

Company Accounts, Cost and Management Accounting

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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 true or false :
- (i) The term 'distributable profits' means profits which would otherwise be available for dividends.
 - (ii) The logic behind the creation of the capital redemption reserve is to maintain the capital structure of the company intact after redemption.
 - (iii) Underwriting commission and brokerage both cannot be provided to any individual underwriter.
 - (iv) A debenture issued at a discount cannot be redeemed at a premium.
 - (v) International Accounting Standard-1 deals with valuation of inventories.
- (2 marks each)
- (b) Write the most appropriate answer from the given options in respect of the following :
- (i) The balance of sinking fund account is transferred to —
 - (a) Share capital account
 - (b) General reserve account
 - (c) Profit and loss account
 - (d) Sinking fund investment account.
 - (ii) When interest on own debentures becomes due, it will be credited to —
 - (a) Profit and loss account
 - (b) Own debentures account
 - (c) Debenture interest account
 - (d) Interest on own debentures account.
 - (iii) Expenses incidental to the creation and floatation of a company are called —
 - (a) Underwriting expenses
 - (b) Preliminary expenses
 - (c) Trade expenses
 - (d) Establishment expenses.

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- (iv) The item 'unpaid dividend' appears in the balance sheet of a company under the heading —
 - (a) Current assets, loans and advances
 - (b) Reserves and surplus
 - (c) Secured loans
 - (d) Current liabilities and provisions.
- (v) Premium on issue of shares can be used for —
 - (a) Issue of bonus shares
 - (b) Distribution of profit
 - (c) Meeting loss on sale of a fixed asset
 - (d) None of the above.

(1 mark each)

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

- (i) Shares forfeited account is to be shown in the balance sheet by way of _____ to the paid-up share capital on the liabilities side until the concerned shares are re-issued.
- (ii) International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) are issued by the _____.
- (iii) Unless loss prior to incorporation is completely written off, it must be shown as an asset in the assets side of the balance sheet under the heading _____.
- (iv) According to section 209(4A) of the Companies Act, 1956, a company must preserve its books of account and its relevant vouchers for a minimum period of _____.
- (v) A company cannot issue redeemable preference shares for a period exceeding _____.

(1 mark each)

- 2. (a) The balance sheets of H Ltd. and its subsidiary S Ltd. as on 31st March, 2011 are as follows :

| <i>Liabilities</i> | <i>H Ltd.</i> (₹) | <i>S Ltd.</i> (₹) |
|-------------------------------------------------------|----------------------|----------------------|
| Equity shares of ₹100 each | 30,00,000 | 15,00,000 |
| General reserve (1 st April, 2010) | 8,00,000 | 4,00,000 |
| Profit and loss account (1 st April, 2010) | 2,00,000 | 2,50,000 |
| Net profit for the year | 6,00,000 | 4,00,000 |
| 15% Debentures | 10,00,000 | — |
| Creditors | 4,00,000 | 2,70,000 |
| Bills payable | 60,000 | 30,000 |
| | 60,60,000 | 28,50,000 |

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| <i>Assets</i> | <i>H Ltd.</i> (₹) | <i>S Ltd.</i> (₹) |
|--------------------------------|----------------------|----------------------|
| Premises | 14,00,000 | 9,00,000 |
| Machinery | 12,00,000 | 7,00,000 |
| Investment in shares of S Ltd. | 17,00,000 | — |
| Inventories | 7,00,000 | 4,50,000 |
| Debtors | 5,00,000 | 4,20,000 |
| Bills receivable | 1,80,000 | 80,000 |
| Cash and bank | 3,80,000 | 2,00,000 |
| Misc. expenditure | — | 1,00,000 |
| | <u>60,60,000</u> | <u>28,50,000</u> |

The following are the additional information :

- (i) H Ltd. acquired 12,000 equity shares in S Ltd. on 1st April, 2010.
- (ii) Bills receivable of H Ltd. include ₹30,000 accepted by S Ltd.
- (iii) Accounts receivable of H Ltd. include ₹1,00,000 due from S Ltd.
- (iv) Inventories of S Ltd. include goods purchased from H Ltd. for ₹1,25,000 which were invoiced by H Ltd. at a profit of 25% on cost.
- (v) Both H Ltd. and S Ltd. have proposed 10% dividend for the year 2010-11 but no effect has been given in the balance sheets.

Prepare a consolidated balance sheet giving proper working notes.

(11 marks)

- (b) What do you mean by 'profits prior to incorporation' ? How such profits are apportioned and utilised ?

(4 marks)

3. (a) On 1st April, 2010, Rosy Ltd. issued 20,000, 13% debentures of ₹100 each at 5% discount. Debentureholders have an option to convert their holdings in 14% preference shares of ₹100 each at a premium of ₹25 per share. On 31st March, 2011, one year's interest has accrued on these debentures and has remained unpaid. A holder of 100 debentures notified his intention to convert his holdings in 14% preference shares. Journalise these transactions. Also show workings for number of preference shares to be issued in exchange.

(7 marks)

- (b) Reliable Ltd. furnishes you with following balance sheet as on 31st March, 2011 :

Balance Sheet

| <i>Liabilities</i> | <i>₹ in Crores</i> |
|-------------------------------------------------------------|--------------------|
| Share capital : | |
| 12% Redeemable preference shares @ ₹100 each, fully paid-up | 75 |
| Equity shares of ₹10 each, fully paid-up | 25 |
| Reserves and surplus : | |
| Capital reserve | 15 |
| Securities premium | 25 |
| Revenue reserve | 260 |
| Current liabilities and provisions : | |
| Current liabilities | 40 |
| | <u>440</u> |

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| <i>Assets</i> | <i>₹ in Crores</i> | |
|---------------------------------------|--------------------|-------------------|
| Fixed assets | 100 | |
| Less provision for depreciation | <u>100</u> | Nil |
| Investments (Market value ₹400 crore) | | 100 |
| Current assets | | <u>340</u> |
| | | <u><u>440</u></u> |

The company redeemed preference shares on 1st April, 2011. It also bought back 50 lakh equity shares of ₹10 each at ₹50 per share. The payment for the above are made out of the huge bank balance, which appeared as a part of current assets.

Make journal entries to record the above and prepare balance sheet as on 1st April, 2011 after redemption of preference shares and buy-back of equity shares.

(8 marks)

4. (a) The balance sheet of Ashoka Ltd. as on 31st March, 2011 was as follows :

| <i>Liabilities</i> | <i>₹</i> | <i>Assets</i> | <i>₹</i> |
|-------------------------------|-------------------------|---------------|-------------------------|
| Share capital : | | Sundry assets | 17,00,000 |
| Authorised : | | | |
| 1,50,000 Equity shares of | | | |
| ₹10 each | <u>15,00,000</u> | | |
| Issued, subscribed, called-up | | | |
| and paid-up : | | | |
| 80,000 Equity shares of ₹7.50 | | | |
| per share called and paid-up | 6,00,000 | | |
| Reserves and surplus : | | | |
| Capital redemption reserve | 1,50,000 | | |
| Plant revaluation reserve | 20,000 | | |
| Securities premium | 1,50,000 | | |
| Development rebate reserve | 2,30,000 | | |
| Investment allowance reserve | 2,50,000 | | |
| General reserve | <u>3,00,000</u> | | |
| | <u><u>17,00,000</u></u> | | <u><u>17,00,000</u></u> |

The company wanted to issue bonus shares to its shareholders at the rate of one share for every two shares held. Necessary resolution was passed. Give necessary journal entries and prepare amended balance sheet.

(6 marks)

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(b) Write short notes on *any three* of the following :

- (i) Provision for taxation and advance payment of tax
- (ii) Purposes of valuation of shares
- (iii) Fair value of shares
- (iv) Capitalisation of profits and reserves.

(3 marks each)

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) Semi-variable costs are ignored in marginal costing.
- (ii) 'Cost volume profit relationship' is a more comprehensive term than 'break-even analysis'.
- (iii) Sunk costs are not relevant for decision-making.
- (iv) 'Costing' and 'cost accounting' are the same.
- (v) High wages means high cost of production.

(2 marks each)

(b) Write the most appropriate answer from the given options in respect of the following :

- (i) Opportunity cost helps in —
 - (a) Ascertainment of cost
 - (b) Controlling cost
 - (c) Making managerial decisions
 - (d) None of the above.
- (ii) Fixed cost per unit increases when —
 - (a) Production volume decreases
 - (b) Production volume increases
 - (c) Variable cost per unit decreases
 - (d) Variable cost per unit increases.
- (iii) The costing method in which fixed factory overheads are added to inventory is —
 - (a) Direct costing
 - (b) Marginal costing
 - (c) Absorption costing
 - (d) Activity based costing.

- (iv) Cash flow statement is required for the financial planning of —
 - (a) Short range
 - (b) Long range
 - (c) Medium range
 - (d) Very long range.
- (v) The type of spoilage that does not affect the cost of inventories is —
 - (a) Normal spoilage
 - (b) Standard spoilage
 - (c) Abnormal spoilage
 - (d) Seasonal spoilage.

(1 mark each)

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

- (i) At break-even point, the contribution will be equal to _____.
- (ii) _____ is a budget designed to furnish budgeted costs for any level of activity actually attained.
- (iii) A current ratio of less than one implies that the working capital is _____.
- (iv) The process of physical verification of stores throughout the year is known as _____.
- (v) In contract costing, the cost unit is a _____.

(1 mark each)

6. (a) The balance sheets of X Ltd. as on 31st March, 2010 and 31st March, 2011 were as follows :

| <i>Liabilities</i> | <i>As on</i> <i>31st March, 2010</i> <i>(₹)</i> | <i>As on</i> <i>31st March, 2011</i> <i>(₹)</i> |
|-------------------------|--------------------------------------------------------------------|--------------------------------------------------------------------|
| Share capital | 5,00,000 | 7,00,000 |
| General reserve | 50,000 | 70,000 |
| Profit and loss account | 1,00,000 | 1,60,000 |
| Sundry creditors | 1,53,000 | 1,90,000 |
| Bills payable | 40,000 | 50,000 |
| Outstanding expenses | 7,000 | 5,000 |
| | 8,50,000 | 11,75,000 |
| <i>Assets</i> | | |
| Land and building | 80,000 | 1,20,000 |
| Plant and machinery | 5,00,000 | 8,00,000 |
| Stock | 1,00,000 | 75,000 |
| Sundry debtors | 1,50,000 | 1,60,000 |
| Cash | 20,000 | 20,000 |
| | 8,50,000 | 11,75,000 |

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Additional information :

- (i) ₹50,000 depreciation has been charged to plant and machinery during the year 2011.
- (ii) A piece of machinery costing ₹12,000 (depreciation provided thereon ₹7,000) was sold at 60% profit on book value.

You are required to prepare cash flow statement.

(8 marks)

- (b) From the following information, calculate economic order quantity (EOQ) and the number of orders to be placed in one quarter of the year :
 - (i) Quarterly consumption of material : 2,000 kg.
 - (ii) Cost of placing one order : ₹50
 - (iii) Cost per unit : ₹40
 - (iv) Storage and carrying cost : 8% on average inventory.

(3 marks)

- (c) What are the components of total cost shown in the cost sheet ? Give the uses of the cost sheet.

(4 marks)

- 7. (a) The cost accountant of Raman Ltd. has computed labour turnover rates for the quarter ended 31st March, 2011 as 10%, 5% and 3% under flux method, replacement method and separation method respectively.

If the number of workers replaced during the quarter is 30, find out the number of —

- (i) Workers recruited and joined; and
- (ii) Workers left and discharged.

(6 marks)

- (b) The monthly budgets for the manufacturing overheads of a concern for two levels of activity were as follows :

| Capacity | 60% | 100% |
|-----------------------------|--------------|---------------|
| Budgeted production (Units) | 600 | 1,000 |
| | ₹ | ₹ |
| Wages | 1,200 | 2,000 |
| Consumable stores | 900 | 1,500 |
| Maintenance | 1,100 | 1,500 |
| Power and fuel | 1,600 | 2,000 |
| Depreciation | 4,000 | 4,000 |
| Insurance | 1,000 | 1,000 |
| | <u>9,800</u> | <u>12,000</u> |

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You are required to —

- (i) Indicate which of the items are fixed, variable and semi-variable;
- (ii) Prepare a budget for 80% capacity; and
- (iii) Find total cost, both fixed and variable costs per unit of output at 60%, 80% and 100% capacity.

(6 marks)

- (c) Briefly point out the process of budgetary control.

(3 marks)

8. (a) From the following information pertaining to ABC Ltd., prepare its trading, profit and loss account for the year ended 31st March, 2011 and summarised balance sheet as at that date :

Current ratio = 2.5

Quick ratio (quick assets/quick liabilities) = 1.3

Proprietary ratio (fixed assets/proprietary funds) = 0.6

Gross profit to sales ratio = 10%

Debtors velocity = 40 days

Sales = ₹7,30,000

Working capital = ₹1,20,000

Bank overdraft = ₹15,000

Share capital = ₹2,50,000

Closing stock = 10% more than opening stock

Net profit = 10% of proprietary funds.

(9 marks)

- (b) A company has annual fixed cost of ₹1,68,00,000. In the year 2010-11, sales amounted to ₹6,00,00,000 as compared with ₹4,50,00,000 in the preceding year 2009-10. The profit in the year 2010-11 is ₹42,00,000 more than that in 2009-10. On the basis of the above information, answer the following :

- (i) What is the break-even level of sales of the company ?
- (ii) Determine profit/loss on the forecast of a sales volume of ₹8,00,00,000.
- (iii) If there is a reduction in selling price by 10% in the financial year 2011-12 and company desires to earn the same amount of profit as in 2010-11, what would be the required sales volume ?

(6 marks)

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