

Q.P. Code :05544

[Time:  $2\frac{1}{2}$  Hours]

[ Marks:75]

Please check whether you have got the right question paper.

- N.B:
1. Solve all questions.
  2. Questions 2, 3, 4 and 5 have internal options.
  3. Workings should form part of your answer.

**Q.1 A)** Select correct option to complete the statements (Any 8/10)**08**

1. Goodwill is \_\_\_\_\_.
  - a) An intangible asset
  - b) A fixed assets
  - c) Realisable
  - d) All the above
2. Super profit is \_\_\_\_\_.
  - a) Excess of profit average profit over normal profit
  - b) Extra profit earned
  - c) Average profit earned by similar companies
  - d) None of the above
3. Normal profit depends on \_\_\_\_\_.
  - a) Normal rate of return
  - b) Average capital employed
  - c) Both a and b
  - d) None of the above
4. Net assets method is based on the assumption that the company is \_\_\_\_\_.
  - a) A going concern
  - b) Going to be liquidated
  - c) a and b
  - d) none of the above
5. Maximum buy back in a year can be \_\_\_\_%.
  - a) 10%
  - b) 20%
  - c) 25%
  - d) 30%
6. The debt: equity ratio after buy should not exceed \_\_\_\_\_.
  - a) 2:1
  - b) 1:1
  - c) 1:2
  - d) 3:4
7. Capital redemption Reserve is to be created to the extent redemption is out of \_\_\_\_\_.
  - a) Bank account
  - b) New issue of shares
  - c) Capital profits
  - d) Divisible profits

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8. The period of preference shares cannot exceed \_\_\_\_\_ years.

- a) 20
- b) 15
- c) 5
- d) 10

9. The interest on sinking fund investment is credited to \_\_\_\_\_.

- a) Sinking fund account
- b) Profit & Loss account
- c) Debentures account
- d) None of the above

10. Debentures can be redeemed by \_\_\_\_\_.

- a) Lump sum payment
- b) Annual installment
- c) Purchase in the open market
- d) All of the above

B) State whether following statements are true or false (Any 7/10)

- 1) FMP is considered while calculating value of goodwill.
- 2) Yield value depends on Net Assets value.
- 3) The equity shares can be redeemed by a company.
- 4) The partly paid shares can be bought back.
- 5) Buyback of shares can be as per RBI guidelines.
- 6) The shares must be cancelled and destroyed after buyback.
- 7) Capital reserve is a divisible profit.
- 8) A company can issue shares at premium to redeem debentures.
- 9) The debentures can be redeemed at different points of time.
- 10) After redemption of debentures, balance in sinking fund should be transferred to free reserves.

Q.2 The Balance Sheet of HMT Ltd. as on 31<sup>st</sup> March, 2017 is as follows.

Liabilities	Rs.	Assets	Rs.
10,000 shares of 10 each fully paid	1,00,000	Land & Building	84,000
Profit & Loss A/c	20,000	Plant & machinery	60,000
Debentures	15,000	Furniture & Fittings	5,000
Trade Creditors	20,000	Delivery Van	20,000
Provision for taxation	9,000	Stock	2,000
Proposed dividend	15,000	Book Debts	6,000
		Cash	2,000
	<b>1,79,000</b>		<b>1,79,000</b>

The net profits of the company after charging depreciation and taxes for the years ending 31<sup>st</sup> March were as follows:

2013-Rs. 17000; 2014-Rs. 19000; 2015-Rs. 18000; 2016-Rs. 20000 and 2017-Rs. 19000

On 31<sup>st</sup> March, 2017, assets were valued as under:

Land & Building-Rs. 95000, Plant & machinery-Rs. 71000, Furniture & Fittings-Rs.4000

10% return on investment can be considered fair for the business.

You are required to find value of goodwill by:

- a) Five years purchase of super profits.
- b) Capitalization of super profits

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**Q.P. Code :05544****OR****Q.2** The Balance Sheet of FYBBI Ltd as on 31<sup>st</sup> March, 2017 is as follows:**15**

Liabilities	Rs.	Assets	Rs.
10% Preference Capital	3,20,000	Goodwill	24,320
Equity Capital (FV 10 each)	3,20,000	Land & Building	4,16,000
Profit & Loss A/c	1,28,000	Plant & Machinery	3,84,000
10 % Bank Loan	1,28,000	Furniture & Fittings	19,200
Trade Creditors	24,000	Investments	36,480
Provision for Taxation	12,800	Stock	25,600
		Book debts	18,000
		Cash	9,200
	<b>9,32,800</b>		<b>9,32,800</b>

Additional information:

- Realizable value of goodwill is Rs. 48,000 and that of Land & Building is Rs. 4,61,000
- The expected rate of return on capital employed is 15%.
- Average annual profits is Rs. 1,80,000. Tax rate is 50%.

You are required to find fair value of each equity share.

**Q.3** As on 1<sup>st</sup> April 2014, Infy Ltd. issued Rs. 20,00,000 15% Debentures of Rs. 100 each at par redeemable at a premium of 10%. Out of this, 60% debentures are to be redeemed at the end of 2<sup>nd</sup> year and the balance at the end of the 3<sup>rd</sup> year. The board has decided to transfer minimum required amount to D. R. R. at the end of the first year.

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Pass journal entries for recording the above transactions. Ignore interest.

**OR****Q.3** The summarized Balance Sheet of Bahar Ltd. on 31<sup>st</sup> March, 2016; was as follows:**15**

Liabilities	Rs.	Assets	Rs.
10,000, 8% redeemable Preference Shares of Rs. 100 each	10,00,000	Fixed assets	25,00,000
3,00,000 Equity Shares of Rs. 10 each	30,00,000	Current assets	34,00,000
Profit & Loss A/c	6,50,000		
Current Liabilities	12,50,000		
	<b>59,00,000</b>		<b>59,00,000</b>

The condition of issue of the redeemable preference shares provided for their being redeemed on 15<sup>th</sup> July, 2016; at a premium of 5 percent. The profit available being not sufficient to redeem the whole issue, the company issued 50,000. Equity shares of Rs. 10 each at par on 1<sup>st</sup> July, 2016; which were duly taken up and paid for. The redeemable preference shares were redeemed on the due date.

Show Journal Entries to record the above transactions.

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**Q.P. Code :05544**Q.4 Balance Sheet of MB Ltd. as on 31<sup>st</sup> March, 2017 is as follows:

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Liabilities	Rs.	Assets	Rs.
Equity shares (Rs. 10 each)	6,00,000	Fixed assets	18,00,000
Preference shares (Rs. 100 each)	2,00,000	Long Term Investments	2,00,000
Security Premium	3,00,000	Bank Balance	21,00,000
General Reserve	2,00,000		
Profit & Loss A/c	2,00,000		
Debentures	16,00,000		
Creditors	10,00,000		
	<b>41,00,000</b>		<b>41,00,000</b>

Company want to buyback shares at Rs. 30 each.

Keeping in view all the legal requirements, determine maximum possible quantity of shares to be bought back. Also pass necessary journal entries for the buyback assuming that all for the formalities are completed the company.

**OR**Q.4 Following is the Balance Sheet of KMT Ltd. as on 31<sup>st</sup> March, 2017

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Liabilities	Rs.	Assets	Rs.
Equity shares (Rs. 10 each)	8,00,000	Fixed Assets	10,20,000
Preference shares (Rs. 100 each)	4,00,000	Bank Balance	6,20,000
Profit and Loss A/c	80,000		
Debentures	1,60,000		
Creditors	2,00,000		
	<b>16,40,000</b>		<b>16,40,000</b>

The company wants to buyback 20% of its equity Capital at 10% premium. The company issued 1200 preference shares of Rs. 100 each at 10% premium.

Pass necessary journal entries to records the above transactions.

Q.5 Answer the following

- Explain the steps in calculation of goodwill by super profit method.
- What are the benefits of buyback of shares?

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**OR**

Q.5 Write short notes on any three

- Methods of valuation of equity shares
- Sinking fund method of redemption of debentures
- Limits on buyback of equity shares
- Capital Redemption reserves
- Average capital employed

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