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(February)

COMMERCE

(Honours)

(Corporate Accounting)

[BC-303(a)]

Marks : 75

Time : 3 hours

*The figures in the margin indicate full marks
for the questions*

1. (a) State the SEBI guidelines for buyback of shares. 7
- (b) What do you mean by Employee Stock Option Plan (ESOP)? 4
- (c) Distinguish between Premium on Debenture Account and Premium on Redemption of Debenture Account. 4

Or

The Balance Sheet of X Ltd. as on 31st March, 2020, inter alia, includes the following :

- (a) 50000, 8% Preference shares of ₹ 100 each, ₹ 70 paid-up—₹ 35,00,000
- (b) 100000 Equity shares of ₹ 100 each fully paid-up—₹ 1,00,00,000
- (c) Profit and Loss Account—₹ 5,00,000
- (d) Capital Redemption Reserve—
₹ 20,00,000
- (e) General Reserve—₹ 50,00,000

Under the terms of their issue, the Preference shares are redeemable on 30th June, 2020 at a premium of 5%. In order to finance the redemption, the company makes a rights issue of 50000 Equity shares of ₹ 100 each at ₹ 110 per share on 1st April, 2020. The issue was fully subscribed and the monies due were received by 30th June, 2020.

The Preference shares were redeemed after fulfilling the necessary conditions as laid down in the Companies Act, 2013. The company decided to make the minimum utilization of General Reserve.

You are required to pass the necessary Journal Entries and show the relevant extract of the Balance Sheet after redemption. 10+5=15

(3)

2. XYZ Ltd. was incorporated on 1-5-2020 to takeover the business of ABC & Co. from 1-1-2020. The Profit and Loss Account given by XYZ Ltd. for the year ended 31-12-2020 is as under :

Profit and Loss Account for the year ended 31-12-2020

| Particulars | ₹ | Particulars | ₹ |
|--------------------------------|-----------|--------------------------|-----------|
| To Rent and Taxes | 90,000 | By Gross Profit | 10,64,000 |
| „ Salaries | 3,31,000 | „ Interest on Investment | 36,000 |
| „ Carriage Outwards | 14,000 | | |
| „ Printing and Stationery | 18,000 | | |
| „ Interest on Debentures | 25,000 | | |
| „ Sales Commission | 30,800 | | |
| „ Bad Debts | 91,000 | | |
| „ Underwriting Commission | 26,000 | | |
| „ Preliminary Expenses | 28,000 | | |
| „ Audit Fees | 45,000 | | |
| „ Loss on Sales of Investments | 11,200 | | |
| „ Net Profit | 3,90,000 | | |
| | 11,00,000 | | 11,00,000 |

Prepare a statement showing allocation of pre-incorporation and post-incorporation profits after considering the following information : 15

- (i) Gross Profit Ratio was constant throughout the year

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(4)

- (ii) Sales of January and October were $1\frac{1}{2}$ times the average monthly sales while sales for December were twice the average monthly sales
- (iii) Bad Debts written off—a debt of ₹7,000 in respect of goods sold in July 2017
- (iv) Salaries includes Manager's salary of ₹85,000. Manager's salary was increased by ₹2,000 p.m. from 1-5-2020
- (v) All investments were sold in April 2020

Or

The following is the Trial Balance of Bee Ltd. as on 31st March, 2021 :

| Debits | ₹ | Credits | ₹ |
|-----------------------------|----------|---|----------|
| Stock on 1-4-2020 | 75,000 | Purchase Returns | 10,000 |
| Purchases | 2,45,000 | Sales | 3,40,000 |
| Wages | 30,000 | Discount | 3,000 |
| Carriage on Goods Purchased | 950 | Profit and Loss Account | 15,000 |
| Furniture | 17,000 | Share Capital (Equity shares of ₹10 each) | 1,00,000 |
| Salaries | 7,500 | Trade Creditors | 17,500 |
| Rent | 4,000 | General Reserve | 15,500 |
| Trade Expenses | 7,050 | Bills Payable | 7,000 |
| Dividend Paid | 9,000 | | |
| Trade Debtors | 27,500 | | |
| Plant and Machinery | 29,000 | | |
| Cash at Bank | 46,200 | | |
| Patents | 4,800 | | |
| Bills Receivable | 5,000 | | |
| | 5,08,000 | | 5,08,000 |

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(Continued)

(5)

Prepare a Statement of Profit and Loss as per Schedule III of the Companies Act, 2013 for the year ended 31st March, 2021 and also show how Reserves and Surplus will appear in the Balance Sheet of the company after considering the following adjustments :

12+3=15

- (i) Stock as on 31st March, 2021—₹ 88,000
- (ii) Provide for Income tax at 50%
- (iii) Depreciate Plant and Machinery at 15%; Furniture at 10% and Patents at 5%
- (iv) On 31st March, 2021, Outstanding Rent amounted to ₹ 800 and Salaries ₹ 900
- (v) The Board of Directors recommend payment of a dividend @ 15% per annum. Transfer the minimum required amount to General Reserve
- (vi) Provide ₹ 510 for Doubtful Debts
- (vii) Provide managerial remuneration at 10% on profit before tax

(6)

3. (a) Distinguish between direct and indirect methods of calculating cash flows from operating activities. 4

(b) From the following information, calculate cash flows from investing activities and financing activities : 8+3=11

| Particulars | 2019 (₹) | 2020 (₹) |
|-------------------------|-------------|-------------|
| Plant and Machinery | 6,80,000 | 8,00,000 |
| Investments (long term) | 32,000 | 80,000 |
| Land (at cost) | 1,60,000 | 80,000 |
| Equity Share Capital | 11,50,000 | 13,00,000 |
| Loan from Bank | 5,00,000 | 3,80,000 |
| 8% Debentures | — | 2,00,000 |

Additional information :

- (i) Depreciation charged on Plant and Machinery—₹ 40,000
- (ii) Plant and Machinery with a book value of ₹ 48,000 was sold for ₹ 32,000
- (iii) Land was sold at a profit of ₹ 48,000
- (iv) No investment was sold during the year

(7)

Or

- (a) Write a note on activity ratios. 5
- (b) From the following details available, prepare a Balance Sheet of ABC Ltd. as on 31st December, 2020 : 10
- | | |
|--|------------|
| Fixed Assets to net worth | 0.75 : 1 |
| Current Ratio | 5 : 2 |
| Acid-test Ratio | 3 : 2 |
| Reserves included in the Proprietor's Fund | 1 : 4 |
| Current Liabilities | ₹ 2,00,000 |
| Cash and Bank Balances | ₹ 10,000 |
| Fixed Assets | ₹ 6,00,000 |
- Difference in Balance Sheet represents long-term liabilities.

4. The Ledger balances of X Ltd. as on 31st March, 2021 are as follows :

| | ₹ |
|--|-----------|
| Fixed Assets | 7,00,000 |
| Long-term Investments | 10,000 |
| Stock and Debtors | 8,50,000 |
| Preliminary Expenses | 20,000 |
| Equity Share Capital (60% paid) | 6,00,000 |
| 10% First Debentures | 2,00,000 |
| 12% Second Debentures | 5,00,000 |
| Bank Overdraft | 50,000 |
| Trade Creditors (including Y for ₹ 8,50,000) | 11,50,000 |

(8)

₹

| | |
|---|-----------|
| Outstanding Interest for one year on both types of Debentures | 80,000 |
| Profit and Loss A/c (Debit balances) | 10,00,000 |

Due to heavy losses, the following scheme of reconstruction is agreed :

- (i) To make the existing ₹ 100 Equity shares fully paid-up and then to reduce them to ₹ 20 each
- (ii) To settle the claims of first debenture holder by issuing 2000, 13.5% Debentures of ₹ 100 each
- (iii) To discharge the claims of the second debenture holder by issuing 15%, 4000 Debentures of ₹ 100 each
- (iv) To pay ₹ 3,00,000 to Y in full settlement of his account
- (v) To allot 15000 fresh Equity shares of ₹ 20 each to discharge the remaining trade creditors
- (vi) Market value of investments is ₹ 20,000
- (vii) To write off the fictitious assets and to reduce the fixed assets

Assuming all the formalities are duly complied with, pass Journal entries to give effect to the above scheme and prepare the post-reconstruction Balance Sheet. 9+6=15

(9)

Or

- (a) Write a note on dissenting shareholders. 5
- (b) What are the conditions which must be satisfied for an amalgamation in the nature of merger? 5
- (c) The abstract of the Balance Sheet of A Ltd. as on 31st March, 2021 are as follows :

Liabilities :

| | ₹ |
|--|-----------|
| Equity Share Capital (@ ₹ 100 each) | 15,00,000 |
| 12% Preference Share Capital (@ ₹ 100 each) | 8,00,000 |
| 13% Debentures | 3,00,000 |

On 31st March, 2021, B Ltd. agreed to takeover A Ltd. on the following terms :

- (i) For each Preference share in A Ltd. ₹ 10 in cash and one 9% Preference share of ₹ 100 each in B Ltd.
- (ii) For Equity share A Ltd. ₹ 20 in cash and one Equity share of B Ltd. of ₹ 100 each. It was decided that the share in B Ltd. will be issued at market price of ₹ 140 per share
- (iii) Liquidation expenses of A Ltd. are to be reimbursed by B Ltd. to the extent of ₹ 10,000. Actual expenses amounted to ₹ 12,500

You are required to compute the amount of purchase consideration. 5

(Turn Over)

(10)

5. The following are the summarized balances of Liabilities and Assets of Das Ltd. as on 31st March, 2021 :

| Liabilities | ₹ | Assets | ₹ |
|---|----------|---------------------|----------|
| 5000 Equity Shares of ₹ 100 each fully paid | 5,00,000 | Land and Building | 2,20,000 |
| Profit and Loss A/c | 1,03,000 | Plant and Machinery | 95,000 |
| Bank Overdraft | 20,000 | Stock | 3,50,000 |
| Creditors | 77,000 | Debtors | 1,55,000 |
| Provision for Taxation | 45,000 | | |
| Proposed Dividend | 75,000 | | |
| | 8,20,000 | | 8,20,000 |

The net profits of the company after deducting all working charges and providing for depreciation and taxation were as follows :

| Year ended 31st March | 2021 | 2020 | 2019 | 2018 | 2017 |
|-----------------------|--------|----------|--------|----------|--------|
| Profit (₹) | 90,000 | 1,05,000 | 85,000 | 1,01,000 | 85,000 |

On 31st March, 2021, Land and Buildings were valued at ₹ 2,65,000 and Plant and Machinery at ₹ 1,35,000.

In view of the nature of the business, it is considered that 10% is a reasonable return on tangible capital.

You are required to value the company's share on net assets after taking into consideration the revised value of Fixed Assets and Goodwill based on five years' purchase of the super profits based on the average profit of last five years.

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(Continued)

Or

H Ltd. acquired 4000 Equity shares of S Ltd. on 1-1-2020. The Balance Sheet of S Ltd. as on 31-12-2020 were as follows :

Balance Sheets of H Ltd. and S Ltd. as on 31st December, 2020

| Particulars | Note | H Ltd. ₹ | S Ltd. ₹ |
|---|------|-----------------|-----------------|
| I. Equity and Liabilities : | | | |
| (1) Shareholders' Fund : | | | |
| (a) Share Capital : | | | |
| 50000 Equity shares of ₹ 10 each fully paid | | 5,00,000 | — |
| 5000 Equity shares of ₹ 10 each fully paid | | — | 50,000 |
| (b) Reserve and Surplus : | | | |
| General Reserve (1-1-2020) | | 1,00,000 | 20,000 |
| Profit and Loss A/c | | 1,00,000 | 25,000 |
| (2) Share Application Money Pending Allotment | | | |
| (3) Non-current Liabilities | | | |
| (4) Current Liabilities : | | | |
| Trade Payable—Sundry Creditors | | 50,000 | 5,000 |
| <i>Total</i> | | <u>7,50,000</u> | <u>1,00,000</u> |
| II. Assets : | | | |
| (1) Non-current Assets : | | | |
| (a) Fixed Assets : | | | |
| Tangible Assets— | | | |
| Plant | | 2,90,000 | 40,000 |
| Furniture | | 1,50,000 | 9,000 |
| (b) Non-current Investment : | | | |
| 4000 Equity shares in S Ltd. | | 60,000 | — |
| (2) Current Assets : | | | |
| (a) Inventories | | | |
| (b) Trade Receivables | | 70,000 | 15,000 |
| (c) Cash and Cash Equivalents | | 60,000 | 6,000 |
| <i>Total</i> | | <u>7,50,000</u> | <u>1,00,000</u> |

On 1-1-2020, the Profit and Loss A/c of S Ltd. showed a credit balance of ₹ 10,000. On the same date, the Plant and Furniture of S Ltd. were revalued at ₹ 60,000 and ₹ 8,000 respectively. These were not incorporated in the books. Depreciation is charged on Plant @ 20% p.a. and on Furniture @ 10% p.a. (assume no addition to nor any disposal for Plant and Furniture was made during the current year).

Prepare a Consolidated Balance Sheet as on 31-12-2020.

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