

POST-GRADUATE COURSE

Term End Examination — December, 2009

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.a) The average net profit (before tax) of a firm was Rs. 1,72,000 including non-trading income. The cost of investment was Rs. 25,000 while its market value was Rs. 30,000. The investment has earned 10% interest. Expected future reduction in expenses is Rs. 3,000 per year. Normal rate of return is 10%. The capital employed is found to be Rs. 8,30,000 including the market value of investment. Rate of tax 40%.

Calculate the value of goodwill on the basis of 3 years purchase of super profit.

b) Why is equity approach more acceptable over 'long term fund approach' in the light of valuation of shares of a company ? 9+3½

- 2.a) Lamda Ltd. entered into an agreement to sell its land included in the balance sheet at Rs. 2 lakh to Alpha Ltd. for Rs. 5 lakh. The agreement was completed on December 31, 2008 with the approval of its Board of Directors but the sale deed was registered on June 3, 2009. Lamda Ltd. prepares its annual accounts on March 31 every year. How this event would be dealt with in the annual accounts ?
- b) What are the contents of the profit and loss account of a company as per legal requirements ? 6+6½
3. Following are the Balance Sheets of XY Co. Ltd. as on March 31, 2008 and on March 31, 2009.

Liabilities	31.03.08	31.03.09	Assets	31.03.08	31.03.09
	Rs.	Rs.		Rs.	Rs.
Eq. Share Capital	3,00,000	3,50,000	Goodwill	1,00,000	89,000
8% Pref. Share Capital	1,50,000	1,00,000	Land & Building	2,40,000	2,10,000
Security Premium	20,000	25,000	Plant & Machinery	80,000	2,00,000
Capital Reserve	—	20,000	Investment	20,000	35,000
General Reserve	40,000	75,000	Stock	77,000	1,00,000
Profit & loss A/C	30,000	73,000	Debtors	1,40,000	1,70,000
Debenture	40,000	40,000	Bills Receivable	20,000	30,000
Creditors	55,000	83,000	Cash at Bank	16,000	11,000
Bills Payable	20,000	16,000	Cash in hand	9,000	7,000
Prov. for Taxation	40,000	50,000	Preliminary expenses	35,000	30,000
Proposed Dividend	42,000	50,000			
	7,37,000	8,82,000		7,37,000	8,82,000

Additional Information :

- (i) Depreciation charged on Plant & Machinery amounted Rs. 16,000.
- (ii) One piece of land was sold at a profit and the profit was transferred to capital reserve.
- (iii) Dividend of Rs. 4,000 was received from investment of which Rs. 2,000 was credited to investment A/C being dividend declared from pre-acquisition profit.

(3)

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(iv) One machine was sold for Rs. 12,000 (WDV) on the date of sale was Rs. 15,000.

(v) Actual dividend was paid for Rs. 38,000.

You are required to prepare a Cash Flow Statement for the year ending on 31-3-09. 12½

4.a) What do you mean by preferential creditors.

b) The Moon Ltd. went into voluntary liquidation on January 1, 2010. The liquidator is entitled to a commission of 3% on realisation of all assets and 2% on distribution to shareholders. The following was the position of the company as on December 31, 2009.

	Rs.
Cash on realisation of assets	7,00,000
Expenses on liquidation	8,000
Unseemed Creditors (including salaries & wages for one month prior to liquidation Rs. 7,000)	67,000
15000, 6% Preference Shares of Rs. 10 each (dividend paid upto Dec. 31, 2008)	1,50,000
1000, Equity shares of Rs. 100 each, Rs. 90 per called & paid up.	90,000

Under the Articles of Association of the company the preference shareholders have the right to receive one-third of the surplus remaining after repaying equity share capital.

You are required to prepare Liquidator's Statement of Account. 4+8½

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(4)

Module – II

Answer any two questions : 12½×2=25

5. Following are the Balance Sheet of H. Ltd. and S. Ltd. as at March 31, 2009.

Liabilities	H. Ltd.	S. Ltd.	Assets	H. Ltd.	S. Ltd.
	Rs.	Rs.		Rs.	Rs.
Eq. Share Capital (Rs. 100 each)	4,00,000	2,00,000	Sundry Fixed Assets	3,40,000	2,60,000
General Reserve	1,30,000	40,000	Stock	1,50,000	60,000
Profit & Loss A/C	1,40,000	1,20,000	Sundry Debtors	1,00,000	70,000
Sundry Creditors	1,00,000	40,000	Investments	1,70,000	—
Bills Payable	5,000	5,000	Bank	15,000	15,000
	7,75,000	4,05,000		7,75,000	4,05,000

Additional Information :

- (i) H. Ltd. acquired 1200 shares in S. Ltd. on July 1, 2008.
- (ii) On April 1, 2008, S. Ltd. had Rs. 36,000 in General Reserve and Rs. 48,000 in Profit & Loss A/C (Credit balance)
- (iii) On July 16, 2009, H. Ltd. received dividend for last financial year amounting to Rs. 12,000 from S. Ltd. and credited the same to its Profit & Loss A/C.
- (iv) S. Ltd. owed H. Ltd. Rs. 24,000 for purchase of goods. Half of goods lying unsold on March 31, 2009. H. Ltd. made a profit of 20% on sales.

Prepare a consolidated Balance Sheet as at 31-3-09. 12½

6. a) Define the following (as stated in AS 17)

(i) Business Segment

(ii) Geographical Segment

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b) How the reportable segments are being selected ?

6½

7. Balance Sheets of Fortune Ltd. as on 31-12-09 is as follows :—

Liabilities	Amount Rs.	Assets	Amount Rs.
Share Capital Equity Shares of Rs. 10 each fully paid	9,00,000	Goodwill	2,00,000
6% Cumulative Pref. Shares of Rs. 10 each fully paid	1,00,000	Machinery	7,00,000
Sundry Creditors	71,000	Stock	3,50,000
		Sundry Debtors	2,50,000
		Bank	2,50,000
		Profit & Loss A/C	1,85,000
	17,10,000		17,10,000

Machinery is worth 10% below book value. Rs. 50,000 is required a liquid fund for proper functioning. Preference dividend is in arrear for 3 years. Draft a scheme of internal reconstruction. 12½

8. (a) Name the different stakeholders interested in the financial information of a company. Also enumerate the areas of their interest. 8
- (b) What are the qualitative characteristics of financial information ? 4½
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