

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	?		
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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 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.
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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:

1 st January, 2007	\$ 1.00 = Rs. 46
31 st 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	37,05,738
Interest paid on deposits	20,37,452
Issued and Subscribed capital	10,00,000
Salaries and allowances	2,00,000
Directors fee and allowances	30,000
Rent and Taxes paid	90,000
Postage and telegrams	60,286
Statutory reserve fund	8,00,000
Commission, exchange and brokerage	1,90,000
Rent received	65,000
Profit on sale of investments	2,00,000
Depreciation on Bank's properties	30,000
Statutory expenses	40,000
Preliminary expenses	25,000
Auditor's fees	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 1 st April, 2007	5,50,000
Claims unpaid on 1 st April, 2007	50,000
Claims unpaid on 31 st 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. grant 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 agriculture 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 on 1.1.2008. 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. 5
- (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 date 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 Kolkata. 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 in 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 the 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 dividend; 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 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

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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 rate
- (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 an advance of Rs.30,000 from the bank and endorsed 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 Cooperative Society registered under the Cooperative 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 a 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 continue 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 Bonus 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 "Ultra-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