Post-Graduate Course

Term End Examination – 2006 Part-I

M. Com.

Advanced Financial Accounting

Paper - X

Time : Two 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

Marks : 25

Answer ***any two*** questions. $12\frac{1}{2}\times2=25$

1. (a) The average net profit (before tax) of a firm was Rs. 1,52,000 including income from investment. The cost of investment was Rs. 20,000 while its market value was Rs. 22,000. The investment has earned 10% income. Expected future reduction in expenses is Rs. 2,500 per year. Rate of tax is 40%. Fair commercial return is 10%. The capital employed upon valuation is found to be Rs. 7,22,000 including market value of investment.

   Find the value of goodwill on the basis of 5 years' purchase of super profit. 8

   (b) Why is 'Equity Approach' more preferable to 'Long Term Fund Approach' in determining capital employed for the purpose of valuation of goodwill for shares of a company ? $4\frac{1}{2}$

2. Unfortunate Ltd. went into liquidation on March 31, 2006. The following balances are extracted from the books on that date :

Liabilities	Rs.	Assets		Rs.
Capital :		Buildings		1,80,000
60,000 Equity Shares		Plant & Machinery		2,52,000
Rs. 10 each	6,00,000	Stock-in-trade		1,14,000
Debentures (secured by		Book Debts	90,000	
floating charge)	2,40,000	Less : Provision	12,000	78,000
Bank Overdraft	60,000	Calls in Arrears		1,20,000
Creditors	48,000	Cash on hand		12,000
		Profit and Loss Account		1,92,000
	9,48,000			9,48,000

Buildings and Plant & Machinery are expected to realise at Rs. 1,44,000 and Rs. 1,92,000 respectively. On realisation, losses of Rs. 30,000 are expected on stock, book-debts will realise Rs. 84,000. Calls in arrears are expected to realise 90%. Bank overdraft is secured against Buildings. Creditors include preferential creditors for taxes and wages are Rs. 7,200 and outstanding miscellaneous expenses is Rs. 2,400.

Prepare a Statement of Affairs. $12\frac{1}{2}$

3. The following figures are available from the books of P Ltd :

	Rs.
Share Capital :	
8% Preference Shares of Rs. 100 each, fully paid	2,00,000
1,000 Equity Shares of Rs. 100 each, fully paid	1,00,000
1,000 Equity Shares of Rs. 100 each, Rs. 50 paid	50,000
1,000 Equity Shares of Rs. 100 each, Rs. 25 paid	25,000
Reserves and Surplus :	
General Reserve	2,00,000
Profit & Loss A/c	50,000
	6,25,000

On a fair valuation of all the assets of the company, it is found that, they have an appreciation of Rs. 1,60,000.

The Articles of Association provided that, in the case of liquidation, the Preference Shareholders will have a further claim to the extent of 20% of surplus assets.

Find the value of each Preference and Equity Shares ; assuming liquidation takes place in the compay. Ignore expenses of winding up. $12\frac{1}{2}$

4. The following are the summarised Balance Sheets of X Ltd. as on March 31,2005 and March 31, 2006 :

Liabilities	31.3.05	31.3.06	Assets	31.3.05	31.3.06
	Rs.	Rs.		Rs.	Rs.
Equity sh. capital	4,50,000	5,00,000	Goodwill	1,00,000	80,000
(Rs. 10 each)			Land and Building	2,00,000	1,70,000
General Reserve	40,000	50,000	Plant	80,000	2,00,000
Profit & Loss A/c	30,000	68,000	Investment	20,000	30,000
Creditors	25,000	47,000	Stock	77,000	1,09,000
Bills Payable	20,000	16,000	Debtors	1,40,000	1,70,000
Outstanding Exp.	30,000	36,000	Bills Receivable	20,000	30,000
Prov. for Taxation	40,000	50,000	Bank	10,000	8,000
Proposed	42,000	50,000	Cash	15,000	10,000
Dividend			Preliminary Exp.	15,000	10,000
	6,77,000	8,17,000		6,77,000	8,17,000

Additional Information :

(a) A piece of land has been sold out at a profit of Rs. 20,000 during 2005-06 and the profit on sale has been credited to Profit & Loss Account.

(b) A Plant has been sold for Rs. 10,000. The written down value of the Plant was Rs. 12,000. Depreciation of Rs. 10,000 is charged on Plant during 2005-06.

(c) Dividend received on investment was Rs. 2,000 during the current year.

You are required to prepare Cash Flow Statement for the year ended 31.3.2006. $12\frac{1}{2}$

Module II

Marks : 25

Answer ***any two*** questions. $12\frac{1}{2}\times 2=25$

5.(a) What are the factors to be considered in determining business segment ? $2\frac{1}{2}$

(b) What are the benefits of segment reporting from company's point of view ? 5

(c) What are the items to be disclosed for a secondary segment in the annual report of the company ? 5

6. Following are the Balance Sheets X Ltd. and Y Ltd. as on March 31, 2006

Balance Sheets of X Ltd. and Y Ltd. as at March 31, 2006

Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
	Rs.	Rs.		Rs.	Rs.
Equity sh. capital	1,50,000	1,00,000	Sundry Assets	2,10,000	1,70,000
(Rs. 100 each)			Investment (in 600		
General Reserve	40,000	12,000	share of Y Ltd.)	70,000	Nil
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, 2005. On April 1, 2005 Y Ltd. had Rs. 10,000 in General Reserve and Rs. 8,000 in Profit & Loss Account (Credit balance). Profits earned by Y Ltd. accrue evenly throughout the year. No dividend was paid during the year ended March 31, 2006.

Prepared a Consolidated Balance Sheet. $12\frac{1}{2}$

7.(a) What constitutes the structure of company accounts in India ? 5

(b) Is the inclusion of cash flow statement mandatory in India to the financial statements of a company ? $3\frac{1}{2}$

(c) What are the items to be disclosed in the 'Report on Corporate Governance' of an enterprise ? 4

8. Balance Sheet of Undone Ltd. as on March 31, 2006 is as below :

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Share Capital :		Goodwill	2,00,000
Equity shares of Rs. 10 each fully paid	7,00,000	Machinery	6,00,000
		Stock	3,00,000
6% Cum. Pref. shares of Rs. 10 each fully paid	1,00,000	Sundry Debtors	2,00,000
		Bank	10,000
Current Liabilities :		Profit & Loss A/c	1,90,000
Sundry Creditors	7,00,000		
Contingent Liability :			
Pref. dividend in arrear for 3 years			
	15,00,000		15,00,000

Machinery is worth 10% below book value. Requirement of liquid fund for proper functioning amounts to Rs. 60,000. Arrear preference dividend must be paid to get consent of preference shareholders.

Draft a scheme of internal reconstruction. $12\frac{1}{2}$