STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086
(For candidates admitted during the academic year 2019-20 and thereafter)

COURSE CODE: 19AF/MC/CR44

B.Com. DEGREE EXAMINATION - APRIL 2022
ACCOUNTING AND FINANCE
FOURTH SEMESTER

COURSE : MAJOR – CORE
PAPER : CORPORATE ACCOUNTING AND RESTRUCTURING
TIME : 3 HOURS **MAX. MARKS: 100**

SECTION-A

Answer ALL questions: **(10x2=20)**

1. State any three conditions to be satisfied for Amalgamation in the nature of Merger.
2. What are Super-profits?
3. Write a note on Minority Interest.
4. Distinguish between External and Internal Reconstruction.
5. Who are Preferential Creditors?
6. Calculate goodwill on the basis of four years purchase of average profit if profits for the years ending 2014, 2015 and 2016 were Rs.63,000, Rs.65,500 and Rs.75,000. A non-recurring income of Rs. 8,250 is included in the profit of 2014. The closing stock for the year 2015 was overvalued by Rs. 2,500.

7. H Ltd. purchased 75% of shares in S Ltd. on 1.9.2013. On 31.12.2013, the Balance Sheet of S Ltd. showed General Reserve balance on 1.1.2013 Rs. 80,000.Profit earned during 2013 Rs. 1,40,000 and Preliminary expenses not written off Rs.5,000. Calculate capital profits.

8. Compute Liquidator's remuneration from the following: Secured creditors Rs.60,000 (securities realized Rs.80,000), other assets realized Rs.75,000. Liquidator's remuneration is 2.5% on amount realized.

9. A subsidiary has a capital of Rs. 10,00,000 in Rs. 100 each out of which holding company acquired 70% of the shares at Rs. 12,00,000. The profit of the subsidiary on the date of acquisition was Rs. 6,00,000. Calculate Cost of Control.

10. S Ltd. has decided to go for a reconstruction scheme by reducing 22,000 equity shares of Rs.100 each into Rs.50 each so as to write off the accumulated losses of Rs.10,70,000. Give journal entries.

SECTION-B

Answer any FIVE questions: **(5x8=40)**

11. The ledger balances of Triumph Ltd as on 31st March 2018 are:
Fixed assets Rs.13,40,000, Investments Rs.10,000, stock and debtors Rs.8,50,000, goodwill Rs.20,000, Equity share capital (Rs.100 each) Rs.10,00,000, 10% debentures Rs.7,00,000, Bank overdraft Rs.50,000, trade creditors Rs.11,50,000, outstanding debenture interest Rs.80,000, Profit and loss account Rs.7,60,000 (Dr).

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

a. To reduce the equity share capital to Rs.20 each.
b. To settle the claims of debenture holders (along with interest) by issuing 6,000 15% debentures of Rs.100 each.
c. To reduce the claims of creditors by one-half.
d. To increase investments to its market value of Rs.20,000.
e. To write off the fictitious and intangible assets and to write down the value of fixed assets to the extent possible.

Assuming all formalities are duly complied with, pass the journal entries to give effect to the above scheme and prepare Capital Reduction a/c.

12. The Balance sheets of S Ltd and M Ltd. as on 31.3.2015 are given below:

Liabilities	**S Ltd**	**M Ltd.**	**Assets**	**S Ltd**	**M Ltd.**
Issued Capital in Rs.10 shares	1,20,000	1,00,000	Fixed Assets	44,000	84,000
			Investment in M Ltd.	88,000	-
General Reserve	20,000	36,000	Debtors	6,000	15,000
Profit and Loss a/c	12,000	20,000	Bills receivable	4,000	16,000
Bills Payable	2,000	5,000	Stock	10,000	40,000
Current Liabilities	4,000	7,000	Cash at Bank	6,000	13,000
	1,58,000	**1,68,000**		**1,58,000**	**1,68,000**

8,000 shares were purchased by S Ltd. on 1.8.2014. At the beginning of the year, the General Reserve and Profit and Loss account of M Ltd. stood at Rs.30,000 and Rs.10,000 respectively. At the time of purchase, fixed assets of M Ltd. was revalued at Rs.1,08,000. Unrealised profit included in stock of S Ltd. was Rs.2,000. Calculate cost of control and minority interest.

13. Following is the balance sheet of Abel Ltd. as on 31st March 2013:

Liabilities	**Rs.**	**Assets**	**Rs.**
2,000 7% Preference shares of Rs.100 each fully paid	2,00,000	Machinery	4,80,000
		Furniture	20,000
4,000 Equity shares of Rs.100 each fully paid	4,00,000	Stock	2,40,000
		Debtors	4,80,000
4,000 Equity shares of Rs.100 each , Rs.75 paid	3,00,000	Cash at Bank	1,00,000
		Profit and Loss a/c	8,00,000
Bank Loan (pledge on stock)	2,00,000		
Creditors	10,00,000		
Income tax payable	20,000		
	21,20,000		**21,20,000**

The company went into liquidation on April 1, 2013. The assets realised as follows: Machinery Rs.3,32,000, Furniture Rs.16,000, Stock Rs.2,20,000, Debtors Rs.4,60,000.Liquidation expenses paid Rs.3,000. The liquidator is entitled to commission 1% of amount realized (including cash) and 2% on amount paid to unsecured creditors including preferential creditors. A call of Rs.20 on partly paid shares was made but the amount on 100 shares was found to be irrecoverable. Prepare Liquidator's Final Statement of Account.

14. The net profits of the business for the five years ended 31st December 2018 were Rs.78,500, Rs.92,350, Rs.1,11,200, Rs.91,900 and Rs.1,04,200. Mr. Santhosh did not draw a salary from the business profits. On revaluation, the values of fixed assets are as follows: Buildings Rs.1,45,000, Furniture Rs.1,500, and motor vehicle Rs.15,000. Assuming the fair managerial remuneration for the proprietor's services to be Rs.1,000 p.m. and 12% is the fair return on investment, calculate the amount of goodwill by capitalizing super profits.

The Balance Sheet of Mr. Santhosh as on 31st December 2018 was as under:

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital	1,50,000	Buildings	1,20,000
Trade Creditors	85,000	Furniture	1,000
Income tax payable	30,000	Motor vehicle	9,500
		Stock	35,000
		Debtors	69,500
		Cash	30,000
	2,65,000		**2,65,000**

15. From the following information, calculate the value per equity share:

	Rs.
10,000 8% Preference shares of Rs.100 each	10,00,000
80,000 Equity shares of Rs.10 each, Rs. 9 per share paid up	7,20,000
Expected profits before tax	5,20,000
Rate of tax	50%
Transfer to General Reserve	10% of profits
Normal rate of earnings	10%

16. Compute Goodwill as per Annuity method:
Average capital employed Rs.14,00,000. Normal rate of profit is 10%. Profit for 2016 Rs.1,62,000, 2017 Rs.1,59,000 and 2018 Rs.1,66,000.
Profit for 2017 was after writing off abnormal loss of Rs.12,000 and profit for 2018 includes non-recurring income of Rs.13,000. The present value of Re.1 annuity for 3 years @10% return is Rs.2.48.

17. The business of M Trades Ltd. is purchased by R Co. Ltd. The purchase consideration is discharged as follows:
    a. A payment of cash of Rs.20 for every share in M Trades Ltd.
    b. A further payment in cash of Rs.55 for every debenture in M Trades Ltd.(paid to debenture holders)
    c. An exchange of 3 shares in R Co. Ltd of Rs.10 each for every share in M Trades Ltd.
    The balance sheet of M Trades Ltd stood as follows on the date of purchase:

Liabilities	Rs.	Assets	Rs.
800 shares of Rs.50 each	40,000	Buildings	15,000
120 8% debentures of Rs.50 each	6,000	Machinery	20,000
Capital Redemption Reserve	4,000	Furniture	1,000
Creditors	4,200	Stock	10,000
Profit and Loss a/c	1,000	Debtors	9,000
		Cash	200
	55,200		**55,200**

Calculate purchase consideration and prepare Realization account.

SECTION-C

Answer any TWO questions: **(2x20=40)**

18. The Balance Sheets of P Ltd and its subsidiary Q Ltd. on 31st March 2016 were as follows:

Liabilities	P Ltd	Q Ltd.	Assets	P Ltd	Q Ltd.
Equity shares of Rs.10 each	2,00,000	5,00,000	Land and Buildings	6,00,000	-
General Reserve	3,00,000	1,00,000	Plant and Machinery	2,00,000	-
Profit and Loss a/c	9,00,000	4,50,000	Furniture	90,000	1,80,000
Creditors	3,00,000	3,00,000	30,000 shares in Q Ltd.	6,50,000	
Bank Overdraft	2,00,000		Stock	4,00,000	7,50,000
Bills Payable	1,50,000		Debtors	1,00,000	2,00,000
			Cash in hand	10,000	15,000
			Bills Receivable		1,00,000
			Cash at Bank		1,05,000
	20,50,000	**13,50,000**		**20,50,000**	**13,50,000**

The shares were acquired by P Ltd. on 1st October 2015. The General Reserve of Q Ltd. was Rs.1,00,000 and Profit and Loss a/c Rs.2,00,000 on 1/4/2015. Bills payable of P Ltd. are all payable to Q Ltd. Included in debtors of Q Ltd. is a sum of Rs.50,000 owing by P Ltd. in respect of goods supplied by Q Ltd. Half of these goods are still lying with P Ltd. Q Ltd. charged a profit of cost plus 25% on these goods. A dividend of 10% was paid by Q Ltd. for the year 2014-15 and was credited to Profit and Loss a/c of P Ltd.
Prepare the Consolidated Balance Sheet as on 31/3/2016.

19. The following information was extracted from the books of a limited company on 31st March 2015 on which date a winding up order was made:

	Rs.
Equity share capital - 20,000 shares of Rs.10 each	2,00,000
14% Preference share capital - 30,000 shares of Rs.10 each	3,00,000
Calls in arrears on equity shares (estimated to realize Rs.2,000)	4,000

14% First Mortgage Debentures secured by a floating charge on the whole of the assets of the company) (interest paid to date)	2,00,000
Creditors having a mortgage on Freehold Land and Buildings	85,000
Creditors having a second charge on Freehold Land and Buildings	90,000
Trade Creditors	2,70,000
Unclaimed dividends	6,000
Bills Payable	10,000
Income tax due	25,000
Salaries and Wages (for five months)	40,000
Bank Overdraft secured by a second charge on the whole of the assets	20,000
Cash in hand	1,200
Debtors (Good Rs.60,000, doubtful Rs.15,000 estimated to realize Rs.5,000 and the remaining will be bad)	90,000
Bills receivable (considered good)	35,000
Freehold Land and Buildings (Estimated to realize Rs.1,65,000)	1,50,000
Plant and Machinery (estimated to realize Rs.90,000)	1,20,000
Fixtures and Fittings (estimated to produce Rs.8,000)	12,000
Stock in trade (estimated to produce 25% less)	80,000
Patents (estimated to produce Rs.45,000)	70,000
General Reserve	65,000

Bills discounted (of these bills for Rs.15,000 are expected to be dishonoured) Rs.40,000.
In 2011-12, the company earned a profit of Rs.1,43,000 but thereafter it suffered losses of Rs.4,67,000 and Rs.1,13,400.
In 2013, there was a stock market loss of Rs.91,000. Income tax authorities had imposed a penalty of Rs.1,60,000 for 2011 and Rs.60,400 in 2012 for tax evasion.
Prepare the Statement of Affairs and Deficiency account.

20. X Co. Ltd. absorbed the business of Y Co. Ltd. as a going concern as at 30th June 2012, the assets and liabilities of the latter company on that date being as under:

Liabilities		Assets	
Equity shares of Rs.10	3,00,000	Goodwill	50,000
5% Preference shares		Land & Buildings	2,00,000
of Rs.100	1,00,000	Plant & Machinery	1,00,000
Sundry Creditors	30,000	Sundry Debtors	50,000
Bills Payable	50,000	Stock	30,000
		Cash at Bank	35,000
		Preliminary expenses	5,000
		Profit and Loss a/c	10,000
	4,80,000		**4,80,000**

The terms of agreement were:

a. That for every 10 equity shares of Y Ltd., X Ltd. issues 12 fully paid equity shares of Rs.10 each and paid Rs.1 in cash for each share
b. That, the preference shareholders of Y Ltd. were paid at a premium of 5% by the issue of 6% preference shares of X Ltd. at par
c. That, all assets and liabilities were taken over except cash to the extent of Rs.3,000 which was left for meeting realization expenses
d. That, Plant and Machinery were only revalued at Rs.1,83,000, other assets and liabilities remaining at their book values.

You are required to give the closing journal entries in the books of Y Ltd. and opening journal entries in the books of X Ltd.

21. The Balance Sheet of Kiran Ltd. as at 31st March 2019 was as follows:

Liabilities	**Rs.**	**Assets**	**Rs.**
20,000 Equity shares of Rs.100	20,00,000	Machinery	2,00,000
12% Debentures	4,00,000	Stock	6,40,000
Accrued Interest	48,000	Debtors	5,40,000
Creditors	1,44,000	Bank	60,000
Provision for income tax	48,000	Profit and Loss a/c	12,00,000
	26,40,000		**26,40,000**

It was decided to reconstruct the company and it was decided that:

a. Each share be sub-divided into ten fully paid equity shares of Rs.10 each.
b. After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and creditors as necessary
c. Out of shares surrendered, 10,000 shares of Rs.10 each shall be converted into 12% preference shares of Rs.10 each fully paid up.
d. The claims of debenture holders shall be reduced by 75%. In consideration thereof, they will receive preference shares of Rs.1,00,000 which are converted out of shares surrendered.
e. Creditors claim shall be reduced to 50% to be settled by the issue of equity shares of Rs.10 each out of the shares surrendered.
f. Balance of profit and loss account to be written off. The surrendered shares not reissued shall be cancelled.

Show the journal entries to give effect to the above and the Balance sheet after reconstruction.

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