Reg. No. | | | | | | | | | |

CM 504

III Semester M.Com. Degree Examination, December 2018
(Choice Based Credit System) (Old Scheme)
COMMERCE (Repeater)
Optional (FMAIS)
Corporate Accounting

Time : 3 Hours Max. Marks : 70

SECTION – A **(4×10=40)**

Note : Answer **any four** questions. **Each** question carries **10** marks. Answer to **each** theory question should **not** exceed **four** pages.

1. "Conventional Financial Statements fail to exhibit true and fair view of business". Critically discuss this statement.

2. How does company's get benefited by preparing a financial statement on the basis of accounting standards ?

3. Briefly describe the method of valuation of human resources as developed by Lev and Schwartz.

4. Discuss which method is most appropriate in valuing a minority and a majority holding of shares.

5. Define a lease, how does it differ from a hire purchase system and what are the cash flow consequences of a lease. Illustrate.

6. Sannidhi Limited commenced its business on 1st April, 2006. 2,00,000 Equity shares of ₹ 10. Each at par and 12.5% debentures of the aggregate value of ₹ 2,00,000 were issued and fully taken up. The proceeds utilised as under :

	₹
Fixtures and equipments	16,00,000
(Estimated life 10 years, no scrap value)	
Goods purchased for resale at ₹ 200/unit	6,00,000

The goods were entirely sold by 31st January, 2007 at a profit of 40% on selling price. Collections from debtors outstanding on 31st March amounted to ₹ 60,000, Goods sold were replaced at a cost of ₹ 7,20,000. The number of units purchased being the same as before. A payment of ₹ 40,000 to a supplier was outstanding as on 31st March 2007.

The replaced goods remained entirely in stock on 31st March 2007.

Replacement cost of fixtures and equipments (depreciation on straight line basis) was ₹ 20,00,000 as on 31st March 2007.

Draft the profit and loss account and balance sheet on replacement cost (entry value) basis and on historical cost basis.

7. Bowling Ltd. and Green Ltd. propose to sell their business to a new company being formed for this purpose. The summarised balancesheets as on 31st December 2014 and the profits of the companies for the past three years are as under :

Liabilities	**Bowling Ltd.**	**Green Ltd.**	**Assets**	**Bowling Ltd.**	**Green Ltd.**
	₹	₹		₹	₹
Ordinary Shares of ₹ 1 each	60,000	25,000	Freehold property at cost	36,000	12,000

Capital Reserve	–	15,000	Plant and machinery at cost-less depreciation	32,000	18,000
General Reserve	39,000	12,000			
Profit and Loss A/c	11,000	16,000			
Creditors	21,580	12,680	Investments at cost	–	10,000
			Stock in Trade	11,100	8,950
			Debtors	8,800	6,400
			Bank Balance	43,680	25,330
	1,31,580	**80,680**		**1,31,580**	**80,680**

Net profits for the year ended :

	31-12-2012 (₹)	**31-12-2013 (₹)**	**31-12-2014 (₹)**
Bowling Ltd.	17,450	19,340	21,470
Green Ltd.	10,760	12,290	14,450

Additional information :

a) It is agreed :

I) That the properties and plant and machinery to be revalued as follows :

	Bowling Ltd. (₹)	**Green Ltd. (₹)**
Freehold property	44,800	14,400
Plant and machinery	30,570	17,095

II) That the value of stocks be reduced by 10% and a provision of 12.5% be made on debtors for bad and doubtful debts.

III) That goodwill be valued at two year's purchase of the average annual trading profits of the past three years, after deducting a standard profit of 10% on the net trading assets, before revaluation or adjustment, on 31st December, 2014.

b) Profits of Green Ltd. include ₹ 600 income from the investment in each of the three years. The market value of the investment as on 31st December 2014 was ₹ 10,000.

Prepare a statement as to how you would arrive at the value per share to the nearest rupees of the ordinary share in :

i) Bowling Ltd.

ii) Green Ltd.

SECTION – B **(2×15=30)**

Note : Answer **any two** questions. **Each** question carries **15** marks. Answer to **each** theory question should **not** exceed **seven** pages.

8. Discuss the arguments for and against the inclusion of the value of human assets in external reporting.

9. XYZ Machine Tool Company Ltd. is considering the acquisition of a large equipment to set up its factory in a backward region for ₹ 12,00,000. The equipment is expected to have an economic useful life of 8 years. The equipment can be financed either with an 8-year term loan at 14 per cent interest, repayable in equal instalments of ₹ 2,58,676 per year or by an equivalent amount of lease rent per year. In both the cases, payments are due at the end of the year. The equipment is subject to the straight line method of depreciation for tax purposes. Assuming no salvage value after the 8-year

useful life and 50% tax rate, which of the financing alternative should it select ? For XYZ Machine Ltd. compute the Net Advantage of Leasing (NAL) to the Lessee assuming :

i) The company following WDV method of depreciation, the depreciation rate being 25%

ii) The corporate tax is 35%

iii) Post tax marginal cost of capital (KC) is 12 percent and

iv) The company has several assets in the asset block of 25 percent.

10. The summerised Balance Sheet of Akash Ltd. as at 31-12-2003 and 31-12-2004 and the income statement for the end on 31-12-2004 are given below. There were prepared using Historical cost accounting method. The company was incorporated as on 1st January 2000 with a capital of ₹ 50,000 at ₹ 1/share fully paid at par on that date :

Particular	**31-12-2003**	**31-12-2004**
	₹	₹
Liabilities :		
Share Capital : ₹ 1 ordinary share	50,000	50,000
Profit and Loss A/c :		
Profit retained	20,000	39,500
	70,000	**89,500**
Assets :		
Fixed assets at cost	90,000	1,05,000
(–) Depreciation	33,000	42,750
	57,000	**62,250**

Current assets :		
Stock	10,000	18,250
Net Monetary assets (Debtors + Cash – Creditors)	3,000	9,000
	70,000	**89,500**

Income statement for the year ending 31-12-2004 :

Particular	**Amount (₹)**	**Amount (₹)**
Sales	–	1,00,000
Opening stock	10,000	
(+) Purchases	50,400	
	60,400	
(–) Closing stock	18,250	42,150
Gross Profit		57,850
Less : Overhead expenses	28,600	
Depreciation	9,750	38,350
Profit retained		**19,500**

You are required to prepare balance sheet as on 31-12-2004 interms of current purchasing power method and the income statement for the year ended 31-12-2004 as per CPP method.

Additional information :

1) Assets are acquired evenly throughout the year. Analysis of fixed assets and depreciation as on 31-12-2003 is given below :

Year ended	Average Index	Capital Expenditure Written off	Depreciation Accumulated till 31-12-2004
2000	150	80,000	8,000
2001	154	–	8,000
2002	158	–	8,000
2003	162	10,000	9,000
		90,000	**33,000**

2) It may be assumed that fixed assets and stock on hand have been acquired evenly through out the year and that cash flow is even in 2004.

3) The consumer price index on 31-12-2004 – 170, on 31-12-2003 – 164, on 31-12-2002 – 160, on 1-1-2000 – 148.