

**POST-GRADUATE COURSE****Term End Examination : June, 2017****COMMERCE****Paper-VI : Accounting Theory****Time : 2 Hours****Full Marks : 50**

( Weightage of Marks : 80% )

*Special credit will be given for accuracy and relevance in the answer. Marks will be deducted for incorrect spelling, untidy work and illegible handwriting. The weightage for each question has been indicated in the margin.*

**MODULE – I**

Answer any *two* questions :  $12 \frac{1}{2} \times 2 = 25$

1. a) "Accounting is a body of knowledge that explains and justifies the accounting functions." — Justify the above statement by explaining the nature and scope of accounting theory.

- b) Discuss the impact of recent changes in legal environment on the development of accounting.  $8 + 4 \frac{1}{2}$

2. a) State the relationship between capital and income.

- b) XYZ Ltd. had purchased three machines : Machine A, Machine B and Machine C at a cost of Rs. 40,000, Rs, 50,000 and Rs. 60,000 respectively three years ago. At present the replacement cost of machine A is Rs. 45,000 and net realisable value is Rs. 52,000. The present value of Machine A and Machine B are Rs. 40,000 and Rs. 52,000 respectively. Machine C is expected to generate net present value of Rs. 55,000 and its realisable value is Rs. 48,000. On the other hand replacement cost of Machine B and Machine C are Rs. 46,000 ad Rs. 49,000 respectively. The net realisable value of Machine B is Rs. 41,000.

Find out the deprival value of the three machines of XYZ Ltd.  $4 + 8 \frac{1}{2}$

3. a) "Cash Flow accounting constitutes the analytical framework for linking past, present and prospective financial performance." In the light of the above statement made by Lawson, discuss the rationality behind preparation of Cash Flow statement.
- b) ABC Computer Ltd. had entered into the following transaction with XYZ Bank during March, 2017 :
- (i) ABC computers sold 2 printers of Rs. 9,900 each and 5 Desktop machines of Rs. 34,000 to XYZ Bank.
- (ii) Loan taken by ABC computers from XYZ Bank of Rs. 5,00,000 on 1.3.2016 at an interest of 11% p.a. Repayment would start immediately with 60 installments.

- (iii) Issue of new equity share by ABC computers of 20,000 equity shares of Rs. 10 each for which under-writing agreement signed with XYZ Bank for 2% commission. During the month 5,000 shares remain unapplied which had been taken by the Bank.
- (iv) Dividend declared by ABC computers and XYZ Banks of Rs. 10,000 and Rs. 20,000 respectively.

Explain with reason under which head of the activities the above transactions should be reflected in the Cash Flow statement as per relevant accounting standard.  $4 \frac{1}{2} + 8$

4. a) "A conceptual framework has been defined as a collection of broad rules, guidelines, accepted truths and other broad ideas." In the light of the above statement of Miller et-al, discuss the basic objectives and levels of conceptual framework.
- b) State qualitative characteristics of preparing accounting information. Between relevance and prudence characteristics and between consistency and prudence characteristics which one is significant and why ?

$$3 + 3 + 3 + 3 \frac{1}{2}$$

#### MODULE-II

Answer any *two* questions :  $12 \frac{1}{2} \times 2 = 25$

5. a) What is meant by Full and Fair disclosure ? In this connection state the significance of disclosure.

- b) A firm with Equity Share Capital of Rs. 10,00,000, Reserve and surplus of Rs. 5,00,000 and 10% Debentures of Rs. 5,00,000 had faced two alternative projects to investments — Project A and Project B. Project A is expected to generate revenue of Rs. 30,00,000 and Project B is expected to produce revenue of Rs. 40,00,000. The operating cost ratios for both the projects are 40% and 45% respectively. The other operating expenses for Project A is expected to be Rs. 1,50,000 and Project B is expected to be Rs. 1,90,000. Applicable tax after making necessary adjustments for cost of borrowed capital for Project A is Rs. 1,60,000 and Rs. 2,10,000 for Project B. Risk free rate of

Govt. security is 14%, Market return is 20% and Beta of the firm is 1.09. The after tax cost of debt is 10% for the company.

You are required to advise the management on which project they should choose keeping in mind long term shareholder's wealth creation.  $(2 + 3\frac{1}{2}) + 7$

6. a) State the nature of Government Accounting system. How did the Government Accounts were different from the commercial accounts ?
- b) Explain the concept of legislative control of accounts in India with a special emphasis on the control of cash in Government Accounting.  $(3 + 3\frac{1}{2}) + 6$

7. a) "Social Accounting is a set of principles and methods used to measure the income and production of a country." Justify the above statement by explaining the concept of social accounting and its significance.
- b) How to compute Gross National Product of a country ?  $(4 + 4) + 4\frac{1}{2}$
8. a) Define Value Added Income. What are the methods available for computing Value Added Income (VAI) ?
- b) With the help of following information of XYZ Ltd you are required to compute value added income of the firm for 2015-16 and 2016-17 and comment.  $(2 + 2\frac{1}{2}) + 8$

**Profit and Loss statement of XYZ Ltd. for 2015-16 & 2016-17**

Particulars	Note No.	Figures of 2016-17	Figures of 2015-16
I. Revenue from operation		12,00,000	10,00,000
II. Other Income		—	—
III. Total Revenue ( I + II )		12,00,000	10,00,000

*Continued.....*

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IV. Expenses :			
Cost of Goods sold	1	4,00,000	3,00,000
Employed Benefit expenses	2	80,000	75,000
Operating expenses	3	2,00,000	1,50,000
Finance costs	4	60,000	55,000
Total Expenses		7,40,000	5,80,000
V. Profit before exceptional and Extra-ordinary items & tax [ III – IV ]		4,60,000	4,20,000
VI. Exceptional items		NIL	NIL
VII. Profit before extraordinary Item and Tax [ V – VI ]		4,60,000	4,20,000
VIII. Extraordinary items		NIL	NIL
IX. Profit before tax [ VII – VIII ]		4,60,000	4,20,000
X. Tax expense :			
i) Current Tax		1,18,000	1,02,000
ii) Deferred Tax		NIL	NIL
XI. Profit (Loss) for the period from continuing operation [ IX – X ]		3,42,000	3,18,000
XII. Profit (Loss) for the period from discontinuing operation		NIL	NIL
XIII. Tax expense of discontinuing operation		NIL	NIL
XIV. Profit (Loss) from discontinuing operation ( XII – XIII)		NIL	NIL

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XV. Profit (Loss) for the period ( XI + XIV )		3,42,000	3,18,000
XVI. Earnings per share			
i) Basic		34.20	31.80
ii) Diluted		—	—

Note : 1 :

Cost of Goods sold	2016-17	2015-16
Raw Materials consumed	3,60,000	2,60,000
Changes in Inventories	20,000	15,000
Raw Material procurement & holding costs.	20,000	25,000
	4,00,000	3,00,000

Note : 2 :

Employee Benefit Expenses	2016-17	2015-16
Wages to Factory workers	60,000	55,000
Salary to office staff	20,000	20,000
	80,000	75,000

Note : 3 :

Operating Expenses	2016-17	2015-16
Electricity	40,000	30,000
Depreciation of Factory Equipments	60,000	50,000
Depreciation of Office Assets	30,000	20,000
Rent	40,000	40,000
Insurance	30,000	10,000
	2,00,000	1,50,000

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Note : 4 :

Finance Costs	2016-17	2015-16
Interest on Loan	30,000	25,000
Dividend	30,000	30,000
	60,000	55,000

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