

M.Com. DEGREE (CSS) EXAMINATION, FEBRUARY 2016**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 a weight of 1.*

1. What do you mean by intrinsic value of shares ?
2. What is the difference between amalgamation and absorption ?
3. What do you mean by deficiency account ?
4. Explain the factors influencing valuation of goodwill.
5. What do you mean by earning capacity method of valuation of shares ?
6. Discuss the various factors to be considered while framing a reconstruction scheme.
7. What do you mean by intercompany owings ?
8. What do you mean by Human Resource accounting ?

(5 × 1 = 5)

Section B*Answer any five questions.**Each question carries a weight of 2.*

9. What is Deficiency Account ? Prepare a deficiency account with imaginary figures.
10. What is meant by amalgamation ? State the conditions to be satisfied for an amalgamation in the nature of merger.
11. Explain the various methods of valuation of goodwill.
12. (a) When can a person be declared insolvent ?
(b) Discuss the legal provisions of voluntary transfer under Presidency Town Insolvency Act and Provincial Insolvency Act.

Turn over

13. A company desiring to sell its business to another company has earned an average profit in the past of Rs. 1,50,000 p.a. It is considered that such average profit fairly represents the profit likely to be earned in the future except that :

- (a) Directors fees Rs. 10,000 charged against such profit will not be payable by the purchasing company whose existing board can easily cope with additional administrative work at present fees payable to the directors.
- (b) Rent Rs. 20,000 p.a. which had been paid by the vendor company will not be a charge in the future, since the purchasing company owns its own premises and can supply the accommodation necessary for the staff and equipment of the vendor company.

The value of net tangible assets of the vendor company at the proposed date of sale was Rs. 15,00,000 and it was considered that a reasonable return on capital invested for the type of activity was 10 %.

The profit of vendor company would in no way be affected by the sale of business to the purchasing company and goodwill existed and was to be paid for on the basis that the vendor company is a continuing enterprise.

Calculate the value of goodwill by capitalisation of expected future profit.

14. From the following calculate preferential creditors as per Presidency Town Insolvency Act :

	Rs.
3 months salary of 6 clerks ...	16,000
One month's wages of 5 labourers ...	18,000
Sales tax due ...	22,000
4 months rent due to landlord ...	12,000
Income-tax due ...	12,700
Wages of 4 servants ...	2,700
Salaries due ...	15,000
Municipal tax due ...	8,000
Wages ...	1,30,000

15. What is purchase consideration ? What are the different methods for calculating purchase consideration ?

16. The following particulars related to a company :—

	Rs.
Total assets ...	18,50,000
External liabilities ...	2,50,000
Share capital :	
14 % preference shares of Rs. 10 each fully paid ...	5,00,000
40,000 equity shares of Rs. 10 each fully paid ...	4,00,000
60,000 equity shares of Rs. 10 each Rs. 7.50 paid ...	4,50,000

Calculate the value of each category of equity shares of the company based on a deemed liquidation.

(5 × 2 = 10)

Section C

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

17. The Balance Sheet of XYZ Ltd. as at March 31st, 2012 is as follows :

Liabilities	Rs.	Assets	Rs.
Share Capital :		Land, Building and Machinery ...	14,30,000
Authorised and Issued :		Investments ...	17,000
8,000 shares of Rs. 100		Stock-in-Trade ...	80,000
each fully paid ...	8,00,000	Sundry Debtors ...	30,000
Debentures ...	14,00,000	Cash ...	1,03,000
Add interest outstanding...	<u>70,000</u>	Profit and Loss Account ...	10,70,000
Sundry Creditors :	4,50,000		
Income-tax due ...	10,000		
	<u>27,30,000</u>		<u>27,30,000</u>

The fixed assets are heavily overvalued. The debenture holders have a floating charge on the assets of the company. They are prepared to accept a modification of their claims in consideration of a substantial interest in the share capital. A scheme of reorganisation is accordingly prepared and confirmed by the court. The salient points of the scheme are the following :—

- Each share shall be subdivided into twenty fully paid equity shares of Rs. 5 each.
- After sub-division, each shareholder shall surrender to the company 95 % of his holding, for the purpose of reissue to debenture holders and creditors so far as may be required, and otherwise for cancellation.
- Of those surrendered, 46,000 shares of Rs. 5 each shall be converted into 14% redeemable preference shares of Rs. 5 each fully paid.
- The debenture holders' total claim shall be reduced to Rs. 2,30,000. This will be satisfied by the issue to them of 46,000 redeemable preference shares of Rs. 5 each fully paid.
- The liability for income-tax is to be satisfied in full.
- The claims of unsecured creditors shall be reduced by 80 % and the balance shall be satisfied by allotting them equity shares of Rs. 5 each, fully paid, from the shares surrendered.
- Shares surrendered and not reissued shall be cancelled.

Journalise the various entries to be made, assuming the tax liability is not yet paid. Also show share Surrendered Account ; Reconstruction Account ; and the Balance Sheet of the company after the scheme has been carried out.

Turn over

18. Satta Ram filed a petition in bankruptcy on 31st December, 2006. His books showed the following balances :

	Rs.	Rs.
Fixtures and Fittings (estimated to produce Rs. 400) ...	1,030	-
Stock-in-trade (estimated to produce Rs. 5,000) ...	7,210	-
Trade Creditors ...		7,940
Bills Payable ...		8,700
Sundry Debtors - Good ... 3,800		
- Doubtful (estimated at 50 %) ... 8,000		
- Bad ... 8,000	19,800	
Bank Overdraft ...		6,900
Capital ...		4,500
	<u>28,040</u>	<u>28,040</u>

Liability on bills discounted Rs. 2,500, expected 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. Satta Ram 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.

19. What is HRA ? Discuss the important approaches to the valuation of Human Resources. Explain the benefits and limitations of HRA.
20. Balance Sheet of M Ltd. and N Ltd. are given below as at 31st March, 2010 :

Liabilities	M Ltd. Rs.	N Ltd. Rs.	Assets	M Ltd. Rs.	N Ltd. Rs.
Share Capital (Rs. 10) ...	2,00,000	4,00,000	Sundry Assets ...	3,10,000	6,00,000
Reserve and Surplus ...	40,000	1,00,000	(no Goodwill)		
7 % Debentures (Rs. 100) ...	1,00,000		Loan of N Ltd. ...	30,000	
Loan from M Ltd.		30,000	Investments :		
Other Liabilities ...	50,000	70,000	5,000 shares in N Ltd. ...	50,000	
	<u>3,90,000</u>	<u>6,00,000</u>		<u>3,90,000</u>	<u>6,00,000</u>

N Ltd. take over M Ltd. on the following terms :

- N Ltd. will issue sufficient number of shares at Rs. 11 each and pay 50 paise in cash per share held by members of M Ltd.
- 7 % Debentures of M Ltd. are taken over by N Ltd. along with other liabilities of M Ltd.

Show journal entries and significant ledger accounts in the books of both the companies. Also draft Balance Sheet of N Ltd. after absorption.

21. Following is the Balance Sheet of Unluck Ltd., as on 31st March 2012. From the Balance Sheet and adjoining information you are required to pass journal entries and show the Balance Sheet of the company after giving effect to the scheme of re-organisation agreed upon :

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
13 % Cumulative Preference		Fixed Assets	...
Shares of Rs. 100 each	... 1,00,000	Current Assets	... 35,00,000
Equity shares of Rs. 100 each	... 7,00,000	Profit and Loss Account	... 3,00,000
8 % Debentures	... 3,00,000		
Current Liabilities	... 39,00,000		
Provision for taxation	... 3,00,000		
	<u>53,00,000</u>		<u>53,00,000</u>

Following scheme of reconstruction was sanctioned :

- Fixed assets are to be written down by 33 $\frac{1}{3}$ %.
 - Current assets are to be revalued at Rs. 27,00,000.
 - Preference shareholders decide to forego their right to arrears of dividend which are in arrears for three years.
 - The taxation liability of the company is settled at Rs. 4,00,000.
 - One of the creditors of the company, to whom the company owes Rs. 25,00,000 decides to forego 50 % of his claim. He is allotted 1,00,000 equity shares of Rs. 5 each in part satisfaction of the balance of his claim.
 - The rate of interest on debentures is increased to 11 %. The debenture holders surrender their existing debentures of Rs. 100 each and exchanging the same for fresh debentures of Rs. 75 each.
 - All existing equity shares are reduced to Rs. 5 each.
 - All preference shares are reduced to Rs. 75 each.
22. The Bharat Co. Ltd. agreed to acquire the business of Indian company. The summarised balance sheet of Indian company Ltd. as on that date was as under :

	<i>Rs.</i>		<i>Rs.</i>
Share Capital :		Goodwill	... 50,000
Fully paid up shares of Rs. 10	... 3,00,000	Land and Buildings	... 3,20,000
General Reserve	... 85,000	Stock	... 84,000
Profit and Loss Account	... 55,000	Debtors	... 18,000
6 % debentures	... 50,000	Cash	... 28,000
Sundry Creditors	... 10,000		
	<u>5,00,000</u>		<u>5,00,000</u>

Turn over

The consideration payable by Bharath Company Ltd. was agreed as follows :

- (a) A cash payment of Rs. 2.50 for every Rs. 10 shares in Indian Company Ltd.
- (b) The issue of 45,000 Rs. 10 fully paid up shares in Bharath Company Ltd. at an agreed value of Rs. 15 shares.
- (c) The issue of such an amount of fully paid 5 % debentures of Bharath Company Ltd. as the sufficient of 6 % debentures of Indian Company Ltd. at a premium of 20 %.

When computing the agreed consideration the directors of Bharath Company Ltd. value the Land and Building at Rs. 6,00,000; Stock at Rs. 71,000 and Debtors at their face value subject to an allowance of 5 % to cover the doubtful debts. The cost of liquidation of Indian Company Ltd. Rs. 2,500. Give Ledger accounts to close the books of Indian Company Ltd. and journal entries in the book of Bharath Ltd.

(3 × 5 = 15)