1(CCE.M)2

Commerce and Accountancy—I

(07)

Time : Three Hours] [Maximum Marks : 300

INSTRUCTIONS

(i) Answers must be written in English.

(ii) The number of marks carried by each question is indicated at the end of the question.

(iii) The answer to each question or part thereof should begin on a fresh page.

(iv) Your answer should be precise and coherent.

(v) The part/parts of the same question must be answered together and should not be interposed between answers to other questions.

(vi) Candidates should attempt question nos. **1** and **5** which are compulsory and any **one** more in section A and any **two** more in section B.

(vii) If you encounter any typographical error, please read it as it appears in the text-book.

(viii) Candidates are in their own interest advised to go through the General Instructions on the back side of the title page of the Answer Script for strict adherence.

(ix) No continuation sheets shall be provided to any candidate under any circumstances.

(x) Candidates shall put a cross (×) on blank pages of Answer Script.

Following the method of Average Return on Average Investment ascertain which of the alternatives will be more profitable. The average rate of tax may be taken at 50%. 30

(b) What is capital structure management ? What are the factors determining the capital structure ? 20

(c) Write short notes on :

(i) Net income Approach

(ii) Merits and Demerits of NPV

(iii) Cash flow statement. 10

6. (a) A proforma cost sheet of a Company provides the following particulars :

Elements of cost	
Material	40%
Direct Labour	20%
Overheads	20%

The following further particulars are available :

(a) It is proposed to maintain a level of activity of 2,00,000 units.

(b) Selling price is Rs. 12/- per unit.

(c) Raw materials are expected to remain in Stores for an average period of one month.

(d) Materials will be in process, on average half a month.

(e) Finished goods are required to be in Stock for an average period of one month.

(f) Credit allowed to debtors is two months.

(g) Credit allowed by suppliers is one month.

You may assume that sales and production follow a consistent pattern.

2. (a) From the following Balance Sheet of J. Adams Co. Ltd. as on 31.12.2001, compute the value of its equity shares by capitalisation of earnings method.

Liabilities	Rs.	Assets	Rs.
Share capital :		Fixed Assets at cost, less depreciation	6,00,000
Equity shares of Rs. 10 each	5,00,000		
Reserve and Surplus	1,50,000	Current Assets	5,75,000
10% Debentures (Issue at par on 1.1.1997, redeemable at par on or before 2006)	3,00,000	Preliminary Expenses	25,000
Current Liabilities	2,50,000		
	12,00,000		12,00,000

Particulars		31.12.1997	31.12.1998	31.12.1999	31.12.2000	31.12.2001
Sales	Rs.	9,00,000	11,00,000	14,00,000	8,00,000	16,00,000
Expenses	Rs.	3,50,000	5,80,000	6,00,000	3,10,000	8,00,000
Interest on Loan	Rs.	20,000	40,000	50,000	60,000	20,000
Interest on Debentures	Rs.	30,000	30,000	30,000	30,000	30,000

It is the usual practice of the company to transfer Rs. 30,000 every year to General Reserve. Assume rate of taxation at 50% and the rate of normal earnings at 12.5%. Also show the working. 30

(b) Write any ten exempted incomes from Tax. 15

(c) Define Business as per section 2(13). State incomes which are chargeable to tax under the heads 'Profits and gains of a business or profession'. 15

3. When O Ltd. purchased 24,000 equity shares in P Ltd. on 1.1.2001, P Ltd. has Rs. 22,500 in General Reserve and Rs. 37,500 (Dr.) in Profit and loss Account. From their Balance Sheets on 31.12.2001 as below, prepare a consolidated Balance Sheet :

Liabilities	O Ltd.	P Ltd.	Assets	O Ltd.	P Ltd.
Equity Share Capital	7,50,000	3,00,000	Fixed Assets	6,75,000	1,50,000
General Reserve	90,000	7,500	Current Assets	1,20,000	1,21,500
Profit and Loss Account	60,000	—	Investments in P Ltd.	2,10,000	—
Sundry creditors	1,05,000	31,500	Profit and Loss Account	—	67,500
	10,05,000	3,39,000		10,05,000	3,39,000

Fixed assets standing in the books of P Ltd. Rs. 90,000 was considered worth Rs. 75,000 on the date of purchase of control. For the purpose of determining the value of shares 20% depreciation has been written off since acquisition. Stock of O Ltd. includes Rs. 30,000 on which P Ltd. made Rs. 7,500 profit. 60

4. (a) The following figures are available from financial accounts for the year ended 31st March, 2003 :

	Rs.
Direct Material consumption	2,50,000
Direct wages	1,00,000
Factory overheads	3,80,000
Administration overheads	2,50,000
Selling and distribution overheads	4,80,000
Bad Debts	20,000
Preliminary expenses (written off)	10,000
Legal charges	5,000
Dividend received	50,000
Interest on Deposit received	10,000
Sales, 1,20,000 units	7,00,000

Closing stock :

Finished Stock, 40,000 units	1,20,000
Work in Progress	80,000

The Cost Accounts reveal :

Direct material consumption, Rs. 2,80,000

Factory overhead recovered at 20% on prime cost.

Administration overhead at Rs. 3 per unit of production

Selling and Distribution overhead at Rs. 4 per unit sold.

Prepare :

(a) Costing Profit and Loss Account

(b) Financial Profit and Loss Account

(c) Statement reconciling the profits discussed by the Costing Profit and Loss Account and Financial Profit and Loss Account. 30

(b) What is reconciliation of cost and financial accounts ? State the reasons for difference in cost and financial accounts. 30

SECTION—B

5 (a) X Ltd. is considering the purchase of a machine. Two machines are available E and F. The cost of each machine is Rs. 60,000. Each machine has an expected life of 5 years. Net profits before tax and after depreciation during the expected life of the machines are given below :

Year	Machine E (Rs.)	Machine F (Rs.)
1.	15,000	5,000
2.	20,000	15,000
3.	25,000	20,000
4.	15,000	30,000
5.	10,000	20,000
Total	85,000	90,000

(xi) No blank page be left in between answer to various questions.

(xii) No programmable Calculator is allowed.

(xiii) No stencil (with different markings) is allowed.

SECTION—A

1. (a) The Summarised Balance Sheets of A Ltd. and B Ltd. as at 1.1.2011 are as under :

Liabilities	A Ltd. Rs.	B Ltd. Rs.	Assets	A Ltd. Rs.	B Ltd. Rs.
Equity shares of Rs. 10 each	1,50,000	1,00,000	Plant and Machinery	2,30,000	1,10,000
10% Debentures	50,000	—	Stock	80,000	90,000
12% Debentures	—	1,00,000	Debtors	30,000	20,000
Profit and Loss Account	30,000	60,000	Cash and Bank	60,000	80,000
Reserve	70,000	—			
Creditors	1,00,000	40,000			
	4,00,000	3,00,000		4,00,000	3,00,000

The above two companies agree to amalgamate and form a new company AB Ltd on the following conditions :

For both the companies :

(i) An exchange of 6 shares in AB Ltd. of Rs. 10 each at par for every 5 shares.

(ii) 90% of the equity shareholders will be discharged by the issue of equity shares of AB Ltd. The balance 10% will be discharged by paying cash (All assets and liabilities are taken over at book value).

You are required to show :

(1) The calculation of purchase consideration

(2) Ledger accounts to close the books;

(3) Journal entries in the books of AB Ltd.; and

(4) Opening Balance Sheet of AB Ltd. 30

(b) Explain in detail the basic rules preparing to Consolidated Balance Sheet. 30

You are required to prepare a statement of working capital requirements, a forecast Profit and Loss Account and Balance Sheet of the company assuming that :

	Rs.
Share Capital	15,00,000
8% Debentures	2,00,000
Fixed Assets	13,00,000

30

(b) Define working capital. What are the advantages and disadvantages of working capital ? State factors determining the working capital requirements. 30

7. (a) What is Money Market ? State the objectives of money market. What is the difference between money market and capital market ? 30

(b) What is the meaning of negotiable instruments as per section 13 ? What are the essential features of negotiable instruments ? 30

8. (a) Evaluation of RRB's by Narasimham Committee. 20

(b) What is stock exchange ? State its functions. 20

(c) Discuss the duties of an auditor. 20