

Seat No. : _____

AC-141

April-2016

IInd Year MBA

ADVANCED FINANCIAL ACCOUNTING – II

Time : 3 Hours]

[Max. Marks : 100

1. (A) Give the provisions of Companies Act regarding Bonus shares. **5**
- (B) Discuss various methods of Alteration of share capital. **5**

OR

1. (A) Difference between Right shares and Bonus shares. **5**
- (B) Which are the 'profits available for paying dividend' and 'profits not available for paying dividend' ? **5**
- (C) The following is the balance sheet of Bright Ltd. as on 31st March, 2016. **10**

Equities and Liabilities	Amount (₹)	Assets	Amount (₹)
Shareholder's funds :		Non-Current Assets	
5000 preference shares 5,00,000		Fixed Assets	8,00,000
Calls in arrears on 100 shares (2,000)	4,98,000	Investments	50,000
General Reserve	7,50,000	Current Assets :	
Securities Premium	50,000	Bank	2,25,000
Current Liabilities	2,50,000	Cash	1,800
	15,48,000	Other Current Assets	4,71,200
			15,48,000

Preference shares were due for redemption on 31st March, 2016 at a premium of 10%. 50 shareholders paid the amount due on their shares and the balance shares on which call amount was not paid were forfeited. The forfeited shares were re-issued and on receiving 80% of the face value were considered fully paid. 4000 equity shares were issued at par face value being ₹ 100. On the due date preference shares were duly redeemed and amount due was settled.

Pass necessary journal entries and prepare balance sheet after redemption.

2. The Balance Sheet of Aaina Ltd. as at 31st March, 2016 is as follows, the business is continuously carried out at losses.

20

Equities and Liabilities	Amount (₹)	Assets	Amount (₹)
Shareholder's funds :			
1,20,000 Equity shares of ₹ 10 each fully paid.	12,00,000	Non-Current Assets :	
8000 9% Cumulative preference shares of ₹ 100 each fully paid	8,00,000	Goodwill	2,00,000
Securities Premium	3,60,000	Plant	12,00,000
Profit and Loss Account	(8,00,000)	Furniture	40,000
Non-Current Liabilities		Preliminary expenses	20,000
Unsecured loan from director	2,00,000	Current Assets :	
Current Liabilities		Debtors	10,00,000
Creditors	12,00,000	Stock	6,00,000
Outstanding expenses (including directors remuneration ₹ 80,000)	2,80,000	Bank	1,80,000
	32,40,000		32,40,000

Dividend is in arrears for last 2 years. The following is the scheme of reconstruction agreed upon and duly approved by the court :

- (1) Equity shares to be converted into 600,000 equity shares of ₹ 2 each and then the equity shareholders are to be surrender to the company 90% of their holdings.
- (2) Preference shareholders agreed to forgo their right to arrears of dividend in consideration of which their 9% cumulative preference shares are to be converted into equal number of 10% cumulative preference shares.

- (3) Sundry creditors agree to reduce their claim by $\frac{1}{5}^{\text{th}}$ in consideration of their getting shares of ₹ 1,40,000 out of the share surrendered equity shares.
- (4) The directors agreed to forgo the amount due on account of unsecured loan and director's remuneration.
- (5) The surrendered shares not utilized are to be cancelled.
- (6) Assets are to be reduced as under :

	₹
Goodwill	2,00,000
Plant	2,28,000
Furniture	12,000
Sundry Debtors	60,000
Stock	1,00,000

- (7) Expenses of reconstruction amounted to ₹ 40,000.
- (8) 2,00,000 equity shares of ₹ 2 each issued to existing members for increasing the working capital. The issue was fully subscribed and paid up. The authorized capital was suitably increased.

Pass journal entries in the books of Company, prepare Capital Reduction Account and also prepare Balance Sheet after Reduction.

3. (A) Answer any **two** :

10

- (1) Explain various modes of Liquidation.
- (2) What are the duties of Liquidator ?
- (3) Give the list of statements prepared by the liquidator.

- (B) Prakash Processors Ltd. went into voluntary liquidation on 31st December, 2014 when their Balance Sheet reads as follows :

10

Equities and Liabilities	Amount (₹)	Assets	Amount (₹)
Share holder's fund :		Non-Current Assets :	
5000 10% Cumulative Preference Shares of ₹ 100 each fully paid	5,00,000	Land & Building	2,50,000
2500 Equity Shares of ₹ 100 each, ₹ 75 paid	1,87,500	Plant & Machinery	6,25,000
7500 Equity Shares of ₹ 100 each, ₹ 60 paid	4,50,000	Patents	1,00,000
Profit and Loss Account	(2,81,250)	Current Assets :	
Non-current Liabilities :		Stock	1,37,500
15% Debentures (Secured by floating charge)	2,50,000	Sundry Debtors	2,75,000
Current Liabilities :		Cash and Bank	75,000
Interest outstanding on debentures	37,500		
Creditors	3,18,750		
	14,62,500		14,62,500

Preference dividends were in arrears for 2 years and the creditors included preferential creditors of ₹ 38,000. The assets realized as follows :

Land and Building ₹ 3,00,000, Plant and Machinery ₹ 5,00,000, Stock ₹ 1,50,000, Sundry Debtors ₹ 2,00,000 and Patents ₹ 75,000.

The expenses of Liquidation amounted to ₹ 27,250. The liquidator is entitled to a commission of 3% on assets realized except cash. Assuming the final payments including those on debentures is made on 30th June, 2015. Show the liquidator's final statement of account.

4. (A) The following is the balance sheet of Danny Ltd. as at 31st March, 2016 :

12

Equities and Liabilities	Amount (₹)	Assets	Amount (₹)
3000 6% Preference Shares of ₹ 100 each, fully paid up	3,00,000	Goodwill	1,00,000
1,30,000 Equity shares of ₹ 10 each, fully paid up	13,00,000	Free hold property	7,50,000
Profit and Loss Account	9,00,000	Plant and Machinery less depreciation	7,00,000
8% Debentures	6,00,000	Stock	7,40,000
Sundry Creditors	4,78,000	Debtors	7,98,500
	35,78,500	Cash and Bank Balance	4,90,000
			35,78,500

The following are additional information :

- (1) The profit after tax for the three years 2013-2014, 2014-2015 and 2015-2016, after charging debenture interest, were ₹ 4,41,000, ₹ 6,45,000 and ₹ 4,80,000 respectively.
- (2) The normal rate of return is 10% on the net assets attributed.
- (3) The value of free hold property is to be ascertained on the basis of 8% return. The current rental value is ₹ 1,00,800.
- (4) The rate of tax applicable is 40%.
- (5) 10% of profits for the financial year 2014-2015 referred to above arose from a transaction of non-recurring nature.
- (6) A provision of ₹ 31,500 on sundry debtors was made in the financial year 2015-2016 which is no longer required; profit for the year 2015-2016 is to be adjusted for this item.

- (7) A claim of 16,500 against the company is to be provided and adjusted against profit for the financial year ended on 31st March, 2016.
- (8) Goodwill may be calculated at 3 times adjusted average profits of the 3 years.
- (9) Capital employed may be taken as on 31st March, 2016.

You are required to ascertain the value of Goodwill of the company.

(B) Describe various methods of valuation of Goodwill.

8

OR

Capital structure of NM Ltd. is as follows :

Type of Capital	Amount
5,00,000 Equity Shares of ₹ 10 each fully paid up	50,00,000
5,00,000 Equity Shares of ₹ 10 each, ₹ 8 paid up	40,00,000
12% Debentures	10,00,000
20,000 9% Preference Shares of ₹ 100 each	20,00,000
Additional Information :	
Expected profit per year before interest & tax	61,20,000
Rate of tax	40%
Transfer to General Reserve every year	10% of profit
Normal rate of dividend	15%

Ascertain the value of equity shares on yield basis.

5. (A) Write a short note on various types of Amalgamation as per AS 14.

6

OR

Discuss various motives of Amalgamation.

(B) The Balance Sheet of Tanu Ltd. and Manu Ltd. as at 31st March, 2016 are as under :

14

Equities and Liabilities	Tanu Ltd. (₹)	Manu Ltd. (₹)	Assets	Tanu Ltd. (₹)	Manu Ltd. (₹)
Shareholder's Funds :			Non-Current Assets :		
Equity Share Capital of ₹ 10 each	3,70,000	2,25,000	Land & Building	1,90,000	1,20,000
15% Preference Shares of ₹ 100 each	1,60,000	1,30,000	Plant & Machinery	2,30,000	1,30,000
General Reserve	40,000	20,000	Furniture	45,000	25,000
Export Profit Reserve	24,000	15,000	Investments	50,000	40,000
Investment Allowance Reserve	—	8,000	Current Assets :		
Profit and Loss A/c.	28,000	10,000	Stock	95,000	70,000
Non-current Liabilities :			Debtors	90,000	80,000
14% Debentures	90,000	60,000	Cash and Bank	50,000	35,000
Current Liabilities :					
Trade Creditors	26,000	22,000			
Bills Payable	12,000	10,000			
	7,50,000	5,00,000		7,50,000	5,00,000

Tanu Ltd. absorbs Manu Ltd. on following terms :

- (1) Issued 25,000 equity shares of ₹ 10 each at par to equity share holders of Manu Ltd.
- (2) Issued 18% preference shares of ₹ 100 each to discharge the preference shares of Manu Ltd.

- (3) The debentures holders of Manu Ltd. will be converted into equivalent number of debentures in Tanu Ltd.

You are required to :

- (1) Show the necessary ledger accounts in the books of Manu Ltd.
 - (2) Pass Journal entries in the books of Tanu Ltd.
 - (3) Prepare Balance Sheet of Manu Ltd.
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