LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Com. DEGREE EXAMINATION – **COMMERCE**

THIRD SEMESTER – **NOVEMBER 2016**

CO 3502 – COMPANY ACCOUNTS

Date: 08-11-2016 Dept. No. Max. : 100 Marks

Time: 09:00-12:00

Part – A (10x2=20)

Answer **ALL**

1. What is meant by issue of shares at a premium?
2. C Ltd. acquired the business of Kamal & Co., for a consideration of Rs.5,00,000. The vendors were paid Rs.1,40,000 in cash and the balance in10% Debentures of Rs.100 each, issued at 90%. Give journal entries.
3. What is meant by Redeemable Preference Shares?
4. A company having Free Reserves of Rs.60,000 wants to redeem Rs.2,00,000 Preference Shares. Calculate the face value of fresh issue of shares of Rs.10 each to be made at a premium of 10%.
5. What is meant by Managerial Remuneration?
6. What are Divisible Profits?
7. What is meant by Purchase Consideration?
8. What is Profit- prior to Incorporation?
9. Define Goodwill.
10. What is Capital Reduction?

Part – B (4x10=40)

Answer any **FOUR**

11. What are the conditions for the redemption of Preference Shares?
12. Explain the various methods of valuation of goodwill.
13. Kalyan Kumar Co. Ltd. was formed with a capital of Rs.10,00,000 in Rs.10 shares, the whole amount being issued to the public. The underwriting of these shares was as follows:
    A – 35,000; B-30,000; C-20,000; D-10,000; E-3,000; F-2,000
    All the marked application forms were to go in relief of the underwriters whose stamp they bear. The application forms marked by the underwriters were;
    A-10,000; B-22,500; C-20,000; D-7,500; E-5,000; F-NIL
    Applications for 20,000 shares were received on forms not marked. Draw up a statement showing the liability of underwriter.

14. Marshall and Robert carrying on business in partnership, sharing profits and losses in the ratio of 2:1 wish to dissolve the firm and sell the business to a limited company on 31st Dec.2008 when the firm's balance sheet stands as under:

Liabilities		Rs.	Asset	Rs.
Sundry Creditors		45000	Cast at Bank	8000
Reserve fund		45000	Sundry debtors	1,20,000
Capital accounts:			Stock	1,62,000
Marshall	1,40,000		Motor vehicle	24,000
Robert	1,00,000	2,40,000	Furniture	16,000
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		3,30,000		3,30,000

Nash Co.Ltd. was registered with an authorized capital of Rs.6,00,000 in equity shares of Rs.10 each to acquire the above business on the following terms:
(i) Goodwill is valued at Rs. 75,000.
(ii) Furniture and stock are revalued at Rs.14,500 and Rs. 1,74, 500 respectively.
(iii) Debtors are subject to 5% provision.
Motor vehicle is not required by the company and Marshall takes over the same at an agreed valuation of Rs. 22,000.
The purchase price is satisfied by the issue of equity shares Rs.10 each at par.
Show journal entries of the company assuming that the same set of books are continued.

15. Determine the maximum remuneration payable to the part time directors and Manager of Bharat Ltd. (a manufacturing company) under the provisions of the Companies Act from the following particulars:
Before charging any such remuneration, the profit & loss account showed a credit balance of Rs. 23,05,000 for the year ended 31st March 2008 after taking into account the following matters:

	Rs.
(i) Profit on sale of investments	2,05,000
(ii) Subsidy received from government	4,10,000
(iii) Loss on sale of fixed assets	65,000
(iv) Ex-gratia to an employee	30,000
(v) Compensation paid to injured workman	75,000
(vi) Provision for taxation	2,79,000
(vii) Bonus to foreign technicians	3,12,000
(viii) Multiple shift allowance	1,00,000
(ix) Special depreciation	75,000
(x) Capital expenditure	5,10,000

Company is providing depreciation as per Section 350 of the companies Act.

16. A firm which was carrying on business from 1st January, 2008 gets itself incorporated as a company on 1st May 2008. The first accounts are drawn upto 30th September 2008. The gross profit for the period is Rs. 56,000. The general expenses are Rs. 14,220; directors' fees Rs.12, 000 per annum, formation expenses Rs. 1,500. Rent upto 30th June was Rs. 1,200 per annum, after which it was increased to Rs. 3000 per annum. Salary of the manager, who, upon incorporation of the company was made a director, was Rs. 6,000 per annum. His remuneration thereafter was included in the above figures of fees to directors.
Give profit and loss account showing pre and post incorporation profits. The net sales were Rs. 8, 20,000, the monthly average of which for the first four months of 2008 being one half of that of the remaining period. The company earned a uniform profit. Interest and tax may be ignored.

17. The following is the balance sheet of Robert Lee Ltd. as on Dec. 31. 2008

Liabilities	Rs.	Asset	Rs.
Share Capital:		Land & Buildings	1,10,000
20,000 shares of Rs. 10 each	2,00,000	Plant & Machinery at cost (less depreciation)	1,30,000
General reserve	40,000	Trade marks	20,000
Taxation reserve	60,000	Stock	48,000
Workmen saving account	30,000	Debtors	88,000
Profit and Loss A/c	32,000	Cash	52,000
Sundry Creditors	98,000	Preliminary expenses	12,000
	4,60,000		4,60,000

The Plant & Machinery is worth Rs. 1,20,000 and Land & Building have been valued at Rs. 2,40,000 by an independent valuer. Rs.8, 000 of the debts are bad. The profits of the company have been as follows:
2006 – Rs. 80,000; 2007 – Rs.90,000 and 2008 – Rs. 1,06,000. It is the company's practice to transfer 25% of the profits to reserve. Ignoring taxation, find out the Fair value of the 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.

Part – C (2x20=40)

Answer any **TWO**

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 – Rs. 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, and the remaining applications being refused. Money received in excess on the application was adjusted towards the amount due on allotment.

David, to whom 4,000 shares were allotted, failed to pay 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 journal entries to record the above issue of shares by the company.

19. The following is the balance sheet of Harbhajan Singh Ltd., as on June 30th 2013:

Liabilities	Rs.	Asset	Rs.
Share capital:		Fixed Assets	10,00,000
30,000 6% redeemable preference shares		Investments	2,10,000
of Rs. 10 each fully paid	3,00,000	Current Assets:	
60,000 equity shares of Rs.10 each fully		Stock	4,40,000
paid	6,00,000	Sundry Debtors	1,60,000
Security premium A/c	2,90,000	Cast at Bank	2,20,000
General Reserve	4,00,000		
Profit & Loss A/c	2,45,000		
Sundry Creditors	1,95,000		
	20,30,000		20,30,000

The Company exercised its option to redeem, on 1st July 2013, 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 1st Sep. 2013, 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.

20. Big Bull Ltd. has a nominal capital of Rs. 6,00,000 divided into shares of Rs. 10 each. The following Trial Balance is extracted from the books of the company as on 31.12.2014.

Assets	Rs.	Liabilities	Rs.
Calls in arrear	7,500	6% Debentures	3,00,000
Premises (Rs. 60,000 added on		P & L A/c (1.1.2014)	14,500
1.7.2014)	3,60,000	Creditors	50,000
Machinery	3,00,000	General Reserve	25,000
Interim dividend paid	7,500	Share Capital (Called Up)	4,60,000
Purchases	1,85,000	Bills payable	38,000
Preliminary Expenses	5,000	Sales	4,15,000
Freight	13,100	Provision for Bad debts	3,500
Doctors' Fees	5,740		
Bad debts	2,110		
4% Government Securities	60,000		
Stock (1.1.2014)	75,000		
Furniture	7,200		
Sundry debtors	87,000		
Goodwill	25,000		
Cash	750		

Bank Wages General Expenses Salaries Debenture interest	39,900 84,800 16,900 14,500 9,000		
	13,06,000		13,06,000

Prepare Final accounts of the company as per schedule 3 of the companies Act for the year ending 31.12.2014 in the prescribed form after taking into account the following adjustments:

(a) Depreciate machinery by 10% and furniture by 5%.

(b) Write off preliminary expenses.

(c) Wages include Rs. 10,000 paid for the construction of a compound wall to the premises and no adjustment was made.

(d) Provide 5% for bad debt on sundry debtors.

(e) Transfer Rs. 10,000 to general reserve.

(f) Provide for income tax Rs. 25,000.

(g) Stock on 31.12.2014 was Rs. 1, 01,000.

21. Sandhya Ltd. has been suffering heavy losses in the past. It is now considered that the worst is over and sound reorganization will enable its business to be successful in the future. The balance sheet of the company immediately before the reconstruction is as follows:

Balance sheet as on 31st Dec.2008

Liabilities	Rs.	Assets	Rs.
Authorized Share Capital:		Goodwill	6,00,000
40,000 Equity shares of Rs. 100 each	40,00,000	Fixed Assets	31,70,000
10,000 6% Preference shares of Rs. 100 each	10,00,000	Stock	1,90,000
	50,00,000	Sundry debtors	1,00,000
		Investments	40,000
		Cash at Bank	24,000
		Preliminary Expenses	10,000
		Discount on issue of shares	6,000
Issued Capital:		P&L A/c	25,80,000
20,000 equity shares of Rs. 100 each	20,00,000		
4,000 6% preference shares of Rs. 100 each	4,00,000		
5% Debentures of Rs.100 each	33,20,000		
Sundry Creditors	9,60,000		
Liability for Income tax	40,000		
	67,20,000		67,20,000

The preference dividend was in arrears for 5 years.

The following scheme of reconstruction was agreed upon and duly confirmed by the court.

(i) The equity shares shall be reduced to shares of Rs 10 each, Rs. 5 per share being paid up.

(ii) The preference shareholders shall forego 90% of their claims in shares and the remaining shares shall be converted to 7% preference shares of Rs.10each, while their claims for arrears of dividend shall be reduced to one year's dividend and the same shall be discharged by the issue of fully paid equity shares.

(iii) The debenture holders agreed to have 60% of their claims which shall be discharged by the issue of 7 ½% debentures of Rs. 100 each.

(iv) The sundry creditors are required to forgo 60% of their claims.

(v) The asset to be revalued as follows

	Rs.
Fixed asset	24,00,000
Stock	1,40,000
Sundry debtors	80,000
Investments	20,000

(vi) In order to provide sufficient working capital, the equity shareholders are to pay the balance amount due against each share.
Show the Journal entries in the books of the company and also the balance sheet after implementation of the scheme.

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