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BBMBMC 212

Credit Based Third Semester B.B.M. Degree Examination, Oct./Nov. 2013
(New Syllabus) (2012-13 Batch Onwards)
CORPORATE ACCOUNTING – I

Time : 3 Hours

Max. Marks : 120

- Note :** 1) Provide working notes *wherever necessary*.
2) Answer questions in Section-A in **2 or 3 sentences each**.
3) Answer theory questions in Section-B in **not more than 2 pages each**.

SECTION – A

(Two marks each)

1. Answer **any ten** questions.

- What is 'over-subscription of shares' ?
- What are 'Marked Applications' ?
- State any two differences between 'Calls-in-Arrears' and 'Calls-in-Advances'.
- What do you mean by 'Redeemable Preference shares' ?
- What are debentures ?
- How are pre-incorporation profits treated in the books of account ?
- How audit fees is treated under profit prior to incorporation account ?
- State any two benefits of right issue.
 - What is meant by normal return ?
 - What is an interim dividend ?
- How you deal with the following items in final accounts of joint stock companies ?
 - Patents
 - Underwriting commission
- What are contingent liabilities ?

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(2×10=20)



SECTION – B
(Eight marks each)

Answer **any five** questions.

(8×5=40)

2. Explain the process of book building.
3. State the provisions of the companies act regarding the redemption of preference shares.
4. Shining stars Ltd., issued 20,000 equity shares of ₹ 100 each, 80% of the issue was under written by M/s. Rao brothers and Rai Brokers in the ratio of 3 : 1.

Applications for 15,000 debentures were received in all out of which applications for 10,000 were marked (Rao Brothers 6,000 and Rai Brokers 4,000).

Determine the liability of the underwriters.

5. National Ltd. Offers to its existing equity share holders the right shares at the rate of one equity share of ₹ 100 each at ₹ 110 for every three shares held. The current market price is ₹ 180.

Calculate the value of the rights.

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

	₹
Issued/Subscribed/Called up/Paid up capital	2,00,000
Reserve Fund	1,20,000
Profit and Loss Account	60,000

It was resolved to declare a bonus of 40% on equity shares by issuing equity shares to be provided ₹ 60,000 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 city limited as at 31-12-2012.

Liabilities	₹	Assets	₹
20,000 Shares of ₹ 10 each	2,00,000	Land Buildings	
		(Mkt. value ₹ 1,50,000)	75,000
General Reserve	50,000	Plant and Machinery	
		(Mkt. value ₹ 1,00,000)	80,000
Creditors	50,000	Trade marks	
		(Mkt. value Rs. 8,000)	10,000



Workmen's Savings A/c	50,000	Stock	1,00,000
P and L A/c	25,000	Debtors	54,000
		Investments	20,000
		Cash at bank	20,000
		Preliminary Exps.	16,000
	3,75,000		3,75,000

Find out the intrinsic value of each share after taking into account the following facts :

Interest payable to creditors	₹ 1,000
Bad Debts amounted to	₹ 2,000
Investments are worth	₹ 16,000

8. The following is the Balance of Marginal Ltd., As on 31-3-2013.

Liabilities	₹	Assets	₹
Share Capital	1,64,000	Land and Building	36,000
		Plant	54,500
Reserve Fund	40,000	Investment	30,000
Creditors	25,000	Stock	26,350
Bills Payable	13,040	Bank	75,990
		Debtors	19,200
	2,42,040		2,42,040

The following were the Net Profits for the year ended :

2010-11	₹ 32,280
2011-12	₹ 36,870
2012-13	₹ 43,350

The above amounts include income from investment ₹ 1,800 each year.

You are required to ascertain the value of Goodwill of the above company at 2 years purchase of the average super profit for 3 years, taking into account the fact that the standard rate of return on capital employed in such type of business is 10%.



SECTION – C
(Twenty marks each)

Answer any three of the following :

(20×3=60)

9. Sunrise Ltd., Issues 1,00,000 equity shares of ₹ 10 each at par and 5,000 debentures of ₹ 100 each at ₹ 96. The whole of the issue has been underwritten by elegant and Co., for a commission of 4% on equity shares and 2% on debentures. The whole of the shares were applied for, but applications for 4,000 debentures were received. All the applications were accepted.

Give Journal Entries to record the above transactions and prepare the Balance Sheet at this stage, assuming that all amounts due have been received.

10. Following is the Balance Sheet of superior limited as on 31-3-2013.

Liabilities	₹	Assets	₹
2,25,000 equity shares of			
₹ 10 each	22,50,000	Plant and Machinery	12,50,000
		Furniture	4,60,000
		Stock	7,50,000
		Sundry Debtors	10,00,000
		Investments	<u>1,75,000</u>
32,500, 8% redeemable			
<u>preference shares of</u>			
₹ 20 each	<u>6,50,000</u>	Bank Balance	3,00,000
Reserve Fund	1,60,000		
Profit and Loss Account	3,00,000		
Sundry Creditors	5,00,000		
Bills Payable	50,000		
Provisions for Taxation	25,000		
	39,35,000		39,35,000



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

- a) To sell investments for ₹ 1,50,000.
- b) To finance part of the redemption from company's funds subject to leaving a balance of ₹ 1,00,000 in the Profit and Loss Account.
- c) To issue sufficient number of equity shares of ₹ 10. Each at a premium of ₹ 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 the Balance Sheet after Redemption.

11. The Master's Ltd., was incorporated on 1st July 2012 with an authorised capital of ₹ 5,00,000 in equity shares of ₹ 10 each to take over as a going concern as from 1st April 2012. The existing business of Jungal Brothers. The agreement for taking over provided that all profits made from 1st April 2012 should belong to the company. The purchase consideration of ₹ 2,00,000 together with interest at 8³/₄% P.A was satisfied on 1st October, 2012 by the allotment to vendors, 17,500 equity shares fully paid and the Balance in Cash.

The Trial Balance of the Company as on 31-3-2013, was as follows :

Particulars	Debit ₹	Credit ₹
Share Capital		2,25,000
Freehold Land at Cost	25,000	
Building at cost	65,000	
Furniture at cost	7,500	
Salaries	12,000	
Purchases (including stock taken over)	4,85,000	
Sales (including sales prior to incorporation ₹ 75,000)		4,50,000
Sundry Debtors	45,000	
Sundry Creditors		30,000
Rent Received		6,000
Rates and Taxes	3,000	
Repairs	1,500	

Handwritten notes:
 Salaries: ₹ 12,000
 Purchases: ₹ 4,85,000
 Sundry Creditors: ₹ 30,000
 Rates and Taxes: ₹ 3,000
 Repairs: ₹ 1,500



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

- a) To sell investments for ₹ 1,50,000.
- b) To finance part of the redemption from company's funds subject to leaving a balance of ₹ 1,00,000 in the Profit and Loss Account.
- c) To issue sufficient number of equity shares of ₹ 10. Each at a premium of ₹ 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 the Balance Sheet after Redemption.

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The Trial Balance of the Company as on 31-3-2013, was as follows :

Particulars	Debit ₹	Credit ₹
Share Capital		2,25,000
Freehold Land at Cost *	25,000	
Building at cost *	65,000	
Furniture at cost *	7,500	
Salaries <i>पूरा - 71</i>	12,000	
Purchases (including stock taken over) <i>पूरा</i>	4,85,000	
Sales (including sales prior to incorporation ₹ 75,000)		4,50,000
Sundry Debtors	45,000	
Sundry Creditors <i>पूरा = 45000</i>		30,000
Rent Received		6,000
Rates and Taxes	3,000	
Repairs <i>₹ 50,000 - 7</i>	1,500	



Director's fees	1,200	
Miscellaneous Expenses	7,200	
Interest to Vendors	8,750	
Cash in Hand	1,800	
Cash at Bank	48,050	
	7,11,000	7,11,000

You are required to prepare the Profit and Loss Account of the company for the year ended 31st March, 2013 and a Balance Sheet as on that date after taking into account the following adjustments :

- a) Stock on 31-3-2013 ₹ 1,40,000
 - b) Bad Debts, ₹ 500 (including Rs. 200 out of book debts taken over from the vendors) to be written off.
 - c) Provision for Doubtful debts to be made at ₹ 2,500.
 - d) Depreciate building by 5% and Furniture by 10%.
12. From the following Trail Balance and additional information of wonderful Co. Ltd., prepare the Profit and Loss statement for the year ended 31-3-2013 and the Balance Sheet as on that date in vertical form with notes.

Debit Balances	₹
Investment in Shares	50,000
Purchases	5,31,090
Stock (on 1-4-2012)	1,45,200
Packing Charges	18,000
Delivery Charges	35,400
Wages	30,000
Salaries	18,000
Directors Fees	4,000
Rates and Taxes	15,500
Carriage	8,200
Dividend for 2012	12,000
Preferences dividend for half year to 30-9-2012	6,000
Machinery	25,000
Discount of issue of Debentures	2,000



Preliminary Expenses	1,000
Bills Receivable	41,500
Interest on Bank Loan	5,800
Debenture Interest (Upto 30-9-2012)	3,750
Sundry Debtors	50,100
Buildings	3,50,000
Furniture (Cost ₹ 50,000)	35,000
Technical know-how (at cost)	1,50,000
Cash	4,150
	15,41,690

Credit Balances

Sundry Creditors	87,850
Preference Capital (shares of ₹ 100 each)	2,00,000
Equity capital (shares of ₹ 10 each)	2,00,000
5% Secured Debentures	1,50,000
Dividend and Interest	44,840
Profit carried forward from previous year	28,500
Sales	6,80,500
Bank Loan	1,50,000
	15,41,690

Additional Information :

1. Closing stock ₹ 1,42,500.
2. Wages include ₹ 2,000 incurred for installation of machinery.
3. Purchase include goods worth ₹ 5,000 distributed freely among the customers.
4. Depreciate furniture at 10% on original cost.
5. Write off half of the discount on issue of debentures.
6. Provide for the remaining half year's preference dividend.
7. Technical know how is to be written down over 20 years.
8. Provide for taxation ₹ 10,000.
9. The authorised capital of the company is ₹ 6,00,000 consisting of ₹ 3,000. 6% preference shares of ₹ 100 each and 3,000 equity shares of ₹ 10 each.