

2018

(October)

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) Distinguish between Capital Redemption Reserve A/c and Debenture Redemption Reserve A/c. 6

- (b) What do you mean by buyback of shares? Explain briefly the legal requirements for buyback of shares. 9

Or

- (a) The following are the Assets and Liabilities of X Ltd. as on 31.03.2018 :

<i>Liabilities</i>		₹
100000 Equity Shares of ₹ 10 each		10,00,000
5000, 8% Redeemable Preference Shares of ₹ 100 each		5,00,000
Security Premium A/c		1,00,000

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(2)

<i>Liabilities</i>		₹
General Reserve		7,50,000
Profit & Loss A/c		2,00,000
Creditors		3,50,000
		<u>29,00,000</u>
<i>Assets</i>		
Land and Building		5,00,000
Plant and Machinery		10,00,000
Investment at cost		3,00,000
Stock		4,70,000
Debtors		4,00,000
Bank		2,30,000
		<u>29,00,000</u>

On 01.04.2018 the company decided to redeem the preference shares at a premium of 5%. To finance the redemption, the investments were sold and it realized ₹ 2,80,000. The company also issued 10000 equity shares of ₹ 10 each. The company made a bonus issue of 1 equity share of ₹ 10 each for every 2 shares held as on 31.03.2018.

Pass Journal Entries to give effect to the above arrangements. 10

- (b) Distinguish between Bonus share and Right issue. 5

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2. A Ltd. was incorporated on 01.07.2017 to take over as from 01.04.2017 the business of Vijay Traders. The purchase consideration was ₹ 7,00,000 and the vendors received half of it in cash on 01.10.2017 with interest at 10% p.a. On the same date for the other half of the purchase consideration 3500 fully paid up shares of ₹ 100 each were allotted. The following balances appeared in the company's Ledger as on 31.03.2018 :

<i>Dr.</i>	₹	Cr.
Cash	12,000	Share Capital :
Salary	48,000	Share Capital 4500 shares of
Land & Building	1,80,000	₹ 100 each
Furniture	50,000	(including
Stock (01.04.2017)	4,20,000	vendor's shares) 4,50,000
Debtors	95,000	Rent 13,000
Rates and Taxes	7,000	Creditors 2,30,000
Repair	3,000	Bank Overdraft 35,000
Carriage Outward	22,000	Sales 9,10,000
Director's Fee	10,400	
Interest to Vendors	17,500	
Purchase	7,70,000	
Goodwill	3,100	
	<u>16,38,000</u>	<u>16,38,000</u>

The stock as on 31.03.2018 was ₹ 4,80,000. Bad debts amounted to ₹ 1,000 out of which ₹ 500 related to book debts taken over by the

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company. Provision for doubtful debts is to be provided at ₹ 5,000. Tangible fixed assets are to be depreciated by 10%.

You are required to prepare a statement of Profit and Loss of A Ltd. and to compute the profit prior to incorporation. Assume that the turnover is to be spread evenly over the year but the sale for the month of May and June was only half of the average sale and that of October was twice the average sale. 15

Or

From the following Trial Balance of A Ltd., prepare a Balance Sheet as on 31.03.2018 as per Schedule III of the Companies Act, 2013 :

<i>Dr.</i>	₹	Cr.
Goodwill	70,000	Creditors 27,500
Trademarks	10,000	Provision for Taxation 15,000
Capital Work in Progress	75,000	Proposed Dividend 42,500
Cash	50,000	Bills Payable 45,000
Stock	1,00,000	Outstanding Expenses 20,000
Bank	60,000	Money Received against Share Warrants 15,000
Bills Receivable	40,500	Share Application Money Pending 40,000
Prepaid Salary	15,000	
Investment in Govt. Securities	2,00,000	
Marketable Securities	50,000	
Motor Vehicle	92,000	

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<i>Dr.</i>	₹	Cr.
Machinery	2,50,000	Deferred Tax Liability 50,000
Building	3,50,000	Share Capital 5,00,000
		10% Debenture 1,50,000
		Outstanding Interest on Debenture 7,500
		Securities Premium 40,000
		Capital Redemption Reserve 60,000
		General Reserve 1,00,000
		Profit & Loss A/c 2,50,000
	<u>13,62,500</u>	<u>13,62,500</u>

3. (a) Explain in brief the area of interest for investors and management while analysing the financial statement. 5

- (b) Prepare a Summarized Balance Sheet from the particulars furnished hereunder : 10

Stock Velocity—6 times
Gross Profit Margin—20%
Amount of Gross Profit—₹ 60,000
Capital Turnover Ratio—2 times
Fixed Asset Turnover Ratio—4 times
Debtors Collection Period—2 months
Creditors Payment Period—73 days

The Closing Stock was ₹ 5,000 more than the Opening Stock. Difference in Balance Sheet represents bank balance.

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Or

From the following Liabilities and Assets of a company as on 31.03.2017 and 31.03.2018, prepare a Cash Flow Statement : 15

<i>Equity and Liabilities</i>	31.03.2017	31.03.2018
	₹	₹
Equity Share Capital	2,00,000	2,60,000
Profit & Loss A/c	44,690	46,220
General Reserve	30,000	45,000
Provision for Tax	65,000	50,000
Bills Payable	44,280	11,660
Creditors	78,510	41,000
	<u>4,62,480</u>	<u>4,53,880</u>
<i>Assets</i>		
Bank	2,500	2,700
Debtors	87,490	73,360
Stock	1,11,000	97,300
Land	1,48,500	1,44,250
Machinery	1,12,990	1,36,270
	<u>4,62,480</u>	<u>4,53,880</u>

Additional Information :

- (i) Assets of another company was purchased for ₹ 60,000 payable in fully paid up shares of the company. The assets purchased were ₹ 21,640 and machinery ₹ 38,360

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- (ii) Additional machinery costing ₹ 5,640 was also purchased for cash

- (iii) Income tax paid during the year was ₹ 45,000

- (iv) During the year there was no sale of Land and Machinery

4. (a) Distinguish between External reconstruction and Internal reconstruction of company. 7

- (b) State briefly the legal provision regarding alteration of share capital. 8

Or

The following is the Summarized Balance Sheets of X Ltd. and Y Ltd. as on 31.03.2018 :

<i>Equity and Liabilities</i>	X Ltd.	Y Ltd.
	₹	₹
Equity Share Capital (₹ 10 per share)	5,00,000	2,00,000
8% Preference Share Capital (₹ 100 per share)	1,00,000	1,00,000
9% Debenture	1,00,000	1,00,000
General Reserve	20,000	10,000
Creditors	60,000	30,000
	<u>7,80,000</u>	<u>4,40,000</u>

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<i>Assets</i>	X Ltd.	Y Ltd.
	₹	₹
Goodwill	40,000	15,000
Building	2,00,000	1,00,000
Machinery	3,00,000	1,50,000
Stock	2,10,000	1,65,000
Cash at Bank	30,000	10,000
	<u>7,80,000</u>	<u>4,40,000</u>

X Ltd. absorbs Y Ltd. on the following terms :

- (i) Equity shareholders of Y Ltd. are to be given 6 equity shares of ₹ 10 of X Ltd. issued at a premium of 10% against each 5 share surrendered

- (ii) 8% preference shareholders of Y Ltd. are to be paid at 10% premium by 9% preference share of ₹ 10 of X Ltd. issued at par

- (iii) 9% debenture holders are to be paid at 8% preference by 10% debentures of X Ltd. issued at 10% discount

- (iv) ₹ 5,000 cash is retained by Y Ltd. for liquidation expenses

- (v) Buildings of Y Ltd. are to be taken over for ₹ 1,50,000

Show Journal Entries in the books of X Ltd. and also prepare Balance Sheet of X Ltd. after acquisition. 15

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(9)

5. (a) Distinguish between Intrinsic value and Market value of share. 3

- (b) Following are the Liabilities and Assets of X Ltd. as on 31.03.2018 :

<i>Liabilities</i>	₹	Assets	₹
Share Capital (₹ 10 per share)	1,00,000	Land	77,000
General Reserve	50,000	Machinery	70,000
Provision for Tax	20,000	Debtors	40,000
Profit & Loss A/c	30,000	Bank	25,000
Bills Payable	20,000		
Creditors	40,000		
	<u>2,60,000</u>		<u>2,60,000</u>

Find out the value of shares of the company on their intrinsic basis as well as yield basis after taking into consideration the following : 12

Machinery is worth ₹ 60,000; Land is worth ₹ 1,30,000 and Goodwill ₹ 1,00,000 as valued by an independent valuer. Out of debtors ₹ 5,000 is considered to be bad. The profits for the last 3 years were ₹ 50,000; ₹ 60,000 and ₹ 70,000 respectively. It is a practice of the company to transfer 20% of the profits to reserve. Shares of similar companies quoted in the stock exchange yield 12% on their market value.

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(10)

Or

Prepare Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. from the Summarized Balance Sheets of H Ltd. and S Ltd. as on 31.03.2018 : 15

<i>Liabilities</i>	H Ltd.	S Ltd.
	₹	₹
Preference Share Capital	1,00,000	40,000
Equity Share Capital (₹ 100 per share)	11,00,000	2,00,000
Reserves	4,00,000	1,40,000
Profit & Loss A/c	2,00,000	50,000
Creditors	3,00,000	1,00,000
Proposed Dividend	—	40,000
	<u>21,00,000</u>	<u>5,70,000</u>
<i>Assets</i>		
Goodwill	20,000	10,000
Machinery	6,00,000	1,80,000
Furniture	1,00,000	34,000
Investment in S Ltd.	3,20,000	—
Current Assets	10,60,000	3,46,000
	<u>21,00,000</u>	<u>5,70,000</u>

Additional Information :

- (i) H Ltd. acquired 1600 shares in S Ltd. on 01.04.2017

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- (ii) On the date of acquisition of shares, the reserve of S Ltd. stood at ₹ 40,000 and the Profit & Loss A/c showed a credit balance of ₹ 30,000

- (iii) Machinery (book value ₹ 2,00,000) of S Ltd. was revalued at ₹ 3,00,000 by H Ltd.

- (iv) Furniture (book value ₹ 40,000) of S Ltd. was revalued at ₹ 30,000 by H Ltd.

- (v) S Ltd. made a bonus issue during the year out of pre-acquisition profits for ₹ 40,000 which was not recorded in the books

- (vi) Included in the creditors of S Ltd. is ₹ 20,000 for goods supplied by H Ltd.

- (vii) Also included in the stock of S Ltd. are goods of the value of ₹ 8,000 which were supplied by H Ltd. at a profit of 25% of sale

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