

STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2019-2020 and thereafter)

B.Com. DEGREE EXAMINATION NOVEMBER 2023
COMMERCE
FIFTH SEMESTER

COURSE : MAJOR CORE
PAPER : CORPORATE ACCOUNTING
SUBJECT CODE : 19CM/MC/CA54
TIME : 3 HOURS **MAX. MARKS: 100**

SECTION A

Answer ALL questions.

(10 x 2 = 20 marks)

1. What is Financial Reporting?
2. Distinguish between internal and external reconstruction.
3. Mention any two advantages of Cash flow statement.
4. List out the four methods of computing Purchase Consideration.
5. What is Super Profit?
6. S.Ltd. was taken over by R. Ltd. The following position was mutually agreed upon:

	S ltd. Rs.	R ltd. Rs.
No. of shares	60,000	90,000
Face value of share	100	10
Net assets	3,60,00,000	72,00,000

Ascertain the Intrinsic values of the shares.

7. Calculate the amount of goodwill on the basis of three years purchase of the last five year's average profits. The profits for the last five years are:

	Rs.
I year	4,800
II year	7,200
III year	10,000
IV year	3,000
V year	5,000

8. Ratan ltd. having a share capital of Rs.3,00,000 divided into 3,000 shares of Rs.100 each, resolves to sub-divide the shares into 30,000 shares of Rs.10 each. Pass the necessary journal entry.

9. From the following particulars, compute the value per equity share under Net assets method:

Total assets at market value	:	Rs. 49,80,000
Total Outside Liabilities	:	19,00,000
2,00,000 Equity shares of Rs10 each	:	20,00,000

10. Calculate the Net cash flow from financing activities from the following details:

Issue of Debentures for cash	20,00,000
Long term Loan from Bank	5,00,000
Redemption of Preference shares	6,00,000
Purchase of Land	9,00,000

SECTION B

Answer any FIVE questions.

(5 x 8 =40 marks)

11. The following is the balance sheet of Quality Traders Ltd., as at 30th April 2018.

Liabilities	Rs.	Assets	Rs.
Share capital	2,28,000	Fixed assets	1,80,000
Reserve	80,000	Current assets	2,44,080
Creditors	76,080	Investment in shares	60,000
	4,84,080		4,84,080

The following net profits were earned which included a fixed income from investment of Rs.4,000 p.a.

Year ended 30th April 2015 - Rs. 64,000

Year ended 30th April 2016 - Rs. 72,000

Year ended 30th April 2017 - Rs. 86,000

Year ended 30th April 2018 - Rs. 90,000

Standard rate of return on capital employed in such type of business is 8%.

Compute the amount of goodwill of the above business at three years purchase of the average super profits for four years assuming that each year's profit was fully distributed as dividend among the shareholders. Use weighted average for calculating average profits.

12. The following is the summarized Balance sheet of a company as at 31.12.2017

Liabilities	Rs.	Assets	Rs.
Share capital: 10,000 5% pref. Shares of Rs.100 each fully paid	10,00,000	Fixed Assets	38,00,000
2,00,000 equity shares of Rs.10each fully paid	20,00,000		
General reserve	15,00,000	Investments	10,25,000
Profit & Loss a/c	12,00,000	Stock-in-trade	5,72,000
6% debentures	8,00,000	Sundry debtors	12,78,000
Sundry creditors	2,75,000	Cash at bank	2,25,000
Outstanding expenses	1,25,000		
	69,00,000		69,00,000

For the purpose of valuation of shares, fixed assets are to be depreciated by 10% and investments are to be revalued at Rs.10,80,000. Debtors will realise Rs.12,14,100.

Interest on debentures is accrued due for 9 months and preference dividend for 2017 is also due; neither of these has been provided for in the Balance sheet.

Calculate the value of each equity share.

13. The following is the Balance sheet of X Ltd. As on 31.3.2016.

Liabilities	Rs.	Assets	Rs.
Share capital: 2,00,000 shares of Rs.10each	20,00,000	Land & Buildings	10,00,000
General Reserve	2,50,000	Plant & Machinery	15,00,000
Dividend equalisation reserve	2,00,000	Furniture	25,000
Profit & Loss A/c	51,000	Stock	6,00,000
12% Debentures	10,00,000	Work-in-progress	3,00,000
Sundry creditors	3,00,000	Sundry debtors	2,50,000
		Cash at Bank	1,26,000
	38,01,000		38,01,000

The company was absorbed by A ltd. on the above date. The consideration for the absorption is the discharge of the debentures at a premium of 5%, taking over the liability in respect of sundry creditors and a payment of Rs. 7 in cash and one share of Rs.5 in A ltd. at the market value of Rs.8 per share for every share in X ltd. The cost of liquidation of Rs.15,000 is to be met by the purchasing company.

Close the books of X Ltd., and pass the journal entries in the books of X Ltd.

14. X Ltd. employs a manager who is entitled to a salary of Rs.40,000 per month, and in addition to a commission of Rs.2% of the net Profit of the company before such salary or commission.

Information for the company's financial year ending 31st March 2019 is as follows:

	Rs. (in 000)		Rs. (in 000)
To General Expenses	1,260	By Gross Profit b/d	12,200
To Staff salaries and Bonus	2,740	By Subsidy from the Govt.	500
To Ex-Gratia to Employees	80	By Profit on sale of Machinery and Plant(Difference between price realised and WDV)	800
To Charitable Donation	200		
To Depreciation	1,100		
To Manager's salary	480		
To Commission to manager(on account)	100		
To Income Tax	3,700		
To Net Profit	3,840		
	<u>13,500</u>		<u>13,500</u>

The amount realised on sale of machinery and plant was Rs.32Lacs while the cost was Rs.30 Lacs. The Company has provided depreciation as per schedule II. Calculate commission payable to the manager.

15. The following scheme of reconstruction has been approved for Divya ltd.

i. The shareholders to receive in lieu of their present holding of 60,000 shares of Rs.10 each fully paid the following:

- Fully paid new equity shares equal shares equal to 1/3 rd of their holding.
- 8% preference shares fully paid, to the extent of 1/5th of the above new equity shares.
- Rs. 60,000 8% secured debentures.

- ii. The debenture holders total claim of Rs.75,000 to be reduced to Rs.25,000.
This will be satisfied by the issue of 2,500 8% preference shares of Rs.10 each fully paid.
- iii. An issue of Rs.50,000 6% first debentures was made and allotted, payment for the same having been received in cash.
- iv. The goodwill which stood at Rs. 3,00,000 was written down to Rs.50,000. Plant & Machinery which stood at Rs.1,00,000 was written down to Rs.75,000.
- v. The freehold premises which stood at Rs.1,75,000 was written down by Rs.75,000.
Give journal entries in the books of Divya Ltd for the above reconstruction scheme.

16. Following is the balance sheet of Samy Ltd. As on 31-03-2014

Liabilities	Rs.	Assets	Rs.
Share capital: 8% Preference shares of Rs.100 each.	3,75,000	Fixed assets	16,25,000
Equity shares of Rs.10 each	7,50,000	Investment	3,00,000
General Reserve	4,50,000	Current Assets	2,50,000
7% Debentures	3,50,000		
Current liabilities	2,50,000		
	21,75,000		21,75,000

Romy Ltd. agreed to takeover the business of Samy Ltd.

A) Calculate purchase consideration under Net assets method on the basis of the following:

- i. Romy Ltd. agreed to discharge 7% debentures at a premium of 10% by issuing 9% debentures of Romy Ltd.
- ii. Fixed assets are to be valued at 10% above book value, the investments at par, current assets at 10% discount and current liabilities at book value.

B) Calculate purchase consideration under Net payments method on the basis of the following:

- i. Romy Ltd. agrees to discharge the 7% debentures at a premium of 10% by issuing 9% debentures of Romy Ltd.
- ii. Preference shares are discharged at a premium of 10% by issuing 10% preference shares of Rs. 100 each in Romy Ltd.
- iii. For every 2 equity shares in Samy Ltd. 3 equity shares of Rs.10 each in Romy Ltd. Will be issued in addition to cash payment of Rs.3 per equity share in Samy Ltd.

17. Ascertain operating profit before working capital changes from the following details:

	Rs.
Net profit before Tax and extraordinary items	2,00,000
Dividend received on Long term investment in shares	40,000
Interest received on Long term investment in debentures of Other companies	30,000
Goodwill written off	20,000
Discount on issue of shares written off	10,000
Preliminary expenses written off	25,000
Depreciation charged on Fixed Assets	65,000
Profit on Sale of equipment	10,000
Loss on sale of Long term investments	8,000

SECTION C**Answer any TWO questions.****(2 x 20 =40 marks)**

18. From the following Balance sheets of Ponni Ltd., make out the statement of cash flow.

Balance sheet

Liabilities	2019 Rs.	2020 Rs.	Assets	2019 Rs.	2020 Rs.
Equity share capital	3,00,000	4,00,000	Goodwill	1,15,000	90,000
8% Redeemable pref. Share capital	1,50,000	1,00,000	Land & Building	2,00,000	1,70,000
General reserve	40,000	70,000	Plant	80,000	2,00,000
P & L a/c	30,000	48,000	Debtors	1,60,000	2,00,000
Proposed dividend	42,000	50,000	Stock	77,000	1,09,000
Creditors	55,000	83,000	Bills receivable	20,000	30,000
Bills payable	20,000	16,000	Cash in hand	15,000	10,000
Provision for taxation	40,000	50,000	Cash at bank	10,000	8,000
	6,77,000	8,17,000		6,77,000	8,17,000

Additional Information

- Depreciation of Rs. 10,000 and Rs.20,000 have been charged on plant account and land and buildings account respectively in 2020.
- An interim dividend of Rs.20,000 has been paid in 2020.
- Income tax Rs.35,000 was paid during the year 2020.

19. On 31st Dec. 2018 the Balance Sheet of a company was as follows:

Liabilities	Rs.	Assets	Rs.
10,000 equity shares of Rs. 100 each, fully paid	10,00,000	Land & Buildings	4,40,000
Profit & Loss a/c	2,00,000	Plant & machinery	1,90,000
Creditors	1,80,000	Stock	7,00,000
Provision for tax	1,00,000	Debtors	3,00,000
Provision dividend	1,50,000		
	<u>16,30,000</u>		<u>16,30,000</u>

The net profits of the company after providing for taxation were: 2014 - Rs.1,70,000; 2015 - Rs.1,92,000; 2016 - Rs.1,80,000; 2017 - Rs.2,00,000; 2018 - Rs.1,90,000.

On 31st Dec. 2018 Land & Buildings were revaluated at Rs.5,00,000. Plant & Machinery at Rs.3,00,000 and debtors at 10% less. In view of the nature of the business it is considered 10% is a reasonable return on investment.

Calculate the value of company's shares, valuing goodwill at five year's purchase of the annual super profits.

20. Following was the trial balance of ABC Trading Co. Ltd. as on 31st March,2020.

Particulars	Dr.(Rs)	Cr.(Rs)
Inventories on 1 April,2019	30,000	
Buildings	1,50,000	
Purchases	1,00,000	
Sales		1,80,000
Return	5,000	4,000
Production wages	20,000	
Carriage Inwards	1,500	
Carriage Outwards	900	
Discounts	1,200	1,000
Salaries	2,600	
Rent	1,650	
Commission		1,200
General Expenses including insurance	5,500	
Profit& Loss A/c (1April,2019)		12,000
Interim Dividend paid	9,900	
Capital (2,000 shares of Rs.100 each)		2,00,000
Calls in arrear	2,000	
Debtors and Creditors	50,000	20,300
Plant and Machinery	87,750	
Cash in hand and at bank	800	
10% Debentures		50,000
Interest paid on debentures	2,500	
Debenture Redemption fund		10,000
Preliminary Expenses	7,200	
	4,78,500	4,78,500

Prepare statement of Profit & Loss Statement and Balance Sheet in proper form after making adjustment:

1. Closing inventories was valued at Rs.40,000.
2. Trade receivables include Rs.1,000 as advance for expenses.
3. Provide 5% on Provision for doubtful debts and also provide 2% discount on Debtors and Creditors.
4. One month's rent at Rs.1,800 per annum was due on 31st march,2020.
5. Insurance was paid on 1.10.2019 for a period of one year Rs.2,000.
6. Write off preliminary expenses.
7. The director's decided to transfer Rs.5,000 to general reserve and recommended final dividend of 10% on share capital.

21. Following a series of losses, XYZ Co. Ltd., resolved to reduce its capital to 50,000 fully paid Rs.5 shares and to eliminate share premium account. The company's Balance sheet prior to implementation of the scheme was:

Liabilities	Rs.	Assets	Rs.
Share capital: 50,000 fully paid shares of Rs.10 each	5,00,000	Goodwill	1,00,000
Securities premium a/c	50,000	Land & Building	1,62,000
Creditors	62,000	Plant & Machinery	2,07,000
Bank overdrafts	73,000	Stock	92,000
		Debtors	74,000
		Profit & Loss A/c	50,000
	6,85,000		6,85,000

It was resolved to apply the sum available under the scheme:

- i. To write off the goodwill account.
- ii. To write off the debit balance of the Profit & Loss account
- iii. To reduce the book values of the assets by the following amount:

Land & Building	42,000
Plant & Machinery	67,000
Stock	33,600
- iv. To provide a bad debts reserve of 10% of the book value of debtors.

Show the journal entries to give effect to the scheme and prepare the revised balance sheet after its implementation.
