Paper / Subject Code: 44801 / Financial Accounting - V

TYBAF/SEM V/19-11-19

Time: 2 ½ Hours **Marks: 75**

All Questions are Compulsory

Q.1.a. State the Following Statement True or False: (Any 8) **8 M**

1. Two or More Companies combining to form a new company is called absorption.
2. Under Purchase method of Accounting for Amalgamation, Assets and Liabilities are taken at Book Values.
3. Debit Balance of Realisation account is Profit which is transferred to Equity Shareholders A/c under Amalgamation of companies.
4. Purchase Consideration means the amount paid by one company to another company in consideration for the Assets and Liabilities taken.
5. The nature of External Reconstruction and Internal Reconstruction is same.
6. Approval of stakeholders is not required for Internal reconstruction.
7. A company is allowed to convert its fully paid shares into stock.
8. Underwriting o Shares and Debentures is not compulsory as per the companies Act, 2013.
9. Under Liquidation of Companies, the Preference Shareholders are paid last after payment to all the other stakeholders
10. Post Buy back debt – equity ratio should not exceed 1:2.

Q.1. b. Choose the correct option from the option provided and rewrite the statement: **(Any 7)** **7 M**

1. Every buy back shall be completed within a period of
   a) 6 months from the date of passing of the special resolution
   b) 3 months from the date of passing of the special resolution
   c) 1 year from the date of passing of the special resolution
   d) 1 month from the date of passing of the special resolution

2. Where a company purchases its own shares out of free reserve or securities premium, a sum should be transferred to Capital Redemption Reserve which should be
   a) equal to the amount paid to the shareholder who sold his shares
   b) equal to paid-up capital of the company
   c) equal to the nominal value of shares so purchased
   d) none of the above

3. The payment of commission to underwriter (s) is to be authorised by
   a) The board of directors
   b) The articles of association
   c) The memorandum of association
   d) The Stakeholders of the company

4. A merchant banker can act as a underwriter provided he holds a certificate granted by

a) Government of India
b) Company Law Board
c) SEBI
d) Registrar of Companies

5. A company after the completion of a buyback of its shares
a) Can not issue same kind of shares within one year
b) Can not issue same kind of shares within 6 months
c) Can issue same kind of shares within 6 months
d) Can not issue bonus shares

6. Capital reduction scheme is worth considering
a) If the company is small
b) If the company has recovery prospects
c) If the company has no prospects.
d) If the company is less capitalized

7. The company must apply for an order confirming the reduction
a) To the Supreme Court
b) To the High Court
c) To the Tribunal
d) To the Liquidator

8. Liquidation of Companies the payment schedule is as
a) Liquidator expenses, Outsider Liabilities, Preferential Liabilities, Owners
b) Outsider Liabilities, Preferential Liabilities, Liquidator expenses, Owners
c) Liquidator expenses, Preferential Liabilities, Outsider Liabilities, Owners
d) Liquidator expenses, Outsider Liabilities, Owners, Preferential Liabilities

9. Investment Allowance Reserve is
a) Capital Reserve
b) Statutory Reserve
c) Revenue Reserve
d) All of the above

10. For calculating Purchase Consideration under AS – 14:
a) Only payment to equity shareholders are to be taken into consideration
b) Only payment to shareholders are taken to into consideration
c) Only payment to shareholders as well as debenture holders are taken to into consideration
d) Payment to All stakeholders is taken into consideration

Q.2. a. ISPAT India Ltd. a company which deals in Iron & Steel has suffered heavy losses and looks to restructure its Balance Sheet. It seeks your advice as to how the balance sheet can be restructured and how the restructured Balance Sheet can be made?

From the below information are provided: **15 M**

50,000, 8% Preference Shares of Rs. 100 each, Rs. 80 paid – up	4,00,000
1,50,000 Equity shares of Rs. 10 each	15,00,000
10% Debentures	5,00,000
Bank Loan	5,00,000
Creditors	15,00,000
Cash Credits	2,50,000
Goodwill	1,00,000
Land	2,00,000
Plant & Machinery	12,00,000
Receivables: Good	5,00,000
Doubtful	30,000
Inventories	6,00,000
Preliminary Expenses	70,000

The scheme of restructure was put in place as:

1. All the partly paid shares were called up and paid by all the shareholders.

2. Preference shares were reduced by Rs. 40 per share & Equity Shares were reduced to Rs. 4 per share.

3. Equity shares were split to Rs. 1 per share post the above reduction.

4. Debenture holders agreed to reduce their claim by 40% if the the interest on Debentures was raised to 11%.

5. Land was appreciated to Rs. 6,00,000 whereas Plant & Machinery was depreciated by 40%.

6. The market value of Inventories was Rs. 4,50,000 and it was brought to that level.

7. All the fictitious, Intangible, doubtful and losses were to be written off.

8. There was a claim against the company to the tune of Rs. 1,50,000 recorded under the Creditors which was settled by paying one – third of the amount due.

9. An unrecorded liability of Rs. 1,50,000 came to light of the company on verification and it was settled by paying off Rs. 50,000.

10. The Directors of the company decided to sell 4,00,000 Equity Shares of the company at Rs. 1 per share at par for the working capital needs of the company.

All the point put above were accepted. You are required to pass Journal entries and Prepare Revised Balance Sheet.

OR

Q.2. b. IRCTC Ltd. a government company who files DRHP for its Initial Public Offer of 80,00,000 shares of Rs. 10 each at Rs. 250 per share, appoints SBI Capital, Citi bank Financial Services, JM Financial Services & Morgan Stanley as its lead manager for the IPO in the ratio of 4:3:2:1.

The lead manager agreed to the Ratio and also took the following shares for themselves (Firm underwriting).

SBI Capital	2,00,000 shares

CITI Bank Financial	1,00,000 shares
JM Financial	1,00,000 shares
Morgan Stanley	1,00,000 shares

The Application bearing the stamp of lead manager. (Excluding the shares taken by them) was:

SBI Capital	30,00,000 shares
CITI Bank Financial	20,00,000 shares
JM Financial	10,00,000 shares
Morgan Stanley	5,00,000 shares

The Application bearing No stamp of the lead manager was 6,00,000 shares

Prepare a statement of Underwriting of shares & also calculate the Net Liability of Underwriters for a Commission to be paid @ 5% on Issue price of the shares.

Also Pass Journal Entries in context to the Underwriters. **15 M**

Q.3. a. Following is the balance sheet of M/s Sharp Ltd. as on 31st March, 2019:

Balance sheet of M/s Component Limited as at 31st March, 2019 **15 M**

Particulars	Note No.	Rs.
A. EQUITY AND LIABILITIES		
1. Shareholders' Funds:		
a. Share Capital	1	25,00,000
b. Reserves & Surplus	2	37,50,000
c. Money Received against Share warrants		-
2. Share Application Money received Pending allotment:		-
3. Non-Current Liabilities:		
a. Long –Term Borrowings	3	57,50,000
4. Current Liabilities:		
a. Short Term Borrowings		13,00,000
b. Trade Payables		10,00,000
c. Other Current Liabilities		10,00,000
Total		1,53,00,000
B. ASSETS		
1. Non-Current Assets:		
a. Fixed Assets		
i. Tangible Assets	4	93,00,000
b. Non-Current Investments		-
2. Current Assets:		
a. Current Investments		10,00,000
b. Inventories		10,00,000
c. Trade Receivables		10,00,000
d. Cash & Cash Equivalents		30,00,000
Total		1,53,00,000

Notes of Accounts:

1. Share Capital:	
Authorised Capital:	
3,00,000 Equity Shares of Rs. 10 each	30,00,000
Issued, Subscribed and paid up Capital:	
2,50,000 Equity Shares of Rs. 10 each fully paid	25,00,000
2. Reserve & Surplus:	
Revenue Reserve	30,00,000
Security Premium	5,00,000
Profit & Loss A/c	2,50,000
	37,50,000
3. Long Term Borrowings:	
Secured Loans:	
12% Debentures	37,50,000
Unsecured Loans	20,00,000
	57,50,000
Fixed Assets:	
a. Tangible assets:	
Land & Building	53,00,000
Plant & Machinery	30,00,000
Furniture & Fittings	10,00,000
	93,00,000

The company wants to buy back 50,000 equity shares of RS.10 Each on 1st April, 2019 at RS. 20 per share. Buy back of shares is duty authorised by its articles and necessary resolution passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available.

Comment with your calculations, whether buy back of shares by company is within provisions of the Companies Act, 2013. If yes, pass necessary journal entries towards buy back of shares and prepare a Balance sheet after a buyback of shares.

OR

Q.3 b. The following is the Balance Sheet of Suman Ltd. which is in the hand of Liquidator. **15 M**

Balance Sheet as at 31-12-2019

Liabilities	Rs.	Assets	Rs.
Share Capital:		Fixed Assets	1,00,000
500 6% Preference shares of Rs.100 each, fully paid	50,000	Stock	60,000
1,000 Equity Shares of Rs. 100 each, fully paid	1,00,000	Book Debts	1,20,000
3,000 Equity Shares of Rs.50 each, Rs.25 paid	75,000	Cash	20,000
Loan from Bank (on security of stock)	50,000	Profit and Loss	1,50,000
Trade Creditors	1,75,000		
	4,50,000		**4,50,000**

The assets realized the following amounts (after all costs of realization and liquidators remuneration amounting to Rs.3,000 paid out of cash in hand Rs.20,000 as per Balance Sheet):

Fixed Assets	84,000
Stock	55,000
Book Debts	1,15,000

Prepare the Liquidators Final Statement of Account.

Q.4. a. The Summarised Balance sheet of A Ltd. & B Ltd. as at 1st April, 2019 are as follows:

15 M

Balance Sheet of A Ltd. & B Ltd.

Particulars	Note No.	A Ltd. Rs.	B Ltd. Rs,
A. EQUITY AND LIABILITIES			
1. Shareholders' Funds:			
a. Share Capital:			
Equity Shares of Rs. 10 each fully paid		6,00,000	5,00,000
11% Preference Shares of Rs. 10 each fully paid		-	3,00,000
b. Reserves & Surplus			
Profit & Loss A/c		2,00,000	-
Reserves		2,40,000	-
2. Share Application Money received Pending allotment:			
3. Non-Current Liabilities:			
a. Long –Term Borrowings – 12% Debentures		1,00,000	2,00,000
4. Current Liabilities:			
a. Trade Payables			
Sundry Creditors		60,000	1,00,000
Total		12,00,000	11,00,000
B. ASSETS			
1. Non-Current Assets:			
b. Fixed Assets			
i. Tangible Assets			
Plant & Machinery		7,00,000	8,00,000
2. Current Assets:			
a. Inventories		2,00,000	60,000
b. Trade Receivables			
Sundry Debtors		2,50,000	1,40,000
c. Cash & Cash Equivalents			
Cash at Bank		50,000	1,00,000
Total		12,00,000	12,00,000

The above two companies agree to amalgamate and form a new company AB Ltd. n the following conditions:

A Ltd

1. For every 5 equity shares, 6 shares of AB Ltd. of Rs. 10 each will be issued at premium of 50%.
2. Debenture holders will issued 12% debentures of AB Ltd. of same amount and denomination.

B Ltd.

1. The holders of 11% Preference shares will be allotted 4, 13% Preference shares of Rs. 10 each of AB Ltd. for every 5 shares held.
2. For every 5 equity shares 6 shares of AB Ltd. of Rs. 10 each will be issued at premium of 50%.
3. Debenture holders will be issued 12% debentures of AB Ltd. of same amount and denomination.
4. Creditors worth Rs. 10,000 in the balance sheet of A ltd are from the goods purchased by B Ltd.

You are required to show:

1. The calculation of purchase consideration
2. Journal Entries in the books of AB Ltd. under Purchase method
3. Opening Balance sheet of AB Ltd.

OR

Q.4. b. Following is the summarised balance sheet of Hexza Ltd. as at 31st March, 2019:

Balance sheet as at 31st March, 2019 **15 M**

Particulars	Note No.	Rs.
A. EQUITY AND LIABILITIES		
1. Shareholders' Funds:		
a. Share Capital		60,00,000
b. Reserves & Surplus		
General Reserve		12,00,000
Profit & Loss A/c		15,20,000
Workmen profit sharing fund		6,00,000
2. Share Application Money received Pending allotment:		-
3. Non-Current Liabilities:		-
4. Current Liabilities:		
a. Trade Payables		
Creditors		8,00,000
Total		1,01,20,000
B. ASSETS		
1. Non-Current Assets:		
a. Fixed Assets		
i. Tangible Assets		
Building		14,00,000
Plant & Machinery		26,00,000
ii. Intangible assets		
Goodwill		16,00,000
2. Current Assets:		
a. Inventories		14,00,000
b. Trade Receivables		
Sundry Debtors		18,00,000
c. Cash & Cash Equivalents		
Cash at Bank		13,20,000
Total		1,01,20,000

Penta Ltd decided to absorb the business of Hexza Ltd. on 1st April, 2019 at the respective book value of assets and trade liabilities except building which was valued at Rs, 24,00,000 and Plant & machinery at Rs, 20,00,000.

Purchase consideration was payable as follows:

1. Payment of Liquidation Expenses Rs. 10,000.
2. Issue of Equity shares of Rs. 10 each fully paid at Rs. 11 per share for every Preference shares and every Equity share of Hexza Ltd. and a payment of Rs. 4 per Equity share in cash.
3. Sundry Creditors of Hexza Ltd worth Rs. 1,00,000 were due to Penta Ltd.
4. Inventories worth Rs. 1,20,000 of Hexza Ltd was the unsold stock purchase from Penta Ltd on which the company charges profit of 20% on Sales.

Calculate the Purchase consideration, show the necessary ledger accounts in the books of Hexza Ltd. and opening Journal Entries in the books of Penta Ltd.

Q.5. a. Give the methods under which Purchase Consideration are calculated. **8 m**

Q.5. b. Give the conditions laid down for Buy Back of Equity Shares under Companies Act, 2013. **7 m**

OR

Q.5. c. Short Notes (Any 3) **15 m**

1. Capital Reduction A/c
2. Firm Underwriting
3. Liquidation of Companies
4. Underwriters Commission under underwriting of Shares and Debentures
5. Types of Amalgamation

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