

18002106



Reg. No.....

Name.....

M.Com. DEGREE (C.S.S.) EXAMINATION, DECEMBER 2018

First Semester

Faculty of Commerce

AF 01 CO1—ADVANCED FINANCIAL ACCOUNTING—I

(2012 Admission onwards)

Time : Three Hours

Maximum Weight : 30

Section A

Answer any five questions.

Each question carries a weight of 1.

1. What is Amalgamation ?
2. Define purchase consideration.
3. What is statement of affairs ?
4. State the significance of IFRS.
5. What is cross holding ?
6. Explain the term fraudulent preference.
7. State the book debts as per list E of statement of affairs.
8. What is fair value of shares ?

(5 × 1 = 5)

Section B

Answer any five questions.

Each question carries a weight of 2.

9. Explain the limitations of human resource accounting.
10. When can a person be declared insolvent ?
11. Describe the circumstances that necessitate the valuation of goodwill.
12. What are the entries should be passed in the books of a company that goes into liquidation for the purpose of amalgamation ?

Turn over



13. The following particulars relate to a company :

Total assets Rs. 18,50,000.

External liabilities Rs. 2,50,000.

Share capital :

14% preference shares of Rs. 10 each, fully paid Rs. 5,00,000

40,000 equity shares of Rs. 10 each, fully paid Rs. 4,00,000

60,000 equity shares of Rs. 10 each, Rs. 7.50 paid. Rs. 4,50,000.

Calculate the value of each category of equity shares on net assets basis.

14. On 31-12-2014, A Ltd. had 10,000 equity shares of Rs. 10 each as authorized capital and shares were all issued on which Rs. 8 was paid up. In June, 2015 the company in general meeting decided to subdivide each share into two shares of Rs. 5 each, Rs. 4 paid up. In June, 2016 the company in general meeting resolved to consolidate 20 shares of Rs 5. each, Rs. 4 per share paid up into one share of Rs. 100 each, Rs. 80 paid up.

Pass journal entries and show how share capital will appear in the balance sheet as on 31-12-2014, 31-12-2015 and 31-12-2016.

15. Calculate the amount of purchase consideration of the following :

(i) P Ltd. agrees to issue three shares of Rs. 10 each, Rs. 4 paid up for every two shares of V Ltd. V Ltd. has a share capital of Rs. 10,000 shares of Rs. 10 each, Rs. 8 paid up.

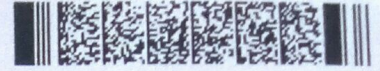
(ii) P Ltd. agrees to issue three shares of Rs. 10 each, Rs. 5 paid up (market price Rs. 8) for every two shares (market price Rs. 12) of V Ltd. V Ltd. has a share capital of 10,000 shares of Rs. 10 each, Rs. 8 paid up.

16. Mr. W has invested a sum of Rs. 2,00,000 in his own business which is 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 of his business premises.

As an alternative to his engagement in his business, he could have invested the money in long term deposit with bank earning a normal rate of interest of 10% and also could engage himself in employment thereby getting an annual salary income of Rs. 7,200.

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.

(5 × 2 = 10)



18002106

Section C

Answer any **three** questions.
Each question carries a weight of 5.

17. The balance sheet of F Ltd. as on 31st March, 2016 was as under :

| <i>Liabilities</i> | <i>Rs.</i> | <i>Assets</i> | <i>Rs.</i> |
|---|--|-------------------------------------|----------------------------------|
| Share capital 6,000 equity shares of 60 each, Rs. 30 paid up } 5% first debentures 6% second debentures Unsecured creditors | 1,80,000 3,00,000 6,00,000 4,50,000 | Fixed assets Bank P and L A/c | 3,90,000 2,70,000 8,70,000 |
| | 15,30,000 | | 15,30,000 |

Mr. R holds the first debentures for Rs. 3,00,000 and second debentures for Rs. 3,00,000. He is also an unsecured creditor for Rs. 90,000.

Mr. V holds the second debentures for Rs. 3,00,000 and is an unsecured creditor for Rs. 60,000.

The following scheme of reconstruction is proposed :

- (i) Mr. R is to cancel Rs. 2,10,000 of total debt owing to him ; to advance Rs. 30,000 in cash and to take new first debentures (in cancellation of those already issued) for Rs. 5,10,000 in satisfaction of all his claims.
- (ii) Mr. V to accept Rs. 90,000 in cash in satisfaction of all his claims.
- (iii) Unsecured creditors (other than R and V) are to accept the allotment of 20,000 fully paid equity shares of Rs. 7.50 each in satisfaction of 75% of their claims and balance of 25% is to be postponed and to be payable at the end of four years.

The nominal share capital is to be increased to 48,000 shares of Rs. 7.50 each.

- (iv) Uncalled capital is to be called up in full and Rs. 52.50 per share cancelled, thus making the shares of Rs. 7.50 each.

Give the necessary journal entries and the balance sheet of the company after the scheme has been put into effect.

Turn over



18. Deva Ltd. and Asura Ltd. carrying on similar business agreed to amalgamate by transferring their undertakings to a new company called Devasura Ltd. The balance sheets of the two companies as on the date of transfer were as follows :

| <i>Liabilities</i> | Deva Ltd. | Asura Ltd. | <i>Assets</i> | Deva Ltd. | Asura Ltd. |
|--------------------------------------|-----------|------------|----------------------|-----------|------------|
| | Rs. | Rs. | | Rs. | Rs. |
| Equity shares of Rs. 100 each | 5,00,000 | 3,00,000 | Land and Building | 4,65,000 | 2,55,000 |
| 6% preference shares of Rs. 100 each | 5,00,000 | 2,50,000 | Plant and Machinery | 5,60,000 | 3,58,000 |
| 5% debentures | — | 40,000 | Furniture | 79,000 | 34,000 |
| General reserve | 2,00,000 | 70,000 | Stock | 81,500 | 52,000 |
| P and L A/c | 1,15,000 | 55,000 | Debtors | 56,000 | 24,600 |
| Sundry creditors | 75,000 | 35,000 | Bank | 87,000 | 22,500 |
| | — | | Cash in hand | 6,400 | 3,900 |
| | | | Preliminary expenses | 55,100 | — |
| | 13,90,000 | 7,50,000 | | 13,90,000 | 7,50,000 |

The terms of agreement were as follows :

(i) The purchase consideration consisted of :

(a) The assumption of liabilities of both the companies ; (b) the discharge of the debentures in Asura Ltd. at a premium of 5% by Devasura Ltd. by the issue of 7% debentures ; (c) the issue of 10 equity shares of Rs. 10 each at a premium of Rs. 2 per share for each preference share held in both the companies ; (d) the issue of 10 equity shares of Rs. 10 each at a premium of Rs. 2 per share and Rs. 22 in cash for each equity share in Deva Ltd. and 5 equity shares of Rs. 10 each at a premium of Rs. 2 per share and Rs. 80 in cash for every equity share in Asura Ltd.

(ii) All the assets and liabilities of the two companies were taken over at their book value except a provision at 5% to be raised on debentures.

(iii) In order to raise working capital and to pay the purchase consideration, Devasura Ltd. decided to issue 30,000 equity shares of Rs. 10 each at a premium of Rs. 2.50 per share.

Pass journal entries in the books of Deva Ltd. to close its accounts and show the opening balance sheet of Devasura Ltd assuming amalgamation is in the nature of purchase.



19. Mr. Sahu filed a petition in bankruptcy on 31st December, 2015. His book showed the following balances :

| | | | |
|--|-----------------------------|-----------|-----------|
| Fixtures and fittings (estimated to produce Rs. 400) | : | Rs. 1,030 | |
| Stock in trade (estimated to produce Rs. 5,000) | : | Rs. 7,210 | |
| Trade creditors | : | Rs. 7,940 | |
| Bills payable | : | Rs. 8,700 | |
| Sundry Debtors | Good | : | Rs. 3,800 |
| | Doubtful (Estimated at 50%) | : | Rs. 8,000 |
| | Bad | : | Rs. 8,000 |
| Bank overdraft | : | Rs. 6,900 | |
| Capital | : | Rs. 4,500 | |

Liabilities on bills discounted Rs. 2,500, estimated to rank Rs. 600. His life policy (surrender value Rs. 2,000) given as security for a loan of Rs. 1,500 at 10% interest paid up to the preceding 30th June. Mrs. Sahu gave up jewellery valued at Rs. 1,200 to the Official Receiver. Official Receiver completed certain pending transactions which resulted in a profit of Rs. 200. There is a creditor of Rs. 100 (included in trade creditors) who is not to rank for dividend. Income tax due amounted to Rs. 1,540.

Prepare a Statement of Affairs and Deficiency Account.

20. The balance sheet of A Ltd. as on 31st March, 2016 was as follows :

| <i>Liabilities</i> | Rs. | <i>Assets</i> | Rs. |
|--|----------|------------------------------------|----------|
| 8,000 equity shares of Rs. 50 each fully paid | 4,00,000 | Land and building | 2,30,000 |
| General reserve | 50,000 | Plant and Machinery | 1,80,000 |
| Workmen's compensation fund (out standing liability Rs. 8,000) | 30,000 | Furniture | 20,000 |
| 1,000, 7% debentures of Rs. 50 each | 50,000 | Sundry Debtors | 95,000 |
| Sundry creditors | 40,000 | Cash | 2,000 |
| Bank overdraft | 10,000 | Discount on issue of debentures | 3,000 |
| Staff Provident fund | 40,000 | | |
| | 6,20,000 | | 6,20,000 |

Turn over



The business of the company is taken over by B Ltd. on that date.

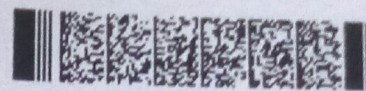
The purchase consideration is to be discharged as follows :

- (a) A payment in cash at Rs. 10 for every share in A Ltd.
- (b) 7% debentures of A Ltd. are taken over by B Ltd. and are discharged by a payment in cash at Rs. 60 for every debenture.
- (c) An exchange of 5 shares in B Ltd. of Rs. 10 each, at the market value of Rs. 15 per share, for every two shares in A Ltd.

Show the Realization Account, Cash Account and the shareholders' account in the books of A Ltd. The expenses of liquidation, Rs. 5,000, were borne by A Ltd.

21. Following is the balance sheet of SB Ltd. as on 31st March, 2016 :

| <i>Liabilities</i> | Rs. | <i>Assets</i> | Rs. |
|---|-----------|----------------------------|-----------|
| 1,00,000 equity shares of Rs. 10 each, fully paid | 10,00,000 | Patent | 2,00,000 |
| 1,00,000 equity shares of Rs. 10 each, Rs. 7.50 paid | 7,50,000 | Land and building @ cost | 12,00,000 |
| 1,00,000 equity shares Rs. 10 each, Rs. 5 paid | 5,00,000 | Plant and machinery @ cost | 14,00,000 |
| Securities premium account | 5,00,000 | Investments @ cost | 1,50,000 |
| General reserve | 4,00,000 | Stock | 6,00,000 |
| Profit and Loss A/c | 2,00,000 | Debtors | 8,00,000 |
| Capital reserve | 3,00,000 | Bank | 1,60,000 |
| Provision for Depreciation on plant and machinery | 2,00,000 | Preliminary expenses | 40,000 |
| Provision for bad debts | 30,000 | | |
| Staff welfare fund | 60,000 | | |
| Dividend equalization fund | 1,00,000 | | |
| Sundry creditors | 5,10,000 | | |
| | 45,50,000 | | 45,50,000 |



18002106

The normal average profit, after tax, for the company is estimated to be Rs. 5,40,000. The applicable capitalization rate is 12%.

The balance sheet at 31st March, 2016 does not contain a provision for unassessed income tax, which are estimated at Rs. 75,000.

The revised value of patent is Rs. 1,00,000.

Land and Buildings and Plant and Machinery are revalued at Rs. 15,00,000 and Rs. 13,00,000 respectively.

Investments have a market value of Rs. 1,80,000.

Bad debt provisions should be maintained at 2% on debtors.

Calculate the value of each type of equity shares :

- (a) The asset backing method (excluding goodwill) based on the notional call method ; and
- (b) Earning capacity method.

Assume dividends are declared on paid up amounts.

22. Describe the various methods of valuation of shares.

(3 × 5 = 15)

