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III Semester B.Com. Examination, Nov./Dec. 2016
(F+R) (CBCS) (2015-16 and Onwards)

COMMERCE

3.3 : Corporate Accounting

Time : 3 Hours

Max. Marks : 70

Instruction : Answer should be **completely** in **English or Kannada**.

SECTION – A

Answer **any five** questions, **each** correct answer carries **2** marks.

(5×2=10)

1. a) Give the meaning of firm underwriting.
- b) Distinguish between marked and unmarked applications.
- c) What is profit prior to incorporation ?
- d) What is corporate dividend tax ?
- e) How do you treat advance tax paid in company final accounts ?
- f) Why shares need to be valued ?
- g) State any two features of goodwill.



SECTION – B

Answer **any three** questions, **each** correct answer carries **6** marks.

(3×6=18)

2. A company issued 50000 shares. These shares were underwritten as follows :

X – 10000 shares ; Y – 15000 shares ; Z – 5000 shares. In addition there was a firm underwriting as : X – 5000 shares ; Y – 2000 shares ; Z – 1000 shares. The total subscription was 40000 shares and the forms included the following marked forms : X – 10000 shares ; Y – 10000 shares and Z – 5000 shares. Determine the total liability of underwriters and the company.

P.T.O.



3. A company was incorporated on 1st April, 2016 to take over the business of a firm as from 1st January, 2016. All profits made from this earlier period were to the benefit of the company but interest on the purchase price of ₹ 5,00,000 were to be paid at 6% interest per annum to the vendor upto 1st June 2016. The following was the Profit and Loss Account for the year ended 31st December 2016.

Profit and Loss Account for the year ended 31st December, 2016

Particulars	₹	Particulars	₹
To Management expenses	30,000	By Gross profit	
To Bad debts	2,500	(Operating profit)	2,00,000
To Directors fees	10,000		
To Interest to vendor	12,500		
To Preliminary expenses	5,000		
To Depreciation	10,000		
To Net profit	1,30,000		
	2,00,000		2,00,000

Out of bad debts written off ₹ 1,000 related to the period prior to incorporation and the balance relating to the post incorporation period. Prepare Profit and Loss Account and apportion the profit between prior and post incorporation period assuming that the sales was spread evenly over the entire period.

4. X Limited agreed to purchase the business of a sole trader and for that purpose goodwill is to be valued at three years purchase of the average of previous 4 years adjusted profit. The profits for the years ending 31st March 2013 ; 2014 ; 2015 and 2016 were as follows :
- ₹ 40,000 ; ₹ 48,000 ; ₹ 50,000 and ₹ 60,000.

Following additional information is available :

- a) On 1st January 2015 a major repair expenditure to Plant and Machinery for ₹ 12,000 were charged to Profit and Loss Account. This was agreed to be capitalized for goodwill subject to 10% per annum depreciation on reducing balance method.
- b) The closing stock for the year ending 2014 was overvalued by ₹ 4,800.
- c) In order to recover cost of management, an annual charge of ₹ 9,600 should be made for valuation of goodwill. Compute the value of goodwill.



5. Following is the Balance Sheet of a limited company as at 31st March, 2016. Calculate the value of the equity share under net assets method after taking the following data into consideration.

- a) Debenture interest is due for two years.
- b) Current assets include book debts of which ₹ 10,000 were bad but no provision has been made in this regard.
- c) There was an outstanding liability of ₹ 8,000.

Balance Sheet as at 31-3-2016

Liabilities	₹	Assets	₹
10000, 8% Preference shares of ₹ 10 each		Fixed assets	4,00,000
30000 Equity shares of ₹ 10 each	1,00,000	Current assets	2,50,000
Debenture redemption fund	50,000	Preliminary expenses	20,000
6% Debentures	1,00,000	Discount on debentures	5,000
Depreciation fund	1,00,000	Profit and Loss Account	25,000
Current liabilities	50,000		
	7,00,000		7,00,000

6. State the heading under which the following items shown in the Balance Sheet of the company.

- a) Preliminary expenses.
- b) Discount on issue of shares.
- c) Forfeited share capital.
- d) Goodwill.
- e) Bank overdraft.
- f) Provision for taxation.



SECTION – C

Answer **any three** questions, **each** correct answer carries **14** marks. **(3×14=42)**

7. A limited company issued 100000 Equity shares of ₹ 100 each. M, N, O and P underwrite the entire issue in the proportion of 30%, 30%, 20% and 20% respectively in consideration of commission in cash @ 4%. They also apply for firm share application as follows :

M – 3000 shares, N – 2000 shares, O – 2000 shares and P – 3000 shares. Besides the firm applications the public apply for 60000 shares of which marked applications are follows :

M – 10000 shares, N – 6000 shares, O – 8000 shares, and P – 16000 shares.

Show the number of shares to be taken up by each of the underwriters assuming firm applications as marked and unmarked and commission payable to underwriters under each case.

8. G Limited took over the business of H Limited on 1st April, 2015 and it was incorporated on 1st July, 2015. The Profit and Loss Account of G limited on 31st March 2016 was as follows :
- The average monthly sales after incorporation were twice the average monthly sales before.
 - Rent, which was paid for the first three months at rate of ₹ 2,000 per month, and increased by ₹ 500 per month for the balance of the period.
 - Bad debts of ₹ 3,500 related to the period after 1st September, 2015 and the balance related to the sales made up to 1st September, 2015.
 - The bad debts recovered belonged to the bad debts which were written off in 2014.

Find out the profits before and after incorporation of the company.

Profit and Loss Account for the year ended 31st March, 2016

Particulars	₹	Particulars	₹
To Commission on sales	26,250	By Gross profit	
" Advertising	52,500	(Operating profit)	9,80,000



" MD's Remuneration	90,000	" Bad debts recovered	5,000
" Depreciation	28,000		
" Salaries	1,80,000		
" Insurance	6,000		
" Preliminary expenses	7,000		
" Rent and taxes	30,000		
" Discount	3,500		
" Bad debts	12,500		
" Net profit	5,49,250		
	9,85,000		9,85,000

9. The Balance Sheet of a limited company as at 31st March, 2016 is as follows :

Liabilities	₹	Assets	₹
Equity shares of 10 each	5,00,000	Fixed assets	4,00,000
General Reserve	2,00,000	Investments (6% Bonds)	1,00,000
Profit and Loss A/c	1,00,000	Current assets	4,00,000
Current liabilities	1,00,000		
	9,00,000		9,00,000

Net profit after taxation : 2014 – 1,30,000 ; 2015 – 1,25,000 ; 2016 – 1,50,000

The normal rate of return is 15%

The current assets are taken at 4,50,000

Ascertain the value of goodwill under the following methods :

- a) Five years purchase of simple average adjusted profits.
- b) Five years purchase of super profits.
- c) Capitalization of super profit at 15%.
- d) Annuity method if present value of an annuity of Rupee one for five years at 16% is 3.274.



10. Following is the Balance Sheet of Adarsh Limited as at 31st March, 2016 :

Balance Sheet as at 31st March 2016

Liabilities	₹	Assets	₹
40000 Equity shares of ₹ 10 each		Goodwill	1,00,000
fully paid up	4,00,000	Fixed assets	4,50,000
Reserve fund	1,00,000	Current assets	1,90,000
Profit and Loss A/c	35,000	Preliminary expenses	25,000
6% Debentures	1,00,000		
Current liabilities	1,30,000		
	7,65,000		7,65,000

For the purpose of valuation of shares fixed assets were valued at ₹ 5,00,000 and goodwill at ₹ 1,50,000. There is a necessity of RBD at 10% on debtors of ₹ 75,000. It was found that stock was overvalued by ₹ 9,000.

The net profits for the three years were ₹ 69,000 ; ₹ 71,800 and ₹ 90,200 respectively, after taxation. Out of this profit 20% was placed to reserve, the proportion being considered reasonable in the industry in which the company is engaged and where the normal rate of return is 10%. Compute the value of each Equity share by net assets method ; yield method and fair value method.

11. The following ledger balances are extracted from the books of a trading company limited for the year ended 31st March, 2016. You are required to prepare company final accounts in the vertical format.

Particulars	Debit	Credit
Equity share capital	—	2,00,000
Gross profit (revenue profit)	—	2,00,000
General reserve	—	30,000
Buildings (original cost Rs. 2,00,000)	1,20,000	—
10% Debentures	—	1,00,000
Plant and Machinery	2,00,000	—



Rent, rates and insurance	20,000	—
Advertising	10,000	—
Salary	20,000	—
Directors fees	10,000	—
General expenses	10,000	—
Profit and Loss A/c	—	50,000
Printing and stationery	10,000	—
Preliminary expenses	20,000	—
Goodwill	20,000	—
Cash and Bank balance	30,000	—
Debtors and Creditors	80,000	20,000
Investment	50,000	—
	6,00,000	6,00,000

Additional details :

- a) Provide for bad debts Rs. 5,000.
- b) Debenture interest is outstanding for the whole year.
- c) Provide for income tax Rs. 15,000.
- d) Outstanding salary Rs. 2,000 and prepaid insurance Rs. 1,000.
- e) Depreciate Building by 10% on original cost and Plant and Machinery by 10% on reducing balance.
- f) The directors propose 15% dividend to equity shareholders. Ignore corporate dividend tax.
- g) Write off preliminary expenses by 25% and goodwill by 20%.

Note : Write notes to accounts **wherever** necessary.