M. COM. DEGREE END SEMESTER EXAMINATION - NOVEMBER 2024

SEMESTER 1 : COMMERCE

COURSE : **24P1COMT01 : ADVANCED FINANCIAL ACCOUNTING - I**

(For Regular - 2024 admission)

Duration : Three Hours Max. Weights: 30

PART A

Answer any 8 questions **Weight: 1**

1. Give provisions regarding Admission or Rejection of Application by the Adjudicating Authority. (U)
2. What are the Rights of Secured Creditors in Relation to Repayment Plan? (U)
3. Give the journal entries in the following cases of capital reduction.
i) Sacrifice made by creditors and debentureholders
ii) Value of asset is appreciated (U)
4. What are the different methods of valuation of shares? (U)
5. What is Amalgamation Adjustment Account? (U)
6. . What do you mean by intangible assets under Ind AS-38 ? (U)
7. Give entries in the reconstruction for settlement of creditors of Rs. 1000 agreed to accept cash at 10% discount and payment of reconstruction expense Rs. 1000 (A)
8. A Ltd. absorbed X Ltd. , and agreed to discharge its 12 per cent debentures of Rs.2,00,000 at a premium of 5 per cent and a payment of Rs.7 in cash and one share of Rs.5 in A Ltd. , at the market value of Rs.8 per share for every share in X Ltd. (X Ltd., had 2,00,000 shares of Rs.10 each). Calulate the amount of purchase consideration. (A)
9. Explain the disclosures under IND AS-16. (U)
10. What is Normal Rate of Earnings? (U)

(1 x 8 = 8)

PART B

Answer any 6 questions **Weights: 2**

11. Mr. Sundrarasan has invested a sum of Rs 2,00,000 in his own business which is a very profitable one. The annual profit earned from his business is Rs 45,000 which includes a sum of Rs 10,000 received as compensation of a part his business premises. As an alternative to his business engagement in his business he could have invested the money in long term deposit with bank earnings a normal rate of interest of 10% and also could engage himself in employment thereby getting an annual salary income of Rs.7,200. (A)

    Considering 2% as fair compensation for the risk involved in the business, calculate the value of goodwill of his business on capitalization of super profits at the normal rate of interest. Ignore taxation.

12. The Balance Sheet of Agency Limited as on 31st March 2012 (A)

Liabilities	*Rs.*	*Assets*	*Rs.*
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 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. Explain the cost computation procedure in Ind AS-2. (U)

14. The paid up capital of ST Ltd., amounted to Rs. 5,00,000 consisting of 2,000 5% Cumulative Preference Shares of Rs. 100 each and 30,000 Equity Share of Rs. 10 each. The preference dividends were in arrear for Rs. 30,000.

Heavy losses having been incurred by the company and, the Directors recommended to the shareholders the proposal to reduce the capital

The scheme duly approved and authorized, provided as follows:

a. For every five 5% preference shares, three 4% Cumulative preference shares, of Rs. 100 each and twenty Equity shares, of Rs. 2 each.
b. For every Rs. 10 of accumulated arrears of Preference Dividend, one Equity share of Rs. 2 each; and
c. For every five old Equity shares, one new Equity share of Rs. 2 each
d. To write down the book-value of Patents by Rs. 70,000; Plant and Machinery by Rs. 17,000; and Tools and Implements by Rs. 2,000.
e. To write off debit balance on Profit and Loss Account of Rs. 1,98,000.
f. Any balance made available by the reduction of capital to be written off "Experiment and Research Expenses".

You are required to show the necessary journal entries and prepare Reduction Account to record the above in the books of the company. (A)

15. The subscribed capital of a company consist of 10,000 14% preference shares of 100 each and 2,00,000 equity shares of 10 each. All the shares are fully paidup. The average annual profits of the company after providing depreciation but before taxation are 25,00,000. It is considered necessary to transfer 1,25,000 to general reserve before declaring dividend. Rate of taxation is 50%. The normal return expected by investors on equity shares from the type of business carried on by the company is 20%. (A)

16. Briefly explain meaning and treatment of intercompany owings and intercompany holdings in connection with Amalgamation of companies. (U)

17. What are the steps in making out scheme of reconstruction? (U)

18. Explain various provisions of the Insolvency and Bankruptcy Code, 2016 regarding appointment of resolution professional. (U)

(2 x 6 = 12)

PART C

Answer any 2 questions **Weights: 5**

19. Explain the following terms (An)

a. Recoverable value b. Net selling price c. Carrying value d. Value in use e. Improvement Loss

20. Soft Ltd. agreed to absorb Quest Ltd as on 31 March 2007. The summarized Balance Sheet of Quest Ltd on the above date is given below:

10,000, % preference shares of Rs. 10 each	1,00,000	Land and Buildings	2,00,000
20,000 Equity Shares of Rs. 10	2,00,000	Machinery	1,00,000
General reserve	20,000	Stock	2,00,000
P and L A/c	30,000	Debtors	50,000
8% Debentures	1,00,000	Bank	20,000
Sundry Creditors	1,00,000	Cash	15,000
Bills payable	50,000	Preliminary expenses	10,000
		Debenture discount	5,000
	6,00,000		**6,00,000**

The consideration payable by Soft Ltd. was:

a. Preference shareholders were to be allotted 8% preference shares of Rs. 1,20,000.
b. Equity shareholders to be allotted six equity shares of Rs. 10 each at a premium of Rs. 3 per share and Rs. 8 cash for every 5 shares held.
c. Debentures to be taken over along with other assets and liabilities.

For the purpose of acquisition, the direction of Soft Ltd. valued Land and buildings of Quest Ltd. 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. The machinery is valued at book figure. Debtors for Quest Ltd. included Rs. 10,000 due from Soft Ltd. (A)

Dive : 1) Closing entries in the books of Quest Ltd.
2) Journal entries in the books of Soft Ltd assuming that the acquisition is in the nature of purchase.

21. Following information are obtained from the books of Sunrise Company ltd as on 31st ,March 2019: (A)

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.

22. The Balance Sheet of BCR Ltd. As on 31-03-2014 appears as below (A)

Liabilities	Amount	Assets	Amount
Share capital :		Fixed Assets at cost 20,00,000 Less : Depreciation Reserve 15,00,000	5,00,000
1,50,000 Equity shares of Rs 10 each fully paid	15,00,000	Stock and stores	6,00,000
5,000 11% Pre. Shares of Rs 100 each fully paid	5,00,000	Receivables	14,50,000
Secured loans :		Other Current assets	2,00,000
11% Debentures	5,00,000	Misc. Expenses : Surplus A/c (Negative Balance)	16,40,000
Int accrued and due on debentures	1,10,000		
Bank overdraft	6,30,000		
Unsecured Loans 5,00,000 Int accrues & due 1,50,000	6,50,000		
Current Liabilities	5,00,000		
	43,90,000		43,90,000

A scheme of reconstruction has been agreed amongst the shareholders and the creditors, with the following salient features:

- Interest due on unsecured loans is waived.
- 50% of the interest due on debenture is waived.
- The 11% pref. shareholders' rights are to be reduced to 50% and converted into 15% Debentures of Rs 100 each.
- Current liabilities would be reduced by Rs 50,000 on account of provision no longer required.

- The bank agree to the arrangement and to increase the cash credit/overdraft limits by Rs 1,00,000 upon the shareholders agreeing to bring in a like amount by way of new equity.
- Besides additional subscription as above, the equity shareholders agree to convert the existing equity shares into new 10 rupees shares of total value Rs 5,00,000.
- The debit balance in the P & L A/c is to be wiped out, Rs 2,60,000 provided for doubtful debts and the value of fixed assets increased by Rs 4,00,000.

Redraft the balance sheet of the company based on the above scheme of reconstruction.

(5 x 2 = 10)

OBE: Questions to Course Outcome Mapping

CO	Course Outcome Description	CL	Questions	Total Wt.

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