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**CMH 406**

I Semester M.Com. Degree Examination, December 2018
Choice Based Credit System
COMMERCE
Advanced Financial Accounting

Time : 3 Hours

Max. Marks : 70

SECTION – A

Note : Answer **any four** questions out of **seven**. Each question carries **10** marks.

Answer to **each** question should **not** exceed **4** pages. **(10×4=40)**

1. A. Ltd. purchased 40000 shares of Rs. 10 each in B. Ltd. on 30th September 2018.

Liabilities	A. Ltd.	B. Ltd.	Assets	A. Ltd.	B. Ltd.
	(Rs.)	(Rs.)		(Rs.)	(Rs.)
Share capital :			Fixed Assets	9,00,000	9,30,000
Shares of			Investments :		
Rs. 10 each	10,00,000	5,00,000	Shares of		
Profit and Loss			Rs. 10 each in		
Account	1,00,000	80,000	B. Ltd.	6,50,000	–
General Reserve	4,00,000	3,00,000	Stock	1,50,000	2,00,000
Creditors	6,00,000	6,00,000	Debtors	3,00,000	4,00,000
Bills payable	1,00,000	80,000	Bills receivable	1,50,000	1,00,000
Loan	–	1,00,000	Cash	50,000	30,000
	22,00,000	16,60,000		22,00,000	16,60,000

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On 1st January 2018 the profit and loss account of B. Ltd. showed a debit balance of Rs. 1,00,000. B. Ltd. made a transfer of Rs. 60,000 to general reserve on 31st December 2018. Creditors of A. Ltd. include Rs. 1,00,000 for goods purchased on credit from B. Ltd. Stock of A. Ltd. includes unsold stock of Rs. 80,000 sold by B. Ltd. at a profit of 25% on cost of goods sold. Bills payable of B. Ltd. included Rs 60,000 accepted in favour of A. Ltd. Bills receivable of A. Ltd. included Rs. 50,000 received from B. Ltd. There is contingent liability of A. Ltd. for bills discounted Rs. 70,000 and for guaranteeing the loan granted to B. Ltd. by X. Ltd. Prepare the consolidated Balance Sheet, bearing in mind the provisions of AS21.

2. Calculate the amount of depreciation under CCA method for each of the Four years as well as the backlog depreciation for a machine from the following Information by assuming straight line method of depreciation :

Cost of Machine Rs. 1,20,000

Estimated life – 4 years

Residual value – Nil

Inflation factor 10% per annum.

3. The Balance Sheet of M. Ltd. as on 31st December, 2018 is as follows :

Liabilities	Rs.	Assets	Rs.
Share Capital : Equity shares of		Goodwill	50,000
Rs. 10 each less, calls in arrear		Fixed Assets :	
(Rs. 2 for final call)	4,90,000	Machinery	2,30,000
8% Preference shares of Rs. 10		Factory shed	3,00,000
each fully paid	2,00,000	Vehicles	60,000



Reserve and Surplus :		Furniture	25,000
General Reserve	2,00,000	Investments	1,00,000
Profit and Loss A/c	1,40,000	Current Assets :	
Current Liabilities :		Inventory	2,10,000
Trade Payables	2,70,000	Trade Receivables	3,50,000
Bank Loan	1,00,000	Cash at bank	75,000
	14,00,000		14,00,000

Additional Information :

- i) Fixed assets are worth 20% above their actual book value, depreciation on appreciated portion of fixed assets is to be ignored for valuation of goodwill.
- ii) Of the investments, 80% is non-trading and the Balance is trading. All trade investments are to be valued at 20% below cost. A uniform rate of dividend of 10% is earned on all Investments.
- iii) For the purpose of valuation, Goodwill is to be considered on the basis of 6 year's purchase of the super profits based on simple average profit of the last 3 years. Profits after tax @ 50% are as follows :

Year	Rs.
2016	1, 90,000
2017	2,00,000
2018	2, 50,000

In a similar business, return on capital employed is 20%. In 2016, a new furniture costing Rs. 10,000 was purchased but wrongly charged to revenue. No effect has yet been given for rectifying the same. Depreciation is charged on furniture @ 10% p.a. (Diminishing Balance Method). Calculate the value of goodwill.



4. Explain the provisions of AS21 and its difference in Ind AS.
5. Explain the Lev and Schwartz Model and Flamholtz Model of Human Resource Accounting with relative advantages and limitations.
6. Explain the precautions and factors to be considered while determining the value of goodwill.
7. Explain the provisions of AS14 and distinguish between pooling of interest method and purchase method of recording transactions relating to Amalgamation.

SECTION – B

Note : Answer **any two** questions out of **three**. **Each** question carries **15** marks.

Answer to **each** question should **not** exceed **7** pages. **(15×2=30)**

8. The Balance Sheet of A Ltd. as on 31st March, 2018 is given as under :

Balance Sheet as on 31st March, 2018

Liabilities	Rs. in Lakhs	Assets	Rs. in Lakhs
Share Capital Equity Shares of Rs. 10 each	400	Goodwill	70
10% Preference Shares of Rs. 100 each	100	Building (Cost)	150
Reserve and Surplus	115	Machinery (Net)	250
Creditors	183	Inventory	330
Bank Loan	115	Debtors	150
Provision for Tax	37		
Total	950	Total	950



The after tax profits during the immediately past 5 years were as follows :

Year	Rs. in Lakhs	% of Dividend
2013-14	(Loss) 20	–
2014-15	68	18
2015-16	133	20
2016-17	120	22
2017-18	135	25

- a) The loss of 2013-14 was due to strained industrial relations, which has since improved satisfactorily.
- b) The market price of equity shares at present is Rs. 130 per share.
- c) The profit for 2017-18 was calculated after debiting the Profit and Loss A/c with Rs. 50 Lakhs for MD's remuneration. In future, it will be Rs. 60 Lakhs for which necessary formalities have been completed.
- d) A tender submitted in 2016-17 has been accepted and the annual additional earnings for the contract are going to be Rs. 80 Lakhs for the next 5 years with an annual growth of 5%. For this purpose, new machinery worth Rs. 100 Lakhs would be needed and it will be acquired by issuing paid-up shares.

The following revaluation have been agreed upon: Buildings Rs. 220 Lakhs, Inventory Rs. 350 Lakhs and Debtors Rs. 165 Lakhs.

You are required to calculate :

- Goodwill, if any on the basis of 5 year's purchase of average annual super profits.
- Valuation of equity shares on Asset Backing Method (Net Assets Method).
- Valuation of equity shares on earnings basis when normal earnings in similar kind of business are 16%. And valuation on the basis of yield.



9. The following are the Balance Sheets of A. Ltd. and B. Ltd. as on 31st March 2018.

Balance Sheet as on 31st March 2018

Liabilities	A Ltd.	B. Ltd.	Assets	A. Ltd.	B. Ltd.
	(Rs.)	(Rs.)		(Rs.)	(Rs.)
Shareholders' funds			Noncurrent		
Issued, subscribed and paid up Equity			assets		
shares of Rs. 10 each	5,00,000	2,00,000	Fixed assets	6,00,000	3,50,000
10% Preference shares of Rs. 100 each	1,00,000	1,00,000	Noncurrent investments		
Reserves and surplus :	2,00,000	1,50,000	4000 equity shares in B. Ltd.	60,000	—
Long term borrowings :			3000 equity shares in A. Ltd.	—	80,000
12% Debentures	1,00,000	1,00,000			
Current liabilities :			Current Assets :		
Creditors	3,40,000	1,60,000	Inventories	3,00,000	1,70,000
Bills payable	20,000	20,000	Debtors	1,60,000	90,000
			Bills receivable	50,000	10,000
			Bank balance	90,000	30,000
	12,60,000	7,30,000		12,60,000	7,30,000



Fixed assets of both the companies are to be revalued at 20% above book value. Both the companies are to pay 10% equity dividend. Preference dividend already paid. After the above transactions given effect to, A. Ltd. will take over B. Ltd. on the following terms :

- 6 equity shares of Rs. 10 each will be issued by A. Ltd as par against 5 shares of B. Ltd.
- 10% preference shares of B. Ltd. are to be paid at 10% discount by issue of 11% preference shares of Rs. 100 each at par in A. Ltd.
- 12% debenture holders of B. Ltd. are to be paid at 8% premium by 13% debentures in A. Ltd. issued at 10% discount.
- Rs. 20,000 paid by A. Ltd. to B. Ltd. for liquidation expenses.
- Trade payables of B. Ltd. include Rs. 30,000 due to A. Ltd.

Prepare :

- Vendor Account and investment in B. Ltd. Account in the books of A. Ltd.
- Realisation Account, Equity shareholders Account, A. Ltd. Account and Investment in A. Ltd. Account in the books of B. Ltd.
- Balance Sheet of A. Ltd. after Amalgamation.

10. Write short note on the following :

- a) IFRS and IASB
 - b) Social Responsibility Accounting
 - c) Gearing Adjustment.
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