

Q.P. Code :01578

[Time: 2½ Hours]

[Marks:75]

Please check whether you have got the right question paper.

- N.B:
1. All questions are compulsory and carry 15 marks each.
 2. Question no. 2 to Question no.5 have internal option.
 3. Working notes should form part of your answer
 4. Use of simple calculator is allowed
 5. Figure to the right indicate full marks.

Q.1 A) Fill in the blanks (Rewrite sentences) any 8

08

- 1) According to AS-14, Amalgamation fall in to two categories
 - a) Merger & Purchase
 - b) Amalgamation, External reconstruction
 - c) External reconstruction & internal reconstruction.
 - d) Amalgamation & absorption
- 2) Under the polling of interest Method, the difference between the purchase consideration and share capital of transferee company should be adjusted to
 - a) General reserve
 - b) Goodwill / Capital reserve
 - c) Amalgamation adjustment A/c
 - d) None of the Above
- 3) In internal reconstruction
 - a) No company is liquidated
 - b) One or more companies go in to liquidation
 - c) 2 or more companies are liquidated
 - d) Only one company goes in to liquidation
- 4) On cancellation of surrendered shares in a scheme of reconstruction
 - a) Share capital A/c will be debited
 - b) No entry is passed
 - c) Capital reduction A/c will be credited
 - d) Share surrender A/c will be credited
- 5) According to the companies Act. the underwriting commission on shares should not exceed.
 - a) 5 percent
 - b) 1 percent
 - c) 10 percent
 - d) 2.5 percent
- 6) If the whole of the issue of shares or debentures is underwritten it is known as
 - a) Complete under writing
 - b) Partial under writing
 - c) Sole under writing
 - d) None of the above

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- 7) List H shows
 - a) Fixed assets Account
 - b) Preferential creditors
 - c) Deficiency or surplus Account
 - d) All of the above.
- 8) Statement of affairs should be prepared in the format prescribed in
 - a) Form 153
 - b) Form 156
 - c) Form 57
 - d) Schedule VI
- 9) A company can buy back
 - a) Equity shares
 - b) Preference shares
 - c) Both
 - d) None of the Above
- 10) Which of the following is not a free reserve
 - a) Profit & Loss A/c
 - b) General Reserve
 - c) Revaluation reserve
 - d) Dividend equalization reserve.

Q.1 B) State whether given statement are True or False (Rewrite sentence) **any 7**

07

- 1) Under External reconstruction, there is one liquidation and one formation.
- 2) AS-14 does not distinguish between amalgamation and absorption
- 3) Only sick companies undertake capital reduction
- 4) The cost of reorganization of the share capital is to be charged from capital reduction Account.
- 5) Under firm underwriting, the underwriters do not agree to purchase any shares.
- 6) The underwriting commission is payable in cash.
- 7) Only insolvent companies can be liquidated
- 8) Local Taxes are an examples of secured creditors
- 9) Capital redemption reserve account can be utilized for issuing partly paid bonus shares.
- 10) Buy back of shares decreases the earning per share (EPS) of the company.

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Q.2 The following were the Balance Sheets of B Ltd, & D Ltd. As on 31st December, 2007: (Rs. In `000)

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| LIABILITIES | B Ltd. | D Ltd. | ASSETS | B Ltd. | D Ltd. |
|-------------------------------------|---------------|--------------|----------------------|---------------|--------------|
| | Rs. | Rs. | | Rs. | Rs. |
| 13% Preference Share of Rs.100 each | 7,500 | ----- | Goodwill | ---- | 250 |
| Equity Shares of Rs.10 each | 30,000 | 5,000 | Machinery | 34510 | ---- |
| Export Profit Reserve | 9,600 | --- | Freehold Premises | 12,000 | ---- |
| General Resave | 12,400 | 1,450 | Furniture & Fixtures | 1,120 | 750 |
| Profit & Loss A/c | 1,150 | 220 | Trade Marks | 100 | --- |
| 12% Debentures | 5,000 | --- | Stock | 12,800 | 5,010 |
| Creditors | 1,000 | 760 | Debtors | 4,340 | 1,170 |
| Bills Payable | 450 | 70 | Cash at Bank | 2,200 | 220 |
| | | | Bills Receivable | 30 | 100 |
| | 67,100 | 7,500 | | 67,100 | 7,500 |

On the above mentioned date, B Ltd. Merged with D Ltd. The absorption took place on the following terms:

- 1) The absorbed company was allotted 75,000 14% Preference Shares of Rs.10 each and 45 lakh fully paid Equity Shares of Rs.10 each to satisfy the claims of the preference shareholders and equity shareholders of the absorbed company respectively. It was also agreed to convert the debentures of the absorbed company into 13% Debentures of identical amount.
- 2) Expenses of liquidation of B Ltd. Rs. 10,000 were borne by D Ltd.
- 3) Export Profit Reserve would be required for four more years.
- 4) Included in the bills payable of D Ltd. Are bills amounting to Rs. 50,000 accepted in favor of B Ltd. For goods purchased. Of these mentioned bills of Rs. 50000 bills of Rs 15000 only still remain on the date of absorption in the hands of B Ltd. The rest having being endorsed in favour of creditors or got discounted with the bank.

Pass journal entries and prepare the balance sheet of the absorbing company after all the above transactions have been recorded.

OR

Q.2 The Balance Sheet of Mars Limited as on 31st March,2011 was as follows:

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| LIABILITIES | Rs. | ASSETS | Rs. |
|-----------------------------------------------------|------------------|----------------------|------------------|
| Share Capital | | Fixed assets: | |
| 1,00,000 Equity Shares of Rs.100 each fully paid up | 10,00,000 | Land and Building | 7,64,000 |
| Reserves and Surplus: | | Stock | 7,75,000 |
| Capital Reserve | | Sundry Debtors | 1,60,000 |
| Contingency Reserve | 42,000 | Less: RDD | 8,000 |
| Profit & Loss A/c | 2,70,000 | Bills Receivable | 30,000 |
| Current Liabilities and Provisions: | 2,52,000 | Cash at Bank | 3,29,000 |
| Bills Payable | | | |
| Sundry Creditors | 40,000 | | |
| Provisions for Income Tax | 2,26,000 | | |
| | 2,20,000 | | |
| Total | 20,50,000 | Total | 20,50,000 |

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On 1st April 2011, Jupiter Limited agreed to absorb Mars Limited on the following terms and conditions:

- 1) Jupiter Limited will take over the assets at the following values:

| | |
|-------------------|-----------|
| Land and building | 10,80,000 |
| Stock | 7,70,000 |
| Bills Receivable | 30,000 |
- 2) Purchase consideration will be settled by Jupiter Ltd. As under:
4,100 fully paid 10% Preference Shares of Rs.100 will be issued and the balance will be settled by issuing Equity Shares of Rs.10 each at Rs. 8 paid up.
- 3) Liquidation expenses are to be reimbursed by Jupiter Ltd. to the extent of Rs. 5,000
- 4) Sundry Debtors realized Rs. 1,50,000. Bill Payable were settled for Rs. 38,000. Income Tax authorizes Fixed the taxation liability at Rs.2,22,000 and the same was paid.
- 5) Creditors were finally settled with cash remaining after meeting liquidation expenses amounting to Rs.8,000

You are required to:

- i) Calculate the number of Equity shares and Preference Shares to be allotted by Jupiter Limited in discharge of Purchase Consideration.
- ii) Prepare the Realization account, equity Shareholders account and Jupiter Limited's accent in the books of Mars Ltd.

Q.3 The balance sheet of Badluck Ltd. As on 31st March 2011 was as follows:

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| Liabilities | Amount | Assets | Amount |
|----------------------------------------|-----------------|-----------------------|-----------------|
| 8,000 Preference shares of Rs. 10 each | 80,000 | Land & Building | 25,000 |
| 12,000 Equity shares of Rs.10 each | 1,20,000 | Other Fixed Assists | 2,00,000 |
| Bank Loan | 4,00,000 | Stock | 5,25,000 |
| 8% Debenture | 1,00,000 | Debtors | 1,00,000 |
| Interest outstanding of Debentures | 8,000 | Profit & Loss Account | 58,000 |
| Creditors | 2,00,000 | | |
| | 9,08,000 | | 9,08,000 |

The company went into voluntary liquidation on that date, prepare the liquidator's statement of account after taking into account the following:

- a) Liquidation expenses and liquidator's remuneration amounted to Rs.3,000 and Rs.10,000 respectively
- b) Bank Loan was secured by pledge of stock
- c) Debentures and interest thereon are secured by a floating charge on all assets.
- d) Fixed assets were realized at book value and current assets at 80% of book value.

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Q.3 NAKI PRIVATE LIMITED has prepared the Summary Balance Sheet as on 31st March 2012 reading as:

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| LIABILITIES | Rs. | ASSETS | Rs. |
|----------------------------------------------------------|------------------|----------------------------------|------------------|
| Share Capital (in Shares of Rs.10 each) Equity | 5,00,000 | Fixed assets: Premises | 4,00,000 |
| 10% Preference | 3,00,000 | Plant & Equipment | 6,50,000 |
| Secured Loan: 15% Debenture | 6,00,000 | Investment | 1,50,000 |
| Current Liabilities: Creditors | 2,50,000 | Current Assets: Stock | 1,80,000 |
| Overdrafts | 1,50,000 | Debtors | 1,20,000 |
| Expenses Payable | 2,00,000 | Bills Receivable-Trade | 50,000 |
| | | Profit & Loss A/c | 2,50,000 |
| | | Publicity Campaign Expenses | 2,00,000 |
| Total | 20,00,000 | Total | 20,00,000 |

It is observed that the new product launched by the company has not succeeded even after three Years of marketing. The management is of the opinion that assets and liabilities are not valued correctly and also finds it difficult to raise finances.

To overcome this situation a scheme of Reconstruction is prepared by Directors and approved by all authorities.

The salient features of Scheme are:

- 1) Plant and equipment having book value of Rs. 1,00,000 is obsolete. This is sold as scrap for Rs.20,000
- 2) The auditors have pointed out that depreciation on plant is not provided to the extent of Rs.50,000
- 3) Stock includes items valued at Rs.60,000 which is sold at a loss of 50%.
- 4) The present realizable value of investment is Rs. 70,000.
- 5) Dividend on preference shares is in arrears for 3 years. This amount is not payable.
- 6) All losses and fictitious assets are to be written off.
- 7) The expenses paid for forming and implementing scheme is Rs.10,000.
- 8) The paid up value of equity shares is reduced to Rs. 2 per share and preference share to Rs.5 share. However, face value remains unchanged.
- 9) The creditors dues are settled as-
20% immediate payment
40% amount is cancelled
40% New 16% Debenture to be issued.
- 10) The expenses payable include Rs.50,000 payable to directors towards remuneration. This liability is to be cancelled.
- 11) A call of Rs.3 per share on equity shares is made. It is paid by all shareholders.
- 12) 15% Debentures agree for issue of 10,000 equity shares of Rs.5 paid up for cash.
- 13) Bank overdraft is paid off to the extent possible

Your are required to show-

- i) Journal Entries and
- ii) Balance Sheet.

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Q.4 Following is the summarized balance of ISL Ltd. as on 31st March 2017

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| LIABILITIES | Amount | ASSETS | Amount |
|---------------------------------------------------|------------------|------------------|------------------|
| 6,000 Equity Shares of Rs.100 each, Rs.90 paid up | 5,40,000 | Fixed Assets | 5,00,000 |
| 1,200 Preference Shares of Rs.100 each fully paid | 1,20,000 | Investments | 1,00,000 |
| Securities Premium | 30,000 | Inventories | 1,50,000 |
| Profit & Loss A/c | 2,00,000 | Trade Receivable | 2,50,000 |
| Capital Redemption Reserve | 80,000 | Cash in hand | 2,70,000 |
| General Reserve | 50,000 | | |
| Creditors | 50,000 | | |
| 5% Debenture | 2,00,000 | | |
| Total | 12,70,000 | Total | 12,70,000 |

The company passed a resolution to buy back 10% of its equity capital at 10% Premium out of profits available. To finance the buy back the company sold 60% of the investments at a loss of Rs.4,000. After the buyback company decided to issue bonus shares in the ratio of 1:2. Pass Journal Entries and prepare the balance sheet after buy back.

OR

Q.4 Scorpio Ltd. came out with an issue of 45,00,000 Equity shares of Rs.10 each at a premium of Rs.2 per share. 15

The promoters took 20% of the issue and the balance was offered to the Public. The issue was underwritten by A & Co.; B & Co. and C & Co.:

Each underwriter took firm underwriting of 1,00,000 shares each. Subscription for 31,00,000 Equity shares were received with marked forms for the underwriters as given below:

| | |
|--------------|-------------------------|
| A & Co. | 7,25,000 shares |
| B & Co. | 8,40,000 shares |
| C & Co. | 13,10,000 shares |
| Total | 28,75,000 shares |

The underwriters are eligible for a commission of 5% of face value of shares. The entire amount towards shares subscription has to be paid along wide application. You are required to:

- Compute the underwriter's liability (number of shares).
- Computer the amounts payable or due to underwriters; and
- Pass necessary journal entries in the books of Scorpio Ltd. relating to underwriting.

Q.5 A) What do you mean by liquidation of company? Describe the different modes of winding up. 08

B) Explain the objective of Buy back and also state the maximum limits of buy back. 07

OR

Q.5 Write short notes on: (Any Three) 15

- Preferential creditor
- Firm underwriting
- Net Asset Method of Calculating Purchase Consideration
- Sub-Division & consolidation of shares during Internal Reconstruction.
- Sources of Buy- Back