

G 18000107



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Reg. No.....

Name.....

**M.Com. DEGREE (C.S.S.) EXAMINATION, FEBRUARY 2018**

**First Semester**

Faculty of Commerce

**AF 01 C01—ADVANCED FINANCIAL ACCOUNTING**

(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 absorption ?
2. Explain net asset method of share valuation.
3. Define merger.
4. When the purchase price exceeds the net value of the business, how is the difference dealt with ?
5. Explain the inter - Company Owings and holdings.
6. Explain internal reconstruction.
7. Explain contingent liabilities.
8. What is deficiency account ?

(5 × 1 = 5)

**Section B**

*Answer any five questions.*

*Each question carries a weight of 2.*

9. What do you mean by preferential creditors ? How are they shown in the Statement of Affairs ?
10. Explain the circumstances under which valuation of shares is essential.
11. Describe the various ways of calculating purchase consideration.
12. Explain the objectives of human resource accounting.

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13. The following particulars are available in respect of the business carried on by Ram Lal.

- (a) Profits earned 2014 Rs. 50,000 2015 Rs. 48,000 and 2016 Rs. 52,000.
- (b) Profits of 2015 are reduced by Rs. 5,000 due to stock destroyed by fire and profits of 2014 included a non- recurring income of Rs. 3,000.
- (c) Profits of 2016 include Rs. 2,000 income on investment.
- (d) The stock is not insured and it is thought prudent to insure the stock in future. The insurance premium is estimated at Rs. 500 per annum.
- (e) Fair remuneration to proprietor (not taken in the estimation of profits) is Rs. 10,000 per annum.

Compute the value of goodwill on the basis of 2 years purchase of average profit of the last three years.

14. The capital structure of a Company is as follows :

	Rs.
12% preference shares of Rs. 10 each	— 5,00,000
Equity shares of Rs. 10 each	— 8,00,000
Reserves and surplus	— 4,00,000
10% debentures	— 6,00,000
11% term loan	— 7,00,000
	<u>30,00,000</u>

The average annual profit before payment of tax and interest is Rs. 6,00,000. The income tax rate is 45%.

You are required to state what valuation should be put upon the equity shares of the Company under price earnings ratio, if the applicable price earnings ratio is 9.

15. A Ltd had Rs. 10,00,000 authorized capital on 31-12-2014 divided into shares of Rs. 100 each out of which 8,000 shares were issued and fully paid up. In June, 2015 the Company decided to convert the issued shares into stock. But In June, 2016 the Company converted stock into shares of Rs. 10 each fully 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.





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16. Calculate the amount of purchase consideration in the following cases.

- (a) P Ltd., agrees to take over the business of V Ltd. The market price of each share of P Ltd., is Rs. 20 (face value Rs 10) while that of V Ltd., is Rs. 15. The issued share capital of V Ltd., consists of 10,000 equity shares of Rs. 10 each fully paid up.
- (b) P Ltd., agrees to issue three shares of Rs. 10 each at a market price of Rs. 15 per share for every two shares of Rs. 10 each (market price Rs. 20) of V Ltd. The issued share capital of V Ltd., consist of 10,000 shares of Rs. 10 each fully paid up.

(5 × 2 = 10)

### Section C

Answer any **three** questions.

Each question carries a weight of 5.

17. The balance sheet of R Ltd., as on 31<sup>st</sup> March, 2016 was as follows :

Liabilities	Rs.	Assets	Rs.
10,000 equity shares of Rs. 100 each fully paid	10,00,000	Machineries	1,00,000
12% debentures	2,00,000	Stock	3,20,000
Accrued interest	24,000	Debtors	2,70,000
Creditors	72,000	Bank	30,000
Provision for income tax	24,000	P and L A/c	6,00,000
	13,20,000		13,20,000

It was decided to reconstruct the Company and accordingly, the following things were agreed upon.

- (a) Each share be subdivided into ten fully paid equity shares of Rs. 10 each.
- (b) After subdivision, each share holder shall surrender to the Company 50% of his holding, for the purpose of re-issue to debenture holders and creditors as necessary.
- (c) Out of shares surrendered, 10,000 shares of Rs. 10 each shall be converted into 12% preference shares of Rs. 10 each fully paid.

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- (d) The claims of the debenture holders shall be reduced by 75%. In consideration of the reduction, the debenture holders shall receive preference shares of Rs. 1,00,000 which are converted out of shares surrendered.
- (e) Creditors claim shall be reduced to 50%, to be settled by the issue of equity shares of Rs. 10 each out of shares surrendered.
- (f) Balance of P and L Account to be written off.
- (g) The shares surrendered and not re-issued shall be cancelled.

Show the journal entries giving effect to the above and the resultant balance sheet.

18. A Ltd., and Z Ltd., are engaged in similar line of business. They decided to amalgamate in the nature of purchase their business as on 31<sup>st</sup> March, 2015 by forming J Ltd., with an authorized share capital of Rs. 60,00,000, divided in 1,00,000- 9% cumulative preference shares of Rs. 10 each and 5,00,000 equity shares of Rs. 10 each. The balance sheets of A Ltd., and Z Ltd., on 31<sup>st</sup> March, 2015 are as follows :

Liabilities	A Ltd	Z Ltd	Assets	A Ltd	Z Ltd
Equity share capital	30,00,000	8,00,000	Goodwill	—	1,40,000
8% preference share capital	10,00,000	—	Land and Buildings	12,00,000	—
General reserve	16,00,000	—	Plant	31,00,000	—
P and LA/c	1,80,000	64,000	Furniture	—	50,000
Sundry Creditors	1,00,000	12,000	Vehicles	—	80,000
			Patents	4,00,000	—
			Stocks	7,00,000	4,78,000
			Debtors	1,60,000	1,24,000
			Bank	3,20,000	34,000
	58,80,000	9,06,000		58,80,000	9,06,000

The following terms were agreed upon by the parties.

- 1 J Ltd., allots 3,60,000 equity shares at Rs. 12.50 to A Ltd., and pay cash Rs. 10,90,000 as consideration of whole of assets except bank balance.
- 2 Z Ltd., is to receive 60,000 equity shares at Rs. 12.50 each and Rs. 12,000 as consideration for whole of assets except bank balance.





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- 3 All assets except goodwill are taken at book values.
- 4 J Ltd., is to issue remaining equity shares at Rs. 12.50 each and preference shares at par for cash. This issue is fully subscribed and paid up.
- 5 Both A Ltd., and Z Ltd., are to pay other liabilities and preference share holders individually.
- 6 J Ltd., is to pay and bear liquidation expenses of Rs. 10,000 for A Ltd., and Rs. 4,000 for Z Ltd. The formation expenses of J Ltd., are Rs. 36,000 and its capital issue expenses is Rs. 48,000.

Show necessary journal entries in the books of A Ltd., only and the balance sheet of J Ltd.

19. The White Ltd agreed to acquire the business of Green Ltd as on 31<sup>st</sup> March, 2016 on which date the balance sheet of Green Ltd was summarized as follows :

Liabilities	Rs.	Assets	Rs.
Equity shares of Rs 10 each fully paid	6,00,000	Good will	1,00,000
General Reserve	1,70,000	Land and Buildings	3,00,000
P and L A/c	1,10,000	Plant	3,40,000
6% debentures	1,00,000	Stock	1,68,000
Creditors	20,000	Debtors	56,000
		Cash	36,000
	10,00,000		10,00,000

The consideration payable by White Ltd was :

- (a) A cash payment of Rs. 2.50 for every share in Green Ltd.
- (b) Issue of 90,000 Rs. 10 shares at an agreed value of Rs. 12.50 per share and
- (c) 6% debentures of Green Ltd., are taken over by White Ltd., and are discharged by the issue of such an amount of fully paid 5% debentures in White Ltd., at 96% as is sufficient to discharge 6% debentures in Green Ltd at a premium of 20%.

The directors of White Ltd valued Land and Buildings at Rs. 4,00,000 and created a Provision of 5% on debtors against doubtful debts.

The expenses of liquidation of Rs. 6,000 were paid by White Ltd.

Give Journal entries to close the books of Green Ltd and to record the acquisition of business in the books of White Ltd.

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20. From the following particulars prepare a Statement of Affairs of Gharib Das of Bombay, who filed his petition in insolvency on 31<sup>st</sup> December, 2016.

Trade creditors Rs. 65,000 ; Creditors Rs. 40,000 having a first Charge on the land and building book value Rs. 54,000 estimated to realize Rs. 50,000 ; Creditors Rs. 30,000 having a second Charge on the land and building ; Cash Rs. 1,000 ; Stock Rs. 20,000 estimated to realize Rs. 16,000 ; Machinery Rs. 50,000 estimated to realize Rs. 28,000 ; Furniture Rs. 15,000 estimated to realize Rs. 9,000 ; Bills receivable Rs. 2,000 ; Investments Rs. 35,000 estimated to realize Rs. 32,000 ; Sundry debtors -Good Rs. 5,000, Doubtful Rs. 20,000 estimated to realize Rs. 5,000 and bad Rs. 8,000 ; Household debts Rs. 1,700 ; Clerk's salaries for 4 months in arrear Rs. 1,200 ; Wages due to a servant for 5 months Rs. 100 ; Household Utensils Rs. 200 ; Taxes due Rs. 5,000 ; Bank overdraft Rs. 25,000 ; Loan from Wife Rs. 11,000 ; Liabilities on bills discounted Rs. 5,000, estimated to rank Rs. 2,000 ; Household Furniture Rs. 800 ; Mrs. Gharib Das gave up jewellery valued at Rs. 4,000 to Official Receiver.

Estimating the cost of winding up at Rs. 3,205, state the amount of dividend which could be expected to be paid.

21. On 31<sup>st</sup> March, 2016 the balance sheet of a Limited Company disclosed the following Position.

Liabilities	Rs.	Assets	Rs.
Share capital in Rs. 10 shares	4,00,000	Fixed assets	5,00,000
Reserves	90,000	Current assets	2,00,000
P and L A/c	20,000	Goodwill	40,000
5% debentures	1,00,000		
Current liabilities	1,30,000		
	7,40,000		7,40,000

On 31<sup>st</sup> March, 2016 the fixed assets were independently valued at Rs. 3,50,000 and the goodwill at Rs. 50,000. The net profits for the three years were 2014 Rs. 51,600, 2015 Rs. 52,000 and 2016 Rs. 51,650.

Of which 20% was placed to reserve this proportion being considered reasonable in the industry in which the Company is engaged and where a fair investment return may be taken at 10%.

Compute the value of Company's shares by the Assets Method and the Yield Method.

22. Define human resource accounting. Describe the important approaches to the valuation of human resources.

(3 × 5 = 15)

