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**5th SEMESTER EXAMINATION – BBA
NOV – DEC 2009**

**ADVANCED FINANCIAL
ACCOUNTING & REPORTING
(HONOURS)**

FARA3501

Monday, November 23, 2009

08:30 am to 12:30 pm

Time allowed: 4 hours

Full Marks: 100

Instructions:

- Use fountain pen or ball-point pen of blue or black ink.
- Answer in own words as far as practicable.
- Do not write anything on the Question paper other than Roll No.

GROUP - A

Answer **QUESTION NO. 6** and **ANY FOUR** from the rest. (5 x 4 = 20)

1. What is Securities Premium? State any two uses of Securities Premium Account as per the provisions of the Companies Act, 1956. (2+2)
2. What are the principles behind the creation of capital redemption reserve account? Can dividend be declared out of such reserve? (3+1)
3. What is meant by Sweat Equity Share? (4)
4. What is Right Share? (4)
5. What are the advantages of Consolidation of Financial Statement of a Holding Company and its Subsidiary Companies? (4)
6. Delta Limited has purchased 1,00,000 units of a product @ Rs.800/- per unit on 1.1.2008. On 31.3.2008, there were 20,000 units in stock. Of these, 5,000 units are earmarked against sale contract at a price of Rs.900/- each. The market price of the product has dropped to Rs.750/-. How the closing stock will be valued on 31.3.2008. (4)

GROUP - B

Answer **Question 11** and **any three** from the rest. (4 x 20 = 80)

7. (a) What do you mean by issue of debentures as collateral security for a loan? Give its accounting treatment. (2+4)

(b) Balance Sheet of X Ltd. as on 31.3.2001

(figures in Rs.Lakhs)

Liabilities	Rs.	Assets	Rs.
Equity Share Capital (fully paid @ Rs.10/-)	2,400	Fixed Assets	4,052
Securities Premium	350	Investments	148
General Reserve	930	<u>Current Assets</u>	
Profit & Loss A/c.	340	Bank	740
12% Debentures	1,500	Other current assets	1,720
Sundry Creditors	750		
Sundry Provisions	390		
	6,660		6,660

On 1.4.2001, the company announced the buy back of 25% of its equity shares @ Rs.15/- per share. To raise resources for this purpose, (i) All investments were sold for Rs.150 lakhs and (ii) Issued 2,00,000, 14% Preference Share @ Rs.100/- at par, payable fully on application. This issue was fully subscribed.

The company achieved the target for buy back. Later the company issued one fully paid-up equity share of Rs.10 as bonus for every four equity shares held by the equity shareholders.

Show journal entries for all the transaction giving necessary workings. (14)

8. The following were the Balance Sheets of X Ltd. and Y Ltd. as at 31st March, 2009

(Rs. in lakhs)

Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
	Rs.	Rs.		Rs.	Rs.
Equity Share Capital :-			Land & Building	6,000	---
Fully paid shares of Rs.10 each	15,000	6,000	Plant & Machinery	14,000	5,000
Securities Premium	3,000	---	Furniture	2,304	1,700
Foreign Projects Reserves	---	310	Stock	7,862	4,041
General Reserve	9,500	3,200	Debtors	2,120	1,020
Profit & Loss	2,870	825	Cash at Bank	1,114	609
12% debentures	---	1,000	Bills Receivable	---	80
Bills Payable	120	---	Cost of issue of	---	50
Sundry Creditors	1,080	463	Debentures		
Sundry Provisions	1,830	702			
	33,400	12,500		33,400	12,500

All the bills receivable held by Y Ltd. were X Ltd.'s acceptances.

On 1.4.2009 X Ltd. took over Y Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business, X Ltd. would allot three fully paid equity shares of Rs.10/- each at par for every two shares held in Y Ltd. It was also agreed that 12% Debentures in Y Ltd. would be converted into 13% Debentures in X Ltd. of the same amount and denomination.

Expenses of amalgamation Rs.1 lakh were borne by X Ltd.

You are required to

- Pass journal entries in the books of X Ltd.
- Prepare X Ltd.'s Balance Sheet immediately after the merger. (20)

9. The following are the Balance Sheets of Alpha Ltd. and its subsidiary Beta Ltd. as on 31.3.2009

	Alpha Ltd.	Beta Ltd.		Alpha Ltd.	Beta Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital (Rs.100/-)	1,60,000	1,20,000	Fixed Assets	24,000	1,10,000
General Reserve	20,000	15,000	Investments (at cost)	1,40,000	---
Profit & Loss A/c.	28,000	24,000	Stock in Trade	25,000	42,000
Sundry Creditors	10,000	9,000	Sundry Debtors	13,000	20,000
Current A/c. with Alpha Ltd.	---	12,000	Current A/c with Beta Ltd.	13,600	---
			Cash and Bank	2,400	8,000
	2,18,000	1,80,000		2,18,000	1,80,000

Further information

- Alpha Ltd. holds 1,000 shares of Beta Ltd. acquired on 1st October, 2008.
- On 1.4.2008 Beta Ltd. had Rs.12,000 in General Reserve and Rs.6,000 in Profit & Loss A/c.
- 10% dividend has been proposed by both the companies.
- Included in the current A/c. with Alpha Ltd. is an amount of Rs.400 being interest credited to Alpha Ltd. This interest has not yet been considered in the books of Alpha Ltd.
- Cash-in-transit from Beta Ltd. to Alpha Ltd. is Rs.2000 as at the close of the business on 31.3.2009.
- Stock of Alpha Ltd includes Rs.5,600 worth of purchases on which Beta Ltd. made a profit of Rs.600.

Prepare a consolidated Balance Sheet as at 31.03.2009 (20)

10. (a) Following is the Balance Sheet of Neptune Traders as on 31.3.2009.

Liabilities	Rs.	Assets	Rs.
Creditors	1,52,160	Fixed Assets	3,60,000
Capital	6,56,000	Current Assets	4,88,160
Reserve	1,60,000	Investment in Shares	1,20,000
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	9,68,160		968160
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The following net profits were earned (which included a fixed income of Rs.8,000 per annum) for the year ended 31st March, 2006 Rs.1,28,000; 2007 Rs.1,44,000; 2008 Rs.1,72,000 and 2009 1,80,000.

Standard rate of return on capital employed in this type of business is 8%.

Calculate the value of goodwill at the above business at three years purchase of the average super profits for the four years assuming

- (i) that each year's profit is immediately withdrawn in full by the proprietor and
- (ii) the weights to be assigned to the profits for the purpose of averaging are :

year :	2006	2007	2008	2009
weight	1	1.5	2	2.5

Ignore Income Tax. (10)

(b) The capital structure of X Ltd. is as follows :

20,000 Equity Shares of Rs.10 each fully paid-up	Rs.2,00,000
1,000, 8% Redeemable Preference Shares of Rs.100 each fully paid-up	1,00,000

	Rs.3,00,000
	=====

Undistributed reserves and surplus stood as follows :-

	<u>Rs.</u>
General Reserve	80,000
Profit & Loss Account	10,000
Investment Allowance Reserve	10,000
out of which Rs.5,000, not free for distribution as dividend)	
Securities Premium	12,000

Cash & Bank Balance amounted to Rs.98,000. Preference Shares are to be redeemed at 10% premium and for this purpose, the directors made a fresh issue of Equity Shares at par after utilizing the undistributed reserve and surplus, subject to the condition that Rs.20,000 shall be retained in General Reserve and which should not be utilized.

Give the journal entries to give effect to the above transactions. (10)

11. (a) AS4 classifies the events occurring after the date of Balance Sheet into two types.

What are they? Give examples.

(b) In preparing the financial statements of X Ltd for the year ending 31.3.2008, you come across – major theft of stores (valued at Rs.10 lakhs) in the preceding year detected only during the current financial year. How will you deal with it in the financial statements?

(c) During the current year 2007-08. X Ltd made the following expenditure relating to its plant and machinery:

	<u>Rs. (Lakhs)</u>
Routine repairs	4
Repairings	1
Partial replacement of roof bills	0.5
Substantial improvement in electrical wiring system	10

(d) A government grant of Rs.10 lakhs for a new factory has been approved, and although the funds have not been received, the project was completed during the financial year. How will you treat the following?

(e) Details of equity share capital of X Ltd for the year ended 31.12.2007 and 31.12.2008.

1000 equity shares of Rs.10 each fully paid-up on 1.1.2007

Bonus Issue (1:1) on 1.6.2008

Net Profit (After tax) :-

31.12.2007 - Rs.45 lakhs

31.12.2008 - Rs.60 lakhs

Computed Basic Earnings per share.

(5 x 4 = 20)
