Reg. No .... Name **20P1008**

M. COM DEGREE END SEMESTER EXAMINATION - OCT. 2020 : FEBRUARY 2021

SEMESTER 1 : COMMERCE

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

(For Regular - 2020 Admission and Supplementary - 2016/2017/2018/2019 Admissions)

Time : Three Hours Max. Marks: 75

PART A
Answer any 10 (2 marks each)

1. The capital structure of a company is as follows:

	Rs.
12% preference shares of Rs. 10 each	5,00,000
Equity shares of Rs. 10 each	8,00,000
Reserve and surplus	4,00,000
10% Debentures	6,00,000
11% term loans	7,00,000

The average annual profit before payment of tax and interest is Rs. 6,00,000. The corporate tax is 45% State what valuation should be put upon the equity shares of the company the applicable price earnings ratio is 9.

2. Write down the entry for following in a scheme of reconstruction
i) Goodwill reduced from 10000 to 3000, furniture from 40000 to 25000 and Machinery from 30000 to 12000
ii) Investment valued 12000 takenover by bank for settlment of loan amount 10000 and balance refunded to company
3. What do you mean by dissenting shareholders?
4. Balance sheet of a company gives following information: Fixed assets 80000, Current assets 70000, Goodwill 20000, Unsecured loan 20000, Creditors 31,000, share capital 1000 shares of 100 each, General Reserve 19,000. IIt is found that goodwill is valueless and depreciation on fixedasset Rs.4000 is in arrear. Calculate the intrinsic value of the share.
5. What is intrinsic value of a share? How will you calculate it?
6. How will you calculate the value of shares under asset backing method if there are shares having different paidup amount.
7. What is future maintanable profit in valuation of Goodwill?
8. How will you calculate value of shjares based on PE Ratio?
9. Who are the preferential creditors under Presidency Towns Act?
10. What is the purpose of preparing deficiency account?
11. Explain IFRS 1
12. Why there arise a need for Human Resource Accounting?

(2 x 10 = 20)

PART B
Answer any 5 (5 marks each)

13. The paid-up capital of Toy Ltd. amounted to 2,50,000 consisting of 25,000 equity shares of 10 each. Due to losses incurred by the company continuously, the directors of the company prepared a scheme for reconstruction which was duly approved by the court. The terms of construction were as follows
i) In lieu of their present holdings, the shareholders are to receive:
(a) Fully paid equity shares equal to 2/5th of their holding
(b) 5% preference shares fully paid-up to the extent of 20% of the above new equity shares.
(c) 3,000 6% second debentures of R 10 each.
(ii) An issue of 2,500 5% first debentures of 10 each was made and fully subscribed in cash.
(iii)The assets were reduced as follows
(a) Goodwill from 1,50,000 to 75,000.

(b) Machinery from 50,000 to 37,500.
(c) Leasehold premises from 75,000 to Rs 62,500.
Show the Journal Entries to give effect to the above scheme of reconstruction.

14. What are the differences between amalgamation in the nature of Merger and amalgamation in the nature of purchase?

15. Following is the balance sheet of HIL Ltd. as on 31/12/1980

Liabilities	Rs.	Assets	Rs.
2000 shares of Rs. 10 each fully paid up	20,000	Goodwill	4,000
Profit and Loss Account	7,000	Fixed Assets	16,500
Debentures	10,000	Current Assets	19,500
Creditors	3,000		
	40,000		**40,000**

RIL Ltd. agreed to take over the assets HIL Ltd. (exclusive of one fixed assets Rs. 4,000 and cash Rs. 1000 included in current assets) at 10% more than the book value. It agreed to take over creditors also. The purchase price was to be discharged by the issue of 2000 shares of Rs. 10 each at the market value of Rs. 15 each and the balance in cash. Liquidation expenses came to Rs. 400.
HIL Ltd. Sold the fixed assets of Rs. 4,000 and realized the book value. It paid off its debentures and liquidation expenses.
You are required to give journal entries in the books of RIL Ltd.

16.

X ltd proposed to purchase the business carried on by Mr. Aravind. Goodwill for this purpose is agreed to be valued at 3 years purchases of weighted average profits of the past four years . Appropriate weights to be used are:
2013- 1, 2014- 2, 2015- 3, 2016 – 4
Profits for these years are 2013 – 20,200, 2014-24,800, 2015-20,000, 2016- 30,000
On the scrutiny of the accounts , the following matters are revealed: a. On 1st September ,2015 a major repair was made in respect of the plant incurring ₹ 6,000, which was charged to revenue. The amount is agreed to be capitalised for Goodwill valuation subject to adjustment of depreciation of 10 % p.a. on reducing balance method.
b. The closing stock for the year 2014 was overvalued by ₹ 2,400.
c. The cover management cost, an annual charge of ₹4,800 should be made for the purpose of Goodwill valuation.

You are required to compute the value of Goodwill of the firm.

17. Compute the values of an equity share and of preference shares of each of the following companies
(a)When a few shares are sold and (b) When controlling shares are to be sold
Following information is furnished:

	Company A Rs	Company B Rs
Profit after tax	10,00,000	10,00,000
12% preference capital (shares of 100 each)	10,00,000	20,00,000
Equity capital (shares of Rs 10 each)	50,00,000	40,00,000

Assume that market expectation is 15% and 80% of profits are distributed .

18. Explain the Capitalisation of profit method of Goodwill with the help of an example.

19. Prepare Deficiency account from the following information
Opening Capital 800 Bad Debts 1000 Profit on sale of Asset 200 Household expense 300 Loss on bill discounted 200 Profit in first 2 years 500
Loss in next 3 years 1,800 Loss on sale of asset 500 Interest on capital 100 Loss through betting 200 Profit on sale of private property 400

20. What are the issues and challenges in Convergence in IFRS

(5 x 5 = 25)

PART C
Answer any 3 (10 marks each)

21. The Balance Sheet of GK Ltd. As at 31st March, 2012 was as follows:

Liabilities	Rs.	Assets	Rs.
Share Capital		Good will	15,000
2,000, 5% Cumulative Preference shares of Rs. 100 each	2,00,000	Freehold premises	2,00,000
4,000 Equity shares of Rs. 100 each	4,00,000	Plant and Machinery	3,00,000
6% Debentures	1,00,000	Stock-in-trade	50,000
Bank overdraft	35,000	Debtors	40,000
Creditors	1,00,000	Cash in hand	5,000
		Profit and Loss Account	2,25,000
	8,35,000		**8,35,000**

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

i) The preference shares to be reduced to Rs. 60 per share fully paid up and equity.
ii) Equity Shares to Rs. 40 per shares fully paid up.
iii) The debenture holders to take over stock in trade and book debts in full satisfaction of amount due to them.
iv) The goodwill account to be eliminated.
v) The value of freehold premises to be increased by 10%
vi) The value of plant and machinery to be depreciated by $33\ ^{1}/_{3}\%$
vii) Expenses of reconstruction amounted to Rs. 4,000. Give the Journal entries for the above and prepare the revised Balance Sheet.

22. Following are the balance sheets of major Ltd. and Minor Ltd. as on 31st March ,2019:

	Major Ltd.	**Minor Ltd.**
I. Equity and Liabilities		
(1) shareholders' Funds		
(a) Share capital:		
Equity shares of Rs.100 each fully paid	2,00,000	1,00,000
(b) Reserves and Surplus:		
Surplus account	60,000	30,000
(2) Current Liabilities		
Sundry creditors	40,000	70,000
Total Equity and liabilities	3,00,000	2,00,000
II. Assets		
(1) Non-current assets		
Fixed Assets:		
Machinery	1,00,000	50,000
Furniture	20,000	5,000
Investments:		
Shares in minor ltd.	25,000	-
Shares in major ltd.	-	12,000
(2) Current assets		
Stock	75,000	45,000
Debtors	60,000	68,000
Cash at bank	20,000	20,000
Total assets	3,00,000	2,00,000

Major Ltd. holds 200 shares in Minor Ltd. and Minor Ltd. holds 100 shares in Major Ltd.
The two companies agree on amalgamation on the following basis:
(1) A new company is to be formed called Hind Ltd.
(2) The goodwill is valued for Major Ltd. Rs.50,000 and for Minor Ltd. Rs.25,000.

(3) The shares of Hind Ltd. are of nominal value of Rs.10 each.
Prepare: (i) Balance Sheet of Hind Ltd. after the merger.
(ii) Schedule showing fully the shareholdings therein attributable to shareholders of Major Ltd. and Minor Ltd. all costs of amalgamation are to be ignored.

23. Following information are obtained from the books of sunrise company ltd as on 31st ,March 2019:

Capital	Rs		Rs
10,000 Equity shares of Rs. 10 each fully paid up	1,00,000	General reserve	1,35,000
10,000 Equity shares of Rs.10 each ,Rs.7.50 per share called and paid up	75,000	Liabilities to sundry parties	55,000
10,000 Equity shares of Rs.10 each,Rs 5 per share called and paid up	50,000	Fixed assets less depreciation	1,67,000
		Commission on issue of shares	6,000
		Discount on shares	9,000
		Floating assets	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.

24. Shyam Mohan filed a petition in bankruptcy on 30th June. His books showed the following balances

	Rs.	Rs.
Cash in hand	10	
Fixtures and fittings (estimated to produce Rs.80)	250	
Stock in trade (estimated to produce Rs 1,200)	1,800	
Sundry creditors;		
Trade creditors		2,000
Bills payable		2,200
Sundry debtors;		
Good 1,000		
Doubtful (expected to realise 50%) 2,000		
Bad. 2,000	5,000	
Bank overdraft		1200
Capital		1,660
	7,060	7,060

Liability on bills discounted Rs.500 expected to rank Rs.100. His household furniture was valued at Rs.250. He owned a house valued at Rs.750, having a mortgage on it of Rs.600 at 4 %.Interest paid upto the preceding 31st December.
Preferential creditors amounted to Rs.35 (included in sundry creditors) and Rs.15 for rates on the house.
Prepare a Statement of Affairs and Deficiency account.

25. What are the methods of Valuation of Human Resource Accounting?

(10 x 3 = 30)