

3/H-76 (ix) (a) (Syllabus-2019)

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(November)

COMMERCE

(Honours)

[BC-303 (a)]

(Corporate Accounting)

(Under Revised Syllabus)

Marks : 75

Time : 3 hours

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

1. (a) What do you mean by Employee Stock Option Plan? Discuss in detail. 5
- (b) What do you mean by buy back of shares? Explain. 4
- (c) What is Debenture Redemption Reserve? How long Debenture Redemption Reserve Account stays in the books? What is the accounting treatment for creating Debenture Redemption Reserve? 2+2+2=6

Or

The following balances are extracted from the books of XY Ltd. :

3500, 12% Redeemable Preference Shares of ₹ 100 each, fully paid

14000 Equity Shares of ₹ 10 each, fully paid

General Reserve ₹ 2,45,000

Profit and Loss A/c ₹ 1,05,000

The preference shares are redeemed at a premium of 10%. For this purpose, the company makes the following issues :

- (i) 17500 Equity Shares of ₹ 10 each at a premium of 10%
- (ii) 3500, 7% Debentures of ₹ 10 each, and the company sells its investments for ₹ 2,00,000 (Book value ₹ 90,000)
- (iii) The company also issues bonus shares, one share being issued for every four shares held.

You are required to show the journal entries showing transactions relating to the redemption of shares and the relevant extracts in the liabilities side of the Balance Sheet after such redemption.

9+6=15

2. A company has an authorised capital of ₹ 5,00,000 divided into 5000 equity shares of ₹ 100 each. On 31.03.2023, 2500 shares were fully called up.

The following are the balances extracted from the ledger of the company as on 31.03.2023 :

	₹
Inventory	50,000
Sales	4,25,000
Purchases	3,00,000
Wages (Productive)	70,200
Discount allowed	4,200
Discount received	3,150
Insurance up to 30.06.2023	6,720
Salaries	18,500
Rent	6,000
General expenses	8,950
Profit & Loss Account (CR)	6,220
Printing and Stationery	2,400
Advertisement	3,600
Bonus	10,500
Accounts receivable	38,700
Accounts payable	35,200
Plant and machinery	80,500
Furniture	17,100
Cash and bank balance	1,34,700

	₹
Reserve	25,000
Loan from managing director	15,700
Bad debts	3,200
Calls-in-arrear	5,000

You are required to prepare statement of Profit and Loss for the year ended 31.03.2023 and a Balance Sheet as at that date after considering the following adjustments :

9+6=15

- (i) Closing inventory—₹ 91,500
- (ii) Depreciation to be charged on plant and furniture at 15% and 10% respectively
- (iii) Outstanding liabilities—Wages at ₹ 5,200, Salary at ₹ 1,200 and Rent at ₹ 600
- (iv) Dividend on paid up share capital is to be provided @ 5%

Or

- (a) X Ltd. which was incorporated on May 1, 2022 to acquire a business from January 1, 2022. The first accounts were closed on September 30, 2022 :

The Gross Profit for the period was
₹ 1,05,000

Details of other expenses :

General expenses ₹ 18,000

Directors' remuneration ₹ 30,000

Preliminary expenses ₹ 5,000

Rent up to June 30 was ₹ 15,000 after which it was increased by 40%

Salary of the manager, who on formation of the company had become whole-time director and whose remuneration has been agreed upon at ₹ 12,750 per annum included above

The company earned a uniform Gross Profit

The sales up to September 2022 were ₹ 2,45,000

The monthly average sales for the first four months of the year was one-half of the remaining period

Prepare a statement showing pre-incorporation and post-incorporation profits. 12

(b) What do you mean by 'profit prior to incorporation'? 3

3. (a) What is the significance of Activity Ratios? 3

(b) From the following details, make out the Balance Sheet with as many details as possible : 12

(i) Stock velocity—6

(ii) Capital turnover ratio—2

(iii) Fixed assets turnover—4

(iv) Gross profit ratio—20%

(v) Debtors velocity—2 months

(vi) Creditors velocity—73 days

The gross profit was ₹ 1,50,000. Reserve and Surplus amounts to ₹ 50,000. Closing stock was ₹ 12,500 in excess of opening stock.

Or

The Balance Sheets of HP Ltd. are given below :

<i>Particulars</i>	<i>Note No.</i>	<i>31.12.2021 ₹</i>	<i>31.12.2022 ₹</i>
I. EQUITY AND LIABILITIES :			
(1) Shareholders' Funds :			
(a) Share Capital-Equity			
Share of ₹ 10 each		12,00,000	14,00,000
(b) Reserves and Surplus :			
General Reserve		4,00,000	5,00,000
Profit on sale of Investment		—	20,000
Profit and Loss Account		1,70,000	3,80,000
(2) Share Application Money Pending Allotment			
		—	—
(3) Non-current Liabilities :			
Long-term Borrowings 7% Debentures		6,00,000	4,00,000
(4) Current Liabilities :			
(a) Trade Payables :			
Creditors for Expenses		20,000	24,000
Creditors for Goods Supplied		3,20,000	5,00,000
(b) Short-term Provisions :			
Proposed Dividend		60,000	70,000
Provision for Taxation		1,40,000	1,50,000
Total		<u>29,10,000</u>	<u>34,44,000</u>

<i>Particulars</i>	<i>Note No.</i>	<i>31.12.2021 ₹</i>	<i>31.12.2022 ₹</i>
II. ASSETS :			
(1) Non-current Assets :			
(a) Fixed Assets :			
Tangible Assets at cost		20,00,000	24,00,000
Less : Accumulated Depreciation		<u>4,00,000</u>	<u>5,00,000</u>
		16,00,000	19,00,000
(b) Non-current Investment		<u>3,60,000</u>	<u>3,60,000</u>
		19,60,000	22,60,000
(2) Current Assets :			
(a) Inventories at cost		4,00,000	5,40,000
(b) Trade Receivables :			
Sundry Debtors		4,50,000	4,90,000
Bills Receivable		80,000	1,30,000
(c) Other Current Assets :			
Prepaid Expenses		20,000	24,000
Total		<u>29,10,000</u>	<u>34,44,000</u>

Additional Information :

- (i) During the year 2022, fixed assets (valued at ₹ 20,000 depreciation written-off ₹ 6,000) was sold for ₹ 16,000
- (ii) Debentures were redeemed at a premium of 10% in 2022
- (iii) Liability for taxation for 2021 came to ₹ 1,10,000

You are required to prepare Cash Flow Statement as per AS-3.

4. The following is the Balance Sheet of A Co. Ltd. as on 1st April, 2023 :

Balance Sheet of A Co. Ltd. as on 1st April, 2023

<i>Particulars</i>	<i>Note No.</i>	<i>Amount ₹</i>
I. EQUITY AND LIABILITIES :		
(1) Shareholders' Funds		
(a) Share capital—2000 Equity Shares of ₹ 100 each		2,00,000
(b) Reserves and Surplus :		
General Reserve		50,000
Profit and Loss Account		20,000
(2) Share Application Money Pending Allotment :		—
(3) Non-Current Liabilities :		
12% Debentures		1,00,000
(4) Current Liabilities :		
Trade Payable		30,000
	Total	<u>4,00,000</u>
II. ASSETS :		
(1) Non-Current Assets :		
Fixed Assets :		
(a) Tangible Assets :		
Land and Building		1,50,000
Plant and Machinery		83,000
(b) Intangible Assets—Goodwill		50,000
(2) Current Assets :		
(a) Inventories		35,000
(b) Debtors		32,000
(c) Cash at Bank		50,000
	Total	<u>4,00,000</u>

B Co. Ltd. agreed to take over the assets exclusive of cash at 10% less than the book values and to pay ₹ 75,000 for goodwill

B Co. Ltd. also agreed to take over debentures

The purchase consideration was to be discharged by issue of 1950 equity shares of ₹ 100 each at a premium of 10% and the balance in cash. The cost of liquidation amounted to ₹ 3,000

You are required to show journal entries in the books of A Co. Ltd. and in the books of B Co. Ltd.

9+6=15

Or

(a) A public limited company passed the necessary resolution and received sanction of the Tribunal for the reduction of its share capital by ₹ 5,00,000 for the purposes enumerated hereunder :

- (i) To write-off the debit balance of Profit and Loss Account of ₹ 2,10,000
- (ii) To reduce the value of Plant and Machinery by ₹ 90,000 and to write off Goodwill ₹ 40,000
- (iii) To reduce the value of Investment to market value by writing-off ₹ 80,000. The reduction was made by converting 50000 equity shares

of ₹ 20 each, ₹ 15 paid-up into 50000 equity shares of ₹ 5 each fully paid.

Give Journal Entries necessary in relation to the reduction of share capital and show how you would deal with the balance of the reduction of Share Capital Account.

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(b) What do you mean by External Reconstruction? Also distinguish it with internal reconstruction. 2+3=5

5. (a) The average net profit (before making any adjustment for valuation of goodwill) was ₹ 24,16,000 including ₹ 16,000 as income from investment. The cost of investment (as also its present value) was ₹ 3,20,000. Probable future reduction in expenditure ₹ 40,000 p.a. Rate of income tax 30 paise in a rupee. 10% represents a fair commercial return. The average tangible capital employed was ₹ 1,07,32,800 but, upon valuations obtained, the capital employed was found to be ₹ 1,15,20,000.

Assess the value of the business taking goodwill at 5 years' purchase of super-profits.

8

(b) Explain the yield method of valuation of shares. Illustrate your answer with an example.

7

Or

H Ltd. acquired as investment 15000 shares in S Ltd. for ₹ 1,55,000 on 1st July, 2022. The Balance Sheets of the two companies on 31st March, 2023 were as follows :

<i>Particulars</i>	<i>Note No.</i>	<i>H Ltd. ₹</i>	<i>S Ltd. ₹</i>
I. EQUITY AND LIABILITIES :			
(1) Shareholders' Funds :			
(a) Share Capital-Equity			
Shares of ₹ 10 each		9,00,000	2,50,000
(b) Reserves and Surplus :			
General Reserve		1,60,000	40,000
Profit and Loss Account		80,000	25,000
(2) Share Application Money :			
Pending Allotment		—	—
(3) Non-current Liabilities :			
Pending Allotment		—	—
(4) Current Liabilities :			
Trade Payables :			
Creditors		50,000	30,000
Bills Payable		40,000	20,000
Total		12,30,000	3,65,000
II. ASSETS :			
(1) Non-current Assets :			
(a) Fixed Assets :			
Tangible Assets :			
Machinery		7,00,000	1,50,000
Furniture		1,00,000	70,000
(b) Non-current investments			
15000 Equity Shares in S Ltd.		1,55,000	

<i>Particulars</i>	<i>Note No.</i>	<i>H Ltd. ₹</i>	<i>S Ltd. ₹</i>
(2) Current Assets :			
(a) Inventories		1,00,000	50,000
(b) Trade Receivables :			
Debtors		60,000	35,000
Bills Receivable		25,000	20,000
(c) Cash and Cash Equivalents		90,000	40,000
Total		<u>12,30,000</u>	<u>3,65,000</u>

The following additional information is provided to you :

- (i) General reserve appearing in the balance sheet of S Ltd. has remained unchanged since 31st March, 2022
- (ii) Profit earned by S Ltd. for the year ended 31st March, 2023 amounted to ₹ 20,000
- (iii) On 1st February, 2023, H Ltd. sold to S Ltd. goods costing ₹ 8,000 for ₹ 10,000. 25% of these goods remained unsold with S Ltd. on 31st March, 2023. Creditors of S Ltd. include ₹ 4,000 due to H Ltd. on account of these goods
- (iv) Out of S Ltd. acceptances, ₹ 7,000 are those which were accepted in favour of H Ltd.

You are required to draw a consolidated Balance Sheet as on 31st March, 2023. 15

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