

CS Executive Paper - 2
June - 2013 Solution

Answer : 1 (a)

- (i) This Statement is false.

Reason : According to Section 81 of the Companies Act, the new shares must be offered to the existing equity shareholder to the paid up capital on the share held by them. This is a right not an obligation to the shareholder accept the offer so made. This is known as right issue.

- (ii) This Statement is true.

Reason : Contingent liabilities relating to outsider must be shown by way of a footnote in the consolidated balance sheet. But a contingent liabilities in respect of a transaction between holding and subsidiary company will not appear in the footnote since it become internal contingent liability.

- (iii) This Statement is true.

Reason : The unrealized profit should be deducted from the current revenue profits of the company which had sold goods and same should also be deducted from the value of the stock in trade of the company.

- (iv) This Statement is false.

Reason : The dividend cannot be paid out of capital reserve unless certain conditions are satisfied. The amount of dividend should only be declared out of current year profits but after meeting all the expenses, providing for depreciation of all assets used in the business, taxation or writing off losses.

- (v) This Statement is false.

Reason : Redemption of preference share does not amount to reduction of share capital of the company. Redemption of preference shares can be made out of dividend or fresh issue of shares or both.

Answer : 1 (b)

- (i) (c) The amount received on forfeited shares.
- (ii) (b) Managerial remuneration.
- (iii) (c) Carrying amount.
- (iv) (b) Capital loss.
- (v) (b) Preliminary expenses.

Answer : 1 (c)

- (i) Two and one
- (ii) Capital profits
- (iii) Fictitious
- (iv) Pre-acquisition
- (v) International Accounting Standard Board.

Answer : 2 (a)

Calculation of value of one equity share

Particulars	Amount (₹)
Expected Annual profits before tax	4,00,000
Less: Tax @ 35% of ₹ 4,00,000	<u>(1,40,000)</u>
Profit after tax (PAT)	2,60,000
Less: Transfer to General Reserve @20% of PAT	<u>(52,000)</u>
Profit after tax and transfer to General Reserve	2,08,000
Less: Preference Dividend @10% on ₹ 2,00,000	<u>(20,000)</u>
Profit available for equity shareholders	<u>1,88,000</u>

Expected rate of earning per share

$$= \frac{\text{Profit available for equity shareholders} \times 100}{\text{Total paid up equity share capital}}$$

$$= \frac{1,88,000 \times 100}{4,20,000}$$

$$= 44.762\%$$

Total paid up equity share capital = ₹ 60,000 × ₹ 7 = ₹ 4,20,000

Value of one equity share

$$= \frac{\text{Expected rate of earnings} \times \text{Paid up value of shares}}{\text{Normal Rate of earning}}$$

$$= \frac{44.762 \times 7}{20}$$

$$= ₹ 15.67$$

Answer : 2 (b)

Calculation of Net Liability of Underwriters

Particulars	K	B	C
Gross Liability in the agreed ratio of 40:30:30	20,000	15,000	15,000
Less: Market Applications	<u>10,000</u>	<u>5,000</u>	<u>10,000</u>
Balance Left	10,000	10,000	5,000
Less: Unmarked Applications in the ratio of gross liability	<u>6,000</u>	<u>4,500</u>	<u>4,500</u>
Net liability	<u>4,000</u>	<u>5,500</u>	<u>500</u>

Answer : 2 (c)

Please refer 2012 - June [2] (c) on page no. ?

Answer : 3 (a)

**Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.
as on 31st March 2012**

Particulars	Amount (₹)	Amount (₹)
I. EQUITIES AND LIABILITIES		
1. Shareholder's Funds		
(a) Share capital 5,000 Equity shares @ ₹ 100 each		5,00,000
(b) Reserves and Surplus		
General Reserve		1,00,000
Profit & Loss A/c		
H Ltd.	80,000	
S Ltd.	<u>27,000</u>	
	1,07,000	
Less: Unrealised Profit	<u>1,000</u>	1,06,000
2. Minority Interest		25,000
3. Non Current Liabilities		
15% Debentures		
Less : Held by H Ltd.	1,00,000	
	<u>60,000</u>	40,000
4. Current Liabilities		
Trade payables:		
H Ltd.	75,000	
S Ltd.	<u>45,000</u>	
	1,20,000	
Less: Mutual Owings	<u>20,000</u>	<u>1,00,000</u>
Total		<u>8,71,000</u>

II. Assets		
1. Non Current Assets		
(a) Fixed Assets		
(i) Tangible Assets		
H Ltd.	3,50,000	
S Ltd.	<u>1,50,000</u>	5,00,000
(ii) Intangible Assets		
Goodwill		72,000
2. Current Assets		
inventories		
H Ltd.	90,000	
S Ltd.	<u>40,000</u>	
	1,30,000	
Less: Profit of Unrealized Stock	<u>1,000</u>	1,29,000
Trade Receivables		
H Ltd.	60,000	
S Ltd.	<u>30,000</u>	
	90,000	
Less: Mutual Owings	<u>20,000</u>	70,000
Cash		
H Ltd.	75,000	
S Ltd.	<u>25,000</u>	<u>1,00,000</u>
Total		<u>8,71,000</u>

Working Notes:

- (1) Ratio of share capital held by H Ltd. And Minority Shareholders = 3 : 1
(2) Pre-acquisition losses of S Ltd.

	₹
Losses as per Profit & Loss A/c as on 31 st March 2011	<u>1,50,000</u>
H Ltd.'s share (3/4th of 1,50,000)	1,12,500
Minority interest (1/4th of 1,50,000)	37,500
(3) Additional Pre-acquisition profits of S Ltd.	₹
Accumulated Losses as on 31 st March 2011	1,50,000
Less: Accumulated Losses as on 31 st March 2012	<u>1,00,000</u>
Profits during the year 2011-12	50,000
Add: Loss of stock by fire (6,000 – 2,000)	<u>4,000</u>
Adjusted profit	<u>54,000</u>
Profits for pre acquisition period	
(from 01/04/2011 to 01/08/2011) 54,000 × 4/12	18,000
Less: Loss of stock by fire	<u>4,000</u>

Total pre acquisition profits		<u>14,000</u>
H Ltd.'s share (3/4th of 14,000)		10,500
Minority interest (1/4th of 14,000)		3,500
(4) Calculation of Cost of Control or Goodwill		
	₹	₹
Paid up value of 1,500 equity shares held by H Ltd. (1,500 × 100)	1,50,000	
Add: 3/4th share in Pre-acquisition profits and reserves		<u>10,500</u>
		1,60,500
Less: 3/4th share of Pre-Acquisition Losses		<u>1,12,500</u>
Intrinsic value of shares on the date of acquisition		<u>48,000</u>
Investments by H Ltd. in S Ltd. for 1,500 shares (1500 × 80)		1,20,000
Less: Intrinsic value of shares on the date of acquisition		<u>48,000</u>
Goodwill		<u>72,000</u>
(5) Post Acquisition profits	₹	
Profits for the post acquisition period (from 01/08/2011 to 31/03/2012) 54,000 × 8/12	<u>36,000</u>	
H Ltd.'s share in Post-acquisition profits of S Ltd.	27,000	
Minority interest in Post-acquisition profits of S Ltd.	9,000	
(6) Calculation of Minority interest	₹	
Paid up value of 500 equity shares (500 × 100) held by outsiders	50,000	
Add: 1/4th share in Pre-acquisition profits and reserves	3,500	
1/4th share in Post-acquisition profits	<u>9,000</u>	
	62,500	
Less: 1/4th share in Pre-acquisition losses	<u>37,500</u>	
Minority interest	<u>25,000</u>	
(7) Unrealised profit on Stock		
Value of Unsold Stock	10,000	
Unrealised Profit on unsold stock (2,000/20,000 × 10,000)	1,000	

Answer : 3 (b)

**In the books of Shreya Ltd.
Journal Entries**

Date	Particulars	Debit Amount (₹)	Credit Amount (₹)
	12% Redeemable Preference Shares Capital A/c Dr. Premium on redemption A/c Dr. To Preference Shareholders A/c (Being the amount due to redeemable preference shareholders on redemption)	1,00,000 10,000	1,10,000
	Securities Premium Reserve A/c Dr. To Premium on redemption A/c (Being premium on redemption provided out of securities premium reserve)	10,000	10,000
	General Reserve A/c Dr. To Capital Redemption Reserve A/c (Being the amount of redeemed out of profits transferred to capital redemption reserve account)	1,00,000	1,00,000
	Preference Shareholders A/c Dr. To Bank (Being amount paid on redemption to preference shareholders)	1,10,000	1,10,000

Answer : 4 (a)

**In the books of A Ltd.
Journal Entries**

Date	Particulars	Debit Amount (₹)	Credit Amount (₹)
	Bank Dr. To Share Application A/c (Being application money received on 45,000 shares @ ₹ 2 each)	90,000	90,000

Share Application A/c To Share Capital A/c To Share Allotment A/c To Bank (Being application for 36,000 shares allotted 30,000 shares and application of 9,000 shares refunded. Excess application money transferred to share allotment A/c)	Dr.	90,000	60,000 12,000 18,000
Share Allotment A/c To Share Capital A/c To Securities Premium Reserve A/c (Being share allotment amount due on 30,000 shares @ ₹ 5 each including a premium of ₹ 2 each)	Dr.	1,50,000	90,000 60,000
Bank To Share Allotment a/c (Working Note 3) (Being amount due on allotment received except from the holder of 600 shares)	Dr.	1,35,240	1,35,240
Share First Call A/c To Share Capital A/c (Being share first call due on 30,000 shares @ ₹ 3 each)	Dr.	90,000	90,000
Bank To Share First Call A/c (Being amount received on first call except from the holders of 600 shares and 900 shares)	Dr.	85,500	85,500
Share Capital A/c (600 × 8) Securities Premium Reserve A/c To Share Allotment A/c (600 × 5 – 120 × 2) To Share First Call A/c (600 × 3) To Shares Forfeited A/c (720 × 2) (Being 600 shares forfeited on non-payment of share allotment and first call money)	Dr.	4,800 1,200	2,760 1,800 1,440
Share Second and Final Call A/c (29,400 × 2) To Share Capital A/c (Being share final call due on 29,400 shares @ ₹ 2 each)	Dr.	58,800	58,800

Bank	Dr.	57,000	57,000
To Share Second and Final Call A/c (Being amount received on final call except from the holder of 900 shares)			
Share Capital A/c (900 × 10)	Dr.	9,000	2,700
To Share First Call A/c			1,800
To Share Second and Final A/c			4,500
To Shares Forfeited A/c (Being 900 shares forfeited on non-payment of first and second call money)			
Bank (1,200 × 9)	Dr.	10,800	
Shares Forfeited A/c	Dr.	1,200	
To Share Capital A/c (Being 1,200 shares reissued @ ₹ 9 each full paid)			12,000
Shares Forfeited A/c	Dr.	3,240	
To Capital Reserve A/c (Working Note 4) (Being profit on reissue of 1,200 shares transferred to capital reserve)			3,240

Balance Sheet of A Ltd.

Particulars	Amount (₹)
I. EQUITIES AND LIBILITIES	
1. Shareholder's Funds	
(a) Share capital	
Issued capital (30,000 Equity shares @ ₹ 10 each)	<u>3,00,000</u>
Paid up capital (29,700 @ ₹ 10 each)	<u>2,97,000</u>
Shares Forfeited A/c	<u>1,500</u>
(b) Reserve and Surplus	
Capital Reserve	<u>3,240</u>
Securities Premium Reserve A/c	<u>58,800</u>
Total	<u>3,60,540</u>
II. Assets	
1. Non Current Assets	
2. Current Assets	
Bank	<u>3,60,540</u>
Total	<u>3,60,540</u>

Working Notes

1. For shares allotted 30,000, shares applied are 36,000
For shares allotted 600, shares applied = $\frac{600 \times 36,000}{30,000}$
= 720 shares
For shares allotted 900, shares applied = $\frac{900 \times 36,000}{30,000}$
= 1,080 shares
2. Amount received on application for 36,000 shares ($36,000 \times 2$) = ₹ 72,000
Amount used in application ($30,000 \times 2$) = ₹ 60,000
Amount transferred to share allotment ($₹ 72,000 - 60,000$) = ₹ 12,000
3. Amount to be received on allotment ($30,000 \times 5$) = ₹ 1,50,000
Less : Amount already received with application money = ₹ 12,000
Less : Amount not received by the holder of 600 shares
($600 \times 5 - 120 \times 2$) = ₹ 2,760
Amount received on allotment = ₹ 1,35,240
4. Share forfeited amount on 600 shares of Ramesh = ₹ 1,440
Share forfeited amount on 600 shares of Mohan = ₹ $\frac{4,500 \times 600}{900}$
= ₹ 3,000
Total forfeited amount = ₹ 4,440
Less: Discount on reissue = ₹ 1,200
Capital Reserve = ₹ 3,240

Answer : 4 (b)

Profit prior to incorporation : — Please refer 2011 - Dec [2] (b) on page no. ?

Loss prior to incorporation : — Loss, is a capital nature, should be debited to Separate Account called loss prior to Incorporation Account which can be written off against other capital profits of the company or it can be treated as goodwill and debited to goodwill account.

Part-B

Answer : 5 (a)

- (i) **This statement is false :** Cost sheet is a document which provide the detailed cost of the cost centre. The selling and distribution expenses are not included in the cost sheet when in statement of cost and profit.
 - (a) the first part gives the cost of production.
 - (b) the second part gives the cost of goods sold.
 - (c) the third part gives the cost of sale and profits for the period.
- (ii) **This statement is false :** Zero based budgeting is not based on incremental approach, because it promote operational efficiency. Hence, it require manager to review and justify their activities or the fund. ZBB is particularly useful for service department and government.

- (iii) **This statement is true** : When factory works at full capacity, fixed cost also become relevant for make or buy decision.
- (iv) **This statement is true** : Marginal costing covers only those expenses which are of variable nature whereas direct costing may also include costs which besides being fixed in the nature are identified with the cost objective.
- (v) **This statement is false** : Management Account is not based on double entry system.

Answer : 5 (b)

- (i) (b) Labour turnover.
- (ii) (a) Cost books.
- (iii) (d) All of the above.
- (iv) (c) HIFO.
- (v) (a) Short range.

Answer : 5 (c)

- (i) Cost sheet.
- (ii) Ordering and storage.
- (iii) Over absorption.
- (iv) Costing profit and loss account.
- (v) The quantity of raw materials.

Answer : 6 (a)

**Balance Sheet of Genius Ltd.
as on 31st March 2013**

Particulars	Amount (₹)
I. EQUITIES AND LIABILITIES	
(a) Share capital	10,00,000
(b) Reserves and Surplus	4,00,000
(c) Non Current liabilities	
Long Term Loan	1,75,000
(d) Current Liabilities	<u>5,25,000</u>
Total	<u>21,00,000</u>
II. Assets	
1. Non Current Assets	
Fixed Assets	10,50,000
2. Current Assets	
Stock of raw materials	2,10,000
Stock of finished goods	3,15,000
Debtors	3,50,000
Cash (balancing figure)	<u>1,75,000</u>
Total	<u>21,00,000</u>

Working Notes:

(i) Fixed Assets turnover ratio	= Net Sales / Fixed Assets
Or, Net sales	= ₹ 10,50,000 × 2
	= ₹ 21,00,000
(ii) Gross profit	= 25% of sales
	= 25% of ₹ 21,00,000
	= ₹ 5,25,000
Cost of Sales	= Sales – Gross Profit
	= ₹ 21,00,000 – 5,25,000
	= ₹ 15, 75,000
(iii) Raw materials consumed	= 40% of cost of sales
	= 40% of ₹ 15,75,000
	= ₹ 6,30,000
Stock of raw materials	= 4/12 × ₹ 6,30,000
	= ₹ 2,10,000
(iv) Debtors collection period	= $\frac{\text{Debtors} \times 12}{\text{Net Sales}}$
	Net Sales
Or, 2 × 21,00,000	= Debtors × 12
Or, Debtors	= ₹ 3,50,000
(v) Fixed assets to current assets	= 1:1
Current assets	= ₹ 10,50,000
(vi) Current liabilities	= Current Assets/2
	= ₹ 10,50,000/2
	= ₹ 5,25,000
(vii) Long term to Current liability	= 1:3
Long Term liabilities	= ₹ 5,25,000/3
	= ₹ 1,75,000
(viii) Total Assets	= ₹ 10,50,000 + 10,50,000
	= ₹ 21,00,000
Total Debt	= Long term liabilities + Current liabilities
	= ₹ 1,75,000 + 5, 25,000
	= ₹ 7,00,000
Shareholders fund	= ₹ 21,00,000 – 7,00,000
	= ₹ 14,00,000
(ix) Capital to reserve ratio	= 5:2
Reserves	= ₹ 14,00,000 × 2/7 = ₹ 4,00,000
Capital	= ₹ 14,00,000 × 5/7 = ₹ 10,00,000

Answer : 6 (b)

In the case of absorption costing, both fixed and variable overheads are charged to production on the other hand, in marginal costing only variable overheads are charged to production while fixed overheads, are fully charged against contribution in profit determination. Absorption costing lays emphasis on production or output, while marginal costing stresses on sales and takes significance of production only to the extent of quantity sold and its variable cost.

- (i) When output is equal to sales that it is with no opening or closing stock of profit. Under absorption and marginal costing is equal.
- (ii) When output is less than sales that is closing stock is less than opening stock, the profit under marginal costing is greater than the profit under absorption costing.
- (iii) When output is greater than sales that is closing stock is more than opening stock, the profit under marginal costing is less than the profit under absorption costing.

Answer : 7 (a)

**Cash Flow Statement of Smile Ltd.
for the year ended 31.3.2013**

	Particulars	₹	₹
I.	Cash Flows from Operating Activities:		
	Closing balance as per Profit & Loss A/c	1,60,000	
	Loss : Opening balance as per Profit & Loss A/c	<u>(1,40,000)</u>	
		20,000	
	Add : Provision for dividend	80,000	
	Add: Interim dividend paid	<u>60,000</u>	
	Net profit before taxation and extra ordinary items		1,60,000
	Add: Adjustment for Depreciation on Building	30,000	
	Adjustment of Depreciation on Plant and Machinery	50,000	
	Adjustment for Depreciation on furniture and fitting	500	
	Preliminary Expenses written off	10,000	
	Interest on loan	<u>3,000</u>	93,500
	Operating profit before Working Capital Changes		2,53,500
	Add: Decrease in current assets & increase in current liabilities:		
	Decrease in stock	18,000	
	Decrease in trade receivables	26,000	
	Increase in trade payables	<u>18,000</u>	62,000
			3,15,500

	Less: Increase in Current Assets & Decrease in current liabilities		
	Increase in prepaid expenses	1,000	
	Decrease in bank overdraft	<u>1,000</u>	<u>2,000</u>
	Net cash from operating activities		<u>3,13,500</u>
II.	Cash Flow from Investing Activities :		
	Sale of Furniture and fitting	500	
	Dividend received	6,000	
	Purchase of building	(1,90,000)	
	Purchase of plant and machinery	(2,00,000)	
	Purchase of investments	<u>(26,000)</u>	
	Net cash used in investing activities		(4,09,500)
III.	Cash Flow from Financing Activities :		
	Proceeds from issue of share capital	2,00,000	
	Mortgage loan raised	50,000	
	Dividend paid	(90,000)	
	Interim Dividend Paid	(60,000)	
	Interest on loan paid	<u>(3,000)</u>	
	Net cash from financing activities		<u>97,000</u>
IV.	Net increase in cash and cash equivalents		
	[I + II + III]		1,000
V.	Add: Cash and cash equivalents at the beginning of the period		1,000
VI.	Cash and cash equivalents at the end of the period (IV + V)		<u>2,000</u>

Working Notes:

Dr.		Freehold Building A/c		Cr.
Particulars	₹	Particulars	₹	
To Balance b/fd	10,00,000	By Depreciation A/c (2.5% of ₹ 12,00,000)	30,000	
To Bank (Purchases) (Balancing figure)	1,90,000	By Balance c/d	11,60,000	
	11,90,000		11,90,000	

Dr. Machinery & Plant A/c		Cr.	
Particulars	₹	Particulars	₹
To Balance b/fd	3,40,000	By Depreciation A/c	50,000
To Bank (Purchases) (Balancing figure)	2,00,000	By Balance c/fd	4,90,000
	5,40,000		5,40,000

Dr. Furniture and fitting A/c		Cr.	
Particulars	₹	Particulars	₹
To Balance b/fd	7,000	By Depreciation A/c	500
		By Bank (Sale) (Balancing figure)	500
		By Balance c/fd	6,000
	7,000		7,000

Dr. Investment A/c		Cr.	
Particulars	₹	Particulars	₹
To Balance b/fd	1,00,000	By Dividend	6,000
To Bank (Purchases) (Balancing figure)	26,000	By Balance c/fd	1,20,000
	1,26,000		1,26,000

Answer : 7 (b)

Please refer 2008 - Dec [8] (a) (iii) on page no. ?

Answer : 8 (a)

Flexible budget					(₹ Lakhs)
Particulars	50%	60%	75%	90%	100%
Variable Expenses					
Material	21.70	26.04	32.55	39.06	43.40
Labour	20.40	24.48	30.60	36.72	40.80
Other Expenses	7.90	9.48	11.85	14.22	15.80
Semi Variable Expenses	3.5	3.5	3.85	4.2	4.2
Maintenance and repairs	7.9	7.9	8.69	9.48	9.48
Indirect labour	3.8	3.8	4.18	4.56	4.56
Sales department salaries	2.8	2.8	3.08	3.36	3.36
Fixed Expenses					
Wages and salaries	9.5	9.5	9.5	9.5	9.5
Rent rates and taxes	6.6	6.6	6.6	6.6	6.6

Depreciation	7.4	7.4	7.4	7.4	7.4
Sundry administrative expenses	6.5	6.5	6.5	6.5	6.5
Total Estimated costs	98.00	108.00	124.80	141.60	151.60
Sales	100.00	120.00	150.00	180.00	200.00
Estimated profit (Sales – Costs)	2.00	12.00	25.20	38.40	48.40

Answer : 8 (b)

$$\begin{aligned}
 \text{(i) P/V Ratio} &= \frac{\text{Contribution} \times 100}{\text{Sales}} \\
 &= ₹ \frac{1,50,000 \times 100}{3,00,000} \\
 &= 50\%
 \end{aligned}$$

$$\begin{aligned}
 \text{Break Even Point} &= \frac{\text{Fixed Cost}}{\text{P/V Ratio}} \\
 &= ₹ \frac{90,000}{50\%} \\
 &= ₹ 1,80,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Margin of safety} &= \text{Actual Sales} - \text{Break even sales} \\
 &= ₹ 3,00,000 - ₹ 1,80,000 \\
 &= ₹ 1,20,000
 \end{aligned}$$

$$\begin{aligned}
 \text{(ii) Expected Sales Volume} &= \frac{\text{Fixed Cost} - \text{Loss}}{\text{P/V Ratio}} \\
 &= ₹ \frac{90,000 - 30,000}{50\%} \\
 &= ₹ 1,20,000
 \end{aligned}$$

$$\begin{aligned}
 \text{(iii) Break even point for the whole year} &= \frac{\text{Fixed costs for the whole year}}{\text{P/V Ratio}} \\
 &= \frac{1,80,000}{50\%} \\
 &= ₹ 3,60,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Margin of safety} &= \text{Actual sales} - \text{Break even sales} \\
 &= ₹ 4,20,000 - ₹ 3,60,000 \\
 &= ₹ 60,000
 \end{aligned}$$