PE II MAY 2008 QUESTION PAPERS

ACCOUNTANCY

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi, his answers in Hindi will not be valued.

Answer **all** questions

Wherever appropriate suitable assumptions should be made by the candidate.
Working notes should form part of the answer.

Marks

1. Following incomplete information of X Ltd. are given below : 20

Trading and Profit & Loss Account for the year ended 31st March, 2008

	Rs. '000		Rs. ' 000
To Opening stock	700	By Sales	?
To Purchases	?	By closing stock	?
To Direct express	175		
To Gross profit c/d	?		
	…………		………..
Establishment expenses	740	By Gross profit b/d	?
To Interest on loan	60	By Commission	100
To Provision for taxation	?		
To Net profit c/d	?		
	………….		………….

To Proposed dividends	?	By Balance B/F	140
To Transfer to general reserve	?	By Net profit b/d	?
To Balance transferred to Balance Sheet	?		
	…….		………

Balance Sheet as at 31st March 2008

Liabilities	Amount (Rs. '000)	Assets	Amount (Rs. '000)
Paid-up capital	1,000	Fixed Assets :	-
General Reserve :		Plant & Machinery	1,400
Balance at the beginning of	?	Other Fixed Assets	?
the year		Current Assets:	
Proposed addition	?	Stock	

Profit and Loss account	?	Sundry debtors	?
10% Loan account		Cash at bank	
Current liabilities	?		125
	....		....

Other in formations:

i. Current ratio is 2 : 1

ii. Closing stock is 25% of sales.

iii. Proposed dividends to paid-up Capital ratio is 2 : 3.

iv. Gross profit ratio is 60% of turnover.

v. Loan is half of current liabilities.

vi. Transfer to general reserves to proposed dividends ratio is 1 : 1

vii. Profit carried forward is 10% of proposed dividends.

viii. Provision for taxation is equal to the amount of net profit of the year.

ix. Balance to credit of general reserve at the beginning of the year is twice the amount transferred to that account from the current year's profits.

All working notes should be part of your answer. You are required to complete :

i. Trading and Profit and Loss account for the year ended 31st March, 2008 and

ii. The Balance Sheet as on that date.

Marks

2. The Balance Sheet of A Limited and B Limited as at 31st March, 2008 are as 16 follows. 16

Liabilities	A. L.t.d.	B Lt.d.	Assets	A L.t.d.	B Ltd.
Equity shares			Sundry assets	30,00, 000	14,00,00
of Rs. 10 each	20,00,000	12,00,000	40,000 Equity		
General Reserve	4,00,000	2,20,000	Shares in		
Creditors	6,00,000	3,80,000	A.Ltd.		4,00,000
	30,00,000	18,00,000		30,00,000	18,00,000

A Ltd, absorbed B Ltd. on the basis or intrinsic value of the shares. The purchase consideration is to be discharged in fully paid-up Equity Shares. A sum of Rs.1,00,000 is owed by A Ltd. to B Ltd, also included in the stock of A Ltd. is Rs.1,20,000 goods supplied by B Ltd, at cost plus 20%.

Give Journal entries in the books of both the companies, if entries are made at intrinsic value. Also prepare Balance Sheet of A Ltd. after absorption.

3. S and T were carrying on business as equal partners. Their Balance Sheet as on 31st March, 2007 stood as follows : 16

Liabilities	Rs.	Rs.	Assets	Rs.

Capital Accounts:			Stock	2,70,000
S	6,40,000		Debtors	3,65,000
T	6,60,000	13,00,000	Furniture	75,000
Creditors		3,27,500	Joint life policy	47,500
Bank overdraft		1,50,000	Plant	1,72,500
Bills payable		62,500	Building	9,10,000
		18,40,000		18,40,000

The operations of the business was carried on till 30th September, 2007. S Sand T both withdrew in equal amounts half the amount of profits made during the current period of 6 month after 10% p.a. had been written off on Building and Plant and 5% p.a written off on furniture. During the current period of 6 months, creditors were reduced by Rs. 50,000, Bills payables by Rs. 11,500 and Bank Overdraft by Rs. 75,000. The Joint life policy was surrendered for Rs. 47,500 on 30th September, 2007. Stock was valued at Rs. 3,17,000 and debtors at Rs. 3,25,000 on 30th September, 2007. The other items remained the same as they were on 31st March, 2007.

On 30th September, 2007 the firm sold its business to ST Ltd. The goodwill was estimated at Rs. 5,40,000 and the remaining assets were valued on the basis of the Balance sheet as on 30th September, 2007. The ST Ltd. paid the purchase consideration in equity shares of Rs.10 each. You are required to prepare a Realisation account and Capital accounts of the partners.

4. The Washington branch of XYZ Limited, Mumbai sent the following trial balance as on 31st December, 2007 : 16

	$	$
Head Office A/c	-	22,800
Sales	-	84,000
Debtors and Creditors	4,800	3,400
Machinery	24,000	-
Cash at Bank	1,200	-
Stock, 1 January, 2007	11,200	-
Goods from H.O	64,000	-
Expenses	5,000	-
	1,10,200	1,10,200

In the banks of head office, the Branch a/c stood as follows:

Washington Branch A/c			
	Rs.		Rs.
To Balance b/d	8,10,000	By Cash	28,76,000
To goods sent to branch	29,26,000	By Balance c/d	8,60,000
	37,36,000		37,36,000

Goods are sent to the branch at cost plus 10% and the branch sell goods at Invoice price plus 25%. Machinery were acquired on 31st January, 2002, When $ 1.00 = Rs. 40

Rate of Exchange were:

1st January, 2007	$ 1.00	= Rs. 46
31st December, 2007	$ 1.00	= Rs. 48
Average	$ 1.00	= Rs. 47

Machinery is depreciated @ 10% and the Branch Manager is entitled to a commission of 5 % on the profit of the branch.

You are required to:

(i) Prepare the branch Trading & Profit & Loss A/c in dollars.

(ii) Convert the Trial Balance of branch into India currency and prepare Branch Trading & Profit and Loss A/c and the Branch A/c in the books of head office.

5. **(a)** The following are the figures extracted from the books of New Generation Bank Limited as on 31.3.2008 : 10

	Rs.
Interest and Discount received Interest paid on deposits Issued and Subscribed capital Salaries and allowances Directors fee and allowances Rent and Taxes paid Postage and telegrams Statutory reserve fund Commission, exchange and brokerage Rent received Profit on sale of investments Depreciation on Bank's properties Statutory expenses Preliminary expenses Auditor's fees	37,05,738 20,37,452 10,00,000 2,00,000 30,000 90,000 60,286 8,00,000 1,90,000 65,000 2,00,000 30,000 40,000 25,000 5,000

The following further information is given :

(i) A customer to whom a sum of Rs. 10 lakhs has been advanced has become insolvent and it is expected only 50% can be recovered from his estate.

(ii) There were also other debts for which a provision of Rs. 1,150,000 was found necessary by the auditors.

(iii) Rebate on Bills discounted on 31.3.2007 was Rs.12,000 and on 31.3.2008 was Rs.16,000.

(iv) Provide Rs.6,50,000 for Income-tax.

(v) The Directors desire to declare 10% dividend.

Prepare the Profit and Loss account of New Generation Bank Limited for the year ended 31.3.2008 and also show, how the Profit and Loss account will appear in the Balance Sheet, if the Profit and Loss account opening balance was Nil as on 31.3.2007.

(b) Prepare the fire Insurance Revenue A/c as per IRDA regulations for the year ended 31st March, 2008 from the following details: 6

	Rs.
Claims paid	4,90,000
Legal expenses regarding claims	10,000
Premiums received	13,00,000
Re-insurance premium paid	1,00,000
Commission	3,00,000
Expenses of Management	2,00,000
Provision against unexpired risk on 1ST April, 2007	5,50,000
Claims unpaid on 1ST April, 2007	50,000
Claims unpaid on 31ST March, 2008	80,000

6. Answer any **four** of the following : 4x4 = 16

(i) **(a)** X Ltd. purchased debentures of Rs. 10 lacs of Y Ltd., which are traded in Stock exchange. How will you show this item as per AS-3 while preparing cash flow statement for the year ended on 31ST March, 2008?

(b) Mr.Raj a relative of key management personnel received remuneration of Rs.2,50,000 for this services in the company for the period from 1.4.2007 to 30.6.2007. On 1.7.2007 he left the service.

Should the relative be identified as at the closing date i.e., on 31.3.2008 for the purpose of AS-18?

(ii) A manufacturing company purchased shares of another company from Stock exchange on 1st May, 2007 at a cost of Rs.5,00,000. It also purchased Gold of Rs.2,00,000 and Silver of Rs. 1,50,000 on 1st April, 2005. How will you treat these investments as per the applicable As in the books of the company for the year ended on 31st March, 2008, if the value of these investments are as follows?

	Rs.
Shares	2,00,000
Gold	4,00,000
Silver	2,50,000

(iii) **(a)** Wye Ltd, received Rs. 50 lacs from the Central Govt. as subsidy for setting-up an industry in backward area. How will you treat it in accounts?

(b) How Govt. great relating to Specific Fixed Assets is treated in the books as per As-12?

(iv) A Ltd. had 6,00,000 equity shares on April 1, 2007. The company earned a profit of Rs. 15,00,000 during the year 2007-08. The average fair value per share during 2007-08 was Rs. 25. The company has given share option to its employees of 1,00,000 equity shares at option price of Rs.15. Calculate basic EPS and diluted EPS.

(v) Give names of books required to be maintained in agriculature farm accounting .

(vi) **(a)** How the Government expenditure in India is classified?

(b) In a production process, normal waste is 5% of input. 5,000 MT of input were put in process resulting in a wastage of 300 MT. Cost per MT of input is Rs. 1,000. The entire quantity of waste is no stock at the year end. State with reference to Accounting standard, how will you value the inventories in this case?

AUDITING

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answer questions 1 and 2 and four from the rest.

1. As on Auditor, comment on the following :

(a) Sri Limited is a manufacturing company engaged in manufacture of cement. It had three plants already commissioned in its site at Chennai. The company expanded its plant capacity by contracting with a supplier for the purchase and installation of one additional plant. The project was commenced on 1.7.2007 and the new plant commercial operations on1.1.2008. The new plant was capitalized and shown as fixed asset as on 31.3.2008 at cost which included, besides other things, the following : 5

(a) Contract price of plant and equipment and installation costs

(b) Interest due for the period till 31.3.2008 for the terms loan taken from scheduled bank for financing the project which is repayable over five years commencing 1.7.2008.

(c) Salaries, welfare expenses of the plant engineers of the company for the period from 1.7.2007 to 31.12.2007 who supervised the contract work.

(b) The Investments of ABC Limited includes 5,000 equity shares of Rs. 100 each in Amudhan Bank Limited. Amudhan Bank Ltd. declared 20% dividend for the year ended 31.3.2007 at its General Meeting held on 30.6.2007. ABC Limited finalised its accounts for the year ended 31.3.2007 on 30.8.2007 and it includes Rs.1,00,000 being the amount of dividend received by it from Amudhan Bank Ltd. in its other income subsequent to its Balance Sheet date before approval by the Board of Directors. 5

(c) The management of Ankita Limited suggested for quick completion of the statutory audit that it would give its representation about the receivables in terms of their recoverability. The management also acknowledged to the auditors that the management would give their representation after scrutinizing all accounts diligently and they own responsibility for any errors in these respects. It wanted auditors to complete the audit checking all other important areas except receivables. The auditor certified the account clearly indicating in his report the fact of reliance he placed on representation on the management. 4

(d) As Limited purchased on 1.4.2007 a machinery from a foreign country at a price of $ 1,50,000 upon terms of credit that the price should be settled within six months from the data of purchase. The company capitalised the Asset and created Liability for the capital goods converting the foreign currency liability to Indian Rupees at a rate of exchange prevailing as on 1.4.2007. When the company settled the liability on 18.7.2007, it had to incur an additional amount of Rs. 6,75,000 due to change in foreign exchange rate on date of settlement. It added this additional amount of exchange variation in the capital cost of the asset and charged depreciation upon the enhanced amount of asset value from 18.7.2007. 4

2. Comment of the following :

(a) AAS Company Limited with its registered office at Chennai has two branch offices located at Mumbai and Kolkota. The accounting transactions of the branches are recorded and the accounting records are maintained in the branches themselves. Only quarterly summarized Trial balance, Profit and Loss account and Balance Sheet are sent to Chennai office by the branch Accountants. One of the assistants of your audit team raises an issue that the company is required to maintain its books and records at the registered office; the company, keeping its accounting records at the branches, hence is as default of not maintaining proper books at registered office as per the Company law provisions. 5

(b) During the year 2007-08, it was decided for the first time that the accounts of the branch office of AAS Company Limited be audited by qualified Chartered Accountants other than the company auditor. Accordingly, the Board had appointed branch auditors for the ensuing year. One of he shareholders complained to the Central Government that the appointments was not valid as the Board of Directors do not have power to appoint auditors, be they Company Auditor or Branch Auditors? 4

(c) The Chief Accountant of AAS Company Limited says that the company, being in loss, would not provide depreciation for the Fixed Assets during this year, it would provide for the arrears of depreciation when it has profits in the future years; there is nothing wrong in this treatment, as according to the Companies Act, 1956, the company is bound to provide for depreciation only when it intends to declare divided; in the present case, the company does not declare dividend. 4

(d) Other liabilities in Balance Sheet of AAS Limited include Rs. 7.8 lakhs being the amount of excise duty payable since 1.5.2007 remaining unpaid till 31.3.08. However, the same been paid by the paid the company on 15.4.2008 upon getting clarification from its advocates that the liability is actually payable by it. 4

3. **(a)** **(i)** What is Audit Engagement letter? 2

(ii) Discuss the situations where it is necessary to issue audit engagement letter each year for repetitive audits. 6

(b) In a system based audit, test checking approach provides a good base for the auditor to form his opinion on the Financial statement. Give your comments. 8

4. How will you vouch/verify the following: 4x4 = 16

(a) Liability towards gratuity

(b) Expenditure incurred for promotion of a product

(c) Balance with excise authority

(d) Receipt of special backward area subsidy from Government.

5. **(a)** State, how the reliability of audit evidence gets affected by the types of Audit evidences. 8

(b) Explain the compliance procedure and also substantial procedures as Audit methods of collecting evidences for forming an audit opinion. 8

6. **(a)** Enunciate the General principles of varification of Assets. 8

(b) State the matters which the statutory Auditor should look into before framing opinion on accounts on finalisation of audit of accounts? Discuss over all audit approach. 8

7. **(a)** The Vidhawat College, an institution management by Dayal Trust, has received a grant of Rs. 1.35 crore from Government nodal agencies for funding a project auditing this fund in the accounts of the college. 12

(b) What are the main points involved in 'Performance Audit' under Government Accounting system? 4

8. Write short notes on the following : (any **Four**) 4 x 4 = 16

(a) Disclaimer of opinion by an audior.

(b) Audit Report versus Audit Certificate.

(c) Statutory Auditor versus Internal Auditor.

(d) Fundamental Accounting assumptions.

(e) Audit versus Investigation.

(f) Audit of Incomplete records.

LAW

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Question Nos. 1 and 7 are compulsory.

Candidates are required to attempt four questions out of Questions Nos. 2,3,4,5 and 6 and two questions out of Question Nos. 8, 9 and 10.

1. Answer any **four** of he following :

(a) Point out with reason whether the following agreements are valid or void : 5

(i) Kamala promises Ramesh to lend Rs.50,000 in lieu of consideration that Ramesh gets Kamala's marriage dissolved and himself marries with her.

(ii) Sohan agrees with Mohan to sell his back horse. Unknown to both the parties, the horse was dead at the time of agreement.

(iii) Ram sells the goodwill of his shop to Shyam for Rs.4,00,000 and promises not to carry on such business forever and anywhere in India.

(iv) In an agreement between Prakash and Girish, there is a condition, that they will not institute legal proceeding against each other without consent.

(v) Ramamurthy, who is a citizen of India, enters into an agreement with an alien friend.

(b) A, B and C were joint owners of truck and possession of the said truck was with B. X purchased the truck from B without knowing that A and C were also owners of the truck. Decide in the light of provisions of the Sale of Goods Act, 1930, whether the sale between B and X is valid or not? 5

(c) What are the provisions regarding set on and set off of the allocable surplus under the payment of bonus Act, 1965? 5

(d) What do you mean by "implied authority" of the partners in a firm? point out the extent of partner's implied authority in case of emergency, referring to the provisions of the Indian partnership Act, 1932. 5

(e) Bharat executed a promissory note in favour of Bhushan for Rs.5 crores. The said amount was payable three days after sight. Bhushan, on maturity, presented the promissory note on 1st January, 2008 to Bharat. Bharat made the payment on 4th January, 2008. Bhushan wants to recover interest for one day from Bharat. Advise Bharat, in the light of provisions of the Negotiable Instruments Act, 1881, whether he is liable to pay the interest for one day? 5

(f) Explain the provisions of the Employees provident Fund and Miscellaneous Provisions Act, 1952 regarding the following : 5

(i) rate of interest on amount due from the employer under the Act.

(ii) maximum limit of interest rare

(iii) the period for which the employer is liable to pay the said interest.

2. **(a)** Ravi sent a consignment of goods worth Rs. 60,000 by railway and got railway receipt. He obtained and advance of Rs.30,000 from the bank ad endrosed and delivered the railway receipt in favour of the bank by way of security. The railway failed to deliver the goods at the destination. The bank filed a suit against the railway for Rs. 60,000. Decide in the light of provisions of the Indian Contract Act, 1872, whether the bank would succeed in the said suit? 5

(b) State the privileges of a Coorperative Society registered under the Coorperative Society Act, 1912 relating to the exemption from Income-tax, Stamp duty and Registration fee. 5

3. **(a)** R is the wife of P, She purchased some sarees on Credit from Q. Q demanded the amount from P. P refused. Q filed as suit against P for the said amount. Decide in the light of provisions of the Indian Contract Act, 1872, whether Q would succeed? 5

(b) A, B and C are partners in a firm. As per terms of the partnership deed, A is entitled to 20 percent of the partnership property and profits. A retires from the firm and dies after 15 days. B and C contine business of the firm without settling accounts. What are the rights of A's legal representatives against the firm under the Indian partnership Act, 1932? 5

4. **(a)** Mr. Amit was shopping in a self-service Super market. He picked up a bottle of cold drink from a shelf. While he was examining the bottle, it exploded in his hand and injured him. He files a suit for damages against the owner of the market on the ground of breach of condition. Decide, under the Sale of Goods Act, 1930, whether Mr. Amit would succeed in his claim? 5

(b) State the eligibility and disqualification of the members of a Multi-State Cooperative Society under the provisions of the Multi-State Cooperative Society Act, 1984 (As amended by the Act of 2002). 5

5. **(a)** X draws a cheque in favour of Y. After having issued the cheque he informs Y not to present the cheque for payment. He also informs the bank to stop payment. Decide, under provisions of the Negotiable Instruments Act, 1881, whether the said act of X constitute an offence against him? 5

(b) Vimal is an employee in a Company. The following payments were made to him during the previous year : 5

(i) Piece rate wages

(ii) Productivity bonus

(iii) Additional dearness allowance

(iv) Value of Puja gift.

Examine as to which of the above payments from part of "Basic Wages" of Vimal under the Employees Provident fund and Miscellaneous Provisions Act, 1952.

6. **(a)** X is an employee in a Company. The amount of bonus payable to him during the year 2007-08 is Rs.14,000. The company deducted a sum of Rs. 4,000 against the "Puja Bonus" already paid to him during the said year and paid the remaining amount. X files a suit against the company for recovery of the deducted amount. Decide, under the Payment of Bomus Act, 1965, whether X would be given any relief by the Court? 5

(b) State the ways in which a Society, registered under the Cooperative Societies Act, 1992 may invest its own funds. Whether the amount of such fund can be given to members of the Society by way of profit? 5

7. Answer any **four** of the following :

(a) ABC Pvt. Ltd. Company is a Private Company having five members only. All the members of the company were going by car to Mumbai in relation to some business. An accident took place and all of them died. Answer with reasons, under the Companies Act, 1956, whether existence of the company has also come to the end? 5

(b) Before incorporation of the company, the promoters of the company entered into an agreement with Mr. Jainson to buy an immovable property on behalf of the company. After incorporation, the company refused to buy the said property. Advise Mr. Jainson whether he has any remedy under the provisions of the Companies Act, 1956. 5

(c) Explain the doctrine of "Utra-vires". What are legal effects ultra-vires transactions under the Companies Act, 1956? 5

(d) Under the Articles of Association of Sunshine Ltd. Company directors had power to borrow up to Rs. 10,000 without the consent of the general meeting, The Directors themselves lent Rs.35,000 to the company with such consent and took debentures of the Company, Decide under the provisions of the Companies Act, 1956, whether the company is liable ? If so, what is the extent of liability of the company in this case? 5

(e) Explain the provisions and main contents of "Returns of Allotment" under the Companies Act, 1956. 5

8. **(a)** Explain the concept of "Sweat Equity Shares". Point out, under the provisions of the Companies Act, 1956, the conditions of issuing of such shares and their position in the Share-capital of the Company. 5

(b) Peek Ltd. Co. issued and published its prospectus to invite the investors to purchase its shares. The said prospectus contained false statement. Mr. X purchased some partly paid shares of the company in good faith on the Stock Exchange. Subsequently, the company was wound up and the name of Mr. X was in the list of contributors. Decide : 5

(i) Whether Mr. X is liable to pay the unpaid amount?

(ii) Can Mr. X sue the directors of the company to recover damages?

9. **(a)** The Articles Association of PQR Ltd. provided document upon the company may be served only through E-mail. Arvind sent a document to the company by registered post. The company did not accept the document on the ground that sending document to the company by post was in violation of the Articles. As a result Arvind suffered loss. Decide the validity of argument of the company and claim of Arvind for damages in the light of provisions of the Companies Act, 1956. 5

(b) The directors of Mars India Ltd. desire-to alter capital clause of Memorandum of Association of their company Advise them, under the provisions of the Companies Act, 1956 about the ways in which the said clause may be altered and procedure to be followed for the said alteration. 5

10. **(a)** The Chairman of the meeting of a company received a proxy 54 hours before the time fixed for the start of the meeting. He refused to accept the Proxy on the ground that the Articles of the company provided that a Proxy must be filed 60 hours before the start of the meeting. Decide, under the provisions of the Companies Act, 1956, whether the Proxy holder can compel the Chairman to admit the Proxy? 5

(b) Ramesh, who is a resident of new Delhi, sent a transfer for registration of transfer of shares to the company at the address of its Registered Officer in Mumbai, He did not receive the share certificates even after the expiry of four months from the date of despatch of transfer deed. He lodged a criminal complaint in the Court at New Delhi. Decide, under the provisions of the Companies Act, 1956, whether the Court at New Delhi is competent to take action in the said matter? 5

COSTING AND FINANCIAL MANAGEMENT

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Question Nos. **1** and **6** are compulsory

Attempt **three** questions out of remaining question Nos.**2, 3,4** and **5** attempt **Two** questions from the remaining Question Nos. **7,8** and **9.**

Working notes should form part of the answer

Marks 3+5+2=10

1. **(a)** XYZ Ltd. Produces and sells sophisticated glass items –'A' and 'B'. In connection 3+5+2 with both the products the following information's are revealed from the cost records for the month February, 2008:

Product	**A**	**B**
Output (in units)	60,000	15,000
Sales (Rs.)	37,80,000	20,55,000
Cost Structure:		
Direct material (Rs. per unit)	18.75	45.00
Direct Wages (Rs. per unit)	10.00	13.00
Direct labour hours	30,000 hrs	9,750 hrs.
No.of quantity produced per batch:	240	50
Set up time per batch	2 hrs	5 hrs.
The Indirect costs for the month are as under:		

	Rs.
Cleaning and maintenance wages	2,70,000
Designing Costs	4,50,000
Setup costs	3,00,000
Manufacturing operation's costs	6,37,000
Shipment costs	81,000
Distribution costs	3,91,500
Factory administration costs	2,55,000

At present the company adopts the policy to absorb indirect costs applying direct labour hour basis and enjoying a good position in the market with regard to Product B, but facing a stiff price competition with regarding to Product A. The cost Accountant of the company, after making a rigorous analysis of the data, decided to shift from the absorption technique based on direct labour hours to activity costs drives basis and also to treat cleaning and maintenance wages as direct cost.

The cost accountant identified Rs. 1.20,000 for product A and the balance of cleaning and maintenance wages for product B.

The data relevant to activities and products are as follows:

Activity	cost	Product A	Product B
Designing:	Square feet	30 sq. ft.	70 sq.ft.
Manufacturing operation's :	Moulding machine hours	9,000 hrs.	3,750 hrs
Shipment :	Number of Shipments	100	100
Distribution:	Cubic feet	45,000 cu.ft.	22,500 cu.ft.
Setup of moulding machine:	Setup hours		
Factory administration:	Direct labour hours		

Your are required:

(i) To compute the total manufacturing cost and profits of both the products by applying direct labour basis of absorption, assuming cleaning and maintenance cost as indirect.

(ii) To compute the total manufacturing cost and profits of both the products by applying activity based costing, assuming cleaning and maintenance cost as indirect.

(iii) To compare the results obtained from (i) and (ii) and give your opinion on the decision of cost accountant.

(b) State 'Essentials of good cost accounting system'. 3

(c) Explain the limitations of Uniform costing. 3

(d) Calculate the total wages earned by a workman for a working day of 8 hours under Halsey and Rowan plans 2

- Standard production per hour — 20 units
- Actual production of the day — 200 units
- Wages rate per hour — Rs. 30

2 (a) A Factory incurred the following expenditure during the year 2007" 8

		Rs.
Direct material consumed		12,00,000
Manufacturing Wages		7,00,000
Manufacturing overhead:		
Fixed	3,60,000	
Variable	2, 50,000	6,10,000
		25, 10,000

In the year 2008 following changes are expected in production:

(i) Production will increase due to recruitment of 60% more workers in the factory.

(ii) Overall efficiency will decline by 10% on account of recruitment of new workers.

(iii) There will be an increase of 20% in fixed overhead and 60% in variable overhead.

(iv) The cost of direct material will be decreased by 6%

(v) The company desire to earn a profit of 10% on selling price.

Ascertain the cost of production and selling price.

(b) Explain the term cost audit and discuss the purpose served by it.

(c) Explain implicit costs and explicit costs.

3 (a) PQR a manufacturer – a small scale enterprise produce a single product and have adopted a policy to recover the production overheads of the factory by adopting a single blanket rate based on machine hours. The budgeted production overheads of the factory are Rs. 10,08,000 and budgeted machine hours are 96,000.

For a period of first six months of the financial year 2007-08, following information were extracted from the books:

Actual production overheads	Rs. 6,79,000
Amount included in the production overhead:	
Paid as per curt's order	Rs. 45,000
Expenses of previous year booked in current year	Rs. 10,000
Paid to workers for strike period under an award	Rs. 42,000
Obsolete stores written off	Rs. 18,000

Production and sales data of the concern for the first six months are as under:

Production:

Finished goods 22,000 units

Works-in-progress

(50% complete in every respect 16,000 units

Sale:

Finished goods 18,000 units

The actual machine hours worked during the period were 48,000 hrs. It is revealed from the analysis of information that 1/4 of the under-absorption was due to defective production policies and the balance was attributable to increase in costs.

Your are required:

(i) To determine the amount of under absorption of production overheads for the period.

(ii) To show the accounting treatment of under-absorption of production overheads, and

(iii) To apportion the unabsorbed overheads over the items.

(b) Discuss the A.B.C analysis of material control. 4

4. (a) The following figures have been extracted from the cost records of a manufacturing company. 10

Stores	**Rs.**
Opening Balance	63,000
Purchases	3,36,000
Transfer from Work-in-progress	1,68,000
Issues to Work-in-progress	3,36,000
Issues to Repairs and Maintenance	42,000
Deficiencies found in Stock taking	12,600
Work-in-progress:	

Opening Balance	1,26,000
Direct Wages applied	1,26,000
Overhead Applied	5,04,000
Closing Balance	84,000

Finished products:

Entire output is sold at a profit of 10% on actual cost from work-in-progress.

Others: Wages incurred Rs. 1,47,000: Overhead incurred Rs. 5,25,000.

Income from investment Rs. 21,000; loss on sale of Fixed Assets Rs. 42,000.

Draw the stores control account, work-in-progress control account, costing profit and loss account, profit and loss account and reconciliation statement.

(b) Explain "Controllable and Uncontrollable Costs'. 4

5. (a) Modern Construction Ltd. Obtained a contract No. B-37, for Rs. 40 lakhs. The following balances and information relate to the contract for the year ended 31st March, 2008:

5+1+2=8

	1-4-2007 Rs.	**31-3-2008 Rs.**
• Work-in-progress:		
Work certified	9,40,000	30,00,000
Work uncertified	11,200	32,000
• Material at site	8,000	20,000
• Accrued wages	5,000	3,000

Additional information relating to the year 2007-08 are:

	Rs.
• Materials issued from store	4,00,000
• Materials directly purchased	1,50,000
• Wages paid	6,00,000
• Architect's fees	51,000
• Plant hire charges	50,000
• Indirect expenses	10,000
• Share of general overheads for B-37	18,000
• Materials returned to supplier	15,000
• Fines and penalties paid	12,000

The conractee pays 80% of work certified in cash. You are required to prepare:

(i) Contract Account showing clearly the amount of profits transferred to profit and Loss Account.

(ii) Contractee's Account

(iii) Balance sheet.

(b) Explain any two of the following: 3+3=6

(i) Efficiency audit and Propriety audit.

(ii) Differential cost and Opportunity cost

(iii) Cost centre and Cost unit.

6. (a) A new project is under consideration in Zip Ltd., which requires a capital investment of

Rs.4.50 crore. Interest on term loan is 12% and Corporate Tax rate is 50%. If the Debt Equity ratio insisted by the financing agencies is 2:1, calculate the point of indifference for the project.

4

(b) X Ltd. has the following balances as on 1st April 2007. 8

	Rs.
Fixed Assets	11,40,000
Less :Depreciation	3,99,000
	7,41,000
Stock and Debtors	4,75,00
Bank Balance	66,500
Creditors	1,14,000
Bills payable	76,000
Capital (Shares of Rs. 100 each)	5,70,000

The Company made the following estimates for financial year 2007-08:

(i) The company will pay a free of tax dividend of 10% the rate of tax being 25%

(ii) The company will acquire fixed assets costing Rs. 1,90,000 after selling one machine for Rs. 38,000 Costing Rs. 95,000 and on which depreciation provided amounted to Rs. 66,500.

(iii) Stocks and Debtors, creditors and Bills payables at the end of financial year are expected to be Rs. 5,60,000, Rs. 1,48,200 and Rs. 98,800 respectively.

(iv) The profit would be Rs. 1,04,500 after depreciation of Rs. 1,14,000.

Prepare the projected cash flow statement and ascertain the bank balance of X Ltd., at the end of financial year 2007-08.

(c) Explain Baumal's Model of Cash Management. 4

7 (a) A firm can make investment in either of the following two projects. The firm anticipates its cost of capital to be 10% and the net (after tax) cash flows of the projects for five years are as follows: 8

(Figure in Rs. '000)

Year	**0**	**1**	**2**	**3**	**4**	**5**
Project-A	(500)	85	200	240	220	70
Project-B	(500)	480	100	70	30	20

The discount factors are under:

Year	**0**	**1**	**2**	**3**	**4**	**5**
PVF (10%)	1	0.91	0.83	0.75	0.68	0.62
PVF (20%)	1	0.83	0.69	0.58	0.48	0.41

Required:

(i) Calculate the NPV and IRR of each project.

(ii) State with reasons which project you would recommend.

(iii) Explain the inconsistency in ranking of two projects.

(b) Write short notes on: 2+2=4

(i) Finance function

(ii) Factoring.

8. (a) MNO Ltd. has furnished the following cost data relating to the year ending of 31st March, 2008: 8

	Rs. (in lakhs)
Sales	450
Material consumed	150
Direct wages	30
Factory overheads "(100% variable)	60
Office and Administrative overheads (100% variable)	60
Selling overheads	50

The company wants to make a forecast of working capital needed for the next year and anticipates that:

- Sales will go up by 100%
- Selling expenses will be Rs. 150 laksh.
- Stock holdings for the next year will be-Raw material for two and half months, Work-in-progress for one month, finished goods for half month and Book debts for one and half months.
- Lags in payment will be of 3 months for creditors, I month for wages and half month for factory, Office and Administrative and Selling overheads,

Your are required to:

(i) Prepare statement showing working capital requirements for next year, and

(ii) Calculate maximum permissible bank finance as per Tandom Committee guidelines assuming that core current assets of the firm are estimated to be Rs. 30 lakhs.

(b) Explain 'Global Depository Receipts' and 'American Depository Receipts.' 2+2=4

9. (a) Delta Ltd. currently has an equity share capital of Rs. 10,00,000 consisting of 1,00,000 Equity share of Rs. 10 Each. The company is going through a major expansion plan requiring to raise funds to the tune of Rs. 6,00,000. To finance the expansion the management has following plans: 4+4=8

Plan-I : Issue 60,000 Equity shares of Rs. 10 each

Plan-II : Issue 40,000 Equity shares of Rs. 10 each and 3,000 Rs. 100, 9% Debentures.

Plan-III : Issue 30,000 Equity shares of Rs. 10 each and 3,.000 Rs. 100, 9% Debentures.

Plant-IV : issue 30,000 Equity shares of Rs. 10 each and the balance through 6% preferences shares.

The EBIT of the company is expected to be Rs. 4,00,000 p.a. assume corporate tax rate of 40%.

Required:

(i) Calculate EPS in each of the above plans.

(ii) Ascertain the degree of financial leverage in each plan.

(b) Discuss the meaning and features of 'Commercial paper'. 1+3=4

INFORMATION TECHNOLOGY

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answer in Hindi will not be valued.

Question No. **1** is compulsory.
Answers any **four** from the rest.

Marks 1x5=5

1. (a) Convert the following from one number system to another system along with the working notes

i) $(65.65)_{10}$ = $(\ldots\ldots\ldots\ldots)_2$
ii) $(12AE)_{16}$ = $(\ldots\ldots\ldots\ldots)_{10}$
iii) $(39.B6)_{16}$ = $(\ldots\ldots\ldots\ldots)_8$
iv) $(245)_8$ = $(\ldots\ldots\ldots\ldots)_{16}$
v) $(1011.1101)_2$ = $(\ldots\ldots\ldots\ldots)_{10}$

(b) Describe briefly, the following terms with reference to Information Technology: 1x5=5

i) Flash Memory
ii) Clock Speed
iii) URL
iv) File volatility
v) Seek time.

(c) Give one or more reasons of use for each of the following:

i) MICR
ii) SQL
iii) Boot Record
iv) GUI
v) Disk formatting program

(d) Write True or False for each of the following: 1x5=5

i) Computer system may function a bit faster if certain of program's window are closed on the system running too many applications simultaneously.
ii) Binary equivalent of a terminating decimal fraction need not be terminating.
iii) Protocol is geometric arrangement of computer resources.
iv) The largest number a computer can store depend on its 'WORD LENGTH'.
v) Formula is ah equation that performs operation on worksheet.

2. Distinguished between the following:

i) CD-ROM and ROM-BIOS
ii) Internet and World Wide Web.
iii) Multi-programming and Multi-Tasking.
iv) Control Unit and ALU

v) MODERN and Multiplexer.

3. (a) Mention the advantages of DBMS.

(b) Discuss various issues related to data management.

(c) There are total 6,000 students in a university having four different disciplines. Their discipline code and yearly tuition fee per student, details are as follows:

Discipline of student	Code	Yearly tuition fee
Medical	M	80,000
Engineering	E	60,000
Science	S	40,0000
Arts	A	25,000

Draw a flowchart to read the name, discipline code of the student's from the terminal/file. Find the total yearly revenue earned and the number of students discipline wise. Also find the percentage of contribution to the total revenue from each discipline of students.

Print the total revenue collected and the number of students, the percentage of their contribution disciplines wise to the total revenue earned by the university.

4. (a) Describe 'Ring Network' as a network topology. Also mention its advantages and disadvantages.

(b) Define an Operating System and discuss its various functions.

(c) Write various steps involved to perform Mail-Merge.

(d) Write the steps for creating a new macro on MS-EXCEL

5. (a) Describe the language tools offered in MS-WORD to aid writing.

(b) Define the following functions used in MS-EXCEL:

i) DB ( )

ii) COUNTIF ( )

iii) INT ( )

iv) CLEAN ( )

v) NPV ( )

c) Give an account of the benefits of "Electronic Commerce' application and implementation. 10

6. (a) What are the objectives of introducing IT ACT, 2000?

(b) How is digital signature created? Describe it.

(c) Mention used of CATTs. What factors should be considered in determining whether to use CATTs?

7. Write short notes on any four of the following:

i) Voice Recognition

ii) Touch Screen

iii) Data File Interrogatin

iv) Clip Gallery

v) Enhanced features of 'Power Point'.

TAXATION

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answer **all** questions.

Working notes should form part of the answer.
Wherever required, suitable assumptions may be made by the candidate and clearly stated in the answer.

Marks 20

1. (a) Rajat is a Chartered Accountant in practice, he maintains his accounts on cash basis. He is a Resident and ordinarily resident in India. His profit and loss account for the year ended March 31, 2008 reads as follows:

Expenditure	Rs.	Income		Rs.
Salary to staff	5,25,000	Fees earned:		
Stipend to articled assistants	18,000	Audit	6,65,800	
Incentive articled assistants	5,000	Taxation services	4,68,600	
Office rent	24,000	Consultancy	3,82,000	15,16,400
Printing and stationery	6,600	Dividend on shares of Indian companies (gross)		9,635
Meeting, seminar and conference	38,600	Income from Unit Trust of India		6,600
Repairs, maintenance and petrol of car	22,400	Profit on sale of shares		15,620
Subscription and periodicals	15,000	Hanorarium received from various institutions for valuation of answers papers		16,350
Postage, telegram and fax	32,500	Rent received from residential flat let out		84,000
Depreciation	29,500			
Travelling expenses	55,000			
Municipal tax paid in respect of house property	1,000			
Net profit	8,76,005			
	16,48,605			16,48,605

Other Information:

(i) The total traveling expenses incurred on foreign tour was Rs.20,000 which was within the RBI norms

(ii) Incentive to articled assistants represent amount paid to two articled assistants for passing PE-II Examination at first attempt.

(iii) Repairs and maintenance of car includes Rs. 1, 600 for the period from 1.10.2007 to 30.9.2008.

(iv) Salary include Rs. 30,000 to a computer specialist in cash for assisting Mr.Rajat in one professional assignment.

(v) Rs. 1,500 interest on loan paid to LIC on the security of his Life Insurance Policy and utilized for repaid of computer, has been debited to the drawing account of Mr.Rajat.

(vi) Birthday gifts received by his minor son include cash Rs. 30,000, which was deposited with a nationalized bank. Interest accrued upto 31.3.2008 amounted to Rs. 1,500.

(vii) Medical Insurance Premium on the health of:

	Amount	Mode of Payment
Self	10,000	By Cheque

Dependent brother	5,000	By Cheque
Major son dependent on him	3,000	By Cash
Minor married daughter	2,000	By Cheque
Wife dependent on assessee	6,000	By Cheque

(viii) Shares sold were held for 10 months before sale.

(ix) Rajat paid life membership subscription of Rs. 1,000 to Chartered Accountants Benevolent Fund, the amount was debited to his drawings account. The Chartered Accountants Benevolent Fund is an approved fund under Section 80G of Income-tax Act, 1961.

Compute the total income and tax payable of Rajat of the Assessment Year 2008-09.

(b) Aarav converts his plot of land purchased in July, 2001 for Rs. 80,000 into stock-in-trade on 31st March, 2007. The fair market value as on 31.3.2007 was Rs. 1,90,000. The stock-in-trade was sold for Rs. 2,25,000 in the month of January, 2008. 5

Find out the taxable income if any, and if so under which 'head of income' and for which Assessment year?

Cost Inflation Index:

F.Y. 2001-2002---426

F.Y. 2006-2007---519

F.Y. 2007-2008---551

(c) Vinod, is a person carrying on profession as film artist, his gross receipt from profession are as under: 5

Financial year	2005-06	1,15,000
Financial year	2006-07	1,80,000
Financial year	2007-08	2,10,000

What is his obligation regarding maintenance of books of accounts for each Assessment Year under Section 44AA of Income-tax Act, 1961?

EITHER

6X2=12

2. **(a)** Explain the orders appealable to Tribunal under Section 253 of the Income-tax Act.

(b) Explain the computation of capital gain in case of Depreciable Asset under Section 50.

OR

6X2=12

2. **(a)** What do you understand by the reference to Valuation officer under Section 55A of Income-tax Act, 1961?

(b) Discuss the cross transfers in the context of Income-tax.

10X1=10

3. **(a)** Choose the correct answer with reference to the provisions of the Income-tax Act, 1961?

(i) In respect of a resident assessee, who is of the age of 65 years or more at any time during the previous year relevant to the Assessment Year 2008-09.

(a) Rebate of tax payable subject to a maximum of Rs. 20,000.

(b) Higher basic exemption of Rs. 1,50,000

(c) Higher basic exemption of Rs. 1,95,000

(d) Higher basic exemption of Rs. 1,35,000

(ii) Income accruing in Japan and received there is taxable in India in the case of

(a) Resident and ordinarily resident only

(b) Both resident and ordinarily resident and resident but not ordinarily resident

(c) Both resident and non-resident

(d) Non-resident.

(iii) For an employee in receipt of hostel expenditure allowance for his three children, the maximum annual allowance exempt under Section 10(14) is

(a) Rs. 10,800

(b) Rs. 7,200

(c) Rs. 3,600

(d) Rs. 9,600

(iv) The due date for filing of return for an individual assessee who is not required to get his books of accounts audited under Section 44AB for Assessment Year 2008-09 is

(a) 31st July, 2008

(b) 30th September, 2008

(c) 31st October, 2008

(d) 30th November, 2008.

(v) Under Section 44AE, presumptive taxation is applicable at a particular rate provided the assessee is the owner of a maximum of certain number of goods carriages. The rate per month or part of the month and the maximum number specified under the Section are

(a) Rs. 3,500 for a heavy goods carriage and Rs. 3,150 for other goods carriages for an assessee owing not more than 10 goods carriages at any time during the year.

(b) Rs. 3,500 per carriages for an assessee owing not more than 10 goods carriages at the end of the previous year.

(c) Rs. 3,500 for a heavy goods carriage and Rs. 3,150 for other goods carriages for an assessee owing not more than 12 goods carriages at the end of the previous year.

(d) Rs. 2,150 per carriage for an assessee for an assessee owing not more than 10 goods carriages at the end of the previous year.

(vi) Rakesh received Rs. 70,000 from his friend on the occasion of his birthday

(a) The entire amount of Rs. 70,000 is taxable

(b) Rs. 25,000 is taxable

(c) The entire amount is exempt

(d) None of the above.

(vii) Income arising to a minor married daughter is

(a) To be assessed in the hands of the minor married daughter

(b) To be clubbed with the income of that parent whose total income, before including minor's income, is higher

(c) Completely exempt from tax

(d) To be clubbed with the income of her husband.

(viii) Mr. B incurred short-term capital loss of Rs.10,000 on sale of shares through the National Stock Exchange. Such loss can be set-off

(a) Only against short-term capital gains

(b) Against both short-term capital gains and long-term capital gains

(c) Against any head of income

(d) None of the above.

(ix) Rs. 1 lakh is the maximum qualifying limit for deduction under

(a) Section 80C alone

(b) Section 80C and 80CCC

(c) Section 80C, 80CCC and 80CCD

(d) Section 88.

(x) A charitable or religious institution is required to file an application for registration from its creation

(a) Within 1 year from its creation

(b) Within 30 days from its creation

(c) Within the financial year of its creation

(d) None of the above.

5X1=5

(b) State whether True/False with proper reasons of the following statements with regard to provisions of Income-tax Act, 1961:

(i) Pension received by recipient of gallantry awards are exempt from Income-tax.

(ii) Surcharge of 10% on Income-tax is payable by an individual where the total Income exceeds Rs. 7,50,000.

(iii) Zero Coupon Bond means a bond on which no payment and benefits are received or receivable before maturity or redemption.

(iv) Mr. A, member of HUF, received Rs. 10,000 as share from the income of HUF, is to be included in his chargeable income.

(v) Subscription to notified bonds of NABARD would qualify for deduction under Section 80C.

4. Write short notes on any three of the following with reference to the provisions of Income-tax Act, 1961: 3X6=18

(a) Explain defective return under Section 139(9).

(b) What do you understand by "Composite Rent"? What is the tax treatment of Composite Rent under the Income-tax Act, 1961?]

(c) Explain the term "Business Connection" under Section 9(1).

(d) Deduction from Gross Total Income under section 80RRB.

5. **(a)** State with brief reasons whether the following statements are true or false as per the provisions of Central Sales-tax Act, 1956: 5X2=10

(i) Sales includes mortgage or hypothecation of or charge or pledge on goods.

(ii) Prosecution on the same facts shall lie under Section 10 if a penalty is imposed under Section 10A.

(iii) Form J is obtained by the selling dealer from his customers in SEZ.

(iv) Payment of Sales-tax under both laws is a condition precedent for application of refund of Local Sales-tax.

(v) Unmanufactured tobacco and tobacco refuse, cigars and cheroots of tobacco, cigarettes and cigarillos of tobacco and other manufactured tobacco are covered under Section 14 as declared goods and can avail concessional tax treatment.

(b) Fill in the blanks in the light of the provisions of Central Sales-tax Act, 1956:

(i) Aviation Turbine fuel sold to aircraft with a maximum take off mass of less than 40,000 kg. operated by scheduled airlines is …………………(Declared goods/Undeclared goods)

(ii) As per Section 6(2), no CST exemption in respect of subsequent sale to …… (Government/Registered Dealers).

(iii) Ram of Indore sells goods after he received the payment from Shyam of Mumbai, Shyam of Mumbai gets a Cash discount, whether cash discount shall be…… (Deducted/ not deducted) from the sale price.

(iv) Indian Airlines Purchases Aviation Turbine fuel for the purpose of its London flight, such purchase…….. (shall/shall not) be the sale in the course of export of goods.

(v) Whether erection and commissioning ………… (are/are not) works contract.

6. Mr.Sharvil reported undermentioned data for the financial year 2007-08: 10

		Amount Rs.
(i)	Total interstate sales during the F.Y.2007-08 [Inclusive of C.S.T]	1,01,55,800
(ii)	Above sales includes excise duty	13,60,000
(iii)	Incentive on sales received from manufacturer	2,30,000
(iv)	Deposit for returnable containers and packages	8,00,000
(v)	Goods worth Rs. 87,550 (inclusive of tax) made vide Invoice No. 101/ACA dated 29.9.2007 were returned on 31.3.2008.	

Discuss the turnover and CST payable assuming the rate of tax at 3%.