

SEMESTER V – B.B.A. EXAMINATION 2008
ADVANCED FINANCIAL ACCOUNTING AND REPORTING

Full Marks: 100

Time: 4hrs

Students should answer in their own words as far as practicable.

GROUP – A

Answer Question 6 and ANY FOUR from the rest:

[5 x 4 = 20]

1. State the features of debenture redemption by the conversion method.
2. What are the objectives of the buy back of shares by a company?
3. Explain the capitalization method of the valuation of goodwill.
4. Give five points in support of the amalgamation of companies.
5. Mention five SEBI guidelines for the issue of bonus shares.
6. *X Ltd.* spends Rs.400,000 as preliminary expenses on a project of Rs.5,000,000. The directors decided to amortise the preliminary expenses over a period of 10 years on a straight line basis, starting from the year 2002 - 03. As per section 35D of the Income Tax Act, the qualifying amount on preliminary expenses is restricted to 5% of the cost of the project. Moreover, the qualifying amount is allowed as a deduction in 5 equal instalments. Calculate the permanent difference and timing difference. Also calculate deferred tax asset. (assume tax rate @ 35%) .

OR

What are the major considerations governing the selection and application of accounting policies envisaged in AS-1.

GROUP – B

Answer Question 11 and ANY THREE from the rest:

[4 x 20 = 80]

7. Unfortunate Ltd. went into liquidation and the liquidation process commenced on 2nd April, 2008. Certain creditors could not receive payment out of the realization of assets and out of contributions from the 'A' list of contributions. The following are the details of certain transfers which took place in 2007 and 2008:

| Shareholders | No. of shares transferred | Date of ceasing to be a member | Creditors remaining unpaid and outstanding on date of transfer(Rs.) |
|--------------|---------------------------|--------------------------------|---------------------------------------------------------------------|
| A | 2000 | 1 ST March 2007 | 5,000 |
| P | 1500 | 1 st May 2007 | 3,300 |
| Q | 1000 | 1 st October 2007 | 4,300 |
| R | 500 | 1 st November 2007 | 4,600 |
| S | 300 | 1 st February 2008 | 6,000 |

All the shares were of Rs.10 each, Rs.8 per share paid up. Show the amount to be realized from the various persons listed above, ignoring expenses and remuneration to the liquidator etc.

8. The following particulars relate to *Excel Ltd.*:
- 10,000 Equity shares of Rs.10 each, fully paid;
5,000 Equity shares of Rs.10 each, Rs.7 paid up;
1,000, 10% Preference shares of Rs.100 each, fully paid up.
 - Reserves Rs.45,000
 - Creditors Rs.20,000, Bills payable rs.3,000

Besides the above, from the balance sheet of *Excel Ltd.* as on 31.12.2007, the following further information is given to you:

- The value of the fixed assets is to be raised by Rs.25,000, whereas the stock value is to be reduced by Rs.7,000.
- Liability for expenses Rs.6,000 is yet to be recorded in the books.

Calculate the value per equity and the preference shares of *Excel Ltd.* when

- preference shares are non-participating
- preference shares are participating and the ratio of participation in surplus assets between equity and preference is 3 : 2.

9. On 1st July 2004, *Moonlight Ltd.* acquired 8,000 shares of Rs.10 each of *Sunlight Ltd.* at Rs.100,000. Their respective Balance Sheets on 31.12.2004 were as follows:

| Liabilities | Moonlight Ltd. (Rs.) | Sunlight Ltd.(Rs.) | Assets | Moonlight Ltd. (Rs.) | Sunlight Ltd.(Rs.) |
|----------------------------------------------------------------|----------------------|--------------------|------------------------------------------------|----------------------|--------------------|
| <u>Share Capital</u> | | | Fixed Assets | 100,000 | 100,000 |
| Shares of Rs.10/- each | 200,000 | 100,000 | Investments | 100,000 | ----- |
| Reserves | 30,000 | 40,000 | Stock | 50,000 | 40,000 |
| Profit & Loss A/c. | 70,000 | 60,000 | Debtors | 65,000 | 70,000 |
| Creditors | 25,000 | 15,000 | Cash at Bank | 5,000 | 10,000 |
| Bills Payable (Accepted – All are in favour of Moonlight Ltd.) | ----- | 5,000 | Bills Receivable (Received from Sunlight Ltd.) | 5,000 | ----- |
| | 325,000 | 220,000 | | 325,000 | 220,000 |

Additional information:

- At the time of acquiring shares, *Sunlight Ltd.* had Rs.15,000 in Reserves and on 1.01.2004, *Sunlight Ltd.* had Rs.20,000 in their Profit & Loss A/c.
- Sunlight Ltd.* paid 10% dividend in July for the year 2003 and *Moonlight Ltd.* credited the share of dividend to their Profit & Loss A/c.
- On the date of acquisition of shares, Fixed Assets of *Sunlight Ltd.* stood at Rs.120,000. On 1.01.2004 these were revalued at Rs.140,000. The stock of *Sunlight Ltd.* includes Rs.12,000 on which *Moonlight Ltd.* made a profit of 25% on sales.
- The proposed Dividend of both the companies for 2004 is 10%.

Prepare a Consolidated Balance Sheet as on 31st December, 2004.

10. Max Ltd issued to the public 10,000 shares of Rs.10/- each at a premium of Rs.2/-per share payable as Rs.2/- on application, Rs.4/- on allotment (including premium) and Rs.3/- on each of two other calls. Applications were received for 15,000 shares. All applications were placed under four categories and allotment was made as follows:

Category A – to applicants of 5,000 shares – in full
Category B - to applicants of 6,000 shares – 4,000 shares
Category C - to applicants of 3,000 shares – 1,000 shares
Category D - to applicants of 1,000 shares – Nil.

Except in the cases where applications were wholly rejected, excess application money was not to be refunded but to be adjusted against moneys due on allotment and calls. Abhra, an applicant under Category B to whom 400 shares were allotted, failed to pay the allotment money and the first call money. His shares were forfeited. Bipra, an applicant under Category C to whom 300 shares were allotted, did not make any further payment and his shares were forfeited after the second call. 500 of the forfeited shares were issued to Chandra as fully paid for Rs.8/- per share (including all shares of Abhra).

Show the journal entries in the books of Max Ltd..

11. (a) Delta Ltd. manufactures textiles. The company accountant asks your advice about the following product lines:

Lime Green Tartan: Manufacturing cost Rs.9,000. The stock has been on a shelf since 1995. The accountant believes that the only way of selling it would be to shred it and bundle it (at a cost of Rs.500) and sell it as industrial cleaning wipes for an anticipated sale price of Rs.5,000.

Power Strangers: Originally printed to meet a high demand for garments linked to a popular television serial, there is no further demand for the textile in this country. Stocks cost Rs.16,000, and the only possible source of revenue would be to export the material at a cost of Rs.2750 for use as dusters in Australia. Administration costs to handle the sale are estimated at Rs.2,650 and the sale price is estimated at Rs.4,000.

Explain, with reasons, how each of the above product lines should be accounted for in the annual accounts of the company for the year ended 31.03.2008.

- (b) Discuss the purpose and status of the 'Framework for the preparation and presentation of Financial Statements' issued by the Accounting Standard Board (A.S.B.).
- (c) What are the underlying assumptions considered in the ASB's 'Framework for the preparation and presentation of Financial Statements'.
