

M.Com. DEGREE (CSS) EXAMINATION, MARCH 2013**First Semester**

Faculty of Commerce

AF 01 C01—ADVANCED FINANCIAL ACCOUNTING—I

(2012 Admissions)

Time : Three Hours

Maximum Weight : 30

Section A

*Answer any five out of eight questions.
Each question carries a weight of 1.*

1. Define Goodwill. Explain types of goodwill.
2. What is fair value method of share valuation.
3. Explain Amalgamation in the nature of merger.
4. Define Human Resource Accounting. State its objectives.
5. What is absorption ?
6. Explain IFRS.
7. What is internal reconstruction ?
8. Explain deficiency account.

(5 × 1 = 5)

Section B

*Answer any five out of eight questions.
Each question carries a weight 2.*

9. Explain different methods of valuation of Goodwill.
10. Define statement of Affairs. Distinguish it from balance sheet.
11. Explain the circumstances where the need for valuation of shares arises.
12. Describe the historical cost approach and replacement cost approach of valuation of human resources.
13. The net profit of a business, after providing for taxation, for the past five years are Rs. 80,000, Rs. 85,000, Rs. 92,000, Rs. 1,05,000 and Rs. 1,18,000. The capital employed in the business is Rs. 8,00,000. The normal rate of return expected in this type of business is 10%. It is expected that the company will be able to maintain its super profit for the next five years. Calculate the value of Goodwill on the basis of :

Turn over

- (a) 5 years purchase of super profit method.
- (b) Annuity method assuming the present value of annuity of Re. 1 for 5 years at 10% as 3.78; and
- (c) Capitalisation of super profit method.

14. From the following, calculate preferential creditors as per presidency towns insolvency act :

	Rs.
4 months salary of 5 clerks ..	2,000
1 month wages of 5 labourers ..	1,900
Sale tax due ..	2,500
4 month rent due to landlord ..	1,600
Income tax due ..	1,900
Wages of 2 servants ..	700
Salaries due ..	2,800
Municipal tax due ..	1,000
Wages ..	10,000

15. On 31st December 2008, A Ltd had 10,000 equity shares of Rs. 10 each as authorised capital and the shares were all issued on which Rs. 8 was paid up. In June 2009, the company in general meeting decided to sub-divide each share into two shares of Rs. 5 each, Rs. 4 paid up. In June 2010, the company in general meeting resolved to consolidate 20 shares of Rs. 5 each, Rs. 4 per share paid up into one share of Rs. 100 each, Rs. 80 paid up.

Pass Journal entries and show how share capital will appear in the balance sheet as on 31-12-2008, 31-12-2009 and 31-12-2010.

16. Following is the balance sheet of A Ltd :

<i>Liabilities</i>	Rs.	<i>Assets</i>	Rs.
Share capital (Rs. 10)	1,00,000	Sundry Assets	2,50,000
Debentures	50,000		
General Reserve	50,000		
Creditors	50,000		
	<u>2,50,000</u>		<u>2,50,000</u>

A Ltd is to be taken over by B Ltd. Each share of A Ltd. has a market value of Rs. 15, while that of B Ltd. has a market value of Rs. 30. The purchase consideration is to be satisfied in the form of shares to be issued by B Ltd. You are required to ascertain the amount of purchase consideration.

$$(5 \times 2 = 10)$$

Section C

Answer any **three** out of **six** questions.

Each question carries a weight of 5.

17. On 31st March 2010, Thin Ltd. was absorbed by Thick Ltd., the latter taking over all the assets and liabilities of the former at book values. The consideration for the business was fixed at Rs. 4,00,000 to be discharged by the transferee company in the form of its fully paid equity shares of Rs. 10 each, to be distributed among the shareholders of the transferor company, each share holder getting two shares for every share held in the transferor company. The balance sheets of the two companies as on 31st March 2010 stood as under :

Liabilities	Thick Ltd. Rs.	Thin Ltd. Rs.	Assets	Thick Ltd. Rs.	Thin Ltd. Rs.
Authorised capital	15,00,000	5,00,000	Goodwill	2,00,000	60,000
Issued and subscribed : equity shares of			Plant	4,12,000	1,00,000
Rs. 10 each fully paid	9,00,000	2,00,000	Furniture	80,000	30,000
General Reserve	1,80,000	50,000	Stock	2,65,500	60,000
P & L Account	20,502	12,900	Sundry debtors	2,21,200	46,000
Workmen's compen- sation Fund	12,000	9,000	Prepaid Insurance	—	700
Sundry creditors	58,567	30,456	Income tax refund claim	—	6,000
Staff P.F.	10,200	4,000	Cash in hand	869	356
Provision for taxation	12,300	5,000	Cash at Bank	14,000	8,300
	<u>11,93,569</u>	<u>3,11,356</u>		<u>11,93,569</u>	<u>3,11,356</u>

- Amalgamation expenses amounting to Rs.1,000 were paid by Thick Ltd. You are required to :
- prepare realisation account and equity shareholders account in the books of Thin Ltd.
 - Prepare the balance sheet of Thick Ltd. after the amalgamation in the nature of merger.

18. The following is the balance sheet of D (Private) Ltd. as on 31st December 2010 :

Liabilities	Rs.	Assets	Rs.
Share capital 10,000 shares of Rs. 10 each	1,00,000	Land and Buildings	70,000
General Reserve	50,000	Plant	70,000
Taxation Reserve	20,000	Trademarks	20,000
Workmen's Savings account	20,000	Stock	20,000
P & L Account	30,000	Debtors	48,000
Sundry creditors	40,000	Cash at Bank	25,000
	<u>2,60,000</u>	Preliminary expenses	7,000
			<u>2,60,000</u>

Turn over

The plant is worth Rs. 60,000 and Land and Buildings are worth Rs. 1,30,000, as valued by an independent valuer Rs. 5,000 of the debtors is to be taken as bad. The profits of the company were 2008 Rs. 50,000, 2009-Rs. 60,000 and 2010-Rs. 70,000. It is the practice of the company to transfer 20% of the profits to Reserve.

Ignoring taxation, find out the value of shares of the company on their intrinsic basis and also on yield basis. Shares of similar companies quoted in the stock exchange yield 12% on their market value. Goodwill of the company may be taken at Rs. 1,00,000.

19. The assets of a merchant on 30th June 2010, as shown by his Books were Rs. 45,000 and his liabilities Rs. 31,000. He filed his insolvency petition and estimated his deficiency to be Rs. 22,000. After making the above estimate, he found that the following items were not recorded in his books.

- Interest at 10% on his capital from 1st January 2010.
- Amount due as wages Rs. 200, as salaries Rs. 500, as rates and taxes Rs. 300, as rent Rs. 500.
- A contingent liability for Rs. 3,000 on bills discounted by him for Rs. 8,000.
- A loan of Rs. 5,000 taken from a friend for the marriage of his daughter.

You are required to prepare a statement of affairs and a deficiency account from the above particulars.

20. The balance sheet of A Company Ltd. as on 31st March 2010, is as follows :

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
2,000 6% cumulative preference shares of Rs. 100 each fully paid up	2,00,000	Free hold property	3,50,000
75,000 equity shares of Rs. 10 each fully paid up	7,50,000	Plant	50,000
6% debentures : (Secured by freehold property) : 3,75,000		Trade Investments	60,000
Interest accrued : <u>22,500</u>	3,97,500	Debtors	4,00,000
Creditors	12,500	Stock	2,00,000
Director's Loan	2,00,000	Deferred advertisement Expenditure	1,50,000
		P & L Account	3,50,000
	<hr/>		<hr/>
	15,60,000		15,60,000
	<hr/>		<hr/>

The court approved a scheme of reorganisation to take effect on 1-4-2010 where by :

- (a) Preference shares to be written down to Rs. 75 each and equity shares to Rs. 2 each.
- (b) Preference dividends in arrears for four years, 75% to be waived and equity shares of Rs. 2 each to be allotted for the remaining quarter.
- (c) Accrued debenture interest to be paid in cash.
- (d) Debenture holders agreed to take over freehold property (book value Rs. 1,50,000) at a valuation of Rs. 1,50,000 in part repayment of their holdings and to provide additional cash of Rs. 1,30,000 secured by a floating charge on the company's assets at an interest rate of 10% per annum.
- (e) Deferred advertising to be written-off.
- (f) Stock to be written-off fully.
- (g) Rs. 2,33,000 to be provided as bad debts.
- (h) Remaining freehold property to be revalued at Rs. 4,00,000.
- (i) Investments sold out for Rs. 1,50,000.
- (j) In settlement of their loans, Directors are to accept equity shares of Rs. 2 each for 90% of their loans, waiving 10% of the balance of their loan amount.
- (k) Capital commitments contracts totalling Rs. 3,00,000 are to be cancelled by payment of penalty at 5% of the contract value.

Show Journal entries and draw up the balance sheet after effecting the scheme.

21. Amar Ltd. agreed to acquire the business of Kumar Ltd as on 31st December 2010. The summarised balance sheet of Kumar Ltd. on that date was as under :

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Share Capitals-shares		Goodwill	50,000
of Rs. 10 each fully paid	3,00,000	Land and buildings	3,20,000
General Reserve	80,000	Stock	84,000
Workmens compensation		Debtors	18,000
funds	5,000	Cash at bank	28,000
P & L account	55,000		
6% debentures	50,000		
Creditors	10,000		
	<hr/>		<hr/>
	5,00,000		5,00,000
	<hr/>		<hr/>

Turn over

The consideration payable by Amar Ltd. was agreed as under :

- (a) Cash payment equivalent to Rs. 2.50 for every shares of Rs. 10 in Kumar Ltd.
- (b) Issue of 45,000 Rs. 10 shares fully paid is Amar Ltd. having an agreed value of Rs. 15 per share.
- (c) Issue of such an amount of fully paid 5% debentures of Amar Ltd. at 96% as is sufficient to discharge the 6% debentures of Kumar Ltd. at a premium of 20%.

While arriving at the agreed consideration, the Directors of Amar Ltd. valued land and building at Rs. 6,00,000 and stock at Rs. 71,000 and the debtors at their book value subject to an allowance of 5% to cover doubtful debts. The cost of liquidation of Kumar Ltd. was Rs. 2,500.

On the date of acquisition, Kumar Ltd had a liability towards a workman for compensation against an injury. The amount was ascertained at Rs. 3,000. The company paid the compensation in cash to the worker.

Amar Ltd. also issued to the public 5,000 shares of Rs. 10 each at Rs. 15 per share. The shares were fully subscribed and paid for.

You are required to draft journal entries and prepare Ledger accounts in the books of Kumar Ltd. Also prepare opening balance sheet of Amar Ltd.

22. Explain briefly the different methods of valuation of shares.

(3 × 5 = 15)

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(Pages : 3)

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M.Com. DEGREE (CSS) EXAMINATION, MARCH 2013

First Semester

Faculty of Commerce

FM 01 C03—FINANCIAL MANAGEMENT PRINCIPLES

[2012 Admissions]

Time : Three Hours

Maximum Weight : 30

Section A

*Answer any five questions.
Each question carries 1 weight.*

1. State the objectives of financial management.
2. Compare financial risk and business risk.
3. State Marginal Cost of Capital.
4. Explain EBIT and EPS.
5. Explain balanced capital structure.
6. State the significance of capital budgeting.
7. What is operating leverage ?
8. Explain indifference point.

(5 × 1 = 5)

Section B

*Answer any five questions.
Each question carries 2 weight.*

9. Define cost of capital. Explain its significance in financial decision-making.
10. "One approach to determine the decision criterion for financial management is profit maximisation goal". Explain.
11. Explain the cost theory and earnings theory of capitalisation.
12. "The equity capital is cost free". Do you agree ? Give reasons.
13. Explain compounding technique and discount technique of time value of money.
14. Discuss the factors to be considered in designing an ideal capital structure.

Turn over

15. A company has 50,00,000 ordinary shares outstanding. The market price of the share is Rs. 96 while the book value is Rs. 65. The firm's earnings and dividends per share are Rs. 10 and Rs. 7 respectively. The company wants to issue 10,00,000 shares with a net proceeds of Rs. 80 per share. What is the cost of capital of the new issue ?
16. For X Ltd. the following data is available :
- | | | |
|--------------|-----|-----------|
| EBIT | ... | Rs. 1,200 |
| Contribution | ... | Rs. 400 |
| Interest | ... | Rs. 100 |

If the Company's sales are expected to decline by 5%, determine the percentage change in EPS.

(5 × 2 = 10)

Section C

*Answer any three questions.
Each question carries 5 weight.*

17. Is the MM approach realistic with respect to capital structure and value of a firm ? If not, what are its main weaknesses ?
18. Describe modern methods of capital budgeting.
19. Define over capitalisation. State its causes and consequences.
20. The following is the capital structure of X Ltd., as on 31st March 1998 :

	(Rs. in lakhs)
Equity capital (paid up)	... 563.50
Reserves and surplus	... 485.66
10% irredeemable preference shares	... 56.00
10% redeemable preference shares	... 28.18
12% term loans	... 377.71
	<hr/> 1511.05 <hr/>

The shares of the company are currently selling for Rs. 36. The expected dividend next year is Rs. 3.60 per share anticipated to be growing at 8% indefinitely. The redeemable preference shares were issued on 1st January 1993 with a 12-year maturity period. A similar issue today will be at Rs. 93. The market price of 10% irredeemable preference share is Rs. 81.81. The Company had raised the term loan from IDBI in 1989. A similar loan will cost 14% today.

Assume an average tax rate of 35%. Calculate the weighted average cost of capital for the company using book value weights.

21. The values for two firms X and Y in accordance with the traditional theory are given below :

		X	Y
		Rs.	Rs.
Expected net operating income, \bar{X}	...	50,000	50,000
Total cost of debt, $k_d D = INT$	...	0	10,000
		<hr/>	<hr/>
Net income, $\bar{X} - INT$	...	50,000	40,000
Cost of equity, k_e	...	0.10	0.11
		<hr/>	<hr/>
Market value of shares, S	...	5,00,000	3,60,000
Market value of debt, D	...	0	2,00,000
		<hr/>	<hr/>
Total value of firm, $V = S + D$	...	5,00,000	5,60,000
		<hr/>	<hr/>
Average cost of capital, $k_0 = X/V$	...	0.10	0.09
Debt-equity ratio	...	0	0.556

Compute the values for firms X and Y as per MM thesis. Assume that : (i) corporate taxes do not exist ; and (ii) the equilibrium value of k_0 is 12.5 per cent.

22. An equipment A has a cost of Rs. 75,000 and net cash flow of Rs. 20,000 per year for six years. A substitute equipment B would cost Rs. 50,000 and generate net cash flow of Rs. 14,000 per year for six years. The required rate of return of both equipments is 11%. Calculate IRR and NPV for each equipment. Which equipment should be accepted and why ?

(3 × 5 = 15)

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(Pages : 2)

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M.Com. DEGREE (CSS) EXAMINATION, MARCH 2013

First Semester

Faculty of Commerce

RM 01 C04—RESEARCH METHODOLOGY

(2012 Admissions)

Time : Three Hours

Maximum Weight : 30

Section A

*Answer any five questions.
Each question carries 1 weight each.*

1. What is descriptive research ?
2. Define non-sampling error.
3. What is research problem ?
4. Define coding.
5. Define variables.
6. What is sample size ?
7. Define interview schedule.
8. What is plagiarism ?

(5 × 1 = 5)

Section B

*Answer any five questions.
Each question carries 2 weight.*

9. Explain extraneous and intervening variables.
10. Describe the principles of interpretation.
11. How is a research topic selected ?
12. Describe citing reference using MLA style.
13. Explain different types of tabulation.
14. Describe ex-post facto research.
15. State the limitations of case study method.
16. Explain null hypothesis and alternative hypothesis.

(5 × 2 = 10)

Turn over

Section C

*Answer any three questions.
Each question carries 5 weight.*

17. Define research design. State its need describe its components.
18. Define sampling. State its merits and demerits. Differentiate between census and sample.
19. Define hypothesis. Describe its sources.
20. Describe the various scaling techniques.
21. Define secondary data. Distinguish it from primary data. Describe the sources of secondary data.
22. Explain the contents of a research report.

(3 × 5 = 15)