

3/H-76 (ix) (a) (Syllabus-2015)

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*

1. (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 |

(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

2. 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 :

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

(3)

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

- (iii) 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

(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 :

- (i) To pay dividend on preference shares
- (ii) To pay final dividend @ 20% to equity shareholders

20D/92

(Continued)

(5)

(iii) 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

3. (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 | <u>1,50,000</u> | <u>1,70,000</u> |
| | 3,50,000 | 4,30,000 |
| 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)

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

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

11,50,000

20D/92

(Turn Over)

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 :

- (i) Equity shares were to be reduced to shares of ₹50 each fully paid
- (ii) Preference shares were to be converted into 7% preference shares of ₹70 each fully paid
- (iii) Sundry creditors agreed to give up $\frac{1}{5}$ th of their claims provided they are paid off immediately
- (iv) 5000 equity shares of ₹50 each were to be issued for cash
- (v) Expenses on reconstruction were to be ₹7,500

(vi) 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

5. (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. :

(i) 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 |

- (ii) Normal rate of return—10%
- (iii) Capital employed—₹30,00,000
- (iv) Present value of an annuity of one rupee for 5 years at 10%—₹3.78
- (v) The profits included non-recurring profits on an average basis of ₹30,000

(10)

You are required to calculate the value of goodwill—

- (i) as per five years purchase of superprofits;
- (ii) as per capitalization of superprofits;
- (iii) as per annuity method.

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 |
| 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> |

(Continued)

(11)

| | H Ltd. (₹) | S Ltd. (₹) |
|---------------------------------------|-----------------|-----------------|
| Assets : | | |
| Non-current Assets : | | |
| Fixed Assets : | | |
| Tangible Assets : Plant and Machinery | 4,90,000 | 4,48,000 |
| Non-current Investments : | | |
| 2100 shares in S Ltd. | 3,02,400 | — |
| 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 :

- (i) 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

(ii) 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

(iii) 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

★ ★ ★