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Reg. No.....

Name.....

M.Com. DEGREE (C.S.S.) EXAMINATION, FEBRUARY 2014

First Semester

Faculty of Commerce

AFO IC 01—ADVANCED FINANCIAL ACCOUNTING—I

(2012 Admission Onwards)

Time : Three Hours

Maximum Weight : 30

Section A

Answer any five out of eight questions.

Each question carries a weight of 1.

1. What is Statement of Affairs ?
2. Explain the factors that should be considered in valuing goodwill.
3. Describe the need for valuation of shares.
4. What is amalgamation in the nature of purchase ?
5. State the advantages of HRA.
6. What is External Reconstruction ?
7. Explain preferential creditors as per Insolvency Act.
8. What is Consolidated Balance sheet ?

(5 × 1 = 5)

Section B

Answer any five out of eight questions.

Each question carries a weight of 2.

9. Define Purchase consideration. Explain the methods of calculation of purchase consideration.
10. State the differences between Amalgamation in the nature of merger and in the nature of purchase.
11. Explain intrinsic value method and yield basis method of share valuation.
12. Describe opportunity cost approach and standard cost approach of valuation of human resources.

Turn over

13. From the following, calculate preferential creditors as per Presidency Towns Insolvency Act.
- Sales tax due-Rs. 2,200, 3 months salary of 5 clerks-Rs. 1,600, 1 month wages of 6 labourers-Rs. 1,800, Municipal tax due-Rs. 800, salaries due-Rs. 1,500, Income tax due-Rs. 1,270, 3 months rent due to land lord-Rs. 1,200, and wages of 2 servants-Rs. 280.
14. The result at the end of accounting year of a business is given below :
- 2008 profit Rs.15,000, 2009 profit Rs. 18,000, 2010 profit Rs. 25,000 and 2011 profit Rs. 30,000.
- The total assets of business as per last Balance Sheet are Rs. 2,50,000 which include land and building Rs. 50,000 (market value Rs. 60,000), Plant and machinery Rs. 98,000, Investment Rs. 20,000 (5 % Government loan held since the starting of business), Current assets Rs. 80,000 and establishment expenses Rs. 2,000.
- The liabilities include depreciation fund (for land and building Rs. 5,000 and for plant and machinery Rs. 8,000) Rs. 13,000. Other liabilities (excluding Owner's fund) Rs. 50,000. The average return expected from such business is 10 %.
- Compute the value of goodwill at three year's purchase of super profits of the business.
15. A Ltd. had Rs. 10,00,000 authorised capital on 31-12- 2010 divided into shares of Rs. 100 each out of which 8,000 shares were issued and fully paid up. In June 2011, the Company decided to convert the issued shares into stock. But in June 2012, the Company converted stock into shares of Rs.10 each fully paid up. Pass necessary Journal entries to give effect to the above.
16. A Ltd. takes over the business of B Ltd. at the following values.
- Fixed Assets-Rs. 3,00,000, Current Assets-Rs. 1,00,000, Debentures-Rs. 50,000, and Current Liabilities Rs. 1,00,000. Calculate purchase consideration.

(5 × 2 = 10)

Section C

Answer any three out of six questions.

Each question carries a weight of 5.

17. The following details are obtained from the books of S Ltd. as on 31st March 2010.
- Capital :
- 10,000 equity shares of Rs. 10 each fully paid Rs. 1,00,000.

10,000 equity shares of Rs. 10 each, Rs.7.50 per share called and paid up—Rs.75,000.

10,000 equity shares of Rs. 10 each, Rs.5 per share called and paid up—Rs.50,000.

General Reserve—Rs. 1,35,000.

Liabilities to Sundry parties—Rs.55,000.

Fixed assets less depreciation—Rs.1,67,000.

Commission on issue of shares—Rs. 6,000.

Preliminary expenses—Rs. 9,000.

Floating assets—Rs.2,33,000.

It is estimated that the normal average profit less tax of the Company will be maintained at Rs. 36,000, and the expected rate for capitalisation purpose is 8%.

Calculate the values of each type of share by the Assets Backing Method (excluding goodwill) and also by the Earning Capacity Method. Assume dividends are declared on paid up capital.

18. The Assets and Liabilities of Mr. A as per his books of accounts on 30th June 2011, were Rs. 1,12,000 and Rs. 88,000 respectively. He filed his petition in the Court and estimated his deficiency to be Rs. 60,000. After the foregoing estimate was made, he found the following items were not recorded in his account books.

- Interest at 6% on his capital from 1-1-2011.
- A contingent liability for Rs. 5,000 on bills discounted by him for Rs. 10,000.
- Amount due as Wages Rs. 700, Salaries Rs. 1400, Rent Rs. 1,000 and Rates and Taxes Rs. 400.

Prepare statement of affairs and deficiency account.

19. A Ltd. and B Ltd. were amalgamated on 1st April 2012. A new Company AB Ltd. was formed to take over the business of existing companies. The Balance Sheets of A Ltd. and B Ltd. as on 31st March 2012 are given below :

(figures in thousands)					
Liabilities	A Ltd	B Ltd	Assets	A Ltd	B Ltd
Equity shares of Rs.10 each ...	2,400	1,600	Fixed Assets ...	4,800	3,200
12 % Preference shares of			Less : Depreciation...	800	600
Rs. 100 each }	1,200	800			
				4,000	2,600
Capital Reserve ...	800	600	Investments ..	1,600	600

Turn over

<i>Liabilities</i>	<i>A Ltd</i>	<i>B Ltd</i>	<i>Assets</i>	<i>A Ltd</i>	<i>B Ltd</i>
General Reserve	... 1,200	... 600	Stock	... 1,200	... 600
P & L Account	... 400	... 200	Debtors	... 1,600	... 800
Secured Loan	... 1,600	... 800	Cash and Bank	1,200	.. 600
Trade Creditors	... 1,200	... 400			
Tax Provision	... 800	... 200			
	<hr/>	<hr/>		<hr/>	<hr/>
	9,600	5,200		9,600	5,200
	<hr/>	<hr/>		<hr/>	<hr/>

Other information :

- (a) Preference share holders of the two Companies are issued equivalent number of 15 % preference shares of AB Ltd. at an issue price of Rs. 125 per share.
- (b) AB Ltd. will issue one equity share of Rs. 10 each for every share of A Ltd. and B Ltd. The shares are issued at a premium of Rs. 5 per share.

Prepare the Balance sheet of AB Ltd. on the assumption that the amalgamation is in the nature of merger.

20. The following was the Balance Sheet of C Ltd. as on 31st March 2012 :

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Authorised Capital :		Goodwill	... 10,000
20,000 equity shares of Rs. 10 each	... <u>2,00,000</u>	Land and building	... 20,500
Called up and Paid up :		Machinery	... 50,850
12,000 shares		Preliminary Expenses	... 1,500
of Rs. 10 each } 1,20,000		Stock	... 10,275
Less : calls in		Book debts	... 15,000
arrear		Cash	... 1,500
(Rs. 3 per share	<u>9,000</u>	P & L Account :	
on 3,000 shares)	... 1,11,000	Last balance	
Sundry creditors	... 15,425	sheet } 22,900	
Provision for taxation...	4,000	Less : profit for	
		the year	<u>2,100</u> 20,800
	<hr/>		<hr/>
	1,30,425		1,30,425
	<hr/>		<hr/>

The directors had a valuation made of the machinery and found it over valued by Rs. 10,000. It is proposed to write down this asset to its true value and to extinguish the deficiency in P & L Account and to write- off goodwill and preliminary expenses by the adoption of the following :

- (a) Forfeit the shares on which the call is outstanding.
- (b) Reduce the paid up capital by Rs. 3 per share.
- (c) Re-issue the forfeited shares at Rs. 5 per share.
- (d) Utilise the provision for taxation, if necessary.

The shares on which the calls were in arrear were duly forfeited and reissued on payment of Rs. 5 per share.

Draft the necessary Journal entries and Balance sheet of the Company after carrying out the scheme as set above.

21. X Ltd. is to absorb Y Ltd. by issuing 5 shares of Rs. 10 each at a premium of 10% for every 4 shares held in Y Ltd. On the date of absorption, the balance sheets were as under :

<i>Liabilities</i>	<i>X Ltd</i>	<i>Y Ltd</i>	<i>Assets</i>	<i>X Ltd</i>	<i>Y Ltd</i>
	Rs.	Rs.		Rs.	Rs.
Share capital			Fixed assets	8,00,000	4,00,000
shares of Rs.10 each } ...	10,00,000	6,00,000	Investments :		
General Reserve ...	1,00,000	80,000	12,000 shares }		
Creditors ...	2,00,000	1,20,000	in Y Ltd. }	1,60,000	—
			10,000 shares in }		
			X Ltd. }	—	1,20,000
			Current Assets	3,40,000	2,80,000
	13,00,000	8,00,000		13,00,000	8,00,000

Turn over

You are required to show important ledger accounts in the books of Y Ltd. and the acquisition entries in the books of X Ltd. assuming current assets of Y Ltd. are taken at Rs. 1,80,000.

22. Explain briefly the different methods of valuation of goodwill.

(3 × 5 = 15)