

M. COM DEGREE END SEMESTER EXAMINATION - OCTOBER 2022**SEMESTER 1 : COMMERCE****COURSE : 16P1COMT01 : ADVANCED FINANCIAL ACCOUNTING - I***(For Supplementary - 2016/2017/2018/2019/2020 Admissions)*

Time : Three Hours

Max. Marks: 75

PART A**Answer any 10 (2 marks each)**

1. Give journal entries for consolidation and subdivision of shares.
2. What do you mean by stock and what is the entry for bringing the effect of conversion of shares into stock
3. How will you calculate goodwill or capital reserve in Amalgamation?
4. How will you treat the purchasing companies take over of debtors and creditors of vendor company for settlement as an agent
5. What is the difference between Intrinsic value and Market value of Shares?
6. What is sliding scale method of goodwill valuation?
7. Which Rate of Return method of valuation shares is suitable in the following cases
 - a) Purchase of small block of shares of a company
 - b) Purchase of majority of shares of a company
8. What is NRR?
9. What do you mean by doctrine of Reputed ownership?
10. Who are the preferential creditors under Presidency Towns Act?
11. IFRS includes IAS. Do you agree?
12. India adopting IFRS in two phases, Comment.

(2 x 10 = 20)**PART B****Answer any 5 (5 marks each)**

13. Following is the Balance Sheet of God bole Co. Ltd., as on 31st March 1999:

Liabilities	Rs.	Assets	Rs.
Share Capital			
3,000 5% pref. shares of Rs. 100 each	3,00,000	Goodwill	22,500
6,000 Equity shares of Rs. 100 each	6,00,000	Land & Building	3,00,000
6% Debentures	1,50,000	Machinery	4,50,000
Bank Overdraft	1,50,000	Stock	65,000
Creditors	75,000	Debtors	70,000
		Cash	7,500
		P & L A/c	3,50,000
		Preliminary Exp.	10,000
	12,75,000		12,75,000

On the above date, the company adopted following scheme of reconstruction:

- i. The preference shares are to be reduced to fully paid shares of Rs. 75 each and Equity shares are to be reduced to shares of Rs. 40 each fully paid.
- ii. The debenture holders took over stock and debtors in full satisfaction of their claims.
- iii. The fictitious and intangible assets are to be eliminated.
- iv. The Land Building to be appreciated by 30% and machinery to be depreciated by 33.33%.
- v. Expenses of Reconstruction amounted to Rs. 4,500.

Give Journal entries incorporating the above scheme of reconstruction

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. X Co. Ltd. agrees to acquire, as a going concern, the business of Y Co. Ltd. on the basis of vendor's balance sheet at 31st March, 2012 which is as follows:

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Authorised Capital- 25,000 shares of Rs. 50 each	12,50,000	Freehold Property	2,50,000
Issued capital – 20,000 shares of Rs. 50 each	10,00,000	Plant and Machinery	50,000
<i>Called up capital</i>		Stock	3,00,000
20,000 shares of Rs. 50 each, Rs. 30 called up	6,00,000	6% Govt. Papers	10,000
Reserve Fund	1,25,000	Debtors	2,30,000
Creditors	75,000	<i>Less : Provision</i>	10,000
			2,20,000

Surplus A/c	60,000 Cash at Bank	30,000
	8,60,000	8,60,000

X Co. Ltd took over all the assets and liabilities of the vendor company, subject to the retention of Rs. 15,000 cash to provide for cost of liquidation, income-tax etc. and to satisfy any dissenting shareholders.

The consideration for the sale is the allotment to the shareholders in the vendor company of one share Rs. 100 (Rs. 50 paid up) in the X Co. Ltd. for every two shares in the Y Co. Ltd. The liquidator of the vendor company has paid; cost of liquidation amounting to Rs. 2,500, income-tax Rs. 7,500 and dissenting shareholders of 100 shares at Rs. 32.50 per share *i.e.* Rs. 3.250.

The sale and purchase were carried through on terms of the agreement.

Prepare necessary ledger accounts in the books of Y Co. Ltd. taking amalgamation in the nature of purchase.

16. What are the differences between amalgamation in the nature of Merger and amalgamation in the nature of purchase?
17. Explain the Capitalisation of profit method of Goodwill with the help of an example.
18. The following particulars are available in respect of the business carried on by a trader:
 - a. Profits earned: 2003 – Rs. 1,50,000; 2004 – Rs. 1,60,000; 2005 – Rs. 1,55,000.
 - b. Normal rate of profit : 10%
 - c. Capital Employed: Rs. 13,00,000
 - d. Present value of an annuity of one rupee for five years at 10% : Rs. 3.78.
 - e. The profits included a non-recurring profits had a tendency of appearing at the rate of Rs, 10,000 p.a. You are required to calculate goodwill;
 - i) As per five years purchase of super profit;
 - ii) As per annuity method
19. Explain the following terms:
 - i) Doctrine of Relation Back
 - ii) Doctrine of Reputed ownership
 - iii) Voluntary Transfers
20. What are the benefits of HRA

(5 x 5 = 25)

PART C

Answer any 3 (10 marks each)

21. The following is the Balance Sheet of HK Ltd., as on 31st March, 2001:-

Balance Sheet of HK Ltd., as on 31st March 2001

Liabilities	Amount Rs.	Assets	Amount Rs.
Share Capital: 14% 4,000 preference Shares of Rs. 100 each	4,00,000	Fixed Assets: Good Will Plant and machinery	1,80,000 5,00,000
50,000 equity shares of Rs. 10 each fully paid	5,00,000	Investments:	NIL

Secured creditors: 12% debentures	1,00,000	Current Assets and Loans and Advance: Stock Debtors Cash	3,00,000 70,000 20,000
Current liabilities: Creditors	2,00,000	Miscellaneous expenditure: Profit and Loss Account	1,30,000
	12,00,000		12,00,000

The court has approved the following scheme of reconstruction:-

- i. To issue 15% preference shares of Rs. 60 each for every 14% preference shares of Rs. 100 each.
- ii. To reduce the equity shares by Rs. 4 each
- iii. To redeem 12% debentures of Rs. 1,00,000 by the issue of 14% Debentures of Rs. 80,000 in full satisfaction.
- iv. To write off goodwill and accumulated loss; write down plant and machinery Rs. 60,000 and any balance left from capital reduction scheme be provided for doubtful debts.

Give Journal entries to effect the scheme and also prepare the new Balance Sheet.

22. Ajanta Limited agreed to acquire the business of Elora Ltd. as on 31st March 2012. The Balance Sheet of Elora Limited as on that date was as follows:

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Paid-up Capital:		Fixed Assets:	
10,000 6% Preference Shares of Rs. 10 each	1,00,000	Land and Building	2,00,000
20,000 equity shares of Rs. 10 each	2,00,000	Machineries	1,00,000
Reserve	20,000	Current Assets:	
Surplus Account	30,000	Stock	2,00,000
7% Debentures	1,00,000	Debtors	50,000
Sundry Creditors	1,50,000	Cash and Bank Balances	35,000
		Miscellaneous Expenditure:	
		Preliminary Expenses	10,000
		Debenture Discount	5,000
	6,00,000		6,00,000

The consideration payable by Ajanta Limited was agreed as under:

1. The Preference Shareholders of Elora Limited were to be allotted 8% Preference Shares of Rs, 1,10,000.
2. Equity Shareholders to be allotted six Equity Shares of Rs. 10 each issued at a premium of 10% and Rs. 3 cash against every five shares held.
3. 7% Debentures of Elora Limited to be taken over by the transferee company.

While arriving at the agreed consideration the directors of Ajanta Limited value Land and

buildings at Rs. 2,50,000; Stock at Rs. 2,20,000 and debtors at their book value subject to an allowance of 4% to cover doubtful debts. Debtors of Elora Limited included Rs. 10,000 due from Ajanta Limited. The stocks of Elora Ltd include item valued at Rs. 60,000 purchased from Ajanta Ltd. (cost to Ajanta Ltd. Rs. 45,000). The machineries were valued at book value.

It was agreed that before acquisition Elora Limited will pay dividend at 10% on Equity Shares and will retain Rs. 5,000 for liquidation expenses.

- a. Draft Journal entries and prepare necessary accounts to close the books of Elora Limited.

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
equity shares of Rs. 10 each	15,00,000	4,00,000	Buildings	7,40,000	
Capital reserve	4,60,000		Machinery	16,38,000	
General reserve	3,50,000	1,00,000	Furniture	27,000	50,000
P&L A/c	80,000	15,000	Patents	60,000	
Creditors	70,000	25,000	Motor Vehicles		70,500
			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) Balance sheet in the books of Z Ltd.

24. Mr. Arora finds himself insolvent on 31/12/2011. Prepare statement of affairs and deficiency account from the following

Sundry debtors : Good 20,000 Doubtful (Estimated to realize 10,000) – 30,500 Bad-14,000
Shares in B Ltd (Estimated to realize 75,000) 90,000
Creditors 96,500
Creditors holding first charge on shares in B 35,000
Creditors holding second charge on shares in B (to the extent 30,000) 40,000
Bills Payable 8000
Creditors for salaries and wages(2500 preferential) 9000
Cash in hand 160
Stock in trade (Estimated to realize 28,000) 32,840
Bill Receivable (Estimated to realize 9000) 12000
Speculation Loss 20,000

Mr.Arora started business on 1-1-2009 with capital of 80,000.He earned a profit of 15,000 in first year loss 20,500 in second year and loss 28,300 in 3rd year after allowing 3600 as interest on capital per annum. His drawings amounted to 26,000. He has household furniture of estimated value 6,000. There is a private creditor for 10,000.

25. What do you mean by HRA? Explain briefly the Objectives, Importance and Limitatons of HRA.

(10 x 3 = 30)