



RN - 11

**B.Com. (Semester - VI) Examination, April 2012**  
**ADVANCED ACCOUNTING - II**  
**Financial Accounting, Auditing and Taxation (Major - I)**

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 following balances were extracted from the books of ABCL Ltd. for the year ended 31<sup>st</sup> March, 2010 :

|  | Rs.    |
|--|--------|
| Building (cost Rs. 20,000)   | 15,000 |
| Furniture (cost Rs. 500)   | 250    |
| Motor vehicles (cost Rs. 1,750)                                      | 1,500  |
| <b>Investments in :</b>  |        |
| a) Equity shares of companies (Market value Rs. 11,000)              | 10,000 |
| b) 250 Preference Shares of Rs. 10 each of companies (Rs. 6 paid up) | 1,500  |
| Stock in trade at cost   | 10,000 |
| Sundry Debtors unsecured, considered good                            | 7,000  |
| Cash at Bank   | 4,375  |
| <b>Share capital :</b>   |        |
| 25,000 Equity shares of Rs. 10 each                                  | 25,000 |
| 6% Mortgage Debentures   | 5,000  |
| Provision for taxation   | 5,000  |

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|   |        |
|---|--------|
| Sundry Creditors  | 2,750  |
| Discount on issue of Debentures                           | 200    |
| Profit and Loss Account (Cr.)                             | 500    |
| Gross Profit  | 25,000 |
| Dividend received on investments (Gross Rs. 500)          | 350    |
| Salaries and wages  | 5,000  |
| Directors fees  | 200    |
| Interest on debentures                                    | 250    |
| Audit Fees (including Rs. 50 for income tax presentation) | 325    |
| Miscellaneous Trade Expenses                              | 5,500  |
| Advances against construction of building (Dr.)           | 2,500  |

Prepare the Schedules of P & L A/c and Balance Sheet and only P & L account for the year ended 31<sup>st</sup> March 2010 in the prescribed form after considering the following additional information :

- 1) Provide 10% depreciation p.a. on original cost of fixed assets.
- 2) Provide Rs. 5,000 in respect of taxation liability for the year.
- 3) The company had a contract for the construction of building at Rs. 50,000 which is still incomplete.
- 4) Write back Rs. 100 liability included in sundry creditors.
- 5) Due to change in the basis of valuation of stock, stock values come down to Rs. 9,000. This has not considered as yet.
- 6) Dividend is proposed for the year 2010 @ 20%.
- 7) Debts more than 6 months : Rs. 2,000.
- 8) Ignore previous year's figure.



2. The following is the summarised Balance Sheet of Aquagard Ltd. as on 31<sup>st</sup> March, 2011.

| Liabilities                      | Amt.<br>Rs.     | Assets       | Amt.<br>Rs.     |
|----------------------------------|-----------------|--------------|-----------------|
| 25,000 Eq. shares of Rs. 10 each | 2,50,000        | Machinery    | 1,20,000        |
| Share premium                    | 50,000          | Furniture    | 50,000          |
| General reserve                  | 1,19,700        | Stock        | 3,10,000        |
| P & L Account                    | 78,800          | Debtors      | 1,03,000        |
| Sundry Creditors                 | 2,04,700        | Cash in hand | 1,700           |
| Provision for taxation           | 98,500          | Cash at bank | 2,17,000        |
|                                  | <b>8,01,700</b> |              | <b>8,01,700</b> |

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 :

|           |              |
|-----------|--------------|
| 31-3-2009 | Rs. 1,67,500 |
| 31-3-2010 | Rs. 1,83,000 |
| 31-3-2011 | Rs. 1,97,000 |

Rate of taxation is 50% and normal rate of dividend is 10%, Machinery is valued at Rs. 1,40,000 and goodwill may be taken at Rs. 20,000. Calculate the fair value of equity share.

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3. The Balance sheet of Bright Ltd. as on 31<sup>st</sup> December 2011 is as follows :

| Liabilities                           | Amt.<br>Rs.     | Assets               | Amt.<br>Rs.     |
|---------------------------------------|-----------------|----------------------|-----------------|
| Share capital                         |                 | Buildings            | 1,00,000        |
| 2500 Equity shares<br>of Rs. 100 each | 2,50,000        | Plant                | 80,000          |
| 9% Debentures                         | 50,000          | Stock                | 15,000          |
| Creditors                             | 45,000          | Debtors              | 60,000          |
|                                       |                 | Bank                 | 7,500           |
|                                       |                 | Preliminary expenses | 17,500          |
|                                       |                 | P & L Account        | 65,000          |
|                                       | <b>3,45,000</b> |                      | <b>3,45,000</b> |



Dull Ltd. was formed to take over the business of Bright Ltd. on the following terms :

- 1) Preferential Creditors Rs. 5,000 be paid in full.
- 2) Ordinary creditors be given the option to either accept 50% of their claims in cash or convert their claims into 12% Debentures of Dull Ltd. (Half of the ordinary creditors opted for cash)
- 3) Debentures be discharged by issue of sufficient number of 12% Debentures of Dull Ltd. as would bring the same amount of interest.
- 4) Shareholders be issued 1,000 Equity shares of Rs. 100 each of Dull Ltd. at a premium of 20%.
- 5) Liquidation expenses Rs. 2,500 be paid.

Prepare necessary ledger accounts in the books of Bright Ltd. and Prepare the Balance Sheet of Dull Ltd. assuming that the assets of Bright Ltd. are taken over at 25% discount. 20

4. The following is the Balance Sheet of Sweet Ltd. as on 31<sup>st</sup> December 2011.

| Liabilities   | Amt.             | Assets              | Amt.             |
|---|------------------|---------------------|------------------|
| 10% cumulative preference shares of Rs. 100 each fully paid | 60,000           | Goodwill            | 1,20,000         |
| Equity shares of Rs. 10 each full paid                      | 4,20,000         | Land and Building   | 60,000           |
| 8% Debentures   | 1,80,000         | Plant and Machinery | 7,20,000         |
| Sundry creditors  | 15,00,000        | Stock               | 12,00,000        |
| Bills payable   | 8,40,000         | Debtors             | 6,00,000         |
| Provision for taxation                                      | 1,80,000         | Cash at bank        | 3,00,000         |
|   | <b>31,80,000</b> | P and L account     | 1,80,000         |
|   |                  |                     | <b>31,80,000</b> |



The following scheme of reconstruction is sanctioned by the court :

- 1) Preference shareholders to forego their right to the arrears of preference dividend which are in arrears for 3 years.
  - 2) All existing preference shares are reduced to Rs. 75 each, and equity shares the reduced to Rs. 5 each.
  - 3) Sundry creditors of the company decide to forgo 50 % of the claims and they are allotted 60,000 equity shares of Rs. 5 each in part satisfaction of the balance of claim.
  - 4) The rate of debentures is increased to 10%. The debenture holders surrender their existing debentures of Rs. 100 each and exchange the same for fresh debentures of Rs. 75 each.
  - 5) Goodwill and profit and loss account should be completely written off and other assets to be reduced as follows :  
 P and Machinery by Rs. 1,80,000, stock by Rs. 4,20,000 Reserve for doubtful debts to be made at 10% on debtors.
  - 6) Taxation liability has been assessed at Rs. 2,40,000. Pass Journal entries and show Balance Sheet of the company after giving effect to the above. 20
5. A) Raja Ltd. and Rani Ltd. amalgamated on 1<sup>st</sup> April, 2011. A new company RajaRani Ltd. was formed to take over the business of the existing companies.

**Balance Sheet as on 31<sup>st</sup> March 2011**

| Liabilities      | Raja Ltd. Rani Ltd. |          | Assets       | Raja Ltd. Rani Ltd. |          |
|------------------|---------------------|----------|--------------|---------------------|----------|
|                  | Rs.                 | Rs.      |              | Rs.                 | Rs.      |
| Share capital    |                     |          | Fixed assets | 3,40,000            | 3,00,000 |
| equity shares at |                     |          | Investment   | 42,000              | 22,000   |
| Rs. 10 each      | 2,40,000            | 2,80,000 | Stock        | 50,000              | 1,10,000 |
| General Reserve  | 60,000              | 80,000   | Debtors      | 72,000              | 1,60,000 |



|                       |                 |                 |               |                 |                 |
|-----------------------|-----------------|-----------------|---------------|-----------------|-----------------|
| P and L Account       | 40,000          | 20,000          | Cash and Bank | 18,000          | 16,000          |
| Investment allowance  |                 |                 |               |                 |                 |
| Reserve               | 20,000          | 4,000           |               |                 |                 |
| Export profit reserve | 2,000           | 4,000           |               |                 |                 |
| 12% Debentures        | 1,20,000        | 1,60,000        |               |                 |                 |
| Sundry Creditors      | 40,000          | 60,000          |               |                 |                 |
|                       | <b>5,22,000</b> | <b>6,08,000</b> |               | <b>5,22,000</b> | <b>6,08,000</b> |

Raja Rani Ltd., issued requisite number of shares to discharge the claims of the equity shareholders of transferor companies.

Prepare a note showing purchase consideration and discharge thereof and draft the balance sheet of Raja Rani Ltd.

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B) Prepare a Balance Sheet in vertical form as at 31<sup>st</sup> December 2011 from the following information of ABC Ltd.

|                        | Rs.    |
|------------------------|--------|
| Term loan (secured)    | 50,000 |
| Sundry creditors       | 57,250 |
| Advances (Dr.)         | 18,600 |
| Cash and Bank balances | 13,750 |
| Staff advances         | 2,750  |
| Provision for taxation | 8,500  |
| Share premium          | 23,750 |
| Loose tools            | 2,500  |
| Investments            | 11,260 |
| Loss for the year      | 15,000 |
| Sundry debtors         | 61,250 |
| Miscellaneous expenses | 2,900  |



|                              |          |
|------------------------------|----------|
| Loans from Debtors           | 10,000   |
| Unsecured loan               | 1,35,000 |
| Provision for doubtful debts | 1,010    |
| Stores                       | 20,000   |
| Fixed assets (W.D.V.)        | 2,57,500 |
| Finished goods               | 37,500   |
| General reserve              | 1,02,500 |
| Capital work in progress     | 10,000   |

**Additional information :**

- 1) Share capital consist of 150 equity shares of Rs. 100 each fully paid up and 500, 10% redeemable preference shares of Rs. 100 each fully paid up.
- 2) Term loan secured.
- 3) Depreciation on assets Rs. 25,000.

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6. Write short notes :

- 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 share capital. 4