

M. COM DEGREE END SEMESTER EXAMINATION : NOVEMBER 2023**SEMESTER 1 : COMMERCE****COURSE : 21P1COMT01 : ADVANCED FINANCIAL ACCOUNTING***(For Regular - 2023 Admission and Improvement/Supplementary -2022/2021 Admissions)*

Duration : Three Hours

Max. Weights: 30

PART A**Answer any 8 questions****Weight: 1**

1. How will you calculate purchase consideration when purchasing company holding shares in vendor company? (U, CO 2)
2. What is Deficiency Account? (U, CO 3)
3. When there arise a need for valuation of Shares? (U, CO 1)
4. What is order of Discharge under insolvency? (U, CO 3)
5. State the different ways of capital reduction under section 100 of Companies Act. (U, CO 3)
6. How will you treat accumulated losses and preliminary expenses of vendor company? (U, CO 2)
7. What is the position of HRA in India? (U, CO 4)
8. A company has net assts of 1 Lakh. The Share Capital consist of 5000 Equity shares and 2000 Preference shares of 10 each. Preference share holders are entitled to share 25% of surplus assets remaining after payment to equity shareholders. Calculate the value of Preference Shares? (A, CO 1)
9. What is reconstruction through surrender of shares? (U, CO 3)
10. Why there arise a need for Human Resource Accounting? (U, CO 4)
(1 x 8 = 8)

PART B**Answer any 6 questions****Weights: 2**

11. Calculate the amount of Preferential Creditors and unsecured creditors pertaining to Presidency Towns Insolvency Act and Provincial Insolvency Act from the following information
Sales Tax 25,000 Income Tax 15,000 Muncipal Tax 5,000 Four months rent due to Landloard 20,000 Wages of two servents for four months 800 Wages of five labourers for three monts 3000 Salary of Manager 5,000 Salary of two clerks for four months 2,400. (A, CO 3)
12. The Balance Sheet of Agency Limited as on 31st March 2012

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Paid-up Capital :			
10,000 6% Preference Shares of Rs. 10 each	1,00,000	Goodwill	30,000
20,000 Equity Shares of Rs. 10 each	2,00,000	Fixed Assets	3,00,000
Reserve	10,000	Stock	80,000
Surplus Account	20,000	Debtors	70,000
6% Debentures	1,20,000	Bank Balance	15,000
Sundry Creditors	50,000	Preliminary Expenses	5,000
	5,00,000		5,00,000

(A, CO 2)

A new company, Principal Limited, was formed to acquire the business of Agency Limited, which was to be wound up. Principal Limited acquired the assets of Agency Limited with the exception of book debts and cash, but took over no liabilities except 6% Debentures, agreeing however, to collect the debts and pay the creditors as an agent of Agency Limited.

The purchase consideration was to be satisfied as follows:

The Preference shareholders of Agency Limited were to be allotted 6 Preference shares of Rs. 10 each in Principal Limited for every five shares held, and the Equity shareholders of Agency Limited were to be allotted five equity shares of Rs. 10 each credited as Rs. 9 paid for every four shares held.

The expenses of Liquidation were Rs, 5,000

Of the debtors, Rs. 2,000 proved bad and a discount of 2 per cent had to be allowed on settlement.

Creditors were paid off subject to a 4 per cent discount on Rs. 25,000.

Show the ledger accounts necessary to close the books of Agency Limited.

13. What are the benefits of HRA? (U, CO 4)

14. Following details are available about the business of Sagar Ltd

1.	Profit 2014 –₹ 80,000, In 2015 - ₹ 1,00,000 ; In 2016 - ₹ 1,20,000
2.	Non recurring income of ₹ 8,000 is included in the profit of 2015
3.	Profits of 2014 have been reduced by ₹ 1,20,000 as goods were destroyed by fire.
4.	Goods have not been insured but it is thought prudent to insure then in future. The insurance premium is estimated at ₹ 800 per year.
5.	Reasonable remuneration of the proprietor of the business is ₹ 12,000 per year ; but it has not been taken into account for calculation of above mentioned profits.
6.	Profits of 2016 include income on investment ₹10,000

(A, CO 1)

Calculate goodwill on the basis of three years purchases of the average profit of last three years.

15. Smart Ltd has an Equity share capital of Rs 1,00,00,000 consisting of Rs 1,00,000 shares of Rs 100 each. It is resolved and sanctions of the court has been obtained:

- a. To subdivide equity shares into fully paid equity shares of Rs 10 each.
- b. 80% of the shares to be surrendered to the company.
- c. 4,00,000 of the surrendered shares to be issued to 15% debentures of Rs 50,00,000 in full settlement of the claim.
- d. 2,00,000 of the surrendered shares to be issued as fully paid to the creditors of Rs 25,00,000.
- e. The balance of the surrendered shares to be cancelled
- f. To write off debit balance in P&L a/c Rs: 32,00,000; goodwill Rs 38,00,000, preliminary expense Rs 15,00,000 and the balance to be transferred to capital reserve .

(A)

Give journal entry to implement the scheme.

16. Explain the Problems and Limitations of HRA. (U, CO 4)

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

(A, CO 2)

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
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 Saviour Ltd.

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

(U, CO 1)

(2 x 6 = 12)

PART C

Answer any 2 questions

Weights: 5

19. 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.

(A, CO 3)

20. 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, CO 2)

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

- 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.
- 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.

21. The following is the balance sheet of D Pvt Ltd as on 31/12/2010

liabilities	Rs.	assets	Rs.
Share capital 10000 shares of rs.10 each	1,00,000	Land & building	70,000
General reserve	50,000	Plant	70,000
Taxation reserve	20,000	Trade mark	20,000
Workmen compensation fund	20,000	Stock	20,000
p/l a/c	30,000	debtors	48,000
creditors	40,000	Cash at bank	25,000
		Preliminary expense	7,000
	2,60,000		2,60,00

(A, CO 1)

The plant is worth ₹ 60,000 and Land and Buildings are worth ₹ 1,30,000; as valued by an independent value ₹ 5,000 of the debtors is to be taken as bad. The profits of the company were 2008 ₹ 50,000; 2009 ₹ 60,000 and 2010 ₹ 70,000. It is the practice of the company to transfer 20% of the profits to Reserve.

Ignoring taxation, find out the value of the company's share on their intrinsic basis and also on yield basis. Shares of similar companies quoted in the stock exchange yield 12% on their market value. Goodwill of the company may be taken at ₹ 1,00,000.

22. RNR Ltd. Decided to have an internal reconstruction. The Balance Sheet of the company as on 31-03-2014 was as follows :

(A, CO 3)

Liabilities	Rs	Asset	Rs
Authorized, Issued and Subscribed: 10,000 10% Cumulative Preference Shares of 10 each	1,00,000	Goodwill	50,000
25,000 Equity shares of Rs 10 each	2,50,000	Freehold property	75,000
Securities premium Reserve Account	25,000	Leasehold Property	1,00,000
10% 800 Debentures of Rs 100 each (Secured on Freehold Property)	80,000	Plant & Machinery	60,000
Interest Accrued debenture	4,000	Investment	25,000
Creditors for Goods	30,000	Current Assets	60,000
Creditors for expenses	11,000	Share Issue Expenses	20,000
		Surplus A/c Dr. Balance	1,10,000
	<u>5,00,000</u>		<u>5,00,000</u>

As per new schedule VI effective from April 1, 2014, it should be negative balance or Debit balance of surplus A/c.

Preference dividends are in arrears for 2 years. A scheme for reduction of capital was sanctioned by the court as follows:

10% cumulative preference shares of Rs 10 each to be reduced at Rs 8 per share,.

Equity Share of Rs 10 each to be reduced at Rs 4 per share. After reduction, the shares are to be consolidated into shares of Rs 10 each. The authorized capital to be restored to Rs 1,00,000 in 10% cumulative Preference shares of Rs 10 each and 2,50,000 in equity shares of Rs 10 each. One (new) equity share of Rs 10 each is to be issued for every Rs 40 of gross preference dividend in arrears.

The debenture holders agreed to take over the freehold property at Rs 1,30,000 and paid the balance to the company after satisfying their claim.

Fictitious and intangible assets are to be written off.

The value of assets are to be as follows:

Leasehold Property	Rs 80,000
Plant & Machinery	Rs 50,000
Current Assets	Rs 40,000

Investments realized Rs 10,000. Securities premium reserve account balance is allowed to be utilized.

The scheme as sanctioned by the court was implemented.

Required:

- 1) Journal entries for the reduction of share capital and consolidated of preference shares and equity shares.
- 2) Capital Reduction account

Balance Sheet after Reduction.

(5 x 2 = 10)

OBE: Questions to Course Outcome Mapping

CO	Course Outcome Description	CL	Questions	Total Wt.
CO 1	Critical analysis and valuation of goodwill and value of shares and compare the real value of shares and with the market prices	A	3, 8, 14, 18, 21	11
CO 2	Determination of purchase consideration in the event of amalgamation and Students are able to prepare consolidated financial statements of group companies	A	1, 6, 12, 17, 20	11
CO 3	Study of reorganization schemes and Students are able to prepare statement of affairs and deficiency account of individuals	A	2, 4, 5, 9, 11, 19, 22	16
CO 4	Study of Human Resource Accounting various methods of Valuing Human Resource enabling students in calculating the value of Human Resource which is the most important resource of the business	U	7, 10, 13, 16	6

Cognitive Level (CL): Cr - CREATE; E - EVALUATE; An - ANALYZE; A - APPLY; U - UNDERSTAND; R - REMEMBER;