B.Com. DEGREE EXAMINATION,NOVEMBER 2018
II Year III Semester
Core Major- Paper V
CORPORATE ACCOUNTING - I

Time : 3 Hours **Max.marks :75**

Section A $(10 \times 2 = 20)$ Marks

Answer any **TEN** questions

1. What do you mean by Pro-rata allotment?
2. Write a note on Profit prior to incorporation.
3. What is meant by Underwriting?
4. Mention the different methods of valuation of shares.
5. Batliboi Co. Ltd., issued 50,000 equity shares of Rs.10 each to the public on condition that full amount of shares will be paid in a lump sum. All these shares were taken up and paid by the public. Pass journal entries in the books of company when (a) Shares are issued at a premium of 10% and (b) Shares are issued at par.
6. The following extract from the balance sheet of Gayathri Co. Ltd., as on 31st Dec. 1997, is given

Share capital:	Rs.
2,00,000 Equity shares of Rs. 10 each	20,00,000
3,00,000 6% redeemable preference shares of Rs.10 each	30,00,000
Capital reserve	15,00,000
General reserve	9,00,000
Profit & loss A/c	25,50,000

The company exercises its option to redeem the preference shares on 1st Jan. 1998. The company has sufficient cash. Give journal entries to record the redemption.

7. From the following particulars of Ganga Ltd., calculate the Managerial remuneration assuming there are two whole time directors; a part time director and manager:

Net profit before provision for income tax and Managerial remuneration but after depreciation	Rs.8,70,410
Depreciation provided in the books	Rs.3,10,000
Depreciation allowable under schedule XIV	Rs.2,60,000

8. A firm earns Rs. 1,20,000 as its annual profits, the rate of normal profit being 10%. The assets of the firm amount to Rs. 14,40,000 and liabilities to Rs. 4,80,000. Find out the value of goodwill by capitalisation method.
9. A company forfeited 10 shares of Rs.10 each issued at a premium of 10% for non payment of the final call of Rs.3 per share. Out of these, 7 shares were reissued at Rs.8 per share as fully paid up. Give entries for forfeiture.
10. A Ltd. purchased business of A & Co. and agreed to settle purchase consideration by allotment of:

    1000 Equity shares of Rs.10 each at 10% premium to partners.

    500, 10% Debentures of Rs.100 each at par for loan creditors, and Rs.50,000 in cash to partners. Calculate purchase consideration.
11. The following underwriting of Equity shares takes place; A – 6,000 shares; B – 2,500 shares; C – 1,500 shares. The issue consists of 10,000 shares. The total subscription was 7,100 shares and the forms included the following marked forms – A; 1,000 shares- B; 2,000 shares – C; 500 shares. Show the allocation of liability of underwriters.

12. Timex Ltd., issued 1,000 8% debentures of Rs. 100 each. Give appropriate journal entries in the books of the company, if the debentures were issued as follows:

    Issued at par, redeemable at a premium of 10%.
    Issued at a discount of 5%, repayable at premium of 10%.

Section B $(5 \times 5 = 25)$ Marks

Answer any **FIVE** questions

13. What do you mean by purchase consideration? Explain the methods of computing purchase consideration.
14. Explain in detail the requirements for the redemption of preference shares as per sec. 80 of the Companies Act, 1956.
15. From the following particulars, determine the maximum remuneration available to a full time director of a manufacturing company.

    The profit & Loss Account of the company showed a net profit of Rs.40,00,000 after taking into account the following items:

Depreciation(including special depreciation of Rs.40,000)	1,00,000
Provision for income tax	2,00,000
Donation to political parties	50,000
Ex-gratia payment to a worker	10,000
Capital profit on sale of assets	15,000

16. Nalli & Co. Ltd., was registered with an authorized capital of Rs. 20,00,000 divided into 20,000 shares of Rs. 100 each. The company offered 12,000 shares to the public which were payable : Rs. 20 per share on application, Rs. 40 per share on allotment and Rs.40 on call. Applications for 18,000 shares were received on which the directors allotted as follows:

    Application for 10,000 shares- full
    Application for 5,000 shares-2,000 shares
    Application for 3,000 shares- Nil
    The excess application money was adjusted towards allotment. All the money due on allotment and call was fully received. Make the necessary entries in the company's books.

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

Liabilities	Rs.	Assets	Rs.
Share Capital:		Goodwill	1,00,000
50,000 fully paid shares of Rs. 10 each	5,00,000	Land & Buildings	1,62,000
Securities premium A/c	50,000	Plant & Machinery	2,07,000
Creditors	62,000	Stock	92,000
Bank Overdraft	73,000	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 amounts:

	Rs.
Land & Buildings	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.

18. Following details are available about the business of Sagar Ltd.

    (a) Profits: 1994 – Rs.80,000; in 1995 – Rs. 1,00,000; in 1996 – Rs.1,20,000;
    (b) Non – recurring income of Rs. 8,000 is included in the profits of 1995
    (c) Profits of 1994 have been reduced by Rs.12,000 because goods were destroyed by fire;
    (d) Goods have not been insured but it is thought prudent to insure them in future. The insurance premium is estimated at Rs.800 per year;
    (e) Reasonable remuneration of the proprietor of the business is Rs.12,000 per year but it has not been taken into account for calculation of above mentioned profits;
    (f) Profits of 1996 include Rs.10,000 income on investment. Calculate goodwill on the basis of three years purchase of the average profit of last three years.

19. Ganesh Ltd., was registered on 1.7.97 to acquire the running business of suneel & co., with effect from 1.1.97. The following was the profit and loss account of the company on 31.12.97.

Particulars	Rs.	Particulars	Rs.
To Office expenses	54,000	By Gross Profit	2,25,000
To Formation expenses(Written off)	10,000		
To Stationery & Postage	5,000		
To Selling Expenses	60,000		
To Directors' Fees	20,000		
To Net Profit	76,000		
	2,25,000		2,25,000

You are required to prepare a statement showing profit earned by the company in the pre and post incorporation periods. The total sales for the year took place in the ratio of 1:2 before and after incorporation respectively.

Section C $(2 \times 15 = 30)$ Marks

Answer any **TWO** questions

20. Good prospects Ltd. issued 40,000 shares of Rs. 10 each at a premium of Rs. 2 per' share. The shares were payable as follows:
    Rs. 2 on application
    Rs. 5 on allotment (including premium)
    Rs. 5 on first and final call.
    All the shares were applied for and allotted. All moneys were received with the exception of the first and final call on 1,000 shares which were forfeited. 400 of these were reissued as fully paid at Rs. 8 per share.

    Give the necessary journal entries, prepare the bank A/c and the balance sheet of the company.

21. Fast Forward Limited made an issue of 60,000 shares which were underwriters as follows:

    'X' – 30,000 shares; 'Y' – 18,000 shares and 'Z' – 12,000 shares.
    In addition, there was 'Firm' Underwriting as follows:
    'X' – 3,000 shares; 'Y' – 1,500 shares and 'Z' – 4,500 shares.
    The total subscriptions including 'Firm' underwriting were for 45,600 shares. The following marked form were included in the subscriptions.
    'X' – 9,000 shares; 'Y' – 13,500 shares and 'Z' – 5,100 shares. Show the allocative of liabilities of each underwriter.
    (a) If the benefit of 'Firm' Underwriting applications is given to individual underwriters by treating them like 'Marked forms'.

(b) If the benefit of firm underwriting applications is not given to individual underwriters, by treating them like 'Unmarked forms'.

22. Moon and Star Co. Ltd. is a company with an authorized capital of Rs.5,00,000 divided into 5,000 equity shares of Rs.100 each on 31.12.2003 of which 2,500 shares were fully called up. The following are the balances extracted from the ledger as on 31.12.2003.

Trial Balance of Moon & Star Co. Ltd.

Debit	Rs.	Credit	Rs.
Opening stock	50,000	Sales	3,25,000
Purchases	2,00,000	Discount received	3,150
Wages	70,000	Profit & Loss A/c	6,220
Discount allowed	4,200	Creditors	35,200
Insurance (up to 31.3.04)	6,720	Reserves	25,000
Salaries	18,500	Loan from managing director	15,700
Rent	6,000	Share capital	2,50,000
General expenses	8,950		
Printing	2,400		
Advertisements	3,800		
Bonus	10,500		
Debtors	38,700		
Plant	1,80,500		
Furniture	17,100		
Bank	34,700		
Bad debts	3,200		
Calls-in-arrears	5,000		
	6,60,270		6,60,270

You are required to prepare Profit & Loss Account for the year ended 31.12.2003 and a balance sheet as on that date. The following further information is given:
Closing stock was valued at Rs.1,91,500
Depreciation on plant at 15% and on furniture at 10% should be provided.
A tax provision of Rs.8,000 is considered necessary.
The directors declared an interim dividend on 15.8.2003 for 6 months ending June 30, 2003 @ 6%.

23. On 31st Dec. 1998. 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
Profit & Loss 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		
	14,80,000		14,80,000

On Dec 31st 1998, 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: 1996 - Rs.1,03,200; 1997 - Rs.1,04,000 and 1998 - 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 the company's share by (a) the net assets method and (b) the Yield method.