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BBABMC 212/BBMBMC 212

**III Semester B.B.A./B.B.M. Degree Examination,
October/November 2019**

(Credit Based Semester Scheme)

(2012 Scheme)

Corporate Accounting - I

Time : 3 Hours]

[Max. Marks : 120

Instructions : Provide working notes wherever necessary.

SECTION - A

(2 marks each)

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1. Answer **any ten** questions :

(10 × 2 = 20)

- (a) What do you mean by cumulative preference share?
- (b) What is calls in arrears?
- (c) What do you mean by 'Capital Redemption Reserve'?
- (d) What is under-subscription of shares?
- (e) What are contingent liabilities?
- (f) What do you mean by post incorporation profits?
- (g) State the various methods of valuing goodwill.
- (h) How audit fees is treated under profit prior to incorporation account?
- (i) How do you deal with the following items in final accounts in joint stock companies?
 - (i) Bank overdraft
 - (ii) Salaries
- (j) What are marked applications?

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- (k) A company offers to its existing shareholders the right to buy one share of Rs. 100 each at Rs. 120 for every two shares held. The market value of the share is Rs. 240. Calculate the value of right.
- (l) What is cash bonus?

SECTION B
(8 marks each)

(5 × 8 = 40)

Answer **any five** :

- What are the conditions which must be fulfilled for the redemption of preference shares?
- Explain the process of book building.
- The following is the balance sheet of 'Magnum Ltd.' as on 31.3.2018.

Liabilities	Rs.	Assets	Rs.
Share capital	3,28,000	Land & buildings	72,000
Reserve fund	80,000	Plant	1,09,000
Creditors	50,000	Investment	60,000
Bills payable	26,080	Stock	52,700
		Bank	1,51,980
		Debtors	38,400
	<u>4,84,080</u>		<u>4,84,080</u>

The following were the net profits for the year ended :

- 2015 - 16 Rs. 64,560
- 2016 - 17 Rs. 73,740
- 2017 - 18 Rs. 86,700

The above amounts include income from investments Rs. 3,600 each year.

Ascertain the value of goodwill at 2 years purchase of the average super profits for 3 years, taking into account the standard rate of return on capital employed in such type of business is 10%.



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5. Ashish Ltd., has authorized capital of Rs. 50,00,000 divided into 50,000 equity shares of Rs. 100 each. The entire issue was underwritten as follows :

A - 30,000 shares (firm underwriting - 5000 shares)

B - 15,000 shares (firm underwriting - 2000 shares)

C - 5,000 shares (firm underwriting - 1000 shares)

Out of the total issue 45,000 shares including firm underwriting were subscribed. The following were the marked forms :

A - 16000 shares ; B - 10,000 shares ; C - 4,000 shares.

Calculate the liability of each underwriter.

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6. The following are extracts from the balance sheet of a limited company.

Issued/subscribed/calledup/paidup capital Rs. 4,00,000

Reserve fund Rs. 2,40,000

Profit & Loss a/c Rs. 1,20,000

It was resolved to declare a bonus of 40% on equity shares by issuing equity shares to be provided Rs. 1,20,000 out of reserve fund and balance out of profit and loss account.

Set out journal entries to give effect to the above and show how they would affect the balance sheet.

7. The following is the balance sheet of "A" Ltd., as on 31.3.2018.

Liabilities	Rs.	Assets	Rs.
3000 equity shares of Rs. 100 each	3,00,000	Cash in hand	2,000
1500 8% preference shares of Rs. 100 each	1,50,000	Cash at bank	20,000
General reserve	40,000	Sundry debtors	80,000
Profit and Loss a/c	10,000	Stock	1,40,000
Bank loan	50,000	Land & Buildings	2,05,000
Sundry creditors	15,000	Furniture	30,000
		Goodwill	70,000
		Discount on shares	18,000
	<u>5,65,000</u>		<u>5,65,000</u>



The value of assets were as follows :

- (a) Furniture to be depreciated at 10%.
- (b) Debtors are expected to realized 80% of book value.
- (c) Value of stock, land and buildings and goodwill is estimated at Rs. 1,20,000, Rs. 2,50,000 and Rs. 80,000 respectively.

Find out the intrinsic value of equity share.

8. Ahuja Ltd., has 100,000 equity shares of Rs. 10 each and 80,000, 12% preference shares of Rs. 10 each. The company transfers 10% of divisible profits to reserve every year. The expected profit before tax is Rs. 4,00,000. The rate of tax is 30%. Normal rate of return is 12%.

Compute the value of each equity shares under yield method.

SECTION C

(20 marks each)

Answer **any three** :

(3 × 20 = 60)

9. From the following trial balance of Gururaj Ltd., as on 31.3.2018, prepare final accounts in vertical form with relevant notes :

Particulars	Dr.	Cr.
	Rs.	Rs.
Opening stock	3,26,000	-
Purchases and sales	24,80,000	37,60,000
Wages	2,64,000	-
Salaries	2,48,000	-
Rent	96,000	-
Commission	12,000	-
Interim dividend	2,00,000	-
Cash	2,68,000	-
Debtors	3,60,000	-
Bills receivable	1,64,000	-
Bad debts	18,000	-

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Particulars	Dr.	Cr.
Preliminary expenses	1,20,000	-
Investment	3,46,000	-
Discount	60,000	-
Goodwill	2,40,000	-
Interest on debentures	24,000	-
Furniture	2,12,000	-
Plant & Machinery	9,60,000	-
Land & Buildings	17,40,000	-
Sales returns	92,000	-
2,00,000 equity shares of Rs. 10 each	-	20,00,000
Interest	-	40,000
Profit and loss a/c	-	4,48,000
Reserve fund	-	3,60,000
Creditors	-	5,48,000
Bills payable	-	76,000
Discount	-	92,000
6% debentures	-	8,00,000
Purchase returns	-	1,00,000
Transfer fees	-	6,000
	<u>82,30,000</u>	<u>82,30,000</u>

Adjustments :

- Provision for doubtful debts on debtors is to be made at 5%.
- Closing stock Rs.16,50,000.
- Transfer to reserve fund Rs. 1,50,000
- Transfer to reserve fund Rs. 1,50,000
- Write off preliminary expenses by 50%.
- Provide for taxation Rs. 50,000.

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10. Following is the balance sheet of Emperor Ltd. as on 31.3.2018.

Liabilities	Rs.	Assets	Rs.
2,25,000 equity shares of Rs. 10 each	22,50,000	Plant & Machinery	12,50,000
32,500 preference shares of Rs. 20 each	6,50,000	Furniture	4,60,000
Reserve fund	1,60,000	Stock	7,50,000
Profit & Loss a/c	3,00,000	Debtors	10,00,000
Creditors	5,00,000	Investments	1,75,000
Bills payable	50,000	Cash at bank	3,00,000
Provision for taxation	25,000		
	<u>39,35,000</u>		<u>39,35,000</u>

The company decided to redeem its preference shares at a premium of 5% and in order to facilitate the redemption, it was decided :

- To sell investments for Rs. 1,50,000
- To finance part of the redemption from company's fund subject to leaving a balance of Rs. 1,00,000 in the profit and loss account.
- To issue sufficient number of equity shares of Rs. 10 each at a premium of Rs. 2.50 per share to raise the balance of funds.

The preference shares are redeemed on the due date and the equity shares are fully subscribed.

Pass journal entries to record the above and prepare balance sheet after redemption.



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11. Shadow Ltd., was incorporated on 1.5.2018 to take over a business from 1.1.2018. Profit and loss account showed the following results.

Profit and Loss Account for the year ending 31.12.2018

	Rs.		Rs.
To Salaries	1,20,000	By Gross profit b/d	9,60,000
To Rent	48,000	By bad debts recovered	4,000
To Directors fees	30,000		
To Commission on sales	24,000		
To Office expenses	1,20,000		
To Bad debts	5,000		
To Discounts	36,000		
To Audit fees	6,000		
To Depreciation	18,000		
To Debentures interest	10,000		
To Interest on purchase consideration upto 1.10.2018	45,000		
To Preliminary expenses	50,000		
To Carriage outwards	12,000		
To Net profit	4,40,000		
	<u>9,64,000</u>		<u>9,64,000</u>

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Additional information :

- Out of total sales Rs. 48,00,000, sales for the pre-incorporation period was Rs. 20,00,000
- Out of bad debts Rs. 2,000 relates to debts created prior to incorporation.
- Recovery of bad debts was in respect of debts written off in 2017.



(d) Rent upto 30.4.2018 was Rs. 1,000 per month and thereafter it was increased to Rs. 5,500 p.m.

(e) Salaries for the post-incorporation period was Rs. 96,000.

Apportion the profits into pre and post incorporation profits.

12. X Ltd., issued 10,000 shares of Rs. 10 each at a premium of Rs. 1 per share. The money was payable as follows :

On application Rs. 2

On allotment (including premium) Rs. 5

Balance on call

The entire issue was underwritten as follows :

A : 5000 shares (firm underwriting 2000 shares)

B : 3000 shares (firm underwriting 1000 shares)

C : 2000 shares (firm underwriting 500 shares)

Shares applied for were 7500 shares.

The marked forms including firm underwriting were :

A : 2500 shares

B : 1500 shares

C : 1000 shares.

The underwriters were entitled to a commission of 5%. The call was duly made, and all allottees including the underwriters paid the money.

Calculate the liability of each underwriter. Also pass the necessary journal entries in the books of the company for recording the above transactions.