

AC-134

April-2018

S.Y. MBA Integrated**Advanced Financial Accounting - II****Time : 3 Hours]****[Max. Marks : 100**1. (A) Answer Any **Two** from the following : **10**

- (1) What do you mean by consolidation of shares and Sub-division of shares ? Illustrate with example.
- (2) Write short note on Bonus shares and Right shares.
- (3) What do you mean by Redeemable preference shares ? Explain in detail the requirements for the redemption of preference shares as laid down in Companies Act.

(B) Zenith Ltd. has the following balance sheet as on 31st March, 2018 : **10**

Equities & liabilities	Amount (₹)
<u>Shareholder's funds :</u>	
10,000 equity shares of ₹ 100 each	10,00,000
5,000 Preference shares of ₹ 100 each	5,00,000
Capital Reserve	1,00,000
Securities Premium Account	1,00,000
General Reserve	2,00,000
Profit and Loss Account	1,00,000
Current Liabilities	10,00,000
	30,00,000
<u>Assets</u>	
Non-current assets	22,00,000
Current assets	8,00,000
	30,00,000

The preference shares are to be redeemed at 10% premium. Minimum fresh issue of equity shares is to be made to for the purpose of this redemption. The shortfall in funds for the purpose of the redemption after utilizing the proceeds of the fresh issue is to be met by taking a bank loan. Show journal entries and prepare balance sheet.

2. X Ltd. whose balance sheet stood as at 31st December, 2017 appears below, formulated a scheme of reconstruction details of which follows and secured approval of all concerned :

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Equities & liabilities	Amount (₹)
<u>Shareholder's fund :</u>	
50,000 equity shares of ₹ 20 each, ₹ 10 paid	5,00,000
40,000, 8% preference shares of ₹ 100 each, ₹ 75 paid up	3,00,000
Profit & Loss A/c	(2,14,000)
<u>Non-current liabilities :</u>	
9% Debentures	3,00,000
<u>Current Liabilities :</u>	
Interest accrued on debentures	54,000
Bank overdraft	75,000
Interest accrued on bank overdraft	7,500
Creditors	34,500
	10,57,000
Assets	
<u>Non-current assets :</u>	
Fixed assets	5,60,000
Patents and copy rights	40,000
Investments at cost (Market value ₹ 27,500)	32,500
<u>Current assets :</u>	
Stock	2,00,000
Debtors	2,19,500
Bank	5,000
	10,57,000

- (1) Preference dividend is in arrears for one year.
- (2) Preference shareholders to give up their claims, inclusive of dividends, to the extent of 30% and desire to be paid off.

- (3) Debenture holders agree to give up their claims to interest in consideration of their interest being enhanced to 10%.
- (4) Bank agrees to give up 50% of its interest outstanding in consideration of its being paid off at once.
- (5) Creditors would like to grant a discount of 5% if they are paid immediately.
- (6) Balance of profit & loss account, patents and copy rights and debtors of ₹ 15,000 to be written off.
- (7) Fixed assets to be written off by ₹ 7,000.
- (8) Investments are to reflect their market value.
- (9) Cost of reconstruction is ₹ 1,675.
- (10) To the extent not specifically stated, equity shareholders suffer on reduction of their rights.

Draft journal entries in the books of the company assuming that the scheme has been put through fully with the equity shareholders bringing in necessary cash to pay off parties and to leave a working capital of ₹ 15,000, and prepare the Balance sheet after reconstruction.

3. Colourful Ltd. went into voluntary Liquidation on 30/06/2017. The balance sheet as on that date was as under :

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Capital-Liabilities	Amount (₹)	Assets	Amount (₹)
60000 equity shares of ₹ 100 each, ₹ 50 paid up	30,00,000	Goodwill	5,00,000
60000 equity shares of ₹ 50 each, ₹ 30 paid up	18,00,000	Land and Building	20,00,000
150000 equity shares of ₹ 10 each, ₹ 6 paid up	9,00,000	Machinery	45,70,000
10% preference shares	20,00,000	Investments	7,50,000
10% Debentures	6,00,000	Stock	4,00,000
Bank loan (secured against Machinery)	2,50,000	Debtors	2,50,000
Creditors	9,91,840	Cash	80,000
Calls in advance on equity shares	20,000	Patents	5,00,000
		Profit and loss A/c	5,11,840
	95,61,840		95,61,840

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

- (i) Assets Realised :- Land and Building ₹ 24,00,000, Machinery ₹ 39,00,000, Investments ₹ 8,00,000, Debtors ₹ 2,20,000, Stock ₹ 3,50,000.
- (ii) Goodwill and Patents were found useless.
- (iii) Liquidation Expenses amounted to ₹ 25,000. Liquidators Remuneration was fixed at 2.5% on amount realised 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.

Debenture holders were paid off on 31/03/2018.

4. The following is the Balance sheet of Bright & co. as at 31-3-2018 :

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Liabilities	(₹)	Assets	(₹)
10,000 shares of ₹ 100 each, fully paid-up	10,00,000	Building at cost 1,60,000 <u>Less :</u> Depreciation Fund <u>20,000</u>	1,40,000
Reserve Fund	3,00,000	Furniture at cost	6,000
		Investment in 5% Govt. securities (Face value ₹ 7,60,000)	6,70,000
Profit and Loss Account :		Stock-in-trade (at market value)	8,50,000
Bal. on 31-3-2017 8,60,000		Sundry Debtors 6,50,000	
Profit for the year (before tax) <u>1,60,000</u>	10,20,000	<u>Less:</u> Res. For Bad debt <u>40,000</u>	6,10,000
Sundry Creditors	96,000	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 at 50%.
- (7) Yield value of each share is ₹ 120.
- (8) Goodwill is to be valued at 2 years' 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.

OR

- (A) Nirja Ltd. proposed to purchase the business carried on by Flyers. 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
2013-14	1,01,000	1
2014-15	1,24,000	2
2015-16	1,00,000	3
2016-17	1,50,000	4

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

- (i) On 1st December, 2015, 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 2015 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.

- (B) Answer the following :

14

- (1) Describe various methods to compute Goodwill.
- (2) What are the factors affecting valuation of shares ?

5. Meera Ltd. and Radha Ltd. were amalgamated on and from 1st April, 2017. A new company Krishna Ltd. was formed to takeover the business of existing companies. Following are the Balance sheets of both the companies as on 31st March, 2017.

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Liabilities	Meera	Radha	Assets	Meera	Radha
Equity shares of ₹ 100 each fully paid up	25,00,000	20,00,000	Land & Building	20,00,000	15,00,000
Revaluation reserve	2,00,000	1,00,000	Plant & machinery	8,00,000	5,00,000
General Reserve	5,00,000	4,50,000	Investments	2,00,000	1,00,000
Investment Allowance Reserve	80,000	20,000	Stock	1,50,000	90,000
Profit and loss A/c	1,00,000	1,50,000	Debtors	2,20,000	1,00,000
15% debentures	4,00,000	2,00,000	Bills Receivables	30,000	10,000
Creditors	2,00,000	70,000	Cash & Bank	6,00,000	7,00,000
Bills payables	20,000	10,000			
	40,00,000	30,00,000		40,00,000	30,00,000

Additional Information :

- (1) 15% debenture holders of Meera Ltd. and Radha Ltd. are discharged by Krishna Ltd. issuing such number of its 10% debentures of ₹ 100 each so as to maintain the same amount of interest.
- (2) Krishna Ltd. will issue 4 equity shares for each equity share of Meera Ltd. and Radha Ltd. the shares are to be issued at ₹ 30 each, having face value of ₹ 10 per share.
- (3) Investment allowance reserve is to be maintained for 2 more years.

Assuming that the amalgamation is in the following two forms, prepare Balance sheet of Krishna Ltd. as on 1st April, 2017.

- (A) The amalgamation is in the form of merger.
 (B) The amalgamation is in the form of purchase.

OR

- (A) Give the difference between pooling of Interest Method and Purchase method. **10**
 (B) Sai Ltd. and Jay Ltd. decided to amalgamate on 1st April, 2017. A new company called Jaysai Ltd. was formed to takeover the business of both the companies. The balance sheets of the two amalgamating companies as on 31st March, 2017 were as follows: **10**

Balance Sheet of Sai Ltd.

Liabilities	Amount (₹)	Assets	Amount (₹)
2000 equity shares of ₹ 100 each	2,00,000	Land & Building	40,000
Creditors	50,000	Machinery	60,000
Creditors for outstanding rent	1,000	Stock	20,000
		Debtors	70,000
		Cash	11,000
		Profit & Loss account	50,000
	2,51,000		2,51,000

Balance Sheet of Jay Ltd.

Liabilities	Amount (₹)	Assets	Amount (₹)
3000 equity shares of ₹ 100 each	3,00,000	Goodwill	25,000
Reserve fund	50,000	Land & Building	1,50,000
Dividend equalisation fund	25,000	Machinery	1,25,000
Profit & Loss A/c	40,000	Stock	50,000
Creditors	37,000	Debtors	1,00,000
		Pre-paid Insurance	2,000
	4,52,000		4,52,000

The new company issues its equity shares of ₹ 100 each in payment of Purchase price.

You are required to prepare necessary ledger accounts and give Journal entries to close the books of Sai Ltd.
