

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

SUBJECT CODE : CM/PC/CA14

M.Com. DEGREE EXAMINATION NOVEMBER 2009
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. N Ltd, has a credit balance on P & L a/c of Rs 3,00,000 on 1.4.2005 and the net profit for the year 2005-06 is Rs 30,00,000. It was decided that the following decisions be carried out regarding provisions, reserves and dividends: -
- General Reserve Rs3,50,000
 - Investment Allowance Reserve Rs 3,50,000
 - Provision for taxation @50%
 - Dividend equalization fund a/c Rs 2,00,000
 - Dividend on 10% preference shares of Rs 20,00,000
 - Dividend at 15% on 3,00,000 equity shares of Rs 10 each fully paid.
- You are required to give P & L appropriation a/c and journal entires for payment of dividend assuming corporate dividend tax rate is 10%
2. From the following Balance sheets prepare cash flow statement for the year 2005.

| | Balance Sheets | | | | |
|--------------------|-----------------|-----------------|-----------|-----------------|-----------------|
| | 1.1.2005 | 31.12.2005 | Assets | 1.1.2005 | 31.12.2005 |
| Liabilities | | | | | |
| Capital | 1,25,000 | 1,53,000 | Cash | 10,000 | 7,000 |
| Loan from Bank | 40,000 | 50,000 | Debtors | 30,000 | 50,000 |
| Loan from X | 25,000 | ---- | Stock | 40,000 | 25,000 |
| Creditors | 40,000 | 44,000 | Machinery | 80,000 | 55,000 |
| | | | Land | 35,000 | 50,000 |
| | | | Building | 35,000 | 60,000 |
| | 2,30,000 | 2,47,000 | | 2,30,000 | 2,47,000 |

During the year a Machine costing Rs 10,000 with accumulated depreciation Rs 3000 was sold for Rs 5000

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3. The balance sheet of Not-So-Well Ltd as on 31.12.2005 was as follows.

| Liabilities | Rs | Assets | Rs |
|--|------------------|---|------------------|
| Share Capital; 3000 cumulative 7% pref.shares of Rs 100 each fully paid | 3,00,000 | Fixed assets (Including Good will Rs 40,000) | 10,00,000 |
| 6000 equity shares of rs 100 each fully paid | 6,00,000 | Investments | 15,000 |
| General Reserve | 80,000 | Stock | 1,50,000 |
| Share Premium | 10,000 | Sundry debtors | 1,85,000 |
| Current liabilities | 4,00,000 | Bank | 40,000 |
| Contingent liabilities 4 years dividend on pref.shares | | | |
| | 13,90,000 | | 13,90,000 |

The directors proposed the following scheme of reconstruction.

- i. The preference shares are to be exchanged for 3000, 8% debentures of Rs 100 each.
- ii. The dividend arrears are to be settled by issue of 6,000 6%-preference shares of Rs 10 each and 600 equity shares of Rs 60 each.
- iii. Equity shares are to be reduced by Rs 40 each. These share holders are also to subscribe for cash one(new) equity share for every 10 shares held.
- iv. Good will is to be written off and the fixed assets be reduced by Rs 80,000
- v. Stock to be increased by Rs 4000. Debtors to be written down by Rs 12,000 and investments to be written down to their market value of Rs 13,000

Pass journal entries to give effect to the scheme and prepare balance sheet after the scheme was carried out on 31.12.2005

4. Balance sheet as at 31.12.2005

| Liabilities | H Ltd Rs | S Ltd Rs | Assets | H Ltd Rs | S Ltd Rs |
|-----------------------------|---------------------|---------------------|---------------------------|---------------------|---------------------|
| Share capital Rs 10 each | 10,00,000 | 5,00,000 | Sundry Assets | 16,00,000 | 10,00,000 |
| Reserve | 5,00,000 | --- | 50,000 shares in S Ltd | 6,00,000 | |
| P & L a/c | 4,00,000 | 1,80,000 | | | |
| Creditors | 3,00,000 | 3,20,000 | | | |
| | 22,00,000 | 10,00,000 | | 22,00,000 | 10,00,000 |

Shares of S Ltd were purchased by H Ltd on 30th June 2005. On 1st January 2005, the balance sheet of S Ltd showed a loss of Rs 3,00,000. Prepare the consolidated balance sheet.

5. At the valuation on 31.3.2007 of a Life office, the actuary's certificate disclosed a net liability on policies and annuities at Rs 40,40,000. Prepare valuation balance sheet when the Life assurance fund calculated was Rs 56,50,000 for the period ended 31.3.2007.

Interim bonus paid for valuation period Rs 90,000.

6. The following in the Balance Sheet of Mr Chauhan as on 30th Sept 2008

| Liabilities | Rs | Assets | Rs |
|--------------------|------------------|------------------|------------------|
| Capital | 16,40,000 | Land & buildings | 3,60,000 |
| General Reserve | 4,00,000 | Plant | 5,40,000 |
| Creditors | 3,80,400 | Investments | 3,00,000 |
| | | Stock | 2,68,500 |
| | | Bank | 7,59,900 |
| | | Debtors | 1,92,000 |
| | 24,20,400 | | 24,20,400 |

The following were the net profits for the year ended 30th Sept, 2006 Rs 3,22,800; 30th Sept, 2007 Rs 3,68,700; 30th Sept, 2008 Rs 4,33,500. These profits include income from investments Rs 18,000 each year. You are required to value goodwill of the above business at 2 years purchase of the average super profit for 3 years, taking into account the fact that standard rate of return on capital employed in such type of business is 10%. Assume that each year's profit is immediately withdrawn in full by Mr Chauhan.

7. Distinguish between Merger method and purchase method of accounting for Amalgamation
8. Explain the various 'cost based methods' of valuing human resources.

SECTION – B

ANSWER ANY THREE QUESTIONS:

(3 x 20 = 60)

9. The Auto parts manufacturing Co.Ltd; was registered with an authorized capital of Rs 7,50,000 divided into 3000 6% cumulative preference shares of Rs 100 each and 4500 equity shares of Rs 100 each. The following are the balances taken as on 31.12.2008.

| Debit Balances | Rs | Credit Balances | Rs |
|--------------------------------|------------------|-----------------------------|------------------|
| Stock on 1.1.2008 | 2,41,500 | Share capital:- | |
| Delivery expenses | 1,02,000 | 3000 6% cumulative | |
| General Expenses | 21,000 | preference shares of Rs 100 | |
| Bills receivable | 6,000 | each | 3,00,000 |
| Investments:- 6000 shares of | | 3000 equity shares (Rs 75 | |
| Rs 10 each in Sunrise Co Ltd | 60,000 | called up & paid) | 2,25,000 |
| Preference dividend for half | | General Reserve | 82,725 |
| year 30.6.2008 | 9,000 | P & L a/c (cr) | 58,500 |
| Bank balance | 97,500 | Sales | 9,18,600 |
| Good will | 1,00,000 | 5% debentures | 2,10,000 |
| Trade debtors | 1,67,500 | Trade creditors | 1,25,520 |
| Freehold properties at cost | 3,90,000 | Provision for taxation | 8,800 |
| Salaries | 1,03,500 | | |
| Rent & Rates | 38,250 | | |
| Furniture at cost | 75,000 | | |
| Purchases | 4,76,500 | | |
| Freight & carriage inwards | 3,750 | | |
| Debenture interest (half year) | 5,250 | | |
| Final dividend for 2007 | 20,250 | | |
| Cash in hand | 12,145 | | |
| | 19,29,145 | | 19,29,145 |

Prepare Profit and Loss A/C for the year-ended 31.12.2008 and Balance Sheet at the date after taking the following into account: -

- i. Closing stock Rs 2,15,000
- ii. Depreciation 2 ½ % on freehold property and 6% on furniture
- iii. Bills receivable for Rs 2,500 maturing after 31.12.2008 has been discounted with bank
- iv. Directors proposed to pay second half year's dividend on preference shares.
- v. 10% dividend on equity shares is proposed.
- vi. provide 5% towards reserve for doubtful debts on trade debtors.
- vii. Provide 10% corporate dividend tax.

10. The following are the Balance Sheets Honey Ltd and Stark Ltd as on 31.3.2006.

| Liabilities | Honey Ltd Rs | Stark Ltd Rs | Assets | Honey Ltd Rs | Stark Ltd Rs |
|----------------------|-----------------|-----------------|--------------|-----------------|-----------------|
| Share Capital:- | | | | | |
| Shares of Rs 10 each | 2,00,000 | 4,00,000 | Fixed Assets | 2,40,000 | 5,00,000 |
| General Reserve | 80,000 | 1,20,000 | Debtors | 40,000 | 20,000 |
| P & L a/c | 20,000 | --- | Stock | 60,000 | 80,000 |
| Creditors | 60,000 | 1,00,000 | Cash | 20,000 | 20,000 |
| | 3,60,000 | 6,20,000 | | 3,60,000 | 6,20,000 |

Stark Ltd. Agreed to absorb Honey Ltd on the following terms:-

- i. Stark Ltd to give one share of Rs 10 each, at an agreed value of Rs 30 per share for every three shares in Honey Ltd. The shares of Shark Ltd are quoted in the market at Rs 45 per share.
- ii. Trade liability is to be taken over.

Give the required journal entries in the books of Stark Ltd,; and Balance Sheet after the absorption in completed if the amalgamation is in the nature of purchase.

11. The following are the Balance Sheets of H. Ltd. And S. Ltd as on 31.03.2007

| Liabilities | H Ltd Rs | S Ltd Rs | Assets | H Ltd Rs | S Ltd Rs |
|-----------------------|-----------------|-----------------|----------------------|-----------------|-----------------|
| Share Capital:- | | | | | |
| Shares of Rs 100 each | 5,00,000 | 4,00,000 | Fixed assets | 2,50,000 | 2,00,000 |
| General Reserve | 1,00,000 | 1,00,000 | Investments in S Ltd | 2,50,000 | ---- |
| P & L A/C | 2,00,000 | 1,50,000 | Current Assets | 4,00,000 | 5,50,000 |
| Current Liabilities | 1,00,000 | 1,00,000 | | | |
| | 9,00,000 | 7,50,000 | | 9,00,000 | 7,50,000 |

The following further information is furnished:-

- i. H Ltd acquired 2000 shares in S Ltd on 1.4.2006. When the latter's general reserve and P & L a/c were Rs 2,50,000 and Rs 1,00,000 respectively.
- ii. On 30.6.2006 S Ltd declared 20% dividend out of pre-acquisition profits and H Ltd. Credited the amount received to its P & L a/c.

- iii. On 31.10.2006 S Ltd issued bonus shares in the ratio of 3 shares for 5 shares held out of the General Reserve. H Ltd made no entry in its books for the bonus shares received.
- iv. S Ltd owed H Ltd Rs 50,000 on 31.3.2007 on account of goods supplied on credit. However all of those goods were already disposed off by S Ltd.
Prepare a consolidated Balance Sheet as at 31.3.2007.

12. The following is the trail balance of Shri Nidhi Bank Ltd.; as at 31.12.2006

| Debit Balances | Rs | Credit Balances | Rs |
|---------------------------------------|------------------|-----------------------------|------------------|
| Unissued capital | 2,00,000 | Authorised capital | 5,00,000 |
| Uncalled capital | 1,50,000 | Reserve fund | 3,00,000 |
| Bank overdraft, loans and cash credit | 4,00,000 | Investment fluctuation fund | 20,000 |
| Bank premises | 60,000 | Current accounts | 6,00,000 |
| Government Bonds | 3,00,000 | P & L A/C on 1.1.2006 | 25,000 |
| Other Government securities | 2,00,000 | Interest discount etc | 1,70,000 |
| Money at call & short notice | 70,000 | Deposits & savings bank a/c | 3,55,000 |
| 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 and other expenses | 73,500 | | |
| Interim dividend paid | 7,500 | | |
| | <u>19,70,000</u> | | <u>19,70,000</u> |

Additional information:-

- i. The bills discounted mature at an average date of February 19, 2007 (including days of grace). All bills are discounted at 10 % p.a.
- ii. The market value of Investments in Government Securities was Rs 4,75,000. Increase Investment fluctuation fund with the necessary amount.
- iii. Bank added premises during the year for Rs 10,000. Provide 5% depreciation on the opening balance.
- iv. Interest accrued on investments was Rs 750
- v. Provision for taxation 1.1.2006 was Rs 10,000. It is to be increased to Rs 30,000

Prepare final accounts in the statutory form.

13. On 31.12.2007 the Balance Sheet of a limited company disclosed the following position.

| Liabilities | Rs | Assets | Rs |
|--------------------------------|------------------|----------------|------------------|
| Issued capital in Rs 10 shares | 8,00,000 | Fixed assets | 10,00,000 |
| P & L a/c | 40,000 | Current assets | 4,00,000 |
| Reserves | 1,80,000 | Goodwill | 80,000 |
| 5% debentures | 2,00,000 | | |
| Current liabilities | 2,60,000 | | |
| | <u>14,80,000</u> | | <u>14,80,000</u> |

On Dec 31, 2007, the fixed assets were independently valued at Rs 7,00,000 and the goodwill at Rs 1,00,000. The net profits for the three years were: 2005 – Rs 1,03,200; 2006 – 1,04,000 and 2007 – Rs 1,03,300 of which 20% was placed to reserve, this proportion being considered reasonable in the industry in which the company is engaged and where a fair return on investment may be taken at 10%. Compute the value of company's share by a) the net assets method and b) the yield method.

