2012

MASTER OF BUSINESS ADMINISTRATION

[Third Semester Examination]

ADVANCED FINANCIAL ACCOUNTING

(Specialization : *Financial Management*)

PAPER – F-306

Full Marks : 50

Time : $1\frac{1}{2}$ hours

The figures in the right-hand margin indicate marks

Candidates are required to give their answers in their own words as far as practicable

Illustrate the answers wherever necessary

Write the answers to questions of each Half in separate books

FIRST HALF

[*Marks* : 50]

(*Turn Over*)

1. Answer any *four* from the following questions : 5 × 4

(*a*) What do you mean by intrinsic value of share ? State the factors affecting the valuation of shares.

(*b*) Write the accounting treatment of the following :

(*i*) Cash dividend received out of capital profit/ pre-acquisition profit, credited by holding company to its Profit and Loss Account.

(*ii*) Proposed dividend declared by

(*I*) Subsidiary company, shown in the liability side of the Balance sheet of S. Ltd.

(*II*) Proposed dividend declared by subsidiary company, but not shown in the liability side of the Balance sheet of S Ltd. It is given by way of additional information.

(*c*) The following particulars are available in relation to a Company :

(*i*) Capital : 3,500 7% Preference shares of ₹ 100 each, fully paid ; 83,000 equity shares of ₹ 10 each fully paid.

(*ii*) External liabilities : ₹ 4,75,000.

(*iii*) Reserves and Surplus : ₹ 3,35,000

(*iv*) The average normal profit (after taxation) earned every year by the company ₹ 1,54,250.

(*v*) The normal profit earned on the market value of equity shares, fully paid, of the same type of Companies is 9·5% calculate the value of each equity share by : (*A*) Assets backing method assuming that out of the total assets, those worth ₹ 27,000 are fictitious ; (*B*) The Earning-Capacity method.

(*d*) What is external reconstruction ? State the motives of merger and acquisition.

(*e*) D.K. Ltd. purchased 8,000 equity shares of M.P. Ltd. on 1.1.2011 for Rs.90,000. From the following balance sheets, compute the cost of control or goodwill :

Balance Sheet as at 31.12.2011

Liabilities	DK Ltd Rs.	MP Ltd. Rs.	*Assets*	DK Ltd Rs.	MP Ltd. Rs.
Equity Share Capital (Rs 10 each fully paid)	3,00,000	1,00,000	Fixed Assets	2,70,000	1,10,000
Reserves	80,000	50,000	Investments in MP Ltd.(8000 shares)	82,000	–
P & L A/c	50,000	30,000	Other Assets	1,18,000	90,000
Creditors	40,000	20,000			
	4,70,000	2,00,000		4,70,000	2,00,000

Other information :

(*i*) On 1.1.2011 Reserves and P & L A/c balances of MP Ltd. were Rs. 40,000 and Rs. 20,000 (Cr.) respectively ;

(*ii*) In Feb. 2011 MP Ltd. declared and paid 10 % dividend from its Reserves for the year 2010.

(*f*) What do you mean by Accounting Standards ? State the objectives of using Accounting Standards.

2. Answer any *two* questions of the following : 10 × 2

(*a*) (*i*) Write the Accounting Standard setting procedure in India.

(*ii*) Write the major guidelines on valuation of Inventories as prescribed in Accounting Standard in India (AS-2). 4 + 6

(*b*) Balance Sheet of P Ltd. and Q Ltd. as at 31.3.2012.

Liabilities	P Ltd	Q Ltd.	*Assets*	P Ltd	Q Ltd.
	Rs.	Rs.		Rs.	Rs.
Equity Share			Goodwill	50,000	—
Capital (Rs 10)	7,00,000	3,00,000	Fixed Assets	5,70,000	2,70,000
General Reserves	80,000	40,000	Investment		
Profit and Loss A/c	90,000	40,000	in Q Ltd.		
Creditors	60,000	30,000	(20,000 shares)	2,40,000	—
Loan from P Ltd.			Loan to Q Ltd.		
(including accrued			(Excluding		
interest of Rs. 2000)	—	20,000	accrued interest)	23,000	—
			Other Assets	47,000	1,60,000
	9,30,000	4,30,000		9,30,000	4,30,000

Other information :

(*i*) P Ltd. acquired the shares in Q Ltd. on 1.10.2011;

(*ii*) On 1.4.2011, General Reserves and Profit and Loss A/c balances of Q Ltd. stood at Rs. 20,000 and Rs. 10,000 (Dr.) respectively;

(*iii*) Fixed assets of Q Ltd. which stood at Rs. 3,00,000 on 1.4.2011 were revalued at Rs. 3,85,000 on the data of acquisition of shares by P Ltd. The effect of this revaluation has not yet been treated in the books of Q Ltd.

(*iv*) Both the companies decided to make a proposed dividend of 10 %.

Prepare the consolidated balance sheet of P Ltd and its subsidiary Q Ltd. as at 31.3.2012. 10

(*c*) The financial position of two companies Raja Ltd. and Gaja Ltd. as an 31st March, 2012 was as under :

Assets	Raja Ltd.(₹)	Gaja Ltd.(₹)
Goodwill	50,000	25,000
Building	3,00,000	1,00,000
Machinery	5,00,000	1,50,000
Stock	2,50,000	1,75,000
Debtors	2,00,000	1,00,000
Cash at Bank	50,000	20,000
Preliminary Exp.	30,000	10,000
	13,80,000	5,80,000

Liabilities	Raja Ltd.(₹)	Gaja Ltd.(₹)
Share Capital:		
Equity shares of ₹10 each	10,00,000	3,00,000
9% Preference shares of ₹ 100 each	1,00,000	–
10 % Preference shares of ₹ 100 each	–	1,00,000
General Reserve	1,00,000	80,000
Retirement Gratuity fund	50,000	20,000
Sundry Creditors	1,30,000	80,000
	13,80,000	5,80,000

Raja Ltd. absorbs Gaja Ltd. on the following terms :

(*i*) 10 % Preference share holders are to be paid at 10% premium by issue of 9 % preference shares of Raja Ltd.

(*ii*) Goodwill of Gaja Ltd. is valued at ₹ 50,000, Buildings are valued at ₹ 1,50,000 and the Machinery at ₹ 1,60,000.

(*iii*) Stock to be taken over at 10 % less Value and Reserve for Bad and Doubtful Debts to be created @ 7·5 %.

(*iv*) Equity share holders of Gaja Ltd. will be paid off by issue of Equity shares of Raja Ltd. @ 5 % Premium.

Prepare necessary Ledger Accounts to close the Books of Gaja Ltd. and Show the acquisition entries in the books of Raja Ltd. 10

[*Internal Assessment* – 10 Marks]