Reg. No.. Name...

M.COM DEGREE END SEMESTER EXAMINATION NOVEMBER 2016

SEMESTER **– 1: COMMERCE**

COURSE: **16P1COMT01–: ADVANCED FINANCIAL ACCOUNTING - I**

Time: Three Hours Max. Marks: 75

SECTION A

*Answer **any TEN** questions. Each question carries 2 marks.*

1. State the importance of human resource accounting.
2. Distinguish between internal reconstruction and external reconstruction.
3. What is capital reduction?
4. Explain the procedure for reducing share capital of a company.
5. How would you ascertain market value of shares?
6. What do you mean by re organization through surrender of shares?
7. What is inter-company holdings?
8. Differentiate between purchased goodwill and raised goodwill.
9. What is deficiency account?
10. The purchasing company agrees to issue 4 shares of Rs 10 each for every 3 shares of Rs 10 each of the vendor company. The total number of shares of the vendor company are 10,000.The market price of the purchasing company is Rs15. Find the purchase consideration?
11. A company has a paid up share capital of Rs 6,40,000 divided into 80,000 equity shares of Rs 10 each, Rs 8 per share paid up. The profit and loss account shows a credit balance of Rs 2, 80,000. The company decides to reduce the paid up share capital to Rs 6 per share paid up by paying off the necessary amount out of the accumulated profits .Give appropriate journal entries.
12. From the following calculate goodwill of the company by capitalization of super profit. Normal rate of return 10%. Adjusted average profits of the preceeding 5 years Rs 30,000. Net asset employed in the company Rs 2, 00,000.

(2 x 10 = 20)

SECTION B

*Answer **any FIVE** questions, Each question carries 5 marks.*

13. State the difference between pooling of interest method and purchase method of amalgamation.
14. Explain the methods of valuing the shares of a company.
15. State the difference between statement of affairs and balance sheet.
16. Discuss the points to be considered before framing a scheme of internal re-construction.
17. Explain the term “consideration in amalgamation” and also state different methods adopted for its determination.

18. Critically evaluate the benefits of Human Resource Accounting.

19. A Ltd is planning to acquire B Ltd by exchanging one share for every four shares in B Ltd the relevant data are as follows:

	A Ltd	**B Ltd**
Earnings After Tax (Rs Lakhs)	360	72
No of Equity shares (Lakhs)	60	18
EPS (Rs)	6	4
Market Price per share (Rs)	132	24
P/E Ratio	14	6

Calculate:

a. The number of shares of A Ltd to be issued to B ltd.
b. Post merger EPS of A Ltd.
c. Market value of A Ltd after merger.

20. Following information is given:

a. Capital employed Rs 1, 50,000.
b. Normal Rate of profit 10%.
c. Present value of annuity of Re.1 for 5 years at 10 % =3.78.
d. Net profit for 5 years: 2010 Rs 14,400, 2011 Rs 15,400, 2012 Rs 16,900, 2013 Rs 17,400 and 2014 Rs 17,900.

The profit included non-recurring profits on an average basis Rs 1000 out of which it was deemed even non- recurring profit had a tendency of appearing at the rate of Rs 600 per annum.

You are required to calculate goodwill:

a. As per annuity method.
b. As per 5 Years purchase of super profit.
c. As per capitalization of super profit method.

(5 x 5 = 25)

SECTION C

*Answer **any THREE** questions, Each question carries 10 marks**.***

21. Discuss briefly the important approaches for the valuation of human resources.

22. The following was the Balance Sheet of XYZ company Ltd. before reconstruction:

Liabilities	Amount(Rs)	Assets	Amount(Rs)
12000 7% preference shares of Rs	6,00,000	Building	4,00,000

50/- each 15000 equity shares of Rs 50/- each	7,50,000	Plant	2,68,000
Loan	5,73,000	Goodwill	3,18,000
Sundry creditors	2,07,000	Stock	4,00,000
Liabilities	35,000	Debtors	3,28,000
		Preliminary expenses	11,000
		Profit and loss account	4,40,000
	21,65,000		**21,65,000**

The following scheme of re-construction has been approved and sanctioned by the court:

1. The equity share holders have agreed that their Rs 50 shares to be reduced to Rs 2.50 per share.
2. They have also agreed to subscribe in cash for 3 new equity shares of Rs 2.50 each.
3. The preference share holders agreed to cancel the arrears of dividend and to accept four new 5% preference shares of Rs 10 each for every preference shares they held and to buy six new equity shares of Rs 2.50 fully paid.
4. Loan creditors Rs 1, 50,000 have agreed to convert their loan into preference shares of Rs 10 each and 12,000 new equity shares of Rs 2.50 each.
5. The directors have agreed to subscribe in cash for additional 40,000 new equity shares Rs 2.50 fully paid.
6. Of the cash received by the issue of new shares, Rs 2, 00,000 is to be used to reduce the loan due by the company.

   The amount available is to be applied to write off preliminary expenses, profit and loss account debit balance and to write off plant and machinery by Rs 35,000. The balance is to be used to write off the value of goodwill. Show journal entries and prepare Balance Sheet after reconstruction.

23. A Ltd agreed to acquire the business of B Ltd as on 31 st December 2015.

Balance Sheet B Ltd as on 31-12- 2015

Liabilities	Amount(Rs)	Assets	Amount(Rs)
Share capital in fully paid shares of Rs 10 each	3,00,000	Goodwill	50,000

General reserve	80,000	Building	3,20,000
Workmen's compensation fund	5,000	Stock	84,000
Profit and loss account	55,000	Debentures	18,000
6% Debentures	50,000	Cash	28,000
Creditors	10,000		
	5,00,000		**5,00,000**

The consideration payable by A Ltd was agreed as under:

a. Cash payment equivalent to Rs 2.50 for every share of Rs 10 in B Ltd.

b. Issue of 45,000 Rs 10 share fully paid, in A Ltd. having an agreed value of Rs 15 per share.

c. 6% Debentures of B Ltd are taken over by A Ltd and are discharged by the issue of such an amount of fully paid 5% debentures of A Ltd at 96% as is sufficient to discharge the 6% debentures of B Ltd at a premium of 20%. Give journal entries to close the books of B Ltd. and to record the acquisition of business in the books of A ltd.

24. From the information given below and Balance Sheet of X Ltd. on 31st March 2011, find the value of its equity shares by intrinsic value method and yield method.

a. Company's prospects for 2011-12 are good.

b. Buildings are now worth Rs 3, 50,000.

c. Profits for the last 3 years have shown an annual increase of Rs 50,000. The annual transfer to reserve is 25% of net profit.

d. Preference shares are preferential as to capital and dividend; and

e. Normal rate of return expected is 15%.

BALANCE SHEET

Liabilities	**Amount (Rs)**	**Assets**	**Amount (Rs)**
1000 8%preferenece shares of Rs 100 each fully paid	1,00,000	Building	70,000
4000 equity shares of Rs 100 each fully paid	4,00,000	Furniture	3,000
Reserves	1,50,000	Stock (market value)	4,50,000
P&L account:	5,10,000	Investment at cost(face value Rs 4,00,000)	3,35,000
Balance on 1-4-2010		Debtors	2,80,000

80,000 Add profit for 2010-11. 4,30,000 (Before transfer to reserve) -----------		Bank	60,000
Creditors	48,000	Preliminary expenses	10,000
	12,08,000		**12,08,000**

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

Liabilities	**X Ltd**	**Y Ltd**	**Assets**	**X Ltd**	**Y Ltd**
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 in Y Ltd	1,60,000	
Creditors	2,00,000	1,20,000	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**

You are required to show:

a. Important ledger accounts in the books of Y Ltd; and

b. Acquisition entries in the books of X Ltd. Fixed assets of Y Ltd. are taken at Rs 4, 50,000 in the books of X Ltd.

(10 x 3 = 30)