Model Question Paper
Financial Accounting - II (MSF1A2)

- Answer all 75 questions.
- Marks are indicated against each question.

Total Marks:100

1. Which of the following statements is **false** with respect to goodwill?

(a) It is normally represented by the capacity of a business to earn excess profits
(b) For the calculation of goodwill, past profits will have to be adjusted in order to determine the future expected maintainable profit
(c) It is an excess of acquisition cost over net assets acquired
(d) It is an identifiable intangible asset
(e) It can be defined as the present value of firm's anticipated excess earnings.

2. Amortization of intangible assets, such as copyrights or patents, is the accounting process of

(a) Determining the cash flow from operations for the current period
(b) Systematically allocating the cost of the intangible assets to the period of use
(c) Accumulating a fund for the replacement of the asset at the end of its useful life
(d) Systematically reflecting the change in general price level over the current period
(e) Asset valuation based on net realizable value at the statement of financial position.

3. Flier Ltd., issued 5,000, equity shares at Rs.25 each with par value of Rs.20 each, and all shares are subscribed and total amount duly received. The journal entry to record this transaction would include a

(a) Debit to Cash for Rs.1,00,000
(b) Credit to Equity Share capital for Rs.1,25,000
(c) Debit to Securities premium for Rs.25,000
(d) Credit to Equity Share capital for Rs.1,00,000
(e) Credit to Cash for Rs.1,25,000.

4. Which of the following is **false** with regard to rights shares?

(a) Rights shares are first offered to the existing shareholders
(b) The price of rights shares offered is normally below the market price of the shares
(c) Where the rights are offered at a price over the face value, the excess amount is credited to securities premium account
(d) The number of rights shares offered need not be in proportion to the equity shares already held
(e) Bank account is debited with the amount received and equity share capital account is credited with the face value of shares.

5. If forfeited shares are reissued at a premium, the amount of such premium will be credited to

(a) Share forfeiture account
(b) Securities premium account
(c) Capital reserve account
(d) Discount on issue of shares account
(e) Share capital account.

6. If a company issues some of its common shares in exchange for assets other than cash, the transaction should be recorded at the

(a) Current market value of the assets acquired
(b) Stated value of the shares issued
(c) Par value of the shares issued
(d) Book value of the shares issued
(e) Net realizable value of asset.

7. Unless the Board of Directors approve the allotment of shares, the application money received from public will remain with the company as a/an

(a) Liability
(b) Additional capital
(c) Share capital
(d) Securities premium

(e) Calls-in-advance.

8. The amount of capital, to describe the shares offered to public for subscription is

(a) Authorized Capital
(b) Issued Capital
(c) Outstanding Capital
(d) Subscribed Capital
(e) Called up Capital.

9. Which of the following signifies the difference between par value and an issue price below par?

(a) Securities premium
(b) Discount on issue of shares
(c) Calls in arrear
(d) Calls in advance
(e) Rebate on shares.

10. If a shareholder **does not** pay his dues on allotment, for the amount due, there will be a

(a) Credit balance in share allotment account
(b) Debit balance in share forfeiture account
(c) Credit balance in share forfeiture account
(d) Debit balance in share allotment account
(e) Debit balance in share capital account.

11. The value of equity share of Good Strength Ltd., as per yield method is Rs.19.50 and as per fair value method is Rs.22.50. The value of share according to intrinsic value method is

(a) Rs.21.00
(b) Rs.25.50
(c) Rs.19.50
(d) Rs.22.50
(e) Rs.26.50.

12. ________ have the right to receive dividends in arrears, whenever earnings become adequate.

(a) Cumulative preference shares
(b) Participating preference shares
(c) Convertible preference shares
(d) Callable preference shares
(e) Redeemable preference shares.

13. Red Rock Ltd., issued 5,000, 15% Debentures of Rs.100 each at a discount of 5%, repayable after 5 years at a premium of 5%. The amount debited to loss on issue of debentures account is

(a) Rs. 25,000
(b) Rs. 50,000
(c) Rs. 75,000
(d) Rs.1,00,000
(e) Nil.

14. The interest on calls in advance is paid for the period from the

(a) Date of receipt of application money to the date of appropriation
(b) Date of receipt of allotment money to the date of appropriation
(c) Date of receipt of advance to the date of appropriation
(d) Date of appropriation to the date of dividend payment
(e) Date of appropriation to the date of receipt of final call.

15. Which of the following **does not** appear under the head share capital of a balance sheet?

(a) Preference share capital
(b) Minority interest in subsidiaries
(c) Calls-in-arrear
(d) Equity share capital
(e) Shares forfeited account.

16. As per SEBI guidelines, for a debenture issue having a maturity of more than 18 months, a Debenture

Redemption Reserve shall be created out of profits, prior to the commencement of the redemption, for a minimum percentage of debenture issue. Such minimum percentage is

(a) 25%
(b) 50%
(c) 10%
(d) 15%
(e) 5%.

17. At the end of the financial year, the cumulative total of "interest on own debentures account" is transferred to

(a) Profit and Loss account
(b) Profit and Loss Appropriation account
(c) Own Debentures account
(d) Securities premium account
(e) Bank account.

18. Premium on issue of debentures account is transferred to

(a) Capital reserve
(b) General reserve
(c) Securities premium account
(d) Capital redemption reserve
(e) Debentures account.

19. The long term investments are accounted for in the balance sheet at

(a) Cost price less depreciation
(b) Cost price or market price, whichever is lower
(c) Cost price
(d) Replacement price
(e) Net realizable value.

20. Tax deducted at source on the payments made by a company appears in the Balance Sheet of the company on the

(a) Liabilities side under current liabilities
(b) Liabilities side under provisions
(c) Assets side under current assets
(d) Assets side under loans and advances
(e) Assets side under miscellaneous expenditure.

21. The periodical interest received in respect of investments made on account of debenture redemption fund is transferred to

(a) Interest income account
(b) Debenture holders account
(c) Debentures account
(d) Debenture redemption fund account
(e) Bank account.

22. On December 01, 2008, Lucas Ltd., purchased 5,000 of its 12% Debentures of Rs.100 each at a price of Rs.98 ex-interest. Interest on debentures is payable on March 31 and September 30, every year. At the time of recording the purchase of debentures, the interest account will be debited by

(a) Rs. 5,000
(b) Rs. 100
(c) Rs.15,000
(d) Rs.10,000
(e) Nil.

23. Which of the following receipts is included in the profits for the purpose of calculating managerial remuneration?

(a) Profits by way of premium on shares
(b) Profits from sale of an undertaking
(c) Profits by way of premium on debentures

(d) Subsidies received from the Government
(e) Profits on sales of forfeited shares by the company.

24. The gross profit and the administrative expenses of Payal Ltd., for 2006-07 was Rs.3,00,000 and Rs.2,00,000 respectively. In 2007-08 the gross profit increased by 20% and administrative expenses also increased by 10% from previous year. If the sales during 2007-08 were Rs.8,00,000, the net profit increased by

(a) Rs.40,000
(b) Rs.20,000
(c) Rs.60,000
(d) Rs.30,000
(e) Rs.10,000.

25. Uncalled liability on shares partly paid is shown

(a) As a current liability in the balance sheet of a company
(b) As a miscellaneous expenditure in the balance sheet of a company
(c) Under the head 'reserves' on the liabilities side of the balance sheet of a company
(d) By way of notes to the balance sheet of a company
(e) In the Profit and Loss account of a company.

26. Which of the following statements is **false** with regard to special audit?

(a) A special auditor shall submit a report to the Central Government
(b) A special auditor cannot be the company's statutory auditor
(c) The Board of Directors appoints the special auditor
(d) The special auditor's report has to be acted upon by the Central Government within four months from the date of its receipt
(e) The expenses of audit will be determined by the Central Government and paid by the company.

27. Which of the following need **not** be stated in the Director's Report?

(a) Technology absorption
(b) Financial state of affairs of the company
(c) Foreign exchange earnings of the company
(d) Statement of accounting policies
(e) Conservation of energy.

28. Which of the following is **not** a duty of the auditor of the company?

(a) Scrutinize Loans and Advances
(b) Scrutinize entries
(c) Scrutinize expenses
(d) Scrutinize investments
(e) Scrutinize professional efficiency of management.

29. If the forfeited shares are issued at a discount, the amount of discount shall be debited to

(a) Profit and loss account
(b) Capital reserve account
(c) Share forfeiture account
(d) Securities premium account
(e) Share capital account.

30. If no auditor is appointed or re-appointed at an Annual General Meeting, the company should inform the fact to the Central Government within

(a) 7 days
(b) 15 days
(c) 30 days
(d) Three months
(e) Six months.

31. If proposed dividend declared out of pre-acquisition profits appears in the balance sheet of the subsidiary company, the proportionate share of the holding company in such proposed dividend should be

(a) Debited to Profit and Loss Appropriation account of holding company

(b) Added to the cost of control
(c) Shown under ‘proposed dividend in the consolidated balance sheet
(d) Credited to the investment account of the holding company
(e) Credited to the consolidated Profit and Loss account.

32. Which of the following is treated as revenue profits by the holding company at the time of preparation of consolidated balance sheet?

(a) Profits arising out of inter-company transactions
(b) Reserves of the subsidiary company up to the date of acquisition
(c) Current year profit of subsidiary company up to the date of acquisition
(d) The profit on the revaluation of assets during acquisition
(e) Profits earned by the subsidiary company after the date of acquisition.

33. Which of the following statements is **false**?

(a) A bill drawn by the holding company and accepted by its subsidiary company is an outside obligation for holding company
(b) A consolidated balance sheet shows the assets and liabilities of the holding company and its subsidiaries
(c) A holding company can acquire control over its subsidiary company by controlling the composition of board of directors of the subsidiary company
(d) A subsidiary company is excluded from consolidation, if the control is intended to be temporary
(e) A group consists of parent and all its subsidiaries.

34. Hero Cycles Ltd., acquired 85% shares of Villan Cycles Ltd., for Rs.75,000. The balance sheet of Villan Cycles Ltd., as on March 31, 2008 was as follows:

Liabilities	Rs.	Assets	Rs.
Share capital: Equity shares of Rs.10 fully paid-up Current liabilities	 80,000 20,000	Fixed assets Current assets	72,000 28,000
Total	1,00,000		1,00,000

The amount of goodwill to be shown in the consolidated balance sheet prepared by Hero Cycles Ltd., as on March 31, 2008 was

(a) Rs.7,000
(b) Rs.5,000
(c) Rs.3,000
(d) Rs.2,500
(e) Rs.7,500.

35. On January 01, 2008 Sayo Ltd., acquired 8,000 shares of Musi Ltd. The share capital of Musi Ltd., consists of 10,000 shares of Rs.100 each fully paid. Musi Ltd., furnished the following details:

Particulars	Rs.
Profit and Loss account (Cr.) as on April 01, 2007	1,50,000
Profit for the year 2007-08 (Cr.)	50,000
Dividends paid out of pre-acquisition profits on May 05, 2007	75,000

The share of revenue profit of Sayo Ltd., was

(a) Rs.10,000
(b) Rs.12,500
(c) Rs.50,000
(d) Rs.40,000
(e) Rs.35,000.

36. Double Ltd., acquired 70% shares of Single Ltd., on January 01, 2008. The book value of total assets of Single Ltd., on the date of acquisition was Rs.5,00,000 and during the acquisition the total assets were revalued at Rs.6,05,250. The share of Double Ltd., in the capital profit, to be shown in the Consolidated Balance Sheet as on March 31, 2008 was

(a) Rs. 73,675
(b) Rs. 55,250

(c) Rs.1,05,250
(d) Rs. 18,750
(e) Rs.1,50,000.

37. On July 31, 2007 Nizam Ltd., acquired 70% shares of Orugallu Ltd., for Rs.6,50,000. The share capital of Orugallu Ltd., consists of 2,25,000 shares of Rs.100 each. The Profit and Loss account showed a balance of Rs.75,000 (Dr.) on April 01, 2007 and Rs.2,25,000 (Cr.) on March 31, 2008 respectively. The total amount of pre-acquisition profits was

(a) Rs.25,000
(b) Rs.16,667
(c) Rs.91,667
(d) Rs.75,000
(e) Rs.26,667.

38. Which of the following items should **not** be deducted to adjust the Gross profit, while calculating the Managerial Remuneration?

(a) Any tax notified by the Central Government as being in the nature of a tax on abnormal profit
(b) Any tax on business profits imposed for special reasons by the Central Government
(c) Interest on unsecured loans
(d) Compensation paid voluntarily
(e) Bad debts written-off.

39. Which of the following is **true** with reference to dividends?

(a) Dividends are an expense to the company
(b) Dividends are deducted from revenue in the income statement
(c) Dividends are always equal to net income
(d) Dividends reduce both assets and owners' equity
(e) Dividends are paid out of capital.

40. In computation of gross value added, which of the following is **not** included?

(a) Sales revenue
(b) Income from royalties
(c) Cost of all materials and services
(d) Depreciation
(e) Income from investments.

41. Which of the following can be used as a means for introducing productivity linked bonus schemes for the employees?

(a) Value added statement
(b) Value added ratios
(c) Economic value added
(d) Market value added
(e) Brand value added.

42. The shortcomings of Economic Value Added, calculated on the basis of historical costs can be overcome by using ________ in place of book values.

(a) Current value
(b) Replacement cost
(c) Net realizable value
(d) Standard cost
(e) Marginal cost.

43. Which of the following statements is **false** regarding underwriting?

(a) An underwriter guarantees that the shares underwritten by him will be sold
(b) The company undertakes to pay an underwriting commission for the service rendered by underwriter
(c) Underwriting commission need not be paid on shares required to be purchased by the underwriter as per agreement
(d) Underwriting commission is allowed for undertaking the issue of debentures
(e) If the public do not take up all the shares, the underwriter will himself purchase the remaining shares.

44. EVA can be improved by

I. Investing in high return projects.
II. Increasing the rate of return for the same capital base.
III. Downsizing unprofitable operations, units or by selling off sub standard assets.

(a) Only (I) above
(b) Only (III) above
(c) Both (I) and (II) above
(d) Both (II) and (III) above
(e) All (I), (II) and (III) above.

45. Addition of wealth made by the organization with the efforts of management and employees using capital is called

(a) Value addition
(b) Enterprise resource planning
(c) Allocation
(d) Appreciation
(e) Utilization.

46. Economic value addition can be computed as

(a) Gross profit minus cost of debt
(b) Net profit minus cost of capital
(c) Sales minus gross profit
(d) Net operating profit after tax minus weighted average cost of capital
(e) Net operating profit before tax minus depreciation.

47. Shown below are selected data from income statement of Amitabh Ltd.:

Particulars	Rs.
Sales	5,00,000
Other income (investment)	1,20,000
	6,20,000
Operating expenses	2,60,000
Excise duty	50,000

Considering the above data, the value added is

(a) Rs.3,10,000
(b) Rs.1,90,000
(c) Rs.3,60,000
(d) Rs.2,40,000
(e) Rs.4,50,000.

48. The net profits of Pfizer Ltd., after providing for taxation for the past five years were as follows:

Year ending profits	Rs.
2003-04	1,20,000
2004-05	1,50,000
2005-06	1,30,000
2006-07	1,80,000
2007-08	1,60,000

The average capital employed in the business was Rs.12,00,000 on which normal rate of return of 10% is expected. The amount of goodwill on 5 years' purchase of super profits calculated on the basis of the average profits of the last 5 years was

(a) Rs.1,50,000
(b) Rs.1,48,000
(c) Rs.1,40,000
(d) Rs.1,20,000
(e) Rs.1,00,000.

49. Raghavan Ltd., proposed redemption of its preference shares at a premium of 10%. The data pertaining to it is as follows:

Particulars	Rs.
12% Preferential share capital	2,00,000

General reserve	30,000
Securities premium	10,000
Profit and Loss a/c (Cr.)	44,000

The required fresh issue of equity shares is worth

(a) Rs.1,90,000
(b) Rs.1,80,000
(c) Rs.1,66,000
(d) Rs.1,36,000
(e) Rs.1,16,000.

50. The following is the balance sheet of Trialblazer Ltd., as on March 31, 2008:

Liabilities	Rs.	Assets	Rs.
Equity share capital 7,500 Equity shares of Rs.10 each, fully paid	75,000	Goodwill	3,000
General reserve	10,000	Plant & Machinery	60,000
Profit & Loss a/c	23,000	Land &Building	25,000
Bank Loan (20%)	15,000	Stock-in-trade	11,000
Sundry creditors	28,000	Sundry debtors	40,000
Provision for taxation	14,000	Cash at bank	9,000
		Discount on issue of shares	2,500
		Preliminary expenses	14,500
	1,65,000		1,65,000

Additional information:

The profits earned by the company after payment of tax at the rate of 40% in the last 4 years were as under:

Year	2004-05	2005-06	2006-07	2007-08
Profit (in Rs.)	11,000	12,000	14,000	15,000

The dividends paid by the company for the last 4 years were as follows:

Year	2004-05	2005-06	2006-07	2007-08
Dividend	11%	12%	14.5%	14.5%

The value of goodwill of the company by using the capitalization method (simple average) is

(a) Rs.1,00,000
(b) Rs. 88,000
(c) Rs. 12,000
(d) Rs. 13,000
(e) Rs. 30,000.

51. ZED Consultancy Ltd., provides the following information:

Year ending	2005-06	2006-07	2007-08
Profit (Rs.)	48,000	57,600	24,000
Weights	1	2	3

The following information is provided:

1. On April 1, 2005, the company purchased fixed assets of Rs.8,000 that were wrongly accounted as an expense in the year 2005-06. The company depreciates fixed assets @10% p.a. on Straight-line method.
2. Non-recurring expenditure of Rs.9,000 is included in the Profit and Loss account of 2007-08.
3. In 2006-07, dividend received from subsidiary company Rs.9,050 is included in the Profit and Loss account of 2006-07.

The average adjusted profit (weighted) for calculation of goodwill was

(a) Rs.41,217
(b) Rs.96,500
(c) Rs.82,433
(d) Rs.39,200

(e) Rs.47,750.

52. The following are the details pertaining to the operations of Dweep Ltd.:

Particulars	March 31, 2006 (Rs.)	March 31, 2007 (Rs.)	March 31, 2008 (Rs.)
Gross Profit	2,50,000	3,25,000	4,80,000
Other expenses	60,000	72,000	80,000
Interest on debentures	48,000	48,000	48,000

If the tax rate is 35%, the value of goodwill on the basis of 4 years' purchase of average post-tax profits was

(a) Rs. 6,05,800
(b) Rs. 4,52,600
(c) Rs. 2,48,330
(d) Rs.10,21,320
(e) Rs. 3,06,400.

53. Consider the following Balance sheet of Friends Enterprises as on March 31, 2008:

Liabilities	Rs.	Assets	Rs.
Capital	2,50,000	Land and building	1,50,000
Long-term loan	1,00,000	Machinery	1,25,000
Creditors	25,000	Debtors	37,500
Bank overdraft	12,500	Stock	40,000
		Cash	5,000
		Profit &Loss a/c (Dr.)	30,000
	3,87,500		3,87,500

The profit of the year 2007-08 was Rs.25,000 and has accrued evenly throughout the year.
The rate of return in a similar business is 10%. The normal profit of Friends Enterprises was

(a) Rs.12,500
(b) Rs.22,000
(c) Rs.22,500
(d) Rs.20,750
(e) Rs.18,000.

54. Consider the following data pertaining to Ashutosh Ltd., for the last three years:

Year	PAT (Rs.)	Taxes (Rs.)	Directors Remuneration (Rs.)
2005-06	72,750	72,750	4,500
2006-07	87,300	87,300	5,400
2007-08	97,000	97,000	6,000

Additional information:

- Provide depreciation at 10% on revaluation of fixed assets of Rs.1,00,000.
- The rate of taxation is 50%.
- Directors remuneration shall be payable at the same rate on profits.

Considering the above data, the future maintainable profit of the company is

(a) Rs.1,61,367
(b) Rs.1,00,000
(c) Rs. 80,833
(d) Rs.1,76,667
(e) Rs. 69,690.

55. Poornendu Ltd., was formed with an authorized capital of Rs.5,00,000 divided into 50,000 equity shares of Rs.10 each. It issued shares as given below:

45,000 shares were offered to public for subscription payable as follows:

On application	Rs.3
On allotment	Rs.5 (including premium)

On first call On final call	Rs.2 Rs.2.

Applications were received for 60,000 shares from the public. Applicants of 6,000 shares were refunded and remaining applicants were allotted the shares on pro-rata basis. All the calls were called up by the company. Call-in-arrears were as follows:

i. Mr. Arun who was allotted 1,250 shares paid application money only.
ii. Mr. Tarun who was allotted 2,500 shares did not pay calls money.
iii. Mr. Pandit who was allotted 6,250 shares did not pay the final call money.

The total amount in calls-in-arrears account was

(a) Rs.29,250
(b) Rs.33,750
(c) Rs.33,000
(d) Rs.28,000
(e) Rs.25,000.

56. Gold Plated Ltd., invited applications for 2,00,000 equity shares of Rs.20 each, at a premium of Rs.4 per share. The entire issue was underwritten by three underwriters in the following percentages:

Siri	30%
Satya	40%
Narayana	30%

The details of marked and unmarked applications received are:

Marked applications of:	Siri	44,000 shares
	Satya	48,000 shares
	Narayana	56,000 shares
Unmarked applications		32,000 shares

The final liability of Satya in terms of number of shares is

(a) Nil
(b) 19,200
(c) 12,800
(d) 32,000
(e) 16,000.

57. The Balance Sheet of Pashupathi Ltd., as on March 31, 2008 showed the following position:

Liabilities	Rs.	Assets	Rs.
Share capital:		Fixed Assets:	
30,000 shares of Rs.20 each, fully paid	6,00,000	Factory premises	5,75,000
		Plant and machinery	5,00,000
10,000 shares of Rs.20 each, Rs.16 per share paid	1,60,000		
10,000 shares of Rs.20 each, Rs.14 per share paid	1,40,000		
General reserve	4,00,000	Current Assets:	
Profit and Loss account	1,75,000	Stock in hand	7,50,000
Current liabilities:		Debtors	2,50,000
Bank overdraft	1,50,000		
Creditors	2,00,000		
Provision for taxation	2,50,000		
Total	20,75,000	Total	20,75,000

Additional information:

- The market values of the assets were as follows:
  Stock – Rs.7,75,000
  Plant and machinery – Rs.5,20,000 and
  Factory premises – Rs.6,41,500.
- Goodwill of the business has been valued at Rs.52,250.

The value of each fully paid equity share under intrinsic value method is

(a) Rs.32.275
(b) Rs.31.675
(c) Rs.30.775
(d) Rs.34.775
(e) Rs.28.775.

58. The following is an extract of the Balance Sheet of Sandeep Raja Ltd.:

Liabilities	Rs.
60,000, Equity shares of Rs.20 each, fully paid-up	12,00,000
General reserve	4,00,000
Securities premium (includes Rs.20,000 on promoters shares)	1,00,000
Capital reserve (includes a cash gain of Rs.1,20,000 on sale of machinery)	2,00,000
Profit and Loss account	7,00,000

The directors decided to issue three bonus shares for every five shares held. It was decided to use capital reserve, securities premium, general reserve to the fullest extent possible and the deficit to be adjusted from Profit and Loss account. The amount to be adjusted from Profit and Loss account, for the issue of bonus shares is

(a) Rs.3,00,000
(b) Rs.1,80,000
(c) Rs.2,40,000
(d) Rs.1,20,000
(e) Rs.1,00,000.

59. Ahana Ltd., issued 1,00,000 equity shares of Rs.10 each at par, payable as Rs.5 per share on application, Rs.2 per share on allotment and the balance on the first and final call. Call money on 2,000 shares were not received. These shares were forfeited. Out of the forfeited shares, 1,200 shares were reissued to Mr. Suraj at Rs.8 per share. Later, 200 shares were reissued to Ms. Basuli at par. The remaining shares were re-issued to Ms. Swathi at Rs.11 per share.

The amount transferred from shares forfeited account to capital reserve in respect of the shares reissued to Ms. Swathi is

(a) Nil
(b) Rs.9,600
(c) Rs.2,400
(d) Rs.4,200
(e) Rs. 600.

60. On March 31, 2008, the balance of 12% Debentures of Rs.100 each of Tops Ltd., was Rs.6,00,000. The company reserves the right to redeem the debentures in any year by purchase in the open market. Interest on debentures is payable on September 30 and March 31, every year.

On July 1, 2008, the company purchased 1,200 of its 12% Debentures as investment at Rs.102 cum-interest.

The company cancelled 1,200 own debentures on September 01, 2008. The profit/loss on cancellation of own debentures is

(a) Rs.4,800 (Profit)
(b) Rs.4,800 (Loss)
(c) Rs.3,600 (Loss)
(d) Rs.1,200 (Loss)
(e) Rs.1,200 (Profit).

61. Hilly Ltd., has issued 25,000, 10% Preference Shares of Rs.100 each, fully paid and 2,50,000 Equity Shares at Rs.20 each fully paid, (par value at Rs.15 each). The profit for the year 2007-08 was Rs.21,68,000.

The company has to provide Rs.7,60,000 for taxation of the previous year 2006-07. The company declared an equity dividend of 10%. The total amount debited to Profit and Loss Appropriation account on account of the above decisions was

(a) Rs. 4,60,000
(b) Rs. 2,86,000
(c) Rs.13,62,000
(d) Rs.13,85,000
(e) Rs.11,36,000.

62. The Managing Director of Ortega Ltd., is entitled to a commission of 4% on net profits after charging such commission. The net profit of the company for the year ended March 31, 2008 was reported to be Rs.45,00,000. Subsequently, it was noticed that the following transactions were omitted:

Particulars	Rs.
Payment of Director's remuneration	1,50,000
Sale of a plant (cost price Rs.3,00,000; written down value Rs.2,40,000)	3,30,000
Payment of bonus to Production Executive	75,000
Payment of income tax and super tax	30,000

The commission payable by the company to the managing director for the year 2007-08 was

(a) Rs.1,66,731
(b) Rs.1,74,205
(c) Rs.1,77,406
(d) Rs.1,73,661
(e) Rs.1,78,200.

63. The Profit and Loss account of Urmila Ltd., for the year ended March 31, 2008 showed a debit balance of Rs.75,000. Subsequently, it was noticed that the following transactions were omitted:

- Goods worth Rs.3,000 returned to the supplier and were not recorded in the books.
- The rent of the godown is Rs.24,000 p.a. out of which only Rs.20,000 was paid. The rent accrued but not paid was not considered in the books of account.
- One cheque given by a customer for Rs.7,000 was dishonored and the fact of dishonor was not recorded in the books.

The profit/loss made by the company after considering the above transactions is

(a) Rs.76,000 (Profit)
(b) Rs.74,000 (Profit)
(c) Rs.83,000 (Loss)
(d) Rs.69,000 (Profit)
(e) Rs.76,000 (Loss).

64. Pavani Ltd., was registered with an Authorised Capital of Rs.20,00,000 consisting shares of Rs.100 each. The following transactions were made during the year 2007-08:

- It acquired fixed assets worth Rs.8,80,000 from Kiran Bros. and the purchase consideration was paid in the form of shares at a premium of 10%.
- Further, the company allotted 1,000 shares to promoters in lieu of their services and the shares were issued at par to the promoters.
- The company offered to the public 3,000 shares at a premium of 10%, the entire share amount being payable on application. The issue was fully subscribed by the public.

The total of Balance Sheet of the company after considering the above transactions was

(a) Rs.13,10,000
(b) Rs.14,00,000
(c) Rs.13,00,000
(d) Rs.12,40,000
(e) Rs.11,70,000.

65. The following balances were extracted from the books of Vaibhav Ltd., as on March 31, 2008:

Particulars	Rs.	Particulars	Rs.
Called-up share capital	6,00,000	Fixed assets	9,24,000
Secured loans	4,80,000	Calls in arrears	36,000
Loans to employees	61,440	Capital reserve	1,08,000
Cash	4,800	Profit and Loss account	60,000

Sundry debtors	1,32,000	(credit balance)	
Stock	1,15,200	Sundry creditors	1,09,440
Bank balance	48,000	Preliminary expenses	36,000

The balance sheet total of Vaibhav Ltd., as on March 31, 2008, prepared in accordance with Part I of Schedule VI of the Companies Act, 1956 was

(a) Rs.13,21,440
(b) Rs.14,35,550
(c) Rs.12,34,670
(d) Rs.14,35,850
(e) Rs.15,34,550.

66. Alpha Ltd., furnished the following data as on March 31, 2008:

Debit Balances	Rs.	Credit Balances	Rs.
Investment (market value Rs.9,60,000)	10,00,000	Equity Share Capital	70,00,000
Establishment Charges	15,40,000	Commission	50,000
Income tax paid for the year 2006-07	6,00,000	Gross Profit	52,30,000
Depreciation	4,30,000	Provision for Taxation (2006-07)	4,30,000

Additional information:

- Provision for income tax is to be created at 60%.
- Managing Director is to be paid commission at 5% of the annual net profit (before charging such commission)

The profit after tax of Alpha Ltd., was

(a) Rs.33,10,000
(b) Rs. 1,65,500
(c) Rs.15,72,250
(d) Rs.12,57,800
(e) Rs.18,86,700.

67. Following is the data pertaining LIMA Ltd., as on March 31, 2008 :

Particulars	Rs.
Authorized share capital (25,000 shares of Rs.100 each)	25,00,000
Issued/subscribed/called-up capital	12,35,000
Calls-in-arrear	10,000
Interim dividend declared	49,000
Current year profit	3,75,000

If final dividend of 9% is declared (in addition to interim dividend), the amount that will have to be transferred to General Reserve in lieu of dividend declared (inclusive of interim dividend) out of current year profit would be

(a) Nil
(b) Rs.16,850
(c) Rs.33,700
(d) Rs.15,000
(e) Rs.18,750.

68. Strong Ltd., acquired 3,200 equity shares of Weak Ltd., on March 31, 2008. The summarized Balance Sheets of the two companies as on that date are given below:

Liabilities	Strong Ltd. (Rs.)	Weak Ltd. (Rs.)	Assets	Strong Ltd. (Rs.)	Weak Ltd. (Rs.)
Share capital (shares of Rs.100 each fully paid-up)	10,00,000	4,00,000	Fixed assets	7,80,000	6,78,800

General reserve	4,80,000	3,40,000	Investments in Weak Ltd.	6,80,000	—
Profit and Loss account	1,14,400	72,000	Stocks	2,40,000	72,000
Bills payable (including Rs.6,000 to Strong Limited)	—	16,800	Sundry debtors	88,000	80,000
Sundry creditors	2,54,400	18,000	Bills receivable (including Rs.6,000 from Weak Limited)	31,600	—
			Cash at bank	29,200	16,000
Total	18,48,800	8,46,800	Total	18,48,800	8,46,800

The additional information is as follows:

i. Weak Ltd., made a bonus issue on March 31, 2008 of one equity share for every four shares held by its shareholders. This has not yet been accounted for.
ii. Sundry creditors of Strong Ltd., included Rs.24,000 due to Weak Ltd.

If the value of goodwill was Rs.14,400, the total of assets side of Consolidated Balance Sheet was

(a) Rs.40,40,000
(b) Rs.20,00,000
(c) Rs.21,30,000
(d) Rs.23,60,000
(e) Rs.34,60,000.

69. Indrani Ltd., issued 4,000 10% Preference shares of Rs.100 each at par, which are redeemable at a premium of 10%. For the purpose of redemption, the company issued 3,000 Equity Shares of Rs.100 each at a premium of 20% per share. At the time of redemption of Preference Shares, the amount to be transferred by the company to the Capital Redemption Reserve Account is

(a) Rs.1,00,000
(b) Rs. 80,000
(c) Rs.4,00,000
(d) Rs.4,40,000
(e) Rs.1,40,000.

70. Consider the following Balance Sheets of Long Ltd., and Short Ltd., as on March 31, 2008:

Liabilities	Long Ltd. (Rs.)	Short Ltd. (Rs.)	Assets	Long Ltd. (Rs.)	Short Ltd. (Rs.)
Share Capital (Equity shares of Rs.10 each)	24,000	12,000	Investment in Short Ltd. (960 Shares)	9,600	
Other Liabilities	12,000	6,000	Other Assets	26,400	18,000
	36,000	18,000		36,000	18,000

Long Ltd., has acquired the shares of Short Ltd., on March 31, 2008. The Minority interest shown in the Consolidated Balance Sheet was

(a) Rs.2,400
(b) Rs.2,500
(c) Rs.5,000
(d) Rs.3,000
(e) Rs.8,000.

71. Green Ltd., acquired 75% share in the Share Capital of Rs.75,000 of Yellow Ltd., at a price of Rs.1,05,000. The pre-acquisition profits and post-acquisition profits of the subsidiary company were Rs.38,000 and Rs.25,000 respectively. The amount of goodwill shown in the Consolidated Balance Sheet was

(a) Rs.84,750
(b) Rs.26,000

(c) Rs.20,250
(d) Rs.28,500
(e) Rs.56,250.

72. Nippon Batteries Ltd., issued 1,00,000 shares of Rs.100 each at a premium of 30% payable Rs.20 on application, Rs.50 (including premium) on allotment and the balance on calls. Applications were received for 1,92,000 shares and allotments were made as under:

- Applicants for 50,000 shares were allotted 35,480 shares on pro-rata basis.
- Applicants for 96,000 shares were allotted 38,400 shares on pro-rata basis.
- Applicants for 46,000 shares were allotted 26,120 shares on pro-rata basis.

The amount adjusted towards allotment money was

(a) Rs.38,40,000
(b) Rs.20,00,000
(c) Rs.18,40,000
(d) Rs.19,20,000
(e) Rs.29,00,000.

73. Maggy Ltd., issued 5,000 shares of Rs.100 each at a premium of Rs.20 per share of which 4,500 shares are subscribed for. The amount to be paid is as follows:

Rs.50 - on application, including premium of Rs.20.
Rs.50 - on allotment.
Rs.20 - on first and final call.

Call money was not received on 500 shares. On forfeiture of these shares, the amount standing to the credit of securities premium account is

(a) Rs.1,00,000
(b) Rs. 90,000
(c) Rs. 80,000
(d) Rs. 70,000
(e) Rs. 10,000.

74. Zolor Ltd., acquired the shares of Zeft Ltd. The closing stocks of two companies were Rs.44,000 and Rs.72,000 respectively. Closing stock of Zolor Ltd., included goods worth Rs.3,600 purchased from Zeft Ltd. Zeft Ltd., sells goods at a profit of 50% on cost. The net amount of closing stock appearing in the consolidated balance sheet was

(a) Rs.1,14,800
(b) Rs.1,14,200
(c) Rs.1,12,400
(d) Rs.1,20,000
(e) Rs.1,16,400.

75. According to which of the following accounting concepts, the consolidated financial statements are prepared when a parent-subsidiary relationship exists?

(a) Going concern
(b) Business entity
(c) Materiality
(d) Cost
(e) Periodicity.

END OF QUESTION PAPER

Suggested Answers
Financial Accounting - II (MSF1A2)

	Answer	Reason
1.	D	Intangible assets are classified as either identifiable or unidentifiable. Goodwill (d), arising out of payment fc reputation, brand name, location, loyalty etc. is an unidentifiable intangible asset. Hence, alternative (d) i correct answer.
2.	B	Amortization is the accounting process of systematically allocating cost of intangible assets to the period c use. It is not the process of determining cash flow from operations. It is not creating any fund to replace th asset. It is not the process of adjusting the change of price level, and it is not the asset valuation proces: Hence (b) is correct.
3.	D	The credit to equity share capital should be for Rs.1,00,000; the amount of the legal capital requirement a determined by the Rs.20 par value (5,000 shares x Rs.20 per share). The entire entry to record this transactio would be debit Cash, Rs.1,25,000; credit Share capital, Rs.1,00,000; and credit securities premium Rs.25,00(The journal entry is :

Cash a/c	Dr.	Rs.1,25,000	
To Equity share capital			Rs.1,00,000
To Securities premium a/c			Rs. 25,000

	Answer	Reason
4.	D	The number of rights shares offered is in proportion to the equity shares already held and they are nc disproportionately issued.
5.	B	If the forfeited shares are reissued at a premium, the amount of such premium shall be credited to securitie premium account.
6.	A	If a company issues some of its common shares in exchange for assets other than cash, the transaction shoul be recorded at the current market value of the assets acquired.
7.	A	Unless the Board of Directors approve the allotment of shares, the application money received from publi will remain with the company as a liability.
8.	B	The amount of capital that is offered to the public for subscription is called issued capital. The value c shares taken up by the public is subscribed capital. The part of the capital that has been called up is called u capital. Thus the alternative (b) is the correct answer.
9.	B	When shares are issued at less than par value, the difference is the discount on issue of shares.
10.	D	If the allotment money is not paid by the shareholder, there will be a debit balance (of that unpaid money) i share allotment account. Other options, stated in (a), (b), (c) and (e) are not correct.
11.	B	Value as per fair value method is (value as per intrinsic value method + value as per yield method)/2 Value a per intrinsic value method is $(2 \times \text{Rs.}22.5) - \text{Rs.}19.5 = \text{Rs.}25.5$.
12.	A	Cumulative preference shares have the right to receive dividends in arrears, whenever earnings becom adequate.
13.	B	The journal entry to be made for the issue is

Particulars		Rs.	Rs.
Bank Account	Dr.	4,75,000	
Loss on issue of debentures	Dr.	50,000	
To 15% Debentures A/c.			5,00,000
To Premium on Redemption of Debentures			25,000

Hence the correct answer is (b).

	Answer	Reason
14.	C	The company may receive from the shareholders the amount uncalled on the shares held by them even thoug the amount is not called for. In such a case the company is compelled to pay interest on the calls in advance ε prescribed rate from the date of receipt of advance to the date of appropriation i.e. the date when the call i made and the advance received is appropriated from calls in advance account to the relevant call account. Hence the correct answer is (c).
15.	B	Except minority interest in subsidiaries all other above mentioned items are included in owners equity of balance sheet.
16.	B	As per SEBI guidelines, for debentures issued having a maturity of more than 18 months, a Debentur Redemption Reserve shall be created out of profits, prior to the commencement of the redemption, for minimum percentage of debenture issue. Such minimum percentage is 50%.

17. A At the end of the financial year, the cumulative total of "interest on own debentures account" is transferred t (a) Profit and Loss account.

18. A The premium collected on issue of debentures is recorded in the debenture premium account an subsequently transferred to capital reserve. It is an income to the issuing company. There are no restrictions a to its use. It is not transferred to General reserve (b), capital redemption reserve (d). Securities premiur account (c) reflects only premium on issue of shares. It is not a debt to be transferred to debentures (e). Thus the correct answer is (a).

19. C The long term investments are accounted for in the balance sheet at cost price.

20. A Tax deducted at source is the liability of the company towards the tax authority. It is also payable to the ta authority within a short period. Therefore, it is to be shown on liabilities side of the balance sheet unde current liabilities Hence, (a) is correct answer.

21. D The periodical interest received in respect of investments made on account of debenture redemption fund i credited to (d) Debenture redemption fund account. Hence, option (d) is the correct answer.

22. D At the time of purchase of debentures, the interest account will be debited with

Interest = $5,00,000 \times 12\% \times 2/12$ = Rs.10,000.

23. D Subsidies received from the Government are included in the profits for the purpose of calculating manageria remuneration. Therefore, option (d) is the correct answer.

24. A Increase in gross profit in 2007-08 = $3,00,000 \times 20/100$ = Rs.60,000

Increase in operating expenses in 2007-08= $2,00,000 \times 10/100$ = Rs.20,000

Increase in net profit = Rs.60,000 – Rs.20,000 = Rs.40,000.

25. D A company should also show, by way of notes to the balance sheet, certain contingent liabilities listed below:

1. Claims against the company not acknowledged as debts.
2. Uncalled liability on shares partly paid.
3. Arrears of fixed cumulative dividends.
4. Estimated amount of contracts remaining to be executed on capital account and not provided for.
5. Other money for which the company is contingently liable.

Therefore option (d) is the correct answer.

26. C The Central Government appoints a Chartered Accountant or the company' auditor as a special auditor, bu not by the Board of Directors of the company.

27. D Statement of accounting policies need not be stated in the Director's Report. It is to be stated in Auditors Report

28. E Scrutinizing professional efficiency of management is not a duty of an auditor.

29. C If a company reissues forfeited shares at a discount, that discount amount will be debited to share forfeite account. Hence (c) is the correct answer. According to the companies act the company cannot debit shar capital account, profit and loss account, capital redemption reserve account and capital reserve account for th amount of discount allowed on the reissue of forfeited shares.

30. A If no auditor is appointed or re-appointed at annual general meeting, the company should inform the Centra Government within 7 days and the Central Government may appoint a person to fill-up the vacancy Therefore, alternative (a) is the correct answer

31. D The amount of proposed dividend out of pre-acquisition profits of the subsidiary company belonging to th holding company is credited to the investment account of the holding company. Therefore option (d) is th correct answer.

32. E Option (e) is the correct answer because profits earned after the date of acquisition are treated as revenu profits for a holding company.

33. A Bills drawn or accepted either by the holding company or its subsidiary company is not an outside obligatio for the holding company. The item "Bills Receivable" in one company's balance sheet and correspondin item "Bills Payable" in another company's balance sheet are to be eliminated under inter-compan transactions against each other. Hence option (a) is correct answer.

34. A

Particulars	Rs.
Cost of acquisition of shares	75,000
Less: Nominal value of shares 80,000 × 85%	68,000
Goodwill	7,000.

35. A Revenue Profits of Musi Ltd. = Rs.50,000 × 3/12 = 12,500

The share in revenue profit of Sayo Ltd. = Rs.12,500 × 80% = Rs.10,000

36. A Total profit on revaluation of assets = Rs.6,05,250 – Rs.5,00,000 = Rs.1,05,250

Share of Double Ltd., in the capital profit = Rs.1,05,250 × 70% = Rs.73,675.

37. A Amount of profit for the year 2007-08 is Rs.2,25,000 + Rs.75,000 = Rs.3,00,000

Amount of profit for 4 months from April 01, 2007 to July 31, 2007

$$= \frac{\text{Rs.}3,00,000}{12} \times 4 = \text{Rs.}1,00,000$$

Pre-acquisition profits = Rs.1,00,000 – Rs.75,000 = Rs.25,000.

38. D Any compensation, damages or payments made voluntarily shall not be deducted from the gross profit whil calculating the managerial remuneration, except this all the other items should be deducted from the gros profit to calculate managerial remuneration. Hence the answer is (d).

39. D Dividends are distributions of profits to the investors (stockholders) of the company. Dividends are nc expenses and do not appear in the income statement They are appropriation of profits and appear in the prof and loss appropriation account. When dividends are declared and paid they reduce both the assets an owner's equity.

40. D Gross value added does not include depreciation.

41. A Value added statement can be used as a means in introducing productivity linked bonus schemes for the employees.

42. A Current value of assets can be used in place of historical costs to overcome the drawback in computing EVA on the basis of historical costs.

43. C Option (c) is the correct answer because underwriting commission is paid on shares purchased by th underwriter as per agreement.

44. E EVA can be improved by

I. Investing in high return projects.

II. Increasing the rate of return for the same capital base.

III. Downsizing unprofitable operations, units or by selling off sub standard assets.

All are steps for improvement of EVA. Alternative (e), the combination of above, is the correct answer.

45. A Addition of wealth made by the organization with the efforts of management and employees using capital i called as value addition.

46. D Economic value addition = Net operating profit after tax – Weighted average cost of capital.

47. B Value added = Sales – Operating expenses – Excise duty

Value added = Rs.5,00,000 – Rs 2,60,000 – Rs.50,000 = Rs.1,90,000.

48. C

Year	Profits (Rs.)
2003-04	1,20,000
2004-05	1,50,000
2005-06	1,30,000
2006-07	1,80,000
2007-08	1,60,000
	7,40,000

	Rs.
Average annual profits = Rs.7,40,000 ÷ 5 =	1,48,000
Less: 10% Return on Rs.12,00,000 (average capital employed) =	1,20,000
Super profit	28,000

Goodwill = 5 × Rs.28,000 = Rs.1,40,000.

49. D

Particulars	Rs.
Preference share capital	2,00,000
Add: Premium on redemption @ 10%	20,000
Amount required for redemption	2,20,000
Less: Amount available for redemption Rs.30,000 + Rs.10,000 +	84,000

Rs.44,000	
Required fresh issue of shares	1,36,000

50. C **Computation of net tangible assets**

Particulars	Rs.	Rs.
Plant & machinery	60,000	
Land & building	25,000	
Stock in trade	11,000	
Sundry debtors	40,000	
Cash at bank	9,000	1,45,000
Less: Bank loan	15,000	
Sundry creditors	28,000	
Provision for taxation	14,000	57,000
Net tangible assets		88,000

Computation of average maintainable profit

Average profit after tax = (11,000 + 12,000 + 14,000 + 15,000) / 4 = Rs.13,000

Average dividend paid = (11% + 12% + 14.5% + 14.5%) / 4 = 13%

Therefore, normal rate of dividend = 13%

Total value of the business = (Average maintainable profit / Normal rate of return) × 100

= Rs.13,000 / 13% = Rs.1,00,000

Goodwill = Total value of the business – Net tangible assets

= Rs.1,00,000 – Rs.88,000 = Rs.12,000.

51. A

Particulars	Mar. 31, 2006	Mar. 31, 2007	Mar. 31, 2008
Profit as per books	48,000	57,600	24,000
Purchase of Fixed asset	8,000		
(W.N.1)	–800	–800	–800
Non-recurring expenditure			9,000
Profits from subsidiary		–9,050	
company	55,200	47,750	32,200
Adjusted Profit			
Weights (assumed)	1	2	3
Weighted average profit	55,200	95,500	96,600

Weighted average profit

= (55,200 + 95,500 + 96,600) / 1 + 2 + 3

= 2,47,300 / 6 = Rs.41,217.

52. A

Particulars	March 31, 2006 (Rs.)	March 31, 2007 (Rs.)	March 31, 2008 (Rs.)
Gross Profit	2,50,000	3,25,000	4,80,000
Less: Other expenses	60,000	72,000	80,000
Interest on debentures	48,000	48,000	48,000
Pre-tax profit	1,42,000	2,05,000	3,52,000
Less: Tax @35%	49,700	71,750	1,23,200
Post-tax profits	92,300	1,33,250	2,28,800

Average post-tax profits = (Rs.92,300 + 1,33,250 + 2,28,800) / 3 = Rs.1,51,450

Goodwill = Rs.1,51,450 × 4 = Rs.6,05,800.

53. D

Particulars	Rs.
Total assets	3,87,500
Less: Profit and Loss account (loss)	30,000
Long-term loan	1,00,000
Creditors	25,000
Bank overdraft	12,500

Capital employed at the end	2,20,000
Less: ½ of the profit during the year	12,500
Average capital employed	2,07,500

Normal profit

= Average capital employed x normal rate of return

= Rs.2,07,500 × 10% = Rs.20,750.

54. C

Year	PAT (Rs.)	Taxes (Rs.)	Directors Remuneration (Rs.)	Profit before tax and remuneration (Rs.)
2005-06	72,750	72,750	4,500	1,50,000
2006-07	87,300	87,300	5,400	1,80,000
2007-08	97,000	97,000	6,000	2,00,000
				5,30,000

Particulars	Rs.	Rs.
Average Profit before tax and directors remuneration		1,76,667
Less: Additional Depreciation @ 10% on Rs.1,00,000	10,000	
Directors Remuneration on Rs.1,66,667 @ 3%	5,000	15,000
		1,61,667
Less Income Tax @ 50%		80,834
Future Maintainable Profits		80,833

55. C Computation of total amount of calls-in-arrear:

Pro-rata ratio = 54,000 : 45,000 = 6 : 5

Mr. Arun who did not pay allotment

money applied for shares = 1,250 × 6 / 5 = 1,500 shares

Amount paid by Mr. Arun on application = Rs.3 × 1,500 shares = Rs.4,500

Amount adjusted against allotment = Rs.3 × 250 = Rs.750.

Amount due from Mr. Arun:

Due on allotment = Rs.5 × 1,250 = Rs. 6,250

Less: Amount adjusted from application = Rs. 750

= Rs. 5,500

Due on calls = Rs.4 × 1,250 = Rs. 5,000

∴ Amount due from Mr. Arun = Rs.10,500

Amount due from Mr. Tarun = Rs.2,500 × 4 = Rs.10,000

Amount due from Mr. Pandit = Rs.6,250 × 2 = Rs.12,500

Total amount of calls-in-arrear is Rs.33,000

56. E

(No. of shares)

Particulars	Siri	Satya	Narayana	Total
Liability	60,000	80,000	60,000	2,00,000
Less: Unmarked applications in the ratio of 3 : 4 : 3	9,600	12,800	9,600	32,000
	50,400	67,200	50,400	1,68,000
Less: Marked (Stamped) applications	44,000	48,000	56,000	1,48,000
	6,400	19,200	(5,600)	20,000
Less: Division of Sunil's surplus (in the ratio of 3:4)	2,400	3,200	5,600	–
Final liability of each underwriter	4,000	16,000	Nil	20,000

57. D Valuation of shares under Intrinsic Value Method:

Calculation of capital employed under net assets basis:

Particulars	Rs.	Rs.
Assets:		

Goodwill Debtors Stock in hand Plant and machinery Factory premises Less outside liabilities: Bank overdraft Creditors Provision for taxation	52,250 2,50,000 7,75,000 5,20,000 6,41,500 1,50,000 2,00,000 2,50,000	 22,38,750 6,00,000
Net assets		16,38,750

Assets Available to equity shareholders:

Particulars	Rs.	Rs.
Notional calls on partly paid shares 10,000 × Rs.4 10,000 × Rs.6	40,000 60,000	 1,00,000
Funds available to Equity share holders		17,38,750

Number of shares = 50,000

Intrinsic value of shares = Rs.17,38,750 / 50,000 = Rs.34.775.

Intrinsic value fully paid share = Rs.34.775

Intrinsic value of partly paid share (Rs.16 paid per share) = Rs.34.775 – Rs.4 = Rs.30.775.

Intrinsic value of partly paid share (Rs.14 paid per share) = Rs.34.775 – Rs.6 = Rs.28.775

58. D Number of bonus shares = 60,000 × 3/5 = 36,000

Particulars	Rs.
Amount of bonus issue = 36,000 × Rs.20 Less: Amount to be adjusted against Capital reserve (amount realized in cash) Securities premium (Rs.1,00,000 – Rs.20,000) General reserve	7,20,000 1,20,000 80,000 4,00,000
Amount to be utilized from Profit and Loss account	1,20,000

The securities premium collected in cash can be utilized for the bonus issue. Hence the amount of Rs.20,00 on issue of shares to promoters cannot be utilized for issue of bonus shares.

59. D Amount transferred to forfeited shares account in respect of shares reissued to Swathi

= 600 × 7 = Rs.4,200.

Therefore, Rs.4,200 can be transferred to capital reserve.

60. E

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
July 1, 2008	Own Debentures a/c. Dr. Interest on Debentures A/c. Dr. To Bank A/c. (Being the purchase of 1,200 own debentures at the rate of Rs.102 cum interest. Interest for 3 months from April 1,2008 to June 30, 2008 is Rs.3,600)	1,18,800 3,600	 1,22,400
Sept.01, 2008	12% Debentures A/c. Dr. To Own debentures A/c. To Capital reserve A/c. (Being the profit on redemption of debentures transferred to capital reserve A/c.)	1,20,000	 1,18,800 1,200

Thus, the profit on cancellation of own debentures transferred to capital reserve is Rs.1,200.

61. D Provision for taxation of the previous year = Rs. 7,60,000

Dividend on 10% 25,000 Preference Shares of Rs.100 = Rs. 2,50,000

10% Dividend on 2,50,000 equity shares of Rs.15 each = Rs. 3,75,000

The total amount debited to Profit and Loss appropriation account = Rs.13,85,000

62. A

Particulars	Rs.	Rs.
Net Profit as calculated		45,00,000
Add: Revenue Profit on sale of plant		60,000
		45,60,000
Less: Director's remuneration	1,50,000	
Bonus paid to production executive	75,000	2,25,000
Net Profit		43,35,000

Where the amount for which the fixed asset is sold exceeds the written-down value, credit shall be given fc so much of the excess as is not higher than the difference between the original cost of the fixed asset and it written down value. Hence only Rs.60,000 (Rs.3,00,000 – Rs.2,40,000) should be added.

The director's remuneration and the bonus paid to any member of company's staff should be deducte whereas Income tax and super tax should not be deducted.

Credit should not be given to profits by way of premium on shares

Managing Director's Commission = Rs.43,35,000 × 4 / 104 = Rs.1,66,731.

63. E

Particulars	Rs.
Loss as reported by the accountant	75,000
Less: Goods returned to supplier	(3,000)
Add: Rent not considered	4,000
Loss after considering all aspects	76,000

Non-recording of return of cheque does not affect the profit & Loss account.

64. A Balance Sheet of Pavani Ltd.

Liabilities	Rs.	Assets	Rs.
Share Capital	12,00,000	Goodwill	1,00,000
Securities Premium	1,10,000	Fixed Assets	8,80,000
		Bank	3,30,000
Total	13,10,000	Total	13,10,000

Working Note: Assets are acquired against issue of shares at a premium of 10%. i.e.Rs.8,80,000 × 100 / 11 = Rs.8,00,000 = Share capital of Rs.8,00,000 and shares premium of Rs.80,000 Share issued to promoter 1,000 at par of Rs.100 = 1,00,000 and the account debited is goodwill with Rs.1,00,000; 3,000 shares ar issued to public at a premium of 10% i.e. the amount received 3,000 × Rs.110 = Rs.3,00,000 against shar capital and Rs.30,000 against securities premium.

65. A Balance Sheet of Vaibhav Ltd., as on March 31, 2008

Liabilities		Rs.	Assets	Rs.
Share capital	6,00,000		Fixed assets	9,24,000
Less call in arrears	36,000	5,64,000	Sundry debtors	1,32,000
Capital reserve		1,08,000	Stock	1,15,200
P & L A/c		60,000	Loans to employees	61,440
Secured loans		4,80,000	Cash	4,800
			Bank	48,000
Sundry creditors		1,09,440	Preliminary expenses	36,000
		13,21,440		13,21,440

66. D Alpha Ltd.

Dr. Profit and Loss account for the year ended March 31, 2008 Cr.

Particulars	Rs.	Particulars	Rs.
To Establishment charges	15,40,000	By Gross profit	52,30,000

To Depreciation	4,30,000	By Commission	50,000
To M.D.'s Remuneration (Note-1)	1,65,500		
To Provision for Income Tax (Note-2)	18,86,700		
To Net profit c/d	12,57,800		
	52,80,000		52,80,000

Working notes:

1. Managing Director's remuneration has been calculated on the profit of Rs.33,10,000 {(Rs.52,30,000 + Rs.50,000) – (Rs.15,40,000 + Rs.4,30,000)} because this profit is in conformity with the provisions of Section 349 and 350 of the Companies Act,1956. Therefore, Managing Director's remuneration will be 5% of Rs.33,10,000 = Rs.1,65,500.

2. Provision for Income Tax:

Profit before remuneration and taxes	Rs.33,10,000
Less M.D.'s remuneration	Rs. 1,65,500
Profit before tax	Rs.31,44,500
Income tax @60% on Rs.31,44,500 =	Rs.18,86,700

67. E Calculation of Transfer to General Reserve:

Final dividend declared (Rs.12,35,000 – Rs.10,000) × 9% = Rs.1,10,250

Total of dividend declared and proposed during the year

= Rs.(49,000 + 1,10,250) = Rs.1,59,250

Dividends as a percent of paid-up capital = (1,59,250 / 12,25,000) × 100 = 13%

Since this rate of dividend falls in the slab – greater than 12.5% but less than 15% – the transfer to reserves should be 5% of the current profits.

Transfer to reserves = (5 / 100) × Rs.3,75,000 = Rs.18,750.

68. B Asset side of Consolidated Balance Sheet of Strong Ltd. and Weak Ltd. as at March 31, 2008

Assets	Rs.	Rs.
Goodwill		14,400
Fixed assets:		
Strong Ltd.	7,80,000	
Weak Ltd.	6,78,800	14,58,800
Stock:		
Strong Ltd.	2,40,000	
Weak Ltd.	72,000	3,12,000
Sundry debtors:		
Strong Ltd.	88,000	
Weak Ltd.	80,000	
	1,68,000	
Less: Mutual indebtedness	24,000	1,44,000
Bills receivable:		
Strong Ltd.	31,600	
Less: Mutual indebtedness	6,000	25,600
Cash at bank:		
Strong Ltd.	29,200	
Weak Ltd.	16,000	45,200
Total		20,00,000

69. A

Particulars	Rs.
Face value of shares to be redeemed (4,000 × Rs.100)	4,00,000
Less: Proceeds from fresh issue (3,000 × Rs.100)	3,00,000
Balance to be utilized from profit & loss a/c. Hence, amount to be transferred to capital redemption reserve	1,00,000

The premium received on fresh issue of shares should not be used for redemption of preference shares. However, the same can be used for the premium payable on redemption of preference shares.

70. A $\dfrac{960}{1,200} = \left(\dfrac{4}{5}\right)$ Holding Company

Minority Interest = (12,000 × 1/5) = Rs.2,400.

71. C

Particulars	Rs.	Rs.
Cost of control on acquisition or cost of investments		1,05,000
Less: share in share capital 75% of Rs.75,000	56,250	
Less: share in pre-acquisition profit i.e.75% of Rs.38,000	28,500	84,750
Goodwill		20,250

72. C

Shares applied (1)	Shares allotted (2)	Application money received (Rs.) (3) = (1) × Rs.20	Application money due (Rs.) (4) = (2) × Rs.20	Excess money (Rs.) (5) = (3) – (4)	Allotment money due (including premium) (Rs.) (6) = (2) × Rs.50	Surplus / (deficit) (Rs.) (7) = (5)–(6)
50,000	35,480	10,00,000	7,09,600	2,90,400	17,74,000	(14,83,600)
96,000	38,400	19,20,000	7,68,000	11,52,000	19,20,000	(7,68,000)
46,000	26,120	9,20,000	5,22,400	3,97,600	13,06,000	(9,08,400)
1,92,000	1,00,000	38,40,000	20,00,000	18,40,000		

Hence the amount adjusted towards allotment is Rs.18,40,000.

73. B The amount received on account of securities premium is 4,500 shares × Rs.20 = Rs.90,000. There is n impact of forfeiture of shares on securities premium account. The amount of premium received is to b utilized as per the provisions of the Companies Act.

74. A Extract of consolidated balance sheet of Zolor Ltd., as on March 31,2008

Liabilities	Rs.	Assets	Rs.
		Closing stock Zolor 44,000 Zeft 72,000 1,16,000 Less: Unrealized profit 1,200 (Rs.3,600 × 50 / 150)	1,14,800

75. B Consolidated financial statements should reflect the economic activities of a business enterprise measure without regard to the boundaries of the legal entity. A parent and subsidiary are legally separate but ar treated as a single business enterprise in consolidated statements, in recognition of Business entity concep (b). The other concepts do not explain about consolidation of financial statements. The Going concer concept (a) assumes that the business entity will continue to operate in the absence of evidence to th contrary. Materiality (c) requires reporting the information that has a value significant enough to affec decisions of those using the financial statements. Cost concept (d) explains how the assets are to be recorde in the books of accounts. According to this, fixed assets are to be recorded at cost less accumulate depreciation. Periodicity (e) explains that the financial accounting process is meant to provide the informatio about the economic activities of the business enterprise at regular intervals. It does not speak abou consolidation of financial statements. Alternative (b) is the correct answer.