

**Credit Based V Semester B.Com. Degree Examination, Nov./Dec. 2015
(2008-09 Batch)**

FINANCIAL ACCOUNTING – V

Time : 3 Hours

Max. Marks : 120

Instruction : Provide working notes wherever necessary.

SECTION – A

Note : Answer any four :

(4x6=24)

1. State the provisions for the redemption of preference shares.
2. Describe the various methods for redemption of debentures.
3. How do you determine the intrinsic value of shares ?
4. The net profits of Modern Ltd. after providing for taxation, for the past five years are : ₹ 42,000, ₹ 47,000, ₹ 43,000, ₹ 41,000 and ₹ 47,000. The capital employed in the business is ₹ 4,00,000 on which a reasonable rate of return of 10% is expected. Compute the value of goodwill under capitalisation of average profit method.
5. Apoorva Ltd. has 50,000 equity shares of ₹ 10 each and 40,000 7% preference shares of ₹ 10 each. The company transfers 10% of divisible profits to general reserve every year. The expected profit before tax is ₹ 10,00,000 and the rate of tax is 65%. Normal rate of return is 16%. Find out the market value of each equity share.
6. On 31-03-2014 the following balances appear in the books of Nethravathi Bank :

	₹
Rebate on bills discounted (1.04.2013)	3,20,000
Discount received	46,00,000
Bills discounted	2,95,00,000

The average due date of all the bills discounted is 12th June, 2014 and the average rate of discount is 15% p.a.

Compute the amount to be shown in schedule 13 in the profit and loss A/c of the bank.



SECTION - B

Note : Answer any four :

(4×12=48)

7. Following is the Balance Sheet of Garware Ltd. as on 31.03.2014 :

Liabilities	₹	Assets	₹
Share capital :		Cash at Bank	4,00,000
80,000 equity shares		Other assets	12,50,000
of ₹ 10 each	8,00,000		
30,000 6% redeemable preference shares			
of ₹ 10 fully paid	3,00,000		
20,000 7% redeemable preference shares			
of ₹ 10, ₹ 7 paid up	1,40,000		
Profit and loss A/c	3,50,000		
Creditors	60,000		
	16,50,000		16,50,000

On the above date the preference shares are redeemed to the extent possible at a premium of 10%. For this purpose the company issued 20,000 fresh equity shares of ₹ 10 each at a premium of 10%.

Pass journal entries and redraft the Balance Sheet.

8. The following balances stood in the books of Sunrise Ltd. on 31st March, 2014 :

	₹
12% debentures	5,00,000
Debenture Redemption Fund	5,00,000
Debenture Redemption Fund Investments :	
Govt. Bonds (Face value ₹ 2,40,000)	2,45,000
Port Trust Bonds (Face value ₹ 1,80,000)	1,75,000

The company realised on that date Govt. Bonds at par and Port Trust Bonds at 95%. The debentures were redeemed on 31-03-2014. On that date the company had a bank balance of ₹ 1,50,000 (before interest on investments).

Prepare in the books of Sunrise Ltd. :

- 1) 12% debentures A/c
- 2) Debenture Redemption Fund A/c
- 3) Debenture Redemption Fund Investment A/c
- 4) Debenture holders A/c
- 5) Bank A/c.



9. Following is the Balance Sheet of Sindhur Ltd. as on 31st March, 2014 :

Liabilities	₹	Assets	₹
Share capital :		Fixed assets	1,70,000
30,000 equity shares		Stock	3,10,000
of ₹ 10 each	3,00,000	Debtors	2,03,000
General reserve	1,60,000	Bank	1,17,000
Profit and loss A/c	1,20,000		
Creditors	1,00,000		
Income tax liabilities	1,20,000		
	8,00,000		8,00,000

Net profit after taxation for the last three years were :

₹ 69,000

₹ 91,500

₹ 98,000

It is the practice of the company to keep 20% of the profit after taxation to the reserve. The average yield in this type of business is 15% on capital employed.

The fixed assets were valued at ₹ 3,00,000 and there is a necessity to provide R.B.D. at 10%.

Compute the value of each share under :

1) Net Assets Method

2) Yield Method.

10. The Balance Sheet of Arathi Industries Ltd. was as follows on 31-03-2014 :

Liabilities	₹	Assets	₹
Share capital	6,50,000	Bank	85,000
Creditors	30,000	Debtors	70,000
		Stock	50,000
		Fixed assets	4,75,000
	6,80,000		6,80,000

The average profit of the company was ₹ 2,00,000. The market value of fixed assets are estimated at ₹ 5,25,000. The rate of return in similar business is 30% on capital employed.

Compute the value of goodwill based on 4 years purchase of super profit.



11. Following figures are extracted from the books of Varada Bank as on 31st March, 2014 :

	₹
Interest and discount received	36,95,738
Interest paid on deposits	20,32,452
Commission, exchange and brokerage	2,00,000
Rent received	55,000
Profit on sale of investments	2,00,000
Salaries and allowances	1,75,000
Directors fees and allowances	55,000
Rent and taxes paid	87,973
Postage and printing	62,313
Depreciation on buildings	27,375
Stationery	17,625
Audit fees	5,000
Advertisement expenses	15,000

Additional information :

- 1) A customer to whom a sum of ₹ 10,00,000 has been advanced has become insolvent. It is expected that only 50% can be recovered from his private estate.
- 2) For the remaining debts a provision of ₹ 1,50,000 is necessary.
- 3) Rebate on bills discounted as on 31-03-2013 was ₹ 12,000 and on 31-03-2014 ₹ 16,000 to be provided for.
- 4) Transfer ₹ 6,50,000 to general reserve.
- 5) Make provision for statutory reserve @ 20% of net profit.

Prepare the profit and loss A/c of the Bank for the year ending 31st March, 2014 in the prescribed form.

12. From the following information relating to Alembic Ltd., prepare a Balance Sheet as on 31st March, 2014 in the prescribed form :

Debit balances	₹
Fixed assets	50,00,000
Investments	2,50,000
Debtors	13,80,000
Loans and advances	5,30,000
Miscellaneous expenditure	60,000
Profit and loss A/c (loss)	4,00,000
Goodwill	3,00,000
Closing stock	14,00,000
Cash and Bank	3,40,000
	96,60,000



Credit balances	₹
Share capital :	
Equity shares of ₹ 10 each	10,00,000
Preference shares of ₹ 100 each	8,00,000
Securities premium A/c	8,00,000
Secured loans	18,00,000
Bills payable	3,00,000
General reserve	32,00,000
Unsecured loans	3,10,000
Creditors	12,50,000
Provision for taxation	2,00,000
	96,60,000

SECTION - CNote : Answer **any two** :**(2×24=48)**13. The Balance Sheet of Cummins Ltd., as on 31st March, 2014 was as under :

Liabilities	₹	Assets	₹
40,000 Redeemable preference shares of ₹ 10 fully paid	4,00,000	Sundry assets	8,40,000
20,000 equity shares of ₹ 10	2,00,000	Cash at bank	3,00,000
Securities premium A/c	50,000		
Profit and loss A/c	2,80,000		
Current liabilities	2,10,000		
	11,40,000		11,40,000

The company decided to redeem the preference shares at a premium of 5%. For this purpose it issued for cash as many equity shares of ₹ 10 each at a premium of ₹ 2.50 per share, as were necessary to provide for redemption, so as to leave a balance of ₹ 50,000 in profit and loss A/c. The directors then issued bonus shares at the rate of one for every two shares held, at par value of ₹ 10 (excluding fresh issue). The new equity shares were fully subscribed and the preference shares were redeemed.

Pass entries and draw up the revised Balance Sheet.



- 11 14. Apollo Ltd., issued ₹ 2,00,000 in 10% debentures of ₹ 100 each at par on 01-04-2008, repayable at the end of 5 years at a premium of 6%. A debenture Redemption Fund at 4% compound interest is created for the redemption of debentures. The investments were made in multiples of ₹ 10 in Govt. Bonds. The investments realised 10% below book value and the debentures were redeemed on 31-03-2013. On 31st March, 2013 the company had a bank balance of ₹ 90,000 (before interest on investment).
Note: ₹ 1 per year at 4% compound interest at the end of 5th year would become ₹ 5.4163.

Prepare in the books of Apollo Ltd., :

- 1) 10% debentures A/c
- 2) Debenture Redemption Fund A/c
- 3) Debenture Redemption Fund Investment A/c
- 4) Bank A/c
- 5) Debenture holders A/c.

15. Following is the Trial Balance of Centurion Bank as at 31st March, 2014 :

	Debit ₹	Credit ₹
Share capital (1,00,000 shares of ₹ 10)	—	10,00,000
Cash in hand	3,00,000	—
Statutory Reserve Fund	—	5,00,000
Deposits	—	15,00,000
Cash at banks	5,00,000	—
Loan from Axis Bank	—	7,00,000
Money at call and short notices	3,00,000	—
Share premium	—	50,000
Government securities	8,00,000	—
12 Loans and cash credits	18,30,000	—
Bills discounted	1,50,000	—
Commission	5,000	35,000
Interest and discount	—	7,25,000
Interest paid on deposits	1,55,000	—
Premises less depreciation	3,60,000	—
Directors fees	10,000	—
Audit fees	10,000	—
Salaries and allowances	60,000	—
Depreciation on property	15,000	—
Printing and stationary	6,000	—
Postage expenses	6,000	—
Other expenses	3,000	—
	45,10,000	45,10,000

**Additional information :**

- 1) Provide ₹ 25,000 for doubtful debts
- 2) Make provision for income tax ₹ 30,000
- 3) The average due date of all the bills discounted is 60 days including the grace days. The bills have been discounted at 12% per annum.
- 4) Bills for collection amounted to ₹ 1,50,000
- 5) Acceptances on behalf of customers amounted to ₹ 80,000
- 6) Make provision for statutory reserve at 20%.

Prepare profit and loss A/c for the year ended 31st March, 2014 and a Balance Sheet as on that date in the prescribed form with schedules.

16. The following balances appeared in the books of Hindustan Ltd. as on 31st March, 2014 :

Debit Balances	₹
Stock on 1-04-2013	51,000
Purchases	8,10,000
Manufacturing expenses	1,80,000
Salaries and wages	26,400
General charges	11,000
Directors fees	400
Dividend for 2012-13	18,000
Buildings	1,01,000
Plant and machinery	70,400
Furniture	10,200
Motor vehicles	40,800
Bills receivable	75,000
Book debts	1,14,000
Investments	8,000
Cash at Bank	1,06,600
Total	16,22,800



Credit Balances	₹
Creditors	2,48,000
Sales	11,10,000
Profit and loss A/c	30,000
Interest	2,600
Share capital	1,44,000
Pension Fund	46,000
Provision for taxation (previous year)	17,000
Dividend Equalisation Fund	20,000
Unclaimed dividend	2,000
Deposits	3,200
Total	16,22,800

Additional information :

- 1) Stock on 31st March, 2014 ₹ 73,200
- 2) Outstanding expenses :

	₹
Manufacturing expenses	45,000
Wages	3,000

- 3) Interest accrued on investment ₹ 200
- 4) General charges prepaid ₹ 1,660
- 5) Provide depreciation on : Buildings at 2%, plant and machinery at 10%, furniture at 10% and motor vehicles at 20%
- 6) The directors propose a dividend at 20%
- 7) Provide for taxation at 60% of net profit.

Prepare profit and loss A/c for the year ending 31-03-2014 and a Balance Sheet as on that date.