UNIVERSITY OF GUJRAT

A WORLD CLASS UNIVERSITY

(M.Com Part-II)

Advanced Accounting

Roll No: ____________

in words: ____________

Cutting, Overwriting, Erasing, Fluid painting and use of Lead Pencil will earn no marks. Write answer of the Question No.1 and 2 on this sheet and handover it to the supervisory staff of examination within first 35 minutes.

Time Allowed: 35 Minutes ***(OBJECTIVE PART)*** ***Max. Marks: 32*** ***Sign of Supdt.***

1- a) Encircle the correct answer: *1x8*

i) In a capital lease, Lease records:

a) A lease asset and a lease liability b) Depreciation on the leased asset

c) Interest on the leased liability d) All of the above

ii) The advantages of unified operation of related units by stock control instead of by merger includes:

a) Control through stock ownership may be easier to attain.
b) Control through stock ownership may offer certain financial, legal and administrative advantages
c) Control through stock ownership may offer certain income tax advantages
d) All of these

iii) Assume the purchase of stock at less than book value where subsidiary assets are satisfactorily valued and earnings are considered satisfactorily are known as:

a) Revenue b) Current Liabilities c) Capital from consolidation d) Stock Value

iv) When the receiver returns the control of the business to the original owners, the receivers debits the:

a) Debtor's Account b) Assets Valuation Account c) Liability Account d) All of These

b) Encircle True or False: *1x4*

i) B.P.O is viewed as a pending sale and transfer of ownership to the lessee at the specific bargain price. **True / False**

ii) Consolidation accounting reports stockholder's equity of parent company only. **True / False**

iii) A merger is effected upon the direct acquisition of the properties of one or more companies by another. **True / False**

iv) A statutory merger or consolidation is an arrangement affected in accordance with the laws of the various states. **True / False**

v) Negative goodwill means when the amount of acquiring stock of subsidiary company is more than the book value. **True / False**

vi) When the preferred stock is non-cumulative and non participating, the entire retained earnings balance is identified with the common stock. **True / False**

vii) When the cost method is used and the subsidiary issues additional shares then no entry is required on the parent books aside from a memorandum entry. **True / False**

viii) An investor company that owns more than 50% of the voting stock of other company is called Parent company. **True / False**

c) Fill in the blank meaningfully: *1x4*

i) A ___________________________ is affected when a corporation is specifically organized to acquire the assets and to assume liabilities of two or more previously existing companies.

ii) A ___________________________ is the same as split off except that the distribution of stock is made by the original unit to its stockholders without any surrender of stock by them.

iii) The contributions made by parties to a consolidation are _____________________and __________________.

iv) The purpose of ___________________________which shows the financial position of the parent company and its subsidiaries as though they were a single economic unit.

(Continued Overleaf)

2- Give short answers to the following questions: *2x8*

i) Non Cumulative/ Non Participating Preferred Stock.

ii) Treasury Stock.

iii) Split up.

iv) Business Combinations.

v) Consolidated Income Statement.

vi) Wholly Owned Subsidiary.

vii) Short Term Investment.

viii) Disposal Loss.

Total Marks: 32 + 68 = 100
Pass Marks = 40%

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Advanced Accounting

Time Allowed : 2:25 hrs
Max. Marks : 68

Attempt **FOUR** Questions in all. All Questions carry equal marks.

SUBJECTIVE PART

3- Balance Sheet data for companies R and S, prior to their consolidation, as follows:

	Company R	**Company S**
Assets	$ 850,000	$ 600,000
Liabilities	$ 250,000	$ 200,000
Capital Stock, $ 100 par	400,000	250,000
Additional Paid in Capital	50,000	100,000
Retained Earnings	150,000	50,000
Total Liabilities & Stock Holder equity	$ 850,000	$ 600,000

Stockholders of the two companies agree to consolidation where by company T is to be organized to acquire the net assets of company R and S. Company T stock is to be no-par with a stated value and shares are to be issued in exchange for the stock of companies R and S on a 5 for 1 basis. The consolidation is deemed a pooling of interests and asset, liability and stockholder's equity balances of the predecessor companies are to be continued on the new company books.

Required:

a) Give the entries that are made on the books of company T under each of the following assumptions:
   i) The no-par shares are given a stated value of $20 per share.
   ii) The no-par shares are given a stated of $15 per share.
   iii) The no-par shares are given a stated value of $25 per share.

b) Give the entries that are made on the books of companies R and S in recording the transfers of net assets and the distribution of company T stock in final liquidation.

4- Balance sheets for the Porter Company and the Ross company on July 1, 1967 are as follows:

	Porter Company	**Ross Co.**
Cash	$ 100,000	$ 50,000
Goodwill	50,000	40,000
Other Assets	350,000	60,000
Total Assets	$ 500,000	$ 150,000
Liabilities	$ 150,000	$ 35,000
Capital Stock, $ 10 par	300,000	50,000
Retained Earnings	50,000	65,000
Total Liabilities and Stock Holder Equity	$ 500,000	$ 150,000

On this date Porter Company acquires 80% of the stock of Ross company for $ 70,000.

Required: Prepare a consolidated balance sheet on the assumption that the purchase of Ross Company stock at less than book value is considered evidence of the overstatement of goodwill on Ross Company books.

5- Company P paid $ 85,000 for a 90 % interest in the stock of company A on January 1, 1967. The investment is carried at cost. During 1967 company A reported a net income of $ 30,000 and paid dividends of $ 10,000. At the end of year company A reported a retained earning balance of $ 5,000. The capital stock balance remained uncharged at $ 80,000.

Required: a) What is the elimination on the consolidated working papers?

b) What is the cost or book value excess on the investment and the retained earnings accruing to the parent as a result of subsidiary operations?

6- On March 1, 1967, The Sears Corporation purchased 9000 shares of Thurston Company stock at 12. Thurston Company Capital on January 1, 1967 and changes in Capital were as follows:

Capital Stock (no par) 10,000 shares		$ 80,000
Retained Earnings, January 1, 1967	$ 20,000	
Net Income, 1967	15,000	
	35,000	
Dividends, October, 1967	7,500	27,500
Capital, December 31, 1967		$ 107,500

The investment account was carried on the Sears Corporation's books at cost.

(Continued Overleaf)

Required: Give as of December 31, 1967:

a) The eliminations required on the working papers.
b) The cost or book value excess on the investment
c) The minority interest
d) The subsidiary earnings accruing to the parent.

7- Company A owns 90% of the stock of Company B and Company B owns 80% of the stock of Company C. What elimination for inter company profits is required on the working papers for a consolidated balance sheet for each case below, assuming that merchandise is sold at a gross profit on sales of 15%? (Assume that investment accounts are carried by the equity method).

a) Merchandise held by Co. C acquired from Co. A, $25,000
b) Merchandise held by Co. B acquired from Co. A, $25,000
c) Merchandise held by Co. C acquired from Co. B, $25,000
d) Merchandise held by Co. A acquired from Co. C, $25,000

8- Distinguish between a Combination Achieved through Purchase and a Combination Achieved through Pooling of Interests? What Factors should be considered in making the distinction?