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BCMCMC 314

V Semester B.Com. Degree Examination, October/November 2019

(Credit Based Semester Scheme)

(2016-17 Batch Onwards)

(Common to all Batches)

COMMERCE

Financial Accounting — V

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Time : 3 Hours]

[Max. Marks : 120

Instructions : Provide working notes wherever necessary.

SECTION - A

Answer **any four** questions :

(4 × 6 = 24)

1. Explain the Inter-company debts in holding company accounts with examples.
2. State the circumstances necessitating the valuation of goodwill.
3. Describe the various methods for redemption of debentures.
4. The Balance Sheet of Pooja Ltd. as on 31.03.2019 disclosed the following information :
 - (a) 5% preference shares of Rs. 10 each fully paid Rs. 1,00,000.
 - (b) Equity shares of Rs. 10 each fully paid Rs. 3,00,000.
 - (c) Profit and Loss (Cr) balance Rs. 2,00,000.

On 20.09.2019 the preference shares were redeemed at a premium of Rs. 4 per share and company could not yet trace holders of 1,200 preference shares.

Pass the Journal entries.



5. The net profits of Sumanth Ltd. for the past five years are :

Rs. 4,20,000, Rs. 4,70,000, Rs. 4,60,000, Rs. 4,10,000 and Rs. 4,70,000.

The capital employed in the business is Rs. 40,00,000 on which a reasonable rate of return of 10% is expected.

Calculate value of goodwill under capitalization of Super Profit method.

6. Following is the Balance Sheet of Leera Ltd. as on 31.03.2019.

Liabilities	Amount	Assets	Amount
Share of Rs. 10 each	10,00,000	Fixed assets	6,00,000
Profit and Loss a/c	2,45,000	Investments	6,00,000
8% debentures	2,00,000	Current assets	3,20,000
Creditors	75,000		
	<u>15,20,000</u>		<u>15,20,000</u>

Fixed assets are worth only Rs. 7,10,000.

Find out the Intrinsic value of share.

SECTION - B

Answer **any four** questions :

(4 × 12 = 48)

7. The Balance Sheet of Chandrika Ltd. as on 31.03.2019 was as follows :

Liabilities	Amount	Assets	Amount
6,500, 12% preference		Fixed assets	3,45,000
Shares of Rs. 10 each	65,000	Investments	22,500
4,500 equity shares of		Bank	30,500
Rs. 50 each	2,25,000		
Profit and Loss a/c	28,000		
General reserve	20,000		
Creditors	60,000		
	<u>3,98,000</u>		<u>3,98,000</u>

In order to redeem the preference shares at 10% premium, the company decided to :

- (a) Sell investments for Rs. 20,000.
- (b) Leave a balance of Rs. 12,000 in Profit and Loss Account.
- (c) Issue sufficient number of equity shares of Rs. 50 each at a premium of Rs. 12 per share to raise the balance of funds required for redemption. The equity shares were fully subscribed.

Pass Journal entries and prepare Balance Sheet after redemption.

8. The following balances stood in the books of Manthan Ltd. as on 31st March 2019.

12% debentures – Rs. 5,00,000

Debenture Redemption Fund – Rs. 5,00,000

Debenture Redemption Fund Investment :

6% Govt. Bonds (face value Rs. 2,40,000) – Rs. 2,45,000

5% K.P. Bonds (face value Rs. 1,80,000) – Rs. 1,75,000.

On that date company realized Govt. Bonds at par and K.P. Bonds at 95%. The debentures were redeemed on 31.03.2019. On that date the company had a bank balance of Rs. 1,50,000 (before interest on investments).

Prepare in the books of Manthan Ltd.

- (a) 12% debentures.
- (b) Debenture Redemption Fund Account.
- (c) Debenture Redemption Fund Investment Account.
- (d) Debenture Holders Account.
- (e) Bank Account.

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9. The Balance Sheet of Lava Ltd. and its subsidiary Kusha Ltd. as on 31.12.2018 were as follows :

Liabilities	Lava Ltd. Rs.	Kusha Ltd. Rs.	Assets	Lava Ltd. Rs.	Kusha Ltd. Rs.
Shares of Rs. 100 each	2,00,000	50,000	Machinery	2,60,000	-
General reserve (on 1.1.18)	30,000	10,000	Stock	40,000	85,000
Profit and Loss (on 1.1.2018)	40,000	20,000	Debtors	10,000	40,000
Profit for 2018	50,000	25,000	Cash	10,000	10,000
Creditors	65,000	30,000	300 shares in Kusha Ltd.	65,000	-
	<u>3,85,000</u>	<u>1,35,000</u>		<u>3,85,000</u>	<u>1,35,000</u>

Shares were acquired by Lava Ltd. on 1.7.2018. Debtors of Kusha Ltd. Rs. 6,000 is owing by Lava Ltd. in respect of goods supplied.

Prepare Consolidated Balance Sheet.

10. The Balance Sheet of Vidyananda Ltd. as on 31st December 2018 were as follows :

Liabilities	Amount	Assets	Amount
10,000 shares of Rs. 10 each	1,00,000	Land and Building	84,000
Profit and Loss Account	20,000	Plant and Machinery	60,000
9% debentures	15,000	Furniture	5,000
Trade creditors	20,000	5% (Tax free) Govt. Bond	10,000
Provision for taxation	9,000	Stock	12,000
Proposed dividend	15,000	Book debts	6,000
		Cash	2,000
	<u>1,79,000</u>		<u>1,79,000</u>

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

- 2014 - Rs. 17,000
- 2015 - Rs. 19,000
- 2016 - Rs. 18,000
- 2017 - Rs. 20,000
- 2018 - Rs. 19,000

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On 31.12.2018, Land and Building revalued at Rs. 95,000, Plant and Machinery at Rs. 71,000 and Furniture at Rs. 4,000.

10% represents a fair commercial rate of return on investments in the company.

Find out value of goodwill at four year's purchase of average super profits of the last five years.

11. Mr. Sapan desires to invest Rs. 48,000 in equity shares of SBC Ltd. He seeks your advice as to the maximum number of shares he can purchase based on the fair value of shares to be determined by you.

The following information is available :

Paid up capital :

6% preference shares of Rs. 100 each	5,50,000
Equity shares of Rs. 10 each	3,50,000
	9,00,000

Average net profits after tax is Rs. 75,000 expected normal yield is 6% in similar companies. It is found that net assets on revaluation are worth Rs. 70,000 more than the book value.

12. From the following Ledger balances of Suvarna Keerthi Ltd. prepare a statement of Profit and Loss Account for the year ended 31.03.2019.

	Rs.
Stock on 1.04.2018	38,000
Interim dividend paid	5,000
Machinery	44,000



	Rs.
Patents	8,000
Patterns	10,300
Purchases	1,27,310
Manufacturing wages	59,000
Preliminary expenses	1,600
Repairs	5,000
Coal, gas and water	2,400
Rates and taxes	3,500
Salaries	2,250
Discount allowed	4,040
Travelling expenses	2,150
Director's fees	840
Bad debts	500
Debenture interest	800
4% debentures	40,000
Profit and loss (on 1.04.2018)	4,280
Sales	2,47,000
Discount received	2,360
Bad debts reserve	2,500
Royalty received	700
Debtors	55,400

Additional information :

- (a) Provide depreciation on machinery, patterns and patents at 10%.
- (b) Write off Rs. 400 from preliminary expenses.
- (c) Create reserve for bad debts at 5% on debtors.
- (d) Provide half years interest on debentures.
- (e) Stock as on 31.03.2019 Rs. 16,150.



SECTION - C

Answer **any two** questions :

(2 × 24 = 48)

13. On 1.04.2015 issued 10,000 8% debentures of Rs. 100 each repayable at the end of four years at a premium of 5%. It has been decided to constitute a Debenture Redemption Fund for the purpose, the investments being expected to yield at 4% interest. The fund tables shows that Rs. 0.235490 annually amounts to Rs. 1 at 4% in 4 years. Investments were made in multiples of Rs. 100 only.

The bank balance on 31.03.2019 was Rs. 3,00,000 (before interest on investment). On 31.03.2019 investments realized at 96% of their value and the debentures were paid off.

Prepare

- (a) 8% Debentures A/c.
- (b) Debenture Redemption Fund A/c.
- (c) Debenture Redemption Fund Investment A/c.
- (d) Bank A/c.
- (e) Debenture holders A/c.

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14. The following Balance Sheet are presented to you as on 31st March 2019.

Liabilities	Thanvi Ltd.	Ruthvi Ltd.	Assets	Thanvi Ltd.	Ruthvi Ltd.
Share capital:			Goodwill	60,000	20,000
Shares of Rs. 10 each	10,00,000	4,00,000	Machinery	7,00,000	2,70,000
General reserve	1,50,000	50,000	Stock	1,80,000	90,000
Profit and Loss A/c	1,42,000	60,000	Debtors	2,60,000	1,20,000
Creditors	1,20,000	30,000	Cast at Bank	40,000	25,000
Bills payable	20,000	-	Investments:		
			(24,000		
			Shares in		
			Ruthvi Ltd.	1,92,000	-
			at cost)		
			Bills		
			receivable	-	15,000
	14,32,000	5,40,000		14,32,000	5,40,000



Prepare Consolidated Balance Sheet after taking the following information into consideration :

- (a) Thanvi Ltd. acquired the shares in Ruthvi Ltd. on 1st October 2018.
- (b) On 1st April 2018, the balances of General Reserve of Rs. 20,000 and on the same date profit and loss showed a debit balance of Rs. 20,000.
- (c) The bills payable in Thanvi Ltd. represented bill issued all in favour of Ruthvi Ltd., which company got bills of Rs. 5,000 discounted.
- (d) The entire stock of Ruthvi Ltd. represents goods were supplied by Thanvi Ltd. at cost plus 25%.

15. The following is summarized Balance Sheet of Soubhagya Ltd. as on 31.03.2019.

Liabilities	Amount	Assets	Amount
6,000, 8% redeemable Preference shares of Rs. 100 each fully paid	6,00,000	Sundry assets	26,20,000
3,000, 9% redeemable preference shares of Rs. 100 each, Rs. 75 paid up	2,25,000	Cash at bank	8,25,000
1,50,000 equity shares of Rs. 10 each fully paid	15,00,000		
Capital reserve	1,00,000		
Securities premium	60,000		
Revenue reserve	6,00,000		
Other liabilities	3,60,000		
	<u>34,45,000</u>		<u>34,45,000</u>

It was decided to redeem both the classes of preference shares at a premium of 5%. The company issues for cash so many equity shares of Rs. 10 each, at a premium of 10% as were necessary to provide for

redemption of both classes of preference shares which could not otherwise be redeemed. The issue was fully subscribed and all the moneys were received. Then the company made a bonus issue for one share for every three shares held for existing shareholders.

Pass the Journal Entries and prepare Balance Sheet after redemption.

16. Following are the balances of Atlas Ltd. on 31.03.2019.

	Debit (Rs.)	Credit (Rs.)
Investments	50,000	-
Purchases	4,90,500	-
Packing charges	18,500	-
Delivery charges	35,400	-
Stock on 1.04.2018	1,45,200	-
Wages	30,000	-
Salaries	18,000	-
Director's fees	4,000	-
Rent and taxes	15,000	-
Carriage	8,200	-
Dividend for 2017-18	12,000	-
Preference dividend (upto 30.9.2018)	6,000	-
Machinery	25,000	-
Discount on debentures	2,000	-
Preliminary expenses	1,000	-
Debenture interest (upto 30.9.2018)	3,750	-
Building (cost Rs. 5,00,000)	3,50,000	-
Furniture (cost Rs. 50,000)	35,000	-
6% preference share capital	-	2,00,000
Equity share capital	-	2,00,000
Dividend and interest	-	4,250
5% mortgage debentures	-	1,50,000
Profit and Loss (on 1.4.2018)	-	28,500
Sales	-	6,80,500
Cash at Bank	13,700	-
	<u>12,63,250</u>	<u>12,63,250</u>

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Additional information :

- (a) Closing stock was valued at Rs. 1,42,500.
- (b) Depreciate furniture and buildings at 10% on original cost.
- (c) Write off half of discount on debentures.
- (d) Provide for remaining half years preference dividend.
- (e) Directors declared 10% dividend on equity shares.

Prepare statement of Profit and Loss account and Balance Sheet of the company in the prescribed form.

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