

Reg. No. :

Code No. : 20469 E Sub. Code : SMCO 51

B.Com. (CBCS) DEGREE EXAMINATION,
NOVEMBER 2019.

Fifth Semester

Commerce – Main

CORPORATE ACCOUNTING – I

(For those who joined in July 2017 onwards)

Time : Three hours

Maximum : 75 marks

PART A — (10 × 1 = 10 marks)

Answer ALL questions.

Choose the correct answer :

1. Issuing shares at a price higher than the face value
 - (a) Premium
 - (b) Discount
 - (c) Par
 - (d) Goodwill
2. Usually shares of the company can be issued by way of
 - (a) Private placements
 - (b) Rights issue
 - (c) Public issue
 - (d) All of these

The Land and Building have been valued at Rs. 6,50,000 and the Plant and Machinery is worth Rs. 2,50,000. Debtors to the extent of Rs. 20,000 are to be considered bad. The profit of the company for the last three years have been 2004 – Rs. 2,20,000, 2005 – Rs. 2,30,000 and 2006 – Rs. 2,60,000. It is the practice of the company to transfer 25% of the profits to reserve. Ignoring taxation, find out the value of shares. Similar companies give a yield of 10% on the market value of their shares. Goodwill is taken to be of value at Rs. 4,00,000.

Or

- (b) The following information is given for a business carried on by Haisan :
- (i) Capital employed Rs. 1,50,000
 - (ii) Normal rate of profit 10%
 - (iii) Present value of annuity of rupee 1 for five years at 10% 3.78 and
 - (iv) Net profit for five years 2008 Rs. 14,400; 2009 = 15,400; 2010 = 16,900; 2011 = 17,400 and 2012 = 17,900.

The profit included the non recurring profits on an average basis of Rs. 1,000 out of which it was deemed that even non recurring profits had a tendency of appearing at the rate of Rs. 600 per annum. You are required to calculate goodwill (1) as per annuity method. (2) as per five years purchase of super profit and (3) as per capitalization of super profit method.



3. CDT in company account is termed as
 - (a) Corporate dividend tax
 - (b) Company dividend tax
 - (c) Corporate debentures tax
 - (d) Company dividend tariff
4. Profit available to shareholders for distribution of dividend is
 - (a) Gross profit
 - (b) Net profit
 - (c) Divisible profit
 - (d) PAT
5. Two liquidation and one formation lead to
 - (a) Merger
 - (b) Takeover
 - (c) Reconstruction
 - (d) Reorganization
6. One company taking the business of another company
 - (a) Amalgamation
 - (b) Absorption
 - (c) Reconstruction
 - (d) Reorganization
7. Profit earned before incorporation of company is
 - (a) Revenue profit
 - (b) Capital profit
 - (c) Current profit
 - (d) New profit

Page 2 Code No. : 20469 E

8. In profit prior to incorporation, the gross profit is allocated in the
 - (a) Time ratio
 - (b) Sales ratio
 - (c) Direct method
 - (d) Any of these
9. If the purchase consideration is higher than the value of net tangible assets, it will lead to
 - (a) Goodwill
 - (b) Capital reserve
 - (c) Capital profit
 - (d) New value of the company
10. Fresh valuation of shares are undertaken on reason of
 - (a) Amalgamation
 - (b) Absorption
 - (c) Reconstruction
 - (d) All of these

PART B — (5 × 5 = 25 marks)

Answer ALL questions, choosing either (a) or (b).
Each answer should not exceed 250 words.

11. (a) Give a brief note on the features of equity shares. Features of equity shares — part of capital, bought and sold in stock exchanges. no cumulative right to dividend, voting power. rights issue. etc..

Or

Page 3 Code No. : 20469 E



(b) Alfro Ltd 3,000 equity shares of Rs. 10 each fully called up, held by Mr. Haisan for nonpayment of final call at Rs. 4.00 each. He has, however paid the application money of Rs. 2.00 and allotment money of Rs. 4.00 per share. The shares were originally issued at par. Give journal entry for forfeiture of these shares.

12. (a) Beauty Company has a paid up equity share capital of Rs. 15,00,000 divided into shares of Rs. 10 each and preference share capital of Rs. 5,00,000 divided into 5,000 shares of Rs. 100 each. The balance of profit brought forward from the previous balance sheet was Rs. 38,000. The profit for the year ended 31st March 2018 amounted to Rs. 5,80,000 after tax. The Directors proposed a dividend of 24% on equity capital, After the following provisions ; Statutory minimum transfer to general reserve and provision on dividend on preference shares; You are required to prepare profit and loss appropriation account.

Or

(b) Give a brief note on :

- (i) Proposed dividend
- (ii) Interim dividend
- (iii) Final dividend.

13. (a) Write a brief note on various methods of purchase consideration.

Or

(b) R Ltd is absorbed by V Ltd, the consideration being the takeover of liabilities. The payment of cost of absorption not exceeding Rs. 20,000 (actual cost 17,000) the payment of debentures of Rs. 1,00,000 at a premium of 10% in 9% debentures issued at par. The payment of Rs. 16 per share in cash and allotment of one 14% preference shares of Rs. 10 each and 6 equity shares of Rs. 10 each fully paid for every 4 shares in R Ltd., the number of shares of the vendor company are 2,00,000 of Rs. 10 each. Calculate purchase consideration.

14. (a) Rajesh Ltd., was registered on 1st July 2010 to acquire the running business of Ramesh and Co with effect from 1st January 2010. The following was the profit and loss account of the company on 31st December 2010.

| Particulars | Amount | Particulars | Amount |
|---------------------------|----------|-----------------|-----------|
| To Office expenses | 5,40,000 | By Gross profit | 22,50,000 |
| To Formation expenses | 1,00,000 | | |
| To postage and stationery | 50,000 | | |



| Particulars | Amount | Particulars | Amount |
|---------------------|------------------|-------------|------------------|
| To Selling expenses | 6,00,000 | | |
| To Director's fees | 2,00,000 | | |
| To Net profit | 7,60,000 | | |
| | <u>22,50,000</u> | | <u>22,50,000</u> |

You are required to prepare a statement showing profit earned by the company in the pre and post incorporation periods. The total sales for the year with the ratio of 1 : 2 before and after incorporation respectively.

Or

- (b) What are the steps to be followed in ascertaining pre and post incorporation profit.
15. (a) Allen Ltd. had an equity share capital comprising of 1,00,000 equity shares of Rs. 10 each fully paid. 2,00,000 equity shares of Rs. 10 each Rs. 7.50 paid and 1,00,000 equity shares of Rs. 10 each Rs. 5.00 each paid. The net assets available to the equity share holders are of the value of Rs. 60,00,000. Compute the intrinsic value of the equity shares into shares of each category.

Or

- (b) What are the various methods of valuation of goodwill?

PART C — (5 × 8 = 40 marks)

Answer ALL questions, choosing either (a) or (b)
Each answer should not exceed 600 words.

16. (a) ABC Ltd issued prospectus inviting application for 20,000 equity shares of Rs. 10 each, payable as to application Rs. 3.00, on allotment Rs. 3.00, on first and final call Rs. 2.00 each. The company received all the money towards the shares. Pass journal entries.

Or

- (b) A company has 40,000 12% redeemable preference shares of Rs. 100 each fully paid. The company decides to redeem the shares on 31st December 2009 at a premium of 5%. The company makes the following issue :

- 10,000 equity shares of Rs. 100 each at a premium of 10%
- 10,000 14% debentures of Rs. 100 each

The issue was fully subscribed and all the amounts were received. The redemption was duly carried out as there was sufficient profit in the company. Give the necessary journal entries.



17. (a) Moon and Star Co. Ltd is a company with an authorized capital of Rs. 5,00,000 dividend into 5,000 equity shares of Rs. 100 each on 31.12.2003 of which 2,500 shares were fully called up. The following are the balances extracted from the ledger as on 31.12.2003.

Trial balances of Moon & Star Co. Ltd

| Debit | Rs. | Credit | Rs. |
|--------------------------|----------|-----------------------------|----------|
| Opening stock | 50,000 | Sales | 3,25,000 |
| Purchases | 2,00,000 | Discount received | 3,150 |
| Wages | 70,000 | Profit and Loss a/c | 6,220 |
| Discount allowed | 4,200 | Creditors | 35,200 |
| Insurance (Upto 31.3.04) | 6,720 | Reserve | 25,000 |
| Salaries | 18,500 | Loan from managing director | 15,700 |
| Rent | 6,000 | Share capital | 2,50,000 |
| General expenses | 8,950 | | |
| Printing | 2,900 | | |
| Advertisements | 3,800 | | |
| Bonus | 10,500 | | |
| Debtors | 38,700 | | |
| Plant | 1,80,000 | | |
| Furniture | 17,100 | | |
| Bank | 34,700 | | |

| Debit | Rs. | Credit | Rs. |
|------------------|-----------------|--------|-----------------|
| Bad debts | 3,200 | | |
| Calls-in-arrears | 5,000 | | |
| | <u>6,60,270</u> | | <u>6,60,270</u> |

You are required to prepare Profit & loss Account for the year ended 31.12.2003 and a balance sheet as on that date. The following further information is given :

- Closing stock was valued at Rs. 1,91,500
- Depreciation on plant at 15% and on furniture at 10% should be provided
- A tax provision of Rs. 8,000 is considered necessary
- The directors declared an interim dividend on 15.8.03 for 6 months ending June 30, 2003 @ 6%.

Or

- Draft a pro forma of company final accounts with proper format.

18. (a) The balance sheet of Smart Ltd is as under :

| Liabilities | Amount | Assets | Amount |
|---|----------|-------------|--------|
| Issued share capital 10,000 Rs. 10 each | 1,00,000 | Goodwill | 10,000 |
| 1,00,000, 7% preference of Rs. 10 each | 1,00,000 | Fixed asset | 90,000 |



| | |
|---------------------|-----------------|
| Stock in trade | 25,000 |
| Debtors | 30,000 |
| Profit and Loss a/c | 45,000 |
| <u>2,00,000</u> | <u>2,00,000</u> |

It was resolved that shares of Rs. 10 each be reduced to fully paid shares of Rs. 6 each and 7% preference shares of Rs. 10 each be reduced to 7.5% fully paid preference shares of Rs. 7 each. Number of shares in each case remained same. It was further resolved that amount available to be used for writing off the debt balance of profit and loss account, goodwill account completely and other fixed assets as far as possible. There were arrears of preference dividend for the last three years and it was decided that be cancelled. You are required to make journal entries and prepare the revised balance sheet.

Or

- (b) On 31st March, 2009. Thin Ltd. was absorbed by Thick Ltd., the later taking over all the assets and liabilities of the former at book values. The consideration for the business was fixed Rs. 4,00,000 to be discharged by the transferee company in the form of its fully paid equity shares of Rs. 10 each to be distributed among the shareholder's of the transferor company, each shareholders getting two shares for every share held in the transferor company. The balance sheets of the two companies as on 31st March, 2009 stood as under: (Rs. '000)

Page 10 Code No. : 20469 E

| Liabilities | Thick Ltd | Thin Ltd | Assets | Thick Ltd | Thin Ltd |
|--|------------------|-----------------|---------------------|------------------|-----------------|
| Share capital : Authorized issued and subscribed | 15,00,000 | 5,00,000 | Goodwill | 2,00,000 | 60,000 |
| Equity shares of Rs. 10 each fully paid | 9,00,000 | 2,00,000 | Plant and Machinery | 4,12,000 | 1,00,000 |
| General Reserve | 1,80,000 | 50,000 | Furniture | 80,000 | 30,000 |
| Profit and Loss account | 20,502 | 12,900 | Income Tax refund | - | 6,000 |
| Workmen's compensation fund | 12,000 | 9,000 | Stock in trade | 2,65,500 | 60,000 |
| Sundry creditors | 58,567 | 30,456 | Sundry debtors | 2,21,200 | 46,000 |
| Staff provident fund | 10,200 | 4,000 | Prepaid insurance | - | 700 |
| Provision for taxation | 12,300 | 5,000 | Cash in hand | 869 | 356 |
| | | | Cash at Bank | 14,000 | 8,300 |
| | <u>11,93,569</u> | <u>3,11,356</u> | | <u>11,93,569</u> | <u>3,11,356</u> |

Amalgamation expenses amounting to Rs. 1,000 were paid by Thick Ltd. You are required to: Prepare realization account and equity shareholder's account in the books of Thin Ltd. Pass the necessary journal entries in the books of Thick Ltd and prepare the balance sheet of Thick Ltd. after the amalgamation in the nature of merger.

Page 11 Code No. : 20469 E



19. (a) Australia Company issued 20,000 shares of Rs. 10 each at par which were underwritten as follows : X 4,000 shares: Y 2,000 shares and Z 10,000 shares. Applications were received for 18,000 shares which include marked applications as follows : X 4,000 : Y 2,000 and Z 10,000 shares. You are required to prepare a statement showing how many more shares underwriters will have to take.

Or

- (b) The business carried on by Hassain Bolt was taken over as a running business with effect from 1st July 2016 by North East Ltd., Which was incorporated on 1st October 2016. The same set of books was continued since there was no change in the type of business and the following particulars of profit for the year ended June 2017 were available.

| Particulars | Amount | Amount |
|---|--------|--------|
| Company period sales | 40,000 | 50,000 |
| Prior period sales | 10,000 | |
| Selling price | 2,000 | |
| Preliminary expenses written off | 1,200 | |
| Salaries | 3,600 | |
| Directors fee | 1,200 | |
| Interest upto 30 th Sep 2016 | 700 | |
| Variable expenses | 1,500 | |

| | | |
|-----------------|--------|--------|
| Depreciation | 2,800 | |
| Rent | 4,800 | |
| Purchases | 25,000 | |
| Carriage inward | 1,019 | 43,819 |
| Net profit | | 6,181 |

The purchase price (including carriage inward) for the company period had increased by 10 percent as compared to pre-incorporation period. No stocks were carried either at the beginning or at the end. You are required to draw up a statement showing the amount of pre and post incorporation profits stating the basis of allocation of expenses.

20. (a) The following is the balance sheet of Aswin Ltd as on 31st December 2006 :

| Liabilities | Amount | Assets | Amount |
|------------------------------------|------------------|----------------------|------------------|
| Share capital shares of Rs. 5 each | 5,00,000 | Land and Building | 3,00,000 |
| General reserve | 1,50,000 | Plant and Machinery | 3,00,000 |
| Profit and loss account | 80,000 | Trade marks | 50,000 |
| Workmen savings account | 75,000 | Stock | 1,20,000 |
| Creditors | 2,45,000 | Debtors | 2,00,000 |
| Taxation reserve | 1,00,000 | Cash at bank | 1,50,000 |
| | | Preliminary expenses | 30,000 |
| | <u>11,50,000</u> | | <u>11,50,000</u> |

