STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2011-12 and thereafter)
SUBJECT CODE: 11CM/PC/CA34

M.Com. DEGREE EXAMINATION NOVEMBER 2014
COMMERCE
THIRD SEMESTER

COURSE : CORE
PAPER : CORPORATE ACCOUNTING AND RESTRUCTURE
TIME : 3 HOURS **MAX. MARKS: 100**

SECTION – A

ANSWER ALL QUESTIONS: **(10x2=20)**

1. Write short notes on (a) Preliminary expenses and (b) Unclaimed dividend.
2. Enumerate cases where alteration of share capital does not require court approval.
3. Distinguish between capital and revenue profits in the context of Holding Company A/cs.
4. Write a short note on 'intrinsic value of shares'.
5. What is 'reserve for unexpired risk' in the case of general insurance companies?
6. From the following particulars of Z Ltd. calculate the balance of profits after appropriations

   (a) Equity share capital Rs 2, 00,000

   (b) P & L A/c (cr) Rs 30,000

   (c) Net profit for the current year Rs 56,800

   (d) Dividend proposed by directors @ 12% p.a. after the minimum transfer to General Reserve as required by law.
7. X Ltd. is negotiating to sell its business to Y Ltd. Its assets are agreed to be worth Rs 40, 00,000. Its share capital consists of 10,000 equity shares of Rs 10 each and it has reserves of Rs 50,000. Workmen's compensation fund amounts to Rs 25,000 (estimated liability Rs 10,000) and Provident Fund Rs 20,000. Employees' security deposits amount to Rs 10,000. Trade creditors amounted to Rs 80,000. Ascertain purchase consideration, if it is paid 75% in Rs 10 shares of the transferee company and the balance in cash.
8. From the following data calculate goodwill on the basis of three years purchase of average profits (a) profits for the years 2000, 2001 and 2002 were Rs 80,000; Rs 90,000 and Rs 1,00,000 (b) a non recurring income of Rs 15,000 is included in the profits of 2000 (c) The closing stock for 2001 was overvalued by Rs 30,000.
9. A subsidiary company has a capital of Rs 5, 00,000 in shares of Rs 100 each out of which the holding company acquired 80% of the shares at Rs 6, 00,000. The profits of the subsidiary company on the date of acquisition of shares by the holding company were Rs 3, 00,000. Calculate goodwill or capital reserve.
10. Calculate amount to be appropriated out of premium for Reserve for unexpired risk from the following information relating to Marine insurance. (a) premium received during the year ended 31.3.01 Rs 9,00,000 (b) reinsurance premium paid Rs 50,000 (c) outstanding premium Rs 1,50,000.

SECTION – B

ANSWER ANY FIVE QUESTIONS: (5 x 8 = 40)

11. P Ltd decided to reorganize its finances on 31/3/05. A final trial balance extracted from the books of the company showed the following position

Particulars	Rs	Particulars	Rs
Share capital (Authorised and issued):		P&L A/c	1,10,375
1500 6% Cum. Pref. Shares of Rs 100 each	1,50,000	Preliminary Expenses	7,250
2000 Equity shares of Rs 100 each	2,00,000	Goodwill at cost	50,000
Capital Reserve	36,000	Debtors	30,200
Trade creditors	42,500	Leasehold Property at cost	80,000
Bank Overdraft	51,000	Plant & Machinery at cost	2,10,000
Leasehold Property, provision for depreciation	30,000	Stock in trade	79,175
Plant & Machinery, provision for depreciation	57,500		
	5,67,000		5,67,000

Following is the scheme for reduction of capital

(a) The Preference share to be reduced to Rs 75 per share.
(b) The equity shares to be reduced to Rs 12.50 per share.
(c) One Rs 12.50 Equity share to be issued for each Rs 100 of gross Preference Dividend Arrears, the Preference dividend had not been paid for 3 years.
(d) The balance in Capital Reserve Account to be utilized.
(e) Plant and Machinery to be written down to Rs 75,000.
(f) The P&L A/c and all intangible assets to be written off.

The total authorized capital was restored to Rs 3, 50,000 consisting of 1,500 6% Cum. Preference shares of Rs 75 each and the balance in Equity shares of Rs 12.50 each. 5,000 Equity shares were issued at par for cash payable in full on application. The same were fully subscribed and paid.
Show journal entries to record the above transactions.

12. From the following information calculate value of an equity share.
(a) The subscribed share capital of a company consists of 10,000 14% Preference shares of Rs 100 each and 2, 00,000 equity shares of Rs 10 each. All shares are fully paid up.
(b) The average annual profits of the company after providing depreciation but before taxation are Rs 25, 00,000. It is considered necessary to transfer Rs 1, 25,000 to general reserve before declaring any dividend. Rate of taxation is 50%.
(c) The normal return expected by investors on equity shares from the type of business carried on by the company is 20%.

13. Balance sheet of A Ltd on 31st Dec. 1990

	Rs		Rs
Share capital 1,00,000 shares of Re 1 each Sundry liabilities	 1,00,000 20,000 1,20,000	Fixed Assets Current Assets P&L A/c	90,000 10,000 20,000 1,20,000

B Ltd. absorbed A Ltd. and took over all assets for Rs 72,000 payable Rs 50,000 in shares of Re 1 each and Rs 22,000 in cash (in order to enable A Ltd to pay off its liabilities and cost of winding up). Show accounts in the books of A Ltd.

14. From the following information, State with reasons whether the expected rate of return would be 15% when the goodwill values @ 4 years super profits is Rs. 50,000:

	Rs
Sundry assets	9,27,342
Current liabilities	52,492
Average net profit for the last 4 years	1,20,500
Average capital employed	9,00,000
Partner's average annual remuneration	18,000
Goodwill valued at 4 years super profit	50,000

Therefore the expected rate of return is 15%.

15. On 1.4.2010 the rebate on bills discounted account of a bank showed a credit balance of Rs 1, 00,000. On 31.3.2011 the discount account showed a credit balance of Rs 15, 00,000 before adjusting unexpired discount. The bills discounted outstanding on 31.3.2011 were Rs 2 crores with average maturity date of April 30th 2011 and they were all discounted at 12% p.a. Write adjustment entries and relevant ledger accounts to record these items and show how these items will appear in the final accounts of the bank.

16. The following are the balances extracted from the books of Comet Insurance Co. in respect of its Fire Insurance on 31.3.2006. Prepare Fire Revenue A/c.

	Rs ('000)
Claims paid	112
Commission paid	109.6
Expenses of management	69.2
Commission on reinsurance accepted	8
Commission on reinsurance ceded	4
Outstanding premium on 31.3.06	40.6
Reserve for unexpired risk	130.2
Additional reserve	142.8
Premium received less reinsurance	330.6
Claim outstanding on 1.4.05	3.8

Adjustments:

(a) Estimated liability in respect of claims outstanding on 31.3.06 was Rs 0.6 thousands.

(b) Provide Rs 16.4 thousand for survey expenses.

(c) Provide an additional reserve at 10% of net premium in addition to opening balance.

17. Following is the Balance sheets of P Ltd. and N Ltd on 31.3.97

	P Ltd	N Ltd		P Ltd	N Ltd
Share capital (Rs 10)	3,00,000	2,00,000	Fixed Assets	2,50,000	1,30,000
Capital Reserve	50,000	---	Goodwill	---	30,000
General Reserve	40,000	30,000	Current Assets	70,000	1,40,000
P&L A/c	60,000	40,000	Shares in N		
Creditors	50,000	30,000	Ltd. at cost	1,80,000	
	5,00,000	3,00,000		5,00,000	3,00,000

P Ltd. acquired 75% of the shares in N Ltd. on 1.7.96. In the case of N Ltd. profit made during the current year is Rs 40,000 and transfer to reserve is Rs 10,000. Draft consolidated Balance sheet of P Ltd. and its subsidiary N Ltd.

SECTION – C

ANSWER ANY TWO QUESTIONS: (2 x20 = 40)

18. Prepare P & L A/c and Balance sheet for the year ended 31st March 2009 and Balance sheet on that date from the following information

	Rs	Rs
Equity share capital (Rs 10 each)		4,00,000
8% Preference share capital (Rs 100 each)		2,00,000
Plant at cost	3,00,000	
Land & Building at cost	5,00,000	
Depreciation upto 31st March 2008 on Plant		1,00,000
Depreciation upto 31st March 2008 on Land & Building		1,50,000
Dividend Equilisation Reserve		10,000
Investment in shares	2,00,000	
Stock	70,000	
Cash at bank	60,000	
Debtors	50,000	
P & L A/c 1.4.2008		25,000
Creditors		30,000
Income tax deducted at source on dividend	2,200	
Establishment expenses	15,000	
Rent and taxes	6,000	
Audit fee including Rs 1,000 paid for other services	2,500	
M.D's minimum Remuneration	12,000	
Directors fees	2,000	
Sundry expenses	6,000	
Dividend		10,000
Misc. receipts		2,300
Trading A/c balance		3,04,400
Income tax for previous year not provided for	6,000	
	12,31,700	**12,31,700**

1. Depreciation to be charged on w.d.v. on Plant @ 10%, Land & Building 5%.
2. The directors propose to recommend a dividend of 15% on Equity shares.
3. Provision for taxes to be made at 55%.
4. The M.D is entitled to 5% on net profit subject to a minimum of Rs 12,000 p.a.
5. Rs 15,000 to be transferred to Dividend Equilisation Reserve.

19. On 1st Jan 2002, the balance sheet of H Ltd. was as follows:

Liabilities	Rs	Assets	Rs
Share capital		Goodwill	40,000
5,000 6% cumulative preference		Patents	15,000
shares of Rs 10 each fully paid	50,000	Sundry assets	1,64,500
15,000 equity shares of Rs 10		Cash	500
each fully paid	1,50,000	P&L A/c	28,000
6% debentures	30,000	Preliminary expenses	2,000
Creditors	20,000		
Preference dividend in arrears			
for 4 years	2,50,000		2,50,000

A scheme of reconstruction was agreed upon as follows: (i) A new company to be formed called J Ltd. with an authorized capital of Rs 3, 25,000 all in equity shares of Rs 10 each. (ii) One equity share Rs 5 paid in the new company to be issued for each equity share in the old company. (iii) Two equity shares Rs 5 paid in the new company to be issued for each preference share in the old company. (iv) Arrears of dividend to be cancelled. (v) Debenture holders to receive 3,000 equity shares in the new company credited as fully paid. (vi) Creditors to be taken over by the new company. (vii) The remaining unissued shares to be taken up and paid for in full by the directors. (viii) The new company to take over the old company's assets except patents subject to writing down sundry assets by Rs 35,000. (ix) Patents to be realized by H Ltd. for Rs 1,000.

Show ledger accounts in the books of H Ltd. and open the books of J Ltd. by means of journal entries and give the balance sheet of J Ltd. Expenses of H Ltd. came to Rs 1,000.

20. A Ltd. acquired 1,600 shares of Rs 100 each in B Ltd. on 31st Dec 2000. Balance sheets of A Ltd. and B Ltd. on that date

	A Ltd. (Rs)	B Ltd. (Rs)		A Ltd.	B Ltd.
Capital: 5,000 shares of Rs 100 each	5,00,000		Land & Buildings	1,50,000	1,80,000
			Plant & Machinery	2,40,000	1,09,400
2,000 shares of Rs 100 each		2,00,000	Investments in B Ltd. at cost	3,40,000	
Capital Reserve	---	1,20,000	Stock	1,20,000	36,000
General Reserve	2,40,000	---	Debtors	44,000	40,000
P%L A/c	57,200	36,000	Bills Receivable (including Rs 3,000 from B Ltd)	15,800	---
Bank overdraft	80,000	---	Cash and Bank	14,500	8,000
Bills Payable (including Rs 4,000 to A Ltd.)	---	8,400			
Creditors	47,100	9,000			
	9,24,300	3,73,400		9,24,300	3,73,400

(i) B Ltd. had made a bonus issue on 31st Dec 2000 of one ordinary share for every two shares held by its shareholders. Effect is yet to be given in the accounts for this.

(ii) Land & Buildings of B Ltd are undervalued by Rs 20,000 and Plant & Machinery of B Ltd. was overvalued by Rs 10,000. These have to be adjusted accordingly.
(iii) Creditors of A Ltd. include Rs 12,000 due to B Ltd.

Prepare consolidated Balance sheet on 31st Dec 2000.

21. Following is the Trial Balance of N Bank Ltd on 31st March 2010.

	Dr	Cr
Authorised Capital		5,00,000
Unissued capital	2,00,000	
Uncalled capital	1,50,000	
Reserve Fund		3,00,000
Investment Fluctuation Fund		20,000
Overdraft, Loans and cash credit	4,00,000	
Premises	60,000	
Govt. bonds	3,00,000	
Other Govt. securities	2,00,000	
Current Accounts		6,00,000
P&L A/c on 1st April 2009		25,000
Money at call & short notice	70,000	
Bills Discounted	73,000	
Shares	17,000	
Cash in hand	1,10,000	
Cash at bank	3,00,000	
Income tax paid	9,000	
Salaries	73,500	
Interest and discounts		1,70,000
Interim dividend	7,500	
Deposits		3,55,000
	19,70,000	19,70,000

Additional information:
(i) The bills discounted mature at an average date of May 20th 2010 (including days of grace). All bills are discounted at 10% p.a.
(ii) Market value of investments in Govt securities was Rs 4, 75,000. Increase Investment Fluctuation Fund with necessary amount.
(iii) Bank added Premises during the year Rs 10,000. Provide 5% depreciation on opening balance.
(iv) Interest accrued on investments Rs 750.
(v) Provision for taxation on 1st April 2009 was Rs 10,000. Increase it to Rs 30,000.

Prepare final accounts.

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