



B.Com. (Semester – VI) Examination, April 2015
Major – I : Financial Accounting, Auditing, and Taxation
ADVANCED ACCOUNTING – II

Duration : 2-Hours

Total Marks : 80

- Instructions :** 1) Question No. 1 is **compulsory**.
2) Attempt **any three** questions from the remaining.
3) **Each** question carries **20** marks.
4) Working notes required **wherever** necessary.

1. The Alfa manufacturing Company Limited was registered with a nominal capital of Rs. 6,00,000 in Equity shares of Rs. 10 each. The following is the list of balances extracted from the books on 31st March 2015. **20**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Wages	84,865	Calls in Arrears	7,500
Premises	3,00,000	Plant and Machinery	3,30,000
Interim Dividend paid	37,500	Stock on 1 st April 2014	75,000
Fixtures	7,200	Sundry Debtors	87,000
Goodwill	25,000	Cash in hand	750
Cash at Bank	39,900	Purchases	1,85,000
Preliminary Expenses	5,000	General Expenses	16,835
Freight and Carriage	13,115	Salaries	14,500
Directors Fees	5,725	Bad debt	2,110
Debenture interest paid	9,000	Equity Share Capital	40,00,000
6% Debentures	3,00,000	Profit and Loss account (Credit)	14,500
Bills payable	38,000	Sundry creditors	50,000
Sales	4,15,000	General Reserves	25,000
Bad debt Reserve on 1 st April 2014	3,500	Purchases return	5,000
Sales Return	8,000	Advertisements	5,000

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You are required to prepare the Statement of Profit and Loss as per revised schedule VI, part II along with necessary accounting notes after taking into account the following adjustments.

- a) Stock on 31st March 2015 Rs. 95,000.
- b) Depreciate Plant and Machinery by 10%, and Fixtures by 5%.
- c) Write off Rs. 500 from Preliminary expenses.
- d) Create Reserve for doubtful debt at 5%.
- e) Rs. 1,800 installation charges of fixtures wrongly included in Wages.
- f) Goods worth Rs. 2,500 are distributed as free samples.
- g) Provide 31% for taxation and transfer Rs. 5,000 to general reserve.

2. The following is the summarised Balance Sheet of Hope Ltd. at 31st March, 2015. **20**

Liabilities	Amount	Assets	Amount
50,000 equity shares of Rs. 10 each	5,00,000	Furniture	1,00,000
Share Premium	1,00,000	Machinery	2,40,000
General Reserve	2,39,400	Stock	6,20,000
Profit and Loss A/c	1,57,600	Debtors	2,06,000
Sundry Creditors	4,09,400	Cash in hand	3,400
Provision for taxation	1,97,000	Cash at bank	4,34,000
	16,03,400		16,03,400

The company transfers 20% of its profits (after tax) to general reserve. Net profits before taxation of the last 3 years have been as follows :

Year ended 31st March, 2013 Rs. 3,35,000

Year ended 31st March, 2014 Rs. 3,66,000

Year ended 31st March, 2015 Rs. 3,94,000



Rate of taxation is 50% and normal rate of dividend is 10%. Machinery is valued at Rs. 2,80,000 and Goodwill may be taken at Rs. 40,000.

Calculate the value of each equity share by ;

- A) Net Assets Method
- B) Dividend Yield Method
- C) Fair value.

3. Following is the summarised Balance Sheet of Faith Ltd. as on 31st December, 2014. **20**

Liabilities	Amount	Assets	Amount
8,000 equity shares of Rs. 100, fully paid	8,00,000	Land, Building and Machinery	14,00,000
8% debentures	14,00,000	Stock	1,00,000
Accrued interest on 8% debentures	70,000	Debtors	40,000
Sundry creditors	4,50,000	Investments	15,000
Income tax liability	10,000	Cash at bank	1,03,000
		Cash in hand	2,000
		Profit and Loss A/c	10,70,000
	27,30,000		27,30,000

The fixed assets are heavily overvalued and a scheme of reorganisation was prepared and passed. The salient points of the scheme were as follows :

- 1) Each share shall be sub-divided into 10, fully paid equity shares of Rs. 10 each.
- 2) After sub-division each shareholder shall surrender to the company, 90% of his holding, for the purpose of reissue to debenture holders and creditors, so far as required, and otherwise for cancellation.



- 3) Of those surrendered, 50,000 equity shares of Rs. 10 each shall be converted into 8% preference shares of Rs. 10 each, fully paid for debenture holders. The debenture holders total claim shall be reduced to Rs. 5 lakhs. This will be satisfied by the issue of 50,000 preference shares of Rs. 10 each fully paid.
- 4) The claim of sundry creditors shall be reduced by 80%, and the balance shall be settled by allotting them equity shares of Rs. 10 each fully paid from the shares surrendered.
- 5) Shares surrendered and not reissued shall be cancelled.
- 6) After writing off the debit balance in Profit and loss A/c, any balance left to be used to write down value of fixed assets.

Assuming that the scheme is duly approved, pass the necessary Journal Entries and prepare Capital Reduction A/c.

4. The summarized financial position of two companies, Hari Ltd. and Vayu Ltd. as on 31st March 2015 was as under :

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Liabilities	Hari Ltd.	Vayu Ltd.	Assets	Hari Ltd.	Vayu Ltd.
	(Rs.)	(Rs.)		(Rs.)	(Rs.)
Equity shares of Rs. 10 each	10,00,000	3,00,000	Goodwill	50,000	25,000
9% Preference share capital	1,00,000		Building	3,00,000	1,00,000
10% Preference share capital		1,00,000	Machinery	5,00,000	1,50,000
General Reserve	1,00,000	80,000	Stock	2,50,000	1,75,000
Retirement Gratuity Fund	50,000	20,000	Debtors	2,00,000	1,00,000
Sundry Creditors	1,30,000	80,000	Bank	50,000	20,000
			Preliminary Expenses	30,000	10,000
	13,80,000	5,80,000		13,80,000	5,80,000



Hari Ltd. absorbs Vayu Ltd. on the following terms and Conditions :

- a) 10% Preference Shares of Vayu Ltd. are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.
- b) Goodwill of Vayu Ltd. is valued at Rs. 50,000; Building at Rs. 1,50,000; and Machinery at Rs. 1,60,000.
- c) Stock to be taken over at 10% less than book value and Reserve for bad and doubtful debt to be created at 7.5%.
- d) Equity shareholders of Vayu Ltd. will be issued Equity shares @ 5% premium.

Prepare the books of Vayu Ltd.

- i) Realisation Account
- ii) Equity Shareholders Account
- iii) Hari Ltd.

Also pass necessary Journal Entries in the books of Hari Ltd.

5. A) Prepare a Balance Sheet as per revised schedule VI, part I from the following information of Axis Ltd. as on 31st March, 2015. Also prepare accounting notes for Share Capital, Reserves and Surplus and Tangible Fixed Asset. **10**

Given below are the balances extracted from the ledger accounts of the company.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Term Loan	10,00,000	Sundry Creditors	11,45,000
Advances	3,72,000	Cash and Bank balances	2,75,000
Staff advances	55,000	Provision for taxes	1,70,000
Security Premium	4,75,000	Loose tools	50,000
Investments	2,25,200	Profit and Loss A/c (Debit)	3,58,000



Sundry debtors	12,25,000	Provision for doubtful debt	20,200
Stores	4,00,000	Fixed assets (WDV)	51,50,000
Finished goods	7,50,000	General Reserve	20,50,000
Capital work in progress	2,00,000	Share capital	40,00,000
Short term loans	2,00,000		

Additional information :

- a) Share Capital Consist of : 30,000 Equity shares of Rs. 100 each fully paid and 10,000, 10% redeemable preference shares of Rs. 100 each fully paid.
- b) Term loans are secured.

B) The following are the summarised Balance Sheets of Riya Ltd. and Siya Ltd. as on 31st March 2015.

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Liabilities	Riya Ltd.	Siya Ltd.	Assets	Riya Ltd.	Siya Ltd.
11.5% Preference shares of Rs. 100 each	5,00,000		Goodwill	50,000	
Equity shares of Rs.10 fully paid	5,00,000	7,50,000	Land and building		2,60,000
General Reserve	6,00,000	5,00,000	Machinery	12,50,000	6,00,000
12% Debentures	4,00,000		Furniture and equipments	1,00,000	40,000
10% Convertible Bonds		2,00,000	1000 equity shares of Rs.10 in A Ltd. (cost)		15,000
Creditors	5,00,000	2,50,000	Current assets	11,00,000	7,60,000
			Preliminary expenses		25,000
	25,00,000	17,00,000		25,00,000	17,00,000

On 1st April, 2015, the two companies decided to amalgamate and form a new company Rasiya Ltd. The terms of amalgamation were as follows :



- 1) Preference shareholders of Riya Ltd. are to be allotted 25000 equity shares of Rs. 10 each in Rasiya Ltd. at par and 2500, 12.5 % preference shares of Rs. 100 each in Rasiya Ltd. at par.
- 2) Equity shareholders of Riya Ltd. are to be allotted 5 equity shares of Rs. 10 each in Rasiya Ltd. at par for every 2 equity shares held by them in Riya Ltd.
- 3) Debenture holders of Riya Ltd. are to be allotted 10,000 equity shares of Rs. 10 each in Rasiya Ltd. at par and 2500 14% debentures of Rs. 100 each in Rasiya Ltd., at par in full satisfaction of their claims.
- 4) Machinery of Riya Ltd. is to be valued at Rs. 15 lakhs and other assets except goodwill are to be taken at Balance Sheet figures.
- 5) In the case of Siya Ltd., for the purpose of takeover, the assets and liabilities were revalued as per the figures given below :

Goodwill	1,00,000	Land and building	3,50,000
Machinery	5,00,000	Investments in A Ltd.	50,000
Current assets	7,25,000	Creditors	3,00,000
- 6) Furniture and equipments are taken over at book value.
- 7) Convertible bond holders in Siya Ltd. are to be given 5000 equity shares of Rs. 10 each in Rasiya Ltd. at Rs. 15 per share and 1250, 12.5% preference shares of Rs. 100 each in Rasiya Ltd. at par.
- 8) Equity shareholders of Siya Ltd. are to be allotted equity shares in Rasiya Ltd. at par.

From the above information, calculate the Purchase Consideration of Riya Ltd. and Siya Ltd. and pass Journal Entries in the books of Rasiya Ltd.

6. Write short notes on :

- 1) Super Profit method of calculating Goodwill. 4
- 2) Contingent Liabilities. 6
- 3) Amalgamation in the nature of merger. 6
- 4) Procedure for reduction of Capital. 4