



LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.B.A. DEGREE EXAMINATION – BUSINESS ADMINISTRATION

FOURTH SEMESTER – NOVEMBER 2016

BU 4504 - COMPANY ACCOUNTS

Date: 07-11-2016
Time: 01:00-04:00

Dept. No.

Max. : 100 Marks

PART - A

ANSWER ALL THE QUESTIONS

10 X 2 = 20

1. What do you mean by issue of shares at “Par”, at “Premium” and at “Discount”?
2. Explain the term firm underwriting.
3. Explain Capital Redemption Reserve account.
4. What are the methods of computing purchase consideration?
5. List out the different types of debentures.
6. Name any two items that appear under finance cost.
7. A firm earned net profits during the last five years as follows: I year Rs.4,800; II year Rs.7,200; III year Rs.10,000; IV year Rs. 3,000 and V year Rs.5,000. Calculate the value of goodwill on the basis of three years purchase of the last five years average profits.
8. Excel Ltd., made the following issue of debentures on 1.4.2007.
 - a. 200 10% debentures of Rs.100 each to settle to a creditor who supplied a machine on credit at a price of Rs.18,000
 - b. 300 10% debentures of Rs.100 each for cash at a discount of 5%.Give journal entries
9. Pradeep Ltd., has taken over the business of Mr.Sandeep and agreed to pay the purchase consideration as given below:
 - a. 2,800 Equity shares of Rs.50 each fully paid at Rs.60 per share.
 - b. Rs.25,000 in 8% preference shares of Rs.100 each issued at a premium of 25% and
 - c. Rs.20,000 in cash.You are required to calculate the amount of purchase consideration payable to Mr.Sandeep.
10. What do you understand by the term cash flow statement?

PART - B

ANSWER ANY FOUR QUESTIONS ONLY:

4 X 10 = 40

11. Explain the provisions of section 76 of the Companies Act, 1956 relating to underwriting of shares and debentures.
12. Explain the main factors affecting the value of the goodwill of a Joint stock company.
13. State the rules regarding transfer of profits to reserve
14. United India Co., issued 1,00,000 shares which were underwritten as follows:
A- 40%, B- 30%, C – 20%.
The Firm underwriting were as follows A – 7,500shares, B – 5,000 shares, C – 12,500 shares. The total subscriptions excluding firm underwriting but including marked applications were for 50,000 shares. The marked applications were as follows: A – 20,000; B – 12,500; C – 5,000 shares. Prepare a statement showing the liability of the underwriters
 - a. If Firm underwriting is treated as Marked applications
 - b. If firm underwriting is treated as Unmarked applications

15. R Ltd., has an authorised share capital of Rs.2,50,000 comprising of 50,000 6% redeemable cumulative preference shares of Re.1 each and 2,00,000 ordinary shares of Re.1 each. The preference shares are redeemable on 1st July 1983 at Rs.1.05 per share. The summarised balance sheet of the company as on 31st December 1982 was:

| Liabilities | Amount (Rs) | Assets | Amount (Rs) |
|---------------------------------|--------------------|---------------|--------------------|
| <u>Share Capital</u> | | Sundry Assets | 1,96,700 |
| <u>Issued and Fully Paid up</u> | | | |
| Preference | 50,000 | | |
| Ordinary | 1,00,000 | | |
| Capital Reserve | 9,500 | Investments | 14,000 |
| General Reserve | 20,000 | Bank balance | 28,000 |
| Profit & Loss A/c | 42,500 | | |
| Creditors | 16,700 | | |
| Total | 2,38,700 | Total | 2,38,700 |

The necessary resolutions were duly passed and the following transactions carried through on the dates stated:

On 31st May 1983, in order to provide cash towards the redemption of the preference Shares

- All the investments were sold for Rs.18,000
- 20,000 ordinary shares of Re.1 each were issued to the existing shareholders at Rs.1.25 per share fully payable.
- On 1st July 1983, the preference shares were duly redeemed and on 30th September 1983, a bonus issue of ordinary shares was made at the rate of one new share for every ten shares held. Give the necessary journal entries and prepare the balance sheet.

16. The following is the balance sheet of Anant Ltd., as on 31st March 1998.

| Liabilities | Amount (Rs) | Assets | Amount (Rs) |
|--|--------------------|----------------------------|--------------------|
| Share Capital | | Fixed Asset: | |
| 1,500 8% cumulative Preference shares of Rs.100 each | 1,50,000 | Property at Cost 1,10,000 | |
| 2000 equity shares of Rs.10 each | 2,00,000 | Less Depreciation 20,000 | 90,000 |
| Share Premium | 50,000 | Machinery at Cost 2,20,000 | 1,80,000 |
| 6% Debentures | 50,000 | Less Depreciation 40,000 | |
| Debentures Interest Outstanding | 3,000 | Good will | 17,000 |
| Creditors | 20,000 | Patents | 22,000 |
| | | Current Assets: | |
| | | Stock | 15,000 |
| | | Debtors | 31,200 |
| | | Preliminary Expenses | 32,000 |
| | | P&L a/c | 85,800 |
| Total | 4,73,000 | Total | 4,73,000 |

The following scheme of capital reduction was duly sanctioned

- Equity shares to be reduced by Rs.90 each
- Preference shares to be reduced to Rs.90 each
- The debenture holders to waive their right over outstanding interest
- One new equity share paid up to the extent of 50% only to be issued for each of Rs.100 of gross preference dividend, which has not been declared since April 1996.
- All credit balances not being the outside liabilities and all debit balances not being the amounts receivable as well as the intangible assets are to be written off.
- Any balance available is to be utilised in writing down the fixed assets in proportion to their written down values. Give journal entries for the above transactions.

17. 'A' Company Ltd., was incorporated on May 1, 2003 to take over the business of 'X & Co' as a going concern from January 1, 2003. The profit and loss account for the year ending December 31, 2003 was as follows:

Profit and loss a/c of A co Ltd., for the year ended 31.12.2003

| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
|-------------------------|-------------|-----------------------------------|-------------|
| To rent & taxes | 12,000 | By Trading Account (Gross Profit) | 1,55,000 |
| To Insurance | 3,000 | | |
| To Electricity charges | 2,400 | | |
| To Salaries | 36,000 | | |
| To Director's fees | 3,000 | | |
| To Auditor's fees | 1,600 | | |
| To Commission | 6,000 | | |
| To Advertisement | 4,000 | | |
| To Discount | 3,500 | | |
| To Office Expenses | 7,500 | | |
| To Carriage | 3,000 | | |
| To Bank charges | 1,500 | | |
| To Preliminary expenses | 6,500 | | |
| To Bad debt | 2,000 | | |
| To Interest on loan | 3,000 | | |
| To Net profit | 60,000 | | |
| | 1,55,000 | | 1,55,000 |

The total turnover for the year ending December 31, 2003 was Rs.5,00,000 divided into Rs.1,50,000 for the period upto May 1, 2003 and Rs.3,50,000 for the remaining period.

Ascertain the profits earned prior to incorporation by the company.

PART C

ANSWER ANY TWO QUESTIONS:

2 X 20 = 40

18. Ambitions Ltd., issued a prospectus, inviting applications for 2,00,000 shares of Rs.10 each at a premium of Rs. 5 per share, payable as follows

| | | |
|----------------|---|---------------------------------------|
| On application | - | Rs.2.50 per share |
| On allotment | - | Rs.7.50 per share (including premium) |
| On first call | - | Rs.4.00 per share |
| On final call | - | Re.1.00 per share |

Applications were received for 3,00,000 shares and allotment was made pro-rata to the applicants of 2,40,000 shares, the remaining applications being refused. Money received in excess of the applications was adjusted towards the amount due on allotment.

David, to whom 4,000 shares were issued, failed to pay the allotment money and on his failure to pay the first call, his shares were forfeited. Madan, the holder of 6,000 shares failed to pay the two calls and so his shares were also forfeited. All these shares were sold to Robert, credited as fully paid for Rs.8 per share.

Pass necessary journal entries to record the above issue of shares by the company.

19. A Ltd., was registered with an authorised capital of Rs.6,00,000 divided into shares of Rs.10 each. The following Trail Balance as on 31st March 1998

| | Debit Balance (Rs) | Credit Balance (Rs) |
|----------------------|--------------------|---------------------|
| Goodwill | 25,000 | |
| Cash | 750 | |
| Bank | 39,900 | |
| Purchases | 1,85,000 | |
| Preliminary Expenses | 5,000 | |
| Share Capital | | 4,00,000 |

| | | |
|-------------------------|------------------|------------------|
| 12% debentures | | 3,00,000 |
| P&L account (Cr) | | 26,250 |
| Calls in Arrears | 7,500 | |
| Premises | 3,00,000 | |
| Plant & Machinery | 3,30,000 | |
| Interim Dividend | 39,250 | |
| Sales | | 4,15,000 |
| Stock (1.4.97) | 75,000 | |
| Furniture & Fixtures | 7,200 | |
| Debtors | 87,000 | |
| Wages | 84,865 | |
| General Expenses | 6,835 | |
| Freight & Carriage | 13,115 | |
| Salaries | 14,500 | |
| Director's Fees | 5,725 | |
| Bad Debts | 2,110 | |
| Debenture Interest paid | 18,000 | |
| Bills Payable | | 37,000 |
| Creditors | | 40,000 |
| General Reserve | | 25,000 |
| Provision for Bad Debts | | 3,500 |
| | 12,46,750 | 12,46,750 |

Prepare statement of Profit and Loss Account and Balance Sheet in proper form after making the following adjustments

- Depreciate Plant & Machinery by 15%.
- Write off preliminary expenses.
- Provide for 6 months interest on debentures
- Leave bad and doubtful debts provision at 5% on sundry debtors
- Provide for income tax at 50%
- Stock on 31.3.1998 was Rs.95,000.
- Provide for corporate dividend tax at 17%.

20. The following is the balance sheet of Robert Lee as on 31st December 1998.

| Liabilities | Amount (Rs) | Assets | Amount (Rs) |
|--|--------------------|---|--------------------|
| Issued Capital 20,000 shares of Rs.10 each | 2,00,000 | Land & Buildings | 1,10,000 |
| P&L account | 32,000 | Plant & machinery at cost less Depreciation | 1,30,000 |
| General Reserves | 40,000 | Trade Marks | 20,000 |
| Taxation Reserve | 60,000 | Stock | 48,000 |
| Workmen's Savings Account | 30,000 | Debtors | 88,000 |
| Creditors | 98,000 | Cash | 52,000 |
| | | Preliminary Expenses | 12,000 |
| Total | 4,60,000 | Total | 4,60,000 |

The Plant and Machinery is worth Rs.1,20,000 and Land and Buildings have been valued at Rs. 2,40,000. Rs.8,000 of the debts are bad. The profits of the company have been as follows: 1996 – Rs.80,000; 1997 – Rs.90,000; and 1998 – Rs.1,06,000. It is the company's practice to transfer 25% of the profits to reserve. Ignore taxation, find out the value of shares. Similar companies give an yield of 10% on the market value of their shares. Goodwill may be taken to be worth Rs.1,60,000.

21. What is a cash flow statement? Explain the benefits and Limitations of a cash flow statement.
