<u>Model Answer</u>

B.Com (Hons) III Sem 2013-14

AS- 2619

Corporate Accounting

*(Prepared by, **Budheshwar Prasad Singhraul**, Assistant Professor, Dept of Commerce, GGV, Bilaspur)

Answer 1.

(i) **Calls in Advance- "**A Company Can accept advance payment from any shareholder in respect of the shares held by them although calls have not been made on them, if it is authorized by its articles i.e. a shareholder may pay the whole or a part of the unpaid amount of calls in advance, although it has not been called up. This is called calls in advance."

(ii) **(b) Sinking fund A/c**

(iii) Methods of Redemption of debentures: (a) Conversion (b) By creating Redemption Fund (c) By Annual Drawing (d) At the option of the company (e) purchase in the open market.

(iv) In general term, when two or more companies engaged in similar nature of business in together and form a new company for running the business is called Amalgamation of Companies. But now this concept has classified in two broad categories:

In the first category the assets and liabilities of transferor company is taken over by the transferee. Company but it maintains the interests of shareholders of transferor company and the assets, liabilities, capital and reserves are to be incorporated in the accounts of transferee company. This type of amalgamation is called as merger.

In the second category the assets and liabilities of transferor company are taken over by the transferee company which results in closing down business of the transferor and the shareholders of transfero0r company do not have any interest in the capital of transferee company. This type of amalgamation is known as purchase.

(v) Characteristics of Amalgamation:.

(a) One or more than one companies are liquidated in amalgamation,

(b) It is not essential to promote a new company to purchase the business of amalgamating companies. A new company may be formed or may not be formed in amalgamation.

(c) Normally purchase consideration is paid in terms of the shares of the new company, but whenever needed, payments may be made in cash or by issuing debentures of the new company.

(vi) Journal Entires

Date	Particular	LF	Amount Rs.	Amount Rs.
	Share Capital A/C (Partly Paid) Dr. To Share Capital A/c (Fully Paid) (Cancellation of Rs. 2 unpaid amount on 40,000 shares)		3,20,000	3,20,000

(vii) *"Goodwill is the present value of additional earning to be expected in the future by a concern."* Goodwill is the valuable intangible assets of the business. It is neither an artificial nor fictitious assets.

(viii) Under super profit method, goodwill is calculated by multiplying super profit with the number of purchase years,

Goodwill = Super profit x No. of purchase years

Super Profit = Actual profit- Normal profit

Normal profit = (Average Capital Employed x Normal rate)/100

(ix) "Market value of a share means that value at which this share is sold and purchased in the share market."

(x) (b) Winding up by Tribunal.

Answer 2

Journal Entries in the books of Arpa Ltd.

Date	Particular	LF	Amount Rs.	Amount Rs.
2012 April1	Bank A/c **Dr.** To Equity Share Capital A/c To Security Premium A/c (Being issue of 6000 equity shares at a premium)		63,000	 60,000 3,000
2012 April1	General Reserve A/c **Dr.** To Capital Redemption Reserve A/c (Being the amount transferred to capital redemption reserve A/c)		60,000	 60,000
2012 April1	9% Redeemable Pref. Share Capital A/c **Dr.** To Redeemable Pref. Shareholders A/c (Being the sum payable to Redeemable pref. shareholders)		1,20,000	 1,20,000
2012 April1	Redeemable Pref shareholder's A/c **Dr.** To Bank A/c (Being the payment made)		1,20,000	 1,20,000

Balance Sheet
(As on 1st April 2012)

Liabilites	Amount Rs.	Assets	Amount Rs.
Share Capital:		Fixed Assets	18,00,000
Issued and Paid up;		Current Assets	
Equity shares of Rs. 100 each.	12,00,000	(7,50,000+63,000-1,20,000)	6,93,000
Equity Shares of Rs. 10 each	60,000		
Security Premium	63,000		
General Reserve			
(9,00,000-6,00,000)	8,40,000		
Capital Redemption Reserve	60,000		
Current Liabilities	2,70,000		
	24,93,000		**24,93,000**

Ans 3.

Name of the Company- Baba Co. Ltd
Statement of Profit and Loss
(For the year ended 31st March 2013)

	Particulars	Note No.	Figures for the current Year Period	Figures for the Previous Year Period
I	Revenue from operation		35,00,000	
II	Other Income	1	54,375	
III	Total Revenue (I+II)		**35,54,375**	
IV	**Expenses:-**			
	Cost of Material Consumed		-	
	Purchase of Stock in Trade		24,50,000	
	Changes in inventories (8,20,000-7,50,000)		(70,000)	
	Employee Benefit Expenses		5,75,000	
	Finance Cost		-	
	Depreciation and amortization Expenses	2	72,500	
	Other Expenses	3	3,35,379	
	Total Expenses		**33,62,879**	
V	Profit before exceptional and extra-ordinary items and tax (III-IV)		1,91,496	
VI	Exceptional expenses		-	
VII	Profit before extra ordinary and taxes (V-VI)		1,91,496	
VIII	Extra-ordinary items		-	
IX	Profit before tax (VII-VIII)		1,91,496	
X	Tax expenses:			
	1. Current Year		-	
	2. Deferred Taxes		-	
XI	Profit for the period		1,91,496	

Name of the Company- Baba Co. Ltd

Balance Sheet (As on 31st March 2013)

	Particulars	Note No.	Figures for the current Year Period	Figures for the Previous Year Period
I	Equity and Liabilities:			
	1. Shareholders fund:			
	(a) Share Capital		10,00,000	
	(b) Reserve and surplus		4,06,796	
	(c) Money received against share warrant	1	-	
	2. Share Application money pending allotment		-	
	3. Non-current liabilities		-	
	4. Current liabilities;			
	(a) Short term borrowings		-	
	(b) Trade payables	2	1,70,625	
	(c) Other current liabilities (outstanding)	3	14,579	
	(d) Short-term provisions		-	
	Total		**15,92,000**	
	Assets:			
	1. Non Current Assets;			
	Fixed Assets			
	(i) Tangible Assets;			
	Machinery 2,90,000			
	Less: Dep 72,500		2,17,500	
	(ii) Intangible assets		-	
	(iii) Capital work in progress		-	
	(iv) Intangible assets under development		-	
			-	
	2. Current Assets;			
	(a) Current investment			
	(b) Inventories		8,20,000	
	(c) Trade receivables		3,56,250	
	(d) Cash and equivalents to cash		1,62,000	
	(e) Short term loans and advances		32,500	
	(f) Other current assets (unexpired)		3,750	
	Total		**15,92,000**	

Note: (As to Statement of Profit and Loss)

1. Other Income = Discount + Reserve for discount on creditors

   54,375 = 50,000 + (1,75,000x2.5%)
2. Dep on machinery = 2,90,000 x 25/100 =72,500
3. Other expenses;

Discount	= 70,000	
Rent = 49,500+ 4,500	= 54,000	
General Expenses =(1,70,500-7500x6/12)	= 1,66,750	
Bad debts	= 15,800	
Doubtful debts = 37,500 x 5/100	= 18,750	
Managing Directors Commission	=<u>10,079</u>	
	<u>3,35,379</u>	

Note: **(As to Balance Sheet)**

1. Reserve and Surplus:

Reserve		1,55,000
Profit and loss balance	1,50,300	
+ Current year profit	<u>1,91,496</u>	
	341,796	
Less: Dividend (50,000+40,000)	90,000	<u>251,796</u>
		<u>4,06,796</u>

2. Trade Payables = (1,75,000-1,75,000x2.5/100) 1,70,625
3. Outstanding rent + Managing directors commission
   4,500 + 10,079 = 14,579

Note: Students may solve this question in old format too.

Ans.4

Calculation of Net Assets

Total Real Assets		1,53,000
Less:		
Dep. Fund	3,000	
Creditors	30,000	
7% Debentures	15,000	
Outstanding interest on debenture:		
(15,000 x 7%)	<u>1,050</u>	49,050
Net Assets		**1,03,950**

Preference dividend for two years = 30,000x6/100x2 = 3,600

Assumption A:

When preference shares have no priority for payment of capital and dividend:-

Value per Share = Net Assets/ No. of Shares (Pref. + Equity)

1,03,950/9,000+3,000 =1,03,950/12,000 = <u>Rs. 8.66</u>

Assumption B:

When pref. Shares have priority for repayment of capital only.

Value per Equity share = Net Assets- pref. Share Capital/ No. of Equity share

= 1,03,950-30,000/9,000 = 73,950/900 = Rs. 8.22

Assumption C:

When pref. Shares have priority as to payment of capital and arrears of dividend:

Value per Equity share = Net assets – pref. Capital – dividend/ No. of equity shares

= 1,03,950-30,000-3,600/9,000 = 70,350/900

= Rs. 7.82

Assumption D:

When pref. shares have no priority for capital but for arrears of dividends.

Value per share = Net Assets- Pref. dividend/No. of shares (Pref.+ equity)

= 1,03,950 – 3,600/3000+9,000 = 1,00,350/12,000 **= Rs. 8.36**

Value per Pref. share = 8.36 + 3600/3000 = **Rs. 9.56**

Ans.5

Liquidator's Final Statement of Account

Receipts	Amount Rs.	Payments	Amount Rs.
Cash at Bank	9,400	Legal charges	-
Realisation from assets	48,000	Liquidator's Remuneration	
Amount received from call - 3,000 x 2.5	7,500	(a) Fixed = 1,000 (b) On Realisation =1387.50	2,387.5
		Liquidation expenses	1,200
		Debentureholdrs: 5% Debenture = 20,000 Interest = 250	20,250
		Unsecured Creditors Income Tax 1250 Rates 450 Trade Creditors 7,850	9,500
		Return to shareholders; Cum. Pref. shareholder Capital = 10,000 Dividend = 1,000 Non cum. Pref. shareholder Capital = 20,000	31,000
		Equity shareholders	562.50
	64,900		**64,900**

Working Note:

1. Liquidator's Remuneration (2.5% on amount realised)

Amount Realised = Realisation from assets + call money

= (18,000 + 30,000) + (3000x2.50)

= 48,000 + 7,500 = 55,500

Remuneration = 55,500 x 2.5/100 = **Rs. <u>1387.5</u>**

2. Interest on Debentures (from 1 Jan to 31st March 2013)

=20,000 x5/100 x 3/12 = Rs. 250

3. Pref. dividend = 10,000 x 5/100 x 2 = Rs. 1000

Ans.6 Working Note:

Purchase Consideration = Rs. 3,30,000

Net Assets taken over ;

Total real assets taken over (6,02,325-3,050)		5,99,275
Less: Liab. Taken over:		
10% Debentures	1,50,000	
Sundry creditors	<u>91,250</u>	<u>2,41,250</u>
Net Assets taken over		**<u>3,58,025</u>**

Capital reserve = Net assets taken over – purchase consideration

= 3,58,025-3,30,000 =Rs. 28,025

Journal Entries in the books of X Ltd (Transferee Company)

Date	Particular	LF	Amount Rs.	Amount Rs.
1.	Business Purchase A/c ... Dr.		3,30,000	
	To Liquidator's of X Ltd.			3,30,000
	(Being purchase consideration payable)			
2.	Machinery A/c ... Dr.		2,75,000	
	Office Furniture A/c ... Dr.		67,600	
	Stock in Trade A/c ... Dr.		1,57,900	
	Sundry Debtor A/c ... Dr.		64,650	
	Cash at Bank A/c ... Dr.		34,125	
	To 10% Debentures A/c			1,50,000
	To Creditors A/c			91,250
	To Capital Reserve A/c			28,025
	To Business Purchase A/c			3,30,000
	(Being assets and liabilities taken over)			
3.	Amalgamation Adjustment A/c ... Dr.		4,850	
	To Statutory Reserve A/c			4,850
	(Being record of statutory reserve A/c of Y Ltd.)			
4.	Liquidator of Y Ltd ... Dr.		3,30,000	
	To Equity share Capital A/c.			3,30,000
	(Being purchase consideration paid)			
5.	10% Debentures of Y Ltd. ... Dr.		1,50,000	
	To 12% Debenture A/c			1,50,000
	(Being allotment of 12% debenture to discharge of 10% Debentures)			
			14,14,125	**14,14,125**

Balance Sheet Of X Ltd.(After purchase)

Liabilities	Amount Rs.	Assets	Amount Rs.
Equity Share Capital		Machinery	10,80,000
1,08,000 Shares of Rs. Each	10,80,000	Office Furniture	1,64,800
Capital Reserve	1,03,205	Stock in Trade	5,10,650
General Reserve	3,12,750	Sundry Debtors	1,63,850
Profit and loss A/c	92,650	Cash at Bank	90,725
Statutory Reserve	4,850	Amalgamation Adjustment	4,850
12% Debentures	1,50,000		
Sundry creditors	2,71,600		
	20,14,875		**20,14,875**

Ans.7

(i) Issue of shares at par- Issue of shares at its actual price i.e. face value is known as issue of shares at par.

(ii) Issue of shares at premium- when shares are issued at a price above their nominal or face value, they are said to be issued at premium.
For example;
When shares of Rs. 100 (face value) are issued at Rs. 110, it is said that the shares have been issued at premium. Here Rs.10 is premium.

(iii) Issue of shares at discount: when shares are issued at less than their face value, they are said to be issued at discount. For example; when shares of Rs.10 are issued at Rs.9 or shares of Rs. 100 are issued at Rs. 95, they are at a discount of Re 1 and Rs. 5 respectively.
Irrespective of the fact that shares are issued at par, at discount or at premium the share capital of the company, as stated earlier, is collected in installment to be paid in different stages;
Accounting Record regarding issue of shares

(A) **Issue at par;**

(i) On receipt of application money;
Bank A/c ...Dr.
To Share Application A/c

(ii) On transferring Application money to share Capital A/c;
Share Application A/c ...Dr.
To Share Capital A/c

(iii) On Allotment money due;
Share Allotment A/c ...Dr.
To Share Capital A/c

(iv) On Receipt of Allotment money;

Bank A/c ...Dr.

To Share Allotment A/c

(v) On Call money due;

Share Call A/c ...Dr.

To Share Capital A/c

(vi) On receipt of call money;

Bank A/c ...Dr.

To Share Call A/c

(B) **Issue at Premium:-**

Share Application A/c, Share Allotment A/c or Share Call A/c, as the case may be, is debited and security premium A/c is credited when the amount of premium becomes due.

Share Application A/c ...Dr.

Or,

Share Allotment A/c ...Dr.

Or,

Share Call A/c ...Dr.

To Security Premium A/c

(C) **Issue at discount:-**

A company shall not issue shares at discount except as provided in Sec 79 of Company Act, 1956.

Accounting Record for discount;

Discount on Issue of Shares A/c ...Dr.

To Share Capital A/c

Record for discount is mostly made at the time of allotment in the absence of contrary information.

Ans.8

Redemption of Debentures:

Redemption of Debentures means settlement of debenture-holders after a certain period. In other words “discharge of liability of its debentures by a company according to the terms and conditions of articles and prospectus is known as redemption of debentures.”

Usually, debentures may be redeemed out of profits or out of capital or out of the proceeds from the fresh issue of shares during the life time of a company at a fixed period or uncertain period or its liquidation.

Methods of Redemption of Debentures;

A Company can discharge (Redeem) its debentures liability by any one of the following methods;

(i) By lump-sum payment/ at the option of the company
(ii) By Creating Redemption Fund
(iii) By Annual Drawing
(iv) By conversion
(v) By purchase of its own debenture in the open market.

(Proper explanation by the student required)

Prepared by
Budheshwar Prasad Singhraul
Assistant Professor
Department of Commerce
Guru Ghasidas Vishwavidyalaya, Bilaspur (C.G)
INDIA