M.Com. 3rd Semester Examination, 2010

ADVANCED FINANCIAL ACCOUNTING

PAPER—CM-2104 (AF)

Full Marks : 50

Time : 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

UNIT – I

[*Marks* : 20]

1. Answer any *two* of the following : 5 x 2

(*a*) Illustrate Replacement Cost model of human resource valuation.

(*b*) What are the needs of environmental accounting? Briefly write any two measurement techniques of environmental cost.

(*c*) Suppose gross value added to a company is Rs. 24,00,000 having 100 employees. Employees have been paid Rs. 2,00,000 for working 10,000 hours for generation of above value added. The invested capital in the firm is Rs. 5,00,000 (Rs. 3,00,000 in fixed assets and Rs. 2,00,000 in working capital).
Calculate different productivity ratios related to employees and capital of the firm.

(*d*) The Balance Sheets of Soma Ltd. and Ruma Ltd. as on 31.12.2009 are given below :

Liabilities	Soma Ltd. Rs.	Ruma Ltd. Rs.	*Assets*	Soma Ltd Rs.	Ruma Ltd Rs.
Euity share capital (shares of Rs. 100 each)	4,00,000	3,50,000	Premises	1,50,000	—
			Goodwill	—	1,80,000
General Reserve	70,000	—	Sundry Debtors	1,00,000	1,50,000
Profit and Loss A/c	40,000	—	Stock in trade	2,70,000	80,000
Sundry Creditors	90,000	170,000	Bank	80,000	70,000
			Profit and Loss A/c	—	40,000
	6,00,000	5,20,000		6,00,000	5,20,000

A new company Creative Ltd. was formed to takeover the two businesses entirely on the following understanding :

(*i*) Soma Ltd. : Premises to be revalued at Rs. 1,80,000, Sundry Debtors taken over at 90 per cent of book value and Stock at Rs. 3,10,000.

(*ii*) Ruma Ltd. : Goodwill to be taken over at Rs. 2,00,000, Debtors to be taken at Rs. 1,42,000 and Stock at Rs. 78,000. It was decided that the capital of Creative Ltd. would consist of both preference and equity shares of the face value of Rs. 10 each. Preference shares would be of the order of Rs. 4,00,000 and the balance would be in equity shares. Both companies would be issued shares of both the types in equal number, except that the surplus capital of any absorbed company would be discharged fully in preference shares. Indicate the number of shares to be issued to each of the absorbed companies.

2. Answer any *one* of the following : 10 x 1

(*a*) (*i*) Write any two grounds of compulsory liquidation.

(*ii*) Write any two rights of an official liquidator.

(*iii*) A company went into liquidation on 31.12.2009 when the following Balance Sheet was prepared :

Liabilities		Rs.	*Assets*	Rs.
Subscribed, issued and paid up capital :			Goodwill	50,000
			Leasehold property	48,000
			Plant and Machinery	65,500
19500 shares of Rs. 10 each		1,95,000	Stock	56,800
Sundry Creditors :			Sundry Debtors	64,820
	Rs.		Cash	2,500
Preferential	24,200		Profit and Loss A/c	98,680
Partly secured	55,310			
Unsecured	99,790	1,79,300		
Bank overdraft (unsecured)		12,000		
		3,86,300		3,86,300

The liquidator realised the assets as follows :

	Rs.
Leasehold property which was used in the first instance to pay partly secured creditors pro-rata	38,000
Plant and Machinery	50,000
Stock	38,000
Sundry Debtors	58,000
Cash	3,000

The expenses of liquidation amounted to Rs. 2,000 and the Liquidator's remuneration was agreed at $2\frac{1}{2}\%$ on the amounts realised, excluding cash and 2% on the amount paid to the unsecured creditors.

Calculate Liquidator's remuneration. 2 + 2 + 6

(*b*) (*i*) Distinguish between External reconstruction and Internal reconstruction.

(*ii*) The extracted form of liability side of the Balance Sheet of Unfortunate Ltd, as on 31.12.2009 is as follows :

Liabilities	Rs.
8 % Cumulative Preference Shares of Rs. 100 each	5,00,000
Equity shares of Rs. 100 each	7,50,000
Sundary Creditors	2,00,000
Contingent Liability :	
Arear Preference Dividend for 4 years	
	14,50,000

The Accumulated and Prospective losses to be written off amounting Rs. 7,10,000. In case of liquidation there will be net asset (after deduction of sundry creditors) of Rs. 7,00,000. Suggest how the losses to be shared by different contributors. 3 + 7

UNIT – II

[*Marks* : 20]

3. Answer any *two* of the following : 5 x 2

(*a*) The Summarised Balance Sheets of X Ltd. and its subsidiary Y Ltd. as on 31st December, 2009 are given below :

Liabilities	X. Ltd. (Rs.'000)	Y Ltd. (Rs.'000)	*Assets*	X. Ltd. (Rs.'000)	Y Ltd. (Rs.'000)
Equity shares of Rs. 10 each	1,200	400	Fixed Assets at cost less depreciation	920	750
7% Preference shares of Rs. 10 each	—	300	Investment in Y. Ltd. 30,000 Equity shares	660	—
General Reserve	200	160	20,000 preference shares	205	—
Profit and Loss A/c	394	176	Current Assets	715	450
Proposed Dividends :					
Preference shares		21			
Equity shares	120	40			
Sundry Creditors	586	103			
	2,500	1,200		2,500	1,200

Other relevant information :

(*i*) X. Ltd. acquired the shares in Y. Ltd. on 1.1.2009.

(*ii*) The balance in the Profit and Loss A/c of Y Ltd. is made up as follows :

	Rs.
Balance as on 1.1.2009	1,09,000
Add : Profit for the year 2009	1,28,000
	2,37,000
Less : Proposed Dividend	61,000
	1,76,000

The stock of Y Ltd. as on 31.12.2009 included Rs. 72,000 in respect of goods purchased from X. Ltd. on which the latter company made a profit of 20 % above cost.

(*iii*) The balance in the P & L A/c of Y Ltd. as on 31.12.2008 is after providing for the preference dividend of Rs. 21,000 and a proposed Equity dividend of Rs. 20,000 both of which were subsequently paid but proportionate amount due to X Ltd. was credited by it to its P & L A/c.

(*iv*) On 31.12.2009, Y Ltd. made an issue of Bonus shares for Rs. 80,000 by capitalising a part of the General Reserve and issued pro-rata. The transaction had not yet been shown in the books of Y. Ltd.

Calculate Pre-acquisition profit and Share between X Ltd. and Y Ltd. 5

(*b*) Using information 3 (*a*) also calculate Revenue Profit and share between X Ltd. and Y Ltd. 5

(*c*) (*i*) Define Non Performing Asset (NPA) of a bank.

(*ii*) On 31.3.2009, Oriental Bank Ltd. finds its advances classified as follows :

	(Rs. in '000)
Standard Assets	75,00,000
Sub-standard Assets	4,60,000
Doubtful Assets :	
: Upto 1 year	1,30,000
: More than 1year but less than 3 years	7,800
: More than 3 years	3,300
Loss assets	5,200

Calculate the amount of provision to be made by the bank against the above mentioned advances. 2 + 3

(*d*) From the following balance of Bank of India Ltd. as on 31.3.2010. Prepare Investment schedule and Advance schedule : 2 + 3

	(Rs. '000)
Investment in India (at cost) :	
Central Government Securities	25,000
Equity Shares	6,250
Debentures	6,500
Investment outside India (at cost) :	10,000
Loans, cash-credit and overdrafts (secured by tangible assets)	26,475
Bills purchased and discounted (outside India Rs. 5,00,000)	2,750
Term Loans (guaranteed by Central Government)	2,500

4. Answer any *one* of the following : 10 x 1

(*a*) (*i*) Explain the term Reserve for unexpired risk for general insurance business.

(*ii*) From the following balances prepare Net Benefit paid (schedule 4), Investments (schedule 8 & 8A) and Loans (schedule 9) schedules :

	Rs. in lakhs
Deposit with R.B.I.	3,42,520
Claims by Maturity	1,04,700
Claims by death	1,75,000
Investment Properties Real Estate	1,69,000
Mortgages in India	8,70,000
Surrenders	21,000
Annuities paid	7,600
Loans on company's policies	1,79,000
Fully paid-up shares in limited liability companies	1,81,500
Bonuses in cash	4,200
Port trust debentures, guranteed by Govt.	5,30,000
Outstanding premium on closing date	22,000
Loans on Government securities	7,10,000
Profit on sale of investments	10,800
Agents balance	6,800

10

(*b*) The following are the summarised balance sheets of three companies, P. Ltd., Q. Ltd. and R. Ltd. as on 31.3.2010 :

Liabilities	P Ltd. Rs.	Q Ltd. Rs.	R Ltd. Rs.
Share capital : (Rs. 10 each)	5,00,000	4,00,000	1,50,000
Profit and Loss A/c	1,20,000	1,00,000	30,000
Creditors	1,80,000	2,00,000	1,20,000
	8,00,000	7,00,000	3,00,000

Assets	P Ltd. Rs.	Q Ltd. Rs.	R Ltd. Rs.
Fixed Assets	3,00,000	2,70,000	1,42,000
Investment :			
30,000 shares in Q Ltd.	3,50,000	—	—
12,000 shares in R Ltd.	—	1,40,000	—
Stock	50,000	1,00,000	58,000
Other current assets	1,00,000	1,90,000	1,00,000
	8,00,000	7,00,000	3,00,000

The investments were all acquired on 1st October, 2009. On April, 2010 the Profit and Loss Accounts showed the following balances :

	Rs.
P Ltd.	80,000
Q Ltd.	48,000
R Ltd.	10,000 (Debit balance)

The proposed dividends for 2009-10 are : P Ltd. 16%, Q Ltd. 15% and R Ltd. 10% after transfer of Rs. 8,000 and Rs. 3,000 from Profit and Loss Account to General Reserve by P Ltd. and Q Ltd. respectively.

You are required to (*i*) Analyse profit into capital and revenue (*ii*) Calculate Cost of Control, Minority interest and consolidated P & L balance. 4 + 6

[*Internal Assessment* : 10 Marks]