

**PART - A**

**Sol.1. (i) State with reasons in brief, whether the following statements are true or false: (5)**

(a).False      (b).True      (c).False      (d).False      (e).False

**(ii) Re-write the following sentences after filling – up the blank space with appropriate word(s) so as to convey the correct meaning: (5)**

(a).8 years      (b).Statutory      (c).FIFO, weighted average      (d).ICAI      (e).11%

**(iii) Total amount of discount and expenses is Rs.95,000. (5)**

It should be written off each year according to the ratios of the amounts outstanding.

Years	Ratio
1	10
2	10
3	10
4	10
5	10
6	9
7	8
8	7
9	6
10	5
11	4
12	3
13	2
14	1
Total of ratios =	<u>95</u>

In each of the first five years, discount to be written off will be

$$\frac{\text{Rs.95,000} \times 10}{95} = \text{Rs.10,000}$$

$$\text{In 6}^{\text{th}} \text{ year} = \frac{\text{Rs.95,000} \times 9}{95} = \text{Rs.9,000}$$

$$\text{In 7}^{\text{th}} \text{ year} = \frac{\text{Rs.}95,000 \times 8}{95} = \text{Rs.}8,000$$

$$\text{In 8}^{\text{th}} \text{ year} = \frac{\text{Rs.}95,000 \times 7}{95} = \text{Rs.}7,000$$

$$\text{In 9}^{\text{th}} \text{ year} = \frac{\text{Rs.}95,000 \times 6}{95} = \text{Rs.}6,000$$

$$\text{In 10}^{\text{th}} \text{ year} = \frac{\text{Rs.}95,000 \times 5}{95} = \text{Rs.}5,000$$

$$\text{In 11}^{\text{th}} \text{ year} = \frac{\text{Rs.}95,000 \times 4}{95} = \text{Rs.}4,000$$

$$\text{In 12}^{\text{th}} \text{ year} = \frac{\text{Rs.}95,000 \times 3}{95} = \text{Rs.}3,000$$

$$\text{In 13}^{\text{th}} \text{ year} = \frac{\text{Rs.}95,000 \times 2}{95} = \text{Rs.}2,000$$

$$\text{In 14}^{\text{th}} \text{ year} = \frac{\text{Rs.}95,000 \times 1}{95} = \text{Rs.}1,000$$

**Sol.2 (i) Write short notes**

**(12)**

- (a) **Marked and unmarked applications:** When the issue of shares or debentures of a company is underwritten by two or more persons. It is usual that the applications for shares or debentures sent through the underwriters should bear a stamp of the respective underwriters. Otherwise, it would be very difficult for the company to determine how many applications have been received through a particular underwriter and, unless this is determined properly, the company would face a problem in determining the liability of the individual underwriters. Thus, the applications bearing the stamp of the respective underwriters are called "Marked Applications" while the applications received directly by the company which do not bear any stamp of the underwriters are called "Unmarked Applications".

If the entire issue of shares or debentures is underwritten by only one underwriter, the marking of applications is immaterial since he is to get credit of all the applications whether sent through him or received directly in determining his liability. But, the issue of shares or debentures is generally, underwritten in an agreed ratio. In such a case, it is essential that the applications sent through the underwriters should be marked properly so as to determine their respective liability correctly.

- (b) **Issue of shares for consideration other than cash:** A company may also issue shares for consideration other than cash to vendors who sell some assets to the company or to the promoters for their services. When shares are so issued, the Companies Act requires that the same must be clearly stated in the balance sheet and must be distinguished from the issue made for cash.
- (c) **Statutory Book:** In addition to the books of account mentioned earlier, the Companies Act specifically requires certain other books or registers to be kept by a company of maintaining a record of its activities in order to safeguard the interest of the shareholders and creditors. These books are known as Statutory Books. According to the Companies Act, 1956, the following is a list of such books to be maintained by a company:
- (i) Register of investments not held in company's name (under Section 49).
  - (ii) Register of fixed deposits (under Section 58A).
  - (iii) Register of charges (under Section 143).
  - (iv) Register of members (under Section 150).

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- (v) Index of members where their number is more than 50, unless the register of members itself affords an index (under Section 151).
- (vi) Register of debenture holders (under Section 152).
- (vii) Index of debentureholders where their number is more than 50, unless the Register of debentureholders itself affords an index (under Section 152).
- (viii) Foreign Register (and a duplicate) of members and debentureholders, if any (under Sections 157 and 158)
- (ix) Minutes books containing minutes of proceedings of general meetings (under Section 193)
- (x) Minutes books containing minutes of the proceedings of Board Meetings (under Section 193).
- (xi) Books of Account (under Section 209).
- (xii) Register of contracts with companies and firms in which directors are interested directly or indirectly (under Section 301).
- (xiii) Register of directors, managing directors, manager and secretary (under Section 303).
- (xiv) Register of directors' shareholdings (under Section 307).
- (xv) Register of loans made, guarantees given or securities provided to companies under the same management (under Section 370).
- (xvi) Register of investments in shares and debentures of other companies (under Section 372).
- (xvii) Register of renewed and duplicate certificates [Rule 7 of Companies (Issue of Share Certificates) Rules, 1960].

**(ii) Statement of Underwriters' Liability (8)**  
**(Firm underwriting shares are treated as unmarked applications)**  
(Shares)

	P	Q	R	Total
Gross Liability	24,000	10,000	6,000	40,000
Less: Marked applications	4,000	8,000	2,000	14,000
Balance	20,000	2,000	4,000	26,000
Less: Unmarked applications in the ratio of gross liability (12:5:3)	8,640	3,600	2,160	14,400
Balance	11,360	(-1,600)	1,840	11,600
Credit of Q's over subscription to P & R in the ratio of 12:3	1,280	+1,600	320	-
Net Liability	10,080	-	1,520	11,600
Add: Firm underwriting	3,200	1,200	4,000	8,400
Total Liability	13,280	1,200	5,520	20,000

**Alternate Answer**

**Statement of Underwriters' Liability**  
**(Firm underwriting shares are treated as marked applications)**  
(Shares)

	P	Q	R	Total
Gross Liability	24,000	10,000	6,000	40,000
Less: Unmarked applications 6,000 in ratio of gross liability (12:5:3)	3,600	1,500	900	6,000
Balance	20,400	8,500	5,100	34,000
Less: Marked application plus shares underwritten firm	7,200	9,200	6,000	22,400
Balance	13,200	-700	-900	11,600
Credit for Q's and R's oversubscription	-1,600	+700	+900	-
Net Liability	11,600	-	-	11,600

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Add: Firm underwriting	3,200	1,200	4,000	8,400
Total Liability	14,800	1,200	4,000	20,000

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**Solu-3.**

**Journal Entries**

**(7)**

<b>2008</b>	<b>Particulars</b>	<b>L.F</b>	<b>Dr.(Rs)</b>	<b>Cr.(Rs)</b>
Mar.31	Bank Dr. To Investment A/c Dr. To Profit & Loss A/c (Sale proceeds of investment and transfer of profits of sale to profit and loss account)		1,10,000	1,00,000 10,000
	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Allotment of 10,000 equity shares of Rs.10 each issued at a premium of Re.1 per share as per Board's resolution dated.....)		1,10,000	1,00,000 10,000
	Profit & Loss Appropriation A/c Dr. To Capital Redemption Reserve A/c (Transfer of profits to Capital Redemption Reserve for the amount on nominal value of shares redeemed not covered by fresh issue)		1,00,000	1,00,000
	8% Redeemable Preference Share Capital A/c Dr. Premium on Redemption of Preference Shares A/c Dr. To Preference Share A/c (Amount due on redemption)		2,00,000 10,000	2,10,000
	Securities Premium A/c Dr. To Premium on Redemption of pref. Shares A/c (Writing off Premium on Redemption of Preference Shares against Securities Premium Account)		10,000	10,000
	Preference Shareholders A/c Dr. To Bank (Payment of the amount due on redemption)		2,10,000	2,10,000
	Capital Redemption Reserve A/c Dr. Securities Premium A/c To Bonus to Shareholders A/c (Declaration of bonus of Rs.1,20,000 in the form of shares as per shareholders resolution dated....)		1,00,000 20,000	1,20,000
	Bonus to Shareholders A/c Dr. To Equity Share Capital (Issue of 12,000 equity shares of Rs.10 each fully paid-up in the ratio of 1:5 i.e., one fully paid-up share of every five shares held)		1,20,000	1,20,000

**Balance Sheet of Excellent Ltd. as on 31<sup>st</sup> March, 2008**

<b>Liabilities</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>
Share Capital:		Fixed Assets:	
Authorised Capital	15,00,000	Plant & Machinery	6,00,000
Issued & Subscribed		Furniture & Fitting	75,000
72,000 Equity Shares of Rs.10 each fully paid-up	7,20,000	Investment	Nil
(Of the above shares 12,000 shares are allotted as fully paid-up by way of bonus Shares out of capital Redemption Reserve and Securities Premium)		Current Assets, Loans and Advances:	
Reserves and Surplus:		(a) Current Assets:	
Capital Reserve	25,000	Stock	1,70,000
Securities Premium Account	10,000	Debtors	65,000
General Reserve	1,60,000	Cash at Bank	90,000
Profit & Loss Account	48,000		
Current Liabilities & Provisions:			
(A) Current Liabilities:			
Sundry Creditors	37,000		
(B) Provisions	-		
	<b>10,00,000</b>		<b>10,00,000</b>

**Solu-4**

**(8)**

<b>Net Assets</b>		<b>Rs.</b>
Goodwill		15,000
Machinery		1,75,000
Furniture		5,000
Stock		70,000
Debtors		1,50,000
Cash		2,000
		4,17,000
<b>Less: Liabilities</b>		
Creditors	60,000	
Proposed preference dividend	8,000	
Overdraft	5,000	
Other liabilities	12,000	85,000
		3,32,000
Less: Preference share capital		1,00,000
Net Assets for equity shareholders		2,32,000

Intrinsic value of equity shares:  $\text{Rs. } 2,32,000 \div 20,000 = \text{Rs. } 11.60$  Per share.

Intrinsic value of preference shares:

$\text{Rs. } 100 + \text{Proposed dividend i.e., } \text{Rs. } (8,000 \div 1,000) = \text{Rs. } 8 = \text{Rs. } 108$  pre share.

If they are participating preference shares, the excess of net assets less preference share capital over the paid-up value of equity shares will be distributed over equity shares and preference shares converting them to equivalent number of same paid-up values. The share of surplus appropriate to each equity and preference share is to be added to the paid up amount of the respective shares. The total excess may also be distributed in the ratio of equity capital and preference capital. Participating shares in this connection are taken to mean that they participate in surplus in liquidation pari-passu with equity shares. In reality, the articles of association will govern the situation.

Assuming the preference shares in illustration above are participating shares, determine the values of equity shares and preference shares, assuming they rank pari-passu.

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	Rs.
Net Assets less preference share capital (as above)	2,32,000
Less: Equity share capital	1,00,000
Surplus	32,000

Equivalent number of equity and preference shares:

20,000 equity shares equivalent to 20,000 shares of Rs.10 each

1,000 preference shares equivalent to 10,000 shares of Rs.10 each

30,000 shares of Rs.10 each

$$\text{Surplus per share of Rs.10} = \frac{\text{Rs.32,000}}{30,000} = \text{Rs.1.07}$$

Hence the value of equity shares: Rs.10 + Rs.1.07 = Rs.11.07 per share.

Value of preference shares: Rs.100 + Rs.8 + (Rs.1.07 × 10) = Rs.118.70

Or, the surplus of Rs.32,000 may be divided between equity capital and preference capital in the ratio of 2:1, i.e., Rs.21,333 and Rs.10,667 respectively.

Value of shares:

$$\text{Equity: } \frac{2,00,000 + 21,333}{20,000} = \frac{2,21,333}{20,000} = 11.07$$

$$\text{Preference: } \frac{1,00,000 + 10,667 + 8,000}{1,000} = \frac{1,18,667}{1,000} = \text{Rs.118.67}$$

**PART - B**

**Solu-5(i) State whether the following statements are true or false: (4)**

(a).True (b) False

**(ii) Write short notes (10)**

**(a) Importance of cost accounting:**

(a) Costing as an Aid to Management

- (1) Cost accounting helps in periods of trade depression and trade competition
- (2) Cost accounting aids price fixation
- (3) Cost accounting helps in making estimates
- (4) Cost accounting helps in channlising production on right lines
- (5) Cost accounting eliminates wastages
- (6) Cost accounting makes comparisons possible
- (7) Cost accounting provides data for periodical profit and loss account
- (8) Cost accounting helps in determining and enhancing efficiency
- (9) Cost accounting helps in inventory control

(b).Costing as an Aid to Creditors

(c).Costing as an Aid to Employees

(d) Costing as an Aid to National Economy

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**(b) Difference between Financial Accounting and Cost Accounting**

- (1) Financial accounting aims at safeguarding the interests of the business and its proprietors and others connected with it. Cost accounting on the other hand, renders information for the guidance of the management for proper planning, operation, control and decision making.
- (2). Financial accounts are kept in such a way as to meet the requirements of the Companies Act, Income-tax and other statues. On the other hand cost accounts are generally kept voluntarily to meet the requirements of management.
- (3) Financial accounting provides operating results and financial position usually gives information through cost reports to the management as and when desired.
- (4). Financial accounts deal mainly with actual facts and figures, but cost accounts deal partly with facts and figures and partly with estimates.
- (5). Financial accounting is concerned with historical records, while cost accounting is concerned with historical cost but also with pre-determined cost.
- (6). The costs are reported in aggregate in financial accounts but costs are broken into unit basis in cost accounts.
- (7). Financial accounts do not provide information on the relative efficiencies of various workers, plants and machinery while cost accounts provide valuable information on the relative efficiencies of various plants and machinery.
- (8). Financial reports (profit and loss account and balance sheet) are prepared periodically – quarterly, half yearly or annual basis. But cost reporting is a continuous process and may be daily, weekly, monthly etc.

**Solu-6** Since both profits and net worth of the company are showing a steady growth, it would be reasonable to attach due weightage to them for valuation purposes. **(8)**

Year ended 31 <sup>st</sup> March	Average Net worth Rs.	Adj. taxed profit Rs.	Weight factors	Weighted Net worth Rs.	Profit Rs.
2006	18,50,000	1,80,000	1	18,50,000	1,80,000
2007	21,20,000	2,00,000	2	42,40,000	4,00,000
2008	21,30,000	2,30,000	3	63,90,000	6,90,000
			<b>6</b>	<b>1,24,80,000</b>	<b>12,70,000</b>
Weighted average				<b>20,80,000</b>	<b>2,11,667</b>

$$\text{Productivity Factor} = \frac{\text{Rs.}2,11,667}{\text{Rs.}20,80,000} \times 100 = 10.18\%$$

Net worth on valuation date = Rs.22,00,000	Rs.
Projected future maintainable profit = 10.18% of Rs.22,00,000	2,23,960
Less: Rehabilitation and replacement @ 25%	55,990
	1,67,970
Less: Preference Dividend	27,000
	1,40,970
Rs.1,40,970 capitalised @ 9% rate of return would be	15,66,333
Add: Value of investments	2,50,000
Value of 10,000 equity shares	18,16,333

$$\text{Therefore, the value of each equity share would be} = \frac{18,16,334}{10,000} \text{ Rs.}181.63$$

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**Solu-7**

**(5)**

Material X	
Ordering level	= Maximum usage × Maximum delivery period = 150 × 6 = 900 units.
Minimum level	= Ordering level - (Normal usage × Normal delivery period) = 900 - (100 × 5) = 400 units
Maximum level	= (Ordering level + Ordering quantity) - (Minimum usage × Minimum delivery period) = 900 + 600 - (50 × 4) = 1,500 - 200 = 1,300 units
Material Y	
Ordering Level	= Maximum usage × Maximum delivery period = 150 × 4 = 600 units
Minimum level	= Ordering level - (Normal usage × Normal delivery period) = 600 - (100 × 3) = 300 units
Maximum level	= (Ordering level + Ordering quantity) - (Minimum usage × Minimum delivery period) = 600 + 1,000 - (50 × 2) = 1,600 - 100 = 1,500 units.

Normal delivery period has been computed as follows:

$$\text{Material X} = \frac{4+6}{2} = 5 \text{ weeks}$$

$$\text{Material Y} = \frac{2+4}{2} = 3 \text{ weeks}$$

**Solu-8.** Time taken for original processing and rectification:

**(8)**

Dept.	A 3 × 1,000	= 3,000 hrs.
	B 2 × 1,000 + 2 × 500	= 3,000 hrs
	C 5 × 1,000 + 5 × 500	= 7,500 hrs.
Fixed Cost		
Dept.	A Rs.18 - (Rs.2 × 3 hrs)	= Rs. 12 per unit
	B Rs.18 - (Rs.2 × 2 hrs)	= Rs.14 per unit
	C Rs.40 - (Rs.2 × 5 hrs)	= Rs.30 per unit

Alternative 1			Rs.
Cost of production (includes reprocessing cost)			
Direct material	1,000 × Rs.12		12,000
Wages and factory overhead:			
Dept.	A 3,000 × Rs.(5+2) + 1,000 × Rs.12		33,000
	B 3,000 × Rs.(6+2) + 1,500 × Rs.14		45,000
	C 7,500 × Rs.(4+2) + 1,500 × Rs.30		90,000
			1,800,000
Administrative, selling and distribution overhead for 1,000 units		45,000	
Loss on non-recovery if 500 units re-processed		22,500	67,500
Total Cost			2,47,500
Sales 1,000 @ Rs.200 each			2,00,000
Loss			47,500
Alternative 2			
Cost of production of 1,000 units of which 500 units are disposed off:			
Sales	500 × 200 + 500 × 120	= Rs.1,60,000	
Cost	1,000 × 180	= Rs.1,80,000	

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Loss	Rs. 20,000
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**Q.9.** Calculation of Standard Price: **(10)**

	Rs.
Value of Opening stock = 10 × Rs.240	2,400
Add: Price variance, not yet transferred to Costing P & L A/c	20
Total value of 10 tons	2,420
∴ Standard price for issue per ton = Rs.242	

**STORE LEDGER ACCOUNT**

Material .....	Bin No .....	Maximum No. ....
Code .....	Location .....	Minimum No. ....
Type and size .....	Folio .....	

Receipts					Issues					Balance	
Date	P.O. No	Qty.	Rate (Rs.)	Amt (Rs.)	Date	P.O. No	Qty.	Rate (Rs.)	Amt (Rs.)	Qty	Amt (Rs.)
1 <sup>st</sup> Apr.	Bal.	-	-	-	-	-	-	-	-	10 tons	2,400
4 <sup>th</sup> Apr	-	5tons	260	1,300	-	-	-	-	-	15 tons	3,700
-	-	-	-	-	5 <sup>th</sup> Apr.	-	3 tons	242	726	12 tons	2,974
-	-	-	-	-	12 <sup>th</sup> Apr.	-	4 tons	242	968	8 tons	2,006
13 <sup>th</sup> Apr.	-	3tons	250	750	-	-	-	-	-	11 tons	2,756
-	-	-	-	-	19 <sup>th</sup> Apr.	-	4 tons	242	968	7 tons	1,788
-	-	-	-	-	26 <sup>th</sup> Apr.	-	3 tons	242	726	4 tons	1,062
30 <sup>th</sup> Apr.	-	4tons	280	1,120	-	-	-	-	-	8 tons	2,182
-	-	-	-	-	30 <sup>th</sup> Apr.	-	3 tons	242	726	5 tons	1,456
		12		3,170			17		4,114		

**Note:** As the issues are priced at standard rate of Rs.242 per ton the difference on account of this policy, between actual and standard value of closing stock, would be transferred to Costing Profit and Loss Account and would be debited to Material Price Variance

Closing stock –Standard 5 tons @ Rs.242	= Rs.1,210	
Actual 5 tons	= Rs.1,456	
∴ Difference (Adverse)	= Rs. 246	
Material Control A/c	Dr. 4,114	
Material Price Variance A/c	Dr. 246	
To Cost Ledger A/c		4,360

**Q.10.** **(5)**

Revised selling price (Rs.50 less 10%)		Rs.45 per unit
Variable cost		
Material cost	Rs.20	
Variable manufacturing cost (per unit)	Rs.15	
Total variable cost		Rs.35 per unit
Contribution		Rs.10 per unit
Total contribution required:		Rs.27,00,000
Fixed costs		Rs. 3,00,000
Additional promotion expenses		Rs. 5,00,000
Profit		Rs. 35,00,000

Total number of units to be made and sold to earn a contribution of Rs.35,00,000

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$$= \frac{\text{TotalContribution}}{\text{Contributionperunit}} = \frac{\text{Rs.35,00,000}}{\text{Rs.10}} = 3,50,000 \text{ units}$$

