# V45/S04014/EE/20160714

**Time : 3 Hours** **Marks : 80**

**Instruction :**

1. All Questions are Compulsory.
2. Each Sub-question carry 5 marks.
3. Each Sub-question should be answered between 75 to 100 words. Write every questions answer on separate page.
4. Question paper of 80 Marks, it will be converted in to your programme structure marks.

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1. Solve any **four** sub-questions.

   a) Explain the purpose of Accounting Standards. 5

   b) A Company's external auditor has warned that the next audit report might be qualified unless the financial statements are amended prior to publication. Explain the significance of a qualified audit report. 5

   c) A famous accounting scandal involved a company's decision to recognise the premiums from the sale of holiday insurance contracts when the contracts were sold, rather than waiting until after the customer's safe return from holiday (which was the normal practice followed by other companies). There were no specific accounting standards to deal with this matter. Discuss the issues associated with recognising the profit from the sale of travel insurance in this way in terms of accounting concepts. 5

   d) The operating profit of a company is Rs. 25 lakhs after including an adjustment in respect of depreciation of Rs. 5 lakhs. Movement in the following items over the financial period are

      i) Trade and other receivables Increase of Rs. 30,000/-

      ii) Trade and other payable Decrease of Rs. 75,000/-

      iii) Inventories Increase of Rs. 28,000/-

      Calculate the cash generated from operating activities? 5

   e) A Company's cash flow statement showed that it had sustained a major outflow of cash, despite the fact that it had made a healthy profit during the year. Explain how this could be possible. 5

2. Solve any **four** sub-questions.

a) The Balance Sheets as on 31.03.2009 and 31.03.2008 of Sachdev Industries Limited are given below :

Rs. in Lakhs

| | | | 31.03.2009 | 31.03.2008 |
|---|---|---|---|---|
| Fixed Assets at Cost | 1500 | 1400 | | |
| Less depreciation | (800) | (700) | 700 | 700 |
| Investments | | | 500 | 600 |
| Stock | | | 324 | 510 |
| Trade debtors | | | 430 | 500 |
| With Bankers | | | 350 | 260 |
| Total Assets | | | 2,304 | 2,570 |
| Share Capital | | | 300 | 300 |
| Reserves | | | 474 | 230 |
| 12% Secured Debentures 2010 | | | 700 | 600 |
| Trade Creditors | | | 280 | 486 |
| Provision for Taxation | | | 280 | 498 |
| Provision for dividend | | | 270 | 456 |
| Total liabilities | | | 2,304 | 2,570 |

During the financial year 2008-2009, the following transactions (amounts in lakhs of rupees) took place :

| | |
|---|---|
| • Sales | 2,000 |
| • Raw material and wages at factory | 824 |
| • Office expenses and wages at office | 310 |
| • Net return on long term investments | 12% |
| • Tax charge on 2008-2009 profits | 222 |
| • Purchase of machinery on 31.03.2009 | 100 |
| • Issue of further Debentures on 01.04.2008 | 100 |

Prepare the Profit and Loss Account for the financial year 2008-2009. 5

b) Given below is the Trial Balance of R. L. Ltd. as on 31st December, 2011.

| Debit Balances | Rs. | Credit Balances | Rs. |
|---|---|---|---|
| Insurance charges | 2,400 | Capital | 1,70,400 |
| Salaries and wages | 19,400 | Sundry Creditors | 20,000 |
| Cash in hand | 6,200 | Sales | 1,18,000 |
| Cash at HSBC Bank | 26,500 | Rent of premises, sublet for one year to 30 June 2012 | 2,000 |
| Trade Expenses | 400 | | |
| Postage and Courier | 800 | | |
| **Plant and Machinery :** | | | |
| Balance on 1 January 2011 | 1,20,000 | | |
| Additions on 1st July 2011 | 5,000 | | |
| Stock on 1 January 2011 | 15,000 | | |
| Purchases | 80,800 | | |
| Debtors | 20,800 | | |
| Furniture and Fixtures | 5,000 | | |
| Freight and Duty | 2,000 | | |
| Carriage outwards | 500 | | |
| Rent, rates and taxes | 4,600 | | |
| Printing and Stationery | 1,000 | | |
| **Total** | **3,13,600** | | **3,13,600** |

**Adjustments :**

i) Stock on 31st December, 2011 was valued at Rs. 24,000 and stationery unused at the end was Rs. 250.

ii) Depreciation on plant and machinery to be provided amounts to Rs. 12,250.

iii) Insurance is paid upto 31 March, 2012.

iv) A fire occurred on 25th December 2011 in the Godown and stock of the value of Rs. 6,000 was destroyed. It was insured and the insurance company admitted a claim of Rs. 4,000.

Your colleague has prepared profit and loss account for the year ending on 31st December, 2011 as under :

**R. L. Limited**

**Profit and Loss Account for the year ending 31 December 2011.**

| | | |
|---|---|---|
| Sales | | 1,18,000 |
| *Cost of sales* | | |
| Stock as on 1 January 2011 | 15,000 | |
| Purchases | 80,800 | |
| Less: Loss by fire | 6,000 | |
| Freight and Duty | 2,000 | |
| Less: Stock as at 31 December, 2011 | 24,000 | 67,800 |
| **Gross profit** | | **50,200** |
| *Expenses* | | |
| Insurance charges | 2,400 | |
| Less: prepaid insurance (3 months) | 600 | 1,800 |
| Salaries and wages | 19,400 | 19,400 |
| Postage and Courier | 800 | 800 |
| Trade expenses | 400 | 400 |
| Carriage outwards | 500 | 500 |
| Rent, rates and taxes | 4,600 | 4,600 |
| Printing and stationery | 1,000 | |
| Less: unused stock | 250 | 750 |
| Loss by fire | 2,000 | 2,000 |
| Depreciation on plant and machinery | | |
| On P&M as at 1 January | 12,000 | |
| On additions | 250 | 12,250 |
| **Operating Profit** | | **7,700** |
| Financing income | | |
| Rent on premises sub-let | 2,000 | |
| Less: advance for 6 months | 1,000 | 1,000 |
| **Net Profit** | | **8,700** |

You are now required to prepare a Balance Sheet of R. L. Limited as at 31st December 2011. 5

c) Using the information given below, draw up Loadsa Money's cashflow statement for 2014 and comment on the cash movements and the final cash position.

During 2014, Loadsa Money had the following items of income and expenditure:

| | £ |
|---|---|
| Increase in stocks of finished goods | 13,500 |
| Staff cost | 47,300 |
| Income from Waddsa Cash dividends | 4,200 |
| Turnover | 3,62,000 |
| Tax paid | 49,120 |
| Increase in cash | 23,780 |
| Dividends paid | 15,000 |
| Increase in work-in-progress | 2,100 |
| Interest received on 3 month Bank deposit | 3,500 |
| Interest paid on loan stock | 5,500 |
| 2014 sales for which payment not yet received | 71,000 |
| Payments for 2013 sales received in 2014 | 63,000 |
| 2014 raw material purchases not yet paid for | 37,000 |
| 2013 purchases paid for in 2014 | 40,000 |

The Company bought 3 Bank note printing machines in January 2014 for £35,000 each. The total depreciation charge for 2014 was £22,450.

On 1 January 2014, the company had £50,000 in cash and £98,000 in a three-month Bank deposit. By 31 December 2014, it had a £ 73,780 in cash and £ 95,000 in three months bank deposit.

Loadsa Money's operating profit for 2014 was £191,850. 5

d) Explain the difficulties associated with depreciation of property, plant and equipment, in a company's financial statement. 5

e) Shown below is a part of the balance sheet dated 31$^{st}$ December 2005 for RSM Company making car parts:

Figures are in Rs. '000

ASSETS

Non-current assets

| | |
|---|---|
| Factory | 1,300 |
| Machinery | 1,350 |
| | 2,650 |

You are also given the following information :

- The factory was originally purchased in December 1990. It was being depreciated on a straight-line basis over 20 years, with an assumed residual value of zero. In 2005 it was revalued from its then current value of Rs. 15,00,000. The machinery was purchased in 2005 for a price of Rs. 15,00,000. It is being depreciated over a period of ten years.
- The revaluation reserve arises from the revaluation of the factory alone.

Calculate depreciation for the year ended 31st December 2005 and transfer to revaluation reserve. 5

3. Solve any **four** sub-questions.

a) State different types of reserves and how are they generated. 5

b) Topspin Ltd. is in the process of preparing its balance sheet for 31st December 2002. So far, the items (valued at 31st December 2002 unless otherwise stated) are :

| | Rs. '000 |
|---|---|
| Non-current assets at cost | 672 |
| Accumulated Depreciation (as on 31st December 2001) | 175 |
| Current Assets | 290 |
| Long-term loans | 125 |
| Share Capital | 225 |
| Share Premium | 75 |
| Revaluation reserve | 155 |
| Retained earnings (as on 31st December 2001) | 180 |

For the year to 31st December 2002:

- The depreciation figure in the income statement is Rs. 12,000
- The profit after tax is Rs. 30,000
- The directors distributed half of the company's earnings to its shareholders in the form of a dividend.

The company's accountants take the view that the company's non-current assets should be revalued at Rs. 7,25,000.

Prepare the balance sheet of Topspin Ltd at 31st December 2002 taking into account the revaluation of the non-current assets. 5

c) One of the biggest problems arising from the preparation of consolidated financial statements is the identification of subsidiaries and associates.

Explain how holding companies identify subsidiaries and associates. 5

d) i) Define the following terms: 3

p) Associated undertaking

q) Holding and subsidiary company

r) Minority Interest

ii) W Ltd. owns shares in three companies, X Ltd. (25% shareholding), Y Ltd (70% shareholding), Z Ltd (40% shareholding). W Ltd has a contractual right to appoint 65% of the board of X Ltd. W Ltd. has appointed 70% directors of Y Ltd. using its voting rights.

Which companies are associates of W Ltd. and which are subsidiaries? 2

e) What extra items appear in the balance sheet of an insurance company compared to other companies? Explain their significance. 5

4. Solve any **four** sub-questions.

a) i) Define the following ratios and explain the main limitations of these ratios: 2

- Income Cover
- Asset Cover

ii) The following ratios have been calculated from financial statements of two companies of similar size and same industry :

| | Y Ltd. | S Ltd. |
|---|---|---|
| Gross Profit Ratio | 40% | 20% |
| Net Profit Ratio | 32% | 16% |
| Return on capital employed | 10% | 14% |

Explain which of the two companies is more profitable and why? 3

b) Discuss the potential risks and benefits associated with having very rapid receivables and inventory turnover ratios. 5

c) Explain why the interpretation of a company's accounting ratios requires some understanding of the nature of the business and the industry in which it operates. 5

d) The directors of a limited company receive an annual bonus that is linked to reported profit. Explain how unscrupulous directors could go about overstating the reported profit without risking the legal and other penalties that would be imposed if they falsified the financial statements. 5

e) Describe the main features of investment banks and discuss their influence on the financial markets. 5