V.P.M.'s K.G. Joshi College of Arts & N.G.Bedekar College of Commerce, Thane.

TYBSCOM - A & F 5TH SEMESTER

PRELIMINARY EXAMINATION OCT - 2008

TIME : 11.00 a.m. to 1.00 p.m. **MARKS : 60**

CODE : 521-B **DATE : 11/10/2008**

SUBJECT & PAPER :ECON - III.

Note :- 1) All Questions are compulsory
2) All Questions carry equal marks
3) Figures to the right indicate full marks

Q.1

The following information is obtained from the books of X Co. Ltd. as on 31st March, 2006.

Particulars	Rs.
Profit and Loss A/c Debit Balance as on 1-4-2005	2,00,000
Preliminary expenses	10,000
Plant and Machinery	1,00,000
Furniture and Fixtures	20,000
Motor Car	15,000
Sales	20,00,000
Miscellaneous receipts	1,20,000
Opening Stock of Finished goods	3,00,000
Consumption of Raw Materials	9,00,000
Closing Stock of Raw Materials at cost	5,00,000
Bank Overdraft (Secured against Stock)	1,00,000
Share premium	3,60,000
Share Capital	6,00,000
Unsecured Loan	3,00,000
Sundry Debtors(including Rs.1,00,000 over 7 months)	7,00,000
Salaries and Wages	2,00,000
Office Administration expenses	4,00,000
Selling and Distribution expenses	1,40,000
Sundry Creditors	4,00,000
Advance Income Tax	3,00,000
Deposit with B.S.E.S	40,000
Interest on Overdraft paid	10,000
Interim Dividend	60,000
Tax deducted at source payable (from Salary and Wages)	15,000

The following further information is given:

(i) Closing Stock of finished goods at cost is Rs.6,00,000.

(ii) The original costs of fixed assets are:
Plant and Machinery - Rs.2,00,000 ; Furniture and Fixtures - Rs.30,000 ; Motor Car - Rs.25,000. Depreciation is to be charged for the year on written down values @ 10 per cent on Plant and Machinery and Fixture and @ 20 per cent on Motor Car. There were no additions and disposal during the year.

(iii) The entire Authorised Share Capital which consists of equity shares of Rs.100 each has been issued and subscribed. The share capital is paid upto the extent of 30 percent and there are no calls in arrear.

(iv) The unsecured loan was taken on 1st January 2006 at 18% p.a. interest. Necessary provisions are to be made in the accounts.

(v) Office Administration expenses include auditor's fee Rs.5,000 (including fees for taxation services Rs.1,000) and Director's Fees Rs.3,000.

(vi) Taxation provision is to be created for Rs.3,50,000.

(vii) Preliminary expenses are to be written off.

(viii) The Directors have proposed a final dividend of Rs.6 on each equity share in addition to the interim dividend already declared.
Prepare Profit and Loss Account and Balance Sheet of the company for the year ended 31st March, 2006, keeping in view the requirements of disclosure under the Companies Act.

(15 Marks)

OR

Q.1

Ram wanted to convert his proprietory into limited company. Their Balance Sheet on 31st Dec. 2005 was as under:

a) The goodwill of the firm was to be valued on the basis of twice the average profits before tax calculated on the previous three year's profits which were in 2003 Rs.20,000, in 2004 Rs.23,000 and in 2005 Rs.26,000 after setting aside Rs.5,000 to reserve each year and charging Rs.1,500 Rs.1,800 and Rs.2,100 respectively in respect of income tax.

b) The land and buildings and plant and machinery were taken over at a revaluation of Rs.75,000 and Rs.15,000 respectively.

c) 10% Debentures of Rs.1,00,000 were issued at a discount of 5% by the company.
d) A Proprietor was issued 15,000 equity shares of Rs.10 each towards purchase consideration and paid cash for the balance.
e) The purchasing company immediately pays off sundry creditors and bank overdraft and issues 10% preference shares of Rs.100 each to loan creditor for Rs.25,000.

You are required to give:

(1) The statement showing how the purchase consideration was arrived at.
(2) The Realisation account, and proprietory capital accounts.

(15 Marks)

Q.2

The Balance Sheet of Sapna Ltd. as on 31st December, 2007 was as follows:

Liabilities	Rs.	Rs.	Assets	Rs.
40,000 6% Redeemable Preference Shares of Rs.10 fully called up	4,00,000		Land and Building	2,50,000
Less: Call in Arrears at Rs.2	4,000	3,96,000	Plant	4,50,000
50,000 Equity Shares of Rs.10 each Rs.8 paid up		4,00,000	Investments (at cost)	1,75,000
General Reserve		2,00,000	Stock	3,00,000
Profit and Loss A/c		1,00,000	Debtors	2,00,000
Share Premium		25,000	Bank	80,000
12% Debentures		2,00,000	Preliminary expenses	10,000
Sundry Creditors		1,44,000		
		14,65,000		14,65,000

The Directors resolved to:

(a) Sell the investments at 12.5% profit on selling price.
(b) Issue Fixed Deposit Certificates to the public of Rs.2,00,000 to raise the funds required.
(c) Redeem 12% debentures at 10% premium.
(d) Forfeit the Preference shares on which calls were in arrears.
(e) Redeem the Preference shares at a premium of 10%.
(f) Make partly paid equity shares into fully paid by declaring bonus.
(g) Issue sufficient number of equity shares at a premium of Rs.5 per share for the purpose of redemption of Preference Shares.
(h) Issue fully paid bonus shares to the existing shareholders in the ratio of 1 bonus share for every 5 shares held. (Excluding fresh issued).

You are required to give necessary journal entries and also prepare the revised Balance Sheet.

(15 Marks)

OR

Q.2

A company issued 16% debentures of Rs. 6,00,000 with a condition that they should be redeemed after 3 years at 10% premium. The amount set aside for the redemption of debenture is invested in 5% government securities. The sinking fund table shows that 0.31720855 at 5% compound interest in three years will become Re. 1. You are required to give journal entries and open ledger accounts for recording the transactions for three years.

(15 Marks)

Q.3

Prakash Ltd. Was incorporated on 1st Aug. 2005 to take over the running business of Dondre Brothers w.e.f. 1st April 2005. Prepare Profit & Loss A/c was prepared for the year ended 31st March, 2006.

Particular	Rs.	Particulars	Rs.
To Office Salaries	21,000	By Gross Profit	80,000
To Partners Salary	6,000	By Share Transfer Fees	1,000
To Advertising expenses	4,400		
To Printing & Stationary	1,500		
To Travelling expenses	4,000		
To Office Rent	9,600		
To Electricity	900		
To Directors Fees	1,000		
To Auditors Fees	600		
To Bad debts	1,200		
To Commission on Sales	4,000		
To Preliminary Expenses	700		
To Debentures Interest	1,600		
To Interest on Capital	1,800		
To Depreciation	2, 100		
To Net profit	20,600		
	81,000		81,000

Relevant Information:

(1) Total sales for the year amounted to 8,00,000 arose evenly upto date of certificate of commencement i.e. 1st Oct.2005 whereafter they recorded an increase of 2/3 during the rest of the year. Gross Profit was at a uniform rate of 10% of selling price throughout the year and a commission of ½% was paid on sales.

(2) Office Rent was paid @ Rs. 8,400 p.a. upto 30th Sept.2005 and thereafter it was paid Rs. 10,800 p.a.

(3) Travelling expenses include Rs. 16,000 towards sales promotion.

(4) Bad debts w/off. Were

a) A debt of Rs. 400 taken over from the vendor.

b) A debt of Rs. 800 in respect of goods sold in Sept. 2005

(5) Depreciation includes 600 for assets acquired in post incorporation period.

(15 Marks)

OR

Q.3

The following are the Balance Sheet of M/s. Hari Ltd. and Haran Ltd. as on 31st March, 1990.

Liabilities	Hari Ltd.	Haran Ltd.	Assets	Hari Ltd	Haran Ltd.
Share capital-Share of Rs. 100 each	10,00,000	5,00,000	Goodwill	2,00,000	1,00,000
General Reserve	2,00,000	3,00,000	Fixed Assets	5,00,000	10,00,000
Development Rebate Reserve	Nil	2,00,000	Investment (at cost)	2,00,000	2,00,000
Liabilities	3,00,000	5,00,000	Current Assets	6,00,000	2,00,000
	15,00,000	15,00,000		15,00,000	15,00,000

It was agreed that Messrs. Hari Ltd. was to take over the business of Haran Ltd. on the basis of their respective share values after adjusting, wherever necessary, the book values of the assets and liabilities in the light of the further information furnished below:

a) Investment of Haran Ltd., include 1,000 shaes of Rs. 100 each in Hari Ltd., acquired at a cost of Rs. 150 per share. The other investment are trade investment in other companies and have a market value of Rs. 77,000.

b) The Development Rebate Reserve was created in 1989. Admissible rate was 20% on the new assets acquired at a cost of Rs. 10,00,000. The company obtained the relief from the income tax department. The company is expected to retain a reserve of at least Rs. 1,50,000.

c) The Goodwill of Hari Ltd. was considered worth Rs.3,00,000 and that of Haran Ltd. was worth Rs. 1,50,000.

d) The market value of investments of Hari Ltd. was Rs. 2,50,000.

e) The Current Assets of Hari Ltd. were worth Rs. 2,80,000.

Suggest a scheme of absorption and make necessary journal entries in the Books of Hari Ltd., to record the take-over. Prepare the Balance Sheet of Messrs. Hari Ltd., after the take-over.

(15 Marks)

Q.4

Write Short Note on any THREE of the following :-

a) Amalgamation in the nature of merger
b) Capital Redemption Reserve
c) Buy back of shares
d) Contingent Liability

(15 Marks)

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