2008

COMMERCE

Group—I

(*Accounting & Control*)
(*Advanced Financial Accounting and Contemporary Issues in Accounting*)

PAPER—X

Full Marks : 100

Time : 4 hours

The figures in the right-hand margin indicate marks

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

Illustrate the answers wherever necessary

FIRST HALF

(*Financial Accounting*)

[*Marks* : 50]

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

1. From the following Balance Sheets make out the consolidated Balance Sheet of the group

(*Turn Over*)

as at 31.12.2007.

Liabilities	H Ltd. Rs.	S Ltd. Rs.	*Assets*	H Ltd. Rs.	S Ltd. Rs.
Share capital of Rs. 10 each	4,00,000	5,00,000	Investments	4,60,000	—
			Fixed Assets	50,000	2,50,000
Profit and Loss A/c	1,60,000	1,00,000	Cash	10,000	30,000
Sundry creditors	50,000	90,000	Bills receivable	10,000	8,000
Bills payable	10,000	15,000	Other Assets	90,000	4,17,000
	6,20,000	7,05,000		6,20,000	7,05,000

Additional Information :

(*i*) Net Profit for 2007 (included in above) : H Ltd. Rs. 40,000 ; S Ltd. Rs. 80,000.

(*ii*) In 2007 S Ltd. credited Rs. 4,000 to Profit and Loss Account in settlement of a claim for loss of stock (cost Rs. 5,000 included in the opening stock of the year) by fire on 31st March, 2007.

(*iii*) The following points were not considered in making the accounts :

(*a*) Rs. 500 per month expenses were incurred by H Ltd. on behalf of S Ltd. It was by mistake debited to Profit and Loss A/c of H Ltd. and nothing has been done in the accounts of S Ltd.

(*b*) Dividend proposed for 2007 - 10%.

(*iv*) On 30th April, 2007, H Ltd. acquired 32,000 shares for Rs. 4,50,000. on the same day Bonus shares @ one for every four held was received. 10% dividend was also received on the same day from S Ltd. The dividend has been credited to Profit and Loss Account.

(*v*) Bills receivables of H Ltd. include Rs. 5,000 accepted by S Ltd., Rs. 3,000 of which have been discounted.

(*vi*) Sundry creditors of S Ltd. include Rs. 10,000 due to H Ltd. whereas Sundry Debtors of H Ltd. include Rs. 12,000 due to S Ltd., the difference being represented by a cheque in transit. 20

Or

The following is an extract from the Balance Sheet of Twenty–Twenty Ltd. as on 31.12.2006 :

		Rs.
Share Capital :		
20,000, 12% Preference shares of Rs. 50 each fully paid		10,00,000
1,00,000, Equity shares of Rs. 10 each, Rs. 7·50 per share called up	Rs.7,50,000	
Less : calls unpaid	Rs. 7,500	7,42,500
Securities premium Account		50,000
General Reserve		6,00,000
Calls in Advance (Final call on Equity shares)		2,500

On 1st January 2007, the Board of Directors decide the following :

(*i*) The fully paid preference shares are to be redeemed at a premium of 5% in February 2007 and for that purpose 50,000 equity shares of Rs. 10 each are to be issued at par payable in full on application in January, 2007.

(*ii*) 1,000 equity shares owned by *A*, an existing shareholder, who has failed to pay the allotment money of Rs. 2·50 per share and the first call money of Rs. 2·50 per share, are to be forfeited in the month of March, 2007.

(*iii*) The final call of Rs. 2·50 per share is to be made in April, 2007.

All the above decisions were duly complied with according to the time schedule laid down. The amount due on the issue of fresh equity shares and on final call were duly received except from *B*, who has failed to pay the first call money on his 1000 shares, has also failed to pay the final call money. These shares of *B* were forfeited in the month of May, 2007.

Of the total shares forfeited 1,500 were issued to *X* in June 2007, credited as fully paid at Rs. 9 per share, the whole of *A*'s shares being included.

Pass Journal entries in the books of the company to record these transactions and show the relevant items on the balance sheet (necessary extracts) according to the form prescribed by the Companies Act, 1956. Assume that the resources required for payment are available. 20

2. (*a*) The Balance Sheet of Undone Ltd. as on 31.12.2007 is as follows :

Liabilities	Amount (Rs.)	*Assets*	Amount (Rs.)
Paid-up Capital :		Fixed Assets :	
1,000 8% Preference shares of Rs. 100 each	1,00,000	Land and Building	1,80,000
		Plant & Machinery	2,20,000
2,000 Equity shares of Rs.100 each fully paid	2,00,000	Current Assets :	
		Stock	1,20,000
3,000 Equity shares of Rs. 100 each Rs.50 paid	1,50,000	Debtors	80,000
		Cash at Bank	50,000
Secured Loan :		Miscellaneous Expenditure :	
6% Debentures (floating charge on all assets)	1,00,000	Profit and Loss A/c	1,00,000
others (mortgage on Land and Building)	1,00,000		
Current Liabilities :			
Sundry Creditors	90,000		
Income Tax	10,000		
	7,50,000		7,50,000

The company went into liquidation on 01.01.2008 :

The Preference dividends were in arrear for 2 years and the arrears are payable on liquidation.

The assets were realised as follows :

Land and Building Rs. 2,50,000; Plant and Machinery Rs. 1,80,000; Stock Rs. 90,000; Debtors Rs. 50,000.

The expenses of liquidation amounted to Rs. 10,000. The liquidator is entitled to a commission of 2% on all assets realised and 3% on amounts distributed to unsecured creditors.

All payments are made on 30th June, 2008.

Prepare Liquidator's Statement of Account.

(*b*) Write any three grounds of compulsory liquidation. 12 + 3

3. (*a*) Is there any relationship between Loss of Stock Insurance and Loss of Profit Insurance ?

(*b*) From the following information, find the claim under a 'Loss of Profit' policy.

	Rs.
Sales in 2003	1,00,000
Sales in 2004	1,20,000
Sales in 2005	1,44,000
Sales in 2006	1,72,800
Net Profit in 2006	10,000
Standing charges in 2006 (all insured)	7,280
Date of dislocation by fire on 1.1.2007	
Period of dislocation 3 months	
Sales from 1.1.2006 to 31.3.2006	43,200
Sales from 1.1.2007 to 31.3.2007	11,840
Indemnity period 9 months	
policy value	50,000

4 + 11

4. (*a*) Explain the basic techniques involved in forming a reconstruction scheme.

(*b*) Active and Blunt decide to amalgamate themselves into Sharp Ltd. The following are their agreed balance sheets as on 31st March 2008.

Liabilities	Active Ltd. Rs.	Blunt Ltd. Rs.	*Assets*	Active Ltd. Rs.	Blunt Ltd. Rs.
Equity share Capital @ Rs.100 each	5,00,000	4,00,000	Investments: 1000 shares in Blunt Ltd	1,30,000	—
General Reserve	2,00,000	1,00,000	2000 shares in Active Ltd	—	2,10,000
13% Debentures	2,00,000	1,50,000	Sundry Assets	7,70,000	4,40,000
	9,00,000	6,50,000		9,00,000	6,50,000

State the amount of purchase consideration for each of these companies and prepare the Balance Sheet of Sharp Ltd. 5 + 10

5. (*a*) Explain briefly the different methods of valuation of shares.

(*b*) Form the following information find out the amount of provisions to be shown in the Profit & Loss A/c of a Commercial Bank.

Assets	Rs. in lakhs
Standard	5,000
Sub-standard	4,000
Doubtful :	
for one year	800
for three years	600
for more than three years	200
loss Assets	1,000

10 + 5

SECOND HALF

(*Contemporary Issues in Accounting*)

[*Marks*: 50]

Answer **Q.No.6** and any *two* from the rest, taking *one* from each Group

6. Answer any *four* of the following : 5 x 4

(*a*) Briefly show the impact of different transactions on the basic accounting equation.

(*b*) Explain the full disclosure principle in accounting.

(*c*) What is Social Cost ? Draft a proposed format of Social Income Statement.

(*d*) Illustrate the terms Depreciation Depletion and Amortization.

(*e*) Define 'Value Added'. In which way a business distributes its Value Added ?

(*f*) Write down the main functions of Accounting Standard Board of India.

(*g*) Distinguish between Value Added Statement and Income Statement.

(*h*) Write down the features of Current Purchasing Power (CPP) method for accounting under conditions of changing price levels.

GROUP—A

Answer any *one* question

7. Distinguish between 'Amalgamation in the nature of Marger' and 'Amalgamation in the nature of Purchase'. How will you treat goodwill arising from Amalgamation ? Write down the disclosure requirements on Amalgamation as per A/S-14.

5 + 2 + 8

8. The Balance Sheets of X Ltd. as at 31st December, 2006 and 31st December 2007 were as follows :

	31st December 2006 Rs. '000	31st December 2007 Rs. '000
Land and Building (Cost Rs. 160)	152	148
Equipment (Cost Rs. 100)	50	40
Stock	30	40
Debtors	13	28
Bank	(10)	14
	235	270
Equity Shares	150	150
Reserves	60	70
10% Debentures	—	20
Creditors	10	15
Proposed Dividend	15	15
	235	270

The Profit and Loss Account for the year ended 31st December, 2007 was

	Rs.'000	Rs.'000
Sales		100
Opening Stock	30	
Purchase	61	
	91	
Less : Closing stock	40	51
Gross Profit		49
Expenses (including Debenture Interest)	10	
Depreciation— Building	4	
—Equipment	10	24
Net Profit		25
Proposed Dividend		15
Balance transferred to the Balance Sheet		10

The relevant price indices were :

(*i*) 2005 (average) —Date of acquisition of Building 105

(*ii*) 2002 (average) —Date of acquisition of Equipment and Issue of shares 80 (*iii*) 2006 — last quarter average 114

(*iv*) 2007 (1st January)— Debentures issued 116

(*v*) 2007 — (last quarter average) 122

(*vi*) 2007 (average) 118

(*vii*) 2007 (31st December) 125

Closing stock of 2007 was acquired during whole of 2007 and opening stock during 2006.

Required :

Prepare the Income Statement and Balance Sheet of X Ltd. at the end of 2007 under CCA method, showing Current Cost Adjustments clearly. 15

GROUP—B

Answer any *one* question

9. (*a*) Write the features of Annuity method of depreciation.

(*b*) Derive the Annuity method periodic depreciation calculation formula.

(*c*) Draw any two similarities between Sinking Fund Method and Annuity Method of depreciation.

(*d*) The uniform yearly annuity (gross) and sinking fund depreciation charges of an asset, which has a service life of 5 years, are found to be Rs. 21,104 and Rs. 13,104 respectively. Assuming that the asset has no salvage value calculate the rate of interest that has been used to arrive at the depreciation charges.

Also find out the original cost of the assets.

[Given log $21{,}104 = 4{\cdot}3243$, log $13{,}104 = 4{\cdot}1173$ and Anti log $\cdot 0414 = 1{\cdot}10$]

$3+4+3+5$

10. (*a*) Write any three reasons of not disclosing human resource value in traditional financial statements.

(*b*) From the following information calculate the human resource value under Lev and Schwartz Model.

Table for No. of Employees

Age/types of Employees (Years)	Skilled	Semi-Skilled	Professional	Total
20—29	5	10	—	15
30—39	20	15	10	45
40—49	3	—	3	6
50—59	—	—	—	—
	28	25	13	66

Table for Salary per annnum (Rupees)

Age/types of Employees (Years)	Skilled	Semi-Skilled	Professional
20—29	10,000	6,000	12,000
30—39	12,000	8,000	13,000
40—49	13,000	9,000	15,000
50—59	15,000	10,000	16,000

Given that present value of Re 1 at 10% discount rate at the end of

Year	1	2	3	4	5	6	7	8	9	10
P.V. of Re 1	·91	·83	·75	·69	·62	·57	·52	·47	·43	·39

3 + 12