

2019
(October)

COMMERCE

(Honours)

[BC-303 (a)]

(Corporate Accounting)

Marks : 75

Time : 3 hours

The figures in the margin indicate full marks for the questions

- (a) Discuss the sources from which bonus shares can be issued by a company. 4
- (b) State the provision of the Companies Act, 2013 for the issue of right shares. 7
- (c) Write a note on sinking fund method of redemption of debentures. 4

Or

The following balances were extracted from the books of AB Ltd. as on 31st December, 2018 :

20000 Equity Shares of ₹ 10 each fully paid	2,00,000
2500, 8% Redeemable Preference Shares of ₹100 each fully paid	2,50,000

20D/92 (Turn Over)

(2)

500, 7% Redeemable Preference Shares of ₹100 each, ₹ 70 paid-up	35,000
General Reserve	80,000
Profit and Loss Account	1,60,000
Securities Premium Reserve	20,000
Investment	1,20,000
Cash at Bank	40,000

On 1st January, 2019 it was decided to redeem both the classes of the Preference Shares at a premium of 6%. In order to pay off Preference Shareholders, the company also decided to sell the investments, use company's fund and to raise the balance by the issue of sufficient number of Equity Shares of ₹ 10 each at a premium of 10% subject to leaving a minimum bank balance of ₹ 14,000 after such redemption. Investments were sold at ₹ 1,12,000.

Show the necessary Journal Entries to record the transactions. 15

- P Ltd. was incorporated on 1st August, 2018 and received its certificate of commencement of business on 1st September, 2018. The company bought the business of Mr. Green with effect from 1st April, 2018. The following figures relating to the year ending 31st March, 2019 :

- Sales for the year were ₹ 12,00,000 out of which sales up to 1st August were ₹ 5,00,000

20D/92 (Continued)

(3)

- Gross profit for the year was ₹ 3,60,000

- Expenses debited to the Profit and Loss Account were as follows :

Rent	18,000
Salaries	30,000
Directors fees	9,600
Interest on debentures	10,000
Audit fees	3,000
Discount on sales	7,200
Depreciation	48,000
General expenses	9,600
Advertising	36,000
Stationary and printing	7,200
Commission on sales	12,000
Bad debts (₹1,000 relates to debt created prior to incorporation)	3,000
Interest to vendor on purchase consideration up to 1.10.2018	6,000

Prepare a statement of Profit & Loss for the year ended 31.03.2019 showing the profit of the pre- and post-incorporation period indicating your basis of allocation. Also find out the profit available for dividends. 13+2=15

20D/92 (Turn Over)

(4)

Or

XY Ltd. is registered with an authorised capital of ₹4,50,00,000 divided into 2500000 equity shares of ₹10 each and 2000000, 6% preference shares of ₹10 each. Other details were as follows :

Issued, subscribed and paid-up capital :

1250000 Equity Shares of ₹10 each	1,25,00,000
1000000, 6% Preference Shares of ₹10 each	1,00,00,000
	<u>2,25,00,000</u>

The statement of Profit and Loss of the company for the year ended 31st March, 2019 showed net profit before tax ₹ 75,00,000. The net profit brought forward from previous year's Balance Sheet amounted to ₹ 15,00,000. The company makes a provision of 30% for income tax.

The following appropriations were proposed by the company :

- To pay dividend on preference shares
- To pay final dividend @ 20% to equity shareholders

20D/92 (Continued)

(5)

- Transfer to general reserve ₹ 6,00,000

You are required to show the relevant items in the Balance Sheet (showing details in the Notes to Accounts). 9+6=15

- (a) What are the limitations of accounting ratios? 5

- (b) Prepare Balance Sheet from the following particulars : 10

Gross Profit—₹ 54,000
Shareholders Fund—₹ 6,00,000
Gross Profit Margin—20%
Credit Sales to Total Sales—80%
Total Asset Turnover—0.3 times
Inventory Turnover—4 times
Average Collection Period—20 days (Take 360 days in a year)
Current Ratio—1.8
Long-term Debt to Equity—40%

Or

Balance Sheets of X Ltd. as on 31st March, 2018 and 2019 are given below :

	31.03.2018	31.03.2019
	(₹)	(₹)

Equity and Liabilities :
Shareholders' Funds :

Share Capital	3,00,000	4,00,000
Reserves and Surplus :		
Capital Reserve	—	10,000
General Reserve	50,000	65,000
Surplus Account	1,50,000	1,90,000

20D/92 (Turn Over)

(6)

	31.03.2018	31.03.2019
	(₹)	(₹)

Current Liabilities :

Current Liabilities	1,40,000	1,50,000
Provision for Income Tax	90,000	80,000
Proposed Dividend	36,000	48,000
Total Equity and Liabilities	<u>7,66,000</u>	<u>9,43,000</u>

Assets :

Non-current Assets :

Machineries at cost	5,00,000	6,00,000
Less : Depreciation	1,50,000	1,70,000
	<u>3,50,000</u>	<u>4,30,000</u>

Current Assets :

Trade Investments	80,000	60,000
Stock	2,00,000	2,63,000
Debtors	1,06,000	1,50,000
Bank	30,000	40,000
Total Assets	<u>7,66,000</u>	<u>9,43,000</u>

During the year ended 31st March, 2019, the company—

- sold one machine for ₹30,000, the cost of which was ₹60,000 and depreciation provided on it was ₹20,000;
- sold trade investment at a profit which was credited to capital reserve;
- decided to write off machinery costing ₹10,000.

Prepare Cash Flow Statement for the year ended 31st March, 2019.

Working should form part of your answer. 12+3=15

20D/92 (Continued)

(7)

- (a) What are the conditions which must be satisfied for an amalgamation in the nature of merger? 5

- (b) Give the various Journal Entries that are to be passed in the books of transferor companies to record accounting for amalgamation. 10

Or

Balance Sheet of S Limited as at 31st March, 2019 is as under :

Equity and Liabilities :

Shareholders' Funds :

Share Capital	8,00,000
8000 Equity Shares of ₹100 each fully paid	8,00,000
3000, 5% Preference Shares of ₹100 each fully paid	3,00,000
Reserves and Surplus—Profit and Loss Account	(2,30,000)
Share Application Money Pending Allotment :	—

Non-current Liabilities :

Long-term Borrowings	
Secured Loan	50,000

Current Liabilities :

Short-term Borrowings—Bank Loan	1,05,000
Trade Payables—Sundry Creditors	1,25,000
	<u>11,50,000</u>

20D/92 (Turn Over)

(8)

Assets :	
Non-current Assets :	
Fixed Assets :	
Tangible Assets :	
Land and Buildings	4,50,000
Plant and Machinery	2,50,000
Intangible Assets :	
Goodwill	1,50,000
Patents	45,000
Current Assets :	
Current Investments	—
Inventories	1,35,000
Trade Receivables—Debtors	90,000
Cash and Cash Equivalents—Cash at Bank	30,000
	<u>11,50,000</u>

The company undertook the following schemes of reconstruction :

- Equity shares were to be reduced to shares of ₹50 each fully paid
- Preference shares were to be converted into 7% preference shares of ₹70 each fully paid
- Sundry creditors agreed to give up 1/3th of their claims provided they are paid off immediately
- 5000 equity shares of ₹50 each were to be issued for cash
- Expenses on reconstruction were to be ₹7,500

20D/92 (Continued)

(9)

- The company decided—

- (1) to write off Goodwill, Profit and Loss Account, Patents;
- (2) to write-down Plant and Machinery by ₹45,000 and Inventories by ₹20,000;
- (3) to create a provision for doubtful debts @ 5%.

Give Journal Entries and prepare Balance Sheet giving effect to the scheme of reconstruction. 9+6=15

- (a) What are the circumstances in which there may be a need for valuation of shares of a company? 6

- (b) The following particulars are available in respect of the business carried on by A Ltd. :

- Profits earned for the years :

Years	₹
2015-2016	5,00,000
2016-2017	6,00,000
2017-2018	5,50,000
2018-2019	5,30,000

- Normal rate of return—10%

- Capital employed—₹30,00,000

- Present value of an annuity of one rupee for 5 years at 10%—₹3.78

- The profits included non-recurring profits on an average basis of ₹30,000

20D/92 (Turn Over)

(10)

You are required to calculate the value of goodwill—

- as per five years purchase of superprofits;
- as per capitalization of superprofits;
- as per annuity method. 9

Or

The following are the Balance Sheets of H Ltd. and S Ltd. as at 31.12.2018 :

	H Ltd.	S Ltd.
	(₹)	(₹)

Equity and Liabilities :

Shareholders' Funds :

Share Capital :		
Equity Shares of ₹100 each	7,00,000	2,80,000
Reserves and Surplus :		
General Reserve	84,000	56,000
Profit and Loss Account	42,000	14,000

Non-current Liabilities :

10% Debentures of ₹100 each	—	1,40,000
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Current Liabilities :

Trade Payables :

Creditors	56,000	35,000
Bills Payable	16,800	11,200
Short-term Provisions	56,000	28,000
	<u>9,54,800</u>	<u>5,64,200</u>

20D/92 (Continued)

(11)

	H Ltd.	S Ltd.
	(₹)	(₹)

Assets :

Non-current Assets :

Fixed Assets :

Tangible Assets : Plant and Machinery	4,90,000	4,48,000
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Non-current Investments :

2100 shares in S Ltd.	3,02,400	—
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Current Assets :

Current Investments	—	—
Inventories—Stock	49,000	21,000

Trade Receivables :

Debtors	84,000	42,000
Bills Receivable	14,000	11,200

Cash and Cash Equivalents :

Cash in Hand	15,400	42,000
	<u>9,54,800</u>	<u>5,64,200</u>

Additional Information :

- When H Ltd. acquired the shares of S Ltd. the General Reserve and Profit and Loss Account of S Ltd. showed a balance of ₹42,000 and ₹5,600 (Dr.) respectively

20D/92 (Turn Over)

(12)

- Creditors of S Ltd. include ₹14,000 for goods supplied by H Ltd. at a profit of 20% on sales. Half of the goods were still in stock on 31.12.2018

- The bills accepted by H Ltd. were all in favour of S Ltd.

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31.12.2018. Show your workings. 15

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