2017

(October)

COMMERCE

(Honours)

(Corporate Accounting)

[BC–303(a)]

Marks : 75

Time : 3 hours

The figures in the margin indicate full marks for the questions

Answer **all** questions

1. *(a)* Discuss in brief Book Building Method as a new share issue procedure. 7

   (b) What is Debenture Redemption Reserve (DRR)? What are the SEBI guidelines regarding Debenture Redemption Reserve? 3+5=8

Or

(a) The following is a summary of a Balance Sheet of *XYZ* Ltd. as on 31st March, 2017 :

Balance Sheet

Liabilities	*Amount* ₹	*Assets*	*Amount* ₹
60000 Equity Shares of ₹ 10 each	6,00,000	Fixed Assets	9,00,000
40000, 8% Redeemable Preference Share of ₹ 10 each	4,00,000	Stock	7,00,000
General Reserve	5,00,000	4% Investment	2,50,000
Profit & Loss A/c	1,80,000	Cash at Bank	1,50,000
Securities Premium	1,20,000		
Current Liabilities	2,00,000		
	20,00,000		20,00,000

The company decided to redeem the whole of the Preference Shares at a premium of 6% on 1st April, 2017. To finance the above, all the 4% investments were sold and the sale proceed realized ₹ 2,40,000. The company also decided to issue 8000 Equity Shares of ₹ 10 each to the existing shareholders at a premium of ₹ 2·50 and they were fully paid on 10th April, 2017. The company issued bonus shares in the ratio of 4 shares

(*Continued*)

fully paid for each 5 shares held as on 31st March, 2017. The director desires to make the minimum reduction is the Revenue Reserves.

You are required to pass necessary Journal Entries in the books of the company. 12

(b) What do you mean by Employee Stock Option Plan? 3

2. Sencom Ltd. was incorporated on 1st June, 2016 to acquire the individual business of Mr. Sen with effect from 1st April, 2016. The company obtained commencement certificate on 1st August, 2016. The purchase consideration was agreed at ₹ 35,000 to be satisfied on 1st October, 2016 by issue of 2000 Equity Shares of ₹ 10 each fully paid and ₹ 15,000, 7% debentures. On 31st March, 2017 the Trial Balance extracted from the books showed the following :

Trial Balance

	₹		₹
Purchase	38,829	Sales	52,185
Salary	840	Creditors	4,262
Postage	441	Capital	29,450
Warehouse Rent	921		
Packing Expenses	1,890		
Office Expenses	627		

(*Turn Over*)

	₹	₹
Opening Stock	5,261	
Directors Salary	1,000	
Debenture Interest	525	
Fixed Assets	25,000	
Bank	9,745	
Preliminary Expenses	218	
Office Rent	600	
	85,897	85,897

Prepare a statement of profit & loss for the year ending 31st March, 2017 showing the profit of pre- and post-incorporation period taking into consideration the following adjustments : 15

(i) Closing Stock amounted to ₹ 4,946

(ii) Gross Profit margin was constant throughout the year and the average monthly sale for July and August were double of those for the remaining months of the year

(iii) Depreciation shall be provided at 10% per annum on fixed assets

(Continued)

Or

From the following Trial Balance extracted from the books of *Y* Ltd., prepare a statement of Profit & Loss A/c and the Balance Sheet as on 31st March, 2017 : 15

Trial Balance

Dr.	₹	*Cr.*	₹
Machinery	3,00,000	60000 Equity Shares of ₹ 10 each	6,00,000
Purchase	5,00,903	General Reserve	2,50,000
Manufacturing Expenses	3,59,000	Creditors	43,384
Office Expenses	57,892	Sales	9,83,947
Motor Vehicle	20,000	Depreciation Provision	71,000
Opening Stock	1,72,058	Interest	8,544
Debtors	2,23,380	Profit & Loss A/c	54,348
Investment	2,88,950		
Bank	72,240		
Directors' Fee	1,800		
Interim Dividend	15,000		
	20,11,223		20,11,223

Additional Information :

(i) Value of closing stock—₹ 1,48,680

(ii) Depreciation is to be provided ₹ 10,000 on fixed assets

(iii) Outstanding office expenses ₹ 2,108

(iv) The directors propose a final dividend @ 4% in addition to the interim dividend

(v) Accrued interest on investment was ₹ 2,750

(Turn Over)

3. (a) Discuss briefly the main objective of analysis of financial statements. 7

(b) What are the accounting ratios that are likely to help the management of a manufacturing unit in forming an opinion about the efficiency of the business? 8

Or

From the following details relating to the accounts of *ABC* Ltd., prepare a Cash Flow Statement : 15

Liabilities & Equities	2015 ₹	2016 ₹
Equity Share Capital	3,00,000	4,00,000
8% Redeemable Preference Share Capital	1,50,000	1,00,000
Capital Reserve	—	20,000
General Reserve	82,000	1,00,000
Profit & Loss A/c	15,000	38,000
Creditors	25,000	47,000
Bills Payable	50,000	52,000
Provision for Taxation	40,000	50,000
	6,62,000	8,07,000

Assets		
Goodwill	1,00,000	80,000
Building	2,00,000	1,70,000
Machinery	80,000	2,00,000
Investments	20,000	30,000
Debtors	1,40,000	1,70,000
Stock	97,000	1,39,000
Bank	25,000	18,000
	6,62,000	8,07,000

(Continued)

Additional Information :

(i) A part of the building was sold and the profit has been credited to capital reserve

(ii) A machine of the value of ₹ 12,000 was sold for ₹ 10,000. Depreciation of ₹ 10,000 is charged on machinery

(iii) Investments are trade investments and ₹ 3,000 by way of dividend was received including ₹ 1,000 from pre-acquisition profit which had been credited to investment account

4. (a) Discuss the main points to be considered before suggesting a scheme of internal reconstruction. 8

(b) Distinguish between Absorption and Reconstruction of company. 7

Or

Nylon Ltd. and Cotton Ltd. agree to amalgamate and form a new company, Rayon Ltd. which will take over all the assets and liabilities of the two old companies. In case of Nylon Ltd., the assets and liabilities are to be taken over at book values for Equity

(Turn Over)

Shares of ₹ 10 each, in the new company at the rate of five shares of Rayon Ltd. at a premium of 10% for every four shares in Nylon Ltd.

In the case of Cotton Ltd. the holders of 10% Preference Shares would be allotted four 11% Preference Shares of ₹ 100 each is Rayon Ltd. for every five Preference Shares in Cotton Ltd. The 9% debenture holders of Cotton Ltd. would be discharged at a premium of 10% by issue of 15% mortgage debentures of Rayon Ltd. The equity shareholders would be allotted sufficient shares at par to cover the balance of their account after reducing machinery by 15% and providing 5% on debtors.

The summarized Balance Sheet of Nylon Ltd. and Cotton Ltd. on the date of merger were as follows :

Balance Sheet

Liabilities and Equities	*Nylon Ltd.* ₹	*Cotton Ltd.* ₹
Equity Shares Capital of ₹ 10 each	2,00,000	2,50,000
10% Preference Shares Capital of ₹ 100 each		
9% Debentures	—	1,50,000
Profit & Loss A/c	—	1,00,000
Creditors	2,75,000	—
	37,500	45,000
	5,12,500	5,45,000

(*Continued*)

Assets	*Nylon Ltd.* ₹	*Cotton Ltd.* ₹
Building	—	1,00,000
Machinery	4,00,000	2,50,000
Debtors	47,500	75,000
Stock	32,500	30,000
Cash	32,500	20,000
Profit & Loss A/c	—	70,000
	5,12,500	5,45,000

Show the Journal Entries in the books of Cotton Ltd. and Rayon Ltd. 9+6=15

5. (a) Distinguish between Purchased goodwill and Inherent goodwill. 3

(b) From the following information, calculate *(i)* value of goodwill at 5 years purchase of super profits, if any, *(ii)* value of Equity Shares on net asset basis and *(iii)* number of shares which can be acquired with an investment of ₹ 17,000 :

Issued and Paid-up capital	₹
6% Preference Shares of ₹ 100 each	5,00,000
Equity Shares of ₹ 10 each	3,00,000
	8,00,000

The average net profit of the business is ₹ 57,000. The expected normal yield is 7% in case of such Equity Shares. The total tangible assets is ₹ 9,49,000 and total outside liabilities is ₹ 95,000. Income tax is to be ignored. 5+5+2=12

(*Turn Over*)

Or

The following are the summarized Balance Sheet of *H* Ltd. and *S* Ltd. as on 31st March, 2017 :

Liabilities	*H Ltd.* ₹	*S Ltd.* ₹
Preference Share Capital	3,00,000	40,000
Equity Share Capital of ₹ 100 each	9,00,000	4,00,000
General Reserve as on 1st April, 2016	2,00,000	1,10,000
Profit & Loss A/c	2,80,000	1,80,000
Creditors	1,40,000	1,00,000
Bills Payable	20,000	40,000
	18,40,000	8,70,000

Assets	*H Ltd.* ₹	*S Ltd.* ₹
Goodwill	20,000	30,000
Building	6,50,000	2,90,000
Machinery	3,30,000	1,80,000
Investment in *S* Ltd.	4,80,000	—
Debtors	40,000	1,50,000
Stock	2,00,000	1,80,000
Cash	1,20,000	40,000
	18,40,000	8,70,000

Additional Information :

(i) *H* Ltd. acquired 3000 shares of *S* Ltd. on 30th September, 2016

(ii) *S* Ltd. had a credit balance in the Profit & Loss A/c of ₹ 1,00,000 on 1st April, 2016

(Continued)

(iii) Machinery of *S* Ltd. in the beginning was ₹ 2,00,000. *H* Ltd. revalued it by ₹ 1,10,000 more at the time of purchase of share

(iv) There was a bonus issue of ₹ 40,000 out of post acquisition profit of *S* Ltd.

(v) Included in creditors of *S* Ltd. are ₹ 40,000 for goods supplied by *H* Ltd.

Prepare Consolidated Balance Sheet of *H* Ltd. and its subsidiary *S* Ltd. as on 31st March, 2017. 15

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