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2013

MASTER OF BUSINESS ADMINISTRATION

[Third Semester Examination]

ADVANCED FINANCIAL ACCOUNTING

(Theory)

Specialisation : (*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

(*Turn Over*)

FIRST HALF

[*Marks* : 50]

1. Answer any *four* questions : 5 × 4

(*a*) What is yield value of shares ? State the accounting for goodwill in brief.

(*b*) What is internal reconstruction ? What are its objectives ?

(*c*) (*i*) S Ltd., a subsidiary of H Ltd., shows loan of Rs. 20,000 including accrued interest of Rs. 2,500 as due to H Ltd. as on the date of balance sheet. However, on the same date H Ltd. shows Rs. 24,000 still due from S Ltd. excluding any accrued interest.

(*ii*) S Ltd. issued bill payable of Rs. 15,000 to H Ltd. and shown as liability in its Balance Sheet. H Ltd. has already discounted bills of Rs. 6,000 out of these and has mentioned Rs. 6,000 as contingent liability as footnote in the Balance Sheet.

Show how these will be accounted for at the time of preparing consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd.

(*d*) ABC Ltd has issued and paid up share capital and others as follows :

(*i*) 12,000 equity shares of Rs. 10 each fully paid;

6,000 equity shares of Rs. 10 each but paid up Rs. 6 each;

2,000 equity shares of Rs. 10 each but paid up Rs. 2 each;

5,000, 10% preference share capital of Rs. 100 each fully paid.

(*ii*) Book value of fixed assets less depreciation → Rs. 19,30,000 (market value Rs. 15,80,000)

(*iii*) Value of current assets → Rs. 3,25,000

(*iv*) Value of current liabilities → Rs. 2,48,000 (*v*) Discount on issue of shares and preliminary expenses not written off → Rs. 18,000.

Determine the intrinsic value of each type of equity share.

(*e*) What is minority interest in the context of holding company accounts ? How pre and post-acquisition profits are treated in consolidated Balance Sheets ?

(*f*) What are the common journal entries that are entered in the books of a purchasing company in absorption ?

2. Answer any *two* questions : 10 × 2

(*a*) Becharam Ltd. is absorbed by Kenaram Ltd., the consideration being assumption of liabilities, the discharge of the debenture debt at a premium of 5% by issue of 7% Debentures in Kenaram Ltd., a payment of cash of Rs. 40 per share and the exchange of 8 shares of Rs. 10 each in the Kenaram Ltd. at an agreed value of Rs. 11 per share for every share in Becharam Ltd. and reimbursement of liquidation expenses Rs. 5,000. Show the Journal entries necessary (*i*) to close the books of Becharam Ltd., and (*ii*) to record the transactions in the books of Kenaram Ltd.

The Balance Sheet of Becharam Ltd. as on the date of absorption was as under : 10

Liabilities	*Becharam* Rs.	*Assets*	*Becharam* Rs.
Equity share Capital (10,000 shares of Rs. 100 each fully paid)	10,00,000	Goodwill	1,00,000
		Land & Buildings	2,50,000
5% Debentures	5,00,000	Plant & Machinery	3,40,000
Sundry Creditors	65,000	Patents	65,000
Staff Pension Fund	70,000	Stock	3,55,000
Accident Compensation Fund (*Expected liability* Rs. 10,000)	50,000	Sundry Debtors	1,80,000
General Reserve	1,50,000	Accident Compensation Fund Investment	30,000
Profit & Loss Account	45,000	Cash & Bank	5,60,000
	18,80,000		18,80,000

(*b*) From the following Balance Sheet of Jhum Jhum Ltd. as on 31st December 2013, find out the value of each fully paid and partly paid equity share : 10

Liabilities	Rs.	*Assets*	Rs.
Equity Share Capital :		Goodwill	40,000
Shares of Rs. 10		Buildings	1,84,000
each – 4,00,000		Machinery	2,88,000
Less : Calls-in		Furniture	20,000
-arrear			
(Rs. 2 per share) 80,000		Investment	1,00,000
	3,20,000	Stock	1,60,000
11% Preference Shares of		Sundry Debtors	2,88,000
Rs. 10 each fully paid	1,60,000		
General Reserve	1,62,000	Cash & Bank	40,000
Profit & Loss Account	1,82,000	Preliminary	
Sundry Creditors	2,36,000	Expenses	20,000
Bank Loan	80,000		
	11,40,000		11,40,000

Additional information :

(*i*) Fixed Assets, except goodwill, are worth 20% above their actual book value. Depreciation on appreciated value of fixed assets to be ignored for valuation of goodwill.

(*ii*) Of the investments, 80% is non-trading. All trade investments are to be valued at 20% below cost. A uniform rate of dividend of 10% is earned on all investments.

(*iii*) Goodwill is to be valued at 4 years' purchase of super profits based on average profits of the last three years. Profits for the last three years (after charging tax @ 50%) were Rs. 1,48,000, Rs. 1,62,000, and Rs. 1,70,000 respectively. In a similar business, return on capital employed is 15%. In 2011 new furniture costing Rs. 10,000 was purchased but wrongly charged to revenue. (No effect has yet been given for rectifying the same.) Depreciation charged on furniture is @ 10% on diminishing balance.

(*c*) (*i*) Identify the points of distinction among Amalgamation, Absorption, and Reconstruction.

(*ii*) What are advantages and disadvantages of Holding Companies ? 5 + 5

[*Internal Assessment* : 10 Marks]