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**CRH 403**

First Semester M.Com. (HRD) Degree Examination, December 2018
(Choice Based Credit System)
COMMERCE
Advanced Financial Accounting

Time : 3 Hours

Max. Marks : 70

SECTION – A

Answer **any four** questions. **Each** question carries **10** marks : **(4×10=40)**

1. “The need for valuation of goodwill arises certain cases and valuer need to consider various factors while valuation of goodwill.” Elucidate.
2. Define reconstruction. Describe the impact of different types of reconstruction over wealth of investor and company.
3. Explain accounting standard setting process.
4. As on 30th September 2018 the draft balance sheets of three companies showed the following position :

Particulars	Pai Ltd.	Toy Ltd.	Dow Ltd.
a) Fixed assets	4,00,000	2,80,000	1,40,000
Investments-shares in Dow Ltd.			
net of sales	–	2,00,000	–
b) Current assets	3,20,000	1,20,000	2,60,000
	7,20,000	6,00,000	4,00,000
Share capital	4,00,000	2,50,000	2,00,000
(shares of Rs. 10 each)			
Revenue reserves	1,00,000	26,400	34,000
Trade debtors	1,20,000	2,98,600	1,36,000
Proposed dividends	1,00,000	25,000	30,000
	7,20,000	6,00,000	4,00,000

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You are also given the following information :

- a) Toy Ltd., purchased 18,000 shares in Dow Ltd., in 2013 when the credit balance on revenue reserve has been Rs. 45,000.
- b) On 1st October, 2017 Toy Ltd., sold 3,000 shares in Dow Ltd., and the proceeds of Rs. 40,000 were credited to investment account. At that time the credit balance in the revenue reserve was Rs. 44,000.
- c) The proposed dividend from the Dow Ltd., has been included in the debtors of Toy Ltd.,
- d) On 30th September, 2018, Pai Ltd., increased its authorised share capital to Rs. 7,50,000 and acquired all the share capital of Toy Ltd., by offering 4 shares in Pai Ltd., for every 5 shares in Toy Ltd. These transactions have not been reflected in the above balance sheets. It was agreed that the former shareholders in Toy Ltd., would receive its proposed dividends as on 30th September 2018, but would not participate in the proposed dividend of Pai Ltd.,

You are required to prepare the consolidated balance sheet of Pai Ltd., and its subsidiaries as on 30th September, 2018, together with consolidation schedules.

5. Ascertain the value of goodwill of XYZ Ltd., carrying on business from the following :

Balance Sheet as at 30-6-1984

Liabilities	Amount	Assets	Amount
	(Rs.)		(Rs.)
Paid-up capital – 2,500 shares at Rs. 100 each full paid	25,00,000	Goodwill at cost	2,50,000
Bank overdraft	4,80,000	Land and building at cost	11,00,000
Sundry creditors	8,05,000	Plant and machinery at cost less depreciation	10,00,000



Provision for taxation	4,25,000	Stock-in-trade	15,00,000
Profit and loss		Book debts less provision	
appropriation account	6,00,000	for bad debts	9,60,000
	48,10,000		48,10,000

The company started operations in 1979 with a paid-up capital as aforesaid of Rs. 25,00,000.

Profits earned before providing for taxation have been as follows :

Year ended 30th June	Rs.
1980	6,00,000
1981	7,50,000
1982	8,50,000
1983	9,50,000
1984	8,50,000

Income tax at 50% has been payable on these profits. Dividends have been distributed from the profits of the first three years at 10% and from those of the next two years at 15% of the paid-up capital.

6. The Balance Sheet of CBC Ltd. as on 1-2-2003 and the income statement for the year ending 31-12-2003 are set out below :

Balance Sheet as on 1-1-2003

Liabilities	Amount Rs.	Assets	Amount Rs.
Share capital	10,000	New Machine	15,000
10% debentures	6,000	Stock	2,400
Creditors	3,600	Debtors	1,200
		Cash	1,000
	19,600		19,600

**Income Statement for the year ended on 31-12-2003**

	Rs.	Rs.
Sales		10,000
Cost of goods sold :		
Opening stock (FIFO)	2,400	
Purchases (Net)	4,600	
Cost of goods available for sale	7,000	5,000
Less : Closing stock (FIFO)	2,000	5,000
Gross profit on sales		
Less : Operating expenses	800	
Depreciation	1,500	
Interest on debentures }		
paid on 31-12-2003	600	2,900
Retained earnings		2,100

Debtors and creditors balances remained constant throughout the year.

General price indices were as given below :

on 1-1-2003	200
Average for the year	240
On 31-12-2003	300

You are required to prepare the final accounts for the year 2003 after adjusting the price level changes under CPP method.



7. From the following data, compute the 'Net assets' value of each category of equity shares of Mishra Ltd. :

Shareholder's funds : 10,000 'P' equity shares of Rs. 100 each, fully paid
10,000 'Q' equity shares of Rs. 100 each, Rs. 80 paid
10,000 'R' equity shares of Rs. 100 each, Rs. 50 paid
Retained earnings Rs. 9,00,000

SECTION – B

Answer **any two** questions. **Each** question carries **15** marks : **(2×15=30)**

8. The following is the trial balance of a company at the end of a certain year (where accounting was done on orthodox principle) :

Particulars	Debit (Rs.)	Credit (Rs.)
Opening stock	4,000	
Purchases	20,000	
Sales		27,000
Expenses	4,000	
Depreciation	800	
Fixed assets (at cost)	8,000	
Provision for depreciation		3,200
Sundry debtors	6,000	
Bank	3,400	
Capital		12,000
Reserve		1,000
Sundry creditors		3,000
	46,200	46,200



The following additional information is supplied to you :

- a) Closing stock which was purchased at the beginning of the fourth quarter is valued at cost price of Rs. 4,600.
- b) The accounts relate to the first year of inflation after a period of stable prices. During this year, the general 'index of inflation' rose steadily from 100 to 140. The price of the commodity in which the company dealt also increased steadily, but only by 20%, while the prices of its fixed assets increased by 50%.

You are required to prepare the financial accounts in such a way, according to you, will be the best under inflationary conditions ignoring income tax.

9. A Limited and B Limited were amalgamated on and from 31st March, 2015. A new company D Limited was formed to take over the business of the existing companies. The summarised Balance Sheet of A Limited and B Limited (before merger) as on 31st March, 2015 are given below :

(Rs. in lakhs)					
Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
	(Rs.)	(Rs.)		(Rs.)	(Rs.)
Share capital :			Fixed assets	1,200	1,000
Equity shares of			Current assets,		
100 each	1,000	800	Loans and advances	880	565
15% preference					
share 100 each	400	300			
Reserve and surplus :					
Revaluation reserve	100	80			
General reserve	200	150			
P and L account	80	60			
Secured loan :					
12% debentures of	96	80			
Rs. 100 each					
Current liabilities					
and provisions	204	95			
	2,080	1,565		2,080	1,565



Additional information :

- a) 12% debenture holders of A Ltd. and B Ltd. are discharged by D Limited by issuing adequate number of 16% debentures of Rs. 100 each to ensure that they continue to receive the same amount of interest.
- b) Preference shareholders of A Ltd. and B Ltd. have received same number of 15% preference share of Rs. 100 each of D Limited.
- c) D Ltd. has issued 1.5 equity shares for each equity share of A Ltd. and 1 equity share each equity share of B Ltd. The face value of shares issued by D Ltd. is Rs. 100 each.

You are required to prepare the Balance Sheet of D Ltd. as on 31st March, 2015 after the amalgamation has been carried out using pooling of interest method (book cfr icwai page 2.45 Illu 6).

10. Write a note on :

- i) Social responsibility accounting
 - ii) Objectives of environmental accounting
 - iii) International financial reporting standards.
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