Company Accounts, Cost & Management Accounting **262**

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.*

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) Accounting policies vary from enterprise to enterprise.

   (ii) In the absence of declaration of dividend, there is no need to provide for depreciation in the accounts of companies.

   (iii) Securities premium money can be distributed as dividend.

   (iv) For calculating minority interest, there is a need to distinguish between capital and revenue profits of the subsidiary.

   (v) While preparing the consolidated balance sheet, a contingent liability in respect of a transaction between the holding and the subsidiary companies is disappeared from the foot note.

   (2 marks each)

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

   (i) Indian accounting standards are formulated under the authority of the —

   (a) Council of the Institute of Chartered Accountants of India

   (b) National Advisory Committee on Accounting Standards

   (c) International Accounting Standard Board

   (d) Accounting Standard Board.

   (ii) As per section 79 of the Companies Act, 1956 from the date of receiving the sanction of the Central Government, a company must issue shares at discount within a period of —

   (a) One month

   (b) Two months

   (c) Three months

   (d) Six months.

(iii) As per section 387 of the Companies Act, 1956, total remuneration to manager should not exceed the rate of net profit of the company except with approval of the Central Government —

(a) 5%

(b) 2%

(c) 11%

(d) 10%.

(iv) Profit on cancellation of own debentures should be transferred to —

(a) Profit and loss account

(b) Profit and loss appropriation account

(c) Capital reserve account

(d) Reserve capital account.

(v) Profit prior to incorporation is transferred to —

(a) General reserve

(b) Capital reserve

(c) Goodwill account

(d) Profit and loss account.

(1 mark each)

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

(i) Goodwill is ___________ asset.

(ii) Preliminary expenses being of capital nature may be written-off against ___________.

(iii) Collateral security implies ___________ security given for a loan.

(iv) Interim dividend is a dividend declared at any time between the ________ where the final dividend is declared.

(v) Stock reserve for unrealised profit in respect of inter-company transactions should be created by debiting _________ and crediting _________ while preparing consolidated profit and loss account.

(1 mark each)

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

(i) Non-acceptability of International Accounting Standards

(ii) Capitalisation of profits and reserves

(iii) Phases of generation of intangible assets.

(3 marks each)

(b) Following are balance sheets of H Ltd. and S Ltd. as at 31st March, 2009 :

Liabilities	*H Ltd.* (Rs.).	*S Ltd* (Rs.)
Share capital (Shares of Rs.100 each)	5,00,000	2,00,000
General reserve as on 1st April, 2008	1,00,000	60,000
Profit and loss account	1,40,000	90,000
Bills payable	—	40,000
Creditors	80,000	50,000
	8,20,000	4,40,000
Assets		
Goodwill	40,000	30,000
Other fixed assets	3,60,000	2,20,000
1,500 Shares in S Ltd. at cost	2,40,000	--
Stock	1,00,000	90,000
Debtors	20,000	75,000
Cash at bank	60,000	25,000
	8,20,000	4,40,000

The profit and loss account of S Ltd. showed a balance of Rs.50,000 on 1st April, 2008. A dividend of 15% was paid on 15th October, 2008 for the year 2007-08. The dividend was credited by H Ltd. to its profit and loss account. H Ltd. acquired shares on 1st October, 2008. The bills payable of S Ltd. were all issued in favour of H Ltd. and the same were got discounted by H Ltd. Included in the creditors of S Ltd. are Rs.20,000 for goods supplied by H Ltd. The stock of S Ltd. includes goods to the value of Rs.8,000 which were supplied by H Ltd. at a profit of 33.33% on cost. Prepare consolidated balance sheet of H Ltd. and S Ltd. as on 31st March, 2009.

(9 marks)

3. The following balances have been extracted from the books of Pioneer Traders Ltd. as on 30th September, 2009 :

(Rs. '000)

	Dr.	*Cr.*
Share capital (Authorised and issued) :		
Equity (15,00,000 Shares of Rs.100 each)	—	1,50,000
8% Redeemable preference (40,000 shares)	—	4,000
Securities premium	—	2,500
Preference share redemption	4,800	—

(Rs. '000)

	Dr.	Cr.
General reserve	—	10,000
Land (cost)	30,000	—
Buildings (cost *less* depreciation)	70,000	—
Furniture (cost *less* depreciation)	2,000	—
Motor vehicle (cost *less* depreciation)	3,500	—
Trading account – gross profit	—	90,000
Establishment charges	25,000	—
Rate, taxes and insurance	1,200	—
Commission	600	—
Discount received	—	500
Interest on investments	—	800
Depreciation	6,000	—
Sundry office expenses	6,000	—
Payment to auditors	400	—
Sundry debtors and creditors	10,660	2,560
Profit and loss account (as on 30.9.2008)	—	1,000
Unpaid dividend	—	200
Cash in hand	1,200	—
Cash at bank in current account	19,500	—
Security deposit	1,000	—
Outstanding expenses	—	600
Investments in G.P. Notes	20,000	—
Stock in trade (at or below cost)	35,300	—
Provision for taxation (year ended 30.9.2008)	—	7,000
Income-tax paid under dispute (year ended 30.9.2008)	10,000	—
Advance payment of income-tax	22,000	—
	2,69,160	2,69,160

The following further details are available :

(i) The preference shares were redeemed on 1st October, 2008 at a premium of 20% but no entries were passed for giving effect thereto, except payment standing to the debit of preference share redemption account.

(ii) Depreciation as provided upto 30th September, 2009 is as follows :

(a) Building – Rs.2,10,00,000.

(b) Furniture – Rs.20,00,000.

(c) Motor vehicles – Rs.60,00,000.

(iii) Establishment charges include Rs.18,00,000 paid to managing director as remuneration in terms of agreement which provides for a remuneration of 5% of annual net profits.

(iv) Payment to auditors includes Rs.1,00,000 for taxation work in addition to audit fees.

(v) Market value of investments on 30th September, 2009 is Rs.1,80,00,000.

(vi) Sundry debtors include Rs.40,00,000 due for a period exceeding six months.

(vii) All receivables and deposits are considered good for realisation.

(viii) Income-tax demand for the year ended 30th September, 2008 Rs.1,00,00,000 has not been provided for against which appeal is pending.

(ix) Income-tax is to be provided @ 34%. Also provide for tax on divisible profit @ 16%.

(x) Directors recommended payment of dividend on equity shares at the rate of 12%.

(xi) Ignore previous year's figures.

You are required to prepare the profit and loss account for the year ended 30th September, 2009 and a balance sheet as at that date.

(15 marks)

4. (a) Balance sheet of Diamond Ltd. as at 30th June, 2009 is given below :

Liabilities	*Rs.*
Share capital : 40,000 Shares of Rs.10 each	4,00,000
General reserve	80,000
Profit and loss account	64,000
Sundry creditors	2,56,000
Income-tax reserve	1,20,000
	9,20,000
Assets	
Land and buildings	2,20,000
Plant and machinery	2,60,000
Patents and trade marks	40,000
Preliminary expenses	24,000
Stock	96,000
Debtors	1,76,000
Bank balance	1,04,000
	9,20,000

The expert valuer valued the land and buildings at Rs.4,80,000, goodwill at Rs.3,20,000 and plant and machinery at Rs.2,40,000. Out of the total debtors, it is found that debtors of Rs.16,000 are bad. The profits of the company have been as follows :

31st March, 2007	:	Rs.1,84,000
31st March, 2008	:	Rs.1,76,000
31st March, 2009	:	Rs.1,92,000

The company follows the practice of transferring 25% of profits to general reserve. Similar type of companies earn at 10% of the value of their shares. Plant and machinery, and land and buildings have been depreciated at 15% and 10% respectively. Ascertain the value of shares of the company by using --

(i) Intrinsic value method;

(ii) Yield value method; and

(iii) Fair value method.

(6 marks)

(b) Rax Ltd. invited applications from public for 1,00,000 equity shares of Rs.10 each at a premium of Rs.5 per share. The entire issue is underwritten by the underwriters A, B, C, and D to the extent of 30%, 30%, 20%, and 20% respectively with the provision of firm underwriting of 3,000, 2,000, 1,000 and 1,000 shares respectively. Underwriters are entitled to maximum commission as per law. The company has received applications for 70,000 shares from public out of which applications for 19,000, 10,000, 21,000 and 8,000 shares were marked in favour of A, B, C and D respectively. Calculate the liability of each underwriter treating firm underwriting on par with marked applications. Also ascertain the underwriting commission @ 2.5% payable to each underwriter.

(6 marks)

(c) "Buy-back may be misused by the corporate entities at the cost of innocent investors." Give your comments.

(3 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 correct or incorrect :

(i) Under Flux Method, labour turnover is calculated by number of workers left divided by average number of workers.

(ii) In cost plus contracts, the contractor runs a risk of incurring a loss.

(iii) There is no need to record attendance of piece rate workers since attendance is not relevant for ascertaining the amount of wages to be paid.

(iv) A profit centre whose performance is measured by its return on investment (ROI) is known as investment centre.

(v) Contribution is not only the criterion for deciding profitability.

(2 marks each)

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

(i) The rate of change of labour force in an organisation during a specified period is called —

(a) Labour efficiency

(b) Labour turnover

(c) Labour productivity

(d) None of the above.

(ii) When a contract is not complete at the end of the year, profit on incomplete contract —

(a) Is not considered

(b) Is considered for inclusion in the profit for the year

(c) Is considered for the inclusion of a part of the year

(d) None of the above.

(iii) When prices fluctuate widely, the method that will avoid the effect of fluctuations is —

(a) FIFO

(b) LIFO

(c) Simple average

(d) Weighted average.

(iv) Fixed costs remain fixed —

(a) Over a short period

(b) Over a long period and within relevant range

(c) Over a short period and within a relevant range

(d) Over a long period.

(v) When the under or over absorbed overheads amount is significant, it should be disposed off by —

(a) Transferring to costing profit and loss account

(b) Using a supplementary rate

(c) Carry over to next year

(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) ______________ expenses are excluded from cost.

(ii) An account giving details of cost of production, cost of sales and profit made during a particular period is called ____________.

(iii) The process of apportionment of factory overheads among production and service department is called ___________ of factory overheads.

(iv) The time for which the employer pays remuneration to workers but obtains no direct benefit is called __________.

(v) A system that keeps a running and continuous record that tracks inventories and cost of goods sold on day-to-day basis is called _______.

(1 mark each)

6. Summarised income statement and balance sheet of Progressive Ltd. are given below :

Income Statement for the Year ended 31st December, 2009

	(Rs. '000)
Sales	1,600
Less: Cost of goods sold	1,310
Gross margin	290
Less: Selling and administration expenses	40
Net operating income (EBIT)	250
Less: Interest	45
Earnings before tax	205
Less : Tax paid	82
Net income after tax	123

Earnings per share (EPS) is Rs. 3.075.

Balance Sheet as at 31st December, 2009

Liabilities	*(Rs. '000)*
Paid-up capital (40,000 shares of Rs. 10 each fully paid)	400
Retained earnings	120
Debentures	700
Creditors	180
Bills payable	20
Other current liabilities	80
	1,500

Assets	*(Rs. '000)*
Net fixed assets	800
Inventory	400
Debtors	175
Marketable securities	75
Cash	50
	1,500

Price per share is Rs.15.

Industry's average ratios are :

Current ratio	....	2.4
Quick ratio	....	1.5
Sales to inventory	....	8.0
Average collection period	....	36 days
Price per share/book value of share	....	1.6
Debts to assets	....	40%
Times interest earned	....	6
Profit margin	....	7%
Price to earnings ratio	....	15
Return to total assets	....	11%

(i) Progresssive Ltd. would like to borrow Rs.5,00,000 from a bank for less than a year. Evaluate the firm's current financial position by calculating ratios that you feel would be useful for the bank's evaluation.

(ii) What problem areas are suggested by your ratio analysis ? What are the possible reasons for them ?

(iii) Do you think that the bank should give the loan ?

(iv) If Progressive Ltd.'s inventory utilisation ratio (sales to inventory) and average collection period were reduced to industry average, what amount of funds would be generated ?

(15 marks)

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

   (i) Superiority of zero base budgeting (ZBB) to traditional budgeting

   (ii) Activity based costing

   (iii) Cash, cash equivalents and cash flows.

(3 marks each)

(b) Two manufacturing companies which have the following operating details decided to merge :

	Company-I	*Company-II*
Capacity utilisation (%)	90	60
Sales (*Rs. in lakhs*)	540	300
Variable costs (*Rs. in lakhs*)	396	225
Fixed costs (*Rs. in lakhs*)	80	50

Assuming that the proposal is implemented, calculate --

(i) Break-even sales of the merged plant and the capacity utilisation at that stage.

(ii) Profitability of the merged plant at 80% capacity utilisation.

(iii) Sales turnover of the merged plant to earn a profit of Rs.75 lakh.

(iv) When the merged plant is working at a capacity to earn a profit of Rs.75 lakh, what percentage increase in selling price is required to sustain an increase of 5% in fixed overheads ?

(9 marks)

8. (a) A company manufactures 5,000 units of a product per month. The cost of placing an order is Rs.100. The purchase price of the raw material is Rs.10 per kg. The re-order period is 4 to 8 weeks. The consumption of raw materials varies from 100 kgs. to 450 kgs. per week, the average consumption being 275 kgs. The carrying cost of inventory is 20% per annum. You are required to calculate --

(i) Re-order quantity

(ii) Re-order level

(iii) Maximum level

(iv) Minimum level

(v) Average stock level.

Assume 52 weeks in a year.

(6 marks)

(b) Following information is available for a factory for the year 2008 :

		Rs.
Direct material	....	3,00,000
Direct wages	....	2,50,000
Factory overheads	....	1,50,000
Administrative overheads	....	1,68,000
Selling overheads	....	1,12,000
Distribution overheads	....	70,000
Profit	....	2,10,000

A work order has been executed in the year 2008 and the expenses incurred were — materials Rs.4,000; and wages Rs.2,500.

Assuming that in the year 2009 the rate of factory overheads has increased by 20%, distribution overheads have gone down by 10% and selling and administration overheads have each gone up by 12.5%, at what price should the product be sold so as to earn the same rate of profit on the selling price as in the year 2008 ? Factory overheads are based on direct wages while other overheads are based on factory cost.

(9 marks)

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