

**Credit Based VI Semester B.Com. Degree Examination, April/May 2018  
(2016-17 Batch Onwards)**

**COMMERCE  
Financial Accounting – VI**

Time : 3 Hours

Max. Marks : 120

**Instruction :** Provide working notes **wherever** necessary.

## SECTION – A

Answer **any four** questions :

(4×6=24)

1. What are the various limitations of ratio analysis ?
2. Explain the different methods of purchase consideration.
3. Explain the two forms of internal reconstruction of companies.
4. Following is the Balance Sheet of A Company Ltd., as on 31-3-2017.

<b>Liabilities</b>	₹	<b>Assets</b>	₹
Share capital	2,00,000	Fixed assets	3,00,000
Reserve fund	75,000	Current assets	1,00,000
P and L A/c	25,000	Preliminary expenses	50,000
Debentures	50,000		
Current liabilities	1,00,000		
	<b>4,50,000</b>		<b>4,50,000</b>

B Co. Ltd. takes over the business of A Co. Ltd. The purchase price has to be paid in cash to the extent of ₹ 50,000 and the balance in fully paid equity shares of ₹ 10 each.

Calculate the amount of purchase consideration and show the mode of payment.

5. The ultra optimist company went into voluntary liquidation. The following was its position :

Assets realised (excluding amount realised on secured assets)	₹ 3,50,000
Secured creditors (securities realised ₹ 40,000)	₹ 35,000
Unsecured creditors	₹ 1,50,000
Debentures (floating charge on all assets)	₹ 2,50,000
Liquidation expenses	₹ 5,000
Liquidators remuneration	₹ 7,500

Prepare Liquidators Final Statement of Account.





6. An analysis of bills discounted by Axis Bank Ltd. shows the following :

Amount (₹)	Due Date	Rate of Discount
1,50,000	May 20 <sup>th</sup> 2017	9% p.a.
1,20,000	June 12 <sup>th</sup> 2017	7.5% p.a.
1,00,000	July 9 <sup>th</sup> 2017	8.25% p.a.
80,000	July 15 <sup>th</sup> 2017	9.5% p.a.

Calculate rebate on bills discounted as on 31-3-2017.

SECTION – B

Answer **any four** questions :

(4×12=48)

7. From the following financial statements of Neelkamal Ltd. for the year ended 31-3-2017. You are required to compute the following ratios :

- 1) Current ratio
- 2) Liquid ratio
- 3) Operating ratio
- 4) Stock turnover ratio
- 5) Gross profit ratio
- 6) Net profit ratio.

Balance Sheet on 31-3-2017 :

Liabilities	₹	Assets	₹
1,00,000 equity shares of ₹ 5 each		Land and Building	3,50,000
Reserve	5,00,000	Machinery	2,50,000
P and L A/c	3,00,000	Stock	3,00,000
Creditors	2,00,000	Debtors	2,00,000
	2,00,000	Cash at bank	1,00,000
	<b>12,00,000</b>		<b>12,00,000</b>

Profit and Loss Account for the year ended 31-3-2017.

	₹		₹
To Opening stock	1,00,000	By Sales	16,00,000
To Purchases	8,00,000	By Closing stock	2,00,000
To Gross profit	9,00,000		
	<b>18,00,000</b>		<b>18,00,000</b>
To Office expenses	2,00,000	By Gross profit	9,00,000
To Selling expenses	1,00,000	By Profit on sale	
To Other expenses	25,000	of Assets	25,000
To Net profit	6,00,000		
	<b>9,25,000</b>		<b>9,25,000</b>





8. Awin Co. Ltd. decided to sell its business to Kewin Co. Ltd. as on 31-3-2017.

On that date its Balance Sheet was as follows :

Liabilities		₹	Assets		₹
Paid up capital :			Freehold property		3,30,000
40,000 equity shares of ₹ 10 each	4,00,000		Stock	70,000	
Reserve fund	1,00,000		Debtors	80,000	
5% Debentures	2,00,000		Bills receivable	40,000	
Creditors	60,000		Goodwill	80,000	
P and L A/c	40,000		Cash at bank	2,00,000	
	<b>8,00,000</b>			<b>8,00,000</b>	

The Kewin Ltd. agreed to take over the assets of Awin Co. Ltd. (excluding cash at bank) at the amount stated in the balance sheet except goodwill for which the company agreed to pay ₹ 2,00,000 and discharge the liabilities to creditors. The purchase price was to be discharged by allotment of 24,000 shares of ₹ 10 each at ₹ 112.50 per share and the balance in cash. The expenses of liquidation amounted to ₹ 6,000.

Show Realisation Account, Kewin Co. Ltd. Account, Equity Shares Account, Bank Account and Equity Shareholders Account in the books of Awin Co. Ltd.

9. The following particulars relate to a limited company which has gone into voluntary liquidation. You are required to prepare liquidator's final statement of account allowing for his remuneration @ 2% on the amount realised on assets and @ 2% on the amount distributed to unsecured creditors other than preferential creditors.

Unsecured creditors	₹ 2,24,000
Preferential creditors	₹ 70,000
Debentures	₹ 75,000
The assets realised the following sums :	
Cash in hand	₹ 20,000
Land and buildings	₹ 1,30,000
Plant and machinery	₹ 1,10,500
Fixtures and fittings	₹ 7,500

The liquidation expenses amount to ₹ 2,000. A call of ₹ 2 per share on the partly paid 10,000 equity shares was made and duly paid except in case of one shareholder owning 500 shares.

10. The following figures have been obtained from the books of Rana Bank Limited for the year ending 31-03-2017.

	₹
Interest and discount earned	38,00,000
Commission and exchange	1,95,000
Interest paid	20,00,000
Salaries and wages	2,10,000
Directors fees	35,000





Rent and taxes	70,000
Postage expenses	61,000
Profit on sale of investment	2,40,000
Loss on sale of investment	38,000
Rent received	62,000
Depreciation	31,000
Stationery	60,000
Audit fees	8,000

**Additional information :**

- i) The P and L A/c had a credit balance of ₹ 10,00,000 on 01-4-2016.
- ii) An advance of ₹ 25,000 has to be considered doubtful.
- iii) The provision for tax be made at 35%.
- iv) Proposed dividend is ₹ 1,10,000.
- v) Transfer to statutory reserve 20%.

Prepare Profit and Loss Account of Rana Bank Ltd. for the year ended 31-3-2017.

11. The Jnan company limited is absorbed by Dharshan Company Ltd. as on 31-3-2017 on which date its Balance Sheet was as under.

<b>Liabilities</b>	₹	<b>Assets</b>	₹
Paid up capital :		Goodwill	50,000
2000 shares of ₹ 100 each	2,00,000	Freehold property	1,50,000
Debentures	1,00,000	Plant and tools	83,000
Trade creditors	30,000	Stock	35,000
Reserve fund	50,000	Bills receivable	4,500
Profit and Loss A/c	20,000	Sundry debtors	27,500
		Cash at bank	50,000
	<b>4,00,000</b>		<b>4,00,000</b>

Darshan Company Ltd. agreed to take over the assets (exclusive of cash and goodwill) at 10% less than the book value, to pay goodwill which is independently computed as three years purchase of four years adjusted average profits and to take over the debentures.

The trade creditors of Jnan Co. Ltd. is settled at 10% discount which is not taken up by Dharshan Co. Ltd.

The purchase consideration was to be discharged by the allotment to the Jnan Co. Ltd. of 1500 shares of ₹ 100 each at a premium of ₹ 10 per share and the balance in cash. The cost of liquidation amounted to ₹ 3,000.

The adjusted average profits for the past four years is ₹ 25,000.

Show the necessary ledger accounts in the books of Jnan Co. Ltd.



12. The Balance Sheet of Pheno Co. Ltd. as on 31-03-2017 is as follows :

Liabilities		₹	Assets		₹
Share capital :			Goodwill		2,00,000
30,000 8% preference shares of ₹ 10 each	3,00,000		Land		4,00,000
1,00,000 equity shares of ₹ 5 each	5,00,000		Machinery		2,50,000
14% debentures	2,00,000		Tools		1,00,000
Creditors	3,00,000		Stock		1,00,000
			Debtors		65,000
			Cash		10,000
			Profit and Loss A/c		1,75,000
					<b>13,00,000</b>
		<b>13,00,000</b>			

On the above date, it was decided to reconstruct the company and the following scheme of reconstruction was agreed upon.

- 1) The creditors to accept 14% debentures to the extent of half of their dues and the balance to be paid after six months.
- 2) The preference shares to be reduced to shares of ₹ 5 each.
- 3) Equity shares to be reduced to shares of ₹ 1 each.
- 4) The debit balance of profit and loss account and goodwill to be written off.
- 5) Land to be reduced by ₹ 79,000, Machinery by ₹ 40,000 and Tools by ₹ 48,000.
- 6) R.B.D. to the extent of ₹ 8,000 is to be created.

Give Journal Entries and Reconstructed Balance Sheet.

SECTION – C

Answer any two questions :

(2x24=48)

13. The following are the Balance Sheets of Hero Company Limited and Honda Company Limited as on 31-3-2017.

Liabilities	Hero Ltd. (₹)	Honda Ltd. (₹)	Assets	Hero Ltd. (₹)	Honda Ltd. (₹)
Share capital :			Buildings	1,50,000	—
Shares of ₹ 10 each	5,00,000	3,00,000	Machinery	5,50,000	2,50,000
General reserve	1,20,000	—	Stock	80,000	40,000
Profit and Loss Account	80,000	—	Debtors	70,000	45,000
10% Debentures	1,00,000	—	Cash	15,000	5,000
Trade creditors	50,000	30,000			
Employees provident fund	15,000	10,000			
	<b>8,65,000</b>	<b>3,40,000</b>		<b>8,65,000</b>	<b>3,40,000</b>





Hero Co. Ltd. and Honda Co. Ltd. have agreed to amalgamate and form A new company called Skcoda Company Ltd. with an authorised capital of ₹ 20,00,000 in shares of ₹ 100 each which has agreed to take over the assets and liabilities of both the companies on 1-04-2017.

The assets of Hero Company Ltd. are taken over at a reduced valuation of 10% with exception of buildings which are accepted at book value.

Both the companies are to receive 5% of the net assets of their respective business as goodwill. The entire purchase price is to be paid by Skcoda Co. Ltd. in fully paid equity shares of ₹ 100 each.

Prepare Realisation Account and Share Holders Account in the books of both the selling companies and pass opening entries in the books of Skcoda Co. Ltd. Also prepare the opening Balance Sheet of Skcoda Co. Ltd.

14. From the following Trial Balance of Federal Bank Ltd. as on 31-03-2017, prepare the Profit and Loss Account and the Balance Sheet in the statutory form

Particulars	Debit (₹)	Cred (₹)
Share capital	-	2,00,000
Reserve fund	-	1,00,000
Dividend equalisation fund	-	10,000
Fixed deposits	-	1,80,000
Cash certificates	-	40,000
Contingency accounts	-	5,000
Travellers cheques payable	-	25,000
Savings bank deposits	-	1,00,000
Interest suspense account	-	2,000
Recurring deposits	-	40,000
Loans, cash credits and overdrafts	4,12,000	
Government securities	2,00,000	
Shares of companies	50,000	
Premises	50,000	
Branch adjustment account	4,000	
Current deposits	-	2,10,000
Cash in hand and with RBI	2,02,000	
Bills purchased	1,58,000	
Interest and discount	-	3,11,000
Commission and brokerage	-	15,000
Salaries	80,000	
Provident fund contribution	5,000	
Provident fund	-	20,000
Bills payable	-	20,000
Stock of stationery	20,000	
Printing and stationery	20,000	
Depreciation on premises	2,000	





Bad debts	29,000	-
Unclaimed dividend	-	6,000
Motor vehicle	62,000	-
Employees security deposits	-	40,000
Profit and Loss A/c on 1-4-2016	-	10,000
Advance payment of Income Tax	40,000	-
	<b>13,34,000</b>	<b>13,34,000</b>

**Additional information :**

- 1) Provision for Bad Debts required is ₹ 15,000.
- 2) Rebate on bills discounted ₹ 4,500.
- 3) Bills for collection ₹ 75,000.
- 4) Travellers cheques paid ₹ 5,000.
- 5) Provide for taxation ₹ 10,000.
- 6) Provide for statutory reserve at 20%.

15. Alpha Company was formed to acquire the business of Beta Company Ltd. as on 31-03-2017. The Balance Sheet of Beta Company Ltd. as on that date was as under.

Liabilities		₹	<b>Assets</b>	₹
Share capital :			Land and buildings	2,00,000
1,000 6% preference shares of ₹ 100 each	1,00,000		Machinery	1,00,000
20,000 equity shares of ₹ 10 each	2,00,000		Stock	2,00,000
Reserve	20,000		Debtors	50,000
Profit and Loss A/c	30,000		Cash at bank	35,000
7% debentures	1,00,000		Preliminary expenses	10,000
Creditors	1,50,000		Discount on issue of debentures	5,000
	<b>6,00,000</b>			<b>6,00,000</b>

The consideration payable by Alpha Co. Ltd. was agreed as under :

- 1) The preference shareholders of Beta Co. Ltd. were to be allowed 8% preference shares of ₹ 1,10,000.
- 2) The equity shareholders to be allotted six equity shares of ₹ 10 each issued at a premium of 10% and ₹ 3 in cash against every five shares held.
- 3) 7% debenture holders of Beta Co. Ltd. to be paid at 8% premium by the issue of 9% debentures at 10% discount.

While arriving at the agreed consideration, the directors of Alpha Co. Ltd. valued Land and Buildings at ₹ 2,50,000, Stock at ₹ 2,20,000 and Debtors at their book value subject to an allowance of 5% to cover doubtful debts.





The machinery was valued at book value. It was agreed that, Beta Co. Ltd. will pay dividend at 10% on equity shares. Liquidation expenses came to ₹ 5,000.

Prepare :

- i) In the books of Beta Co. Ltd. prepare Realisation Account, Alpha Co. Ltd. Account, Preference Shares Account, Equity Shares Account, Bank Account, Preference Shareholders Account and Equity Shareholders Account.
- ii) Give Journal Entries in the Books of Alpha Co. Ltd.

16. The following was the Balance Sheet of Sonal Company Ltd. as on 31-3-2017.

<b>Liabilities</b>	₹	<b>Assets</b>	₹
Share capital :		Land and buildings	1,84,000
Equity shares of ₹ 10 each	5,00,000	Plant and machinery	2,86,000
Capital reserve	6,000	Furniture	56,000
12% debentures	4,00,000	Stock	1,42,000
Trade creditors	1,65,000	Debtors	80,000
Outstanding debenture interest	48,000	Cash at bank	27,000
Outstanding Directors Remuneration	10,000	Discount on issue of debentures	8,000
Taxation provision	44,000	Profit and Loss Account	3,90,000
	<b>11,73,000</b>		<b>11,73,000</b>

The following scheme of internal reconstruction was framed and approved by the Court.

- i) The equity shares be converted into same number of equity shares of ₹ 2.50 each.
- ii) The debenture holders and directors agree to forego their outstanding debenture interests and outstanding remuneration.
- iii) The existing shareholders agree to subscribe 50,000 fully paid equity shares of ₹ 2.50 each.
- iv) Trade creditors for ₹ 65,000 accepted fully paid equity shares of ₹ 2.50 each for the amount due and trade creditors for ₹ 1,00,000 accepted ₹ 80,000 in cash in full settlement.
- v) The Assets are revalued as under :
 

Land and Buildings	₹ 2,30,000
Plant and Machinery	₹ 2,20,000
Stock	₹ 1,20,000
Debtors	₹ 76,000

Pass Journal Entries for all the above transactions and draft the company's Balance Sheet after the Reconstruction.