B. Com (LLB) III Semester
Paper Title: Corporate Accounting
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Answer 1.

(i) **a.** For paying dividend

(ii)b. 10%

(iii) b. Irredeemable preference shares

(iv)b. 50%

(v)b. 2.5%

(vi)b. Intangible Assets

(vii) d. More or less

(viii) b. Debt

(ix) b. Pension Fund

(x)b. Goodwill

(xi)d. Contribution to general reserve

(xii) a. Listed company

(xiii) a. Goodwill

(xiv) a. Personal Account

(xv) d. Share capital A/C

Answer 2.

Calls in Advance-

Calls in advance refer to the amount paid by the shareholders even before the company makes the particular call due. A company may accept the calls in advance only when the Articles permit so.

Accounting treatment of calls in advance:

1. When the amount of calls in advance is received:

Bank A/c	Dr
To Calls in advance A/c	

2. For adjusting amount of calls in advance with the relevant call:

Calls in advance A/c Dr

To Relevant Call A/c

3. For interest due on calls in advance:

Interest on Calls in advance A/c Dr

To Shareholders A/c

4. When interest on calls in advance is actually paid:

Shareholders A/c Dr

To Bank A/c

5. For closing interest on calls in advance A/c

Profit & Loss A/c Dr

To Interest on calls in advance A/c

Interest on calls in advance is 6% p.a.

Answer 3.

Rules for redemption of preference share:-The redemption of redeemable preference shares may be affected on such terms and in such manner as is provided in the articles of the company. If the articles do not contain any provisions in this regard, the terms and conditions for redemption may be inserted in the articles by amending the articles by a special resolution. The following conditions must be fulfilled for redemption of redeemable preference shares:

— The shares to be redeemed must be fully paid up;

— Redemption can be affected only out of profits which would otherwise have been available for dividend, or out of the proceeds of a fresh issue of shares made for the purpose of redemption;

— The premium payable, if any, on the redemption shall be provided for out of the profits of the company or out of the company's securities premium account. Such provision shall be made before the shares are redeemed;

— If the redemption is out of the proceeds of a fresh issue of shares, the issue shall have been made specifically or inter-alia for the purpose of the redemption;

— If the redemption is out of distributable profits, the profits equivalent to the nominal amount of the shares redeemed must be transferred to capital redemption reserve account.

Unless the terms of the issue provide for conversion of preference shares into equity shares, the preference shares have to be redeemed only in cash.

The sanction of the court under section 100 of the Act would be necessary where preference shares are to be redeemed out of capital redemption reserve account created out of the profits of the company.

Two independent procedures are available to a company for redemption of preference shares. It may redeem the shares by following the procedure laid down under section 80 of the Act which is a special provision meant for redemption of preference shares or it may take recourse to the general provision under section 100 of the Act which is applicable for reduction of any capital including preference capital, in any manner

Answer 4

Contingent Liabilities :_ A contingent liability is an amount that may be due depending on future events. Because it cannot be determined whether the amount must be paid until events unfold, the company's likelihood of loss is scored as one of the following:

- Probable. The future event or events are likely to occur.
- Reasonably possible. The chance of occurrence of future events is between probable and remote.
- Remote. The chance of future event or events occurring is slight.

A contingent liability should be recorded in the financial statements when (a) it is probable that a liability has been incurred and (b) the amount of the loss can be reasonably estimated.

If either (a) or (b) does not apply, then a company should put a disclosure about the liability in the footnotes (i.e. notes to the financial statements).

The above information applies to a loss contingency. Gain contingencies are not recorded until they are realized or realizable (i.e. cash has been received or cash is expected to be received).

Examples of contingent liabilities

Example 1: Lawsuit pending against company

Example 2: Warranty Reserves

Example 3:Bills discounted

Answer 5.

There are two ways of calculating Goodwill under this method:

(i) Capitalisation of Average Profits Method

(ii) Capitalisation of Super Profits Method

(i) Capitalisation of Average Profits Method:

Under this method we calculate the average profits and then assess the capital needed for earning such average profits on the basis of normal rate of return. Such capital is called capitalised value of average profits. The formula is:-

Capitalised Value of Average Profits = Average Profits X (100 / Normal Rate of Return)

Capital Employed = Assets - Liabilities

Goodwill = Capitalised Value of Average Profits - Capital Employed

(ii)Capitalisation of Super Profits:

Under this method first of all we calculate the Super Profits and then calculate the capital needed for earning such super profits on the basis of normal rate of return. This Capital is the value of our Goodwill. The formula is:-

Goodwill = Super Profits X (100/ Normal Rate of Return)

Answer 6.

Particular	Amount	Amount
Assets A/C--------------------------Dr. To Y Ltd. (being assets purchased from Y Ltd.)	500000	 500000
Y Ltd.--------------------------------Dr. To Bank A/c (being Bank draft paid to Y Ltd.)	100000	 100000
Y Ltd.--------------------------------Dr. To Equity Share Capital A/c To Security Premium A/c (being 32000 equity shares of Rs. 10 each issued to Y Ltd.)	400000	 320000 80000

Answer 7.

Particular	Amount	Amount
Profit and Loss Appropriation A/C--------Dr. To Capital Redemption Reserve A/C (being provision made from profit for redemption) 10% Preference Share Capital A/c---------Dr.	100000 100000	 100000

To 10% Preference shareholders A/C (being capital transferred to shareholders account) 10% Preference shareholders A/C------------Dr. To Bank A/C (being amount paid)	 100000	100000 100000

Answer 8.

Year	Profit	Adjustment	Adjusted profit
2009	250000	+ 36000	286000
2010	300000	-100000 + 36000	236000
2011	25000	+125000 + 36000	186000
2012	450000	+ 36000	486000
		Total	1194000

Average Profit = 1194000 ÷ 4 = 298500

Goodwill = 2 Average Profit

= 2 × 298500

= 597000 Rs.

Answer 9.

PART-1 Form of BALANCE SHEET

Name of the Company ……………………….

Balance Sheet as at …………………………. (Rupees in ………………)

	Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
	1	2	3	4

I.	**EQUITY AND LIABILITIES**			
(1) .	***Shareholders' funds***			
	(a) Share capital			
	(b) Reserves and Surplus			
	(c) Money received against share warrants			
(2) .	***Share application money pending allotment***			
(3) .	***Non-Current Liabilities***			
	(a) Long-term borrowings			
	(b) Deferred tax liabilities (Net)			
	(c) Other Long term liabilities			
	(d) Long-term provisions			
(4)	***Current Liabilities***			
	(a) Short-term borrowings			
	(b) Trade payables			
	(c) Other current liabilities			
	(d) Short-term provisions			
	TOTAL			
II.	**ASSETS**			
	Non-Current Assets			
(1)	(a) Fixed Assets			
	(i) Tangible assets			
	(ii) Intangible assets			
	(iii) Capital work-in-progress			
	(iv) Intangible assets under development			

(2)	(b) Non-current investments (c) Deferred tax assets (net) (d) Long-term loans and advances (e) Other non-current assets ***Current Assets*** (a) Current investments (b) Inventories (c) Trade receivables (d) Cash and cash equivalents (e) Short-term loans and advances (f) Other current assets			
	TOTAL			

Answer 10.

Receipts	Estimated Value (Rs.)	Value Realised (Rs.)	Payments	Amount (Rs.)
Assets Surplus from fully secured creditors		350000 34000	Liquidation Expenses Debentures Creditors - Preferential 140000 - Unsecured 231500	7500 5000 371500
		384000		384000

Answer 11.

Definition of share forfeitures
Share forfeitures means cancel the power of shareholder if he does not pay his call money when company demands for this .Company will give 14 days' notice, after 14 days if shareholder did not pay then company will forfeit his shares and cut off his name from the register of shareholder. Company will not pay his received fund from shareholder.
The following is the accounting treatment of forfeiture Shares

When shares issue at par

The following entry will pass

Share capital Account Debit (called up amount of forfeited shares
    To Share forfeited Account Credit (Amount received of forfeited shares)
    To Share call in arrear Account Credit (Amount did not receive of forfeited shares)

When shares issue on premium

When shares are issue on premium, then there are two possibilities

1. When premium amount is received
2. When premium amount is not received

In first case share forfeiture journal entry will be

Share capital Account Debit (called up amount of forfeited shares)
    To Share forfeited Account Credit (Amount received of forfeited shares)
    To Share Allotment Account Credit (If allotment money is not received)
    To Share call in arrear Account Credit (Amount did not receive of forfeited shares)

In Second case journal entry will be-

Share capital Account Debit (called up amount of forfeited shares)
Security premium account Debit (If premium is not received from shareholder)
    To Share forfeited Account Credit (Amount received of forfeited shares)
    To Share Allotment Account Credit (If allotment money is not received)
    To Share call in arrear Account Credit (Amount did not receive of forfeited shares

In case shares are issued on discount
The following entry will pass

Share Capital Account Debit
    To Share Forfeiture Account Credit

To Share Allotment Account Credit
To Share call in arrear account credit
To Discount on issue of shares account credit

Yes, forfeiture shares can be reissued at discount. The maximum discount in this case depends upon the actual amount received by the company earlier. However the discount cannot exceed the actual amount received earlier.