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1(CCE-M)6

COMMERCE AND ACCOUNTANCY -I

[07]

Time Allowed -3 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 there of 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 numbers **1 and 5** which are compulsory and any **three** more questions selecting at least **one** question from each section .
- 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 (X) on blank pages of answer Script.
- 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.
- xiv) In no circumstances help of scribe will be allowed .

SECTION-A

1. a) The following are the abridged balance sheets of P Ltd. and S Ltd. As on 31st. March , 2018 :

(Rs. 000)

| Equity and Liabilities | P LTD. | S LTD. |
|--|----------------------|---------------------|
| Equity share capital (Rs. 10 each) | 8,000 | 3,000 |
| 10% preference share capital (Rs.100 each) | - | 1,000 |
| General reserve | 4,610 | 980 |
| Statutory reserves | 390 | 125 |
| Surplus Account | 563 | 355 |
| 12% Debentures | - | 250 |
| Trade payables | 1,437 | 990 |
| | <u>15,000</u> | <u>6,700</u> |
| Assets | | |
| Fixed assets | 11,000 | 4,730 |
| Current assets | 4,000 | 1,970 |
| | <u>15,000</u> | <u>6,700</u> |

On 1st April , 2018 P Ltd. takes overs S Ltd. on the following terms :

- i) P Ltd will issue 3,50,000 equity shares of Rs 10 each to the equity share holders of S Ltd.
- ii) P Ltd. Will issue 11,000 10% preference shares of Rs. 100 each at par to the preference shareholders of S Ltd.
- iii) The debenture holders of S Ltd. Will be converted into an equal number of 12.5% debentures of the same denomination.

You are informed that statutory reserves of S Ltd. Are to be maintained for two more years. You are required to show the balance sheet of P Ltd.Immediately after the above -mentioned scheme of amalgamation has been implemented assuming that the amalgamation is in the nature of purchase.

Also pass journal entries in the books of P Ltd. (40)

- b) Explain the concept of Activity Based costing. (20)
2. a) What points the auditor should keep in mind while auditing the accounts of banking companies. (20)
- b) X owns a residential house property. It has two equal residential units-unit 1 and unit 2. While unit 1 is self -occupied by X for his residential purpose. unit

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(2)

2 is let out (rent being Rs 6,000 per month, rent of 2 months could not be recovered). Municipal value of the property is Rs 1,30,000 standard rent is Rs 1,25,000 and fair rent is Rs 1,40,000. Municipal tax is imposed @ 12 percent which is paid by X other expenses for the previous year 2017-18 being Repairs: Rs 250: Insurance : Rs 600 : Interest on capital (borrowed during year 2000) for constructing the property Rs 63,000.

Find the income of X for the assessment year 2018-19 on the assumption that income of X from other sources is Rs 1,80,0000. (40)

3. a) A work order for 200 units of a commodity has to pass through four different machines of which the machine hour rates are: Machine No.1-Rs 1.25; Machine No.II-Rs 2.50; Machine No. III - Rs 3.00 and machine No.IV- Rs 2.25 .

The following expenses have been incurred on the work order :

Materials -Rs 8,000 and wages -Rs 500.

Number of hours for which machines have been engaged :

Machine No. I - 200 Hours

Machine No. II - 160 Hours

Machine No. III - 240 Hours

Machine No. IV - 132 Hours

After the work order has been completed , materials worth Rs 400 are found to be surplus and are returned to stores.

Office overheads used to be 40% of works cost but on account of all-round rise in the cost of administration , distribution and sale, there has been a 50% rise in the office overhead expenditure. More over , it is known that 10% of the production will have to be scrapped as not being up to the specification and the sale proceeds of the scrapped output will be only 5% of the cost of sales. If the manufacturer wants to make a profit of 20% on the total cost of the work order, find out the selling price of a unit of commodity ready for sale. (40)

- b) Explain and illustrate capitalisation of super profit method of valuation of goodwill of a joint stock company. (20)

4. a) The summarised Balance sheet of KL Ltd as at 31st March ,2018 is as follows:

| Equity and Liabilities | Rs. |
|---|-----------------|
| 30,000 equity shares of Rs. 10 each fully paid up | 3,00,000 |
| 10,000 equity shares of Rs 10 each Rs. 8 paid up | 80,000 |
| Reserves | 1,80,000 |
| 11% Debentures | 1,00,000 |
| Current Liabilities | 90,000 |
| | 7,50,000 |
| Assets | |
| Good will | 70,000 |
| Other fixed assets | 4,50,000 |
| Current assets | 2,20,000 |
| Preliminary expenses | 10,000 |
| | 7,50,000 |

The goodwill is independently valued at Rs.50,000 and other fixed assets at Rs.4,20,000. There was a contingent liability of Rs. 20,000 which has become payable. Determine the value of both the shares under net assets method. (30)

- b) How does residential status affect the computation of taxable income under the income Tax Act, 1961. (30)

SECTION-B

5. a) On the basis of Modigliani and Millers arguments, explain the relationship between dividend policy and value of the firm. (20)
- b) Calculate the operating leverage for each of the four firms, A B C and D from the following price and cost data. What conclusions you can draw with respect to levels of fixed cost and the degree of operating leverage result? Explain. Assume number of units sold is 5,000.

| | Firms | | | |
|------------------------|--------------|-----------|-------------|----------|
| | A | B | C | D |
| Sale price per unit | Rs. 20 | Rs. 32 | Rs. 50 | Rs. 70 |
| Variable cost per unit | Rs. 6 | Rs. 16 | Rs. 20 | Rs. 50 |
| Fixed operating cost | Rs 80,000 | Rs 40,000 | Rs 2,00,000 | Nil |

(40)

6. a) Explain the advantages of discounted cash flows methods for capital budgeting

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(4)

decisions over traditional evaluation techniques. (30)

b) What are the different ways in which a negotiable instrument can be negotiated? (30)

7. a) Regional Rural Banks are important financial institutions in the rural credit structure. Discuss. (20)

b) An electric equipment manufacturing company wishes to determine the weighted average cost of capital for evaluating capital budgeting projects. You have been supplied with the following information :

BALANCE SHEET

| Liabilities | Rs. | Assets | Rs. |
|--------------------------|------------------|----------------|------------------|
| Equity share capital | 12,00,000 | Fixed Assets | 25,00,000 |
| Preference share capital | 4,50,000 | Current assets | 15,00,000 |
| Retained earnings | 4,50,000 | | |
| Debentures | 9,00,000 | | |
| Current liabilities | <u>10,00,000</u> | | |
| | 40,00,000 | | 40,00,000 |

Additional information :

- 20 years 14 % debentures of Rs 2,500 face value, redeemable at 5% premium can be sold at par 2% Flotation costs.
- 15% preference shares : Sale price Rs.100 per share , 2% flotation costs.
- Equity shares : Sale price Rs.115 per share, flotation costs Rs.5 per share.

The corporate tax rate is 35% and the expected growth in equity dividend is 8% per year. The expected dividend at the end of the current financial year is Rs. 11 per share. Assume that the company is satisfied with its present capital structure and intends to maintain it. (40)

8. Write short notes on the following. (20×3=60)

- Right issue as a method of raising money in primary market
- Promissory note
- Money market in India



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