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Reg. No.....

Name.....

M.Com. DEGREE (C.S.S.) EXAMINATION, OCTOBER 2019

First Semester

Faculty of Commerce

AF01CO1—ADVANCED FINANCIAL ACCOUNTING—I

(2012—2018 Admissions)

Time : Three Hours

Maximum Weight : 30

Section A

Answer any five questions.

Each question carries a weight of 1.

1. What is doctrine of reputed ownership ?
2. Explain human resource accounting.
3. What is external reconstruction ?
4. Define fair value method of share valuation.
5. State the preferential creditors as per list D.
6. What is a consolidated balance sheet ?
7. Define insolvency.
8. What do you mean by consolidation and sub-division of shares ?

(5 × 1 = 5)

Section B

Answer any five questions.

Each question carries a weight of 2.

9. State the differences between Balance Sheet and Statement of Affairs.
10. Explain the objectives of human resource accounting.
11. Enumerate the factors that should be considered in valuing goodwill.
12. What entries should be passed in the books of a company that goes into liquidation for the purpose of absorption ?

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13. The net profits of a company after providing for taxation for the past five years are Rs. 40,000, Rs. 42,000, Rs. 45,000, Rs. 46,000 and Rs. 47,000. The capital employed in the business is Rs. 4,00,000 on which a reasonable rate of return of 10% is expected. It is expected that the company will be able to maintain its super profits for the next five years. Calculate the value of goodwill of the business on the basis of an annuity of super profits, taking the present value of annuity of one rupee for five years at 10% interest as Rs. 3.78.

14. From the following information, calculate the value per equity share :

2000, 9% preference shares of Rs. 100 each—Rs. 2,00,000

50,000 equity shares of Rs. 10 each Rs. 8 per share paid up—Rs. 4,00,000

Expected profits per year before tax—Rs. 2,18,000

Rate of tax—50%

Transfer to general reserve every year—20% of the profit.

Normal rate of earning—15%

15. The paid up capital of T Ltd. Amounted to Rs. 2,50,000 consisting of 25,000 equity shares of Rs. 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 reconstruction were as follows :

(i) In lieu of their present holdings, the shareholders are to receive :

(a) Fully paid equity shares equal to $\frac{2}{5}$ th 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 Rs. 10 each.

(ii) An issue of 2,500 5% first debentures of Rs. 10 each was made and fully subscribed in cash.

(iii) The assets were reduced as follows :

(a) Goodwill from Rs. 1,50,000 to Rs. 75,000.

(b) Machinery from Rs. 50,000 to Rs. 37,500.

(c) Leasehold premises from Rs. 75,000 to Rs. 62,500.

Show the journal entries to give effect to the above scheme of reconstruction.





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16. Following is the balance sheet of A Ltd :

<i>Liabilities</i>	Rs.	<i>Assets</i>	Rs.
Share Capital (Rs. 10)	1,00,000	Sundry assets	2,50,000
Debentures	50,000		
General reserve	50,000		
Creditors	50,000		
	2,50,000		2,50,000

A Ltd. is to be taken over by B Ltd. Each share of A Ltd. has a market value of Rs. 15, while that of B Ltd has a market value of Rs. 30. The purchase consideration is to be satisfied in the form of shares to be issued by B Ltd. You are required to ascertain the amount of purchase consideration.

(5 × 2 = 10)

Section C

Answer any **three** questions.

Each question carries a weight of 5.

17. The summarized assets and liabilities position of H Ltd. as on 1-4-2016 was as follows :

<i>Liabilities</i>	Rs.	<i>Assets</i>	Rs.
Authorised Capital :		Goodwill	20,000
80,000 equity shares of Rs. 10 each	8,00,000	Land and Buildings	1,60,000
2,000 9% preference shares of Rs. 100 each	<u>2,00,000</u>	Plant and Machinery	1,20,000
Issued and paid up capital :		Investments	24,000
40,000 equity shares of Rs. 10 each,		Stock	54,000
Rs. 7.50 paid up per share	3,00,000	Debtors	1,18,000
2,000 9% preference shares of		Cash in Hand	6,000
Rs. 100 each fully paid	2,00,000	Profit and Loss	
Unsecured loans	80,000	account	1,42,800
Trade creditors	48,000		
Bank overdraft	16,800		
	6,44,800		6,44,800

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Notes :

- (a) Dividend for preference shares has not been paid for 2 years.
- (b) No provision has been made for sale tax liability of Rs. 9,600.

Following scheme of reconstruction has been approved by the court :

- (i) Uncalled capital is to be called up in full and equity shares are to be reduced to Rs. 5 per share.
- (ii) Sale tax liability of Rs. 9,000 is to be paid immediately.
- (iii) Land and buildings are to be shown in the balance sheet at full market value of Rs. 2,20,000 and goodwill is to be written off.
- (iv) Trade creditors have consented for 25% of remission of liability on a condition that 25% of the net liability after remission is paid forthwith and the balance is paid within one year.
- (v) Investments are to be taken over by bank in full settlement of the overdraft facility.
- (vi) Preference shareholders have agreed to give up their right for the two years dividend and accept twelve fully paid equity shares of five rupees each for each fully paid preference shares.

You are required to :

- (i) Pass necessary journal entries recording the above transactions ; and
- (ii) Draw up a fresh balance sheet after giving effect to the scheme of reconstruction.

18. The following are the balance sheets of M Ltd. And N Ltd. as on 31st March, 2016.

<i>Liabilities</i>	M Ltd. Rs.	N Ltd. Rs.	<i>Assets</i>	M Ltd. Rs.	N Ltd. Rs.
Equity shares of Rs. 100 each fully paid	2,00,000	1,00,000	Machinery	1,00,000	50,000
Profit and Loss A/c	60,000	30,000	Furniture	20,000	5,000
Sundry creditors	40,000	70,000	Shares in N Ltd.	25,000	
			Shares in M Ltd		12,000
			Stock	75,000	45,000
			Debtors	60,000	68,000
			Cash at bank	20,000	20,000
	3,00,000	2,00,000		3,00,000	2,00,000





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M. Ltd. holds 200 shares in N. Ltd. and N. Ltd holds 100 shares in M. Ltd.

The two companies agree on amalgamation on the following basis :

- (i) A new company is to be formed called S. Ltd.
- (ii) The goodwill is valued for M. Ltd Rs. 50,000 and for N. Ltd Rs. 25,000.
- (iii) The shares of S. Ltd are of nominal value of Rs. 10 each.

Prepare the balance sheet of S Ltd after the merger.

19. Shutdown Ltd. has almost ceased to be a going concern. Its balance sheet as on 31st March, 2016 was as follows :

<i>Liabilities</i>	Rs.	<i>Assets</i>	Rs.
Equity Capital	8,00,000	Buildings	4,00,000
Preference Capital	6,00,000	Plant and Machinery	2,00,000
Current Liabilities	2,00,000	Inventories	1,00,000
		Sundry Debtors	1,50,000
		P and L A/c (Dr. Balance)	7,50,000
	16,00,000		16,00,000

In addition there was contingent liability of Rs. 30,000 on account of a legal dispute. S Ltd was incorporated on 1st April, 2016 to take over the business of shutdown Ltd. It agreed to take over the assets, buildings at 90% of the book value, plant and machinery at 60% of book value, inventories at 30% of book value and sundry debtors at 60% of the book value.

The purchase consideration was satisfied by issuing equal number of equity and Preference Shares in S 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 S Ltd. and settled by issue of equity shares. The preference shareholders of shutdown Ltd accepted the preference shares received from S Ltd in full settlement. Give journal entries in the books of Shutdown Ltd. and S Ltd.

20. The assets of a merchant on 30th June, 2016 as shown by his books were Rs. 45,000 and his liabilities Rs. 31,000. Filed his insolvency petition and estimated his deficiency to be Rs. 22,000. After making the above estimate, he found that the following items were not recorded in his books :

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- (a) Interest at 10% on his capital from 1st January, 2016.
- (b) Amount due as wages Rs. 200 ; as salaries Rs. 500 ; as rates and taxes Rs. 300 ; as rent Rs. 500.
- (c) A contingent liability for Rs. 3,000 on bills discounted by him for Rs. 8,000.
- (d) A loan of Rs. 5,000 taken from a friend for the marriage of his daughter.

You are required to prepare a statement of affairs and a deficiency account from the above particulars.

21. Following is the balance sheet of Desai and Co. as on 31st December, 2016 :

	Rs.		Rs.
Share capital 10,000 shares of Rs. 10 each	1,00,000	Land and Buildings	70,000
General reserve	50,000	Plant and machinery	70,000
Taxation reserve	20,000	Trade Marks	20,000
Workmen's Savings A/c	20,000	Stock	20,000
P and L A/c	30,000	Debtors	48,000
Sundry creditors	40,000	Bank	25,000
		Preliminary expenses	7,000
	2,60,000		2,60,000

The plant and machinery is worth Rs. 60,000 and land and buildings Rs. 1,30,000 as valued by an independent valuer. Rs. 5,000 of the debtors are to be taken as bad. The profits of the company were 2014 Rs. 50,000 ; 2015 Rs. 60,000 and 2016 Rs. 70,000.

It is the practice of the company to transfer 20% of the profit to reserve. Find out the value of the shares of the company on net assets 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 Rs. 1,00,000.

22. Define Goodwill. Explain the methods of valuing goodwill.

(3 × 5 = 15)

