Seat No. : _______________

LD-130

April-2014

S.Y.M.B.A. (KS) (Integrated)

Advanced Financial Accounting-2

Time : 3 Hours] **[Max. Marks : 100**

Instruction : All calculation should form part of your answer.

1. (A) What do you mean by Redeemable preference shares ? Explain in detail the requirements for the redemption of preference shares as laid down in Section 80 of the Companies Act, 1956. **6**

OR

Answer the following : **6**

(i) What do you mean by consolidation of shares and Sub-division of shares ? Illustrate with example.

(ii) Short note on Bonus shares and Right shares.

(B) On 31-3-2014 the Balance Sheet of Joey Ltd., is as follows : **14**

Liabilities	₹	Assets	₹
24,000 Equity shares of ₹ 10 each	2,40,000	Land & Building	2,20,000
600, 10% Redeemable Pref. Shares of ₹ 100 each fully paid up	60,000	Machinery	50,000
		Furniture	30,000
600, 8% Redeemable Pref. Shares of ₹ 100 each, ₹ 80 per share paid up	48,000	Investments	30,000
		Stock	70,000
Securities Premium	6,000	Debtors	35,000
General Reserve	45,000	Cash	33,000
Profit & Loss Account	21,000		
Creditors	30,000		
Bills Payable	18,000		
	4,68,000		**4,68,000**

On this date the company decided to redeem both the classes of Pref. Shares at 10% premium after complying with the provisions laid down under section 80 of the Companies Act, 1956.

For this purpose, Necessary No. of Equity shares (₹ 100 each) are issued at par. Cash balance of ₹ 18,0000 is to be maintained in the business. All the investments are sold away for ₹ 36,000. All the Pref. Shareholders are paid in full. The company then decided to utilize the resultant reserve created out of the redemption of Pref. Shares for issuing fully paid Bonus Shares to Equity Shareholders.

Pass necessary Journal Entries in the books of Joey Ltd. and Prepare Balance Sheet after the redemption of Pref. shares.

2. The following is the Balance Sheet of a Ltd. Company as on 31st March 2014 : **20**

Capital-Liabilities	Amount	Assets	Amount
Authorised and issued capital :		Goodwill	84,00,000
1,20,000 Preference shares of		Premises	1,44,00,000
₹ 100 each fully paid	1,20,00,000	Plant	1,05,00,000
3,60,000 equity shares of		Loose tools	30,00,000
₹ 50 each full paid	1,80,00,000	Stock	24,00,000
6% Debentures	72,00,000	Debtors	36,00,000
Creditors	1,20,00,000	Bills Receivable	12,00,000
		Bank Balance	3,00,000
		Profit and Loss A/c	54,00,000
	4,92,00,000		**4,92,00,000**

(1) On revaluation of assets, it was found that the goodwill was worthless and other assets were revalued as under :

(a) Premises to be reduced by ₹ 30,00,000

(b) Plant to be reduced by ₹ 15,00,000

(c) Tools to be reduced by ₹ 18,00,000

(d) Debtors to be reduced to ₹ 33,00,000

(2) The creditors should accept 6% debentures to the extent of half their debts and the balance being payable in cash.

(3) The preference shares should be reduced of ₹ 50 each fully paid up shares.

(4) The Equity shares should be reduced to shares of ₹ 10 each.

Pass the Journal Entries to give effect to the above scheme and Prepare Capital Reduction Account and Balance Sheet after Reduction.

3. Colourful Ltd. went into Voluntary Liquidation on 30-06-2013. The Balance Sheet as on that date was as under : **20**

Capital-Liabilities	Amount	Assets	Amount
50,000 equity shares of ₹ 100 each ₹ 50 paid up	25,00,000	Goodwill	5,00,000
		Land and Building	15,00,000
60,000 equity shares of ₹ 50 each, ₹ 30 paid up	18,00,000	Machinery	36,70,000
		Investments	7,50,000
1,50,000 equity shares of ₹ 10 each, ₹ 6 paid up	9,00,000	Stock	3,00,000
		Debtors	2,50,000
10% preference shares	10,00,000	Cash	80,000
10% Debentures	6,00,000	Patents	5,00,000
Bank loan (Secured against Machinery)	2,50,000	Profit and Loss A/c	5,11,840
Creditors	9,91,840		
Calls in advance on equity shares	20,000		
	80,61,840		**80,61,840**

Prepare Liquidator's final statement of Receipts and Payments considering following information :

(i) Assets Realised : Land and Building ₹ 14,00,000, Machinery ₹ 30,00,000, Investments ₹ 8,00,000, Debtors ₹ 1,20,000, Stock ₹ 2,50,000.

(ii) Goodwill and Patents were found useless.

(iii) Liquidation Expenses amounted to ₹ 25,000. Liquidators Remuneration was fixed at 2.5% on amount realized from assets and 3% from amount paid to unsecured creditors excluding preferential creditors.

(iv) Creditors include the following : Director's salary ₹ 1,20,000, Provident fund ₹ 1,38,400, Salary for employees for due holidays ₹ 1,00,000, premium on Employees Insurance scheme ₹ 75,000, Salary of two employees for four months ₹ 12,000 p.m.

4. (A) The following is the Balance sheet of Bright & Co. as at 31-3-2014 : **14**

Liabilities	**Amount**	**Assets**	**Amount**
10,000 shares of ₹ 100 each, fully paid-up	10,00,000	Building at cost – 1,60,000	1,40,000
Reserve Fund	3,00,000	Less : Depreciation fund – 20,000	
Profit and Loss Account Bal. on 31-3-2013 – 8,60,000			
Profit for the year – 1,60,000 (before tax)	10,20,000	Furniture at cost	6,000
		Investment in 5% Govt. Securities	6,70,000
Sundry Creditors	96,000	(Face value ₹ 7,60,000)	
		Stock-in-trade (at Market value)	8,50,000
		Sundry Debtors – 6,50,000	6,10,000
		Less : Res. For Bad debt – 40,000	
		Cash at bank	1,40,000
	24,16,000		**24,16,000**

It is now ascertained that :

(1) The company's prospects are equally good.

(2) Profits for the past three years have shown an increase of ₹ 40,000 annually.

(3) The Buildings are now worth ₹ 1,96,000 and furniture ₹ 10,000.

(4) All Sundry debtors are considered good.

(5) Normal rate of return is 10%.

(6) Assume Income tax – 50%.

(7) Yield value of each share is ₹ 120.

(8) Goodwill is to be valued at 2 year's purchase of super profit.

You are required to ascertain : (show all necessary calculations)

(i) Intrinsic value of each share.

(ii) Fair value of each share.

(B) Monica Ltd. proposed to purchase the business carried on by chandler. Goodwill for this purpose is agreed to be valued at three years purchase of the weighted average profits of the past four years : **6**

Year	Profit	Weights
2010-11	1,01,000	1
2011-12	1,24,000	2
2012-13	1,00,000	3
2013-14	1,50,000	4

On a scrutiny of the accounts, the following matters are revealed :

(i) On 1st December, 2012, a major repair was made in respect of the plant incurring ₹ 30,000 which amount was charged to revenue. The said sum is agreed to be capitalized for goodwill calculation subject to adjustment of depreciation of 10% p.a. on reducing balance method.

(ii) The closing stock for the year 2002 was overvalued by ₹ 12,000.

(iii) To cover management cost, an annual charge of ₹ 24,000 should be made for the purpose of goodwill valuation.

Compute the value of goodwill of the firm.

OR

Discuss the factors affecting valuation of Share.

5. (A) The following are the abridged Balance Sheets of P Ltd. and S Ltd. as on 31st March , 2014 : (all figures in rupees thousands) **14**

Liabilities	**P Ltd. ₹ ('000)**	**S Ltd. ₹ ('000)**	**Assets**	**P Ltd. ₹ ('000)**	**S Ltd. ₹ ('000)**
Equity shares capital (₹ 10 each)	8,000	3,000	Fixed Assets	11,000	4,730
10% Preference Share Capital (₹ 100 each)	–	1,000	Current Assets	4,000	1,970
General Reserve	4,610	980			
Statutory Reserve	390	125			
Profit and Loss Account	563	355			
12% Debentures	–	250			
Current Liabilities	1,437	990			
	15,000	**6,700**		**15,000**	**6,700**

On 1st April, 2014, P Ltd. takes over S Ltd. on the following terms :

(i) P Ltd. will issue 3,50,000 equity shares of ₹ 10 each at par to the equity shareholders of S Ltd.

(ii) P Ltd. will issue 11,000, 10% preference shares of ₹ 100 each at par to the preference shareholders of S Ltd.

(iii) The debentures of S Ltd. will be converted into an equal number of 12.5% debentures of the same denomination.

Statutory reserves of S Ltd. are to be maintained for two more years.

You are required to pass necessary journal entries in the books of P Ltd. and prepare the Balance Sheet of P Ltd., immediately after the above-mentioned scheme of amalgamation has been implemented assuming that :

(a) Amalgamation is in the nature of merger.

(b) Amalgamation is in the nature of purchase.

(B) Difference between Amalgamation in the nature of merger and Amalgamation in the nature of Purchase. **6**