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Accounting
Semester 6**

**Theory
Questions**



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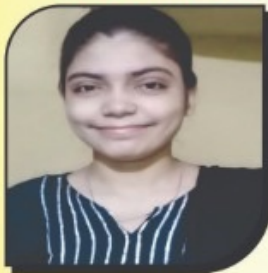
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Short Notes Board Question & Answer

April 2019

- 1) liquidator's Final statement of accounts
- 2) Limited liability partnership (LLP)
- 3) Monetary and non-monetary items
- 4) Conditional and form underwriting
- 5) Net payment method of purchase consideration
- 6) Absorption of company

October 2019 ATKT

- 1) Rights and Duties of LLP partners
- 2) Types of Underwriting
- 3) Statement of Affairs in Liquidation
- 4) Net Assets Method of Purchase consideration
- 5) Foreign Exchange Fluctuation Account

PDF + CHP
Basic Videos
+ Notes

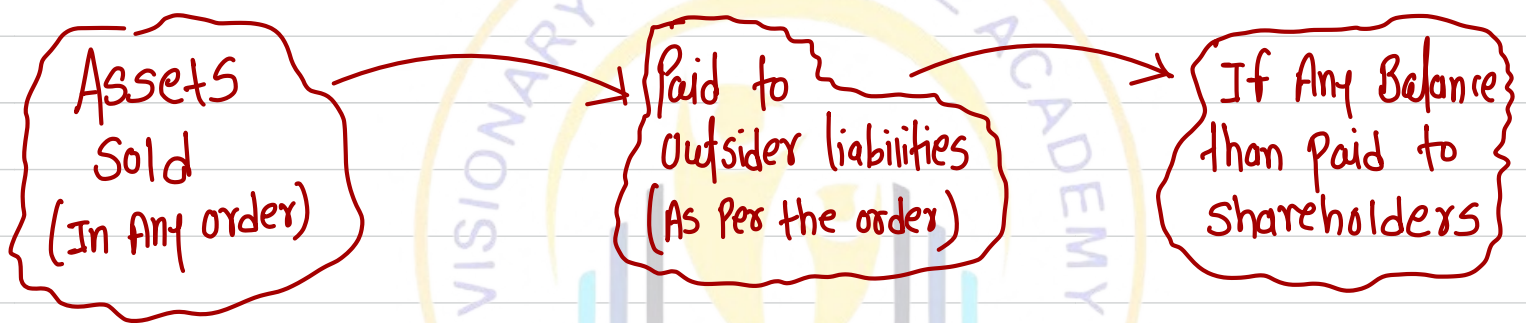
- 1) Procedure of calculation of net liability of the underwriters.
- 2) Features of limited liability partnership
- 3) Internal and external reconstruction .

Q1 Liquidator's Final Statement of Account

Introduction & Meaning :->

Liquidation, also known as **winding up** is the process in which a **liquidator** collects and sells the company's assets and then distributes the creditors to pay off debts.

After satisfaction of the debts the remaining balance, if any, is distributed among to the members in proportion.



At the time of liquidation of Company, the liquidator realise all the assets and discharge the liabilities and Capital.

The statement prepared to record to such receipts and payments is called **liquidator's Final Statement of Account**.

Format of liquidator's Final Statement of Account

Receipts	Amt (₹)	Payments	Amt (₹)
<u>To Sundry Assets</u> [At Agreed Value] [At Book Value] E.g. - Land & Building - Plant & Machinery - Stock - in Trade - Debtors	✓ ✓ ✓ ✓	<u>By Sundry outsider liabilities</u> [As per The order] e.g. - Liquidator's Commission - Liquidation Expenses - Creditors - Preference share Capital - Equity Share Capital	✓ ✓ ✓ ✓ ✓
✓✓	✓✓✓		✓✓✓

Legal Order of payment as follow....

- 1) Legal Expenses
- 2) Liquidate Remuneration
- 3) Liquidation Expenses
- 4) Secured Creditors with fixed charges
- 5) Preferential Creditors
- 6) Secured Creditors with floating Charges
- 7) Unsecured Creditors
- 8) Preference Shareholders
- 9) Equity shareholders

Q2 Limit liability Partnership (LLP) Act 2008

Introduction & Meaning :-

LLP is alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership.

LLP
(is combination
of)

= Partnership + Company.

For LLP, LLP Agreement is compulsory between all the partners of LLP.

LLP Agreement :-> Is a written document defining the agreement between the partners of a limited liability partnership.

It defines the rights and duties of all the partners towards each other and towards the firm.

limited liability :-> liability of partners is limited, that means personal property or assets not affected for the limited liability partnership liability.

Points	Partnership Firm	Company	limited liability Partnership
Act	1932	2013 / 1956	2008
Liability	Unlimited	Limited	Limited
Registration	Optional	Compulsory	Compulsory
Members	Minimum:- 2 Maximum:- 50	Minimum:- PVT :- 2 Public:- 7 Maximum:- PVT :- 200 Public:- Unlimited	Minimum:- 2 Maximum:- No limit
Owners	Partners	Shareholders	Partners
Management	Partners	BOD, Managers	Designated partner
Conversion	To LLP & LTD	To LLP	To LTD

Q3

Monetary and Non-Monetary Items.

An enterprise may carry on activities involving foreign exchange i.e. it may have transaction in foreign currencies. for that kind of enterprise is need to follow **AS-11**.

Accounting Standard 11 for effect of changes in foreign Exchange Rates, in respect of accounting periods commencing or after 01-04-2004 and it's mandatory in nature from that date.

Some Important Terms are used in this AS-11 are as follows :-

- Average Rate
- Closing Rate
- Fair Value
- Monetary Items
- Non-monetary Items.

Monetary Items :- Monetary items are money held and assets and liabilities to be received or paid in fixed or determined amounts of money.

Assets which are receivable in term of money and liabilities which are payable in term of money are the monetary items.

If it can be converted into cash easily, the asset is considered a monetary asset.

Non-Monetary Items \Rightarrow Non-monetary items are those which are not monetary items.

If assets cannot be readily converted to cash or cash equivalent in the short term, then it is considered a non-monetary asset.

Non-monetary items carried at historical cost, carried at fair value.

For non-monetary items rate applied in case of integral foreign operation at transaction date rate.

For monetary items rate applied in case of integral foreign operation at closing rate.

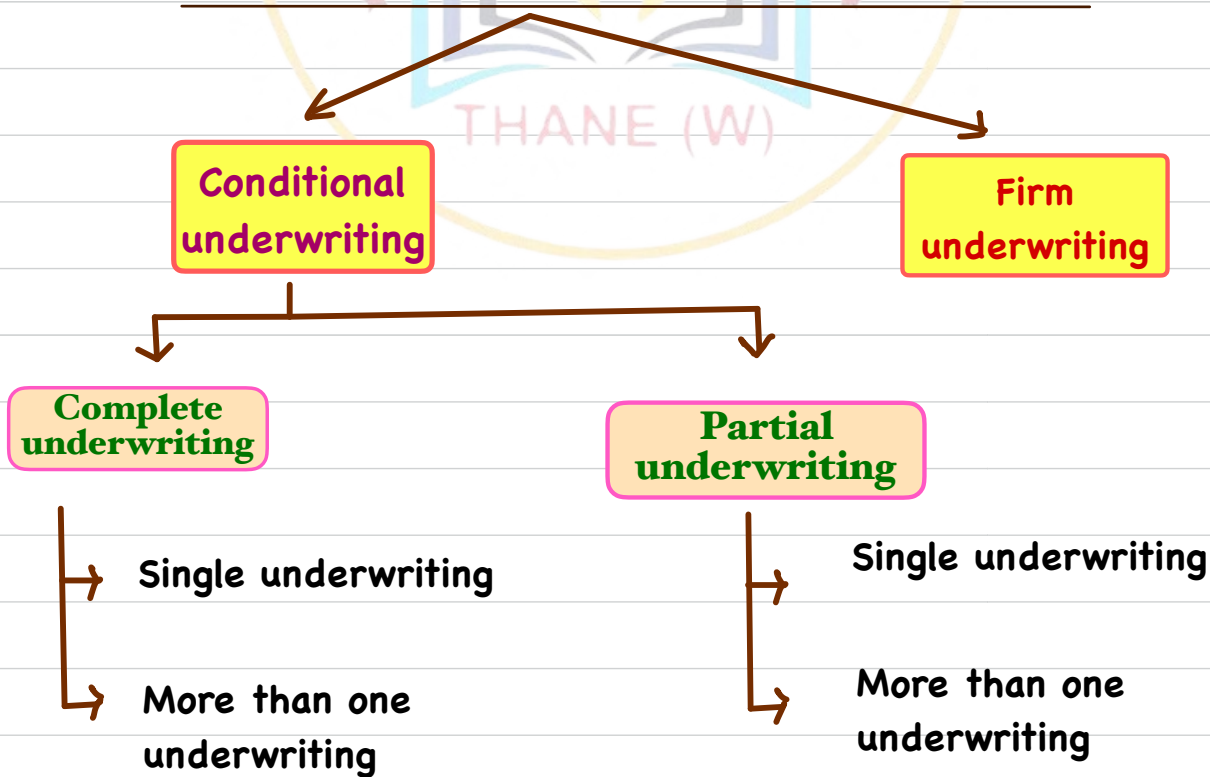
Q4 Conditional & firm Underwriting

Introduction & Meaning :-

To avoid risk of Under subscribed shares, Companies may seek the help of underwriters.

Underwriting means guaranteeing to subscribe to an agreed number of shares or debenture for a certain consideration.

TYPES OF UNDERWRITING



Conditional Underwriting → Under this type of agreement, the underwriter agree to take up agreed proportion of shares, not taken by the public.

→ Liability of underwriter arises only if issue is undersubscribed.

→ Conditional underwriting arises only from open underwriting. Hence Conditional Underwriting is also known as open underwriting.

→ If there is full/over-subscription, company need not allot securities to the underwriters.

Firm Underwriting → Under this type of Agreement, the underwriter agree to take up a specified number of shares irrespective of the number of shares subscribed by the public.

→ Firm underwriting is absolute and not conditional.

→ In all cases (over, under subscription), company is bound to allot the securities underwritten to the underwriter.

Q5 Net Payment Method of Purchase Consideration

Meaning :-

Purchase Consideration is a amount paid by purchasing Company to the Vendor Company against purchasing of business.

There are Four Types of Purchase Consideration :-

- Lum Sum Method
- Intrinsic Value Method
- Net Assets Method
- Net payment method

Net Payment Method :-> All the payments made by the purchasing Company to the equity / preference Shareholders of the Vendor Company e.g. Shares, Cash etc.

Net Payment Method (NPM) :-

Particulars	Amt(₹)
<u>Equity Share holder Of Vendor Company</u>	
☞ Equity Share capital of Purchasing company	X X
☞ Preference share capital of purchasing company	X X
☞ Cash (If fraction)	X X
<u>Preference Share holder Of Vendor Company</u>	
☞ Equity Share capital of Purchasing company	X X
☞ Preference share capital of purchasing company	X X
☞ Cash (If fraction)	X X
Purchased consideration	X X

By Sunil panda sir

NOTE :- If Full payment Information is given then apply NPM

Example \rightarrow Le Bhari Ltd, a newly formed Company acquired business of Barbaad Ltd.

Balance Sheet of Barbaad Ltd

liabilities	Amt (₹)	Assets	Amt (₹)
Equity Shares of ₹ 10 fully paid	150000	land & Building	150000

Le bhari Ltd issued 25000 Equity Shares of ₹ 10 each at ₹ 12 each per Share. and paid ₹ 4 in Cash for each Share of Barbaad Ltd.

Calculation of P.C.

Particulars	Amt (₹)
* <u>Equity Shareholders of Barbaad Ltd</u>	
\rightarrow Equity Shares (of Le bhari Ltd) (25000 Shares \times ₹ 12 each) <small>Including ₹ 2 premium</small>	300000
\rightarrow Cash (15000 shares \times ₹ 4)	60000
Total P.C \rightarrow	<u>360000</u>

Q6 Absorption of Company.

AS-14 standard deals with accounting for amalgamations and the treatment of any resultant goodwill or reserves.

Basically AS-14 is classify in Three parts :-
① Amalgamation ② Absorption ③ External Reconstruction

Meaning of Absorption :-

An existing company takeover the another existing company is called as Absorption.

In that situation one company survives, while the others lose their identities.

E.g. :- → Absorption occurs when Badal Pvt Ltd takes over the operations of Suraj Pvt Ltd., causing Suraj Ltd. to cease to exist and just Badal Ltd to exist.

→ Under this example Badal Pvt Ltd will pay purchase consideration to Suraj Pvt Ltd.

→ As per this example Badal Pvt Ltd is Absorbing Company. and Suraj Ltd is Absorbed Company.

Purchase Consideration :- →

Purchase Consideration is a amount paid by Absorbing Company to the Absorbed Company against Absorption of business.



Q1 Rights and Duties of LLP Partner

Introduction & Meaning :->

LLP is alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership.

LLP = Partnership + Company.
(is combination of)

For LLP, LLP Agreement is compulsory between all the partners of LLP.

Rights of LLP Partner :->

- Partners have the right to participate in the management of the LLP.
- The partners would be entitled to share equal profit in the LLP or as may be provided by LLP agreement.
- Partner has right to access copy of the books of account.
- Partner have the right to vote for fundamental changes.

- Submission of the dispute related to the business.
- The Suit can be withdrawn on behalf of LLP as per majority

* Duties of LLP Partners

- Partners are required to comply with all the provisions of limited liability partnership Act & LLP agreement.
- Partners not to indulge in any fraudulent transaction with the creditors or outsiders.
- In case there is any change in name and address of partner he shall inform the same to LLP within 15 days of such change.
- In case of admission of partner the incoming partner shall give his prior consent to act as such partner.
- If any partner desires to resign from the partnership he shall inform the same by giving a 30 days notice to other partner.

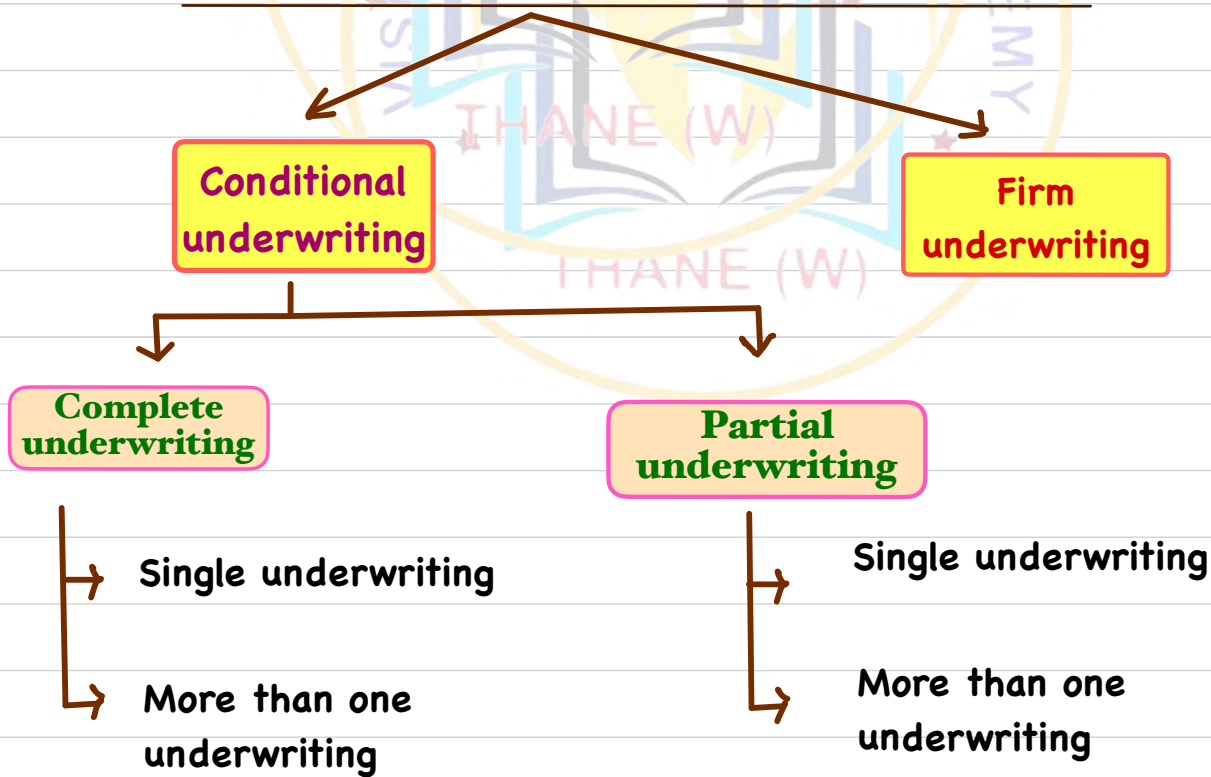
Q2 Types of Underwriting

Introduction & Meaning :-

To Avoid risk of Under Subscribed Shares, Companies may seek the help of underwriters.

Underwriting means guaranteeing to subscribe to an agreed number of shares or debenture for a certain consideration.

TYPES OF UNDERWRITING



Conditional Underwriting :- Under this type of agreement, the underwriter agree to take up agreed proportion of shares, not taken by the public.

→ Liability of underwriter arises only if issue is undersubscribed.

* Complete Underwriting :- The entire issue of shares or debentures of a company is undertaken.

* Partial underwriting :- Certain portion of shares or debentures of a company is undertaken.

If only one underwriter is appointed for entire issue of shares or debentures of a company is called as Single underwriter.

If more than one underwriter is appointed for entire issue of shares or debentures of a company is called as more than one underwriter or multiple underwriter.

Firm Underwriting :- Under this type of agreement, the underwriter agree to take up a specified number of shares irrespective of the number of shares subscribed by the public.

- Firm Underwriting is absolute and not conditional.
- In all cases (over, under Subscription), Company is bound to allot the Securities underwritten to the Underwriter.

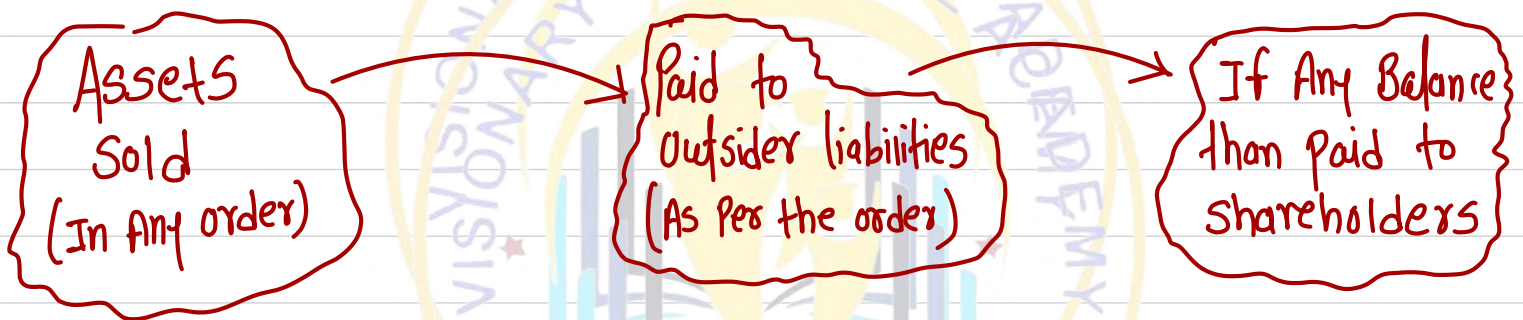


Q3 Statement of Affairs in Liquidation

Introduction & Meaning : →

Liquidation, also known as winding up is the process in which a liquidator collects and sells the company's assets and then distributes the creditors to pay off debts.

After satisfaction of the debts the remaining balance, if any, is distributed among to the members in proportion.



At the time of liquidation of Company, the liquidator realise all the assets and discharge the liabilities and Capital.

The statement prepared to record to such receipts and payments is called liquidator's Final statement of Account.

Format of liquidator's Final Statement of Account

Receipts	Amt (₹)	Payments	Amt (₹)
To <u>Sundry Assets</u> [At Agreed Value] [At Book Value]		By <u>Sundry Outsider liabilities</u>	
E.g. - Land & Building	✓	[As per The order]	
- Plant & Machinery	✓	e.g. - Liquidator's Commission	✓
- Stock - in Trade	✓	- Liquidation Expenses	✓
- Debtors	✓	- Creditors	✓
		- Preference share Capital	✓
		- Equity Share Capital	✓
	✓✓✓		✓✓✓

Legal Order of payment as follow....

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- Net Assets Method
- Net payment method

Net Payment Method :- All the payments made by the purchasing Company to the equity / preference Shareholders of the Vendor Company e.g. Shares, Cash etc.

Under this method, Purchase Consideration is Calculated by adding up the values of various assets taken over by the purchasing Company and then deducting there from the values of various liabilities taken over by the purchasing Company.

Net Asset Method (NAM) :--

Particulars	Amt(₹)
A) Assets Taken Over At Agreed Value	
Fixed Assets	X X
Current Assets	X X
B) Outsiders Liabilities Taken Over At Agreed Value	
Current liabilities , Etc.	(X X)
NET ASSETS (A-B) (PC) 🙌🙌	X X

NOTES :--

- 1) All Assets & Liabilities taken over at Agreed Values.
- 2) Miscellaneous Expenses NOT TAKEN For calculation of NAM.
- 3) Share Capital & Reserves & Surplus NOT TAKEN from liabilities

Face value = Balance - sheet Amt
 Agreed Value = Adjustment Amt

Q5 Foreign Exchange Fluctuation Ac

An enterprise may carry on activities involving foreign exchange i.e. it may have transaction in foreign currencies. for that kind of enterprise is need to follow AS-11.

- Accounting Standard 11 for effect of changes in foreign Exchange Rates, in respect of accounting periods commencing or after 01-04-2004 and it's mandatory in nature from that date.
- Foreign Exchange Accounting covers the accounting of the transactions which are carried by a business in different currencies (Foreign currency).
- And records such transactions in the functional currency of the reporting entity, based on the exchange rate.

e.g :->

On 1st January, 2022 Kala Traders exported goods to Gora Trader, of USA worth \$ 10000. Exchange rate was 1 US \$ = ₹70.

The payment were received on 3rd Feb, 2022 @ 1 US \$ = ₹71

Journal Entry for Amt Received ↓

Bank A/c ($\$10000 \times ₹71$)	DR	₹10,000	
To FEF A/c			10,000
To Nova Trading A/c ($10000 \times ₹70$)			₹7,00,000

Foreign Fluctuation Account

DR

CR

Particulars	Amt (₹)	Particulars	Amt (₹)
To Profit & loss A/c (Bal. in fig)	10 000	By Bank A/c	10000
	<u>10000</u>		<u>10 000</u>

Profit or loss arising due to exchange fluctuation should be treated as revenue item, and hence it should be transferred to profit & loss A/c. at the end of the year.