

222

Roll No.....

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 8      Total number of printed pages : 11

**NOTE** : All working notes should be shown distinctly.

**P A R T – A**

(Answer Question No.1 which is compulsory  
and any two of the rest from this part.)

1. Attempt any four of the following :

(i) Mention the procedure for issuing 'accounting standards'.

(5 marks)

(ii) Define 'mutual fund' and state its objectives.

(5 marks)

(iii) What are the different kinds of 'database applications' ?

(5 marks)

(iv) Dunhill Electric Supply Ltd. re-built and re-equipped one of their Mains at a cash cost of Rs.60 lakh. The old Main thus superseded cost Rs.22.50 lakh. The capacity of the new Main is double that of the old Main.

Rs.1.05 lakh was realised from sale of old materials. Four old motors valued at Rs.3 lakh salvaged from the old Main were used in the reconstruction. The cost of labour and materials is respectively 30% and

25% higher now than when the old Main was built. The proportion of labour to materials in the Main then and now is 2:3.

Show the journal entries for recording the above transactions, if accounts are maintained under 'double account system'.

(5 marks)

- (v) The trial balance of a company as at 31<sup>st</sup> March, 2005 shows the following items :

|                                          | <i>Dr.</i><br>(Rs.) | <i>Cr.</i><br>(Rs.) |
|------------------------------------------|---------------------|---------------------|
| Provision for income-tax<br>account      | —                   | 70,000              |
| Advance payment of income-tax<br>account | 1,55,000            | —                   |

You are also given the following information :

- Advance payment of income-tax account includes Rs.65,000 for the financial year 2004-05.
- Actual tax liability for the financial year 2004-05 amounts to Rs.68,000 and no effect for the same has been given so far in the accounts.
- Provision for income-tax to be made for the financial year 2005-06 is Rs.80,000.

Prepare provision for income-tax account and advance payment of income-tax account, and also show how relevant items will appear in the balance sheet of the company.

(5 marks)

2. (a) The following particulars are given from the records of Maxel Ltd. relating to issue and forfeiture of equity shares. The amount per share was payable as Rs.3 on application; Rs.5 on allotment (including Rs.2 as premium); and Rs.4 on first and final call :

| Category | No. of<br>Shares<br>Allotted | No. of<br>Shares<br>Applied           |
|----------|------------------------------|---------------------------------------|
| I        | 20,000                       | 30,000                                |
| II       | 10,000                       | 10,000                                |
| III      | —                            | 5,000 (Application<br>money refunded) |

Allotments were made *pro rata* in Category-I. Raj, who applied for 450 shares in Category-I, failed to pay the allotment money and call money and his shares were forfeited by the company. Subsequently, 200 forfeited shares were issued to Hari as fully paid for Rs.9 per share.

Show the journal and cash book entries to record the above transactions.

(5 marks)

- (b) Sun Ltd. and Flower Ltd. are to be amalgamated into Sun Flower Ltd. The new company is to takeover all the assets and liabilities of the amalgamating companies. 3 Shares in the new company are to be issued at a premium of 20% for 2 shares of Sun Ltd.

The scheme of Flower Ltd. is as follows :

- 10% Preference shareholders are to be allotted two 15% preference shares of Rs.100 each in the new company for 3 preference shares in Flower Ltd.
- The debentures of Flower Ltd. are to be paid off by issue of same number of debentures at 5% discount by the new company.

- The equity shareholders of Flower Ltd. are to be allotted as many shares as will cover the balance of their account and for this purpose, plant and machinery is to be valued less by 15% and obsolete stock forming 10% of the overall stock value is to be treated as worthless.

The balance sheets of the two companies prior to amalgamation are as under :

| <i>Liabilities</i>                      | <i>Sun Ltd.</i><br>(Rs.) | <i>Flower Ltd.</i><br>(Rs.) |
|-----------------------------------------|--------------------------|-----------------------------|
| Equity share capital<br>of Rs.10 each   | 9,60,000                 | 18,75,000                   |
| 10% Preference shares<br>of Rs.100 each | —                        | 11,25,000                   |
| Secured debentures                      | —                        | 7,50,000                    |
| General reserve                         | 13,20,000                | —                           |
| Sundry creditors                        | 1,80,000                 | 3,37,500                    |
|                                         | <u>24,60,000</u>         | <u>40,87,500</u>            |
| <br><i>Assets</i>                       |                          |                             |
| Plant and machinery                     | 19,20,000                | 30,00,000                   |
| Sundry debtors                          | 2,28,000                 | 1,87,500                    |
| Inventories                             | 1,50,000                 | 2,25,000                    |
| Cash and bank balances                  | 1,62,000                 | 1,50,000                    |
| Profit and loss account                 | —                        | 5,25,000                    |
|                                         | <u>24,60,000</u>         | <u>40,87,500</u>            |

You are required to --

- (i) compute the purchase consideration; and
- (ii) prepare the balance sheet immediately after amalgamation, if it is in the nature of purchase.

(10 marks)

3. (a) Aman Ltd. made the following issues of debentures :

- (i) 6,000, 9% Debentures of Rs.100 each for cash at 10% discount.
- (ii) To bank for a loan of Rs.7,00,000 as collateral security, 10,000 debentures of Rs.100 each.
- (iii) Aman Ltd. also purchased building and machinery worth Rs.5,40,000 and Rs.4,60,000 respectively from Baman Ltd. The purchase consideration was settled at Rs.9,50,000 to be satisfied by issue of 9,500, 15% debentures of Rs.100 each.

Journalise the above transactions in the books of Aman Ltd.

(5 marks)

(b) The following are the balance sheets of Snow Ltd. and White Ltd. as at 31<sup>st</sup> March, 2006 :

| <i>Liabilities</i>       | <i>Snow Ltd.</i> | <i>White Ltd.</i> |
|--------------------------|------------------|-------------------|
|                          | (Rs.)            | (Rs.)             |
| Share capital of         |                  |                   |
| Rs.10 each               | 14,00,000        | 2,00,000          |
| General reserve          | 1,00,000         | 60,000            |
| Profit and loss account  | 2,00,000         | 60,000            |
| Sundry creditors         | 1,80,000         | 1,00,000          |
| Bills payable            | 20,000           | 30,000            |
| Liabilities for expenses | 10,000           | 30,000            |
|                          | <hr/>            | <hr/>             |
|                          | 19,10,000        | 4,80,000          |
|                          | <hr/>            | <hr/>             |

| <i>Assets</i>                  | <i>Snow Ltd.</i> | <i>White Ltd.</i> |
|--------------------------------|------------------|-------------------|
|                                | (Rs.)            | (Rs.)             |
| Land and building              | 6,00,000         | 2,00,000          |
| Plant and machinery            | 5,60,000         | 1,00,000          |
| 14,000 Shares in<br>White Ltd. | 2,00,000         | —                 |
| Stock                          | 1,40,000         | 1,00,000          |
| Sundry debtors                 | 3,00,000         | 40,000            |
| Bills receivable               | 20,000           | —                 |
| Cash and bank balances         | 90,000           | 40,000            |
|                                | <u>19,10,000</u> | <u>4,80,000</u>   |

The additional information is as under :

- (i) All the bills receivable of Snow Ltd. including those discounted accepted by White Ltd.
- (ii) At the time of acquisition of shares on 1<sup>st</sup> July, 2005 by Snow Ltd., in White Ltd. the general reserve was Rs.40,000 and Rs.10,000 credit in profit and loss account as on 1<sup>st</sup> April, 2005.
- (iii) The stock of White Ltd. includes Rs.40,000 purchased from Snow Ltd., which has made 25% profit on cost.
- (iv) White Ltd. had declared and paid dividend equivalent to 20% for the period ended 31<sup>st</sup> March, 2005 and Snow Ltd. had credited to its profit and loss account.

You are required to prepare the consolidated balance sheet as at 31<sup>st</sup> March, 2006.

(10 marks)

4. (a) Explain the meaning and accounting treatment of 'preliminary expenses' and 'pre-operative expenses'.

(5 marks)

- (b) On 31<sup>st</sup> March, 2006, the balance sheet of Himalaya Ltd. disclosed the following position :

| <i>Liabilities</i>                                    | <i>Rs.</i>           |
|-------------------------------------------------------|----------------------|
| Subscribed share capital<br>of Rs.10 each, fully paid | 4,00,000             |
| General reserve                                       | 1,90,000             |
| Profit and loss account                               | 1,20,000             |
| 14% Debentures                                        | 1,00,000             |
| Current liabilities                                   | 1,30,000             |
|                                                       | <hr/> 9,40,000 <hr/> |
| <i>Assets</i>                                         |                      |
| Goodwill                                              | 40,000               |
| Other fixed assets                                    | 5,00,000             |
| Current assets                                        | 4,00,000             |
|                                                       | <hr/> 9,40,000 <hr/> |

On the above mentioned date, the tangible fixed assets were independently valued at Rs.3,50,000 and goodwill at Rs.50,000. The net profits for three years were – 2003-04 : Rs.1,03,200; 2004-05 : Rs.1,04,000; and 2005-06 : Rs.1,03,300 of which 20% was transferred to general reserve, this proportion being considered reasonable in the industry in which the company is engaged and where a fair return on investment may be taken at 18%. Compute the value of the company's share by (i) the net assets method; and (ii) the yield method. Ignore taxation.

(10 marks)

**P A R T – B**

*(Answer Question No.5 which is compulsory and any two of the rest from this part.)*

5. Attempt any four of the following :

- (i) "Management accounting is not concerned with legal and/or conventional constraints and the 'generally accepted principles' unlike financial accounting." Comment.
- (ii) What is 'social reporting' ? Explain briefly the major areas covered in social reporting.
- (iii) Explain the meaning and importance of 'flexible budgeting' as a tool of control.
- (iv) Your factory buys and uses a component for production at Rs.10 per unit. Annual requirement is 20,000 units. The carrying cost of inventory is 10% per annum and ordering cost is Rs.40 per order. The purchase manager argues that as the ordering cost is very high, it is advantageous to place a single order for the entire annual requirement. He also says that if we order 20,000 units at a time, we can get a 3% discount from the supplier. You are required to evaluate this proposal and make your recommendations.
- (v) The labour turnover rates of a manufacturing organisation for the quarter ended 31<sup>st</sup> March, 2006 are 10%, 5% and 3% under 'flux method', 'replacement method' and 'separation method' respectively. The number of workers replaced during the quarter is 120. Work out the number of workers (i) left and discharged; and (ii) recruited and joined including replacements.

*(5 marks each)*

6. (a) State the merits of 'costs plus contract'.

(5 marks)

- (b) Soma Ltd. has provided the following information :

|                                                                       |                |
|-----------------------------------------------------------------------|----------------|
| Current ratio                                                         | ... 2.5        |
| Liquidity ratio                                                       | ... 1.5        |
| Net working capital                                                   | ... Rs.30 lakh |
| Stock turnover ratio                                                  | ... 6          |
| Ratio of gross profit to sales                                        | ... 20%        |
| Ratio of turnover to fixed assets<br>(Cost of sales/net fixed assets) | ... 2          |
| Average debt collection period                                        | ... 2 months   |
| Fixed assets to net worth                                             | ... 0.80       |
| Reserves and surplus to capital                                       | ... 0.50       |
| Draw up the balance sheet of Soma Ltd.                                |                |

(10 marks)

7. (a) From the following details, calculate sales value variance :

|                                          | Product-X | Product-Y |
|------------------------------------------|-----------|-----------|
| Budgeted quantity (Units)                | 1,600     | 2,400     |
| Budgeted selling price<br>per unit (Rs.) | 60.00     | 45.00     |
| Standard cost per unit (Rs.)             | 35.00     | 30.00     |
| Actual quantity (Units)                  | 1,800     | 1,200     |
| Actual selling price<br>per unit (Rs.)   | 55.00     | 50.00     |
| Actual cost per unit (Rs.)               | 35.50     | 27.50     |

(5 marks)

- (b) A company is producing an identical product in two factories. The following are the details in respect of both the factories :

|                                              | <i>Factory-X</i> | <i>Factory-Y</i> |
|----------------------------------------------|------------------|------------------|
| Selling price per unit (Rs.)                 | 50               | 50               |
| Variable cost per unit (Rs.)                 | 40               | 35               |
| Fixed cost (Rs.)                             | 2,00,000         | 3,00,000         |
| Depreciation included<br>in fixed cost (Rs.) | 40,000           | 30,000           |
| Sales (Units)                                | 30,000           | 20,000           |
| Production capacity (Units)                  | 40,000           | 30,000           |

You are required to determine --

- (i) break-even-point (BEP) for each factory individually.
- (ii) which factory is more profitable.
- (iii) cash BEP for each factory individually.
- (iv) BEP for company as a whole, assuming the present product mix of Factory-X and Factory-Y is 3:2.

(Note : Indicate BEP in units.)

(10 marks)

8. (a) Explain the need for reconciliation between 'cost accounts' and 'financial accounts'.

(5 marks)

- (b) Madhuri Ltd. gives you the following information for the year ended 31<sup>st</sup> March, 2006 :

- (i) Sales for the year totalled Rs.96,00,000. The company sells goods for cash only.
- (ii) Cost of goods sold was 60% of sales.
- (iii) Closing inventory was higher than opening inventory by Rs.43,000.

- (iv) Trade creditors on 31<sup>st</sup> March, 2006 exceeded those on 31<sup>st</sup> March, 2005 by Rs.23,000.
- (v) Tax paid amounted to Rs.7,00,000.
- (vi) Depreciation on fixed assets for the year was Rs.3,15,000 whereas other expenses totalled Rs.21,45,000. Outstanding expenses on 31<sup>st</sup> March, 2005 and 31<sup>st</sup> March, 2006 totalled Rs.82,000 and Rs.91,000 respectively.
- (vii) New machinery and furniture costing Rs.10,27,500 in all were purchased.
- (viii) A rights issue was made of 50,000 equity shares of Rs.10 each at a premium of Rs.3 per share. The entire money was received with applications.
- (ix) Dividends totalling Rs.4,00,000 were distributed among shareholders.
- (x) Cash in hand and at bank as at 31<sup>st</sup> March, 2005 totalled Rs.2,13,800.

You are required to prepare a cash flow statement using direct method.

*(10 marks)*

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