

**2014**

**M B A**

**3rd Semester Examination**

**ADVANCED FINANCIAL ACCOUNTING (Theory)**

**[ Specialisation : FINANCIAL MANAGEMENT ]**

**PAPER — F 306**

*Full Marks : 50*

*Time : 1 Hour 30 Minutes*

*The figures in the right-hand margin indicate full 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)

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

(a) State any five motives of merger and acquisition.

(b) Distinguish between

(i) Amalgamation and Absorption

(ii) Interval reconstruction and External reconstruction. 2+3

*(Turn Over)*

- (c) What is Earning per share (EPS) ? State the formula for determining Basic EPS and Diluted EPS. 2+3
- (d) Compute the value of cost of Control arising out of consolidation from the following information :
- H Ltd. acquired 40,000 shares of S Ltd. on April 1, 2013 when the balances of the profit and loss account and general reserve of subsidiary company were Rs. 1,50,000 and Rs. 1,60,000 respectively.
  - Issued and subscribed equity share capital in shares (Rs. 10 each) on March 31, 2014 :  
 H Ltd. : Rs. 20,00,000  
 S Ltd. : Rs. 6,00,000
  - Balance of Reserve & Surplus of S Ltd. on March 31, 2014 :  
 General Reserve : Rs. 2,50,000  
 P/L A/c : Rs. 3,60,000
  - Date of preparation of Consolidated Balance Sheet :  
 March 31, 2014
- (e) The following particulars are available in respect of the business carried on by SS Ltd :
- |   |               |
|---|---------------|
| (1) Capital vested                        | 50,000        |
| (2) Trading results :                     |               |
| 2010-11                                   | profit 12,200 |
| 2011-12                                   | profit 15,000 |
| 2012-13                                   | Loss 2,000    |
| 2013-14                                   | profit 21,000 |
| (3) Market rate of interest on investment | 8%            |

- (4) Rate of risk return on capital invested in business 2%.
- (5) Remuneration from alternative employment of the proprietor (if not engaged in business) Rs. 3,600 per annum.

Compute the value of goodwill of the business on the basis of 3 years' purchase of super profits taking average of last four years.

- (f) State the usefulness of adopting GAAP in financial Reporting.

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

- (a) The following is the Balance Sheet of confident Ltd. as on 31.3.2014 :

| <i>Liabilities</i>  | Rs.             | <i>Assets</i>     | Rs.             |
|---|-----------------|-------------------|-----------------|
| 5,000, 6% Pref. Shares of Rs. 10 each fully paid            | 50,000          | Goodwill          | 10,000          |
| 10,000 Equity Shares of Rs. 10 each fully paid              | 1,00,000        | Land and Building | 2,70,000        |
| 20,000 Equity Share of Rs. 10 each, Rs. 5 per share paid up | 1,00,000        | Machinery         | 50,000          |
| Profit and Loss A/c   | 60,000          | Investment        | 30,000          |
| 4% Debenture  | 1,80,000        | Stock             | 90,000          |
| Sundry creditors  | 50,000          | Sundry Debtors    | 80,000          |
|   |                 | Cash at Bank      | 10,000          |
|   | <b>5,40,000</b> |                   | <b>5,40,000</b> |

*Additional information :*

- (i) The revaluation of assets was made as follows :

|                   | Rs.      |
|-------------------|----------|
| Land and Building | 2,90,000 |
| Machinery         | 70,000   |

- (ii) The fair return on capital employed is 10% p.a.  
 (iii) The basis of valuation of goodwill is 3 years purchase of super profit.  
 (iv) The profit for the last 3 years were Rs. 42,000; Rs. 45,000 and Rs. 48,000 respectively.  
 (v) The investment income is 9% of book value.

Find the value of equity shares both fully paid and partly paid under Asset Backing Method. 10

- (b) The balance sheet of a holding company (H Ltd.) and its subsidiary (S Ltd.) at 31st March, 2014 are as follows :

|   | H Ltd.<br>Rs. | S Ltd.<br>Rs. |
|---|---------------|---------------|
| Share Capital — Equity Shares of Rs. 10 each fully paid | 4,00,000      | 2,00,000      |
| Profit and Loss Account at March 31, 2012               | 2,00,000      | 1,00,000      |
| Net Profit 2012-13                                      | 1,20,000      | 20,000        |
| Net Profit 2013-14                                      | 40,000        | 30,000        |
| Trade Payable   | 1,00,000      | 10,000        |
|   | 8,60,000      | 3,60,000      |
| Investment in S Ltd. at cost                            | 2,60,000      | —             |
| Other assets  | 6,00,000      | 3,60,000      |
|   | 8,60,000      | 3,60,000      |

On March 31, 2012, H Ltd. acquired 6,000 shares in S Ltd. for Rs. 2,00,000; on March, 31, 2013 it acquired a further 6,000 shares for Rs. 60,000. No dividends have been paid or proposed by either company in the relevant years.

Prepare a consolidated balance sheet of the group at March 31, 2014. 10

(c) *Balance Sheet Alfa Co. Ltd.*  
*as at 31.3.2014*

| <i>Liabilities</i>                                    | <i>Rs.</i>      | <i>Assets</i>       | <i>Rs.</i>      |
|---|-----------------|---------------------|-----------------|
| 40,000 Equity Shares<br>of Rs. 100 each<br>fully paid | 4,00,000        | Goodwill            | 1,60,000        |
| 10% Pref. Shares<br>of Rs. 10 each<br>fully paid      | 2,00,000        | Land and Building   | 2,20,000        |
| 9% Debentures   | 1,50,000        | Plant and Machinery | 2,80,000        |
| Creditors   | 1,00,000        | Stock               | 40,000          |
| Outstanding debenture<br>interest                     | 10,000          | Debtors             | 20,000          |
|   |                 | Cash & Bank         | 5,000           |
|   |                 | P & L A/c           | 1,35,000        |
|   | <b>8,60,000</b> |                     | <b>8,60,000</b> |

Alfa Co. Ltd. passed a special resolution to reduce its capital and obtained the necessary permission of the court as follows :

- (i) Each equity share of Rs. 10 each fully paid is to be subdivided into 5 equity shares of Rs. 2 each fully paid;
- (ii) Equity shareholders agree to surrender 60% of their holdings to be used for reissue purposes.

- (iii) 10% Preference shareholders agree to give up their claim of areas preference dividend due for 2 years and also agree to take 50,000 equity shares of Rs. 2 each fully paid in full satisfaction. These 50,000 equity shares are reissued to them out of shares surrendered.
- (iv) 9% Debentures agree to take new 10% Debentures of Rs. 1,00,000 in full satisfaction of their total claim;
- (v) Creditors agree to give up 50% of their claim and to take 25,000 equity shares of Rs. 2 each fully paid. These 25,000 equity shares are reissued to them out of shares surrendered;
- (vi) The unused surrendered shares are to be cancelled;
- (vii) The amount available by means of capital reduction shall be utilised to write off the fictitious asset and intangible asset and balance, if any, shall be utilised to write off stock the above decisions were duly carried out by Alfa Co. Ltd.

You are required to show the necessary journal entries in the books of Alfa Co. Ltd. and to show the revised balance sheet of it after capital reduction.

10

**[ Internal Assessment : 10 marks ]**

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