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SECOND SEMESTER M.Com. DEGREE EXAMINATION, MAY 2014

M.Com 2.2—ADVANCED FINANCIAL ACCOUNTING

(2004 Admissions)

Three Hours

Maximum : 80 Marks

Section A

*Answer all questions.
Each question carries 2 marks.*

1. What is IASC and GAAP ?
2. State any *four* objectives of HRA.
3. Define Average clause policy.
4. State any *four* limitations of single entry system.
5. Define capital reduction.

(5 × 2 = 10 marks)

Section B

*Answer any four questions.
Each question carries 10 marks.*

6. Define Interpretation of Financial statements. State the objectives and the tools used in interpretation.
7. Write brief notes on PAC and estimates committee.
8. From the following incomplete accounting records, prepare Balance Sheet as on 31st December, 1998 of Mr. Raman :

| | 1-1-1998 | 31-12-1998 |
|------------------|----------|------------|
| | Rs. | Rs. |
| Capital | 7,500 | — |
| Sundry Debtors | 3,440 | 4500 |
| Sundry Creditors | 1125 | 850 |
| Stock | 1750 | 2000 |
| Plant | 1560 | 1560 |

Turn over

Information from the Cash Book for the year ended December 31, 1998.

| <i>Debit</i> | Rs. | <i>Credit</i> | Rs. |
|------------------|------|---------------------|-------|
| To Balance | 1875 | By sundry creditors | 1500 |
| " sundry debtors | 6000 | " Wages | 300 |
| " sales | 1350 | " General expenses | 200 |
| " Commission | 90 | " Salaries | 2,800 |
| | | " Drawings | 1600 |
| | | " Balance account | 2915 |
| | 9315 | | 9315 |

Depreciate plant by 10%. Allow interest on Capital at 5% p.a. Provide for reserve for debts at 5% on debtors.

9. Calculate the amount of claim to be admitted by the Insurance Company from the below data :

Items related to the previous year :

Rate gross profit 25%

| | Rs. |
|---|--------|
| Insured standing charges | 10,000 |
| Total standing charges | 15,000 |
| Net profit | 25,000 |
| Item relating to the current year : | |
| Short sales | 20,000 |
| Increased working expenses | 2,000 |
| Saving on expenses | 750 |
| Short sale avoided through increased } Increased cost of working } | 5,000 |
| Amount of policy | 20,000 |

Sales during 12 months immediately preceding the fire being Rs. 1,00,000, the sales of the year up to the date of fire has increased by 10% over the sales of the same period in the year.

10. S.S. Jalaganga commenced a voyage on June 1, 1998 from Mumbai to New York and back. The voyage was completed on July 31, 1998, It carried a consignment of Handloom Textiles on its outward journey and wheat on its return journey. The ship was insured at an annual premium of Rs. 24,000. From the following particulars draw up the voyage account :

Port charges Rs. 5,000 ; coal Rs. 30,000. wages and salaries Rs. 50,000 ; stores purchases Rs. 8600 ; sundry expenses Rs. 5500 ; Depreciation (annual) Rs. 96,000 ; Freight earned (out) Rs. 1,30,000 ; freight earned (return) Rs. 70,000. Address communication 5% on outward and 4% on return freight. Passage money received Rs.10,000. Primage is 5% on freight. The manager is entitled to a 5% Commission on the profit earned, after charging such a Commission. Stores and coal on hand were valued at Rs. 3,000 on July 31.

11. A limited Company went into voluntary liquidation with the following liabilities :

| | Rs. |
|--|--------|
| Trade creditors | 12,000 |
| Bank OD | 20,000 |
| Capital : | |
| 10,000 preference shares of Rs.10 each, | |
| Rs. 7 called up | 70,000 |
| 10,000 ordinary shares of Rs. 10 each, | |
| Rs 9 called up | 90,000 |
| Less : calls in arrears | 2,000 |
| | 88,000 |
| Cash received in anticipation of calls : | |
| on preference shares | 24,000 |
| on ordinary shares | 4,000 |
| | 28,000 |

The assets realised Rs. 2,00,000. The liquidation expenses Rs. 2000.

Prepare liquidators' final statement of account. Also state the order of payment in company liquidation.

(4 × 10 = 40 marks)

Section C

Answer any two questions.
Each question carries 15 marks.

1. What are the various methods of accounting for price level changes ?

13. The Balance Sheets of Z Ltd and A Ltd as on March 31, 1998 are as below :

| | Z Ltd | A Ltd | | Z Ltd | A |
|--------------------------|-----------------|-----------------|-------------------|-----------------|-----------------|
| Equity share capital | | | | | |
| (Rs.10 each) ... | 2,00,000 | 4,00,000 | Sundry Assets ... | 3,10,000 | 6,00,000 |
| Reserves and surplus ... | 40,000 | 1,00,000 | Loan to A Ltd ... | 30,000 | |
| 9% debentures | | | Investments | | |
| (Rs. 100 each) ... | 1,00,000 | — | in 5,000 shares | | |
| Loan from Z Ltd ... | — | 30,000 | of A Ltd ... | 50,000 | |
| Sundry creditors ... | 50,000 | 70,000 | | | |
| | <u>3,90,000</u> | <u>6,00,000</u> | | <u>3,90,000</u> | <u>6,00,000</u> |

A Ltd proposes to take over Z Ltd on the following terms : (a) A Ltd will issue sufficient number of its shares at Rs 11 each and pay Re. 0.50 cash per share sold by members of Z Ltd ; debentures of Z Ltd are to be paid at 8% premium by issue of a sufficient number of 10% debentures of A Ltd at Rs. 90.

Assuming that the take over has been complete, prepare realisation account and the shareholders account in the books of Z Ltd ; and the journal entries and the Balance Sheet in the books of A Ltd.

14. Reckless Ltd is reconstructed into Careful Ltd which company takes over all assets and liabilities of Reckless Ltd.

Balance Sheet of Reckless Ltd as on March 31, 1998

| <i>Liabilities</i> | Rs. | <i>Assets</i> | Rs. |
|---|------------------|---------------------------------|------------------|
| Share capital (fully paid shares of Rs. 100 each) | 10,00,000 | Patent rights | 1,20,000 |
| 5% debentures | 2,00,000 | Machinery | 5,00,000 |
| Creditors | 3,00,000 | Stock | 1,20,000 |
| | | Debtors | 60,000 |
| | | Bank | 5,000 |
| | | Profit and loss account | 6,85,000 |
| | | Discount on issue of debentures | 10,000 |
| | <u>15,00,000</u> | | <u>15,00,000</u> |

Careful Ltd. is to issue one share of Rs. 20 each, as fully paid for each share held in Reckless Ltd. the debenture holders in Reckless Ltd. are to receive 6% Debentures to the face value of Rs. 1,50,000. Careful Ltd. will issue to the shareholders additional 20,000 shares of Rs. 20 each. These shares are fully subscribed and out of the sum received Rs. 1,00,000 is paid to the creditors. Patent rights are valueless and Careful Ltd adjusts the value of machinery as required. Give the Balance sheet of careful Ltd after all the above arrangements have been put through. Also prepare the realisation account of reckless Ltd.