

2015

DDE

M.Com. Part-II Examination

COMMERCE

PAPER—VII

Full Marks : 100

Time : 4 Hours

The figures in the right-hand margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Illustrate the answers wherever necessary.

Write the answer question of each Half in separate books.

First Half

(Advanced Accounting)

[Marks : 50]

Answer Q. No. 1 and any two from the rest.

1. (a) Balance Sheet as at 31.03.2015 :

Liabilities	P Ltd. Rs.	Q Ltd. Rs.	Assets	P Ltd. Rs.	Q Ltd. Rs.
Equity Share Capital (Rs.10 each)	3,00,000	2,00,000	Fixed Assets	2,30,000	1,80,000
Reserves (as on 1.4.2014)	60,000	40,000	Investments in Q. Ltd. (16,000 Shares)	1,95,000	—
			Stock	50,000	90,000

(Turn Over)

Contd.

Liabilities	P Ltd. Rs.	Q Ltd. Rs.	Assets	P Ltd. Rs.	Q Ltd. Rs.
Profit & Loss A/c	98,000	50,000	Debtors	41,500	77,500
Loan from P. Ltd. (Incl. arrear interest of Rs. 3,000)	—	27,000	Loan to Q. Ltd. (Excl. arrear interest of Rs. 3,000)	26,000	—
Creditors	52,000	33,000	Cash & Bank	7,500	22,500
Proposed Dividend	40,000	20,000			
	<u>5,50,000</u>	<u>3,70,000</u>		<u>5,50,000</u>	<u>3,70,000</u>

Additional Information :

- (i) P Ltd. acquired the the shares in Q Ltd. on 1.10.2014 on which Profit & Loss A/c balance of Q Ltd. stood at Rs. 20,000 (Dr).
- (ii) Fixed assets of Q Ltd. which stood at Rs. 2,00,000 on 1.4.2014 were revalued at Rs. 2,10,000 on the date of acquisition by P Ltd. However, the effect of this revaluation has not yet shown in the books of Q Ltd.
- (iii) 50% of the stock in hand of Q Ltd. represents goods purchased from P Ltd. on which P Ltd. charged a profit of 25% on cost.
- (iv) There is a cash-in-transit of Rs. 2,000 form Q Ltd. to P Ltd. as on 31.3.2015. Prepare a consolidated Balance Sheet of P Ltd. and its subsidiary Q Ltd. as on 31.3.2015.
- (b) State the objectives of preparing consolidated financial statements. 16+4

Or

- (a) Explain the super profit method for valuation of goodwill.

(b) The following is the Balance Sheet of "Over-Smart Ltd." on 31st March, 2015.

Liabilities	₹
Share Capital :	
5,000, 6% Preference Shares of ₹ 10 each fully paid	50,000
10,000 Equity Shares of ₹ 10 each fully paid	1,00,00
20,000 Equity Shares of ₹ 10 each, ₹ 5 per share paid up	1,00,000
Reserve and Surplus :	
Profit and Loss A/c	60,000
Unsecured Loan :	
4% Debentures	1,80,000
Current Liabilities :	
Sundry Creditors	50,000
	<u>5,40,000</u>
Assets	₹
Fixed Assets :	
Goodwill	10,000
Land and Building	2,70,000
Machinery	50,000
Investment	30,000
Current Assets :	
Stock	90,000
Debtors	80,000
Cash at Bank	10,000
	<u>5,40,000</u>

The revaluation of assets was made as follows :

Land and Building ₹ 2,90,000 ; Machinery ₹ 70,000.
The fair return on capital employed is 10%. The basis of valuation of Goodwill is 3 years purchase of super Profits. The Profits for the last 3 years were ₹ 42,000 ₹ 45,000 and ₹ 48,000 respectively. The investment Income is 4% on book value.

The rate of dividend for the last 2 years was 10% and 12% respectively. Similar companies pay dividend @10% and the share is quoted in the market at ₹ 110.

Find the value of each. Equity Share. 5+15

2. Sri Chopra is appointed liquidator of Moon Company Ltd., in Voluntary liquidation on 1st July, 2015. Following balances are extracted from the books on that date :

<i>Liabilities</i>	₹
24,000 Shares of ₹ 5 each	1,20,000
Reserve for bad debts	15,000
Debentures	75,000
Bank over draft	27,000
Liabilities for Purchases	30,000
	<u>2,67,000</u>

<i>Assets</i>	₹
Machinery	45,000
Leasehold Properties	60,000
Stock in trade	1,500
Book Debts	90,000
Investments	9,000
Calls in arrear	7,500
Cash in hand	1,500
Profit and Loss A/c	52,500
	<u>2,67,000</u>

You are required to prepare a statement of Affairs to be submitted to the general meeting of the Shareholders. The following assets are valued as under :

	₹
Machinery	90,000
Leasehold Properties	1,09,000
Investments	6,000
Stock in trade	3,000

Book debts are ₹ 3,000 and the doubtful debts are ₹ 6,000 which are estimated to realise ₹ 3,000. The Bank Overdraft is secured by deposit of title deeds of Leasehold properties. Preferential creditors are ₹ 1,500. Telephone rent outstanding is ₹ 120.

3. (a) Is there any relationship between Loss of Stock Insurance and Loss of Profit Insurance ?
- (b) Explain the term 'Indemnity Period' in Loss of Profit insurance.
- (c) From the following information, you are required to work out the claim under the Loss of Profit Insurance Policy.
- Coverage of Policy — Gross Profit ₹ 50,000.
 - Indemnity period — 6 months.
 - Damage due to a fire accident on 28th December, 2014.
 - Actual dislocation period upto 28th April, 2015.
 - Sales during 28.12.2013 to 28.4.2014 was ₹ 1,20,000.
 - Actual sales during 28.12.2014 to 28.4.2015 was ₹ 40,000.
 - There is an upward trend in sales of 10% P.A.
 - Gross profit earned in 2013 was ₹ 35,000 on sales valued ₹ 4,00,000. Insured standing charges ₹ 5,000.
 - Sales for a period of 12 months ending on the date of fire was ₹ 6,00,000.

3+2+10

4. (a) Distinguish between :
- Amalgamation and Absorption.
 - External reconstruction *and* Internal reconstruction.
 - Reconstruction and Liquidation.
- (b) What is Purchase consideration in case of merger or take over ?
- (c) Write the major steps in formulation of reconstruction scheme.

(3+2+2)+2+5

5. The following information of Universe General Insurance Company Ltd. are available for the year ended 31.12.2014 :

	₹
Depreciation	1,08,000
Interest, dividend received	51,000
Difference in exchange (Cr.)	800
Fire fund (1.1.2014)	4,80,000
Marine Fund (1.1.2014)	9,65,000
Bad debts (Fire)	8,000
Bad debts (Marine)	31,000
Directors' Fees	17,000

Contd.

Fire Dept. :

Outstanding claim in 1.1.1024	80,000
Claims paid during the year	3,25,000

Marine Dept. :

Outstanding claim on 1.1.2014	1,200
Claims settled and paid during the year	4,70,000
Outstanding claim on 31.12.14	52,000

Commission Paid :

Fire	1,12,000
Marine	1,30,000
Additional Reserve (Fire) 1.1.2014	62,000
Miscellaneous receipts	20,000
Fire premium (net)	10,08,000
Marine premium (net)	18,40,000

Management Expenses :

Fire	1,97,000
Marine	3,88,000

Commission on reinsurance paid :

Fire	30,000
Interest received from investment	14,000

You are required to prepare Revenue Accounts and Profit & Loss Account for the year ended 31.12.2014 after charging outstanding interest on loan of Rs. 32,000.

15

Second Half

(Auditing)

[Marks : 50]

Answer Q. No. 6 and any two from the rest.

6. Answer any four of the following questions : 4×5
- (a) Write a brief note on 'Tax Audit'. 5
- (b) Distinguish between Financial Audit and Management Audit. 5
- (c) Define the terms : (i) Professional ethics ; and
(ii) Professional misconduct. 2×2½
- (d) Outline the benefits that can be derived by an audit from the successful employment of statistical sampling techniques as opposed to non-statistical sampling. 5
- (e) Write a brief note on "Independence of auditors". 5
- (f) Explain briefly the features of EDP system. 5
- (g) Distinguish between 'Just Checking' and 'Internal Checking'. 5
- (h) What do you mean by "Audit Sampling" Why is it necessary? 3+2

7. (a) Explain, in brief, the objectives of Cost Audit.
(b) State the provisions of the Companies Act regarding audit of Cost accounts. 7+8
8. (a) State the objectives of Propriety Audit.
(b) Distinguish between Traditional Audit and Propriety Audit. 7+8
9. (a) Discuss the advantages of 'Environmental Audit'. 7
(b) State the procedure of conducting 'Environmental Audit'. 8
10. Write Short notes on :
- (a) Social audit. 5
- (b) Audit Committees. 5
- (c) Computer-Assisted Audit Techniques (CAATs). 5
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