G 3767 (Pages : 6) Reg. No.................................

Name.................................

M.Com. DEGREE (CSS) EXAMINATION, MARCH 2013

First Semester

Faculty of Commerce

AF 01 C01—ADVANCED FINANCIAL ACCOUNTING—I

(2012 Admissions)

Time : Three Hours Maximum Weight : 30

Section A

Answer any **five** *out of eight questions.*
Each question carries a weight of 1.

1. Define Goodwill. Explain types of goodwill.
2. What is fair value method of share valuation.
3. Explain Amalgamation in the nature of merger.
4. Define Human Resource Accounting. State its objectives.
5. What is absorption ?
6. Explain IFRS.
7. What is internal reconstruction ?
8. Explain deficiency account.

(5 × 1 = 5)

Section B

Answer any **five** *out of eight questions.*
Each question carries a weight 2.

9. Explain different methods of valuation of Goodwill.
10. Define statement of Affairs. Distinguish it from balance sheet.
11. Explain the circumstances where the need for valuation of shares arises.
12. Describe the historical cost approach and replacement cost approach of valuation of human resources.
13. The net profit of a business, after providing for taxation, for the past five years are Rs. 80,000, Rs. 85,000, Rs. 92,000, Rs. 1,05,000 and Rs. 1,18,000. The capital employed in the business is Rs. 8,00,000. The normal rate of return expected in this type of business is 10%. It is expected that the company will be able to maintain its super profit for the next five years. Calculate the value of Goodwill on the basis of :

Turn over

(a) 5 years purchase of super profit method.

(b) Annuity method assuming the present value of annuity of Re. 1 for 5 years at 10% as 3.78; and

(c) Capitalisation of super profit method.

14. From the following, calculate preferential creditors as per presidency towns insolvency act :

		Rs.
4 months salary of 5 clerks	..	2,000
1 month wages of 5 labourers	..	1,900
Sale tax due	..	2,500
4 month rent due to landlord	..	1,600
Income tax due	..	1,900
Wages of 2 servants	..	700
Salaries due	..	2,800
Municipal tax due	..	1,000
Wages	..	10,000

15. On 31st December 2008, A Ltd had 10,000 equity shares of Rs. 10 each as authorised capital and the shares were all issued on which Rs. 8 was paid up. In June 2009, the company in general meeting decided to sub-divide each share into two shares of Rs. 5 each, Rs. 4 paid up. In June 2010, 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 31-12-2008, 31-12-2009 and 31-12-2010.

16. Following is the balance sheet of A Ltd :

Liabilities	Rs.	*Assets*	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** *out of* **six** *questions.*

Each question carries a weight of 5.

17. On 31st March 2010, Thin Ltd. was absorbed by Thick Ltd., the latter taking over all the assets and liabilities of the former at book values. The consideration for the business was fixed at Rs. 4,00,000 to be discharged by the transferee company in the form of its fully paid equity shares of Rs. 10 each, to be distributed among the shareholders of the transferer company, each share holder getting two shares for every share held in the transferor company. The balance sheets of the two companies as on 31st March 2010 stood as under :

Liabilities	*Thick Ltd.* Rs.	*Thin Ltd.* Rs.	*Assets*	*Thick Ltd.* Rs.	*Thin Ltd.* Rs.
Authorised capital	15,00,000	5,00,000	Goodwill	2,00,000	60,000
Issued and subscribed :			Plant	4,12,000	1,00,000
equity shares of			Furniture	80,000	30,000
Rs. 10 each fully paid	9,00,000	2,00,000	Stock	2,65,500	60,000
General Reserve	1,80,000	50,000	Sundry debtors	2,21,200	46,000
P& L Account	20,502	12,900	Prepaid Insurance	—	700
Workmen's compensation Fund	12,000	9,000	Income tax refund claim	—	6,000
Sundry creditors	58,567	30,456	Cash in hand	869	356
Staff P.F.	10,200	4,000	Cash at Bank	14,000	8,300
Provision for taxation	12,300	5,000			
	11,93,569	3,11,356		11,93,569	3,11,356

Amalgamation expenses amounting to Rs.1,000 were paid by Thick Ltd. You are required to :

(a) prepare realisation account and equity shareholders account in the books of Thin Ltd.

(b) Prepare the balance sheet of Thick Ltd. after the amalgamation in the nature of merger.

18. The following is the balance sheet of D (Private) Ltd. as on 31st December 2010 :

Liabilities	Rs.	*Assets*	Rs.
Share capital 10,000 shares		Land and Buildings	70,000
of Rs. 10 each	1,00,000	Plant	70,000
General Reserve	50,000	Trademarks	20,000
Taxation Reserve	20,000	Stock	20,000
Workmen's Savings account	20,000	Debtors	48,000
P & L Account	30,000	Cash at Bank	25,000
Sundry creditors	40,000	Preliminary expenses	7,000
	2,60,000		2,60,000

The plant is worth Rs. 60,000 and Land and Buildings are worth Rs. 1,30,000, as valued by an independent valuer Rs. 5,000 of the debtors is to be taken as bad. The profits of the company were 2008 Rs. 50,000, 2009-Rs. 60,000 and 2010-Rs. 70,000. It is the practice of the company to transfer 20% of the profits to Reserve.

Ignoring taxation, find out the value of shares of the company on their intrinsic 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.

19. The assets of a merchant on 30th June 2010, as shown by his Books were Rs. 45,000 and his liabilities Rs. 31,000. He 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.

(a) Interest at 10% on his capital from 1st January 2010.

(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.

20. The balance sheet of A Company Ltd. as on 31st March 2010, is as follows :

Liabilities	Rs.	*Assets*	Rs.
2,000 6% cumulative		Free hold property	3,50,000
preference shares of		Plant	50,000
Rs. 100 each fully paid up	2,00,000	Trade Investments	60,000
75,000 equity shares of		Debtors	4,00,000
Rs. 10 each fully paid up	7,50,000	Stock	2,00,000
6% debentures :		Deferred advertisement	
(Secured by freehold		Expenditure	1,50,000
property) : 3,75,000		P & L Account	3,50,000
Interest accured : 22,500	3,97,500		
Creditors	12,500		
Director's Loan	2,00,000		
	15,60,000		15,60,000

The court approved a scheme of reorganisation to take effect on 1-4-2010 where by :

(a) Preference shares to be written down to Rs. 75 each and equity shares to Rs. 2 each.

(b) Preference dividends in arrears for four years, 75% to be waived and equity shares of Rs. 2 each to be allotted for the remaining quarter.

(c) Accrued debenture interest to be paid in cash.

(d) Debenture holders agreed to take over freehold property (book value Rs. 1,50,000) at a valuation of Rs. 1,50,000 in part repayment of their holdings and to provide additional cash of Rs. 1,30,000 secured by a floating charge on the company's assets at an interest rate of 10% per annum.

(e) Deferred advertising to be written-off.

(f) Stock to be written-off fully.

(g) Rs. 2,33,000 to be provided as bad debts.

(h) Remaining freehold property to be revalued at Rs. 4,00,000.

(i) Investments sold out for Rs. 1,50,000.

(j) In settlement of their loans, Directors are to accept equity shares of Rs. 2 each for 90% of their loans, waiving 10% of the balance of their loan amount.

(k) Capital commitments contracts totalling Rs. 3,00,000 are to be cancelled by payment of penalty at 5% of the contract value.

Show Journal entries and draw up the balance sheet after effecting the scheme.

21. Amar Ltd. agreed to acquire the business of Kumar Ltd as on 31st December 2010. The summarised balance sheet of Kumar Ltd. on that date was as under :

Liabilities	Rs.	*Assets*	Rs.
Share Capitals-shares of Rs. 10 each fully paid	3,00,000	Goodwill	50,000
		Land and buildings	3,20,000
General Reserve	80,000	Stock	84,000
Workmens compensation funds	5,000	Debtors	18,000
		Cash at bank	28,000
P & L account	55,000		
6% debentures	50,000		
Creditors	10,000		
	5,00,000		5,00,000

The consideration payable by Amar Ltd. was agreed as under :

(a) Cash payment equivalent to Rs. 2.50 for every shares of Rs. 10 in Kumar Ltd.

(b) Issue of 45,000 Rs. 10 shares fully paid is Amar Ltd. having an agreed value of Rs. 15 per share.

(c) Issue of such an amount of fully paid 5% debentures of Amar Ltd. at 96% as is sufficient to discharge the 6% debentures of Kumar Ltd. at a premium of 20%.

While arriving at the agreed consideration, the Directors of Amar Ltd. valued land and building at Rs. 6,00,000 and stock at Rs. 71,000 and the debtors at their book value subject to an allowance of 5% to cover doubtful debts. The cost of liquidation of Kumar Ltd. was Rs. 2,500.

On the date of acquisition, Kumar Ltd had a liability towards a workman for compensation against an injury. The amount was ascertained at Rs. 3,000. The company paid the compensation in cash to the worker.

Amar Ltd. also issued to the public 5,000 shares of Rs. 10 each at Rs. 15 per share. The shares were fully subscribed and paid for.

You are required to draft journal entries and prepare Ledger accounts in the books of Kumar Ltd. Also prepare opening balance sheet of Amar Ltd.

22. Explain briefly the different methods of valuation of shares.

(3 × 5 = 15)