STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2009 – 2010 & thereafter)

SUBJECT CODE: CM/PC/CA14

M.Com. DEGREE EXAMINATION NOVEMBER 2010
COMMERCE
FIRST SEMESTER

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

SECTION – A

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

1. What is 'Corporate Dividend Tax'? How is it computed and treated in company final account?
2. Distinguish between Merger method and purchase method of accounting for Amalgamation.
3. Explain various methods of valuation of Human resources.
4. Balance sheets of A and B 1.1.2008 and 31.12.2008.

Balance Sheets

Liabilities	1.1.2008	31.12.2008	Assets	1.1.2008	31.12.2008
Capital	1,25,000	1,53,000	Land	40,000	50,000
Loan from bank	40,000	50,000	Buildings	35,000	60,000
Mrs A's loan	25,000	-	Machinery	80,000	55,000
Creditors	40,000	44,000	Stock	35,000	25,000
			Debtors	30,000	50,000
			Cash	10,000	7,000
	2,30,000	2,47,000		2,30,000	2,47,000

During the year a machine costing Rs.10,000 (accumulated depreciation Rs. 3,000) was sold for Rs. 5,000. The provision for depreciation against machinery as on 1.1.2008 was Rs. 25,000 and on 31.12.2008 Rs. 40,000. Net profit for the year 2008 amounted to Rs. 45,000. You are required to prepare cash flow statement as per As 3.

5. The following is the balance sheet of United Industries Ltd. On 31^{st} December 2008.

Liabilities	Rs.	Assets	Rs.
Share Capital:		Goodwill	45,000
6000 6% Preference Shares of Rs. 100 each	6,00,000	Land & Building	6,00,000
12,000 equity shares of Rs. 100 each	12,00,000	Plant & Machinery	9,00,000
8% debentures	3,00,000	Stock	1,30,000
Bank Overdraft	3,00,000	Debtors	1,40,000
Sundry Creditors	1,50,000	Cash	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:

(i) The equity shares are to be reduced to shares of Rs.40 each fully paid and the preference shares are to be reduced to fully paid shares of Rs. 75 each.

(ii) The debenture holders took over stock and debtors in full satisfaction of their claims.

(iii) The Land & Buildings to be appreciated by 30% and Plant & Machinery to be depreciated by 30%.

(iv) The fictitious and intangible assets are to be eliminated.

(v) Expenses of reconstruction amounted to Rs. 5,000.

Give journal entries incorporating the above scheme of reconstruction and prepare the reconstructed Balance Sheet.

6. From the following Balance Sheet relating to H ltd. and S ltd. Prepare a consolidated Balance Sheet.

Balance Sheet as on 31.12.2000

Liabilities	H ltd Rs.	S ltd Rs.	Assets	H ltd Rs.	S ltd Rs.
Share Capital (Shares of Rs. 10 each)	10,00,000	2,00,000	Sundry Fixed Assets	8,00,000	1,20,000
Profit & Loss A/C	4,00,000	1,20,000	Stock	6,10,000	2,40,000
Reserves	1,00,000	60,000	Debtors	1,30,000	1,70,000
Creditors	2,00,000	1,20,000	Bills receivable	10,000	-
Bills payable	-	30,000	Shares in s ltd at cost (15000 shares)	1,50,000	-
	17,00,000	5,30,000		17,00,000	5,30,000

a) All profits of S ltd. have been earned after the shares were acquired by H ltd. But there was already a reserve of Rs. 60,000 on that date.

b) All the Bills payable of S ltd. were accepted in favour of H ltd.

c) The stock of H ltd. includes Rs. 50,000 purchased from S ltd. The profit added was 25% on cost.

7. From the following details, prepare the profit & loss account of the Arun Bank Ltd. For the year ended December 31, 2008.

Interest paid on deposits and borrowings	2,40,000	Interest and discount	7,48,000
Rent received	36,000	Net profit on sale of investments	2,700
Salaries, allowances, bonus and P.F.	2,10,000	Commission, Exchange & brokerage	1,20,000
Legal Charges	12,000	Audit fees	5,000
Director's and local committee members fees	2,400	Printing & Stationery	6,400
Miscellaneous expenditure	12,000	Telephone, stamps, postage	44,000
Advertising	9,000	Insurance & Lighting	7,400
Bad debts	34,500	Rent paid	48,000

Opening balances on unexpired discount and reserve for bad and doubtful debts were Rs. 48,000 and Rs. 24,000 respectively. Closing balances required on these amounts are Rs. 54,000 and Rs. 36,000 respectively. Provide 60% taxation on current profits.

The chairman and managing director has been paid a salary of Rs 2,400 p.m. and has been provided free quarters and motor car perquisites valued at Rs. 6,000 p.a.

8. From the following information, compute the value of goodwill as per annuity method.

Average Capital employed Rs. 10,00,000, Normal rate of profit 10%

Profits: 2005 – Rs. 1,40,000, 2006 – Rs. 1,22,000, 2007 – Rs. 1,70,000.

Profits for 2006 have been arrived at after writing off abnormal loss of Rs. 10,000 and profits for 2007 include a non-recurring income of Rs. 22,000. Goodwill is to be calculated on the basis of annuity of 3 years purchase of super profits. The present value of annuity of Re 1 for 3 years at 10% is 2.4868.

SECTION – B

ANSWER ANY THREE QUESTIONS: (3 x 20 = 60)

9. From the following Trial balance of Highland Co. ltd., prepare final accounts in the prescribed form.

Trial balance 31.03.2009

Debit balances	Rs.	Credit balances	Rs.
Cash at bank	28,000	Interest on Investments (80% net)	1,200
Machinery	20,000	Creditors	28,000
15% MRPL bonds	10,000	Sales	1,24,000
Sinking fund Investments	25,000	Sinking Fund	25,000
Depreciation:			
Machinery	4,000	Share Capital (in Rs. 10 shares)	1,00,000
Buildings	1,600	Unclaimed dividend	200
Buildings	80,000	Taxation Provision	12,000
Interest on debentures (till 30.9.2008)	2,000	Interest on sinking Fund Investment	800
Debtors	25,000	Wages Outstanding	8,000
Purchases	64,400	5% debentures	30,000
Interim dividend	5,000	General Reserve	32,300
Profit & Loss a/c	6,000	Transfer fees	1,200
Directors fees	2,000	Provision for bad debts	1,500
Carriage on purchases	2,500		
Wages	18,000		
Debenture discount	1,500		
Stock on 1.4.2008	12,000		
Good will	30,000		
Taxes paid	10,000		
Office Expenses	6,000		
Salary (11 months)	9,900		
Bad debts	1,300		
	3,64,200		3,64,200

Adjustments: (1) Make provision for doubtful debts at 5% on debtors. (2) Debtors include goods sent on approval basis Rs. 5,000, so as to earn a profit of 20% on sale. (3) Stock at close Rs.25,000 (estimated market price is Rs. 22,500) (4) Make transfer to sinking Fund Rs. 2,000 (5) Write off 50% of discount on debentures (6) Provide for taxation Rs.10,000 (7) Tax liability for accounting year 31.03.2009 is fixed at Rs. 9,000.

10. Big ltd. Agreed to acquire the assets of small ltd. Except its investments as on December 31, 2008.

Balance Sheet of Small Ltd. as on Dec 31, 2008

Liabilities	Rs.	Assets	Rs.
Share Capital (Rs. 10 each)	1,60,000	Good Will	50,000
Reserves	43,000	Land & Buildings	80,000
8% debentures	60,000	Plant	80,000
Provision for taxation	20,000	Investments	30,000
Creditors	37,000	Stock	40,000
		Debtors	20,000
		Bank	20,000
	3,20,000		3,20,000

Big ltd. will:-

(a) Discharge the debentures at 8% premium by issue of 7% debentures in Big Ltd. at 10% discount.

(b) Issue of 3 shares of Big Ltd. at a valuation of Rs. 11 for every two shares in small ltd.

(c) Pay Rs. 2 in cash for each share of Small ltd. and

(d) Pay absorption expenses of Rs. 3,000.

Small ltd. sells its investments for Rs.32,000. $1/3^{rd}$ 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 std. declares and pays 10% dividend to its share holders. You are required to give journal entries and ledger accounts in the books of the vendor company.

11. M ltd. acquired 12000 shares in D ltd. for Rs. 1,70,000 on April, 2005. The Balance sheets of the two companies on 31^{st} December, 2005 were as follows.

Liabilities	M ltd.	D ltd.	Assets	M ltd.	D ltd.
Share Capital (Rs. 10 each)	10,00,000	3,00,000	Good Will	3,00,000	70,000
General Reserve	4,20,000	50,000	Land & buildings	4,00,000	1,00,000
Profit & Loss A/C	2,60,000	85,000	Machinery	5,00,000	1,00,000
Sundry Creditors	2,40,000	42,000	Stock	2,00,000	40,000
Bills payable	80,000	60,000	Book debts	3,00,000	1,35,000
			Investment	1,70,000	-
			Bills receivable	50,000	30,000
			Cash & bank	80,000	62,000
	20,00,000	5,37,000		20,00,000	5,37,000

(i) On January 1, 2005, the profit & loss a/c of d ltd. stood at Rs. 40,000 out of which a dividend of 15% on the then capital of Rs.2,00,000 was paid in June 2005. At the same time a bonus issue of one fully paid share for every two shares held was also made out of general reserve.

(ii) Bills payable of D ltd. represent bills issued in favour of M ltd. which company still held Rs. 40,000 of the bills accepted by D ltd.

(iii) The entire closing stock of D ltd. represents goods supplied by M ltd. at cost plus 20%.

(iv) M ltd. and D ltd. agreed that for services rendered M ltd. should charge Rs. 500 p.m. from D ltd. Entries for this were not made.

Prepare consolidated Balance Sheet of the two companies on 31st December 2005.

12. Given below is the Trial balance of the Union General Insurance company ltd. as on 31st March, 2009.

Debit Balances	Rs.	Credit Balances	Rs.
Claims paid (Fire)	74,315	Reserve for unexpired risk on 1.4.2008 (Fire)	1,67,495
Claims paid (Marine)	40,000		
Commission (Fire)	45,500	Reserve for unexpired risk on 1.4.2008 (Marine)	80,000
Commission (Marine)	15,090		
Management Expenses (Fire)	1,24,696		
Management Expenses (Marine)	75,000	Claims outstanding on 1.4.2008 (Fire)	5,085
Depreciation	7,419	Premium (Fire)	2,83,932
		Premium (Marine)	1,20,000
Loss on sale of Investments	25,169	Interest and dividends	34,692
Income tax on Interest & dividends	10,625	Share Capital-2500 shares of Rs.100 each	2,50,000
Agent's balance	57,404	Investment Reserve	10,690
Government Securities	3,86,921	Agent's balances	2,612
Outstanding Premium	4,019	P & L appropriation a/c	33,581
Interest accrued on investments	6,028	Provision for taxes	43,618
Advance & deposits	18,122	Sundry creditors	4,919
Cash at bank	65,650	Premium deposits	15,000
Furniture	95,666		
	10,51,624		10,51,624

You are required to prepare final accounts of the company under the Insurance Act having regard to the following:

(i) Reserve for unexpired risk to be provided at 50% in case of Fire and 100% in the case of Marine.

(ii) Claims outstanding as on 31st March, 2009 in respect of Fire Insurance amounted to Rs. 3,137.

(iii) Provide Rs. 20,000 towards taxation.

13. Determine the fair value of 200 shares held by Mr. Arul in Abbas Co Ltd. to be transferred to Mr. Balu on the basis of majority and minority holding. The balance sheet of Abbas Co. Ltd. as on 30th June, 2008 is as follows:-

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital:-			
40,000 Equity shares of Rs. 10 each	4,00,000	Good Will	20,000
General Reserve	1,30,000	Buildings	1,50,000
Profit & Loss a/c	80,000	Machinery	1,80,000
Sundry Creditors	40,000	Debtors	2,00,000
		Stock	80,000
		Cash at bank	10,000
		Preliminary Expenses	10,000
	6,50,000		6,50,000

Debtors are estimated to be 10% below book value and goodwill is valued at its book value. Profit & Loss a/c shows the net profits of the year after transfer to general reserve and payment of income tax.

Dividend was paid for the last 3 years at the rate of 14% ; 18% and 16% respectively. Normal expected return is 12%.