v) When a factory operates at full capacity, fixed cost also becomes relevant for make or buy decisions.

(2 marks each)

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

(i) Variable cost per unit does not remain ___________ .

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

(iii) Abnormal losses on account of idle time should be written off by being directly debited to ___________ .

(iv) Two important opposing factors in fixing the economic order quantity are ___________ and carrying cost.

(v) Zero base budgeting overcomes the weaknesses of ___________ .

(1 mark each)

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

(i) The annual demand is 1,000 units. The unit price is ₹ 10 per unit. The carrying cost of inventory is 10% and the ordering cost is ₹ 5 per order. The economic order lot to be ordered is —

(a) 100 units
(b) 800 units
(c) 200 units
(d) 400 units.

(ii) The nature of ratio analysis is —

(a) Quantitative analysis
(b) Qualitative analysis
(c) Both quantitative and qualitative analysis
(d) None of the above.

(iii) When prices fluctuate widely, the method that will smooth out the effect of fluctuations is —
   (a) FIFO
   (b) LIFO
   (c) Simple average
   (d) Weighted average.

(iv) When the amount of overheads absorbed is less than the amount of overheads incurred, it is called —
   (a) Under-absorption of overheads
   (b) Over-absorption of overheads
   (c) Proper absorption of overheads
   (d) Normal absorption of overheads.

(v) Product cost under marginal costing include —
   (a) Prime cost only
   (b) Prime cost and fixed overheads
   (c) Prime cost and variable overheads
   (d) Material cost and variable overheads.

(1 mark each)

6. (a) A company manufacturers 5,000 units of a product per month. The cost of placing an order is ₹ 100. The purchase price of the raw material is ₹ 10 per kg. The re-order period is 4 to 8 weeks. The consumption of raw materials varies from 100 kg. to 450 kg. per week. The average weekly consumption being 275 kg. The carrying cost of inventory is 20% per annum. Assuming 52 weeks in a year, you are required to calculate —
   (i) Re-order quantity;
   (ii) Maximum level;
   (iii) Minimum level; and
   (iv) Average level.

(6 marks)

(b) The following are the particulars relating to a contract which has begun on 1st April, 2010 :

	₹
Contract price	5,00,000
Machinery	30,000
Material	1,70,600
Wages	1,48,750
Direct expenses	6,330
Outstanding wages	5,380

	₹
Uncertified work	9,000
Overheads	8,240
Material returned	1,600
Machinery as on 31st March, 2011	22,000
Material in hand on 31st March, 2011	3,700
Value of work certified	3,90,000
Cash received	3,51,000

Prepare the contract account for the financial year 2010-11 showing the amount of profit that may be taken to the credit of profit and loss account for the year.

(6 marks)

(c) "Normal labour turnover is advantageous and excessive labour turnover is not desirable." Comment.

(3 marks)

7. (a) Surya Ltd. provides you the following information for the year ended 31st March, 2011 :

(i) Sales for the year amounted to ₹ 1,20,00,000, the company sells goods for cash only.

(ii) Cost of goods sold was 60% of sales. Closing inventory was higher than opening inventory by ₹ 53,750. Trade creditors on 31st March, 2011 exceeds those on 31st March, 2010 by ₹ 28,750.

(iii) Net profit before tax was ₹ 17,25,000. Tax paid amounted to ₹ 8,75,000. Depreciation on fixed assets for the year was ₹ 3,93,750. Whereas other expenses totalled ₹ 26,81,250. Outstanding expenses on 31st March, 2010 and on 31st March, 2011 totalled to ₹ 1,02,500 and ₹ 1,13,750 respectively.

(iv) New machinery and furniture costing ₹ 12,84,375 in all were purchased.

(v) A rights issue was made of 2,500 equity shares of ₹ 250 each at a premium of ₹ 75. The entire money was received with applications.

(vi) Dividends and dividend distribution tax totaling ₹ 5,08,750 were paid.

(vii) Cash in hand and at bank as on 31st March, 2010 totalled ₹ 2,67,250.

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

(9 marks)

(b) Metro Service Ltd. is operating at 70% capacity and presents the following information :

Break-even point	:	₹ 200 crore
P/V ratio	:	40%
Margin of safety	:	₹ 50 crore.

Metro management has decided to increase production to 95% capacity level with the following modifications —

— Selling price will be reduced by 8%.

— The variable cost will be reduced to 55% on sales.

— The fixed cost will increase by ₹ 27 crore including depreciation on additions, but excluding interest on additional capital.

— Additional capital of ₹ 50 crore will be needed for capital expenditure and working capital.

You are required to calculate —

(i) Sales required to earn ₹ 7 crore over and above the present profit and also to meet 20% interest on additional capital;

(ii) Revised break-even point;

(iii) Revised P/V ratio; and

(iv) Revised margin of safety.

(6 marks)

8. (a) From the following particulars, prepare the balance sheet of Dhan Dhanya Ltd. :

Current ratio	2
Working capital	₹ 4,00,000
Capital block (employed) to current assets	3:2
Fixed assets to turnover	1:3
Cash sales/credit sales	1:2
Debentures/share capital	1:2
Stock velocity	2 months
Creditors velocity	2 months
Debtors velocity	3 months
Gross profit ratio	25% (to sales)
Net profit	10% of turnover
Reserve	2.5% of turnover

(9 marks)

(b) Flexible budgets are more realistic and useful than fixed budgets. Do you agree ? Explain.

(3 marks)

(c) ''Budget is an aid to management and not a substitute for management''. Comment.

(3 marks)

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