



III Semester B.Com. Examination, November/December 2017
(Repeaters) (2013-14 and Onwards)

COMMERCE

3.3 : Corporate Accounting

Time : 3 Hours

Max. Marks : 100

Instruction : Answer should be written **completely** in **English** or in **Kannada**.

SECTION – A

Answer **any ten** sub-questions. Each sub-question carries **2** marks. (10×2=20)

1. a) Give the meaning of acquisition of business.
- b) How do you treat the loss prior to incorporation in the books of accounts ?
- c) What is time ratio ? Give an example.
- d) Why shares need to be valued ?
- e) Define the term Goodwill.
- f) What is meant by proposed dividend ?
- g) What are revenue profits ?
- h) State the different methods of calculation of purchase consideration.
- i) Give any 2 differences between "Equity shares" and "Preference shares".
- j) What do you mean by redeemable preference shares ?
- k) What do you mean by rights shares ?
- l) Mention any two expenses charged only to post incorporation period.

SECTION – B

Answer **any four** of the following questions. Each question carries **8** marks. (4×8=32)

2. Mr. A and B are equal partners in M/s AB and company. They agree to sell their business to AB Ltd., which agrees to take overall the assets and liabilities of the firm at the values agreed as under :

Goodwill Rs. 75,000, Buildings Rs. 1,25,000, Machinery Rs. 1,90,000, Stock Rs. 85,000, Debtors Rs. 45,000, Bills receivable Rs. 40,000, Creditors Rs. 60,000 and Bills payable Rs. 30,000.

AB Ltd. discharge the purchase consideration as under :

Issue of 30,000 Equity shares of Rs. 10 each at a premium of 10%. 1,200, 12% Debentures of Rs. 100 each and the balance in cash.

Calculate purchase consideration and show the journal entry for discharge of purchase consideration in the books of AB Ltd.

3. SS Ltd. was incorporated on 1-7-2016 to take over the running business of M/s SK and Co., with effect from 1-4-2016. The company closes its books of account on 31-3-2017.

There were 50 employees during the pre-incorporation period and it was increased to 70 employees during the post incorporation period.

P.T.O.



Average monthly sales during the pre-incorporation period was Rs. 1,00,000 and the average monthly sales of post incorporation period was Rs. 2,50,000.

Prepare a statement showing how the following expenses are allocated between pre and post incorporation periods :

Rent Rs. 96,000, Salary Rs. 3,12,000, Salesman Commission Rs. 1,02,000 and Directors fees Rs. 25,000.

4. Following information relates to Preeti Ltd. 8000, 10% preference shares of Rs. 100 each Rs. 8,00,000. 10000 Equity shares of Rs. 100 each Rs. 10,00,000.

Average profit before tax Rs. 6,45,160. Rate of tax 38%.

Transfer to be made to reserves 20%, normal rate of return 15%.

Ascertain the value of Equity shares under yield method.

5. The net profits of a business after providing taxation, for the past five years are Rs. 40,000, Rs. 42,000, Rs. 45,000, Rs. 47,000 and Rs. 46,000 respectively. Capital employed in the business is Rs. 4,00,000, on which a reasonable rate of return of 10% is expected.

Calculate the value of Goodwill of the business on the basis of 5 years purchase of super profit.

6. Under what heading do you show the following items in the Balance Sheet of a Co. ?

- | | |
|------------------------------------|----------------------|
| a) Live stock | b) Bills payable |
| c) Accrued interest on investment | d) Share premium |
| e) Discount on issue of debentures | f) Proposed dividend |

SECTION - C

Answer **any three** of the following questions. **Each** question carries **16** marks. **(3×16=48)**

7. Following is the Balance Sheet of B Co. Ltd. as on 31-3-17 :

Liabilities	Rs.	Assets	Rs.
30000 Equity shares of		Fixed assets	4,00,000
Rs. 10 each	3,00,000	Investments	50,000
6% Preference shares of		Current assets	2,00,000
Rs. 10 each	60,000	Preliminary expenses	10,000
General Reserve	50,000		
P and L A/c	40,000		
5% Debentures	1,00,000		
Creditors	80,000		
Bills payable	30,000		
	6,60,000		6,60,000

Average annual profit Rs. 80,000, company transfers 10% of the profits every year to General Reserve. Normal return on capital employed is 10%.

Compute the value of shares by

- a) Intrinsic value method b) Yield method and c) Fair value method



8. Amrutha Ltd. was incorporated on 1-8-2016 to take over the running business of Vyshaka Ltd. from 1-4-2016. Given below are the financial information of the company on 31-3-2017 :

P and L A/c

To Salaries and allowances	1,20,000	By Gross profit	4,00,000
To Rent and taxes	46,000		
To General expenses	14,400		
To Directors fees	6,000		
To Selling expenses	8,000		
To Discount on sales	2,000		
To Advertisement	15,000		
To Preliminary expenses written off	6,600		
To Interest on debentures	2,800		
To Interest to vendors (upto 30-9-2016)	12,000		
To Repairs to building	2,400		
To Depreciation	4,800		
To Net profit	1,60,000		
	4,00,000		4,00,000

Additional information :

- Rent was paid @ Rs. 2,000 p.m. upto 1-8-2016 and there after it was increased to Rs. 4,000 per month.
- The average monthly sales during the pre-incorporation period was Rs. 1,20,000 and the average monthly sales of post incorporation period was Rs. 1,40,000.

Prepare statement of P and L showing profit prior to and after incorporation of the company.

9. The following particulars are available in respect of the business carried on by Nishanth Ltd. :
- Profits earned 2014 – Rs. 1,00,000, 2015 – Rs. 96,000, 2016 – Rs. 1,04,000.
 - Profit of 2015 is reduced by Rs. 10,000 due to stock destroyed by fire and profits of 2014 included a non-recurring income of Rs. 6,000.
 - Profits of 2016 include income from investment Rs. 4,000.
 - The stock is not insured and it is thought prudent to insure stock in future. The insurance premium is estimated at Rs. 1,000 p.a.
 - Normal rate of return 10%.



- vi) Average capital employed Rs. 8,00,000.
 - vii) Present value of annuity of one rupee for 5 years at 10% is Rs. 3.78.
- You are required to calculate the value of Goodwill :
- a) As per 5 years purchase of super profit.
 - b) As per capitalisation of super profit.
 - c) As per annuity method.

10. Following is the Trial Balance of Z Co. Ltd. as on 31-3-2017 :

Particulars	Dr.	Cr.
Equity share capital	—	1,50,000
12% Preference share capital	—	1,00,000
Reserve fund	—	75,000
Buildings	2,50,000	—
10% Debentures	—	1,00,000
Plant and Machinery	1,00,000	—
Purchases and sales	1,25,000	3,00,000
Salary	30,000	—
Debtors and creditors	1,15,000	87,500
Bills	40,000	45,000
Director's fees	10,000	—
Bad debts	2,500	—
Returns	7,500	10,000
Wages	7,500	—
Opening stock	22,500	—
P/L A/c on 1-4-2016	—	30,000
Loose tools	30,000	—
Goodwill	40,000	—
Discount on issue of shares	10,000	—
Cash and bank balances	16,500	—
Investments	1,00,000	—
Interest on investments	—	9,000
	9,06,500	9,06,500

Adjustments :

- a) Closing stock is valued at Rs. 80,000.
 - b) Debenture interest is outstanding for the whole year.
 - c) Write off Rs. 3,000 further bad debts and create reserve for doubtful debts at 5%.
 - d) Buildings and Plant and Machinery to be depreciated by 5% and 10%.
 - e) Transfer Rs. 15,000 to Reserve fund.
 - f) The director's propose 15% dividend to Equity share holders.
- You are required to prepare company's final accounts in vertical format.