

LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034**B.Com. DEGREE EXAMINATION – ACCOUNTING AND FINANCE**THIRD SEMESTER – **APRIL 2022****UAF 3501 – CORPORATE ACCOUNTING**

Date: 23-06-2022

Dept. No.

Max. : 100 Marks

Time: 09:00 AM - 12:00 NOON

PART – A**Q. No****Answer ALL questions****(10 x 2 = 20 Marks)**

- 1 What do you mean by issue of shares at 'Par', at 'Premium' and at 'Discount'?
- 2 What is underwriting?
- 3 Explain the meaning of 'Redeemable Preference Shares'.
- 4 What is meant by revenue from operations?
- 5 How do you determine 'Fair Value' of shares?
- 6 X 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
Shares issued at par and b) Shares are issued at a discount of 10%
- 7 ICRA Ltd issued 1,20,000 preference shares of Rs.10 each. The whole issue was underwritten by Mark for maximum commission permitted by law. Applications for 1,00,000 shares were received in all. Determine the net liability of Mark and commission payable to him.
- 8 The profits of T Ltd for the last 5 years were as follows:

Years	Rupees
1994	15,000
1995	18,000
1996	22,000
1997	25,000
1998	27,000

Compute the value of goodwill of T Ltd on the basis of 4 years purchase of weighted average profit after assigning weights 1,2,3,4 and 5 serially to the profits.

- 9 What do you understand by 'Alteration of Share Capital'?
- 10 What is the need for calculating 'Profit prior to incorporation'?

PART – B**Answer any FOUR questions****(4 x 10 = 40 Marks)**

- 11 The following is the balance sheet of HS Ltd as on June 30th 1993.

Liabilities	Rupees	Assets	Rupees
Share Capital: 30,000 6% Redeemable Preference Shares of Rs.10 each fully paid	3,00,000	Fixed Assets	10,00,000
60,000 equity shares of Rs.10 each fully paid	6,00,000	Investments	2,10,000
Securities Premium A/c	2,90,000	Current Assets:	
General Reserve	4,00,000	Stock	4,40,000
Profit and Loss Account	2,45,000	Sundry Debtors	1,60,000
Sundry Creditors	1,95,000	Cash at Bank	2,20,000
	20,30,000		20,30,000

The company exercised its option to redeem, on July 1, 1993 the whole of the preference shares at a premium of 5%.

To assist in financing the redemption, all the investments were sold, realizing Rs.1,95,000. On September 1, 1993, the company made a bonus issue of seven equity shares fully paid for every six equity shares held on that date.

The appropriate resolutions were passed and the above transactions were duly completed.

You are required to show the journal entries and the balance sheet of the company as it would appear after completion of the transactions.

- 12 X Ltd was registered on 01-07-97 to acquire the running business of Sriram & Co with effect from 01-01-97. The following was the profit and loss account of the company on 31-12-97.

Particulars	Rupees	Particulars	Rupees
To Office Expenses	54,000	By Gross Profit B/d	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.

- 13 The following is the Balance Sheet of Mr C as on 30th September 1998

Liabilities	Rupees	Assets	Rupees
Capital	1,64,000	Land & Buildings	36,000
General Reserve	40,000	Plant	54,000
Creditors	38,040	Investments	30,000
		Stock	26,850
		Bank	75,990
		Debtors	19,200
	2,42,040		2,42,040

The following were the net profits for the years ended

30 th September 1996	32,280
30 th September 1997	36,870
30 th September 1998	43,350

The above amounts include income from investments Rs.1,800 each year.

You are required to value the goodwill of the above business at 2 years purchase of the average super profit for 3 years, taking into account the fact that the 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 C.

- 14 Clearing and Forwarding Co. Ltd 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 were included in the subscriptions.

'X' – 9,000 shares; 'Y' – 13,500; 'Z' – 5,100 shares. Show the allocative of liabilities of each underwriter.

(a) If the benefit of 'Firm' underwriting applications is given to individuals 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'.

- 15 The balance sheet of REC company Ltd as on 31st December 1998 was as follows:

Liabilities	Rupees	Assets	Rupees
20,000 shares of Rs.10 each	2,00,000	Land & Building	1,68,000
Profit and Loss Account	40,000	Plant & Machinery	1,20,000
Debentures	30,000	Furniture & Fittings	10,000
Trade Creditors	40,000	5% (tax free) Govt.	40,000

		Bonds	
Provision for taxation	18,000	Stock	4,000
Proposed dividend	30,000	Book Debts	12,000
		Cash	4,000
	3,58,000		3,58,000

The net profits of the company after charging depreciation and taxes were as follows:

1994 – Rs.34,000; 1995 – Rs.38,000; 1996 – Rs.36,000; 1997 – Rs.40,000; 1998 – Rs.38,000.

On 31st December 1998 Land & Buildings were revalued at Rs.1,90,000; Plant & Machinery at Rs.1,42,000; and furniture and fittings at Rs.8,000.

10% representative a fair commercial rate of return on investment in the company.

Calculate the value of goodwill basing it at five years' purchase of the average super profits for the last five years.

- 16 Sun Ltd issued 50,000 equity shares of Rs.10 each at par. The entire issue was underwritten as follows:

A-30,000 shares (firm underwriting 4,000)

B-15,000 shares (firm underwriting 5,000)

C-5,000 shares (firm underwriting 1,000)

The total applications including firm underwriting were for 40,000 shares. The marked applications were as follows:

A-10,000 shares; B- 7,000 and C – 3,000 Shares.

The underwriting contract provides that credit for unmarked applications be given to the underwriters in proportion to the shares underwritten.

Determine the liability of each underwriter and amount of commission payable to them assuming the rate to be 2% on issue price.

- 17 The Balance Sheet of ICRA Ltd as on 31-03-2021 was as follows

Liabilities	Rupees	Assets	Rupees
20,000 Equity Shares of Rs.10 each fully paid up	2,00,000	Fixed Assets	2,37,500
10% Redeemable Preference shares of Rs.100 each fully paid up	1,00,000	Investments	12,500
Securities Premium	4,850	Current Assets	95,000
Profit and Loss Account	60,000	Share Issue Expenses	48,750
Current Liabilities	28,900		
	3,93,750		3,93,750

On the above date, it was decided to redeem the preference shares at a premium of 10%. The Directors wish that only the minimum number of fresh equity shares of Rs.10/- each at a premium of 5% be issued to provide for redemption of such preference shares as could not otherwise be redeemed.

Give the necessary Journal Entries and also prepare the Balance Sheet after redemption.

PART – C

Answer any TWO questions

(2 x 20 = 40 Marks)

- 18 India Motor Parts & Accessories Ltd (IMPAL) issued a prospectus inviting applications for 20,000 shares of Rs. 10 each at a premium of Rs. 2 per share, payable as follows:

On Application Rs. 2,

On Allotment Rs. 5 (including premium)

On First Call Rs. 3

On Second & Final Call Rs. 2

Applications were received for 30,000 shares. Allotment was made pro-rata to the applicants for 24,000 shares, the remaining applications were refused. Money over paid on application was utilized towards sums due on allotment.

Mr. Alex to whom 800 shares were allotted, failed to pay allotment and calls money and Mr. John to whom 1,000 shares were allotted failed to pay the two calls. These shares were subsequently

forfeited after the second call made. All the forfeited shares were sold to Mr Charles as fully paid up at Rs.8 per share.

Show the journal entries in the Books of IMPAL

19 The following is the Trial Balance of R Ltd

Credits	Rupees	Debits	Rupees
Subscribed Capital: 10,000 shares at Rs.10 per share	1,00,000	Call in Arrears	6,400
Bad Debts Provision (01.7.90)	2,400	Land	10,000
Sales	85,000	Building	25,000
Discount	750	Plant & Machinery	15,000
Purchase returns	3,400	Furniture & Fixtures	3,200
Sundry Creditors	13,200	Carriage inwards	2,300
Securities Premium	6,000	Wages	21,400
General reserve	24,000	Salaries	4,600
		Sales returns	2,700
		Bank Charges	100
		Travelling Expenses	1,200
		Discount	550
		Coal, gas & water	700
		Rates & Taxes	800
		Purchases	50,000
		Bills Receivable	1,200
		Printing & Stationery	1,500
		Audit Fees	1,500
		General Expenses	1,900
		Sundry Debtors	42,800
		Stock (1.7.90)	25,000
		Fire Insurance	400
		Cash in Hand	2,500
		Cash at Bank	14,000
	2,34,750		2,34,750

Prepare statement of profit and loss for the year ended 30.06.1991 and Balance Sheet as at that date after considering the following matters.

(i) Value of stock as on 30.6.91 was Rs.30,000

(ii) Outstanding liabilities as on 30.6.1991 were wages Rs.3,200; Salaries Rs.500 and rates and taxes Rs.200.

(iii) Fire insurance prepaid was Rs.120

(iv) Provision to be made at 5% on debtors for bad debts.

(v) Depreciation to be charged on building at 2 ½ %, on Plant & Machinery at 10% and on furniture and fixtures at 10% p.a.

(vi) The authorized capital of the company is 50,000 shares of Rs.10 each.

20 Following a series of losses, VSV 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	Rupees	Assets	Rupees
Share Capital: 50,000 fully paid shares of Rs.10 each	5,00,000	Goodwill	1,00,000
Securities Premium Account	50,000	Land & Buildings	1,62,000
Creditors	62,000	Plant & Machinery	2,07,000
Bank Overdraft	73,000	Stock	92,000

		Debtors	74,000
		Profit and Loss Account	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 and Loss Account
- (iii) To reduce the book values of the assets by the following amounts:

Land & Buildings	42,000
Plant & Machinery	67,000
Stock	33,600

- (iv) To provide the bad debts reserve of 10% of the book of the debtors.

Show the journal entries to give effect to the scheme and prepare the revised balance sheet after its implementation.

21 Following is the Trial Balance extracted from the books of Star Ltd

Debits	Rupees	Credits	Rupees
Stock on 01.01.86	7,000	Authorised Capital 2,000 equity shares of Rs.100 each	<u>2,00,000</u>
Purchases	30,000	Issued share capital	1,00,000
Wages	8,000	Rent Received	3,500
Carriage	2,000	Sales	1,05,000
Building	50,000	Sundry Creditors	16,800
Motor Vehicle	37,000	Bank Overdraft	12,200
Sundry Debtors	9,600	Profit & Loss Account	22,500
Salaries	15,000		
Bank interest & charges	400		
Travelling expenses	4,000		
Machinery	80,000		
	1,500		
Discount allowed			
Cash in Hand & at Bank	1,000		
Printing & Stationery	2,000		
Repair & Renewals	1,500		
Directors' remuneration	2,500		
Audit Fees	500		
Call-in-Arrears	3,000		
Interim Dividend	5,000		
	2,60,000		2,60,000

Adjustments:

- (i) Closing Stock on 31.12.86 was Rs.6,000
- (ii) Outstanding wages were Rs.1,000
- (iii) Depreciate machinery by Rs.2,000, Building by Rs.7,000 and Motor Vehicle by Rs.620
- (iv) Directors declared a final dividend at 20% on paid up capital
- (v) Create a provision for bad debts at 5% on debtors.
- (vi) There is a contingent liability of Rs.2,000 for the compensation claim against the company pending in the court.
- (vii) Provide for corporate dividend tax @ 17% on interim dividend and proposed dividend.

You are required to prepare profit and loss account for the year ended 31.12.86 and Balance Sheet

as on that date.
