B.Com. (Semester – VI) (Repeat) Examination, October 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 authorized Capital of Inter State distributor Ltd. is Rs. 7,50,000/ consisting of 3000 6% Preference shares of Rs. 100/ each and 45000 equity shares of Rs. 100/ each. The following balances are available from the ledger accounts of the company as on 31st March 2015. **20**

Particulars	**Amount**	**Particulars**	**Amount**
Paid up Capital		General Expenses	21,000
3000, 6% Preference Capital	3,00,000	5% Debentures	2,10,000
		Furniture at Cost	75,000
3000 Equity Shares (Rs. 75 per share paid up)	2,25,000	Purchases	4,76,500
		Freight and Carriage inward	3,750
Goodwill	1,00,000	Trade creditors	1,25,520
Debtors	1,67,500	Stock on 1st April 2014	2,41,500
Sales	9,18,600	Salaries	1,03,500
Bills Receivable	6,000	Reserve for taxation	8,800
Investments	60,000	Rent and taxes	38,250
Freehold property at cost	3,90,000	Final Dividend	20,250
General Reserve	82,725	Bank Balance	97,500
Surplus account (Credit)	58,500	Shares Forfeited account	2,000
Delivery expenses	1,02,000	Sales Return	1,500
Debenture interest (Half Year)	5,250	Wages	10,000

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Preference Dividend (Half Year)	9,000
Cash	14,145
Dividend Received	5,000
Purchases Return	2,000

a) The value of stock on 31st March 2015 was Rs. 2,15,000/.

b) Depreciation on freehold property is to be provided at 2.5% and on furniture 6%.

c) Provision for taxation to be provided at 31%.

d) Salaries include Rs. 15,000/ paid to Director as remuneration.

6 e) Bills receivable include Rs. 1,000/ being dishonored bills. 25% of which is considered as irrecoverable.

f) Provide for reserve for bad and doubtful debt at 5%.

You are required to prepare the Statement of Profit and Loss for the year ended 31st March 2015 along with necessary accounting notes.

2. The following is the summarised Balance Sheet of Hopeful Ltd. as on 31st December, 2014.

Liabilities	Amount	Assets	Amount
Share Capital		Land and Buildings	55,000
10,000 equity shares of Rs.10 each	1,00,000	Plant and Machinery	65,000
		Bills receivable	10,000
General Reserves	10,000	Stock	24,000
Sinking Fund	10,000	Debtors	44,000
Taxation provision	30,000	Cash at bank	26,000
Workmen saving A/c	15,000	Preliminary expenses	6,000
Profit and Loss A/c	16,000		
Sundry creditors	49,000		
	2,30,000		**2,30,000**

The Plant and Machinery is worth Rs. 60,000 and Land and Building is valued at Rs. 1,20,000. Goodwill is valued at Rs. 56,000 by an independent valuer. The profits of the company have been as follows :

31st December, 2012	60,000
31st December, 2013	73,000
31st December, 2014	65,000

Taxation rate is at 50%. It is the company's practice to transfer 25% of the divisible profits to reserves. Similar companies give a yield of 10% on market value of the shares. Calculate the value of each equity share by

A) Intrinsic Value Basis

B) Dividend Yield Basis

C) Fair Value.

3. Following is the summarised Balance Sheet of Faithful Ltd. as on 31st March, 2015. **20**

Liabilities	**Amount**	**Assets**	**Amount**
6%, 30000 Preference shares of Rs. 10 each	3,00,000	Goodwill	1,20,000
600000 equity shares of Re 1	6,00,000	Land and building	2,67,000
5% debentures (secured on land and building)	1,20,000	Plant	2,55,000
Accrued interest on 5% debentures	6,000	Shares in subsidiary Ltd. (at cost)	75,000
Bank overdraft (secured on stock)	1,65,000	Stock	2,25,000
Directors loan	75,000	Debtors	2,70,000
Sundry creditors	2,70,000	Profit and Loss A/c	2,64,000
		Advertisement A/c	60,000
	15,36,000		**15,36,000**

Notes :

1) There is a contingent liability for damage of Rs. 30,000.

2) Preference shares are cumulative and dividends are in arrears for the past 3 years.

A capital reduction scheme, stating the following terms was duly approved :

i) Preference shares to be reduced to Rs. 8 per share and equity shares to Rs. 0.25 and to be consolidated as shares of Rs. 10 each and Re. 1 each fully paid respectively.

ii) The preference shareholders waive 2/3rd of the dividend arrears and receive equity shares for the balance.

iii) The authorized capital to be restored to 30000 preference shares of Rs. 10 each and 600000 equity shares of Re. 1 each.

iv) The shares in subsidiary limited are sold to an outside interest for Rs. 1,50,000.

v) All intangible assets are to be eliminated and bad debts of Rs. 12,000 and obsolete stock of Rs. 30,000 to be written off.

vi) The debenture holders of Rs. 60,000 to take one of the company's building, whose book value is Rs. 54,000 in part satisfaction of the debentures and to provide further cash of Rs. 45,000 on a floating charge. The arrears of interest are to be paid.

vii) The contingent liability materialized in the sum stated, but the company recovered Rs. 15,000 of these damages in action against one of its director. This amount was debited to his loan A/c of Rs. 24,000 and the balance of which was paid in cash. The remaining directors agreed to take equity shares in satisfaction.

Assuming that the scheme is duly approved. You are required to pass the necessary Journal Entries and prepare The Capital Reduction A/c.

4. The following is the summarized Balance Sheet of Ravi Ltd. as on 31st March 2015 : **20**

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
130000, Equity Shares of Rs. 10/ each	13,00,000	Plant and Machinery	1,70,000
		Stock in trade	14,40,000
4000, 10% Preference Shares of Rs. 100/ each	4,00,000	Sundry Debtors	2,14,000
12% Debentures	3,00,000	Expenses on Issue of Debenture	15,000
Bank Loan	10,000	Profit and Loss account	6,21,000
Sundry Creditors	4,50,000		
	24,60,000		**24,60,000**

Raju Ltd. takes over the company on the terms that it would :

a) Take Plant and Machinery after depreciating the same by 10%; Stock at Rs. 13,73,700/; Debtors subject to a provision for bad debt at 5%.

b) Take 12% Debentures.

c) Discharge the Purchase Consideration by allotment of 40000 Equity shares of Rs. 10/ each at an agreed value of Rs. 12/ each of Raju Ltd. and the balance in cash.

d) Bear the expenses of Liquidation of Rs. 16,000/

e) Preference shareholders of Ravi Ltd. agreed to accept Rs. 3,60,000/ in full settlement of their total claim.

f) Bank loan and creditors are paid by Ravi Ltd.

You are required to prepare in the books of Ravi Ltd.

i) Realisation Account

ii) Equity Share Holders Account

iii) Raju Ltd. Account

iv) Bank A/c.

And the necessary journal entries in the books of Raju Ltd.

5. A) The following are the summarised Balance Sheets of ZEN Ltd. and PEN Ltd. as on 31st March 2015. **10**

LIABILITIES	**ZEN Ltd.**	**PEN Ltd.**	**ASSETS**	**ZEN Ltd.**	**PEN Ltd.**
11.5% Preference shares			Goodwill	25,000	–
of Rs. 100 each	2,50,000	–	Land and building	–	1,30,000
Equity shares of Rs. 10			Machinery	6,25,000	3,00,000
fully paid	2,50,000	3,75,000	Furniture & equipments	50,000	20,000
General Reserve	3,00,000	2,50,000	1000 equity shares of		
12% Debentures	2,00,000	–	Rs. 10 in A Ltd. (cost)	–	7,500
10% Convertible Bonds	–	1,00,000	Current assets	5,50,000	3,80,000
Creditors	2,50,000	1,25,000	Preliminary expenses	–	12,500
	12,50,000	**8,50,000**		**12,50,000**	**8,50,000**

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

1) Preference shareholders of ZEN Ltd. are to be allotted 12,500 equity shares of Rs. 10 each in ZENPEN Ltd. at par and 1,250, 12.5% preference shares of Rs. 100 each in ZENPEN Ltd. at par.

2) Equity shareholders of ZEN Ltd. are to be allotted 5 equity shares of Rs. 10 each in ZENPEN Ltd. at par for every 2 equity shares held by them in ZEN Ltd.

3) Debentureholders of ZEN Ltd. are to be allotted 5000 equity shares of Rs. 10 each in ZENPEN Ltd. at par and 1250 14% debentures of Rs. 100 each in ZENPEN Ltd. at par in full satisfaction of their claims.

4) Machinery of ZEN Ltd. is to be valued at Rs. 7,50,000 lakhs and other assets except goodwill are to be taken at balance sheet figures.

5) In the case of PEN Ltd. for the purpose of takeover, the assets and liabilities were revalued as per the figures given below :

Goodwill	50,000	Land and building	1,75,000
Machinery	2,50,000	Investments in A Ltd.	25,000
Current assets	3,62,500	Creditors	1,50,000

6) Furniture and equipments are taken at book value.

7) Convertible bond holders in PEN Ltd. are to be given 2500 equity shares of Rs. 10 each in ZENPEN Ltd. at Rs. 15 per share and 625, 12.5% preference shares of Rs. 100 each in ZENPEN Ltd. at par.

8) Equity shareholders of PEN Ltd. are to be allotted equity shares in ZENPEN Ltd. at par.

From the above information, calculate the purchase consideration of ZEN Ltd. and PEN Ltd. and pass journal entries in the books of ZENPEN Ltd.

B) From the following Particulars furnished by Pioneer Ltd., prepare Balance Sheet as on 31st March, 2015 as required by schedule VI, Part I. Also prepare accounting Notes for Share Capital, Reserves and Surplus and Tangible Fixed Assets. **10**

Particulars	**Debit (Rs.)**	**Credit (Rs.)**
Equity Share Capital (Face Value Rs. 10/ each)		10,00,000
Calls in arrears	1,000	
Land	2,00,000	
Building	3,50,000	
Plant and Machinery	5,25,000	
Furniture	50,000	
General Reserve		2,10,000
Loans from SFC		1,50,000
Stock	2,50,000	
Provision for taxation		68,000
Sundry debtors	2,00,000	
Advances	42,700	
Proposed Dividend		60,000
Profit for the year		1,00,000
Cash	43,300	
Bank	2,47,000	
Unsecured Loan		1,21,000
Sundry Creditors		2,00,000
	19,09,000	**19,09,000**

Additional Information :

a) 2000 equity shares were issued for consideration other than cash.

b) Debtors of Rs. 52,000/ are due for more than six months

c) The cost of the assets were : Building Rs. 4,00,000/; Plant and Machinery Rs. 7,00,000/; Furniture Rs. 62,500/.

d) Bills receivable for Rs. 2,75,000/ maturing on 30th June 2015 have been discounted.

e) The company had a contract for the erection of machinery at Rs. 1,50,000/ which is still incomplete.

6. Write short notes on :

1) Factors influencing goodwill. **4**

2) What is contingent liability ? State any four items of contingent liability. **6**

3) Distinguish between Pooling of Interest Method and Purchase Method. **6**

4) Legal aspects of internal reconstruction. **4**
