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3239 – C01 – IIISC – R – N – 14

THIRD SEMESTER B.Com. (Revised) DEGREE EXAMINATION, NOVEMBER 2014

CORPORATE ACCOUNTING – I

Paper I

Time : 3 Hours]

[Max. Marks : 80

*Attempt all the sections as per internal choice;
Simple calculators are allowed to be used;
Question 13 is Compulsory.*

Section – A (Marks: 10 × 2 = 20)

1. Answer any **ten** of the following:
- a) What is internal reconstruction?
 - b) What is 'firm' underwriting?
 - c) Give the meaning of bearer debentures.
 - d) Mention two methods of redemption of debentures.
 - e) Who are underwriters?
 - f) What is final dividend? Who declares it?
 - g) What are right shares?
 - h) Write two examples of current liabilities.
 - i) Why profit prior to incorporation is calculated?
 - j) How do you calculate sales ratio?
 - k) What are the types of reconstructions?
 - l) Name any two rights of preference shareholders.

Section – B (Marks: 3 × 5 = 15)

*Answer any **three** of the following.*

- 2) Om Ltd. issued 1000, 9% debentures of ₹. 100 each. Give the journal entries if these are:
- a) issued at par and redeemable at par.
 - b) issued at a discount of 10% and redeemable at par.
 - c) issued at a discount of 10% and redeemable at a premium of 5%.

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3. What are the different sources for issue of bonus shares?
4. The following scheme of reconstruction was adopted by a company:
- The shareholders holding 10,000 shares of ₹. 10 each were to receive $\frac{2}{5}$ of their holding in fully paid equity shares of ₹. 10 each and $\frac{1}{5}$ of their holding in 8% debentures of ₹. 10 each fully paid in cancellation of all the old shares.
 - Write off the profit and loss account of ₹. 30,000 (debit balance) and patents ₹. 20,000.
 - General Reserve of ₹. 10,000 (credit balance) may be used for reconstruction purpose.

Write the journal entries in the books of the company.

5. Ramco Ltd. issued 2,00,000 preference shares. The issue was underwritten as under:

Ram – 30% Sham – 20% and Dham – 50%

Subscription was received for 1,20,000 shares, out of which applications for 50,000 shares had the marking of Ram, those for 40,000 shares that of Sham and 10,000 shares that of Dham. Applications for 20,000 shares did not bear any mark.

Compute the net liability of each underwriter.

6. Shri Sai Ltd. issued 1,000 shares of Rs. 10 each. Amount was collected as follows:

₹. 2 on application

₹. 3 on Allotment

₹. 5 on first and final call

All the shares were subscribed and the amount duly received. Prepare (a) Share capital account and (b) Bank account.

7. Liyo Ltd. was incorporated on 01-04-2013. It took over the business of Lee Ltd. as from 01-01-2013. Total sales from 01-01-2013 to the end of the accounting period i.e. 31-12-2013 was ₹. 24,00,000. However, sales for the first six months was $\frac{1}{3}$ of the sales of the next months. Find (a) Time ratio, (b) Sales ratio.

Section – C (Marks: 3 × 15 = 45)

Question number 13 is compulsory. Answer any **two** of the remaining.

8. On 01-07-2011 Rallies Ltd. issued 1,000, 10% debentures of ₹. 100 each. The company pays interest half yearly on 30th June and 31st December.

The following purchases were made by the company in the open market:

- a) On 30-04-2012: 200 debentures of ₹. 94 ex-interest.
b) On 31-08-2013: 100 debentures at ₹. 96 cum interest.

The debentures purchased on 30-04-2012 were cancelled on 31-12-2013. All the payments were duly made on the respective dates.

Pass the journal entries. Assume that the company closes its accounts every year on 31st December.

9. ABC Ltd was incorporated on 01-07-2013. It took over the business of XYZ Ltd as from 01-04-2013. Following was the information for the year ended 31-03-2014:

Particulars	₹.
Gross Profit	1,50,000
Expenses:	
Salaries	72,000
Printing and stationery	8,000
Office expenses	28,000
Rent and Rates	3,600
Commission on sales	16,000
Audit fees	4,000
Free samples	4,000
Interest on debentures	6,000
Depreciation	8,000
Bad debts	1,600
Directors fees	2,000
Preliminary expenses	2,000
General expenses	800
Total	1,56,000
Net Loss	6,000

Additional data:

- a) Bad debts upto 30-06-2013 was ₹. 400
b) Rent was paid at ₹. 200 per month.
c) Sales upto 01-07-2013 was ₹. 1,60,000 and thereafter ₹. 2,40,000.

Find out profit prior to and after incorporation systematically.

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10. From the following information furnished by Unicorn Ltd. Prepare the statement of profit and loss (in vertical form) for the year ended 31-03-2014 alongwith relevant notes to accounts.

Name of Accounts	Dr. ₹.	Cr. ₹.
Sale of goods	–	8,70,000
Sale of service	–	75,000
Other operating income	–	25,000
Excise duty	1,00,000	–
Interest received	–	7,500
Dividend received	–	2,500
Other non-operating income	–	1,500
Miscellaneous income	–	2,000
Opening stock of raw-materials (1-4-13)	50,000	–
Purchase of raw-materials	4,75,000	–
Purchase of stock in trade	1,60,000	–
Return of stock in trade	–	10,000
Opening stock of finished goods (1-4-2013)	45,000	–
Opening stock of work in progress (1-4-2013)	12,500	–
Opening stock of stock in trade (1-4-2013)	15,000	–
Salaries and wages	99,000	–
Contribution to P.F.	8,500	–
Staff welfare expenses	2,500	–
Interest expenses	6,000	–
Other borrowing costs	1,500	–
Power and Fuel	5,000	–
Audit fees	15,000	–
Profit on sale of tangible fixed assets	–	3,000
Profit on sale of long term investments	–	2,000
Loss on sale of intangible fixed assets	1,000	–
Profit from disposal of brand	–	5,000
Loss in value of investments in subsidiary	1,000	–
Tax paid on net income of extra ordinary items	1,500	–
Tax expenses of current year	5,000	–
	<u>10,03,500</u>	<u>10,03,500</u>

Adjustments:

- Provide depreciation on fixed assets ₹.15,000
- Closing stock on 31-03-2014:
Finished goods ₹. 50,000; work-in-progress ₹. 15,000;
Stock in trade ₹. 10,000 and Raw materials ₹. 75,000

11. The following scheme of reconstruction of Alwa Ltd. was approved by the court:

- The preference shares to be reduced to ₹. 70 per share fully paid.
- The equity shares be reduced to ₹. 50 per share fully paid.
- The debenture holders to take over stock in full satisfaction of the amount due to them.
- The amount so available be used to write off goodwill, preliminary expenses, profit and loss account debit balance and depreciate freehold property and plant by 10% and to write off book debts by ₹. 10,000.

The statement of assets and liability of company on 31-03-2014 was as follows:

Particulars	Note No.	Amount ₹.
I. Equity and Liabilities:		
Shareholders Fund: Share capital	1	7,00,000
Reserves and surplus	2	(-) 1,80,000
Non-current Liabilities: 10% Debentures	-	1,00,000
Current Liabilities: Trade payables (creditors)	-	90,000
Others (Bank overdraft)	-	<u>40,000</u>
Total		<u>7,50,000</u>
II. Assets: Non-current assets		
Intangible fixed assets (Goodwill)	-	30,000
Current Assets : Inventories (Stock)	-	75,000
Trade receivables (Debtors)	-	85,000
Cash and cash equivalents	-	<u>10,000</u>
Total		<u>7,50,000</u>

Notes:

1. Share capital: Authorised:	₹.
2,000, 8% preference shares of ₹.100 each	2,00,000
10,000 equity shares of ₹.100 each	<u>10,00,000</u>

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Particulars	Note No.	Amount ₹.
Subscribed capital:		
2,000, 8% preference shares of ₹. 100 each		2,00,000
5,000 equity shares of ₹. 100 each		5,00,000
Total		7,00,000
2. Reserves and surplus: Preliminary expenses		(–) 20,000
P & L Account (Loss)		(–) 1,60,000
Total		1,80,000
3. Tangible fixed assets (Non current assets):		
Freehold property		2,50,000
Plant		3,00,000
Total		5,50,000

Pass journal entries for the above and prepare the revised statement of Assets & Liabilities (Balance Sheet)

12. Prabhat Ltd. issued 2,000, 9% preference shares of ₹. 100 each and 5,000 equity shares of ₹. 10 each. The public subscribed for 3,000 preference shares and 6,000 equity shares. The amounts were to be collected as follows:

On preference shares

₹. 50 on application

₹. 20 on allotment and

₹. 30 on First & Final call

On equity shares

₹. 2 on application

₹. 7 on allotment and

₹. 1 on first & final call

The excess application money received were to be adjusted towards allotment and calls. All the money was duly received except the call money on 500 equity shares, held by Suresh.

Pass the journal entries in the books of the company and also prepare the statement of assets and liabilities (Balance sheet).

13. Case study (Compulsory)

The Board of Directors of a public limited company decided as follows:

- a) To pay 10% of current years profit, as commission to a managing director.
- b) To issue 1000 sweat equity shares to a manager for introducing a unique management technique to improve the performance of workers.
- c) To issue all the equity shares, in a subsequent issue of shares, to the public, without consulting the existing equity shareholders.
- d) To pay cash bonus of ₹. 100 on each equity share by utilising general reserves of the company.

Give your comments on the above decisions. State whether these decisions are legal or illegal.