Module- I

Paper – 2 Company Accounts,
Cost & Management Accounting
December - 2012

PART – A

Q. No. 1 (a)

State, with reasons in brief, whether the following statements are true or false ?

	ANSWER	REASONS
(i)	FALSE	Right Shares mean the shares issued by a company to the existing shareholders to buy the additional shares. Shares, which are issued to promoters for their services are known as "*Issue of shares for consideration other than cash*".
(ii)	FALSE	Underwriting commission and brokerage can be provided to an individual underwriter as individual can be appointed as underwriter and broker.
(iii)	TRUE	As per the SEBI guidelines, amount equal to 50 % of the debenture issue must be transferred to Debenture Redemption Reserve at the time of redemption of debentures.
(iv)	FALSE	Preliminary expense is an example of fictitious assets not an intangible assets.
(v)	FALSE	Interim dividend is paid not a charge against profit, it is undoubtedly a **"appropriation of profits"** which is declared/paid in case of availability of adequate profit. Charge against profit meant to payment of expenses irrespective of profit/adequate profit, e.g.- Interest on debentures, Interest on partner's loan etc.

Q. No. 1 (b)
Write the most appropriate answer from the given options in respect of the following :-

	ANSWER	
(i)	(c)	7 Years
(ii)	(c)	The amount received on forfeited shares
(iii)	(c)	Conditional
(iv)	(a)	Issue of fresh equity shares
(v)	(b)	Capital reserve

Q. No. 1 (c)
R-write the following sentences after filling-in the blanks spaces with appropriate word(s)/figures(s) :-

	ANSWER
(i)	Managerial Remuneration
(ii)	For consideration other than cash
(iii)	Impairment of Assets (Accounting Standard - 28)
(iv)	International Accounting Standards Board (IASB)
(v)	Non - Current assets (separate heading)

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Q.No. 2 (a)

S. No.	Particulars		Dr.	Cr.
(i)	Bank A/c	Dr.	40,000	
	Profit & Loss A/c	Dr.	5,000	
	To Investments A/c			45,000
	(Investments costing Rs. 45,000 sold out for Rs. 40,000)			
(ii)	Equity Share capital A/c (150*8)	Dr.	1,200	
	To Calls-in-arrear A/c (150 * 2)			300
	To Share forfeiture A/c			900
	(150 equity shares forfeited due to non payment of calls @ Rs. 2 per share)			
	(No. of shares = 300/2) = 150 shares			
(iii)	Bank A/c	Dr.	52,500	
	To 14 % Debentures A/c			50,000
	To Securities Premium A/c			2,500
	(Issue of 500, 14 % debentures of Rs. 100 each at 5 % premium)			
(iv)	Bank A/c	Dr.	4,000	
	To 11% Preference share final call A/c			4,000
	(Final call received on 200 shares out of 250 shares)			
(v)	11% Preference share capital A/c (50*100)	Dr.	5,000	
	To Calls-in-arrear A/c (50 * 20)			1,000
	To Share forfeiture A/c			4,000
	(50 preference shares forfeited due to non payment of calls @ Rs. 20 per share)			
(vi)	General Reserve A/c	Dr.	50,000	
	Profit & Loss A/c	Dr.	45,000	
	To Capital Redemption Reserve A/c			95,000
	(950, 11% preference shares of Rs. 100 each redeemed out of profits.)			
(vii)	11% Redeemable pref share capital A/c	Dr.	95,000	
	To Preference share holders A/c			95,000
	(950, 11% preference shares of Rs. 100 each due for redemption.)			
(viii)	Preference share holders A/c	Dr.	95,000	
	To Bank A/c			95,000
	(Amount paid to preference shareholders)			
(ix)	Bank A/c	Dr.	2,500	
	Share forfeiture A/c	Dr.	2,500	
	To 11 % Preference share capital A/c			5,000
	(50 forfeited preference shares of Rs. 100 each, re-issued at Rs. 50 each)			
(x)	Bank A/c	Dr.	1,800	
	To Equity share capital A/c			1,200
	To Securities Premium A/c			600
	(150 forfeited equity shares re-issued at Rs. 12 each as Rs. 8 paid up)			
(xi)	Share forfeiture A/c	Dr.	2,400	
	To Capital reserve A/c			2,400
	(Balance of share forfeiture account transferred to capital reserve a/c)			

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2 (a)

Balance Sheet of AB Ltd.

Liabilities	Amount	Assets	Amount
Equity share capital (10,000 shares @ Rs. 8 each)	80,000	Fixed Assets :-	
Preference share capital (50 shares @ Rs. 100 each)	5,000	Land & building	150,000
14 % Debentures	50,000	Plants	50,000
Reserves & Surplus :-		Furniture	25,000
Securities premium	8,400	Current Assets :-	
Investment allowance	55,000	Cash at bank	85,800
Profit & loss (surplus)	40,000	Stock in trade	20,000
Capital reserve	2,400	Trade receivables	30,000
Capital redemption reserve	95,000		
Current Liabilities:-			
Trade payables	25,000		
	360,800		**360,800**

Q. No. 2 (b)

No. of shares issued = 50,000 shares
No. of shares subscribed by public (including firm underwriting) = 45,000 shares
No. of firm underwriting shares = 8,000 shares
No. of Marked applications = 30,000 shares
No. of Unmarked application = 7,000 shares
(45,000 – 8,000 – 30,000) shares

STATEMENT SHOWING CALCULATION OF NET LIABILITY OF EACH UNDERWRITER

Particulars	X	Y	Z	TOTAL
Gross liability Ratio	**6**	**3**	**1**	**10**
Gross Liability of underwriter	30,000	15,000	5,000	**50,000**
Less :- Firm underwriting shares (given)	5,000	2,000	1,000	**8,000**
	25,000	**13,000**	**4,000**	**42,000**
Less :- Marked shares (given)	16,000	10,000	4,000	**30,000**
	9,000	**3,000**	**NIL**	**12,000**
Less :- Unmarked shares in the ratio of gross liability to X & Y only (6 :3) – Note - 1	4,667	2,333	NIL	**7,000**
	4,333	**667**	**NIL**	**5,000**
Add :- Firm underwriting shares	5,000	2,000	1,000	**8,000**
Net Liability	**9,333**	**2,667**	**1,000**	**13,000**

Note – 1 – Credit of unmarked shares has been given to only "X" & "Y" in their gross liability ratio as "Z" is already having "NIL" liability. Alternatively, credit may be given to underwriter "Z" also and surplus liability of underwriter "Z" can be adjusted from the liability of remaining underwriters, i.e. "X"& "Y".

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Calculation of amount payable/ receivable to/from underwriter

Particulars		X	Y	Z	TOTAL
Gross Liability of underwriter (In shares)	(i)	**30,000**	**15,000**	**5,000**	**50,000**
Net Liability of underwriter (In shares)	(ii)	9333	2667	1000	**13000**
Issue price of shares (In ₹)	(iii)	60	60	60	**60**
Amount receivable from underwriter { (ii) * (iii) }	(iv)	5,59,980	1,60,020	60,000	**7,80,000**
Underwriting commission @ 5 % { (i) * (iii) } * 5%	(v)	90,000	45,000	15,000	**1,50,000**
Amount receivable from underwriter { (iv) – (v) } - (In ₹)		**4,69,980**	**1,15,020**	**45,000**	**6,30,000**

Note :- Underwriting commission rate on shares is taken as 5%.

<u>Journal entries in the Books of ASTRO Ltd.</u>

S.No.	Particulars	Amount Dr	Amount Cr
(i)	Bank A/c Dr.	2,220,000	
	Underwriter X A/c Dr.	559,980	
	Underwriter Y A/c Dr.	160,020	
	Underwriter Z A/c Dr.	60,000	
	To Equity Share Capital A/c		2,500,000
	To Securities Premium A/c		500,000
	(Being 50,000 shares issued by company & out of which 37,000 shares to public, 9333 shares to X, 2667 shares to Y & 1000 shares to Z @ Rs 50 each plus Rs 10 premium.)		
(ii)	Underwriting Commission A/c Dr.	150,000	
	To Underwriter X		90,000
	To Underwriter Y		45,000
	To Underwriter Z		15,000
	(Being underwriting commission payable to underwriters @ 5 % on Gross liability)		
(iii)	Bank A/c Dr.	630,000	
	To Underwriter X		469,980
	To Underwriter Y		115,020
	To Underwriter Z		45,000
	(Amount received from underwriter in final settlement)		

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Journal entries in the Books of Underwriter X

S.No.	Particulars	Amount Dr	Amount Cr
(i)	Investment in shares of Astro Ltd. A/c Dr.	559,980	
	To Astro Ltd.		559,980
	(Being shares of Astro Ltd taken over underwriter)		
(ii)	Astro Ltd. A/c Dr.	90,000	
	To Underwriting Commission A/c		90,000
	(Underwriting commission payable to underwriter X on 9333 shares)		
(iii)	Astro Ltd. A/c Dr.	469,980	
	To Bank A/c		469,980
	(Amount paid to company as a full & final settlement)		

Journal entries in the Books of Underwriter Y

S.No.	Particulars	Amount Dr	Amount Cr
(i)	Investment in shares of Astro Ltd. A/c Dr.	160,020	
	To Astro Ltd.		160,020
	(Being shares of Astro Ltd taken over underwriter)		
(ii)	Astro Ltd. A/c Dr.	45,000	
	To Underwriting Commission A/c		45,000
	(Underwriting commission payable to underwriter Y on 2667 shares)		
(iii)	Astro Ltd. A/c Dr.	115,020	
	To Bank A/c		115,020
	(Amount paid to company as a full & final settlement)		

Journal entries in the Books of Underwriter Z

S.No.	Particulars	Amount Dr	Amount Cr
(i)	Investment in shares of Astro Ltd. A/c Dr.	60,000	
	To Astro Ltd.		60,000
	(Being shares of Astro Ltd taken over underwriter)		
(ii)	Astro Ltd. A/c Dr.	15,000	
	To Underwriting Commission A/c		15,000
	(Underwriting commission payable to underwriter Z on 1000 shares)		
(iii)	Astro Ltd. A/c Dr.	45,000	
	To Bank A/c		45,000
	(Amount paid to company as a full & final settlement)		

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Q. No. 3 (a)

Basic information:-

Holding company	-	H Ltd.
Subsidiary company	-	S Ltd.
Date of Acquisition	-	01-10-2011
Time Ratio	-	6 :6 ; i.e. 1:1
No. of shares taken by H Ltd	-	16000 Shares (80 %)
No. of shares of Minority	-	4000 Shares (20 %)

Step -1: Analysis of profit of Subsidiary Company i.e. S Ltd. (AOP)

(Amount in ₹)

Description	**Capital Profit**	**Revenue Profit**
Opening balance of P & L	30,000	-
Increase in P & L (Closing balance – Opening balance) i.e. (60,000 – 30,000) , divided in time ratio (i.e. 1:1)	15,000	15,000
Opening balance of General Reserve	80,000	-
Increase in GR (Closing balance – Opening balance) i.e. (80,000 – 80,000) , divided in time ratio	-	-
TOTAL	**125,000**	**15,000**
Share of H Ltd (80 %)	1,00,000	12,000
Share of Minority (20 %)	25,000	3,000

Step -2: Calculation of Cost of control (Goodwill) or Capital Reserve

Description		**Amount in ₹**
Cost of investments held by H Ltd in S Ltd.		3,40,000
Less :-		
Face value of Shares held by H Ltd. (16,000 shares * 10)	1,60,000	
Share of H Ltd in Capital profit (as per Step -1)	1,00,000	(2,60,000)
Cost of Control (Goodwill)		**80,000**

Step -3: Unrealised profit/loss on unsold stock

S Ltd had sold goods costing ₹ 10,000 to H Ltd at a profit of 25 % on cost, out of which there is unsold stock of ₹ 5,000 in the books of H Ltd as on 31st March 2012. Hence, necessary adjustment will be made by H Ltd for unrealized profit, which will be calculated as follows :-

= 5000 * 25/125

= ₹ 1000

Journal entry :-

Consolidated profit & loss a/c Dr. 1,000

To Stock a/c 1,000

Step -4: Calculation of Minority Share

Description		**Amount in ₹**
Face value of shares held by Minority (4000 shares * 10)		40,000
Add :-		
Share of minority in Capital profit (as per step -1)	25,000	
Share of minority in Revenue profit (as per Step -1)	3,000	28,000
MINORITY SHARE		**68,000**

Step -5: Inter Company Owing

A sum of ₹ 10,000 is due from H Ltd , being a intercompany owing transaction, necessary adjustment will be made in both sides of Balance Sheet through the following journal entry :-

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Sundry Creditors a/c Dr. 10,000
To Sundry Debtors a/c 10,000

Step -6: Calculation of Consolidated Profit/loss of H Ltd.

Description	Amount in ₹
Closing balance as per Balance sheet	1,00,000
Add :- Share of H Ltd in Revenue profit (as per Step -1)	12,000
Less :-Unrealized profit (as per Step -3)	(1,000)
Consolidated P & L	**1,11,000**

CONSOLIDATED BALANCE SHEET AS ON 31st MARCH 2012

(in ₹)

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Equity Share capital	6,00,000	Machinery (3,90,000 + 1,35,000)	5,25,000
General Reserve	3,40,000	Furniture (80,000 + 40,000)	1,20,000
Profit & Loss	1,11,000	Stock (1,80,000 +1,20,000 – 1,000)	2,99,000
Minority Share (as per step – 4)	68,000	Trade Receivable (50,000 + 30,000 – 10,000)	70,000
Trade Payables (70,000 + 35,000 – 10,000)	95,000	Cash at Bank (70,000 + 50,000)	1,20,000
		Goodwill (as per Step -2)	80,000
	12,14,000		**12,14,000**

Q. No. 3 (b)

(i) Journal entries in the books of Fortune Ltd

S. No.	Particulars	Dr. Amount	Cr. Amount
a.	Bank A/c Dr. Loss on Issue of Debentures A/c Dr. To 12 % Debentures A/c To Premium on redemption of debentures A/c (Issue of 12 % Debentures of ₹ 100 each, at 5 % premium which are redeemable at a premium of 10 %)	73,500 3,500	 70,000 7,000

Alternative solution:-

S. No.	Particulars	Dr. Amount	Cr. Amount
a.	Bank A/c Dr. Loss on Issue of Debentures A/c Dr. To 12 % Debentures A/c To Securities Premium A/c To Premium on redemption of debentures A/c (Issue of 12 % Debentures of ₹ 100 each at 5 % premium which are redeemable at a premium of 10 %)	73,500 7,000	 70,000 3,500 7,000
b.	Securities Premium A/c Dr. To Loss on Issue of Debentures A/c (Loss on issue of debentures adjusted from securities premium account)	3,500	3,500

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(ii) **BALANCE SHEET (EXTRACT)**

(In ₹)

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Secured Loans :- 12 % Debentures	70,000	**Current Assets :-** Cash at Bank	73,500
Provisions & Reserves :- Premium on redemption of debentures	7,000	**Misc Exp :-** Loss on Issue of Debentures	3,500
	77,000		**77,000**

Q. No. 4 (a)

- Intrinsic value & Yield value per share will be calculated.

INTRINSIC VALUE PER SHARE

(i) Value per share

$$= \frac{\text{Net assets attributable to equity shareholders}}{\text{No. of equity shares}}$$

= 8,04,000/30,000

= **₹ 26.80 per share**

Calculation of Net Assets attributable to equity shareholders

Particulars	Amount (₹)	Amount (₹)
Goodwill (given)	1,00,000	
Freehold Property (revalued value)	1,80,000	
Plant & Machinery (revalued value)	80,000	
Stock	3,10,000	
Trade Receivables	2,13,000	
Bank balance	1,07,000	
Cash in hand	17,00	**9,91,700**
Less :-		
Trade payables	93,700	
Income-tax payable	11,500	
Provision for taxation	82,500	**1,87,700**
NET ASSETS ATTRIBUTABLE TO EQUITY SHAREHOLDERS		**8,04,000**

Note :-

- Valuation of goodwill is not required, as New Goodwill is already given in the question.
- Value of share so calculated by intrinsic value method is cum divided per share as dividend is also payable to equity shareholders.

YIELD VALUE PER SHARE

- Rate of dividend method will be applied.

(i) Value per share

$$= \frac{\text{Expected Rate of dividend}}{\text{Normarl Rate of Return}} \times \text{Paid up value per share}$$

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$$= \frac{24.33}{15} \times 10$$

= **₹ 16. 22 per share**

Expected Rate of dividend

$$= \frac{\text{Profit available for equity shareholders}}{\text{Equity Share Capital}} \times 100$$

$$= \frac{73000}{300000} \times 100$$

= 24.33 %

Profit available for equity shareholders

Particulars	Amount (₹)
Weighted average profit before tax (Refer note – 1)	1,82,500
Less :- Tax @ 50 %	91,250
Average profit after tax	**91,250**
Less :- Transfer to reserve @ 20 %	18,250
Profits available for equity shareholders	**73,000**

Note :-

(1) Net profit for the past 3 years are in increasing trend, hence weighted average will be calculated instead of simple average.

Years	Amount	Weight	Product	
1	1,38,000	1	1,38,000	= 10,95,000/6
2	1,83,000	2	3,66,000	
3	1,97,000	3	5,91,000	= ₹ 1,82,500
TOTAL		6	10,95,000	

FAIR VALUE PER SHARE

$$= \frac{\text{INTRINSIC VALUE PER SHARE + YIELD VALUE PER SHARE}}{2}$$

$$= \frac{26.80 + 16.22}{2}$$

= **₹ 21.51 per share**

Q. No. 4 (b)

Please refer page no 327 of Study Material issued by ICSI or June 2001(7) (a)

Q. No. 4 (c)

Please refer page no 212 of Study Material issued by ICSI

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