

M.Com. DEGREE (C.S.S.) EXAMINATION, JANUARY/FEBRUARY 2017**First Semester****Faculty of Commerce****AF 01 C01—ADVANCED FINANCIAL ACCOUNTING—I**

(2012 Admission onwards)

Time : Three Hours

Maximum Weight : 30

Section A

*Answer any five questions.
Each question carries 1 weight.*

1. Define Goodwill.
2. What is the intrinsic value method of valuation ?
3. What is meant by amalgamation of companies ?
4. What is meant by alteration of capital ?
5. What is deficiency account ? When it is prepared ?
6. What are the features of Human Resource Accounting ?
7. What is IFRS ?
8. What is Capital Reduction Account ?

(5 × 1 = 5)

Section B

*Answer any five questions.
Each question carries 2 weights.*

9. What is purchase consideration ? What are the different methods of calculating purchase consideration ?
10. Explain the significance of IFRS.
11. Explain briefly different methods of valuation of shares.
12. What are the factors affecting the value of goodwill ?
13. Distinguish between External and Internal Reconstruction.

Turn over

14. An investor intends to invest not more than Rs. 15,000 in Equity Shares of an Iron and Steel Co. What is the maximum number of shares that can be purchased by him if the following is the financial position of the Co.

Issued and paid up Capital :	Rs.
6% Preference shares of Rs.100 each	— 5,00,000
Equity shares of Rs.10 each	— 3,00,000

Average net profit of the company is Rs. 57,000. Expected normal yield is 7%.

Total Assets (other than goodwill) Rs. 9,49,000 and total outside liabilities Rs. 95,000.

Goodwill is to be calculated at 5 years purchase of super profit, if any.

15. The following particulars are available in respect of the business carried on by a trader.

Profit earned, 2009—Rs. 50,000 ; 2010—Rs. 60,000 ; 2011—Rs. 55,000.

Normal rate of profit	... 10%
Capital employed	... 3,00,000
Present value of Annuity of one rupee for five years at 10%	... 3.78

The profits include non-recurring profits on an average basis of Rs. 4,000 out of which it is expected that even non-recurring profit had a tendency of appearing at the rate of Rs. 1,000 p. a.

You are required to calculate goodwill :

- As per five years purchase of super profit.
- As per capitalization of super profit.
- As per annuity method.

16. The paid up capital of AB Ltd. amounted to Rs. 2,50,000 consisting of 25,000 equity shares of Rs.10 each. The following scheme of reconstruction was approved by court to cover the continuous losses incurred by the Co.

- In lieu of their present holdings, the shareholders are to receive :

- Fully paid equity shares equal to $\frac{2}{5}$ th of their holding.
- 5% preference shares fully paid up to the extent of 20% of the above new equity shares.
- 3,000, 6% second debentures of Rs.10 each.

2. An issue of 2,500, 5% first debentures of Rs. 10 each was made and fully subscribed on cash.
3. The assets were reduced as follows :
- (a) Goodwill from Rs. 1,50,000 to Rs. 75,000.
 - (b) Machinery from 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.

(5 × 2 = 10)

Section C

*Answer any three questions.
Each question carries 5 weights.*

17. Explain in brief various IFRS formulated by International Accounting Standard Board.
18. What is Human Resource Accounting ? Discuss any two methods of measuring the human resources.
19. The following is the Balance Sheet of X Ltd., as at 31st March 2011.

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Share Capital :		Fixed Assets	1,02,000
2,000, 6% Preference shares of		Preliminary expenses	6,000
Rs.10 each	20,000	Discount on debentures	2,000
6,000 Equity shares of Rs.10 each	60,000	Profit and Loss	12,000
General Reserve	10,000		
7% Debentures	10,000		
Depreciation Fund	2,000		
Creditors	20,000		
	1,22,000		1,22,000

Turn over

14. An investor intends to invest not more than Rs. 15,000 in Equity Shares of an Iron and Steel Co. What is the maximum number of shares that can be purchased by him if the following is the financial position of the Co.

Issued and paid up Capital :	Rs.
6% Preference shares of Rs.100 each	— 5,00,000
Equity shares of Rs.10 each	— 3,00,000

Average net profit of the company is Rs. 57,000. Expected normal yield is 7%.

Total Assets (other than goodwill) Rs. 9,49,000 and total outside liabilities Rs. 95,000.

Goodwill is to be calculated at 5 years purchase of super profit, if any.

15. The following particulars are available in respect of the business carried on by a trader.

Profit earned, 2009—Rs. 50,000 ; 2010—Rs. 60,000 ; 2011—Rs. 55,000.

Normal rate of profit

... 10%

Capital employed

... 3,00,000

Present value of Annuity of one rupee for five years at 10% ... 3.78

The profits include non-recurring profits on an average basis of Rs. 4,000 out of which it is expected that even non-recurring profit had a tendency of appearing at the rate of Rs. 1,000 p. a.

You are required to calculate goodwill :

- As per five years purchase of super profit.
- As per capitalization of super profit.
- As per annuity method.

16. The paid up capital of AB Ltd. amounted to Rs. 2,50,000 consisting of 25,000 equity shares of Rs.10 each. The following scheme of reconstruction was approved by court to cover the continuous losses incurred by the Co.

- In lieu of their present holdings, the shareholders are to receive :

- Fully paid equity shares equal to $\frac{2}{5}$ th of their holding.
- 5% preference shares fully paid up to the extent of 20% of the above new equity shares.
- 3,000, 6% second debentures of Rs.10 each.

Assets are worth their book values. Dividend on preference shares are in arrears for two years. Debenture interest owes for one year. Find out the value of shares when :

- Preference shares have priority for repayment of capital only.
- Preference shares have no priority for capital and dividend.
- Preference shares have priority as to payment of capital and arrears of dividend.
- Preference shares have no priority for capital but for arrears of dividend.

20. The Balance Sheets of Titan Ltd., and Mex Ltd., on 31st March 2014 are as follows :

Liabilities	Titan	Mex	Assets	Titan	Mex
Share Capital :			Fixed assets :		
Equity shares of Rs. 10 each	2,00,000	4,00,000	Goodwill		80,000
Reserves and surplus			Freehold Premises	60,000	50,000
General Reserve	1,00,000	—	Plant	1,20,000	1,60,000
Capital Reserve	20,000	20,000	Furniture	10,000	20,000
Profit and Loss	80,000	—	Current assets :		
Secured loan :			Stock in Trade	2,00,000	2,80,000
Bank Loan	1,60,000	1,20,000	Debtors	2,00,000	20,000
Current Liabilities :			Cash at bank	10,000	10,000
Creditors	40,000	1,60,000	Misc. Expenses and		
			Losses :		
			Profit and Loss		80,000
			Account		
	6,00,000	7,00,000		6,00,000	7,00,000

On that date both the companies agreed to amalgamate and form a new company called Timex Ltd. For the purpose of determining the amount of consideration all assets and liabilities to be taken by Timex Ltd. at their book value except goodwill of Mex Ltd., which is considered as valueless. The consideration paid by Timex Ltd in the form of its fully paid equity shares of Rs.10 each. You are required to calculate the purchase consideration and pass the journal entries in the books of Timex Ltd. and prepare a Balance Sheet after amalgamation in the nature of merger.

21. The Balance Sheets of A Ltd., and B Ltd., on 31st March 2014 are as follows :

Liabilities	A Ltd.,	B Ltd.,	Assets	A Ltd.,	B Ltd.,
Share Capital :			Fixed assets	30,00,000	50,00,000
Equity shares of			Goodwill	10,00,000	35,00,000
Rs. 10 each	50,00,000	70,00,000	Current assets	35,00,000	10,00,000
10% Debentures of			Cash at bank	—	10,00,000
Rs. 100 each	10,00,000	—			
Profit and Loss a/c	—	15,00,000	Profit and Loss		
Creditors	30,00,000	20,00,000	Account	15,00,000	
	90,00,000	105,00,000		90,00,000	105,00,000

On this date B Ltd., took over the business of A Ltd., on the following terms :

1. A Ltd is to be wound up and shares of it is to be considered as worth Rs. 6 each and the share of B Ltd., is to be considered as worth Rs. 12.50.
 2. Consideration discharged by B Ltd., in the form of 25% in cash and 75% in equity shares.
 3. 10% Debentures of A Ltd., would be converted into equal number of 15% debentures of B Ltd., of Rs. 100 each. Pass necessary journal entries in the books of both the companies and prepare a balance sheet in the books of B Ltd., after amalgamation in the nature of purchase.
22. Remesh found himself insolvent on 31st December 2008. His position was as follows :

Sundry Debtors—Good Rs. 5,000 : Doubtful—Rs. 30,000 (estimated to produce Rs. 25,000)
 Bad debt—Rs. 15,000

	Rs.
1,000 shares in A Co. Ltd., (estimated to produce—Rs. 15,000)	— 25,000
Shares in B Ltd., (estimated to produce Rs. 75,000)	— 91,500
Loss through betting	— 2,000
Creditors on open account	— 85,600
Creditors holding second charge on shares of B Ltd., to the extent of Rs. 25,000	— 30,000
Creditors holding first charge on shares of B Ltd.,	— 40,000
Bills Payable	— 4,000
Creditors for Rent, Rates and Taxes (of which Rs. 4,600 are preferential)	— 5,000
	Turn over

Rs.

Furniture and fixtures (estimated to produce Rs. 3,000)	— 15,000
Cash in hand and at bank	— 550
Stock in Trade (estimated to produce Rs. 30,450)	— 35,950
Bills Receivable (estimated to produce Rs. 7,000)	— 9,000

Remesh started business with a capital of Rs. 70,000 on 1st January 2006 and the business resulted in a profit of Rs. 8,900 and Rs. 10,000 for the first two years and a loss of Rs. 5,000 for the third year, after allowing Rs. 3,500 as interest on capital each year. Withdrawal for the whole period amounted to Rs. 30,000.

Prepare a Statement of Affairs and Deficiency Account.

(3 × 5 = 15)