

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

B.Com. DEGREE EXAMINATION, NOVEMBER 2024
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. State the need for valuation of goodwill.
2. Distinguish between internal and external reconstruction.
3. What are surrendered shares?
4. Write a short note on purchase consideration.
5. Under what category, the following items will be shown in the Balance sheet of a company?
 - a. Security Premium
 - b. Goodwill
 - c. Prepaid Expenses
 - d. Proposed Dividend
6. Goodwill is to be valued at three years purchase of five years average profits. The profits for the last five years of the firm were
2020 : Rs. 10,500; 2021 : Rs. 12,000; 2022 : Rs. 15,000; 2023 : Rs. 18000;
2024 : Rs. 20,500; Calculate the goodwill.
7. Hydra Ltd. has the following shares as a part of their share capital:
10,000 Equity shares of Rs 5 each fully paid
5,000 Preference shares of Rs 100 each fully paid
The company decided to alter the share capital as follows:
 - i. To consolidate equity shares of Rs 5 each to Rs 10 each
 - ii. To sub-divide the preference shares into shares of Rs 10 each.Journalise.
8. Compute the amount of tax paid during 2022.

Provision for tax on 01-01-2022	Rs. 50,000
Provision for tax on 31-12-2022	Rs. 40,000
Tax debited to P&L appropriation a/c	Rs. 60,000

How the tax will be shown in the cash flow statement?
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9. From the following particulars compute value per equity share under Net Assets method.

Total assets in market value	Rs. 49,80,000
Total external liabilities	Rs. 19,00,000
2,00,000 equity shares of Rs 10 each	Rs. 20,00,000

10. A Ltd agreed to absorb B Ltd. The purchase consideration was as under
- For every 6, 10% Preference shares of Rs 10 each in B Ltd 5 Equity shares of Rs.10 each in A Ltd at Rs .8 paid up. There were 60,000, 10% Preference shares in B Ltd.
 - For every 6 Equity shares of Rs .10 each in B Ltd, 8 Equity shares in A Ltd as Rs 10 paid up. There were 10,000 Equity shares in B Ltd.
Calculate purchase consideration.

SECTION B

Answer any FIVE questions.

(5 x 8 =40 marks)

11. Calculate the managerial remuneration from the following particulars of X Ltd. due to the managing director of the company.

Net profit	Rs. 2,00,000
Net profit is calculated after considering the following:	
i) Depreciation	40,000
ii) Preliminary expenses	10,000
iii) Tax provision	3,10,000
iv) Director's fees	8,000
v) Bonus	15,000
vi) Profit on sale of fixed assets (original cost Rs.20,000; written down value Rs.11,000)	15,500
vii) Provision for doubtful debts	9,000
viii) Scientific research expenditure (for setting up new machinery)	20,000
ix) Managing Director's remuneration paid	30,000
other information: -	
a. Depreciation allowable under Companies Act	35,000
b. Bonus liability as per Payment of Bonus Act 1965	18,000

12. The balance sheet of R Co. Ltd. as on 31/12/2022 was as follows

Liabilities	Rs.	Assets	Rs.
Share capital 20,000 shares of Rs. 10 each	2,00,000	Land and Buildings	1,68,000
Profit & Loss A/c.	40,000	Plant and Machinery	1,20,000
Debentures	30,000	Furniture	10,000
Current Liabilities		5% tax free Govt. bonds	40,000
Creditors	40,000	Stock	4,000
Provision for tax	18,000	Debtors	12,000
Proposed Dividend	30,000	Cash	4000
	<u>3,58,000</u>		<u>3,58,000</u>

The net profits of the company after charging depreciation and taxes were as follows:

- a. 2018 Rs. 34,000, 2019 Rs. 38,000, 2020 Rs. 36,000, 2021 Rs. 40,000, 2022 Rs. 38,000

- b. On 31/12/2022, land and buildings were revalued at Rs 1,90,000, plant and machinery at Rs 1,42,000, furniture at Rs 8,000.
- c. 10% represents a fair commercial value on investments in company.
Calculate the value of goodwill based on 5 years' purchase of average super profits.

13. The balance sheet of M/s. Black and White as on 1.1.2022 and 31.12.2022 were as follows:

Liabilities	1.1.2022	31.12.2022	Assets	1.1.2022	31.12.2022
	₹	₹		₹	₹
Capital	1,25,000	1,53,000	Machinery	80,000	55,000
Bank loan	25,000	-	Land	40,000	50,000
Loan from Canara Bank	40,000	50,000	Buildings	35,000	60,000
Creditors	40,000	44,000	Cash	10,000	7,000
			Debtors	30,000	50,000
			Stock	35,000	25,000
	<u>2,30,000</u>	<u>2,47,000</u>		<u>2,30,000</u>	<u>2,47,000</u>

- a) NP for the year amounted to Rs. 45,000.

Prepare the cash flow statement.

14. The following is the Balance sheet of Rainbow ltd

Liabilities	2018 Rs.	Assets	2018 Rs.
Equity Share Capital (Rs. 100)	3,30,000	Goodwill	60,000
6% Preference Share Capital (Rs. 100)	2,50,000	Buildings	1,00,000
Debenture	1,20,000	Plant	2,00,000
Creditors	1,00,000	Stock	1,50,000
Bills Payable	50,000	Debtors	60,000
		Cash	20,000
		Preliminary Expenses	10,000
		Profit and Loss account	2,50,000
	<u>8,50,000</u>		<u>8,50,000</u>

- Preference shares are to be reduced to 8% Preference shares of Rs 60 each
 - Equity shares are to be reduced by Rs 80 each
 - The amount thus made available to be utilised to write off fictitious assets and goodwill.
 - Reconstruction Scheme expenses were Rs 5,000
- Give journal entries for reconstruction and the Balance sheet.

15. The following is the Balance Sheet of Sharan Ltd as on 31st December 2019 :

Liabilities	Rs.	Assets	Rs.
Share Capital 6,000 6% preference shares of Rs. 100 each	6,00,000	Goodwill	45,000
12,000 equity shares of Rs. 100 each	12,00,000	Land and Building	6,00,000
8% debentures	3,00,000	Plant and Machinery	9,00,000
Bank Overdraft	3,00,000	Stock	1,30,000
Sundry Creditors	1,50,000	Debtors	1,40,000
		Patent	15,000
		Profit & Loss A/c	7,00,000
		Preliminary expenses	20,000
	25,50,000		25,50,000

On the above date, the company adopted the following scheme of reconstruction:

- The equity shares are to be reduced to shares of Rs. 40 each fully paid and the preference shares to be reduced to fully paid shares of Rs. 60 each
 - The debenture holders took over stock and debtors in full satisfaction of their claims
 - The Land and Buildings to be appreciated by 30% and Plant & Machinery to be depreciated by 30%
 - The fictitious and intangible assets are to be eliminated
- Give journal entries incorporating the above scheme of reconstruction.

16. Compute cash from operating activities from the following figures:

- Profit for the year 2020 is Rs.10,000 after providing depreciation of Rs.10,000
- The current asset and current liabilities of the business for the year ending 31st Dec. 2020 and 2021 are as under:

	31.12.2020	31.12.2021
Sundry debtors	10,000	12,000
Provision for bad debts	1,000	1,200
Bills receivables	4,000	3,000
Bills payables	5,000	6,000
Sundry creditors	8,000	9,000
Inventories	5,000	8,000
Short term investments	10,000	12,000
Outstanding expenses	1,000	1,500
Prepaid expenses	2,000	1,000
Accrued income	3,000	4,000
Income received in advance	2,000	1,000

17. M and N Ltd agreed to amalgamate on the basis of the following as on 31st March 2023.

Liabilities	M	N	Assets	M	N
Share capital Rs 25 each	75,000	50,000	Goodwill	30,000	-
P &L a/c	7,500	2,500	Fixed Assets	31,500	38,800
Creditors	3,500	3,500	Stock	15,000	12,000
Depreciation fund	-	2,500	Debtors	8,000	5,200
			Bank	1,500	2,500
	86,000	58,500		86,000	58,500

The assets and liabilities are to be taken over by a new company formed called P ltd at book values. P ltd's capital is Rs 2,00,000 divided into 10,000 equity shares of Rs 10 each and 10,000 9% preference shares of Rs 10 each.

P ltd issued the equity shares equally to the vendor companies and preference shares were issued for any balance of purchase price. Journalise in the books of P ltd. under Net Assets Method.

SECTION C

Answer any TWO questions.

(2 x 20 = 40 marks)

18. Innovative Ltd was registered with an authorized capital of Rs.6,00,000 in equity shares of Rs.10 each. The following is its Trial Balance on 31.3.2019.

TRIAL BALANCE of Innovative Ltd.

Debit balances	Rs.	Credit Balances	Rs.
Good will	25,000	Share capital	4,00,000
Cash	750	12% debentures	3,00,000
Bank	39,900	P & L A/C (Cr)	26,250
Purchases	1,85,000	Sales	4,15,000
Preliminary Expenses	5,000	Bill payable	37,000
Calls in arrears	7,500	Sundry creditors	40,000
Premises	3,00,000	General Reserve	25,000
Plant & Machinery	3,30,000	Provision for Bad debts	3,500
Interim dividend	39,250		
Stock (1-4-2002)	75,000		
Furniture & fixtures	7,200		
Sundry debtors	87,000		
Wages	84,865		
General expenses	6,835		
Freight & carriage	13,115		
Salaries	14,500		
Directors' fees	5,725		
Bad debts	2,110		
Debenture Interest paid	18,000		
	<u>12,46,750</u>		<u>12,46,750</u>

Prepare profit & loss a/c and Balance sheet as per the Revised Schedule VI after making the following adjustments :

- i) Depreciate plant & machinery by 15%
- ii) Write off Rs.500 from preliminary expenses
- iii) Provide for 6 months interest on debentures
- iv) Provide for bad and doubtful debts at 5% on sundry debtors
- v) Closing Stock was Rs. 95,000.
- vi) Provide for tax at 50%

19. The following is the balance sheet of B Ltd as on 31.12.2018

Liabilities	Rs.	Assets	Rs.
Share capital 20,000 shares of Rs. 10 each fully paid	2,00,000	Buildings	1,10,000
Reserve fund	40,000	Plant cost less depn	1,30,000
Tax Provisions	60,000	Trademark	20,000
Workman Savings Account	30,000	Stock	48,000
Profit and Loss account	32,000	Debtors	88,000
Creditors	98,000	Cash	52,000
	4,60,000	Preliminary expenses	12,000
			4,60,000

It is now assumed that:

- Profits for the past three years were Rs. 80,000; Rs. 90,000; Rs. 1,06,000.
 - It is the company's practice to transfer 25% of the profits to Reserve.
 - The Plant is now worth Rs. 1,20,000 and Buildings are valued at Rs. 2,40,000
 - Companies of similar nature are showing profit earning capacity of 10% on the market value of the shares.
 - Book debtors included Rs 8,000 which were considered bad.
 - Goodwill is valued at Rs. 1,60,000
 - Similar companies give an yield of 10% on the market value of the shares.
- Ascertain the value of shares under Net assets method and Yield value method showing in details of your calculation. Ignore tax.

20. Summarised balance sheet of Kishore Ltd as on 31.03.2023 and 31.03.2024.

Liabilities	2023	2024	Assets	2023	2024
	Rs	Rs		Rs	Rs
Equity capital	4,50,000	4,50,000	Fixed Assets	4,00,000	3,20,000
Preference capital	3,00,000	3,10,000	Investments	50,000	60,000
Reserve	56,000	68,000	Stock	2,40,000	2,10,000
Provision for Tax	1,68,000	1,34,000	Debtors	2,10,000	4,55,000
Creditors	75,000	10,000	Bank	1,49,000	1,97,000
Loan	----	2,70,000			
	<u>10,49,000</u>	<u>12,42,000</u>		<u>10,49,000</u>	<u>12,42,000</u>

Additional Details

- Investments costing Rs 8,000 were sold for Rs 8,500.
 - Tax provision made during the year was Rs 9,000
 - During the year of the fixed assets costing Rs 10,000 was sold for Rs 12,000 and the profit was included in P & L Account.
- You are required to prepare the cash flow statement for 2024.

21. Big Ltd. agreed to acquire the assets of small ltd except its investments as on December 2021.

Balance sheet of Small ltd as on Dec 31, 2021

Liabilities	Rs.	Assets	Rs.
Share capital (Rs. 10 each)	1,60,000	Goodwill	50,000
Reserves	43,000	Land & building	80,000
8% Debentures	60,000	Plant	80,000
Provision for Tax	20,000	Investment	30,000
Creditors	37,000	Stock	40,000
		Debtors	20,000
		Bank	20,000
	3,20,000		3,20,000

Big Ltd will

- Discharge the debentures at 8% premium by issue of 7% debentures in Big Ltd at 10% discount.
- Issue of 3 shares of Big Ltd at a valuation of Rs 11 for every two shares in Small ltd.
- Pay Rs. 2 in cash for each share of Small ltd and
- Pay absorption expenses of Rs 3,000

Small Ltd. sells its investments for Rs 32,000. $\frac{1}{3}^{\text{rd}}$ of the shares received from Big Ltd. are sold at Rs 10.50 each. Tax liability was determined at Rs 24,000. Before the absorption small ltd declares and pays 10% dividend to its shareholders.

You are required to give the necessary journal entries and ledger accounts in the books of the vendor company by Net Payments Method.
