POST-GRADUATE COURSE

Term End Examination — December, 2008

M.Com.

ADVANCED FINANCIAL ACCOUNTING

PAPER X

Time — 2 hours *Full marks—50*
(Weightage of marks—80%)

Special credit will be given for accuracy and relevance in the answer. Marks will be deducted for incorrect spelling, untidy work and illegible handwriting. The weightage for each question has been indicated in the margin.

Module – I

Answer **any two** questions : [12½×2=25]

1. From the following Balance Sheets and Profit & Loss Account of Venus Ltd., prepare a Cash Flow Statement (as per AS 3) for the year ended March 31, 2008. [12½]

Balance Sheets as on March 31, 2007 and as on March 31,2008

Liabilities	31.03.07	31.03.08	Assets	31.03.07	31.03.08
	Rs.	Rs.		Rs.	Rs.
Share Capital	1,25,000	1,50,000	Fixed Assets	1,00,000	1,60,000
10% Debentures	—	50,000	Investment	25,000	45,000
Reserves & Surplus	20,000	28,000	Accounts Receivable	40,000	55,000
Accounts Payable	35,000	40,000	Prepaid Expenses	6,000	5,000
Outstanding Expenses	4,000	3,000	Cash at Bank	13,000	6,000
	1,84,000	2,71,000		1,84,000	2,71,000

 P.T.O.

Profit & Loss Account for the year ended March 31, 2008

	Rs.	Rs.
Sales		2,50,000
Less : Cost of goods sold		1,85,000
Gross Profit		65,000
Less : Other Expenses :		
Employees remuneration	10,000	
General expenses	25,000	
Depreciation	10,000	45,000
Net Profit		20,000
Less : Dividend		12,000
		8,000
Add : Reserves & Surplus (1-4-2007)		20,000
Reserves & Surplus (31-3-2008)		28,000

2.(a) Identify the different user groups of financial information of a corporate entity and state the respective areas of their interests. [8]

(b) State the qualitative characteristics of financial information of a reporting entity. [4½]

3. The Balance Sheet of XL Co. Ltd. as on March 31, 2008 was as follows :

Liabilities	Amount	Assets	Ammount
	Rs.		Rs.
Equity Share Capital	10,00,000	Fixed Assets	
(Share of Rs. 100 each)		Factory Premises	5,75,000
General Reserve	3,00,000	Plant	5,00,000
Profit & Loss A/c	1,75,000	Current Assets	
Current Liabilities		Stock	7,50,000
Creditors	2,00,000	Debtors	2,50,000
Provision for Taxation	2,50,000		
Bank Overdraft	1,50,000		
	20,75,000		20,75,000

Additional information :

(i) Net profits of the company for the last 5 years before taxation were as follows :

Year ended March 31, 2004	Rs. 2,05,000
Year ended March 31, 2005	Rs. 3,20,000
Year ended March 31, 2006	Rs. 3,50,000
Year ended March 31, 2007	Rs. 4,25,000
Year ended March 31, 2008	Rs. 4,50,000

(ii) Managerial remuneration of Rs. 30,000 has been charged for each year.

(iii) Market value of the assets were as follows :

Factory Premises	Rs. 6,41,500
Plant	Rs. 5,20,000
Stock	Rs. 7,75,000

(iv) Corporate tax rate is 40%.

(v) Goodwill will be valued at 5 Years' purchase of super profit.

(vi) Normal rate return is 10% per annum.

You are required to determine the intrinsic value of each equity share. [12½]

4. U Co. Ltd. went into liquidation on March 31, 2008. The Balance Sheet of company on that date was as follows :

Balance Sheet as on March 31, 2008

Liabilities	Amount Rs.	Assets	Ammount Rs.
Equity Shares of Rs. 100 each fully paid	1,00,000	Buildings	1,00,000
Equity Shares of Rs. 100 each. Rs. 75 paid	75,000	Other Fixed Assets	1,00,000
Equity Shares of Rs. 100 each. Rs. 50 paid	50,000	Current Assets	2,10,000
10% Bank Loan (Secured against Buildings)	1,00,000	Profit & Loss A/c	1,00,000
Unpaid Interest on Bank Loan	10,000		
Sundry Creditors	1,75,000		
	5,10,000		5,10,000

Additional Information :

Liquidation expenses was Rs. 10,000. The Liquidator is to receive Rs. 4,000 plus a commission of 5% on amounts distributed among unsecured creditors other than preferential creditors. The break up of Sundry Creditors was as follows :

(i) Dues on account of taxes Rs. 25,000

(ii) Wages & Salaries outstanding Rs. 30,000

(iii) Unpaid provident fund Rs. 20,000

(iv) Telephone bill outstanding Rs. 10,000

(v) The balance is creditor for goods purchased.

The assets were realised as under :

(i) Buildings Rs. 1,16,000

(ii) Other Fixed Assets Rs. 75,000

(iii) Current Assets Rs. 1,50,500

Bank loan was paid off together with interest due thereon immediately after liquidation.

You are asked to prepare Liquidators Final Statement of Account. [12½]

Module – II

Answer **any two** questions : [12½x2=25]

5.(a) Discuss the basic structure of Company Accounts in India. [8]

(b) Why is Internal Reconstruction preferable over External Reconstruction? [4½]

6. Paradise Ltd. operates seven different product and service segments across the country. Following information is available relating to these segments for the year ended March 31, 2008 :

Particulars	Segments A	B	C	D	E	F	G
External Sales (Rs. in lakh)	70	70	80	380	120	70	50
Inter-segment Sales (Rs. in lakh)	2	6	10	20	15	10	25
Profit/(Loss)	(6)	2	35	120	(60)	3	(12)
Assets (Rs. in lakh)	11	9	12	60	12	10	20

840

You are required to determine the Reportable Segments of Paradise Ltd. [12½]

7. A Ltd. is contemplating to absorb B Ltd. Following are the Balance Sheets of two companies as on March 31, 2008 :

Balance Sheets as on March 31, 2008 (Rs. in lakh)

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Equity shares of Rs. 100 each	40·00	—	Goodwill	—	0·50
Equity shares of Rs. 50 each	—	10·00	Fixed Assets	30·00	3·50
General Reserve	30·00	5·00	Current Assets	65·00	14·00
Current Liabilities	30·00	1·00	Investments :		
Propsed Dividend	—	1·00	Shares in B Ltd.	3·00	—
Provision for Tax	—	1·00	Other Investment	2·00	
	100·00	18·00		100·00	18·00

Following further information is also to be taken into consideration :

(a) A Ltd. holds 5,000 shares of B Ltd.

(b) B. Ltd. would pay the dividend proposed by it before absorption.

(c) The stocks of B Ltd. include items valued at Rs. 1,00,000 purchased from A Ltd. (Cost to A Ltd. Rs. 75,000).

(d) The Creditors of B Ltd. include Rs. 50,000 due to A Ltd.

You are required to suggest a scheme for absorption and to give Balance Sheet of A Ltd. after absorption of B Ltd. Assume it is a merger in the nature of purchase. Make other suitable assumptions, if necessary. [12½]

8. Following are the Balance Sheets of X Ltd. and Y Ltd. as on March 31, 2008.

Balance Sheets of X Ltd. and Y Ltd. as at March 31, 2008

Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
	Rs.	Rs.		Rs.	Rs.
Equity share Capital (Rs. 100 each)	1,50,000	1,00,000	Sundry Assets	2,10,000	1,70,000
General Reserve	40,000	12,000	Investment (in 600 shares of Y. Ltd.)	70,000	—
Profit & Loss A/c	30,000	28,000			
Creditors	60,000	30,000			
	2,80,000	1,70,000		2,80,000	1,70,000

X Ltd. purchased shares in Y Ltd. on July 1, 2007. On April 1, 2007 Y Ltd. has Rs. 10,000 in General Reserve and Rs. 18,000 in Profit & Loss Account (Credit balance). On August 31, 2007 Y Ltd. has paid 15% dividend for the year ending 31/03/2007. X Ltd. Credited its share of dividend to its Profit & Loss Account.

Prepare Consolidated Balance Sheet as on March 31, 2008 [12½]