

Reg. No

Name

17P108

M. COM DEGREE END SEMESTER EXAMINATION - NOVEMBER 2017

SEMESTER 1 : COMMERCE

COURSE : 16P1COMT01 - ADVANCED FINANCIAL ACCOUNTING - I

(Common for Regular - 2017 / Supplementary - 2016 Admissions)

Time : Three Hours

Max. Marks: 75

Section A

Answer any 10 (2 marks each)

1. What is ment by share surrender?
2. Give the points to be keep in mind while framing a reconstruction scheme.
3. What is purchase consideration?
4. What is intercompany owings. How will you treat it in amalgamation?
5. What is Goodwill?
6. What are the different methods of valuation of shares?
7. What is the difference between average profit and super profit in valuation of goodwill?
8. What are the factors affecting goodwill?
9. What do you mean by Unsecured Creditors in Insolvency?
10. What is Deficiency Account?
11. What is ment by Accounting standards and why they are needed?
12. India adopting IFRS in two phases, Comment.

(2 x 10 = 20)

Section B

Answer any 5 (5 marks each)

13. What are the methods to alter shares capital in the memmorandum of association of a company?
14. The Balance Sheet of National Industries Ltd., at 31st March, 1999 was as follows:

| | Rs. | | Rs. |
|--|-----------------|-------------------------|-----------------|
| Share Capital: 2,000 Preference Shares of Rs. 100 each | 2,00,000 | Goodwill | 15,000 |
| 4,000 Equity Shares of Rs. 100 each | 4,00,000 | Freehold Properties | 2,00,000 |
| 5% Mortgage Debentures | 1,00,000 | Plant and Machinery | 3,00,000 |
| Bank Overdraft | 50,000 | Stock in Trade | 50,000 |
| Creditors | 1,00,000 | Debtors | 40,000 |
| | | Profit and Loss Account | 2,45,000 |
| | 8,50,000 | | 8,50,000 |

The Company got the following scheme of capital reduction approved by the court:

1. The preference shares to be reduced to Rs. 75 per share, fully paid up and the equity shares to Rs. 37.50.
2. The debenture holders took over the stock in trade and the book debts in full satisfaction of the amount due to them.
3. The Goodwill Account to be eliminated.
4. The freehold properties to be depreciated by 50%.
5. The value of the Plant and Machinery to be increased by Rs. 50,000.

Give Journal entries for the above and prepare the revised Balance Sheet.

15. Following is the balance sheet of AX Ltd. as on 31/03/2004

| Liabilities | Rs | Assets | Rs. |
|--|------------------|----------------|------------------|
| Share capital :- 8% preference shares of Rs. 100 each | 3,75,000 | Fixed Assets | 16,25,000 |
| Equity shares of Rs. 10 each | 7,50,000 | Investments | 3,00,000 |
| General reserve | 4,50,000 | Current Assets | 2,50,000 |
| 7% Debentures | 3,50,000 | | |
| Current liabilities | 2,50,000 | | |
| | 21,75,000 | | 21,75,000 |

RX Ltd. agreed to takeover the business of AX Ltd.

Calculate purchase consideration under Net Assets method on the basis of the following:

- RX Ltd. agreed to discharge 7% debentures at a premium of 10% by issuing 9% Debentures of RX Ltd.
- Fixed assets are to be valued at 10% above book value, the investments at par, current assets at 10% discount and current liabilities at book value.

16. Shutdown Ltd. have almost ceased to be a going concern. Its Balance Sheet as on 31st March, 2012 was as follows:

| Liabilities | Rs. | Assets | Rs. |
|---------------------|------------------|-------------------------|------------------|
| Equity Capital | 8,00,000 | Buildings | 4,00,000 |
| Preference Capital | 6,00,000 | Plant & Machinery | 2,00,000 |
| Current Liabilities | 2,00,000 | Inventories | 1,00,000 |
| | | Sundry Debtors | 1,50,000 |
| | | P & L A/c (Dr. Balance) | 7,50,000 |
| | 16,00,000 | | 16,00,000 |

1. In addition there was a contingent liability of Rs. 30,000 on account of a legal dispute.
2. Saviour Ltd. was incorporated on 1st April, 2012 to take over the business of shutdown Ltd.

It agreed to take over the assets as follows:

Buildings @ 90% of book value

Plant & Machinery @ 60% of book value

Inventories @ 30% of book value

Sundry Debtors @ 60% of the book value .

The purchase consideration was satisfied by issuing equal number of equity and preference shares in Saviour Ltd., both having a face value of Rs. 10 per share. The contingent liability did materialize but for Rs. 20,000 only. It was taken over by Saviour Ltd. and settled by issue of equity shares. The preference shareholders of Shutdown Ltd. accepted the preference shares received from Saviour Ltd. in full settlement. Give journal entries (without narration) in the books of Shutdown Ltd. and Saviour Ltd.

17. The net profits of a company after providing for taxation for the past five years are: Rs. 40,000; Rs. 42,000; Rs. 45,000; Rs. 46,000; and Rs. 47,000. The capital employed in the business is Rs. 4,00,000 on which a reasonable rate of return of 10% is expected.

It is expected that the company will be able to maintain its super profits for the next five years.

Calculate the value of the Good will of the business:

(a) On the basis of an annuity of super profits taking the present value of an annuity of one rupee for five years at 10% interest as 3.78

(b) On the basis of capitalising the excess of the annual average distributable profits over the reasonable return on capital employed.

18. Explain different methods of valuation of Shares.

19. From the following calculate creditors under List A and D

Creditors 55,000 Bills Payable 10,500 Creditors having a lien on stock

8,000 Bill of Exchange 4000 Stock 6000 Income Tax Payable 550

Salary and wages (preferential 600) 2,200 Bills Discounted (Expected to Rank 3000) 9,000.

20. Explain the position of Convergence to IFRS in India. (5 x 5 = 25)

Section C

Answer any 3 (10 marks each)

21. A company's position on 31st March 2008 was as follows:

| | |
|--|-----------|
| 20,000 equity shares of Rs. 100 each | 20,00,000 |
| 1,000, 12% debentures of Rs. 1000 each | 10,00,000 |
| Interest on above | 1,20,000 |
| Creditors for goods | 5,00,000 |
| Fixed assets | 20,00,000 |
| Current assets | 6,50,000 |

The following scheme of reconstruction was implemented:

- Fixed assets were valued at Rs. 9,60,000 and current assets at Rs. 4,80,000.
- The shares were sub divided into shares of Rs. 5 each and 90% of the shares were surrendered.
- The total claims of the debenture holders were reduced to Rs. 4,90,000 and in consideration of this, they were allotted shares, out of the surrendered shares amounting to Rs. 2,50,000.

- d. The creditors agreed to reduce their claim to Rs. 3,00,000, $\frac{1}{3}$ rd of which was to be satisfied by the issue of equity shares out of those surrendered.
- e. The shares surrendered but not reissued were cancelled.

Draft Journal Entries and give the Balance Sheet of the company after reconstruction.

22. Balance Sheet of Z Ltd. are given below as at 31st March, 2012.

| Liabilities | Z Ltd Rs. | A Ltd. Rs. | Assets | Z Ltd. Rs. | A Ltd. Rs. |
|-------------------------|-----------------|-----------------|-----------------------------|-----------------|-----------------|
| Share Capital (Rs. 10) | 2,00,000 | 4,00,000 | Sundry Assets (no Goodwill) | 3,10,000 | 6,00,000 |
| Reserves and Surplus | 40,000 | 1,00,000 | Loan of A Ltd. | 30,000 | - |
| 7% Debentures (Rs. 100) | 1,00,000 | - | Investments: | | |
| Loan from Z Ltd. | - | 30,000 | 5,000 shares in A Ltd. | 50,000 | |
| Other Liabilities | 50,000 | 70,000 | | | |
| | 3,90,000 | 6,00,000 | | 3,90,000 | 6,00,000 |

A Ltd. takes over Z Ltd. on the following terms:

- a. A Ltd. will issue sufficient number of shares at Rs. 11 each and pay 50 paise cash per share held by members of Z Ltd.
- b. 7% Debentures of Z Ltd. are taken over by A Ltd. along with other liabilities of Z Ltd.

Show journal entries and significant ledger accounts in the books of both the companies. Also draft Balance Sheet of A Ltd. after absorption.

23. The following are the Balance Sheet of X Ltd. and Y Ltd. as on 31.03.2004

| Liabilities | X Ltd | Y Ltd | Assets | X Ltd | Y Ltd |
|---|------------------|-----------------|----------------|------------------|-----------------|
| 5000 8% Pref shares of Rs. 100 each | 5,00,000 | | Goodwill | | 15,000 |
| 1,50,000 equity shares of Rs. 10 each | 15,00,000 | | Buildings | 7,40,000 | |
| 40,000 equity shares of Rs. 10 each Capital reserve | | 4,00,000 | Machinery | 16,38,000 | |
| General reserve | 4,60,000 | | Furniture | 27,000 | 50,000 |
| P&L A/c | 3,50,000 | 1,00,000 | Patents | 60,000 | |
| Creditors | 80,000 | 15,000 | Motor Vehicles | | 70,500 |
| | 70,000 | 25,000 | Stock | 4,05,000 | 2,60,000 |
| | | | Debtors | 80,000 | 1,29,000 |
| | | | Bank | 10,000 | 15,500 |
| | 29,60,000 | 5,40,000 | | 29,60,000 | 5,40,000 |

A New company Z Ltd. Was formed to take over the business of X Ltd and Y Ltd. On the following terms:

- Z Ltd. to allot 5000 10% fully paid preference shares of Rs. 100 each and 2,00,000 fully paid equity shares of Rs. 10 each to satisfy the claims of Preference and equity share holders of X Ltd. Respectively.
- Z Ltd to allot 44,000 fully paid equity shares of Rs. 10 each to be distributed to Y Ltd. Shares holders.
- Mr. Z who mooted the scheme of amalgamation is to be allotted 500 fully paid equity shares of Rs. 10 each in consideration of his services.
- Expenses of Liquidation of Y Ltd. Rs. 3,000 to be borne by Z Ltd.
- Z Ltd. Made a public issue of 20,000 equity shares of Rs. 10 each for cash at 20% premium. Preliminary expenses of Z Ltd. amounted to Rs. 8,500.

Assuming that the Amalgamation is in the nature of merger, You are required to show (1) Computation of Purchase consideration; (2) Ledger Accounts to close the books of X Ltd. and (3) Journal and Balance sheet in the books of Z Ltd.

24. Mr. Seth of Mumbai finds himself insolvent on 31st December 2011. His position on that date was as follows

| | | | |
|---|----------------------|--|--------|
| Cash | 6,300 | Bills Payable | 28,000 |
| Bill of Exchange | 4800 | Bank overdraft | 12,000 |
| Debtors Doubtful (estimated to realise 80%) Bad | 8000 2400 1000 | Liability on Bill Discounted (Estimated to Rank 6,000) | 10,000 |
| Furniture (estimated to realise 5000) | 7000 | Creditors secured by lifepolicy worth 8,000 | 13,000 |
| Machinery (Estimated to realise 41,000) | 50,000 | Household utensils | 300 |
| Stock in Trade (Estimated to Realise 32,000) | 40,000 | Secured Loan(Holding Security worth 70,000) | 50,000 |
| Household debts | 1,000 | Managers salary due for last two months | 2,000 |
| Rent Due to Landlord for 2 Months | 1,200 | Creditors holding second charge on assets held by secured loan(to the extent 14,000) | 18,000 |
| Wages due to servants for 5 months | 100 | | |
| Clerks salary for 4 months in arrear | 1,700 | | |
| Rates and tax due | 1,000 | | |
| Loan from Wife | 11,000 | | |
| Trade Creditors | 45,000 | | |

Prepare statement of Affairs of Mr. Seth .

25. Explain Different methods of Valuation of HRA

(10 x 3 = 30)