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MODEL EXAMINATION – NOVEMBER 2024

COMMERCE – III SEMESTER (NEP)

PAPER 3.1: CORPORATE ACCOUNTING

Time: 2.5 HOURS

Max. Marks: 60

Instruction: Answers should be written completely in English

SECTION A

1. Answer **any six** questions: Each question carries **two** marks. **(6x2 =12)**

- a. How do you treat unmarked applications in partial underwriting?
- b. Who is an underwriter?
- c. What do you mean by Normal Rate of Return?
 - i. If the closing capital employed is Rs. 6,00,000.
 - ii. Net profit for the current year is Rs. 1,20,000.
- d. What is average capital employed?
- e. State the different methods of valuation of Goodwill.
- f. State any four reasons for valuation of shares.
- g. Write the journal entry for the reissue of forfeited shares.
- h. Give the meaning of intellectual Property Rights.

SECTION B

Answer **any three** questions. Each question carries **four** marks. **(3x4 =12)**

2. ABC Ltd. Issued 20,000 shares at Rs.10 each at a premium of Re.1 per share, payable Rs.2 on application, Rs.4 on allotment (including premium), Rs.3 on first call and Rs.2 on final call. All the shares were subscribed and the money duly received.

Pass the necessary journal entries to record the transactions.

3. Harish purchased a business from Suresh on 1.4.2019. Profit earned by Suresh for the preceding years were:

2019 - 20	5,00,000
2020 – 21	6,00,000
2021 – 22	5,40,000

It was found that the profits for the year 2019 – 20 included a non-recurring income of Rs.20,000 and profits for the year 2020 -21 was reduced by Rs. 30,000 due to an abnormal loss on account of a small fire in the shop. The properties of the business were not insured in the past, but it was thought prudent to insure the property in future at a premium of Rs.5,000 p.a. Harish at the time of purchase of business was employee as manager of an identical business concern at a monthly salary of Rs.10,000. He intends to replace the manager of business who is drawing a salary of Rs. 7,500 p.m. The goodwill is estimated at 2 years purchase of average profits.

Calculate Goodwill.

4. A company desirous of selling its business to another company has earned an average past profit of Rs. 1,60,000 per annum and the same amount of profit is likely to be earned in the future also, except that:

- 1) Directors' fees of Rs.12,000 per annum charged against such profits will not be payable by the purchasing company whose existing Board can manage the new business also.
- 2) Rent of Rs. 28,000 per annum which had been paid by the vendor company will not be incurred in the future since the purchasing company owns its own premises and the necessary accommodation can be provided.

The net assets, other than goodwill, were Rs.1,80,000 and it was considered that a reasonable return on investment in this type of business would be 10%.

You are required to calculate the value of Goodwill under capitalisation of average profit method.

5. Discuss the circumstances which necessitates the valuation of Goodwill.
6. A Company issued 40,000 shares of Rs.10 each for public subscription.

Underwriters	No. of shares underwritten	Marked Applications
P	25% of issue	5,000 shares
Q	30% of issue	6,000 shares
R	40% of issue	4,000 shares

The company received applications for 30,000 shares. Ascertain the net liability of each of the underwriters.

SECTION C

Answer **any three** questions. Each question carries **twelve** marks. **(3x12 =36)**

7. UB Co. Ltd. issued for public subscription 1,00,000 shares of Rs. 10 each payable as follows:

On application Rs.2

On allotment	Rs.3
On first call	Rs.2
On final call	Rs.3

Application received from public totaled to 1,50,000 shares. The allotment was made as follows:

- To the applicants of 70,000 shares – full
- To the applicants of 50,000 shares – 30,000 shares
- To the applicants of 30,000 shares – Nil

All the calls were made and the money duly received except final call money on 2,000 shares. These shares were forfeited and re-issued at Rs. 7 per share.

Pass journal entries and prepare the Balance sheet.

8. X Ltd. invited applications from public for 2,50,000 shares of Rs. 10 each at a premium of Rs. 5 per share. The entire issue was underwritten by underwriters P, Q, R and S to the extent of 30%, 20%, 30% and 20% respectively with the provision of firm underwriting of 7,500, 2,500, 5,000 and 2,500 shares respectively. The underwriters were entitled to the maximum commission as per law in force and practice laid down by SEBI.

The company received applications for 1,75,000 shares, excluding firm underwriting. Out of which marked applications were 47,000, 52,500, 25,000 and 20,000 were marked in favour of P, Q, R and S respectively.

Calculate the liability of each one of the underwriters treating

- a) Firm underwriting as unmarked applications
- b) Firm underwriting as marked applications

Also ascertain the underwriters' commission payable to different underwriters.

9. The net profit of a business after providing for taxation, for the past five years are: Rs. 80,000, Rs. 85,000, Rs. 92,000, Rs. 1,05,000, Rs. 1,18,000 respectively. The capital employed in the business is Rs.8,00,000. The normal rate of return expected in this type of business is 10%. It is expected that the company will be able to maintain its super profits for the next 5 years. Calculate the value of goodwill on the basis of:
- a. 5 years' purchase of super profit method
 - b. Annuity method, taking the present value of annuity of Re.1 for the five years at 10% as 3.78
 - c. Capitalization of super profit method
10. National Trading Company Ltd., with a registered capital of Rs. 1,00,000 issued 5,000 equity shares of Rs. 10 each, payable

- Rs. 2 on application
- Rs. 2 on allotment
- Rs. 3 on first call
- Rs. 3 on final call

All the shares were subscribed and the money duly received except the final call on 500 shares.

Give journal entries, ledger accounts and the Balance Sheet.

11. Balance sheet of Standard Ltd., as on 31.3.2022 is as follows:

Liabilities	Amount	Assets	Amount
Share capital 10,000 equity shares of Rs.100	10,00,000	Fixed Assets	10,00,000
6,000 15% Pref. shares of Rs. 100 each	6,00,000	Stock	3,50,000
General Reserve	80,000	Debtors	4,50,000
P/L Account	1,60,000	Cash and bank	2,00,000
Sundry Creditors	1,60,000		
	20,00,000		20,00,000

The profits of the Company (before providing for taxation at 38.5%) and the rate of dividend declared in respect of the past 5 financial years are as under:

Financial Year	Profit	Rate of Dividend
2017 -18	2,70,000	8%
2018 -19	3,10,000	10%
2019 -20	3,40,000	12%
2020 -21	3,30,000	15%
2021 -22	3,60,000	15%

You are required to find out the value of goodwill at 5 years' purchase of super profits of the company.