

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 correct or incorrect :
 - (i) The bonus share issue cannot be made unless the existing partly-paid shares are fully paid-up.
 - (ii) In India, corporate financial statements in general do not include a cash flow statement to explain movement of cash during the accounting period.
 - (iii) A company is not under any legal obligation to make good its past losses before distributing its current profits as dividends.
 - (iv) The Accounting Standard-21 mandates an Indian company to present consolidated financial statements.
 - (v) In India, corporate financial statements are prepared recognising legal forms of the transaction and ignoring the substance.

(2 marks each)
- (b) Choose the most appropriate answer from the given options in respect of the following :
 - (i) Securities premium money can be used for —
 - (a) Payment of dividend
 - (b) Writing off goodwill
 - (c) Issuance of fully paid bonus shares
 - (d) None of the above.
 - (ii) Loss suffered from the date of acquisition of business to the date of incorporation should be debited to —
 - (a) Goodwill account
 - (b) Profit and loss account
 - (c) Capital reserve account
 - (d) Capital reduction account.

- (iii) Pre-paid expenses are shown in balance sheet as —
 - (a) Current assets
 - (b) Intangible assets
 - (c) Wasting assets
 - (d) Fixed assets.
- (iv) The balance of forfeited shares after reissue of the same is transferred to —
 - (a) Capital reserve account
 - (b) Share capital account
 - (c) Profit and loss account
 - (d) Debenture redemption fund account.
- (v) Divisible profits include —
 - (a) General reserves
 - (b) Profit on revaluation of assets
 - (c) Profit prior to incorporation period
 - (d) Capital reserve.

(1 mark each)

- (c) Re-write the following sentences after filling-up the blank spaces with appropriate word(s)/figure(s) :
- (i) Accounting as a 'language of business' communicates the financial results of corporate enterprise to various_____ by means of financial statements.
 - (ii) If a company offers to its equity shareholders the right to buy one equity share of Rs.100 each at Rs.120 for every 4 equity share of Rs.100 each and the market value of a share is Rs.180, then the value of the right is Rs._____.
 - (iii) The bonus share can be issued only if _____ of the company permits such an issue.
 - (iv) Accounting Standard-17: Segment reporting is mandatory for all commercial, industrial and business reporting corporate enterprises, whose turnover for the accounting period exceeds Rs. _____.
 - (v) Consolidated financial statements are presented by a _____ company to provide financial information about the economic activities of its group.

(1 mark each)

2. (a) Write short notes on **any two** of the following :
- (i) Objectives of international accounting standards
 - (ii) Loss on issue of debentures
 - (iii) Firm underwriting.

(3 marks each)

(b) Following is the balance sheet of Anupam Ltd. as on 31st March, 2008 :

<i>Liabilities</i>		<i>Rs.</i>
2,00,000, 14% Preference shares		
of Rs.100 each, fully called	2,00,00,000	
Less: Calls in arrears @ Rs.20 per share	4,00,000	1,96,00,000
10,00,000 Equity shares of Rs.10		
each, Rs.8 per share called	80,00,000	
Less: Calls-in-arrears	20,000	
	79,80,000	
Add : Calls-in-advance	10,000	79,90,000
Securities premium		5,10,000
General reserve		1,50,00,000
10,000, 15% Debentures @ Rs.1,000 each, fully paid		1,00,00,000
Current liabilities and provisions		10,00,000
		<u>5,41,00,000</u>
<i>Assets</i>		
Fixed assets		1,30,00,000
Investments		28,00,000
Other current assets		2,15,00,000
Cash and bank balances		1,68,00,000
		<u>5,41,00,000</u>

On 1st April, 2008, the Board of directors decided that —

- The fully paid preference shares are to be redeemed at a premium of 4% on 1st May, 2008 and for that purpose 6 lakh equity shares of Rs.10 each are to be issued at a premium of 5%.
- 3,000 Equity shares owned by Mohan, an existing shareholder, who has failed to pay the allotment money and the first call money @ Rs.3 and Rs.2.50 per share respectively, equity shares are to be forfeited on 31st May, 2008.
- The final call of Rs.2 per share is to be made on 7th July, 2008 on equity shares.

All the above are duly complied with according to schedule. The amount due on the issue of fresh issue and on final call are also duly received except from Sohan who had failed to pay the first call for his 1,400 equity shares, has again failed to pay the final call also. These shares of Sohan are to be forfeited on 31st August 2008.

Show the necessary journal entries.

(9 marks)

3. (a) Comment on **any two** of the following statements :

- (i) As a matter of prudence, whole of free reserves should not be utilised in the case of buy-back of shares.
- (ii) As a matter of sound commercial policy, current profits are to be applied while 'paying dividend out of current profits without making good past losses.'
- (iii) In case of under-subscription of shares, question of returning the money does not arise at all.

(3 marks each)

(b) Following are the balance sheets of Asha Ltd. and Bipasha Ltd. as on 31st March, 2008 :

<i>Liabilities</i>	<i>Asha Ltd.</i> (Rs.)	<i>Bipasha Ltd.</i> (Rs.)
Capital (Rs.10 per share)	10,00,000	8,00,000
Profit and loss account	4,00,000	2,00,000
Loan from Asha Ltd.	—	80,000
Bills payable	80,000	60,000
	<u>14,80,000</u>	<u>11,40,000</u>
<i>Assets</i>		
Machinery	3,00,000	2,80,000
Furniture	50,000	20,000
Debtors	2,50,000	8,00,000
Loan to Bipasha Ltd.	80,000	—
Shares in Bipasha Ltd.	7,00,000	—
Bills receivable	1,00,000	40,000
	<u>14,80,000</u>	<u>11,40,000</u>

Asha Ltd. purchased 75% shares of Bipasha Ltd. for Rs.7,00,000 on 31st March, 2008. Bills payable of Bipasha Ltd. include bills of Rs.20,000 accepted in favour of Asha Ltd.

Prepare a consolidated balance sheet.

(9 marks)

4. (a) Distinguish between **any two** of the following :

- (i) 'Underwriters' and 'brokers'.
- (ii) 'Marked applications' and 'unmarked applications'.
- (iii) 'Calls-in-arrears' and 'calls-in-advance'.

(3 marks each)

(b) Following is the balance sheet of Ramesh Ltd. as on 31st March, 2008 :

<i>Liabilities</i>	<i>Rs.</i>
Equity shares of Rs.10 each	10,00,000
12% Preference shares of Rs.100 each	10,00,000
General reserve	6,00,000
Profit and loss account	4,00,000
15% Debentures	10,00,000
Creditors	8,00,000
	48,00,000
<i>Assets</i>	
Goodwill	5,00,000
Building	15,00,000
Plant	10,00,000
Investment in 10% stock (market value of Rs.5,20,000, nominal value Rs.5,00,000)	4,80,000
Stock	6,00,000
Debtors	4,00,000
Cash	1,00,000
Preliminary expenses	2,20,000
	48,00,000

Additional information —

Assets are revalued as follows:

Building : Rs.32,00,000; Plant : Rs.18,00,000; Stock : Rs.4,50,000; and Debtors : Rs.3,60,000.

Average profit before tax of the company is Rs.12,00,000 and 12.5% of the profit is transferred to general reserve, rate of taxation being 50%. Normal dividend expected on equity shares is 8% while fair return on capital employed is 10%. Goodwill may be valued at 3 years' purchase of super profits.

Ascertain the value of each equity share under fair value method.

(9 marks)

PART—B

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

5. (a) State, with reasons in brief, whether the following statements are true or false :
- (i) Cost accounting is a branch of financial accounting.
 - (ii) Bin card shows the value of a material at any moment of time.
 - (iii) In absorption costing, the valuation of inventories is higher than in marginal costing technique.
 - (iv) A budget manual is a summary of all the financial budgets.
 - (v) Cost reduction is cost control.

(2 marks each)

- (b) Choose the most appropriate answer from the given options in respect of the following :
- (i) Administration overheads are recovered as a percentage of —
 - (a) Direct materials
 - (b) Direct wages
 - (c) Prime cost
 - (d) Works cost.
 - (ii) For contracts which are very near to completion, the profit is ascertained by the formula —
 - (a) $\text{Estimated profit} \propto \text{Work certified} / \text{Contract price}$
 - (b) $\text{Estimated profit} \propto \text{Work certified} / \text{Contract price} \propto \text{Cash received} / \text{Work certified}$
 - (c) $\text{Estimated profit} \propto \text{Work certified} / \text{Contract price} \propto \text{Cost of work} / \text{Total cost to date}$
 - (d) Any of the above in the absence of specific instruction.
 - (iii) The type of process loss that should not affect the cost of inventories is —
 - (a) Abnormal loss
 - (b) Normal loss
 - (c) Seasonal loss
 - (d) Standard loss.
 - (iv) Cost-Volume-Profit analysis is most important for the determination of the —
 - (a) Volume of operations necessary to break-even
 - (b) Variable revenues necessary to equal fixed costs
 - (c) Relationship between revenues and costs at various levels of operation
 - (d) Sales volume necessary to equal fixed costs.

(v) For shoe manufacturers, the most suitable cost system is —

- (a) Job costing
- (b) Batch costing
- (c) Contract costing
- (d) None of the above.

(1 mark each)

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

- (i) Cost is a fact whereas price is a _____.
- (ii) Imputed costs are relevant for _____.
- (iii) A _____ is the cost that has already been incurred and cannot be avoided by decisions taken in the future.
- (iv) Economic lot size is the order size that _____ the total cost of ordering and storing.
- (v) A profit centre is a division or organisational unit concerned with controlling both _____ and costs.

(1 mark each)

6. (a) Write short notes on **any two** of the following :

- (i) Bases of apportionment
- (ii) Cost *plus* contracts
- (iii) Labour turnover.

(3 marks each)

(b) A factory is currently working at 50% capacity and produces 1,000 units. From the following information, you are required to estimate profits of the factory when it works at 60% and 80% working capacity respectively and offer your critical comments :

At 60% working capacity, raw material cost increases by 2% and selling price falls by 2%. At 80% working capacity, raw materials cost increases by 5% and selling price falls by 5%. At 50% capacity working, the product costs Rs.180 per unit and is sold at Rs.200 per unit. The unit cost of Rs.180 is made up as follows :

	Rs.
Raw material	100
Labour	30
Factory overheads	30 (40% fixed)
Administration overheads	20 (50% fixed)

(9 marks)

7. (a) What are the objectives of financial statement analysis ?

(6 marks)

OR

“Although including interest in the normal cost is practically difficult but excluding interest altogether may lead to wrong managerial decisions.” Comment.

(6 marks)

- (b) A company has annual fixed cost of Rs.1,40,00,000. In the year 2007-08, sales amounted to Rs.6,00,00,000 as compared with Rs.4,50,00,000 in the preceding year 2006-07. Profit in 2007-08 is Rs.42,00,000 more than that in 2006-07. On the basis of the above information, answer the following :

- (i) At what level of sales, the company would have break-even ?
- (ii) Determine profit/loss on a forecasted sales volume of Rs.8,00,00,000.
- (iii) If there is a reduction in selling price by 10% in the financial year 2008-09 and company desires to earn the same amount of profit as in 2007-08, what would be the required sales volume ?

(9 marks)

8. (a) Distinguish between **any two** of the following :

- (i) 'Budget period' and 'control period'.
- (ii) 'Cash' and 'cash equivalents'.
- (iii) 'Cost sheet' and 'production account'.

(3 marks each)

- (b) From the following information, prepare a cash flow statement showing net cash flows from operating activities, investing activities and financing activities as per Accounting Standard-3 (Revised) :

	<i>Rs. in Lakhs</i>
Net profit	25,000
Dividend paid (<i>including dividend tax</i>)	8,535
Book value of assets sold	185
Amortisation of capital grant	6
Carrying amounts of investments sold	27,765
Interest expenses	10,000
Increase in working capital (<i>excluding cash and bank balances</i>)	56,075
Expenditure on construction work-in-progress	34,740
Receipt of grant for capital projects	12
Proceeds from short term borrowings	20,575
Closing cash and bank balances	6,988
Provision for taxation	5,000
Income-tax paid	4,248
Loss on sale of assets	40
Depreciation charged	20,000
Profit on sale of investments	100
Interest on investments	2,506
Interest paid during the year	10,520
Purchase of fixed assets	14,560
Investment in joint venture	3,850
Proceeds from calls-in-arrears	2
Proceeds from long-term borrowings	25,980
Opening cash and bank balances	5,003

(9 marks)