Model Answer

B.Com (Hon's) III Semester, 2014

Paper Code: AU- 6650

Subject: Corporate Accounting

Note: The model answer is only a guidance note to the students, no students can claim full mark only in the basis of model answers. The mark distribution may vary according quality and quantity of answers.

1.

(i) **Employee's stock option plan (ESOP):** - According to Sec-2 (15A) of Indian Companies Act, 1956, an option given to employees by the company to purchase or subscribe for equity shares at a future date at a pre-fixed price is known as Employees' stock option plan (ESOP). It is a voluntary scheme. Normally pre-fixed price is lower than the market price.

(ii) (d) Capital reserve account.

iii) **Concepts Goodwill**: It is nothing but only the name and fame of a business which helps it earning more profit. Normally Goodwill arises when an enterprise earns more profit than it its normal profit earning capacity. The concepts may be as follows:
(a) Legal Concept
(b) Economic Concept
(c) Accounting Concept

iv) Normal Profit = 25,00,000 ×10%= 2,50,000

Super profit = Average Profit- Normal Profit
= Rs. 3, 00,000- Rs.2, 50,000
= Rs.50, 000

Goodwill = Super profit × 100/ Normal rate
= 50,000 × 100 / 10
=Rs. 5, 00,000

v) Net assets method:-

Following procedure is adopted for finding out value of shares according to this method: -

a) To find out realised value of realisable value of real assets of the company.
b) To find out total of external liabilities;
c) To find out the value of net assets.

* Value of net assets = Total of realisable assets- Total of external liabilities

** **Value of one share =** $\frac{\textit{value of net assets}}{\textit{number of shares}}$

vi) **Preferential creditors:** are those creditors who have preferential right for payment over other creditors for the amount realised from the assets which are not specifically pledged and after meeting winding-up expenses. Preferential creditors include: government taxes, wages, etc.

vii) Following journal entry is passed at the time of conversion of shares into stock

Equity share Capital A/c ……….Dr

To equity stock A/c

(Being fully paid up Equity are converted into stock)

viii) **Redemption of Redeemable preference share**: It means that when a company returns share money to the preference shareholder in cash or issues fresh shares thereby cancelling old shares, then it is known as 'redemption of shares'. AOA authorises company to redeem its redeemable preference shares at a fixed date or after a certain period of time throughout the existing period of the company.

ix) **Objects of Amalgamation of Company**:-

1) Elimination of competition;
2) Reduction in expenses;
3) Strong economic structure;
4) Improved management and control, etc.

x) A) Cat Goodwill.

2. When capital structure of the company is over capitalised or company has incurred heavy losses and that must be written off or assets have been shown at values higher than required, then reconstruction step is followed or adopted to remove the above defects as well as to reorganise the company's financial structure. By following methods it can be put to effect:-

a) Alteration in share capital;
b) Reduction in share Capital

(Note: Along with above introduction detail explanation is required by the examinees)

3. Redemption of Debentures: When the debentures are repayable after a fixed period are known as redemption of debenture. Examinees are required to explain this concept. Then the following methods should be explained in detailed by examinees:

1) By Lump sum payment;
2) By creating Redemption fund;
3) By annual drawings;
4) By conversion;
5) By purchasing own debenture in the open market.

4. Journal Entries in the books of Sourabh Ltd.

Date	Particulars	L/F	Dr (in Rs.)	Cr (in Rs.)
2014 1,Jan	Bank A/c Dr To equity share application A/c (Being application money received)		20000	 20000

1, Jan	Equity share application A/c Dr To equity share capital A/c (Being application money transferred to share capital a/c)		20000	20000
1, Feb	Equity share allotment A/c Dr To Equity Share capital A/c (Being allotment money due.)		30000	30000
1, Feb	Bank A/c Dr To calls-in advance A/c To equity share allotment A/c (Being allotment money received and calls in advance adjusted.)		31000	1000 30000
1, July	Equity share first call A/c Dr To share capital A/c (being share first call due)		30000	30000
1, July	Bank A/c Dr Calls-in-advance A/c Dr To Equity Share First Call A/c To Calls-in advance A/c (Being share first call received and calls-in- advance adjusted)		30600 600	30000 1200
1, Nov	Equity share second call A/c Dr To equity share capital A/c (Being share second call due)		20000	20000
1, Nov	Bank A/c Dr Calls-in –advance A/c Dr To Equity share second call A/c (Being second call money received and calls-in-advance)		18400 1600	20000
1, Nov	Interest A/c Dr To Bank A/c (Being interest on calls in advance paid.)		57	57

(Note: Working notes to be shown)

5. Computation of profit available: Rs.

Average profit (-) transfer to reserve fund	1,86,000 20,000
 (-) Pref. Share @8% Dividend $(200000 \times 8 \div 100)$ (-) Equity share @ 12% Div. (5,00,000×12÷100) (-)Pref. share Div. 1/10 Available to Equity Shareholders	1,66,000 16,000 1,50,000 60,000 90,000 9,000 81,000

Total dividend to Pref. Shareholders = Rs.16, 000+ 9,000= 25,000

Rate of dividend = 25000×100 ÷ 2, 00,000 = 12.50%

Value of Pref. Share = 12.5×100 ÷ 10 = Rs. 125

Total Dividend to Equity Shareholder =Rs.60, 000+81,000=1, 41,000
Rate of Dividend=1, 41,000×100÷5, 00,000=28.2%

Value of Equity Share=28.2×50÷12 = Rs.117.5

6. Liquidator's Final Statement of Account

Receipts	Estimated Value	Value Realised	Payments	Amount
Assets Calls: 2000, Equity Shares @re 1 per share		1,78,000 2,000	Liquidation cost Liabilities Return to contributories: Return of calls in advance: Pref. shares 24000 Equity shares <u>4000</u> Preference Shareholders (on 10,000 preference shares @ Rs 5 per shares) Equity Shareholders (on 10000 Equity Shares @ Rs 7 per share)	2,000 30,000 28,000 50,000 70,000
		<u>1,80,000</u>		<u>1,80,000</u>

(Note: Working notes to be shown)

7. **Calculation of Purchase Consideration By Net Assets Value Method**

	RAJUL LTD.	RAHUL LTD.
Total Assets Less: Creditors Purchase consideration	230000 <u>6000</u> <u>224000</u>	202000 <u>2000</u> <u>200000</u>

JOURNAL ENTRIES IN THE BOOKS IF ROHIT LTD.
(THE TRANSFREE CO.)

S.No	PARTICULARS	Dr (Rs.)	Cr (Rs.)
1.	Business purchase A/c…..........................Dr. To liquidators of Rajul Ltd. To liquidators of Rahul ltd. (Being the consideration payable to liquidators of both the above Cos.)	4,24,000	 2,24,000 2,00,000

2.	Land & Building (100000+90000)……...Dr. Plant & machinery (48000+38000)……..Dr. Stock (28000+30000)…………………...Dr Debtors (36000+32000)………………...Dr Bills receivable (4000+4000)…………...Dr Cash at bank (9000+4000)……………...Dr To Reserves A/c To Creditors (6000+2000) A/c To Business Purchase A/c (Being the various assets and liabilities taken over)	1,90,000 86,000 9,000 58,000 8,000 13,000	 Nil 8,000 4,24,000
3.	Liquidators of Rajul ltd………………...Dr Liquidators of Rahul ltd………………..Dr To equity share capital A/c	2,40,000 2,00,000	 4,24,000

**** Students are required to show working notes.**

BALANCE SHEET OF ROHIT LTD. AFTER THE MERGER

Liabilities	**Amount (Rs)**	**Assets**	**Amount (Rs)**
Share Capital :		*Fixed assets*:	
Authorised		Land and building	190000
Issued & subscribed	424000	Plant & machinery	86000
Reserve & surplus:		Patents	9000
Reserve		*Current Assets, loan &*	
Secured loan	Nil	*adv.:*	
Current lia. & prov.		a) Current assets:	
Creditors		Stock	
Provision	8000	Debtors	58000
	Nil	Cash at bank	68000
		b) Loans &	13000
		Advances:	
		B/R	
		Misc. Exp.	
			8000

	432000		**432000**

8. Bilaspur product limited

Statement of profit and loss (for the year ended 31st December, 2014)

Particulars	Notes	Figures for the current reporting period	Figures for the previous reporting period
I. Gross profit from operations II. Other income (share transfer fees)		5,90,200 700	
III. Total (I+II)		5,90,900	
IV. Expenses: Employee benefits expense Finance costs Depreciation & amortisation expenses Other expenses	 1 2	 1,20,670 44,600 70,200 2,22,930	
Total expenses		4,58,400	
V. Profit before exceptional and extraordinary items and tax (III-IV) VI. Exceptional items		1,32,500	
VII. Profit before extraordinary items and tax (V-VI) VIII. Extraordinary items		1,32,500 -------	
IX. Profit before tax (VII-VIII) X. Tax expenses: (1.) Current tax (2.) Deferred tax	 3	1,32,500 59,625 (25,000)	
XI. Profit for the period (IX-X)		97,875	

1. ***Finance Costs:***
   Interest Rs.35600+Deb. Interest (4500+4500) =44600
2. **Other Expenses:** Selling Exp. 70890+General Exp. 145340+Insuarance 6700=222930
3. **Prov. For Taxation**(Bal.) 180600
   Tax paid 70600
   Prov. Carried forward 85000 155600
   Balance transfer to SPL 25000

Bilaspur product limited

Balance Sheet as on 31st Dec, 2014

Particulars	Notes No	Figures for the current reporting period	Figures for the previous reporting period
I. EQUITIES & LIABILITIES			
(1) Shareholders fund:			
(a) Share Capital	1	598500	
(b) Reserve & Surplus	2`	193675	
(2) Share application pending allotment			
(3) Non-current liabilities			
(a) Long-term Borrowings:			
5% Debentures		180000	
(b) Deferred Tax liabilities		-----	
(c) Other long term liabilities:			
Bank Loan			
(d) Long-term provisions		200000	
(4) Current liabilities:		-----	
(a) Short term borrowings			
(b) Trade Payables		----	
(c) Other current liabilities		140300	
(d) Short-term provisions:	3	49700	
Prov. For Taxation			
(85000+59625)		144625	
TOTAL			
II. ASSETS		**1506800**	
(1) Non-current Assets:			
Fixed Assets:			
Tangible Assets			
(2) Current Assets:	4	819200	
a) Current Investments			
b) Inventories		**----**	
c) Trade Receivables		217400	
d) Cash & cash		414900	
equivalents		35300	
e) Short-term loans and			
advances		20000	
f) Other current assets		------	
TOTAL		**1506800**	

Notes:

1. Share Capital:
   Authorised Capital: 10000 Equity Shares of RS.100=1000000
   Issued and Paid-up=6000 shares of Rs.100= 600000
   Less: Calls in arrears: 1500
   598500
2. Reserves & Surplus:
   Gen. Res. + P&L Bal. +C.Y. Profit-Interim Div.-Proposed Div.-Prem. Exp. =193675
3. Other current Liabilities:
   Int. on Deb. +Proposed Div. +O/s Exp. =49700
4. Tangible Assets : Building +Furniture=819200

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